Comparative Analysis of Unit Linked Insurance Products of Different Companies

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ABSTRACT

The Unit Linked Insurance Plan (ULIP), also referred to as a combination of investment and life insurance, offers the chance to transfer financial risk while also earning non-taxable income. In essence, ULIPs, which are offered by various insurance firms, provide investors with the advantages of both insurance and investing under a single integrated plan, first allocating units to clients and calculating NAV (Net Asset Value) on a daily basis. This insurance policy is constantly susceptible to fluctuations in the capital market, turbulence in the equity market, and drops in interest rates; The fund's NAV is affected and could increase or decrease as a result. Unless it is a guaranteed plan from a life insurance, ULIPs are typically not guaranteed. Therefore, there is always a risk that the insured must bear. In addition, life insurers are subject to a large list of fees in order to preserve money in comparison to insurance plans. Life insurers face fierce competition in an environment of business that is always evolving. The primary goal of life insurers is to create highly valuable, contented, and profitable customers, and every company has a distinct strategy for achieving this goal. This study aims to determine how individuals see the ULIPs being given by various companies. The goal of the study is to pinpoint the elements that influence a customer's choice to purchase an insurance policy. Because organisations offer many risk options to manage funds, it can be difficult to decide whether to embrace risk or avoid it because insurance is a technique to manage risk while ULIP are not risk free investments. In this light, the survey also gathered people's opinions about taking risks with ULIP. According to public opinion and consumer preference, the study's findings have determined the most reliable ULIP alternative. In the study, the wealth development strategies of four companies—i.e. Reliance Life, HDFC Life, Bajaj Allianz, and ICICI Prudential.

Keywords: ULIP, HDFC Life ULIPs, Customer Satisfaction, Comparative Analysis, Analysis of ULIPs

INTORDUCTION

An investment-linked capital market product called a ULIP combines the advantages of both insurance and investing. ULIPs are a desirable investment due to their flexibility and twofold benefit. When we talk about flexibility in ULIPs, we're talking about the freedom to swap between different forms of risk-adjusted funds. The premium money paid in ULIPs is invested in infrastructure, equity, and debt bonds, which over time provide significant returns.

The easiest way to categorise ULIPs is according to the function they perform. The first group includes retirement ULIPs, which build corpus and are used to purchase annuities after retirement. ULIPs for wealth creation that multiply wealth over time make up the second type. The third and fourth types of ULIPs, meanwhile, can be used to help children's health and education, respectively. In Annexure 1, four distinct businesses' ULIPs—HDFC Life, Bajaj Allianz, ICICI Prudential, and Reliance Life—are compared. Every single point that individuals should check before buying any ULIP from these four companies has been covered in this study. Only 'wealth generation' ULIPs have been chosen here as a substitute for the same comparison.

Owners of ULIP policies are also given units, and each unit has a daily reported net asset value (NAV). The NAV serves as the foundation upon which the net rate of return on ULIPs is calculated. Based on the state of the market and the performance of the fund, the NAV fluctuates from one ULIP to another. The records of four goods from four different businesses were used in the current investigation and are compared in Annexure 1. It is clear that as of October 8, 2013, ICICI Pinnacle Super is providing the highest returns, both in terms of absolute (%) and annualised (%) returns. In comparison to all other ULIPs, Bajaj Allianz offers the lowest returns. In terms of absolute (%) and annualised rankings, HDFC Life Crest is in second place.

According to the 2012 Capgemini Survey (Exhibit 1, Annexure 3), 69% of customers are satisfied with their insurance package. India lags significantly behind other nations in achieving the highest level of positive satisfaction. Private insurers in India, in particular, should take this issue extremely seriously.

LITRATURE REVIEW

Most ULIPs are offered exclusively as investment products. It has been a successful positioning strategy for ULIPs to attract more money from ordinary investors than pure investment products like mutual funds. The many advantages that ULIP offer their customers set them apart from the competition. With regard to their composition and operation, these are relatively comparable. However, they have various features in terms of investment, expenditure ratio, risk, and return (Kumar, 2013).

Saini (2011) asserts that ULIP provides two benefits simultaneously. Therefore, these plans now generate the majority of the business for life insurance. He has also suggested that, although while insurers' obligations under these kinds of plans are severely constrained, it is nevertheless preferable for these kinds of policies to function transparently. Additionally, these goods might be priced reasonably so that those from rural backgrounds can also profit from ULIPS.

The risk element of ULIPs is directly tied to the stock market, claim Mitra & Khan (2012). The NAVs are determined daily; they fluctuate according on the performance of the fund and other factors impacting the capital market. ULIPs are subject to a variety of fees, including premium allocation fees, mortality fees, and fund management fees. It further noted that ULIPs are riskier than conventional insurance. According to studies, private enterprises are growing their use of ULIPs more rapidly than regular insurance policies. In ULIPs, the investor bears the risk rather than the insurer, but the insurer should have an open way of computing fees. Similar to mutual funds, switching is possible according on the policyholder's risk tolerance.

If the insurance component of ULIPs is removed, then they resemble mutual funds. Vehicles with only a very little amount of life insurance may be saved by ULIPs. Only the insurer's fee schedule can be used to distinguish between ULIPs; for example, some ULIPs have higher administration fees but lower allocation fees, while others have higher surrender fees. Insurance agents have discovered that the best customers are those who are aware of the hazards associated with investing in capital market instruments (Rajgopalan, 2005).

Prasad *et al.* (2009) have found that in spite of various investment opportunities, ULIPs have gained more reputation among the investors. Hence their study focused on assessing the significant relation between demographic features and ULIP’s feature and level of investment in ULIP.

Dash *et al* (2007) have tried to find out rate of return given by different insurance policies and the effect of mortality, and have found that different returns are given by different insurance policies and the mortality does not affect return.

The insurer in ULIPs costs the policyholder in a variety of ways, including allocation charges, administrative charges, mortality charges, bid-offer charges, and guarantee charges. Certain of these fees are subtracted in intricate ways, such as as a percentage of an annual premium, on a daily basis, or on a monthly basis. The buyer finds it really challenging to comprehend this intricate fee structure. As a result, the IRDA mandated that insurers provide buyers with illustrations showing returns of 6% and 10%. Depending on the results, mutual funds appear to provide ULIPs with a worse death benefit, a greater survival benefit, as well as more allocation fees and surrender penalties (Seth, 2012).

Three firms, including HDFC Life Standard, Sundaram Royal Alliance Insurance Company, and Reliance General Insurance, received licence papers from the Insurance Regulatory & Development Authority (IRDA) in October 2000. Max New York Life, ICICI Prudential Life Insurance Company, and IFFCO Tokio General Insurance Company all received "Principal approval" at the same time. Twenty-two life insurance firms, including one public sector company, are currently successfully conducting business in India (Srivastava, Tripathi, & Kumar, 2012).

According to Khurana (2009), Indians are quite aware about the necessity for pension funds to meet their retirement needs. They also believe that life insurance is the best tool for retirement planning, followed by bank deposits.

ULIPs produce lower returns than a portfolio of mutual funds with the same level of risk combined with life insurance. A conservative should purchase a life insurance policy and invest any surplus in debt-oriented funds. According to Seth (2012), 70% of Indians who can afford ULIPs are still uninsured. This opens up a huge potential market. Additionally, LIC has more than 60 goods available on the market, although all of them are outmoded. Private businesses have a tonne of possibilities here to develop cuttingedge product lines (Seth, 2012). This sort of insurance agreement places very little obligation on the insurer, yet clients still choose it because of the tremendous potential for investment growth (Saini, 2011).

METHODOLOGY

The purpose of this study is to evaluate HDFC Life's ULIP offerings and contrast them with those of its rivals, Bajaj Allianz, Reliance Life, and ICICI Prudential. Responses from those with knowledge of the ULIPs offered by various companies were collected for this study. This survey has documented the responses of 120 respondents. 160 questionnaires including 18 questions about various features of ULIP were sent to likely respondents. Four questions on a Likert scale were included in the questionnaire to record the traditional data, and the remaining questions were objective in nature to cover the other parts of the study. In this study, information was also gathered from a variety of secondary sources, including journals, books, articles, websites, and more.

Objectives

Primary objective of study is to do comparative analysis of ULIP products of different market players. Apart from this, some of the objectives are as following:

- To explore a consistent performer among all selected companies.
- To assess the satisfaction level of customers towards ULIP.

ANALYSIS AND INTERPRETATION

Respondents' Profile

There were 29% women and 71% men in the sample. This shows that the majority of the time, male family members make the decision to purchase an insurance package. The majority of respondents in this survey are between the ages of 31 and 35. This shows that, compared to other age groups, those between the ages of 31 and 35 think about investments the most. 41% of respondents work for themselves, which is the majority. This shows that those working for themselves are more interested in ULIPs for tax savings.

Factors behind Study

Voting for the various considerations for an insurance product was requested of survey participants. Each factor was given a score between 1 and 5, with 1 denoting the factor that had the greatest influence and 5 denoting the factor that had the least influence. After study, it seems that Tax Saving, which received 1.8 rating points, was the most crucial aspect in choosing an insurance product, followed by Returns and Savings, which received 1.81 and 2.03 rating points, respectively (Exhibit 2, Annexure 3). Surprisingly, individuals don't look to the insurance sector to invest in their children's education; as a result, the children's education component is the least desired.

Figure 1: Factors that create need for an insurance product

Many taxpaying individuals try to exhaust the investment limit of up to Rs One lakh under Section 80C to avoid excessive tax deductions from their salary. After accounting for EPF, PPF and other tax-saving investments, tax payers usually have some scope for further tax savings**.**

ULIPs are connected to instruments used on the stock market. The danger of investing exists in addition to the risk of life. As a result, the insurers provide investors the choice to select a risk. There are primarily three categories of risk. Equity shares are where high risk funds invest with a high potential of profit. The possibilities of a return on a medium risk fund, which invests in both debt and equity shares, are moderate. Low risk funds invest mostly in debt securities with fixed returns, and as a result, their returns are quite low. A minimum amount of NAV is guaranteed in advance by insurers for guaranteed NAV funds. The majority of respondents, according to an analysis of the survey data, chose the option "High risk with chance of high returns," which was followed by "Medium risk rewards." This demonstrates that customers' primary motivation is to maximise returns, and they will take significant risks to do so. Because life insurers charge high guarantee charges, even investors are not taking into account "Guaranteed minimum NAV".

Preferences of Customers before Purchasing

Before making a purchase, customers frequently evaluate every good or service on a variety of factors. Insurance is significant enough to be examined similarly because it stays with the consumer for a long time or is occasionally required after them. On a scale of one (highest rank) to five, respondents were asked to score several aspects they would take into account when buying an insurance plan (lowest rank). It was discovered that "Past records of returns" and "available to the internet" were the top three factors customers looked at before buying an insurance plan. The respondents' least favourite answer is "Product selection of the company." The insurers should therefore concentrate on other variables rather than expanding their company's product line. It is now abundantly obvious that successful investment returns always aid businesses in growing their market share (Figure 3). Returns have also been emphasised as a key factor for ULIP investments by Mitra & Khan (2012).

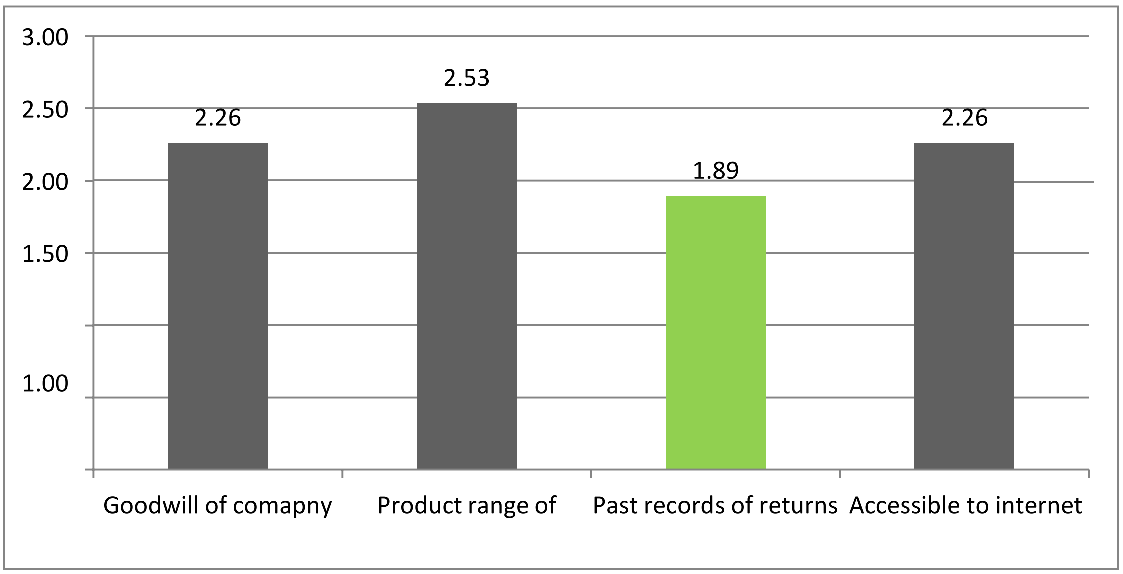

Figure 2: Factors that a customer analyzes before purchasing an insurance product

Website Information

As previously mentioned, respondents also considered the option of "available on the internet" before buying an insurance package. The respondents scored the various companies in response to a question regarding whether the company's website provided comprehensive information about their products. 19 out of 24 respondents believe that the Bajaj Allianz website has complete information about their product, whereas 30 out of 46 respondents believed that the HDFC Life website provided complete information about their insurance. Most consumers of Bajaj Allianz products believe that the company's website is completely transparent. That indicates that they followed HDFC Life in providing complete information about the pirates and everything else.

Also, 26 out of 39 people think that company’s (ICICI Prudential) website has full information about their product. 5 out of 8 people think that company’s (Reliance Life) website has full information about their product (Figure 3).

Availability of required information about products on websites always contributes towards greater transparency in business which according to Saini (2011) is very important and sought after feature at the customers' end.

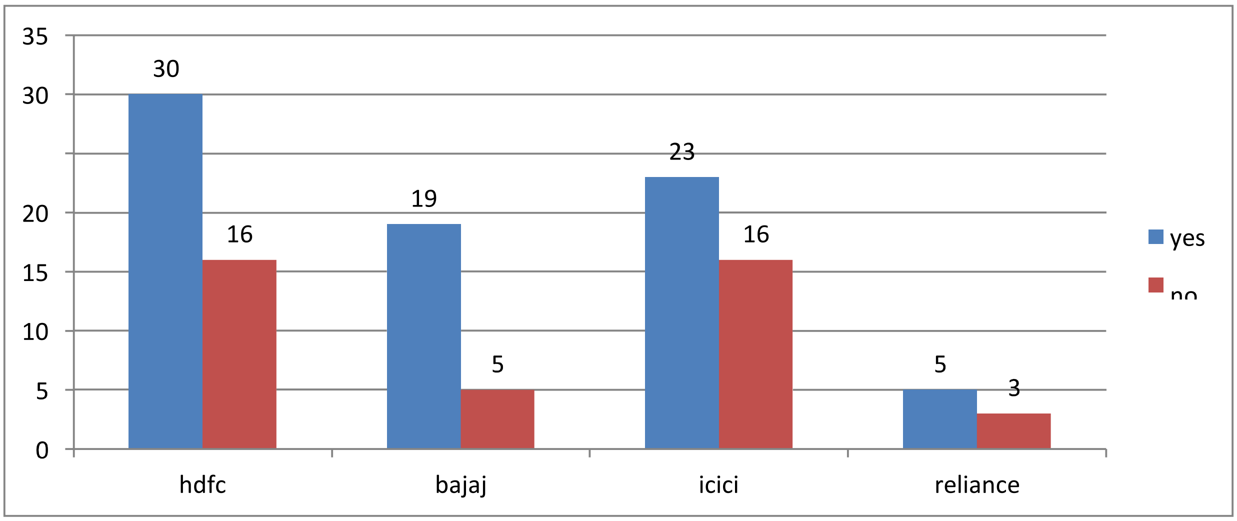

Figure 3: Website information

Trusted Option for Purchasing

Although the "business name" does matter when buying an insurance policy, the agent/broker/facilitator is always able to influence the buyer. Therefore, businesses must pay close attention to this area to ensure a healthy volume of business. A disgruntled consumer will always give a specific firm bad press, thus businesses need to properly train their agents, brokers, and facilitators in order to increase customer satisfaction levels.

The respondents were given a choice of mediators or facilitators and asked to rate them on a scale of one to five (One being the most trusted & five as least trusted). Customers consider recommendations from their friends and colleagues as the most reliable source, per a research. This only occurs when customers are happy and recommend the product to others. Since composite brokers offer products from several organisations, they were discovered to be the second more dependable alternative. Not every consumer will be satisfied by a company's products, thus composite brokers assist customers in finding the correct product to meet their wants and expectations (Figure 4).

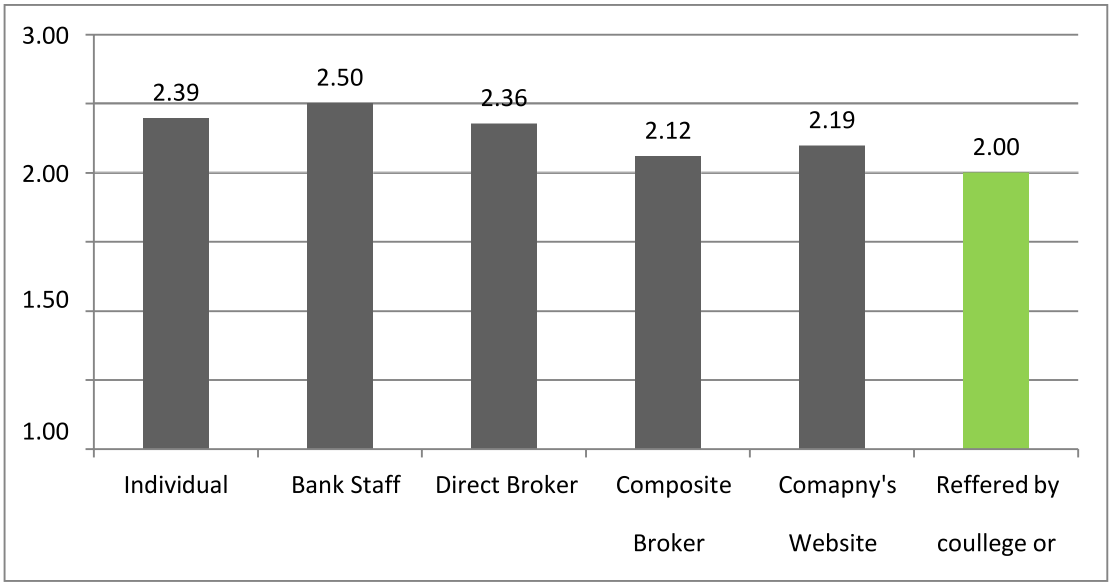

Figure 4: Trusted option

Advertisement Effectiveness

The method of communication that marketers employ to speak to and sway clients is advertising. Nowadays, businesses spend a lot of money on advertising to persuade consumers to buy their products. On a scale of one to five, respondents were asked to assess the effectiveness of various insurance firms' commercials, with one representing the most effective and five the least successful. Results showed that HDFC Life's advertisements are more successful than those of other companies. Although HDFC Life is a leader in this, it is still far from ideal and has to make further improvements to its advertising effort .

Customer Satisfaction

People who are aware of ULIPs and who have been asked whether they own any of the life insurance products participated in this study by providing feedback. It is noted in the sample's responses which respondents used any of the four companies' products. 42 out of 120 respondents, or 35% of those who had already purchased insurance, were asked to rate their degree of satisfaction with the specific firm on a scale of one to five (one as highly satisfied and five as least satisfied). The poll found that HDFC Life and ICICI Prudential have the most happy consumers overall. Customers of life insurance companies were quite unsatisfied, according to this statistics. People who are aware of ULIPs and who have been asked whether they own any of the life insurance products participated in this study by providing feedback. It is noted in the sample's responses which respondents used any of the four companies' products. 42 out of 120 respondents, or 35% of those who had already purchased insurance, were asked to rate their degree of satisfaction with the specific firm on a scale of one to five (one as highly satisfied and five as least satisfied). The poll found that HDFC Life and ICICI Prudential have the most happy consumers overall. Customers of life insurance companies were quite unsatisfied, according to this statistics.

This implies that all the insurers must train their respective employees to handle customer's queries and problems carefully (Figure 7). Seth (2012) has stressed upon the customer satisfaction and asked market players to launch tailor made ULIP to cater 60-70 % population which is largely uninsured.

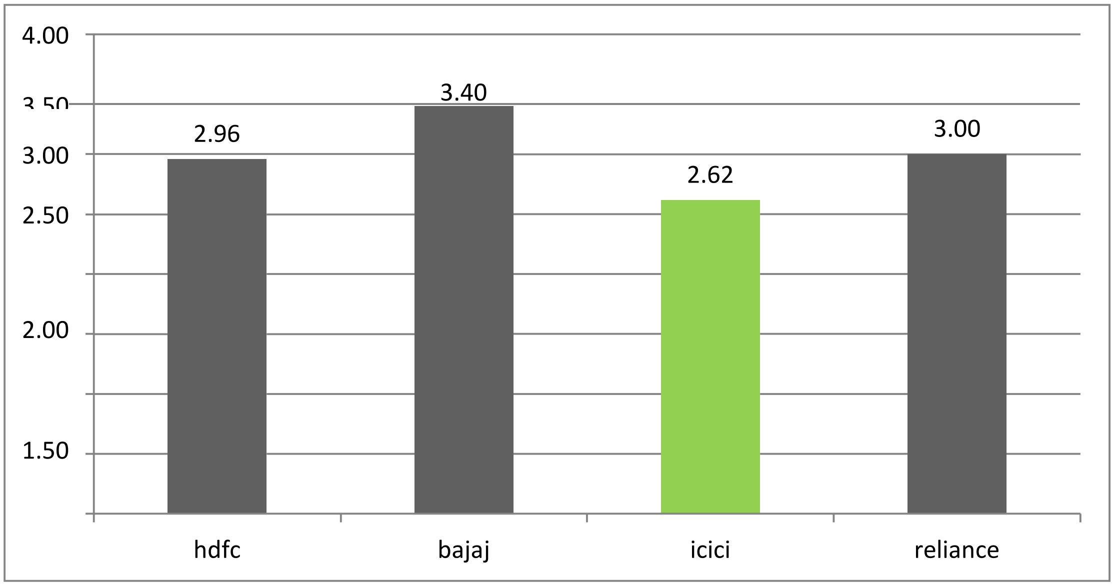

Figure 5: Customer Satisfaction

Awareness About IRDA Guidelines

The Insurance Regulatory and Development Authority (IRDA) is the supreme court-appointed organisation that oversees and develops the Indian insurance industry. Its founding took place in 1999. The primary goal of IRDA is to uphold policyholder rights and guarantee that insurers would treat all policyholders fairly. We asked the respondents if they were familiar with the IRDA and its rules and regulations. Just 56% of respondents were aware of the IRDA and its significance. Companies should definitely raise awareness of the IRDA so that people would think they are operating in accordance with the regulations of the IRDA. A corporation will undoubtedly receive a greater reaction if they begin marketing their goods in accordance with IRDA criteria (Figure 8). Seth (2012) has already lauded the IRDA's return-focused illustration rules and discussed the benefits of overall market.

Expectations from Company

A corporation should launch a product with the intention of serving a certain market or niche and should be aware of customer wants. 35% of respondents said they were in favour of gratis presents, while 41% said they expected higher returns from a corporation (Figure 6). Discussions with respondents revealed that the company's staff should stay in touch with customers following the sale of the policy and that all plans should include a monthly payment option.

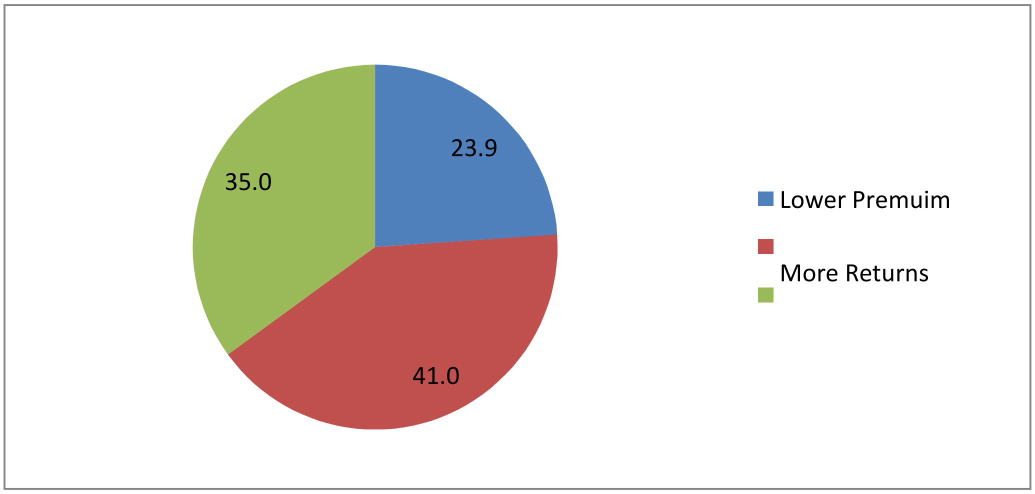

Figure 6: Expectations from company

COMPARISON

ICICI Prudential has a poor website and ineffective advertising, but it has strong earnings and customer happiness. This information demonstrates the high levels of customer satisfaction and product referrals for ICICI Prudential. The most reliable way to buy insurance is through a recommendation from a trusted source, as was previously explained.

Due to their lowest mean, HDFC Life is the most consistent. This information demonstrates HDFC Life's nearly universal effectiveness. Even still, HDFC Life behind ICICI Prudential in terms of satisfaction and earnings. Therefore, HDFC Life must provide more returns in order to increase client happiness and profits.

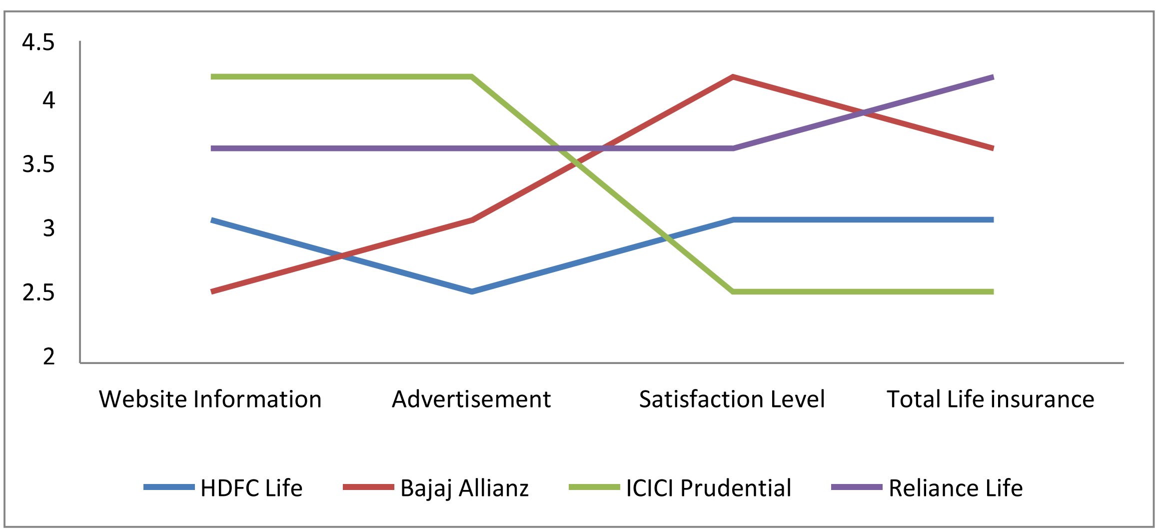

Exhibit : Comparison of ULIPS

CONCLUSION

The study compared the ULIP product from HDFC Life to those of its rivals (Bajaj Allianz, Reliance Life, ICICI Prudential). According to the study's data from several sources, ICICI Prudential had the largest market share and the most contented clients, while HDFC Life was considered the best firm due to its consistency. Due to their ineffective advertising, ICICI Prudential was also perceived to be generating business by word of mouth. HDFC Life was discovered to be in second place in terms of client satisfaction.

A study was done to increase knowledge of the insurance sector. The study's findings, including the market share of 70% held by LIC, clearly demonstrate that consumers have little faith in private insurers. In terms of overall life insurance premiums collected, HDFC Life is in third place among all private players. One significant conclusion was the necessity for all private insurers to enhance their Children's Plans given that it was the least frequently chosen factor when individuals were selecting an insurance package.

The website for HDFC Life wasn't judged to be particularly effective. According to an Economic Times report from the 12th of March 2013, HDFC acknowledged this as a cause for concern, and it was revealed that as part of a technology-driven business transformation initiative intended to make the company more competitive, HDFC would spend Rs 120 crore on advertising over the following four years.

The public insurer (LIC) has had a significant market share of 70% of life insurance for many years. Private insurers need to leave a positive impression of their goods, services, and payouts with the public. This significant market share demonstrates how crucial trust-building efforts are for Indian private insurers. In terms of market share among the 23 private insurers, ICICI Prudential holds the lead with a 16% stake, followed by HDFC Life in third place with 12%. For HDFC Life to grow its company, significant initiatives must be taken to satisfy customers.

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