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A Comparative Study on Investors of Ulip and Mutual Fund Products in Indore City

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Introduction

Insurance is a form of risk management primarily used to hedge against the risk of a contingent, uncertain loss. Insurance is defined as the equitable transfer of the risk of a loss, from one entity to another, in exchange for payment. An insurer is a company selling the insurance the insured, or policyholder, is the person or entity buying the insurance policy. The amount to be charged for a certain amount of insurance coverage is called the premium. Risk management, the practice of appraising and controlling risk, has evolved as a discrete field of study and practice. The transaction involves the insured assuming a guaranteed and known relatively small loss in the form of payment to the insurer in exchange for the insurer's promise to compensate (indemnify) the insured in the case of a financial (personal) loss. The insured receives a contract, called the insurance policy, which details the conditions and circumstances under which the insured will be financially compensated.

In order to be insurable, the risk insured against must meet certain characteristics in order to be an insurable risk. Insurance is a commercial enterprise and a major part of the financial services industry, but individual entities can also self-insure Insurance involves pooling funds from many insured entities (known as exposures) to pay for the losses that some may incur. The insured entities are therefore protected from risk for a fee, with the fee being dependent upon the frequency and severity of the event occurring through saving money for possible future losses.

Unit-linked insurance plans, ULIPs, are distinct from the more familiar 'with profits' policies sold for decades by the Life Insurance Corporation.

'With profits' policies are called so because investment gains (profits) are distributed to policy holders in the form of a bonus announced every year.

ULIPs also serve the same function of providing insurance protection against death and provision of long-term savings, but they are structured differently. In 'with profits' policies, the insurance company credits the premium to a common pool called the 'life fund,' after setting aside funds for the risk premium on life insurance and management expenses. Every year, the insurer calculates how much has to be paid to settle death and maturity claims. The surplus in the life fund left after meeting these liabilities is credited to policyholders' accounts in the form of a bonus. In a ULIP too, the insurer deducts charges towards life insurance (mortality charges), administration charges and fund management charges. The rest of the premium is used to invest in a fund that invests money in stocks or bonds.

The policyholder's share in the fund is represented by the number of units. The value of the unit is determined by the total value of all the investments made by the fund divided by the number of units. If the insurance company offers a range of funds, the insured can direct the company to invest in the fund of his choice. Insurers usually offer three choices an equity (growth) fund, balanced fund and a fund which invests in bonds. In both 'with profits' policies as well as unit-linked policies, a large part of the first year premium goes towards paying the agents' commissions.

A mutual fund is a type of professionally-managed type collective investment scheme that pools money from many investors. While there is no legal definition of mutual fund, the term is most commonly applied only to those collective investment schemes that are regulated, available to the general public and open-ended in nature. Hedge funds are not considered a type of mutual fund. The first introduction of a mutual fund in India occurred in 1963, when the Government of India launched Unit Trust of India (UTI). Until 1987, UTI enjoyed a monopoly in the Indian mutual fund market. Then a host of other government-controlled Indian financial companies came up with their own funds. These included State Bank of India, Canara Bank, and Punjab National Bank. This market was made open to private players in 1993, as a result of the historic constitutional amendments brought forward by the then Congress-led government under the existing regime of Liberalization, Privatization and Globalization (LPG). The first private sector fund to operate in India was Kothari Pioneer, which later merged with Franklin Templeton.

Current Scenario

Insurance is aRs.400 billion business in India, and together with banking services adds about 7% to India's Gap. Gross premium collection is about 2% of gap and has been growing by 15-20% per annum .Unfortunately the concept of insurance is not popular in India .The total premium income generated by insurance(Life and General) in India is estimated at around a meager 2.0% of GDP. However India' share of world insurance market has shown an increase of 10% from 0.31% in 2004-05 to 0.34% in 2005-06. India's market share in the life insurance business showed a real growth of 11% thereby outperforming the global average of 7.7% Non life business Grew up by 3.1% against global average of 0.20%.IN India insurance spending per capita was among lowest in the world at $7.6 compared to $7 in the previous year.

Despite being available in the market for over two decades now with management equaling Rs 7,81,71,152 Lakhs (Source: Association of Mutual Fund), less than 10% of Indian households have invested in mutual funds. A recent report on Mutual Fund Investments in India published by research and analytics firm, Boston Analytics, suggests investors are holding back from putting their money into mutual funds due to their perceived high risk and a lack of information on how mutual funds work. This report is based on a survey of approximately 10,000 respondents in 15 Indian cities and towns as of March 2010. There are 43 Mutual Funds recently.

487 New MF Schemes were launched in the 2012-13 as against 762 in the previous year. The amount mobilized was Rs.66,199 crore as against Rs. 121,357 crore in previous Year.Total fund mobilized during the year stood at Rs. 72,67885 crore as against Rs. 68,19,679 crore in the last year representing a increase of 6.57%

Redemptions at Rs.71,91,346 crore were 5.11% higher than the redemptions of Rs.68,41,702 crore in the Previous year. On a net basis, there was an inflow of Rs.76,539 crore as compare to an outflow of Rs.22,023 crore in the last year. The Assets Under Management as on March 31,2013 stood at Rs.7,01,443 crore as against Rs.5,87,217 crore as at the end of the previous year representing an increase of 19.45%.

The primary reason for not investing appears to be correlated with city size. Among respondents with a high Saving rate, close to 40% of those who live in metros and Tier I cities considered such investments to be very risky, whereas 33% of those in Tier II cities said they did not how or where to invest in such assets

On the other hand, among those who invested, close to nine out of ten respondents did so because they felt these assets were more professionally managed than other asset classes. Exhibit 2 lists some of the influencing factors for investing in mutual funds. Interestingly, while non-investors cite “risk” as one of the primary reasons they do not invest in mutual funds, those who do invest consider that they are “professionally managed” and “more diverse” most often as their reasons to invest in mutual funds versus other investments.

Sources of Data

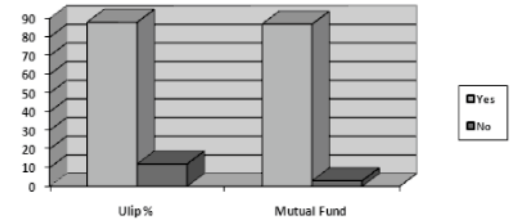
Data has been collected both from primary and secondary sources. And sample size will be 50 respondents.

Data Analysis:

Table 1

Have you invested in Ulip/Mutual Fund

	ULIP %	MUTUAL FUND %
YES	88	97
NO	12	03
TOTAL	100	100

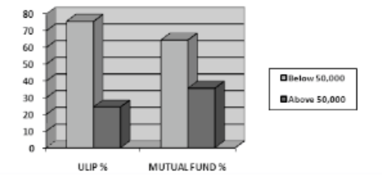


According to survey 88% Investor has invested money in ULIP and 97% Investors has invested money in MUTUAL FUND product.

Table 2

Amount Invested in ULIP/MUTUAL FUND

	ULIP %	MUTUAL FUND %
Below 50,000	75.6	64.4
Above 50,000	24.4	35.6
TOTAL	100	100

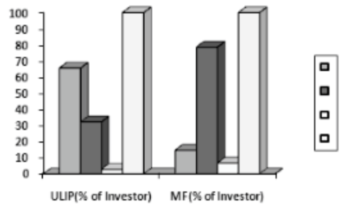


According to survey 75.6% ULIP investor and 64.4% MUTUAL FUND investor has invested money below 50,000 and 24.4% ULIP investor and 35.6% MUTUAL FUND investor has invested money above 50,000.

Table 3

Comparative Analysis of MF and Ulip

Purpose of Investment	ULIP(% of Investor)	MF(% of Investor)
SAVING	65.6	14.7
RETURNS	32.2	78.6
RISK	2.8	6.7
TOTAL	100	100



Analysis of above table we can say that Investor which has preferred ULIP their main purpose is saving The two strong arguments in favor of unit-linked plans are that the investor knows exactly what is happening to his money and two, it allows the investor to choose the assets into which he wants his funds invested.

A traditional 'with profits,' on the other hand, is a black box and a policy holder has little knowledge of what is happening. An investor in a ULIP knows how much he is paying towards mortality, management and administration charges.

He also knows where the insurance company has invested the money. The investor gets exactly the same returns that the fund earns, but he also bears the investment risk. The transparency makes the product more competitive. So if you are willing to bear the investment risks in order to generate a higher return on your retirement funds, ULIPs are for you. Traditional 'with profits' policies too invest in the market and generate the same returns prevailing in the market. But here the insurance company evens out returns to ensure that policy holders do not lose money in a bad year. In that sense they are safer. ULIPs also offer flexibility. For instance, a policy holder can ask the insurance company to liquidate units in his account to meet the mortality charges if he is unable to pay any premium installment. This eats into his savings, but ensures that the policy will continue to cover his life.

Conclusion

A mutual fund is the ideal investment vehicle for present scenario .Today each and every person is fully aware of every kind of investment proposal .Everyone wants to invest money, which entitled of low risk high return and easy redemption .so before investing in mutual fund, one should be fully aware of each and every thing .At the same time ULIP as an investment avenue is good for people who have interest in staying in longer period of time, that is around 5years and above. It is good for people who where investing in ULIP policies of insurance companies as their investments earn them a better return than the other policies. ULIP investors also have the flexibility to alter the premium amounts during the policy tenure ULIP as an investment avenue are closest to mutual fund investor in ULIP is allotted units by the insurance company and the net asset value is declared for the same on a daily basis. ULIP investors have the many options of investing across various schemes. ULIP as a termed as mutual fund schemes with an insurance component.

Mutual fund investor have the option of either making lump sum investments or investing using the systematic investment plan route which entails commitments over longer time horizons. The minimum investment amounts are laid out by the fund house. This is in stark contrast to conventional insurance plans where the sum assured is the starting point and premiums to be paid are determined thereafter. Mutual fund investments, expenses charged for various activities like fund management sales and marketing, administration among other the subject to predetermined upper limits as prescribed by SEBI .Similarly funds also charge their investors entry and exit loads. Entry loads are charged at the timing of making an investment while the exit load charged at the time of sale.

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