

Unit Linked Insurance Plans

Your complete guide to flexible investing, long-term wealth creation, and built-in life cover.



Investment Plans

ULIPs decoded: Understand the basics, bust myths, explore benefits, avoid mistakes, and ask the right questions before you buy

Unit Linked Insurance Plans (ULIPs) often catch the attention of investors looking to combine protection with growth. They offer a unique blend of life insurance and investment, letting you build wealth while securing your family's future. However, their structure and performance depend on market dynamics and policy choices, making it essential to understand how they work before you invest.



This guide aims to cut through the clutter. Whether you're a young professional just starting your career, a parent planning for your child's future, or someone nearing retirement, this ULIP buying guide will help you make an informed decision. We'll cover everything from myths and types to coverage, add-ons, and buying channels, all backed by regulatory insights and practical checklists.

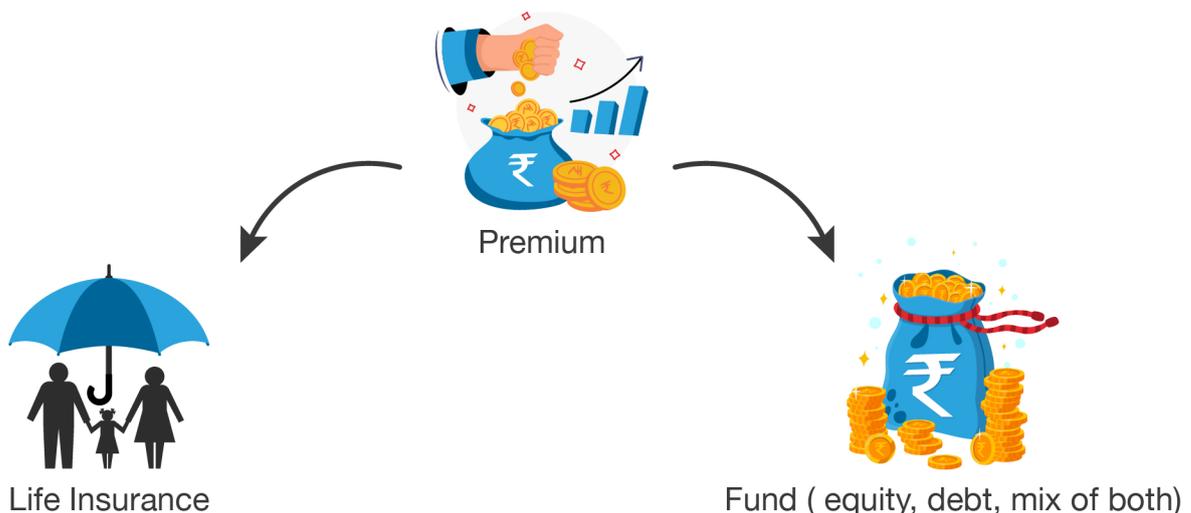
What are ULIPs and Why They're Often Misunderstood

A Unit Linked Insurance Plan (ULIP) is a financial product that is a hybrid of life insurance coverage and investment in market-linked instruments such as equity, debt, or balanced funds.

Here's how it works:

A portion of your premium goes toward providing life insurance

The remaining premium is invested in funds of your choice (equity, debt, mix of both)



Over time, your returns depend on market performance and fund selection

Even though ULIPs are flexible financial products, many people still doubt them because of their history. Let us look at some of the common concerns.



To protect investors, IRDAI (Insurance Regulatory and Development Authority of India) introduced reforms that reduced costs, capped charges, and increased transparency, making modern ULIPs much more customer-friendly than before.

Common Misconceptions Around ULIP

Over the years, ULIPs have been surrounded by several myths that often discouraged investors from considering them. Most of these are based on older products or half-truths.

Let's clear the air:



1

“ULIP is only an insurance plan, not investments.”

False. ULIP is designed as a dual-purpose product, offering both life cover and the opportunity to grow wealth through market-linked funds.

2

“ULIPs are too expensive.”

Historically true, but no longer the case. IRDAI has capped charges to a maximum of 2.25% of the fund value, making modern ULIPs as cost-efficient as many mutual funds.

3

“ULIPs lock in your money forever.”

Incorrect. ULIPs come with a 5-year lock-in period, after which partial withdrawals are allowed to meet short-term needs without closing the plan.

4

“Returns are guaranteed.”

Wrong. ULIPs are market-linked products, so returns depend entirely on how the chosen funds perform over time.

5

“ULIPs are only for the wealthy.”

Not true. Many ULIPs today are accessible at affordable premiums, starting as low as ₹1,000 per month, making them suitable for a wide range of investors.

Types of ULIP

ULIP comes in multiple variants, allowing investors to choose plans that match their risk appetite, premium-paying capacity, financial goals, and life cover preferences. Below is a breakdown of the major categories:

By Fund Type

01

ULIPs allow policyholders to allocate their investments across different types of funds, each with varying levels of risk and return.

Equity ULIPs: These invest primarily in stocks and equity-related instruments. They carry a higher risk due to market fluctuations but also offer high growth potential, making them suitable for long-term wealth creation.

Debt ULIPs: Invest in fixed-income securities such as bonds and government securities. They provide stable, predictable returns with lower risk, making them ideal for conservative investors.

Balanced ULIPs: A mix of equity and debt investments, these plans balance growth with safety. They suit investors who want moderate returns without taking on very high risk.

By Investment Goals

02

ULIPs are also tailored to specific life objectives, ensuring they align with long-term financial planning.

Wealth Creation ULIPs: Primarily equity-focused, these aim to maximise growth over the long term and are suitable for investors looking to build significant wealth.

Child ULIPs: Structured to secure a child's future milestones like education or marriage. Most come with a waiver of premium benefit, ensuring the plan continues even if the parent is no longer around.

Retirement ULIPs: These plans help create a retirement corpus, often allowing systematic withdrawals or annuity options to provide income security in later years.

03

By Life Cover Options

ULIPs also differ in the way the death benefit is calculated.

Type 1 ULIPs: On the death of the policyholder, the nominee receives the higher of the sum assured or the fund value. This is generally more cost-effective, as the mortality charges reduce over time as the fund value grows.

Type 2 ULIPs: On the death of the policyholder, the nominee receives both the sum assured and the fund value. While this offers higher protection, the mortality charges are higher compared to Type 1 ULIPs.

Who Needs ULIPs and When?

ULIPs are not one-size-fits-all. Their flexibility in fund choice, premium payment, and goal alignment makes them suitable for different life stages. Here's how they fit into the financial journey of an individual:

Young Professionals (Age 25–35)

At this stage, individuals are just starting their careers and have time on their side. Their risk appetite is generally higher, and they can benefit from long-term compounding. ULIPs serve a dual purpose here, providing essential life insurance protection while also creating an investment discipline early on.

Recommended: Equity-oriented ULIPs, which maximise growth potential and are well-suited for long investment horizons.

Parents (Age 30–45)

This is a stage where responsibilities increase, especially towards children's education and future milestones. The need for financial security becomes critical, as any disruption in income can directly affect family goals. ULIPs designed for children come with features like a waiver of premium, ensuring that even if the parent is not around, the policy continues and the child's needs are met.

Recommended: Child ULIPs with a waiver of premium add-on for uninterrupted goal protection.

Mid-Career Individuals (Age 40–55)

By this age, earning capacity is at its peak, but so are financial responsibilities such as retirement planning, healthcare needs, and children's higher education. A ULIP at this stage works best when used as a balanced approach, where wealth creation is pursued while simultaneously protecting accumulated savings. The option to switch funds between equity and debt becomes especially useful here.

Recommended: Balanced or debt-oriented ULIPs for a mix of growth and stability.

Pre-Retirement (Age 55+)

As retirement nears, the focus shifts from aggressive growth to capital preservation and income stability. ULIPs at this stage are less about wealth creation and more about safeguarding what has been built. Debt-oriented funds and systematic withdrawal features can provide liquidity and financial security during retirement years.

Recommended: Debt-oriented ULIPs with systematic withdrawal options, ensuring steady cash flow and reduced risk.

How Much Cover Do You Really Need?

ULIP is best viewed as a tool for long-term wealth creation while offering some insurance protection. However, if your primary goal is securing your family's financial future, a pure term insurance plan ensures adequate life cover. Combining the two helps you stay invested for growth while keeping your protection goals intact.

If you are planning to invest in ULIP, here are a few considerations for you to decide on the appropriate cover.

1. Income Replacement

A common thumb rule is to have life cover worth 10–15 times your annual income. This ensures your family can continue meeting essential expenses, from household bills to school fees, in your absence.

3. Future Goals

Consider big-ticket goals like your child's higher education, marriage, or your spouse's retirement security. These should be factored into your overall cover, as investments in ULIPs can help you gradually build funds for them.

5. Affordability and Balance

While higher cover is ideal, premiums must be sustainable. A balanced approach is to secure a robust term plan for protection and use ULIPs to grow wealth for future goals.



2. Liabilities and Loans

Add up your outstanding debts, such as a home loan, car loan, or personal loan. Your insurance cover should be sufficient to clear these liabilities, so your family doesn't bear the financial burden.

4. Existing Protection

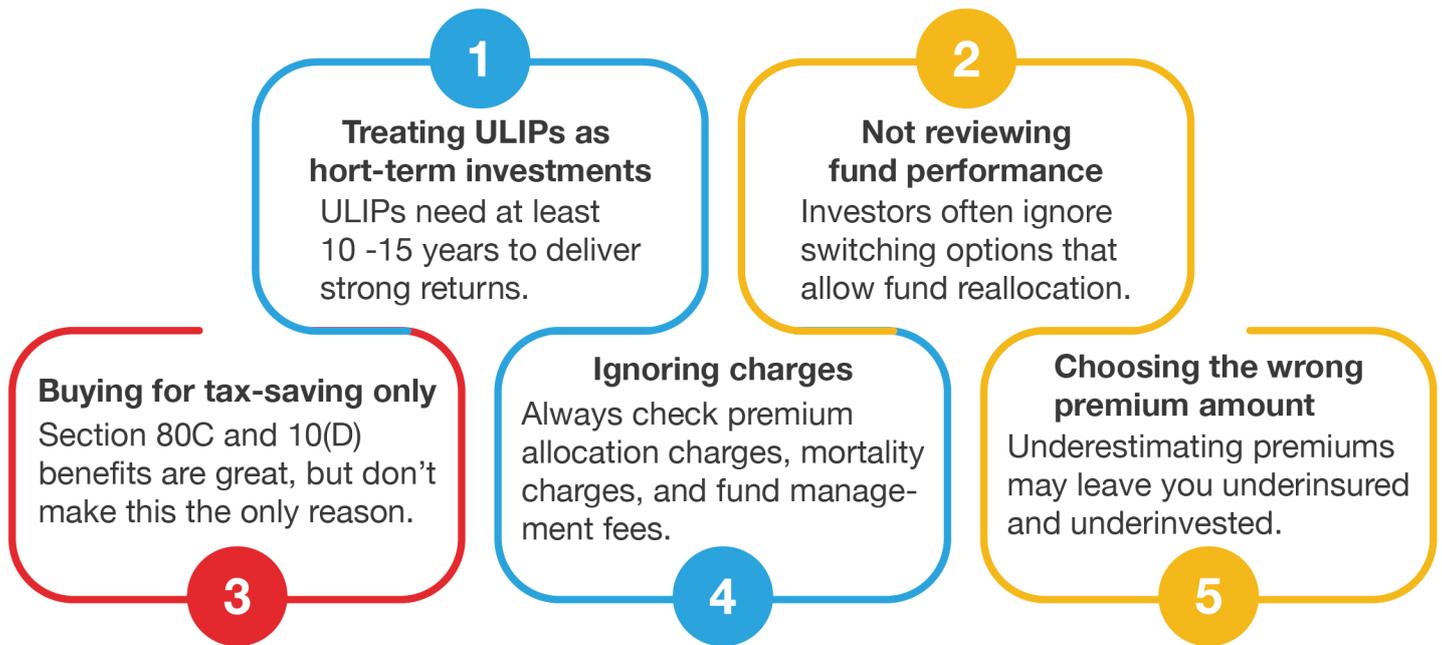
Check what you already have in place, such as employer-provided group insurance or an existing term plan. Your ULIP cover should complement, not duplicate, your existing protection.

Common Mistakes People Make When Buying ULIPs

While ULIPs can be powerful tools for wealth creation and protection, many investors fail to get the best out of them due to avoidable mistakes.



Here are some of the most common pitfalls to watch out for:



Add-ons That Actually Matter

ULIP riders are optional benefits that can be attached to your policy to enhance protection beyond the basic cover. While not all riders may be necessary for everyone, the right ones can make a big difference in safeguarding your financial goals. Some worth considering include:

Waiver of Premium

If the policyholder suffers from a disability or passes away, this rider ensures that future premiums are waived off and the policy continues uninterrupted. This is particularly valuable in Child ULIPs, where it guarantees that the child's future goals remain funded, even if the parent is not around.

Accidental Death Benefit

Provides an additional payout over and above the basic life cover in case of death due to an accident. This rider is helpful for those in jobs or lifestyles that carry higher exposure to risk (e.g., frequent travel, hazardous work conditions).

Critical Illness Cover

Offers a lump-sum benefit if the insured is diagnosed with a major illness such as cancer, heart attack, or kidney failure. This rider helps cover medical expenses and income loss during recovery, ensuring your savings and investments remain protected.

Buying Online vs Offline - A Practical Decision Tree

When it comes to buying a ULIP, both online and offline channels are equally valid and effective. Online purchases offer cost advantages, convenience, and greater transparency, making them ideal for those who are digitally savvy and comfortable making decisions independently. Offline purchases follow a more traditional approach, involving in-person interactions, physical documentation, and step-by-step completion of the process, which some buyers find more familiar and reassuring.

Choosing between the two depends on your comfort with digital tools, preference for traditional processes, and how you like to manage important financial decisions.

Quick Questions to Ask Yourself Before You Buy a ULIP

1. What is the fund's performance track record over the last 5-10 years?

Reviewing long-term fund performance helps you analyse consistency, not just short-term spikes. Compare with benchmarks like Nifty 50 or government bond yields for context.

3. How flexible is the plan (switching, partial withdrawals)?

Flexibility is a key advantage of ULIPs. Check how often you can switch between equity and debt funds for free, and whether partial withdrawals are allowed after the 5-year lock-in.

5. What riders are available, and which ones are essential?

Riders can strengthen your ULIP, but not all are necessary. Ask about waiver of premium, accidental death, and critical illness riders, and decide which ones fit your stage of life.

2. What are the total charges (including hidden costs)?

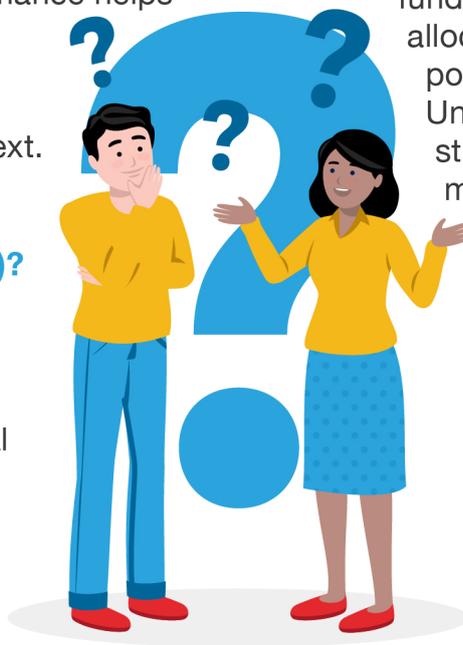
ULIPs come with multiple charges, such as fund management fees, premium allocation, mortality charges, and policy administration fees. Understand the all-inclusive cost structure to see how much of your money is actually invested.

4. Does the life cover align with my actual needs?

Your life cover should ideally be 10–15 times your annual income. Anything less might not provide adequate security for your dependents, even if the investment part looks attractive.

6. What happens if I miss a premium payment?

Understand the grace period, revival options, and the impact on fund value and life cover. Missing premiums without clarity on these rules can lead to loss of benefits or reduced protection.



Glossary

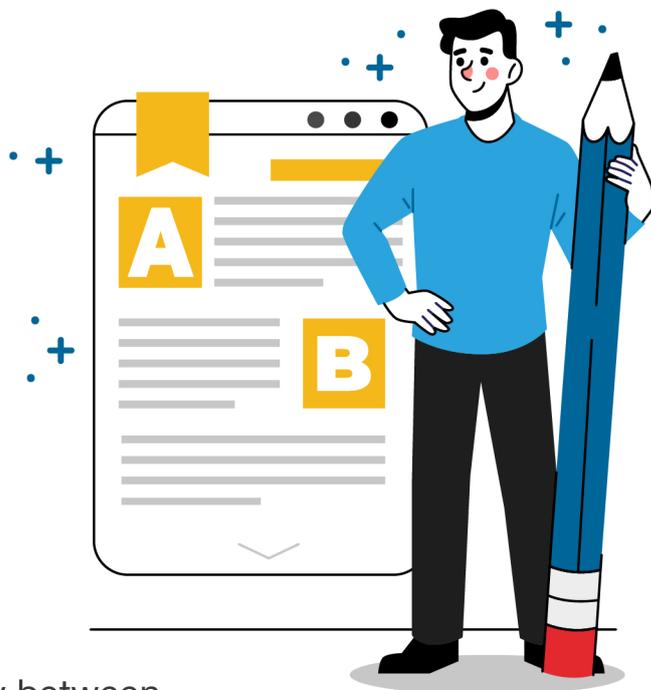
Fund Value: The total worth of your ULIP investments, based on the number of units held and their NAV.

NAV (Net Asset Value): The per-unit price of the fund, which determines the value of your ULIP units.

Lock-in Period: The mandatory 5-year duration during which you cannot withdraw your money.

Mortality Charges: The fee deducted to provide life insurance coverage under your ULIP.

Switching: The option to transfer your money between different funds (like equity, debt, or balanced) within the ULIP.



Checklist: Your 5-Minute ULIP Readiness Test

Do you understand that ULIPs are long-term (10–15 years) products?

- | | |
|---|---|
| <input checked="" type="checkbox"/> Do you know your insurance cover requirement (10–15x income)? | <input checked="" type="checkbox"/> Have you decided between online and offline purchase? |
| <input checked="" type="checkbox"/> Have you checked the charges and fund performance? | <input checked="" type="checkbox"/> Do you know which riders you need? |

If you checked at least 5/6, you're ready to compare plans.

Next Steps:

- Research ULIP plans that suit your needs
- Use a ULIP Calculator to estimate returns
- Speak to an advisor if unsure about fund selection
- Download This Guide and keep it handy before making your decision

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