AN EMERGING PRODUCT

The dominant life insurance products in India are participating policies and unit-linked plans. However, there is a product called universal life insurance that is popular internationally. Though some insurers have begun to introduce it here, it has not had a significant impact. What are the product's features? It is typically long-term, with a tenure of over 20 years. A credit interest rate is declared periodically (this could be annual, half-yearly or monthly, depending on the product design) and credited to the policyholder's account. Many universal life insurance products have a floor interest rate built into them. The interest rate cannot fall below this throughout the term of the policy. The credited interest rate may change from year to year, but most insurers try to maintain consistency.

Universal life products come bundled with interesting riders. For example, a no-lapse guarantee rider provides assurance that the policy will not lapse if a certain minimum premium is paid. In some countries, a charitable rider allows a certain portion of the cash value to be donated to a non-government organisation (NGO). The policy has some of the best features of traditional and unit-linked policies. It has a good blend of protection, investment risk, underlying guarantees and flexibilities. The sum assured to premium multiples of a well-designed product can be as high as 50%, giving customers the option of buying a significantly higher protection.

The investment risk is not completely borne by the customer and is shared with the insurer. Since most universal life policies have a floor interest rate, the policyholder has the benefit of a guarantee even if the market interest rate is lower. This works well for customers with moderate risk profiles. However, since the insurance company has the flexibility of increasing or decreasing the credit interest rate, the future interest rate risk is shared with the policyholder.

The policy also offers enormous flexibility to customers. Policyholders can decide how much to pay towards protection and long-term savings. They can change the face amount of the policy as well as the premium amount, and decide when and how often to pay these. The product also provides support in case of financial difficulty and customers can take loans against this product.

These policies are suited to people with changing financial needs. For example, before marriage, the focus is on savings and life insurance. However, as one grows older, priorities change. Investment, children's education and retirement planning take precedence. So, policyholders can beef up life cover and savings in the initial years, and on retirement, the accumulated cash can be used for annuities and investments.

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UNIVERSAL LIFE INSURANCE, A NEW PRODUCT IN INDIA, IS AN IDEAL LONG-TERM INVESTMENT THAT COMES WITH INTERESTING RIDERS.

Marketing universal life products in India is challenging. The foremost problem is that these policies are more complex than the existing products. Hence, agents need to be highly skilled. Another issue is that the guaranteed returns tend to be low because insurers do not have enough experience with the product and long-term financial instruments that provide higher guarantees are not yet available. Availability of long-term products will enable insurance companies to give a higher guaranteed floor rate. These instruments will help them match it with their long-term product liabilities and reduce their reinvestment risk.

It would, however, be advisable to consult your financial adviser and evaluate this emerging product before taking a decision to buy an insurance product.