



KARVY BAZAAR BAATEIN

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Estate Transfer through Life Insurance

While adequate concentration on wealth creation is important, a lot of people often tend to over look the way in which this wealth will be transferred to their dependants and successors. In this article, we discuss the importance of insurance with respect to estate transfer.

Situation 1:

Mr. Nirmal, an 80-year-old business tycoon, is on his death bed. He has built his business empire from scratch and his children are well settled in life. However, Mr. Nirmal is still a worried man.

Situation 2:

Mr. Kunal, a 45-year-old software professional, has been recently diagnosed with a rare type of blood disease. The treatment for this disease not yet available with the medical sciences, the doctors have revealed to him the cruel fact that his life is limited to just a few months. Although, there are some dreams that will not be true for Mr. Kunal, he is still contented at heart.

The mental state of the above two persons is different from what one would actually anticipate from the person's respective profile. But as reality bites, such a situation is actually true for a large number of people. The difference in the two situations is success level of the two persons in planning for estate transfer.

Mr. Nirmal has been successful in creation of a wealth that will be sufficient for generations to come. But he has to a great extent failed to realize that this wealth needs to be adequately transferred to his successors for them to utilize the same. Mr. Nirmal will have to depend on his will and last testament for the transfer of his property to his dependants and heirs. On the other hand, Mr. Kunal who has just been able to provide for a decent lifestyle to his family and for their major financial needs, has ensured that these financial benefits are available to his family in his absence. One of the main factors that have helped Mr. Kunal in taking care of estate planning is his life assurance policies.

As known to common knowledge, a life assurance contract is a contract between the life insurer and policyholder. This contract has financial value and confers rights to the policyholder as regards this value. That is, on the happening of the contingency / risk insured against, the policy holder or the policy nominee / assignee can exercise these rights in the form of claims. In this way, an insurance plan scores over most of other investment avenues as it provides an inbuilt means of estate transfer. The financial value (i.e. sum assured) under life assurance policy, that forms a part of the estate of the policy holder, gets paid to the nominee / assignee (other than when the life insurer is the assignee) on the death of the life assured. The transfer of this financial value does not require the basis of a usual estate transfer mechanism such as a 'will and last testament' of the dead person, which is normally required in the case of wealth created by means of investment avenues other than life assurance.

Moreover, in case of life assurance policy, it is possible to sell, bequeath or gift the estate under is, under the Transfer of Property Act.

Under a life assurance contract, the holder of a policy on his own life may, at the time of taking the policy or at any time during the term of the policy but before maturity, nominate a person(s) to receive the policy money (sum assured) in the event of his death. This is known as the nomination under an insurance policy and the person who is named as the beneficiary under the policy is known as the **nominee**. A nomination gives the nominee only the right to receive the policy moneys in the event of death of the life assured. The nominee can give a valid discharge to the insurer as regards the liability of the later to pay the claims under the insurance policy. And hence, nomination helps in the speedy settlement of death claims.

A nominee does not, however, get any title or interest on the policy money.

Here, it will be appropriate to mention that a person holding a life assurance policy on the life of another person cannot effect a nomination. Also, if a nomination is not made at the time of the proposal of the policy but subsequently, it needs to be done by an endorsement on the policy document. And if the nomination is made after the commencement of the policy, the notice for such nomination needs to be served on the insurer by the life assured. The insurer will then register the same in its official records.

The life assurance policy being a contract, a minor cannot be a policyholder for a life assurance policy as he / she is disqualified from entering into a contract. However, if in case the nominee to an insurance policy happens to be a minor, an appointee needs to be appointed by the policy holder. This is subject to the rights and responsibilities of the appointee and policyholder as well as the insurance laws governing the contract.

Having looked at the conceptual overview of nomination, we shall now look at the assignment under a life insurance policy.

An assignment of an insurance policy involves the transfer of the rights, title and ownership under an insurance contract to

the **assignee**. Assignment is done by the person, known as the **assignor**, who owns the property under the insurance policy. It is imperative to mention here that the assignor can transfer only his own rights under an assignment. And hence, only a policyholder, who is the owner of the policy, can effect an assignment. For the purpose of assignment, a policy holder need not be the life assured under the policy, as mandatory for a nomination.

It is possible to assign a policy in the favour of two or more persons. In such a case, each assignee shares the common interest under the policy with other assignees.

An assignment of a life assurance policy can be of two types i.e. an absolute assignment and a conditional assignment. In absolute assignment, the assignor loses all his rights, titles and interest in the policy assigned by him and the assignee is free to deal with the policy in the way he likes, as he becomes the owner of the property under the policy.

Whereas, in conditional assignment, the rights, title and interest in the assigned policy can get reverted to the assignor on the occurrence of a specified condition. This condition usually effects an automatic reversion of the assignment, without the requirement of the consent of the assignee.

In practice, a nomination under a life assurance policy automatically gets cancelled on the assignment of the policy. However, when the assignment is done in favour of the life insurance company for a loan granted by the insurance company based on the security of the policy, it will not result in the cancellation of the nomination under the policy.

From the above discussion, it can be concluded that a life assurance policy is suited as one of the important vehicles of estate transfer, as simultaneously being an importance tool for the creation of an estate.

However, a complete estate transfer would also involve other means including the traditional transfer of property and wealth by means of a 'will'. The audience is requested to ascertain their unique requirements for estate transfer and plan the means of transfer accordingly.

Product Showcase :: Wealthsurance

Wealthsurance is a unit linked insurance plan from IDBI Fortis Life Insurance Company Limited. The policy aims at the growth of wealth under the protective cover of insurance.

Unique features

The policy holder has the choice of either managing the investment funds himself or letting the insurance manage the funds on his behalf. If the policy holder is letting the company manage the funds he will have to choose a risk levels out of the 3 levels available, i.e. cautious, moderate and aggressive. The equity exposure to the investment funds is restricted on the basis of this risk level choice.

The policy provides protection against a range of events such as death, terminal illness, 17 major diseases, sickness requiring hospitalization or serious accidental injuries. These benefits allow the insured / policy holder to meet additional expenses without affecting the wealth creation required under the plan. Here, the life assurance cover and terminal illness cover will be in-built while the covers for the critical illnesses, sickness requiring hospitalization, etc. are optional.

The policy allows the policy holder to pay premiums and get tax benefits for self, with the insurance benefits covering his / her spouse or child.

Policy provides the option for choosing a ready policy or customizing the policy as per ones unique individual requirements. The ready made plans are aimed at the provision of specific insurance and savings needs. The five steps that go towards the customization of the plan are:

Step 1: Choice of the premium payable

Step 2: Choice of the investment option

Step 3: Choice of the sum assured for the life assurance cover and the terminal illness cover.

Step 4: Choice of the option insurance benefits, if any.

Step 5: Choice of the policy term for wealth creation and insurance cover.

Other features:

1. Policy can be opted for as either a single premium policy or a regular premium policy. As a regular premium policy the premium is payable for a limited term.
2. Policy provides the flexibility of changing the premium and the benefits to suit changing needs.
3. Withdrawals (in form of partial withdrawals) are available under the policy to provide the necessary financial liquidity.
4. In case if the insured person is a minor, the policy will vest in the minor only upon attaining majority at the age of 18 years.
5. **Investment choice options available:** (a) assured fixed returns, (b) variable returns linked to market performance or (c) returns linked to equity market but with protection of capital.

Policy Benefits

The policy provides two accounts, viz. (1) Investment Account and (2) Insurance Account. The investment account provides the basis for the build up of the wealth over the policy term and as per the choice of the investment funds & options available under the 'IDBI Fortis Investment Basket'. The insurance account provides for the choice of the insurance benefits available under 'IDBI Fortis Insurance Basket'. The policy holder will need to pay for only the chosen benefits.

The main benefits available under the policy are:

Death benefit – In the event of death (due to any cause, natural or accidental) of the life assured during the policy term,

the sum assured or the investment fund value (which ever is higher) will be payable as a death benefit. On payment of the death benefit the policy is terminated.

Terminal illness benefit: In case if the life assured is diagnosed as terminally ill and is expected to live for not more than six months, the policy provides for the payment of the terminal illness benefit. This benefit amount is equal to the sum at risk (i.e. sum assured less fund value) subject to maximum of Rs.25,00,000. If the fund value is greater than the sum assured, the sum at risk will be nil and the terminal illness benefit does not apply.

On payment of the terminal illness benefit, the sum assured will be reduced by the amount of the benefit paid. The policy continues as before except with reduced Sum Insured.

Important: Death or Terminal Illness Benefit is not paid before completion of 7 years of age if the insured person is a child. In above cases, only the Fund Value will be paid.

Terminal Illness Benefit is not paid in the event of attempted suicide or self-injury

The optional benefits available under the policy are:

Major diseases benefit: In the event of diagnosis of the insured person with any of the 17 specified major diseases, a lump sum benefit amount is payable. This benefit is intended to take care of medical expenses and loss of earning resulting from a major / critical illness. The benefit amount is subject to maximum of Rs.20,00,000 and should not be more than life and terminal illness benefit sum insured.

The diseases covered under this benefit are: (1) Heart Attack, (2) Coronary Bypass Surgery, (3) Heart Valve Replacement, (4) Surgery of the Aorta, (5) Cancer, (6) Stroke, (7) Kidney failure, (8) Major organ transplant, (9) Paralysis, (10) Coma, (11) Multiple Sclerosis, (12) Alzheimer's Disease, (13) Parkinson's Disease. (14) Benign Brain Tumor, (15) Major Head Trauma, (16) Major Burns and (17) Primary Pulmonary Arterial Hypertension.

Hospitalization cash benefit: On hospitalization of the life insured on the medical advice for treatment of any illness or injury, a daily cash allowance and other benefits as specified are paid. Hospital cash benefit is available in capsules that one can buy subject to a maximum of 8 capsules. Depending upon the number of capsules bought, the hospitalization cash benefit (normal benefit) varies from Rs.500 to Rs.4,000 for each day of hospitalization from the third day onwards. Normal benefit is paid if the admission is in a ward other than the Intensive Care Unit (ICU). In case of admission to ICU, the ICU benefit is paid which varies from Rs.1,000 to Rs.5,000 per day. Recovery Benefit is paid in case of hospitalization for more than 5 days and is equal to twice the normal benefit payable per day.

Accidental death benefit: In the event of the death of the life assured due to an accident, an additional lump sum cash amount is paid as benefit. One can choose the benefit amount, which can be a maximum of Rs.50,00,000 but not more than the applicable life and terminal illness benefit sum insured.

Accidental death & disablement benefit: In the event of the death or permanent disablement of the life assured due to an accident, a lump sum cash amount is paid as benefit. Different types of accidental injuries are covered with entitlement specified as a percentage of benefit amount. One can choose the benefit amount, which can be a maximum of Rs.50,00,000 but not more than the applicable life and terminal illness benefit sum insured.

Eligibility parameters

- ❖ **Age at entry (for life assured)** – minimum – 1 month; maximum – 65 years. The age of the proposer for the policy should be at least 18 years.
- ❖ **Maximum age at maturity** – 75 years
- ❖ **Minimum sum assured** – for single premium policy – 1.25 times the single premium amount; for regular premium – 5 times of the regular annual premium amount or 0.5 times of the regular annual premium amount multiplied by the policy term, which ever is higher.

- ❖ **Maximum sum assured:** is subject to underwriting guidelines and decisions.
- ❖ **Minimum premium:** for single premium policy – Rs.20,000; for regular premium – Rs.10,000 (for annual, semi-annual and quarterly premium payment frequency) or Rs.1,000 (for monthly premium payment frequency).
- ❖ **Minimum premium payment term (for regular premium plan):** 3 years

Top-up premium

In case of top-up premiums, minimum premium amount is Rs.5,000 at a time and can be paid whenever feasible and any number of times until the maturity of the plan. Top-up premium can be paid only if all the regular premium due till date have been paid.

If total of top-up premiums paid exceeds 25% of basic premiums paid (whether single or regular premium) at any point of time, the excess amount of top-up premium will provide for a life insurance cover equal to 125% of this excess amount.

Investment fund choice

The investment funds available under the IDBI Fortis Investment Basket are:

| Fund Name | Investment Objective | Risk Profile | Investment Allocation in | |
|--|--|--------------|---------------------------|-------------|
| | | | Fixed income investments* | Equities |
| Fixed Return Options: Provide fixed, assured returns | | | | |
| Money Interest Account | To provide smoothed interest returns | Low | 100% | 0% |
| Guaranteed Return Fund | To provide assured, fixed returns for a specific period | Low | 100% | 0% |
| Capital Guaranteed Options: Provide investments in stocks without losing the principal | | | | |
| Capital Guaranteed Funds | To provide equity linked returns with the guarantee or return of principal | Medium | 40% to 100% | 0% to 60% |
| Market Fund Options: For investing in the stocks and debt instruments | | | | |
| Equity Growth Fund | To generate high investment returns | High | 0% to 50% | 50% to 100% |
| Nifty Index Fund | To generate returns closely tracking the Nifty Index | High | 0% to 20% | 80% to 100% |
| Bond Fund | To generate returns from interest coupons and the opportunities in changing yield curves | Medium | 100% | 0% |
| Income Fund | To generate returns from low risk fixed income investments | Low | 100% | 0% |
| Liquid Fund | To generate returns from liquid investment avenues | Low | 100% | 0% |

* government securities, treasury bills, bank deposits, certificates of deposit, corporate securities, commercial paper, securitized papers, structured products, money market instruments, etc.

Other than the above investment funds, the policy also provides for Asset Allocator Funds wherein the insurance company will manager the investment allocation based on the choice of risk profile (cautious, moderate & aggressive) by the policy holder.

Policy Charges

Premium allocation charge:

For single premium and top-up premium: Charge will be applicable depending on the amount of single or top-up premium.

| Single or Top-up premium amount | Rs.20,000* to Rs.49,999 | Rs.50,000 to Rs.99,999 | Rs.1,00,000 to Rs.2,49,999 | Rs.2,50,000 & above |
|---------------------------------|-------------------------|------------------------|----------------------------|---------------------|
| Premium allocation charge | 1.50% | 1.00% | 0.50% | Nil |

* in case of single premium. For top-up premium minimum contribution value is Rs.5,000.

For regular premium: Charge will be applicable depending on the regular premium amount payable and the premium payment term chosen by the policy holder.

| Premium amount p.a. | Premium payment term (in years) | | | | |
|----------------------------|---------------------------------|--------|----------|----------|-----------|
| | 3 to 4 | 5 to 9 | 10 to 14 | 15 to 19 | 20 & more |
| Rs.10,000 to Rs.29,999 | 4.00% | 3.75% | 3.50% | 3.25% | 3.00% |
| Rs.30,000 to Rs.47,999 | 3.75% | 3.50% | 3.25% | 3.00% | 2.75% |
| Rs.48,000 to Rs.71,999 | 3.50% | 3.25% | 3.00% | 2.75% | 2.50% |
| Rs.72,000 to Rs.95,999 | 3.25% | 3.00% | 2.75% | 2.50% | 2.25% |
| Rs.96,000 to Rs.2,39,999 | 3.00% | 2.75% | 2.50% | 2.25% | 2.00% |
| Rs.2,40,000 to Rs.5,99,999 | 2.75% | 2.50% | 2.25% | 2.00% | 1.75% |
| Rs.6,00,000 & above | 2.50% | 2.25% | 2.00% | 1.75% | 1.50% |

This charge is deducted from the premium paid the balance amount is invested in the chosen investment fund.

Mortality and terminal illness charge: This charge forms the basis for the provision of the mortality (death) and terminal illness benefit under the policy. These charges are calculated on the sum at risk.

Policy administration charge: This is fixed charge of Rs.60 per month and is deducted by cancellation of units in the investment account.

Fund management charge: This charge ranges between 1% p.a. and 2% p.a. depending on the choice of the investment fund. For Asset Allocator Funds, additional fund management charges of 0.25% p.a., 0.50% p.a. and 0.75% p.a. will be applicable for cautious, moderate and aggressive funds respectively.

Tax benefits

Premiums under the policy are eligible for deduction under Sec 80C of the Income Tax Act, 1961. Also, the insurance charges for health benefits are eligible for deduction under Sec 80D of the Act. Benefits payable under the policy are tax-free under Sec 10(10D) of the Act.

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

For information on PORTFOLIO MANAGEMENT SERVICE contact: 1800 425 8282 or visit: www.thefinapolis.com

Product Showcase :: Accident Guard

Accident Guard is a personal accident cover policy from Tata AIG General Insurance Company Limited

Sum assured

The sum assured under the policy is in terms of units, 1 unit being equivalent to Rs.10. lacs. The policy can be taken in multiple units of Rs.10 lacs up to maximum of Rs.1 crore (i.e. maximum 10 units). As an optional add-on benefit, one can also take an Accidental Weekly Benefit in multiples of Rs.2,000 up to maximum of Rs.10,000. Here, the number of units of Accidental Weekly Benefit should not exceed the number of units for Accidental Death and Dismemberment.

On renewal of the policy, the sum assured increases by 5% each year, up to 5 years, for the same premium. For example, if the sum assured is for 1 unit i.e. Rs.10,00,000, after the policy renewal it will become Rs.10,50,000 as the sum assured for the next year.

Policy options

Self option insures oneself for accidental death and dismemberment, or accidental death and dismemberment along with permanent total loss of use.

Family option allows for the insuring the family for accidental death and dismemberment, or accidental death and dismemberment along with permanent total loss of use.

Additional features (available with family option)

Education allowance: In case of an accidental death, 10% of principal sum assured is paid towards the children's education benefit.

Repatriation of remains: Maximum of Rs.5,000 will be reimbursed for the repatriation of the insured person's remains.

Modification allowance: In case of permanent total disability or dismemberment, maximum of Rs.1,00,000 will be reimbursed towards the cost of modifying the house / vehicle, to combat disability.

Double Dismemberment benefit for children: For the children of the insured who are automatically insured, the dismemberment benefit gets doubles.

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