



# A Study of Unit Linked Insurance Plans of ICICI Prudential Life Insurance

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## ABSTRACT

Over the past years Unit Linked Insurance Plans (ULIP) had emerged as a major player in savings mobilization. Investors had showed keen interest by subscribing to ULIP schemes anticipating higher returns. However, with the global recessionary trend the performance of ULIP had been drastically affected. The BSE Sensex which had shot up to 21000 points came crashing down and stood at 8335 points on 12th March 2009 and had greatly affected the Net Asset Value (NAV) across all the plans of various companies.

The objective of this paper is to study the relation between returns and Sensex, investors' preference for ULIP and Equity, growth and penetration of ICICI Prudential and the performance of some of its ULIP schemes.

**Keywords:** ULIP, risk-return, Net Asset Value, Sensex

## I. INTRODUCTION:

Human life is subject to risks of death and disability due to natural and accidental causes. When human life is lost or a person is disabled permanently or temporarily, there is a loss of income to the household. The family is put into hardship. Sometimes, survival itself is at stake for the dependants. Risks are unpredictable. Death/disability may occur when one least expects it. An individual can protect himself or herself against such contingencies through life insurance. Life insurance is insurance for human beings. Though Human life cannot be valued, a monetary sum could be determined which is based on loss of income in future years. Hence in life insurance, the Sum Assured (or the amount guaranteed to be paid in the event of a loss) is by way of a 'benefit' in the case of life insurance. Life insurance products provide a definite amount of money to the

dependants of the insured in case the life insured dies during his active income earning period or becomes disabled on account of an accident causing a reduction/complete loss in his income earnings.

## OBJECTIVES:

- To study the growth of ICICI Prudential Life Insurance since its inception.
- To study the penetration of ICICI Prudential Life Insurance vis-à-vis that of its competitors over the period of 10 years from 2000-01 to 2009-10.
- To study whether the return of ULIP is related to the stock market return.
- To study investor's preference for ULIPs and Equity.

## SCOPE OF THE STUDY

ICICI Prudential Life Insurance Co offers Life Insurance and Medical Insurance plans. Life Insurance plans are issued by the company in the following categories:

- Education solutions – Smart Kid New Unit linked Regular Premium
- Wealth creation plans – ICICI Pru Life Stage Assure
- Premium guarantee plans – InvestShield Cash Bank
- Retirement plans – Life Stage Pension.

## NEED FOR THE STUDY

- Comparison of ULIPs would help the investors to select the plans which offer higher rate of returns.
- Helps the company to come out with better portfolio for ULIPS.



## II. REVIEW OF LITERATURE:

**Padmavathi V. (2005)** in her article "ULIP and Risk management" states that ULIPs are selling well. LICs premium from the sale of ULIP has grown by 293% in 1st quarter of 2005-06 as compared to last year. For ICICI Prudential 60% of the premium constitute from ULIP. The paper goes on to explain the concept of risk management and the prominent role played by insurance in the same. The paper makes a comparative study of risk-return in traditional insurance plans and ULIP plans.

**Lubos Pastor and Robert F. Stambaugh (2008)** in their paper titled "Are stocks really less volatile in the long run?" find that stocks are more volatile over long horizons. For a 30-year time horizon, it was found that return variance per year was 21 to 53% higher than the variance at a one-year time horizon.

**Mihir Dash along with Lalremtuangic C, Snimer Atwal and Supriya Thapar (2009)** in their paper titled, "A study on risk-return characteristics of life insurance policies" observe that endowment plans have a higher rate of return with mortality incorporated, while for unit-linked investment plans, the rate of return is higher when it is treated purely as an investment instrument.

**Achintya Mandal (2008-09)** in his paper, "Overview of Indian Insurance market in a post-liberalisation era – growing challenges and opportunities and the Fight for FDI". The opening up of the insurance sector in 2000 allowed private players into the market. Foreign players could also enter the market with a limit of 26% on direct ownership. The aggressive marketing strategies adopted by the private and foreign players have expanded the market for insurance. As a result of this even though the share of PSUs is larger than their private counterparts, the percentage of market share is coming down.

**Karuna K (2009)** in her article appearing in 'InsuranceChronicle' titled 'Relevance of ULIPs as

a good investment tool' observes that traditional life insurance plans offered by LIC took care of only the insurance needs of people.

However, with the ever changing demands of customers a new product called ULIP was launched which combines the benefits of insurance, investment and tax benefits. It observed that ULIPs are better suited to investors who have 15-20 years as their time horizon. This helps to spread the expense over a longer period and reap the benefits.

## III. RESEARCH DESIGN:

The study is descriptive in nature. This research is basically fact finding with adequate interpretation using simple analysis of data and by developing thinking and elaborating of patterns and obtaining tentative generalizations as hypothesis.

SOURCES OF DATA:

- Primary Data – Questionnaire given to 150 respondents
- Secondary Data - Websites and, Published reports & Review of literature from published articles.

**HYPOTHESIS:**

### • HYPOTHESIS 1

H0: Fluctuations in stock market do not adversely affect the NAV of ULIP

H1: Fluctuations in stock market adversely affect the NAV of ULIP

### • HYPOTHESIS 2

H0: Income of the investors does not affect the fund option selected by the investors.

H1: Income of the investors affect the fund option selected by the investors.

### • HYPOTHESIS 3

H0: Age does not affect the preference for type of insurance (traditional or unit – linked) selected by the investors.

H1: Age affects the preference for type of insurance (traditional or unit – linked) selected by the investors.



#### IV. DATA ANALYSIS:

**Table 4.1: Growth of ICICI Prudential since inception**  
(Rs. Crores)

| Year | No. of new policies ('000) | Premium income | APE   |
|------|----------------------------|----------------|-------|
| 2001 | 6                          | 5.9            | 4.2   |
| 2002 | 98                         | 116.3          | 68    |
| 2003 | 244                        | 417.6          | 253.5 |
| 2004 | 436                        | 989.3          | 706.2 |
| 2005 | 615                        | 2363           | 1256  |
| 2006 | 838                        | 4261           | 2163  |
| 2007 | 1960                       | 7913           | 4381  |
| 2008 | 2913                       | 13561          | 6519  |
| 2009 | 2637                       | 15356          | 5302  |
| 2010 | 1762                       | 16532          | 5345  |
| 2011 | 2637                       | 17881          | 3975  |

Source: Annual Reports of ICICI Prudential from 2000-01 to 2010-11

**Table 4.2: % Comparison of Premium received by Life-Insurers for ten years**

| Year    | LIC of India | Private Sector | TOTAL |
|---------|--------------|----------------|-------|
| 2000-01 | 99.98        | 0.02           | 100   |
| 2001-02 | 99.46        | 0.54           | 100   |
| 2002-03 | 97.99        | 2.01           | 100   |
| 2003-04 | 95.32        | 4.68           | 100   |
| 2004-05 | 90.67        | 9.32           | 100   |
| 2005-06 | 85.75        | 14.25          | 100   |
| 2006-07 | 81.90        | 18.10          | 100   |
| 2007-08 | 74.39        | 25.61          | 100   |
| 2008-09 | 70.92        | 29.08          | 100   |
| 2009-10 | 70.10        | 29.90          | 100   |

Source: IRDA Annual Report 2009-10.

**Table 4.3: Premium received by Private Sector Life Insurance Co. and Share of ICICI Prudential**

| Year    | Rs. In Crores  |                  | % Share of ICICI Prudential in the Private Sector |
|---------|----------------|------------------|---|
|         | Private Sector | ICICI Prudential |   |
| 2000-01 | 6.45           | 5.97             | 92.59   |
| 2001-02 | 272.55         | 116.38           | 42.70   |
| 2002-03 | 1119.06        | 417.62           | 37.32   |
| 2003-04 | 3120.33        | 989.28           | 31.70   |
| 2004-05 | 7727.51        | 2363.82          | 30.59   |
| 2005-06 | 15083.54       | 4261.05          | 28.25   |
| 2006-07 | 28242.48       | 7912.99          | 28.02   |
| 2007-08 | 51561.42       | 13561.06         | 26.30   |
| 2008-09 | 64497.43       | 15356.22         | 23.81   |
| 2009-10 | 79373.06       | 16531.88         | 20.83   |

Source: IRDA Annual Report 2009-10



**Table 4.4: Comparison of unit-linked and non-linked life insurance business for three years**

|          | Unit-linked business (%) |         |         | Non-linked business (%) |         |         |
|----------|--------------------------|---------|---------|-------------------------|---------|---------|
|          | 2005-06                  | 2006-07 | 2007-08 | 2005-06                 | 2006-07 | 2007-08 |
| Private  | 82.3                     | 88.75   | 90.33   | 17.7                    | 11.25   | 9.67    |
| LIC      | 29.76                    | 46.31   | 62.31   | 70.24                   | 53.69   | 37.69   |
| Industry | 41.77                    | 56.91   | 70.3    | 58.23                   | 43.09   | 29.7    |

Source: IRDA Annual Report 2007-08.

**Table 4.5: Summary of Karl Pearson's Coefficient of Correlation under various fund options**

| Type of Fund          | Smart Kid      | Life Stage Assure | Life Pension Stage | Invest Shield CashBak |
|-----------------------|----------------|-------------------|--------------------|-----------------------|
| Balancer              | 0.881          | 0.885             | 0.903              | Not applicable        |
| Flexi-Balancer        | 0.944          | 0.948             | 0.966              | Not applicable        |
| Flexi-growth          | 0.989          | 0.988             | 0.989              | Not applicable        |
| Maximiser             | 0.985          | Not applicable    | 0.991              | Not applicable        |
| Multiplier            | 0.994**        | 0.994**           | 0.992              | Not applicable        |
| reserver              | 0.583          | 0.583             | 0.573              | Not applicable        |
| Protector             | 0.576          | 0.574             | 0.558              | Not applicable        |
| R.I.C.H.              | 0.980          | 0.980**           | Not applicable     | Not applicable        |
| Return guarantee fund | 0.921*         | Not applicable    | Not applicable     | Not applicable        |
| Investshield CashBak  | Not applicable | Not applicable    | Not applicable     | 0.567                 |

Source: Survey Data

Calculated on basis of NAV from 1-1- 2008 to 30-6-2011

\* Calculated on basis of NAV from 31-12-2008 to 30-6-2011

\*\* Calculated on basis of NAV from 31-3-2008 to 30-6-2011

**Table 4.6: Relationship between Income of investors and type of fund option (Equity and Debt)**

| Income of investors                 | Equity based fund option ( $\alpha$ ) | Debt based fund option ( $\beta$ ) | Total |
|-------------------------------------|---------------------------------------|------------------------------------|-------|
| Less than or equal to Rs. 30000 (A) | 154                                   | 57                                 | 211   |
| More than Rs. 30000 (B)             | 73                                    | 16                                 | 89    |
| Total                               | 227                                   | 73                                 | 300   |

Source: Survey Data.

**Table 4.7: Relationship between age of investors and type of insurance plan (observed frequencies)**

| Age of investors                   | Only unit linked insurance plan ( $\alpha$ ) | Both types of insurance ( $\beta$ ) | Total |
|------------------------------------|--|-------------------------------------|-------|
| Less than or equal to 30 years (A) | 71   | 44                                  | 115   |
| More than 30 years (B)             | 93   | 92                                  | 185   |
| Total                              | 164  | 136                                 | 300   |

Source: Survey Data.

## V. FINDINGS

- 65.67% of the investors were males.
- 88% of the investors' age was less than 45 years indicating that ULIP is a popular investment tool among the young people.
- Nearly 62% of the investors were employed while only 13.67% of the investors who were involved in their own business have unit linked insurance plans.
- 70% of the investors were earning less than Rs. 30000 p.m. The unit linked insurance plans is not popular among high-net-worth individuals i.e. those earning more than Rs. 45000 p.m. as only 16% had invested in it.



- 5) 36.67% of the investors save less than 20%, 43% save between 20 to 40% of their annual income and balance 20.33% save more than 40% of their annual income.
- 6) Only 16% of the investors were ready to take risks when it comes to investing the money, while nearly 27% were absolutely not interested in taking any risk.
- 7) Apart from ULIPs, bank deposits, public provident fund were popular investment avenues selected by the investors. Two-third of the investors had bank deposits, while 50% have PPF a/c.
- 8) ICICI Prudential Life Insurance Co. Ltd is the market leader in the unit linked plans market as can be seen from the survey of 300 investors. Here 41.33% of the investors have insurance plan with this company and only HDFC Standard life Insurance Co. Ltd with 14.33% and Life Insurance Corporation of India with 13% have double digit market share.
- 9) 60% of the investors are investing in ULIP to get the benefits of capital appreciation. The other popular reasons are children education and retirement planning.
- 10) Brand image is the most important factor which affects the decision making process while choosing among various competing brands of unit linked insurance plans.
- 11) Equity based fund options like R.I.C.H, flexi-growth, multiplier and maxi miser have found favour with 75.67% of the investors and only 24.33% of the investors go in for balancer, protector and preserver fund options. This shows that majority of the investors are ready to take risks and reap the benefits of capital appreciation.
- 12) Only 53% of the investors choose the switch option between various funds. Thus, it can be said that there is an equally high percentage of investors i.e. 47% that do not switch their funds.
- 13) 61.67% of the investors said that that allocation charges are average and 27% said that it was very high. Only 11.33% investors feel that the charges were very low.
- 14) 54.33% of the investors had the opinion that returns on their investment in linked insurance plans is average.

## VI. SUGGESTIONS AND RECOMMENDATIONS

The company started with a capital base of Rs. 150 crores and as on 31<sup>st</sup> December 2009 it

stands at Rs. 4780 crores with ICICI Bank holding 74% and Prudential plc holding 26% of the shares. Its growth since incorporation is measured in terms of the following parameters:

- 1) Number of new policies
  - 2) Premium income – including first year premium, renewal premium and single premium.
  - 3) Sum assured on basic policy
  - 4) APE – annualized premium equivalent.
- The premium collected by the life insurance company is in the form of regular premium and single premium policies.

The single premium policies involve the payment of premium only at the commencement of policy. Thus, the total premium collected by a company includes regular premium paid by the policyholder for one year and single premium paid for a tenure depending upon the duration of the policy.

The comparison between different companies on the basis of such figures may not give a fair picture of the position of the company. Hence annualized premium equivalent is calculated which normalizes the single premium payments to recurring premium payment equivalent. This helps in comparison of sales accurately.

## LIMITATIONS OF THIS STUDY

- The study is restricted to only 150 employees of THE HINDU GROUP Private Limited.
- The information provided by the respondents could also be biased or inaccurate. No independent verification of the data was possible.
- Time is a major constraint.
- Information from more employees would have made this study more exhaustive but due to time limitations it is not possible.
- The respondents chosen were busy and have less time to answer the questionnaires.

## VII. CONCLUSION

The study was conducted to study the performance of ULIP of ICICI Prudential Life Insurance Co Ltd. It was found that the schemes where the investors have chosen equity based fund the returns are directly proportional to the stock market. However the debt based fund has shown increasing returns over the time. They are neutral to the volatility shown by the stock market.

The survey showed that around 40% of the investors had invested in ULIP of ICICI Prudential Life Insurance Co Ltd. The company's brand image



has captured the attention of investors in Chennai. The primary objective for investing in such plans was found to be capital appreciation and children education. The investors found the allocation charges to be average and the consequent returns also to be average. It was observed that the switch option was not exercised by nearly half the investors. Thus, it can be said that the investors are not monitoring their investments properly. Investors have to understand the working of ULIP in a better way to maximize their returns.

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