

Performance of ULIPS in comparison with MUTUAL FUNDS

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I. Abstract

India is re-emerging as an economic power on the world stage with its rapidly growing economy becoming an investment led economy. Ever expanding impact of economic liberalization, privatization and globalization; growing incomes, savings and investments by individuals to fulfil their future requirements through achieving higher returns; rising risk-return appetites; and booming Indian stock markets with benchmark indices touching new all-time-highs; this all have generated a fervent environment for investments in the Indian equity markets. Unit Linked Insurance Plans (ULIPs) and Mutual Funds and being professionally managed and well regulated; are becoming the most eligible proxies to investments in equities. In this paper a study in the field of performance evaluation of Indian equity based mutual funds and ULIP funds is carried out to work out a comparative analysis of ULIPs and Mutual Funds.

Keywords- Investment, Mutual Funds, Performance Evaluation, and Unit Linked Insurance Plans

II. Introduction

Evaluating performance of investments based on various parameters is utmost importance to fulfill the expectations of millions of investors, to maximize the return. Potential investors are confused in choosing the best investment avenue among the ULIPs and Mutual funds. Even though ULIPs have been ranked lower on performance being involved higher total costs and expenses than mutual funds, but after disregarding this differentiator ULIPs are remarkably similar to, mutual fund in terms of structure and functioning as premium payments is converted into units, net asset value (NAV) is declared regularly and performance is linked to the performance of the funds in which their funds are invested.

Unit Linked Insurance Plan (ULIP) is a type of insurance, which combines the benefit of protection and savings in a single integrated plan. It offers the potential of wealth creation while providing the security of a life cover. In ULIPs, a part of your premium is dedicated towards the life cover and the rest is assigned to a common pool of money, called fund, which invests in equity, debt, or a combination of both.

When the investor makes an investment in ULIP, the insurance company invests part of the premium in shares/bonds etc., and the balance amount is utilized in providing an insurance cover. There are fund managers in the Insurance companies who manage the investments and therefore the investor is spared the hassle of tracking the investments. ULIPs allow the investor to switch the portfolio between debt and equity

based on the risk appetite as well as the knowledge of the market's performance. Benefits like these which offer investors the flexibility of switching is a huge factor contributing to the popularity of these investment instruments.

Mutual Funds

A Mutual fund is a type of financial vehicle made up of a pool of money collected from many investors to invest in securities like stocks, bonds, money market instruments, and other assets. Mutual funds are operated by professional money managers, who allocate the fund's assets and attempt to produce capital gains or income for the fund's investors. A mutual fund's portfolio is structured and maintained to match the investment objectives stated in its prospectus.

Mutual funds give small or individual investors access to professionally managed portfolios of equities, bonds, and other securities. Each shareholder, therefore, participates proportionally in the gains or losses of the fund. Mutual funds in vast number of securities, and performance are usually tracked as the change in the total market capital of the fund-derived by the aggregating performance of the underlying investments.

III. Objectives of the Study

The objective of the study is to encompass knowledge about the comparative analysis of ULIPs and Mutual funds and to facilitate the investors in better investment of their funds. The study is confined only to the analysis about the selected companies of ULIPs and Mutual funds.

IV. Research Methodology

i. Data is collected from secondary sources: The data is collected from Journals, concerned websites i.e, moneycontrol.com, morningstar.com

ii. Period of the study: The data for five is considered i.e., 2019-20, 2018-19, 2017-18, 2016-17 and 2015-16.

iii. The following **ULIP** products are considered for the study-

1. HDFC Life Pension Super Plus – Pension Super Plus Fund
2. Max Life Insurance – Capital Builder – High Growth Fund
3. SBI Smart Performer – Index Fund
4. Tata AIA Life Invest Assure Super Star – Top 200 Fund
5. Exide Life – New Prime Life - Prime Equity Fund

iv. The following **Mutual fund** plans are considered for the study-

1. Axis Blue Chip Fund
2. Mirea Asset Emerging Blue Chip Fund
3. SBI Focused Equity Fund
4. Canara Robeco Emerging Equities
5. Invesco India Contra Fund

V. Data Analysis

At first instance, these two options might seem to be identical, but they are not. There are several differences between these two investment options. The following are some of the significant difference between ULIPs and Mutual Funds-

Table I: Comparison between ULIPs vs Mutual Funds

Features	ULIPs	Mutual Funds
Product type	ULIP is insurance cum investment product.	Mutual fund is pure investment product.
Regulatory body	Insurance Regulatory and Development Authority (IRDA).	Securities and Exchange Board of India (SEBI).
Lock-in period	As ULIPs are insurance products, insurers define lock-in period of generally five years for these investments. Investors cannot redeem their investments before this lock-in period is over	Mutual funds, especially open-ended mutual funds, do not have a lock-in period, except for ELSS funds, which have a lock-in period of 3 years.
Flexibility	Flexibility in investment options, can switch without any tax.	Scheme usually follows a theme, allocations are pre decided based on a theme.
Liquidity	Partial withdrawal is permitted. There is usually a minimum withdrawal amount.	Withdrawal of money from mutual fund is possible at anytime.
Tax benefit	Tax benefits are available u/s 80C.	Can not be considered for Section 80C tax benefits except for ELSS funds.
Cost	Expensive as many costs are involved in it.	Comparatively less expensive, as no entry load and other charges.
Returns	Return in case of ULIPs is market linked and generally in range of 6-8%.	Mutual funds returns are also market linked. Long term mutual funds provide high returns.

The Table II, shows the Annualized Returns of selected ULIPS for the period of five years. Annualized returns are calculated based on the following formula-

$$\text{Annualized Return} = ((1 + r_1) \times (1 + r_2) \times (1 + r_3) \times \dots \times (1 + r_n))^{\frac{1}{n}} - 1$$

Table II: Annualized Returns of ULIPS for 2015 – 2016 to 2019-2020

(Returns in %)

ULIPs / years	2019-20	2018-19	2017-18	2016-17	2015-16

SBI Life - Smart Performer - Index Fund	65.5	12.3	11.5	12.7	9.68
HDFC Standard Life Growth Fund	7.3	10.5	15.1	13.9	11
Max Life Insurance - Capital Builder - High Growth Fund	86.1	23.5	14.6	16.9	13.64
Tata AIA Life Invest Assure Superstar-top 200 Fund	95.4	27.1	20.9	19.6	14.79
Exide Life- New Prime Life- Prime Equity	64.2	13.6	10.5	12.6	9.47

(Source: moneycontrol.com)

The Table III, shows the Average Returns of selected ULIPs for the period of five years-

Table III: AVERAGE OF RETURNS OF ULIPs

Years	Average of returns (%)
2019-20	63.7
2018-19	17.4
2017-18	14.52
2016-17	15.14
2015-16	11.716

The Table IV, shows the Annualized Returns of selected Mutual Funds for the period of five years-

Table IV: Annualized Returns of Mutual Funds for 2015-2016 to 2019-2020

(Returns in %)

S.No	Mutual Funds/Years	2019-20	2018-19	2017-18	2016-17	2015-16
1	Axis Blue Chip Fund	38.22	20.05	16.95	17.54	14.29
2	Mirea Asset Emerging Blue Chip Fund	66.78	23.77	18.04	22.52	22.87
3	SBI Focused Equity Fund	41.16	18.52	13.54	16.88	17.59
4	Canara Robeco Emerging Equities	53.61	19.63	12.90	19.48	20.19
5	Invesco India ContraFund	57.16	16.68	12.54	17.93	15.50

(Source: moneycontrol.com)

The Table V, shows the Average Returns of selected Mutual Funds for the period of five years-

Table V: Average Returns of Mutual funds for five years from 2015-16 to 2019-20

Years	Average of Returns (%)
2019-20	51.386
2018-19	19.73
2017-18	14.794
2016-17	18.87
2015-16	18.088

The Table VI, shows Comparison of Average returns of selected ULIPs with Mutual funds for five years

Table VI: Comparison of Average returns of ULIPs with Mutual funds for five years from 2015-16 to 2019-20

Years	2019-20	2018-19	2017-18	2016-17	2015-16
ULIPs (%)	63.7	17.4	14.52	15.14	11.716
Mutual Funds (%)	51.386	19.73	14.794	18.87	18.088

The Table VII, shows Comparison of Average returns of selected ULIPs with Mutual funds for five years

Table VII: Average of Returns of ULIPs and Mutual funds for Rs.1 lakh

Years	2019-20 (Rs)	2018-19 (Rs)	2017-18 (Rs)	2016-17 (Rs)	2015-16 (Rs)
ULIPs	63,700	17,400	14,520	15,140	11,716
Mutual Funds	51,386	19,730	14,794	18,870	18,088

The Table VIII, shows Comparison of Average returns of selected ULIPs with Mutual funds for five years -

Table VIII: Annual premium for the Term Insurance plan of Rs10 lakhs sum assured

Mutual Funds	Annual premium (Rs)
Axis Blue Chip Fund	2,549
Mirea Asset Emerging Blue Chip Fund	2,935
SBI Focused Equity Fund	3,316
Canara Robeco Emerging Equities	3,454
Invesco India Contra Fund	4,272
Average	3,305.2

(Source: moneycontrol.com)

Table IX: Returns after deducting the premium from the returns of Mutual funds for Rs.1 lakh-

Table IX: Returns after deducting the premium from the returns of Mutual funds for Rs.1 lakh

Year	Returns (Rs)	Returns after deduction of premium (Rs)
2019-20	51386	48080.8
2018-19	19730	16424.8
2017-18	14794	11488.8
2016-17	18870	15564.8
2015-16	18088	14782.8

Table X: Returns of Mutual Funds and ULIPs for Rs.1 lakh-

Table X: Returns of Mutual Funds and ULIPs for Rs.1 lakh

Year	2019-20	2018-19	2017-18	2016-17	2015-16
Mutual funds (Rs.)	48081	16425	11489	15565	14783
ULIPs (Rs.)	63700	17400	14520	15140	11716

Interpretations

- In the year 2019-20 ULIPs have higher return of 12.31% than mutual funds.
- In the year 2018-19 Mutual funds have higher return of 2.33% than ULIPs.
- In the year 2017-18 Mutual funds have higher return of 0.27% than ULIPs.
- In the year 2016-17 Mutual funds have higher return of 3.73% than ULIP
- In the year 2015-16 Mutual funds have higher return of 6.372% than ULIPs.

The year 2019-20 is considered as exception year due to COVID-19 lockdowns and lack

of liquidity in the market, many mutual funds went for redemptions. That is the reason ULIPs returns are higher, when compared to mutual funds.

Mutual fund is the most suitable investment for common man as it offers an opportunity to invest in a diversified, professionally managed portfolio at a relatively low cost. If the person already has term insurance policy it is preferred to opt mutual funds for investors as mutual funds returns are higher than ULIPs.

At the same time ULIPs as an investment avenue is good for people who have interest in staying in longer period of time. Investing in a combination product like ULIPs is the simplest and most elegant way to enjoy the

triple benefits of life cover, high returns and tax savings with minimal risk of losses or other complications.

In a nutshell, the primary aim of ULIPs is to insure the investor's life, while the primary goal of mutual funds is wealth creation.

Conclusion

The main conclusion is that while comparing two investment products and making investment decision, all the features of the products should be considered.

The decision to invest in ULIPs or Mutual funds or solely lies with the investor. Before investing in any instrument, an investor should analyse their financial needs. The right investment option is one that aligns with the investor's financial goals, risk profile, and investment duration.

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