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# **A Comparative Study of Mutual Funds and Unit Linked Insurance Plans (ULIPs)**

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**ABSTRACT:** Investment avenues play a crucial role in mobilizing savings and directing them towards productive economic activities. In India, Mutual Funds and Unit Linked Insurance Plans (ULIPs) have emerged as popular investment instruments offering market-linked returns. While Mutual Funds focus purely on investment, ULIPs combine investment with insurance benefits, making the choice between the two complexes for investors. This study aims to conduct a comparative analysis of Mutual Funds and ULIPs with respect to returns, risk, liquidity, cost structure, flexibility, and investor perception. The research adopts a descriptive and analytical research design using both primary and secondary data. Primary data were collected from a sample of 150 investors through a structured questionnaire, while secondary data were obtained from reports of AMFI, IRDAI, SEBI, and published research studies. Statistical tools such as percentage analysis, mean, standard deviation, and comparative ranking were used for data analysis. The findings reveal that Mutual Funds offer higher liquidity, transparency, and returns, whereas ULIPs provide dual benefits of insurance and investment, appealing to risk-averse investors. The study concludes with practical recommendations for investors and policymakers to enhance informed investment decisions.

## **I. INTRODUCTION**

Investment is the commitment of funds to assets or securities with the expectation of generating income or capital appreciation over time. In a developing economy like India, investments not only help individuals achieve financial security but also contribute to economic growth. Over the past two decades, financial markets in India have witnessed significant expansion, resulting in the availability of diverse investment avenues such as bank deposits, shares, debentures, mutual funds, insurance products, and pension schemes.

Among these, Mutual Funds and Unit Linked Insurance Plans (ULIPs) have gained considerable popularity due to their market-linked returns and professional fund management. Mutual Funds pool money from investors and invest in diversified portfolios of securities, whereas ULIPs combine investment and insurance, offering life coverage along with investment opportunities. The liberalization of the Indian financial sector and regulatory reforms by SEBI and IRDAI have enhanced transparency and investor confidence in these instruments.

Despite their popularity, investors often face confusion in choosing between Mutual Funds and ULIPs due to differences in objectives, risk profiles, cost structures, and flexibility. Therefore, a comparative study is essential to evaluate these investment options and assist investors in making informed decisions.

## **II. REVIEW OF LITERATURE**

The review of literature provides a theoretical and empirical foundation for understanding the comparative aspects of Mutual Funds and Unit Linked Insurance Plans (ULIPs). Numerous studies conducted in India and abroad have analyzed these investment instruments in terms of performance, risk-return trade-off, cost efficiency, investor perception, and regulatory framework.

Barua, Varma, and Venkateswaran (2010) examined ULIPs in the Indian context and found that high allocation charges and administrative expenses significantly reduced investor returns, especially during the initial years. Their study highlighted that ULIPs were more suitable as long-term investment products rather than short-term instruments due to the impact of front-loaded charges. Agrawal and Mirza (2017) conducted a comparative analysis of Mutual Funds and ULIPs and found that mutual funds were more cost-efficient and transparent. Their research concluded that ULIPs,

despite offering insurance coverage, were less attractive due to complex fee structures. This study supports the growing investor shift towards mutual funds. Kaur and Kaushik (2016) analyzed investor preferences towards ULIPs and found that risk-averse investors preferred ULIPs because of their life insurance component. The study revealed that emotional factors such as security and protection influenced ULIP investments more than rational return-based analysis. Bansal (2018) studied the tax implications of various investment avenues and concluded that equity-linked mutual funds offered better tax efficiency compared to ULIPs, especially after regulatory changes. The study emphasized that tax-saving mutual funds (ELSS) provided superior post-tax returns.

Singh (2019) examined investor awareness and perception towards mutual funds and ULIPs. The study revealed that lack of financial literacy led investors to choose ULIPs under the influence of agents, whereas informed investors preferred mutual funds due to higher transparency and flexibility. AMFI Annual Report (2021) highlighted the rapid growth of mutual fund Assets Under Management (AUM) in India, driven by Systematic Investment Plans (SIPs). The report emphasized increased retail participation due to improved awareness, digital platforms, and regulatory protection. IRDAI Annual Report (2020) analyzed reforms in ULIPs and observed that regulatory caps on charges significantly improved transparency and long-term returns. However, the report also noted that ULIPs still faced challenges in competing with mutual funds in terms of flexibility and liquidity. Mishra and Panda (2020) explored behavioral factors influencing investment decisions and found that trust in financial advisors played a crucial role in ULIP investments. Their study indicated that mutual fund investments were increasingly driven by self-directed investors using online platforms. Sharma and Kumar (2021) conducted a risk-return comparison between equity mutual funds and ULIPs and found that mutual funds delivered superior long-term returns with higher volatility, whereas ULIPs provided stable but comparatively lower returns. Rao (2022) analyzed post-regulatory performance of ULIPs and concluded that while reforms improved efficiency, ULIPs remained primarily insurance-oriented products rather than pure investment tools. The study suggested that investors should not treat ULIPs as substitutes for mutual funds.

Despite extensive research, most studies have focused either on mutual funds or ULIPs individually. Comparative studies often lack integration of financial performance metrics with investor perception and recent regulatory changes. This study attempts to fill this gap by providing a comprehensive comparison using both primary and secondary data.

### III. RESEARCH GAP

Most existing studies focus either on Mutual Funds or ULIPs independently. Comparative studies are limited and often lack primary data analysis reflecting current investor preferences. Additionally, few studies integrate financial performance metrics with investor perception. This study addresses these gaps by providing a holistic comparison using both quantitative and qualitative approaches.

#### RESEARCH QUESTIONS

1. What are the key differences between Mutual Funds and ULIPs?
2. Which investment option provides better returns and liquidity?
3. How do risk and cost structures differ between Mutual Funds and ULIPs?
4. What factors influence investor preference between Mutual Funds and ULIPs?

#### RESEARCH OBJECTIVES

1. To study the concept and features of Mutual Funds and ULIPs.
2. To compare Mutual Funds and ULIPs in terms of returns, risk, liquidity, and cost.
3. To analyze investor perception towards Mutual Funds and ULIPs.
4. To provide suitable recommendations for investors.

#### HYPOTHESES

- **H<sub>01</sub>**: There is no significant difference between returns from Mutual Funds and ULIPs.
- **H<sub>11</sub>**: Mutual Funds provide higher returns than ULIPs.
- **H<sub>02</sub>**: There is no significant difference in investor preference between Mutual Funds and ULIPs.
- **H<sub>12</sub>**: Investors prefer Mutual Funds over ULIPs.

## RESEARCH DESIGN

The research design provides a systematic framework for collecting, analyzing, and interpreting data to address the research objectives effectively. The present study adopts a **descriptive and analytical research design**, as it seeks to describe the characteristics of Mutual Funds and Unit Linked Insurance Plans (ULIPs) and analyze the differences between them with respect to returns, risk, cost structure, liquidity, and investor perception.

### Nature of the Study

The study is **empirical in nature**, as it relies on both primary and secondary data to examine real-world investment behavior and financial performance. The descriptive aspect helps in understanding investor awareness, preferences, and attitudes, while the analytical aspect enables comparison and interpretation of financial performance indicators of Mutual Funds and ULIPs.

### Research Approach

A **quantitative research approach** is primarily employed to measure and compare investment performance and investor responses. Limited qualitative inputs are also incorporated to understand investor perception and decision-making behavior. This mixed approach enhances the robustness and reliability of the findings.

### Sources of Data

The study uses both **primary and secondary data sources** to ensure comprehensive coverage and accuracy.

### Primary Data

Primary data were collected through a **structured questionnaire** administered to individual investors. The questionnaire was designed to capture demographic details, investment preferences, risk tolerance, return expectations, awareness levels, and satisfaction with Mutual Funds and ULIPs. A five-point Likert scale was used to measure investor perceptions and satisfaction levels, ranging from “strongly disagree” to “strongly agree.”

### Secondary Data

Secondary data were collected from reliable and authentic sources such as:

- Association of Mutual Funds in India (AMFI)
- Insurance Regulatory and Development Authority of India (IRDAI)
- Securities and Exchange Board of India (SEBI)
- Annual reports of mutual fund companies and insurance firms
- Research journals, books, published theses, and financial websites

Secondary data were primarily used to analyze historical performance, regulatory frameworks, cost structures, and industry trends.

### Population and Sample Design

The population of the study consists of **individual investors who have invested in Mutual Funds and/or ULIPs**. Due to time and accessibility constraints, a **convenience sampling method** was adopted.

### Sample Size

A total of **150 respondents** were selected for the study. The sample included investors from different age groups, income levels, and occupational backgrounds to ensure diversity and representativeness. The sample size was considered adequate for descriptive and comparative analysis.

### Sampling Technique

The **non-probability convenience sampling technique** was used, as respondents were selected based on their accessibility and willingness to participate. While this method limits generalization, it is appropriate for exploratory and comparative studies of this nature.

### Variables of the Study

The study identifies and categorizes variables as follows:

- **Independent Variable:**

Type of investment instrument (Mutual Funds and ULIPs)

**• Dependent Variables:**

Returns, risk perception, liquidity, cost efficiency, flexibility, and investor satisfaction

**• Control Variables:**

Age, income level, investment horizon, and financial literacy

**Period of the Study**

The study covers a period of **five years**, focusing on recent trends to ensure relevance. Primary data were collected during the current financial year, while secondary data were sourced from published reports of the last five years.

**Tools and Techniques of Data Analysis**

To analyze the collected data, the following statistical and analytical tools were employed:

- **Percentage Analysis:** To study demographic profiles and investment preferences
- **Mean and Standard Deviation:** To measure average satisfaction and variability in returns and risk perception
- **Comparative Analysis:** To compare Mutual Funds and ULIPs across various parameters
- **Tabular Presentation:** For clear and systematic presentation of data
- **Graphical Representation:** To enhance interpretability (where applicable)

These tools help in identifying patterns, relationships, and differences between the two investment instruments.

**Hypothesis Testing**

The hypotheses formulated in the study were tested using descriptive statistical measures. Comparative analysis was used to determine whether significant differences existed between Mutual Funds and ULIPs in terms of returns and investor preference.

**Validity and Reliability of the Study**

To ensure **content validity**, the questionnaire was designed based on previous studies and expert opinions. Reliability was ensured by maintaining consistency in data collection procedures. Secondary data were obtained only from verified and authoritative sources to enhance credibility.

**Limitations of the Research Design**

Despite careful planning, the study has certain limitations. The use of convenience sampling restricts the generalizability of findings. The study relies partly on self-reported data, which may involve respondent bias. Additionally, market fluctuations and regulatory changes may influence investment performance beyond the scope of the study.

**IV. DATA ANALYSIS AND INTERPRETATION**

This section presents the analysis and interpretation of data collected from 150 respondents to examine and compare Mutual Funds and Unit Linked Insurance Plans (ULIPs). The analysis is conducted using descriptive statistical tools such as percentage analysis, mean, and standard deviation. The results are presented in tabular form followed by detailed interpretation to facilitate a clear understanding of investor behavior, preferences, and perceptions.

**Table 1: Demographic Profile of Respondents**

Particulars	Categories	Respondents	Percentage
Age	Below 25	32	21.3
	25–40	68	45.4
	Above 40	50	33.3
Income	Below ₹3,00,000	28	18.7
	₹3,00,000–₹6,00,000	64	42.6
	Above ₹6,00,000	58	38.7
Occupation	Salaried	72	48.0
	Business	44	29.3
	Professionals	34	22.7

### Interpretation

The demographic analysis indicates that the majority of respondents (45.4%) fall within the age group of 25–40 years, representing a financially active segment with long-term investment objectives. Income distribution shows that most respondents belong to middle- and high-income groups, which supports their capacity to invest in market-linked instruments. The occupational profile reflects dominance of salaried individuals, suggesting stable income sources conducive to systematic investments.

Table 2: Awareness Level of Investment Options

Awareness Level	Mutual Funds (%)	ULIPs (%)
Very High	38.0	24.0
High	34.7	30.7
Moderate	18.6	29.3
Low	8.7	16.0

### Interpretation

The table reveals that awareness levels regarding Mutual Funds are significantly higher than ULIPs. Nearly 73% of respondents report high to very high awareness of Mutual Funds, whereas ULIPs show only 54.7%. This gap highlights the effectiveness of mutual fund awareness campaigns and the complexity associated with ULIP products.

Table 3: Investor Preference

Investment Option	Respondents	Percentage
Mutual Funds	92	61.3
ULIPs	58	38.7
Total	150	100

### Interpretation

The data clearly indicate that Mutual Funds are preferred by a majority of respondents. The preference is driven by factors such as liquidity, transparency, and return potential. ULIPs, although preferred by a significant minority, are primarily chosen for their insurance benefits rather than investment returns.

Table 4: Return Satisfaction Level

Investment	Mean	Standard Deviation
Mutual Funds	4.20	0.84
ULIPs	3.60	0.92

### Interpretation

Mutual Funds exhibit a higher mean return satisfaction score compared to ULIPs, indicating stronger performance perception. The slightly lower standard deviation suggests relatively consistent satisfaction among mutual fund investors. ULIPs show moderate satisfaction, reflecting the impact of charges and longer lock-in periods on returns.

Table 5: Risk Perception

Investment	Mean Risk Score	Standard Deviation
Mutual Funds	4.10	1.40
ULIPs	3.30	1.10

### Interpretation

The findings reveal that Mutual Funds are perceived as riskier than ULIPs. The higher variability in responses for Mutual Funds reflects differing risk tolerance among investors. ULIPs are perceived as less risky due to their insurance coverage and conservative investment options.

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**Table 6: Liquidity and Flexibility**

Investment	Mean Score
Mutual Funds	4.35
ULIPs	2.85

**Interpretation**

Mutual Funds score significantly higher in terms of liquidity and flexibility. Investors appreciate the ease of redemption and absence of mandatory lock-in periods. ULIPs receive lower scores due to surrender charges and long-term commitment requirements.

**Table 7: Cost Structure Perception**

Cost Efficiency	Mutual Funds (%)	ULIPs (%)
Highly Efficient	42.0	18.0
Moderately Efficient	36.7	34.7
Inefficient	21.3	47.3

**Interpretation**

A higher proportion of respondents perceive Mutual Funds as cost-efficient compared to ULIPs. The complexity and multiple charges associated with ULIPs negatively affect investor perception despite regulatory reforms.

**Table 8: Overall Investor Satisfaction**

Investment	Mean Satisfaction Score
Mutual Funds	4.30
ULIPs	3.50

**Interpretation**

Overall satisfaction is higher for Mutual Funds, reflecting better performance, transparency, and flexibility. ULIPs provide moderate satisfaction due to their insurance component but lag behind in investment efficiency.

**Table 9: Hypothesis Testing Summary**

Hypothesis	Result
H <sub>01</sub> : No difference in returns	Rejected
H <sub>02</sub> : No difference in preference	Rejected

**Interpretation**

The rejection of null hypotheses confirms that Mutual Funds outperform ULIPs in returns and are more preferred by investors. This supports the study's objectives and validates its empirical findings.

**Overall Interpretation of Data Analysis**

The comprehensive data analysis demonstrates that Mutual Funds are superior in terms of returns, liquidity, cost efficiency, and investor satisfaction, whereas ULIPs provide advantages in risk protection and long-term financial security. The results emphasize the importance of aligning investment choices with individual financial goals and risk appetite.

**V. RESULTS AND DISCUSSION**

The results indicate that Mutual Funds outperform ULIPs in terms of returns and liquidity, while ULIPs provide risk protection through insurance. Investor awareness plays a significant role in investment choice. Younger investors prefer Mutual Funds, whereas conservative investors favor ULIPs.

**FINDINGS OF THE STUDY**

- Mutual Funds offer higher returns and liquidity.
- ULIPs provide dual benefits of insurance and investment.
- Expense ratio is lower in Mutual Funds.
- Investors with financial literacy prefer Mutual Funds.
- Risk-averse investors prefer ULIPs.

**RECOMMENDATIONS**

- Investors should choose Mutual Funds for long-term wealth creation.
- ULIPs are suitable for investors seeking insurance with investment.
- Financial literacy programs should be enhanced.
- Regulators should ensure transparency in charges.

**VI. CONCLUSION**

This study highlights the fundamental differences between Mutual Funds and ULIPs and their suitability for different investor categories. Mutual Funds are ideal for investors aiming at higher returns and liquidity, while ULIPs cater to individuals seeking financial protection along with investment.

In conclusion, informed decision-making based on financial goals, risk tolerance, and investment horizon is essential. Both instruments have a role in a diversified portfolio, provided investors understand their features clearly.

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