Unit Linked Insurance Plan

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In News: Recently, a committee was set up by the Insurance Regulatory and Development Authority of India (IRDAI) on the request of some insurers. The committee has recommended introducing index-linked insurance policies (ILIPs).

About Unit Linked Insurance Plan

- It is an acronym for 'Unit linked insurance Plan'.
- This is linked to units of investment which are made in the capital and money markets.
- Hence, ULIPs are a combination of life insurance and market linked investment.
- Therefore, it provides you life cover as well as capital appreciation linked to the capital markets. In other words ULIPs are long term investment cum protection plans that offer individuals an opportunity of availing market linked returns while providing life insurance protection.
- Depending on the individual's risk appetite one has the option of choosing from a host of funds having varied degrees of risk exposure.
- In ULIPs, a part of the investment goes towards providing you life cover.
- The residual portion of the ULIP is invested in a fund which in turn invests in stocks or bonds.
- The value of investments alters with the performance of the underlying fund opted by you.
- It was firstly introduced in 1971 by Unit trust of India with the Government of India.Then in 2005, IRDA (Insurance regulatory and development authority) had plotted the major guidelines for the insurance companies.

ULIP Structure

- In a ULIP ,the full amount of premium paid is not allocated to purchase units.
- Insurers allot units on the portion of the premium remaining after providing for various charges under the plan.
- Thus, the portion of premium used to purchase units varies from product to product.
- The total monetary value of the units allocated is invariably less than the amount of premium paid because the charges are first deducted from the premium collected and the remaining amount is used for allocating units.