29th India Fellowship Seminar

Date: 1-2 June 2018

ULIP - Evolution of products and changing landscape in last decade - Where do we go from here?

Institute of Actuaries of India

Guide -Mr Pradeep Kumar Thapliyal

Group members - Arpita Jetha, Ashik Salecha and Deepak B V

Agenda

- **Introduction**
- **ULIP – changing landscape**
  - Pre 2009
  - 2009-2013
  - Post 2013
- **Way forward**

Beginning of Unit-linked products in India

Institute of Actuaries of India

- The first ULIP was launched by Unit Trust Of India (UTI) in 1971
- The second ULIP was launched by LIC Mutual Fund in 1989

ULIP became big only after the opening up of the insurance industry in 2000-01

Basic Product Features

Unit fund
- Premiums allocated to unit fund @ NAV
- Unit fund grows with change in NAV

Charges
- Applicable on premium & on unit fund

Types of charges
- Premium allocation charge
- FMC
- Admin charges
- Mortality charges

Risk
- Investment risk passed on to policyholder
- Expense and mortality risk stays with the insurer

Why ULIPS?

Transparency:
- All charges are stated clearly at the onset

Flexibility:
- Premiums can be paid monthly/quarterly/half-yearly/annually or once
- Switching between various asset classes without tax incidence
- Top up premium payment possible.

Accessibility:
- Benefits are expressed in terms of units and hence easy to track performance of investment made through unit price.

Liquidity:
- Partial withdrawal possible.

Regulations for ULIPS till 2008

IRDA/ActI/032/ Dec 2005 :
First attempt to govern the unit-linked insurance business in general and the products to be offered by the companies

Purpose	• No specific regulations around ULIP • To regulate ULIP products
Specifications	• Long-term nature - lock-in period, minimum policy term • Flexibility – Top-up, Fund switch • Life cover – minimum defined • No cap on charges
Impact	• Protection of policyholder interests

Regulations for ULIPS till 2008

Institute of Actuaries of India

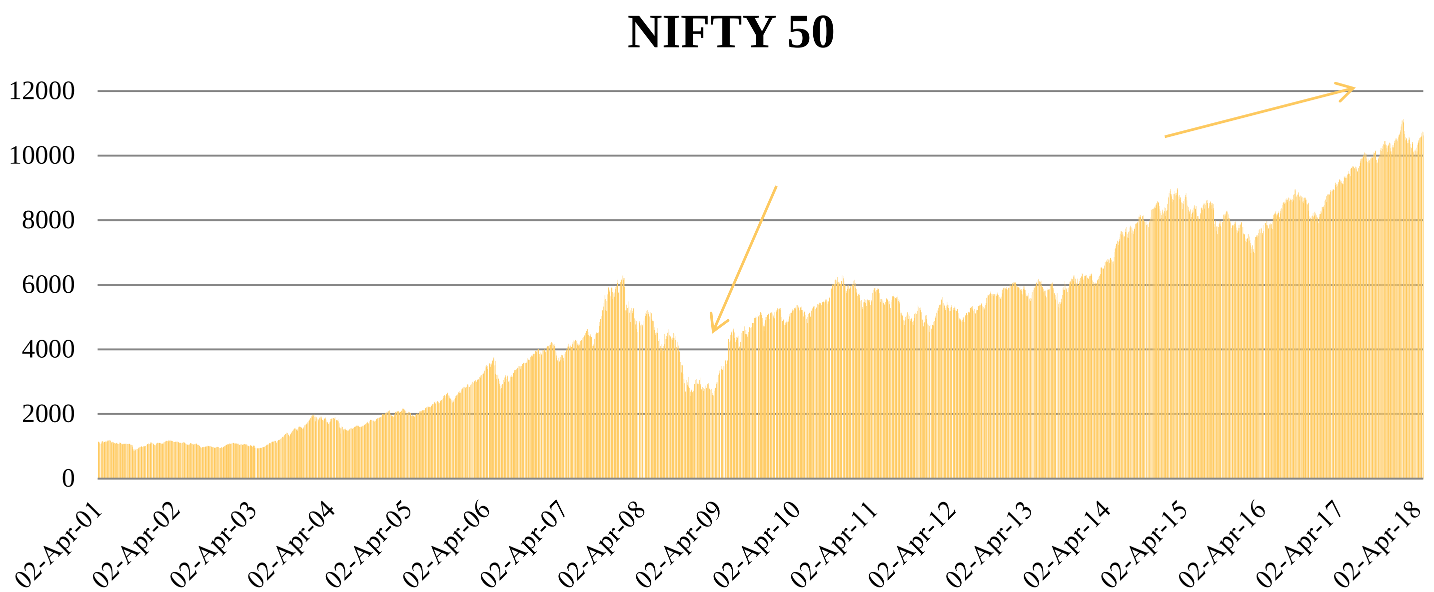
Benefit Illustrations for unit linked products – circular 049/IRDA/ACTL/ULIP/JANUARY-08

Purpose
- Provide relevant information
- Greater transparency
- Improve policyholder's confidence
- Address mis-selling concern
- Standardise disclosure

Specification
- Information specific to particular policyholder
- Format specified by Regulator
- All charges, benefits to be specified
- Interest rate specified by Life Insurance Council

Impact
- Policyholders can make informed decision

Movement of Nifty50



IRDA ANNUAL REPORT 2005-06

"…..The shift in preference for linked products has coincided with the continued positive performance in the stock market."

Challenges

Institute of Actuaries of India

- Front loaded i.e. 0% allocation in initial years
- Surrender Penalty – High
- Bad press coverage from mis-selling
- No need-based analysis
- Imbalance between what policyholder know and what company knows
- Policyholder does not understand products and inherent risks
- Falling stock market from 2008 to 2010

Challenges

At around the same time in Mutual Fund Industry:

The Securities and Exchange Board of India (SEBI) Abolished entry loads, effective from 1 August 2009

Earlier customers had to pay high charges, typically 2.25%, at the time of investment and these were passed on to agents as commission.

IRDAI'S Tussle with SEBI

Institute of Actuaries of India

Indian Express Article , April 12, 2010

"According to Sebi, the attributes of the investment component of ULIPs are akin to the characteristics of mutual funds that issue units to the investors and provide exit at net asset value of the underlying portfolio."

"SEBI has no jurisdiction over Ulips. Ulips are insurance products and will be regulated by IRDA," said IRDA chairman J Hari Narayan.

Regulations 2009-2013

Circular 055/IRDA/Actl/ULIP/2009-10 -

Purpose	• To revive policyholder's confidence • To protect policyholder's interests against mis-selling
Specifications	• Cap on charges based on difference between gross yield and net yield • Cap on Fund management charges
Impact	• Better value for customer • More capital intensive for insurer • Effective Jan'10, all ULIP products to conform to this circular

Regulations 2009-2013

Discontinued Policies: July 2010

Institute of Actuaries of India

Purpose

- To state clearly insurer's obligation on discontinuance of policy
- To state policyholder options on discontinuance

Specifications

- Options on discontinuance -
  - Revive, Complete withdrawal
- Minimum lock-in period specified
- Minimum interest rate guaranteed during lock-in period

Impact

- Fund credited to discontinued policy fund till lock-in period
- Push as long-term product, focus on persistency

Regulations 2009-2013

Cir. No. IRDA/ACT/CIR/ULIP/102/06/2010
September 2010

- Purpose
- Further regulation of ULIPs
- Make comparable with Mutual funds
- Standardise product design

- Specification
- Long-term nature- Lock-in period increase from 3 to 5 years
  Top-up premium - Lock-in of 5 years
- Minimum insurer cover defined– on regular and Top-up premium
- Premium - Uniform during the term
- Charges - Difference between minimum and maximum charges to not vary by more than 1.5 times
- Impact
- Uniformly distributed charges
- Products became more capital intensive
- Rules too water tight so limited innovation in products
- Revamped all ULIP products

Linked Regulations, 2013

Institute of Actuaries of India

IRDA (Linked Insurance Products) Regulations, 2013 – the third phase of major regulatory changes

Minimum SA on death	Policy and premium payment term (PPT)	Maximum commission rates
• Minimum SA increased – max of (105% of premium paid, 7x-10x of annual premium based on entry age) • Also defined for health products separately	• Minimum policy term of 5 years (similar to prior guidelines). • Minimum PPT of 5 years, except for SP.	• Maximum commission rates by PPT and policy year defined • Channel-wise capping also prescribed.

Guidelines also prescribe change for UL pensions – in respect of partial withdrawals, maturity proceeds, minimum return etc.

Linked Regulations, 2013 (contd.)

Discontinuance charges

Caps on charges prescribed:

- Charges defined as % of fund value, Annual premium as well as in absolute amounts

Capping on charges

Following caps also prescribed:

- Maximum FMC of 1.35%.
- Maximum guarantee charge of 0.50%.

Reduction in yield

Defined as difference between gross and net yield

- Defined for each year starting from 5^{th} anniversary. NNCAs to be added back if cap on RIY not met.
- Cap on net reduction at maturity, varying by policy term, also maintained.

Linked Regulations, 2013 (contd.)

Institute of Actuaries of India

Immediate impacts

Regulations intended to rechristen ULIPs as **better customer value proposition**, and as long-term savings and protection tool

Drop in ULIP sales as all products had to be re-filed – share in total premium fell to ~12% of total premium in FY13-14 (lowest in the decade)

Industry responses

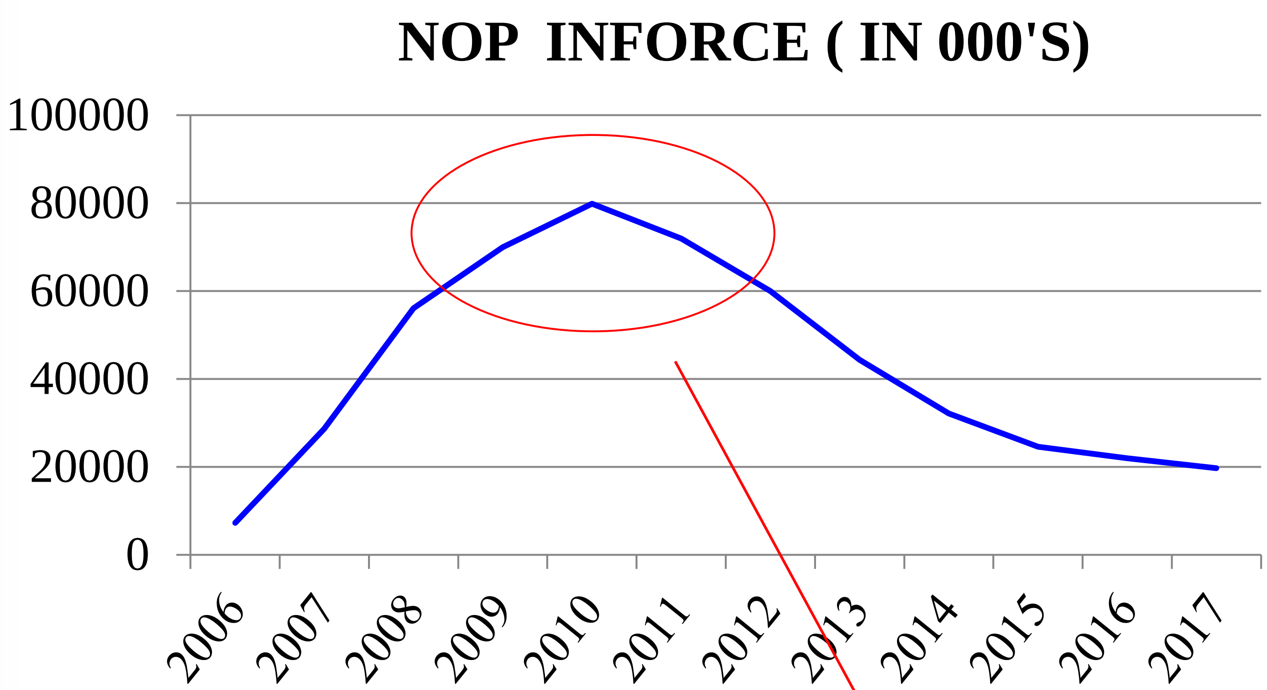
Players started looking at other products as well – push towards **innovation and diversification**

Focus on improving persistency, new channels to sell **low cost and competitive** ULIPs through online, web-aggregators

Concerns:

- Over-regulation of product features leading to '**templated-products**'
- **Administrative hassles** arising from RIY requirements.

Total in-force NOP under ULIP business

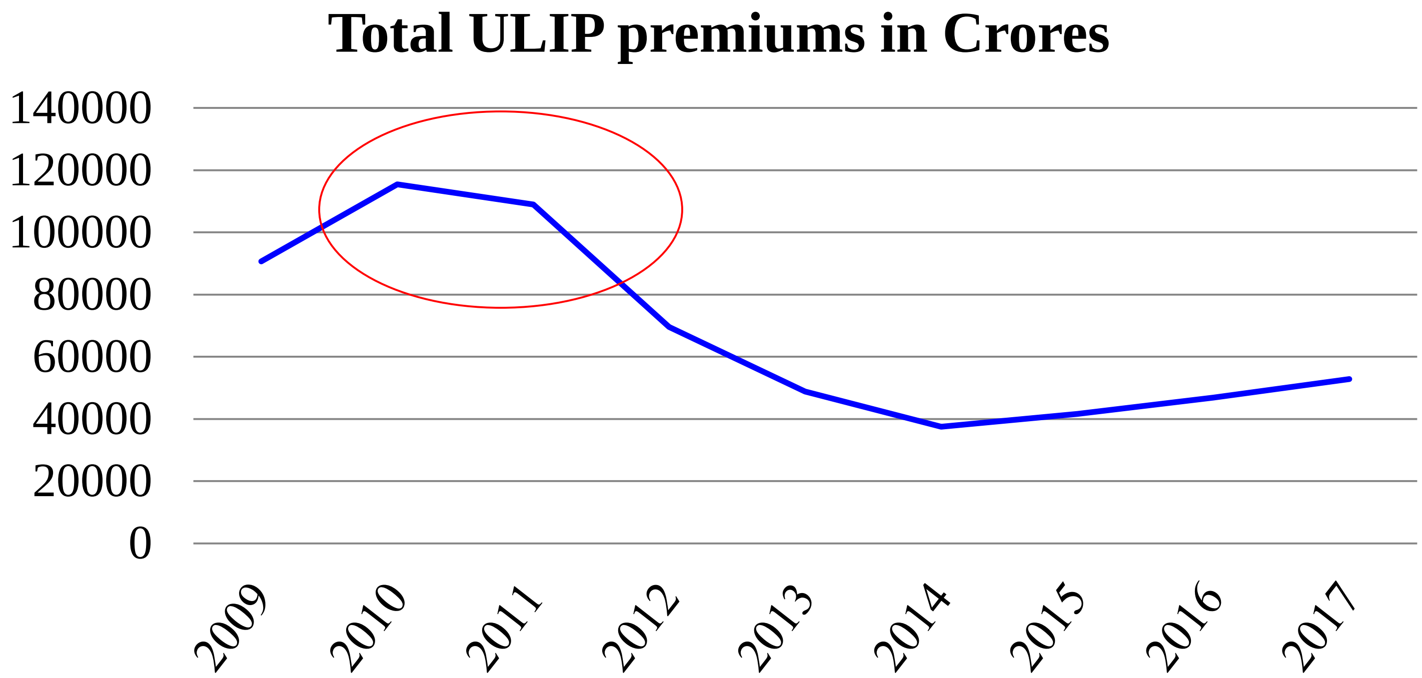


Why the decline?

- Templated products
- Low charges leading to low profitability
- Distributor compensation also squeezed!

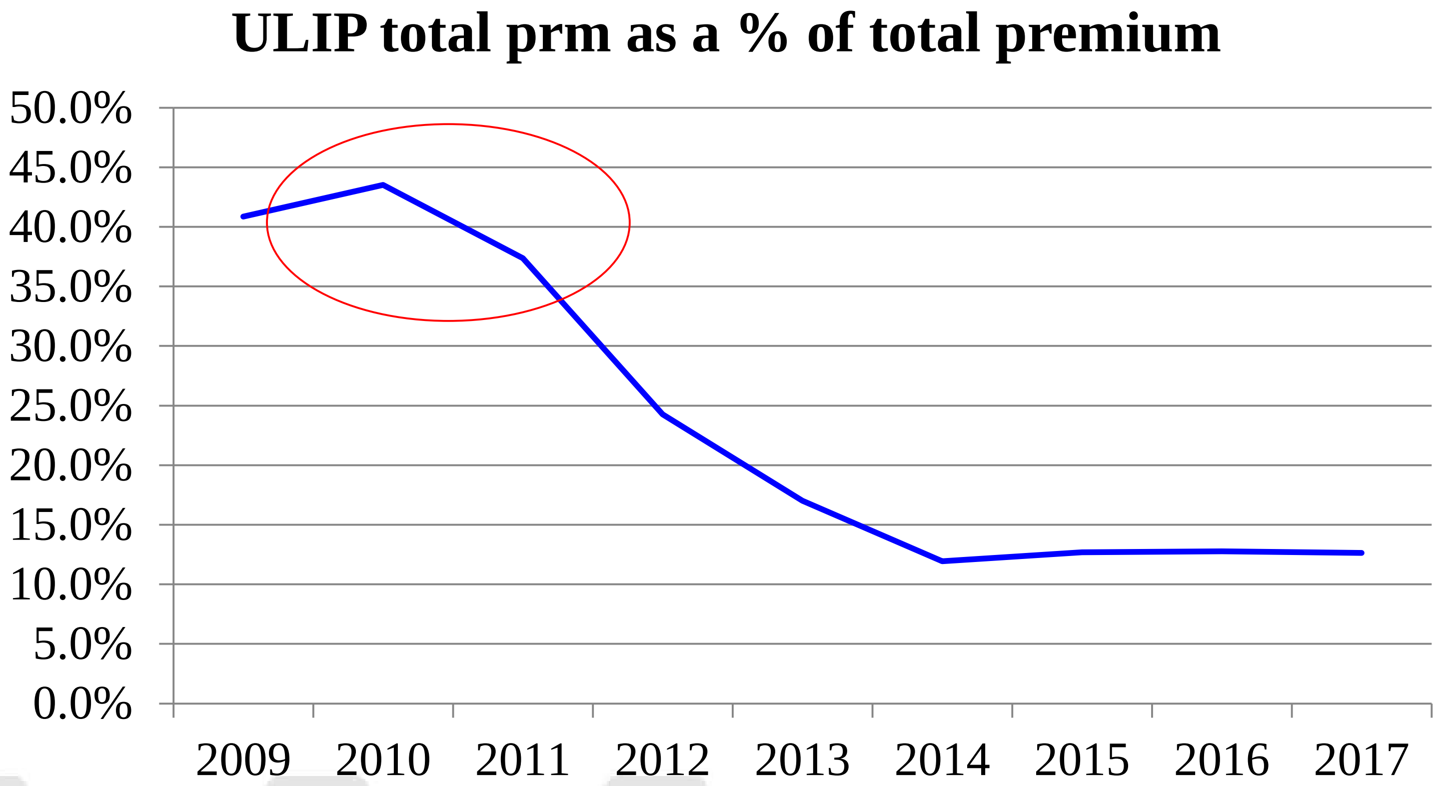
Premium under ULIP business

Institute of Actuaries of India



SOURCE: HANDBOOK ON INDIAN INSURANCE STATISTICS, IRDA

ULIP premium as % of total premium

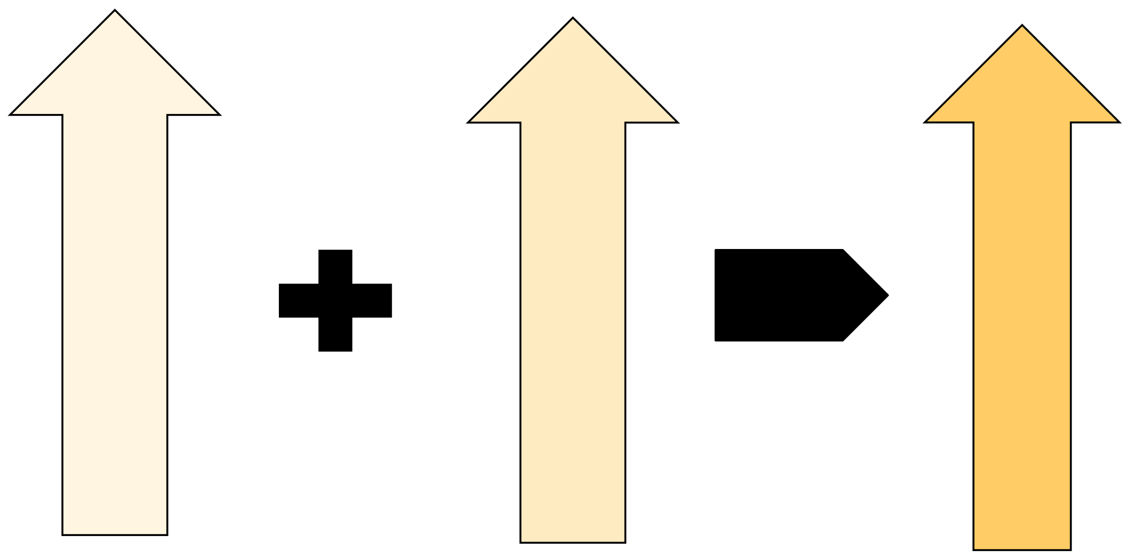


SOURCE: HANDBOOK ON INDIAN INSURANCE STATISTICS, IRDA

Way Forward

Institute of Actuaries of India

What is required for the industry ?



Assets Under Management + **Persistency** → **Profits**

Way Forward

Challenges:

- Compete against other investment products available in the market
- Inflexible product design
- Compete against non-linked insurance products
- No ULIP products for elderly

Way Forward

Institute of Actuaries of India

Re-structuring of charges for capital efficiency and easy comparison with other financial products

Consumer oriented design

e.g.: not giving equity options to certain class of policyholders

SOLUTIONS

Make more flexible premium payment options, discontinuance terms, risk cover

Ex: single premiums with top-up in ULIPs

Unity among insurers

e.g.: campaign as industry, lobbying to reduce GST for insurance products

Way Forward

Institute of Actuaries of India

Are we missing anything ?

- Whole-of-life ULIP products: Life insurance should be a long-term offering
- Protection element diminished: ULIP becoming mutual fund sold by insurers?
- Tax advantage over mutual funds for a reason – Leverage them!
- Over complicated products: simplify products; training of distributors

Way Forward: Tech-driven innovations

Tech-driven innovations to get an edge!

- Plans suited to the needs of the customers – using advanced **data analytics**, **interactive tools** at the time of sale
- **Flexible investment strategies** changing at different stages of policyholder's life
- **Automatic fund switches** above pre-defined thresholds based on risk appetite and mandate.

e.g. A product offering flexible investment strategies including a 'trigger-based portfolio' strategy wherein excess return from the equity fund above the pre-defined threshold will be automatically transferred to bond fund to achieve an overall stable return.

Next wave of product regulations

Recommendations made by the Products Regulations Review Committee, 2017 constituted by the IRDAI…

Flexibility and transparency to customers

- Portability within products of same insurer or different insurers providing preferential rates to such customers ??
- Longer revival period of 5 years, instead of current 2 years.
- Optional life cover on Top-ups against mandatory.
- Facilitate comparison of fund performance of ULIPs against (prescribed?) benchmarks and/or other funds available in market.

Reduce administrative hassles

- Revise RIY guidelines; to be demonstrated on prescribed yields only while filing.

At the time of sale through BI as well?

Next wave of product regulations (contd.)

Recommendations made by the Products Regulations Review Committee, 2017 constituted by the IRDAI…

Product design changes

- Overhaul of **commission structures**, replacement of specific limits with overall limits; and penalties on distributors for breach of limits.
- Revise present **ratio** of **maximum to minimum charges** during first 5 years of **1.5 to 3** to help manage capital strain in initial years.
- Remove caps on charges - particularly on FMC (1.50%) to help product innovation.

Questions ?

Thank you!