Research Project Report

"ULIP AS AN INVESTMENT AVENUE"

" FOR THE AWARD OF

BACHELOR OF COMMERCE"

UNDER THE GUIDANCE OF

Ms. Vaishali Joshi

Submitted By :-
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Bcom(hons)
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DECLARATION

I, YASH KUMAR Admission number 17GSFC101087 student of School of finance and commerce, Galgotias University, Greater Noida, hereby declare that the project report on "ULIP AS AN INVESTMENT AVENUE" is an original and authenticated work done by me.

I further declare that it has not been submitted elsewhere by any other person in any of the institutes for the award of any degree or diploma.

Signature of the Student :

CERTIFICATE

This is to certify that the project report "ULIP AS AN INVESTMENT AVENUE" has been prepared by YASH KUMAR under my supervision and guidance. The project report is submitted towards the partial fulfillment of 3 years, Full-time BACHELOR OF COMMERCE(H)

Signature of Mentor

(MS. Vaishali Joshi)

CONTENTS

INTRODUCTION

Life Insurance or life assurance is a contract between the policy owner and the insurer, where the insurer agrees to pay a sum of money upon the occurrence of the insured's death. In return, the policy owner (or policy payer) agrees to pay a stipulated amount called a premium at regular intervals. Life Insurance is a contract for payment of money to the person assured (or to the person entitled to receive the same) on the occurrence of the event insured against.

Usually the contract provides for:

1. Payment of an amount on the date of maturity or at specified periodic intervals or at death if it occurs earlier.
2. Periodical payment of insurance premium by the assured, to the corporation who provides the insurance.

Who can take Life insurance policy?

1. Any person above 18 years of age, who is eligible to enter into valid contract,
2. Subject to certain conditions a policy can be taken on the life of a spouse or children.

Now life insurance policies are available in two types:
1. Traditional policies:
2. Unit linked insurance plans(ULIP5):

Now ULIPs are food in market:

ULIP stands for Unit Linked Insurance Plan. It provides for life insurance where the policy value at any time varies according to the value of the underlying assets at the time. ULIP is life insurance solution that provides for the benefits of protection and flexibility in investment. The investment is d8noted as units and is represented by the value that it has attained called as Net Asset Value (NAV).

ULIP came into play in the 1960s and became very popular in Western Europe and Americas. The reason that is attributed to the wide spread popularity of ULIP is because of the transparency and the flexibility which it offers.

As times progressed the plans were also successfully mapped along with life insurance need to retirement planning. In today's times, ULIP provides solutions for insurance planning, financial needs, financial planning for children's future and retirement planning. These are provided by the insurance companies or even banks. These investments can also be used for tax benefit under section 80C.

PURPOSE OF STUDY:

- To study the concept and working mechanism of ULIPs
- Reasons why ULIPs get thumps up
- Reasons for investing systematically
- To study in detail about two ULIP product of Bajaj Allianz Life Insurance Co Ltd
- To make a comparison between Mutual Funds & ULIPs
- To study the comparison between Traditional Policies & ULIPs
- To understand the relationship between Mutual Funds & ULIPs and Traditional Policies & ULIPs
- To have an awareness of IRDA Guidelines with respect to ULIPs

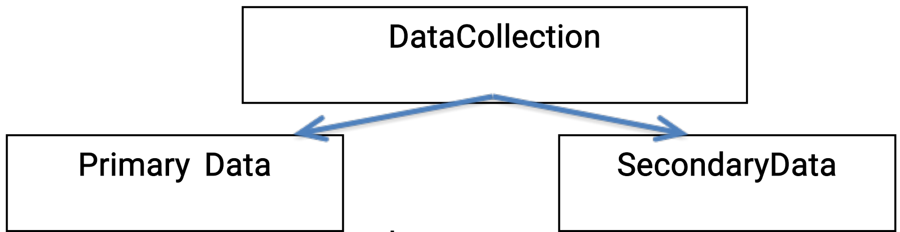
SCOPE OF STUDY:

The project entitled "ULIP as an Investment Avenue" is a detailed study about the inception of the concept of Unit linked insurance policies and its working mechanism. The study is confined only to the analysis about the ULIPS and its effectiveness in comparison with the traditional policies and the Mutual funds. The Scope is limited only to the detailed understanding of the two products of the Bajaj Allianz.

RESEARCH METHODOLOGY

Sources of data

Data collection is of two types as follows:



Primary data:

The primary data refers to the data collected from direct questioning and which has not been collected or gathered earlier by any other research study. The data for this study was collected by **interacting with insurance trainers and sales managers**.

Secondary data:

This type of data refers to the gathering of information from the sources that have "readymade data" already in possession. This data has already been collected and complied. This data has been collected from the existing surveys in the company.

Information has been gathered from the company brouchers, periodicals, websites and other books. After gathering the data from the Sources, the data was analyzed, tabulated, interpreted and finally conclusions were made regarding the entire project.

INDUSTRY PROFILE

Insurance Overview

This is the current scenario of the Global Insurance Industry and now let us looks at the basic function of insurance. While conceding that insurance is a risk-transfer tool, corporate should be made to understand that it does not suffice merely to transfer the risk but they have to participate in the effort of loss prevention. New techniques and technology have to be adapted from them to time in order to improve performance and this has special significance to the order to improve performance and this has special significance to the Indian insurance Industry. The Indian insurance industry has always suffered from drawbacks like lack of proper understanding of the purpose of insurance, lopsided growth etc., with the opening up of the industry, it is hoped that the row entrants with their better channels would spread to the real message of insurance, leading to a dynamic growth. Emphasis should be on finding new technological avenues, although it has been observed world over that for selling insurance, an eye to eye contact is essential. Internet can be used for better servicing which would eventually, lead to business development. With the entry of foreign companies into the insurance arena, a fresh life has been inducted and there is a great deal of optimism in the air that the market would automatically create a vibrant competition leading to the customer being the ultimate winner.

Insurance in India:

Insurance in India started without any regulation in the nineteenth century. It was a typical story of a colonial era: a few British Insurance companies dominating the market sewing mostly large urban centers. After the independence, it took a dramatic turn. Insurance was nationalized. First, the life insurance companies were nationalized in 1956, and then the general business was nationalized in 1972. Only in 1999 private insurance companies have been allowed back into the business of insurance with a maximum of 26% of foreign holding.

We describe how and why of regulation and deregulation. The entry of the State Bank of India with its proposal of bank assurance brings a new dynamic in the game. We study the collective experience of other countries in Asia already deregulated their market and have allowed foreign companies to participate. If the experience of other countries is any guide, the dominance of Life Insurance Corporation is not going to disappear any time soon.

The Indian insurance market, with a population of over one million, offers tremendous opportunities and can easily sustain 100 insurers. This article analyses the development of the insurance sector, which will result in higher domestic savings and investments, significant expansion of flue capital market, enhanced insurance infrastructure financing and increased foreign capital inflow and employment.

The opening up of the Indian insurance sector has been hailed tie a groundbreaking move towards further liberalization of the Indian economy. The size of the existing insurance market is growing at a rate of ten percent per year.

The estimated potential of the Indian insurance market in terms of premium was around Rs. 344000 crores (US$66 billion) in 1999. The Indian players have tapped only tent per cent of the market share and the remaining 90 per cent of the market remain untapped.

The Indian Government had enacted the insurance Regulatory Development Authority Act 1999, which amends existing Insurance laws dating from 1936. The act establishes an authority called the Insurance Regulatory Development Authority, designed to regulate the Insurance sector. This article examines the provisions of the new Act from the point of view of a company with diverse business interests wishing to establish a joint venture with an Indian company.

Milestones of Insurance Regulations in the 20th Century

<u>Year</u> <u>Significant Regulatory Event</u>

1912 The Indian Life Insurance Company Act enacted.

1928 The Indian Insurance Companies Act enhanced to enable the government to collect statistical information about both life and non-life insurance business.

1938 The Insurance Act: Comprehensive Act to regulate insurance business in India

1956 The Indian and foreign insurers and provident societies taken over by the Central government and nationalized. LIC formed by an act of parliament. VIZ. LIC Act, 1956, with a capital contribution of Rs.5 crore from the government of India.

1972 Nationalization of general insurance business in India.

1993 Setting up of Malhotra Committee.

1994 Recommendations of Malhotra Committee.

1995 Setting up of Mukherjee Committee

1996 The government gives greater autonomy to LIC, GIC and its subsidiaries with regard to the restructuring of boards and flexibility in investment norms aimed at channeling funds to the infrastructure sector.

1998 The cabinet decides to allow 40% foreign equity in private insurance companres-26% to foreign companies and 14% to NRIs and FIIs.

1999 The standing committee headed by Murali Deora decides that foreign equity in Private insurance should be limited to 26%. The IRA bill is renamed the Insurance Regulatory and Development Authority (IRDA) Bill. Also, Cabinet clears IRDA Bill

2000 President gives assent to the IRDA Bill.

Regulations:

In India insurance is a federal subject. The primary legislation that deals with insurance business in India is:

Insurance Regulatory Authority:

On the recommendation of Malhotra committee an Insurance Regulatory Development Act (IRDA) passed by Indian Parliament in 1993. Its main aim was to activate an insurance regulatory apparatus essential for proper monitoring and control of the insurance Industry. Due to this Act Several Indian private companies have entered into the insurance market, and some companies have joined with foreign partners.

In economic reform process, the insurance Companies have given boost to the socio - economic development process. The huge amount of funds that are disposal of insurance are directed as desired avenues like housing safe drinking water, electricity primary education and infrastructure. Above all the policyholders gets better pricing of products from competitive insurance companies.

Major Players In Indian Insurance

Life Insurance:

Public:

- Life Insurance Corporation of India

Private:

- HDFC Standard Life Insurance
- Max New York Life Insurance
- ICICI Prudential Life Insurance
- Kotak Mahindra Life Insurance
- Birla Sun-Life Insurance

- TATA AIG Life Insurance SBI Life Insurance
- ING Vysya Life Insurance
- Bajaj Allianz Life Insurance
- MetLife Insurance
- AMP Sanmar Life insurance
- Aviva Life Insurance
- Sahara India Life Insurance
- Shriram Life Insurance
- BharathiAXA Life Insurance

General Insurers

Public:

- National Insurance
- New India Assurance
- Oriental Insurance
- United India Insurance

Private:

- Bajaj Allianz General Insurance
- ICICI Lombard General Insurance
- IFFCO-Tokyo General Insurance
- Reliance General Insurance
- Royal Sundaram Alliance Insurance
- TATA AIG General Insurance
- Cholamandalam General Insurance
- Export Credit Guarantee Corporation
- HDFC Chubb General Insurance

Re-insurer

- General Insurance Corporation of India

Types of Life Insurance Policies

Your family counts on you every day for financial support: food, shelter transportation, education, and much more. Insurance provides you with that unique sense of security that no other form of investment provides. It gives you a sense of financial support especially during that time of crisis irrespective of the fluctuations in the stock market. Insurance provides for your career goals right from your childhood years.

Insurance is all about making sure your family has adequate financial to make those plans and dreams come true. It provides financial protection to help your family or business to manage after your death.

Few of the Life insurance policies are:

Life policies - Cover the insured for life. The insured does not receive money while he is alive; the nominee receives the sum assured plus bonus upon death of the insured.

Endowment policies - Cover the insured for a specific period. The insured receives money on survival of the term and is not covered thereafter.

Money back policies - The nominee receives money immediately on death of the insured. On survival the insured receives money at regular intervals during the term. These policies cost more than endowment with profit policies.

Annuities / Children's policies - The nominee receives a guaranteed amount of money at a pre-determined time and not immediately on death of the Insured. On survival the insured receives money at the same pre-determined time. These policies are best suited for planning children's future, education and marriage costs.

Unit Linked Insurance Plan - ULIP provides for life insurance and at the same time provides suitable Investment avenues. The policy value is the sum assured plus the appreciation of the underlying assets; it is life insurance solution that provides for the benefits of protection and capital appreciation at the same time. The product is quite similar to a mutual fund in the sense that the investment is denoted as units and is represented by the value that it has attained called as Net Asset Value (NAV), and apart from the insurance benefit the structure and functioning of ULIP is exactly like a mutual fund.

COMPANY PROFILE

BAJAJ ALLIANZ LIFE INSURANCE
Profiles

Bajaj Allianz Life Insurance Co. Ltd. is a joint venture between two leading companies- Allianz AG, one of the world's largest insurance companies, and Bajaj Auto, one of the biggest 2 and 3 wheeler manufacturers in the world. Bajaj Allianz Life Insurance is the fastest growing private life.

Insurance Company in India Currently has over 440,000 satisfied customers. We have a presence in more than 550 locations with 60,000 Insurance Consultant providing the finest customer service. One of India's leading private life insurance companies

Indian Operations:

Growing at a breakneck pace with a strong pan Indian presence Bajaj Allianz has emerged as a strong player in India. Bajaj Allianz Life Insurance Company Limited is a joint venture between two leading conglomerates Allianz AG and Bajaj Auto

Limited.

Characterized by global presence with a local focus and driven by customer orientation to establish high earnings potential and financial strength, Bajaj Allianz Life Insurance Co. Ltd. was incorporated on 12th March 2001. The company received the Insurance Regulatory and Development Authority (IRDA) certificate of Registrahon (R3) No 116 on 3rd August 2001 to conduct Life Insurance business in India.

As a promoter of Bajaj Allianz Life Insurance Co. Ltd. Bajaj Auto has the following to offer:

- Financial strength and stability to support the Insurance Business.
- Strong brand-equity.
- Has good market reputation, as a world-class organization.
- Has an extensive distribution network.
- Have adequate experience of running a large organization.
- A 10 million strong base of retail customers using Bajaj products.
- Extensive use of advanced Information Technology.
- Experience in the financial services industry through Bajaj Auto Finance Ltd.

Bajaj Allianz -The Present

- Product tailored to suit your needs
- Decentralized organization structure for faster response
- Wide reach to serve you better — a nationwide network of 700 + branches Specialized departments for Banc assurance, Corporate Agency and Group Business
- Well networked Customer Care Center's (CCC5) with state of art IT systems
- Highest standard of customer service & simplified claims process in the Industry
- Website to provide all assistance and information on products and services, online buying and online renewals.
- Toll-free number to answer all your queries, accessible from anywhere in the country.
- Swift and easy claim settlement process experience of running a large organization.

Focused Sales Network:

Tie Ups with Banks

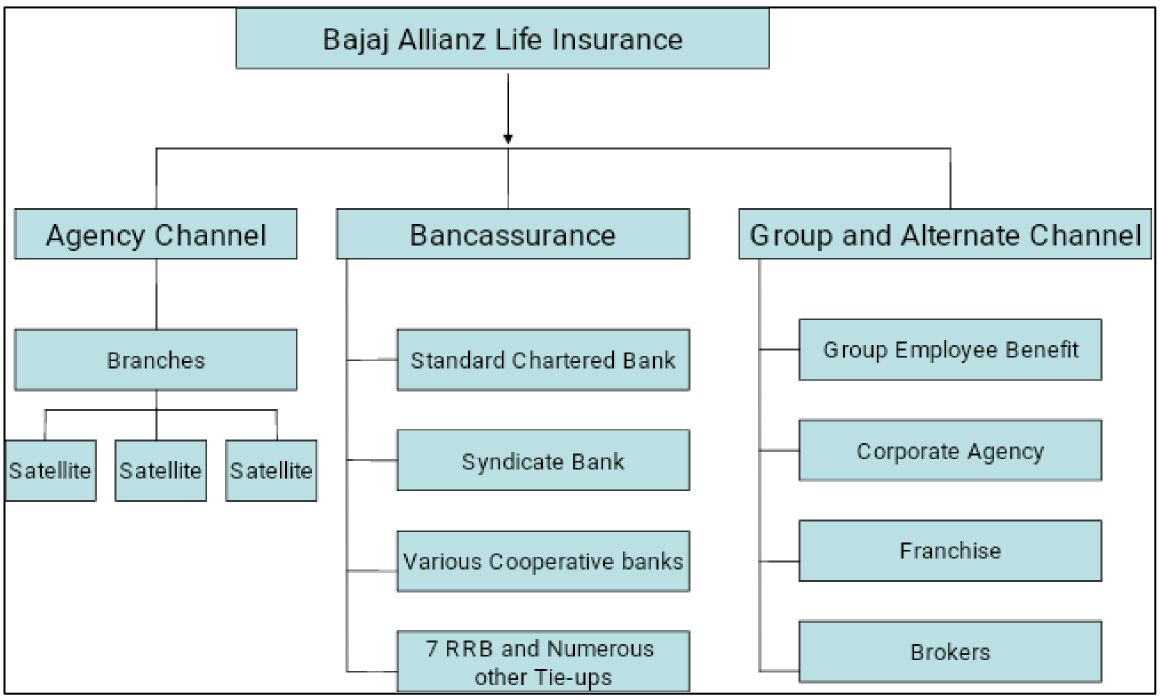
Pioneers of Banc assurance in India:

Having pioneered the phenomenon, Bank assurance is one our core business strategies. Two of our strong Banc assurance tie-ups are:

- Standard Chartered Bank
- Syndicate Bank

We have developed a range of life insurance products exclusively for our Bank assurance partners. Also, our products are customized to suit specific needs of banks.

Channels OF BAJAJ ALLIANZ



These are the insurance plans that offer flexibility with tax benefits:

Unit Gain Plus Gold: A Unit Linked Plan

Bajaj Allianz Unit Gain Plus Gold is a Unique plan with the combination of protection and prospects of earning attractive returns with investments in various mixes of securities that makes a perfect plan to last you a lifetime of prosperity and happiness. Under this plan there is a high allocation up to 85%. Also, it guaranteed Life Cover with a choice of 6 Investment Funds.

Unit Gain Plus SP: A Single Premium Unit Linked Plan:

This plan enables one to protect his/her loved ones, while making the money grow faster with the advantage of low charges. It provides one the option of allocating 98% of the single premium to purchase units in any/all of the 6 funds available with Bajaj Allianz.

Customer:

Bajaj Allianz has products suitable for all income groups. Company is a legal entity and has legal existence, but actually comes into life when it obtains customer. Customers are first and last real asset of the company. In the marketing era customer is whole & sole. In our life insurance all the categories of human being comes and covers that varies from 3Odays of birth to 61yrs, and our company targeting lower, middle and higher incomes of group and our policies economical and access able to all income groups.

Competitors:

The main competitors for Bajaj Allianz Life Insurance Co Ltd are:

- Life Insurance Corporation of India
- ICICI Prudential Life Insurance Co. Ltd
- Birla Sun Life Insurance Co. Ltd
- HDFC Standard Life Insurance Co. Ltd
- INC Vysya Life Insurance Company Pvt. Ltd
- Max New York Life Insurance Co. Ltd
- Met Life India Insurance Company Put. Ltd.
- Kotak Mahindra Old Mutual Life Insurance Limited
- SBI Life Insurance Co. Ltd
- Tata AIG Life Insurance Company Limited
- Reliance Life Insurance Company Limit
- Aviva Life Insurance Co. India Pvt. Ltd
- Sahara India Life Insurance Co, Ltd
- Shriram Life Insurance Cu, Ltd
- BharathiAxa Life Insurance Co Ltd

CONCEPTUAL FRAMEWORK

Unit Linked Insurance Plans

ULIP is a market linked investment where the premium paid is invested in funds. Different options are available, like 100% Equity, Balanced, Debt, Liquid etc and according to the fund selected, the risks and returns vary.

The costs are upfront and are transparent, the investment made is known to the investor (As he is the one who decides where his money should be invested). There is a greater flexibility in terms of premium payments i.e. A premium holiday is possible. You can also invest surplus money by way of top ups which will increase your investment in the fund and thereby provide a push to returns as well.

There is no assured Sum on survival, the higher of the Sum Assured or Fund Value is paid at the maturity or incase of death.

Few reasons why we think ULIPs are better:

1. Free insurance cover: As seen in the above example, the insurance cover is free; the policy even provides better returns

2. Best solution for children's education/future needs ULIPs not only help save money systematically for a particular goal, but also helps protect that goal

3. Switches without capital gains and entry loads: Unlike equity and mutual fund investments which are subject to capital gains when sale is made; ULIPs have the convenience of switching among the funds without any entry loads or capital gains

4. The Mortality charges are lower than traditional policies.

Unit-linked insurance plans (ULIPs) are the flavor of the season. Launched a couple of years ago, these plans have contributed over 50 percent of the new business of insurance companies such as ICICI Prudential, Birla Sun Life and Bajaj Allianz Life Insurance Co Ltd.

Encouraged by the response, other players, too, are launching variants of savings and endowment plans in the unit-linked format, a recent addition to the range of insurance products.

The introduction of unit-linked insurance plans (ULIPs) has been, possibly, the single-largest innovation in the field of life insurance in the past several decades. In a swoop, it has addressed and overcome several concerns that customers had about life insurance -- liquidity, flexibility and transparency and the lack thereof. These benefits are possible because ULIPs are differently structured products and leave many choices to the policyholder. Hence, as a customer, you must carefully consider whether you can make such a product work well for you. Broadly speaking, I believe that ULIPs are best suited for those who have a conceptual understanding of financial markets and are genuinely looking for a flexible, long-term savings-cum-insurance solution.

Put simply, ULIPs are structured such that the protection (insurance) element and the savings element can be distinguished and hence managed according to one's specific needs. Traditionally, the savings element of insurance has been opaque, giving policyholders no control over asset allocation, no transparency, no flexibility to match one's lifestyle, inexplicable returns and an expensive, complicated exit.

ULIPs, by separating the two parts within the same product, and managing them independently, offer insurance buyers what no traditional policy had -- continuous information about how their policy is working for them. Often, people wonder whether it's better to purchase separate financial products for their protection and savings needs. Certainly, this is a viable option for those who have the time and skill to manage several products separately. However, for those who want a convenient, economical, one-stop solution, ULIPs are the best bet.

To understand how a ULIP meets the multiple needs of protection of both health and life; and savings in the same policy, let us take the example of a 35-year-old man with 2 young children.

With a premium of, say, Rs 30,000 p.a. he could begin with a sum assured of Rs 5 lakh, for which the life insurer would set aside a nominal amount of the premium to cover this risk. The balance could be invested in a fund of his choice, possibly a balanced or growth option.

As the children grow, he might want to increase the level of protection, which could be done by liquidating some of the units to pay for a risk premium. On the other hand, if he gets a significant raise, he could increase the savings element in the policy by topping it up.

The key to good financial planning is to understand one's current and future financial goals, risk appetite and portfolio mix. This done, the next step is to allocate assets across different categories and systematically adhere to an investment pattern, so that they work in tandem to meet one's requirements over the next month, year or decade. Because of their flexibility to adjust to different lifestage needs, ULIPs fit in very well with financial planning efforts. Moreover, as a systematic investment plan, ULIPs greatly diminish the hazards of investing in a volatile market, and using the concept of 'Rupee Cost Averaging', allow the policyholder to earn real returns over the long term.

When you're buying a ULIP, make sure you select one that works well for you. The important thing is to look for and understand the nuances, which can considerably alter the way the product works for you. Take the following into consideration.

- *Charges:* Understand all the charges levied on the product over its tenure, not just the initial charges. A complete charge structure would include the initial charges, the fixed administrative charges, the fund management charges, mortality charges and spreads, and that too, not only in the first year but also through the term of the policy. It might seem confusing at first, but a company provided benefit illustration should help make this clearer. Some companies levy a spread between the buy and sell rates of the units, which can significantly reduce the value of the investment over the long-term. Close examination and questioning of such aspects will reveal the growing power of your investment.

- *Fund Options and Management:* Understand the various fund options available to you and the fund management philosophy and objectives of each of them. Examine the track record of the funds thus far and how they are performing in comparison to benchmarks. Who manages the funds and what experience do they have? Are there adequate controls? Importantly, look at how easily you can access information about your fund's performance when you need it -- are their daily NAVs? Is the portfolio disclosed regularly?

- *Features:* Most ULIPs are rich in features such as allowing one to top-up or switch between funds, increase or decrease the protection level, or premium holidays. Carefully understand the conditions and charges associated with each of these. For instance, is there a minimum amount that must be switched? Is there a charge on the same? Must you go through medical underwriting if you want to increase the sum assured?

- *Company:* Last but not least, insure with a brand you can trust to honor its commitment and service you according to your requirements.

Having bought a ULIP, it’s important that you monitor it on a regular basis, though not as frequently as you would a stock or mutual fund. Your ULIP is a long-term investment and daily fluctuations in the NAV should not impact you. Check once a quarter to see how your fund is performing, and consider a switch if there is a change in the level of risk you are willing to take or in your personal market view. Monitor your fund; value it in the few weeks or months before a planned withdrawal or top-up, or a change in your life stage or lifestyle. For those who are still finding their feet with their ULIP and its multitude of options, the best thing to do is to consult your advisor.

Life insurance as a form of protection is the single-most important financial product any earning member of a family must have. Having said this, a well-diversified portfolio is one of the first rules of financial planning, and as such one should consider different instruments as the ability to save increases. Certainly ULIPs successfully combine the first and most important need of protection, with savings, and hence are an excellent addition to your portfolio. These can be combined with various other products, after taking into account your risk appetite, financial goals and need for portfolio diversification.

Possible investment options range from bank deposits and government small saving schemes to mutual funds, stocks and property.

Buying a ULIP is quite different from buying a traditional insurance product; and sometimes there are cases of people who believe they have been mis-sold a ULIP, the complaint most often being that they were not aware of the risks or the charges.

All financial products have a certain amount of risk and charges, be it a mutual fund, property, or even a bank deposit. It would be unrealistic to assume that the features and benefits of a ULIP come at no cost, though the charges are considerably lower than that of a traditional product.

In fact, the very reason the product is transparent is because the customer knows the charges and risks. Further, unlike other financial products, all life insurance plans come with a 15-day free look, which allows you to return the policy if you believe it does not meet your needs or expectations.

Objectives of ULIPS:

1. To give customer flexibility 10 Choose

    - Sum Assured
    - Premium
    - payment term
    - Increase sum assured
    - Add riders and,
    - Customize the policy according to needs.

2. To give customer a decent inflation beating returns, in accordance with market returns.
3. To protect the purchasing power of customers money in future times and to protect them against inflation and constant erosion in moneys value there of.
4. To give a broader fund choices to customers according to their risk appetite
5. To give customers a transparency and keep them fully informed about fund, management and expenses involved.
6. Ability to increase / decrease sum assured according to changing life situations (such as loans) and increasing Human Life value.
7. To provide liquidity to the customers in cases of emergency
8. To enable customers to actively manage their own funds according to their perceptions and changing market situations.

Disadvantages of ULIPs:

1. Wide choice of fund options.

2. Ability to withdraw money after some time, to avoid long lock, Bird in hand is worth 2 in the bush.
3. To get inflation beating returns on investment
4. Breaking up of premium into insurance and investments.
5. Ability to make the ULIP as mainly insurance oriented (low premium and high sum assured) or predominantly Investment oriented (reverse)
6. Enables customers / policy holders to understand the company's Investment style, through investment reports.
7. Premium holidays - accommodating fluctuating and unpredictable incomes.
8. Policy never lapses, thus , making the optimum usage of insurance benefit
9. Flexibility.
10. Suitable to business classes with unsure incomes.
11. Blending of safety, attractive returns and liquidity.

The following points before going in for a ULIP:

1. It is prudent to make equity-oriented investments based on an established track record of at least three years over different market cycles. ULIPs do not fulfill this criterion now.
2. Insurance and savings are two different goals and it is better to address them separately rather than bundle them into a single product. A combination of a term plan and a mutual fund could give better results over the long term
3. If investment returns are your priority, you should compare alternative investment products before locking in your money.
4. Tax advantages do work in favor of ULIPs for debt-oriented funds. For equity-oriented funds, equity-linked savings products, which enjoy tax advantages and provide market-linked returns, are comparable.
5. The expense structure of insurance products does significantly dent returns.

4 Reasons why ULIPs get the thumbs up:

Ask any individual who has purchased a life insurance policy in the past year or so and chances are high that the policy will be a unit linked insurance plan (ULIP). ULIPs have been selling like proverbial 'hot cakes' in the recent past and they are likely to continue to outsell their plain vanilla counterparts going ahead. So what is it that makes ULIPs so attractive to the individual? Here, we have explored some reasons, which have made ULIPs so irresistible.

1. *Insurance cover plus savings:* To begin with, ULIPs serve the purpose of providing life insurance combined with savings at market-linked returns. To that extent, ULIPs can be termed as a two-in-one plan in terms of giving an individual the twin benefits of life Insurance plus savings. This is unlike comparable instruments like a mutual fund for instance, which does not offer a life cover.

2. *Multiple investment options:* ULIPs offer a lot more variety than traditional life insurance plans. So there are multiple options at the individual's disposal

ULIPs generally come in three broad variants:

- Aggressive ULIPs (which can typically invest 80%-100% in equities, balance in debt)
- Balanced ULIPs (can typically invest around 40%-60% in equities)
- Conservative ULIPs (can typically invest up to 20% in equities)

Although this is how the ULIP options are generally designed, the exact debt/equity allocations may vary across insurance companies. Individuals can opt for a variant based on their risk profile. For example, a 30-Yr old individual looking at buying a life insurance plan that also helps him build a corpus for retirement can consider investing in the Balanced or even the Aggressive ULIP. Likewise, a risk-averse individual who is not comfortable with a high equity allocation can opt for the Conservative ULIP.

3. *Flexibility:* Individuals may well ask how ULIPs are any different from mutual funds. After all, mutual funds also offer hybrid/balanced schemes that allow an individual to select a plan according to his risk profile. The difference lies in the flexibility that ULIPs afford the individual; Individuals can switch between the ULIP variants outlined above to capitalize on investment opportunities across the equity and debt markets. Some insurance companies allow a certain number of 'free' switches. This is an important feature that allows the informed individual/investor to benefit from the vagaries of stock/debt markets. For instance, when stock markets were on the brink of 7,000 points (Sensex), the informed investor could have shifted his assets from an Aggressive ULIP to a low-risk Conservative ULIP. Switching also helps individuals on another front. They can shift from an Aggressive to a Balanced or a Conservative ULIP as they approach retirement. This is a reflection of the change in their risk appetite as they grow older.

4. *Works like an SIP:* Rupee cost-averaging is another important benefit associated with ULIPs. Individuals have probably already heard of the Systematic Investment Plan (SIP) which is increasingly being advocated by the mutual fund industry, With an SIP, individuals invest their monies regularly over time intervals of a Month/quarter and don't have to worry about 'timing' the stock markets. These are not benefits peculiar to mutual funds. Not many realize that ULIPs also tend to do the same, albeit on a quarterly/half-yearly basis. As a matter of fact, even the annual premium in a ULIP works on the rupee cost-averaging principle. An added benefit with ULIPs is that individuals can also invest a one-time amount in the ULIP either to benefit from opportunities in the stock markets or if they have an investible surplus in a particular year that they wish to put aside for the future.

Working Mechanism

Working Mechanism of ULIPs includes the following steps:

Sales: Agents and other channel sales people collect premium from customers.

Allocation: Once sales people collect premium from customers, all that money is not invested at once. Part of it is deducted towards administration expenses, insurance expenses (Mortality Charges as they are usually called), and management expenses.

After deducting money for the AIM (admin, insurance, management expenses), the rest of the money is invested into the fund choice chosen by the customer.

Administration Expenses: is the expense for making the policy document / bond making Stamp duty (insurance is a legal document subject to Indian stamp act), agent commission and other fixed over heads spread. Admin charges are deducted IMMEDIATELY after premium is paid. Not at the end of the year.

Insurance Expenses or mortality charges: These are nothing but the Term Insurance Charges chosen by the customer (for example, let us say, Rs.10 lakh), for a given premium (for example, let us say, Rs.70, 000/-). Mortality charges (and any rider benefit premium) are deducted AT THE BEGINNING of the policy year and not at the end.

Fund Management charges: When company invests money into equity markets, they incur brokerage etc expenses. When they invest into debt based /gilt scurrilities and other interest yielding instruments, they have to spend of bond trading charges.

All these expenses are passed on to the policy holders by the way of Fund Management Charges. This is done AT THE END of policy year. After money is deducted for AIM, the rest is invested into different funds, (MetLife has 6, and Bata (has 4 or 5 customer's choice and agent's discretion.

This fund is unitized and a face value of Rs.10/- is given to each unit during the New Fund Offer. Let us for instance say, company invests Rs.10 lakhs into equity / debt based fund. It has allocated 1 lack units to all policy holders, depending on the premium each customer paid.

Now, Net Asset Value (NAV) is calculated by the following formula:

Total fund value / no of units

; Where, the denominator (units) does not change. Only the numerator changes (total fund value) depending on the market variations.

If the fund, after one year of investment management, has attained a value of, say, Rs.13 lacks, then, the Net Asset Value (NAV) of each unit would be

Rs.13 lacks / 1 lack units = Rs.13 / per unit.

This NAV is published every day in financial news papers. Mechanisms are same for a debt based fund or equity based fund. In case company feels necessary, they take investment advice from Equity Research Analysts (in case of equity based funds) and Credit Rating Companies (such as CRISIL, ICRA, CARE etc) for due diligence and for minimizing the risk.

Each Life Insurance Company has software installed into their system (many companies use Cisco Systems SW). At the end of the trading session, that is after 4.30 PM every evening, that software calculates the total value of each investment fund and divides the same by number of units (less withdrawals / death benefits given if any) and by 4 A.M early morning, NAV computation would be over.

That NAV is published in newspapers and published in the respective company's website. In most Life Insurance companies, customer has the option to choose the fund, switch the fund when he/she wants, re-direct the new premiums, withdraw etc.

Net asset value:

The **Net Asset Value or NAV** is a term used to describe the value of an entity's assets less the value of its liabilities. The term is commonly used in relation to collective investment schemes. It may also be used as a synonym for the book value of a firm.

Contents:

Variations: While the above definition is simple, there are many different types of entities, and different ways of measuring the value of assets and liabilities. In the context of collective investments (mutual funds, net asset value is the total value of the fund's portfolio less liabilities. The NAV is usually calculated on a daily basis. In terms of corporate valuations, net asset value is the value of assets less liabilities.

And, to give an indication of what we could mean by the value of assets considers some of these variations each one achieves something slightly different, and is applied in different ways:

- Book value
- Carrying value
- Historical cost
- Amortized cost
- Market value

Usage: Investors might want to know if a company is cheap or expensive to invest in. One possibility is to compare its current market capitalization with its net asset value since, all things being equal; one might expect them to be the same. There are reasons why this might not be true.

- NAV covers the company's current asset and liability position. Investors might expect the company to have large growth prospects, in which case they would be prepared to pay more for the company than the NAV suggests.

- The NAV is usually below the market price because the current values of the funds assets are higher than the historical financial statements used in the NAV calculation. But in the case of, for example, Liberty Media Corporation, analysts and management have estimated that it is actually trading for 30-50% below its net asset value (or "core asset value").

The NAV of an open-end fund will always equal its price. But the price of a closed -end fund may not equal its NAV as closed-end funds are traded in the secondary market and the above reasons cause price to vary from NAV (premium or discount applied)

Net assets are sometimes the same as net worth, or shareholders' equity - assets minus liabilities. In "Return on Net Assets" (RONA) it's often fixed assets plus net working capital (current assets minus current liabilities) which may be slightly less than total assets.

The NAV is usually below the market price because the current values of the funds assets are higher than the historical financial statements used in the NAV calculation.

Calculating Net Asset Value (NAV)
The investor may have heard the term Net Asset Value (NAV) used when referring to ULIPs. Now it is important to learn how to calculate a ULIPs NAV and understand what it really means.

Calculating NAVs: Calculating ULIP net asset values is easy. Simply take the current market value of the fund's net assets (securities held by the fund minus any liabilities) and divide by the number of shares outstanding. So ifs fund had net assets of $50 million and there are one million shares of the fund, then the price per share (or NAV) is $50.00.
The most important thing to keep in mind is that NAV change daily and is not a good indicator on how your portfolio is doing because things like distributions mess with the NAV (it also makes mutual funds hard to track.

ULIP Guidelines: IRDA makes a start:

This article was written by Personalfn for Business India, and was carried in its September 24, 2006 issue with the title, IRDA makes a start. The original draft, in its entirety, has been retained here.

After being witness to rampant misrepresentation of ULIP5 (unit linked insurance plans) the regulator— Insurance Regulatory and Development Authority (IRDA) finally introduced some much-needed guidelines to lend an element of insurance to an otherwise investment product. However, we maintain that there is still more to be done to make ULIP5 more transparent and make it even more insurance oriented.

First some background — ULIPs made an entry at a rather opportune time for insurance companies. The mood in equity markets was very pessimistic, however, at those levels) BSE Sensex less than 3,000 points) markets could go in only one direction - up. And take off they did in an unprecedented manner. From 3,000 points, the BSE Sensex surged furiously to over 12,000 points leaving investors breathless.

Why are we talking of stock markets in an insurance article where we propose to discuss the latest ULIP guidelines? Because unfortunately, not just fund managers, but also insurance companies were rather excited by the sharp rise in stock markets. When you come to think of it, insurance companies should be more concerned about insuring lives than the vagaries of stock markets. However, in ULIPs, they had a product that was more geared towards 'offering a return' than insuring lives.

And this anomaly was put to good use by insurance agents. ULIP5 were spoken of in the same breath as mutual funds. In fact, many agents even went as far as projecting ULIPs superior to mutual funds because they attract tax benefits (under Section 80C) on all options, unlike mutual funds where you get a tax benefit only on the ELSS (equity-linked savings scheme) category. Moreover, ULIP5 were shown to be a short-cut investment/insurance avenue —for instance, investors were encouraged to pay premiums only for the first 3 years and not necessarily over the entire tenure of the policy. The reason is because the expenses in the initial 3 years' premium are so high that insurance companies recover the entire cost of the policy (including life cover charges) and can 'do without' the remaining premiums.

While these marketing gimmicks were glaring, the IRDA, to their credit, did intervene at regular intervals to infuse some much-needed sanity. But as we, at Personalfn, have seen on the mutual fund side, at times the regulator must come down heavily as financial service providers can take quite awhile to get the hint.

On July I, 2006, the IRDA introduced revised ULIP guidelines to correct 'some" of these anomalies, we say some because much is yet to be achieved, but more on that later.

For one IRDA has given the new ULIP a 'face', in insurance a face can be taken as the sum assured and the tenure. The old ULIP lacked both and individuals did not have inkling about either even after taking the ULIP. The latest guidelines dictate that:

Term/Tenure:

- The ULIP client must have the option to choose a term/tenure.
- If no term is defined, then the term will be defined as '70 minus the age of the client'. For example if the client is opting for ULIP at the age of 30 then the policy term would be 40 years.
- The ULIP must have a minimum tenure of 5 years.

Sum Assured: On the same lines, now there is a sum assured that clients can associate with. The minimum sum assured is calculated as:

(Term/2 * Annual Premium) or (5 * Annual Premium) whichever is higher.

There is no clarity with regards to the maximum sum assured. The sum assured is treated as sacred under the new guidelines; it cannot be reduced at any point during the term of the policy except under certain conditions — like a partial withdrawal within two years of death or all partial withdrawals after 60 years of age. This way the client is at ease with regards to the sum assured at his disposal.

Premium payments: If less than first 3 years premiums are paid, the life cover will lapse and policy will be terminated by paying the surrender value. However, if at least first 3 years premiums have been paid, then the life cover would have to continue at the option of the client.

Surrender value: The surrender value would be payable only after completion of 3 policy years.

Top-ups: Insurance companies can accept top-up only if the client has paid regular premiums till date, If the top-up amount exceeds 25% of total basic regular premiums paid till date, then the client has to be given a certain percentage of sum assured on the excess amount. Top-ups have a lock-in of 3 years (unless the top-up is made in the last 3 years of the policy).

Partial withdrawals: The client can make partial withdrawals only after 3 policy years.

Settlement: The client has the option to claim the amount accumulated in his account after maturity of the term of the policy up to a maximum of 5 years. For instance, if the ULIP matures on January 1, 2007, the client has the option to claim the ULIP monies till as late as December 31, 2012. However, life cover will not be available during the extended period.

Loans: No loans will be granted under the new ULIP.

Charges: The insurance company must state the ULIP charges explicitly. They must also give the method of deduction of charges.

Benefit Illustrations: The client must necessarily sign on the sales benefit illustrations. These illustrations are shown to the client by the agent to give him an idea about the returns on his policy. Agents are bound by guidelines to show illustrations based on an optimistic estimate of 10% and a conservative estimate of 6%. Now clients will have to sign on these illustrations, because agents were violating these guidelines and projecting higher returns. While what the IRDA has done is commendable, more needs to be done. At Personalfn, we have our own wish list with regards to ULIP portfolios:

a. Regular disclosure of detailed ULIP portfolios. This is a problem with the industry; for all their talk on being just like (Or even better than) mutual funds, ULIP portfolios are nowhere near their mutual fund counterparts in frequency as well as in transparency.

b. On the same lines, other data points like portfolio turnover ratios need to be mentioned clearly so clients have an idea on whether the fund manager is investing or punting.
c. ULIPs (especially the aggressive options) need to mention their investment mandate, is it going to aim for aggressive capital appreciation or steady growth. In other words will it be managed aggressively or conservatively? Will it invest in large caps, mid caps or across both segments? Will it be managed with the growth style or the value style?

Exposure to a stock/sector in a ULIP portfolio must be defined. Diversified equity funds have a limit to how much they can invest in a stock/sector. Investment guidelines for ULIPs must also be crystallized. Our interaction with insurance companies indicates that there is little clarity on this front; we believe that since ULIPs invest so heavily in stock markets they must have very clear-cut investment guidelines.

To Study in detail about two ULIP products of Bajaj Allianz Life Insurance Co Ltd.

The Bajaj Allianz Unit Gain Plus 'Gold'

With Bajaj Allianz Unit Gain Plus 'Gold' we have formulated a unique combination of protection and prospects of attractive returns with investment in various mixes of securities to make a perfect plan to last you a lifetime of prosperity and happiness.

Some of the key features of this plan are:

- Guaranteed life cover, with a flexibility to choose insurance cover according to your changing needs.
- Presenting a unique investment 'Asset Allocation Fund' wherein you have not to worry to switch funds in case market condition changes rather our experienced Fund Managers will monitor the mix of assets in the fund and will manage the mix in such situations to maximize your returns.
- If you want to manage the mix of assets for your policy on your own, you have the choice of 5 other investment funds with complete flexibility to switch money from one fund to other to manage your investments better.
- Your policy continues to participate in investment performance of the fund(s) even if you are not able to pay 3 full years' premium.
- Flexibility of partial withdrawals at any time after three years from commencement of the policy provided three full years' premiums are paid.
- Get maturity value equal to the Fund Value at maturity date or in periodic installments spread over a maximum period of five years.
- A host of optional additional rider benefits which includes assurance to your

family with family income benefit and waiver of premium benefit.

How does the plan work?

Premiums paid by you, net of premium allocation charge, are invested in fund(s) of your choice and units are allocated depending on the unit price of the fund(s). The value of your policy is the total value of units that you hold in the fund(s). The insurance cover charges, policy administration charges and the additional rider benefit charges (if any) are deducted through monthly cancellation of units. Fund Management Charge is priced in the unit value.

"Bajaj Allianz Unit Gain Plus 'Gold' offers you the following cover choices:

Minimum Sum Assured = 5 times Annualized premium, OR half of the Policy Term times Annualized Premium, whichever is higher.
Maximum Sum Assured = "y" times the annual premium, where y will be as per the following table:

<table>
<tr><th>Age Group</th><th>0–30</th><th>31–35</th><th>36–40</th><th>41–45</th><th>46-55</th><th>56–60</th></tr>
<tr><td>"y" for base cover or base cover with UL ADB &/or UL APTPDB rider</td><td>100</td><td>85</td><td>70</td><td>50</td><td>30</td><td>20</td></tr>
<tr><td>"y" for base cover or base cover with UL CI and/or UL HCB rider</td><td colspan="6">0.5 times Policy Term</td></tr>
<tr><td rowspan="2">"Y" for base cover with UL FIB, provided UL CI &/or UL HCB rider has not been opted for.</td><td colspan="3">If age of FIB life assured + policy term is less than or equal to 60</td><td colspan="3">50 or base cover multiplier, which ever is lower.</td></tr>
<tr><td colspan="3">If age of FIB life assured + policy term is greater than 60</td><td colspan="3">0.5 times policy term</td></tr>
</table>

Benefits available under the plan:

- On death occurring before the age of 7 years: The death benefit will be the fund value as on date of receipt of intimation of death at the office.
- On death after the age of 7 years and before the age of 60 years: The benefit payable would be the sum assured less value of partial withdrawals made in

the last 24 months prior to the date of death or the fund value as on date of receipt of intimation of death at the Company's office, whichever is higher. The death benefit payable would be calculated separately for regular premiums and top up premiums.

- ♦ On death of the life assured on or after attaining the age of 60 years: The benefit payable would be the sum assured less value of partial withdrawals made, within 24 months before attaining age 60 years and all partial withdrawals made after attaining age 60 years or the fund value as on the date of receipt of intimation of death at the office, whichever is higher. The death benefit would be calculated separately for regular premiums and top up premiums
- ♦ On Maturity, the Fund Value in respect of regular premium and top up premium will be paid.
- ♦ The surrender value of the policy will be equal to the fund value less surrender charge, if any. Anytime after three years from the date of commencement of the policy, provided due premiums for first three policy years have been paid, the policyholder will have the option to avail of surrender benefit by complete surrender of units. Further if first three years regular premiums have not been paid and the policy is lapsed for insurance cover, the Surrender Value, if any, would be payable at the expiry of the revival period or at the end of third policy year, whichever is later.

Unit Price: The unit price of each fund is arrived at by dividing the Net Asset Value (NAV) of the fund by the number of units existing in the fund at the valuation date (before any new unit is allocated or cancelled)

Valuation Date: The Company aims to value the Funds on each day the financial markets are open. However, the Company reserves the right to value less frequently in extreme circumstances, where the value of the assets may be too uncertain. In such circumstances, the Company may defer valuation of assets until a certainty on the value of assets is resumed. The deferment of valuation of assets will be subject to prior consultation with IRDA.

Currently, the cut-off time is 3.00 p.m. for applicability of Unit Price of a particular day for switches, redemptions and publication of Unit Price.

Computation of NAV:

When Appropriation price is applied: The NAV of a fund shall be computed as Market value of investment held by the fund plus the expenses incurred in the purchase of the assets plus the value of any current assets plus any accrued income net of fund management charges less the value of any current liabilities less provision, if any. This gives the net asset value of the fund.

Dividing by the number of units existing at the valuation date (before any new units are allocated), gives the unit price of the fund under consideration. This is applicable when the company is required to purchase assets to allocate units at the valuation date.

When Expropriation price is applied: The NAV of a fund shall be computed as Market value of investment held by the fund less the expenses incurred in the sale of the assets plus the value of any current assets plus any accrued income net of fund management charges less the value of any current liabilities less provision, if any. This gives the net asset value of the fund. Dividing by the number of units existing at the valuation date (before any units are redeemed), gives the unit price of the fund under consideration. This is applicable when the company is required to sell assets to redeem units at the valuation date.

Important Details of the 'Bajaj Allianz Unit Gain Plus 'Gold' Plan:

Parameter	Details
Minimum Age at Entry	0 years, risk commences at age 7. Minimum age at entry for all riders is 18 years
Maximum Age at Entry	60 years (50 years in case of all Additional Rider Benefits except UL WOP. 65 years for UL WOP)
Minimum Maturity Age	18 years
Maximum Maturity Age	70 years
Additional Rider Benefit Ceasing Age	65 years for all riders except UL WOP. 70 years for UL WOP
Minimum Term	10 years. In case of minor life minimum policy term is 18 less age at entry of the minor life.
Maximum Term	Customer selectable term subject to max maturity age
Minimum Premium	Rs 12,000 per yearly installment, Rs 6,000 per half-yearly installment, Rs. 3,000 per quarterly installment Rs 1,000 per monthly mode (Monthly mode is available through ECS and Salary Saving Scheme only). Minimum Top Up Premium is Rs. 5,000.

*You can change the premium payment mode on any policy anniversary.

Settlement Option:

Plan your maturity proceeds by exercising the Settlement Option with us. This facilitates you to receive your maturity proceeds in equal installments (payable yearly, half yearly, quarterly or monthly, at your option) spread over a maximum period of 5 years. The amount paid out in each installment will be the outstanding fund value at that date divided by the number of outstanding installments.

No risk cover will be available during the settlement period. The company however will deduct all the charges (except the mortality charge and rider premium charge, if any). No partial withdrawals or switches are allowed during the settlement period.

Free Look Period:

Within 15 days from the date of receipt of the policy, you have the option to review the terms and conditions and return the policy, if you disagree to any of the terms & conditions, stating the reasons for your objections. You will be entitled to a refund of the premium paid, subject only to a deduction of a proportionate risk premium for the period on cover and the expenses incurred on medical examination and stamp duty charges. The refund paid to You will also be reduced / increased by the amount of any reduction / increase in the Fund Value, if any, due to a fall / rise in the unit price between the date of allocation and redemption of units (without reference to any premium allocation rate or charges).

Days of Grace:

A grace period of 30 days for the yearly, half yearly and quarterly modes and of 15 days for the monthly mode is allowed under the policy. Your policy remains in force for all insurance covers, if any, even if the due premiums are not paid during this period.

Revival of the Policy:

It is possible to revive a policy that has lapsed due to non-payment of premiums within 2 years from such date of lapse. You have to give a written application to the company to revive the policy with all due unpaid regular premiums. The revival will effected subject to underwriting.

Termination Conditions:

This Policy shall automatically terminate on the earlier occurrence of either of the following events:

- The units in the policy are fully surrendered;
- The Fund Value in respect of regular premium less surrender charge falls to be an amount equivalent to one annual premium provided regular premiums have been paid for 3 full years;
- Upon death of the life assured;
- Upon the policy remaining lapsed for two years or the policy remaining lapsed up to third policy anniversary whichever is later.
- Upon maturity, unless You have opted for the settlement option or,
- The expiry of the period for the settlement option

Tax Benefits:

Premiums paid and benefits received will be eligible for tax benefits as per applicable tax laws.

As per the current tax laws: Premiums payable are eligible for tax benefits as per Section 80C of the Income Tax Act after deducting Premium paid towards UL Critical Illness Benefit and UL Hospital Cash Benefit, if selected.

Partial Withdrawals, Surrender Value, Death Benefit and Maturity Benefit are eligible for tax benefits as per Section 10(10D) of the Income Tax Act. The charges paid for UL Critical Illness and UL Hospital Cash Benefit are eligible for tax benefits as per Section 80(D) of the Income Tax Act. In case of change in any tax laws relevant to the policyholder or the fund performance, the same will be applied as per regulations prevailing at that point of time.

General Exclusion: In case the life assured commits suicide within one year of the date of commencement/revival of the policy; the amount payable would be the value of the units in your account.

Charges under the Plan:

Policy Administration Charge: Rs. 600 per annum inflating at 5% every 1st of April will be deducted at each monthly anniversary by cancellation of units. Fund Management *Charge*: 1.75% p. a. of the NAV for Equity Growth Fund and Accelerator Mid-Cap Fund, 1.25% p.a. of the NAV for Equity Index Fund II and Asset Allocation Fund, 0.95% p.a. of the NAV for Bond Fund and Liquid Fund. The Fund Management Charge is charged on a daily basis and adjusted in the unit price. All Top up premiums has a premium allocation charge of 2%.

Fund Switching Charges: Three free switches would be allowed every year. Subsequent switches would be charged @ 5% of switch amount or Rs. 100, whichever is lower, on each such occasion.

Miscellaneous Charge: The miscellaneous charge would be Rs.100/- per transaction in respect of reinstatement, alteration of premium mode, increase / decrease in regular premium or issuance of copy of policy document.

Surrender Charge: If any due regular premium is not paid within the grace period in the first three policy years, the surrender charge would be 60% of the first years' Annualized Premium. If first three years regular premiums have been paid in full, the surrender charge would be as follows: [1 – (1/1.10) ^N] * First Years' Annualized Premium.

; Where N is 10 years less the elapsed policy duration in years and fraction thereof.

No Surrender Charge will be applied on units in respect of Top up Premium.

Mortality Charges: The mortality charge would vary according to the attained age of the life assured at the time of deduction of the charge. This charge would be recovered through cancellation of units on a monthly basis and would be applied on Sum at Risk which is equal to sum assured less fund value. .

Rider Premium Charges: The charges for additional rider benefits selected shall be recovered through cancellation units on a monthly basis.

Revision of charges: After taking due approval from the Insurance Regulatory and Development Authority, the Company reserves the right to change the following charges:

- Fund Management Charge up to a maximum of 2.75% p.a. of the NAV for the Equity Growth Fund and Accelerator Mid-Cap Fund, 2.25% p.a. for the Equity Index Fund II and Asset Allocation Fund, 1.75% p.a. for the Bond Fund and Liquid Fund.
- Switching charge up to a maximum of Rs.200 per switch or 5% of the switching amount, whichever is lower.
- Miscellaneous charge up to a maximum of Rs.200/- per transaction
- Rider Premium Charges as per filed to IRDA.
- If the Policyholder/Life Assured does not agree with the charges, he/she will be allowed to exit the plan at the prevailing price of units after applying surrender charge, if any.

Risks of Investment in the Units of the Plan:

The Proposer/Life Assured should be aware that the investment in the Units is subject to the following, amongst other risks and should fully understand the same before entering into any unit linked insurance contract with the Company.

- Unit Linked Life Insurance products are different from the traditional insurance products and are subject to the risk factors.

- The premium paid in unit linked life insurance policies are subject to investment risks associated with capital markets and the Unit Price of the units may go up or down based on the performance of the fund and factors influencing the capital market and the insured/policyholder is responsible for his/her decisions.

- Bajaj Allianz Life Insurance is only the name of the insurance company and Bajaj Allianz Unit Gain Plus 'Gold' is only the name of the policy and does not in any way indicate the quality of the policy, its future prospects or returns.

- Please know the associated risks and the applicable charges from your policy document or by consulting the Company, your Insurance agent or your Insurance intermediary.

- Equity Index Fund II, Accelerator Mid-Cap Fund, Equity Growth Fund, Asset Allocation Fund, Bond Fund and Liquid Fund are the names of the funds offered currently with Bajaj Allianz Unit Gain Plus 'Gold', and in any manner do not indicate the quality of the respective funds, their future prospects or returns.

- The investments in the Units are subject to market and other risks and there can be no assurance that the objectivities of any of the funds will be achieved.

- The Equity Growth Fund, Equity Index Fund II, Accelerator Mid-Cap Fund, Asset Allocation Fund, Bond Fund and Liquid fund do not offer a guaranteed or assured return.

- All benefits payable under the Policy are subject to the tax laws and other financial enactments, as they exist from time to time.

- The past performance of the funds of the company is not necessarily an indication of the future performance of any of these funds.

New Unit Gain Plus SP

The thumb rule for buying an investment product is that it should provide good returns, low charges, complete flexibility and transparency in investment. We at Bajaj Allianz Life Insurance have considered all these parameters and present to you New Unit Gain plus SP. This Single Premium plan offers attractive investment in securities, complete flexibility and transparency and additional protection of a valuable life cover.

With a high allocation of 98% and 4 investment funds to choose from, this plan offers participation in financial markets, a valuable life cover and attractive tax advantage. With fund switching options and partial or full withdrawal facility this plan provides complete flexibility to our customers.

Bajaj Allianz New Unit Gain Plus SP

Bajaj Allianz New Unit Gain plus SP comes with a host of features to allow you to have the best of all worlds – Protection and Investment with flexibility like never before.

Key features of Bajaj Allianz New Unit Gain Plus SP plan are:

- It is a single premium unit linked plan with maximum maturity age 70.
- 98% of the single premium is allocated towards Units.
- Minimum Guaranteed death benefit: Sum Assured.
- Choice of 4 investment funds with flexible investment management: you can switch between funds at any time.
- Attractive investment alternative to fixed-interest securities.
- Provision for surrender or partial withdrawals any time after three years from commencement.
- Unmatched flexibility –to meet your changing needs.

How does the plan work?

In this plan 98% of the single premium is invested in a fund(s) of your choice & units are allocated depending on the price of units for the fund(s). The fund value of your policy is the total value of units that you hold in the fund(s). The mortality charges and policy administration charges are deducted through cancellation of units. The Fund Management Charge is adjusted in the Unit Price.

Sum Assured: You can choose a Sum Assured (Level of Protection) that you want in the New Unit Gain Plus SP Plan.

Minimum Sum Assured = 125% of the Single premium

Maximum Sum Assured = Y times the Single Premium where Y will be as per the following table:

Age Group	0–17	18–35	36–45	46–50	51–55	56–65
Y	10	10	7	5	3	2*

* Multiplier may be increased to 5 in special cases on a case-to-case basis.

Benefits available under this plan:

- On death before the age of 7 years: Fund Value as on date of receipt of intimation of death at the office.
- On death on or after the age of 7 years and before the age of 60 years: sum assured less the value of partial withdrawals made in the last 24 months prior to the date of death or the fund value as on date of receipt of intimation of death at the office, whichever is higher.
- On death of the life assured on or after the age of 60 years: sum assured less the value of partial withdrawals made within two years before attaining age 60 years and all partial withdrawals made after attaining age 60 years or the fund value as on the date of intimation of death at the office, whichever is higher.
- On maturity, the fund value is payable to the policyholder.

Fund Value: The fund value is equal to the number of units under this policy multiplied by the respective unit price on the relevant valuation date.

Unit Price: The unit price of each fund is arrived at by dividing the Net Asset Value (NAV) of the fund by the number of units existing in the fund at the valuation date (before any new unit is allocated or cancelled)

Valuation Date: The Company aims to value the funds on each day the financial markets are open. However, the Company reserves the right to value less frequently in extreme circumstances, where the value of the assets may be too uncertain. In such circumstances, the Company may defer valuation of assets until a certainty on the value of assets is resumed. The deferment of valuation of assets will be subject to prior consultation with IRDA.

Currently, the cut-off time is 3 p.m. for applicability of unit price of a particular day for switches, redemptions and publication of unit price.

Computation of NAV:

When Appropriation Price is applied: The NAV of a Unit Linked Life Insurance Product shall be computed as market value of investment held by the fund plus the expenses incurred in the purchase of the assets plus the value of any current assets plus any accrued income net of fund management charges less the value of any current liabilities less provision, if any. This gives the net asset value of the fund. Dividing by the number of units existing at the valuation date (before any new units are allocated), gives the unit price of the fund under consideration. This is applicable when the company is required to purchase assets to allocate units at the valuation date.

When Expropriation Price is applied: The NAV of a Unit Linked Life Insurance Product shall be computed as market value of investment held by the fund less the expenses incurred in the sale of the assets plus the value of any current assets plus any accrued income net of fund management charges less the value of any current liabilities less provision, if any. This gives the net asset value of the fund. Dividing by the number of units existing at the valuation date (before any units are redeemed), gives the unit price of the fund under consideration. This is applicable when the company is required to sell assets to redeem units at the valuation date.

Investment Options:

Bajaj Allianz New Unit Gain Plus SP offers you a choice of 4 funds. You can choose to invest fully in any one fund or allocate your single premium into the various funds in a proportion that suits your investment needs. The four funds offered are as under:

Equity Index Fund II- Risk Profile –High: The investment objective of this fund is to provide capital appreciation through investment in equities forming part of NSE NIFTY.

Equity Growth Fund- Risk Profile – Very High : The investment objective of this fund is to provide capital appreciation through investment in selected equity stocks that have the potential for capital appreciation.

Bond Fund- Risk Profile – Moderate: The investment objective of this fund is to provide accumulation of income through investment in high quality fixed income securities.

Liquid Fund- Risk Profile – Low: The investment objective of this fund is to have a fund that protects the invested capital through investments in liquid money market and short-term instruments.

These funds are professionally managed by asset managers of Bajaj Allianz, backed with the rich experience of Allianz SE, one of the largest asset managers in the world today, managing assets worth over a Trillion Euros (over Rs. 55,00,000 Crores).

Apportionment of Single Premium: You can apportion your Single Premium between various funds available. The apportionment to any chosen fund must be at least 5% of the Single Premium.

Flexibility to manage your investments: Initially, you can allocate the Single Premium into the 4 funds that are available in a proportion of your choice. Depending on the performance of funds, you can switch between funds with three free switches every policy year, subject to a minimum switching amount of Rs. 5,000 or the value of the total units held in the fund to be "switched", whichever is lower. Switching should not lead to more than 25% of total fund value in Liquid Fund.

Cash withdrawal option: After three years from the commencement of the policy, withdrawals through partial or complete surrender of units are allowed. In case of partial withdrawals, a minimum balance of Rs.15, 000 or 1/10^{the} of the Single Premium, whichever is higher, across all funds should be maintained after withdrawal and the minimum withdrawal amount should be Rs. 5,000. In case the policy is taken on the life of a minor, the partial withdrawals shall not be allowed until the minor (life insured) attains majority (i.e. on or after attainment of age 18).

Important Details of the Bajaj Allianz New Unit Gain Plus SP Plan:

	Minimum	Maximum
Age at Entry	0 Yrs (Risk Commences at age 7)	65 Yrs
Term	5 Yrs	
Age at Maturity	18 Yrs	70 Yrs
Minimum Single Premium	Rs. 25000	

Settlement Option:

Plan your maturity proceeds by exercising the Settlement Option. This facilitates you to receive your maturity proceeds in installments (payable yearly, half yearly, quarterly or monthly, at your option) spread over a maximum period of 5 years. The amount paid out in each installment will be the outstanding fund value at that date divided by the number of outstanding installments.

No risk cover will be available during the settlement period. The company however will deduct all the charges (except the mortality charges).

Free Look Period:

Within 15 days of the receipt of this Policy, the Policyholder may, if dissatisfied with it for any reason, give the Company a written notice of cancellation along with reasons for the same, and return the Policy Document to the Company, subject to which the Company shall send the Policyholder a refund comprising the

Single Premium paid less the proportionate risk premium for the period the Life Assured that was on cover, and the expenses incurred on medical examination and stamp duty charges. The refund paid to the Policyholder will also be reduced by the amount of any reduction in the Fund Value due to fall in the Unit Price between the date of allocation and redemption of units (without reference to any premium allocation rate or Charges).

Termination of the Policy:

The Policy shall automatically terminate on the occurrence of any of the following events:

- The units in the policy are fully surrendered and full surrender value is paid to the Policyholder.
- The Fund Value becomes equal to one tenth of the Single Premium paid;
- The death of the Life Assured.
- On maturity, unless the policyholder has opted for Settlement Option.
- The expiry of the period for settlement option.

Tax Benefits:

Premiums paid will be eligible for tax deduction as per Section 80C of the Income Tax Act and partial withdrawals, full surrender and maturity benefits are eligible for tax benefits as per Section 10(10)D of the Income Tax Act.

Nomination: Nomination can be made for receiving policy proceeds in case of death. You can nominate your beneficiaries under this policy. In case of death, the policy proceeds will be given to the nominee. You can also change the nominee during the lifetime of the policy.

General Exclusion: In case the life assured commits suicide within one year of the date of commencement of the risk cover (Policy Anniversary following Age 7 in the case of a minor); the amount payable would be the Fund Value.

Charges under the Plan:

Given below are the details of the various charges that will be recovered from the plan to meet expenses.

Policy Administration Charge: Rs 600 per annum deductible monthly through cancellation of units, inflating at the rate of 5% per annum.

Fund Management Charge: The fund management charge would be levied on NAV and the rate is as follows: Equity Growth Fund 1.75% p.a., Equity Index Fund II 1.25% p.a., Liquid Fund 0.95 % p.a., and Bond Fund 0.95% p.a.

Switching Charges: Three free switches would be allowed every Policy year.

Subsequent switches would be charged a fixed amount of Rs. 100 or 5% of the switch amount, whichever is lower, on each such occasion.

Mortality Charges: The mortality charge would vary according to the attained age of the life assured at the time of deduction of the charge and would be recovered through cancellation of units on a monthly basis. Sample standard mortality charge per annum per thousand of sum at risk is given in the table below. The sum at risk is sum assured less fund value.

Age	Mortality Charge
20	1.57
30	1.74
40	2.82
50	6.53
60	15.56

Revision of charges:

After taking due approval from the Insurance Regulatory and Development Authority, the company reserves the right to change the following charges:

- ♦ Fund Management Charge up to a maximum of 2.75% p.a. for Equity Growth Fund, 2.25% p.a. for Equity Index Fund II and 1.75% p.a. for Bond Fund & Liquid Fund.
- ♦ Switching charge up to a maximum of Rs. 200 per switch or 5% of the switching amount, whichever is lower.

Risks of Investment in the Units of the Plan:

The Proposer/Life Assured should be aware that the investment in the Units is subject to the following, amongst other risks and should fully understand the same before entering into any unit linked insurance contract with the Company.

- ♦ Unit Linked Life Insurance products are different from the traditional insurance products and are subject to the market risk factors.
- ♦ The premium paid in unit linked life insurance policies are subject to investment risks associated with capital markets and Unit Price of the units may go up or down based on the performance of the fund and factors influencing the capital market and the insured/policyholder is responsible for his/her decisions.
- ♦ Bajaj Allianz Life Insurance is only the name of the insurance company and Bajaj Allianz New Unit Gain Plus SP is only the name of the product and does not in any way indicate the quality of the policy, its future prospects or returns.
- ♦ Please know the associated risks and the applicable charges from your policy document or by consulting the Company, your Insurance agent or your Insurance intermediary.

- Equity Index Fund II, Equity Growth Fund, Liquid Fund and Bond Fund are the names of the funds offered currently with Bajaj Allianz New Unit Gain Plus SP, and do not in any way indicate the quality of the respective funds, their future prospects or returns.
- The investments in the Units are subject to market and other risks and there can be no assurance that the objectives of any of the funds will be achieved.
- Equity Index Fund II, Equity Growth Fund, Liquid Fund and Bond Fund do not offer a guaranteed or assured return.
- All benefits payable under the Policy are subject to the tax laws and other financial enactments, as they exist from time to time.
- The past performance of the funds of the company is not necessarily indicative of the future performance of any of these funds.

To Make a Comparison between Mutual Funds vs. ULIPs:

Unit Linked Insurance Policies (ULIPs) as an investment avenue are closest to mutual funds in terms of their structure arid functioning. As is the case with mutual funds, investors in ULIPs is allotted units by the insurance company and a net asset value (NAV) is declared for the same on a daily basis.

Similarly ULIP investors have the option of investing across various schemes similar to the ones found in the mutual funds domain, i.e. diversified equity funds, balanced funds and debt funds to name a few. Generally speaking, ULIPS can be termed as mutual fund schemes with an insurance component. However it should not be construed that barring the insurance element there is nothing differentiating mutual funds from ULIPs.

How ULIPs can make someone rich?

Despite the seemingly comparable structures there are various factors wherein the two differ.

In this article we evaluate the two avenues on certain common parameters and find out how they measure up.

ULIPs Vs Mutual Funds:

	ULIPs	Mutual Funds
Investment amounts	Determined by the investor and can be modified as well.	Minimum investment amounts are determined by the fund house.
Expenses	No upper limits expenses determined by the Insurance Company.	Upper limits for expenses Chargeable to investors have been set by the regulator.
Portfolio Disclosure	Not mandatory	Quarterly disclosures are mandatory
Modifying asset allocation	generally permitted for free or at a nominal cost	Entry/exit loads have to be borne by the investor
Tax benefit	Sec 80C benefits are available on all ULIP investments	Section 80C benefits are available only on investments in tax saving funds

Mode of investment / investment amounts:

Mutual fund investors have the option of either making lump sum investments or investing using the systematic investment plan (SIP) route which entails commitments over longer time horizons. The minimum investment amounts are laid out by the fund house.

ULIP investors also have the choice of investing in a lump sum (single premium) or using the conventional route, i.e. making premium payments on an annual, half-yearly, quarterly or monthly basis. In ULIPs, determining the premium paid is often the starting point for the investment activity. This is in stark contrast to conventional insurance plans where the sum assured is the starting point and premiums to be paid are determined thereafter.

ULIP investors also have the flexibility to alter the premium amounts during the policy's tenure. For example an individual with access to surplus funds can enhance the contribution thereby ensuring that his surplus funds are gainfully invested; conversely an individual faced with a liquidity crunch has the option of paying a lower amount (the difference being adjusted in the accumulated value of his IJLIP). The freedom to modify premium payments at one's convenience clearly gives ULIP investors an edge over their mutual fund counterparts.

Expenses:

In mutual fund investments, expenses charged for various activities like fund management, sales and marketing, administration among others are subject to pre -determined upper limits as prescribed by the Securities arid Exchange Board of India.

For example equity-oriented funds can charge their investors a maximum of 2.5% per annum on a recurring basis for all their expenses; any expense above the prescribed limit is borne by the fund house and not the investors.

Similarly funds also charge their investors entry and exit loads (in most cases, either is applicable). Entry loads are charged at the timing of making an investment while the exit load is charged at the time of sale.

Insurance companies have a free hand in levying expenses on their ULIP products with no upper limits being prescribed by the regulator, i.e. the Insurance Regulatory and Development Authority. This explains the complex and at times 'unwieldy' expense structures on ULIP offerings. The only restraint placed is that insurers are required to notify the regulator of all the expenses that will be charged on their ULIP offerings.

Expenses can have far-reaching consequences on investors since higher expenses translate into lower amounts being invested and a smaller corpus being accumulated. ULIP-related expenses have been dealt with in detail in the article "Understanding ULIP expenses".

Portfolio disclosure:

Mutual fund houses are required to statutorily declare their portfolios on a quarterly basis, albeit most fund houses do so on a monthly basis. Investors get the opportunity to see where their monies are being invested and how they have been managed by studying the portfolio.

There is lack of consensus on whether ULIP5 are required to disclose their portfolios. During our interactions with leading insurers we came across divergent views on this issue.

While one school of thought believes that disclosing portfolios on a quarterly basis is mandatory, the other believes that there is no legal obligation to do so and that insurers are required to disclose their portfolios only on demand.

Some insurance companies do declare their portfolios on a monthly/quarterly basis. However the lack of transparency in ULIP investments could be a cause for concern considering that the amount invested in insurance policies is essentially meant to provide for contingencies and for long-term needs like retirement; regular portfolio disclosures on the other hand can enable investors to make timely investment decisions.

There is lack of consensus on whether ULIPs are required to disclose their portfolios. While some insurers claim that disclosing portfolios on a quarterly basis is mandatory, others state that there is no legal obligation to do so.

Flexibility in altering the asset allocation:

As was stated earlier, offerings in both the mutual funds segment and ULIPs segment are largely comparable. For example plans that invest their entire corpus in equities (diversified equity funds), a 60:40 allotment in equity and debt instruments (balanced funds) and those investing only in debt instruments (debt funds) can be found in both ULIPs and mutual funds. If a mutual fund investor in a diversified equity fund wishes to shift his corpus into a debt from the same fund house, he could have to bear an exit load and/or entry load.
On the other hand most insurance companies permit their ULIP inventors to shift investments across various plans/asset classes either at a nominal or no cost (usually, a couple of switches are allowed free of charge every year and a cost has to be borne for additional switches).

Effectively the ULIP investor is given the option to invest across asset classes as per his convenience in a cost-affective manner. This can prove to be very useful for investors, for example in a bull market when the ULIP investor's equity component has appreciated, he can book profits by simply transferring the requisite amount to a debt-oriented plan.

Tax benefits:

ULIP investments qualify for deductions under Section 80C of the Income Tax Act. This holds well, irrespective of the nature of the plan chosen by the investor. On the other hand in the mutual funds domain, only investments in tax-saving funds (also referred to as equity-linked savings schemes) are eligible for Section 80C benefits. Maturity proceeds from ULIP5 are tax free. In case of equity-oriented funds (for example diversified equity funds, balanced funds), if the investments are held for a period over 12 months, the gains are tax free; conversely investments sold within a 12-month period attract short-term capital gains tax @10%.

Similarly, debt-oriented funds attract a long-term capital gains tax @10%, while a short-term capital gain is taxed at the investor's marginal tax rate. Despite the seemingly similar structures evidently both mutual funds and ULtP5 have their unique set of advantages to offer. As always, it is vital for investors to be aware of the nuances in both offerings and make informed decisions.

Relatively speaking: ULIPs and Mutual Funds:

Although both Mutual Funds (MFs) and unit linked insurance plans (ULIP5) have been popular for some time now, due to certain similarities between the two, there are still some grey areas in the minds of investors with respect to these investment vehicles. Here’s a look at how they stack up against each other to give you an idea about which could be more suitable for you.

Objective:

MF: Mutual Funds are known for their good returns and variety of investment choices, including tax saving schemes called ELSS.

ULIP: Popular for its triple benefits, this offers life cover, capital appreciation and income tax benefits.

Structure:

MF: A MF collects money from the public and invests in equity, debt or a combination of both, as per a pre specified investment objective. Investments are offered units depending on the value of their investment, on a pro rata basis. Equity funds invest predominantly in the stock market to generate growth by way of capital appreciation for investors, where as debt funds invest in fixed funds invest in fixed income securities such as bonds, debentures, government securities, reverse repo’s, etc. A balanced fund invests partly in both equity and debt. A mutual fund scheme can be open — ended (no defined time period)or close — ended (three or five years),

ULIP: Although the investment proportion of a ULIP is structured like mutual funds, the prime objective of this product is insurance and capital appreciation. Accordingly, a part of the premium paid to the company is allocated towards life insurance cover, administrative charges and management fees. The rest is invested in market-linked instruments like stocks, corporate bonds government securities, depending on the asset allocation plan. Most LJLIP5 offers policy folders a choice of plans, namely equity oriented, debt oriented and balanced, too. You can switch from one plan to another, a specified number of times.

The value of units of both ULIP5 and MF5 are calculated and declared on a daily basis at their market worth and called the Net Asset Value (NAV) of the investment fund Investors can gauge whether their investment has appreciated according or depreciated to NAV movement.

Tenure:

MF: There no minimum holding period for most mutual fund schemes, except in the case of tax saving schemes (ELSS), which have a three year lock —in period. Close ended funds, which have a three year lock in period, are either listed on the stock exchange or provide liquidity by accepting redemptions at periodic time intervals (e.g. every three months or six months)

ULIP: these usually have a minimum tenure of 5 years and the maximum term defends of the age of the investor. These are also subject to a lock-in period of three years before which an investor has no access to the investment amount.

Expenses:

MF: Expenses such as fund management, sales and marketing, administration, etc., are charged subject to predetermined upper limits as prescribed by the Securities and Exchange Board of India. For example equity oriented funds can charge their investors a maximum of 2.5 per cent per annum on a recurring basis. Any expense above the prescribed limit is borne by the fund house and not passed on to the investor entry and\or exit loads are charged at the time of making an investment while exit load is charged at the time of scale.

ULIP: There are no maximum limits prescribed by the Insurance Regulatory and Development authority, as regards levy of expenses on ULIP products. However, the insurance company is required to get the expense limit pre — approved from the insurance regulator. The expenses charged by ULIPs are rather high and could range between 5 to 65 per cent for the first year and then fall to 3 to 20 per cent in subsequent years.

Returns:

MF: Mutual funds usually give better returns on investment than ULIPs since a large contribution is invested in securities. The returns vary with the investment pattern. For example debt scheme are presently offering, on average basis, annualized returns of 3 to 8 per cent, where as equity oriented schemes are presently offering returns in the range of 30 to 60 per cent per annum.

ULIP: ULIP charge higher expenses as a percentage of your investment than MFS — the amount available for investment to that extent. Life insurance cover charges and other expenses are factored in to the ULIP premium. Since the base for investment is lower, the returns offered by ULIP will mostly lower than those on mutual funds schemes.

Options for receiving returns:

MF: Returns are available to investors in the form of dividends if the dividend option is chosen by investor. In the case of the growth option, these are in the form of capital appreciation.

ULIP: The returns is in the form of capital appreciation and insurance cover in case of premature death

Redemption Procedure:

MF: The redemption amount is calculated by multiplying the NAV (minus exit load, if any) on the date of redemption with the number of units redeemed. Mutual fund investments are highly liquid (the redemption amount is received within 1 to 3 working days based on scheme type).

ULIP: In the case of ULIP, you can redeem units under any of the following situation: Maturity: this is on the expiry/maturity date of the ULIP, Surrender, if you surrender your policy, you receive the surrender value as stated in the policy, only after the locking period of three years. Death: in the event of unfortunate demise of the investor, his nominee receives the sum assured or the value of the units, which ever is higher. Partial withdrawals: some funds allow partial withdrawal at periodic time intervals. Your units will stand reduced to that extent.

Suitability:

A MF offers certain advantages in terms of cost various types and sub types plan and liquidity. ULIPs in other hand, give you the flexibility to shift between various plans with in the insurance company, with Out high load cost and capital gains implications, further, if you plan to invest for the long term (more than 10 years), o could consider ULIPs as this vehicle would ensure that your insurance needs are taken care of and you enjoy capital appreciation as well.

To make a comparison between Traditional policies Vs ULIPs:

Not too long back, the good old endowment plan was the preferred way to meeting the dual objective of insuring oneself against an eventuality and setting aside savings to meet ones financial objectives. Then the insurance sector was thrown open to the private sector. The result was the launch of a wide variety of insurance plans; including ULIPs (unit-linked insurance plans).

Two factors were responsible for the advent of ULIP5 on the domestic insurance horizon. First was the arrival of private insurance companies. ULIPs were one of the most significant innovations introduced by private insurers. The other factor that saw investors take to ULIPs was the decline of assured returns in endowment plans.

While these were the two factors most instrumental in marking the arrival of ULIPs, another factor that has helped their cause is the impressive economic performance over the past few years that have translated into equally impressive returns on the stock markets. While this now appears as one of the primary reasons for their popularity, we believe ULIP5 have some fundamental positives like enhanced flexibility and merging of investment and insurance in a single entity that have really endeared them to individuals.

Given that ULIPs are relatively new and remain an enigma for a large section of insurance-seekers, in this note we compare them to the traditional endowment plans to give you a perspective.

	ULIPs	Traditional Endowment Policy
Sum assured	Higher of (Tenure of policy/2*Annual premium) or (5*Annual premium)	
Investments	Allocation to equities, bonds, money Market depending on the option.	Larger allocation to bonds, gsecs, money market, smaller equity allocation.
Expenses	Lower agent commissions, higher fund management charges.	Higher agent commissions.
Flexibility	High	Low
Transparency	High	Low
Liquidity	High	Low
Tax Benefits	Available	Available

Sum assured:

Perhaps the most fundamental difference between ULIPs and traditional endowment plans is in the concept of premium and sum assured. When you want to take a traditional endowment plan, the question your agent will ask you is - how much insurance cover do you need? Or in other words, what is the sum assured you are looking for? The premium is calculated based on the number you give your agent.

Investments:

Traditionally, endowment plans have invested in government securities, corporate bonds and money market instruments. They generally shirked from investing in the stock markets, although there was a provision for the same. However, for some time now, endowment plans have discarded their traditional outlook on investing and allocate about 10%-15% of monies to stocks. This percentage varies across life insurance companies.

ULIPs have no such constraints on investments. They invest across the board in stocks, government securities, corporate bonds and money market instruments. Of course, within a ULIP there are options wherein there are caps on each investment avenue (stocks, bonds).

Expenses:

ULIPs are considered to be expensive when compared to traditional endowment plans. This notion is rooted more in perception than reality. Let us take agent commissions to understand this better. Sale of a traditional endowment plan could fetch a commission as high as 30% (of premium) in the first year and 60% (of premium) over the first five years. Then there is ongoing commission in the region of 5%.

Sale of a ULIP fetches a relatively lower commission ranging from as low as 5% to 30% of premium (depending on the insurance company) over 1-3 years.

After the initial years, it stabilizes at 1%-3% (again depending on the insurer). Unlike endowment plans, there are no IRDA regulations on ULIP commissions.
Mortality expenses for ULIPs and traditional endowment plans remain the same. There is also little difference ii, the administration charges.

One area where ULIPs prove to be more expensive than traditional endowment is in fund management Since ULIPs have an equity component that needs to be managed actively, they incur fund management charges. These charges fluctuate in the 0.80%-i .50% (of premium) range. We could not get a fix on the fund management charges of traditional endowment plans despite having spoken to several insurance companies.

Flexibility:

As we mentioned at the very beginning of this article, one aspect that gives ULIPs an edge over traditional endowment is flexibility. ULIPs offer a host of options to the individual based on his risk profile. There are insurance companies that offer as many as six options within a ULIP with the equity component varying from zero to a maximum of 100% (of corpus). You can select an option that best fits your objectives and risk-taking capacity. Having selected an option, you still have the flexibility to switch to another option. Most insurance companies allow a number of free switches' in a year. Another innovative feature with ULIPs is the 'top-up' facility. A top-up is a one time additional investment in the ULIP over and above the annual premium. This feature works well when you have a surplus that you are looking to invest in a market-linked avenue, rather than keep in a savings account or a fixed deposit. With traditional endowment, there are no investment options. You select the only option you have and must remain with it till maturity. There is also no concept of a top-up facility. Your premium amount cannot be enhanced on a one- time basis and skipped premiums will result in your policy lapsing.

Transparency:

ULIPs are also more transparent than traditional endowment plans. Since they are market-linked, there is a price per unit. This is the net asset value (NAV), which is declared on a daily basis. A simple calculation can tell you the value of your ULIP investments. Over time you know exactly how your ULIP has performed.

Most ULIPs also disclose their portfolios regularly. This gives you an idea of how your money is being managed. It also tells you whether or not your mutual fund and/or stock investments coincide with your ULIP investments. If they are, then you have the opportunity to do a rethink on your investment strategy across the board so as to ensure you are well-diversified across investment avenues at all times.

With traditional endowment, there is no concept of a NAV. However, insurers do send you an annual statement of bonus declared during the year, which gives you an idea of how your insurance plan is performing. Traditional endowment also does not have the practice of disclosing portfolios. But given that there are provisions that ensure a large chunk of the endowment portfolio is in high quality (AAA/sovereign rating> debt paper, disclosure of portfolios is likely to evoke little investor interest.

Liquidity:

Another flexibility that ULIPs offer the individual is liquidity. Since ULIP investments are NAV-based it is possible to withdraw a portion of your investments before maturity. Of course, there is an initial lock-in period (3 years) after which the withdrawal is possible provided the minimum fund value is to be maintained.

Traditional endowment has no provision for pre-mature withdrawal. You can surrender your policy, but you won't get everything you have earned on your policy in terms of premiums paid and bonuses earned. If you are clear that you will need money at regular intervals then it is recommended that you opt for money-back endowment

Tax benefits:

Taxation is one area where there is common ground between ULIPs and traditional endowment. Premiums in ULIPs as well as traditional endowment plans are eligible for tax benefits under Section 80C subject to a maximum limit of Rs 100,000. On the same lines, money received on maturity on ULIPs and traditional endowments are tax-free under Section 10.

Similarities between Mutual Fund Vs ULIPs:

1. MFs and ULIPs are known for their good returns.
2. MFs and ULIPs are Liquidity and Flexible
3. MFs and ULIPs are collect money from the public and invest in equity debt or a combination of both.
4. The value of both ULIPs and MFs are calculated and declared on a daily basis at their market worth and called Net Asset Value (NAV) of investment fund.
5. In MFs Equity linked savings scheme (ELSS) have minimum lacking period is 3 years All ULIPs have minimum 3 years locking period.
6. In MFs ELSS and All ULIPs are eligible for tax benefit under Sec 80c.

Similarities between Traditional Policies vs. ULIPs:

1. Traditional Policies and ULIPs are available insurance coverage.
2. Both are future objective
3. Both are available tax benefit under sec 8Cc and tax free returns under Sec 1O(1OD)

<u>QUESTIONNAIRE titled "Your opinion on ULIP" was prepared</u> and responses were understand our objective of project.

1. Name: ______________________________

2. Gender: ● Male ● Female

3. Marital status: ● Married ● Unmarried

4. Age: ● 18-24 ● 24-30 ● 30-36 ● 36+

5. Occupation: ● Government ● Private Service ● Business ● NRIs ● Others

6. Annual Income: ● Below 2.5 lakh ● 2.5-5lakh ● 5-7.5 lakh ● 7.5-10 lakh ● 10-12.5 lakh
   - 12.5 lakh- 15 lakh
   - above 15 lakh

7. Do you have any kind of insurance?
   - Yes
   - No

8. How many type of insurance you currently have?
   - Motor insurance
   - Health insurance
   - Property insurance
   - other

9. I would like to invest money in ULIP
   - . ● Strongly agree ● Agree ● Neutral ● Disagree ● Strongly disagree ●

10. Mutual funds are riskier than ULIP products.

● Strongly agree ● Agree ● Neutral ● Disagree ● Strongly disagree

11. ULIPs have an advantage over Mutual funds.

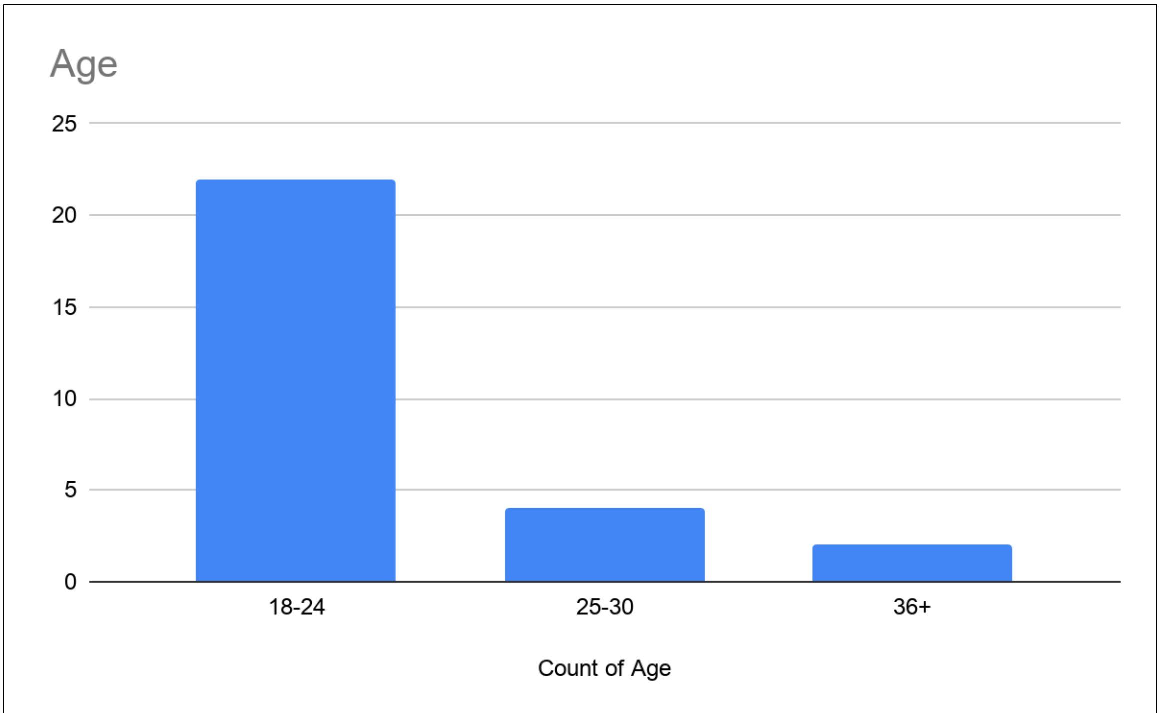
- Strongly agree ● Agree ● Neutral ● Disagree ● Strongly disagree

12. Do you view the following factors/sources of information important while investing in ULIP?

	Strongly Agree	Agree	Neutral	Strongly Disagree	Disagree
Safety					
Rate of Return					
Tax Savings					
Past scheme performances					
Advertisement					

13. Do you view the following factors/sources of information important while investing in Mutual funds?

	Strongly Agree	Agree	Neutral	Strongly Disagree	Disagree
Safety					
Rate of Return					
Tax Savings					
Past scheme performances					
Advertisement					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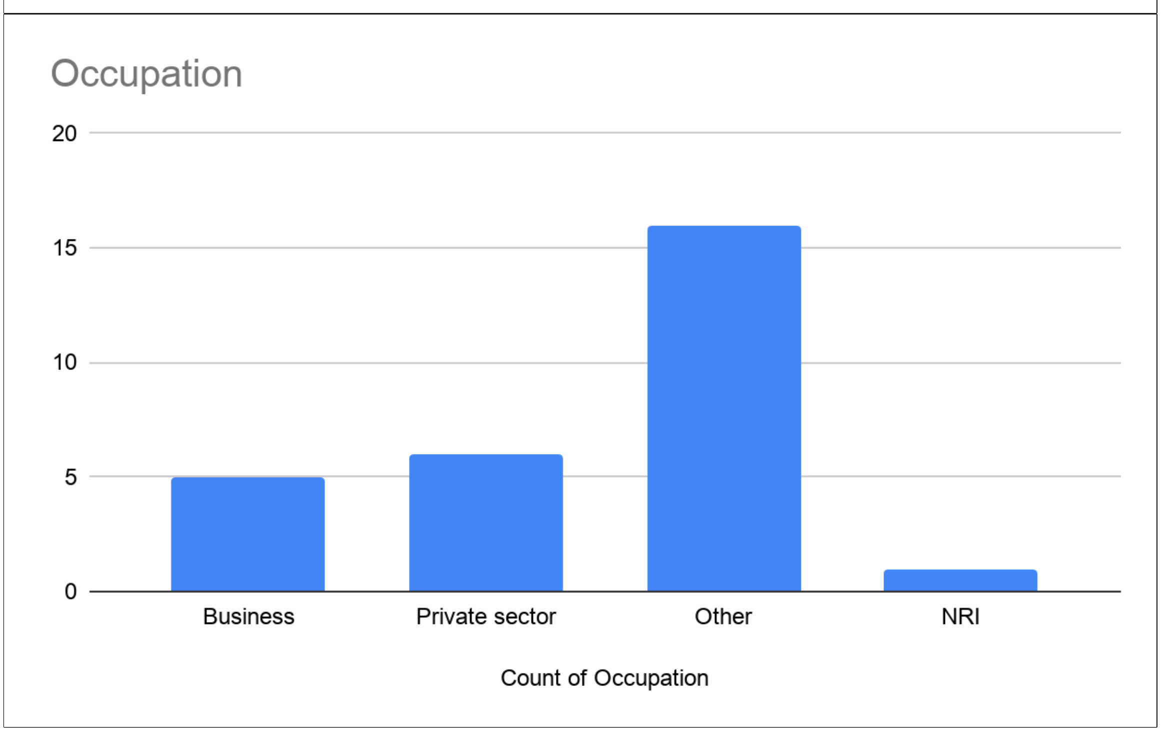
20
15
10
5
0
18-24
25-30
36+
Count of Age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15
10
5
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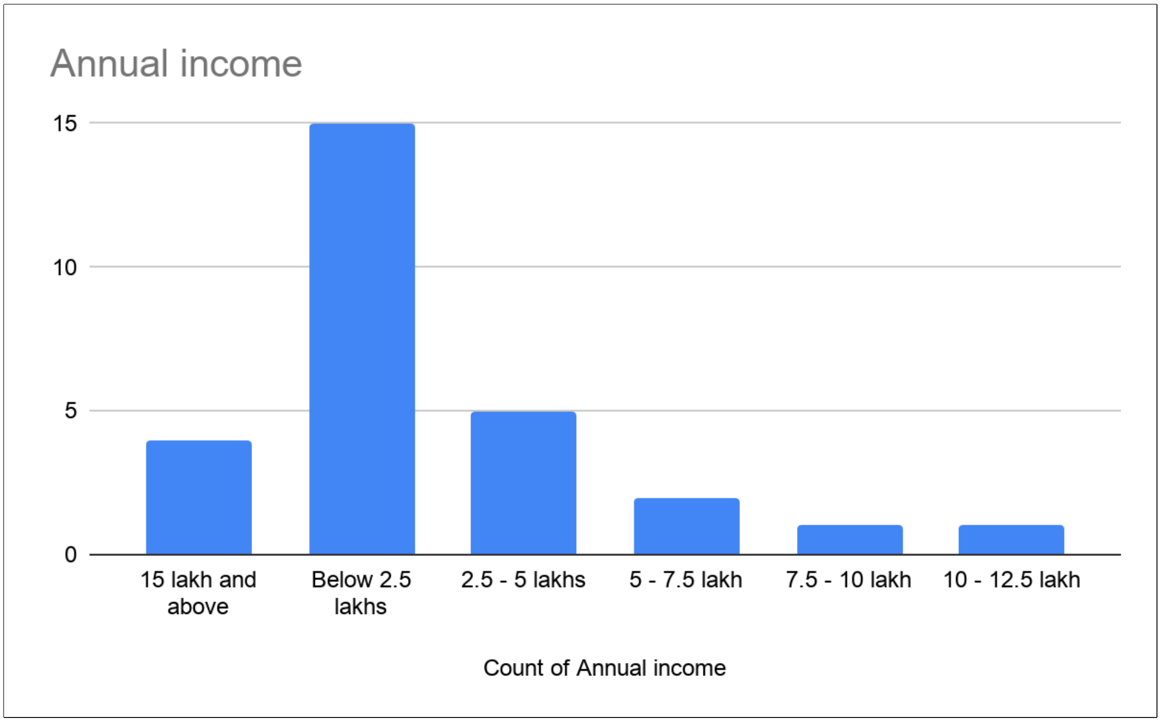
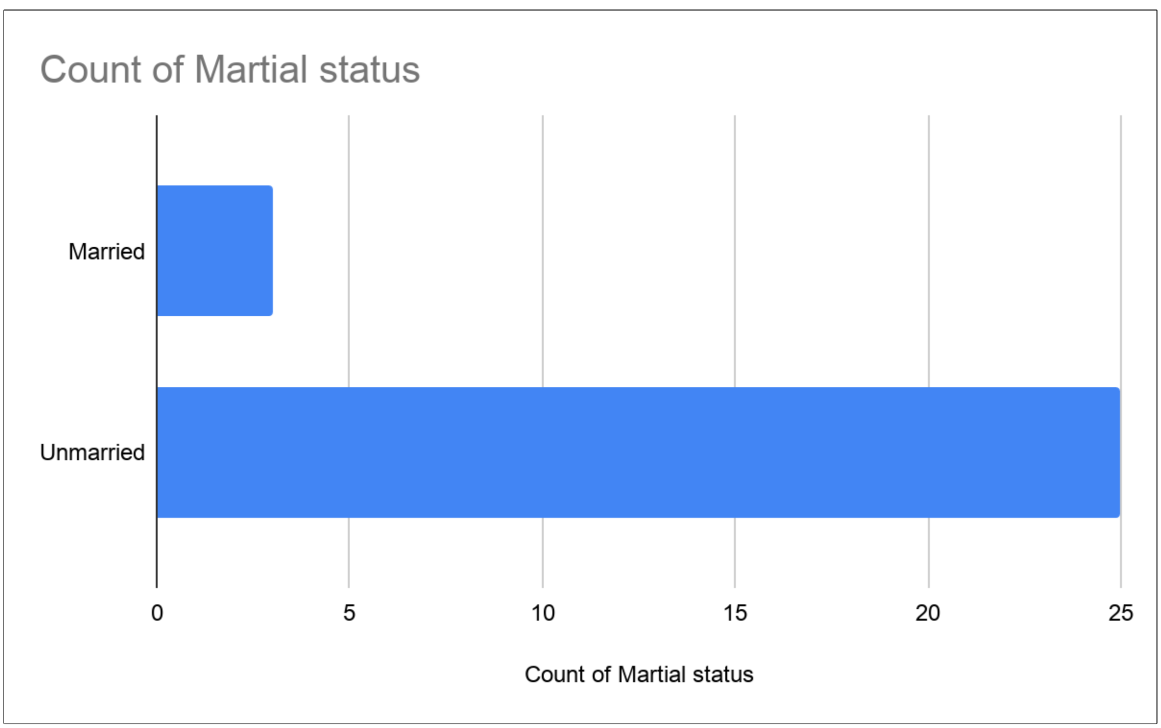
Business
Private sector
Other
NRI
Count of Occupation


Annual income
15
10
5
0
15 lakh and above
Below 2.5 lakhs
2.5 - 5 lakhs
5 - 7.5 lakh
7.5 - 10 lakh
10 - 12.5 lakh
Count of Annual income


Count of Martial status
Married
Unmarried
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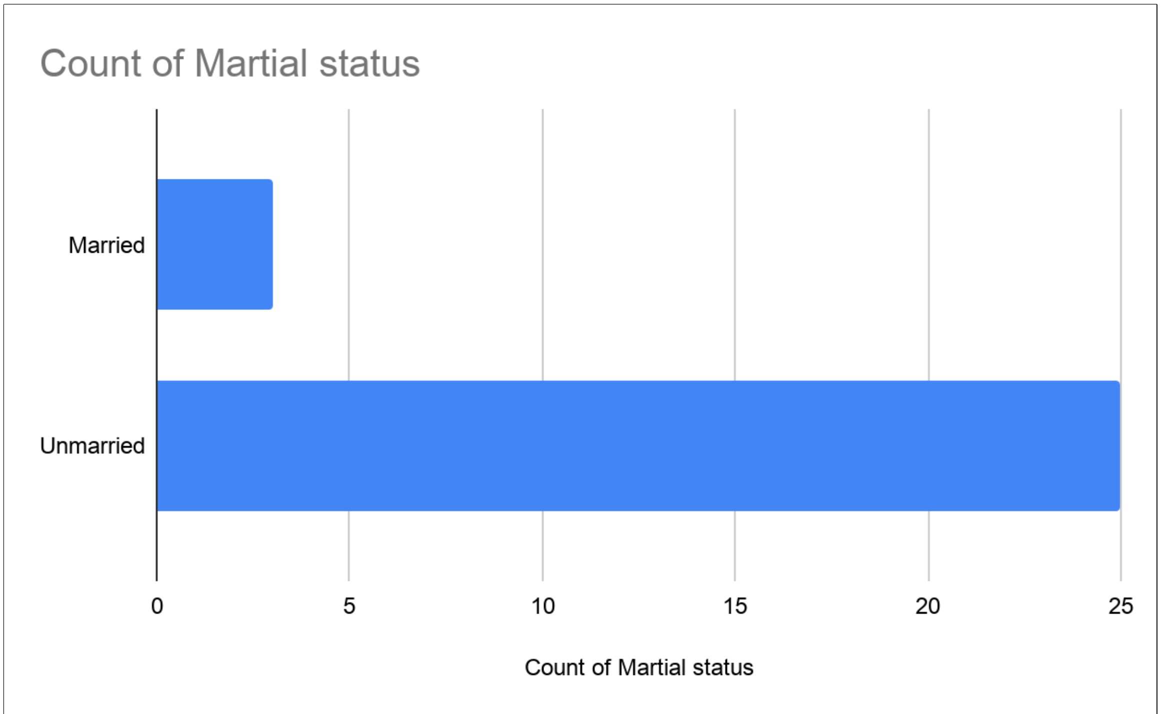
5
10
15
20
25
Count of Martial status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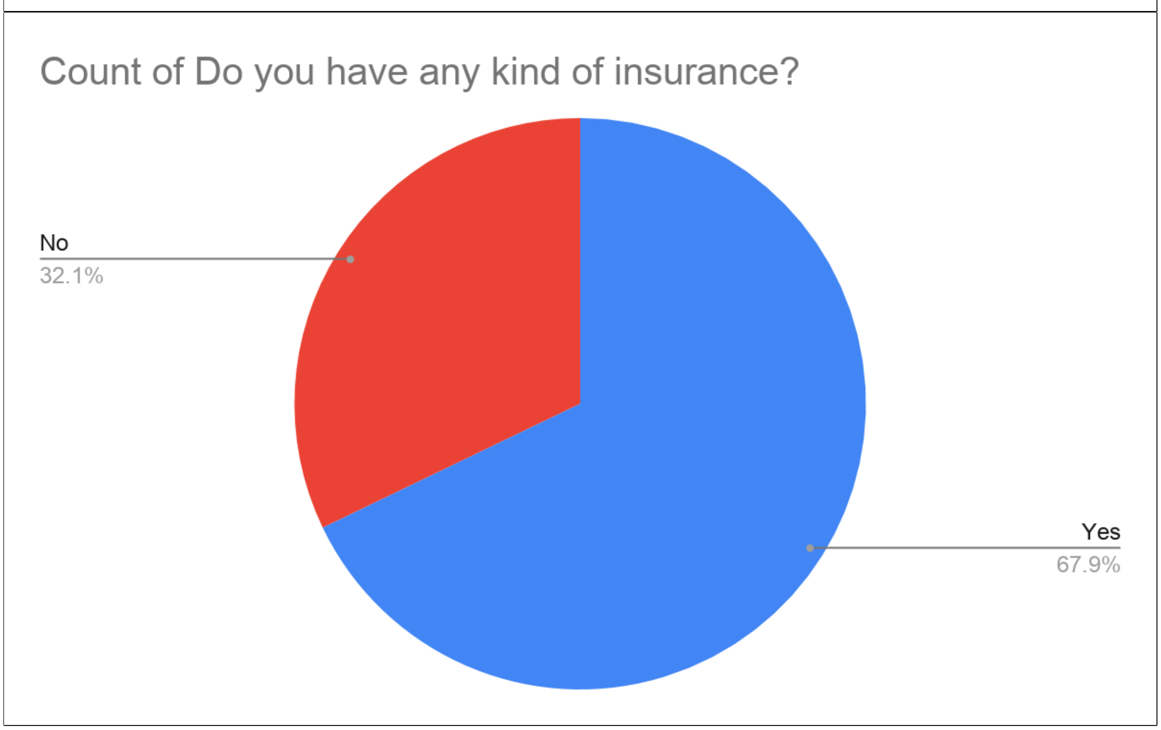
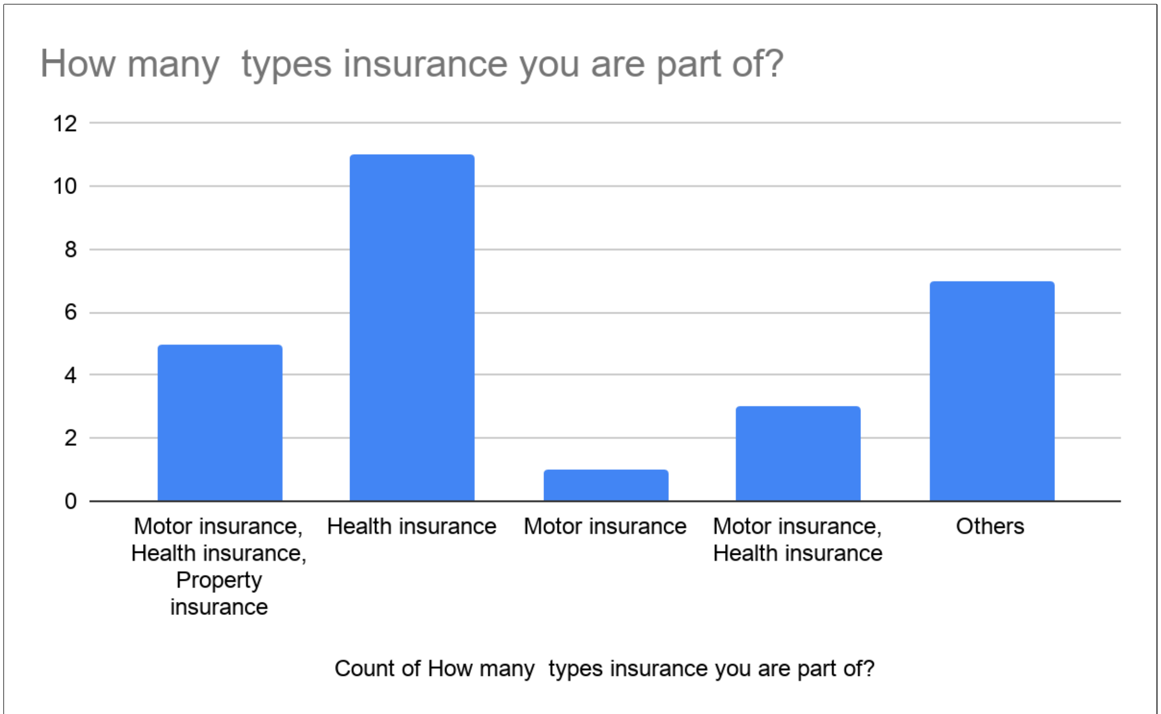
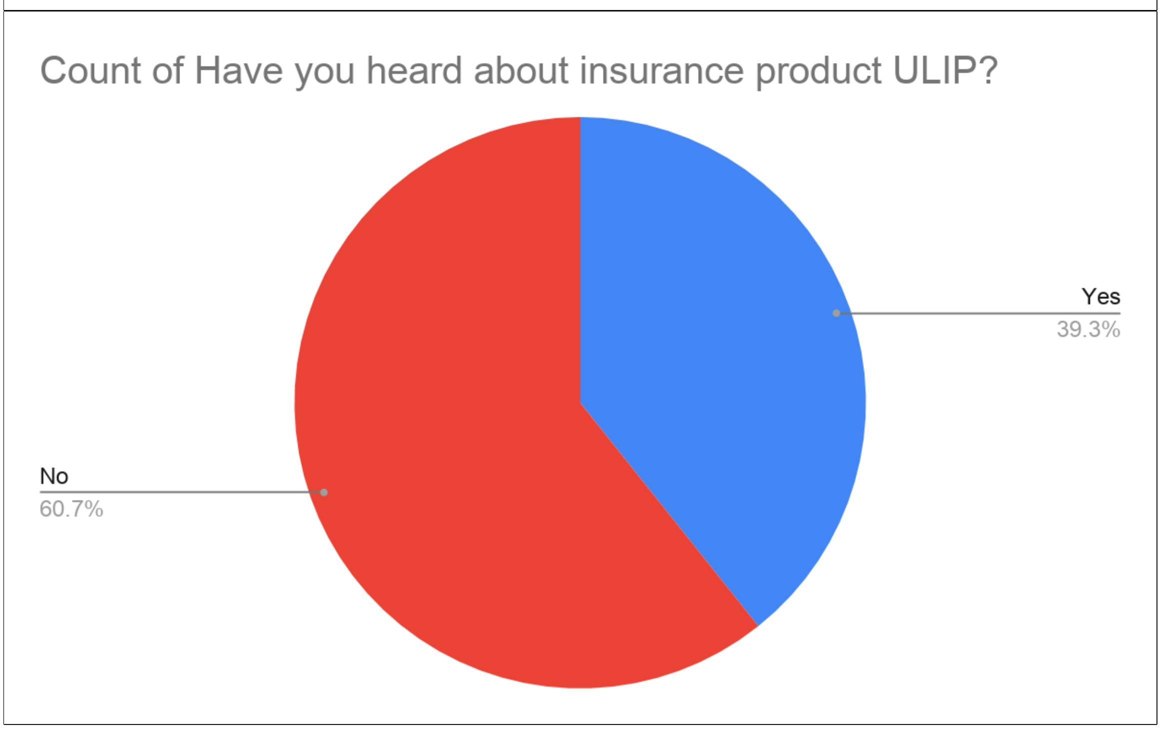
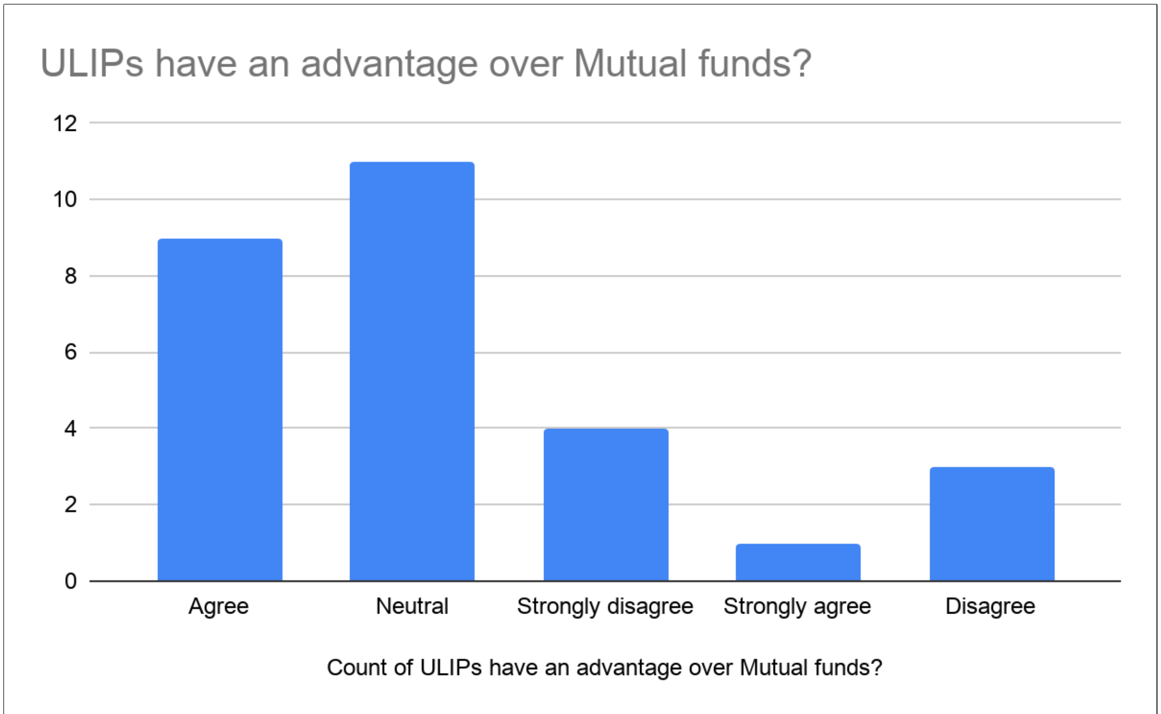
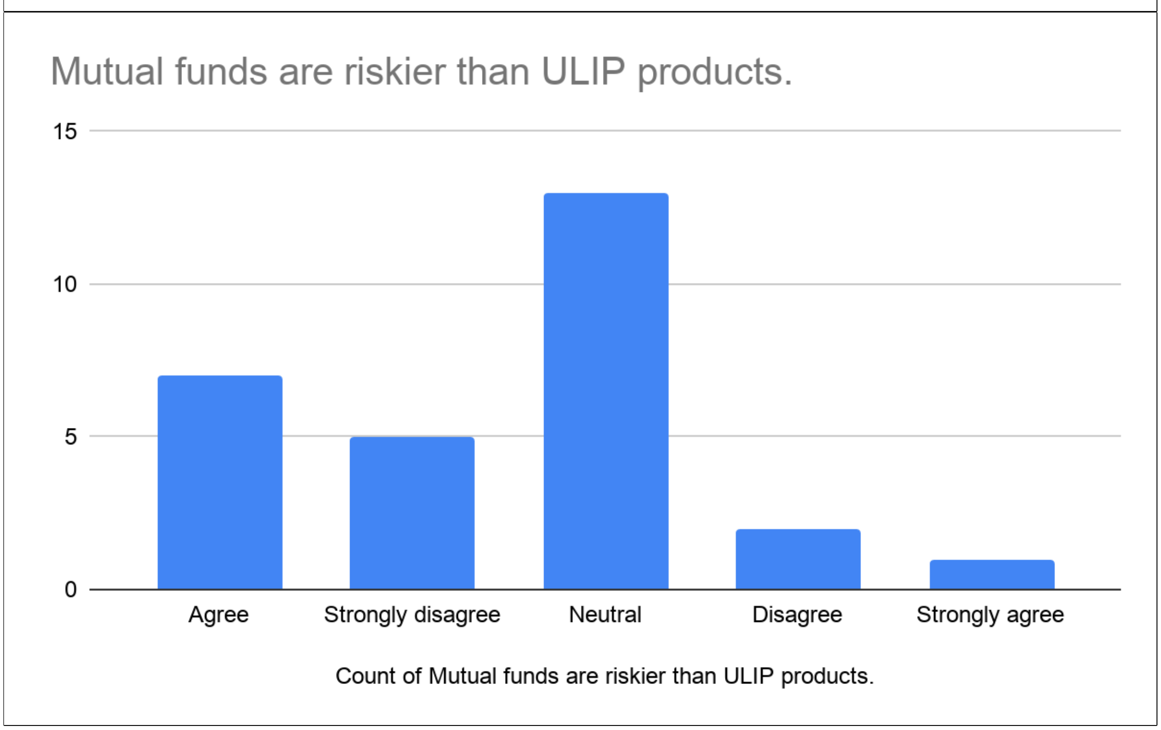
Married
Unmarried
0
5
10
15
20
25
Count of Martial status

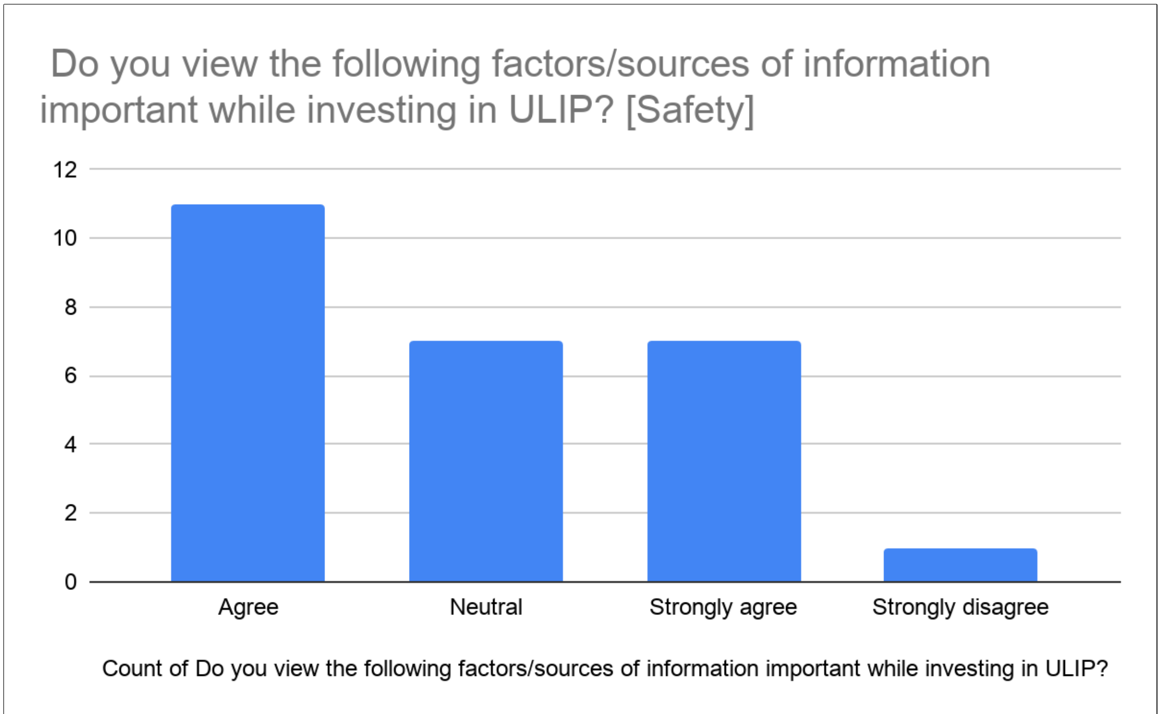

Count of Do you have any kind of insurance?
No
32.1%
Yes
67.9%


How many types insurance you are part of?
12
10
8
6
4
2
0
Motor insurance, Health insurance, Property insurance
Health insurance
Motor insurance
Motor insurance, Health insurance
Others
Count of How many types insurance you are part of?

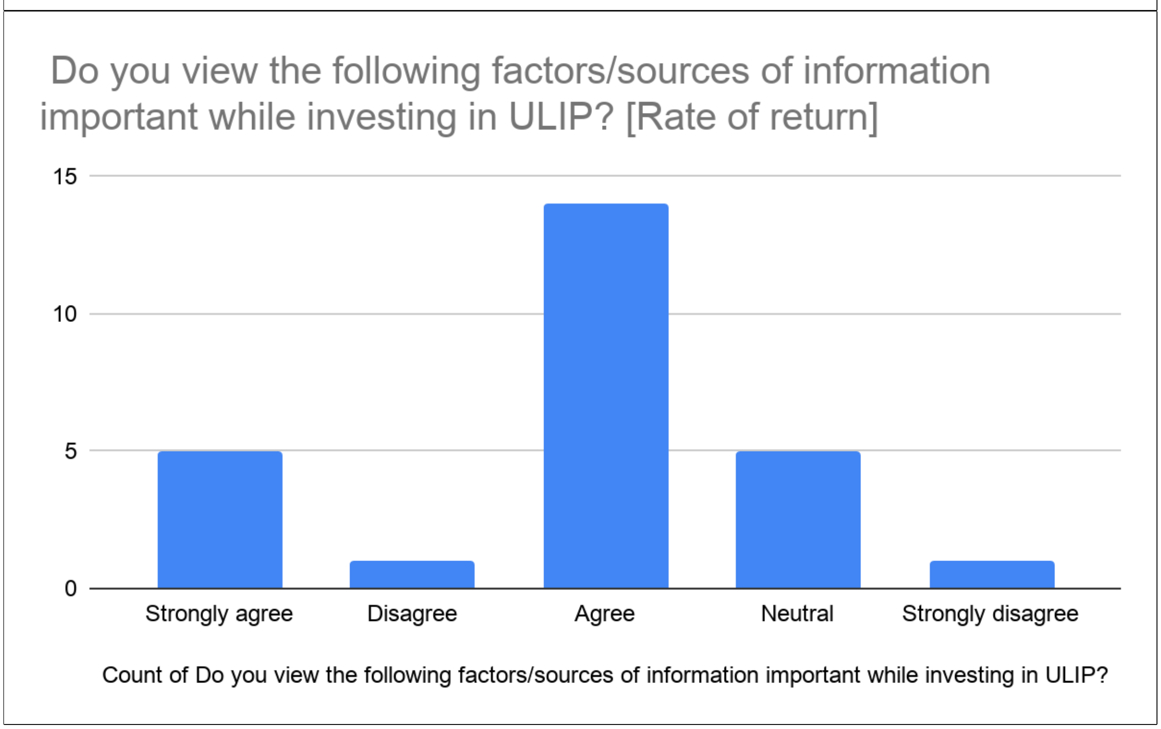

Count of Have you heard about insurance product ULIP?
Yes
39.3%
No
60.7%


ULIPs have an advantage over Mutual funds?
12
10
8
6
4
2
0
Agree
Neutral
Strongly disagree
Strongly agree
Disagree
Count of ULIPs have an advantage over Mutual funds?

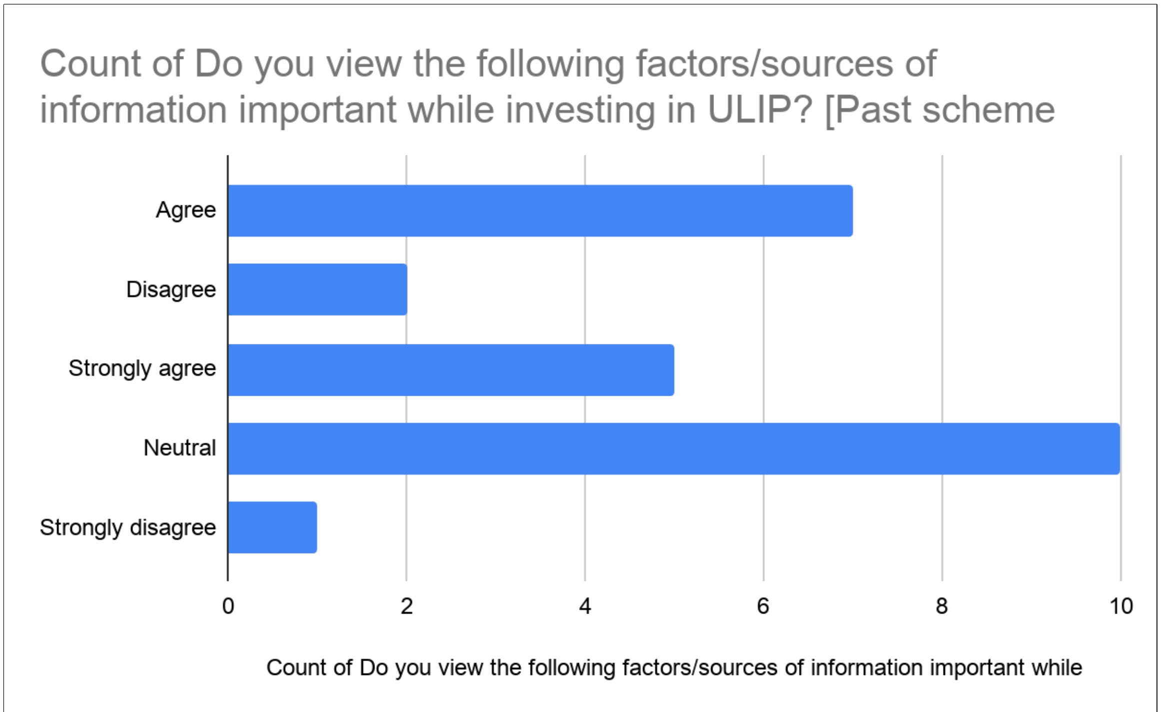

Mutual funds are riskier than ULIP products.
15
10
5
0
Agree
Strongly disagree
Neutral
Disagree
Strongly agree
Count of Mutual funds are riskier than ULIP products.

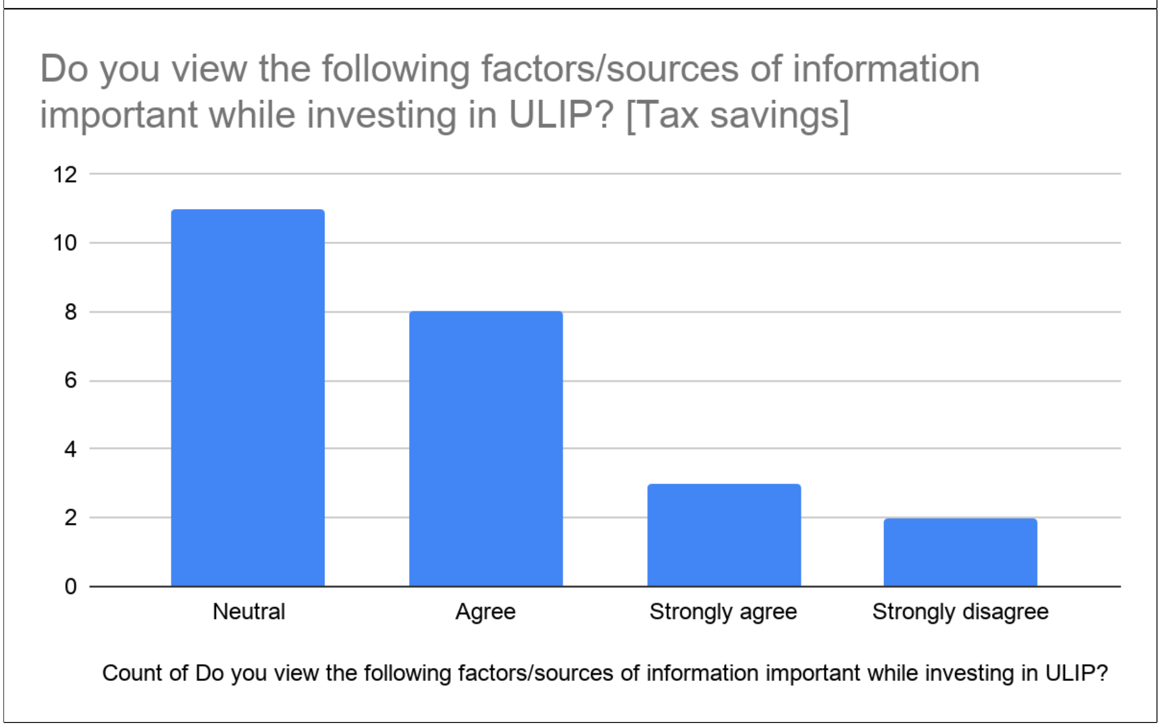


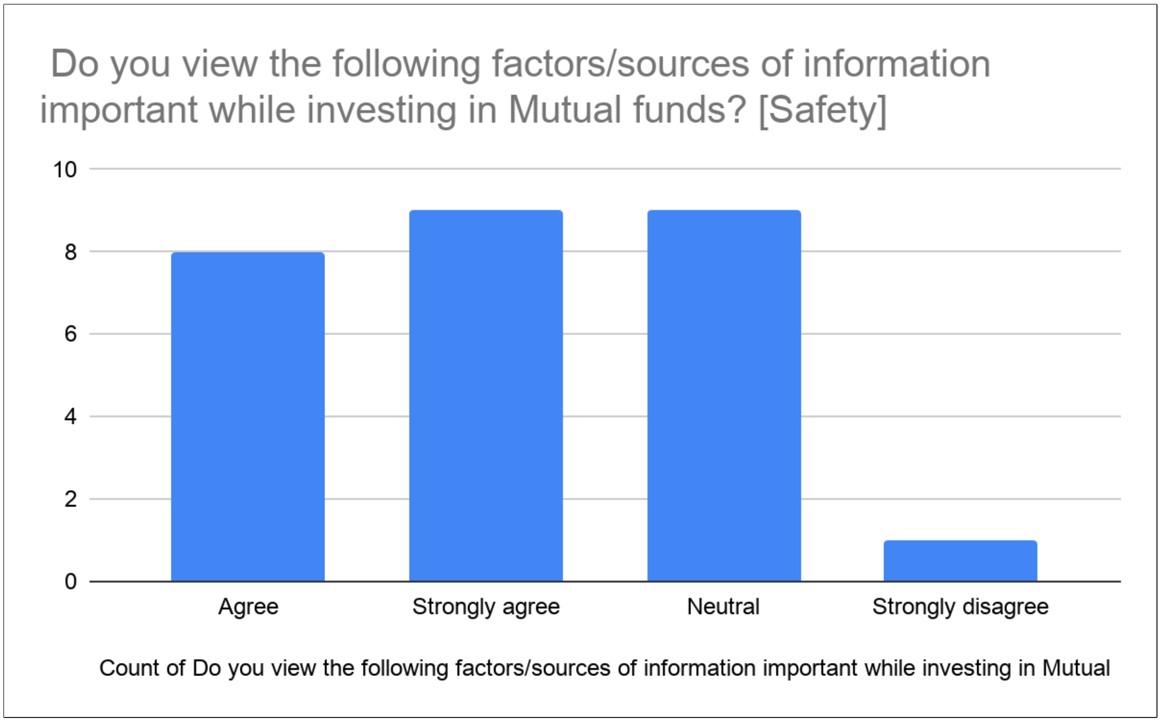
Do you view the following factors/sources of information important while investing in ULIP? [Safety]
12
10
8
6
4
2
0
Agree
Neutral
Strongly agree
Strongly disagree
Count of Do you view the following factors/sources of information important while investing in ULIP?

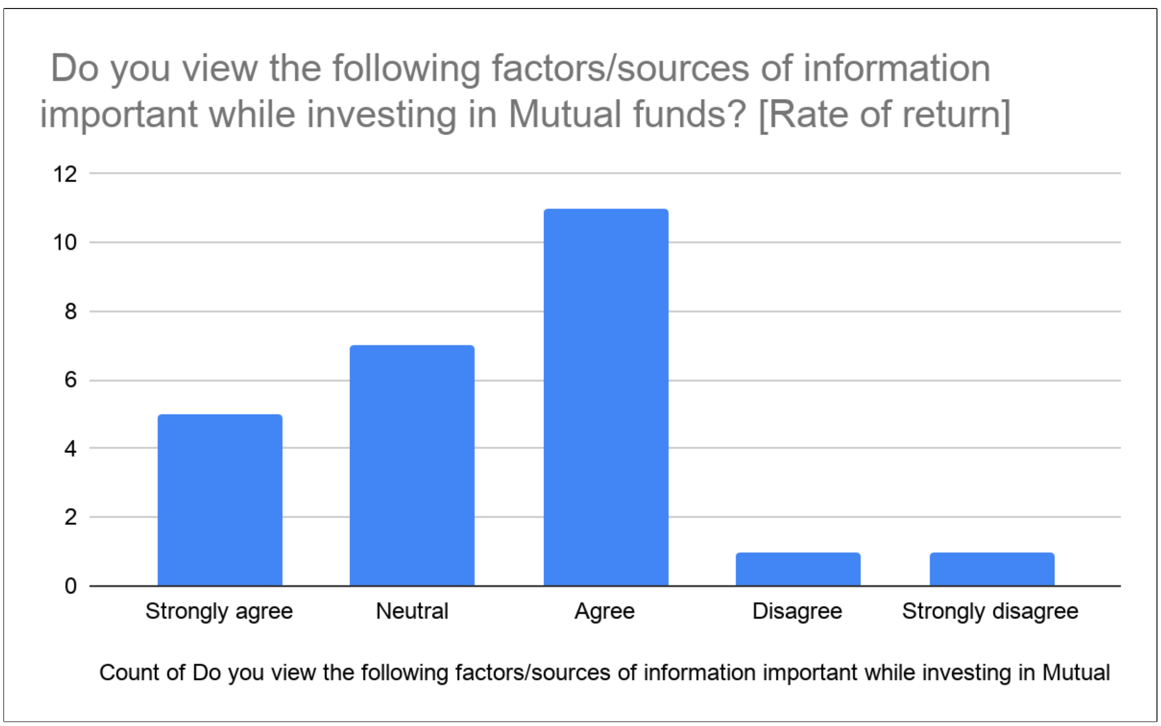


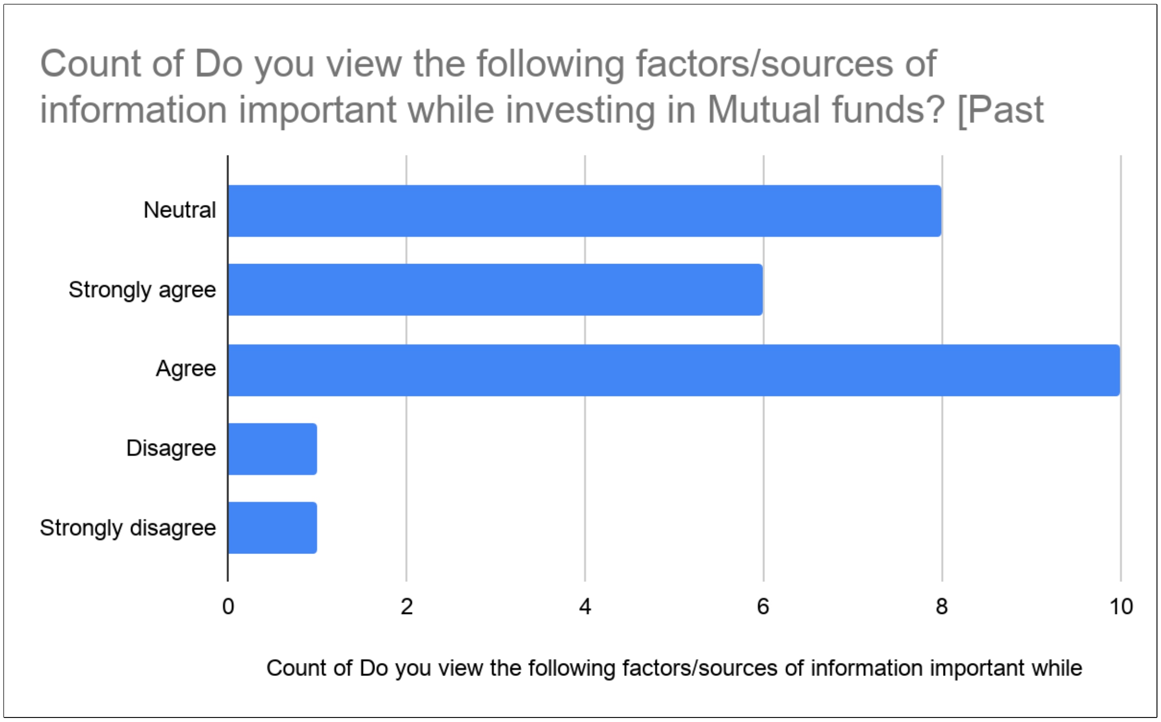
Do you view the following factors/sources of information important while investing in ULIP? [Rate of return]
15
10
5
0
Strongly agree
Disagree
Agree
Neutral
Strongly disagree
Count of Do you view the following factors/sources of information important while investing in ULIP?

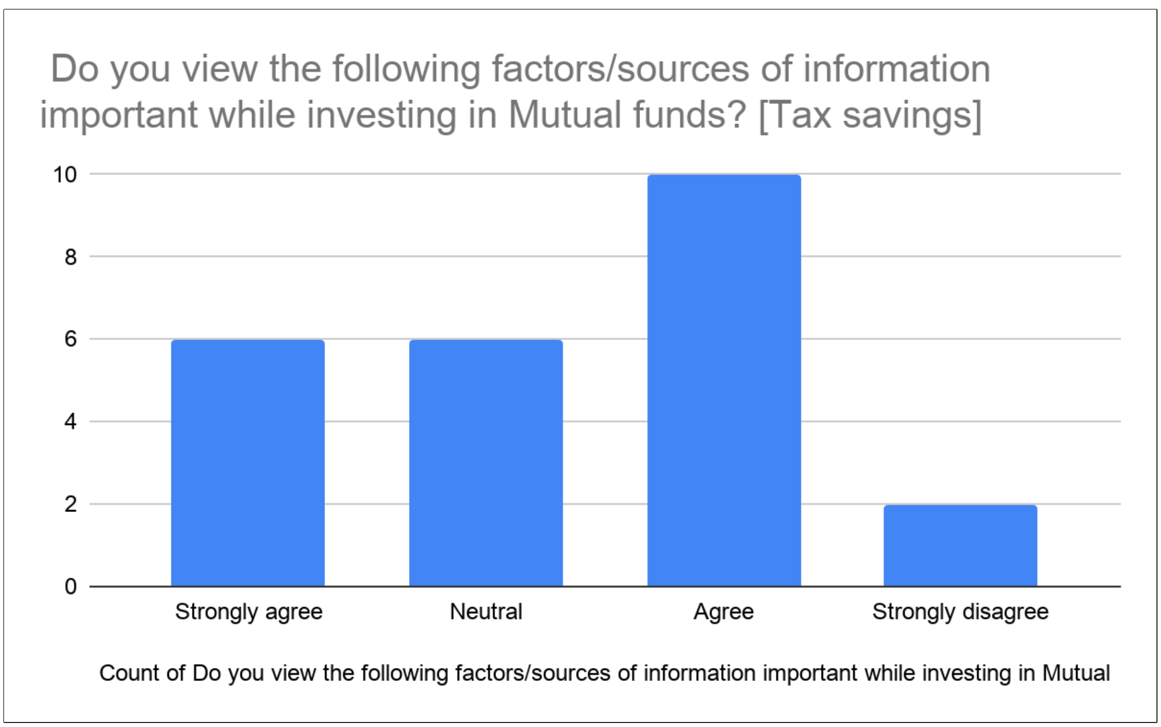

Count of Do you view the following factors/sources of information important while investing in ULIP? [Past scheme
Agree
Disagree
Strongly agree
Neutral
Strongly disagree
0
2
4
6
8
10
Count of Do you view the following factors/sources of information important while


Do you view the following factors/sources of information important while investing in ULIP? [Tax savings]
12
10
8
6
4
2
0
Neutral
Agree
Strongly agree
Strongly disagree
Count of Do you view the following factors/sources of information important while investing in ULIP?


Do you view the following factors/sources of information important while investing in Mutual funds? [Safety]
10
8
6
4
2
0
Agree
Strongly agree
Neutral
Strongly disagree
Count of Do you view the following factors/sources of information important while investing in Mutual


Do you view the following factors/sources of information important while investing in Mutual funds? [Rate of return]
12
10
8
6
4
2
0
Strongly agree
Neutral
Agree
Disagree
Strongly disagree
Count of Do you view the following factors/sources of information important while investing in Mutual


Count of Do you view the following factors/sources of information important while investing in Mutual funds? [Past
Neutral
Strongly agree
Agree
Disagree
Strongly disagree
0
2
4
6
8
10
Count of Do you view the following factors/sources of information important while


Do you view the following factors/sources of information important while investing in Mutual funds? [Tax savings]
10
8
6
4
2
0
Strongly agree
Neutral
Agree
Strongly disagree
Count of Do you view the following factors/sources of information important while investing in Mutual

FINDINGS

- ULIP is gaining importance as it could suffice the needs of the small investor while offering the dual options of insurance and the investment.
- Unit Linked Insurance Plans are purely subject to market risk. Any person having the perfect knowledge of the markets can pocket huge returns.
- If the investor invests in equity no minimum guarantee is offered to the investor amount.
- If the investor invest in Bond fund, there is minimum guarantee to the investor amount
- Popular for its triple benefits, this offers life cover, capital appreciation and income tax benefits
- ULIPs are better when compare with Traditional policies and Mutual Funds
- ULIPs are liquid and offer flexibility to the investor after some period

CONCLUSIONS

In conclusion, the ULIPs there by collects money or funds from the investors with similar investment goals. It is one of the ways of mobilizing the funds and channelizing them properly. Very small percentage of the population is well aware of the ULIPs. The advertisement has become an effective tool to create public awareness, thus educating them about the various avenues available to them. The switching off from the ULIPs are very low. The investment manager has to guide the investor to choose the correct available funds which they prefer.

In rural areas, people have no idea about the ULIPs, while they totally depend on the agents who often cheat them. Therefore, it is the duty of the fund managers to guide investors properly. In Final, ULIPs are better than Mutual Funds and Traditional policies

LIMITATIONS OF THE STUDY:

- The study is limited only to Bajaj Allianz.
- The study does not include any comparison with products of other companies.
- More focused on ULIPs only.
- Do not discover other investment avenues.
- Sample size for study is 30 which is very insufficient to depict people opinion about ULIP
- Most of the respondents are students.
- Study just only provide the insight to working of ULIP .

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