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STUDY OF INSURANCE RETURNS AS COMPARED WITH OTHER INVESTMENT OPTIONS

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ABSTRACT

Insurance industry contributes to the financial sector of an economy and also provides an important social security in developing countries. The growth of the insurance sector in India has been phenomenal. The insurance industry has undergone a massive change over last few years and the metamorphosis has been noteworthy. Many insurance companies in India have managed to make their way into almost every Indian household. Government of India is also highly concern to the need of Insurance in current scenario. There are numerous private and public sector insurance companies in India that have become synonymous with the term insurance over years, offering a diversified product portfolio and excellent services to the customers. Customers are putting huge amount in the form of ULIP and Traditional products in the market through these companies to fetch Insurance cover along with returns on investment and Tax benefit.

INTRODUCTION

The insurance world has changed significantly, not just incrementally, but fundamentally with time, the way we interact and do business. The entire insurance value chain is impacted, from insurers to intermediaries and distributors and service providers, particularly as other industries from retailers to auto manufacturers set foot in insurance markets. At the center of this transformation into a connected, digital world are people and a marketplace that is defined and driven by customer behaviors, needs and lifestyles. As RGA graphically observes “Anyone who has placed a telephone call through a switchboard operator, from a phone booth, using a rotary dial or on a brick sized cellular phone has witnessed the steady march of technological progress. Advances in technology and infrastructure have changed the way that we connect with one another and, more fundamentally, how we experience and interact with the world in which we live.”

Under such scenario buying a life insurance product is typically a big decision for the majority of people – a decision that most experts would agree should be part of a financial planning process. That coupled with the complexity of many life products their returns and after-sales servicing may follow the online retail model, there’s a personal relationship component that remains an essential part of most life insurance sales cycles. The good news is that Our Government is also focused on digital technology that can play an increasingly significant role in connecting consumers and advisors – and providing the information and tools they both need to have an in-depth conversation.

OBJECTIVE OF STUDY

- To study various investment products available in the market and their returns.
- To compare all the products on the basis of benefits served.
- To compare insurance with various investment options considered under test on various grounds.

STUDY OF GROUNDS FOR COMPARISON

There are numerous private and public sector insurance companies in India that are offering a diversified product portfolio and excellent services to the customers. Customers are putting huge amount in the form of ULIP and Traditional products in the market through these companies to fetch Insurance cover along with returns on investment and Tax benefit. Customers are having huge expectations of returns from insurance products which we are trying to analyze here.

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Insurance product is not only a investment product or covering life risk but it serves various needs of a individual which are having their own importance and we are discussing these below here.

Investment Return: Two types of investments are there one is nonparticipating which serves guarantee of fixed rate of return for a fixed term investment which may be invested as one time investment or a regular recurring of fixed interval and other one is participating which serves nonguaranteed returns and which may vary with time and does not have any assurance of any particular rate of return on ones investment.

Tax Savings: It is very important aspect to be analyzed weather amount invested is serving tax benefit or not so that it will serve once dual motive for investment. Also weather the returns earned from investing is taxable or not as it will also affecting the net yield which one can earn. 80 (C) and 10(10)D

Life Insurance: It is the contract between Insurance policy holder and insurer, where insurer promises to pay a sum of money to a designated beneficiary a sum of money in exchange of premium paid by insured, upon the death of an insured person.

No. of years Guarantee: This is one of the important parameter in the today's scenario where there is a huge level of uncertainty in the interest rate in guarantee instruments also, as interest rates are changing very frequently in the market with the change in economic growth and inflation. If we will compare FD interest rate it was around 14.5% which fall to 7% today. In the developed economies like US it is around 1.25% today and in a country like Switzerland it is -0.75%. As we are a developing economy and shifting towards developed in near future our interest rates will further come down even from this level so term guaranteed for next how many years is very important aspect to be analyzed before investing.

STUDY OF VARIOUS INVESTMENT OPTIONS

There are various instruments available in the market where one can invest money to create wealth and to fetch return on their investments. Few of very common where there is very frequent investment from lay man in India are:

- Fixed Deposit (FD) / Recurring Deposit (RD)
- National Saving Scheme (NSC)
- Kissan Vikas Patra (KVP)
- Public Provident Fund (PPF) / Sukannya Samriddhi Yojana
- Mutual Funds
- Stocks Market / Commodity Market
- Bond
- Insurance
- Property
- Gold
- National Pension Scheme (NPS)
- Atal Pension Scheme (APY)

Term Deposit FD/RD:

- Account may be opened by individual.
- Account can be opened by cash/ Cheque and in case of Cheque the date of realization of Cheque in Govt. account shall be date of opening of account.
- Nomination facility is available at the time of opening and also after opening of account.
- Account can be transferred from one post office to another.
- Any number of accounts can be opened in any post office.
- Account can be opened in the name of minor and a minor of 10 years and above age can open and operate the account.
- Joint account can be opened by two adults.
- Single account can be converted into Joint and Vice Versa.
- Minor after attaining majority has to apply for conversion of the account in his name.
- The investment under 5 Years TD qualifies for the benefit of Section 80C of the Income Tax Act, 1961 from 1.4.2007.

In CBS Post offices and banks, when any TD account is matured, the same TD account will be automatically renewed for the period for which the account was initially opened. Example: 2 Years TD account will be automatically renewed for 2 Years. Interest rate applicable on the day of maturity will be applied.
Interest payable annually but calculated quarterly.
From 1.07.2017, interest rates are as follows:-

Period	Rate
1 yr. Account	6.8%
2 yr. Account	6.9%
3 yr. Account	7.1%
5 yr. Account	7.6%

Deposit Amounts are as follows:-

Type of Account	Minimum Deposit	Maximum Deposit
1, 2, 3 & 5 Year TD	INR. 200/- and in multiples of INR. 200/- thereafter	No limit

NSC VIII Issue:

- Scheme specially designed for Government employees, Businessmen and other salaried classes who are Income Tax assesses.
- No maximum limit for investment.
- No Tax deduction at source.
- Certificates can be kept as collateral security to get loan from banks.
- Trust and HUF cannot invest.
- Buy National Savings Certificates (NSCs) every month for Five years – Re-invest on maturity and relax - On retirement it will fetch you monthly pension as the NSC matures.
- A single holder type certificate can be purchased by an adult for himself or on behalf of a minor or to a minor.
- Deposits qualify for tax rebate under Sec. 80C of IT Act.
- The interest accruing annually but deemed to be reinvested under Section 80C of IT Act.
- *In case of NSC VIII and IX issue, transfer of certificates from one person to another can be done only once from date of issue to date of maturity.
- *At the time of transfer of Certificates from one person to another, old certificates will not be discharged. Name of old holder shall be rounded and name of new holder shall be written on the old certificate and on the purchase application(in case of non CBS Post offices) under dated signatures of the authorized Postmaster along with his designation stamp and date stamp of Post office
- Rate of interest 7.8%.
- Maturity value of a certificate of INR.100/- purchased on or after 1.10.2016 shall be INR. 146.93 after 5 years.
- Maturity value of a certificate of INR.100/- purchased on or after 1.4.2012 shall be INR. 147.61 after 5 years.
- Investment up to INR 1,00,000/- per annum qualifies for IT Rebate under section 80C of Income Tax Act.

Public Provident Fund:

- Deposits can be made in lump-sum or in 12 installments.
- Joint account cannot be opened.
- Account can be opened by cash/ Cheque and In case of cheque, the date of realization of Cheque in Govt. account shall be date of opening of account.
- Nomination facility is available at the time of opening and also after opening of account. Account can be transferred from one post office to another.

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- The subscriber can open another account in the name of minors but subject to maximum investment limit by adding balance in all accounts.
- Maturity period is 15 years but the same can be extended within one year of maturity for further 5 years and so on.
- Maturity value can be retained without extension and without further deposits also.
- Premature closure is not allowed before 15 years.
- Deposits qualify for deduction from income under Sec. 80C of IT Act.
- Interest is completely tax-free.
- Withdrawal is permissible every year from 7th financial year from the year of opening account.
- Loan facility available from 3rd financial year.
- No attachment under court decree order.
- The PPF account can be opened in a Post Office which is Double handed and above.
- From 1.04.2017, interest rates are as follows:- 7.9% per annum (compounded yearly).

PPF Account details

Type of Account	Minimum Amount for Opening	Minimum Deposit	Maximum Deposit
Public Provident Fund(Individual account on his behalf or on behalf of minor of whom he is the guardian)	INR 100/-	INR. 500/- in a financial year	INR. 1,50,000/- in a financial year

Kisan Vikas Patra:

- Amount Invested matures in 115 months.
- Rate of Interest 7.5%.
- Certificate can be purchased by an adult for himself or on behalf of a minor or by two adults.
- KVP can be purchased from any Departmental Post office.
- Facility of nomination is available.
- Certificate can be transferred from one person to another and from one post office to another.
- Certificate can be encash after 2 & 1/2 years from the date of issue.

Kisan Vikas Patra details

Type of Account	Minimum Deposit	Maximum Deposit
Kisan Vikas Patra (Available in denominations of Rs 1,000, 5000, 10,000 and Rs 50,000.)	INR. 1000/-	No limit

Sukanya Samriddhi:

- A legal Guardian/Natural Guardian can open account in the name of Girl Child.
- A guardian can open only one account in the name of one girl child and maximum two accounts in the name of two different Girl children.
- Account can be opened up to age of 10 years only from the date of birth. For initial operations of Scheme, one year grace has been given. With the grace, Girl child who is born between 2.12.2003 & 1.12.2004 can open account up to 1.12.2015.
- Account can be closed after completion of 21 years.
- Normal Premature closure will be allowed after completion of 18 years provided that girl is married.
- Rate of interest 8.3% Per Annum (with effect from 1-07-2017), calculated on yearly basis, Yearly compounded.

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Sukanya Samriddhi Account details

Type of Account	Minimum Deposit	Maximum Deposit
Sukanya Samriddhi Accounts	INR. 1000/- in a financial year.	INR. 1,50,000/- in a financial year.

- Subsequent deposit in multiple of INR 100/- Deposits can be made in lump-sum No limit on number of deposits either in a month or in a Financial year
- If minimum Rs 1000/- is not deposited in a financial year, account will become discontinued and can be revived with a penalty of Rs 50/- per year with minimum amount required for deposit for that year.
- Partial withdrawal, maximum up to 50% of balance standing at the end of the preceding financial year can be taken after Account holder's attaining age of 18 years.

National Pension System:

National Pension Scheme, also known as **NPS**, is a quasi-EET instrument in India where 40% of the corpus escapes tax at maturity, while 60% of the corpus is taxable. Of the 60% taxable corpus, 40% is tax-exempt as it has to be compulsorily used to purchase an annuity. The annuity income will be taxed, though. The remaining 20% alone will now be taxed at slab rates on withdrawal. From 2016, an additional tax benefit of Rs 50,000 under Section 80CCD(1b) is provided under NPS, which is over the Rs 1.5 lakh exemption of Section 80C. Fund management and asset allocation are important parts of NPS. NPS is considered one of the best tax saving instrument, after 40% of the corpus was made tax-free at the time of maturity and it is ranked just below Equity-linked savings scheme (ELSS). NPS offers subscribers a choice of two record keeping agencies: NCRA (NSDL-CRA) and KCRA (Karvy-CRA). In 2017 Union budget of India, 25% exemption of the contribution made by an employee has been announced as a form of premature partial withdrawal in NPS. This amendment will take effect from 1st April, 2018 and will, accordingly, apply in relation to the assessment year 2018-19. NPS is a market-linked annuity product.

The National Pension System (NPS) is a voluntary defined contribution pension system administered and regulated by the Pension Fund Regulatory and Development Authority (PFRDA), created by an Act of the Parliament of India. The NPS started with the decision of the Government of India to stop defined benefit pensions for all its employees who joined after 1 January 2004. While the scheme was initially designed for government employees only, it was opened up for all citizens of India in 2009. NPS is an attempt by the government to create a pensioned society in India. In its overall structure NPS is closer to 401(k) plans of the United States. Today, the NPS is readily available and tax efficient under Section 80CCC and Section 80CCD. Under the NPS, an individual can contribute to his retirement account. Also, his employer can contribute to the welfare and social security of the individual.

Atal Pension Yojana:

The Government announced the introduction of universal social security schemes in the Insurance and Pension sectors for all Indians, specially the poor and the under-privileged, in the Budget for the year 2015-16. Therefore, it has been announced that the Government will launch the Atal Pension Yojana (APY), which will provide a defined pension, depending on the contribution, and its period. The APY will be focused on all citizens in the unorganized sector, who join the National Pension System (NPS) administered by the Pension Fund Regulatory and Development Authority (PFRDA). Under the APY, the subscribers would receive the fixed minimum pension of Rs. 1000 per month, Rs. 2000 per month, Rs. 3000 per month, Rs. 4000 per month, Rs. 5000 per month, at the age of 60 years, depending on their contributions, which itself would be based on the age of joining the APY. The minimum age of joining APY is 18 years and maximum age is 40 years. Therefore, minimum period of contribution by any subscriber under APY would be 20 years or more. The benefit of fixed minimum pension would be guaranteed by the Government. The APY would be introduced from 1st June, 2015.

Mutual Funds:

A **mutual fund** is a professionally managed investment fund that pools money from many investors to purchase securities. These investors may be retail or institutional in nature.

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Mutual funds have advantages and disadvantages compared to direct investing in individual securities. The primary advantages of mutual funds are that they provide economies of scale, a higher level of diversification, they provide liquidity, and they are managed by professional investors. On the negative side, investors in a mutual fund must pay various fees and expenses.

Primary structures of mutual funds include open-end funds, unit investment trusts, and closed-end funds. Exchange-traded funds (ETFs) are open-end funds or unit investment trusts that trade on an exchange. Mutual funds are also classified by their principal investments as money market funds, bond or fixed income funds, stock or equity funds, hybrid funds or other. Funds may also be categorized as index funds, which are passively managed funds that match the performance of an index, or actively managed funds. Hedge funds are not mutual funds; hedge funds cannot be sold to the general public and are subject to different government regulations.
Mutual funds have advantages and disadvantages compared to investing directly in individual securities:

Advantages

- Increased diversification: A fund diversifies holding many securities; this diversification decreases risk.
- Daily liquidity: Shareholders of open-end funds and unit investment trusts may sell their holdings back to the fund at regular intervals at a price equal to the net asset value of the fund's holdings. Most funds allow investors to redeem in this way at the close of every trading day.
- Professional investment management: Open-and closed-end funds hire portfolio managers to supervise the fund's investments.
- Ability to participate in investments that may be available only to larger investors. For example, individual investors often find it difficult to invest directly in foreign markets.
- Service and convenience: Funds often provide services such as check writing.
- Government oversight: Mutual funds are regulated by a governmental body
- Transparency and ease of comparison: All mutual funds are required to report the same information to investors, which makes them easier to compare

Disadvantages

Mutual funds have disadvantages as well, which include:

- Fees
- Less control over timing of recognition of gains
- Less predictable income
- No opportunity to customize

Stocks:

A stock market, equity market or share market is the aggregation of buyers and sellers (a loose network of economic transactions, not a physical facility or discrete entity) of stocks (also called shares), which represent ownership claims on businesses; these may include *securities* listed on a public stock exchange as well as those only traded privately. Examples of the latter include shares of private companies which are sold to investors through equity crowd funding platforms. Stock exchanges list shares of common equity as well as other security types, e.g. corporate bonds and convertible bonds.

A stock exchange is a place or an organization through which individuals and organizations can trade stocks. Many large companies have their stocks listed on a stock exchange. This makes the stock more liquid and thus more attractive to many investors. The exchange may also act as a guarantor of settlement. Other stocks may be traded "over the counter" (OTC), that is, through a dealer. Some large companies will have their stock listed on more than one exchange in different countries, so as to attract international investors.

Stock exchanges may also cover other types of securities, such as fixed interest securities (bonds) or (less frequently) derivatives which are more likely to be traded OTC.

Bonds:

Bond is a debt security, in which the authorized issuer owes the holders a debt and, depending on the terms of the bond, is obliged to pay interest (the coupon) to use and/or to repay the principal at a later date, termed maturity. A bond is a formal contract to repay borrowed money with interest at fixed intervals (ex semi annual, annual, sometimes monthly).

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Bonds provide the borrower with external funds to finance long-term investments, or, in the case of government bonds, to finance current expenditure. Bonds and stocks are both securities, but the major difference between the two is that (capital) stockholders have an equity stake in the company (i.e., they are owners), whereas bondholders have a creditor stake in the company (i.e., they are lenders). Another difference is that bonds usually have a defined term, or maturity, after which the bond is redeemed, whereas stocks may be outstanding indefinitely.

- Listed Bonds
- Non convertible Bonds
- Capital Gain Bonds
- Government of India savings (taxable) Bonds
- Tax free Bonds

RESEARCH & ANALYSIS

From above study of various investment products below outlines can be drawn for all these product to compare on four parameters (Returns, Tax Benefit, Life insurance cover and No. of years guarantee obtained).

	Returns	Tax Benefit		Life Insurance	Guarantee Years
		80 (C)	10(10)D		
FD/RD	**7%**	**Y/N**	**N**	**N**	**1 Year - 10 Year**
NSC	**7.50%**	**Y**	**N**	**N**	**6 Years**
KVP	**7.50%**	**N**	**N**	**N**	**10 Years**
PPF / Sukanya Samriddhi	**7.90%/8.30%**	**Y**	**Y**	**N**	**1 Year**
Mutual Fund	12%-18%	Y/N	Y/N	N	No Guarantee
Stocks	12%-18%	N	Y/N	N	No Guarantee
Bond	**7% - 9%**	**Y/N**	**Y**	**N**	**15 Years - 20 Years**
Insurance	**4%- 6%**	**Y**	**Y**	**Y**	**10 Years - 40 Years**
Property	No Guarantee	N	N	N	No Guarantee
Gold	No Guarantee	N	N	N	No Guarantee
NPS	No Guarantee	Y	Y	N	No Guarantee
APY	**8%**	**N**	**N**	**N**	**20 Years -42 Years**

From above table Instruments shown in bold are nonparticipating having fixed returns on investment so for comparing we just calculate Mean of return of above non participating products except insurance:

Mean = (7% + 7.50% + 7.50% + 8.10% + 8% + 8%)/6 = ***7.68%***

Term Plan Premium of different companies for Sum Assured of 2 Lac.

Age	LIC	SBI	Kotak	Max	Mean
35	456	381	245	335	354.25

Here we are now considering one product of each test insurance company preference is Traditional product and nonparticipating if available than considering these product premium for a male life of 35 years at 2 lac of Sum Assured for 20 years premium paying term and calculating IRR of the same also if any product is not available for 2 lac SA prorate is calculated.

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Test Company	***LIC***	***ICICI***	***HDFC***	***Reliance***	***Edelweiss***	**Mean**
Product Name	New Endowment	Future Perfect	Sanchay	Super Endowment	GCAP	
Approximate IRR	5.57%	5.10%	4.44%	4.92%	5.65%	5.14%

From the above research investment in any fixed investment nonparticipating gives approx Mean return of 7.68% and if one by term plan mean premium of 354.25 Rs will be expend from net return earned @7.68% after this term plan expenditure balance left is net earnings will give final return on ones investment.

Investment of Rs. 10000	**Return**	**Term Premium**	**Net Return**	**Final IRR**	**80 C tax rebate @ 10%**	**Tax Payable on Returns @10%**
Fixed Return Instrument	768	354.25	413.75	4.14%	35.425	76.8
Life Insurance	514	NA	514	5.14%	1000	Non Taxable

CONCLUSIONS AND SUGGESTIONS

- *Insurance Provides not only returns but serves multi utility product providing Returns, Life Insurance Cover, Tax Benefit (both Pre and Post) and Guarantee for long term.*
- *Insurance provide better yield if all the benefits are being considered and taken into account else other products can be considered.*
- *If purpose is only investment and not tax saving or life insurance than one can go for other product which can serve average guarantee of 7.68% annual returns.*
- *One must buy insurance as per need as required.*
- *Equity based products are best to invest if guarantee factor is not important and one is ready to take risk.*

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