Factors Behind Rise and Fall in the Sales of Unit Linked Insurance Plans in India

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ABSTRACT
Indian insurance sector is very large and has the presence of great number of companies. It has watched new heights from the past nearly one decade due to the opening up of insurance sector for both private and foreign companies after which many new foreign companies entered by making joint ventures with Indian firms like ICICI-Prudential Life, HDFC Standard Life, TATA-AIG etc. These companies came up with new product namely Unit Linked Insurance Plan (ULIP) in which the capital of the customers was invested in the Stock Market and it offered short range plans also. In the initial time period all the companies made good business because people liked the new product but after a gap of about 7-8 years when the actual returns were come, people start ignoring the ULIP’s as the returns were not accordingly as promised by the different Insurance companies.

Key Words: ULIP’s, Traditional plans, Stock market, Customer’s knowledge and awareness

INTRODUCTION
Insurance is a contract whereby, in return for the payment of premium by the insured, the insurers pay the financial losses suffered by the insured as a result of the occurrence events. The term “risk” is used to describe all the accidental happenings which produce a monetary loss.

Insurance is an ethos in which a large number of people exposed to a similar risk make contributions to a common fund out of which the losses suffered by the unfortunate due to accidental events, are made good. The sharing of risk among large groups of people is on the basis of insurance. The losses of an individual are distributed over a group of individuals. The risk becomes insurable if the following requirements with:

- The insurance must suffer financial loss if the risk operates.
- The loss must be measurable in money.
- The object of the insurance contract must be legal.
- The insurance should have sufficient knowledge about the risks he accepts.

Objectives of the study:
- To study the growth of Indian Insurance sector.
- To study the Role of Regulatory frame work of IRDA.
- To study the difference between the Traditional insurance plans and ULIP.
- To know about the various benefits of ULIP.
- To know about the factors responsible for the rise and fall of ULIP.

- To know the future scenario of ULIP in India.

Research Methodology
The paper is completely a conceptual one whose basic foundation comes from various secondary sources like research articles in Journal, published and unpublished scholarly papers, and books, various international and local journals, speeches, newspapers and websites. The analysis part of the paper is based on the statistical data provided by IRDA.

Significance of the study
The study has been conducted to review the insurance sector after its liberalization and to find out the growth of ULIP. Insurance sector has shown a phenomenal growth after its liberalization and it has increased after the private sectors entry and coming of new product ULIP. Insurance sector in India was the most trusted sector and has insured Indians lives to protect them from the uncertainties and sudden disasters. Insurance sector is working in all the facets of human life. The study basically talks about the changes in the sector regulations and its impact on the growth.

WHAT IS INSURANCE?
Mankind is exposed to many serious perils such as property losses from fire and windstorm and personal losses from disability and premature death. Although it is impossible for an individual to foretell or completely prevent their occurrence but
it is possible to provide against their financial effects - the loss of property and earnings.

- Insurance is the method of spreading and transfer of risks.
- Losses of unfortunate few and are shared by and spread over to many exposed to the same risk.
- Assets created by the owner in expectation of future needs have a value.
- Loss of assets for any reason deprives the owner of the expected benefits.
- It acts as a form of a safeguard against misfortunes.

From the point of view of community life insurance may be defined as a social device to make accumulations to meet uncertain losses resulting from premature death or disability.

PURPOSE AND NEED OF INSURANCE

As said earlier that the mankind is exposed to many serious perils which risks the security of their belongings. The risk here means that there is a possibility of occurrence of loss or damage to the property, it may happen or may not happen. Insurance is relevant only in the contingency of uncertainty. If there is no uncertainty about the occurrence of the loss, it can’t be insured against.

- Assets are likely to be destroyed or made non-functional due to perils like fire, floods, breakdowns, lightning and earthquake.
- Damage to assets caused by any perils is the risk that asset is exposed to.
- Risk means possibility of loss or damage which may or may not happen.
- Insurance become relevant only if there is uncertainty of occurrence of event leading to loss.
- No uncertainty – No insurance
- We can say the human life value is an ongoing generating asset which can be lost on early death or disability caused by accidents.
- Insurance doesn’t protect the assets but only compensates the economic or financial loss.
- Basically insurance covers tangible assets but the concept can be extended to intangible also.

Various needs of life insurance can be:-

- Protection of the interest of the family member.
- Provision for education and marriage of the children.
- Post retirement income for self and dependents.
- Special needs for medical expenses.
- Provision for health /illness.
- Provision for housing.

- Provision for income tax rebate.

FUNDAMENTALS OF INSURANCE:-

- Insurable Interest
- Proximate cause
- Contribution
- Subrogation
- Utmost good faith

EMERGENCE IN INDIA

In India the first company known as Sun Insurance Office Ltd, was set up in Calcutta in year 1770. During the early years of 19th century, a large number of insurance companies were formed in India. Some of these companies preferred to amalgamate their business with other companies and a good number failed to function effectively. In order to stabilize and strengthen the insurance business, Life Insurance Act 1923 was passed and later amended in 1946, 1958 and 1967.

Insurance was one such industry that saw industrialization in year 1956. Prior to this the Indian sector has some 246 companies in the insurance sectors. Then Life Insurance Corporation of India was formed and all the other Life Insurance Companies gave their business to the corporation. The basic intention was to take the concept of Life Insurance to the grass root level of the Indian Society.

INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY (IRDA)

The IRDA Act, 1999 was passed as per the major recommendation of the Malhotra Committee report (1994) which recommended establishment of an independent regulatory authority for insurance sector in India. Later, it was incorporated as a statutory body in April, 2000. The IRDA Act, 1999 also allowed private players to enter the insurance sector in India besides a maximum foreign equity of 26 per cent in a private insurance company having operations in India. It serves as an Authority to protect the interests of holders of insurance policies, to regulate, promote and ensure orderly growth of the insurance industry and for matters connected therewith.

The opening up of the insurance sector for the private players leads to the passing of the Insurance Regulatory and Development Authority- IRDA which is regarded as an significant step in the insurance sector.

- The IRDA should give priority to health insurance while issuing certificates of registration.
- Policyholder’s funds will be invested in the social sector and infrastructure. The percentage may be specified by the IRDA and such regulations will apply to all insurers operating in the country.
Insurers will expected to undertake a certain percentage of the business in the social sector and provide policies to person residing in rural areas, workers in the unorganized and informal economically back.

In case the insurers fail to meet the social sector obligations a fine of Rs 2.5 million would be imposed the first time. Subsequent failures would result in cancellation of licenses.

Mr. Hari J. Naryan is the present chairman of the IRDA.

**FOREIGN COMPANIES**

Government had allowed 26% foreign equity participation in the insurance sector. This has its limitations. While most foreign insurers planning to start their services in India were not pleased by the condition, they reluctantly agreed that this was expected in the opening economy and this will not change their outlook for India. After all no single Insurance company can afford a market of more than 1 billion people.

The foreign players are essentially looking to tap the global expertise in the varied markets and use that know-how to work in the Indian scenario. Designing of products, information systems, technical expertise, manpower- planning etc is one what expects the foreign players to have said in.

Recently Indian government has allowed the share of Foreign companies upto 49% in the Insurance Sector.

**ULIP’s (Unit Linked Insurance Plans)**

A unit-linked insurance plan (ULIP) is a type of life insurance where the cash value of a policy varies according to the current net asset value of the underlying investment assets. It allows protection and flexibility in investment, which are not present in other types of life insurance such as whole life policies. The premium paid is used to purchase units in investment assets chosen by the policyholder.

In India investments in ULIP are covered under Section 80C of IT Act. The overall limit of permissible deductions under Section 80C is Rs. 1 Lac. However, the concept of having insurance is governed by the Insurance Regulatory and Development Authority (IRDA).[1]

ULIP’s, or Unit Linked Insurance Plans, have gained high acceptance due to the attractive features they offer. Benefits include flexibility of choosing the fund option, Transparency of actual amount invested, Liquidity of withdrawing money, and Fund Options of equity and debt etc.

**Traditional Plans:-**

These are the oldest types of insurance plans available. These plans cater to customers with a low risk appetite. Some of the common features of traditional plans are:

- Steady Investment
- Major chunk of investible funds are in debt instruments.
- Steady and almost assured returns over the long term.
- Features.
- Death benefit is Sum Assured + guaranteed & vested bonus.
- Helps in asset creation as they are for a long tenure.
- Premium to Sum Assured ratios are fixed for each plan and age.
- Generally withdrawals are not allowed before maturity.

**Difference between the Traditional Insurance Plans & ULIP’s:-**

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<thead>
<tr>
<th>TRADITIONAL INSURANCE PLANS</th>
<th>ULIP’s</th>
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<tr>
<td>1. No flexibility to adjust your protection level with your changing life styles.</td>
<td>1. Total flexibility and control on your policy to choose the desired level of protection as per your life style.</td>
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<tr>
<td>2. Control over the investment is restricted and returns are also limited and assured.</td>
<td>2. Total control over your investment with the choice of investments.</td>
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<td>3. No flexibility to change your protection and investment levels.</td>
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<td>4. Value of your investment depends upon bonuses declared by the company.</td>
<td>4. You can create own value and in long run this turns out to be cost effective.</td>
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<td>5. You can’t change your life cover over the period of your life style.</td>
<td>5. You can change your life cover at different life stages.</td>
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<td>6. Premium payment term is limited, so you have to pay the premium for a desired period.</td>
<td>6. Avail of the premium holiday feature to stop paying the premium and your policy still continues.</td>
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<td>7. Can’t increase your contribution, if you have extra money.</td>
<td>7. Flexibility to increase your savings anytime with help of top-ups.</td>
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<td>8. All traditional plans have the surrender value and</td>
<td>8. Lifetime has no surrender value and after 3 years if the policyholder wants to exit from the plan- the exit</td>
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Factors behind continuous falling of ULIP products

- ULIP's are structured in such a way that they offer very poor returns to investors.
- ULIP's are not fraudulent in nature but it is a case of BUYER'S BEWARE.
- It offers huge front-loaded commissions to the salespersons and agents.
- ULIP's offer a combination of insurance and investment, paid for in an annual lump sum. The insurer combines a term cover, deducts the premium. Then it deducts commissions. It invests what's left in the policy-holder's choice of debt and equity. One good thing is that ULIP's allocations are flexible. The same scheme will allow very large variations in the ratio of debt:equity investments.
- The major disadvantage of the ULIP is that If the unit holder dies, the nominee gets a certain sum assured as in any term plan. Or else, units appreciate in value and therefore, a nest-egg is created. So far, so good. The devil lies in the details. The first couple of years have enormous commissions - usually 70 per cent or more. This huge outflow means that very little of the initial commitment is invested. A basic knowledge of compounding will show this is not an optimal way to grow money.
- The other nasty detail is that most ULIP's run on an “either/or” basis. If you die, you will get either the value of the term cover or the value of the units, whichever is higher. You won't get both. This means essentially that the insurer is always swallowing a large component of your annual payment.
- The other major structural issue with most ULIP's is that many investors are tempted by the agent telling them that they only have to pay a premium for the first three years or so. If you choose not to pay a premium after that mandatory period, the annual term cover charges are deducted from the standing unit-value. So the investment corpus evaporates.
- It is worse then the alternatives under almost all circumstances, ULIP's yield lower returns than a combination of a simple term cover and a basket of equivalent mutual funds that together commits the same lump sum. If a Ulip-holder dies early, the estate receives a lower payout. If a Ulip holder survives, he receives a lower payout. If he dies later, his estate receives a lower payout. Risk profile doesn't matter. A conservative person should take term cover and buy debt oriented funds with the surplus. An aggressive person should take term cover and buy diversified equity funds. Even an endowment insurance policy plus funds will generally produce better returns than a ULIP. (Endowment or “money-back” schemes charge higher premiums than term covers so less money goes into the fund portfolio.)

SWOT ANALYSIS of Insurance Sector in India:

- Excellent services.
- Customization of Products as per customer’s needs.
- Brand Image.

MUTUAL FUNDS
Mutual fund is a mechanism for pooling the resources by issuing units to the investors and investing the funds in securities in accordance with objectives as disclosed in offer document. Investments in security are spread across a wide cross-section of industries and sectors and thus risk is reduced. Diversification reduces the risk because all stocks may not move in the same direction in the same proportion at the same time. Mutual Fund issues units to the investors in accordance with quantum of money invested by them. Investors of the mutual fund are known as unit holders.

Factors behind continuous falling of ULIP products

- All traditional insurance plans have high first year charges. These are usually in the tune of 60% or 70% and in some cases even higher. Thus it takes longer for the money to grow in a traditional plan.

10. Traditional insurance plans do not provide control on investment. Money is invested as per rules and laws laid down. The investment is not transparent and the policy holder has no options to monitor the investments.

9. Lifetime has a lower cost of investment. The 20% first year charges is the lowest asset acquisition cost amongst all insurance plans. This makes Lifetime a value for money plan as more money goes towards investment from the beginning.

10. Lifetime gives control to the policy holder over the investments. The policy holder decides where, when and how is your money be invested. There are three funds that enable the policyholder to invest as per the return desired and can build a personal risk- return profile.
Challenges Before Industry

- Business Experience.
- Strong Financial Base.
- Innovative products, Technology, organization culture and climate.
- The company has a large network of banks ATM’s which is helpful to customer for the payment.
- Strong Brand name.

Weakness

- Lot of competitors are in the market offer same product by the title difference in the premium and offerings.
- Misguidance by the agents of various Insurance companies regarding the returns.

Opportunities

- Huge market is literally untapped. Out of estimated 320 million insurable markets only 20% of the population is insured.
- Health insurance and pension Schemes, an estimated market potential of approximately $15 billion.
- Pure risks covers for tourists. Analyze the best such schemes have become popular in China. Cure should be taken to innovative products to suit these.
- New market penetrations such as Mauritius, Sri Lanka, Nepal, Bhutan and Bangladesh are made to exploit the business opportunities there.
- Continuous increase in the per capita income of the people.

Threats

- Entry of many other private companies with equally strong experience and financial strength of foreign partners making the competition difficult and saturating the urban markets.
- LIC has woken up from sleep and is following competitive strategies. Its huge surplus in Life Fund gives a capability to lodge Price war. It has also major edge over its competitors having the tag of Govt. limited company and strong market.
- Current Government policies do not encourage Gross Domestic Savings. If the Tax Liability of the service class rises, the customer will have little money to invest.
- For the Insurance sector Government set the authority that is IRDA (Insurance Regulatory and Development Authority) which is undertaken to track record of all the companies and change rules day by day more rigid which is very difficult for the companies.
- In the competition some companies offer very low permission for dominate the other players.

India has an amorphous middle class of about 300 million people who can afford to buy life, health, disability and pension plan products. Out of this 30% have insurance and that too covers only 25% of their needs and financial capacity. The remaining 70% have no insurance cover. The life insurance market in India therefore is practically untapped.

- Channel of distribution

Since distribution will be a key determinant of success for all insurance companies regardless to age and ownership. The nationalized insurance company (LIC) currently has a mass reach and presence at the grass root level which is very essential for any organization. New entrants cannot –and does not expect to supplant or duplicate such a network. Building a distribution network is expensive and time consuming. Yet the insurers are to take an advantage of India’s large population and reach a profitable mass of customers, new distribution avenues and alliances will be imperative. There would be substantial shifts in the distribution in insurance in India. Worldwide, insurance products move along a continuum from pure service product to pure commodity product then they could be sold through the medical shops, groceries, novelty stores etc. once communication, popularity and awareness of product is attained then the products can move to remote channels such as telephone or direct mail. In the UK for example, retailer make and Spencer now sells insurance products. At the point, buyers look for low price. Brand loyalty could shift from the insurers to the seller. Recognizing this trend, the financial services industry world wide has successfully used remote distribution channels such as telephone or the internet to reach more customers, cut out intermediaries, and break down overheads and increase profitability.

- Expectation of the consumers

Today LIC has more than 60 products and GIC has more than 80 products to offer in the market. But most of them are outdated, as they are not suitable to the needs of the customers. Hence old as well as new insurers will have to offer innovative products to the customers. The customer are particularly expecting good pension plans, health insurance, term insurance and investment products like unit liked insurance plans, from the life insurers. Similarly the customers expect innovative products from the general insurance for managing healthcare, property insurance, accidental insurance and other products related to personal line of insurance. The customer also expect reduction in the premium of the insurance of the insurance products as the mortality rate in India has come down by three times in last 50 years.

- Consumer education
The existing level of awareness of the customers for insurance plans is very low, it is so because only 62% of the population in India is literate and less than 10% well educated. Even the educated customer is ignorant about the various products of the insurance. Hence it is necessary that all the insurers should undertake the extensive plan for education of consumers. This will result in expansion of the insurance market and will also enable the needy consumer to purchase appropriate products.

- **To cater the rural area**
There is lots of potential in those rural areas so our motto should be to make them aware of various things which are prevalent in the insurance sector and also still 60% of India’s population lives in villages and small towns.

- **Monopoly of LIC**
Since 2000 there was a monopoly of LIC but after privatization of insurance companies are introduced. Before that when there was monopoly of LIC they were quite satisfied but now with privatization it creates a tension for them. The main challenge before private sector is that LIC is providing one facility to them that they pay 50% of their first premium. But the thing which is provided by private company is services. Many people are not interested because of they are of the question that whether their money is safe in these companies?

- **Large number of private companies**
In market there are large numbers of private companies this will become a main challenge for the insurance sector.

- **Consumer grievance Redressal**
IRDA has appointed Ombudsman for looking into the grievances of the policyholders and its judgment will be binding on insurers. Further under Consumer Protection Act 1986, the consumer courts are operating at District, State and the National level. In the competitive market, awareness level of the consumers will increase and it will help consumers to fight for their legal fight for deficiency in service hence, the number of legal cases filled by the consumers against insurers is likely to increase substantially in future. This will be a challenge to the insurers.

**Future scenario of the insurance sector**
The size of the existing insurance market is very large and is growing at the rate of 10% per year. Only about 20% of the total market has been untapped. This vast potential can be tapped only by a large number of insurers. To serve 120 crore of population, Indian insurance market offers tremendous opportunities to prospective insurers. Hence, the regulator should issue licenses to a large number of insurers if the insurance market has to grow at a fast rate.

With increase in life span of individual and disintegration of the joint family system, each individual has now arranged insurance cover for himself and for the family. In fact all the citizens in the middle class, estimated around 350 million can afford insurance from their own financial resources, the remaining population has to be given subsidized insurance with the help of Government and insurers. The huge life fund can be utilized for financing the infrastructure industry as well as a support to other industries in the country. Hence insurance industry is likely to play a key role in changing economic landscape of the country. However the success of insurance industry will primarily depend upon meeting the rising expectation of the consumers who will be the real king in the liberalized insurance market in the future.

The Indian economy has demonstrated its resilience with the GDP going at about 6-8% from the past couple of years, which compares quite favorably with most countries round the world. Growth is likely to be boosted by large infrastructural projects and high retail credit along with positive trends in various macro variable trends like appreciating Rupee, strong forex reserves, opening of economy for foreign companies in Aviation, Retail & Pension sector.

**Findings**
The above study shows the various factors which lead to the fall of the ULIP products in the market. As we know that the main motive of any organisation is to increase the profits, that’s why they make huge profits from the sale of these products.

**Conclusion**
From the above findings, we can analyze that ULIP products have dominated the Indian market very steadily but due to some limitatons of the product like unassured market returns, misguidance by the agents, no knowledge of customer regarding the selection of investment fund etc have now put the product at the back foot. But some steps taken by the IRDA like reduction in the agents commission (now agents can have the maximum commission upto 7-8% only), assuring the returns have now again made the demand of the product and the confidence of the customers in it. This product has also some great features as compared to the traditional plans by which it can again take lead in the market.
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