

EXPLORATION AND ANALYSIS OF STRUCTURE AND GROWTH PERFORMANCE OF SELECTED ULIPS

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ABSTRACT

Insurance in India has been emerging as an important and profitable business. Every insurer wants to capture the maximum share in the market and is offering both Unit Linked Insurance Plans (ULIPs) and traditional plans. ULIPS are the youngsters in the product portfolios of life insurance companies. They provide the buyer a life cover as well as investment avenue. Today, these are the stars, accounting for 80 percent of policies sold by life insurers and their rapid rise has been fuelled to a large extent by the last bull runs in the stock market. There is an enormous choice of ULIP Plans available in the insurance market. But such a wide range of plans puzzle the buyer. The present study examines the Unit Linked Insurance Plans of selected private life insurers on the basis of policy features, charges and the performance registered by each investment. It is observed that as a whole Wealth Advantage plan of ICICI Pru is the best plan in terms of diverse ULIP features and charges. Birla Sun Life's Individual Life Creator and Birla Sun Life's Individual Life Magnifier has emerged as the top two ULIP funds.

INTRODUCTION

Unit Linked Insurance Plans (ULIP) is a pool of the premiums paid by the policyholders which is invested in a portfolio of assets to achieve the fund(s) objective. ULIPs are a category of goal-based financial solutions that combine the safety of insurance protection with wealth creation opportunities. In ULIPs, a part of the investment goes towards providing life cover. The residual portion is invested in a fund which in turn invests in stocks or bonds. The value of investments alters with the performance of the underlying fund opted by the policy holder. Simply put, ULIPs are

structured such that the protection element and the savings element can be distinguished and hence managed according to specific needs, offering unprecedented flexibility and transparency. One of the big advantages that a ULIP offers is that whatever be an individual's specific financial objective, chances are that there is a ULIP which is just right for him.

STATEMENT OF THE PROBLEM

Insurance in India has been emerging as an important and profitable business. Every insurer wants to capture the maximum share in the market and is offering both Unit Linked Insurance Plans (ULIPs) and traditional plans. ULIPS are the youngsters in the product portfolios of life insurance companies. They provide the buyer a life cover as well as investment avenue. Today, these are the stars, accounting for 80 percent of policies sold by life insurers and their rapid rise has been fuelled to a large extent by the last bull runs in the stock market. Although successful, ULIPs have inherent problems. Each company is providing two or three new plans every quarter. Therefore, there is a vast choice of ULIP Plans available in the insurance market. But such a wide range of plans puzzle the buyer. Sometimes, the buyers are not able to identify a better plan according to their means and they have to bear heavy charges, charged by the insurers. This results into partial withdrawal of the policy which again leads to losses to the insured. These problems have evoked the interest to analyze the Unit Linked Insurance Plans in India on the basis of policy features, charges and the performance registered by each investment.

OBJECTIVES OF THE STUDY:

The objectives of the study are mentioned as follows:

1. To analyze the policy features of the selected ULIP plans.
2. To examine the diverse charges inherent in ULIP plans of the selected insurers.
3. To examine the performance of the selected balanced ULIP plans in comparison to the industry average of similar category funds.
4. To find out the best ULIP plan on the performance basis.

DATA COLLECTION METHODOLOGY

Data collection requires a lot of time and efforts. The methods selected for collecting data must be compatible with the resources, time and money available with the researcher. There are two types of sources of data i.e. primary data and secondary data. The present study is based on secondary data. The five leading life insurance companies included in the study are Bajaj Allianz, Birla Sun life, ICICI Prudential, Max New York Life Insurance and Reliance Life Insurance. The recent and popular plan is selected from each insurer ensuring that each plan must have the same parameters to ensure reliable comparison. The main secondary sources of data are the brochures and websites of the companies.

ANALYSIS OF DATA

The collected data needs to be compared to achieve the objectives of the study. The collected data is categorized into four sections:-

- Analysis of policy features
- Analysis of policy charges
- Analysis of fund alteration features
- Analysis of performance

Each parameter is compared and results are interpreted. The investigation of performance is based on the daily NAV for last 3 months, 6 months, 1 year, 2 year and since inception returns. The performance of the selected insurance plan is being evaluated on the basis of NAV of the selected funds as on December 11, 2009.

ANALYSIS & MAJOR FINDINGS

A. FINDINGS RELATING TO FEATURES AND CHARGES:

1. ULIP Plans of all the selected insurers are very liberal specifically with reference to the minimum entry age.

Table 1: Minimum and Maximum Entry Age

Plan Option	Insurer	Age at Entry	
		Minimum age	Maximum age (Years)
New Unit Gain	Bajaj Allianz	No Limit	60
Classic Life Premier	Birla Sun Life	30(days)	60

Plan Option	Insurer	Age at Entry	
		Minimum age	Maximum age (Years)
Wealth Advantage	ICICI Pru	No Limit	65
SMART Assure	Max New York life Insurance	91(days)	75
Super Invest Assure	Reliance Life Insurance	30 (days)	60

Source:—Brochures of insurers

2. The minimum policy term is 10 years for ULIP Plans of Birla Sun Life, ICICI Pru and Max New York life Insurance Young Care of Bajaj Allianz, and maximum policy term is 75 years for ULIP Plan of Reliance Life.

TABLE 2.
AGE AT MATURITY AND POLICY TERM

Plan Option	Insurer	Age (in years)		Policy Term (in years)	
		Minimum Age	Maximum Age	Minimum Term	Maximum Term
New Unit Gain	Bajaj Allianz	18	75	15	25
Classic Life Premier	Birla Sun Life	10	70	10	30
Wealth Advantage	ICICI Pru.	19	75	10	70
SMART Assure	Max New York life Insurance	18	85	10	30
Super Invest Assure	Reliance Life	15	75	15	75

Source:—Brochures of insurers

3. Classic Life Premier Plan of Birla Sun Life offers maximum number of 10 diverse investment options in various risk categories.

TABLE 3.
FUND INVESTMENT OPTIONS

Fund Option	Insurer	Number of options	High risk funds	Moderate risk funds	Low risk funds
New Unit Gain	Bajaj Allianz	7	Accelerator Mid cap, Equity Index II, Equity Growth fund,	Bond fund	Liquid Fund

Fund Option	Insurer	Number of options	High risk funds	Moderate risk funds	Low risk funds
			Asset Allocation Fund, Pure Stock Fund		
Classic Life Premier	Birla Sun Life	10	Magnifier, Maximiser, Multiplier, Super 20	Enhancer, Creator	Protector, Builder, Assure, Income Advantage
Wealth Advantage	ICICI Pru	7	Flexi Growth2, Maximiser, Multiplier	Flexi Balanced2, Balancer	Protector, Preserver
SMART Assure	Max New York life Insurance	6	Growth Super Fund, Growth Fund, Dynamic Opportunity Fund	Conservative Fund, Balanced Fund	Secure Fund
Super Invest Assure	Reliance Life	8	Equity Fund, Infrastructure Fund, Energy Fund, Mid Cap Fund, Pure Equity Fund	Nil	Corporate Bond Fund, Money Market Fund, Gilt Fund

Source:—Brochures of insurers

4. From the point of view of policy administration charge, premium allocation charge, and fund management charge Wealth Advantage of ICICI Pru Life Insurance is economical in comparison to all other selected life insurance companies.

TABLE 4.
POLICY ADMINISTRATION CHARGE

Plan Option	Insurer	Charges in(Rs.) per annum
New Unit Gain	Bajaj Allianz	630
Classic Life Premier	Birla Sun Life	Formula based
Wealth Advantage	ICICI Pru	480
SMART Assure	Max New York life Insurance	600
Super Invest Assure	Reliance Life	600

Source:—Brochures of insurers

TABLE 5.
PREMIUM ALLOCATION CHARGE

Plan Option	Insurer	1 st year (%)
New Unit Gain	Bajaj Allianz	55
Classic Life Premier	Birla Sun Life	13
Wealth Advantage	ICICI Pru	1 to 4 (low for higher premium range)
SMART Assure	Max New York life Insurance	0 to 20 (low for higher premium range)
Super Invest Assure	Reliance Life	80

Source:–Brochures of insurers

TABLE 6.
FUND MANAGEMENT CHARGE IN (%) PER ANNUM

Plan Option	Insurer	Minimum	Maximum
New Unit Gain	Bajaj Allianz	0.95	1.75
Classic Life Premier	Birla Sun Life	1.00	1.75
Wealth Advantage	ICICI Pru	0.75	1.50
SMART Assure	Max New York life Insurance	0.90	1.60
Super Invest Assure	Reliance Life	1.25	1.50

Source:–Brochures of insurers

5. Super Invest Assure Plan of Reliance Life has clearly emerged as the best plan in terms of highest number of free switches facility to insured.

Table 7: Fund Alteration Feature

Fund Option	Insurer	Options	Number of free switches	Cost of extra switch
New Unit Gain	Bajaj Allianz	Switches	3	Rs 100 per extra switch
Classic Life Premier	Birla Sun Life	Switches	24	Rs 100 per extra switch
Wealth Advantage	ICICI Pru	Switches	4	Rs 100 per extra switch

SMART Assure	Max New York life Insurance	Switches	NA	NA
Super Invest Assure	Reliance Life	Switches	52	Rs 100 per extra switch

Source:–Brochures of insurers

6. Wealth Advantage plan of ICICI Pru is the best amongst the selected ULIP Plans in terms of the surrender charges.

**TABLE 8
SURRENDER CHARGE IN (%AGE)**

Plan Option	Insurer	1	2	3	4	5	6	7	8	9	10
New Unit Gain	Bajaj Allianz	100	100	100	[1 - (1/1.06)^N] * first years' Annualized Premium						Nil
Classic Life Premier	Birla Sun Life	30	20	15	10	8	6	7th year onwards NIL			
Wealth Advantage	ICICI Pru	100	100	4	2	5th year onwards NIL					
SMART Assure	Max New York life Insurance	100	100	70	60	50	40	30	20	10	Nil
Super Invest Assure	Reliance Life	100	100	100	5	3	6th year onwards NIL				

Source:–Brochures of insurers

7. It is observed that as a whole Wealth Advantage plan of ICICI Pru is the best plan in terms of diverse ULIP features and charges.

8.

B. FINDINGS RELATING TO ULIP PERFORMANCE:

1. PERFORMANCE OF ULIP BALANCED FUNDS:

Table 9 highlights the comparative performance of the selected ULIP Balanced Funds and average returns (%) of the similar category funds for the period of 3 month, 6 month, 1 year, 2 year and since inception.

TABLE 9.
PERFORMANCE COMPARISON OF ULIP BALANCED
FUNDS WITH AVERAGE RETURNS (%AGE)

ULIP BALANCED FUNDS	Absolute Returns			Compounded Annualized Growth Rates	
	3 Month	6 Month	1 Year	2 Year	Since Inception
Bajaj Allianz Asset Allocation Fund	4.68	11.43	38.99	7.15	9.36
Birla Sun Life Individual Life Builder	4.07	6.78	26.72	10.48	11.71
Birla Sun Life Individual Life Creator	6.17	11.88	57.69	12.09	16.58
Birla Sun Life Individual Life Enhancer	4.17	7.53	32.60	6.19	14.20
Birla Sun Life Individual Life Magnifier	8.50	15.43	76.52	5.42	19.33
Birla Sun Life Individual Life Protector	2.88	4.23	17.54	10.09	9.03
ICICI Pru Balancer (Balanced) Fund II	5.52	9.62	33.29	6.85	14.72
ICICI Pru Flexi Balanced II	7.77	12.95	44.63	2.43	12.74
MAX - Balance Fund	4.18	7.57	28.52	3.55	10.56
MAX - Conservative Fund	2.42	4.27	19.70	9.25	7.76
Average Return (%)	4.11	6.73	28.50	4.04	11.92

It reveals that 7 out of 10 ULIP Balanced funds of selected plans have outperformed category average so far as return over last 3 months and 1 year and 2 years is concerned. Further, 5 out of 10 funds of the selected ULIP Plans have shown better since inception returns in comparison to category average. Birla Sun Life Individual Life Creator, Birla Sun Life Individual Life Enhancer, Birla Sun Life Individual Life Magnifier and ICICI Pru Balancer (Balanced) Fund II of the selected ULIP Plans have shown a remarkable performance with outperforming category average returns over the period of study. **Birla Sun Life’s Individual Life Creator and Birla Sun Life’s Individual Life Magnifier has emerged as the top two ULIP balanced funds in this category.**

SUGGESTIONS:

1. Unit Linked Insurance Plans are designed to cater diverse financial goals such as wealth creation, retirement solution, children’s education of the investor. Hence, it is suggested that an investor should opt for the lowest Sum Assured

so as to invest maximum amount in equity to gain an attractive maturity amount. However, an investor should ensure that he has also adequate life cover.

2. ULIP is basically a product for individuals with long term horizon. Hence, an individual should invest in it with at least 10-12 years horizon. Hence, one must avoid investing in it with 3-5 years horizons as this product has huge charges in the initial years. Hence, to get the best out of ULIP, one should remain invested in the ULIP for the long term to create greater wealth to meet one's financial goal.
3. Unit Linked Insurance Plans offer a variety of features and benefits. These plans have benefits and are transparent so far as charges and features are concerned. ULIPs are rich in features such as top up, switch between funds, increase or decrease the protection level during the term of policy, cover continuance option, surrender option and a wide range of riders etc. However, one must thoroughly examine the brochures to make a right choice of ULIP to secure one's financial goal.
4. Before investing in any ULIP, an investor should insist on providing benefit illustration. It is a valuable document to understand ULIP investments, it provides list of all the expenses which would be deducted from the premium before it is invested and from the fund value thereafter. Further, it is recommended that an investor must examine the Internal Rate of Return (IRR) of ULIP before investing. So, a ULIP with higher IRR is an indicator of lower costs or charges of ULIPS.
5. Further, it is also suggested than a ULIP investor can opt for life stage investment option. Under this option, the funds are automatically shifted from high risk investment option into moderate risk investment option depending upon the age of the investor.
6. If an investor has not opted for life stage investment option then he should remain invested in the all equity option of ULIP till about three years away from maturity, and gradually shift into debt funds to protect gains.

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