"AN ANALYTICAL STUDY ON ICICI PRUDENTIAL ULIP PRODUCTS WITH SPECIAL REFERENCE TO LIFE TIME SCHEME"

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ABSTRACT

This Analytical study is undertaken to study the "ICICI Prudential ULIP products with special reference to Lifetime scheme" ICICI is the leading Private Life Insurance Company in India, which has started its operation in 2000. Within a short span, the company has reached the top position among the private insurance companies.

The important objective of this study is to compare the ULIP products of ICICI Prudential with their major competitors with respect to their important factors like Net Asset Value, Benchmark Index. This paper also helps in evaluating the performance of the funds based on market risk and to find the market growth.

Keyword: *ULIP Products, Life Time Scheme, Market risk, Life Insurance*

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1. Introduction

Life is a roller coaster ride and is full of twists and turns. You cannot take anything for granted in life. Insurance policies are a safeguard against the uncertainties of life.

Insurance is system by which the losses suffered by a few are spread over many, exposed to similar risks. Insurance is a protection against financial loss arising on the happening of an unexpected event. Insurance policy helps in not only mitigating risks but also provides a financial cushion against adverse financial burdens suffered.

Insurance policies cover the risk of life as well as other assets and valuables such as home, automobiles, jewelry etc.On the basis of the risk they cover, insurance policies can be classified into two categories.

- Life Insurance
- General Insurance

1.1 Life Insurance

Life insurance is a written contract between the insured and the insurer, which provides for the payment of the insured sum on the date of the maturity of the contract or on the unfortunate death of the insured, whichever occurs earlier.

Types of Insurance policies

- Endowment Policy
- Whole Life Policy
- Term Life Policy

- Money-back Policy
- Joint Life Policy
- Group Insurance Policy
- Loan Cover Term Assurance Policy
- Pension Plan or Annuities
- Unit Linked Insurance Plan

1.2 General Insurance, India

General Insurance provides much-needed protection against unforeseen events such as accidents, illness, fire, burglary et al. Unlike Life Insurance, General Insurance is not meant to offer returns but is a protection against contingencies. Almost everything that has a financial value in life and has a probability of getting lost, stolen or damaged can be covered through General Insurance policy.

Property (both movable and immovable), vehicle, cash, household goods, health, dishonesty and also one's liability towards others can be covered under general insurance policy. Under certain Acts of Parliament, some types of insurance like Motor Insurance and Public Liability Insurance have been made compulsory.

Major insurance policies that are covered under General Insurance are:

- ❖ Home Insurance
- ❖ Health Insurance
- ❖ Motor Insurance
- ❖ Travel Insurance

The Life insurance scenario in India

Since 1956, the nationalization of the insurance industry, the state run Life Insurance Corporation on India (LIC) has held the monopoly in that country's life insurance sector General Insurance Corporation of India (GIC), with its four subsidiaries, was its counterpart in the causality sector. Over time, taking advantage of its monopoly and virtual prerogative in establishing premiums, LIC has evolved into a monolith. With around 600,000agents in the every nook and corner of the vast country, it has created an enviable brand name, particularly among the rural population of the country. it has around $40 billion as its fund and is a strong player in the financial sector. However, on the qualitative side, it has very little to take pride in. And there lies the potential for foreign players to challenge this behemoth.

As is typical with monopolies, the premium rates charged by LIC are among then highest in the world, and its track record in customer service can, at best, be called shabby. With a huge unionized, rigid work force mostly in the clerical category, LIC runs the risk of high fixed cost, which boasting full-scale automation of its operation, the truth is that its technology is outdated. The new players, with the state-of-the-art technology under their belt, will be in advantageous position.80% of LIC's business is procured by 20% of ill trained agent force. The foreign player, with domestic partner's strong brand value, can test the unconvenential distribution channels like brokers, the internet, the banking distribution system etc.

1.3 A brief history of the Insurance sector

The business of life insurance in India in its existing form started in India in the year1818 with the establishment of the Oriental Life Insurance Company in Calcutta.

Some of the important milestones in the life insurance business in India are:

- 1912: The Indian Life Assurance Companies Act enacted as the first statute to regulate the life insurance business.
- 1928: The Indian Insurance Companies Act enacted to enable the government to collect statistical information about both life and non-life insurance businesses.
- 1938: Earlier legislation consolidated and amended to by the Insurance Act with theobjective of protecting the interests of the insuring public.
- 1956: 245 Indian and foreign insurers and provident societies taken over by the central government and nationalised. LIC formed by an Act of Parliament, viz. LIC Act,

In the year 1956, with a capital contribution of Rs. 5 crore from the Government of India. The General insurance business in India, on the other hand, can trace its roots to the Triton Insurance Company Ltd., the first general insurance company established in the year 1850 in Calcutta by the British.

Some of the important milestones in the general insurance business in India are:

- 1907: The Indian Mercantile Insurance Ltd. set up, the first company to transact all classes of general insurance business.
- 1957: General Insurance Council, a wing of the Insurance Association of India, frames a code of conduct for ensuring fair conduct and sound business practices.
- 1968: The Insurance Act amended to regulate investments and set minimum solvency margins and the Tariff Advisory Committee set up.
- 1972: The General Insurance Business (Nationalization) Act, 1972 nationalized the general insurance business in India with effect from 1st January 1973.107 insurers amalgamated and grouped into four companies viz.
    - The National Insurance Company Ltd.,
    - The New India Assurance Company Ltd.,
    - The Oriental Insurance Company Ltd.
    - The United India Insurance Company Ltd., and
    - General Insurance Corporation incorporated as a company.

2. NEED AND OBJECTIVES OF STUDY

2.1 NEED FOR THE STUDY

The last few years have been a watershed for assured return plans. As the insurance sector has developed, there's been a growing acceptance by most policyholders that the assured return era is a thing of the past. The private insurance companies are focusing on the Market Linked Plans.

This study undertaken for ICICI Prudential Life Insurance Company Ltd aims to analyse the risk which involved in Market linked insurance plan and to analyse the performance of their funds.

This has been done by collecting Net asset values and indices from various companies and their websites which would help in analyzing the profile and performance of the funds and their risk and return.

This study would help in explaining Market risk and returns which create awareness about the Market linked product among the investors through which the company gets more investment. All this would help in giving suggestions to ICICI Prudential Life Insurance Company Ltd, in strengthening their marketing efforts, in tapping private insurance companies' schemes and expand their business.

2.2 OBJECTIVES OF THE STUDY

Primary Objectives

To compare the ULIP products of ICICI Prudential with their major competitors.

Secondary Objectives

- To compare the Net Asset Value of Life time scheme of ICICI Prudential Net Asset value.
- To Enlighten the ICICI ULIP products
- To find the Market Growth of ICICI Prudential.
- To evaluate the performance of the funds based on market risk.

3. METHODOLOGY OF THE STUDY

Methodology is a way to systematically solve the research problem. It explains the various steps that are generally adopted by the researcher in studying the research problems along with the logic behind it.

3.1 RESEARCH DESIGN

For this study descriptive method of research is used for analyzing the performance of the funds. Descriptive study is the research study that describes the characteristics of any individual or of groups. Here it describes the characteristics based on the schemes and the performance based on the various asset management companies.

3.2 DATA COLLECTION METHOD

Secondary data were used for analyses such as (NAV) and performance of various schemes of the asset management companies.

The net asset value (NAV) of the funds were collected from various websites. The benchmark indices were collected from the respective company's fact sheets and also from the company's common application forms.

3.3 TOOLS USED FOR ANALYSIS

Portfolio performance was measured mostly in terms of returns in early days, though there was an awareness of the concept of risk, which was difficult to quantify. Risk could not be incorporated in evaluation, as there was no measures that combined both return and risk. Returns on portfolios performance are Sharpe Ratio, Treynor measure and Jensen measure. These are absolute measure of portfolio performance that can be used to rank different portfolios.

RETURN

For each mutual fund scheme under study, the monthly returns are computed as:

$$Ri = \frac{NAV_t - NAV_{t-1}}{NAV_{t-1}}$$

NAV_t = Net asset value in the beginning

NAV_{t-1} = Net asset value at the end

AVERAGE

$$\bar{R} = \Sigma Ri / n$$

i = 1,2,3 …….. n

RISK

Standard deviation : Measurement of Total Risk

Financial analysts and statisticians prefer to use a quantitative risk surrogate called the clash of returns, denoted by αI.

The standard deviation and he variance are equally acceptable and equivalent quantitative measures of an asset's total risk. The variance and standard deviation are computed from logarithmic monthly returns.

$$\sigma I = \left[\Sigma \left(Ri - \bar{R} \right)^2 / n \right]^{1/2}$$

BETA

Measure of Systematic Risk

To obtain the measure of systematic risk (Beta) of the mutual fund scheme, Market Model is applied.

$$\beta = \frac{N\Sigma XY - E\Sigma\Sigma Y}{N\Sigma X^2 - (\Sigma X)^2}$$

RISK-LESS ASSET

By definition, a risk less asset has zero variability of returns. If an investor buys an asset at the beginning of the holding period with the known terminal value, such type of asset can be called as risk-less or risk free asset. Government securities and nationalized bank deposits fall under this category. As the government securities are not easily available to the common man, we take the nationalized bank deposits as the risk free asset and the interest rate on such deposits are considered as risk free return.

SHARPE RATIO

This is a measure of risk-adjusted return on a portfolio. It is a ratio of excess return to the standard deviation of portfolio returns. An implicit assumption of the Sharpe ratio is that the portfolio is not combined with other risky portfolios. It is relevant for performance evaluation when comparing mutually exclusive portfolios.

The Sharpe measure follows his earlier work on capital asset pricing model (CAPM) dealing specifically with capital market line (CML).

The Sharpe measure of performance denoted by S is given by

$$S = \frac{Rj - Rf}{\sigma i}$$

Where,

Ri = the average rate of return on portfolio 'i' during a specified time period.

Rf = the average rate of return on a risk free investment during the same period

TREYNOR MEASURE

This is also a measure of risk-adjusted return on a portfolio. It is a ratio of excess return to the systematic risk (β) of the portfolio. It is relevant for performance measurement when evaluating portfolios separately or in combination with other portfolios. A high Treynor measure indicated a favourable relationship between risk and return on the portfolio.

Sharpe Ratio and Treynor measure give the same results in the case of highly diversified portfolios as the total risk of portfolios approaches that of a market portfolio.

$$T = \frac{Ri - Rf}{\beta}$$

Where,

Ri = the average rate of return on portfolio 'i' during a specified time period.

Rf = the average rate return on a risk free investment during the same period.

β = the slope of the fun's characteristic line during that time period (this indicates portfolio's relative volatility with respect to market portfolio).

A larger 'T' value indicates a better portfolio performance for all investors regardless of their risk performances. The numerator of this ratio (Ri-Rf) is the risk premium and the denominator is a measure of market risk. The Treynor measure is risk premium per unit of systematic risk.

JENSEN'S ALPHA

This is the difference between a fund's actual return and the return on a benchmark portfolio with the same systematic risk (β) of the portfolio whose performance is being valuated. It measures the ability of active fund management to earn returns in excess of the reward for market risk. We can infer meaningful results if it is used to compare two portfolios with similar betas.

Jensen's measure is also based on capital asset pricing model. CAPM estimates the expected return on any security or portfolio by the following expression:

$$E(Ri) = Rf + \beta i\ [E(Rm-Rf)$$

Where,

E (Ri) = expected return on security or portfolio I

Rf = Risk free return

βI = Systematic risk (beta) of security

E (Rm) = expected return on the market portfolio I

Jensen's alpha (α) is defined as:

$$Ri - Rf = \alpha I + \beta I\ (Rm-Rf) + \varepsilon I$$

The value of 'aj' suggests whether the portfolio manager possesses superior (inferior) market timing and stock selection skills. A positive (α) is an indication of superior fund management ability.

4. ANALYSIS AND INTERPRETATION

Analysis is the process of placing the data in the ordered form, combining them with the existing information and extracting the meaning from them. In other words, analysis is an answer to the question "what message is conveyed by each group of data ". Data, which are otherwise called as raw facts and are unable to give meaningful information. The raw data become information only when they are analyzed and when put in a meaningful form.

Interpretation is the process of relating various bits of information to other existing information. Interpretation attempts to answer "what relationship exists between the findings to the research objectives and hypothesis framed for the study in the beginning".

The collected data is analysed through Sharpe, Treynor and Jensen Methods. Various Kind of Charts are used to interpret the data. Also Correlation analysis was used to find out the relationship between the funds. The interpretation given below the table will make the reader to understand the problem as well as the solution to the problem.

TABLE NO. 4.1

ICICI PRUDENTIAL EQUITY FUND

Month	2012		2013		2014		2015	
	Returns	**BM index**	**Returns**	**BM index**	**Returns**	**BM index**	**Returns**	**BM index**
Jan	2.483	1.419	-3.163	3.609	-6.333	10.199	-2.106	3.624
Feb	5.297	6.745	1.434	0.680	4.074	0.393	3.937	2.952
Mar	-2.489	1.848	-4.614	7.917	-3.490	1.799	-4.260	2.155
Apr	-3.581	1.883	-3.339	1.274	0.000	1.096	-4.917	6.462
May	-6.002	4.967	9.184	15.397	-15.115	17.108	5.987	8.235
Jun	3.671	2.896	9.821	10.133	0.723	0.032	4.689	3.685
Jul	-8.556	9.832	6.148	4.983	4.494	6.342	6.037	6.016
Aug	5.332	4.287	11.842	16.419	1.085	1.254	2.596	4.253
Sep	-5.877	6.558	5.000	1.489	4.264	6.877	8.197	6.083
Oct	1.850	0.978	12.376	6.653	1.390	0.250	-7.766	10.074
Nov	9.347	6.667	-0.537	3.428	8.165	9.440	8.850	10.625
Dec	4.491	1.986	11.287	16.617	5.223	8.814	3.989	4.991
S.D	**5.62**		**6.42**		**6.26**		**5.49**	
Beta	**1.050**		**0.704**		**0.781**		**0.848**	
Sharpe	1.113		5.096		0.233		2.548	
Treynor	5.256		55.915		2.201		17.991	
Jensen	5.708		0.460		4.245		2.908	
Correlation	0.968		0.885		0.962		0.965	

TABLE NO. 4.2

ICICI PRUDENTIAL DEBT FUND

Month	2012		2013		2014		2015	
	Returns	BM index	Returns	BM index	Returns	BM index	Returns	BM index
Jan	1.796	3.13	-1.507	3.92	-0.441	9.14	0.000	1.40
Feb	2.128	7.97	1.281	0.49	-0.147	4.08	0.441	4.66
Mar	1.180	3.62	0.080	10.23	1.180	3.95	0.452	0.84
Apr	0.447	8.20	1.265	7.34	0.364	4.99	0.208	2.88
May	-0.357	6.50	1.562	19.53	-0.581	11.16	0.498	8.36
Jun	1.163	7.11	0.385	10.91	-1.386	0.33	0.457	0.61
Jul	1.587	14.10	0.766	6.81	-0.591	10.37	0.409	6.74
Aug	1.126	1.32	1.520	12.43	0.223	9.75	0.381	1.32
Sep	0.941	6.43	0.823	3.36	0.074	5.87	0.367	6.43
Oct	1.524	1.87	0.297	8.03	-0.074	0.77	0.387	6.45
Nov	2.500	6.98	-0.296	8.30	0.148	12.13	0.339	0.41
Dec	2.112	2.86	1.266	18.22	0.443	14.51	-0.034	7.16
S.D	**0.79**		**0.90**		**0.64**		**0.018**	
Beta	**0.790**		**1.015**		**0.803**		**0.368**	
Sharpe	5.560		1.574		9.379		11.719	
Treynor	4.204		1.187		8.302		10.987	
Jensen	3.322		5.377		4.813		1.850	
Correlation	0.626		0.905		0.925		0.754	

TABLE NO 4.3

ICICI PRUDENTIAL BALANCEDFUND

Month	2012		2013		2014		2015	
	Returns	BM index	Returns	BM index	Returns	BM index	Returns	BM index
Jan	2.099	1.905	2.228	5.299	2.814	5.360	0.901	2.714
Feb	4.376	5.584	1.255	0.768	1.547	1.769	1.705	2.107
Mar	0.448	4.113	1.993	7.617	0.603	4.361	1.291	2.339
Apr	1.249	4.781	0.750	5.105	0.120	1.294	1.811	7.987
May	2.437	5.900	4.774	7.300	6.401	16.024	2.473	8.911
Jun	2.114	1.736	4.407	11.722	0.449	0.153	2.020	6.374
Jul	2.683	10.295	3.070	4.878	1.470	6.187	2.255	4.539
Aug	3.211	5.524	5.869	13.448	0.566	0.445	1.076	2.873
Sep	2.141	4.968	2.589	2.991	1.746	6.729	3.238	8.133
Oct	1.551	1.827	5.321	9.505	0.426	0.662	2.971	9.852
Nov	5.291	10.379	0.513	0.849	3.083	8.958	3.560	11.124
Dec	2.979	2.397	5.307	13.398	2.262	6.037	1.457	5.098
S.D	**2.76**		**3.01**		**2.56**		**2.12**	
Beta	**0.448**		**0.389**		**0.363**		**0.311**	
Sharpe	1.167		1.839		0.757		0.388	
Treynor	14.835		33.553		13.594		7.947	
Jensen	1.591		0.041		2.064		0.935	
Correlation	0.965		0.960		0.964		0.973	

TABLE NO. 4.4

COMPARATIVE ANALYSIS OF ICICI PRUDENTIAL

Model	EQUITY FUND				DEBT FUND				BALANCEDFUND			
	2012	2013	2014	2015	2012	2013	2014	2015	2012	2013	2014	2015
Sharpe	1.113	5.096	0.233	2.548	5.560	1.574	9.379	1.719	1.167	1.839	0.757	0.388
Treynor	5.256	55.915	2.201	17.991	4.204	1.187	8.302	0.987	14.835	33.553	13.594	7.947
Jensen	5.708	0.460	4.245	2.908	3.322	5.377	4.813	1.850	1.591	0.041	2.064	0.935
Correlation	0.968	0.885	0.962	0.965	0.626	0.905	0.925	0.754	0.965	0.960	0.964	0.973

From the above analysis it can be followed as follows:

In Sharpe method, the year 2013 gives better return than others in equity fund, the year 2014 gives higher return than others in Debt fund and in balanced fund the year 2013 gives better return than others.

In Treynor method, the year 2013 gives better return than others in equity fund, the year 2014 gives higher return than others in Debt fund and in balanced fund the year 2013 gives better return than others.

In Jensen method, the year 2012 gives better return than others in equity fund, the year 2013 gives higher return than others in Debt fund and in balanced fund the year 2014 gives better return than others.

It is found from the **correlation**that**,** the relationship is very high in the year 2012 of equity fund, 2014 of debt fund and 2015 of balanced fund.

5. Conclusion

From this study, ICICI gives high return in long period. The study reveals wide spread perception about ICICI Prudential life insurance and their major competitors among the public.

The continued growth of the company depends on attracting and retaining talent. The company should therefore address the gap in perception and promote both life insurance and career in selling life insurance.

This research work is a rewarding exercise to the scholar and the scholar would be delighted if the findings and suggestions are incorporated by the ICICI Prudential Life Insurance in the study area.

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