International Journal of Scientific Research in Engineering and Management (IJSREM)
Volume: 04 Issue: 04 | April -2020 ISSN: 2582-3930

Comparative Study of Insurance & Mutual Fund Investment Schemes

Nikam Samadhan Shrawan

Assistant Professor,

Vidyadhan College, Aurangabad.

Maharashtra. (India).

Abstract:

To minimize future problems, everyone is focusing on how to save some of their money as savings. For this, all fixed returns turn to the plans and invest in them. Mutual funds and insurance plans are the most effective schemes at present. Consumer trends are increasing with the option of providing permanent returns and guaranteed withdrawals. With numerous options, various mutual funds and insurance companies have come forward to provide many options to the clients. This option creates competition and makes it difficult to select the right option by doing comparative studies. The article is designed to help consumers choose the right option by conducting a comparative study of mutual funds and insurance plans.

Keywords:

Mutual fund, Insurance, Investment, Money, Types, Advantages, Disadvantages, Etc.

Introduction:

The economic development of any country depends upon the existence of a well –organized financial system that supplies the necessary financial inputs for goods and services which in turn promote the well –being and standard of living of the people of a country. The financial system is a broader term which brings under its fold the financial institution which supports the system. The major assets trades in the financial system are money and monetary assets. The responsibility of the financial system is to mobilize. The saving in the form of money and monetary assets and invest them in productive ventures. The efficient functioning of the financial system facilitates the free flow of more productive activities and thus. The financial system provides the intermediation between saver and investor and promotes faster economic development. The financial system should offer appropriate incentives to attract savings and make them available for more productive ventures. Thus, the financial system facilitates the transformation of saving in investment and consumption. The landmark in the history of the development of our financial system is the establishment of new financial institutions to strengthen our system and to supply institutional credit.

In this age, saving is important to all, so everyone is investing in schemes like land, agriculture, commercial vehicles, stock market, insurance, mutual funds etc. The above article covers the study of insurance and mutual fund schemes and aims to clarify the appropriate savings options for consumers.

Significance of Study:

Insurance policies and mutual fund schemes need to be communicated to the consumers in order to select the right savings option for the consumers.

Objectives:

1) To study the various savings options available.
2) Understand the insurance policy and explain its importance.
3) Understand the mutual fund and explain its importance.
4) Find out the various types of Insurance & mutual fund plans/schemes.
5) Explain the advantages and disadvantages of insurance policy and mutual fund schemes.

Methodology:

Prior research has been thoroughly analyzed for this article and collected and evaluated online information.

Definition:

1) **Insurance Policy:** in broad terms, the entire printed insurance contract. Generally, an insurance policy is assembled with a combination of various standard forms, including a declarations page, coverage form, and endorsements. Sometimes a cause of loss form is also required. Together these forms delineate the coverage term, the insurance policy limits, the grant of coverage, exclusions and other limitations of coverage, and the duties and responsibilities of the insured in the event of a loss. (irmi.com).

2) **Mutual Fund:** A mutual fund is an investment security that enables investors to pool their money together into one professionally managed investment. Mutual funds can invest in stocks, bonds, cash or a combination of those assets. The underlying security types, called holdings, combine to form one mutual fund, also called a portfolio. In simpler terms, mutual funds are like baskets. Each basket holds certain types of stocks, bonds or a blend of stocks and bonds to combine for one mutual fund portfolio. (thebalance.com).

❖

nsurance Policy:

It is must for every individual to keep himself/herself updated about insurance policy information, as buying best insurance policy with maximum coverage is the need of all. If you don't want to end up with a wrong choice, it is important to gather the insurance policy information from different sources. Right choice will ensure best returns in future. There are several details in an insurance policy. It is comprised of various features. According to the kind of health risk it weaves along specific features and benefits. Pertaining to that each policy offers different kind of coverage. More so, one must not forget that a policy includes various insurance terms. You must be aware of the following terms used in this field: premium, deductibles, exclusions, coverage for pre-existing and existing diseases, waiting period and risk period. It is only after comprehending all these terms that you can choose the best plan, which is must to avail quality care. Obtaining all complete insurance policy information is extremely important for the buyer. Before taking any final decision, the individual must go through all the related details. Right choice in this regard can annihilate all health related worries. The person can claim best medical care under the coverage of a suitable plan.

Today health insurance policies have been designed not only for individuals but also for families, group and seniors. This offers wide range of choice to masses. As per the need all can invest in the plan that can promise best and comprehensive coverage in times of need. Also, affordability issue is resolved with the policy variants. They enable people to buy the plan even with higher sum insured. This helps them claim maximum benefits as per the pocket size. However, to avoid any confusion while selecting the plan, the buyer is strictly advised to go through complete insurance policy information. This is required to understand the policy clearly. An individual can access all the policy benefits only if the choice made is appropriate. Only those who get insured in time understand the relevance of a health cover. Market study shows that it is only an insured that goes for quality healthcare and regular medical check-up. The reason is quite clear. Huge medical treatment expenses keep you away from expensive healthcare. But, what if it is available for free or by paying a small premium amount? Yes, Health Insurance Companies are emerging with their innovative ideas to protect you against health related risks. Considering the need of medical cover, insurance providers have emerged with several innovative health policies in India. Policies have been framed with an aim to make health insurance easy yet beneficial and comprehensive. They weave along unique features that provide innovative coverage at reasonable premium. But to be able to enjoy complete coverage, it is imperative to read through all insurance policy information. You must be clear about all the covered and uncovered benefits. With the help of help of health insurance sites this information gathering becomes simpler. In clicks you can get details like policy quotes and premium to be paid. This will help in filtering down the search paving way for better judgment.

The availability of insurance sites has simplified the process. Few clicks of mouse help obtain all the policy details. To help people get familiar with available options in medical insurance, insurance companies have appeared on digital front. They make every policy detail readily available. There are several health insurance plans in Indian Health Insurance market. To make people get hold of them easily, insurance portals are made accessible at any time of the day. Climbing the barrier of time and distance, medical insurance is made customer friendly. This has made health insurance comfortable for widespread buyers.

Types of Insurance:

1) Life Insurance: Life Insurance is different from other insurance in the sense that, here, the subject matter of insurance is the life of a human being. The insurer will pay the fixed amount of insurance at the time of death or at the expiry of a certain period. At present, life insurance enjoys maximum scope because life is the most important property of an individual. Each and every person requires insurance. This insurance provides protection to the family at the premature death or gives an adequate amount at the old age when earning capacities are reduced. Under personal insurance, a payment is made at the accident. The insurance is not only a protection but is a sort of investment because a certain sum is returnable to the insured at the death or the expiry of a period.

2) General Insurance: General insurance includes Property Insurance, Liability Insurance, and Other Forms of Insurance. Fire and Marine Insurances are strictly called Property Insurance. Motor, Theft, Fidelity and Machine Insurances include the extent of liability insurance to a certain extent.

3) Property Insurance: Under the property insurance property of person/persons are insured against a certain specified risk. The risk may be fire or marine perils, theft of property or goods damage to property at the accident.

4) Marine Insurance: Marine insurance protects against the loss of marine perils. The marine perils are; collision with a rock or ship, attacks by enemies, fire, and captured by pirates, etc. these perils cause damage, destruction or disappearance of the ship and cargo and non-payment of freight. So, marine insurance insures ship (Hull), cargo and freight.

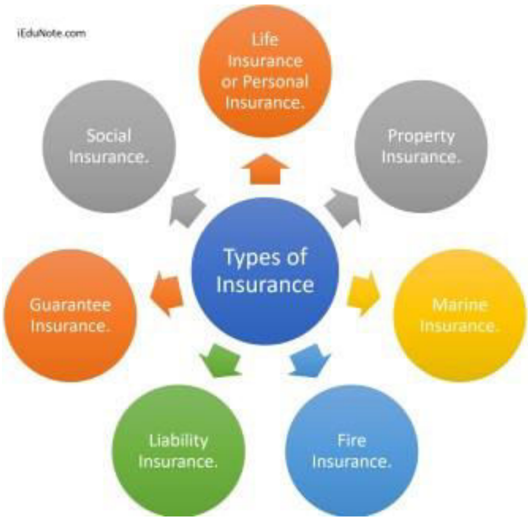
5) Fire Insurance: In the absence of fire insurance, the fire waste will increase not only to the individual but to the society as well. With the help of fire insurance, the losses arising due to fire are compensated and the society is not losing much. The individual is preferred from such losses and his property or business or industry will remain approximately in the same position in which it was before the loss. The fire insurance does not protect only losses but it provides certain consequential losses also war risk, turmoil, riots, etc. can be insured under this insurance, too.

6) Liability Insurance: The general Insurance also includes liability insurance whereby the insured is liable to pay the damage of property or to compensate for the loss of persona; injury or

International Journal of Scientific Research in Engineering and Management (IJSREM)
Volume: 04 Issue: 04 | April -2020 ISSN: 2582-3930

death. This insurance is seen in the form of fidelity insurance, automobile insurance, and machine insurance, etc.

7) Social Insurance: The social insurance is to provide protection to the weaker sections of the society who are unable to pay the premium for adequate insurance. Pension plans, disability benefits, unemployment benefits, sickness insurance, and industrial insurance are the various forms of social insurance. Insurance can be classified into 4 categories from the risk point of view. (iedunote.com).



(Source: www.iedunote.com)

Advantages & Disadvantages of Insurance Policies or Schemes:

Advantages:

1) Can provide peace of mind: The most evident benefit of insurance is the peace of mind knowing that you or your property is protected from any unfortunate event that could happen in your life. For example, life insurance can protect your beneficiaries in the event of your death, income protection insurance can provide you with benefits if you become unable to work, auto insurance can protect your car in the event of automobile accidents, disasters, or theft, etc.

2) Short- term coverage. Another good thing about insurance is that you can adjust the length of coverage. You could choose a shorter duration for your short- term needs. For example, if you have present mortgage payments or loans and are planning to buy life insurance, you may only get coverage that lasts until those financial obligations are over. This means you can avoid overbuying.

3) Long- term coverage: On the other hand, depending on your unique situation, you might find yourself looking for longer, or even lifetime coverage. In some cases, this could be more cost-effective in the long run, compared to renewing short- term coverage’s regularly.

4) Tax- free money: Another benefit with insurances is that most of the time, the funds are tax- deferred. Meaning the benefits and any other earnings you may get under the policy is free of tax, unless in cases of employer- scheme insurances wherein benefits are treated as regular taxable income.

Disadvantages:

1) Can be expensive: A major fear of insurance buyers is the price they have to pay. Sometimes, depending on the policy and certain factors that affect the cost, such as credit score and other potential risks to the insurance company, buying insurance can be expensive. But if bought at a right time, with the right reason and right amount of coverage, you might actually get the right price.

2) Rising premiums: Most types of insurances have varying rates of premiums, and you should be very careful about it. Before buying a policy, make sure you know from the beginning if you have a guaranteed premium throughout the policy, or if it changes from time to time in relation to inflation. You should weigh out if you prefer a fixed premium or you like to take the risk, and more importantly, determine the amount you can afford to spare on the contract.

3) Claims might not be paid out: Sometimes, this issue also becomes a public misconception which drives insurance buyers away. While it's true that there are cases of denied claims, there a ground for this to happen and thus should care you away. For one, you might have presented wrong information during the underlying process. Or you were able to satisfy some requirements, or performed certain actions that could lead to nullification of your contract. To avoid this from happening, you need to be honest from the very beginning with your provider, and clarify any limitations or exclusions that could lead to denied claims. (Income Protection Adviser).

- **Mutual Fund:**

Mutual funds pool money from the investing public and use that money to buy other securities, usually stocks and bonds. The value of the mutual fund company depends on the performance of the securities it decides to buy. So, when you buy a unit or share of a mutual fund, you are buying the performance of its portfolio or, more precisely, a part of the portfolio's value. Investing in a share of a mutual fund is different from investing in shares of stock. Unlike stock, mutual fund shares do not give its holders any voting rights. A share of a mutual fund represents investments in many different stocks (or other securities) instead of just one holding. That's why the price of a mutual fund share is referred to as the net asset value (NAV) per share, sometimes expressed as NAVPS. A fund's NAV is derived by dividing the total value of the securities in the portfolio by the total amount of shares outstanding. Outstanding shares are those held by all shareholders, institutional investors, and company officers or insiders. Mutual fund shares can typically be purchased or redeemed as needed at the fund's current NAV, which—unlike a stock price—doesn't fluctuate during market hours, but it is settled at the end of each trading day.

The average mutual fund holds hundreds of different securities, which mean mutual fund shareholders, gain important diversification at a low price. Consider an investor who buys only Google stock before the company has a bad quarter. He stands to lose a great deal of value because all of his dollars are tied to one company. On the other hand, a different investor may buy shares of a mutual fund that happens to own some google stock. When Google has a bad quarter, she loses significantly less because Google is just a small part of the fund's portfolio.

Types of Mutual Funds:

1) Equity Funds: The largest category is that of equity or stock funds. As the name implies, this sort of fund invests principally in stocks. Within this group are various subcategories. Some equity funds are named for the size of the companies they invest in: small-, mid-, or large-cap. Others are named by their investment approach: aggressive growth, income-oriented, value, and others. Equity funds are also categorized by whether they invest in domestic (U.S.) stocks or foreign equities. There are so many different types of equity funds because there are many different types of equities. A great way to understand the universe of equity funds is to use a style box, an example of which is below.

2) Fixed-Income Funds: Another big group is the fixed income category. A fixed-income mutual fund focuses on investments that pay a set rate of return, such as government bonds, corporate bonds, or other debt instruments. The idea is that the fund portfolio generates interest income, which it then passes on to the shareholders.

3) Index Funds: Another group, which has become extremely popular in the last few years, falls under the moniker "index funds." Their investment strategy is based on the belief that it is very hard, and often expensive, to try to beat the market consistently. So, the index fund manager buys stocks that correspond with a major market index such as the S&P 500 or the Dow Jones Industrial Average (DJIA). This strategy requires less research from analysts and advisors, so there are fewer expenses to eat up returns before they are passed on to shareholders. These funds are often designed with cost-sensitive investors in mind.

4) Balanced Funds: Balanced funds invest in a hybrid of asset classes, whether stocks, bonds, money market instruments, or alternative investments. The objective is to reduce the risk of exposure across asset classes. This kind of fund is also known as an asset allocation fund. There are two variations of such funds designed to cater to the investor's objectives.

5) Money Market Funds: The money market consists of safe (risk-free), short-term debt instruments, mostly government Treasury bills. This is a safe place to park your money. You won't get substantial returns, but you won't have to worry about losing your principal. A typical return is a little more than the amount you would earn in a regular checking or savings account and a little less than the average certificate of deposit (CD). While money market funds invest in ultra-safe assets, during the 2008 financial crisis, some money market funds did experience losses after the share price of these funds, typically pegged at $1, fell below that level and broke the buck.

6) Income Funds: Income funds are named for their purpose: to provide current income on a steady basis. These funds invest primarily in government and high-quality corporate debt, holding these bonds until maturity in order to provide interest streams. While fund holdings may appreciate in value, the primary objective of these funds is to provide steady cash flow to investors. As such, the audience for these funds consists of conservative investors and retirees. Because they produce regular income, tax-conscious investors may want to avoid these funds.

7) International/Global Funds: An international fund (or foreign fund) invests only in assets located outside your home country. Global funds, meanwhile, can invest anywhere around the world, including within your home country. It's tough to classify these funds as either riskier or safer than domestic investments, but they have tended to be more volatile and have unique country and political risks.

8) Specialty Funds: This classification of mutual funds is more of an all-encompassing category that consists of funds that have proved to be popular but don't necessarily belong to the more rigid categories we've described so far. These types of mutual funds forgo broad diversification to concentrate on a certain segment of the economy or a targeted strategy. Sector funds are targeted strategy funds aimed at specific sectors of the economy, such as financial, technology, health, and so on. Sector funds can, therefore, be extremely volatile since the stocks in a given sector tend to be highly correlated with each other. There is a greater possibility for large gains, but a sector may also collapse (for example, the financial sector in 2008 and 2009).

9) Exchange Traded Funds (ETFs): A twist on the mutual fund is the exchange **traded fund (ETF)**. These ever more popular investment vehicles pool investments and employ strategies consistent with mutual funds, but they are structured as investment trusts that are traded on stock exchanges and have the added benefits of the features of stocks.

Advantages & Disadvantages of Mutual Fund:

Advantages:

1) Diversification: Diversification, or the mixing of investments and assets within a portfolio to reduce risk, is one of the advantages of investing in mutual funds. Experts advocate diversification as a way of enhancing a portfolio's returns, while reducing its risk. Buying individual company stocks and offsetting them with industrial sector stocks, for example, offers some diversification. However, a truly diversified portfolio has securities with different capitalizations and industries and bonds with varying maturities and issuers.

2) Easy Access: Trading on the major stock exchanges, mutual funds can be bought and sold with relative ease, making them highly liquid investments. Also, when it comes to certain types of assets, like foreign equities or exotic commodities, mutual funds are often the most feasible way—in fact, sometimes the only way—for individual investors to participate.

3) Economies of Scale: Mutual funds also provide economies of scale. Buying one spares the investor of the numerous commission charges needed to create a diversified portfolio. Buying only one security at a time leads to large transaction fees, which will eat up a good chunk of the investment.

4) Professional Management: A primary advantage of mutual funds does not have to pick stocks and manage investments. Instead, a professional investment takes care of all of this using careful research and skilful trading. Investors purchase funds because they often do not have the time or the expertise to manage their own portfolios, or they don't have access to the same kind of information that a professional fund has. A mutual fund is a relatively inexpensive way for a small investor to get a full-time manager to make and monitor investments.

5) Variety and Freedom of Choice: Investors have the freedom to research and select from managers with a variety of styles and management goals. For instance, a fund manager may focus on value investing, growth investing, developed markets, emerging markets, income, or macroeconomic investing, among many other styles. One manager may also oversee funds that employ several different styles. This variety allows investors to gain exposure to not only stocks and bonds but also commodities, foreign assets, and real estate through specialized mutual funds.

Disadvantages:

1) Fluctuating Returns: Like many other investments without a guaranteed return, there is always the possibility that the value of your mutual fund will depreciate. Equity mutual funds experience price fluctuations, along with the stocks that make up the fund. The Federal Deposit Insurance Corporation (FDIC) does not back up mutual fund investments, and there is no guarantee of performance with any fund. Of course, almost every investment carries risk. It is especially important for investors in money market funds to know that, unlike their bank counterparts, these will not be insured by the FDIC.

2) High Costs: Mutual funds provide investors with professional management, but it comes at a cost—those expense ratios mentioned earlier. These fees reduce the fund's overall payout, and they're assessed to mutual fund investors regardless of the performance of the fund. As you can imagine, in years when the fund doesn't make money, these fees only magnify losses. Creating, distributing, and running a mutual fund is an expensive undertaking. Everything from the portfolio manager's salary to the investors' quarterly statements cost money.

3) Diworsification: a play on words—is an investment or portfolio strategy that implies too much complexity can lead to worse results. Many mutual fund investors tend to overcomplicate matters. That is, they acquire too many funds that are highly related and, as a result, don't get the risk-reducing benefits of diversification. These investors may have made their portfolio more exposed. At the other extreme, just because you own mutual funds doesn't mean you are automatically diversified. For example, a fund that invests only in a particular industry sector or region is still relatively risky.

4) Active Fund Management: Many investors debate whether or not the professionals are any better than you or I at picking stocks. Management is by no means infallible, and even if the fund loses money, the manager still gets paid. Actively managed funds incur higher fees, but increasingly passive index funds have gained popularity. These funds track an index such as the S&P 500 and are much less costly to hold. Actively managed funds over several time periods have failed to outperform their benchmark indices, especially after accounting for taxes and fees.

5) Lack of Liquidity: A mutual fund allows you to request that your shares be converted into cash at any time, however, unlike stock that trades throughout the day, many mutual fund redemptions take place only at the end of each trading day.

6) Taxes: When a fund manager sells a security, a capital-gains tax is triggered. Investors who are concerned about the impact of taxes need to keep those concerns in mind when investing in mutual funds. Taxes can be mitigated by investing in tax-sensitive funds or by holding non-tax sensitive mutual funds in a tax-deferred account, such as a 401(k) or IRA.

7) Evaluating Funds: Researching and comparing funds can be difficult. Unlike stocks, mutual funds do not offer investors the opportunity to juxtapose the price to earnings (P/E) ratio, sales growth, earnings per share (EPS), or other important data. A mutual fund's net asset value can offer some basis for comparison, but given the diversity of portfolios, comparing the proverbial apples to apples can be difficult, even among funds with similar names or stated objectives. Only index funds tracking the same markets tend to be genuinely comparable. (Investopedia.com).

Conclusion:

After thoroughly studying the entire article, we find that in the insurance policy, the customer gets a permanent return but the interest rate is lower. Also, the mutual fund does not receive a sustainable return which is more or less the same. But the interest rate he gets is higher than the value of an insurance policy. This article describes the investment plans, their types, advantages and disadvantages. With this investment option, customers need to decide which investment plan is best for them.

References:

1) Apollo Munich Insurance Retrieved from: https://www.apollomunichinsurance.com/insurance-policy/insurancepolicy-information.aspx
2) Iedunote Retrieved from: https://www.iedunote.com/types-of- insurance.
3) Income Protection Adviser. (2013). Retrieved from: http://www.income protectionadviser.co.uk/advantages-and-disadvantages-of-insurance/.
4) Investopedia. (2020). Retrieved from: https://www.investopedia.com/terms /m/mutualfund.asp.
5) IRMI. Retrieved from: https://www.irmi.com/term/insurancedefinitions/ insurance-policy.
6) The Balance. Retrieved from: https://www.thebalance.com/mutual-funds-4073989.