



# KARVY BAZAAR BAATEIN

**A Weekly Investment Newsletter From KARVY**  
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## INSURANCE MYTHS BUSTED!

Insurance remains as one of the least understood subjects. More often than not people have a lot of misconceptions about the various aspects of insurance and these prove to be a major hindrance in appreciating the utility of the subject matter. In this issue of Karvy Bazaar Baatein, we have tried to discuss a few of such misconceptions and bring out the reality as regards these myths.

### Myth:

**Insurance is a gamble and the premium money is lost in case the risk / contingency assured against do not occur.**

**Reality:** Insurance does involve the component of chance or uncertainty. However, it is very different from a gamble. Insurance only covers a pure risk which has only two possibilities (i.e. a loss or no loss), as against a gamble involving a speculative risk that has three possibilities (i.e. a gain, a loss, or no gain/loss). Moreover, the premium paid under an insurance policy is a consideration given to the insurance company in return of the promise from the company to provide the financial protection in case of occurrence of the risk / contingency insured against. The insurance company is liable to pay the sum assured only in the event of happening of this risk / contingency. The premium also forms the basis for the insurance contract to come into force as well as to continue during the entire duration of the insurance contract.

### Myth:

**The value of insurance cover an individual needs to have is 100 times his / her monthly earnings.**

**Reality:** The insurance needs for every individual are unique and the quantum of insurance is derived from the quantification of these needs. This value of insurance cover will be different for different people. Taking an arbitrary figure as the sum assured under an insurance policy only lead to the problem of over / under insurance. And hence, as far as possible, an insurance policy should be taken for a realistic sum assured.

### Myth:

**Any insurance plan is suitable for all requirements**

**Reality:** The classification of insurance plans provides different plans for different purposes. Under life assurance classification, while a term assurance plan provides the plain risk (death) cover during the currency of the policy, a money back plan provides this much needed risk cover with survival benefits at regular intervals of the policy duration. Similarly, as a pension plan mainly aims at provision of income in ones post retirement years, the children plans are something that are looked at for ensuring the provision of education, start-in life and marriage expenses of the child named under the policy.

In the same manner, under the general (non-life) insurance classification, a fire insurance policy covers the risk of loss / damage to the building and its contents caused due to a fire, while a liability policy protects the insured against a professional liability that he may incur in course of his professional services.

Hence, a particular insurance plan is not suitable for all the insurance needs and requirements but only for a specific purpose.

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**Myth:**

**The insurance company has declared an annual bonus of 6% on its insurance plan. Hence, return on this plan will be equal to 6%.**

**Reality:** The bonus declared on an insurance policy is usually expressed as a percentage of the sum assured under that policy. Whereas, the return on a policy is calculated after taking into consideration the various aspects such as the regular premium payments, the bonuses declared at intervals, the maturity benefits available / guaranteed under the policy (if any), the value of premium component that actually gets invested (in case of policies having a savings component) and the fund value accumulated under the policy (as in case of ULIPs). Hence, the percentage of bonus declared should never be treated as the return on the policy.

**Myth:**

**The priority for insurance and investments is the same.**

**Reality:** A prudent financial planning involves the provision of the insurance cover, to all the risks to which an individual is exposed to, as on a top priority basis. This ensures the protection of the existing assets and wealth (including good health and life). Once the insurance protection is in place, the financial planning looks at planning for investments based on an individual's financial and investment requirement and the risk taking capacity.

**Myth:**

**Tax planning can be best done through insurance**

**Reality:** Life assurance and health insurance policies are considered to be one of the best avenues that are known to provide tax savings / benefits. The tax incentives are, however, allowed by the government on these policies for the purpose of encouraging the purchase of these policies and through these the promotion of the social security in the country. The primary purpose for which an insurance plan should be taken by an

individual is always the protection against the risk to which he is exposed. Benefits such as tax savings, market linked returns (in the case of unit linked plans) are secondary to an insurance plan and should always be thought of as ancillary benefits. Hence, if the primary purpose is that of tax planning, one should look at investment / financial products that are specifically meant for this purpose, such as ELSS (equity linked savings schemes in mutual funds).

**Myth:**

**Vijay's age is 20 years. He can wait for some time before he takes an insurance policy.**

**Reality:** Life insurance is mainly based on the concept of probability of death for a person. While at a young age this probability is negligible, it increases with age. And as the mortality risk (and hence the premium payable under the policy) is directly associated with this probability, the earlier a person gets an insurance cover for his life, the lesser is the amount of premium that he is required to pay to cover the risk of an untimely death. Hence, Vijay should go for an insurance plan on his life, as suited to his profile, at the earliest possible.

**Myth:**

**It is the duty of the insurance company to remind the policyholder about the payment of the policy premium in time.**

**Reality:** As discussed above, the premium paid by the policyholder forms the basis of the life assurance contract with the insurer coming into force as well as the continuing over the policy term. As such, the payment of a full premium amount and in a timely manner becomes the duty and responsibility of the policy holder. Insurance companies, in their endeavor to provide better service levels, do many times provide the complementary service of reminding the policy holders about the due date of premiums. An insurance company is, however, in no way obligated to send the reminders for payment of premium to the policyholder. And, it is the policyholder who needs to ensure that the premium is paid on time.

## Product Showcase :: Aspire Life

Aspire Life is a unit linked insurance policy from Bharti AXA Life Insurance Company Limited.

### Unique features of the policy

- The first year premium under the policy is used for the provision of a Guaranteed Special Addition. This is payable to either the policyholder at the time of maturity or to the nominee as part of the death benefit. Thus, the first year regular premium is not allocated towards the investment fund(s) chosen under the policy. The guaranteed special addition is calculated as a percentage of the first year regular premium amount, depending on the policy term opted for.

Policy Term	15 years	20 years	25 years
Guaranteed Special Addition as a percentage of first year regular premium	130%	160%	175%

- If the regular annual premium is Rs.50,000 or more, no premium allocation charge is payable under the policy. Policy administration charge, fund management charge and mortality charge will, however, be deducted from the fund value, second policy year onwards.

Hence, the policy gets transformed into a high premium allocation policy from the second year onwards, with miniscule or no premium allocation charges.

- Sum assured under the policy is calculated as a multiple of the regular annual premium depending on the policy term opted for.

Policy Term	15 years	20 years	25 years
Sum assured as a multiple of regular annual premium	10 times	15 times	20 times

- Premium holiday option provides flexibility of managing the changing financial requirements. If in case the policy holder is not able to pay the premium after seven policy years, he / she can avail the premium holiday option which provides for the continuation of all the policy benefits.

### Policy benefits

**Maturity benefit** – The fund value, as calculated on the date of maturity, and the guaranteed special additions are payable as maturity benefits. This benefit can be withdrawn as a lump sum or in installments over 5 years, or as a combination of both.

**Death benefit** – In case of death of life assured during the policy term, higher of sum assured (net of partial withdrawals, if any, made from regular premium's policy fund value in the 12 months prior to death) or the policy fund value plus the applicable guaranteed special addition, is payable to the nominee under the policy.

In the event of death occurring during the first policy year, the death benefit would be higher of sum assured or the amount of the first year premium multiplied by market index factor. Here, the market index factor is defined as the ratio of NSE CNX Nifty Index (closing value) as on policy issue date to the NSE CNX Nifty Index (closing value) as on date of death.

In the event of death of the life insured before attaining the age of 5 years (age as on last birthday) or before the policy anniversary date immediately after attaining 5 years of age, the death benefit payable would be:

Death of life assured in the 1 <sup>st</sup> policy year	1 <sup>st</sup> year regular premium multiplied by market index factor would be payable
Death of life assured after the 1 <sup>st</sup> policy year	Policy fund value plus the guaranteed special addition as applicable, would be payable

### Eligibility parameters

**Age at entry** – minimum – 3 years; maximum – (70 years less policy term) i.e. 55 years, 50 years and 45 years for the policy term of 15, 20 and 25 years, respectively.

**Maximum age at maturity** – 70 years

**Policy term** – 15 years, 20 years or 25 years

**Minimum premium** – regular premium – Rs.18,000 p.a.; top-up premium – Rs.5,000

**Premium payment frequency** – annual, semi-annual, quarterly or monthly. Quarterly and monthly premium frequencies are available only via the ECS payment mode.

Top-up premium made at any time during the policy term cannot be more than 25% of the total regular premium paid till that date.

## Investment funds

The policyholder can choose from three investment funds. These are:

Fund Name	Investment Style	Investment Allocation			
		Listed equity	Cash & money market	Government bonds	Corporate bonds
Grow money	Equity fund	80% to 100%	Max. 20%	0%	0%
Save'n'Grow money	Aggressively balanced fund	Max. 60%	Max. 20%	Max. 40%	Max. 50%
Steady money	Debt fund	0%	Max. 20%	Max. 80%	Max. 20%

The fund allocation under the policy can be changed with the changing financial priorities and objectives. The minimum value of a switch should be Rs.2,500. 4 fund switches are free-of-charge in a policy year and any subsequent switch will be charged at the rate of Rs.100 per switch.

## Top-up premium

The savings component under the policy can be enhanced with the payment of top-up premiums after the first policy year. Minimum top-up premium amount will be Rs.5,000 and will contribute to additions in the fund value without affecting the sum assured under the policy.

## Premium holiday

After the completion of seven policy years, the option of premium holiday can be availed if the policyholder is unable to pay the premium. This will allow the policy holder to continue to enjoy all the policy benefits. The policy fund value at the time of availing this option will remain invested and the switching options are also available. This option is subject to the reinstatement conditions under the policy.

## Main Policy charges

The first year premium being used for the purpose of the guaranteed special addition under the policy, the below mentioned charges are applicable from the second policy year onwards.

## Premium allocation charge –

Policy year	Annual regular premium	
	Rs.18,000 to Rs.49,999	Rs.50,000 and above
2 to 3 years	3%	0%
4 to 5 years	2%	0%
6 to 10 years	1%	0%
11 years and beyond	0%	0%

Hence, if the regular annual premium is Rs.50,000 or more, no premium allocation charge is payable by the policyholder.

For top-up premiums, the premium allocation charge is 1.50%.

**Mortality charge** – Mortality charge is levied to provide the life insurance benefit and is deducted monthly by cancellation of units. The annual mortality charge is based on the sum at risk.

**Policy administration charge** – Policy administration charge is levied as a fixed charge of Rs.65 per month, from the second year onwards and is deducted by cancellation of units on a monthly basis.

**Fund management charge** – Fund management charge is levied on the investment fund(s) chosen and is adjusted in the unit price calculation on a monthly basis.

Fund type	Grow money fund	Steady money fund	Save 'n' grow money fund
Charge	1.50%	1.00%	1.25%

## Partial withdrawals

The policy holder can withdraw maximum 20% of the policy money under the policy fund, anytime after the completion of five policy years, to meet his intermittent financial needs.

2 partial withdrawals can be made free-of-charge, in a policy year.

## Policy Surrender

The policy can be completely foreclosed by exercising the surrender option. The guaranteed special addition that is a unique benefit available under this policy will, however, not be available in case of surrender of policy. The surrender value available is:

Policy year	1	2	3	4	5	6 +
Surrender value as percentage of policy fund value	No surrender allowed	90%	95%	96%	98%	100%

If a surrender is requested before the completion of three policy years, the surrender value (determined as on date of this request) shall be frozen and will become payable only after the completion of three policy years. Once the policy is surrendered, it shall immediately cease to exist.

## Tax benefits

The premium payable under the policy is eligible for deduction under Section 80C of the Income Tax Act, 1961. Also, the benefit payments under the policy 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.

## Product Showcase :: Kotak Platinum Advantage Plan

Kotak Platinum Advantage Plan is a unit linked insurance plan from Kotak Mahindra Old Mutual Life Insurance Company Limited.

### Unique features of the policy

1. Policyholder has the choice of investing the premium in the Shield Account (providing a guaranteed amount on policy maturity) or in the Dynamic Account (providing an aggressive market exposure) or a combination of both these accounts. Shield Account requires the maintenance of systematic investment for the provision of the Guaranteed Maturity Value benefit. If the premiums are discontinued, or partial withdrawals are made from the Shield Account, the Guaranteed Maturity Value will cease to apply.
2. Policy provides the Dynamic Floor Fund, as available in the Dynamic Account. The fund is tailor-made to suit investment requirements of more risk-averse investor whose priority is capital preservation, and also wants to participate in actively managed, upside market growth.

The fund aims for stable returns and capital appreciation that comfortably outpaces the cost of living. It allows investment without the hassles of switching across fund options or depending on others for advice.

3. Automatic Cover Maintenance facility provides for the continuance of the policy in case of non-payment of the premium within the grace period (i.e. 15 days for monthly premium payment frequency and 30 days for all the other premium payment frequencies), provided the premium for the initial years has been paid in full.

### Policy benefits

**Death benefit** – In case of death of the life assured during the policy tenure, the death benefit will be dependant on the age of the life assured. At the time of death, if the life assured is aged:

- ❖ **Over 18 years** – the death benefit will be sum assured **plus** the value of units in the shield, dynamic and top-up (if any) accounts.
- ❖ **Below 18 years** – Premium paid (excluding the rider premium) under the policy **or** the fund value, which ever is greater.

**Maturity benefit** – On the survival of the life assured at the end of the policy period, the maturity benefit payable comprises of:

- ❖ Guaranteed Maturity Value or the value of the units in the Shield Account, whichever is higher
- ❖ Value of units in Dynamic Account
- ❖ Value of units in the Top-up accounts (if any)

The policy holder has the option of withdrawing the maturity benefit as a lump sum or in pre-specified yearly, half-yearly, quarterly or monthly installments.

## Eligibility parameters

**Age at entry** – minimum – 0 years; maximum – 65 years

**Policy term** – minimum – 10 years; maximum – 30 years

**Premium payment term** – ranging between 3 years to 15 years or equal to policy term

**Minimum premium amount** – Rs.50,000 (Rs.1,00,000 in case of limited premium payment term). Minimum premium in Shield / Dynamic Account – Rs.25,000 (Rs.50,000 in case of Limited Premium Payment term)

**Premium payment frequency** – annual, half yearly, quarterly or monthly

**Minimum insurance cover** –  $0.5 \times \text{Policy term} \times \text{Annual premium}$  or  $5 \times \text{Annual premium}$ , whichever is greater. The mortality charges to provide this cover will remain constant during the policy term.

## Investment funds

Depending on the risk profile, a person may choose to invest the premium in two accounts, viz. the Shield Account or the Dynamic Account.

The Shield Account offers a guaranteed amount on maturity, while the Dynamic Account allows the policy holder the access to more aggressive investment options. The policy holder may even have a combination of both these accounts, providing a guaranteed return as well as an exposure to more aggressive markets.

Investment Fund	Risk Return Profile	Objective	Investment Allocation		
			Equity	Debt	Cash & Money Market
Aggressive Growth*	Aggressive	High level of capital growth	60% - 100%	0% - 40%	
Guaranteed / Dynamic Growth	Aggressive	High level of capital growth	40% - 80%	20% - 60%	0% - 20%
Guaranteed / Dynamic Balanced	Moderate	Moderate capital growth	30% - 60%	20% - 70%	0% - 20%
Dynamic Floor*	Cautious	Long term inflation beating growth	0% - 75%	0% - 30%	0% - 20%
Guaranteed / Dynamic Bond Guaranteed / Dynamic Floating Rate Guaranteed / Dynamic Gilt	Safe	Returns in line with those from fixed income instruments	0%	0% - 100%	0% - 20%
Guaranteed / Dynamic Money Market**	Conservative	Capital protection	0%	0%	100%

**Important:** The allocation rates between the Shield and Dynamic Accounts cannot be altered post inception. Guaranteed funds are available only with the Shield Account, whereas the Dynamic funds are available only on the Dynamic Account and the Top-up Accounts.

\* Available only for the Dynamic Account and Top-up Account.

\*\* Not more than 20% of the allocated premiums will be invested in this account, except in the last policy year in which a higher % may be invested.

## Main Policy charges

**Premium allocation charge** – is 9% of the premiums in the 1st year in the Shield and Dynamic Account. From 2nd year onwards till 5th year, this charge is 2%. 6th year onwards there is no premium allocation charge. For top-up premium, allocation charge is 2%.

**Fund management charge** – is charged as a percentage of value of assets and ranges between 0.6% and 1.75% per annum depending on the choice of fund.

There is an additional fund management charge of 0.75% p.a. applicable on the Shield Account for the provision of the Guaranteed Maturity Value.

**Administration charge** – is a 1st year charge of Rs.2,000 per policy contract and will be deducted from the Shield and Dynamic Accounts in the same proportion that the investment premiums are allocated to these accounts.

**Mortality charge** – is a fixed charge that encompasses the costs of life cover provided under the policy and is payable throughout the premium payment term.

**Switching charge** – 4 free switches are allowed in any policy year. For every additional switch thereafter, there is a charge of Rs.500 per such switch.

**Miscellaneous charge** – is a charge of Rs.500 levied for any alterations within the contract such as change in sum assured, replacement of policy document, revival of the policy etc.

## Riders available

- ❖ Critical Illness Benefit Rider
- ❖ Permanent Disability Benefit Rider
- ❖ Accident Death Benefit Rider
- ❖ Life Guardian Benefit Rider
- ❖ Accidental Disability Guardian Benefit Rider

## Partial withdrawals / Surrender

The policy provides the facility of partial withdrawals / full surrenders after completion of three policy years. The policy however, acquires a surrender value after payment of at least one full year's premium.

Minimum amount of the partial withdrawal is Rs.10,000 and in multiples of Rs.1,000 (for amount in excess of Rs.10,000). Minimum amount required to be maintained in the account after partial withdrawal is Rs.10,000.

The policy holder can also access the top-up accounts without any charges. The top-up premiums should complete a lock-in period of 3 years from the date of investing the top-up amount before one can access the investment for withdrawal. This lock-in period condition does not apply in case of the top-up premium paid during the last 3 years of the policy. Top-ups can be made only while the regular premiums are being paid. Partial withdrawals must be made from the eligible top-up accounts before accessing the Shield / Dynamic Account. Partial withdrawals will be allowed only after the insured life attains the age of 18.

## Tax benefit

Premium payable under the policy is eligible for deduction under Section 80C of the Income Tax Act, 1961. Also, premium paid for the Critical Illness Benefit Rider is eligible for deduction under Section 80D of the Act. Benefits payable under the policy will be 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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