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EVALUATION OF LIC'S EFFICIENCY IN GENERATING CAPITAL FUNDS UNDER ULIP'S SCHEMES

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ABSTRACT

Globalization of the financial markets has led to a manifold increase in the investment. New markets has opened new instruments has developed and new services have been launched. The purpose of financial market is to promote savings, investment and efficient allocation resources among the competing users. One of the principle aims of these markets is to provide crucial infrastructure for corporate to access community savings through a mix of debt and equity instruments. Various investment avenues are available in India but still Insurance is considered as one of the popular investment tool. Insurance is a flourishing industry in India, with several national and international players competing and growing at rapid rates. Thanks to reforms and easing of policy regulations, the Indian insurance sector been allowed to flourish, and as Indians become more familiar with different insurance products, this growth can only increase, with period from 2010 – 2015 projected to be the 'Golden Age' for the Indian insurance industry-. Therefore the present paper is an attempt to identify the reasons, why the investors still invest in ULIP's offered by LIC. The scope of the present study is covered the urban areas as well most of the rural areas of Shivamogga city and Bhadravathi Town. Questionnaires were administered to receive the responses from the target group. Simple Chi-square test and Co-relation test is used for the analysis of the data.

KEYWORDS

Insurance regulatory, net asset value.

INTRODUCTION

Indian insurance companies offer a comprehensive range of insurance plans, a range that is growing as the economy matures and wealth of the middle classes increases. The most common type include: term life policies, joint life policies, endowment policies, whole life policies, loan cover term assurance policies, unit-linked insurance plans, group insurance policies, pension plans, and annuities. General insurance plans are also available to cover motor insurance, home insurance, travel insurance and health insurance. In Insurance industries, Life Insurance Corporation is only public sector and considered as the market with its good will and performance it is also providing above discussed products to the investors of medium, low as well as high level income people.

UNIT LINKED INSURANCE PRODUCTS

Unit linked insurance plan (ULIP) is life insurance solution that provides for the benefits of risk protection and flexibility in investment. A part of the premium paid is utilized to provide insurance cover to the policy holder while the remaining portion is invested in various equity and debt schemes. The money collected by the insurance provider is utilized to form a pool of fund that is used to invest in various markets instruments (debt and equity) in varying proportions just the way it is done for mutual funds.. Policy holders have the option of selecting the type of funds (debt or equity) or a mix of both based on their investment need and appetite. Just the way it is for mutual funds, ULIP policy holders are also allotted units and each unit has a net asset value (NAV) that is declared on a daily basis. The NAV is the value based on which the net rate of returns on ULIPs are determined. The NAV varies from one ULIP to another based on market conditions and the fund's performance. In a ULIP, the invested amount of the premiums after deducting for all the charges and premium for risk cover under all policies in a particular fund as chosen by the policy holders are pooled together to form a Unit fund. A Unit is the component of the Fund in a Unit Linked Insurance Policy. ULIP play a major role in the Indian life insurance. the strength of the ULIP product that suit the psycho of Indian policyholder because Market linked return, Level of insurance protection, Option of asset diversification Management of fund on professional lines.

STATEMENT OF THE PROBLEM

The Indian life insurance industry has been on a roller-coaster ride in this past year and since financial services in general have been under tremendous pressure, the insurance industry has also witnessed its fair share of downfalls. Deterred due to the regulatory changes, low margins and lack of a policy road map, the life industry today is reeling under the effect of negative growth. The unabated inflation, recessionary trends and fall in industrial production have all had their impact on economy which has lead to the economy growth rate hovering at just about 7 per cent. Throughout the year, the stock markets witnessed violent swings, coupled with reduction in margins on account of new guidelines, which dented the performance of ULIPs. LIC is not except from this. But still when compare to the other private sector players performance of LIC is for better. Therefore the present paper is an attempt to identify the reasons, why the investors still invest in ULIP's offered by LIC.

OBJECTIVES OF THE STUDY

To study why the investor prefer Life insurance sector especially LIC, to invest their savings and also to analyze the factors considered by the investors preferring the ULIP's offered by LIC instead of preferring direct investments in stock markets. And to determine the policy reforms to ULIP's by SEBI.

SCOPE OF THE STUDY

The scope of the present study is covered the urban areas as well most of the rural areas of Shivamogga city and Bhadravathi Town. Moreover in the present study only the various schemes of ULIP's offered by LIC.

METHODS OF DATA COLLECTION

In order to reach above stated objectives the primary data is collected through questionnaire method and interaction with the respondents. Secondary data is collected through published sources like journals, Books and e-sources.

SAMPLING TECHNIQUE ADOPTED

For this study simple random sampling was is used and respondent groups had employees, housewives, Formers, business men of various income groups and also insurance advisors of LIC were selected randomly. Questionnaires were administered to receive the responses from the target group.

STATISTICAL TOOL USED FOR ANALYSIS

Simple Chi-square test and Co-relation test is used for the analysis of the data.

HYPOTHESIS OF THE STUDY

The researchers tried to identify the respondent's opinion regarding few vital aspects concerning the stake holders in the studied segment. Hypothesis tested are,

Ha0 : Income level, Savings, investment pattern of the people are not co-related.

Ha1 : Income level, Savings, investment pattern of the people are co-related.

Hb0 : Investor continue to hold investment in stock market.

Hb1 : Investor prefer to hold investment in capital market through ULIP's by LIC.

Policy Reforms is another reason for investments in ULIP's:

ULIP's with less than 10 Years

1. There is 3% cap on charges levied by the insurance companies on **ULIP**. It means, the total fees collected on **ULIP** premiums cannot exceed 3%. It is defined as difference between net yield and gross yield should not exceed 3%.
2. In the above 3%, the management fee cannot be more than 1.5%.
3. Gross yield is the yield generated by the **ULIP** before all charges are deducted.
4. Net yield is the generated by the **ULIP** after all charges are deducted.

ULIP with greater than 10 years

1. Over all fees cannot be more than 2.25%.
2. Management fees cannot be more than 1.25%.
 - Charges here would include allocation charges, administration charges, mortality charges and all such charges by any other name. the total fees would reduce when you opt for the long term investment.
 - Unit-linked insurance products (**ULIPs**) filled after September 30, 2009 will have a lock in five years.
 - According to the **IRDA**, there will be new norms on tightening the commission and fees on **ULIP products**. It is trying hard to make the investment more attractive for the investors.
 - The new norms will have the high life cover; in the existing policies have the high focus on the investment rather than the protection on life. **IRDA** want to bring more clarity on the life cover and investment portion on the same product. These make investor to clearly understand how much is invested and how much is insured.
 - In order to put more money in the hands of investors, **IRDA** recently said that insurers cannot charge a fee for surrendering the policy even after the completion of the lock-in period.

DATA ANALYSIS AND INTERPRETATION

TABLE 1: PROFILE OF THE RESPONDENT

Age	
25-35	20
35-45	50
45-55	30
55and above	10
Total	100
Education Qualification	
Below SSLC	23
SSLC	25
PUC	13
Any Degree	26
Others	13
Total	100

Sources: primary data

TABLE 2: INVESTMENT PORTFOLIO OF THE RESPONDENTS

Investment portfolio	Response
Equity	20
Mutual Funds	26
Insurance	90
Bonds	28
Debentures	12
Fixed Deposits	50

Sources: primary data

TABLE 3: FACTORS INFLUENCING THE INVESTORS TO INVEST IN LIC (MULTIPLE RESPONSES)

Factors	Response
Safety and security	90
Public Sector	76
Rate of Returns	82
Many Schemes	85
Good post performance	52
Avoid Tax	52

Sources: primary data

TABLE 4: INVESTMENT PORTFOLIO OF THE RESPONDENTS IN ULIP'S OF LIC

Investment Portfolio	Response
ULIP's	54
Non ULIP's	36
Total	90

Sources: primary data

TABLE 5: RATIONAL BEHIND INVESTMENT IN ULIP'S OFFERED BY LIC (MULTIPLE RESPONSES)

Reasons	Response
Save Tax	55
Liquidity	42
High Returns	78
Dual Benefits	75
Investment in capital market	80

Sources:primary data

The above five tables clearly shows the demographic factors of the respondents and their income level, savings and their investment preference and also the reasons behind the selection of investment avenues and reason behind investment in LIC and ULIP's offered by LIC.

TABLE 6: CALCULATION OF CO-EFFICIENT TO KNOW WHETHER SAVINGS AND INVESTMENT, INCOME ARE CO-RELATED

C-I	X	y	dx=x-a	Dy=x-b	dx2	dy2	dx dy
Below 50000	45	43	43	39	1849	1521	1677
50000-150000	33	12	31	08	961	64	248
150000-300000	18	30	16	26	256	676	416
300000-500000	2	11	0	07	0	0	0
Above 500000	2	04	0	0	0	0	0
Total	100	100	90	80	3066	2261	2341

Hao: Income level, Savings, investment pattern of the people are not co-related.

Hal: Income level, Savings, investment pattern of the people are co-related

Let Income will be the class intervals, savings is taken as 'x', Investment is taken as 'y', calculated co-relation co-efficient value is 0.1974. Therefore it is positive co-relation. Therefore the null hypothesis is rejected and alternative hypothesis is accepted. Here can conclude that income levels, Savings, investment pattern of the people are co-related.

TABLE 7: OPINION OF THE INVESTOR REGARDING HOLDING INVESTMENT

Reasons	Safety and Security	Direct Transaction	Liquidity	Dual Benefit	Total
ULIPs by LIC	20	0	0	46	66
Stock Markets	0	14	20	0	34
Total	20	14	20	46	100

Sources:primary data

Hbo: Investor continue to hold Investment in Stock market

Hbl: Investor prefer to hold Investment in capital market through ULIP's by LIC

Chi-square calculated value is 83.96. For 3 degrees of freedom Chi-square table value for 1% and 5% level of significance is 11.341 and 7.815. The calculated value is more than the table value therefore the null hypothesis is rejected and alternate hypothesis is accepted. So that we can conclude that, Investor prefers to hold investment in capital market through ULIP's by LIC. For the reason it is providing dual benefits like covers as well as returns and investment in capital market. At the same time LIC's good will and market share also made the investor to invest in ULIP's offered by LIC.

CONCLUSION

ULIP's are considered as a tool by the investors to invest in capital market. Especially they prefer ULIP's offered by LIC because they feel that LIC is safer place for investment and also they are getting dual benefits like insurance as well as high returns. But still the risk is more due to the investment made in ULIP's are directly invested in markets. And investment is depended on the net asset value of the stock in which the fund is invested. Due to economic slowdown the short term investor of ULIP's are suffered a lot but long term investors are not affected from the downsizing. Therefore the investor must concentrate on these issues while selecting the ULIP products; they must use this as a tool for investment in insurance, but also for investment in stock markets. Moreover the SEBI has been given new policy reforms to the insurance companies in selling the ULIP products which reduces the charges like Initial administration charge, Regular administration charges, Policy administration fee, Investment management charge etc. This helped investors to invest in ULIP's.

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