GROWTH OF ULIP POLICIES IN LIFE INSURANCE SECTOR - A COMPARATIVE STUDY OF TRADITIONAL AND ULIP POLICIES

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ABSTRACT

Unit Linked Insurance Plan (ULIP) provides for life insurance where the policy value at any time varies according to the value of the underlying assets at the time. ULIP is life insurance solution that provides for the benefits of protection and flexibility in investment. The investment is denoted as units and is represented by the value that it has attained called as Net Asset Value (NAV). ULIP came into play in the 1960s and is popular in many countries in the world. ULIPs essentially combine the benefits of an insurance policy and a market-linked investment.

There is a greater flexibility in terms of premium payments which means a premium holiday is possible. The policy holder can also invest surplus money by way of top ups which will increase his investment in the fund and thereby provide a push to returns as well. The higher of the sum assured or fund value is paid at the maturity or incase of death. ULIP policies provide the advantages of life protection ,disability, critical illness, ,death due to accident, additional features, investment and savings, capital gains, mortality charges ,flexibility ,adjustable life cover ,investment options, transparency, liquidity, tax planning.

Keywords : ULIP, NAV, Financial risk, IRDA, Annuity & Group Funds, flexibility, Premium holiday, Staggering growth.

1) INTRODUCTION:

It is well-recognized that the insurance industry is fundamental to the wellbeing of our societies. Developed economies could not have emerged without risk sharing. Without insurance, society's capacity to mitigate risk would be limited and the protection of assets from catastrophic loss would be impaired. The industry's ability to innovate and to deliver insurance at competitive prices is crucial for all stakeholders.

Today's world presents serious challenges. Fundamental changes in natural, economic, social and political spheres, shifting stakeholder expectations and wide reaching technological innovations lead to a perpetually changing and demanding risk environment. This calls for continuous adaptation from businesses around the globe.

The insurance is primarily classified based on the compensation to be paid to a person for an anticipated loss to his life, business or an asset. Insurance is broadly classified into Life Insurance and General Insurance Life Insurance is considered to be an important part of an individual's investment portfolio, not necessarily to accumulate wealth, but to feel financially secure. The life insurance keeps the family of life insurance holder secured. The 21^{st} century beginning made a grand welcome to the private sector in India. Within a period of 10 years, the entire scenario has changed tremendously with the entry of many companies. To overcome the competition between them, the life insurance companies started to offer the new policies; among those the Unit Linked Insurance Plan has changed entire performance of life insurance policies in a limited period.

1.2) Introduction to Life Insurance

Life insurance or life assurance is a contract between the policy owner and the insurer, where the insurer agrees to pay a designated beneficiary a sum of money upon the occurrence of the insured individual's or individuals' death or other event, such as terminal illness or critical illness. In return, the policy owner agrees to pay a stipulated amount at regular intervals or in lump sums. Life insurance is a contract between the insurer and the policy owner whereby a benefit is paid to the designated beneficiaries if an insured event occurs which is covered by the policy.

The value for the policyholder is derived, not from an actual claim event, rather it is the value derived from the 'peace of mind' experienced by the policyholder, due to the negating of adverse financial consequences caused by the death of the Life Assured. To be a life policy the insured event must be based upon the lives of the people named in the policy.

Life policies are legal contracts and the terms of the contract describe the limitations of the insured events. Specific exclusions are often written into the contract to limit the liability of the insurer; for example claims relating to suicide, fraud, war, riot and civil commotion.

Life-based contracts tend to fall into two major categories:

- **Protection policies** - designed to provide a benefit in the event of specified event, typically a lump sum payment. A common form of this design is term insurance.
- **Investment policies** - where the main objective is to facilitate the growth of capital by regular or single premiums. Common forms are whole life, universal life and variable life policies.

1.3) CONCEPT OF UNIT LINKED INSURANCE PLANS (ULIPS)

Unit Linked Insurance Plan (ULIP) provides for life insurance where the policy value at any time varies according to the value of the underlying assets at the time. ULIP is life insurance solution that provides for the benefits of protection and flexibility in investment. The investment is denoted as units and is represented by the value that it has attained called as Net Asset Value (NAV). ULIP came into play in the

1960s and is popular in many countries in the world. ULIPs essentially combine the benefits of an insurance policy and a market-linked investment.

Review of Literature

According to **James J. Schiro (2006)** The insurance industry must deal proactively with all external forces – changes in natural, economic, social and political environments, shifting stakeholder expectations and wide-reaching technological innovations – so that it can continue to assume and expand its role in the economy. Regulation can make a major contribution towards meeting this goal, but it can also be an obstacle – hasty and ill-conceived regulatory responses to external forces represent second-order risks in and of themselves. Legislators and regulators must avoid ad hoc, damage-control regulation that is made up on the spur of the moment and both must be wary of the consequences of regulation through litigation. With respect to insurance, regulation must be specifically geared towards the business it regulates, that is, insurance, not banking or other financial services. Moreover, regulation must be reflective of globally integrating markets and the needs of global players, and regulators must keep alert to regulatory spillovers from one jurisdiction into others. Finally, to reflect the dynamics of markets, regulation should be principles-based as opposed to rules-based.

Stefan Engelander and Joachim Kolschbach (2006) felt that especially in life insurance, but also in the case of some traditionally styled mutual companies, risks (as well as chances) remaining after use of the pool approach (especially risks of long-term changes of circumstances which cumulatively affect all risks in the pool) are re-transferred to policyholders by a refund of premiums not required. Such performance-linked features have a significant role in insurance business. In many jurisdictions, insurance contracts grant insurers a significant discretion in determining policyholders' benefits, especially in the case of surrender or participation benefits, while in others, any contractual benefit is subject to strict contractual provisions. The complexity of the benefit trigger, the insured event, often means that there is a significant lapse of time between occurrence of the insured event and the actual settlement of the claim. The knowledge of the specific situation of the individual contract, lost after outset of the contract, is after the coverage period regained step by step during the settlement process. Insurers might have some influence with regard to the speed of the settlement process, reducing liquidity risks. Traditionally, the relationship between policyholders and insurers is significantly shaped by a reciprocal trust, where policyholders' economic existence often relies on the claims payment ability of the insurer in the long run, while insurers depend on the honesty of policyholders, and a long-term relationship, to underpin the pool.

2) OBJECTIVES OF STUDY:

The main objective of the study is to examine the marketing of ULIP policies and the growth in the Unit Linked Insurance Plans over traditional policies. For this, the study is aimed at achieving the following objectives.

1. To study the evolution of ULIPs in India.
2. To study the growth of ULIPs over Traditional Policies.
3.. To study the risk factors involved in the ULIPs over Traditional Policies.

Finally to suggest various measures for considerations to develop and stabilize the growth of growth of ULIP policies to achieve the long term success to the organizations.

3) PERIOD OF STUDY:

The research paper is based on the study of ULIP policies and its comparison to the traditional policies. For the purpose of analysis, the period from 2007-09 is considered for the study.

4) METHODOLOGY OF THE STUDY

The study is based on the research findings of the dissertation study titled "Marketing of ULIP policies – A study of select companies of Warangal District". The study is collected from both the sources of data. Primary data is collected from the marketers of life insurance companies and policyholders. And the secondary data is collected from IRDA annual reports, insurance companies annual and monthly reports, internet, newspapers, magazines, journals and books.

5.1) EVOLUTION OF UNIT LINKED INSURANCE PLANS

Unit Linked Insurance Policies or ULIPs as they are commonly called are more innovative forms of life insurance that also offer returns on the investments. Every ULIP provides cover against death. In addition, this unit linked insurance plans also serve as great means of long-term savings, structured to give maximum benefit. In simple words, investment in ULIPs is great combination of protection and investment. The evolution of ULIP in India:

- ULIP came into play in 1960 and is popular in many countries in the world today.
- In 1971 the unit trust of India offered the unit linked insurance plan. Out of insurance premium a small part of contribution was utilized for providing life cover and balance invested in units.
- Unit linked guidelines notified by IRDA on 21st December, 2005 in India. The main intent of the guidelines was to ensure that they lead to greater transparency and understanding of these products among the insured, especially since the investment risk is borne by the policyholder.

ULIP is a market linked investment where the premium paid is invested in funds. Different options are available, like 100% equity, balanced, debt, liquid etc. and according to the fund selected, the risks and returns vary. The costs are upfront and are transparent, the investment made is known to the investor (as he is the one who decides where his money should be invested).

There is a greater flexibility in terms of premium payments which means a premium holiday is possible. The policy holder can also invest surplus money by way of top ups which will increase his investment in the fund and thereby provide a push to returns as well. The higher of the sum assured or fund value is paid at the maturity or incase of death.

ULIP policies provide the advantages of life protection ,disability, critical illness, ,death due to accident, additional features, investment and savings, capital gains, mortality charges ,flexibility ,adjustable life cover ,investment options, transparency, liquidity ,tax planning.

Unit linked insurance plan (ULIP) is life insurance solution that provides for the benefits of risk protection and flexibility in investment. The investment is denoted as units and is represented by the value that it has attained called as Net Asset Value (NAV). The policy value at any time varies according to the value of the underlying assets at the time.

In a ULIP, the invested amount of the premiums after deducting for all the charges and premium for risk cover under all policies in a particular fund as chosen by the policy holders are pooled together to form a Unit fund. A Unit is the component of the Fund in a Unit Linked Insurance Policy.

The returns in a ULIP depend upon the performance of the fund in the capital market. ULIP investors have the option of investing across various schemes, i.e., diversified equity funds, balanced funds, debt funds etc. It is important to remember that in a ULIP, the investment risk is generally borne by the investor.

5.2) Fund wise growth of investments of ULIPs over Traditional Policies

To study the growth of ULIP funds over traditional funds, the following analysis is made:

1. To know the fund wise growth of investments of ULIPs over traditional policies.
2. Growth percentage in asset under management of life insurance
3. Individual business achieved by select life insurance companies in terms of sum assured

The entry of private sector made the life insurance sector a competitive one. To overcome the competition, the private life insurance companies mainly targeted with ULIP policies over traditional policies. The growth of ULIP funds increased at a great speed especially during the period between 2007 to 2009.

The following table shows the fund wise growth of life insurance products, i.e., Traditional funds and ULIP funds growth. (The values indicates in Crore Rupees)

Table No.1

Name of the Fund	**2007**		**2008**		**2009**	
	Total	**Increase% over previous year**	**Total**	**Increase% over previous year**	**Total**	**Increase% over previous year**
Life Fund	465555	17.21	541630	16.34	629650	16.25
Pension & General Annuity & Group Fund	71575	11.71	91262	27.51	113952	24.86
Traditional(A) = Life Fund + Pension & General Annuity & Group fund	537130	16.45	632892	17.83	743602	17.49
Unit Linked Funds (B)	67050	159	133077	98.48	172763	29.82

Source: Annual Report of IRDA, 2008-2009

ANALYSIS:

From the above table and statistics, the Year 2007 showed slow growth in the Life funds which achieved 17.21%. And its percentage of increase is slightly decreased in the next year, i.e., 2008 and the year 2009 showed only16.25% of increase in the life fund. So, the last 3 financial years showed slightly decreasing trend for the Life funds in India.

For Pension, General Annuity & Group Funds, the year 2007 showed only 11.71% of growth over previous year, the year 2008 showed more than double growth over previous years by achieving 27.51% of increase. And the year 2009 showed a slight decrease in the increase percentage over the previous year. Overall, the Traditional funds showed slightly increasing percentage of growth from the selected period 2007-09. The ULIP funds showed a staggering increasing growth percentage in the year 2007 by achieving 159 percentage of growth. The year 2008 showed 98.48% of growth which is a bit low than compared to the year 2007, and the year 2009 clearly showing decreased growth percentage over the last year, which is indicating that the impact of recession influenced the growth percentage of the funds.

ii) Growth percentage in Asset under management of life insurers

Table No.2

S.No.	Name of the Company	Growth % In Life Fund	Growth % In Pension & Group Fund	Growth % In ULIP Fund
1.	LIC	15	22	26.7
2.	HDFC Standard Life	14.25	16	15.5
3.	ICICI Prudential Life	13.69	28.93	24.88
4.	SBI Life	8.07	174.12	27.22
5.	Bajaj Allianz Life	15.85	104.95	37

ANALYSIS:

From the statistical data collected from the annual reports of IRDA clearly suggesting that the growth rate in the asset value of ULIP is increasing at a rapid speed then the traditional life funds and Pension & Group Funds.

The Life Insurance Corporation of India showed 15% of growth in the asset value of Life fund. 22% of growth was achieved in Pension & Group fund asset value and in the ULIP fund; the LIC has achieved 26.7% of growth. The growth figures are clearly showing that the asset value through ULIP is increasing more than the traditional funds' asset value for LIC. The HDFC Standard Life Insurance Company showed a constant growth in the assets for the traditional and ULIP funds. ICICI Prudential Life Insurance company showed high growth in Pension & Group funds by achieving 28.93% by the end of 31st March,2009. The growth in ULIPs also more than the life funds of the company. Over all, ICICI Prudential Life Insurance Company's asset growth is slightly more in the Pension & Group Funds. SBI Life Insurance Company showed high growth in the Pension & Group Funds than the remaining other portfolios. By the end of 31st March,2009, SBI life insurance company achieved a growth of 174. 12 % in the Pension & Group funds which is a high than other type of funds for the company. The growth in ULIP funds is more than the Life Funds. Overall, the SBI Life Insurance Company showed more growth in Asset Value in the Pension & Group Funds.

Bajaj Allianz Life Insurance Company achieved 104.95% in Pension & Growth Funds, which is higher than the other funds. This is indicating that the company has achieved more growth in the Pension & Group Funds than the all other type of funds. ULIP funds occupied second in terms of growth in the funds.

INTERPRETATION:

From the analysis on Assets under management of Life Insurers, it is clear that all the select 5 companies showed growth in ULIP funds except SBI Life Insurance Company where it showed growth in Pension & Group Funds.

5.3) COMPARATIVE STUDY OF TRADITIONAL POLICIES AND UNIT LINKED INSURANCE PLANS:

Life insurance policies are valuable assets to mitigate the financial risk o untimely death. A buyer has to choose a policy which best suits to his needs. These include:

- Need protection for entire life or for a specified period
- Adequacy of insurance protection
- Specific sums of money for meeting planed expenses
- Premium Price.

Nowadays, many companies are merging traditional policies with ULIPs which provides both the benefits of life insurance and greater margin on investments which are paid

As such, every individual facing such a financial risk who can afford to pay for such a protection must seriously consider purchasing some life insurance. The differences in policies occur due to:

- Inherent complexity due to uncertainty and long time horizons.
- The need to compare a plethora of different types of products from competing insurance companies.
- Most insurance policies bundle pure insurance with savings to offer composite products.

Based on the utility and market investment of polices, the life insurance policies are broadly categorized into 2 types. They include:

1. Traditional Policies
2. ULIP Policies (Modern Policies)

1. TRADITIONAL POLICIES: The traditional policies of the life insurance companies are developed over a period. For the research study, the traditional policies considered are the existing life insurance plans in which the premium value spent by the policy holders are not used in the market as investment and not units are allotted and NAV values are hence not considered for the traditional policies. The traditional policies consist of following types.
They are:

1. Whole life Plans
2. Tem Insurance Plans
3. Endowment Plans
4. Protection Plans
5. Child Plans
6. Health Plans
7. Pension Plans

2. ULIP PLANS: Unit Linked Insurance Plans are the modern type of life insurance policies which offer the market value in addition to the life insurance. In these plans, the investment risks are borne by the policyholder. Some companies offer the traditional policy with ULIP mixture. Most of the private life insurance companies are presently offering some of the traditional policies with a mixture of ULIP plan.

iii).COMPANY WISE COMPARATIVE ANALYSIS OF POLICES OF TRADITIONAL AND UNIT LINKED INSURANCE PLANS

The following table presents the company wise comparison of polices of traditional and unit linked insurance plans of select life insurance companies of Warangal District.

Table No. 3

S.No.	NAME OF THE COMPANY	TRADITIONAL POLICIES	UNIT LINKED INSURANCE PLANS	TOTAL
1.	Life Insurance Corporation of India Limited	39	5	44
2.	ICICI Prudential Life Insurance Company Limited	13	9	22
3.	BAJAJ Allianz Life Insurance Company Limited	20	9	29
4.	SBI Life Insurance Company Limited	11	9	20
5.	HDFC Standard Life Insurance Company Limited	16	6	22

Source: Field Data

Life insurance marketing is one of the most strenuous jobs for those who are involved in the insurance marketing. It is because of the ever lasting conflict between the insurance companies which want to profit the most and the insured person who wants to get as much compensation as possible from the insurance company. Commissions for the life insurance companies are very high and they seldom make profits out of the policies. Also the insurance policy needs to be transparent so that the potential customer understands it totally and should not feel that they have been treated unfairly by the insurance company.
In India, together with LIC, 22 life insurance companies are operating in India. The present life insurance companies are facing the seviour competition between each of them. And also, the competition is

reaching to tough for the life insurance companies as most of the companies offer similar types of premiums and facilities.

The marketing of traditional policies is similar to the marketing of Unit Linked Insurance Plans (ULIPs). The difference arises due to the allotment of insured premium. In ULIP policies, the some proportion of amount of the premium of a policy holder is invested in the market. Based on the market trend, the returns are calculated for each premium paid by the policy holder.

The traditional policies include Term Insurance, Money Back Policy, Pension Plans, Child Plans and Endowment Plans.

5.4) Risk factors involved in Ulip Policies over Traditional Policies

Unit Linked insurance plan provides the combination of insurance with investments. It has the double benefit of providing a RISK cover & investing in stock markets. Unlike traditional plans the ULIPS are subject to the risk factors where the risk is borne by the policyholder, the investment risk is related with the stock markets & accordingly the NAVs of the units go up & down depending upon the fund's performance & the factors affecting the capital market.

i) Basic Charges in ULIPs :

1). Premium Allocation Charge: This is a percentage of the premium appropriated towards charges before allocating the units. This percentage is generally higher in the first few years varying greatly from company to company.

2) Mortality Charges: These are the charges to insured against life cover which depends on no of factors such as age, amount of coverage, state of health etc. As these charges depend upon the age primarily, these charges could be around 1.3 for a 30 year old guy & can extend to 6.4 for a 50 years old guy per Rs. 1000 of the sum assured.

3) Fund Management Charges: These charges are deducted for managing the funds before arriving at the Net Asset Value (NAV). The fee is charged as a percentage of funds under management by the fund mangers. These are ranging from 0.5-2% per annum.

4**) Policy/Administration Charges:** These are the charges for administration of the plan which could be flat throughout the policy term or vary at a pre-determined rate. These are a monthly fixed amount which varies every year with inflation or as a percentage of sum assured.

5) Surrender Charges: These charges are deducted for premature partial or full encashment of units.

6**) Fund Switching Charges**: The charges when you wish to switch ULIP options like from Equity to debt. Generally a limited number of switches are allowed without any charge.

ii) Factors to be considered while taking ULIP policy:

1) **Stay invested for long run:** A Policyholder can expect good returns only after 5-8 years of investing therefore its charges should be seen from a long-term perspective as its charges are higher in the first few years which is why it takes more years to get a break even point in investments i.e. your cost will be recovered in a longer period.

2) Be clear with the charges: The transparency about charges was not there earlier but now the Insurance Regulatory Development Authority of India has issued guidelines according to which the investors should know all the charges & no hidden charges can be charged.

3. Invest as per the risk profile: Policyholders must understand risk appetite & accordingly allocate assets across different categories. Choose your fund depending upon your age and risk profile.

Thus, ULIPS provide the twin benefit of covering the risks & investing in the stock market. Before investing in ULIPS, the policyholders need to take care of the past performances of funds you are investing your money & have transparency about what all charges are deducted from the premium. Hence, the ULIPs is based on the market conditions and the policyholders must be all the time aware about the market fluctuations as the fluctuations in the market will directly affect the performance of the ULIP plan. And also, the NAV based policies , i.e., ULIPs should be considered after carefully analyzing the performance of ULIIP policy in the past and the market conditions.

6) CONCLUSIONS:

The following conclusions are made from the research study.

1. The introduction of Unit Linked Insurance Plan (ULIP) is a historic achievement in the life insurance services.
2. The ULIP policy right from its introduction in the market achieved staggering growth in a limited period of time.
3. Many life insurance companies' especially private life insurance companies are showing huge growth in the ULIP policies over traditional plans.
4. From the period 2007 to 2009 clearly showed all the companies including LIC achieved maximum growth in the ULIP policies over traditional policies.
5. ULIP policies are different to traditional policies as the investment of policyholders fund is not done in the traditional policies where as in ULIPs the investments are done by allocating a certain limit of percentage of policyholders fund in the market.
6. Comparing to traditional policies, the ULIP policies have risk factors. The policyholders can expect good returns from the ULIP over traditional policies but the market performance is highly influencing the ULIP performance.
7. Policyholders are preferring ULIP policy for long term returns.

7) SUGGESTIONS:

The following suggestions will help the companies to increase the growth of the ULIP policies further in the current scenario.

1. The IRDA must carefully study the performance of each ULIP policy of the life insurance companies in order to provide fair justice to the policyholders.
2. The companies must provide guaranteed benefit through ULIP to increase its present sales.
3. The companies while allocating the fund in the market must carefully study the fluctuations and projections before investing the amount. Such practices will benefit the ultimate receivers, i.e., policyholders
4. The performance of ULIP policies from the period 2005-08 is good. Due to the recession, the present growth of ULIP policies were decreased. Hence, the companies must re assess the performance of ULIP policies and must introduce the ULIP policies that are to be tailor made to the needs of the customers.
5. Integration of ULIP and Traditional plan is a latest strategy adopted by the present life insurance companies. But, the companies must assure that actual performance should not be deviated with expectations. The companies must also monitor the performance of policies and must ensure its

marketers are making fair justice to the policy holders. Because, any mismatch of expectation or forceful selling of ULIP policy or traditional policy will lead to lapsation, which harms the company, marketers and ultimately policyholders also.

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