# Five products to watch for this year

You might not have to depend solely on fixed-income products for yet another year, with many new instruments across sectors being introduced

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The year 2013 saw equities giving debt-like returns. The BSE exchange's Sensitive Index or Sensex returned less than eight per cent and the National Stock Exchange's Nifty around 5.5 per cent (between January 1, 2013 and January 1, 2014). Investors' all-time favourite yellow metal, that performed over the past 10 years to give 350 per cent, lost almost five per cent in the past year. Real estate also showed cracks in some markets.

Debt products continued to be the only solace for individual investors for a third straight year, with fixed deposits and debt funds offering returns up to nine per cent annually.

Will investors have to stick to fixed income products yet again in 2014? Or will there be options? While there will be new instruments like Reits and inflation-indexed bonds, interest rate changes could see some impact on instruments like tax-free bonds, extremely popular in 2013. We take a look at what you can expect across product categories.

**Real estate investment trusts (Reits)**

Sebi announced guidelines for Reits in October 2013 and the final operational guidelines are likely this year. With a minimum investment requirement of ₹2 lakh, the product is more suitable for high net worth individuals (HNIs). According to experts, if all the ... could prove an alternative for HNIs who invest in real estate for the purpose of portfolio diversification but suffer losses with the lack of transparency and organised nature of the sector.

Sebi's guidelines insist 90 per cent of the money be invested in complete and revenue-generating projects; the entire corpus cannot be invested in a single project. These clauses will ensure investors' funds do not get stuck in an under-construction property.

Guidelines are stringent with regard to valuations as well and insist the net asset value (NAV) of a Reit be declared twice a year. But given the current slump in the real estate market, there could be cases where developers offload their projects to Reits by overvaluing, in the hope of recovering losses. This is something investors should be wary of. Otherwise, they could be left with investments where yields are low.

For a product to be truly attractive, it should offer a spread of four-five per cent over fixed deposits or tax-free bonds, says Vikas Gupta, executive vice-president - traded markets and investment research, Arthveda, a fund management company. "If investors are able to get nine per cent risk-free returns from tax-free bonds or fixed deposits, they will prefer that," he adds.

**Inflation indexed national savings securities-cumulative (IINSS-C)**

... launched inflation-indexed bonds towards the end of 2013. While the first tranche was expected to close in December, RBI has now extended it to March, which gives investors some more time to invest. These have been awaited, for they are the only debt product that will beat inflation. However, taxation makes these less attractive as compared to tax-free bonds. As Gupta points out, investors should keep in mind that even though it is inflation-linked, the interest will be taxed. So, it is possible capital might not get protected.

The bonds also lose in liquidity when compared to bank fixed deposits, since the lock-in period is 10 years and early redemption is allowed only after three years (one year for senior citizens) and with a penalty.

The definition of senior citizens for this product is anyone above the age of 65 years, unlike other instruments where the age limit is 60 years. It remains to be seen whether these will become popular. Some of the operational hurdles included having to open special kinds of account such as a Bonds Ledger Account. All banks do not offer these.

Only public sector banks and three private sector banks can offer these bonds. As of now, even bank employees are clueless. But if these hurdles can be overcome, these products should be a good option for retail investors — the only financial instrument that can give inflation-bearing ... is that this reason alone should help in moving investors away from physical assets like gold and real estate.

**Tax-free bonds**

In 2013, tax-free bonds were much sought, since they offered risk-free, tax-free interest income for a long-term. While they will continue to do so in 2014, interest rates will not be as high as last year. This is because most of the issues in 2013 were linked to the 10-year government security (G-Sec), whose yield at that time was above nine per cent. It has since been replaced by a new 10-year G-Sec, whose yields are around 8.84 per cent currently. This means any issuance in 2014 will offer lower returns than those in 2013. But these are still a good option, since the issuing entities are government-backed companies and highly rated.

**Investment infrastructure trusts (InvITs)**

Last month, the Securities and Exchange Board of India (Sebi) had issued a consultation paper on Investment Infrastructure Trusts (InvITs). These would be a means of channelising savings to meet the infrastructure sector's estimated capital requirement of ₹65 lakh crore over 2012-2017, according to the paper. Comments have been invited till January 20.

Sebi has proposed two ways of introducing this product — through mutual funds or an independent framework.

The mutual fund would be set up as a trust, which would acquire shares of Special Purpose Vehicles (SPVs) in infrastructure projects, starting with ... private partnership. The sponsor for such a fund would have to be an infrastructure developer or an SPV with an agreement for the project. The entity would need to hold a minimum stake in the investment vehicle. The portfolio of which should include a mix of projects in an early stage of development and others generating cash flows. Initially, only projects in one sector can be bundled, like only road projects.

The trusts would have to distribute at least 90 per cent of the income (after tax) to investors. "While listing is not mandatory, listing of mutual fund units will allow certain taxation benefits," the paper said.

There would be two categories, one that would invest in multiple infrastructure projects and the other in only one-year revenue generating ones. The first category would only be able to raise money from institutional investors, that is, ₹5 crore or more. The second category would have a ticket size of ₹10 lakh and could raise capital from any investor.

**Life insurance**

In the new year, life insurance policies have a new look. Starting January 1, the products will be more transparent and the returns from each plan easier to understand, as the new product guidelines for linked and non-linked insurance products have been implemented. In the norms, products are to display all benefits and fund value calculations upfront, to ensure customers are buying the products they need.

The guidelines have categorised life insurance products into three broad categories — traditional insurance plans, variable insurance plans (VIPs) and unit-linked insurance plans (Ulips). New traditional products will have a higher death cover. For regular premium policies, the cover will be 10 times the annualised premium paid for those below 45 and seven times for others. The minimum death benefit in case of traditional plans is at least the amount of sum assured and the additional benefits, if any.

The Insurance Regulatory and Development Authority (Irda) had brought out a new set of guidelines for life insurance products in February 2013. The minimum death benefit and surrender value have been altered for traditional products. For Ulips, insurers will have to intimate customers about changes in the yield every month. Further, variable insurance plans will guarantee a certain minimum rate of return at the beginning of the policy, though linked to an index.

P Nandagopal, managing director and chief executive officer of IndiaFirst Life Insurance, feels Ulips have become even better. And, those who can stomach high risks should opt for Ulips, while those with medium risk appetite should go for VIPs.

The VIPs will have a Ulip-like commission structure. Agents who sell short tenure products will have to shift to long tenure ones, as commissions have been linked to policy tenure. Your agent will push for a product with tenure of 20 years and more.

The surrender value will now depend on the premium paying term of the policy. If this is less than 10 years, the policy will acquire the surrender value after paying of premium for two years, as against three years now. If tenure is more than 10 years, the surrender value will be acquired only after paying premium for three years. The minimum surrender value now is 30 per cent of all the premiums paid, without excluding the first-year premium. Earlier, first-year premium was excluded. Between the fourth and seventh year, the surrender value will be 50 per cent of all premiums paid. "The surrender value norms will check companies from making profits from these and help retain cus-