

Buying Ulips will cost less.

The Insurance sector regulator IRDA on 28 June 2010 came out with a set of guidelines directing life insurers to offer unit-linked insurance plans (Ulips) at lower cost to buyers, while also providing higher life cover, though with a longer lock-in period.

While life insurance customers will benefit, the new rules could lead to a substantial cut in commission for insurance agents and force life insurance companies to drastically cut costs, leading to lower sales.

Interestingly, IrDA's decision to change rules governing Ulips came within three months of stock market regulator Sebi saying Ulips were investment products as well (on which Sebi is the sole authority) and banning 14 life insurers from selling Ulips without its permission.

IRDA implemented that insurers would be allowed to charge up to 4% on annual premium paid on Ulips for the first five years, and thereafter charges will be reduced during the tenure of the policy. For plans of 15 years and above, the charges will be restricted at 2.25% of annual premium.

These cuts in charges make Ulips more attractive to buyers since they will have to pay lower charges for the same premium they paid earlier. In the long run, this adds to Ulip buyers' funds. Like every coin has two sides this could mean lower commission to agents which might affect Ulip sales.

Source: Economic Times.