



KARVY BAZAAR BAATEIN

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Unit Linked Insurance Plan – Aapka Jeevan Saathi

A unit linked insurance plan not only combines the benefits of market linked returns with the critical life insurance cover, it is also the means through which an individual can achieve his long term financial success. A ULIP can thus be looked upon as the mantra for long term investments and consequent wealth creation to form the basis of the achievement of ones financial goals.

All of us have goals which need to be linked to successful wealth creation to support the fulfillment of these life goals. In the present Indian context, most of us make investments. However, not many of us map our investments with our goals and formulate a suitable investment strategy to achieve these goals. The most critical component of any financial plan is the establishment of SMART (specific, measurable, achievable, realistic and time-bound) goals. However, the process gets a real thrust only when there is a sound long term strategy to achieve these same.

Today, in India the investment landscape is defined by an ever-increasing plethora of investment avenues: some of these being real estate, bonds, equities, derivatives, commodities, mutual funds, insurance, etc. Before deciding on any investment avenue it is very critical to understand ones own needs and requirements and then finalize the most optimal combination of investment avenues. Amidst the vast galaxy of investment avenues available for wealth creation, one product that stands quite apart is a unit linked insurance plan.

The utility of ULIPs have been discussed, debated and argued by large number of experts. Very often comparisons have been made between ULIPs and mutual funds. We at Karvy believe that both mutual funds and ULIPs are as different as chalk and cheese and any attempt to compare the nuances of the same may not yield concrete results. Fundamentally, a ULIP is an insurance product providing risk cover to the policy holder. The market linked returns, attractive tax benefits and other benefits are ancillary.

A ULIP occupies a significant place in any person's wealth creation strategy. The key to this is 'long term investing' which averages out the interim market fluctuations or volatilities.

Actually, a good ULIP can serve as an endowment assurance plan, a money back plan and a whole life plan, providing the most holistic solution to an individual's wide range of life style and life stage goals. This can be explained with the help of an illustration.

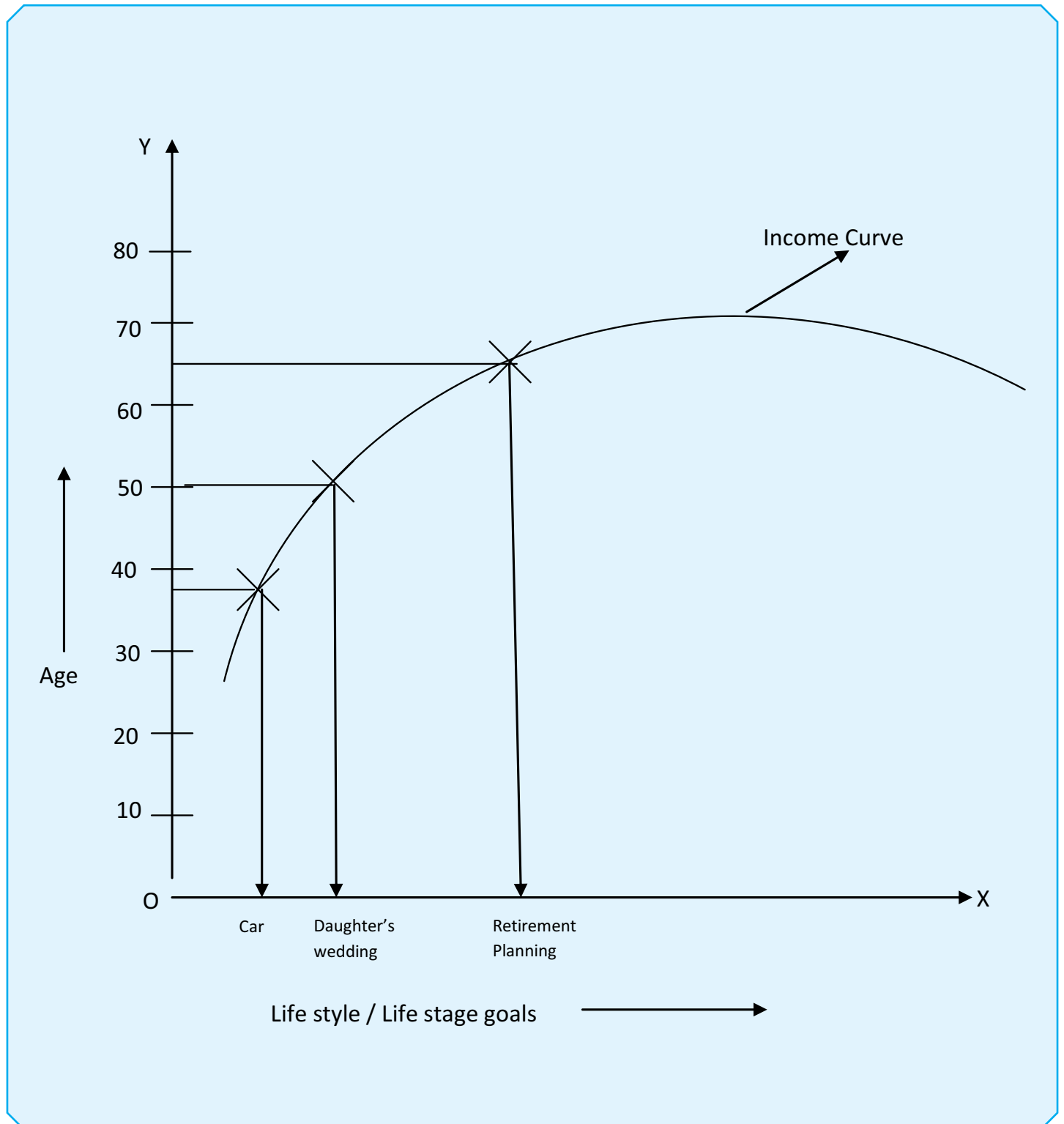
Mr. Santosh is a married professional aged 25 years and is blessed with a daughter. His financial goals are: (1) To buy his dream car currently costing Rs.10 lacs (2) Arrange for his daughter's marriage. (3) To provide a corpus sufficient for the expenses for his post retirement life. The worries of achieving all these goals in a timely manner make Santosh wonder what investment option he should select.

At this juncture, it will be important to mention about the convenience of investments and tracking these investments.

As such, it is always better to consider a single option which can help an individual achieve more than one financial goal rather than select multiple investment options and struggle with the mix-&-match of these options.

In the given context, an ideal option that can fetch him investment returns, act as a risk cover coupled with tax benefits would be a unit linked insurance product. We will try and explain the importance of a ULIP as 'jeevan sathi' for an individual's financial goals, with the means of the following diagram and table.

The below diagram shows goals at different life stages of Santosh.



In the above diagram, Santosh's life style and life stage goals are represented in the 'X' axis while his age is shown on the 'Y' axis. The curved line is the Santosh's income curve. The income curve is an inverted U shaped curve reflecting the fact that Santosh's income increases at an increasing rate when he is in his prime, then increases at a diminishing rate, plateaus when he is nearing retirement and finally starts declining. During his life time he will have to raise adequate corpus to finance his life style and life stage goals.

The working of a unit linked insurance plan, helping Santosh achieve the various goals of his life, can be seen in the below table:

SAMPLE ILLUSTRATION						
----- (GROSS RATE OF RETURN 10.00%) -----						
Policy Year	Age	Annual Premium	Withdrawals	Account Value	Surrender Value	Death Benefit
1	25	50,000	–	47,466	–	12,97,466
2	26	50,000	–	1,00,516	–	13,50,516
3	27	50,000	–	1,58,064	–	1,408,064
4	28	50,000	–	2,20,497	1,85,497	14,70,497
5	29	50,000	–	2,88,238	2,58,238	15,38,238
6	30	50,000	–	3,61,746	3,36,746	16,11,746
7	31	50,000	–	4,41,507	4,21,507	16,91,507
8	32	50,000	–	5,28,020	5,13,020	17,78,020
9	33	50,000	–	6,21,843	6,11,843	18,71,843
10	34	50,000	–	7,23,580	7,18,580	19,73,580
11	35	50,000	–	8,35,511	8,35,511	20,85,511
12	36	50,000	–	9,56,864	9,56,864	22,06,864
13	37	50,000	10,00,000	88,421	88,421	13,38,421
14	38	50,000	–	1,47,519	1,47,519	13,97,519
15	39	50,000	–	2,11,612	2,11,612	14,61,612
16	40	50,000	–	2,79,373	2,79,373	15,29,373
17	41	50,000	–	3,52,705	3,52,705	16,02,705
18	42	50,000	–	4,32,105	4,32,105	16,82,105
19	43	50,000	–	5,18,080	5,18,080	17,68,080
20	44	50,000	–	6,11,141	6,11,141	18,61,141
21	45	50,000	–	7,11,842	7,11,842	19,61,842
22	46	50,000	–	8,20,773	8,20,773	20,70,773
23	47	50,000	–	9,38,585	9,38,585	21,88,585
24	48	50,000	–	10,65,983	10,65,983	23,15,983

SAMPLE ILLUSTRATION

----- (GROSS RATE OF RETURN 10.00%) -----

Policy Year	Age	Annual Premium	Withdrawals	Account Value	Surrender Value	Death Benefit
25	49	50,000	–	12,03,731	12,03,731	24,53,731
26	50	50,000	10,00,000	3,52,655	3,52,655	16,02,655
27	51	50,000	–	4,33,399	4,33,399	16,83,399
28	52	50,000	–	5,20,877	5,20,877	17,70,877
29	53	50,000	–	6,09,850	6,09,850	18,59,850
30	54	50,000	–	7,05,642	7,05,642	19,55,642
31	55	50,000	–	8,08,769	8,08,769	20,58,769
32	56	50,000	–	9,19,797	9,19,797	21,69,797
33	57	50,000	–	10,39,345	10,39,345	22,89,345
34	58	50,000	–	11,68,265	11,68,265	24,18,265
35	59	50,000	–	13,07,120	13,07,120	25,57,120
36	60	50,000	–	14,56,539	14,56,539	27,06,539
37	61	50,000	–	16,17,211	16,17,211	28,67,211
38	62	50,000	–	17,89,871	17,89,871	30,39,871
39	63	50,000	–	19,75,311	19,75,311	32,25,311
40	64	50,000	–	21,74,381	21,74,381	34,24,381
41	65	50,000	20,00,000	3,87,995	3,87,995	16,37,995
42	66	–	–	4,20,034	4,20,034	16,70,034
43	67	–	–	4,54,796	4,54,796	17,04,796
44	68	–	–	4,60,968	4,60,968	17,10,968
45	69	–	–	4,63,486	4,63,486	17,13,486
46	70	–	–	4,61,533	4,61,533	17,11,533

As one would see from the above table, the withdrawals made at various points of time, can be used for meeting Mr. Santosh's financial goals. After making the final withdrawal (for retirement benefits), the fund value remaining in the policy can sustain the life insurance cover for the remaining policy tenure without the need of any further premium payment from the policy holder. The remaining policy fund value will be available as a maturity benefit at the policy tenure (in the above illustration at the age of 70 years).

Please Note: The above is only an illustration. The actual calculations will differ with the factors such as the premium payable and the benefits available under the plan. Before selecting any insurance plan, it is always advisable to consult your financial advisor. These calculations are only indicative, and the actual figures may differ on case to case basis. Death benefit under the plan has been taken as the sum assured plus the fund value existing at a given point of time. Also importantly, to keep the above illustration simple and easy to understand, inflation and its effect in increasing the costs of financial goals over a period of time have not been taken into consideration in the above calculations.

We will end this article with the summary of the main advantages that a unit linked insurance plan has to offer.

These benefits can be looked at being three-fold:

1. A ULIP provides the much required risk cover against the financial loss arising in case of death of the life assured. The sum assured (or the fund value, if higher) under the plan is paid to the nominee in such an eventuality. A number of unit linked plans provide the death benefit as comprising of both the sum assured as well as the value of the investment fund(s) under the plan. Some plans also do provide a higher sum assured in case of death as arising due to an accident, etc.
2. ULIPS provide an excellent opportunity to the policy holder to participate in the capital markets by investing the savings component of the policy premium in one or more of the market linked funds available under the plan. As such, the policyholder has an opportunity to earning market linked returns which are otherwise not available in a traditional insurance plan. These go a great way in ensuring enhanced wealth creation for the policy holder over the long term period.
3. ULIPs are eligible for tax benefits available under the provisions of the Income Tax Act 1961. The premium payable is eligible for deduction under Section 80C (and 80D, if the ULIP also provides health insurance benefits). Also, the benefit payments received from a unit linked plan are exempt from tax under Section 10(10D), subject to the provisions as applicable in case of unit linked pension plans.

We will now look at the product features of a recommendable unit linked insurance plan

Product Showcase – Saral Jeevan Plan

Saral Jeevan Plan is a simple policy providing an immediate life insurance cover. The policy has been introduced by Birla Sun Life Insurance Company Limited.

Unique features

The policy provides a fast, easy and simple life cover. The proposer has to just agree to three statements in the application form. The proposer / life assured gets an immediate life cover on submission of the application form along with the supporting documents.

Policy Benefits

Death benefit – In case of death of the life assured during the policy term, the death benefit will comprise of the sum assured and the fund value.

Maturity benefit – At the end of the policy term, the fund value will be payable as the maturity benefit.

Eligibility parameters

Age at entry: minimum – 18 years; maximum – 55 years

Maximum age at maturity: 65 years

Policy term: 10 years, 15 years and 20 years

Sum assured*: minimum – Rs.60,000, Rs.90,000 and Rs.1,20,000 for policy term of 10 years, 15 years and 20 years respectively; maximum – Rs.10,00,000

Premium paying term is equal to the policy term. The applicable premium amount is as mentioned in the application form

Premium payment frequency: annual, semi-annual, quarterly or monthly

Mode of premium payment: cash (upto Rs.50,000), cheque / demand draft, credit card, salary deduction, ECS or direct debit

* the sum assured under this policy is in form of 'Covers'. Each cover represents Rs.10,000 worth of sum assured.

Investment funds

Policy holder has the option to choose from 8 investment funds. Investment can be allocated in any one of these funds or a combination of 2 or more funds. The details of the investment funds are:

Fund Name	Investment Objective	Risk Profile	Investment Allocation	
			In debt instruments, money market & cash	In equities & equity related instruments
Assure	Capital conservation at high level of safety and liquidity	Very low	100%	0%
Protector	Consistent returns by active management of fixed income portfolio	Low	90% to 100%	0% to 10%
Builder	Build capital & generate better returns	Low	80% to 90%	10% to 20%
Enhancer	Grow capital through enhanced returns with good balance of equity & debt	Medium	65% to 80%	20% to 35%
Creator	Optimum balance of growth & stability for long term capital appreciation	Medium	50% to 70%	30% to 50%
Magnifier	Maximization of wealth through diversified equity portfolio	High	10% to 50%	50% to 90%
Maximiser	Long term capital appreciation by active management of well diversified equity portfolio	High	0% to 20%	80% to 100%
Multiplier	Long term wealth maximization by active management of well diversified equity portfolio	High	0% to 20%	80% to 100%

The policy holder can switch the investment funds or re-direct the premium in various funds anytime during the year. There are no charges for switching between the funds in part or in full and or for the re-direction of the premiums. The premium re-direction can be made in each fund from 5% to 100% in the increments of 5%. Switch from one fund to the other in full or in part is allowed, subject to a minimum switching amount of Rs.5,000.

Policy Charges

Premium allocation charge – There is no premium allocation charge deductible from the policy premium. This means that the entire policy premium will be invested in the chosen investment fund(s).

Fund management charge – This charge is deducted on a daily basis. Unit price of each fund is adjusted to reflect the fund management charge as detailed below.

Fund Name	Assure	Protector	Builder	Enhancer	Creator	Magnifier	Maximiser	Multiplier
Fund Management Charge	1.00%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%

The insurance company has the right to increase this charge any time in future subject to maximum 1.50% for all funds except for Multiplier which can be increased up to 1.75%.

Policy administration charge – This charge will be deducted on a monthly basis from each of the chosen investment funds on a proportionate basis. The details for the charge are:

Monthly charge per 'Cover' (i.e. every Rs.10,000 sum assured)			
Policy Year	Policy Term of		
	10 years	15 years	20 years
1 st year to 3 rd year	Rs.29	Rs.26	Rs.25
4 th year onwards	Rs.4	Rs.3	Rs.2.5
Plus Rs.40 (on the first cover only)			

The above charge is guaranteed to never increase for the first 3 policy years, after which it can be increased by maximum 5% per annum since inception.

Mortality charge – This charge is deducted on a monthly basis for the provision of the life insurance cover. The charge depends on the age of the life assured at the time of commencement of the policy.

Policy revival charge – This charge is Rs.100 at present and is subject to increase to maximum Rs.1,000 in the future, subject to the IRDA approval.

Partial withdrawals / policy surrender:

Free partial withdrawals are allowed from the fund value after 3 years from commencement of the policy. The minimum amount of partial withdrawal is Rs.5,000 and there is no limit to the maximum value, subject to a balance of fund value equal to Rs.12,000.

The policy can be surrendered anytime during the policy term. There will be no surrender charges from the 4th policy year. However, if the policy is surrendered before the completion of 3 policy years, the surrender value (i.e. the fund value less surrender charges) will be paid only at the end of 3 policy years.

Tax benefits

Premium payable under the policy is eligible for deduction under Section 80C of the Income Tax Act, 1961. Also, the benefit payments are exempt from tax under Section 10(10D) of the Act.

Important: In this policy, the investment risk in the investment portfolio is borne by the policy holder.

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