

**RISK-RETURN ANALYSIS AND INVESTORS RESPONSE
TOWARDS INVESTMENT IN METLIFE ULIP PLAN IN
HUBLI-DHARAWAD MUNICIPAL CITY**

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Abstract

Insurance is usually bought by investor seeking to transfer risk from an individual to a pool to protect against untoward incidents and to provide for monetary compensation to his/her family. With the introduction of ULIPs, Unit linked insurance plans (ULIPs) are pitched as an investment product rather than as a risk shield and it is the unit holder who bears the risk of market swings in these products. While insurance companies pitch ULIPs as a product for the long term, there is considerable miss-selling of ULIPs in today's market scenario and many investors' sign up for ULIPs without really understanding their risks.

In this scenario, this study is being undertaken to understand the risk involved in investing ULIP products and analyzing the returns from investments in order to take informed judgments and to evaluate investors' response towards their present returns from ULIPs.

Keywords: Risk, Return, ULIP, Investors Response, Degree of Freedom, Analysis of variance

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Introduction:

Till recently, individuals seeking to provide protection to their family had no other option except a life insurance term plan. The plan promised a stipulated amount to the family of policyholder in the event of his death. However, the insurance sector has evolved over the last few years and a number of innovative products have hit the market. One product category that is increasingly catching the fancy of individuals is the Unit linked Insurance Plans (ULIP). These plans, a combination of insurance and investment, provide the policyholder with life cover and additionally offer the opportunity to earn a return on the premium paid. ULIPs work on the lines of mutual funds. The premium paid by the client (less any charge) is used to buy units in various funds (aggressive, balanced or conservative) floated by the insurance companies. Units are bought according to the plan chosen by the policyholder. On every additional premium, more units are allotted to his fund. The policyholder can also switch among the funds as and when he desires. While some companies allow any number of free switches to the policyholder, some restrict the number to just three or four. If the number is exceeded, a certain charge is levied.

Individuals can also make additional investments (besides premium) from time to time to increase the savings component in their plan. This facility is termed "top-up". The money parked in a ULIP plan is returned either on the insured's death or in the event of maturity of the policy. In case of the insured person's untimely death, the amount that the beneficiary is paid is the higher of the sum assured (insurance cover) or the value of the units (investments). However, some schemes pay the sum assured plus the prevailing value of the investments. There are various unit linked insurance plans available in the market. However, the key ones are pension, children, group and capital guarantee plans. The pension plans come with two variations — with and without life cover — and are meant for people who want to generate returns for their sunset years. The children plans, on the other hand, are aimed at taking care of their educational and other needs. Apart from unit-linked plans for individuals, group unit linked plans are also available in the market. The Group linked plans are basically designed for employers who want to offer certain benefits for their employees such as gratuity, superannuation and leave encashment. The other important category of ULIPs is capital guarantee plans. The plan promises the policyholder that at least the premium paid will be returned at maturity. But the

guaranteed amount is payable only when the policy's maturity value is below the total premium paid by the individual till maturity. However, the guarantee is not provided on the actual premium paid but only on that portion of the premium that is net of expenses (mortality, sales and marketing, administration). Though there are various benefits attached to buying a unit linked insurance product, the return on the ULIPs is directly linked to the performance of the stocks or bonds it invests in. An individual must remain prepared for bullish as well as bearish market conditions. However, it is important to look at the other side of the coin too. If the market goes down, the fund value will also decline. Individuals easily give in to the illustrative returns presented by the sales person, projecting a 6 or a 10 per cent growth in the years ahead. What if the market crashes? This aspect has also to be kept in mind while parking money in Unit plans".

Investment returns from ULIP may not be guaranteed. In **unit linked products/policies**, the investment risk in investment portfolio is borne by the policy holder". Depending upon the performance of the unit linked fund(s) chosen; the policy holder may achieve gains or losses on his/her investments. It should also be noted that the past returns of a fund are not necessarily indicative of the future performance of the fund.

In this scenario, this study is being undertaken to understand the risk involved in investing ULIP products and analyzing the returns from investments in order to take informed judgments and to evaluate investors' response towards their present returns from ULIPs.

Objectives:

1. To understand the risk of investing in METLIFE ULIP Plan by identifying the volatility of the fund's periodic returns.
2. To analyze the return generated by the funds per unit of risk.
3. To understand the timing of investing in METLIFE ULIP Plan
4. To examine the factors affecting the decision of investing in METLIFE ULIP Plan.
5. To analyze the customers' response towards their investment in METLIFE ULIPs.

Methodology:

In order to achieve the 4th and 5th objective, questionnaire was designed to collect the Customers' response towards their investment in ULIPs. In order to achieve 1st, 2nd and 3rd objectives data such as customers' account statements for the period 2008 to 2010 was used to analyze the risk and returns associated with investments in ULIP. Sample survey was used for data collection in which the event of data collection is only from selected respondents of the population and non-probability sampling designing technique was used to collect the respondent feedback.

Questionnaire was administered to a sample size of 50 respondents who are Employees, Professionals & Business Class having invested in ULIPs of MetLife and residing in **Hubli-Dharwad Municipal city**. The survey was conducted during 1st Oct to 30th Nov 2010. For the purpose of analysis statistical tool such as standard deviation and risk-adjusted return measures such as the Sharp ratio are used in order to compare the returns generated per unit of risk. SPSS – Statistical Package for Social Science, software was used to analyses the data collected with the help of questionnaire about customers' response towards their investments in ULIPs

Hypothesis:

- H1. Returns depend upon the time of investment.
- H2. Risk appetite differs amongst the different age group of investors.
- H3. Amount of Investment not depends upon the Income of Investor.
- H4. Satisfaction level differs amongst the customers of different ULIP plans.
- H5. Choice of fund depends upon the age of investors.

Results and Discussion**A) Based on Customer Statement of Account****Table-1: Returns and Time of Investment.**

Ho: Returns depends upon the time of investment.

H1: Returns do not depend upon the time of investment.

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	12.847 ^a	3	.005
Likelihood Ratio	16.638	3	.001
Linear-by-Linear Association	6.028	1	.014
N of Valid Cases	19		

a. 8 cells (100.0%) have expected count less than 5. The minimum expected count is .84.

Table1 revealed that- The significance value for the above test is 0.005 i.e., it is equal to the alpha value. Ho is rejected as the alpha does not fall within the range. Hence, it is found that returns do not depend upon the time of investment.

Table 2: Investment made by customers in METLIFE ULIP Plan

No	Inception Date	No of Premiums	Premium (Qtly, Half yearly, Annually)	Total Premium	Premium Allocation	Units	Closing NAV	Avg NAVs	Fund Value	Absolute Returns	Relative Returns	Capital Gain/Loss
1	2	3	4	5= 3x4	6	7	8	9	10	11= (10-5)/5	12= (10-6)/6	13= (8-9)/9
1	10/1/07	3	40000	120000	103223.57	5934.5	24.27	19.00	144051.59	20.04	39.55	32.58
2	22/04/07	3	50000	150000	126333.71	6789.0	24.27	18.83	164791.84	9.86	30.44	23.40
3	10/2/08	3	50000	150000	131218.16	7318.4	24.27	18.93	177642.30	18.43	35.38	10.21
4	30/05/08	2	50000	100000	87039.44	4130.2	23.78	20.85	98213.36	-1.79	12.84	10.33
5	8/7/08	8	125000	1000000	902232.95	48323.7	23.78	19.26	1149093.26	14.91	27.36	25.00
6	30/07/08	2	200000	400000	342959.05	16606.3	23.78	20.47	394877.00	-1.28	15.14	21.04
7	4/8/08	5	12000	60000	65000	2928.8	23.78	19.47	69644.16	16.07	7.14	14.58
8	10/8/08	2	200000	400000	353311.3	18114.2	23.78	21.32	430738.00	7.68	21.91	26.22
9	10/8/08	2	100000	200000	176706.76	8198.1	23.78	21.32	194943.00	-2.53	10.32	14.58
10	19/08/08	4	50000	200000	180960.88	9851.5	23.78	19.01	234260.00	17.13	29.45	18.90
11	17/10/08	2	250000	500000	439124.55	24111.6	23.78	19.09	573351.07	14.67	30.57	58.07
12	30/10/08	4	7500	30000	24018.68	1240.5	23.78	19.80	29498.30	-1.67	22.81	67.78
13	17/05/09	1	30000	30000	24249.87	1353.7	19.22	17.86	26014.00	-13.2	7.27	12.55

										9		
14	15/06/09	1	20000	20000	12173.74	599.7	23.74	20.62	14234.72	-28.83	16.93	15.08
15	20/06/09	2	20000	40000	31305.59	1439.9	23.74	21.71	34176.12	-14.56	9.17	26.46
16	22/06/09	2	36000	72000	59444.25	2717.8	23.74	21.83	64507.58	-10.41	8.52	20.67
17	22/06/09	2	36000	72000	58911.45	2694.0	23.74	21.85	63944.50	-11.19	8.54	20.85
18	25/06/09	1	20000	20000	12875.95	648.0	23.74	20.14	15381.70	-23.09	19.46	17.80
19	26/07/09	2	36000	72000	66811.1	2800.9	23.74	22.40	66480.63	-7.67	-0.49	12.91

Source: Customers' Account Statement

- Investment made by customers in METLIFE ULIP Plan in Hubli during 2007, 2008 And 2009 and their Returns As On July 2010.

Table-2 stated that out of 2 investors who have invested in Metlife Ulip plan during the year 2007 both of them were able to earn an absolute return of 9% to 20%, & relative return of 30% to 40%, with capital appreciation of 23% to 32%. This is mainly because of the downturn experience in the stock market resulting into lower NAV and higher units.

Out of 10 investors who have invested during the year 2008 out of them 6 investors were able to earn an absolute return of 7% to 18.5%, & relative return of 7% to 35%, with capital appreciation of 10% to 67%. This shows that the timing of investment and also the charges levied by the insurance company has a major role in earning the return whereas only 4 investors incurred absolute negative return in the range of 1% to 2%.

Out of 7 investor who have invested during the year 2009, all of them earned a negative absolute return in the range of -7% to -28%, but were able to get positive relative return in the range of 1% to 19% with capital appreciation of 12% to 26% .This is mainly because of the upturn experienced in the stock market resulting into higher NAV and lower units, with higher allocation charges.

B) Based on Response collected through Questionnaire

Hypothesis Testing:

1. Risk Appetite and Age of Investors.

Ho: Risk appetite differs amongst the different age group of investors.

H1: Risk appetite does not differ amongst the different age group of investors.

Table-3 Chi-Square Test

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	14.758 ^a	9	.098
Likelihood Ratio	13.368	9	.147
Linear-by-Linear Association	1.545	1	.214
N of Valid Cases	50		

a. 12 cells (75.0%) have expected count less than 5. The minimum expected count is .06.

Table-3 indicated that, the significance value for the above test is 0.098 i.e., it is more than the alpha 0.05. Ho is accepted as alpha falls within the range. Hence risk appetite differs among age group.

Table-4: Risk Appetite and Income of the Investors.

Ho: Risk appetite depends upon the income of the investors.

H1: Risk appetite does not depend upon the income of the investors. **(Chi-Square Test)**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	12.862 ^a	9	.169
Likelihood Ratio	12.540	9	.185
Linear-by-Linear Association	4.934	1	.026
N of Valid Cases	50		

. 12 cells (75.0%) have expected count less than 5. The minimum expected count is .02.

Table-4 indicated that, the significance value for the above test is 0.169 i.e., it is more than 0.05. Ho is accepted as the alpha falls within the range. Hence, risk appetite depends upon the income of the investors.

Table-5: Ho: Amount of Investment is does not dependent upon the Income of Investor.

H1: Amount of Investment depends upon the Income of Investor.

Chi-Square Test

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	61.745 ^a	9	.000
Likelihood Ratio	23.010	9	.006
Linear-by-Linear Association	12.711	1	.000
N of Valid Cases	50		

a. 12 cells (75.0%) have expected count less than 5. The minimum expected count is .02.

Table-5 shown that, the significance value for the above test is 0.000 i.e., it is less than 0.05.

Ho is rejected as the alpha does not falls within the range. Hence, risk appetite does not depend upon the income of the investors.

Table-6: Satisfaction Level and ULIP Plans.

Ho: Satisfaction level differ amongst the customers of different ULIP plans.

H1: Satisfaction level does not differ amongst the customers of different ULIP plans.

ANOVA**Satisfaction Level**

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	2.025	3	.675	1.585	.206
Within Groups	19.595	46	.426		
Total	21.620	49			

Table-5 indicated that, the significance value for the above test is 0.206 i.e., it is more than the alpha 0.05. Ho is accepted as the alpha falls within the range. Hence, satisfaction level differs amongst the customers of different ULIP plans.

Table-7: Satisfaction Level

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not Satisfied	5	10.0	10.0	10.0
	Neutral	28	56.0	56.0	66.0
	Satisfied	16	32.0	32.0	98.0
	Highly Satisfied	1	2.0	2.0	100.0
	Total	50	100.0	100.0	

From the above table-7 revealed that, 56% of the respondents are neither satisfied nor

Not satisfied. Only 32% of the respondents are satisfied with their investments. 10% are not satisfied and 2% are highly not satisfied.

Table-8: Fund and Age.

Ho: Choice of fund depends upon the age of investors.

H1: Choice of fund does not depend upon the age of investors.

Chi-Square Tests

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	1.744 ^a	6	.942
Likelihood Ratio	2.079	6	.912
Linear-by-Linear Association	.045	1	.831
N of Valid Cases	50		

a. 8 cells (66.7%) have expected count less than 5. The minimum expected count is .06.

Table-8 shown that, the significance value for the above test is 0.942 i.e., it is more than the alpha value. Ho is accepted as the alpha falls within the range. Hence, choice of fund depends upon the age of investors.

Table-9: Preference for ULIPs in future as an investment option.**Future Preference For Ulips**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	10	20.0	20.0	20.0
No	40	80.0	80.0	100.0
Total	50	100.0	100.0	

Table-10: Reason For Preference

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Capital Appreciation	1	2.0	2.0	2.0
Expectation of high returns and risk coverage	9	18.0	18.0	20.0
Poor Returns	24	48.0	48.0	68.0

Uncertain returns	16	32.0	32.0	100.0
Total	50	100.0	100.0	

From the above table- 9 & 10 indicated that 80% of the respondents do not prefer ULIPs in the future as the preferred investment option because of their feeling of notional loss from their present investment in ULIPs. 48% of the respondents give poor returns and 32% of the respondents give uncertain returns as reasons for not preferring ULIPs as a future investment avenue. Whereas 20% of the respondents who consider ULIPs as the preferred future investment avenue include 2% of the respondents giving capital appreciation and 18% of the respondents giving expectation of high returns and risk coverage as the reasons for their choice.

Table-11: Preference for future investment avenues

Future Investment Avenues

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Mutual Funds	7	14.0	14.0	14.0
Govt Sec & Bank Deposits	27	54.0	54.0	68.0
Shares	3	6.0	6.0	74.0
Insurance	13	26.0	26.0	100.0
Total	50	100.0	100.0	

Table-12: Reason For Future Investment Avenues

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Safe Investment	11	22.0	22.0	22.0
Guaranteed returns	16	32.0	32.0	54.0
High returns	10	20.0	20.0	74.0
Returns & risk coverage	13	26.0	26.0	100.0
Total	50	100.0	100.0	

From the above table-11& 12 it is found that 54% of the respondents consider bank deposits and government securities as the most preferred future investment/savings avenues of which 22% of the respondents give safe investment and 32% of the respondents give guaranteed returns as the reason for their choice. 26% of the respondents prefer insurance as the future investment choice for returns and risk coverage. 14% and 6% of the respondents prefer mutual funds and shares in order to earn high returns.

Table-13: Graph showing factors considered by investors during investments in ULIPs based on importance assigned.

Parameters Considered For Investment					
	Rate Of Returns	Present Market Conditions & Tax Benefits	Past Performance Of The Company	Advertisements	Brand Of The Company
Points Scored Out Of 250	233	205	194	153	202
Percentage	93.2 %	82 %	77.6 %	61.2 %	80.8 %

Source: Questionnaire

From the above it is found that rate of return is the most important factor considered by investors during investment as it has the highest points '233 out of 250' assigned by the respondents.

Findings

- It is found that risk appetite of investors in ULIPs differs amongst the different age group of investors.
- Risk appetite depends upon the income of the investors.
- Amount of investment does depend upon the income of the investors.
- Satisfaction level is different amongst the customers of different ULIP plans.
- Choice of fund for investments in ULIPs is different across different age groups of investors.
- It is found that 80% of the respondents do not prefer ULIPs in the future as t preferred investment option because of their feeling of notional loss from their present investment in ULIPs. 48% of the respondents gave poor returns and 32% of the respondents gave uncertain returns as reasons for not preferring ULIPs as a future investment avenue. Out of 20% of the respondents who consider ULIPs as the preferred future investment avenue, 2% of the respondents gave capital appreciation and 18% of the respondents gave expectation of high returns and risk coverage as the reasons for their choice.
- It is found that 54% of the respondents consider bank deposits and government securities as the most preferred future investment/savings avenues of which 22% of the respondents gave safe investment and 32% of the respondents gave guaranteed returns as the reason for their choice. 26% of the respondents prefer insurance as the future investment choice for returns and risk coverage. 14% and 6% of the respondents prefer mutual funds and shares in order to earn high returns.
- Rate of return is the most important factor considered by investors during investment as it has the highest points '233 out of 250' assigned by the respondents.
- Return depends upon the time of investment.
- Investments made during 2007 have good returns than those made in the years 2008 and 2009. It is found that those who have invested during the year 2009 suffered losses from their investments in ULIPs. It was the time when share market was gearing up slowly from the economic slowdown. It should also be remembered that since investments are only one year old which include heavy charges during the first year allocation.

- The standard deviation for the fund preserver is the lowest and hence the Sharpe ratio for that fund is the highest. On the other hand, the standard deviation for the fund multiplier is the highest and hence the Sharpe ratio of that fund is lower. Hence higher the standard deviation lower is the Sharpe ratio and lower the standard deviation higher is the Sharpe ratio.

Conclusion

Returns on investments linked to the share market, depends upon its volatility and so is the risk associated with it. Such investments are best suited for people whose risk taking capacity rather risk appetite is very high. From the customers response towards their investments in ULIPs it is found that uncertain returns and lack of knowledge about the product knowledge are some of the strong reasons for which investors do not prefer continuing investing in ULIPs, as most of the times these products are sold by showing the whims and fancies of share market. Most of the time financial advisors sell ULIPs by showing very high returns which are not guaranteed and it is the investor who have to risk his investment. Hence investors should be cautious while investing in ULIP Plan.

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