CONTOURS & NUANCES OF RESEARCH AND RESEARCH METHODOLOGY

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17. "A Study of Investors Attitude towards a Unit Linked Insurance Plan (ULIP)"

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Introduction:

A Unit Linked Insurance Plan (ULIP) is a product offered by insurance companies that unlike a pure insurance policy gives investors the benefits of both insurance and investment under a single integrated plan.

In Unit Linked Insurance Plans (ULIP), the investments made are subject to risks associated with the capital markets. This investment risk in investment portfolio is borne by the policy holder. Thus, you should make your investment choice after considering your risk appetite and needs.A Unit Link Insurance Plan is basically a combination of insurance as well as investment. A part of the premium paid is utilized to provide insurance cover to the policy holder while the remaining portion is invested in various equity and debt schemes.

The money collected by the insurance provider is utilized to form a pool of fund that is used to invest in various markets instruments (debt and equity) in varying proportions just the way it is done for mutual funds. Policy holders have the option of selecting the type of funds (debt or equity) or a mix of both based on their investment need and appetite. Just the way it is for mutual funds, ULIP policy holders are also allotted units and each unit has a net asset value (NAV) that is declared on a daily basis. The NAV is the value based on which the net rate of returns on ULIPs are determined.Since ULIP (United Linked Plan) returns are directly linked to market performance and the investment risk in investment portfolio is borne entirely by the policy holder, one need to thoroughly understand the risks involved and one's own risk absorption capacity before deciding to invest in ULIPs

Evolution of a Unit Linked Insurance Plan (ULIP):

The first ULIP was launched in India in 1971 by Unit Trust of India (UTI).With the Government of India opening up the insurance sector to foreign investors in 2001.and the subsequent issue of major guidelines for ULIPs by the Insurance Regulatory and Development Authority (IRDA) in 2005. Several insurance companies forayed into the ULIP business leading to an over abundance of ULIP schemes being launched to serve the investment needs of those looking to invest in an investment cum insurance product.

Features:

There are several public and private sector insurance providers that either operate solo or have partnered with foreign insurance companies to sell Unit Linked Insurance Plans in India. The public insurance providers include LIC of India, SBI Life and Canara while and some of the private insurance providers include Reliance Life, ICICI Prudential, HDFC Life, Bajaj Allianz, Aviva Life Insurance and Kotak Mahindra Life.

Broadly, insurance plans can be distinctly divided into ULIP (Unit Linked Insurance Plans) and traditional plans. ULIPs, or Unit Linked Insurance Plans, have gained high acceptance due to the attractive features they offer. Benefits include Transparency, Liquidity, and Fund Options, protection benefit along with investment returns, flexibility of multiple fund options, and option for staying invested for a long time thereby making your investment strategy more disciplined

One of the features of the ULIP is that it can offer you superior returns depending on the fund that you invest in. For example, if the fund you have chosen has heavily invested in the capital markets, chances are that if the stock markets do well, your fund may also do well.ULIP is that it provides insurance cover as well. The insurance cover may not be as great as a term plan, but, it should be good enough.

Past market trends, Investment need, Expected returns these are the factors which affects on the investor to invest.

Disadvantages:

lock-in period of 3 years,ULIPs have fixed policy term and premium payment term therefore one should buy it keeping in mind a long term horizon .At higher ages, protection benefit becomes expensive so one should understand the benefit illustration clearly before buying, ULIP is that the returns cannot be guaranteed. For example, if you have chosen an ULIP that invests bulk of the money in equities and the shares are not doing well, chances of losing money cannot be ruled out. This is one of the biggest risk and perhaps.Premium allocation charge, mortality charge, fund management charge and many more hidden costs are very high.The premiums on Unit Linked Insurance are usually higher than term insurance, because it includes an investment option also.

ULIP Controversies:

The traditional ULIP policy is designed to be sold as a 15 year or long term plan of investment. However insurance agents sold ULIPs as three year money-doubling plan. The sellers do not inform the investors that they need to keep funding thepolicies every year for 10-15 years to get benefits.

Regulations allowed a lock-in of the money for three years after which the investors could stop paying the premium and surrender the policy. If the investor stopped paying the premium in the first few policy years, rules allowed insurance companies to return nothing. And even after the lock-in period got over, high surrender charges ensured that investors got very littlemoney back if they stopped paying premiums.

MINT,a business daily researched the aggregate loss to investors from misspelling of insurance products amounted to Rs. 1.5 trillion during the period 2004-2012.Agency commissions during 2004-12 totaled Rs 1.13 lakh crore. In other words, as much as 71 percent of the estimated losses of the investors were paid off to agents as commissions. Insurance companies and agents were complicit in the mis-selling of ULIPs to the common man, including the financially illiterate people and the sophisticated urban rich. The companies gained enormously, as they levied high surrender charges on investors most of whom lapsed the policies finding them financially unviable to them. Agentsmis-sold the products, eyeing high first-year commission - in certain cases as high as more than 40 percent. They lied to investors that the tenure was just three years, while it was actually a long-term product. More than Rs.1.56 trillion has leaked out of the industry because of investors letting their policies lapse over a seven-year period ending 2011-12. The actual loss is likely to be a multiple of that. The background when the insurance industry started on the road to privatization in 2000, little did we know that the seeds of large-scale investor fraud were being sown in the rules of the game.

The Insurance Regulatory and Development Authority (IRDA) have tightened regulations related to ULIP schemes i.e. September 2010. It has capped the commissions of agents and distributors. The minimum lock in term is extended from three to five years. The front end expenses to be distributed evenly over the lock-in period instead of just in the initial years. All policies must have a life insurance cover and minimum sum assured. The ULIP surrendercharge is limited to Rs. 6000. But **rules governing ULIPs bought before Sept 1, 2010 have major loss for the investor of ULIP.**

Calculation of NAV of ULIP:

ULIP plans are investing your money into the equity market. It is the same like the mutual funds, but ULIPs are providing the life cover and also linked to the insurance policy. NAV of a ULIP plan is nothing but the book value. The money from all the investors is pooled together to form one large corpus. This money is later invested in the markets. To help divide the returns on investment, the fund manager divides the corpus amount into units with a certain face value. Each investor then has a share of units in the fund depending on how much money he pooled. Hence to start with, the value of each unit is considered the NAV i.e. Net Asset Value. Once investments are made in the market, the total value of the fund can increase or decrease on a daily basis and hence accordingly the NAV also increases or decreases'Net Asset Value' is the value of the asset held by the insurance company after deducting the various charges like Admin Charges, Mortality Charges and Fund Management Fees etc. NAV of a ULIP scheme also varies on a day-to-day basis. NAV of a particular ULIP scheme can be calculated using the formula mentioned below-

Net Asset Value (NAV)* = "(Market Value of Investments held by the fund + Value of Any Current Assets) – (Value of Current Liabilities & Provisions) / Number of units existing at valuation date (before creation / redemption of any units)"

NAV Calculation Formula as per IRDA

Conclusions:

ULIPs offer you a combination of insurance and returns. If you have invested in an ULIP that parks substantial money in equities, there is an element of risk in the product. ULIPs offer the double benefits of providing life protection cover and systematic investment, if capital markets do well your fund could generate a superior return as well. But it is the investment for long term period like 10 to 15 year not for the short term period

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