



KARVY BAZAAR BAATEIN

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Want Liquidity, Get Insured!

Insurance policies, specially the life assurance policies, are long term contracts which have stipulated benefits available on the happening of an event insured against (for example, the contingency of death in case of life assurance policy). Some of these policies even do provide attractive maturity benefits to the policy holder at the expiry of the policy term. These maturity benefits which are usually one-time in nature are used by investors to fulfill their financial goals. Based on these fixed benefits, insurance has more often been seen as something which lacks financial liquidity. The reality, however, is quite different.

An individual has a number of financial goals to be achieved throughout his life time. These goals could range from simply leading a financially contented life, to more ambitious ones like buying a bungalow, a luxury car or going on a world tour with the family. To realize these goals, it is important to have regular income inflows at various points of time which can be used to fund the financial basis for these goals. Needless to say, having regular income flows forms the cornerstone of successful financial planning.

In earlier issues of Karvy Bazaar Baatein, we have discussed insurance as a wealth creation tool. In this article, we will look at the aspect of insurance plans which helps in appreciation of

these plans as an asset class which can be effectively used to infuse an individual's financial life with financial liquidity. The two products on which we will base our discussion will be:

- ❖ Money back plans
- ❖ Immediate annuity plans

Money-Back Plans

A money-back plan is a type of endowment assurance plan that provides the maturity benefits at regular intervals during the currency of the policy. These plans have been launched as an improvement over endowment plans which provide benefits only on the expiry of the policy term or on an earlier death of the life assured. Each of these benefit payments are usually expressed as a percentage of the face value of the policy or the sum assured. A remaining percentage of this value is paid as the survival benefit at the end of the policy term. The death benefit under the plan is the sum assured that becomes payable in case of the life assured dying during the policy period, irrespective of the benefits already paid under the policy. Such plans are also known as cash back plans.

Although premium payable for a money-back plan is expensive as compared to the other insurance plans, it is very popular



among the insured as it provides for regular benefits. This being so as these interim maturity benefits provide for the time-to-time expenses thus reducing / avoiding the cash crunch that could otherwise happen due to the non-availability of a lump sum amount when such expenses occur.

Innovations in money back plans

Money back plans were initially introduced as traditional insurance plans. With the evolution of the India insurance sector as well as introduction of unit linked insurance plans, the market now has unit linked money back plans on offer. These plans combine the aforementioned benefits of the money back plan with the market linked returns. Money back plans provide a quadruple advantage of liquidity at regular intervals, risk cover, tax benefits under relevant statutory provisions and market linked returns which often serve as an icing on the cake.

Annuity plans

Money back plans can provide liquidity in the context of a person who is working and is enjoying a regular income. However, what should a person do who is retired but needs monthly income? The solution comes in the form of immediate annuity plans. The need for provision of liquidity, in form of a regular income, actually arises in the post retirement age. Even if regular superannuation benefits (in form of pension) are available, as in case of central / state government employees, the amount of benefits are usually much lesser than the last remuneration received at the time of retirement. And here, an annuity plan can complement the meager retirement benefit, enabling the person to lead the same 'pre-retirement' lifestyle and thus maintaining

his / her financial independence and respect. The provision for annuities can be made through a lump sum amount or in installments paid during the working life of the individual.

Annuity plans are mainly of 2 types – deferred annuity plans and immediate annuity plans. In the case of deferred annuity plans, the individual gets regular income inflows after a period of time. On the other hand, in case of immediate annuity plans, the benefit payments start immediately after the provision of the annuity.

Some of the annuity options can be: annuity for life; annuity for a guaranteed period and then for life; annuity increasing at a certain rate; joint annuity, etc.

Other options that can provide liquidity

- (i) In case if a policy holder urgently needs money, he can take a loan on an insurance policy. Not all insurance policies offer the benefit of loan. In case of the loan being available on the policy, the loan quantum is usually upto the extent of 90% of the surrender value of the policy.
- (ii) The benefit of a money back plan can be replicated if an individual takes multiple endowment assurance plans with multiple maturity periods. However, this strategy is not very prevalent in India as maintenance of multiple policies would be cumbersome and will require a lot of planning and time.

One can see that insurance policies actually provide a good amount of scope for the provision of financial liquidity in particular and complete financial solution in general for any individual, thus catering to his overall financial needs and requirements.

Product Showcase :: DreamLife Pension Plan

DreamLife Pension Plan is a unit linked pension plan from Bharti AXA Life Insurance Company Limited.

Unique features

At the inception of the policy, the policyholder can choose to systematically increase the premiums by 5% or 8% each year with the Accumulator option. This option has been made available keeping in view the earning potential of the policy holder and can be stopped anytime during the policy term.

Policy provides the option to increase/decrease the premium any time after the 2nd policy year. This increase or decrease is subject to the minimum premium payable under the policy and any change has to be in the multiples of Rs.1,000.

Policy provides a special addition, starting from the end of the 10th policy year. This special addition is made to the policy fund every year till the retirement age. The amount of addition will be calculated as 0.10% of the average fund value for the preceding 36 months.

Top up premiums can be paid any number of times after the 1st policy year. Minimum top up premium amount is Rs.2,500 and there is no maximum limit on the top up amount that can be paid under the policy.

Policy holder has the option to change the retirement age anytime during the policy term.

Policy benefits

Vesting benefit: At the vesting (retirement) age, the policy holder has the option of taking 1/3rd of the fund value as tax

Investment funds

Policy provides 3 investment funds to choose from, depending on factors such as ones financial objectives and the life stage. The details of the funds are:

Fund Name	Investment Objective	Risk Profile	Investment Allocation			
			Listed equities	Cash & Money market instruments	Corporate bonds	Government bonds & securities
Grow Money Pension	To provide long term capital appreciation	High	80% to 100%	0% to 40%	-	-
Save'n'Grow Money Pension	To provide a mix of income and capital appreciation	Moderate	0% to 60%	0% to 40%	0% to 50%	0% to 40%
Steady Money Pension	To provide steady income	Low	-	0% to 40%	20% to 80%	20% to 80%

free lump sum amount (as per the prevailing tax laws) and the remaining value should be used for purchasing an annuity plan from the above insurer or any other IRDA approved annuity provider.

Death benefit: In the unfortunate event of death of the policy holder during the policy term, the nominee will receive the entire policy fund value and the policy will cease to exist.

Eligibility parameters

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

Choice of vesting (retirement) age – minimum – 45 years; maximum – 65 years

The policy holder had the option to pre-pone or post-pone the retirement age, subject to a minimum policy term of 10 years

Policy term – minimum – 10 years; maximum – 65 years less age of the policy holder at entry

The policy can be taken as a single premium policy or a regular premium policy

Premium payment frequency in case of a regular premium policy: annual, semi-annual, quarterly and monthly. Quarterly and monthly premium frequencies are available only under ECS.

Minimum premium amount – single premium policy – Rs.25,000; regular premium policy – Rs.12,000 p.a.

The policy provides the option to change the allocation of the various investment funds to cater to the changing financial priorities and objectives.

The policy also provides the provision of switching of investment funds from one fund to the other. The minimum value of a switch should be Rs.2,500 and 4 switches can be availed free-of-charge in one policy year. A switching charge of Rs.100 per switch is applicable after these 4 free-of-charge switches.

Policy charges

Premium allocation charge – in case of a regular premium policy it is based on the amount of premium paid. The details are:

Annual regular premium band	Year 1	Year 2	Year 3	Year 4 & 5	Year 6 +
Rs.12,000 to Rs.24,999	21%	10%	8%	1%	0%
Rs.25,000 to Rs.49,999	17%	10%	8%	1%	0%
Rs.50,000 and above	15%	10%	8%	1%	0%

If in case the accumulator option is chosen, the allocation charge for the additional premium will be as per the premium band applicable to the annual regular premium paid in the 1st policy year. For the purpose of levying the allocation charge, every increase in the annual regular premium over and above the previous year's annual regular premium shall be treated like a new policy and shall follow the premium allocation charge structure as mentioned above.

In case of single premium policy, the premium allocation charge will be 6% if the premium amount is from Rs.25,000 to Rs.99,999. For a premium of Rs.1,00,000 and above, the charge will be 2.5%.

In case of top up premium, the allocation charge will be 2%

Policy administration charge – is a fixed charge of Rs.30 per month and is deducted by cancellation of units on a monthly basis.

Fund management charge – is levied on each of the investment funds. For Grow Money Pension fund the charge is 1.50% p.a. For Steady Money Pension fund, it is 1.00% p.a. and for Save'n'Grow Money Pension fund it is 1.25% p.a.

Policy surrender

Policy provides the surrender facility with the surrender value depending on the year in which this option is exercised.

Policy Year	Surrender value as % of the policy fund value	
	For a regular premium policy	For a single premium policy
1	Nil	NA
2	75%	NA
3	88%	NA

Policy Year	Surrender value as % of the policy fund value	
	For a regular premium policy	For a single premium policy
4	92%	98%
5	95%	99%
6+	100%	100%

Surrender value is payable subject to policy conditions.

Tax benefits

Premium paid under the policy is eligible for deduction under the provision of Section 80C of the Income tax Act, 1961. The benefits payable under the policy are exempt from tax under the provision of Section 10(10D) of the Act applicable for a pension policy.

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

Product Showcase :: Met Advantage Plus

Met Advantage Plus is a unit linked pension policy from Met Life India Insurance Company Limited. It is a non participating policy.

Unique features

Policy provides the option to postpone the vesting age once during the lifetime of the policy. The postponement should be within 65 years of age (last birthday) and is subject to policy conditions.

Top-up premiums can be paid to enhance the policy fund value. These premiums will be non-withdrawable for 3 years from the date of such payment.

Policy benefits

Vesting benefit – At the chosen vesting age, the policy fund value is available as a benefit. The policyholder has the choice of either commuting one-third of this value and purchasing an annuity plan with the remaining two-thirds of the value, or purchasing an annuity plan for the entire fund value.

Death benefit – The policy can be taken with or without a life insurance cover. The policy benefit payable in the event of death of the policyholder during the deferment period of the policy, will depend on whether the policy with or without the life insurance cover.

With life cover – Policy with a life insurance cover will provide 110% of the fund value as the death benefit.

Without life cover – Policy taken without the life insurance cover will provide 100% of the fund value as the death benefit.

Eligibility parameters

Age at entry – minimum – 20 years; maximum – 55 years

Vesting (retirement) age – minimum – 45 years; maximum – 65 years

Policy term – minimum – 10 years; maximum – upto the vesting age

Policy can be taken either as a single premium policy or as a regular premium policy

Minimum premium payable – for single premium policy – 1,00,000; for regular premium policy – Rs.10,000 p.a.

Premium payment frequency (for a regular premium policy) – annual, semi-annual, quarterly and monthly

Choice of investment funds

Policy offers seven fund options to cater to the different risk and return profiles. One or more of these funds can be chosen by the policyholder. The details of these funds are:

Fund Name	Investment Objective	Risk Profile	Investment Allocation
Multiplier	To generate long term capital appreciation by investing in diversified equities	Very High	80%-100% in Listed Equities 0%-40% in Money Market Investments
Virtue	To generate long term capital appreciation by investing in diversified equities of companies promoting healthy lifestyle and enhancing quality of life.	Very High	60%-100% in Listed Equities 0%-40% in Money Market Investments
Accelerator	To achieve capital appreciation by investing predominantly in equities, with limited investment in fixed income securities	High	60%-95% in Listed Equities 0%-60% in Long Term Bonds 0%-35% in Short Term Bonds 0%-40% in Money Market Investments 0%-40% in Government Securities (including Government Guaranteed Securities) 0%-40% in Infrastructure/ Social Sector Securities
Balancer	To generate capital appreciation and current income, through a judicious mix of investments in equities and fixed income securities	High	35%-65% in Listed Equities 0%-60% in Long Term Bonds 0%-35% in Short Term Bonds 0%-40% in Money Market Investments 10%-60% in Government Securities (including Government Guaranteed Securities) 0%-60% in Infrastructure/ Social Sector Securities
Moderator	To generate regular income by investing in high quality fixed income securities and to generate capital appreciation by investing a limited portion in Equity.	Medium	10%-30% in Listed Equities 0%-60% in Long Term Bonds 0%-35% in Short Term Bonds 0%-40% in Money Market Investments 10%-60% in Government Securities (including Government Guaranteed Securities) 0%-60% in Infrastructure/ Social Sector Securities
Protector	To earn regular income by investing in high quality fixed income securities	Low	25%-90% in Government Securities 10%-60% in Long-Term Bonds 0%-45% in Short-Term Bonds 0%-40% in Money Market Investments 0%-60% in Infrastructure/ Social Sector Securities
Preserver	To generate income at a level consistent with preservation of capital, through investments in securities issued or guaranteed by Central and State Governments	Very Low	80%-100% in Government Securities 0%-40% in Money Market Investments

Policy provides the facility of switching the investment funds anytime after the first six months on submission of a written request to the company made by the policyholder. On request, the fund value in the existing unit account can be switched to the new fund. However, the proportion of premium redirection would remain the same as earlier.

Policy charges

Premium allocation charge – the charge structure for the regular premium policies is:

Policy Year	Year 1	Year 2 to Year 10	Year 11 onwards
Charge as % of premium amount	20%	2%	1%

For single premium policy, the premium allocation charge will be 5% of the premium.

For top-up premiums, the charge is 1% of the premium amount.

Fund management charge – ranges between 1.25% p.a. and 1.75% p.a. depending on the choice of the investment fund.

Policy administration charge – is a fixed charge of Rs.25 per month. This charge is deducted from the fund with the highest fund value, and the balance (if any) from the fund with next highest value.

Surrender charge – Policy cannot be surrendered during the first three policy years. After three years, the charge structure for the policy surrender is:

Policy Year	Year 4	Year 5	Year 6 and onwards
% of the first year regular / single premium	4%	2%	0%

Surrender charge is deductible from the fund value before payment of the same to the policyholder.

Switching charge – First four switches are free of charge in a policy year. Any additional switch will be charged at Rs.250.

Mortality charge – is applicable only when the life insurance cover is opted for under the policy. The charge is arrived at by multiplying the Sum at Risk (i.e. Death Benefit less Fund Value) with the Cost of Insurance (i.e. a rate dependant on the age of the policyholder).

Miscellaneous charge – is a charge Rs.250 for any material alteration in the policy contract.

All the above charges are subject to revision to certain maximum limits, subject to prior clearance of the IRDA.

Annuity options available

Policy provides eight immediate annuity options. These are:

1. Life annuity
2. Life annuity with return of purchase price
3. Life annuity with return of balance (purchase price less pension received)
4. Annuity for 5 years certain and then for life
5. Annuity for 10 years certain and then for life
6. Annuity for 15 years certain and then for life
7. Joint life last survivor spouse annuity
8. Increasing life annuity

Tax benefits

Premium paid under this policy is eligible for deduction under the provisions of Section 80C of the Income Tax Act, 1961. Policy benefits 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 policyholder

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Karvy, with over 20 years' expertise in the financial market, presents yet another product with you in mind – Karvy Financial Planning, KFP. Our advisor will help you achieve all your financial goals through effective management of your finances. Call us for an appointment. In the meantime, you could make up your mind on what to do with all that free time.

Golf

Music lessons

Pool

Pottery

Some activities you
could take up soon

Investment Planning

Insurance Planning

Tax Planning

Contingency Planning

Retirement Planning


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