CRISIL Unit Linked Insurance Plan (ULIP) Ranking
Methodology document
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1 Overview

CRISIL ULIP Ranking is the relative ranking of plans within a peer group. ULIPs of insurance companies which are open for subscription and allow investors to pay single/regular premium are considered for rankings.

2 Eligibility criteria

2.1 Insurance company

Insurance companies with the following eligibility criteria are considered for rankings:

- Offer active ULIPs
- Have a five-year performance history as on the date of analysis
- Offer at least one fund from any of the following categories:
  - Equity funds
    - Large-cap oriented funds
    - Mid-cap oriented funds
    - Multi-cap oriented funds
  - Debt funds
    - Debt long term funds
    - Debt short term funds

2.2 ULIPs

ULIPs fulfilling the below mentioned criteria are considered for ranking:

- Open for subscription
- Offer either a 10-year or 20-year policy term
- Offer the policy to individuals aged 30 years
- Offer a premium investment of either Rs 1 lakh or Rs 6 lakh in case of a regular premium plan and Rs 8 lakh in case of a single premium plan
- Offer a premium paying term equal to the policy term
3 Categorisation

For the purpose of ULIP ranking, there are four categories: Wealth I – Regular, Wealth I – Single, Wealth II – Regular and Child. There should be at least five ULIPs in each category.

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Category</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Wealth I – Regular</td>
<td>These are conventional ULIPs, where an investor pays regular premiums until the policy matures and receives fund value on maturity. Such policies offer the higher of sum assured, minimum death benefit or fund value in the event of death of the insured.</td>
</tr>
<tr>
<td>2</td>
<td>Wealth I – Single</td>
<td>These are conventional ULIPs, where an investor pays a one-time premium and receives fund value on maturity. Such policies offer the higher of sum assured, minimum death benefit or fund value in the event of death of the insured.</td>
</tr>
<tr>
<td>3</td>
<td>Wealth II – Regular</td>
<td>These are conventional ULIPs, where an investor pays regular premium until the policy matures and receives fund value on maturity. Such policies offer both sum assured and fund value in the event of death of the insured.</td>
</tr>
<tr>
<td>4</td>
<td>Child</td>
<td>The primary life insured is the parent and in case of the parent’s death, the child receives the sum assured immediately, and future premiums are waived off and on maturity fund value is given to the child.</td>
</tr>
</tbody>
</table>

ULIPs under each of the above categories, are evaluated over a 10-year and a 20-year policy term. Additionally, all categories are evaluated at a premium of Rs. 1 lakh and Rs. 6 lakh; except for ‘Wealth-I-Single’ category which is only evaluated at Rs. 8 lakhs.

Ranking of online products has been added from September 2019. The products have been categorised as Wealth I – Regular and Wealth I – Single.

Criteria for identification of online products:

To identify online products, we have sourced data from product brochures and company websites.

- Products brochures which mention that the product can be sold online and offline or only online has been ranked under online products.
- For products where the brochure does not mention the mode of sale but the product can be purchased through the website or appears under the online products tab on the company website has been ranked under online products.
- Products are also classified as online or offline based on the feedback from the insurance company.

The products for which a separate cost structure or brochure is not available for online products, the brochure or the cost structure available on the website has been used for ranking purposes.
4 Cluster ranking definitions

Definition and interpretation of cluster ranks:

<table>
<thead>
<tr>
<th>Cluster Rank*</th>
<th>Interpretation - Cost</th>
<th>Interpretation - Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Low cost</td>
<td>Very good performance in the category (top 10 percentile of the ranked universe)</td>
</tr>
<tr>
<td>2</td>
<td>Below average cost</td>
<td>Good performance in the category</td>
</tr>
<tr>
<td>3</td>
<td>Average cost</td>
<td>Average performance in the category</td>
</tr>
<tr>
<td>4</td>
<td>Above average cost</td>
<td>Below average performance in the category</td>
</tr>
<tr>
<td>5</td>
<td>Relatively high cost</td>
<td>Relatively weak performance in the category</td>
</tr>
</tbody>
</table>

* If the top 10 percentile figure is not an integer, the same is rounded off to the nearest integer. The same approach is adopted for CRISIL ULIP Rank 2 (11th to 30th percentile), CRISIL ULIP Rank 5 (last 91st to 100th percentile) and CRISIL ULIP Rank 4 (71st to 90th percentile) clusters. The residual schemes in the universe are placed under CRISIL ULIP Rank 3.
5 ULIP ranking methodology

Ranking is based on two parameters: 1) costs and 2) performance. Each parameter is ranked separately on a scale of 1 to 5.

<table>
<thead>
<tr>
<th>Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Premium allocation charge</td>
</tr>
<tr>
<td>2. Policy administration charge</td>
</tr>
<tr>
<td>3. Mortality charge</td>
</tr>
<tr>
<td>4. Premium waiver charge</td>
</tr>
<tr>
<td>5. Applicable tax deduction on all charges</td>
</tr>
<tr>
<td>6. Loyalty additions</td>
</tr>
<tr>
<td>7. Wealth boosters</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Equity funds</strong></td>
</tr>
<tr>
<td>1. Large-cap oriented funds</td>
</tr>
<tr>
<td>2. Mid-cap oriented funds</td>
</tr>
<tr>
<td>3. Multi-cap oriented funds</td>
</tr>
<tr>
<td><strong>Debt funds</strong></td>
</tr>
<tr>
<td>1. Debt long term funds</td>
</tr>
<tr>
<td>2. Debt short term funds</td>
</tr>
</tbody>
</table>

5.1 Costs

Internal rate of return (IRR) of ULIPs is compared within a given category. In order to bring parity across all the products, analysis is carried out using a predefined investor profile and policy term based on following assumptions:

- Entry age - 30 years
- Gender - Male
- Annual premium amount – either Rs 1 lakh or Rs 6 lakh in case of a regular premium plan and Rs 8 lakh in case of a single premium plan.
- Growth of cash flows - The value of premium remaining after deduction of all the charges is grown at the rate of 8% p.a.
- Applications of charges - All charges, as available in the product brochure, are applied either on the premium or on the fund value, depending on the nature of the charge.
- Policy term – either 10-year or 20-year.
- The fund value at the end of the policy term is used in calculating the IRR of the policy.
For the purpose of IRR computation, all applicable charges (premium allocation, policy administration, mortality, premium waiver, etc.), including applicable tax, are deducted from the premium amount and appropriate additions (loyalty additions or guaranteed additions, etc.) are accounted for over the term of the policy.

5.2 Performance

In order to determine the fund management ability amongst insurance companies, risk-adjusted performance over five years is evaluated where only active funds (offered for fresh investment at the time of analysis) are considered.

Categorisation
In order to have a uniform peer set, funds are categorised as equity or debt based on the following four factors:

- Mandated asset allocation
- Investment objective
- Fund nomenclature
- Stated benchmark

Equity funds
Funds mandated (stated allocation) to invest at least 60% and up to 90-100% of their assets in equity.

These are further grouped under large-cap, mid-cap and multi-cap oriented funds based on the above mentioned four factors.

Debt funds
Funds mandated (stated allocation) to invest 100% of their assets in debt instruments.

These are further grouped under debt long term funds and debt short term funds.

Methodology for computation of performance score:

- Each category should have at least five funds.
- Annualised mean returns and volatility (standard deviation) of daily returns for the past five years are considered.
- Mean returns and volatility are scored separately. Funds with superior returns and minimum volatility will get the highest score. Mean returns is assigned 65% weight and volatility 35%. The weighted average score of mean returns and volatility is calculated for each fund within a category and is used for assessing its relative performance.
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