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A Comparative Study on Equity and Debt Funds in ULIPs at Reliance Nippon Life Insurance Private Limited

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ABSTRACT
The Indian Corporate sector is facing the challenge in commensuration of the risk involved with the expected level of the return. In this scenario of fluctuating capital market, the risk level never payoff with the returns.

A ULIP is the ideal investment vehicle for today's complex and modern financial scenario because it does not require an investor to do a continuous tracking of each script and have a lot of information about the financial markets and then also it gives decent returns. Whereas markets for Equity shares, Bonds and other fixed income instruments, Real Estates, Derivatives and other assets have become mature information driven price changes in these assets are driven by global events occurring in fare way places. A typical individual is unlikely to have the knowledge, skills, inclination and time to keep track of events, understand their implications and act speedily. An individual also finds it difficult to keep track of ownership of his assets, investments, brokerage dues and bank transactions EST. A ULIP is the answer for all these situations.

But there being so many ULIPS companies offering similar plans that an investor needs to be careful regarding his/her investment adjust by not picking up the right company he may land up losing some bucks that may have earned by investing in the right company.

KEYWORDS: *Risk, Returns, Sharp Value*

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INTRODUCTION

ULIPS: UNIT LINKED INSURANCE PLAN:

As per IRDAI guidelines, "ULIPS(Unit Linked Insurance Plans) is a product offered by insurance companies which gives the investors both insurance and investment under a single integrated plan".

Under ULIPS, funds of the investor are managed in two ways…1.Equity Fund & 2.Debt Fund.

Equity Fund: Here the investor amount is purely invested in equity market such as investing in shares, i.e. Equity shares, Preference shares etc. by doing the functioning of changing the ownership of the shares.

Debt Fund: They are invested in Fixed income security bonds, Treasury bills, Guilt funds, Liquid funds etc. It includes investing various funds in short term, medium and long term.

Thereby the amount collected by the fund manager has been invested in different categories.

Under Equity funds:
1. Mid cap fund.
2. Equity Growth fund
3. Life Equity fund

Debt Funds:
1. Corporate Bond fund
2. Gilt fund
3. Money Market fund

NEED FOR THE STUDY:

The Study is to compare the performance levels of the different selected funds of Equity & Debt at Reliance Nippon Life Insurance Company Limited.

SCOPE OF THE STUDY:

The study mainly focus on comparing of various selected funds of Equity and Debt funds with reference to Reliance Nippon Life Insurance. The study is done for a period of past 5 years

OBJECTIVES OF THE STUDY:
1. To study the performance of various selected funds in Equity and Debt funds at Reliance Nippon Life Insurance Company Limited.
2. Toanalyse the average rate of returns and risk of Equity and Debt funds at Reliance Nippon Life Insurance Company Limited.
3. To rank the different funds in Equity and Debt funds based on Sharpe Index Ratio at Reliance Nippon Life Insurance Company Limited.

METHODOLOGY:

Source of data

Secondary Data:

The study is based on the secondary data which is collected from the annual reports of Reliance Nippon Life Insurance, Company website (www.reliancenipponlife.com). (www.morningstar.com)

LIMITATIONS OF THE STUDY:

1. The study is confined to Reliance Nippon Life Insurance Pvt. Ltd., Ananathapur only.
2. The study is limited for a period of 5 years i.e.,2014-2015 to 2018-2019.

HYPOTHESIS

To know whether there is any difference between equity and debt funds of Reliance Nippon Life Insurance Company.

➢ Ho; null hypothesis

The Equity and Debt funds of Reliance Nippon Life Insurance Company are not similar in nature.

➢ H_1; alternative hypothesis

The Equity and Debt funds of Reliance Nippon Life Insurance Company are similar in nature.

DATA ANALYSIS

RETURNS OF LIFE MIDCAP FUND

YEAR	RETURNS(X)	X-x	$(X-x)^2$
2015	7.30	-1.762	3.1046
2016	9.59	0.528	0.2788
2017	42.42	33.358	1112.7562
2018	-10.54	-19.602	384.2384
2019	-3.46	-12.522	156.8005
TOTAL	**45.31**		**1657.1786**

MEAN (x) = 45.31/5=9.062

$$\textbf{STANDARD DEVIATION} = \sqrt{\frac{\Sigma (X-x)^2}{N}}$$

$$= \sqrt{\frac{1657.17}{5}}$$

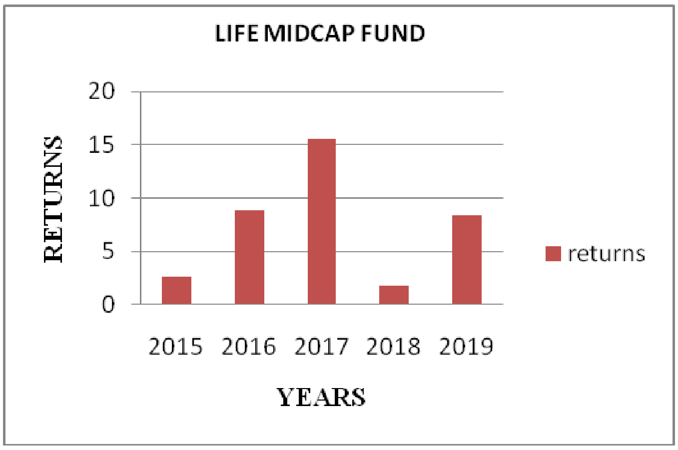
$$= 18.2054$$

Sharpe RATIO =

$$\frac{\text{AVG RETURN ON PORTFOLIO– Rf}}{\text{STANDARD DEVIATION}}$$

$$= \frac{9.062-6.90}{18.2054}$$

$$= 0.1187$$



INTERPRETATION: Life Mid-cap fund has a average rate of returns of 9.062 with a higher risk of 18.2054 and with a Sharpe ratio of 0.1187 which is Second among all the equity funds.

RETURNS OF EQUITY GROWTH FUND

YEAR	RETURNS(X)	(X-x)	$(X-x)^2$
2015	2.48	-4.908	24.088
2016	8.84	1.452	2.108
2017	15.57	8.182	66.945
2018	1.69	-5.698	32.47
2019	8.36	0.972	0.945
TOTAL	**36.94**		**126.556**

MEAN (x) = 36.94/5=7.388

$$\textbf{STANDARD DEVIATION} = \sqrt{\frac{\Sigma (X-x)^2}{N}}$$

$$= \sqrt{\frac{126.556}{5}}$$

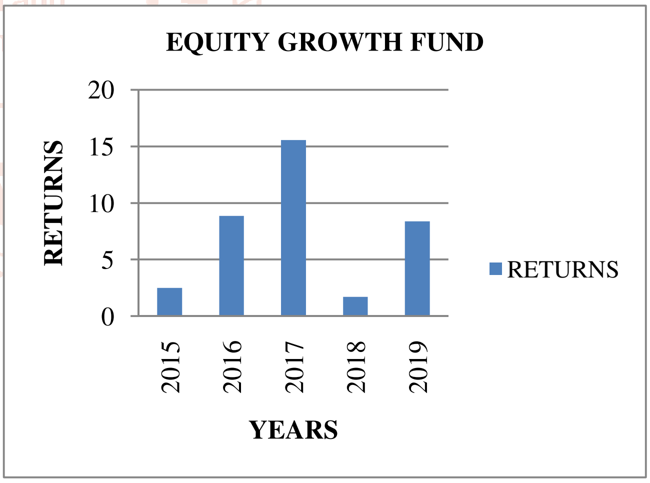
$$= 5.031$$

Sharpe RATIO =

$$\frac{\text{AVG RETURN ON PORTFOLIO– Rf}}{\text{STANDARD DEVIATION}}$$

$$= \frac{7.388-6.90}{5.031}$$

$$= 0.096$$



INTERPRETATION: The Equity Growth fund has a average rate of returns of 7.388 and with a risk of 5.031, the Sharpe ratio is 0.096 which stood Last in ranking among equity funds.

RETURNS OF LIFE EQUITY FUND

YEAR	RETURNS(X)	X-x	$(X-x)^2$
2015	0.35	-7.982	63.71
2016	4.72	-3.612	13.05
2017	30.31	21.978	483.03
2018	-2.08	10.412	108.41
2019	8.36	0.028	0.001
TOTAL	**41.66**		**668.20**

MEAN (x) = 41.66/5=8.332

STANDARD DEVIATION $= \sqrt{\dfrac{\Sigma (X\text{-}x)^2}{N}}$

$= \sqrt{\dfrac{668.20}{5}}$

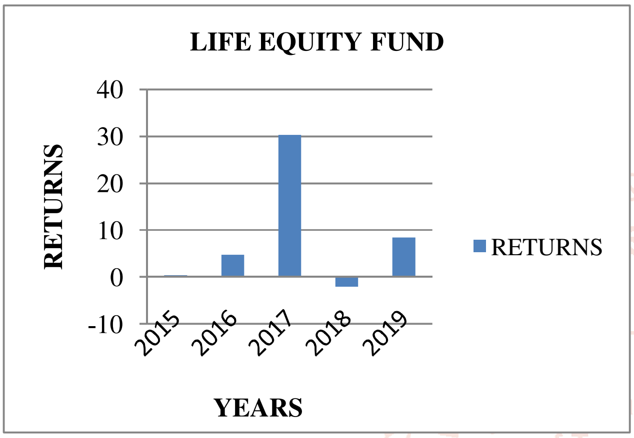
= 11.56

Sharpe RATIO =

$\dfrac{\text{AVG RETURN ON PORTFOLIO– Rf}}{\text{STANDARD DEVIATION}}$

$= \dfrac{8.332\text{-}6.90}{11.56}$

= 0.1239



INTERPRETATION: Life Equity fund average rate of returns is 8.332 and risk is 11.56. The Sharpe ratio is 0.1239 which is in First place according to ratio.

RETURNS OF CORPORATE BOND FUND

YEAR	RETURNS(X)	X-x	$(X\text{-}x)^2$
2015	6.62	-0.978	0.9565
2016	13.54	5.942	35.3074
2017	3.29	-4.308	18.5589
2018	5.87	-1.728	2.986
2019	8.67	1.072	1.1492
TOTAL	**37.99**		**58.958**

MEAN (x) = 37.99/5=7.598

STANDARD DEVIATION $= \sqrt{\dfrac{\Sigma (X\text{-}x)^2}{N}}$

$= \sqrt{\dfrac{58.958}{5}}$

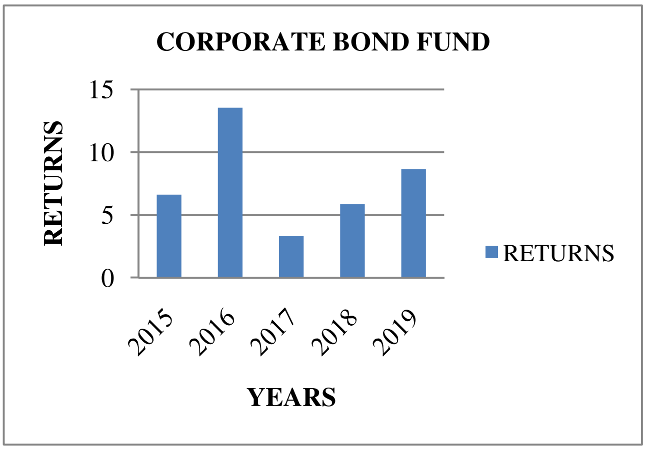
= 3.4339

Sharpe RATIO =

$\dfrac{\text{AVG RETURN ON PORTFOLIO– Rf}}{\text{STANDARD DEVIATION}}$

$= \dfrac{7.598\text{-}6.90}{3.4339}$

= 0.20



INTERPRETATION: In Corporate bond fund, average rate of return is 7.598 and with a risk of 3.433. The Sharpe ratio is 0.20 which stood second among the debt funds.

RETURNS OF GILT FUND

YEAR	RETURNS(X)	X-x	$(X\text{-}x)^2$
2015	6.82	-1.006	1.012
2016	14.27	6.444	41.53
2016	1.65	-6.176	38.143
2017	6.41	-1.416	2.005
2018	9.98	2.154	4.64
TOTAL	**39.13**		**87.33**

MEAN (x) = 39.13/5=7.826

STANDARD DEVIATION $= \sqrt{\dfrac{\Sigma (X\text{-}x)^2}{N}}$

$= \sqrt{\dfrac{87.33}{5}}$

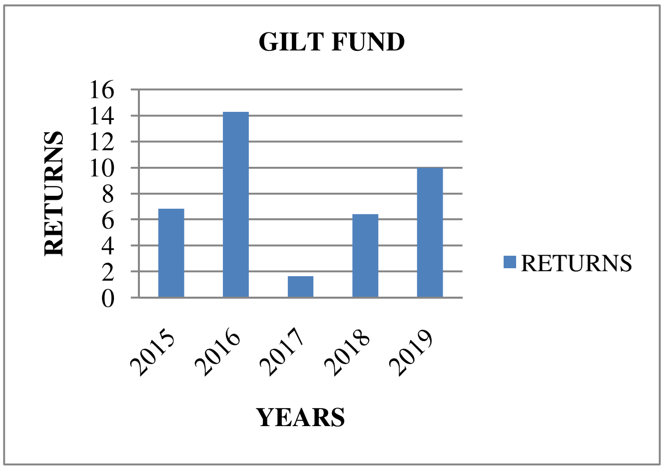
= 4.179

Sharpe RATIO =

$\dfrac{\text{AVG RETURN ON PORTFOLIO– Rf}}{\text{STANDARD DEVIATION}}$

$= \dfrac{7.826\text{-}6.90}{4.179}$

= 0.2216



INTERPRETATION: Gilt fund has a average rate of returns of 7.826 and a risk of 4.179 which is first among all the debt funds with a Sharpe ratio of 0.2216

RETURNS OF MONEY MARKET FUND

YEAR	RETURNS(X)	X-x	$(X\text{-}x)^2$
2015	7.80	1.722	2.965
2016	7.21	1.132	1.28
2017	5.62	-0.458	0.21
2018	4.29	-1.788	3.196
2019	5.47	-0.608	0.369
TOTAL	**30.39**		**8.02**

MEAN (x) = 30.39/5=6.078

$$\textbf{STANDARD DEVIATION} = \sqrt{\frac{\Sigma\,(X\text{-}x)^2}{N}}$$

$$= \sqrt{\frac{8.02}{5}}$$

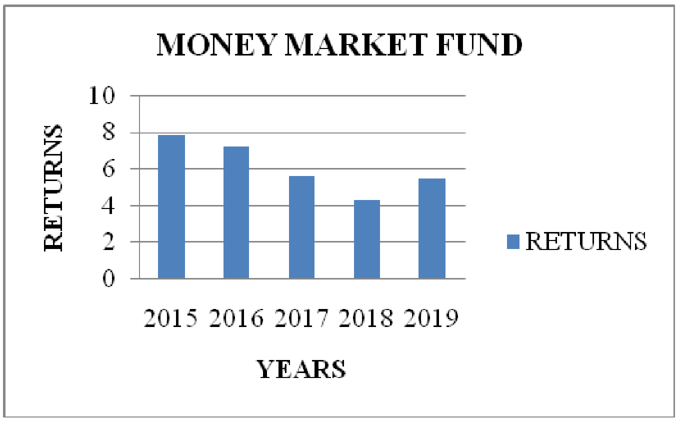
$$= 1.26$$

Sharpe RATIO =

$$\frac{\text{AVG RETURN ON PORTFOLIO} - \text{Rf}}{\text{STANDARD DEVIATION}}$$

$$= \frac{6.078\text{-}6.9}{1.26}$$

$$= 0.65$$



INTERPRETATION: Money Market fund risk is 1.26 and average rate of return 6.078. It stood Last place in ranking with a Sharpe ratio of -0.65

HYPOTHESIS

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- H_1 ; alternative hypothesis

The Equity and Debt funds of Reliance Nippon Life Insurance Company are similar in nature.

T-Test

(DataSet1)

Paired samples statis

	Mean	N	Std Deviation	Std. Error Mean
Palr 1 EQULTY	8.2520	5	12.52467	5.60120
DEBT	7.0820	5	3.17268	1.41887

Paired samples Correlations

	N	Correlation	Siig
Palr 1 EQULTY & DEBT	5	-.452	.445

Paired samples test

	Paired differences					T	Df	Sig. (2-tailed)
	Mean	Std Deviation	Std. Error Mean	95% Cofidence Interval of the difference				
				Lower	Upper			
Palr 1 EQULTY & DEBT	1.117000	14.24167	6.36907	-16.513337	18.85337	.184	4	.863

At 0.05 level of significance, we accept null hypothesis (that equity and debt are not similar) and reject alternative hypothesis. df = 4 the table value at 0.05 level of significance is 2.776 which is greater than the calculated value, so we reject alternative hypothesis and accept null hypothesis.

FINDINGS

IN EQUITY FUNDS

- The returns of Mid cap fund(9.062) is higher when compared to others equity funds like Life Equity fund(8.332), Equity Growth fund(7.388), for the past 5 consecutive years i.e., 2015-2019
- The Risk is least in Equity Growth Fund (5.031), moderate in Life Equity Fund (11.56) and high in Mid Cap Fund (18.2054).

IN DEBT FUNDS

- The risk is higher in Gilt fund (4.179) compared to Corporate Bond fund (3.4339), and Money Market fund (1.26).
- Gilt Fund returns are higher (7.826) than Corporate Bond fund (7.598) and Money Market fund (6.078) for the past 5 years i.e., from 2015 to 2019.

SUGGESTIONS

- For conservative Investors; the Debt funds like Gilt Funds and Corporate Bond fund would be suggestible in Reliance Nippon Life Insurance Company as it consists of low risk 4.1, 3.4 respectively.
- Risk takers would opt for Equity funds as they give better returns in long term with above average risk.
- Debt funds like Gilt funds is given more priority than Corporate Bond fund, and Money Market fund. It gives moderate returns with low risk from Sharpe Ratio point of view.
- In Equity funds; it is shown that Life Equity fund has high Sharpe Ratio, which enables the investors to opt to for a high return with above average risk.
- Equity growth fund has better average rate of returns with moderate risk; where it can motivate to conservative investors to invest in Equity funds also.
- Investors can also switch to equity funds from debt funds especially Life Equity fund as it gives better returns when compared to Gilt Fund in Reliance Nippon Life Insurance Company with low risk and a higher rate of returns.

CONCLUSION

From the above the study, it is observed that the high performance fund is Life Equity fund compared to all other equity funds in Reliance Nippon Life Insurance Company.

The Gilt fund has high performance than all other Debt funds in Reliance Nippon Life Insurance Company.

To obtain better returns from ulips investor has to stay for a minimum of 5 years.

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