

A Comparative Study on ULIPs

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ABSTRACT

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 accruing in freeway 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 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 this entire situation.

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: Equity funds, Debt funds, balanced funds, Cash funds/ Money market funds

INTRODUCTION

As per IRDAI guidelines "ULIPs" (Unit Linked Insurance Plans) is a product offered by insurance companies which gives the investor's both insurance and investment under a single integrated plan"

The first ULIP was launched in the year 1971. Here the policy holder can pay a premium monthly, quarterly, half yearly or annually. A small amount of premium goes to secure life insurance and rest of the money is invested in equity, debt, balanced and secured funds.

Equity funds: These are the funds that invest in equity stocks/shares of companies. These are considered as high risk funds but also tend to provide high returns.

Debt funds: These are the funds that invest in debt instruments such as Debentures, Government bonds and other fixed income assets. These are considered as safe investments and provide fixed returns.

Balanced funds: These funds are also known as hybrid funds .They will maintain the balance between the stocks and bonds.

Cash funds/liquid funds: Also known as money market funds invested in cash, bank deposits and money market instruments.

PROS of ULIPs:

1. High Returns
2. Death Benefit
3. Flexibility of Investment

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4. Tax Benefits
5. Partial Withdrawals

CONS of ULIPs:

1. Complex and Expensive
2. Higher Costs during initial phase
3. Lock-in-Period
4. Fluctuating Market Conditions
5. Switches could be Chargeable.

Need of the Study:

The study is to compare the selected funds and to know the best ULIPs plan in between the Bajaj Allianz and Reliance Nippon Life Insurance.

Scope of the Study:

The study compares the ULIP funds of Bajaj and reliance. The study is confined to the data of 6 years i.e., from 2014-2019.

Research Objectives:

- To compare the selected funds i.e. (Accelerator Midcap Fund, Equity Growth Funds, Pure Stock Fund, Liquid Fund, and Asset Allocation Fund) in ULIPs at Bajaj Allianz and Reliance Nippon Life Insurance.
- To analyze the risk and returns of ULIPs at Bajaj Allianz and Reliance Nippon Life Insurance.
- To study the performance level of selected funds i.e. (Equity Funds, Liquid Funds, Balanced Funds& Bond Funds) at Bajaj Allianz and Reliance Nippon Life Insurance.

Research Methodology:

Present study was based on secondary data of Returns for the period of 2014 to 2019.

The data was collected from the annual reports of Bajaj Allianz Life Insurance Company and Reliance Nippon Life Insurance Companies' websites.

Measurements:

1. Sharpe ratio:

Sharpe ratio is a measure of return often used to compare the performance of an investment compared to a risk free asset. Normally, the 90-day Treasury bill rate is taken as the proxy for risk free rate.

Formula for calculating Sharpe ratio is

$$\text{Sharpe Ratio} = \frac{\text{Average return on portfolio- Risk free rate}}{\text{Std Dev}}$$

Rf is the risk free rate of return (usually rate of return of 10yr Government period)

2. Standard Deviation:

Standard Deviation is used to calculate the risk associated with the fund.

$$\text{Standard deviation} = \sqrt{\frac{\sum(X-\bar{X})^2}{n}}$$

List of selected ULIP fund schemes in Bajaj and reliance:

1. Accelerator mid Cap Fund
2. Equity Growth Fund
3. Pure Stock Fund
4. Liquid Fund
5. Asset Allocation Fund

Data Analysis and Interpretation:

1. Returns of Bajaj Accelerator Midcap Fund

YEAR	RETURNS(X)	(X- \bar{X})	(X- \bar{X}) ²
2014	62.78	43.21	1866.96
2015	8.9	-7.07	50.01
2016	12.5	-7.07	50.01
2017	45.39	25.82	666.59
2018	-10.02	-29.59	875.67
2019	-2.12	-21.69	470.53

$$\text{Mean} = \sum x/N = 117.43/6 = 19.57$$

$$\begin{aligned} \text{Standard Deviation} &= \sqrt{\sum(x-\bar{x})^2/N} \\ &= \sqrt{(3979.76/6)} \\ &= 25.75 \end{aligned}$$

$$\begin{aligned} \text{Sharpe Ratio} &= \frac{\text{Avg Return on portfolio- Risk free Rate}}{\text{Standard Deviation}} \\ &= (19.57-6.5)/25.75 \\ &= 0.51 \end{aligned}$$

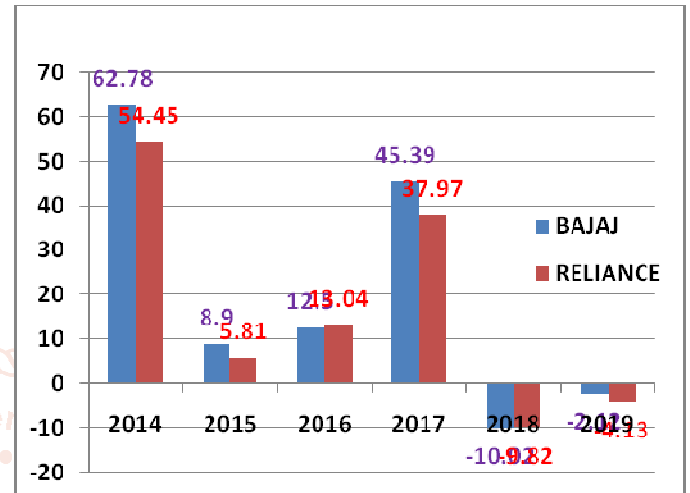
Returns of Reliance Accelerator Midcap Fund:

YEAR	RETURNS(X)	(X- \bar{X})	(X- \bar{X}) ²
2014	54.45	38.23	1461.53
2015	5.81	-10.41	108.37
2016	13.04	-3.18	10.11
2017	37.97	21.75	473.06
2018	-9.82	-26.04	678.08
2019	-4.13	-20.35	414.12

$$\text{Mean} = \sum x/N = 97.32/6 = 16.22$$

$$\begin{aligned} \text{Standard Deviation} &= \sqrt{\sum(x-\bar{x})^2/N} \\ &= \sqrt{(3145.28/6)} \\ &= 22.90 \end{aligned}$$

$$\begin{aligned} \text{Sharpe Ratio} &= \frac{\text{Avg Return on portfolio- Risk free Rate}}{\text{Standard Deviation}} \\ &= (16.22-6.5)/22.90 \\ &= 0.42 \end{aligned}$$



Interpretation:

From the above graph Bajaj generated higher average rate of returns of 19.57 with the high risk of 25.75 and Reliance 16.22 at risk 22.90 this fund of both the companies stood first place in ranking having higher performance level.

2. Returns of Bajaj Equity Growth Fund:

YEAR	RETURNS(X)	(X- \bar{X})	(X- \bar{X}) ²
2014	43.94	28.86	832.80
2015	-2.89	-17.97	322.98
2016	7.97	-7.11	50.58
2017	32.56	17.48	305.49
2018	1.58	-13.50	182.30
2019	7.33	-7.75	60.09

$$\text{Mean} = \sum x/N = 90.49/6 = 15.08$$

$$\begin{aligned} \text{Standard Deviation} &= \sqrt{\sum(x-\bar{x})^2/N} \\ &= \sqrt{(1754.24/6)} \\ &= 17.10 \end{aligned}$$

$$\begin{aligned} \text{Sharpe Ratio} &= \frac{\text{Avg Return on portfolio- Risk free Rate}}{\text{Standard Deviation}} \\ &= (15.08-6.5)/17.10 \\ &= 0.50 \end{aligned}$$

Returns of Reliance Equity Growth Fund:

YEAR	RETURNS(X)	(X- \bar{X})	(X- \bar{X}) ²
2014	21.56	12.05	145.24
2015	4.05	-5.46	29.79
2016	8.93	-0.58	0.33
2017	11.90	2.39	5.72
2018	2.10	-7.41	54.88
2019	8.51	-1.00	1.00

Mean = $\sum x/N = 57.05/6 = 9.51$

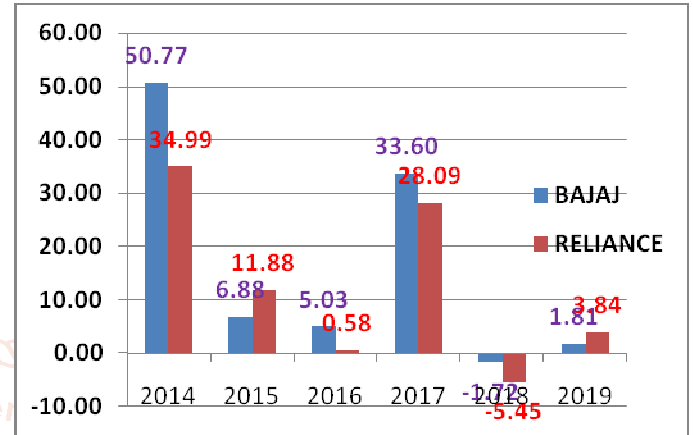
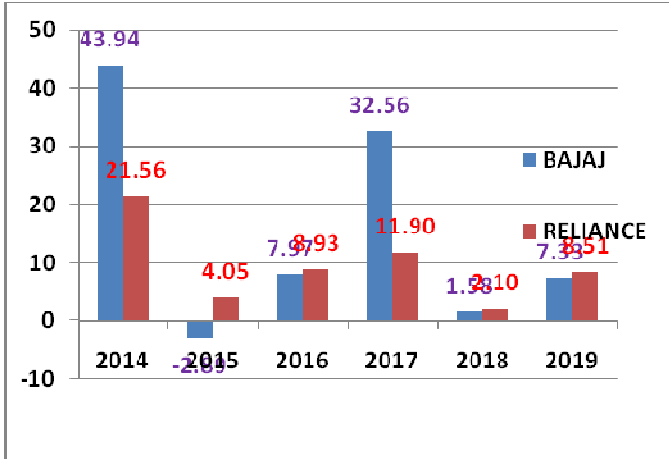
Mean = $\sum x/N = 73.93/6 = 12.32$

Standard Deviation = $\sqrt{\sum(x-\bar{x})^2/N}$
 = $\sqrt{(236.97/6)}$
 = 6.28

Standard Deviation = $\sqrt{\sum(x-\bar{x})^2/N}$
 = $\sqrt{(1288.33/6)}$
 = 14.65

Sharp Ratio = $\frac{\text{Avg Return on portfolio- Risk free Rate}}{\text{Standard Deviation}}$
 = $(9.51-6.5)/6.28$
 = 0.48

Sharp Ratio = $\frac{\text{Avg Return on portfolio- Risk free Rate}}{\text{Standard Deviation}}$
 = $(12.32-6.5)/14.65$
 = 0.40



Interpretation:

From the above graph Bajaj generated higher average rate of returns of 15.08 with the high risk of 17.10 and Reliance 9.51 at risk 6.28. This fund of both the companies stood third place in ranking by having moderate performance level.

Interpretation:

From the above graph Bajaj generated higher average rate of returns of 16.06 with the high risk of 19.31 and Reliance 12.32 at risk 14.65. This fund of both the companies stood Second place in ranking by having moderate performance level.

3. Returns of Bajaj Pure Stock Fund:

YEAR	RETURNS(X)	(X- \bar{X})	(X- \bar{X}) ²
2014	50.77	34.71	1204.67
2015	6.88	-9.18	84.30
2016	5.03	-11.03	121.70
2017	33.60	17.54	307.59
2018	-1.72	-17.78	316.19
2019	1.81	-14.25	203.11

Mean = $\sum x/N = 96.37 / 6 = 16.06$

Standard Deviation = $\sqrt{\sum(x-\bar{x})^2/N}$
 = $\sqrt{(2237.56/6)}$
 = 19.31

Sharp Ratio = $\frac{\text{Avg Return on portfolio- Risk free Rate}}{\text{Standard Deviation}}$
 = $(16.06-6.5)/19.31$
 = 0.50

Returns of Reliance Pure Stock Fund:

YEAR	RETURNS(X)	(X- \bar{X})	(X- \bar{X}) ²
2014	34.99	22.67	513.85
2015	11.88	-0.44	0.20
2016	0.58	-11.74	137.87
2017	28.09	15.77	248.64
2018	-5.45	-17.77	315.83
2019	3.84	-8.48	71.94

4. Returns of Bajaj Liquid Fund:

YEAR	RETURNS(X)	(X- \bar{X})	(X- \bar{X}) ²
2014	8.69	3.28	10.77
2015	8.21	2.80	7.85
2016	7.45	2.04	4.17
2017	5.58	0.17	0.03
2018	-0.74	-6.15	37.80
2019	3.26	-2.15	4.62

Mean = $\sum x/N = 32.45/6 = 5.41$

Standard Deviation = $\sqrt{\sum(x-\bar{x})^2/N}$
 = $\sqrt{(65.23/6)}$
 = 3.30

Sharp Ratio = $\frac{\text{Avg Return on portfolio- Risk free Rate}}{\text{Standard Deviation}}$
 = $(5.41-6.5)/3.30$
 = -0.33

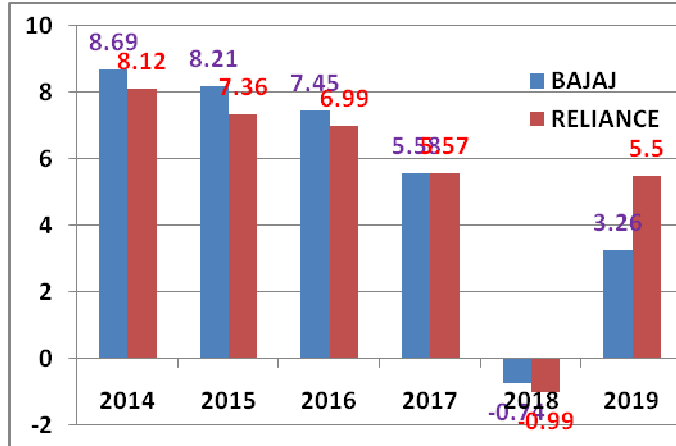
Returns of Reliance Liquid Fund:

YEAR	RETURNS(X)	(X- \bar{X})	(X- \bar{X}) ²
2014	8.12	2.70	7.26
2015	7.36	1.94	3.74
2016	6.99	1.57	2.45
2017	5.57	0.15	0.02
2018	-0.99	-6.42	41.15
2019	5.5	0.08	0.01

Mean = $\sum x/N = 32.55/6 = 5.43$

Standard Deviation = $\sqrt{\sum(x-\bar{x})^2/N}$
 = $\sqrt{(54.64/6)}$
 = 3.02

Sharp Ratio = $\frac{\text{Avg Return on portfolio- Risk free Rate}}{\text{Standard Deviation}}$
 = $(5.43-6.5)/3.302$
 = -0.36



Interpretation:

From the above graph Bajaj generated lower average rate of returns of 5.41 with the low risk of 3.30 and Reliance 5.43 at risk 3.02. This fund of both the companies stood Fifth place in ranking by having lower performance level.

5. Returns of Bajaj Asset Allocation Fund:

YEAR	RETURNS(X)	(X- \bar{X})	(X- \bar{X}) ²
2014	37.17	25.08	629.09
2015	1.20	-10.89	118.56
2016	8.20	-3.89	15.12
2017	18.30	6.21	38.58
2018	1.76	-10.33	106.67
2019	5.90	-6.19	38.30

Mean = $\sum x/N = 72.53/6 = 12.09$

Standard Deviation = $\sqrt{\sum(x-\bar{x})^2/N}$
 = $\sqrt{(946.32/6)}$
 = 12.5

Sharp Ratio = $\frac{\text{Avg Return on portfolio- Risk free Rate}}{\text{Standard Deviation}}$
 = $(12.09-6.5)/12.56$
 = 0.44

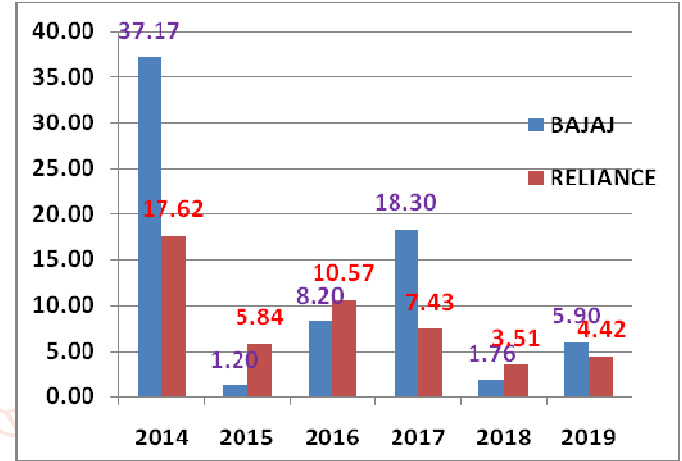
Returns of Reliance Asset Allocation Fund:

YEAR	RETURNS(X)	(X- \bar{X})	(X- \bar{X}) ²
2014	17.62	9.39	88.14
2015	5.84	-2.39	5.72
2016	10.57	2.34	5.47
2017	7.43	-0.80	0.64
2018	3.51	-4.72	22.29
2019	4.42	-3.81	14.53

Mean = $\sum x/N = 49.39/6 = 8.23$

Standard Deviation = $\sqrt{\sum(x-\bar{x})^2/N}$
 = $\sqrt{(136.79/6)}$
 = 4.77

Sharp Ratio = $\frac{\text{Avg Return on portfolio- Risk free Rate}}{\text{Standard Deviation}}$
 = $(8.23-6.5)/4.77$
 = 0.36



Interpretation:

From the above graph Bajaj generated moderate average rate of returns of 12.09 with the moderate risk of 12.56 and Reliance 8.23 at risk 4.77. This fund of both the companies stood Fourth place in ranking by having moderate performance level.

PERFORMANCE OF FUNDS:

X- FUND NAME
 Y- SHARP RATIO OF RESPECTIVE FUND

Interpretation:

From the above graph it is clear that Bajaj is having the high sharp ratio. So the performance of the Bajaj is high compare to Reliance.

FINDINGS

- Bajaj Accelerator mid cap fund generated average returns of 19.57 with high risk of 25.75 and Reliance 16.22 at risk 22.90. The performance level of Bajaj is high when compared to Reliance midcap fund. This fund occupies first rank.
- Bajaj Allianz Equity growth fund generated high average returns of 15.08 with high risk of 17.10 and Reliance 9.51 at risk 6.28. This fund of both the companies stood third position.
- Bajaj Pure Stock fund generated higher average rate of returns of 16.06 with high risk of 19.31 and Reliance 12.32 at risk of 14.65. This fund occupies second rank.
- Bajaj Allianz Liquid fund generated lower average returns of 5.41 at low risk of 3.30 and Reliance 5.43 at risk 3.02. This fund of both companies stood at fifth place.
- Bajaj Asset Allocation Fund generated moderated average rate of returns of 12.09 with moderate risk of 12.56 and Reliance 8.23 at risk of 4.77. This fund of both the companies stood at third position.
- The Sharpe index ratio is high for Bajaj in all the over funds compared to Reliance.

SUGGESTIONS

- Investors who want to take high risk for higher returns can invest in Bajaj Allianz equity funds.
- For conservative Investor who would like to have moderate risk and returns can opt for Reliance Nippon Life Insurance.
- The investors who want to take stable returns with less risk can invest in debt and money market funds as the both the companies are performing well in respective class.
- Investors having an idea about the funds can invest through online otherwise opt for offline for better understanding.

CONCLUSIONS

As per the analysis the Bajaj Allianz is performing well when compared to Reliance Nippon Life Insurance. ULIPs investors of any company have to stay for a long period of time (i.e., minimum of five years) So as to enjoy the returns and benefits from ULIPs investors have to stay for a long period.

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WEBSITES:

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