

Unit Linked Insurance Policies (ULIPS)

Frequently Asked Questions (FAQs)

1. What is a ULIP?

ULIP is an abbreviation for **Unit Linked Insurance Policy**. A ULIP is a life insurance policy which provides a combination of risk cover and investment. The dynamics of the capital market have a direct bearing on the performance of the ULIPs. **REMEMBER THAT IN A UNIT LINKED POLICY, THE INVESTMENT RISK IS GENERALLY BORNE BY THE INVESTOR.**

2. What is a Unit Fund?

The **allocated (invested) portions** of the premiums after deducting for all the charges and premium for risk cover under all policies in a **particular fund as chosen by the policy holders** are pooled together to form a Unit fund.

3. What is a Unit?

It is a component of the Fund in a Unit Linked Policy.

4. What Types of Funds do ULIP Offer?

Most insurers offer a wide range of funds to suit one's investment objectives, risk profile and time horizons. Different funds have different risk profiles. The potential for returns also varies from fund to fund.

The following are some of the common types of funds available along with an indication of their risk characteristics.

General Description	Nature of Investments	Risk Category
Equity Funds	Primarily invested in company stocks with the general aim of capital appreciation	Medium to High
Income, Fixed Interest and Bond Funds	Invested in corporate bonds, government securities and other fixed income instruments	Medium
Cash Funds	Sometimes known as Money Market Funds – invested in cash, bank deposits and money market instruments	Low
Balanced Funds	Combining equity investment with fixed interest instruments	Medium

5. Are Investment Returns Guaranteed in a ULIP?

Investment returns from ULIP may not be guaranteed.” **In unit linked products/policies, the investment risk in investment portfolio is borne by the policy holder**”. Depending upon the performance of the unit linked fund(s) chosen; the policy holder may achieve gains or losses on his/her investments. It should also be noted that the past returns of a fund are not necessarily indicative of the future performance of the fund.

6. What are the Charges, fees and deductions in a ULIP?

ULIPs offered by different insurers have varying charge structures. Broadly, the different types of fees and charges are given below. However it may be noted that insurers have the right to revise fees and charges over a period of time.

6.1 Premium Allocation Charge

This is a percentage of the premium appropriated towards charges before allocating the units under the policy. This charge normally includes initial and renewal expenses apart from commission expenses.

6.2 Mortality Charges

These are charges to provide for the **cost of insurance coverage** under the plan. Mortality charges depend on number of factors such as age, amount of coverage, state of health etc

6.3 Fund Management Fees

These are **fees levied for management of the fund(s)** and are deducted before arriving at the Net Asset Value (NAV) .

6.4 Policy/ Administration Charges

These are the fees for administration of the plan and levied by cancellation of units. This could be flat throughout the policy term or vary at a pre-determined rate.

6.5 Surrender Charges

A surrender charge may be deducted for premature partial or full encashment of units wherever applicable, as mentioned in the policy conditions.

6.6 Fund Switching Charge

Generally a limited number of fund switches *may be* allowed each year without charge, *with* subsequent switches, subject to a charge.

6.7 Service Tax Deductions

Before allotment of the units the applicable service tax is deducted from the risk portion of the premium.

Investors may note, that the portion of the premium after deducting for all charges and premium for risk cover is utilized for purchasing units

7. What should one verify before signing the proposal?

One has to verify the **approved sales brochure** for

- all the charges deductible under the policy
- payment on premature surrender
- features and benefits
- limitations and exclusions
- lapsation and its consequences
- other disclosures
- Illustration projecting benefits payable in two scenarios of 6% and 10% returns as prescribed by the life insurance council.

8. *How much of the premium is used to purchase units?*

The full amount of premium paid is **not** allocated to purchase units. Insurers allot units on the portion of the premium remaining after providing for various charges, fees and deductions. *However the quantum of premium used to purchase units varies from product to product.*

The total monetary value of the units allocated is invariably less than the amount of premium paid because the charges are first deducted from the premium collected and the remaining amount is used for allocating units.

9. *Can one seek refund of premiums if not satisfied with the policy, after purchasing it?*

The policyholder can seek refund of premiums if he disagrees with the terms and conditions of the policy, within 15 days of receipt of the policy document (**Free Look period**). The policyholder shall be refunded the fund value including charges levied through cancellation of units subject to deduction of expenses towards medical examination, stamp duty and proportionate risk premium for the period of cover.

10. *What is Net Asset Value (NAV)?*

NAV is the value of each unit of the fund on a given day. The NAV of each fund is displayed on the website of the respective insurers.

11. *What is the benefit payable in the event of risk occurring during the term of the policy?*

The Sum Assured **and/or** value of the fund units is normally payable to the beneficiaries in the event of risk to the life assured during the term as per the policy conditions.

12. What is the benefit payable on the maturity of the policy?

The value of the fund units with bonuses, if any is payable on maturity of the policy.

13. Is it possible to invest additional contribution above the regular premium?

Yes, one can invest additional contribution over and above the regular premiums as per their choice subject to the feature being available in the product. This facility is known as **"TOP UP"** facility.

14. Whether one can switch the investment fund after taking a ULIP policy?

Yes. **"SWITCH"** option provides for shifting the investments in a policy from one fund to another provided the feature is available in the product. While a specified number of switches are generally effected free of cost, a fee is charged for switches made beyond the specified number.

15. Can a partial encashment/withdrawal be made?

Yes, Products may have the **"Partial Withdrawal"** option which facilitates withdrawal of a portion of the investment in the policy. This is done through cancellation of a part of units.

16. What happens if payment of premiums is discontinued?

- a) **Discontinuance within three years of commencement** – If all the premiums have not been paid for at least three consecutive years from inception, the insurance cover shall cease **immediately**. Insurers may give an opportunity for revival within the period allowed; if the policy is not revived within that period, surrender value shall be paid at the end of third policy anniversary or at the end of the period allowed for revival, whichever is later.
- b) **Discontinuance after three years of commencement** -- At the end of the period allowed for revival, the contract shall be terminated by paying the surrender value. The insurer may offer to continue the insurance cover, if so opted for by the policy holder, levying appropriate charges until the fund value is not less than one full year's premium. When the fund value

reaches an amount equivalent to one full year's premium, the contract shall be terminated by paying the fund value.

17. What information related to investments is provided by the Insurer to the policyholder?

The Insurers are obliged to send an annual report, covering the fund performance during previous financial year in relation to the economic scenario, market developments etc. which should include fund performance analysis, investment portfolio of the fund, investment strategies and risk control measures adopted.

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The above material is provided for general information only and do not constitute legal or other professional advice. This information is current at the date of publication but may be subject to change without notice and accordingly, may not be up to date at the time of viewing. Information specific to a product may be obtained from the concerned Insurer.
