EXPRESS Money

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■ GUARANTEED NAV PLANS

Certainly highest NAV, but not the best

Even with the surety, these plans should not be considered as substitutes to equity funds that can generate far better returns

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MAKE your investment portfolio virtually risk-free, get the highest NAV guaranteed!

Like me, you, too, must have noticed scores of such giant hoarding on traffic signals and ad campaigns in and around your city, proposing a wonderful way to not only protect your capital but also lock in the highest returns. With solid punch lines and attractive advertisement, insurance companies have flooded the market with highest NAV (net asset value) guaranteed plans that are sure to capture your attention. But can these plans really deliver spectacular returns as they project? The answer is no. Let's see how.

Plans on offer

These new set of plans certainly appear better than the ones introduced last year. First launched by Birla Sun Life Insurance in 2008, these plans have now become a part of the product suit of most of the biggies in insurance space. Until last year, companies like Birla Sun Life, Tata AIG Life and SBI Life offered guarantee on the highest NAVs only on certain dates of a month (reset dates). But the latest range of products, such as the ones offered by Life Insurance Corporation of India, ICICI Prudential Life Insurance and Reliance Life Insurance, plan to capture NAVs on the daily basis and offer guarantee on the highest captured in seven years.

How do these plans work?

These plans follow dynamic hedging investment strategy that essentially allows the fund managers to protect your capital, while at the same time allow an upside of equity. Over a period of time, your investments are split into debt and equity in such a way that you at least get NAV of Rs 10 back at the end of the policy term. If the markets are doing well, fund managers might keep a larger portion of your investment in equities and smaller in debt. Gradually, your investments in equities will be reduced and moved to more secure options — debt schemes that offer minimal but guaranteed returns. Explain Dhirendra Kumar, chief executive officer, Value Research: "These products don't actually offer what you think they are offering. That is, they do not offer equity returns that never fall. Instead, they offer an investment system with a very long lock-in (seven to ten years) in which protection is achieved by progressively putting your gains in fixed income assets. The lock-in and the non-equity assets make this a very different kind of investment than the equity-gains-without-losses dream that these funds' advertising seems to imply."

This strategy is in contrast with the general principle of investing that suggests that one should buy when the markets are down and sell when they are over valued.

Features

LIFE COVER. Though being offered by insurance companies, these plans should be considered, if at all, for investment purposes.

Most of the plans that are available in the market offer the guarantee of highest NAV only on maturity and not in case of a death claim. Barring LIC's Wealth Plus plan that is a type II ulip and offers both sum assured and fund value, other policies offer just the fund value as a death benefit.

CHARGES. Apart from the usual set of charges that a unit-linked insurance product charges, these special products deduct an extra fee for giving the guarantee. In case of Reliance Life Insurance's plan, it is 0.15 per cent per annum of the total fund value. ICICI's Pinnacle, on the other hand, deducts 0.10 per cent per annum of the fund value and LIC's Wealth Plus charges 0.35 per cent of the fund value.

FLEXIBILITY. While these plans are lending the comfort of guaranteed NAVs, they are taking away flexibility from the policies. Most of the plans being marketed these days, except for LIC, have a fixed policy term of ten years. LIC's Wealth Plus comes with a policy term of eight years. Moreover, these plans also do not offer high insurance cover.

Should you buy?

No, if you are buying this as an insurance plan or if you are betting on getting returns comparable with the equity over a period as long as ten years. Explains Vishal Dhawan, Mumbai-based financial planner: "These plans should not be seen as substitutes to pure equity plans that surely have a potential to give better returns over a period of seven to ten years. However, if you are a conservative investor who is looking at nominal returns while ensuring that the principal value is protected, then you may invest 10 per cent of your portfolio in these funds. But since there are a number of companies selling these products now, do compare the charges before taking the final call."

Secondly, even for conservative investors, this plan is likely to suit the younger age group better than the old ones. The reason: these plans are high on charges and as you grow older the mortality charge (fee deducted to provide you risk cover) also increases. High mortality charge can eat into the returns generated.

Lastly, if you are willing to lock in your investments for such a long period, investing in diversified equity funds or index funds might prove to be a better bet. "Seven years is a very long time. Over such a period practically any equity portfolio into which any kind of thought has gone would capture substantial gains. Since at least 1997, the minimum total return that the Sensex has generated over its worst seven years is 12 per cent, which was between July 6, '97 to July 5, '04," says Kumar. ◆

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Illustration: C R SASIKUMAR

PLAN DETAILS

PLANS	LIC's Wealth Plus	ICICI's Pinnacle	Reliance Highest NAV
Minimum age (yrs)	10	8	30 days
Maximum age(yrs)	65	65	65
Policy term (yrs)	8	10	10
Premium paying term	3	3	Same as policy term
Additional benefits	Extended coverage for two years	Additional allocation of 3% to the fund value	--

CHARGES

PREMIUM ALLOCATION CHARGE (as % of annualised premium)

	YEAR 1	YEAR 2	YEAR 3
LIC's Wealth Plus	12%	2.5%	2.5%
ICICI's Pinnacle	14%4%	2%	
Reliance's plan	20%	3%	3%
Reliance's plan	5%	0%	0%

(for policies sold through direct marketing and internet)

Note: Reliance charges PAC of 2% for the 4th and 5th year and 6th year onwards it is 1% of the annualised premium

PLANS	FUND MGMT CHARGE	GUARANTEE CHARGE
LIC's Wealth Plus	1.0%	0.35%
ICICI's Pinnacle	1.35%	0.10%
Reliance's plan	1.35%	0.15%