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RESEARCH PAPER

ULIPs-A blessing or a curse in disguise

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ABSTRACT

Unit Linked Insurance business forms a significant part of the life insurance business. A Unit Linked Investment Plan (ULIP) is an instrument which combines the security provided by an insurance plan with the opportunities provided by an investment plan. A significant amount of premium of insurance companies comes from this instrument. In this paper author has tried to compare ULIPs with other investment and insurance options available in the market. The purpose of this paper is to study the investor's perception about the ULIPs as an investment option in Indian financial market. The basic thing that an investor keeps in his mind is value orientation. Investor 'balances off' risk, return and cost, means that they want good option with high return but not necessarily too risky and costly, or the less risky and costly which they do not trust in quality and return terms. So, it is just a matter of right balance. Due to SEBI ban on 14 private life insurance companies in India the basic question that comes in the mind is 'how carefully consumer thinks about their investment? Is the investor more concerned with the characteristics (transparency) of investment option to ensure investment is worth or not or the return? Or they believe that the transparency of investment and fewer charges on investment still merit return? This paper investigated investment pattern, attitude and perception of investors about ULIPs as an investment option after SEBI ban on 14 private insurance companies. The result is that investors are losing their trust in ULIPs due to less transparency and less insurance coverage as compared to other options available in market. ULIPs have failed to convince people that the return and coverage is really up to what could be expected for their investment. In these cases investors are attracted towards other option available in market which are more transparent and are giving same return patterns, *i.e.* People want to invest but they do not want to invest at high front-end cost and less transparency.

KEY WORDS : ULIP, Unit linked, Investment plan

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It wasn't too long back when the good old endowment plan was the preferred way to insure oneself against an eventuality and to set aside some savings to meet one's financial objectives. The traditional endowment policies invested funds mainly in fixed interest Government securities and other safe investments to ensure the safety of capital. Thus, the traditional emphasis was always on security of capital rather than yield. However, with the inflationary trend witnessed all over the world, it was observed that savings through life insurance was becoming unattractive and not meeting the aspirations of the policyholders.

The policyholder found that the sum assured guaranteed on maturity had really depreciated in real value because of the depreciation in the value of money. The investor was no longer content with the so called security of capital provided under a policy of life insurance and started showing a preference for higher rate of return on his investments as also for capital appreciation. That was the time, when introduction of such a product was felt which can satisfy expectation of the policy holders. The object was to provide a hedge against the inflation through contract of insurance. Decline of assured return endowment plans and opening of the insurance sector saw the advent of ULIPs on the domestic insurance horizon.

Unit linked insurance plans (ULIPs) are insurance plans that combine the benefit of investment with insurance. They give the investor an option to put a part of their premium in various investment portfolios and derive the benefits depending upon the performance of the funds chosen by them. ULIPs were launched at an opportune time when stock markets had just taken off. Being market- linked, they were

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