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■ LIFE INSURANCE

How good is the guarantee?

With equity markets facing difficult times, ordinary Ulips have fallen out of favour and insurers are launching guaranteed-return products. Should you invest in them?

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WITH EQUITY markets in the doldrums, insurance buyers are not enamoured of plain-vanilla unit-linked insurance plans (Ulips) anymore. To prop up sales, insurance companies are now coming out with a host of guaranteed-return products — the latest ones being guaranteed maturity unit price products. These offer returns based on the highest NAV (net asset value) recorded over a period of time. While Birla Sun Life Insurance was the first to launch such a plan last year (Platinum Plus I), Tata AIG and SBI Life have recently launched two new products. These plans promise to pay a fund value based on the highest NAV recorded irrespective of market conditions. But do these products make financial sense?

The plans

Birla Sun Life Insurance's *Platinum Plus II*, Tata AIG's *Invest Assure APEX* and SBI Life's *SMART Ulip* all offer guaranteed maturity unit price. These are type I Ulips that pay the higher of the fund value or sum assured as death benefit.

How do they work?

They work on the principle of highest NAV generated. The policy term is divided into three phases: subscription phase, NAV build-up phase, and accumulation phase.

The plans have a fixed policy term (of 10 years), reset dates and two funds: parking fund and investment fund. Your premium is put in the parking fund first, which invests in debt and money market securities. It is later transferred to the investment fund on the reset dates. (These dates also serve as record dates for NAVs.) Investment funds invest in equities (0 to 100 per cent), debt and money market instruments.

At the end of the policy tenure, the units are redeemed based on the highest NAV recorded on the reset dates. Although the premium payment term is ten years, NAVs are recorded only for a set number of reset dates. Illustratively, say, you pay Rs 1,00,000 on March 3 as premium for SBI Life SMART Ulip. The plan has two reset dates — 8th and 23rd of each month. Therefore, on March 3, the company will park your money in Money Market fund. Later, on March 8, it will transfer the money to its Flexi Protect fund. The base unit per NAV is 10 for all plans. Henceforth, the company will record the NAVs on 8th and 23rd of every month for the next seven years. The highest NAV recorded on any of the reset dates will serve as the minimum NAV on which fund value will be calculated. The reset dates are different for all the three funds. "Investors stand to benefit with these plans as they get the upside of equities and the surety of capital protection," says Vikram Kotak, chief investment officer, Birla Sun Life Insurance.

"The maturity fund value will be calculated based on the highest recorded NAV during the reset dates. This will serve as the minimum guarantee. However, if the NAV on the date of maturity is found to be higher than the highest recorded NAV, then the final fund value will be calculated based on the NAV on the date of maturity," says Kotak.

What's unique about each plan

TATA AIG INVEST ASSURE. The plan offers 100 reset dates (10th of every month), which translates into eight years and three months. It offers three riders – critical illness, accidental death benefit and accidental death and dismemberment.

On maturity, instead of taking the whole amount as lump sum, investors may take the money in installments over five years. However, during the settlement period, there will be no life cover, no guarantee on NAV, and the company will continue to deduct policy administration and fund management charge. "This option could be useful in case there is a bear phase at the time of maturity and investors want to remain invested to ride on the upside of equity," says Vishal Dhawan, a Mumbai-based financial planner.

BIRLA SUN LIFE PLATINUM PLUS II. The plan offers 88 reset dates (15th of every month), which means the company will record the highest NAV from seven years and three months. The plan doesn't charge any fee for partial withdrawals and levies no surrender penalty after three years.

SBI LIFE SMART ULIP. The plan offers two reset dates in a month and a total of 168 reset dates (8th and 23rd of each calendar year). It offers two premium payment terms – three and five years. However, the premium allocation charge is a tad higher in the five-year premium payment (PPT) term compared with the three-year PPT. "SBI Life's plan fares better in terms of reset dates," says Dhawan.

Past performance

No historical data is available as these funds are first-of-their-kind. Birla Sun Life was the first to launch this fund last year — Platinum Plus I. The starting NAV of this plan was 10, and on March 4, 2008, it stood at 7.9892. The Platimum Plus II plan started at a NAV of 10 last year. Since then, the highest recorded NAV is 11.09. On March 4, the NAV stood at 6.6185. At present, the fund has invested up to 90 per cent in equities.

Charges

Compared with single-premium and limited-premium payment options, the charges of all the three plans are slightly on the higher side *(see table)*.

What experts say

These plans, although come at a higher price, look good for risk-averse investors. People who invest in fixed income instruments can invest in these plans to get an upside of equities without taking much risk. However, there is no history available, which makes one slightly apprehensive. "With no history available, I would recommend investing only a portion of your money into these plans," says Dhawan.

Also, to enjoy the benefit of the highest recorded NAV, you will have to stick to this plan till maturity. "In case of surrender before maturity, you get an amount equal to number of units in the account multiplied by the prevailing NAV on the date of surrender," says Amit Tripathi of iTrust Advisors, a Delhi-based financial advisory firm. Therefore, if you do not want to lock-in your money for 10 years, a combination of an index fund and term insurance will be better for you.

"As the minimum premium is on the higher side, these plans are more suited for the upper middle class or for high net worth individuals. Retail investors can look at SBI Life's plan that allows minimum premium of Rs 50,000 and also multiple premium payment modes," says Dhawan.

Financial planners do not recommend more than 5 per cent allocation to these funds. ◆

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HOW THE THREE POLICIES STACK UP

	SBI Life's SMART Ulip*	Birla Sun Life's Platinum Plus II	Tata AIG's Invest Assure
Min/ Max entry age (in yrs)	8/ 60	18/ 70	18/ 70
Policy term (in yrs)	10	10	10
Premium paying term (in yrs)	3 or 5	3	3
Frequency of payment	Annual/ Half-yearly/ Quarterly/ Monthly	Annual	Annual
Minimum investment amount	Rs 50,000	Rs 1,00,000	Rs 90,000
No. of reset dates	168	88	100
Charges			
PREMIUM ALLOCATION			
Year 1	15%	10%	9.50%
Year 2	5%	4%	4%
Year 3	5%	4%	4%
Year 4 onwards	Nil	Nil	Nil
FUND MANAGEMENT CHARGE			
Parking fund	Money market fund: 0.25% pa	Assure: 1.00% pa	Apex investment fund: 0.9% pa
Investment fund	Flexi Protect fund: 1.5% pa	Platimum Plus II: 1.50% pa	Apex Return Lock-in fund: 1.45%

Charges mentioned are for three-year premium payment term only