Avoid ULIPs, say experts

IT'S COMPLICATED The murky cocktail of insurance and investment involves high costs

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MUMBAI: In the tug-of-war between the insurance regulator and the stock market regulator, where do investors stand? And what should they do?

The Securities and Exchange Board of India has lifted its ban on ULIPs (Unit-linked insurance plans) and insurance companies are going ahead with the sales of products that mix investments with life insurance, but experts suggest that investors must stay away from the controversial products — at least because it costs more for you to put your money in ULIPs.

"You should not invest primarily because the cost structure is very high and then it also does not offer flexibility to exit if your fund manager is a non-performer," said Amar Pandit, a Mumbai-based certified financial planner.

However, experts say if your money is already stuck in a ULIP offer, you may be advised to stick with it for 15 years or so, even if the fund manager is a non-performer who cannot churn the funds well enough.

At the heart of it is the issue of flexibility: a Ulip ties down an investment as it limits your ability to get rid of it because it comes with a long-term commitment that goes with an insurance policy.

"We are very wary of advising our investors to invest in ULIPs," said Vishal Dhawan, a certified financial planner.

Those seeking liquidity to turn their investments back into cash with ease need to watch their steps.

"They (ULIPs) offer the flexibility to exit after three years but then because of their cost structure they only make sense if you remain invested for a very long-term. Otherwise they give sub-optimal return," Dhawan said.

Experts also say it is tough for individuals to compare two ULIPs and reach a conclusion on where to invest.

"It is very complicated. Even we (experts) find it very tough to compare two ULIPs. How can the retail investor do that?" said another financial advisor on condition of anonymity.

Indians shy away from MFs: study

Indians are reluctant to invest in mutual funds on fears of high risk and lack of information on how this investment product works, a report says.

Despite being available in the market for over two decades now with assets under management equalling Rs 7,81,711 crore (as of February 28, 2010), less than 10 per cent Indian households have invested in mutual funds, according to the report by research and analytics firm Boston Analytics.

The report suggests that investors are holding back due to perceived high risk and lack of information on how they work.

The report is based on a survey of 10,000 respondents in 15 Indian cities as of March 2010.

Among respondents with high savings, close to 40 per cent of those who live in metros and Tier I cities said such investments were very risky, whereas 33 per cent of those in tier II cities said they did not know how and where to invest in such assets. **BANGALORE, PTI**