IJARSCT

ISSN (Online) 2581-9429

International Journal of Advanced Research in Science, Communication and Technology (IJARSCT)

International Open-Access, Double-Blind, Peer-Reviewed, Refereed, Multidisciplinary Online Journal

Impact Factor: 7.301

Volume 2, Issue 4, December 2022

Study of Investment Pattern of Investors in ULIP

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Abstract*: The concept of ULIP came in to existence in 1960's to provide an optimum balance between protection and investment. ULIP distinguishes itself through the multiple benefits it provides to the policyholders. These plans are designed with a view to help the customers to utilize the market opportunities by investing in the share market, capital market and at the same time have the facility of Death Benefit and Maturity Benefit. Unit-linked life insurance products are those where the benefits are expressed in terms of number of units and unit price. They can be viewed as a combination of insurance and mutual funds. The number of units that a customer would get would depend on the unit price when he pays his premium. The daily unit price is based on the market value of the underlying assets (equities, bonds, government securities, etc.) and computed from the net asset value. The advantage of unit-linked plans is that they are simple, clear, and easy to understand. Being transparent the policyholder gets the entire upside on the performance of his fund. Besides all the advantages they offer to the customers, unit-linked plans also lead to an efficient utilization of capital. Unit-linked products are exempted from tax and they provide life insurance. Investors welcome these products as they provide capital appreciation even as the yields on government securities have fallen below 6 per cent, which has made the insurers slash payouts*

Keywords: ULIP, Investments, Securities

I. INTRODUCTION

According to the IRDA, a company offering unit-linked plans must give the investor an option to choose among debt, balanced and equity funds. If you choose a debt plan, the majority of your premiums will get invested in debt securities like gilts and bonds. If you choose equity, then a major portion of your premiums will be invested in the equity market. The plan you choose would depend on your risk profile and your investment need. The ideal time to buy a unit-linked plan is when one can expect long-term growth ahead. This is especially so if one also believes that current market values (stock valuations) are relatively low. So if you are opting for a plan that invests primarily in equity, the buzzing market could lead to windfall returns. If one invests in a unit-linked pension plan early on, say when one is 25, one can afford to take the risk associated with equities, at least in the plan's initial stages. However, as one approaches retirement the quantum of returns should be subordinated to capital preservation. At this stage, investing in a plan that has an equity tilt may not be a good idea. Considering that unit-linked plans are relatively new launches, their short history does not permit an assessment of how they will perform in different phases of the stock market. Even if one views insurance as long-term commitment, investments based on performance over such a short time span may not be appropriate. Simply put, ULIPs work very similar to a mutual fund with a life cover thrown in.They have a mandate to invest the premiums in varying proportions in gsecs (governmentsecurities), bonds, the money markets (call money) and equities. The primary differencebetween conventional savings-based insurance plans like endowment and ULIPs is theinvestment mandate- while ULIPs can invest up to 100% of the premium in equities, the percentage is much lower (usually not more than 15%) in case of conventional insurance plans. ULIPs are also available in multiple options like `aggressive' ULIPs (which can invest upto 100% in equities), `balanced' ULIPs (which invest 40-60% in equities) and `debt' ULIPs (which invest only in debt and money market instruments). The exact expense structure/ break-up for ULIPs is as transparent as one would have liked. Broadly speaking, ULIP expenses are classified into three major categories:

1) MORTALITY CHARGES:

Mortality expenses are charged by life insurance companies for providing a life cover to the individual. The expenses vary with the age, sum assured and sum-at risk for the individual. There is a direct relation between the mortality expenses and the above mentioned factors. In a ULIP, the sum-at-risk is an important reference point for the insurance company. Put simply, the sum-at-risk is the difference between the sum assured and the investment value the individual's corpus as on a specified date.

2) FUND MANAGEMENT CHARGES (FMC):
These charges are levied by the insurance company to meet the expenses incurred on managing the ULIP investments. A portion of ULIP premiums are invested in equities, bonds, gases and money market instruments. Managing these investments incurs a fund management charge, similar to what mutual funds incur on their investments. FMCs differ across investment options like aggressive, balanced and debt ULIPs; usually a higher equity option translates into higher FMC. Apart from the three expense categories mentioned above, individuals may also have to incur certain expenses, which are primarily `optional' in nature- the expenses will be incurred if certain choices that are made available to individuals are exercised.

3) SWITCHING CHARGES
Individuals are allowed to switch their ULIP options. For example, an individual can switch his fund money from 100% equities to a balanced portfolio, which has say, 60% equities and 40% debt. However, the company may charge him a fee for `switching'. While most life insurance companies allow a certain number of free switches annually, a switch made over and above this number is charged. 4) TOP-UP CHARGES: ULIPs allow individuals to invest a top-up amount. Top-up amount is paid in addition to the premium amount for a particular year. Insurance companies deduct a certain percentage from the top-up amount as charges. These charges are usually lower than the regular charges that are deducted from the annual premium.

5) CANCELLATION CHARGES
Life insurance companies levy cancellation charges if individuals decide to surrender their policies (usually) before three years. These charges are levied as a percentage of the fund value on a particular date. Having defined ULIP expenses, an illustration will help in understanding how they pan out as well as their impact on returns over a period of time.

NAV CONCEPT:
It exhibits the value (or the price) that one has for his investment or one will have to pay for his investment. As, the investment made by different people are different, the value (or the price) is the expressed in per unit terms. It helps in knowing the value of Insurance at any point of time. Technical Calculation of NAV: -UNIT Value = (Total market Value of all assets invested less expenses related to Investment management / Total no.of outstanding units).

BASIC FEATURES OF ULIP

1. Life protection
2. Investment and savings
3. Flexibility
4. Transparency
5. Added Benefits
   - Death due to accident
   - Any kind of disability
   - Critical illness
   - Surgeries
6. Liquidity
7. Tax Planning

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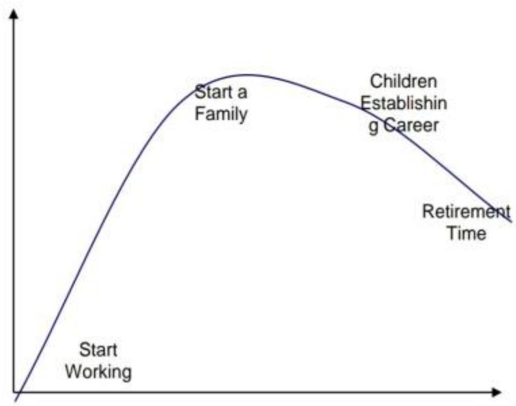
1. LIFE PROTECTION



The graph shows the various needs of the customer at different point of time, individuals needs differ and his need for life protection fluctuates. ULIP satisfies the varying needs of the customer providing him with more and more protection as and when he requires, by allowing the policyholder to increase or decrease the death benefit. It is usually multiple of the contribution being paid which ensure that the contribution is adequate enough to provide life protection. And is also able to maintain a same balance between protection and savings.

2. INVESTMENTS AND SAVING

ULIP provides the client with option of investing as per his risk appetite and gets returns accordingly. These various options available for an individual to make investment in comparatively high risks instruments and get high returns. Below shown is a graph illustrating the various investment options for a client. Example

1: Here are four types of funds in which a client can invest. In each case the risk goes on increasing with the type of fund. The client has an option to hift as the risk and return orientation changes (Switch).

3. FLEXIBILITY: The client has an option to choose the amount of sum assured and the premium amount he is capable of paying. In case of certain plans of ULIP the client is allowed to choose the premium. Exp: Lifetime and Lifetime I The client has a flexibility to decide the life cover according to his financial needs, independent of premium selected. Following points enumerate the flexibility feature of ULIP

4. LIQUIDITY: The feature makes ULIP a marketable plan. The policyholder has an option of withdrawals in case if need arises. ULIP provides easy access to the money as and when the policyholder may require. There are two types of withdrawal options.

- Partial
- Complete

The value of withdrawal reduces the death benefit by same amount. This facility can be avail only after three full premium payment years are completed. The minimum worth of this units and a maximum where in at least Rs. 10000/- worth units remain in all the funds put together.

5. TAX PLANNING: This is another feature of ULIP. This is one of the motives of the policy holder to invest in the insurance plans. They usually invest to avail the tax benefit. Regulation in India allows tax benefits in the contribution paid under section 88, contribution paid for health riders critical illness and major surgical is allowed tax benefits under section 80D, as per the prevailing tax laws. Maturity benefits are tax free under section 10(10) D, provided life come is at least 5 times of the annual contribution paid. Death benefit is tax free under section 10(10) D.

RESEARCH DESIGN:

Research was initiated by examining the secondary data to gain insight of traditional plans and unit linked insurance plan. By analyzing the secondary data, the study aim to study the comparison between traditional insurance plan and

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unit linked insurance plan and primary data will help to validate the analysis of secondary data besides on unrevealing the areas for which the traditional and unit linked insurance plan is best.

DEVELOPING THE RESEARCH PLAN:
The data for this research project has been collected through survey method. A structured questionnaire was framed as it is less time consuming, generates specific and to the point information, easier to tabulate and interpretation.

LITERATURE REVIEW
Monika Bhatia &Narinderkour (2015): conducted a Study on Attitude and Perception of Millennium City Investors for ULIPs. According to them, Indian population and growing per capita income are the main driving factors which indicated that there is a huge business-opportunity available for the insurance companies in India. They quoted that according to the annual report of Insurance Regulatory and Development Authority of India 2013-14, 80% of the population in India is without life Insurance policies. They indicated that in the present times the most preferred insurance plans are Unit Linked Insurance Plans.
Kamaludeen&Thamodaran (2014): conducted a study on Investors Behavior on ULIPs Market (Unit Linked Insurance Plans). According to them, the Unit Linked Insurance Plans is one of the hybrid financial products that offer life insurance as well as an investment component like a mutual 28 28 fund. Part of the premium that is paid goes towards the sum assured and the balance will be invested in whichever investment the policy holder desires, based on the risk taking ability. Their study is conducted with an objective to study the factors that influence investment behavior of the respondent in the selected study area. 450 sample respondents from different insurance companies were selected sing simple random sampling.
Rao &Gopi (2013): in their research, Investor Perception towards Unit Linked Insurance Plan a Select Study on UTI Mutual Fund‖ had made an attempt to analyze the investor‘s opinion on UTI-ULIP. The primary data were collected through questionnaire and also personal interview from the investors to know how they perceive UTI-ULIP. The chi-square test had been applied to find the product validation as a better option for investment there being many avenues for investment.
UdayanSamajpati (2012): enhanced the performance evaluation of ULIPs is carried out through Risk-Return Analysis, Treynor‘s Ratio, Sharpe‘s Ratio and Jensen‘s Measures. The schemes selected for study were ICICI Life Stage RP-Maxi iser (Growth) Fund, Bajaj Allianz New Family Gain-Equity Index Fund II and ING High Life Plus-Growth Fund. The results of performance measures suggested that all the three ULIPs schemes have outperformed the market. Among the three schemes ING Vysya ULIP was best performer.
Navneet Seth (2012): in his article ―Factors Behind Rise and Fall in the Sales of Unit Linked Insurance Plans in India‖ stated that the insurance sector in Indian is very large and has the presence of great number of companies. He further stated that the foreign companies entered by making joint ventures with Indian firms like ICICI- Prudential Life, HDFC Standard Life, TATA-AIA etc. These joint ventures companies had introduced the new insurance product namely Unit Linked Insurance Plan (ULIP) in which the capital of the investors is invested in the Stock Market. In the initial period, all the companies were making good business because people liked the new product. But after a gap of about 7-8 years when the actual returns were coming, investors ignored the ULIP‘s as the returns were not accordingly as promised by the Insurance companies.

FINDINGS

- Brand Name of the company is the main reason for the advisors followed by product portfolio and excellent support from the company.
- Almost all of them are satisfied with the services offered to them.
- As the endowment products, don‘t have much liquidity option most people follow the Market linked product.
- Risk cover is the most important factor as per the respondents followed by investment and savings.
- Most of the respondents are satisfied from the return, risk cover and tax savings provided by the products to its customers.

II. CONCLUSION

Every study and project needs to be concluded. Hence, based on the study of ULIP in brief, As on January 31, 2019, the company‘s assets under management(AUM) stood at Rs 28,515 crore. The company also has one of the largest distributionnetworks among private life insurers in India with over 2,100 branches (including 1,116small-offices in rural India), an advisor base of over 2,90,000 and 18 Bank assurancepartners, as on January 31, 2009. Since inception, ICICI Prudential Life has soldover 90 lakh policies.

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