



A STUDY ON PERFORMANCE OF UNIT-LINKED INSURANCE PLANS (ULIP) OFFERED BY INDIAN PRIVATE INSURANCE COMPANIES

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Abstract: *Indian Insurance Industry recorded several milestones in the past hundred years. Currently it has grown tremendously, with stringent regulatory framework protecting the interests of the Investors. Life Insurance Corporation of India is the Public Sector undertaking which is the market Leader, in Life Insurance Sector. A descriptive study was conducted on Unit-Linked Insurance Plans (ULIP) by selecting top five Private Insurance Companies in India. The performances of all the products were tested for their dependency on the performance of stock market using the Hypothesis. ROR and Annualized ROR were used as tools for Data Analysis and Correlation with t-Test was used for testing the Hypothesis. From the study it can be concluded that, Reliance Life has good returns for the Investors, and can be further improved. At the same time, company has to understand the product of its competitor (PNB Met Smart), which is performing better.*

Keywords: *Unit Linked Insurance Plan, NAV, ROR, Insurance Company, Risk>Returns, Investors.*

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INTRODUCTION:

Human life is subject to risks of death and disability due to natural and accidental causes. An individual can protect himself or herself against such contingencies through life insurance. Life insurance is insurance on human beings. Though Human life cannot be valued, a monetary sum could be determined which is based on loss of income in future years. Hence in life insurance, the Sum Assured (or the amount guaranteed to be paid in the event of a loss) is by way of a 'benefit' in the case of life insurance. Life insurance products provide a definite amount of money to the dependants of the insured in case the life insured dies during his active income earning period or becomes disabled on account of an accident causing reduction/complete loss in his income earnings.

ULIP is an abbreviation for Unit Linked Insurance Policy. A ULIP is a life insurance policy which provides a combination of risk cover and investment. The dynamics of the capital market have a direct bearing on the performance of the ULIPs. In a ULIP, the investment risk is generally borne by the investor. The investment in ULIPs is denoted as unit and is represented by the value called Net Asset Value (NAV). In a ULIP, the amount of premium to be invested after deducting for all charges and premium for risk cover are pooled together to form a fund. The value of fund at any time is equal to the amount of units multiplied by value of unit at that time.

LITERATURE REVIEW

Karuna (2009) highlighted on 'Relevance of ULIPs as a good investment tool' to observe traditional life insurance plans offered by LIC took care of only the insurance needs of people. However, with the ever changing demands of customers a new product called ULIP was launched which combines the benefits of insurance, investment and tax benefits. The author observed that ULIPs were better suited to investors who have 15-20 years as their time horizon to spread the expense over the longer period and reap the benefits.

Divya Y. Lakhani (2011) had conducted a research study to identify the relation between returns and Sensex, investors' preference for ULIP and Equity, growth and penetration of ICICI Prudential and the performance of some of its ULIP schemes. The major finding of this study was that the NAV for equity based fund options moves in tandem with Sensex while for debt based fund options it is not much affected by the movement of Sensex.



Udayan Samajpati (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 miser (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.

OBJECTIVES OF THE STUDY

1. To compare the ULIPs of different life insurers in terms of their focus.
2. To check the performance of ULIP product offered by the company against the competition.

NEED FOR THE STUDY

1. Comparison of ULIPs would help the investors to select the plans which offer higher rate of returns.
2. Helps the company to come out with better portfolio for ULIPs

RESEARCH METHODOLOGY

The present study has been conducted on the basis of secondary data and is descriptive in its nature. The required secondary data for the study was collected through different websites, annual reports, magazines and company reports. The researcher selected five leading Life insurance companies (ICICI Prudential Life Limited, Reliance Life Limited, SBI Life Limited, Met life Limited and Bajaj Allianz Life Limited) for the study. The sample has been selected on the basis of non-random judgmental sampling method. To make the analysis meaningful advanced statistical tools like – Ratios, Rate of return (ROR), Annualized Rate of Returns and Correlation were applied for analyzing the collected data. Hypothesis testing was done using at 99 percent confidence level or 1 percent level of significance.

ULIPs SELECTED FOR DATA ANALYSIS AND INTERPRETATION

1. Reliance Wealth+Health basic plan (health corporate bond fund 1)
2. SBI Life Smart Performer Review (Daily protect fund 1):
3. ICICI Pru Pinnacle Super Review (Highest NAV fund B):
4. Bajaj Allianz Wealth Insurance Plan (Equity index fund 2)
5. Met Smart One (Protector Fund 2)



LIMITATIONS OF THE STUDY

1. The study was concentrated on only one of the product in comparison with similar offerings of other companies.
2. Only publicly available data was used.

Return on Investment Calculation

$$\text{Rate of Return} = \left(\frac{V_f - V_i}{V_i} \right) \times 100$$

$$\text{Annualized Return} = \left[\left(\frac{V_f}{V_i} \right)^{\frac{365}{d}} - 1 \right] \times 100$$

Where V_i = Initial NAV

V_f = Latest NAV

d = Number of days from date of investment.

DATA ANALYSIS AND INTERPRETATION

**Table 1: BSE Sensex Index and NAV details of Selected Insurance Products
(Jan 2011 – Feb 2013)**

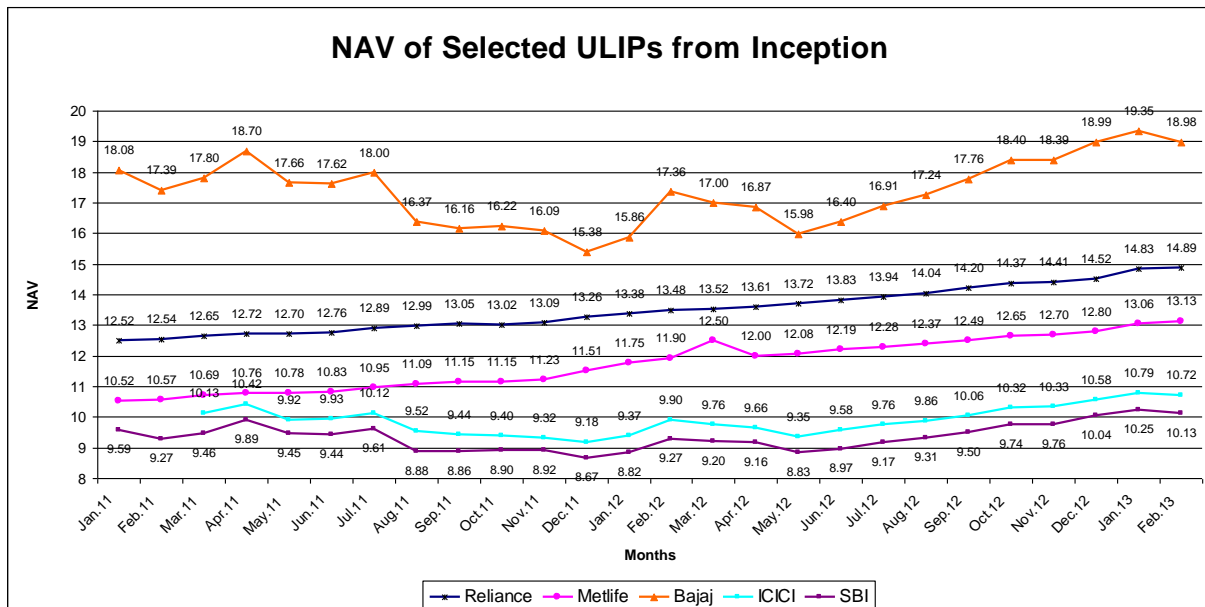
Month	Sensex	SBI	ICICI	Bajaj	Met life	Reliance
Jan 2011	18,327.76	9.59		18.08	10.52	12.52
Feb 2011	17,823.40	9.27		17.39	10.57	12.54
March 2011	19,445.22	9.46	10.13	17.80	10.69	12.65
April 2011	19,135.96	9.89	10.42	18.70	10.76	12.72
May 2011	18,503.28	9.45	9.92	17.66	10.78	12.70
June 2011	18,845.87	9.44	9.93	17.62	10.83	12.76
July 2011	18,197.20	9.61	10.12	18.00	10.95	12.89
Aug 2011	16,676.75	8.88	9.52	16.37	11.09	12.99
Sep 2011	16,453.76	8.86	9.44	16.16	11.15	13.05
Oct 2011	17,705.01	8.90	9.40	16.22	11.15	13.02
Nov 2011	16,123.46	8.92	9.32	16.09	11.23	13.09
Dec 2011	15,454.92	8.67	9.18	15.38	11.51	13.26



Jan 2012	17,193.55	8.82	9.37	15.86	11.75	13.38
Feb 2012	17,752.68	9.27	9.90	17.36	11.90	13.48
March 2012	17,404.20	9.20	9.76	17.00	12.50	13.52
April 2012	17,318.81	9.16	9.66	16.87	12.00	13.61
May 2012	16,218.53	8.83	9.35	15.98	12.08	13.72
June 2012	17,429.98	8.97	9.58	16.40	12.19	13.83
July 2012	17,236.18	9.17	9.76	16.91	12.28	13.94
Aug 2012	17,429.56	9.31	9.86	17.24	12.37	14.04
Sep 2012	18,762.74	9.50	10.06	17.76	12.49	14.20
Oct 2012	18,505.38	9.74	10.32	18.40	12.65	14.37
Nov 2012	19,339.90	9.76	10.33	18.39	12.70	14.41
Dec 2012	19,426.71	10.04	10.58	18.99	12.80	14.52
Jan 2013	19,894.98	10.25	10.79	19.35	13.06	14.83
Feb 2013	18,861.54	10.13	10.72	18.98	13.13	14.89

Source: BSE India

Graph 1: Monthly Average NAV of Selected ULIPs for the Study



Source: Secondary Data



Table 2: ROR of SBI Life Smart (in Percentage)

Years	2011	2012	2013
ROR	-12.15	18.13	-0.885

Interpretation: The ROR for years 2011 and 2013 are -12.15% and -0.885% respectively, it indicates that investors were under loss. In 2012 it shows positive rate of return of 18.13%, providing good returns on the investment, majorly due to the better performance of the industries across the sectors and improved economic situations during the year 2012.

Table 3: ROR of ICICI Pru Pinnacle year wise (in Percentage)

Years	2011	2012	2013
ROR	-10.26	17.59	-0.094

Source: Secondary Data

Interpretation: The ROR for years 2011 and 2013 are -10.27% and -2.25% respectively, it indicates that investors were under loss. In 2012 it shows positive rate of return of 17.59%, providing good returns on the investment, majorly due to the better performance of the industries across the sectors and improved economic situations during the year 2012.

Table 4: ROR of Bajaj Allianz Wealth Plan (in Percentage)

Years	2011	2012	2013
ROR	-19.57	27.26	-2.25

Interpretation: The ROR for years 2011 and 2013 are -19.57% and -2.25% respectively, it indicates that investors were under loss. In 2012 it shows positive rate of return of 27.26%, providing good returns on the investment, majorly due to the better performance of the industries across the sectors and improved economic situations during the year 2012.

Table 5: ROR of MetLife Smart Protect (in Percentage)

Years	2011	2012	2013
ROR	10.09	10.74	1.86



Interpretation: The ROR for years 2011 and 2012 are 10.09% and 10.74% respectively, it indicates that investors having good returns on the investment made. This indicates the product is performing consistently from its inception. In the initial period of 2013, the product has given a return of 1.86% which is positive, and shows increasing trend in NAV, hence can be said that, the product may provide good returns by the end of the year to the Investors.

Table 6: ROR of Reliance Wealth + Health Insurance Yearwise

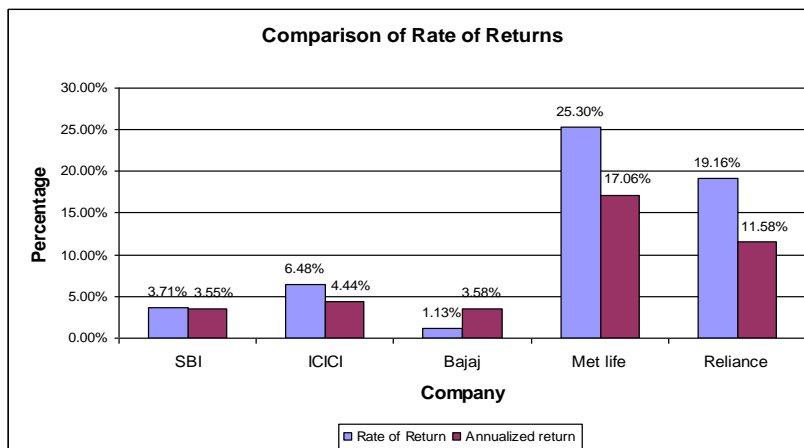
Years	2011	2012	2013
ROR	6.15	9.68	1.70

Interpretation: The ROR for years 2011 and 2012 are 6.15% and 9.68% respectively, it indicates that investors having good returns on the investment made. This indicates the product is performing consistently from its inception. In the initial period of 2013, the product has given a return of 1.70% which is positive, and shows increasing trend in NAV, hence can be said that, the product may provide good returns by the end of the year to the Investors.

Table 7: Comparison of Selected ULIP Products

Companies	SBI	ICICI	Bajaj	Met life	Reliance
Rate of Return	3.71%	6.48%	1.13%	25.30%	19.16%
Annualized return	3.55%	4.44%	3.58%	17.06%	11.58%

Graph 2: Comparison of Reliance Life Insurance ULIP Plan with that of Competitors



Source: Secondary Data



Analysis: Graph 2 shows the comparison of ROR and Annualized returns of the selected life insurance products. From the graph it is clear that product of MetLife and Reliance Life Insurance have exceedingly good rate of return of 25.30% and 19.16% respectively. But Met Life has better ROR of 25.30% compared to 19.16% of reliance life insurance whereas Bajaj life insurance has lowest ROR of 1.13%.

Interpretation: The MetLife provides good returns to investors compared to other products. Reliance life insurance is ranked second. The reasons for good returns may be because of the better portfolio of investment opted by MetLife and Reliance, which needs to be further analyzed.

Hypothesis 1:

H₁₀: Performance of the Stock Market has no influence on SBI NAV of ULIP

H₁₁: Performance of the Stock Market has Influence on SBI NAV of ULIP

Table 8: Correlation between Sensex and SBI Life Insurance Product

		Sensex	SBI
Sensex	Pearson Correlation	1	.890**
	Sig. (2-tailed)		.000
	N	26	26
SBI	Pearson Correlation	.890**	1
	Sig. (2-tailed)	.000	
	N	26	26

** . Correlation is significant at the 0.01 level (2-tailed).

Note: If p-value is less than 0.05, reject the null hypothesis and accept the alternative hypothesis.

Null Hypothesis is Rejected as Pearson Correlation is 0.890, and p = 0.000 (p < 0.05) at confidence level of 0.01. Since the p < 0.05, the performance of SBI Life Insurance Product is dependent on the market performance.

Hypothesis 2:

H₂₀: Performance of the Stock Market has no influence on ICICI NAV of ULIP

H₂₁: Performance of the Stock Market has Influence on ICICI NAV of ULIP



Table 9: Correlation between Sensex and ICICI Life Insurance Product

		Sensex	ICICI
Sensex	Pearson Correlation	1	.899**
	Sig. (2-tailed)		.000
	N	26	24
ICICI	Pearson Correlation	.899**	1
	Sig. (2-tailed)	.000	
	N	24	24

** . Correlation is significant at the 0.01 level (2-tailed).

Null Hypothesis is Rejected as Pearson Correlation is 0.899 and $p = 0.000$ ($p < 0.05$) at confidence level of 0.01. Since the $p < 0.05$, the performance of ICICI Life Insurance Product is dependent on the market performance.

Hypothesis 3:

H₃₀: Performance of the Stock Market has no influence on Bajaj NAV of ULIP

H₃₁: Performance of the Stock Market has Influence on Bajaj NAV of ULIP

Table 10: Correlation between Sensex and Bajaj Life Insurance Product

		Sensex	Bajaj
Sensex	Pearson Correlation	1	.911**
	Sig. (2-tailed)		.000
	N	26	26
Bajaj	Pearson Correlation	.911**	1
	Sig. (2-tailed)	.000	
	N	26	26

** . Correlation is significant at the 0.01 level (2-tailed).

Null Hypothesis is Rejected as Pearson Correlation is 0.911 and $p = 0.000$ ($p < 0.05$) at confidence level of 0.01. Since the $p < 0.05$, the performance of Bajaj Life Insurance Product is dependent on the market performance.



Hypothesis 4:

H4₀: Performance of the Stock Market has no influence on MetLife NAV of ULIP

H4₁: Performance of the Stock Market has Influence on MetLife NAV of ULIP

Table 11: Correlation between Sensex and MetLife Insurance Product

		Sensex	Metlife
closing	Pearson Correlation	1	.185
	Sig. (2-tailed)		.367
	N	26	26
Metlife	Pearson Correlation	.185	1
	Sig. (2-tailed)	.367	
	N	26	26

** . Correlation is significant at the 0.01 level (2-tailed).

Null Hypothesis is Rejected as Pearson Correlation is 0.185 and $p = 0.367$ ($p > 0.05$) at confidence level of 0.01. Since $p > 0.05$, indicates there is positive correlation, but not significant enough to have an impact on the NAV of the Product. Hence **Null hypothesis** is accepted.

Hypothesis 5:

H5₀: Performance of the Stock Market has no influence on Reliance NAV of ULIP

H5₁: Performance of the Stock Market has Influence on Reliance NAV of ULIP

Table 7: Correlation between Sensex and Reliance Life Insurance Product

		Sensex	Reliance
Sensex	Pearson Correlation	1	.269
	Sig. (2-tailed)		.184
	N	26	26
Reliance	Pearson Correlation	.269	1
	Sig. (2-tailed)	.184	
	N	26	26

Null Hypothesis is Rejected as Pearson Correlation is 0.269, and $p = 0.184$ ($p > 0.05$) at confidence level of 0.01. Since $p > 0.05$, indicates there is positive correlation, but not



significant enough to have an impact on the NAV of the Product. Hence **Null hypothesis** is accepted.

FINDINGS OF THE STUDY

Performance of ULIP Products over three years

1. The SBI Life Smart has improved over 2 years period from its inception as the market conditions and economy have improved over these years globally. The rate of return on the investment is 3.71% much lower than the fixed deposits a safest investment option.
2. Since the inception in the year 2011 ICICI life insurance product has shown an overall improvement with very poor returns in the initial year of its inception. The rate of return on the product is 6.48% which is much lower than the return on the fixed deposits.
3. The Bajaj alliance wealth insurance has shown good performance in 2013 in January month but it has decreased its performance in February 2013. The rate of return on the investment is 1.13% which is much lower than the fixed deposits a safest investment option.
4. The PNB Met Smart has improved over 2 years period from its inception as the market conditions and economy have improved over these years globally. The rate of return on the investment is 25.30% much higher than the fixed deposits a safest investment options.
5. The reliance wealth+health basic plan has improved over 2years period from its inception as the market conditions and economy has improved over these years globally. The rate of return on the investment is 19.16% much higher than the fixed deposits a safest investment options.
6. The MetLife provides good returns to investors compared to other products. Reliance life insurance is ranked second. The reasons for good returns may be because of the better portfolio of investment opted by MetLife and Reliance, which needs to be further analyzed.

Hypothesis Testing:

1. Performance of the SBI Life Insurance product is dependent on the Stock Market Performance.



2. Performance of the ICICI Life Insurance product is dependent on the Stock Market Performance.
3. Performance of the Bajaj Life Insurance product is dependent on the Stock Market Performance.
4. Performance of the MetLife Life Insurance product is not dependent on the stock market performance.
5. Performance of the Reliance Life Insurance product is not dependent on the stock market performance.

RECOMMENDATIONS

The Reliance Health + Wealth Basic plan stands second in the comparative analysis, behind PNB Met Smart One. This indicates there is further scope for Reliance Life Insurance to improve the product, to ensure better returns for its customers. The some important steps the company has to take in order to maintain and improve its position in the market are

1. Continue its current investment portfolio of the selected product, ie. Reliance Health + Wealth Basic Plan.
2. Analyze its competitor's product "PNB Met Smart One" to improve its current product offering.
3. Generally the customers are informed of NAV while selling the investment plans, the company has to express in simple terms to the customers about the returns on their investment, rather than using the NAV.
4. Company has to have better research programs to develop better and improved investment options for its customers, since there is huge market to be captured in India, where Insurance Penetration is lowest in the world.

CONCLUSION

From the study it is clear that Reliance Health + Wealth Plan is performing better than SBI, ICICI and Bajaj Allianz, but below the performance of PNB Met Smart One. It is notable that, the products offered by PNB MetLife and Reliance Life Insurance are not affected by the Market Conditions, and are performing consistently. This shows the Research efforts put on by both the organizations in developing new products for its customers, hence good investment option for the Investors looking for better returns. The current study was only an effort to compare the products of five companies having similar features, this study can



be further extended to study the portfolio of investment of various ULIPs offered by the various companies which would help the organizations to fine tune their products.

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