

# Comparative Study of Mutual Funds and ULIPs in Present Context

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**Abstract:** The evaluation of financial planning has been increased through decades, the existing studies on factors influencing selection of mutual fund and life insurance schemes are very few and very little information is available about investor perceptions, preferences, attitudes and behavior. The saving objectives and source of information for investors advise the companies and individuals as to which is the most preferred investment avenue. A mutual fund is a type of professionally-managed type collective investment scheme that pools money from many investors. ULIP stands for Unit Linked Insurance Plan. ULIPs combines the features of both insurance cover and investment opportunities under a single plan. Both ULIPs and mutual funds carry a certain element of risk in them that arise from investing. With this background this paper makes an earnest attempt to study the behavior of the investors in the selection of these two investment vehicles in an Indian perspective by making a comparative study.

## Objective of study:

- To analyze Mutual Funds and ULIPs.
- To draw comparison between the Mutual funds and ULIPs.

## Research methodology:

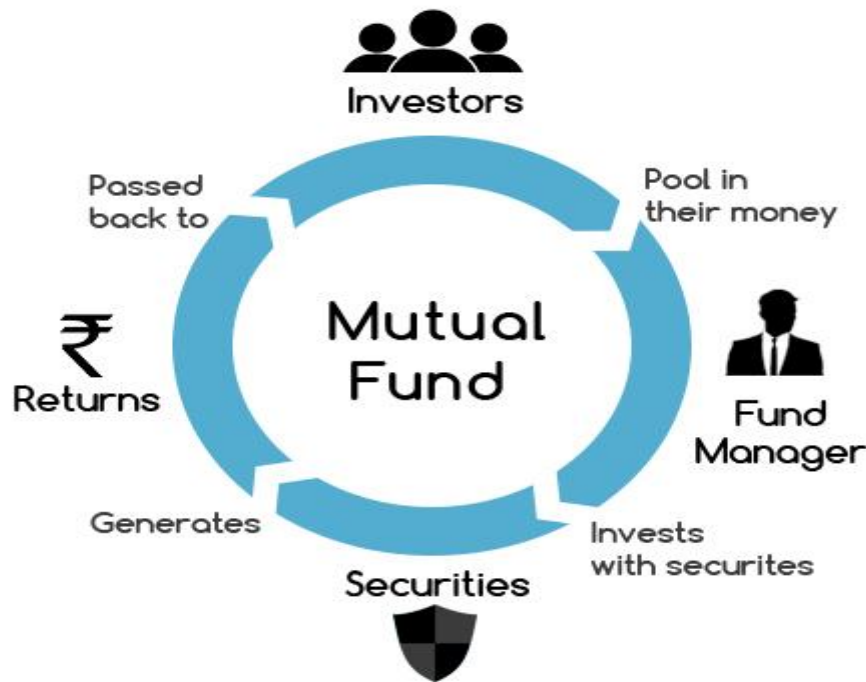
The research is based on secondary data of journals, articles and magazines. Considering the objective of study descriptive type research design is adopted.

## Introduction:

“A mutual fund is a trust that pools the saving of a number of investors who share a common financial goal.”

Mutual Fund investments are Collective Investment Schemes, which collect contribution from the subscribers and invest them in a variety of transferable assets such as ordinary shares and bonds. The money thus collected is invested by the fund manager in different types of securities depending upon the objective of the scheme. These could range from shares to debentures to money market instruments. The income earned through these investments and the capital appreciations realized by the scheme are shared by its unit holders in proportion to the number of units owned by them.

Mutual Fund is the most suitable investment for the common man as it offers an opportunity to invest in a diversified, professionally managed portfolio at a relatively low cost. The small savings of all the investors are put together to increase the buying power and hire a professional manager to invest and monitor the money. Anybody with an investible surplus of as little as a few thousand rupees can invest in Mutual Funds. Each Mutual Fund scheme has a defined investment objective and strategy.



The investment portfolio of the mutual fund is created according to the stated investment objectives of the fund.

On the other hand, ULIP stands for Unit Linked Insurance Plans. The purpose of the normal insurance plan is just protecting the life but not ensuring any savings for the future. Many people wanted plan which gives protection alongwith returns for their investment. So, insurance companies come up with the ULIP plan where the premium is invested in the share market and returns better income on the maturity period.

Unit linked insurance plan (ULIP) is life insurance solution that provides benefits of risk protection and flexibility in investment. The investment is denoted as units and is represented by the value that it has attained called as Net Asset Value.

A ULIP is a unit linked insurance plan. This is the type of investment where the characteristics of insurance and mutual fund are combined. Some part of the money invested goes into the insurance cover and the remaining goes into an asset class.

The three important things to remember about a ULIP is that entry costs are high and the brokerage, commission could be as high as 30% of the premium in the first year.

The second thing to remember is that management fee is low in a ULIP at around. The price of an insurance cover is higher in a ULIP than in a plain vanilla insurance policy. To that extent if a person has the time and inclination to research he would be better off buying separate insurance and mutual funds.

The third point that one must keep in mind is that in India one gets a tax rebate under 80c of income tax act of a maximum of Rs. 150000 on investing in ULIPs. The only condition is that the premium amount should be less than 10% of the sum assured under the ULIP.

Amidst all this, life insurance products such as unit linked insurance plan (ULIP) can be considered a more reliable wealth creation solution over the long term, keeping in mind the return, protection and tax savings, all combined in one product.

Apart from spending habits demonetisation has affected the available investment options as well. Banks, flush with funds now, have already started decreasing interest rates on fixed deposits and are expected to lower them further. Life insurance and Mutual Funds seems a preferred option for investors.

### **Comparative Analysis:**

Both ULIPs and mutual funds carry a certain element of risk in them that arise from investing. While the risk may be lower in case of debt investments, it is higher in case of equity investments. While debt investments face the risk of defaults and changes in interest rates, equity investments face the risk of market volatility and the fund manager's skills.

Life insurance products such as unit linked insurance plan (Ulip) can be considered a more reliable wealth creation solution over the long term, keeping in mind the returns, protection and tax savings, all combined in one product. Amongst several investor friendly features, one of the unique propositions of ULIP is that it permits investing one's premium in a mix of debt and equity funds in varying proportions, allowing inter-fund transfers through switching and all this with no tax liability.

The average investor enjoys numerous tax-saving options like PFs and PPFs, life insurance plans, ELSS investments, ULIPs and more. When comparing different instruments, it is always advisable to choose an option that offers the combined benefits of wealth protection, value appreciation, strategic flexibility, and tax savings.

### **We evaluate the two avenues on certain common parameters and find out how they measure up:**

Basis of difference	ULIPS	Mutual Funds
Investment amount	Determined by the investor and can be modified as and when needed.	Minimum investment amount be determined by fund house.
Objective	Unit link insurance plans offers an investor long term plan with dual benefit of insurance and investment	Mutual funds are short term plans.
Tax rebate	All Unit link plans offers investors tax rebate of 80c under income tax act	Only investments in tax saving funds are eligible for section 80C benefits.
Portfolio disclosure	Not mandatory	Quarterly disclosure is necessary
Switching option	Ulip allow its investors to switch their investment between the funds linked to plans	No switching option is available.
Expenses	No upper limit, expenses determined by insurance company	Upper limit for expenses chargeable to investors have been set by the regulator.
Benefits	Dual benefit of investment and insurance Suitable for long term	Suitable for short and medium term Easy exit possible

Demand for Insurance products rises as people's preference shifts from formal investment products post demonetization. Insurance penetration reached 3.4 per cent in FY16 and is expected to cross 4 per cent in FY17. The total market size of the Insurance sector in India is projected to touch US\$350-400 billion by 2020.

And also there are more than 2000 primary mutual funds scheme in India. The Assets Under Management of the Indian Mutual Fund Industry has grown from Rs. 3.26 trillion as on 31st March 2007 to Rs.22.79 trillion as on 30th November, 2017, about seven fold increase in a span of about 10 and half years.

### **Conclusion:**

Smart tax planning is an integral part of sensible financial planning. A mutual fund is the ideal investment vehicle for present scenario .Today each and every person is fully aware of every kind of investment proposal .Everyone wants to invest money, which entitled of low risk high return and easy redemption .so before investing in mutual fund, one should be fully aware of each and every thing. .At the same time ULIP as an investment avenue is good for people who have interest in staying in longer period of time.Investing in a combination product like ULIP is the simplest and most elegant way to enjoy the triple benefits of life cover, high returns, and tax savings with minimal risk of losses or other complications.

In an ideal situation, separate investments in life insurance and mutual funds would help the individual enjoy good returns, assured protection, and attractive tax savings. Unfortunately, striking the right balance between multiple investment products can be a very difficult task.

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