

## ULIP vs. Traditional Policy: Choose According To Your Requirement

posted on 2 Feb 2009 11:46:34 IST

A Unit Linked Insurance Plan, a financial product, is commonly known as ULIP that offers the twin benefits of life insurance as well as an investment. After deducting fees and charges, part of the premium paid goes towards buying insurance cover and the balance gets invested in the investments chosen by the policyholder, be it equity, debt or a mix of both. Thus, ULIP Plan is a life insurance solution that provides the benefits of protection and flexibility in investment.

Traditional policies also broadly work like that. In these policies, a part of the premium is set aside for life cover and the rest is invested in a fund after deducting charges. But the difference is in a ULIP that you know exactly how much is deducted as life cover, how much you are paying as fees and how much you are investing in a fund. You can also track the performance of the fund as the returns are linked to the market performance. Traditional policies such as endowment plans are where the insurance and saving portion is undistinguished to the policyholder. He does not know the break up of charges and has no information about how much of his premium is invested and where. He also does not know, whether the bonuses paid to him every year are all that his fund has made or whether the company is giving him only a share of the profits.

Pranav Mishra, the senior vice-president of ICICI Prudential Life Insurance explains, "The essential differential in the two lies in the fact that traditional policies encourage savings whereas ULIPs take the investment path and hence have higher growth options"

Sanket Kawatkar, Senior Consultant, Insurance and Financial Services, Watson Wyatt Worldwide, "The choice between ULIPs and traditional policy is essentially a matter of having the controls in your hands. Where ULIPs give you a choice of funds for both the risk averse and the aggressive investor, traditional policies take the investment decisions themselves though many do guarantee some returns by way of bonuses."

**V Ramakrishna, MD, India Insure Risk Management has this advice for Sachintya, "Investment in ULIP with equity investment options should be better for you than that of traditional investment option. Since you are young, your investment horizon is long and equity should generate decent returns in the long run in your investments. Simultaneously, you can think of investing in mutual funds."**

To summarise, ULIPs are the smart choice for those people who want to enjoy market returns and want to keep the controls in their hands. Add to that it gives you insurance cover with the flexibility to adapt it to your changing lifestyle needs. This is a feasible option for those who want a convenient, economical and one-stop solution.

<http://www.insurancereview.in/posts/list/articles-ulip-vs-traditional-policy-choose-according-to-your-904904.htm>