The Marketing Strategies of Unit linked policies in India

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ABSTRACT

With an expanding Middle class in developing India, there has been a visible change in the consumption pattern for all types of goods, including financial products. The liberalization policies have made the Indian financial sector witness entry of various global players, who are trying to attract the Indian consumers with well designed products and benefits. However the concept of unit-linked insurance policies, being new to the Indian mass, the investors still suffer from unknown inhibitions. So it is entirely on the strategies taken up by the insurance companies so as to market the product as a beneficial investment scheme, even for the middle-class. If the companies can make the Indian customer aware of the fact that, if monitored properly, unit-linked plans can earn them huge repayments as compared to traditional policies, it would in turn help the insurance sector to make enormous profit and steady growth.

INTRODUCTION

Though the Indian consumer is familiar with the concept of mutual funds for some time, as far as insurance goes, unit linked policies have suddenly created a vibe amongst the Indian customers. ULIP's, as they are commonly called, have become the recent rage for the Indian customers.

But if we look deep into the scenario, Indian customers are still not widely open for unit linked policies and there lies a huge untapped market. This is mainly due to the unawareness of the Indian public about the 'specific intangible' product thus leading to a disbelief or risk averting attitude. This is where the role of marketing strategies come up to make the unit linked policies more acceptable and understandable.

A marketing strategy is a process that allows a company to concentrate on its resources effectively, in order to increase its sales and achieve a sustainable competitive advantage. For this a marketing plan is required which contains a set of specific actions so as to successfully implement a marketing strategy. But before framing up a marketing plan, the company should always map its strategies with the current and appropriate market conditions.

Market condition can be studied under two broad categories – product life cycle of unit linked policies and the market structure for the particular product or industry.

Economists believe that if firms know the structure of the market in which it is operating, it can predict the

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behaviour of other competitor firms. Market Structure is also thought to influence the profitability and efficiency of any product in an industry. The structure of an industry influences the options that are available to any firm in that industry in terms of pricing and marketing strategies.

A product life cycle measures the progress of a product through a sequence of stages from introduction to growth, maturity and decline. It is associated with changes in the marketing situation, thus impacting the marketing strategy and marketing mix.

Thus keeping in mind the 'Market Structure' and the phase of 'Product Life Cycle' of unit linked policies and taking advantage of a prospering business cycle in India, the marketing strategies of ULIP's should be framed in such a way so as to create a mass appeal and trust worthiness among the Indian customers.

UNIT-LINKED POLICIES

Unit-linked plans are basically a combination of an investment fund and an insurance policy. ULIP's serve the same function as any other insurance plan, where there remains protection against death and provision for long term savings, but are structured a bit differently. In this particular insurance plan, after deducting the administrative charges and management expenses from the premium amount received, the left over major chunk of the premium amount is invested in the stock market by the insurer.

Though it is still commonly believed among Indians that unit linked plans are not safe enough to invest but it should be noted that the element of risk which is involved in case of unit-linked policies are entirely in the hands of the customers. The premium amount which is invested in the stock market by the insurer is done in select funds depending on the risk level chosen by the customer. The customer has the option of choosing from debt, balance and equity funds. A unit linked account works something like a bank account with the advantage that the investor is able to invest in a variety of investment vehicles.

If a debt fund is chosen by risk averting customers, a major part of his premium is invested in risk-less debt securities like government bonds and gilts. But if the customer, being a risk lover, prefers equity fund, a major portion of the premium goes towards investments in the stock market. There is also a concept called balancing fund, which is basically a mix between debt and equity funds, thus balancing the element of risk for customers. So depending on the risk profile which a customer can bear, he may choose his investment option for his unit-link policy.

As soon as the investor chooses his investment option and preference for a particular type of fund, his share in the fund is calculated in terms of 'units'. The number of units the policy holder possesses is a ratio between the current Net Asset Value of the particular fund (as chosen by the investor) and the total amount of money which the customer is investing, i.e.

Total no. of units = Total Investment amount / Current Net Asset Value (NAV)

The two main advantages which a unit-linked policy provides an investor are that – i) the investor chooses his own fund into which his money would be invested and ii) the investor knows exactly what is happening to his money on a constant basis.

The investor is informed where the insurance company has invested the money, the changes in portfolio allocation done by the fund manager and the current NAV value on a regular basis. So, after the minimum lock-in period for the policy is over, the customer can withdraw his money whenever he wishes to, after calculating the maturity amount on his own. The return which the investor would receive is simply calculated as a product of the Current NAV and number of units which the investor has.

Return amount = Current NAV * Total no. of units

An investor in a ULIP, apart from knowing where his money is invested, knows how much he is paying towards mortality, management and administration charges.

A traditional conventional insurance policy 'with profits,' on the other hand, is a black box as the policyholder has little knowledge of what is happening. Traditional policies too invest in the market and generate the same returns prevailing in the market. But here the insurance company evens out returns to ensure that policyholders do not lose money in a bad year. In that sense they are much safer as compared to unit linked policies.

In the case of ULIP's, the investor gets exactly the same returns that the fund earns, but he also bears the investment risk as the returns of the policy are totally dependent on the market condition and the investment choice made by the policy holder himself. But the main over-ruling advantage which a unit – linked policy possesses over a traditional policy is the flexibility in the choice of investment plan as offered to the customers.

The policyholder can ask the insurance company to liquidate units in his account to meet the mortality charges if he is unable to pay any premium installment. This reduces his savings, but ensures that the policy will continue to cover his life.

The investors can even switch from one investment fund to another depending on the current market condition prevailing at that time. Thus, a smart customer can earn a huge lot of money if he appropriately switches his contribution among various investment funds offered. The transparent nature of ULIP's (showing portfolio allocation and current NAV regularly), makes it all the more suitable for the customers to use the flexibility and switching options between investment funds.

But to make the Indian customer smart enough to understand the benefits of a unit-linked policy over the traditional ones, it is now the responsibility of the companies to ensure how appropriately they can implement their marketing strategies so that they can attain optimum recognition.

MARKET STRUCTURE

The transparency of unit-linked policies makes the product more competitive in the market from the company's point of view. Economists define competitiveness of any market structure of a product or an industry by four different criteria:

– The number of firms in an industry

– The price setting capability of firms in an industry

– The amount of product differentiation (homogeneity and heterogeneity) within firms in an industry

- The ease of entry and exit of firms into and out of an industry

As far as the unit-linked policies are concerned, they typically follow a Monopolistic Competitive market structure. We find a large number of insurance firms in our country involved in the selling of unit-linked policies, and the effect of globalization has forced the government to form the IRDA which removed the rigidness in the entry in to and exit from the insurance industry.

The unit-linked policies of different insurance firms, though close substitutes of each other, are carefully differentiated by individual companies so as to make the product unique in the mind of the customer. This differentiation is created either by advertisement, difference in packaging, difference in design or simply by brand name. The effect of this fancied product differentiation is that the firm has some discretion in the determination of the price of the product. As with differentiation, the product becomes unique to the investors, the firms enjoy some degree of monopoly power using which it defines its own price. Price in case of a unit-linked policy is mainly the various kinds of charges deducted from the total premium and thus determining the investable premium amount. This difference in the investable premium and return amounts also result in further differentiation of the product.

Average Typical Unit-Linked plans of different companies

Companies		Birla Sun Life	ICICI Prudential	OM Kotak Life	HDFC Standard Life	LIC
Tag Line		Your dreams. Our commitment	We cover you at every step in life	Zindagi Se ek Kadam aagey	Sar Utha ke Jio	Zindagi Ki Sath Bhi, Zindagi Ki Badh Bhi
Fund Options	Equity Fund (High Return)	Enrich	Maximiser	Growth	Growth	Growth
	Debt fund (Low Return)	Nourish	Protector	Money Market	Secure and Liquid	Bond
	Balance fund (Moderate Return)	Growth	Balancer	Gilt and Balanced	Balance and Defensive	Balanced
Fixed Monthly Charge		Rs35	Rs20	Rs20	Rs15	Rs15
Fund Management Charges (% of yearly premium)		1%	(0.75 – 1.5)%	(0.6 – 1.6)%	0.80%	(1 – 1.5)%
Fund Switching charge		2 free switches / annum. 1% of the switched amount thereafter	4 free switches / annum. Rs100 per switch thereafter	4 free switches / annum. Rs500 per switch thereafter	5 free switches / annum. 2% of the switched amount thereafter	4 free switches / annum. Rs100 per switch thereafter

Note :** ***The above table only gives a rough idea about ULIP'S of different companies .Data regarding charges have been collected from the sales information pamphlets. Figures might vary according to specific policies of different companies.

PRODUCT LIFE CYCLE

Looking at the product sales figure and profit level, it can be stated that unit-linked policies as a product is definitely in the growth stage in India. Growth stage is represented by three distinct sub-stages: early, middle and late. The symptoms of an early growth stage are largely visible in case of ULIP's, as we find the profitability of the product leading to stiff increased competition. Today the list of insurance companies in India, offering unit-linked policies, is expanding at a tremendous pace. Companies such as ICICI Prudential, HDFC Standard Life, TATA AIG, Max New York, ING Vyasa etc are introducing new product features, expanding distribution and actively positioning their brand in a way that will separate it from the onslaught of new entrants.

MARKETING STRATEGIES

The basic features of a Monopolistic Competitive market structure and early growth stage for a product are stiff competition and product differentiation. Keeping in mind the stiff competition, the differentiation in product and the various marketing strategies planned out should cater to the need of the customers. The marketing mix, consisting of the 4 P's, framed out by the insurance companies should be integrated and coordinated in such a way that it satisfies the expectations of the Indian customers. To sustain the growth stage which the unit-linked policies are enjoying currently, a mass awareness among the Indian customers is required so that they come out of their traditional myths of risk aversion.

To achieve this kind of a mass acceptance, a 'Rapid Penetration' strategy should be used, where the products are launched at a low price and has heavy spending behind promotion. This is because the Indian market is hugely unutilized and unaware as far as unit-linked policies are concerned and the buyers are risk buyers averter as well as sensitive. The investors would be very much inclined to know about the exact amount of premium being invested by the firms after deducting their various charges. Hence, each of the insurance firms should set up their respective prices so as to get a competitive advantage over others.

On the other hand, huge promotional activities would not only make ULIP's understandable but also make the differentiated products offered by each insurance firm to the target customers. Personal selling and sales promotions continue as firms attempt to target the mass market. Apart from product –awareness promotions, the firms should also concentrate on product preference advertisements so as to bring up their unique product to the customers. This also requires a lot of effort in adding up new product features continuously in order to face competition and also attract new customers who might be falling under a different demographical segment.

For example, companies frame up their policy plans in such a way so that for the younger section most of the premium amount goes towards investment and not life cover and for the older section it is just the other way round. Various companies provide a top up scheme where additional savings in any year can be diverted towards investment. Companies such as Om Kotak Life even provides a 15 day free look period after the first premium receipt, wherein the customers after observing the market for 15 consecutive days may choose to return the policy. Birla Sun Life on the other hand provides an option of 30% guaranteed return on investment amount for any unit-liked policy. Some economists debate amongst themselves as to whether a customer should go in for a company having minimum charges and additional facilities or stick to a company having a good fund management. The decision should entirely come from the customers as they should invest into a policy plan which exactly suits their palate and requirement. But to do so the entire concept of ULIPS and their differentiations present in different companies have to be clearly portrayed before them.

So, the insurance firms with higher objectives to earn more profit applies the dual approach of increasing sales with existing products and increasing sales with added product features. The former strategy helps invading new market segment and the latter one, along with acquiring new customers, encourage existing ones to go for repeat purchasing.

CONCLUSION

India after liberalization has been developing the culture of investment in financial works which has appned up tremenders opportunities for the Insurance firms. To grab this opportunity the insurance firms should come up with pre-designed marketing strategies so that it helps them to achieve their objectives at one end and aid the Indian customer to travel from an 'unknown unknown' to a 'known known' product zone on the other end. Keeping in mind that the unit-link insurance sector is still facing an early growth stage in India and the market for it being a monopolistic competitive one, innovation is still an important part for the insurance companies as users might be inclined to shift from one company to the other, or may even feel uncertain to continue with their unit linked policies. To reduce this uncertain and risk averting nature of the Indian customer, firms should continue and enhance their product awareness promotions and product preference advertisements, apart from rigorous innovation.

"By the time a company completes the development of a strategy and makes investments to pursue the strategy, the opportunity often ceases to exist.

It is therefore important that the new age insurance companies become 'kinetic' enterprises, which can take advantage of unpredictable customer demands and unexpected market events immediately."

- Michael Fredette and Steve Michaud (in their book Corporate Kinetics)

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