Source : www.livemint.com Date : 2021-02-10

IRDAI PANEL OKAYS LAUNCH OF INDEX-LINKED INSURANCE POLICIES

Relevant for: Indian Economy | Topic: Issues relating to Mobilization of resources incl. Savings, Borrowings & External Resources

The returns from index-linked insurance products will be linked to that of benchmark indices

Acommittee set up by the Insurance Regulatory and Development Authority of India (Irdai) has recommended the introduction of index-linked insurance policies (Ilips). The committee was formed about four months ago after requests from insurers for reintroducing Ilips, which were banned by the regulator in 2013.

The returns from Ilips will be linked to benchmark indices. “Insurance products linked to benchmark indices such as the 10-year Sovereign Bond Index, Sensex or Nifty are Ilips. While the ones linked with government bonds will be less risky, those linked to equity-based indices would see fluctuation in returns based on the stock market performance," said Vivek Jain, head of investments, Policybazaar.com, an insurance marketplace.

Product type

According to the Irdai Working Group committee report, Ilips can be an alternative or complementary option to the current conventional guaranteed products (including annuities and savings products) and unit-linked insurance plans (Ulips), particularly in the context of volatile markets and stressed interest rates. Currently, amid market and interest rate uncertainty, people are increasingly preferring guaranteed products. Despite the returns being linked to indices, there will be guarantees within Ilips, according to experts.

Sudhakar Sethuraman, partner, Deloitte India, said that at present there are no express provisions under the Act that taxes the ILIPs except Section 10(10D) where the intent is to tax any sum received from a life insurance policy. “Ilips may be regarded as a life insurance policy under Section 10(10D) and taxability of such Ilips could be in line with the taxability of Ulips unless specified otherwise. One would have to see if the proposal to tax Ulips, whereby premiums above 2.5 lakh would be taxable as capital gains, will also be extended to Ilips," said Sethuraman.

The product structures are mainly proposed under the traditional participating (par) and non-participating (non-par) designs. This way Ilips will give additional options to customers under these designs.

Transparency

Ilips also promise to offer greater transparency. “Index-linked products could be seen as a category which fits in between traditional products where features can appear less transparent and unit-linked products where transparency is higher but the investment risks are completely borne by the policyholders... Ilip could be seen as a suite of products wherein greater transparency can be facilitated to the customers with respect to product structure and benefits and where risks are in line with the choice made by the customers," said the Irdai committee report.

The committee believes customer disclosures have to be proportional to the complexity of the

product designs.

Some of the disclosures could be website displays such as the past and current performance of suggested indices. Also, calculators may be made available to policyholders to indicate the projected future returns to the customers, with caveats such as past performance is not necessarily an indication of future returns and also that returns may not exactly match those given by the particular index linked to the policy.

In the customized benefit illustrations, the index's rate of return for a certain period may be shown, in addition to the current standard rate of 4% and 8% per annum, or as is decided by the regulator. A benefit illustration shows the projected return on the basis of assumed rates of interest.

Watch this space to know how these products evolve.

END