

# 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

## INTRODUCTION

### ULIPs: UNIT LINKED INSURANCE PLANS:

As per the 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 investors are managed in two ways...

1. Equity Fund &
2. Debt Fund.

## DEFINITION

### Equity fund:

Equity funds are ULIPs schemes which invest their assets in stocks of different companies based on the investment objective of the underlying scheme. These funds are a great investment option for capital appreciation as they have the long-term wealth creation.

### Debt Fund:

It is one type of fund in Unit Linked Insurance Plans, the funds are invested in debt instruments such as debentures, corporate bonds, government bonds, and fixed income bonds. While these instruments carry medium to low risk, the returns associated with them also only moderate.

## NEED OF THE STUDY

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

## SCOPE OF THE STUDY

The study mainly focuses on comparing of Equity and Debt funds with reference to Reliance Nippon Life Insurance Company.

The study is limited for a period of 5 years

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### OBJECTIVES OF THE STUDY

1. To study the performance of various selected funds in Equity and Debt funds at Reliance Nippon Life Insurance Company.
2. To analyse the Average Rate of Risk and Return of Equity and Debt funds at Reliance Nippon Life Insurance Company.
3. To assess the NAV (Net Asset Value) of Equity and Debt funds at Reliance Nippon Life Insurance Company.

### RESEARCH METHODOLOGY

#### Methods of data collection:

##### ➤ Secondary data:

The study is based on the secondary data which is collected from the annual reports of Reliance Nippon Life Insurance, company journals, brochures, magazines, articles, websites of Reliance Life Insurance Company.

([www.reliancenipponlife.com](http://www.reliancenipponlife.com))

(<https://www.reliancenipponlife.com/our-funds>)

([www.morningstar.com](http://www.morningstar.com))

### TOOLS AND TECHNIQUES

#### TECHNIQUES:

- Mean
- Standard deviation
- Sharpe ratio
- t-test

#### TOOLS:

- Bar graph

### LIMITATIONS OF THE STUDY

1. The study is confined to Reliance Nippon Life Insurance Company.
2. The study confined only to NAV of the Equity and Debt funds for past 5 years i.e., 2017-2022 at Reliance Nippon Life Insurance Company.

### HYPOTHESIS

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

**H1:** The Equity and Debt funds of Reliance Nippon Life Insurance Company are similar in nature.

### DATA ANALYSIS AND INTERPRETATION

#### RETURNS OF EQUITY MIDCAP FUND

YEAR	RETURNS(X)	(X- $\bar{x}$ )	(X- $\bar{x}$ ) <sup>2</sup>
2017-2018	25.38778	-2.4597	6.0503
2018-2019	25.44221	-2.4053	5.7855
2019-2020	23.63015	-4.2174	17.786
2020-2021	25.04412	-2.8034	7.8591
2021-2022	39.73335	11.886	141.27
<b>TOTAL</b>	<b>139.238</b>	<b><math>\Sigma(X-\bar{x})^2</math></b>	<b>178.75</b>

➤ **MEAN ( $\bar{x}$ )** =  $139.23 / 5 = 27.846$

➤ **STANDARD DEVIATION** =  $\sqrt{\Sigma(X-\bar{x})^2 / N}$

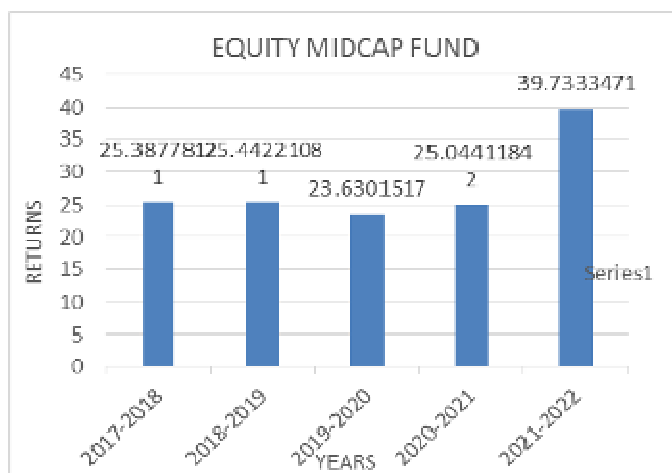
$$= \sqrt{178.75 / 5}$$

$$= 5.97$$

**SHARPE RATIO** = (avg return on portfolio – rf)/standard deviation

$$= (27.84 - 6.20) / 5.97$$

$$= 3.62$$



#### INTERPRETATION:

Mid-cap fund has a average rate of returns of 27.84 with a higher risk of 5.97 and with a Sharpe ratio of 3.62 which is first among all the equity funds.

#### RETURNS OF PURE EQUITY FUND

YEAR	RETURNS(X)	(X- $\bar{x}$ )	(X- $\bar{x}$ ) <sup>2</sup>
2017-2018	19.9491	-3.1223	9.7487
2018-2019	20.635	-2.4364	5.9363
2019-2020	20.6189	-2.4525	6.015
2020-2021	22.9559	-0.1156	0.0134
2021-2022	31.1983	8.12686	66.046
<b>TOTAL</b>	<b>115.357</b>	<b><math>\Sigma(X-\bar{x})^2</math></b>	<b>87.759</b>

➤ **MEAN ( $\bar{x}$ )** =  $115.35 / 5 = 23.07$

➤ **STANDARD DEVIATION** =  $\sqrt{\Sigma(X-\bar{x})^2 / N}$

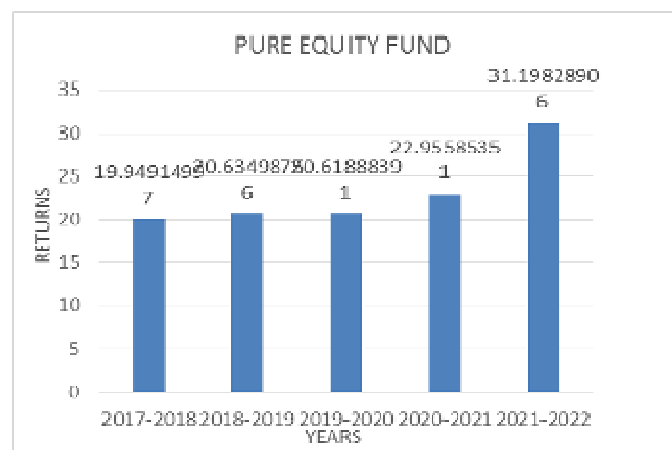
$$= \sqrt{87.75 / 5}$$

$$= 4.18$$

**SHARPE RATIO** = avg return on portfolio – rf/standard deviation

$$= 23.07 - 6.20 / 4.18$$

$$= 4.03$$



**INTERPRETATION:**

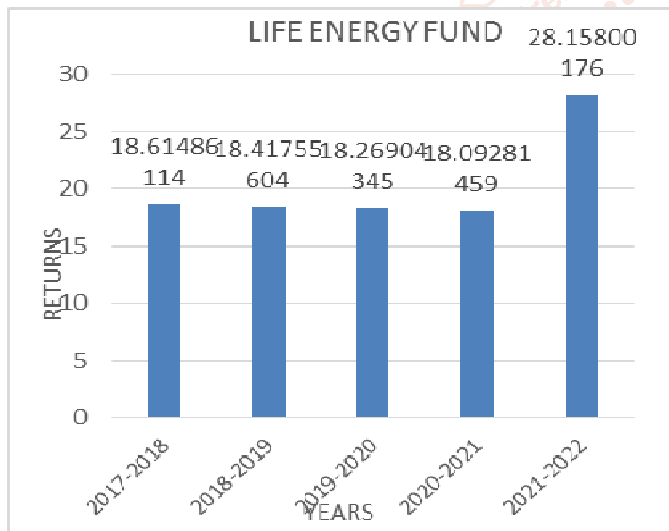
- The average rate of return of Pure Equity fund is 23.07 which is Second among all the equity funds and the risk is 4.18, with a Sharpe ratio of 4.03

**RETURNS OF LIFE ENERGY FUND**

YEAR	RETURNS(X)	(X- $\bar{x}$ )	(X- $\bar{x}$ ) <sup>2</sup>
2017-2018	18.61486	-1.696	2.875
2018-2019	18.41756	-1.893	3.583
2019-2020	18.26904	-2.041	4.167
2020-2021	18.09281	-2.218	4.918
2021-2022	28.158	7.8475	61.58
<b>TOTAL</b>	<b>101.5523</b>	<b><math>\Sigma(X-\bar{x})^2</math></b>	<b>77.13</b>

- **MEAN ( $\bar{x}$ )** = 101.55 / 5 = 20.31
- **STANDARD DEVIATION** =  $\sqrt{\Sigma(X-\bar{x})^2 / N}$   
 =  $\sqrt{77.13/5}$   
 = 3.92

**SHARPE RATIO** = AVG RETURN ON PORTFOLIO – Rf / STANDARD DEVIATION  
 = 20.31 – 6.20 / 3.92  
 = 3.59



**INTERPRETATION:**

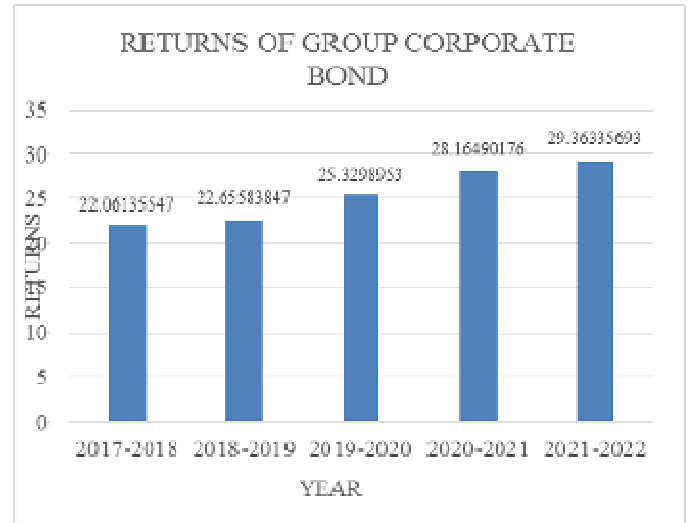
Life Energy fund average rate of returns is 20.31 and risk is 3.92. The Sharpe ratio is 3.59 which is in third place according to ratio.

**RETURNS OF GROUP CORPORATE BOND**

YEAR	RETURNS(X)	(X- $\bar{x}$ )	(X- $\bar{x}$ ) <sup>2</sup>
2017-2018	22.0614	-3.45371	11.9281
2018-2019	22.6558	-2.85923	8.1752
2019-2020	25.3299	-0.18517	0.03429
2020-2021	28.1649	2.649832	7.02161
2021-2022	29.3634	3.848287	14.8093
<b>TOTAL</b>	<b>127.575</b>	<b><math>\Sigma(X-\bar{x})^2</math></b>	<b>41.9686</b>

- **MEAN ( $\bar{x}$ )** = 127.57 / 5 = 25.51
- **STANDARD DEVIATION** =  $\sqrt{\Sigma(X-\bar{x})^2 / N}$   
 =  $\sqrt{41.96 / 5}$   
 = 2.89

**SHARPE RATIO** = AVG RETURN ON PORTFOLIO – Rf / STANDARD DEVIATION  
 = 25.51 – 6.20 / 2.89  
 = 6.68



**INTERPRETATION:**

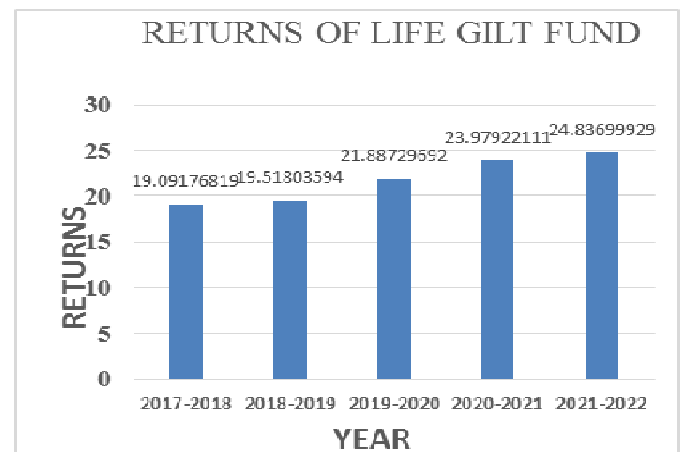
Group corporate bond has an average rate of returns of 25.51 and a risk of 2.89 which is first among all the debt funds with a Sharpe ratio of 6.68

**RETURNS OF LIFE GILT FUND**

YEAR	RETURNS(X)	(X- $\bar{x}$ )	(X- $\bar{x}$ ) <sup>2</sup>
2017-2018	19.09177	-2.771	7.6779
2018-2019	19.51804	-2.345	5.4973
2019-2020	21.8873	0.0246	0.0006
2020-2021	23.97922	2.1166	4.4798
2021-2022	24.837	2.9743	8.8467
<b>TOTAL</b>	<b>109.3133</b>	<b><math>\Sigma(X-\bar{x})^2</math></b>	<b>26.502</b>

- **MEAN ( $\bar{x}$ )** = 109.31 / 5 = 21.86
- **STANDARD DEVIATION** =  $\sqrt{\Sigma(X-\bar{x})^2 / N}$   
 =  $\sqrt{26.50/5}$   
 = 2.30

**SHARPE RATIO** = AVG RETURN ON PORTFOLIO – Rf / STANDARD DEVIATION  
 = 21.86 – 6.20 / 2.30  
 = 6.80



**INTERPRETATION:**

In life gilt fund, average rate of return is 21.86 and with a risk of 2.30. The Sharpe ratio is 6.80 which stood second among the debt funds.

**RETURNS OF MONEY MARKET FUND**

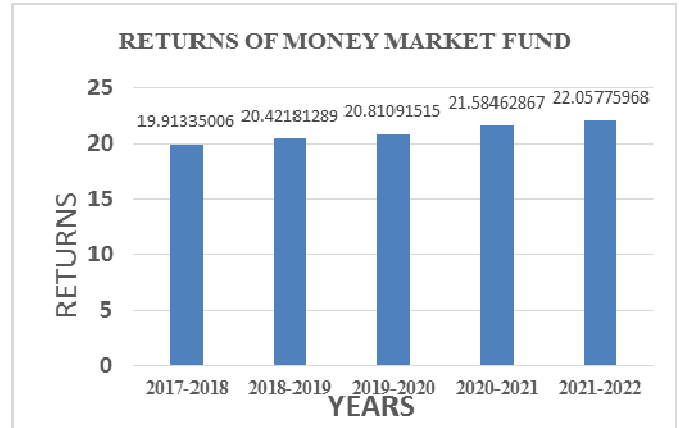
YEAR	RETURNS(X)	(X- $\bar{x}$ )	(X- $\bar{x}$ ) <sup>2</sup>
2017-2018	19.91335	-1.04434	1.090653
2018-2019	20.42181	-0.53588	0.287168
2019-2020	20.81092	-0.14678	0.021544
2020-2021	21.58463	0.626935	0.393048
2021-2022	22.05776	1.100066	1.210146
<b>TOTAL</b>	104.7885	$\Sigma(X-\bar{x})^2$	3.002558

- **MEAN** ( $\bar{x}$ ) = 104.78 / 5 = 20.95
- **STANDARD DEVIATION** =  $\Sigma(X-\bar{x})^2/N$   
= 3.002 / 5  
= 0.77

**SHARPE RATIO = AVG RETURN ON PORTFOLIO – Rf**  
**T- TEST**

**STANDARD DEVIATION**

= 20.95 – 6.20 / 0.77  
= 19.15



**INTERPRETATION:**

Money market fund has a average rate of returns of 20.95 and a risk of 0.77 which is third among all the debt funds with a Sharpe ratio of 19.15

Paired Samples Statistics					
		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	equity funds	23.73700	5	5.208560	2.329339
	debt funds	22.77320	5	2.220664	.993111

Paired Samples Correlations					
		N	Correlation	Significance One-Sided p	Significance Two-Sided p
Pair 1	equity funds & debt funds	5	.690	.099	.198

Paired Samples Test										
Pair		Paired Differences					t	df	Significance	
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				One-Sided p	Two-Sided p
					Lower	Upper				
1	equity funds - debt funds	.963800	4.013433	1.794862	-4.019536	5.947136	.5374	.310	.620	

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:**

- A. The Risk is least in Life energy fund (3.92), moderate in Pure equity fund (4.18), and high in Midcap fund (5.97).
- B. The returns of Mid cap fund (27.84) is higher when compared to other equity funds like Pure Equity fund (23.07), Life Energy fund (20.31) for the past 5 consecutive years i.e., 2017-2022

**IN DEBT FUNDS:**

- A. The risk is higher in Group corporate bond (2.89) compared to life gilt fund (5.43) and Money market fund (4.85)
- B. Group corporate bond returns are higher (25.51) than Life gilt fund (21.86) and money market fund (20.95) for the past 5 years i.e., from 2017 to 2022

**From the Sharpe Ratio Point of view:**

- A. In Equity funds, Pure equity fund stood first with ratio of (4.03), next is Midcap fund (3.62) last would-be Life energy fund (3.59).
- B. In Debt funds, the priority among three funds will be money market fund (19.15), next is life gilt fund with (6.80) and last would be Group corporate bond with Sharpe ratio of (6.68).

**SUGGESTIONS:**

- Risk takers would opt for Equity funds as they give better returns in long term with above average risk.
- For conservative Investors, the Debt funds like Money market fund, Life Gilt fund would be suggestible in Reliance Nippon Life as it consists of low risk 0.77, 2.30, respectively.
- Debt funds like Money market fund would be given more priority than corporate bond & life gilt fund as it gives moderate returns with low risk from Sharpe Ratio point of view.
- Pure equity fund and Life energy 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 to Money market fund has it gives better returns when compared to Life

energy fund in Reliance Nippon Life with low risk and a higher rate of returns.

**CONCLUSION:**

- From the above the study, the high-performance fund is Pure Equity fund compared to Life Midcap fund, Life energy fund The Money market fund has high performance than all other Debt funds of Reliance Nippon. To obtain better returns from ULIPs investor has to stay for a minimum of 5 years.

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