



KARVY BAZAAR BAATEIN

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Don't Let The Insurance Policy Lapse!

Purchase of a life assurance policy brings with it the obligation of premium payment over a period of time. This payment is imperative as it forms the basis of the life cover and thus should be duly made.

All of us would agree with the fact that an insurance policy, especially a life assurance policy, is a long term contract. However, it is not often that one realizes that this contract is a contract of reciprocation. This means that the insurance company will promise to cover a specific risk only when the insured or the policy holder on the insured's behalf (when policy holder and insured are different persons) reciprocates this promise with the payment of the policy premium in full and on time. In this article of Karvy Bazaar Baatein, we will look at the some of aspects of lapsation of a life assurance policy.

The amount of premium that will be required to be paid by the policyholder is usually pre-determined before commencement of the policy as under its terms and conditions. Also, determined are the factors such as the time period for which the premium is payable, the frequency of premium payment (i.e. on an annual, semi-annual, quarterly or monthly basis) and importantly the due date(s) for these payments. All these factors form the basic obligation on part of the policyholder or the insured which in turn forms the basis for the promise of the insurance company to cover the risk in question.

The responsibility for ensuring the timely payment of the policy rests on the policy holder. The insurance company may, as a courtesy, send a reminder for the premium payment, well in advance, to help the policy holder to pay the premium in time. The policy holder is in no way absolved of this responsibility of timely premium payment if in case the insurance company does not send the reminder for the same.

Strictly speaking, if the adequate premium is not paid on time, the insurance company would be absolved from its obligation, that is, to provide the risk cover. In real life, however, the policyholder is allowed some time to pay the premium after the due date for this payment. This time period is known as the 'days of grace' and could be the duration of 1 month or 15 days depending on the frequency of the premium payment for the policy. The policy continues in full force during these 'days of grace'. In other words, if the life assured dies during the 'days of grace' period, the sum assured will be paid to the policy nominee, the assignee (in case if the policy has been assigned), or the legal heir, subject to the deduction of the outstanding premium.

If in case the outstanding premium is not paid even within the 'days of grace' period, the policy lapses and the life assurance cover under the policy comes to end. This results in the defeat of the very purpose of life assurance.

The lapsation of a life insurance policy is of loss to both the insured as well as the insurer. The insured loses the very necessary life assurance cover. On the insurer's part, policy lapsation not only results in the loss of the future premium income that would have otherwise been earned over the policy tenure (or during the premium payment term), but also in a loss on the expenses incurred on the policy. Usually, the initial expenses on a life insurance policy account for a major portion of the premium for the first year and the insurance company apportions these expenses over a few years. In case if a policy lapses before the completion of this period, the insurance



company is not able to recover the expenses fully, and hence incurs a loss on the policy. As such, the insurance companies try to ensure that there are minimum cases of policy lapsation. Also, the provision of the revival of lapsed policies can be seen as an effort in this respect.

The lapsation of life assurance policies for non-payment of premium, however, does not happen in all cases. The insurance laws provide relief to the policy holder in the form of the concept known as the 'paid-up value'. If the premium for a policy has been duly paid for at least the initial three policy years and thereafter any due premium is not paid, the policy will not lapse or be entirely void. In such a case, the sum assured under the policy gets reduced to such a value in the same proportion as the total number of premium, originally decided upon in the policy, would bear to the actual number of the premium paid. Thus, the policy gets 'paid up' to the reduced sum assured and will then be free from the obligation of any further payment of premium. If this policy had been participating in the profits of the insurance company in the form of bonuses, the vested bonuses, existing at the time of the reduction of the sum assured, will remain intact as part of the policy benefits. The policy will, however, not be entitled to participate in the future profits of the insurance company.

Here it will be important to mention that, if at least three years' premium has been paid in full and any subsequent premium due is not paid, in the event of death of the life assured within six months from the due date of the first unpaid premium, the original sum assured under the policy will be paid as if the policy has been in full force. The payment will be subject to the deduction of the unpaid premium with interest as well as the premium that will be due for payment before the next anniversary of the policy.

As mentioned above, the lapsation of a policy is of loss to both the parties to the insurance contract, i.e. the insured and the insurer. It is primarily on account of these reasons that usually the policy conditions provide for the 'revival' of the policy in case

of it being lapsed or having been discontinued. Revival of a life assurance policy refers to bringing the policy back into force after the same has been lapsed. Thus, revival results in restoration of the life assurance cover and other ancillary benefits of the policy that had been lost because of the policy lapse.

Revival of the policy generally requires the policy holder to provide the evidence of a health insurable under the policy. This evidence could be in the form of the report(s) for specific / general medical check-up or in the form of a self-declaration from the life assured. The policy holder is also required to pay all the outstanding premiums along with interest accrued on the outstanding premium, for reviving the policy. This payment could be made in lump sum or in installments, depending on either the options available under the policy conditions for revival or those provided by the insurance company in this regard. The revival of the lapsed policies needs to be completed within the specified time period as determined by the insurance regulations or based on the terms and conditions of the original policy.

A revival of a lapsed or a discontinued policy essentially affects a fresh insurance contract between the insured and the insurer. Here, the insurer is entitled to impose fresh terms and conditions as may be deemed fit and depending on the circumstances of the particular case. The premium payable under the revived policy will be decided by mainly taking into consideration the mortality charges applicable for the age of the life assured at the time of the revival. Hence, this premium will be definitely more than the one the policy holder or the life assured would have continued to pay had the original life assurance policy been in force.

Further, the life assured may not be able to get the cover under the original plan because of the restrictions on the age at entry for that particular plan as applicable at the time of revival.

We will conclude the article with a sincere suggestion to all the readers to ensure that their life assurance policies continue throughout the respective policy tenures, so that the very rationale for taking these policies is achieved.

Product Showcase :: SMART Steps Plus

SMART Steps Plus is a unit linked child policy aiming at the provision of a safe and bright future for the child in form of an assurance of the important life milestones such as higher education, marriage and financial security. The policy also provides for the life insurance protection to the parent and a host of other benefits.

This is a non-participating policy having been introduced by Max New York Life Insurance Company Limited.

Unique features

Dread Disease Benefit – Policy provides additional benefits in the event of the life assured suffering from any of the dreaded diseases / conditions covered under the policy. These benefits are detailed in the policy benefit section.

Top-up premiums can be paid in addition to the regular premium to increase the investment fund value. Minimum top-up premium amount is Rs.5,000 subject to maximum of 25% of the regular annual premium paid till date in each policy year. The top-up premium payment(s) does not result in increase in the life insurance cover amount (or the sum assured value).

Eligibility parameters

- ❖ **Age at entry** – minimum – 21 years (for parent) and 91 days (for child); maximum – 50 years (for parent) and 15 years (for child)
- ❖ **Maximum age at maturity** – 60 years (for parent)
- ❖ **Policy term** – minimum – 10 years; maximum – 25 years, subject to the age of the life assured not exceeding 60 years at the time of policy maturity and the minimum age of child at policy maturity is greater than or equal to 16 years and less than or equal to 25 years
- ❖ **Minimum annual premium** – Rs.20,000
- ❖ **Premium payment frequency** – Annual, semi-annual, quarterly or monthly
- ❖ **Sum assured** – minimum – annual premium x policy term x 0.5; maximum – annual premium x policy term

Policy benefits

Death benefit – In the unfortunate event of death of the parent (the life assured) during the policy term, 100% of the

sum assured will be paid to the beneficiary. The insurance company will continue to operate the unit account up till the policy maturity and will pay for the entire future regular premium. The fund value will be paid for the benefit of the child at the policy maturity.

Further, a 'family income benefit' at the rate of 5% of the sum assured will be paid to the nominee / beneficiary on each policy anniversary after the death of the life assured, until the policy maturity. This benefit payment will however be subject to maximum of 100% of the sum assured.

Maturity benefit – The fund value (for regular premiums as well as top-up premiums, if any) existing at the time of policy maturity will be payable to the beneficiary.

Dread Disease Benefit – Policy provides the below benefit payments on the happening of any of the events of: Heart Attack, Cancer, Stroke, CABG, Multiple Sclerosis, Kidney Failure, Major Organ Transplant, Paralysis, COMA, Heart Valve replacement/repair.

1. An immediate payment of 50% of the sum assured or Rs.10 lacs, whichever ever is lower.
2. The insurance company will continue to operate the unit account even after the happening of the event.

Further, in the event of death of the life assured following the happening of any of the above dread diseases, 100% of the sum assured will be paid without adjusting / recovering the Dread Disease Benefit already paid.

Investment options

Policy holder has the option to invest in one or more of the five investment funds available under the policy, namely Secure Fund, Conservative Fund, Balanced Fund, Growth Fund and Growth Super Fund. The details of these funds are:

Fund Name	Investment Objective	Risk Return Profile	Investment Allocation			
			Govt. Securities	Corporate Bonds	Money Market Instruments	Equities
Secure	To provide stable return by investing in relatively low risk assets	Low	50% to 100%	0% to 50%	0% to 20%	Nil
Conservative	To provide stable return by investing in assets of relatively low to moderate level of risk	Low	50% to 80%	0% to 50%	0% to 20%	0% to 15%
Balanced	To provide balanced returns by investing in both fixed income securities as well as in equities	Moderate	20% to 50%	20% to 40%	0% to 20%	10% to 40%
Growth	To provide potentially higher returns by investing primarily in equities	High	0% to 30%	0% to 30%	0% to 20%	20% to 70%
Growth Super	To provide potentially higher returns by investing predominantly in equities	High	0% to 20%	0% to 20%	0% to 20%	70% to 100%

Policy provides for re-direction of the future premiums to change the allocation proportion of the premium in investment fund(s).

Policy also provides for switching of the existing investment funds from one fund to the other to match the investments with the changing financial requirements and priorities. The minimum switch amount will be Rs.5,000 and the policy provides for 6 free-of-charge switches in a policy year.

Policy charges

Premium allocation charge – is applicable on the annual premium depending on the premium amount payable.

Premium Amount	Charge as a percentage of the premium amount for	
	1 st year	2 nd year onwards
Rs.20,000 to Rs.49,999	30%	2%
Rs.50,000 to Rs.1,49,999	29%	2%
Rs.1,50,000 to Rs.2,99,999	28%	2%
Rs.3,00,000 to Rs.4,99,999	27%	2%
Rs.5,00,000 & above	26%	2%

The premium allocation charge for top-up premiums is 2%

Fund management charge – ranges between 0.90% p.a. and 1.35% p.a. depending on the investment fund(s) chosen. This charge is subject to increase in future to maximum 2% with the prior approval of IRDA.

Policy administration charge – is a fixed charge of Rs.600/- p.a. charged monthly at the rate of Rs.50 p.m. This charge would be increased by 5% per annum compounded yearly.

Mortality charge: is the charge levied for the provision of risk cover to the life insured. It will levied as on a rate of Rs.1000 per sum at risk.

Morbidity charge: is the charge levied for provision of dread disease benefit to the life insured. It will levied as on a rate of Rs.1000 per sum assured.

Switching charge: is applicable on subsequent switches after the first six free-of-charge switches in a policy year. The charge will be Rs.500 per switch and is subject to increase to a maximum of Rs.1000 per switch with prior approval from IRDA.

Premium re-direction charge: is applicable on subsequent switches after the first three free-of-charge switches in a policy year. The charge will be Rs.1,000 per switch and is subject to increase to a maximum of Rs.2000 per switch with prior approval from IRDA.



Partial withdrawal charge: is applicable at the rate of Rs.1,000 per transaction involving partial withdrawal. This charge may increase to Rs.2,000 per transaction with prior approval of IRDA.

Surrender charge: is a charge ranging from 100% to 15% of the annual premium depending on the policy being surrendered in the 1st policy year to the 9th policy year. If the surrender happens in the 10th policy year or later, the surrender charge will be Nil.

Policy surrender

The policy surrender request may be given at any time after the completion of first policy anniversary, provided an amount equal to one annual premium has been paid by the policy holder. On receipt of this request, the policy will immediately terminate, however, the surrender value (which will be equal to the Fund

Value less surrender charges (if any) shall be paid only after the completion of third policy anniversary.

Partial withdrawal

Policy provides for partial withdrawals from the investment funds anytime after the completion of five policy years. The minimum partial withdrawal amount is Rs.10,000 and 6 free partial withdrawals are available every year. Minimum surrender value required after partial withdrawal of units should be equal to the value of one annual premium.

Tax benefits

Premium paid under the policy is eligible for deduction under the provisions of Section 80C of the Income Tax Act, 1961. The 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 policy holder.

Product Showcase :: Saral Jeevan Plan

Saral Jeevan Plan is a simple policy providing an immediate life insurance cover. It is a unit linked insurance policy introduced by Birla Sun Life Insurance Company Limited.

Suitability

The policy is suitable for an individual who is looking at a hassle-free insurance cover along with an opportunity to participate in the capital markets for creation of wealth.

Unique features

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

* As per applicable policy conditions

Policy benefits

The 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.120,000 for policy term of 10 years, 15 years and 20 years respectively; maximum – Rs.10,00,000

Premium payment 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 charges – 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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