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A Comparative Study on Ulips & Mutual Funds

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Abstract

The study compares the performance of Mutual Funds and ULIPs during periods of high and low market volatility to assess the preparedness of each investment vehicle for economic unpredictability. The paper continues by contrasting the two investment options for liquidity and flexibility, drawing attention to the ease with which investors may manage their portfolios, transfer assets, or renounce plans. Here we take a close look at the expenses associated with mutual funds and ULIPs as well to analyze and compare the risk and returns of selected ULIPs and Mutual Funds to help investors understand how these things affect their overall performance. This research also considers the transparency of these costs, highlighting the need of clear fee structures for investors. In order to better understand the investing landscape and provide prospective customers with the information they need, this study will analyze and contrast two well-known investment vehicles: unit linked insurance plans (ULIPs) and mutual funds (MFs). This study uses quantitative and qualitative methods to evaluate ULIPs and mutual funds across different time periods and market conditions. Two investment vehicles are compared based on their spending ratios, risk-adjusted returns, and performance history. The research also covers the inner workings of both vehicles

Introduction—

Mutual Fund

An expert fund manager oversees a group of investors' money in a mutual fund.

An investment trust is a legal entity that pools the capital of many individuals or groups with a shared investment goal and then uses that capital to buy stocks, bonds, money market instruments, and other assets. The "Net Asset Value" (NAV) of a scheme is the sum of all its assets after all expenditures and levies have been subtracted. Then, the investors get their share of the income or profits from the investment. A mutual fund is, in its most basic form, the combined assets of several individual participants.

An easy approach to grasp the idea of a Mutual Fund Unit is this. Assume for the sake of argument that a ₹40 package of 12 chocolates exists. A group of four pals decide to get one, but they only have ₹10 apiece, and the store only sells in boxes. The group of pals decides to purchase the 12-piece chocolate set by combining their ₹10 contributions. Each person will now get three pieces of chocolate or three units, if we're talking about mutual funds, depending on their participation.

What is the formula for determining the price of a single unit? Just divide the grand sum by the grand total of chocolates: 40 divided by 12, equals 3.33. With a unit cost of 3.33 and three units in total, the initial investment comes to ₹10.

In this arrangement, everyone is effectively a co-owner of the box of chocolates, as each buddy has a unit in it. "Net Asset Value" (NAV) is the next concept we need to grasp. A mutual fund's unit is defined by its Net Asset Value per Unit, much like an equity share's trading price. After deducting all allowed fees and charges, the net asset value (NAV) of a fund is the total market value of all its shares, bonds, and securities owned on a given day. The Net Asset Value (NAV) per Unit is the market value of all the Units in a mutual fund scheme on a certain day. It is calculated by dividing the market value of the scheme's Units by the number of outstanding Units.

If investor want to build investor wealth but don't have a lot of time or energy to devote to researching the market, or if investor don't have a lot of money to invest, a mutual fund may be the best option for investor. Licensed financial experts oversee the investments of mutual fund capital in accordance with the plan's declared goal. The fund firm takes a little cut of investor money as compensation. Mutual fund fees in India are governed by the Securities and Exchange Board of India (SEBI) and are limited to certain amounts.

The savings rate in India is among the world's highest. Because of this propensity for wealth growth, Indian investors must seek for mutual funds rather than the more conventional bank FDs and gold. Unfortunately, mutual funds are not as popular as they once were due to a lack of knowledge about them.

When it comes to investing, mutual funds provide a wide range of options. Various goods are needed to accomplish different investing objectives, such as funding children's education or marriage, purchasing a property, etc. A wide variety of investor demands are met by the Indian mutual fund industry's extensive scheme offerings.

When the stock market is doing well, individual investors may get in on the action and reap the rewards via mutual funds. Choosing the correct mutual fund could be difficult, despite the potential benefits of investing in them. Therefore, before investing, potential backers should research the fund thoroughly, think about the risk-reward trade-off, and evaluate their time horizon, or they may hire an investment advisor. Additionally, investors should spread their bets among other types of funds, including stock, debt, and gold, to get the most out of their mutual fund investments.

The securities market is accessible to investors of all stripes, but a mutual fund offers the best of both worlds in one convenient package.

ULIPS

Financial instruments that serve as both insurance and investment vehicles are known as Unit Linked Insurance Plans, or ULIPs. The life insurance component receives a little fraction of the money, while the remaining amount is invested methodically. The insurer offers this investment vehicle, which is comparable to a mutual fund, in a number of different qualifying investments with different ratios of debt to equity equities. Investor investment returns are contingent on the success of the fund investor choose.

A Look Back at ULIPs in India

In 1971, ULIP was first launched in India. The Insurance Regulatory and Development Authority of India (IRDAI) has been responsible for overseeing and regulating ULIPs since 2010.

Policyholders who wanted to put their money into the stock market had two options until the unit linked product came along: buy equities individually or put their money into a mutual fund. Investor may now have the advantages of life insurance with the chance to participate in the stock market thanks to the unit linked insurance plan. A large number of Indian citizens have poured money into unit trust investment plans (ULIPs) throughout the previous decade. The sum invested has actually quadrupled since 2009.

Statement of the Problem

Mutual funds (MFs) and unit linked insurance plans (ULIPs) are two of the many investing alternatives available to those who want to build their wealth. Even while both products may help investor build wealth, it can be hard to tell which one is best for investor based on investor preferences, risk tolerance, and financial objectives. In order to help investors make well-informed and optimized investment choices that are specific to their own financial situation and goals, the research seeks to provide them a thorough grasp of the relative benefits and drawbacks of ULIPs and Mutual Funds.

Objectives of the Study

- To know about the Ulips and Mutual Funds
- To determine the factors influencing the NAVs of Ulips and Mutual Funds
- To analyse the risk and returns of selected Ulips and Mutual Funds
- To compare the risk and returns of the selected Ulips and Mutual Funds

Research Methodology

The research takes a comparative strategy, considering the study's aims and relying on secondary data retrieved from journals, periodicals, andmagazines.

Information Sources:

Secondary Data: Secondary data refers to information gathered from other sources: Journals, magazines, papers, and websites hold this material, which is known as previously acquired data. Academic journals, articles, and websites were considered secondary sources for this study's data. Secondary sources are the backbone of this study. Four mutual fund firms and the ULIP provider are chosen. This includes the following:

- HDFC
- UTI
- LIC
- SBI

All the computations are performed in Microsoft Excel. When figuring out using the formulae for
Sharpe's ratio = (Rp-Rf)/σp
Treynor = (Rp-Rf)/β
Jensen's ratio= rp- [rf+ σp (rm-rf)]

Limitations of the Study

1. The length of time required to complete the research is its biggest limitation.
2. The research only uses data from four firms.
3. The data is sourced from secondary sources, thus the results may or may not be relevant.
4. The researchers' personal views, the study's limitations, and the data's historical context all add up to the potential for bias.

Literature Review

Comparative Analysis of Unit Linked Insurance Plans and Mutual Funds by Priti Rai and Amaah's (2016): According to the writers, their publications go into the fundamentals of mutual funds and ULIPs. That wasn't the extent to which they compared male and female characters. Market knowledge on their end. A strategy for managing investment risk that the investor employs. Additional benefits of ULIPs include life insurance and tax benefits. No longer is it innovative to put money into the tried-and-true approach. Many investors were afraid to put up a sizable amount because they were worried about losing money. The many investment and risk-sharing-related characteristics of this ULIP drew in potential investors. Their confidence was boosted by these advantages, and the primary goal is to gauge the level of knowledge about ULIPs and mutual funds across various age groups and sample investors.

Comparative study on mutual funds and ULIPs in the current climate by Anjali Yadav (Jan 2018): In her pieces, the author emphasizes the exponential expansion of personal financial planning over the last decade. Every bit of public information that has made its way to the insurance and banking sectors. One way to get access to a group of knowledgeable investors' resources is via a mutual fund. Mutual funds and unit trusts are similar in nature but have several key differences. The low satisfaction rate of investors with the features, which included return, risk sharing, and security, earned them their respect.

A comparative study of ULIP's and Mutual fund Investment of salaries people in urban area of Nasik district by Samrudha & Anuya : The most advanced forms of management, technology, and engineering are published quarterly for an international audience. Our sample was collected specifically from the Nasik region. As a result, it is fundamental to the monetary system of every nation. But ULIPs' popularity has skyrocketed due to the fact that they are not subject to taxes. After briefly discussing taxes, the author goes on to highlight a plethora of benefits to ULIPs, including returns, risk sharing, simplicity of choice, flexibility, safety, and many more. This article compares and contrasts ULIPs with mutual funds, outlining their key features in each. Both are affected by market volatility, but there are separate variables that determine monthly returns for different products.

Unit Link Insurance Plans: A Comparison by Dr. Roshan Lal Rohilla, NBC Sidhu, and R. Linga Swamy (2014) : The author stresses that the ULIP is having a major impact on how sectors and companies are regulated. Many benefits are offered by ULIP providers, including insurance (in the sense that the provider will take care of investor once the policy is complete), tax protection (which is crucial), and health riders (which are supplementary coverage options). Both the public and private sectors spend 75% of their total capital in ULIPs, which are impacted by markets like as BSE and SENSEX.

Mutual Funds or ULIPs – A cost-benefit analysis by Dr. Kabirdoss Devi (2018) : The primary objective of this article is to provide a rationale for the best approach to take in the banking industry. Here, ULIP's product is used by every single organization. The life insurance coverage it offers takes into account both the dangers and advantages that may befall the policyholder. As an alternative, mutual funds are highly recommended. Furthermore, there are an excessive amount of advantages and profits. Prior to investing the money, we must choose a professional pool. Huge advertising agencies, banks, real estate corporations, and private investors are just a few examples of the many diverse types of investors that may emerge in various industries.

A Study of Comparative analysis of Mutual Fund and Ulip by Ms. Chetna Verma, (Dec 2023): It would be very difficult, if not impossible, to build a diversified portfolio of stocks, bonds, and other assets with a little amount of money, yet even the most modest investor may access such a portfolio via mutual funds. A form of goal-based financial solution, ulip combines the safety of insurance with opportunities to amass money. This study seeks to measure the extent to which consumers are familiar with ulip and mutual fund programs. Purposefully contrasting ulip with mutual funds was the goal of the study. In order to gather information for this study, we consulted a variety of primary and secondary resources. The study's core data was collected from all respondent groups using the same questionnaire. Books, magazines, newspapers, technical journals, and publications from federal, state, and local governments are among the secondary sources that have been compiled. The final evaluation of the survey found that participants' views on mutual funds and insurance differed across income levels and occupations.

A Comparative Study on Investors of Ulip and Mutual Fund Products in Indore City by Dr. Abhay Gupta & Anju Agarwal, (Aug 2014): It seems like a mutual fund is the best investing option right now.These days, it seems like everyone knows about every single investing opportunity.Everyone wants to invest in something that doesn't take much risk, has a high potential reward, and can be redeemed quickly.so, prior to investing in mutual funds, one had to get comprehensive knowledge about them.A ULIP is a good investment choice for those who want to stay somewhere for a long period, maybe five years or more. This is good news for policyholders who put their money into ULIPs offered by insurance companies as the funds grow more quickly than with other policies. Also, policyholders with ULIPs may adjust their premium amounts whenever they choose during the policy's

Selected Funds	Avg Returns	S.D	Beta
HDFC	0.03	0.051	-1.62
UTI	0.03	0.046	-0.64
LIC	0.03	0.046	-2.28
SBI	0.03	0.047	-0.98

duration. Investors in ULIPs, who are analogous to those in mutual funds, get units from the insurance company, and the value of these units is disclosed every day. Multiple plans are available to investors in ULIPs.

Comparative Analysis of Ulips V/s MutualFunds, (2015): Contrary to the old saying that goes something like, "Compare apples with apples, and not with oranges," investors do sometimes make the error of comparing investment products that appear to be quite similar. When comparing ULIPs and mutual fund plans, this becomes clear. We need to look at the similarities and differences between the two to determine what they are. Another name for ULIP is Unit Linked Insurance Plan. The key selling point is that it offers investment opportunities with insurance coverage. The insurance portion covers costs, while the investment portion helps the insured build money via stock and bond investments.

Data Analysis

For analysis, the data is selected from the below four Mutual Fund companies

- HDFC
- UTI
- LIC
- SBI

Calculations of Average Returns, Standard Deviation, and Beta

Findings

- Average returns for the HDFC mutual fund for the period of 6 months (i.e. 1st June 2023 to 30th November 2023) is 0.03 and the SD is 0.051. Beta is -1.62 which is less than 1, which indicates less volatile than the market.

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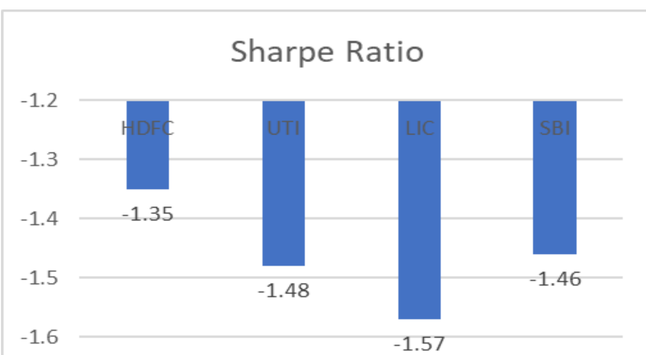
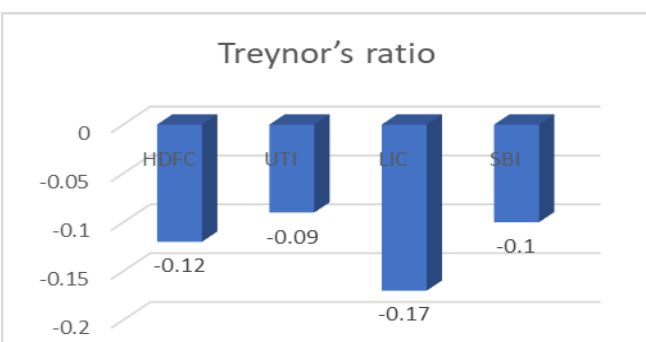
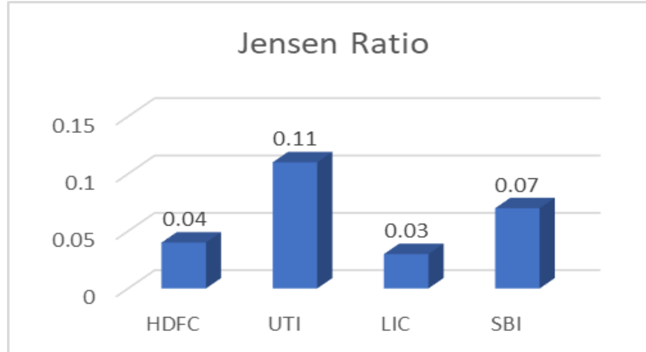
- Average returns for the UTI Mutual fund for the period of 6 months (i.e. 1st June 2023 to 30th November 2023) is 0.03 and the SD is 0.046. Beta is -0.64 which is less than 1, which indicates less volatile than the market.
- Average returns for the LIC Mutual fund for the period of 6 months (i.e. 1st June 2023 to 30th November 2023) is 0.03 and the SD is 0.046. Beta is -2.28 which is less than 1, which indicates less volatile than the market.
- Average returns for the SBI Mutual fund for the period of 6 months (i.e. 1st June 2023 to 30th November 2023) is 0.03 and the SD is 0.047. Beta is -0.98 which is less than 1, which indicates less volatile than the market.

Calculation of Sharpe, Treynor's and Jenson from the above information

1. Sharpe's ratio = (Rp-Rf)/σp
2. Treynor = (Rp-Rf)/β
3. Jensen's ratio= rp- [rf+ ϭp (rm-rf)]







Findings

- HDFC Mutual Funds calculations of Sharpe ratio shows negative value (i.e-1.35) and Treynor's value shows Positive value (i.e 0.04) & Jensen ratio shows negative value (i.e. -0.12). So the funds' performance shows less performance than the market Indices.

- UTI Mutual Funds calculations of Sharpe ratio shows negative value (i.e-1.4869) and Treynor's value shows Positive value (i.e 0.11) & Jensen ratio shows negative value (i.e. -0.09). So the funds performance shows less performance than the market Indices.

Selected Funds	Sharpe	Treynor's	Jensen
HDFC	-1.35	-0.12	0.04
UTI	-1.48	-0.09	0.11
LIC	-1.57	-0.17	0.03
SBI	-1.46	-0.10	0.07

- LIC Mutual Funds Calculations of Sharpe ratio shows negative value (i.e-1.5735) and Treynor's value shows Positive value (i.e 0.03) & Jensen ratio shows negative value (i.e. -0.14). So the funds' performance shows less performance than the market Indices.
- SBI Mutual Funds Calculations of Sharpe ratio shows negative value (i.e. -1.4642) and Treynor's value shows Positive value (i.e 0.07) & Jensen ratio shows negative value (i.e. -0.10). So the funds' performance shows less performance than the market Indices.

Selected Funds	Sharpe	Treynor's	Jensen
HDFC	-0.958	-0.016	-0.08
UTI	-0.266	-0.03	-0.02
LIC	-0.381	-0.04	-0.015
SBI	-0.026	-0.01	0.01

ULIPS

For analysis, the data is selected from the below four ULIPs companies

- HDFC
- UTI
- LIC
- SBI

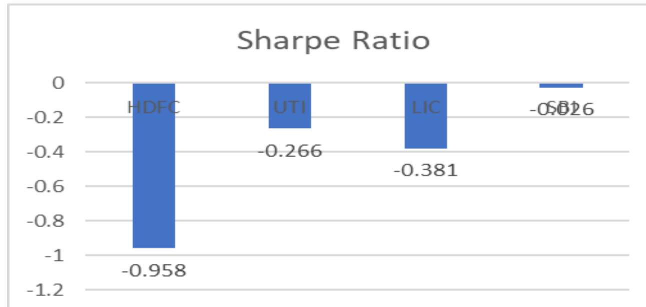
Calculations of Average Returns, Standard Deviation, and Beta

Findings

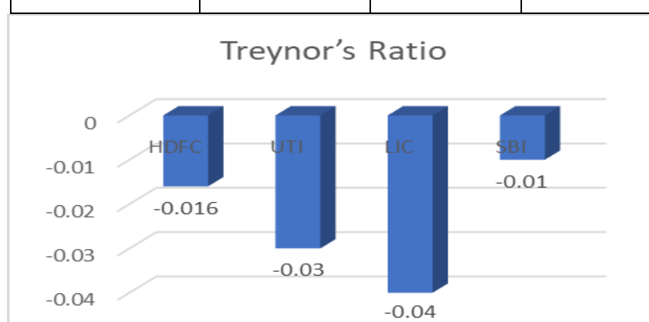
- Average returns for the HDFC Ulips Income Fund for the period of 6 months (i.e. 1st June 2023 to 30th November 2023) is 0.01 and the SD is 0.097. Beta is 0.57 which is less than 1, which indicates less volatile than the market.
- Average returns for the UTI Ulips for the period of 6 months (i.e. 1st June 2023 to 30th November 2023) is 0.04 and the SD is 0.223. Beta is 1.98 which is more than 1, which indicates more volatile than the market.
- Average returns for the LIC Ulips for the period of 6 months (i.e. 1st June 2023 to 30th November 2023) is 0.03 and the SD is 0.186. Beta is 1.93 which is more than 1, which indicates more volatile than the market.
- Average returns for the SBI Life Equity Fund for the period of 6 months (i.e. 1st June 2023 to 30th November 2023) is 0.09 and the SD is 0.49. Beta is 0.96 which is less than 1, which indicates less volatile than the market.

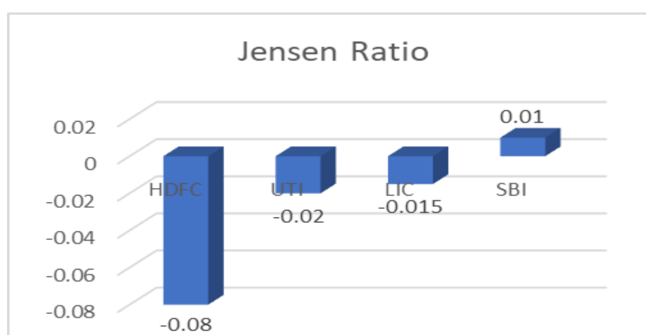
Calculation of Sharpe, Treynor's and Jenson from the above information

1. Sharpe's ratio = (Rp-Rf)/σp
2. Treynor = (Rp-Rf)/β
3. Jensen's ratio= rp- [rf+ σp (rm-rf)]



Selected Funds	Avg Returns	S.D	Beta
HDFC	0.01	0.097	0.57
UTI	0.04	0.223	1.98
LIC	0.03	0.186	1.93
SBI	0.09	0.49	0.96





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Findings

- HDFC Ulips Income Fund Calculations Sharpe ratio shows negative value (i.e. -0.9588) and Treynor's value shows Negative value (i.e -0.016) & Jensen ratio shows negative value (i.e. -0.08). So the funds' performance shows bad performance than the market Indices.
- UTI Ulips Fund Calculations of Sharpe ratio shows negative value (i.e. -0.2663) and Treynor's value shows Negative value (i.e -0.03) & Jensen ratio shows negative value (i.e. -0.02). So the funds' performance shows bad performance than the market Indices.
- LIC ULIPs calculations of Sharpe ratio shows negative value (i.e. -0.3815) and Treynor's value shows Negative value (i.e -0.04) & Jensen ratio shows negative value (i.e. -0.015). So the funds' performance shows bad performance than the market Indices.
- SBI Life Equity Funds Calculations of Sharpe ratio shows negative value (i.e. -0.0268) and Treynor's value shows Negative value (i.e -0.01) & Jensen ratio shows Positive value (i.e. 0.01). So the funds' performance shows good performance than the market Indices.

Suggestions

- Consider investor investment horizon before deciding on a mutual fund. While debt funds are more suited to meeting short-term goals, equity funds are better suited to long-term planning.
- The cost ratio of the mutual fund should be considered. A lower expenditure ratio may lead to better overall returns.
- Make sure investor are aware of the capital gains tax that applies upon redemption before investing in a mutual fund, among other potential tax ramifications.
- Find out how much of a chance investors' ready to take. There are a lot of mutual funds out there, so investors with different risk tolerances could find one that works for them.
- Research the experience and results of the fund manager. Evidence of continuous performance throughout several market cycles is encouraging.
- Learn about the various costs associated with ULIPs, including those for administration, fund management, mortality, and premium allocation.
- Determine investor investment goals and risk tolerance before selecting a fund. More often than not, ULIPs will provide investor a choice between equity, debt, or balanced funds.
- Find out how ULIPs may help investor save money on taxes. Premium payments and maturity funds may be eligible for tax benefits under Section 80C and Section 10(10D) of the Income Tax Act.
- Look at the features, returns, and prices of many ULIPs before investor choose one. Insurance policies from different providers may have somewhat different terms.
- A ULIP is a good choice for those whose primary requirement is life insurance since it serves as both an investment vehicle and an insurance policy.

Conclusion

If investors want to make smart choices that fit their financial objectives, risk appetite, and investing preferences, comparing Mutual Funds with Unit Linked Insurance Plans (ULIPs) is a great place to start. An analysis of all relevant aspects reveals that the two investment choices are unique in their features and advantages, meeting the demands of different types of investors. An individual's risk tolerance, financial objectives and personal preferences should be considered while deciding between ULIPs and Mutual Funds. Before making an educated choice or seeking specialized counsel from a financial adviser, investors should carefully evaluate themselves, taking into account aspects like investment horizon, insurance requirements and tax consequences. The ideal investment option fits well with the investor's overall financial strategy and both choices have their advantages.

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