

# The Decline and Recovery of Unit-Linked Insurance Plans (ULIPs) in the Indian Insurance Sector

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## **Abstract:**

The liberalization of the Indian insurance sector, enacted by the Insurance Regulatory and Development Authority (IRDA) Act of 1999, ended state monopolies by permitting private entry. Rather than privatizing existing public sector entities (LIC and GIC), the government opted to allow new private players to compete alongside them. This infusion of competition, often through joint ventures with foreign firms, catalyzed profound market developments, including innovative products, enhanced distribution channels, and stronger regulatory standards. The most notable product innovation was the Unit-Linked Insurance Plan (ULIP), a hybrid financial instrument combining investment and insurance. This study examines the trajectory of ULIPs, the flagship product of this new era, to understand their market performance between 2003 and 2014.

This study employs a quantitative analysis of secondary data extracted from IRDA Annual Reports and the Economic Survey of India. The core variable of analysis is the distribution of first-year premiums for ULIPs. Data is processed and analyzed using SPSS version 20. Analytical techniques include descriptive statistics to calculate growth rates and percentage contributions of ULIPs to total premium income. Furthermore, a Mann-Whitney U test (equivalent to the Wilcoxon rank-sum test) is utilized to determine if there is a statistically significant difference in the premium patterns between private insurers and the public sector leader, LIC.

**Keywords:** LIC, ULIP, GDP, Mann Whitney Test, Indian Economy.

## **INTRODUCTION**

Indian private companies entered the market as joint ventures with some of world's largest insurance companies. "Coexistence of private and public companies heightened competition and Indian insurance sector witnessed several significant changes such as a large number of new innovative products, improved distribution channels and the introduction of world class regulatory and supervisory standards" (vidyavathi 2015). "The most significant product innovation in the life insurance segment is the introduction of unit linked products (ULIPs)" (vidyavathi 2015). Unit linked plans offer long term investment option plus life coverage. So ULIPs are combination of both investment and insurance. However ULIPs are not simple to understand as their cost structure is complicated with several charges such as policy administration charges, premium allocation charges, mortality charges, fund management charges etc.

Premiums received from the customers less the various charges are used for investing in assets like bonds, equities, government securities etc., at the prevailing prices on the basis of predetermined option of the customers. Several options are available to a customer who can select a debt fund or a balanced fund or an equity fund. "Companies like Birla Sun Life and ICICI Prudential have definitely procured a big chunk of their new business premium from the ULIPs and there is no doubt that the all private insurers increased their market share from 2.01 percent in 2002-03 to 30.23 in 2010-11 with the domination of ULIPs and their market share declined thereafter to 29.32 in 2011-12 27.30 in 2012-13 and to 24.61 in 2013-14 with the fall of ULIPs in the Indian insurance market" (vidyavathi 2015).

## LITERATURE REVIEW

A Comparative Study On Public Vs Private Sector In Life Insurance In India by Vineet Kumar and Poonam Kumari (2012) pointed out that “the insurance industry has contributed significantly to the growth of Indian economy in the recent years. With the re-entry of private insurers, the insurance industry has undergone a makeover, offering more choice, better services, quicker settlement, tighter regulation and greater awareness. They in their study appraised the comparative performance of the Insurance industry in India in terms of insurance penetration, density and growth in the first year premium.”

Harpreet Singh Bedi and Preeti Singh(2011) in An Empirical Analysis Of Life Insurance Industry In India analyzed “the overall performance of Life Insurance Industry of India between pre- and post economic reform era. The study revealed that the tremendous growth in the performance of Indian Life Insurance industry and LIC happened due to the policy of Liberalization, Privatization and Globalization. Emergence of private companies as joint ventures with foreign players also contributed a lot to the growth in the Indian Insurance industry.”

Santosh Anagol, Shawn Cole and Shayak Sarkar(2013) in their study Understanding the Advice of Commissions-Motivated Agents: “Evidence from the Indian Life Insurance Market evaluated the quality of advice provided by life insurance agents in India. They found that agents overwhelmingly recommend unsuitable, strictly dominated products, which provide high commissions to the agent. Agents in majority cases mis sell the products to the in informed consumers. Agents usually recommend those products which bring them high commission rather than recommending a product suitable to the needs of customers.”

G. Prabhakara(2010) in the study The Evolution of Life Insurance Industry in the last decade (2000 – 2010) traced “the evolution of life insurance in India during the period of 2000-2010 with special reference to the role of the IRDA in regulating and guiding the industry. The study reviewed the various regulatory initiatives taken by the IRDA both to contain mis selling and also to enhance transparency at various stages of the sales process.”

## OBJECTIVES:

In this research paper an attempt is made (a) to examine the rise and fall of ULIPs across the private insurers and LIC in the Indian insurance market by analyzing the distribution of first year premium from 2003-04 to 2013-14 .

## HYPOTHESES:

1. The distribution of total first-year premiums (2003-14) is the same for private insurers and the LIC of India.
2. The distribution of first-year premiums from linked plans is the same between commercial insurers and the LIC of India (2003-14).
3. The distribution of first-year premiums from non-linked policies is the same between commercial insurers and the LIC of India (2003-14).

## MATERIALS AND METHODS:

The elements in the form of data and information are derived from IRDA Annual Reports and Economic Survey of India Reports from various years. The acquired data and information were processed, displayed, and analysed using SPSS version 20. In addition to calculating the growth rate and % contribution of ULIPs to total premium, the Mann Whitney Test Z value (equal to Wilcoxon's rank sum z test) is utilized.

## RESULTS AND DISCUSSION:

Following the IRDA Act the monopoly enjoyed by LIC and GIC came to an end and the Indian insurance industry was opened for free market competition. IRDA granted license to seven private companies in the life insurance segment during the financial year 2000-2001. “HDFC Standard Life Insurance company was first private company to receive the license in October 2000” (vidyavathi 2015).

(1)	First year premium of Linked products		Total First year premium		First year Premium (Rs in Crores)	
	(2)	(3)	(4)	(5)	(6)	(7)
Year	LIC	Private	LIC	Private	Industry	% of Linked In the first year Industry
2003-04	397.27 [2.3 ]	1215.97 [49.82]	17347.61	2440.72	19788.32	8.4
2004-05	4479.64 [21.6]	3966.42 [71.27 ]	20653.07 (19.04)	5564.56 (127.89)	26217.62 (32.48)	32.4
2005-06	8486.33 [29.8 ]	13389.94 [82.3]	28515.88 (38.07)	16269.67 (192.38)	44785.52 (70.82)	41.7
2006-07	26037.23 [46.3 ]	17211.7 [88.75]	56223.46 (97.17)	19393.79 (19.20)	75617.26 (68.84)	56.8
2007-08	37382.85 [62.3 ]	30455.61 [90.33]	59996.47 (6.71)	33715.94 (73.85)	93712.53 (23.93)	70.2
2008-09	15122.67 [28.4 ]	29537.75 [86.5 ]	53179.06 (-11.36)	34152.05 (1.29)	87331.07 (-6.81)	51.2
2009-10	28086.26 [39.3 ]	31839.15 [68.7]	71521.7 (34.49)	38372.03 (12.36)	109893.7 (25.84)	54.4
2010-11	26502.17 [30.5 ]	27040.44 [83.0]	87012.24 (21.66)	39368.74 (2.60)	126382 (15.00)	42.5
2011-12	4107.38 [5.0 ]	13298.45 [41.4]	81862.23 (-5.99)	32103.77 (-18.45)	113973 (-9.82)	15.4
2012-13	191.97 [0.3 ]	10677.32 [34.7]	76611.3 (-6.41)	30749.59 (-4.22)	107361.2 (-5.80)	10.2
2013-14	43.84 [0.05]	8564.82 [29.0]	90808.77 (18.53)	29510.86 (-4.03)	120319.5 (12.07)	7.3

**Table 1- First Year Premium of LIC of India and Private Insurers from Linked Products**

Source: Annual Reports of IRDA

Note: 1. Brackets in columns (2) & (3) show the percentage share of ULIPs in the total first year premium of LIC and Private Insurers.

Note: 2. Brackets in columns (4) (5) & (6) show the percentage change over the previous year.

Variable	Insurer	N	Min	Max	Mean	Std deviation	Median	Mann Whitney Test Z value	P Value
Total first year premium	Private	11	17347.6	59996.6	35181.2	13123.1	32103.8	-2.528	.011 Reject H0
	LIC	11	2440.7	90808.8	48943.7	34344.9	53179.1		
Premium from linked policies	Private	11	1543.3	31839.2	17243.3	10535.4	13298.4	-1.149	.250 Accept H0
	LIC	11	36.2	43654.1	13107.1	14742.4	4779.7		
Premium from non linked policies	Private	11	1224.8	20946.1	8585.8	7925.2	4614.3	-3.447	.001 Reject H0
	LIC	11	16173.4	90764.9	44808.6	27216.3	38056.5		

**Table -2: Comparison of first year premium of Private and LIC during 2003-14**

Source: IRDA Annual Reports.

Birla Sunlife, ICICI Prudential, Max New York, and HDFC Standard Life began full-year operations in 2001-02, and by the conclusion of the fiscal year, there were 11 private insurers that had introduced their products at various periods during the fiscal year. In an increasingly competitive environment, life insurers offered a wide range of products in traditional and ULIPs that provided protection and advantages for child, endowment, capital guarantee, pension, and group solutions. With features such as whole life policies, endowment plans, money back policies, pension plans, term policies, single premium, recurring premium, premium rebate for higher sum assured, and so on, comprehensive packaged products became popular. Customers can also purchase unit-linked plans in addition to riders.

The fiscal year 2002-03 marked the second full year of operations for the majority of private insurers, with 12 businesses increasing their market share from 0.54 percent in 2001-02 to 1.99 percent in 2002-03. In 2002-03, there was also a transition in product types from nonlinked to linked. Unit linked products were introduced at times when the stock market was increasing and so were appealing to buyers. And the shift toward ULIPs became obvious during the fiscal year 2003-04, when unit-linked policies accounted for a large portion of premiums and the number of insurers climbed to 14. LIC, which was a market leader in traditional life insurance policies, also introduced a greater number of unit linked products.

When the business was opened up to private players, the first year life insurance premium (excluding single premium) was Rs.6996.95 crore, which climbed to Rs 19788.33 crore in 2003-04, a growth of 182.81%. From 2003-04 to 2013-14, Table 1 illustrates the first year premiums of LIC and private insurers from connected products, as well as their percentage share of the overall first year premium of LIC, private insurers, and the industry as a whole. Linked products dominated the business underwritten by life insurers, particularly private insurers, from 2004-05 to 2007-08. The public sector insurer, LIC, also underwrote a considerable amount of business in the connected products.

The average growth of premium insured under linked categories by LIC of India from 2003-04 to 2007-08 was 341.87 percent, and thereafter there was a downward trend in premium collected from ULIPs, with the average growth recorded from 2008-09 to 2013-14 being negative at 39.41 percent. In the case of private insurers, the average growth rate from 2003-04 to 2007-08 was 142.32%, whereas the negative average growth rate from 2008-09 to 2013-14 was 16.77%.

The average rise of premium underwritten under non-linked categories by LIC of India from 2003-04 to 2007-08 was 11.21 percent, whereas the average growth recorded from 2008-09 to 2013-14 was more than twice, at 27.88 percent. In the case of private insurers, the average growth rate from 2003-04 to 2007-08 was 33.99 percent, and the average growth rate from 2008-09 to 2013-14 was 39.24 percent.

During the same time period, from 2003-04 to 2007-08, the percentage share of linked premium in total first-year premium underwritten by the life insurance sector increased from 8.5 to 70.3 percent, and then began to plummet, falling to 7.2 percent in 2013-14 from 51.1 percent in 2008-09. According to the data in table 1, 2007-08 was the golden year of ULIPs, with both LIC and private insurers underwriting a significant portion of premium on the strength of unit linked products.

The Indian stock market, which had performed well in 2003-04, continued to perform strongly in 2004-05 as a result of government structural changes, good company performance, and an investor-friendly regulatory framework, which drew investments from overseas institutional investors. In 2004-05, the industry's first-year premium underwritten climbed by 32.49 percent over the preceding year. During 2005-06, Indian stock markets saw unparalleled buoyancy, and the first-year premium guaranteed by the industry climbed by 70.82 percent, owing to a huge increase in ULIPs, innovative products, effective marketing, and aggressive distribution. In reality, premiums under ULIPs increased by 94.73 percent over the previous year, whereas nonlinked premiums increased by only 16.02 percent.

Strong macroeconomic fundamentals such as over 9% GDP growth rate, gross domestic saving of over 33%, moderate inflation of 4%, robust corporate results, positive investment climate, sound business outlook, and continued foreign institutional investment supported by active participation of Indian mutual funds drove the bullish trend from 2005-06 to 2007-08.

The selling of ULIPs was encouraged by the Insurance Regulatory and Development Authority (IRDA). The real GDP growth rate in 2007-08 was 9%, down from 9.4% the previous year. Despite the fact that the global economy was facing many challenges, investment in ULIPs persisted in the backdrop of a buoyant stock market. The general strength of the economy has a significant impact on the performance of the insurance industry.

The global economic crisis of 2008-09 resulted in increased unemployment and a decrease in economic growth. The Indian stock market sank, GDP growth rate decreased to 6.7 percent, and consumer price index inflation remained high in the range of 8-9.7 percent. In India, insurance premiums increased at a negative rate. The global financial crisis and stock market meltdown changed preferences away from ULIPs (the share of ULIPs in total first-year premium decreased to 51 percent), and insurers devised traditional products with attractive incentives. The average increase in first-year premium from 2003-04 to 2007-08 is 42.15 percent, which is significantly larger than the 5.08 percent increase in subsequent years, from 2008-09 to 2013-14.

GDP growth in 2009-10 was 7.4 percent lower than the pre-global crisis growth rate of 8.9 percent from 2003 to 2008, and inflation was high at 11 percent near the end of 2009-10. The first-year premium increased by 25% over the prior year's negative growth of 6.8 percent. In 2009-10, 54.5 percent of first-year premiums were insured in the linked sector (due to the stock market's recovery), compared to 51.1 percent the prior year. The IRDA specified various criteria, including [1] increasing the minimum lock in term from 3 to 5 years, with the stipulation applying to even top-ups; and [2] requiring charges on ULIPs to be dispersed evenly across the lock in period. [3] ULIPs other than single premium policies must have a 5-year minimum premium-paying duration. [4] Individual goods must have a policy term of at least five years. ULIP pension/annuity products must provide a minimum guaranteed return of 4.5 percent per year, or the rate set by IRDA from time to time. Except for pension and annuity products, all ULIPs must provide the necessary minimum mortality/health protection. The 2009 economic slowdown, as well as the IRDA's ULIP standards, which were revised in September 2010, had an impact on the sale of ULIPs (vidyavathi 2015).

India's GDP rose at an annual rate of 8.5% in 2010-11, owing mostly to strong performance in the agriculture sector. However, the high level of inflation remained one of the most serious economic issues. (Indian Economic Survey) In terms of first-year premium growth, the life insurance sector expanded by 15%, which was substantially lower than the previous year's rise. ULIP premiums fell, and their proportion to overall first-year premiums fell to 42 percent.

In 2011-12, the Indian economy grew at a 6.5% annual pace. Tighter monetary policy, reduced demand, dwindling business confidence, and global economic uncertainty all contributed to India's poor result (Economic Survey). The downturn began mostly in Europe as a result of sovereign debt crisis concerns in the banking sector and fiscal austerity attempts by various governments, but it has since expanded to major rising economies such as India, China, and Brazil (IRDA). The advanced economies were impacted by the European economy's slump. The slowdown in emerging and developing countries has been exacerbated by a lack of demand from advanced economies and uncertainty in the Eurozone. Poor economic performance was mirrored in the insurance sector as well. The global life insurance premium fell by 2.7 percent. Swiss Re (Swiss Re) is a reinsurance company based in Switzerland. The Indian life insurance business experienced a 9.8 percent decline in first-year premium collection, and penetration has fallen to 3.4 percent from 4.4 percent in 2010-11 and 4.6 percent in 2009-10.

The economy continued to decline, with GDP growing at a rate of 5% in 2012-13, owing to persistently high inflation with tighter monetary policy, decreased domestic and global demand, a recessionary climate, the eurozone crisis, and, to some extent, a weaker monsoon. Global insurance premiums increased by 2.3%. Insurers faced a significant difficulty because the home sector has less savings due to high

inflation, and the first year premium in India fell by 5.8 percent. The premium collection rate for ULIPs has dropped by 38%, and their percentage of the total has dropped to 10%.

During 2013-14, India's GDP grew at a modest 4.7% annual pace. Inflation in terms of the consumer price index fell somewhat to 8% from December 2013 to February 2014, but stayed around 9% at other times. Global life insurance premium growth has slowed to 0.7 percent (Swiss Re). However, in India, the first-year premium increased by 12.07 percent, compared to a 5.78 percent reduction in 2012-13. ULIPs' first-year premium revenue plummeted by 21%, and their percentage of overall first-year premium fell dramatically to 7%. Penetration fell for the fourth year in a row, owing to either negative or slower rate of growth in life insurance premiums. In 2013-14, the penetration rate was 3.1 percent.

### **Mann Whitney Test**

The Mann Whitney Test (similar to Wilcoxon's rank sum z test) is also used to examine whether the total first year premium received by commercial insurers and the LIC of India from linked and non-linked plans is the same or not. The test results are shown in table 2, which shows that the distribution of first year premium from linked policies for the 11 year period from 2003-04 to 2013-14 is the same between private insurers and LIC of India, i.e. when the stock market was bullish, both LIC and private insurers underwrote a large chunk of premium on the strength of ULIPs, and when the market slowed, both LIC and private insurers underwrote a large chunk of premium on the strength.

### **Conclusion**

Following the market's openness, ULIPs became one of the most popular products in India. ULIPs are a combination of investment and insurance that offer appealing benefits as well as risks to investors while providing capital-related benefits to life insurance companies. ULIPs were introduced at a period when the stock market was on a roll. Furthermore, at the time of sale, all of the features of ULIPs, particularly the fact that their return is dependent on the performance of the capital market, were not disclosed to clients. As long as the macroeconomic fundamentals were robust and the market was performing well, corporations sold an increasing number of policies, and the premium from ULIPs has steadily increased. The problem began with the global financial crisis and the stock market crash, which made individuals understand that investing in ULIPs is not risk-free, and a huge number of policyholders either expired or abandoned their policies in big numbers. Policyholders lost a significant amount of their premiums as a result of this process, in addition to the loss of life insurance. The slowing economy and IRDA's ULIP rules caused the sector to transition away from traditional products.

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