

**A Study On Mutual Funds Cost And Return Benefits Analysis****R. Ranjitha Devi**MBA, Department of Management Studies  
Bharath Institute of Science and Technology,  
Selaiyur, Chennai, Tamil Nadu 600 073  
Bharath Institute of Higher Education and Research**ABSTRACT**

Unit linked Insurance Plan (ULIP) is an insurance product offered by life insurance companies combining both risk cover and benefits of investment. ULIP being a combination product, premium amount paid under ULIP consists of risk premium and investment component. Risk premium may be for life or health or any other authorized purposes. A mutual fund is an investment company or a trust that pools the resources of thousands of unit holders and invests on behalf of them in securities market. The mutual funds have been functioning as an agent to mobilize the resources from various investors the Unit Trusts, Investment Trusts, Mutual Funds, Banks, Investment Companies, Real Estate, Investment Trusts, Trust Companies, Personal Trust Funds etc., all their names contain some common characteristics. This research paper tries an attempt to check the best avenue based on the cost and revenue.

**Keywords:** ULIPS, MF, Returns etc...**1. INTRODUCTION**

Unit Linked Insurance Policies (ULIP) as an investment avenue is closest to mutual funds in terms of their structure and functioning. As is the case with mutual funds, investors in ULIP are allotted units by the insurance company and a net asset value (NAV) is declared for the same on a daily basis. Similarly ULIP investors have the option of investing across various schemes similar to the ones found in the mutual funds domain, i.e. diversified equity funds, balanced funds and debt funds to name a few. Generally speaking, ULIP can be termed as mutual fund schemes with an insurance component. It should not be construed that excluding the insurance element there does not exist any apparent differentiation of mutual funds from ULIP. Despite the seemingly comparable structures there are various factors wherein the two differ.

**2. STATEMENT OF THE PROBLEM**

The financial savings of the households in India and the savings of the private corporate sector form the main source of funds for the mutual fund and insurance industry. For individual investor, direct investment in equity was a risky proposition and hence an important deterring factor. Mutual funds have potential to offer a safer route to the vast untapped households that still seem to prefer bank savings. Insurance on the other hand is preferred by the public for the life cover extended to individual. ULIP however generates income on the premium because of the investment options.

The investor has got to make a choice between pure investment and investment with insurance. Firstly, funds have to deliver in terms of performance. Comparisons are bound to occur particularly between fund return and benchmark indices. Outperforming benchmarks with lower costs is an important factor to attract investment. Apart from performance there is the threat of moral hazards such as hidden costs and higher agent commissions.

Risk of conflicting interest arises once a contract has been entered into with the fund house. These risks could be broadly classified into portfolio selection risks and management process risks. The former involves “adverse portfolio selection” which contradicts the objective of the fund as mentioned in the prospectus. This could mean higher risk of the fund portfolio and or lower-risk weighted returns. There could also be excessive churning of the portfolio leading to more expenses that would be detected from the Asset Under Management (AUM). Management process risks involve risks arising due to errors in execution of transactions losses from counter-party default. It is to protect investors against such risks that Securities Exchange Board of India (SEBI)’s (mutual fund) Regulations of 1993 were framed. The SEBI Regulations of 1993 was substantially amended in 1998. Secondly, the cost and the fund available for the investment after deductions are at par in need for the focus. It is necessary to study the percentage of investment available after the investment since the cost is the major criteria for the comparison to prove the scale of economy between the funds of these avenues. This is sought to be done by comparing: the category risk measures; proper performance disclosure; better returns from funds; effects of fund size and the costs.

### **3. NEED FOR THE STUDY**

The need for the study arises out of the compulsion to make an intelligent choice so that optimum returns are assured with a minimal investment and duration. This research study is an attempt to help the investing public to make informed decisions while purchasing or selling the products. This research study may also address perceptions on investment options whether the mutual fund is better than ULIP or combo of pure term insurance. It also seeks to address tax concession granted to mutual funds. The study aims to prove the perception of superiority of Mutual Funds over ULIP. But however, as they have divergent investment objectives they can co-exist. During the period of pre liberalization LIC endowment and money back policies were popular as compared to the Recurring Deposits of Bank or Post Office or National Saving Certificate or KissanVikasPatra. It is but natural for investing public to choose between the Mutual Funds and ULIP.

### **4. OBJECTIVE OF THE STUDY**

- To analyze funds of mutual funds and ULIP based on the cost and returns.
- To analyze various charges such as Premium allocation charge, Top up allocation charge, Fund management charge, Policy administration charge, etc. to enable the investor to make judicious decisions.

### **5. SCOPE OF THE STUDY**

The study refers to the parameters in which the study will be operating in. The primary focus is to differentiate the performance of mutual fund with that of the ULIP. Firstly, the risk is measured in order to show the effectiveness of the asset management companies in providing the higher return and performances are measured individually with the available data and then the results are compared and studied. VThe cost study is used in order to measure the economies of scale. The products which have been doing fairly well in term of the two avenues were selected and compared for a specified period in order to show the best yield. The study on effects of fund size signifies the relevance in rapidly changing size and style of fund flow. This study is restricted to the period between 2002 and 2007 and covers open ended equity and income funds.

### **6. REVIEW OF LITERATURE**

Understanding mutual funds as an industry requires an understanding of the costs of operating a mutual fund. Costs are related to the structure of the mutual fund industry, encouraging fund mergers (Jayaraman, Khorana, and Nelling 2002) and the formation of fund families (Baumol, Goldfeld, Gordon, and Koehn 1990; Collins and Mack 1997). Fund costs are also associated with fund performance.

Studies relating costs and performance find that high-cost funds underperform low-cost funds (Malkiel 1995; Gruber 1996; Carhart 1997). All mutual funds incur ongoing management and administrative expenses, which are deducted from the fund's assets. Since some of these expenses are fixed costs there are potentially enormous economies of scale in managing money. Several researchers have, in fact, found that there are scales of economies in the administration of mutual funds (McLeod and Malhotra 1994; Malhotra and McLeod 1997; Latzko 1999; Securities and Exchange Commission 2000; LaPlante 2001). However, these studies share two shortcomings.

First, they are predominantly cross-sectional analyses utilizing a single observation on each fund. All this permits us to conclude with confidence is that larger funds tend to operate at a lower average cost than smaller funds. Nothing can be concluded about the relationship between changes in funds assets expenses over time of mutual funds.

**Ippolito's** (1989) results and conclusions were relevant and consistent with the theory of efficiency of informed investors. He estimated that risk-adjusted return for the mutual fund industry was greater than zero and attributed positive alpha before load charges and identified that fund performance was not related to expenses and turnover as predicted by efficiency arguments.

**Rich Fortin and Stuart Michelson** (1995) studied 1,326 load funds and 1,161 no load funds and identified that, no-load funds had lower expense ratio and so was suitable for six years and load funds had higher expense ratio and so had fifteen years of average holding period. No-load funds offered superior results in nineteen out of twenty-four schemes. He concluded that, a mutual fund investor had to remain invested in a particular fund for very long periods to recover the initial front-end charge and achieve investment results similar to that of no-load funds.

**Conrad S Ciccotello and C Terry Grant's** (1996) study identified a negative correlation between asset size of the fund and the expense ratio. The results of the study brought out that, larger funds had lower expense acquire information for trading decision and were consistent with the theory of information pricing. There have been several studies on the existence of economies of scale and scope in the financial sector in general and mutual fund industry in specific.

**Murray and White** (1983), find evidence of both economies of scale and scope in the British Columbia credit unions and point out that regulation limiting the growth and diversification of these unions could lead to higher operating costs.

**Baumol et al** (1989) using translog cost functions, find economies of scale present for mutual fund complexes in the U.S. They however find such economies weakened when assets per account (with the assumption that the number of accounts grow in the same proportion as assets) are taken as hedonic variables. Further they also find significant economies of scope within the fund complexes implying that buying into funds which are a part of a large complex should give more net returns other things remaining the same. Their findings clearly shows that

not all funds can be treated alike regarding the assumption of persistence of economies of scale as hedonic variables can cause differences.

A study of US funds by **Rea, Brian and Reid** (1999), for the year 1998 shows, again, strong inverse relationship between operating expense ratios and asset size of similar funds. Further, funds with asset increases over time have also shown decreases in expense ratios depending on the extent of increase. While the presence of economies of scale seems to be the general norm, **Latzko** (1998), tries to go beyond this and establish the source of economies of scale. It could be due to management fee reduction or due to 'other administrative expenses'. Economies of scale are found to originate substantially from 'other administrative expenses'. Though economies of scale were found across the entire range of asset size, the rapidity of decrease in average costs is found to slow down at a critical asset size prompting one to conclude that smaller funds seem to derive more marginal benefits of economies of scale than the larger funds. The study of fund's economies becomes all the more important in the light of the fact that fund size could have a negative importance on performance.

**Chen et al** (2005) show that organizational diseconomies (due to hierarchy costs) "are particularly pronounced for funds that play small cap stocks. Regarding price competition amongst funds there exist divergent views.

**Elton and Busse** (2004), find no substantial importance given to even expenses by investors when choosing S&P index funds. This could be possible in a time when most funds are performing well thereby causing investors to neglect the expenses. On the other hand, **Christofferson** (2001) shows that money market fund managers have been willing to be flexible with respect to management fees given the convex relation between fund inflows and lagged performance.

**Brian Reid** (2005) points out that small fund's in the U.S, in order to compete with larger funds which have lower operational average costs, have tended to voluntarily waive of a portion of their fees. He finds that over 90 percent of new cash flows went to funds with expenses below the median funds expenses.

**Weiss** (1991) analyzed factor productivity of 5 countries of Organization for Economic co-operation and Development (OECD) - France, Germany, Japan, Switzerland and US spanning 1975 to 1987. They found that US and Germany had high productivity while France, Japan and Switzerland were below average.

**Fecher et al.** (1993) used the Data Envelopment Analysis and Stochastic Frontier Approach model and examined the technical efficiency of life insurers and non life insurers of France during 1984 to 1989. The inputs used in their model were labor cost and other outlays. On the output side, the factors included only Gross premium. The conclusion of the study was that there was high correlation between parametric and non parametric results and wide dispersion in the rates of inefficiency across companies.

## **7. RESEARCH METHODOLOGY**

This analytical research work is primarily focused to show the investors the right choice of investment for the best returns. The researcher has observed the following in the design and the execution of this research study.

- The researcher under took a study on the cost and return perspectives for both Mutual Funds and ULIP. The discussions which followed with the specialists and experts assisted the researcher to identify the common and comparable elements between mutual funds and ULIP.
- There is abundant information available to the public with respect to the mutual fund. But in the case of ULIP, the information available to the public is very limited. Particularly the charges are not stated explicitly.
- The research is based on the data made available on the funds of open ended equity funds, intermediate and short term funds of Mutual Fund and ULIP.

This study employed secondary data from different sources. The two main sources were the Morningstar and Mutual Fund Insight. Morningstar supplies the total data on Total Net Assets (TNA), Net Asset Value (NAV), Volatility and MPT Stats Measures. The Association of Mutual Funds of India (AMFI) and National Stock Exchange (NSE) provided other relevant data, such as stock market returns, stock characteristics and other economic data. The SEBI and Insurance Regulatory and Development Authority (IRDA) gave further information through their news, policies and regulations on mutual funds and ULIP. Data on ULIP were taken from various online portals like Morningstar, myiris, myinsuranceclub etc. The Life Insurance Council of India was given adequate data on historic and current views of insurance industry.

## **DATA, ANALYTICAL TOOL AND PERIOD OF STUDY**

For analyzing the comparison of cost and returns perspectives for the avenues, the ranking method of NAV or the Time series analysis of the returns cannot be considered as there is a vast difference in the amount invested after the initial charges. So the following methodology was administered in sections for the comparison.

### **SECTION 1**

- 10 year duration of funds with inception at 2002 till 2012 from both avenues was selected. ULIP has got only 2 funds from Large cap and Intermediate group. So available funds alone discussed and compared.
- 5 year duration of funds with inception at 2007 till 2012 from both avenues was selected. 5 funds each from each group has been selected except for short term where only 4 funds were available for ULIP. Only top performing funds were selected.

### **SECTION 2**

This section discusses the cost and return perspectives of Mutual Funds and ULIP. ULIP cost details and Mutual Funds expense ratios were collected from the respective fund brochures. In the case of ULIP, charges like Premium Allocation Charge, Policy Administration Charge, Fund Management Charge, Mortality Charge and Service Tax Charges were considered. The Expense Ratio stated in mutual funds comprises of the largest component of operating expenses- the fee paid to a fund's investment manager/advisor. Other costs include record keeping, custodial services, taxes, legal expenses, and accounting and auditing fees.

For the study of 10 year duration of large cap fund ICICI- Maximiser Fund from ULIP and HDFC Equity Fund (G) from Mutual funds were selected.

## **8. LIMITATIONS OF THE STUDY**

- Though the study is endeavored to prove the differences, it is still difficult to compare between the investment with insurance and investment without insurance.
- This study is only an instigation to help the investor how to make good return with minimum cost.
- The avenues are compared based on only return and cost. Other parameters are excluded which normally taken for other stocks.
- Different time period is used for the calculation of different objectives. Because;
  - a). Short term and long term performances has to be elicited.
  - b). Study on breakeven with respect to the cost needs at least 10 year duration of funds.
  - c). Uniform period cannot be considered for the comparison of two investment options like Mutual Funds and ULIP. Because true comparison requires performances of the avenues in all short, medium and long term duration.

### **ANALYSIS OF FUNDS ON BASED COST AND RETURNS PERSPECTIVE**

It is important to note down the different cost structures between Mutual Fund and ULIP to facilitate the analysis to be focused. The table below details the different cost structures between Mutual Funds and ULIP.

#### **DIFFERENT COST STRUCTURE BETWEEN MUTUAL FUNDS AND ULIP**

| <b>Mutual Funds</b>                                                                                                                                                                                                                                         | <b>ULIP</b>                                                                                                                                                                                                                                                                                                                                                                                                                              |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| In mutual funds, 100% of the investment amount goes for investment. Until early 2009, an entry load was usually levied by the fund houses, but SEBI has now mandated that mutual funds can not charge entry loads.                                          | <b>Premium Allocation Charge</b> is deducted from the premium paid every year. It includes costs for policy creation, underwriting, medical tests, and distributors' commissions, etc. Premium allocation charge is usually much higher in the initial 3 years than the rest of the policy's life. Some existing policies deduct as high as 60 to 70% of premium initially – so effectively only 30 to 40% of premium would be invested. |
| On the invested funds a certain percentage of fees are charged which includes the annual fund management fee, brokerage paid out to distributors, custodian charges, etc. In any year, all these charges put together cannot exceed 2.5% of the fund value. | Fund Management Fee, Policy Administration Fee and Mortality Fee are deducted on a monthly basis from invested fund. Some insurers deduct fund management fee on a daily basis                                                                                                                                                                                                                                                           |
| Most AMCs levy an exit load if redeemed within a year.                                                                                                                                                                                                      | Surrender Charge is levied on premature redemption of policy units. Generally, surrender is possible only after at least 3 years of policy, and surrender charges are levied by some insurers for as long as 10 years. Recent amendments by IRDA regulate that no surrender charge should be levied from year 6, but this would apply only to new policies.                                                                              |

### **SECTION 1**

Comparative analysis of performances of Large cap, Small/Mid cap, Intermediate and Short term funds of Mutual Funds and ULIP:

#### **COMPARATIVE ANALYSIS OF PERFORMANCES OF LARGE CAP FUNDS OF MF AND ULIP FOR 10 YEARS**

| Avenue | Fund Name                | NAV   | TNA (bn) | ER (%) | 1day | 1week | 1 month | 3 month | YTD   | 1 Year | 3 Year | 5 Year | 10 Year |
|--------|--------------------------|-------|----------|--------|------|-------|---------|---------|-------|--------|--------|--------|---------|
| MF     | Birla Sunlife Equity (G) | 281   | 7.6      | 2.12   | 0.6  | 3.27  | 4.31    | 7.74    | 2.31  | 35.88  | 3.84   | -1.99  | 27.08   |
| MF     | HDFC Equity (G)          | 299.5 | 105      | 1.78   | 0.92 | 2.62  | 5.35    | 7.59    | 2.1   | 36.55  | 9.05   | 5.78   | 29.4    |
| ULIP   | ICICI-Pension Maximiser  | 71.88 | 5.7      | NA     | 1.78 | -1.83 | -3.41   | -1.78   | -1.87 | 15.43  | 3.59   | 6.51   | 19.81   |
| ULIP   | ICICI-Maximiser          | 70.83 | 44.5     | NA     | 1.71 | -1.91 | -3.69   | -1.78   | -2.52 | 13.93  | 2.85   | 6.23   | 19.43   |

Source: Secondary Source

\* Less than one year absolute return and greater than one year annualized.

**TABLE NO 1**

## INTERPRETATION

The above stated table explains the performances of the Mutual Funds and ULIP for the 10 years duration. The funds from these two avenues have similar investment objective, style and allocation. Mutual fund outperformed with the highest returns percentage in all the given years except for the Birla Sunlife Equity Fund in the 5<sup>th</sup> year where it showed negative returns. The YTD (Year to date) was also higher in the case of MF. It is obvious that the NAV was also higher in case of MF.

## COMPARATIVE ANALYSIS OF PERFORMANCES OF LARGE CAP FUNDS OF MF AND ULIP FOR 5 YEARS

| Avenue | Fund Name                                     | NAV   | TNA (bn) | ER (%) | 1day | 1week | 1 month | 3 month | YTD  | 1 Year | 3 Year | 5 Year |
|--------|-----------------------------------------------|-------|----------|--------|------|-------|---------|---------|------|--------|--------|--------|
| MF     | ICICI Pru Focussed Blueship Equity Retail (G) | 18.76 | 43.5     | 1.84   | 0.38 | 2.24  | 2.29    | 6.24    | 1.74 | 26.04  | 11.07  | 12.89  |
| MF     | UTI Oppurtunities Fund (G)                    | 32.36 | 34.9     | 2.32   | 0.46 | 1.37  | 1.47    | 5.28    | 1.09 | 28.81  | 10.53  | 12.67  |
| MF     | Reliance NRI Equity Fund (G)                  | 45.57 | 0.94     | 2.49   | 0.51 | 3.29  | 4.09    | 7.78    | 2.45 | 39.45  | 9.17   | 11.24  |
| MF     | UTI Dividend Yield Fund (G)                   | 34.96 | 37       | 1.95   | 0.78 | 2.16  | 3.48    | 4.41    | 1.42 | 24.5   | 8.34   | 10.78  |
| MF     | UTI Equity (G)                                | 63.28 | 23.2     | 1.91   | 0.49 | 1.38  | 2.44    | 5.85    | 1.04 | 33.78  | 9.19   | 10.48  |
| ULIP   | HDFC- growth of investment group              | 209.5 | 87.9     | NA     | 0.43 | 2.23  | 3.69    | 8.5     | 4.42 | 29.45  | 10.27  | 16.01  |
| ULIP   | Bajaj Allianz- pure stock pension fund        | 19.54 | 0.29     | NA     | -0.2 | 1.39  | 4.17    | -0.85   | 16.9 | 6.25   | 13.61  | 13.28  |
| ULIP   | Bajaj Allianz- equity plus fund               | 42.66 | 7.3      | NA     | 0.06 | 1.65  | 1.03    | 4.56    | 0.76 | 19.23  | 8.4    | 13.11  |
| ULIP   | Bajaj Allianz-pure equity fund                | 25.53 | 0.59     | NA     | -0.2 | 1.65  | 0.64    | 3.83    | -2.1 | 13.47  | 6.59   | 11.09  |
| ULIP   | Bajaj Allianz-Premier equity gain             | 25.15 | 0.39     | NA     | 0.2  | 2.21  | 2.63    | 6.56    | 2.54 | 21.16  | 10.56  | 10.36  |

Source: Secondary Source

\* Less than one year absolute return and greater than one year annualized

**TABLE NO 2**

## INTERPRETATION

The above given table explains the performances of the Mutual Funds and ULIP for the 5 years duration. The ULIP had out beaten the MF as far as 5 year duration return percentage concerned. But the return percentages were higher for MF in the first year return and gradually equalizes with ULIP by three year returns. NAV of MF was higher than all the other ULIP funds except for the HDFC- growth of investment group fund where NAV was extremely higher.

## COMPARATIVE ANALYSIS OF INTERMEDIATE FUNDS

Analysis was done for two different periods. One analysis was done for 10 year duration and the other for 5 year duration. For the study of 10 year duration 2 funds were selected since only 2 funds were available in case the of ULIP.

### COMPARATIVE ANALYSIS OF PERFORMANCES OF INTERMEDIATE FUNDS OF MF AND ULIP FOR 10 YEARS

| Avenue | Fund Name                     | NAV   | TNA  | ER (%) | 1 day | 1 week | 1 month | 3 month | YT D | 1 Year | 3 Year | 5 Year | 10 Year |
|--------|-------------------------------|-------|------|--------|-------|--------|---------|---------|------|--------|--------|--------|---------|
| MF     | Birla Sunlife Income Plus (G) | 56.07 | 13.2 | 1.34   | 0.23  | 1.38   | 2.31    | 3.25    | 1.08 | 11.35  | 7.73   | 8.66   | 7.26    |
| MF     | ICICI-Pru Income (G)          | 39.02 | 16.8 | 1.95   | 0.23  | 1.14   | 2       | 3.14    | 0.9  | 10.43  | 6.99   | 9.02   | 7.29    |
| ULIP   | ICICI- Protector              | 25.35 | 8.9  | NA     | -0.2  | -0.39  | 2.44    | 5.19    | 6.98 | 13.58  | 8.89   | 9.04   | 6.91    |
| ULIP   | ICICI- Pension Protector      | 22.61 | 17.1 | NA     | -0.2  | -0.31  | 2.55    | 5.1     | 6.77 | 13.14  | 8.81   | 8.83   | 6.86    |

Source: Secondary Source

\* Less than one year absolute return and greater than one year annualized

**TABLE NO 3**

### INTERPRETATION

The above given table explains the performances of intermediate funds of MF and ULIP for 10 years duration. The return percentages of the ULIP for the one and three year returns were higher than the MF and it equalizes with MF in the five year returns. But MF return percentage for the 10 year duration was slightly on the higher side compared to the ULIP. ULIP YTD returns were extremely higher than the MF. This shows the good returns on the intermediate funds of ULIP.

### COMPARATIVE ANALYSIS OF PERFORMANCES OF INTERMEDIATE FUNDS OF MF AND ULIP FOR 5 YEARS

| Avenue | Fund Name                             | NAV   | TNA (bn) | ER (%) | 1 day | 1 week | 1 month | 3 month | YT D | 1 Year | 3 Year | 5 Year |
|--------|---------------------------------------|-------|----------|--------|-------|--------|---------|---------|------|--------|--------|--------|
| MF     | ICICI Pru Income (G)                  | 36.67 | 16.8     | 1.95   | 0.23  | 1.14   | 2       | 3.14    | 0.9  | 10.43  | 6.99   | 10.55  |
| MF     | Kotak Bond Plan A- Growth             | 33.59 | 33.4     | 2.14   | 0.2   | 1.13   | 1.93    | 3.16    | 0.88 | 12.9   | 8.8    | 10.44  |
| MF     | HDFC Income(G)                        | 26.68 | 12.3     | 1.5    | 0.18  | 1.11   | 1.87    | 2.93    | 0.85 | 10.4   | 7.73   | 9.34   |
| MF     | UTI Bond (G)                          | 34.47 | 14.2     | 1.88   | 0.19  | 1.35   | 2.3     | 4.04    | 1.08 | 11.52  | 9.34   | 9.27   |
| MF     | Reliance Income Fund Retail (G)       | 18.02 | 50.4     | 1.69   | 0.22  | 1.27   | 2.1     | 3.17    | 0.98 | 10.95  | 7.59   | 9.7    |
| ULIP   | ICICI- Protector fund II              | 20.05 | 3.9      | NA     | -0.2  | -0.38  | 2.75    | 5.77    | 7.95 | 15.26  | 10.1   | 10.19  |
| ULIP   | HDFC- Secured managed investment life | 39.21 | 2.1      | NA     | -0.2  | -0.39  | 2.53    | 5.17    | 7.01 | 14.24  | 9.64   | 10     |
| ULIP   | HDFC- Secured maged invest Pension    | 38.06 | 1.7      | NA     | -0.2  | -0.39  | 2.53    | 5.17    | 7.03 | 14.26  | 9.67   | 9.89   |
| ULIP   | ICICI- Pension income fund            | 13.53 | 9.6      | NA     | -0.2  | -0.3   | 2.67    | 5.35    | 7.25 | 13.89  | 9.64   | 9.83   |
| ULIP   | ICICI- protector fund IV              | 17.03 | 4        | NA     | -0.2  | -0.38  | 2.46    | 5.24    | 7.17 | 14.26  | 9.7    | 9.83   |

Source: Secondary Source

\* Less than one year absolute return and greater than one year annualized

**TABLE NO 4**

### INTERPRETATION

The above given table explains the performances of intermediate funds of MF and ULIP for 5 years duration. The one year returns of the intermediate funds of ULIP were higher than the MF and it equalizes with MF in the three and five years of duration. The YTD returns shown above by the ULIP were extremely good than the MF. However, the NAV of the shows not much differences between the funds.

### COMPARATIVE ANALYSIS OF PERFORMANCES OF SMALL/MID CAP FUNDS OF MF AND ULIP FOR 5 YEARS

| Avenue | Fund Name                                 | NAV   | TNA (bn) | ER (%) | 1day  | 1week | 1 month | 3 month | YTD    | 1 Year | 3 Year | 5 Year |
|--------|-------------------------------------------|-------|----------|--------|-------|-------|---------|---------|--------|--------|--------|--------|
| MF     | Birla Sunlife- MNC Fund Growth            | 265.1 | 3.7      | 2.35   | 0.18  | 0.63  | 3.06    | 6.04    | -0.35  | 40.85  | 17.48  | 11.61  |
| MF     | UTI- MNC Fund Growth                      | 74.88 | 2.6      | 1.93   | 0.21  | 1.54  | 3.35    | 5.93    | 0.78   | 31.96  | 15.82  | 10.06  |
| MF     | HDFC- Midcap Opportunities Fund (G)       | 19    | 26.2     | 1.94   | 0.08  | 2.36  | 3.74    | 5.99    | 1.89   | 38.98  | 15.15  | 7.2    |
| MF     | Birla Sunlife- Dividend Yield Plus (G)    | 80.95 | 11.9     | 2.04   | -0.02 | -4.69 | -8.05   | -4.92   | -14.43 | -1.7   | 0.9    | 13.72  |
| MF     | Birla Sunlife- Buy India Fund (G)         | 49.54 | 0.42     | 2.5    | 0.16  | 1.49  | 2.09    | 10.49   | 1.08   | 43.31  | 10.27  | 5.12   |
| ULIP   | Bajaj Allainz- Equity Mid cap Pension     | 40.26 | 0.07     | NA     | -1.3  | -0.27 | -1.35   | -0.77   | -12.92 | 5.24   | 0.27   | 11.3   |
| ULIP   | Bajaj Allainz- Equity Mid cap Plus        | 36.04 | 1.4      | NA     | -1.36 | -0.27 | -1.27   | -0.67   | -12.49 | 5.62   | 0.01   | 10.2   |
| ULIP   | Birla Sunlife- Individual Multiplier Fund | 12.04 | 3.6      | NA     | -1.35 | -0.83 | -1.48   | 0.49    | -7.42  | 13.08  | 1.38   | 8.76   |
| ULIP   | Bajaj Allainz- Accelerator Midcap Pension | 21.18 | 1.3      | NA     | -1.33 | -0.21 | -1.31   | -0.62   | -12.36 | 5.63   | 0.16   | 8.23   |
| ULIP   | Bajaj Allainz- Accelerator Midcap Fund    | 19.46 | 5.7      | NA     | 0.62  | 0.4   | -6.01   | -2.42   | -14.71 | 2.88   | -2.1   | 7.03   |

Source: Secondary Source

\* Less than one year absolute return and greater than one year annualized

**TABLE NO 5**

### INTERPRETATION

The above given table explains the performances of Small/Mid cap funds of MF and ULIP for 5 years duration. In all the one, three and five years of duration the mutual funds had out beaten the performances of ULIP. The returns of mutual funds were very much higher than the ULIP. YTD returns were negative in the case of ULIP. The NAV of the MF showed the incomparable measures to that of ULIP.

**COMPARATIVE ANALYSIS OF PERFORMANCES OF SHORT TERM FUNDS OF MF AND ULIP FOR 5 YEARS**

| Avenue | Fund Name                             | NAV   | TNA (bn) | ER (%) | 1day  | 1week | 1 month | 3 month | YTD  | 1 Year | 3 Year | 5 Year |
|--------|---------------------------------------|-------|----------|--------|-------|-------|---------|---------|------|--------|--------|--------|
| MF     | ICICI- Short term fund (G)            | 24.51 | 57.9     | 1.18   | -0.13 | -0.53 | -0.37   | 2.47    | 4.71 | 10.13  | 8.18   | 9.34   |
| MF     | HDFC- Short term plan (G)             | 23.08 | 27.2     | 1.04   | -0.08 | -0.48 | -0.28   | 2.2     | 4.17 | 9.49   | 8.17   | 9.19   |
| MF     | Reliance short term fund (G)          | 22.38 | 38.3     | 0.82   | -0.12 | -0.56 | -0.41   | 2.46    | 4.62 | 10.05  | 8.22   | 9.34   |
| MF     | LIC Nomura MF Bond fund (G)           | 33.43 | 1.8      | 1.51   | -0.35 | -1.27 | -1.43   | 2.1     | 3.84 | 8.92   | 8.05   | 9.27   |
| MF     | HDFC- High Interest fund-S/T plan (G) | 23.62 | 33.2     | 1      | -0.1  | -0.51 | -0.36   | 2.28    | 4.27 | 9.74   | 8.11   | 9.7    |
| ULIP   | HDFC- Stable Managed pension          | 39.56 | 0.38     | NA     | -0.03 | -0.07 | 0.73    | 2.63    | 3.63 | 9.29   | 7.66   | 8.25   |
| ULIP   | HDFC- Stable Managed life             | 39.52 | 0.49     | NA     | -0.03 | -0.08 | 0.2     | 2.59    | 3.61 | 9.31   | 7.69   | 8.21   |
| ULIP   | HDFC-Stable Managed Life II           | 14.88 | 0.6      | NA     | -0.03 | -0.09 | 0.67    | 2.53    | 3.41 | 9.06   | 7.54   | 7.66   |
| ULIP   | HDFC-Stable Managed Group             | 38.27 | 0.16     | NA     | -0.02 | -0.05 | 0.76    | 2.57    | 3.64 | 8.97   | 7.16   | 7.57   |

Source: Secondary Source

\* Less than one year absolute return and greater than one year annualized

**TABLE NO 6**

**INTERPRETATIONS**

The above given table explains the performances of short term funds of MF and ULIP for 5 years duration. The returns for all the given duration of years were higher for MF than ULIP. The YTD was also higher for mutual funds. However, the return of the ULIP was also good. The NAV of the funds of mutual funds and ULIP showed not much significant difference.

**SECTION 2**

Comparative analysis of Mutual Funds and ULIP On Cost and Return Perspective:

**Comparison of Large Cap Funds of ULIP and MF:**

Plan A: ULIP

Typical Type I ULIP where the highest of the sum assured or fund value given as a death benefit was selected.

An investor aged 35 years, investing for 10 years by paying a premium of Rs. 50000 per year with sum assured 5,00,000 ( 10 times of the policy premium) was considered.

**Charges as Follows:**

Plan Name: ICICI- Maximiser Fund

**Premium Allocation Charge:**

|                 | % of Premium |         |                |
|-----------------|--------------|---------|----------------|
| Annual Premium  | Year I       | Year II | Year 3 Onwards |
| 18000-49999     | 20.00%       | 7.50%   | 4.00%          |
| 50000 and above | 18.00%       | 7.50%   | 4.00%          |

**Mortality Charges:**

Mortality Charges were noted as per the mortality charges given by the ICICI Prudential Insurance in their website.

Fund Management Charges: 2.25% p.a

Policy Administration Charges: NIL

Plan B: Mututal Fund

Plan Name: HDFC Equity Fund (Growth)

Investment Amount: Regular Pay Rs.50000 p.a

Charge: Average Expense Ratio till dated was only 1.78. For the Calculation and Comparison convenience it was taken as 2%.

**COST DETAILS OF ULIP PLAN OF ICICI-MAXIMISER FUND**

| S No | Year | Premium       | PAC % | PAC          | After PAC     | Fund Bal | Pol.AC   | FMC           |
|------|------|---------------|-------|--------------|---------------|----------|----------|---------------|
| 1    | 2003 | 50000         | 18%   | 9000         | 41000         | 41000    | 0        | 922.5         |
| 2    | 2004 | 50000         | 7.50% | 3750         | 46250         | 120014   | 0        | 2700.31       |
| 3    | 2005 | 50000         | 4.00% | 2000         | 48000         | 184226   | 0        | 4145.08       |
| 4    | 2006 | 50000         | 4.00% | 2000         | 48000         | 292175   | 0        | 6573.93       |
| 5    | 2007 | 50000         | 4.00% | 2000         | 48000         | 434776   | 0        | 9782.46       |
| 6    | 2008 | 50000         | 4.00% | 2000         | 48000         | 678803   | 0        | 15273.1       |
| 7    | 2009 | 50000         | 4.00% | 2000         | 48000         | 399469   | 0        | 8988.05       |
| 8    | 2010 | 50000         | 4.00% | 2000         | 48000         | 724730   | 0        | 16306.4       |
| 9    | 2011 | 50000         | 4.00% | 2000         | 48000         | 884712   | 0        | 19906         |
| 10   | 2012 | 50000         | 4.00% | 2000         | 48000         | 702344   | 0        | 15802.7       |
|      |      | <b>500000</b> |       | <b>28750</b> | <b>471250</b> |          | <b>0</b> | <b>100401</b> |

| SA     | Mortality Charge | Service Tax     | Total Charge     | After Fees     | Loyalty Addition | Return % | Closing Balance | Maturity Benefit | Death Benefit |
|--------|------------------|-----------------|------------------|----------------|------------------|----------|-----------------|------------------|---------------|
| 500000 | 875              | 191.79          | 10989.29         | 39010.71       |                  | 85.09    | 73764           |                  | 500000        |
| 500000 | 930              | 387.35          | 7767.66          | 115996.34      |                  | 17.44    | 136226          |                  | 500000        |
| 500000 | 990              | 547.91          | 7682.99          | 178543.01      |                  | 36.76    | 244175          |                  | 500000        |
| 500000 | 1060             | 814.54          | 10448.47         | 283726.53      |                  | 36.32    | 386776          |                  | 500000        |
| 500000 | 1150             | 1166.49         | 14098.95         | 422677.05      |                  | 49.24    | <b>630803</b>   | 630803           | 630803        |
| 500000 | 0                | 1629.63         | 18902.7          | 661900.3       |                  | -46.9    | 351469          | 351469           | 500000        |
| 500000 | 0                | 959.02          | 11947.07         | 389521.93      |                  | 71.18    | 676730          | 676730           | 676730        |
| 500000 | 0                | 1739.89         | 20046.33         | 706683.67      |                  | 18.4     | 836712          | 836712           | 836712        |
| 500000 | 0                | 2123.97         | 24030            | 862682         |                  | -24.15   | 654344          | 654344           | 654344        |
| 500000 | 0                | 1686.15         | 19488.89         | 684856         | <b>6848.6</b>    | 29.1     | 890997          | 890997           | 890997        |
|        | <b>5005</b>      | <b>11246.74</b> | <b>145402.35</b> | <b>4345597</b> | <b>6848.6</b>    |          | <b>4881996</b>  |                  |               |

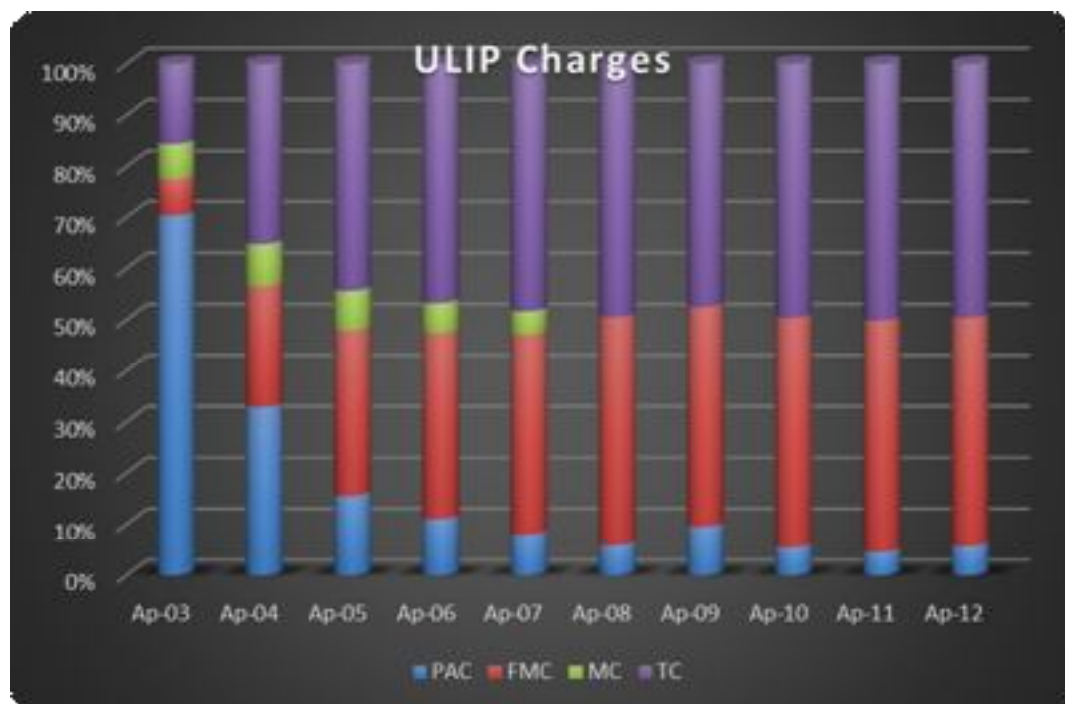
Source: Secondary Source

**COST DETAILS OF MF PLAN OF HDFC EQUITY FUND**

| No of Years | Year    | Investment    | Opening Balance | Return % | Growth         | Fees          | Closing Balance |
|-------------|---------|---------------|-----------------|----------|----------------|---------------|-----------------|
| 1           | Ap-2003 | 50000         | 50000           | 126.3    | 63150          | 1000          | 112150          |
| 2           | Ap-2004 | 50000         | 162150          | 27.53    | 44640          | 3243          | 203547          |
| 3           | Ap-2005 | 50000         | 253547          | 62.7     | 158973         | 5070          | 407450          |
| 4           | Ap-2006 | 50000         | 457450          | 35.86    | 164041         | 9149          | 612342          |
| 5           | Ap-2007 | 50000         | 662342          | 53.61    | 355081         | 13246         | <b>1004177</b>  |
| 6           | Ap-2008 | 50000         | 1054177         | -49.68   | -523715        | 21083         | 509379          |
| 7           | Ap-2009 | 50000         | 559379          | 105.71   | 591320         | 11187         | 1139512         |
| 8           | Ap-2010 | 50000         | 1189512         | 29.22    | 347575         | 23790         | 1513297         |
| 9           | Ap-2011 | 50000         | 1563297         | -26.72   | -417712        | 31265         | 1114320         |
| 10          | Ap-2012 | 50000         | 1164320         | 34.14    | 397499         | 23286         | <b>1538533</b>  |
|             |         | <b>500000</b> |                 |          | <b>1180852</b> | <b>142319</b> | <b>8154707</b>  |

Source: Secondary Source

**ULIP CHARGES OF LARGE CAP FUND**

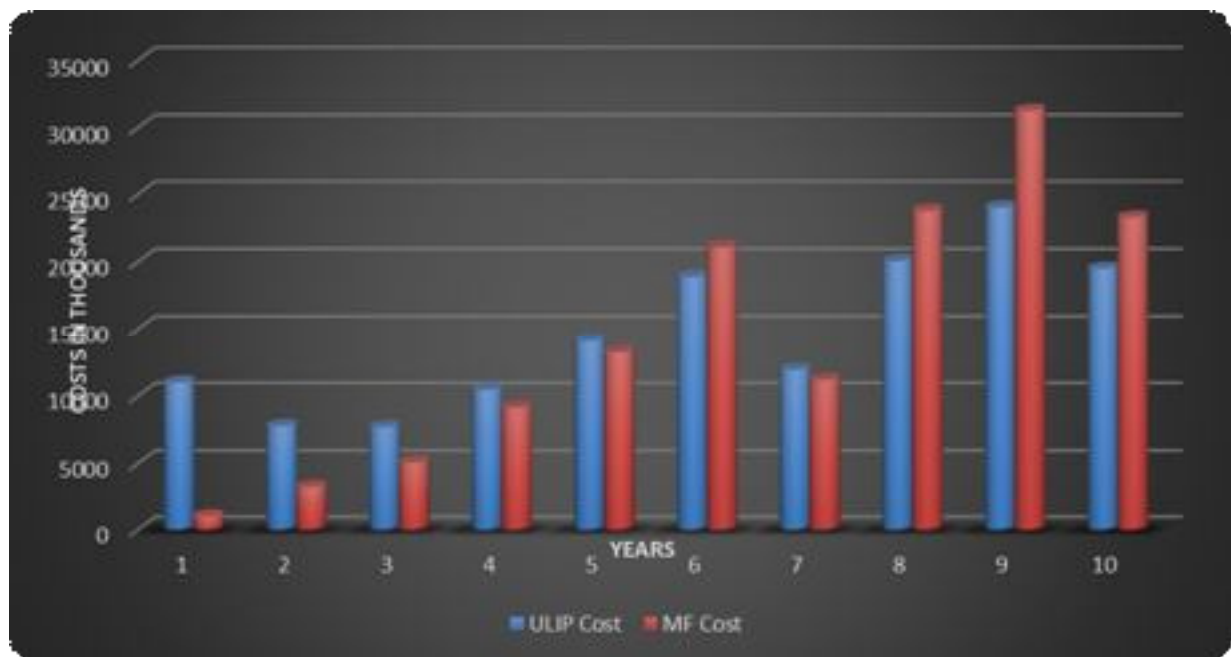


**ULIP VS MF CHARGES OF LARGE CAP FUNDS**

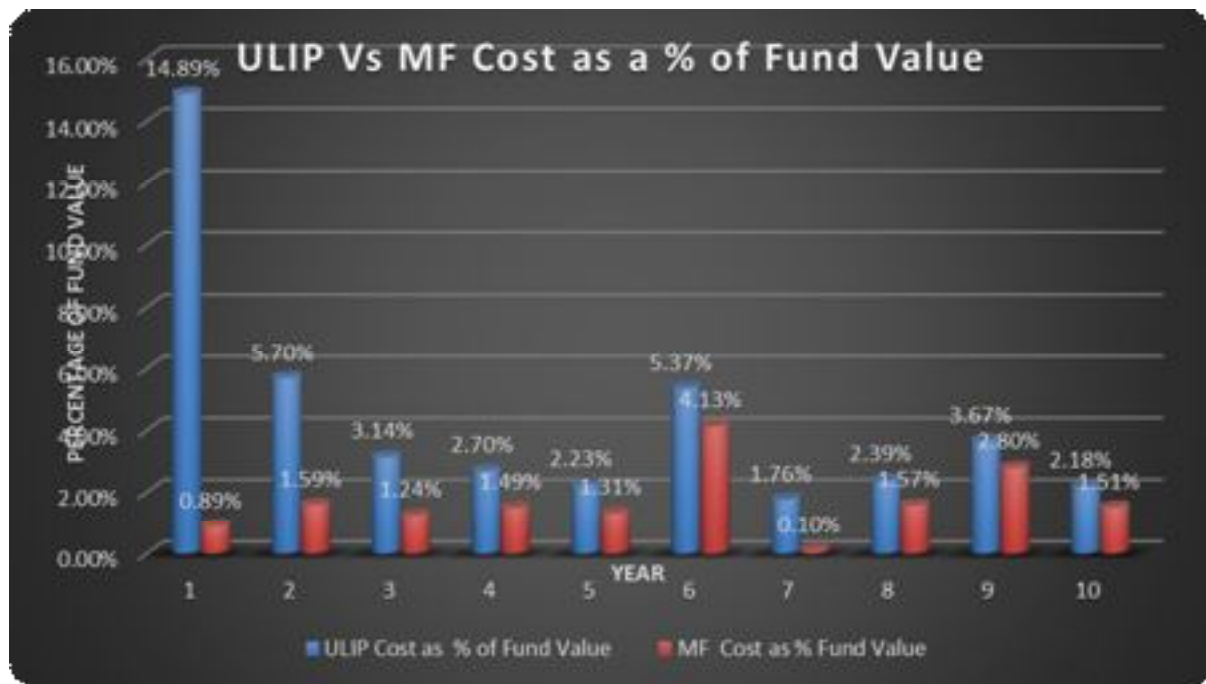
| Year | ULIP Cost       | MF Cost       | ULIP Cost as % of Premium | MF Cost as % of Premium | ULIP Cost as % of Fund Value | MF Cost as % of Fund Value |
|------|-----------------|---------------|---------------------------|-------------------------|------------------------------|----------------------------|
| 1    | 1989.29         | 1000          | 4%                        | 2%                      | 2.69%                        | 0.89%                      |
| 2    | 4017.66         | 3243          | 8%                        | 6%                      | 2.94%                        | 1.59%                      |
| 3    | 5682.99         | 5070          | 11.00%                    | 10%                     | 2.32%                        | 1.24%                      |
| 4    | 8448.47         | 9149          | 17.00%                    | 18%                     | 2.18%                        | 1.49%                      |
| 5    | 12098.95        | 13246         | 24%                       | 26%                     | 1.91%                        | 1.31%                      |
| 6    | 16902.7         | 21083         | 34%                       | 42%                     | 4.80%                        | 4.13%                      |
| 7    | 9947.07         | 11187         | 20%                       | 22%                     | 1.46%                        | 0.10%                      |
| 8    | 18046.33        | 23790         | 36%                       | 47%                     | 2.15%                        | 1.57%                      |
| 9    | 22030           | 31265         | 44%                       | 62%                     | 3.36%                        | 2.80%                      |
| 10   | 17488.89        | 23286         | 35%                       | 46%                     | 1.96%                        | 1.51%                      |
|      | <b>116652.4</b> | <b>142319</b> |                           |                         |                              |                            |

Source: Secondary Source

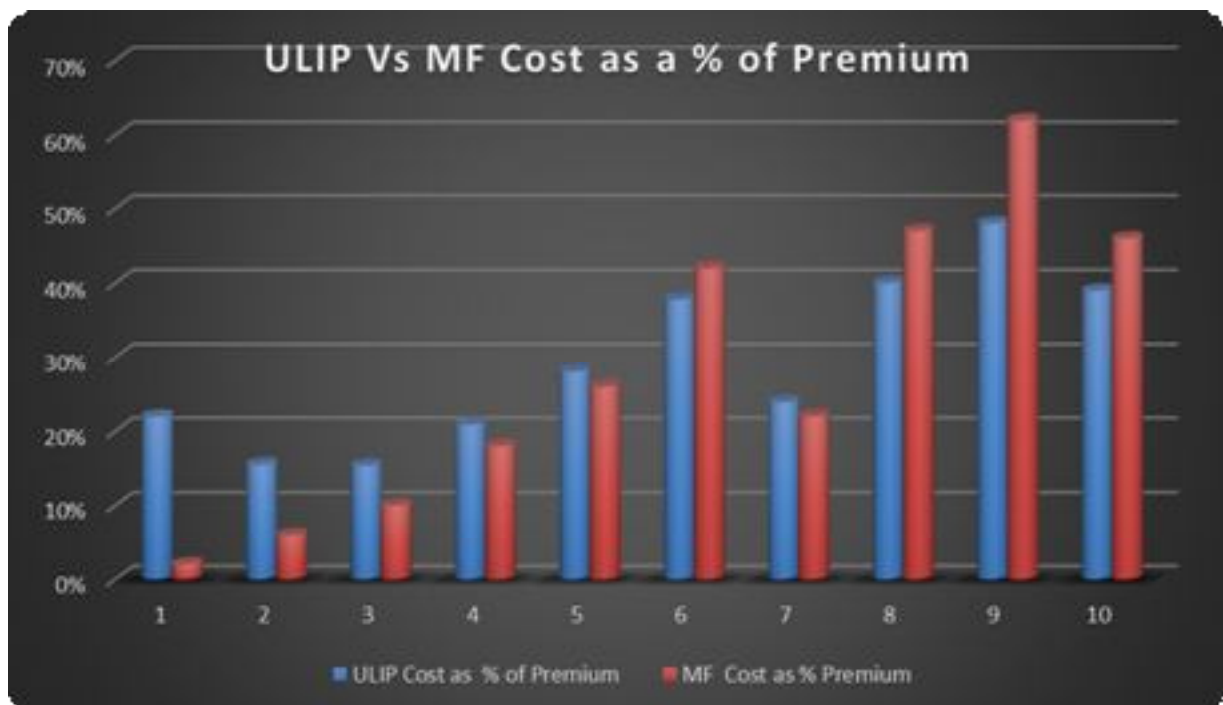
**ULIP VS MUTUAL FUND COST FOR LARGE CAP FUND**



**ULIP VS MF COST AS A PERCENTAGE OF FUND VALUE FOR LARGE CAP FUNDS**



#### ULIP VS MF COST AS A PERCENTAGE OF PREMIUM FOR LARGE CAP FUNDS



#### INTERPRETATION

The cost and return analysis of the large cap funds of Mutual Fund and ULIP made clear that there were huge fees directly and indirectly charged by the insurance companies. Though there were not policy administration charges, it was still compensated by the collection of higher percentage of premium allocation charge. Only 78% percentage of the fund was available for the initial investment and remaining 22% was taken as charges. But in the case of Mutual Fund, 98% of the fund was invested as there were only 2% charges as an entry load.

While comparing the cost details as percentage of premium and fund value- it was apparent that the percentage of premium was higher in the initial 5 years and lowered in the later years compared to MF. MF cost of premium was higher due to the higher accumulation of fund available for investment. But in reality the cost as a percentage of fund value as shown in the graph above it was higher in all the given years in the case of ULIP. The Compound Annual Growth Rate (CAGR) for MF was 0.31% which was on the higher side than the ULIP with 0.21%.

## **9. FINDINGS AND SUGGESTION**

### **FINDINGS**

- Mutual funds were highly liquid with very low charges and strictly capped by the SEBI and no agent commission were posed. In case of ULIP, there were very high charges and not strictly capped by the IRDA. There was high agent commission too in ULIP which triggered the mis-selling of the products.
- Over all fund returns were higher in MF than ULIP. NAV and YTD were higher for the MF than ULIP (except few individual star rated ULIP funds).
- 98% of the initial investment was invested in the case of mutual funds. But only 78% of the premium was initially invested and the remaining 22% was levied for various charges.
- The cost as a percentage of fund value and percentage of premium was also higher for all the given years in the case of ULIP than Mutual Funds.
- There was a huge difference in the cost charged by the MF than ULIP. There was as high as 44% of cost difference between ULIP charges and MF charges and ULIP charges were on the higher side.
- There were longer track records of performance in the case of mutual funds and limited record in the case of ULIP.

### **SUGGESTIONS**

- There are no hidden costs and all the costs are strictly monitored by regulators in the mutual fund. Any costs above the cap should be borne by the asset management companies. On the other hand, there are numerous hidden costs and the cost cap is not strictly monitored in case of ULIP funds.
- Very low charges, strictly capped by the SEBI and no agent commissions keeps the mutual funds on the very higher side positively than the ULIP funds where these funds are negatively considered because of the very high charges, not strictly capped by the IRDA and high agent commissions.
- In the case of mutual funds, period of stay shows positive results for short to medium and even long duration proved better results. But ULIP requires longer period of stay. Since the cost makes the breakeven only after the 5 to 7 years. Exiting the policy in the short term could thus yield very low returns as a large chunk of investment would go towards meeting the charges. So if the investor leaves the funds in the shorter period of time, he foregoes the charges he paid for the premium with no maturity benefit. This leads to the staying till the maturity period.
- Greater transparency of AMC's in the operations of Mutual funds than ULIP. Calculation of the NAV and redemption value can be easily calculated by the investors in case of mutual funds than ULIP. ULIP NAV cannot be considered as there is huge difference in availability of fund for investment after initial charges.
- Mutual funds have longer track record of performance than ULIP funds.

- ULIP is a classic case of **“buyer bewares”**. If investors insist on buying ULIP, there isn't much more that can be done since there are already ample warning signs in the public space. It is also easy to understand why agents push ULIP – is due to huge front-loaded commissions.

## 10. CONCLUSION

Investors always look for good investment opportunity, which would give good returns, safety and security to their investment. The gaze of present financial distribution system and quality of advice available in the market, it is strongly believed that Mutual Fund Investment would provide good returns with portfolio matching the risk attitude of its investors. Mutual Fund is a mechanism of pooling resources from general public and investing collected funds in debt or equity instruments in accordance with the objectives as disclosed in the offer document.

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