# Those seeking guaranteed returns should opt for traditional plans

Savvy customers could opt for a combination of term plan and PPF or ELSS or, the recently launched low-cost Ulips

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Max Life Insurance recently announced it would distribute ₹10.84 billion as bonus to its 1.5 million participating policyholders for the period July 1, 2018 to June 30, 2019. The amount is 27 per cent higher than the sum it distributed last year. If this announcement has aroused your curiosity, you need to first fully understand the pros and cons of traditional insurance plans before you decide to invest in these.

Traditional policies invest mostly in bonds. The customer gets a guarantee, which might be partial or complete, on the cash flows she will receive over the policy term. Traditional policies are of two types — participating and non-participating. Participating policies are partially guaranteed policies that have some uncertainties.

"Bonus or dividend depends on the insurer's earnings. Any fluctuation in earnings affects these," says Anoop Pabby, managing director and chief executive officer, DHFL Pramerica Life Insurance.

In a non-participating plan, the benefits are clearly guaranteed at the outset. Those looking for a bonus should opt for a participating policy, while those want certainty on investments should go for a non-participating one. "A profit plan allows you to get potentially higher returns than a non-participating one," adds Pabby. Traditional products are suited for some types of customers. "These products have very little liquidity and, hence, are suited for people who have a tendency to spend any money that falls in their hands. They are also fine for those with very low risk appetite and who don't want their investments to be subject to market gyrations. And, for people not very financially savvy and who just want the payouts the insurance company promised at the start," says R M Vishakha, MD and CEO, IndiaFirst Life Insurance.


The rate of return of traditional policies, however, is low. "For the industry, the returns from non-participating plans at present range from 4 to 5.5 per cent. A younger investor would make slightly higher returns, as the cost of protection for him would be lower," says Ashish Vohra, ED and CEO, Reliance Nippon Life Insurance. According to Adhil Shetty, CEO, Bankbazaar.com, "Over a 20-year period, considering inflation, the policy will not provide much return. Also, the life cover such policies provide is also usually insufficient."

Financially savvy investors looking for the triple benefits of insurance, tax benefit and higher returns than what traditional policies can offer should opt for other products.

Conservative investors should invest in a combination of a term plan and Public Provident Fund. The latter currently offers a rate of 7.6 per cent (subject to quarterly revisions by the government), which is tax-free. Those with higher risk appetite might opt for a combination of term plan and equity-linked saving schemes (ELSS) or tax saver funds. ELSS schemes, which are market-linked and, hence, subject to fluctuation in returns, have given an average return of 18.15 per cent (source: Ace MF) over the past five years.

During the past year, players like Edelweiss and Max Life have launched very low-cost unit-linked insurance plans (Ulips). The costs of these products are as low as that of a combination of a direct mutual fund and a term plan. These Ulips, too, have emerged as a viable option, provided you don't mind the five-year lock-in all Ulips are subject to.

## PARTICIPATING VERSUS NON-PARTICIPATING POLICIES

| Participating policy | Non-participating policy |
|---|---|
| ■ A participating policy enables a policy holder to share the profits of the insurer. Profits are shared in the form of bonuses or dividends | ■ Here, profits are not shared and no dividends are paid to policyholders |
| ■ Bonuses or dividends are usually paid out annually | ■ No bonus or dividend paid to the policyholder |
| ■ The bonus that is given in this policy is not guaranteed | ■ There are no payments in non-participating policies because the profits are not shared |
| ■ Not only provides protection but also provides extra returns in the form of a bonus | ■ The premiums are a little lower than for participating policies |