Should index-linked insurance products make a comeback?

The Insurance Regulatory and Development Authority of India (Irdai) recently formed a committee to re-examine the need for index-linked insurance plans (Ilips), which were available in the Indian market before the insurance regulator banned them in 2013. Ilips, when they were around, invested policyholders' money mostly into indices related to government securities or bonds. Disha Sanghvi asked experts if there's a case for these products to make a comeback and whether or not they will benefit policyholders if they are allowed to be sold again.

VIBHA PADALKAR
MD and CEO, HDFC Life Insurance

Ilips will boost the choices available to the customers

Irdai has played a proactive role in paving the way for customer centric products. The recent initiative to form a working group to study index-linked products is a welcome step. It would further augment the choices available to customers. Index-linked products make for a good proposition for both customers and life insurers. The benefits under this product are linked to a well-established external benchmark, for instance, the 10-year government securities (G-sec) yields or the Nifty 50 Index.

Multiple indices and their respective benchmarks can be present under the product as per customers' demand and availability of the indices. These products have the added advantage of better transparency in terms of product workings and are closer to the exchange-traded funds (ETFs) that exist today in the mutual fund space.

Index-linked products also help life insurance companies optimally manage the inherent interest rate risk in their products thereby leading to lower provisioning for risk compared to traditional products and ultimately provide better customer value.

KAPIL MEHTA
Co-founder, SecureNow

These products can help make bonuses more transparent

Yes, there is a case for Ilips, particularly if they make bonuses more transparent. In traditional insurance policies, the reason for a particular bonus is not always obvious and bonuses are expressed as an increase in the sum assured on maturity, which is not easy to translate into an annual return.

If Ilips are reintroduced, then the bonuses should be expressed as an annual return, the reduction in yield should be capped like it is done in unit-linked insurance plans (Ulips) and, at least in the initial years, as policyholders understand the new products, policy surrender should have low charges.

In terms of index, only indices published by reputed third parties should be allowed and these should be restricted to the relatively less volatile government and debt securities.

This may also be a good opportunity to experiment with flat commission structures over the years rather than a large initial commission followed by smaller renewal commissions. All the changes suggested are significant, but the time is right to experiment with these.

MRIN AGARWAL
Financial educator and founder-director, Finsafe India, and co-founder, Womantra

Won't be useful if the costs are similar to a traditional plan

Ilips are benchmarked to an index and returns are pegged to that index. The policies linked to government bonds may provide regular returns and work like pension plans.

The attractiveness of the product will be based on how it is structured in terms of costs. Certainly, it would not be a useful product if the costs are similar to traditional insurance plans. The benchmark developed or used will also have to be transparent.

Further, the policyholder will have to compare the mortality charge in a term plan and an index-linked product.

Investors would be better off with a term plan given the high sum assured in these plans and can invest separately in long-duration or 10-year constant maturity bond funds.

If you need regular income, then a systematic withdrawal plan in short-duration bond funds may be a better idea considering that these funds are more liquid and do not have surrender charges like an insurance policy.

Similarly, ETFs or index funds will be more cost-effective and liquid compared with an equity Ilip.

ANUJ MATHUR
MD and CEO, Canara HSBC Oriental Bank of Commerce Life Insurance

This will be a win-win bet for both insurers and customers

There is a case for Ilips to come back. The 2019 product regulations issued by Irdai do not seem to explicitly prohibit them which was the case with the 2013 regulations. Index-linked products were always popular with policyholders as they provided a minimum guarantee vis-à-vis their returns, besides offering an opportunity to increase returns if the markets perform well.

One could argue that a similar structure is provided by participating products, but the advantage that Ilips have over participating products is that the Ilip structure is much more transparent.

Given volatile markets where customers are looking for guarantees more than ever, life insurers may have to lower returns guaranteed under pure non-participating products. These products will fulfil the dual purpose of allowing insurers to keep guarantees lower and allow customers to gain access to better returns if the markets bounce back.

In this environment, this is more of a win-win proposition both from customers' as well as insurers' perspectives.