"Our objective was to offer the best investment product"

*Sanjay Tripathy tells **Chandralekha Mukerji** why the online Ulip from HDFC Life is more cost-effective and tax-efficient than mutual funds and what the new term plan launched by his company offers to policyholders.*

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The Click2invest plan has very low charges. How much of the premium gets invested?
There are no premium allocation charges or policy administration charges in Click2invest. The only ones are fund management charges, and, of course, the mortality charges for the life cover. The mortality charges are reduced as your fund grows in value. For instance, if one pays ₹1 lakh as annual premium and opts for a ₹10 lakh life cover, in the first year, after one pays the premium, the company charges the mortality fee on the balance cover size—₹9 lakh. As the policyholder keeps paying the premium, the difference between the cover size and the fund value reduces, and the mortality charges come down.

Does that make the plan cheaper than mutual funds?
Our objective was not to offer the best Ulip, but the best investment product. The existing equity mutual funds typically charge around 2.5% as fund management fee per annum. Click2invest charges only 1.35%. It is even less for women and children as the mortality charges go down further. In the long term, these savings give phenomenally better results than a mutual fund.

Since there are no discontinuance charges, one can even invest for the short term, the minimum tenure being the five-year lock-in period. This helps the product give at least 40% higher returns than other Ulips. A standard Ulip charges 8-9% in the first year and, over five years, the charges are 40-45% of the annual premium. This means that if you are investing ₹1 lakh annually, Click2invest will save you at least ₹40,000 extra at the end of five years.

How many fund options do you offer?
We have eight funds, including bond fund and balanced fund options. So there is variety and you can keep switching among them without any tax incidence. This is another feature you will not find in a mutual fund. Even if you compare it to the current lock-in norms of equity-linked savings' schemes and debt mutual fund schemes, it is a great proposition. The free annual switches allow you to shift from debt to equity, and vice versa, and help optimise your returns.

The lock-in period shorter for ELSS funds...
Yes, but our plan is more tax-efficient. In mutual funds, if you want to come out of equity and shift to debt, you have to close the equity fund and reinvest in a debt scheme. There are tax implications of these transactions. The Click2invest plan, on the other hand, falls under the EEE (exempt, exempt, exempt) tax treatment, making it more attractive.

You recently upgraded the Click2protect plan. What's new in the plus version?
We found that people are often not sure whether their spouse or children would be able to handle a huge sum of money when they aren't around. So we decided to come up with the option of a 'lump sum and plus' payouts. If you have an immediate liability, say, a home loan to cover, and after that you prefer a monthly payout, our term plan is the solution. Then we have add-on features like an accidental death benefit, where you get double the life cover as a payout. Also, if you are buying the policy at a young age and would like to enhance the coverage at a later stage, say, after marriage or when you start a family, we offer a milestone facility till the age of 40, which allows you to increase your cover size by 25% at each of these milestone. Basically, we are trying to incentivise buying early.

Will some of the products launched online be available offline as well?
We are working on multiple products which will revolutionise the insurance market. They have to be online propositions. We won't be able to incentivise products as aggressively through the offline mode.

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once a year. For example, their equity allocation might have surged due to the recent rise in the market and, therefore, they should shift some portion of the corpus out of equity funds to debt funds. Similarly, if the equity allocation goes down drastically during a bear phase, they may shift back from debt to equity. Financial planners also advise investors to shift from equity to the safety of debt well ahead of their important goals. This prevents any disturbance for the goal due to a sudden crash in the stock markets.

This year's budget has changed the tax rules for debt funds. The minimum holding period has been increased from 1 year to 3 years. Debt fund investors will have to pay a higher tax if they rebalance by shifting out of debt within three years of investing. However, there will be no tax in case of Ulips.

Investors should note that insurance companies allow only a limited number of free switches. While some Ulips allow unlimited free switches, others permit only 4-12 free switches in a year. There is a ₹100-250 charge for every switch beyond the free limit. Check how many switches your Ulip allows before you start rebalancing your portfolio. Like banks, insurance companies also charge you less if you do the transaction online. For example, HDFC Click2invest charges ₹250 per additional switch if done offline and only ₹25 if the same is executed online.

How important is a fund's expense ratio? **Page 11**

Decoding the charges
The charge structure of Ulips is not as straightforward as that of mutual funds. There is a premium allocation charge, a policy administration charge and a fund management charge. There is also the mortality charge for the life cover offered by the plan. The 2010 Irda guidelines say that the combined charge cannot be more than 2.25% a year in the first 10 years. They have also capped the fund management fee at 1.35% per annum, though many Ulips are charging less than that on their short-term debt schemes.

The mortality charge differs across Ulips. Some plans offer either the sum assured or the fund value on death. These are Type I Ulips and their mortality charges go down as the fund value goes up. The Type II Ulips offer both, the fund value as well as the sum assured. Obviously the mortality charges are higher in such plans.

Unlike the premium of term plans, which is fixed for the entire term, the mortality charges of Ulips keep rising as the policyholder gets older. However, there is no need to worry because the term plan premium is calculated on the basis of the average age of the policy term. This means the mortality charges of the Ulip will be lower than that of the term plan in the initial years and higher in the later years. Over the entire term, the cost will get averaged.

Though Ulips offer a cover to policyholders, the benefit may be a drag for those who are interested purely in investment. The low-cost Ulips are, therefore, Type I plans that will pay either the fund value or the sum assured. Here's how it will work. Suppose a person buys a Ulip with a ₹1 lakh premium for 20 years. The plan will give him a cover of ₹10 lakh (10 times the annual premium), but the insurance company will charge mortality premium for only ₹9 lakh since the total risk for the company is ₹9 lakh. With every annual payment of the premium, the risk of the