

## **Investors Behavior on Ulips Market (Unit Linked Insurance Plans)**

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### **1. Abstract**

Human Life involved with lot of risk. Man always striving hard to reduce risk. As part of it, people are purchasing insurance policies so that secure their families against uncertain events. Insurance is the primary risk management device that protect against risks, hazards or dangers to life and property. Private Life Insurance of India is one among the successful private and public sector organization in India with 80% market share in life insurance sector. With the opening up of the insurance sector, a number of private players entered into the market. The new players with their focused approach and need based selling captured significant chunk of the insurance market. With this background a survey was conducted among 300 policy holder in Urban and Semi Urban centers to study policy holder perception towards LIC of India. Majority of the policyholders is influenced by self-followed by agents while taking an insurance policy from LIC, significant number of policyholders felt that the premium rate is high, majority of the sample policyholders prefer to buy money back policy and policyholders expected a return of 11-15 percent from their investments.

**Keywords:** Insurance, Perception, Policyholder, Semi-Urban, Urban.

### **1.1 Introduction**

Investment choices are one of the important options to get more revenue from their investments. It is a kind of financial planning. If this plan is planned, it will yield more gain to the investors as well as to the business sector. The Unit Linked Plan is also one of the investment options to secure life insurance as well as market gains. The Unit Linked Insurance Plans is one of the hybrid financial products that offer life insurance as well as an investment component like a mutual fund. Part of the premium that is paid goes towards the sum assured and the balance will be invested in whichever investments the policy holder desires, based on the risk taking ability.

India has seen a tremendous growth on the unit linked front over the recent years. The growth has been fuelled by the booming stock markets & lower interest rates. Before the introduction of the unit linked product, the policyholders who are interested in investing in stock markets either had to purchase the stocks on their own in the primary and secondary or invest in mutual funds. With the introduction of the unit linked product, the prospect has an option to invest in the stock market via purchase of a unit linked life insurance policy in addition to the life insurance cover. A unit linked policy scores over mutual fund via tax advantages and life cover (now sips can offer life cover as per recent SEBI guidelines).

The private insurance companies on an average earn almost 85 per cent of their business through sale of ULIPs. In 2008-09, ULIPs accounted for 86.74 per cent of private firms' business. For the entire industry, ULIPs contributed Rs 90,645.78 crore of premiums in 2008-09, more than 40 per cent of total sales. In an ULIP plan the policy owner can select the mode of payment towards his premiums, which may be in a lump sum amount (single premium) or can opt for

paying premiums at regular intervals which may be monthly, quarterly, half-yearly or annually.

The premium paid by the client is used to buy units in various funds (debt, balanced and equity funds) floated by the insurance companies. The policyholder can also switch among the funds as and when desires. It must be also mentioned that there are numerous costs in relation to ULIPs like Premium allocation charge, Mortality Charge, Fund Management Charge and Policy Administration Charge. Apart from these there are some hidden costs involved in ULIPs such as surrender and fund switching charges etc. From the taxation angle the money invested in ULIPs is tax exempt, the returns earned during the tenure of the ULIP are tax exempt and the amount received at maturity is also tax exempt.

## **1.2 Need for the Study**

ULIPS is a growing industry and considered as the major mobilizes of financial resources for the stock market and the economy in general. . The rapid growth of the ULIPS industry in India has attracted a number of private players into the market. The various ULIPS companies have been successfully operating in the industry by providing a wide range of products to suit a variety of investors' needs. Formulation of alternative schemes by various ULIPS companies has become important to light the battle and to secure a sound position in the industry. ULIPS as an investment vehicle is capturing the attention of various segments of the society, like academicians, industrialists, financial intermediaries, investors and regulators for varied reasons and deserves an in depth study.

With the increase in domestic savings and improvement in awareness of value of life of the earning person in a family, the need and scope for life Insurance operation has increased tremendously. Life Insurance are not only best suited for the purpose of insuring the life but also are capable of meeting future financial challenges effectively. Hence, this study explores about the customers' perception and awareness level of Unit Linked Insurance Policy.

Even though this ULIPs plan is working with the market conditions, but it has lot of problems to the investors due to lake of awareness and other reasons. Low level of business tractions and volume of business are major problems of ULIPS business. This study aims to address the current issues on ULIPS offered by various companies.

## **1.3 Review of Literature**

The existing behavioral finance studies are very few and very little information is available about investor perceptions, attitudes and behavior.

According to **Agarwal (2010)**, ULIP helps to manage the risk return profile. With the double advantage of security and investment, ULIPs have become the most popular insurance product from the available range of life insurance policies. With a higher rate of return, ULIPs gives tough competition to traditional insurance products like endowment plans and money back plans. The basic reason for opting for policies other than the term insurance is ensuring highest maturity value for invested sum besides mortality benefits. In maturity value the important factors to be considered is the internal rate of return on investment. IRDA has fixed 6% and 10% as the assumed rate of return for projecting future benefits. The general rule for Debt-Equity portfolio management in ULIPs is that you should go conservative by increasing investment in debt when the markets are at their highest, very unstable and likely to start falling any time, vice versa when the markets are very low and depressed.

**De Bondt and Thaler (2005)** while investigating the possible psychological basis for investor behavior, argue that mean reversion in stock prices is an evidence of investor over reaction where investors over emphasize recent firm performance in forming future expectations.

**Dipak Mondal (2010)** says that the minimum sum assured (life cover) in ULIPS is five times and most policies offer covers between 5-10 times the annual premiums which have been the signaling factor for the investors.

**Shanmugham (2000)** conducted a survey of 201 individual investors to study the information sourcing by investors, their perceptions of various investment strategy dimensions and the factors motivating share investment decisions, and reports that among the various factors, psychological and sociological factors dominated the economic factors in share investment decisions.

**Madhusudhan V Jambodekar (1996)** conducted a study to assess the awareness of investors, to identify the information sources influencing the buying decision and the factors influencing the choice of a particular fund. The study reveals among other things that income schemes and open ended schemes are more preferred than growth schemes and close ended schemes during the then prevalent market conditions. Investor looks for safety of principal, liquidity and capital appreciation in the order of importance; the newspapers and magazines are the first source of information through which investors get to know about schemes and investor service is a major differentiating factor in the selection of mutual fund schemes.

**Amar ranu (2010)**, leading financial conglomerate says that other market related products lags behind ULIPs return by a larger margin in the long term which confirms that investment in ULIPs are ideal investment vehicle for wealth creation in long run. ULIP score over other products in terms of returns and additional benefits such as insurance cover. ULIPs are covered under sec 80(C), 10 10 (D) of IT Act, hence tax benefits up to a maximum of Rs.1, 00,000 investment can claimed in these plans.

**Sanjay Mathew, (2010)** say that the changes made by IRDA on ULIP includes the top up premium. IRDA said adding all limited premium ULIPs, other than single premium products, shall have premium paying term of at five years. The premium has also gone up to 10 times of the year premium compared to existing 5 times. All ULIP pension or annuity products will offer a minimum guaranteed return of 4.5% per annum or as specified by the IRDA from time to time.

**Sujit Sikidar and Amrit Pal Singh (2006)** carried out a survey with an objective to understand the behavioral aspects of the investors of the North Eastern region towards equity and mutual funds investment portfolio. The survey revealed that the salaried and self employed formed the major investors in ULIPS primarily due to tax concessions. UTI and SBI schemes were popular in that part of the country then and other funds had not proved to be a big hit during the time when survey was done.

**Syama Sunder (2008)** conducted a survey to get an insight into the mutual fund operations of private institutions with special reference to Kothari Pioneer. The survey revealed that awareness about ULIPS concept was poor during that time in small cities like Visakapatnam. Agents play a vital role in spreading the ULIPs culture; open end schemes were much preferred then, age and income are the two important determinants in the selection of the fund/scheme; brand image and return are the prime considerations while investing in any fund.

#### **1.4 Objectives of the Study**

1. To study the factor that influence investment behavior of the respondent in the selected study area.
2. To study the attitude of the respondents towards different investment choices.
3. To investigate various methods of payment and mode of operations by the investors.
4. To find out problems of ULIPS investors and suggest suitable measures to solve the problems in the study area.
5. To study the government policy issues which related to ULIPS and suggests suitable policy mix to enlarge the ULIPS market size?

#### **1.5 Formulation of Hypothesis**

On the basis of above objectives several major hypotheses are formulated and listed below. Socio economic conditions of the various regions within the district respondents are differ investing on ULIPS in the study area.

- i. There is no significant relation between investment avenues and educational and occupational.
- ii. It is hypothesize that ULIPS investors are not facing any problem in the current investment environment.
- iii. It is assumed that respondents are not aware of all ULIPS schemes and policies. and
- iv. There is no change in present status of the respondents due to the global level financial crises.

#### **1.6 Research Methodology**

This present study is proposed to select as study area is Cuddalore district in Tamilnadu. This district includes Chidambaram, Kattumannarkudi, Thittakudi, Viruthachalam and Cuddalore taluks. This study is based on primary as well as secondary data. The primary data were collected through a sample survey of the investors and using simple random sampling techniques employed. For the sample survey, the researcher visited various companies including LIC, ICICCI prudential, Bajaj Alliance, SBI Life, HDFC Standard life, Reliance life insurance TATA AIG insurance and other organizations. The researcher selected the respondents for the survey from the list of investors, taking into account the cost and time constraints 450 samples were selected in this study area. The secondary data were collected from investors profile, books, journals, census reports, policy notes and magazines' which are related to ULIPS investors taken up for the current research. In order to analyses the collected data, simple percentage analysis, correlation, ANOVA and other statistical tools are adopted to test the customers profile, attitude and opinion regarding ULIPs.

#### **1.7 Area of the Study**

The sample sites for this study were selected on the basis of demographic and geographical consideration. The Cuddalore district is the right place to conduct this kind of study because the large size of investors are working in government and private sectors and the thick population are living in the study area. It is one of the highly populated, urbanized and capital of cyclone affected area in Tamilnadu. According to the investor statistics, Cuddalore district is offering high level investment opportunities in Tamilnadu. Thus, Cuddalore district has been chosen as study area.

### 1.8 Period of the study

The data pertaining to the 2002 to 2012 is used for this the study. The study has chosen 2002 as base year because during these periods the most of the ULIPS institutions are developed with new policies and innovations due the liberalization and the new financial regulations.

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