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Performance of ULIP Schemes in Indian Insurance Market

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Abstract:
The Indian insurance industry is in the midst of a churn with the government trying to pass through the Insurance amendment to raise the foreign direct investment to 49%. The spotlight is again on the market related products popularly termed ULIPs since it is combination of security and returns with the latter being given more prominence due to its investments in highly risky securities market. This study aptly looks into the returns generated by all the insurers with regard to their select ULIP schemes and also whether the public sector behemoth LIC is doing well in this sphere.
The study also determines the returns generated per unit of total risk which is very important for the insured as it should be able to justify his investment compared to the traditional products which are risk averse. The suggestions are incorporated to make ULIPs popular since it is losing ground steadily in the Indian insurance industry.

Keywords: *Insurance, ULIP, Total Risk*

1. Introduction

The growth of the life insurance industry is synonymous with the development of a country as it ensures social security, better standard of living and healthy and prosperous future. The Indian insurance industry which is the 10th largest in the world initially took off with the entry of private players from the year 2000 onwards. But of late the insurance industry in India is experiencing a slow down which is visible from the fall in insurance density and insurance penetration. This is a major cause of concern because fewer people are buying insurance which is a driver for improving the standard of living. Infact the growth in the number of branches opened by the insurers is coming down which clearly indicates that the insurance industry is on the back foot. ULIP’s – once the favourite among the insurers, intermediaries and the customers has steadily lost its foot hold and seem to have fallen out of favour with all the stakeholders. During the year 2010 there was a tussle between IRDA and SEBI regarding the purview of the functioning of ULIP’s. Thus this study aims to look into the performance of ULIP schemes of the various insurers to determine the returns generated and to analyse their performance characteristics. Hence the study is aptly titled “A study on the performance of ULIP schemes from the investor’s point of view”.

2.Review of Literature

Karuna (2009) 1 highlighted on „Relevance of ULIPs as a good investment tool‟ and stated that traditional life insurance plans offered by LIC took care of only the basic 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) 2 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 the SENSEX while for debt based fund options it is not much affected by the movement of SENSEX. Udayan Samajpati (2012) 3 evaluated the performance of ULIPs 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.
Mitra and Khan (2012) 4 compared the traditional life insurance policies with ULIPs based on secondary data available on growth of fund, business in force and premium collection. It was found that private life insurance companies are showing higher growth in ULIP polices as compared to traditional policies. The paper concluded by stating the factors that should be kept in mind by the investor while investing in ULIP is that it is a long term product, awareness about charges and match between investors' risk profile and that of the fund.

3. Objectives of the Study

- To compare the growth of ULIP schemes and traditional insurance products of LIC and private insurance players
- To ascertain the market performance of select ULIP schemes of all insurers from return perspective.
- To determine ULIP schemes which have generated excess returns per unit of total risk

4. Scope of the Study

ULIP schemes are a hybrid of insurance and mutual fund and play a key role in the financial decision of the investor and insured. This in turn affects the investments in the capital market. It provides dual benefit to investor by providing protection and returns simultaneously. The study was conducted by Ascertainment of the market performance which involved determining absolute returns derived from NAV and Sharpe ratio.

5. Research Methodology

5.1. Research Design

Descriptive research design was employed. Data was collected from secondary sources. The data so collected was analyzed and interpreted and statistical tools were employed.

Statistical tools employed are percentage analysis, mean, standard deviation, t-test.

5.2. Sources of Data

The secondary data is collected from the reports of IRDA, annual reports of select companies, magazines, news papers and journal publications.

The data was collected from fully oriented ULIP equity schemes of all insurance companies operating in India i.e. 24 ULIP schemes were chosen and their returns were ascertained for a period of 5 years ranging from 2009 to 2013. Wherever the schemes were not operational in the initial years it was considered form their year of inception.. For the study **absolute returns** were calculated by taking yearly opening and closing NAVs of the all the insurance companies operating in India.

Return: For each ULIP scheme under study the absolute returns are computed as follows

The yearly returns for each of the sample scheme has been calculated as follows

$$\text{Scheme Return } (R_p) = \frac{(NAV_t - NAV_{t-1})}{NAV_{t-1}}$$

Where, R_p = Return of a scheme for the year of‘t’

NAV_t = Net asset value of the scheme at the year‘t’

NAV_{t-1} = Net asset value of the scheme of preceding year‘t-1’

5.2.1. Assessment of risk -ULIP Performance evaluation measure

For evaluating the performance of a ULIP it is necessary to consider both risk and return. In this section the **Sharpe measure** is considered for determining the excess return generated per unit of total risk. It reflects the risk premium return earned on a portfolio per unit of its total risk.

5.2.2. Sharpe measure

The Sharpe measure employs standard deviation, as the measure of risk. Thus

$$\text{Sharpe measure} = \frac{R_p - R_f}{\sigma_p}$$

R_p = Average return of the scheme

R_f = Risk free rate of return

σ_p = Standard deviation of the scheme return

6. Analysis and Interpretation

Year	Premiums	Private	LIC
2012-13	Linked Premium	42299.18	6530.35
	Non-Linked Premium	36099.73	202273.23
	Total Premium	78398.91	208803.58
2011-12	Linked Premium	54748.76	14901.15
	Non-Linked Premium	29434.07	187988.13
	Total Premium	34908.93	202889.28
2010-11	Linked Premium	69805.28	39196.78
	Non-Linked Premium	18326.31	164276.61
	Total Premium	88131.59	203473.39
2009-10	Linked Premium	68258.8	47262.15
	Non-Linked Premium	11111.14	138815.16
	Total Premium	79369.94	186077.31

Table 1: Comparison between premiums collected -Traditional and linked plans (INR in Crores)
Source: IRDA Annual reports

The above table indicates that private insurers are strong in the ULIP and LIC strong in the traditional products.

Company Name	Market Share (%)
ICICI	19.78%
HDFC	15.00%
LIC	13.37%
SBI LIFE	10.12%
BIRLA SUNLIFE	7.55%
BAJAJ ALLAINZ	5.00%
MAX LIFE	4.99%
RELIANCE	3.45%
KOTAK MAHINDRA	3.37%
CANARA HSBC	2.97%

Table 2: Market Share of ULIP's

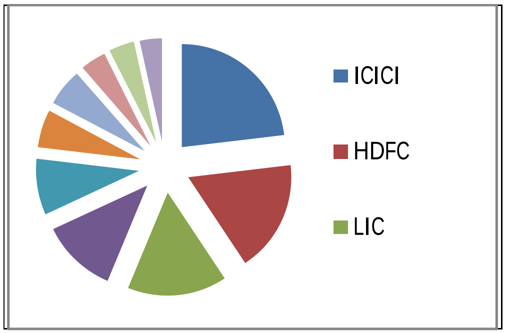

Figure 1: Market Share of ULIP's
Source: Table 2

The above table and Figure clearly indicate that ICICI is the market leader in the ULIP segment closely followed by HDFC LIFE. The public sector giant is in the third place in this segment compare to its dominating presence in the traditional products

Sl. No	LIFE INSURERS	2009	2010	2011	2012	2013
1	AEGON RELIGARE LIFE INSURANCE	NA	NA	-12.70%	23.30%	3.00%
2	AVIVA LIFE INSURANCE	49.80%	8.30%	-19.60%	20.00%	3.60%
3	BAJAJ ALLIANZ LIFE INSURANCE	NA	19.10%	-13.60%	28.50%	10.80%
4	BHARTI AXA LIFE INSURANCE	NA	18.70%	-24.40%	29.20%	3.10%
5	BIRLA SUN LIFE INSURANCE	NA	NA	-30.40%	32.80%	-0.10%
6	CANARA HSBC LIFE INSURANCE	91.70%	16.90%	-27.80%	27.60%	4.20%
7	DLF PRAMERICA LIFE INSURANCE	NA	1.60%	6.20%	9.20%	2.30%
8	EDELWEISS TOKIO LIFE INSURANCE	NA	NA	-7.80%	28.00%	18.10%
9	FUTURE GENERALI INDIA LIFE INSURANCE CO. LTD.	NA	2.80%	-22.20%	27.60%	4.10%
10	HDFC STANDARD LIFE INSURANCE	NA	25.40%	-27.70%	36.80%	-10.00%
11	ICICI PRUDENTIAL LIFE INSURANCE	NA	12.70%	-22.00%	24.80%	3.20%
12	IDBI FORTIS LIFE INSURANCE COMPANY LTD.	NA	6.90%	-26.40%	33.10%	6.90%
13	INDIAFIRST LIFE INSURANCE CO. LTD	NA	NA	-12.20%	27.40%	9.50%
14	ING VYSYA LIFE INSURANCE	NA	13.30%	-26.20%	25.20%	5.70%
15	KOTAK MAHINDRA OLD MUTUAL LIFE INSURANCE	NA	NA	-6.50%	28.00%	4.60%
16	LIFE INSURANCE CORPORATION OF INDIA	59.70%	25.00%	-21.70%	25.60%	-1.40%
17	MAX LIFE INSURANCE	84.60%	18.80%	-22.60%	24.80%	4.80%
18	PNB METLIFE INDIA INSURANCE	NA	14.60%	-23.50%	28.40%	3.10%
19	RELIANCE LIFE INSURANCE	NA	NA	-7.40%	30.00%	5.40%
20	SAHARA INDIA LIFE INSURANCE	75.90%	11.00%	-25.50%	25.50%	2.60%
21	SBI LIFE INSURANCE	76.90%	17.50%	-20.80%	24.50%	9.20%
22	SHRIRAM LIFE INSURANCE	NA	12.80%	-25.40%	29.10%	-2.00%
23	STAR UNION DAI-ICHI LIFE INSURANCE CO. LTD	91.00%	13.40%	-22.80%	26.00%	6.90%
24	TATA AIG INSURANCE	64.80%	19.30%	-27.60%	28.00%	8.40%

Table 3: Returns Generated by Life Insurers for the Last Five Years Source: Company Websites

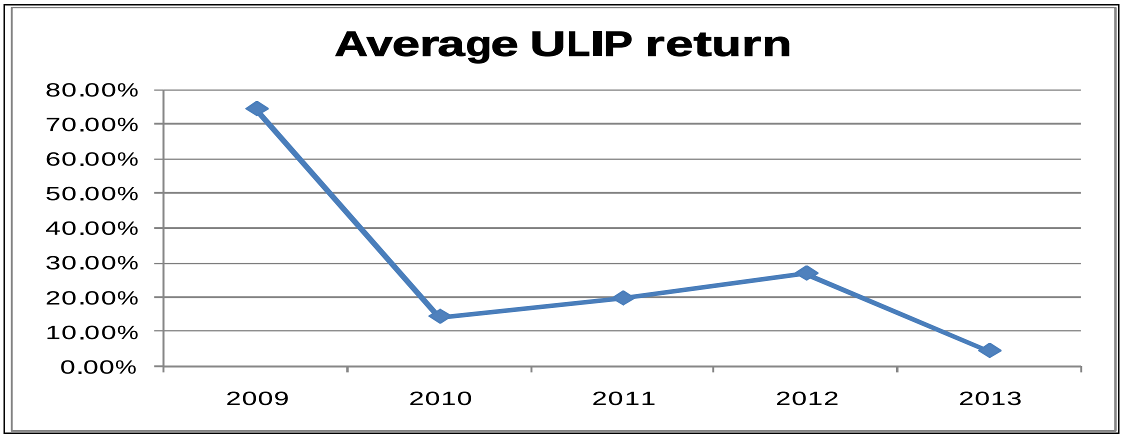

Figure 2: Average return on ULIP's over the years
Source: Table 3

The above table and Figure indicates the strong correlation between the returns generated by the ULIP schemes and the performance of the benchmark index.

Company	**Sharpe Ratio**
AEGON RELIGARE LIFE INSURANCE	-0.1644
AVIVA LIFE INSURANCE	0.19392
BAJAJ ALLIANZ LIFE INSURANCE	0.20504
BHARTI AXA LIFE INSURANCE	-0.0365
BIRLA SUN LIFE INSURANCE	0.213
CANARA HSBC LIFE INSURANCE	0.34209
DLF PRAMERICA LIFE INSURANCE	-0.7535
EDELWEISS TOKIO LIFE INSURANCE	0.2849
FUTURE GENERALI INDIA LIFE INSURANCE CO. LTD.	-0.2175
HDFC STANDARD LIFE INSURANCE	-0.0457
ICICI PRUDENTIAL LIFE INSURANCE	-0.1423
IDBI FORTIS LIFE INSURANCE COMPANY LTD.	-0.0974
INDIAFIRST LIFE INSURANCE CO. LTD	0.09638
ING VYSYA LIFE INSURANCE	-0.1156
KOTAK MAHINDRA OLD MUTUAL LIFE INSURANCE	0.06814
LIFE INSURANCE CORPORATION OF INDIA	0.4189
MAX LIFE INSURANCE	0.61271
PNB METLIFE INDIA INSURANCE	0.0713
RELIANCE LIFE INSURANCE	0.09645
SAHARA INDIA LIFE INSURANCE	0.40714
SBI LIFE INSURANCE	0.60518
SHRIRAM LIFE INSURANCE	-0.1417
STAR UNION DAI-ICHI LIFE INSURANCE CO. LTD	0.62624
TATA AIG INSURANCE	0.3929

Table 4: Showing Returns Generated Per Unit Of Risk - Sharpe Ratio
Source: IRDA

The above table indicates that MAX LIFE and SBI LIFE have generated highest returns per unit of total risk.

- Hypothesis # 1
- Ha: There is a significant difference between the growth of ULIP's and traditional plans
- Ho: There is a no significant difference between the growth of ULIP's and traditional plans

To prove the above said hypothesis paired sample't' test is administered to test the difference between the growth of ULIP's and traditional plans. The paired' test is a tool that is used to compare the two population means in the case of two means that are correlated. The results of't' test are given below.

Plans\Years	Amount (INR in Crores)				
	2008-09	2009-10	2010-11	2011-12	2012-13
Linked Premium	90645.78	115520.95	109002.06	69649.91	48829.53
Non-Linked Premium	131145.48	149926.3	182602.92	217422.2	238372.96

Table 5: Premiums Collected

Plans\Years	Growth (%)			
	2009-10	2010-11	2011-12	2012-13
Linked Premium	27%	-6%	-36%	-30%
Non-Linked Premium	14%	22%	19%	10%

Table 6
Source: IRDA

Significance level at 0.05 level
T-Test Value: -1.86587
Table value: 2.353363

- Inference:

The above analysis represents the results of T-tests to examine the hypotheses.
Since the calculated value is less than the table value the hypothesis is accepted and the null hypothesis is rejected. i.e. there is significant difference between the growth of ULIP's and traditional plans. This is amply clear because the ULIP plans have lost ground steadily to the traditional plans post 2010.

- Hypothesis # 2
- Ha: There is a significance difference between the LIC ULIP return and Private ULIP returns
- Ho: There is a no significance difference between the LIC ULIP return and Private ULIP returns

To prove the above said hypothesis paired sample't' test is administered to test the difference between the average return of sample Private sector ULIP scheme and the average return of the LIC ULIP Schemes. The paired' test is a tool that is used to compare the two population means in the case of two means that are correlated. The results of't' test are given below.

Year	LIC	Private
2009	59.70%	76.39%
2010	25.00%	13.71%
2011	-21.70%	-19.52%
2012	25.60%	26.86%
2013	-1.40%	4.67%

Table 7 RETURNS
Source: IRDA

Significance level at 0.05 level
T-Test Value: -0.663
Table value: 2.13185

- Inference:

The above analysis represents the results of T-tests to examine the hypotheses of Private sector ULIP and LIC ULIP returns. The T-test proved that average return of sample Private sector ULIP scheme and the average return of the LIC ULIP Schemes are not significantly different at 5% level of significance. i.e. there is no significant difference between the returns generated by ULIP schemes of LIC and private insurers

- Hypothesis # 3
- Ha: There is a significant difference between the returns on ULIP Schemes of existing insurers and new insurers.
- Ho: There is a no significant difference between the returns on ULIP Schemes of existing insurers and new insurers.

To prove the above said hypothesis, ANOVA is used; it is a mean based statistical test, used for testing the significance of difference between the various ULIP scheme providers in private sectors.

Company	Returns 2009	Returns 2010	Returns 2011	Returns 2012	Returns 2013
Aviva Life Insurance	49.80%	8.30%	-19.60%	20.00%	3.60%
Canara HSBC Life Insurance	91.70%	16.90%	-27.80%	27.60%	4.20%
Max Life Insurance	84.60%	18.80%	-22.60%	24.80%	4.80%
SBI Life Insurance	76.90%	17.50%	-20.80%	24.50%	9.20%
Star Union Dai-ichi Life Insurance Co. Ltd	91.00%	13.40%	-22.80%	26.00%	6.90%
TATA AIG Insurance	64.80%	19.30%	-27.60%	28.00%	8.40%

Table 8: Returns of Old Companies

Company	2011 Returns	2012 Returns	2013 Returns
AEGON Religare Life Insurance	-12.70%	23.30%	3.00%
Birla Sun Life Insurance	-30.40%	32.80%	-0.10%
Edelweiss Tokio Life Insurance	-7.80%	28.00%	18.10%
IndiaFirst Life Insurance Co. Ltd	-12.20%	27.40%	9.50%
Kotak Mahindra Old Mutual Life Insurance	-6.50%	28.00%	4.60%
Reliance Life Insurance	-7.40%	30.00%	5.40%

Table 9: Returns of New Companies

Year	Existing from 5 Years	Existing from 3 Years
2011	-0.24	-0.13
2012	0.25	0.28
2013	0.06	0.07

Table 10

F-Test calculated value between old and new companies=2.473911
F-Test table value =18.51282
Significance level=0.05

- Inference:

Since the calculated value is less the table value at 5% significance level we can infer that there is no significant difference between the returns generated by the old and new companies. Hence the null hypothesis is accepted
F-Test calculated value between years=72.67131
F-Test table value =19
Significance level=0.05

- Inference:

Since the calculated value is more than the table value at 5% significance level we can infer that there is significant difference between the returns generated the old and new insurers in between the years

7. Findings, Suggestions, and Conclusion

7.1. Findings

- ULIP plans are steadily losing ground to the traditional plans.
- During the year 2011 all the insurers had generated negative absolute returns except DLF PRAMERICA LIFE INSURANCE.
- In the year 2012 all the life insurers generated positive returns, this clearly indicates that ULIP schemes are highly correlated with the market fluctuations.
- DLF PRAMERICA LIFE INSURANCE generated positive returns throughout the period of the study.
- The returns generated by HDFC STANDARD LIFE were the most volatile throughout the period of the study.
- The returns generated by LIC is similar to its counterparts this is due to the vagaries of the stock market which affects all the players.
- Amongst the private players there is no significant difference between the returns generated by insurers whose ULIP are five years old and three years old.

7.2. Suggestions

It is surprising that even after 15 years when the insurance industry was liberalized the insurance products are still being sold as tax saving instruments rather than a protection tool or an investment tool. Though the premiums paid on the policies is eligible for tax deduction under section 80C of the income tax act ,it should not be the primary influencing factor since this leads to mis-selling the insurance which finally leads to the lapse of the policy. Hence the stake holders should ensure that ULIP schemes are not promoted in the month of March and instead special products tailor made for tax benefits for a particular year may be promoted.

Though IRDA has initiated and capped the charges on ULIPS a lot needs to be done because the insured still are not aware of the various charges that are loaded in the product. This could be improved by basic propaganda like advertisements and attractive captions in leading journals and magazines and also to be printed boldly on the application and the respective company websites.

It is also suggested to the investors in ULIP that they avoid buying products whose returns are very volatile and instead keep their primary motive as protection and then returns. If the risk appetite is there they can as well invest in the equity market rather than buy ULIP.

The ULIPs are structured in such a manner where the buyers have to be aware because it is frontloaded with various fees and commissions forming a huge proportion of the premiums paid in the first year. This could be spread over the number of the years the policy will mature since the intermediary will definitely service the client better.

IRDA should be severe in cases where products are mis sold and should infract suspend the registration of the broker and also compensate the insured for the losses due to that.

LIC which controls more than 2/3 of the insurance market in India is conspicuous by its absence in the ULIP market. If the ULIP schemes have to become popular then the role of the public sector giant is necessary because of its vast reach and the credibility it has.

7.3 Conclusion

The Indian insurance industry is currently facing challenges from various fronts and is looking ahead for tough times as there are no immediate signs of revival and any amount of stimulus from the government or the regulatory authority would not be sufficient to come out the situation they are in right now. The insurance density and insurance penetration which are the common measures for evaluating the insurance industry worldwide is showing negative growth in the last couple of years which is a major cause of concern in the Indian insurance market. India cannot afford such a scenario because its development model will take a back foot with fall in the standard of living and rising financial burdens to the large sections of the society.

ULIPs which was once the favorite of all the stakeholders seems to facing tough times as its growth is experiencing a free fall and there are no immediate solutions in sight for its survival .ULIPs have also played a big role in the contraction of the insurance market in India and this should be revived with a war footing so that it sends positive signals to the investors. The conflict between IRDA and SEBI came at the time when the stock markets were doing well and thereby the ULIPs, but when the intervention by them is necessary there seems to be no light at the end of the tunnel.

ULIPs by nature tend to vary with the financial markets sentiments but it must first treat as a protection tool rather a investment tool. This should be properly understood by the insurance intermediaries and the company representatives who are the point of contact with the customers since ULIP policies are usually mis-sold or it lapses over a period of time due to the disenchantment that sets in due to the hyped promises that are made before selling the product. This in turn affects the insurance component in the product which is unwarranted.

But it is not so bad as it looks because of the inherent strength our economy has and the burgeoning middle class and better education levels the country is experiencing thing should only look up. This could be achieved with sustained and ethical practices by the insurers and its intermediaries and of course by the regulatory authority and the government. If all the stakeholders put in a collective effort then ULIP will definitely regain its lost glory in a very short span of time thereby fulfilling the dual motives it has set for itself wherein the customers repose their faith and also make available large amounts of investments for the capital markets.

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