

# Beyond Just U-lip Service

Unit linked insurance plan (ULIP) is life insurance solution that provides for the benefits of risk protection and flexibility in investment. The investment is denoted as units and is represented by the value that it has attained called as Net Asset Value (NAV). The policy value at any time varies according to the value of the underlying assets at the time.

ULIPs are neither of national or political significance; the dispute over who regulates them had reached mismanaged proportions with SEBI and IRDA issuing contradictory directives to Rs 10-lakh-crore ULIP industry.

**SEBI** is the [regulator](#) for the securities market in India. The **Insurance Regulatory and Development Authority (IRDA)** is a national agency of the [Government of India](#). It was formed by an act of Indian Parliament known as IRDA Act 1999, which was amended in 2002 to incorporate some emerging requirements. Mission of IRDA as stated in the act is "to protect the interests of the policyholders, to regulate, promote and ensure orderly growth of the insurance industry and for matters connected therewith or incidental thereto."

In 2010, the Government of India ruled that the [Unit Linked Insurance Plans](#) (ULIPs) will be governed by IRDA, and not the market regulator [Securities and Exchange Board of India](#).

The battle with SEBI has forced IRDA to issue a host of new regulations which will change the way ULIPs are positioned:

Some are explained below-

## 1. REDUCTION OF FRONT LOADS

This debate is not new. In India, the NPS pension plans too have products with zero-load structure. More recently, mutual funds have been made zero loads. Some life companies have been offering policies online at much cheaper rates. The response to none of these direct sales initiatives is really encouraging. So now, the debate is about whether it will be possible to sell life policies with low margins or whether India can be an outlier in insurance distribution and sell products through low-cost channels rather than agents.

## 2. COMPULSORY PROTECTION

The present trend of regulation is aimed at making a certain level of protection mandatory. The downside of such a requirement is that for an individual in her 50s (the age group which has the maximum level of earnings and wealth), insurance is not a viable option for investment. In some countries of the West, individuals are encouraged to take insurance for wealth management through fiscal incentives. The debate then is whether insurance should have a role in wealth management?

## 3. COMPULSORY ANNUITISATION

In India, pension plans were always subject to the condition that the maturity benefits would be used to buy annuities. Somewhere along the line insurers managed to obtain the flexibility of giving policyholder full surrender benefits before maturity. Clearly this is an anomaly. But one area that needs attention is the annuity products. The best of the whole life plans without return of principal give a monthly return less than a fixed deposit. There is enormous scope to look at development of products that will generate better returns.

## 4. MIS-SELLING

A key difference between life insurance and any other service or product is that its benefits can be

experienced only many years from the date of purchase. In a competitive market all businesses try complex combinations to better position their products. (Soap makers cutting down on total fatty matter, potato chips makers reducing the weight of a Rs 10 pack). But in all such cases the changes are immediately experienced by the buyer who can shift. In insurance, policyholders get the benefits only when they retire. Given the low level of sophistication among buyers, the advantages of having at least one standardized product could be debated.

## **5. FINANCIAL LITERACY**

The most vulnerable victims of mis-selling are not those with access to the media or the regulators but those who are not aware that they have been cheated or those who do not know about the redressal mechanisms. Governments in countries where the world's financial centres are located spend millions on financial literacy. The UK, for one, has set aside the equivalent of 13 million euro to promote financial literacy. Canada has a budget of \$5 million; other countries such as the US and Canada also have commissions to promote financial literacy with government funding. One of the best weapons against mis-selling is to increase financial literacy. Given the size of the insurance industry, significant resources can be generated by allocating unclaimed premium from lapsed policies to a central fund.

## **6. CORPORATE GOVERNANCE**

Bank depositors can draw comfort from the fact that their balances are protected by the Deposit Insurance Corporation. In the case of policyholders, any hole in the balance sheet of a life company has to be filled from shareholders' funds. Transparency in respect of balance sheet strength is highest among listed companies. But there are many chief executives who say that listing puts pressure on management to focus on quarterly profits rather than on long-term gains.

## **7. SELF REGULATION**

If the insurance industry had been proactive in addressing concerns on its own matters it would not have come to such a head. So far, unhealthy practices by life insurance companies have come to light not because it rivals rushed to emulate such practices, prompting the regulator to step in. Had the insurance industry not indulged itself in a race to the bottom, it would not have had to witness a regulatory crackdown.

*Source: Economic Times.*