



KARVY BAZAAR BAATEIN

A Weekly Investment Newsletter From KARVY
A Research Product of Karvy The Finapolis

21st Nov 2008 to 27th Nov 2008

Volume II: Issue 28

More Insurance Myths Busted

Myths result in dissuading a person from the actual value of the subject in question. As Insurance continues to remain as one of the least understood subjects, troubleshooting some of the myths becomes essential.

Myth: The benefits from an insurance policy should be roughly equal to the premiums payable under the policy

Many people feel cheated when the benefits they receive from their insurance policies (specially the pure risk cover policies) are nil or are less than the premiums that they have paid for the policies. This is a common feeling particularly when people pay premiums for years and never make a claim.

Insurance should be thought of as the protection against a true personal financial catastrophe and not a buffer against the small / insignificant losses occurring in the daily life. In other words, an insurance cover is actually meant for the risks which if occurring could adversely alter the financial position of an individual. An example explaining this could be of an individual who would normally not mind purchasing a cough syrup from the local pharmacy. An insurance cover (a medical insurance policy) will however come to the rescue of this individual's hard-earned savings in the event of a hospitalization requirement for himself or his dependants. These savings could have otherwise been drained out had the person been required to shoulder the heavy hospitalization bill all by himself. In this particular case, the benefits accruing from the policy will be far more than the premium paid for the same. There could also be a possibility that the insured never requires to make use of this cover. Hence, it can be concluded that the benefits accruing from an insurance policy are not roughly equal to the premiums payable for the policy.

Myth: Insurance should cover contingencies that are likely to happen

An insurance cover, in principal, is provided against the financial repercussions of risks the occurrence of which is not certain, i.e. there are both chances of this thing occurring or not occurring. A risk or more appropriately an eventuality, the occurrence of which is certain, is not insurable. Something that is very likely to happen cannot be insured as the element of uncertainty, which forms the basis of a valid insurance contract, is missing.

For example, the building can be covered against the risk of loss/damage caused due to an occurrence of earthquake. However, the same building cannot be insured against damage if the law of the land has ordered for the building to be raised down.

Myth: Insurance products are not flexible

Every insurance product provides cover against the financial effects of a particular risk / contingency such as death or ill health. Insurance products also provide good amount of scope for flexibility to customize the policy. The options of selection of policy term, sum assured, premium payment options and frequency, investment funds (in case of unit linked insurance plans) and even the premium payment term (in some recent insurance policies) allow the policy holder to tailor the policy according to the specific and unique requirements. Further, a number of policies provide 'riders' or the optional benefits that are an add-on over and above the basic insurance cover under a policy. The extra or add-on cover provided by a rider comes at a nominal extra price. An example for a rider will be the critical illness benefit rider under a life insurance policy which provides for payment of an additional amount on the diagnosis of a critical illness condition for the life assured.

For information on MUTUAL FUNDS contact: 1800 425 8282 or visit: www.thefinapolis.com

Myth: Only the breadwinner of a family needs life insurance cover.

The life of breadwinner of the family should be secured by means of a life assurance policy on a priority basis as his untimely death would result in a financial embarrassment to his dependants even for their basic sustenance needs. Once this insurance cover is obtained, the focus should be to insurance the lives of the other family members, even if for a lower sum assured or a cheaper premium. This should be irrespective of whether these family members contribute to the family income or not, because even though a person may not be earning an actual income, his/her contributions to the family in form of the household services rendered have monetary value. For example, a home maker takes care of the usual household tasks such as taking care of the children, housekeeping, food preparation, doing laundry, budgeting of family expenses and household accounting, and transporting the children from school, etc. In the absence of the home maker, one or more domestic helps will need to be hired for these jobs and the remuneration paid to them will account for a substantial addition in the expenses of the family. Hence, the lives of all the members of a family need to be secured by means of life assurance policies. While the emotional loss incurred on account of the death of a non-earning family member cannot be compensated for, the negative financial repercussions of such an untimely death can be greatly reduced, if not eliminated, by means of a life insurance policy.

Myth: Insurance is only for people who have dependants

The objective of a life insurance policy is to provide financial security to dependants in the event of death of the life assured. And hence, a life insurance policy is meant for the benefit of the dependants. However, almost all the insurance plans, other than life assurance policies, are actually meant for the benefit of the policyholder. In this regard we can cite the instance of a pension plan that provides the much required income in the post-retirement years of an individual, or that of a health insurance plan which takes care of the hospitalization bills.

Myth: If a life insurance policy is more expensive, it must be worth it.

In a term assurance policy the premium payable is the lowest when compared to that payable under the other types of life assurance policies. However, this is the most suited life assurance

policy for a person who requires a 'plain vanilla' risk mitigation cover on his life for a particular time period. A term assurance policy will also be the best option for a person who has just started in life and very much requires a life insurance cover but cannot afford a costly premium payment. Similarly, for a person requiring life insurance cover for the entire life, the whole life assurance policy will be the most appropriate recommendation. This being in spite of the fact that life assurance policies with higher premium payment are available.

Myth: It is a hassle to get an insurance policy

At present, almost all the (both life and non-life) insurance companies provide online premium quotes specific to age and insurance requirements (sum assured, etc.) and the facility to download application forms on their respective websites on the Internet. One can easily shop for the best possible rates online and consult a reputed insurance intermediary i.e. an insurance agent / broker, to avail assistance in getting the best offer. Moreover, these financial intermediaries also assist in completion of the formalities and the necessary requirements, etc. leading to the purchase of the policy.

Myth: An estate can be created by any investment avenue. There is nothing special that a life insurance policy does in this regard.

In an insurance policy, the insurer promises to pay the pre-decided sum assured in the event of occurrence of the contingency insured against. This promise is applicable right from the time of the commencement of the policy. And with this an estate, equal to the promised sum assured, gets created to be payable to the policy beneficiaries (nominee / legal heir) on the unfortunate death of the life assured if the same happens at any time during the coverage term.

If one looks at estate creation by means of an investment avenue other than a life insurance policy, the same happens gradually over a period of time and not instantaneously. In case of an untimely death of the creator of this estate in between, there will be a shortfall from the initially intended value of the estate. If this estate was required for the fulfillment of a specific financial objective the same could remain unaccomplished. Hence, the creation of an estate or a property through life insurance can be seen as quite different from those by other investment avenues.

Product Showcase :: SmartKid New Unit Linked Regular Premium

SmartKid New Unit Linked Regular Premium policy is unit linked child plan aiming at the accumulation of wealth for achievement of important life stage objectives of the child, with the provision of the life insurance cover for the parent. The policy has been introduced by ICICI Prudential Life Insurance Company Limited.

Unique features

Policy provides for regular benefit (in form of withdrawals) at important educational milestones such as the Standard 12th or graduation exams, thus guaranteeing his / her studies, no matter what the circumstances are.

Income Benefit Rider: If the parent opts for this rider, the policy will provide for 10% of the rider sum assured to the child for the remaining policy term in case of an death of the parent during the policy term. This benefit will be in form of an annual allowance.

Cover Continuance Option: provides for the continued life insurance cover if in case the policyholder is unable to pay the regular premium. This option becomes available after 3 year's premiums have been paid and needs to be opted for to become operational. Under this option, all the applicable charges will be automatically deducted from the available fund value.

Policy benefits

Death benefit – In case of the unfortunate event of death of the parent (life assured) during the policy term, the child (nominee) will receive the sum assured amount. The future (remaining) premiums will be paid by the insurance company, thus ensuring the stipulated policy benefits to the child at important educational milestones. The policy will continue for the child's educational & development needs, as originally planned by the deceased parent.

With the Income Benefit rider opted for, the child (beneficiary) will receive an annual allowance every year till policy maturity, on the death of the parent.

Maturity benefit – Policy fund value will be paid as a lump sum benefit on the maturity of the policy. Alternatively the policy holder can exercise the settlement option to receive the fund value as a structured benefit on annual, semi-annual, quarterly

and monthly (through ECS) basis for a period of 1,2,3,4 or 5 years. Policy holder also has the option of withdrawing the entire fund value at any time during the settlement period.

Eligibility parameters

- ❖ **Age at entry –** minimum – 0 years for child; 20 years for parent; maximum – 15 years for child; 60 years for parent.
- ❖ **Maturity age –** minimum - 19 years for child; maximum - 25 years for child; 75 years for parent
- ❖ **Policy term –** Age of child at policy maturity less age of child at entry, subject to minimum 10 years and maximum 25 years
The policy can be taken as a regular premium policy. A single premium variant of the policy is also available
- ❖ **Sum Assured =** Term x Annual Premium / 2, subject to minimum of Rs.1,00,000
- ❖ **Premium payment frequency –** Annual, semi-annual and monthly
- ❖ **Minimum annual premium amount –** Rs.12,000 p.a.

Policy surrender

Policy can be surrendered anytime during the policy term. However, if the surrender happens within the first 3 years, then the surrender value will be payable on completion of 3 years. Also, if the premium has been paid for 5 years or more, then full fund value will be paid as surrender value without any deduction of charges.

Partial withdrawal

The facility of partial withdrawals from the fund is available, to provide for the key educational milestones of the child. Partial

withdrawals are available after initial 5 policy years and policy holder can make one partial withdrawal in a policy year which can be upto a maximum of 25% of the fund value. Maximum of 5 withdrawals can be made during the entire policy term. Minimum partial withdrawal amount is Rs.2000.

Investment funds

Policy provides the option of 7 investment funds. Policy holder can invest in one or more of these funds to suit his / her unique financial and investment profile. The details of the investment funds are as below:

Fund Name	Investment Objective	Risk Return Profile	Investment Allocation	
			Equity	Debt, Money Market & Cash
RICH II	Returns from equity investments in 4 industries i.e. Resources, Investment / Capital Goods, Consumption and Human Capital leveraged	High	80% to 100%	0% to 20%
Flexi Growth II	Long term returns from an equity portfolio of large, medium and small capitalization stocks	High	80% to 100%	0% to 20%
Multiplier II	Long term capital appreciation from an equity portfolio	High	80% to 100%	0% to 20%
Flexi Balanced II	Balance of capital appreciation and stable returns from an equity and debt portfolio	Moderate	0% to 60%	40% to 100%
Balancer II	Balance of growth & steady returns from an equity & debt portfolio	Moderate	0% to 40%	60% to 100%
Protector II	Accumulate steady income at a lower risk	Low	0%	100%
Preserver*	Protection of capital through very low risk investments	Capital Preservation	0%	100%

*Investments of only upto 40% can be allocated to this fund.

Further proportion of investment in money market instruments cannot exceed 40% of the total investments at any given point of time.

Policy provides the option of switching the investment already invested from one fund to another, at any time provided the policy is in force. The minimum switch amount is Rs.2,000 with 4 free-of-charge switches in a policy year.

Policy charges

Premium allocation charge: expressed as % of premium payable. Details of charge are:

Policy Year	For Premium Amount of		
	Rs.12,000 to Rs.19,999	Rs.20,000 to Rs.49,999	Rs.50,000 & above
Year 1	20%	19%	18%
Year 2 to Year 5	5%	5%	5%
Year 6 to Year 10	2%	2%	2%
Year 11 onwards	1%	1%	1%

Policy administration charge: is a fixed charge of Rs.60 / month

Fund management charge: ranges between 0.75% p.a. to 1.50% depending on the investment fund chosen by the policy holder

Mortality charge & payor waiver benefit charge: the mortality charge coupled with the payor waiver benefit charge is as per the applicable mortality tables & other underwriting factors.

Switching charge: A subsequent switch, after 4 free-of-charge switches in a policy year, is charged at Rs.100 / switch.

Surrender charge: Is applicable on the fund value if the premiums have been paid for less than 5 years

Rider charge: Applicable for the riders benefits opted for.

Riders available

Accidental Death & Disability Benefit ride: In case of death or disability due to an accident, the rider benefit amount will be paid.

Waiver of Premium rider: In case of total and permanent disability resulting due to an accident, all further premiums till end of the rider term will be paid by the insurance company.

Income benefit rider: pays out 10% of the sum assured to the child as annual allowance till policy maturity in case of death of the parent (life assured) during the policy term.

Tax benefits

Premium paid under the policy is eligible for deduction under the relevant 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 :: Pension Plus

Pension Plus is a unit linked pension policy from Aviva Life Insurance Company India Limited. This is non-participating policy.

Unique features

Increase of regular premium – Policy provides the option to increase regular premium by 2 methods:

- 1. Through indexation** – increase of the regular premiums by an indexation rate at any policy anniversary. Here, the purpose is to protect the real value of investments against inflation, as the indexation rate will be in line with the increase in the Whole Sale Price Index. Once opted for this will become a default option unless altered.
- 2. Through Additional Regular Premiums (ARPs)** – increase of the regular premiums on every policy anniversary through ARP. Minimum ARP is Rs.1,000 and there is no limit on the maximum ARP. The regular premium once increased cannot be reduced in future.

Loyalty additions – Policy provides for loyalty addition for all policies with policy term of 20 years or more. The loyalty addition

is a percentage of the fund units value pertaining to regular premium only and ranges between 1% and 2%, depending on the policy term. This addition is payable at policy maturity and is not available in case of a single premium policy.

Change of policy term – Policy term can be reduced to pre-empt the maturity date, provided policy has completed at 5 years and age of policy holder on the revision date is at least 40 years. Maturity date can also be post-poned with or without the premium payment for the extended term, subject to policy conditions.

Top up premiums – can be made as lump sum investments in the policy to enhance the policy funds. Minimum top-up premium is Rs.1,000 and there is no limit on the maximum amount of top-up premium. The top-up premiums will be invested in various investment funds in the same proportion as selected for the regular premium allocations.

Policy benefits

Vesting benefit – At the age of vesting, one-third of the fund value can be commuted as tax free lump sum amount. The remaining amount can be used to purchase an annuity plan from either the above insurer or any other life insurance company.

Death benefit – In the unfortunate event of death of the policy holder during the policy term, the nominee will receive the fund value pertaining to the regular (or single) premiums higher and top-up premiums, if any.

Eligibility parameters

Age at entry – minimum – 18 years; maximum – 65 years

Vesting age – minimum – 40 years; maximum – 70 years

Policy term – minimum – 5 years; maximum – as upto the chosen vesting age

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

Premium payment frequency (in case of regular premium) – Annual, semi-annual, quarterly and monthly. Monthly premium frequencies are available only under ECS.

Minimum premium amount – Rs.6,000 p.a. (Rs.15,000 p.a. for policy term less than 10 years); Rs.1,00,000 for single premium policy.

Premium can be paid by cash (at any of the offices of the insurance company), cheque / demand draft payable to the company or through direct debit or electronic clearing service.

Choice of investment funds

Policy provides the choice of 4 investment funds. Policy holder can choose from one or more of these funds based on the unique investment requirement and risk-return profile. The details of the funds are:

Fund Name	Investment Objective	Risk Profile	Investment Allocation in		
			Debt securities	Money market securities	Equities
Pension Index Fund	To generate returns in line with stock market index – Nifty	High	0% to 20%		80% to 100%
Pension Growth Fund	To generate long term capital appreciation with high equity exposure	High	20% to 60%	0% to 40%	20% to 60%
Pension Balanced Fund	To generate balance of capital growth and steady returns	Medium	50% to 90%	0% to 40%	0% to 45%
Pension Protector Fund	To generate steady returns with minimum exposure to equities	Low	60% to 100%	0% to 40%	0% to 20%

Policy provides for the option to change the allocation of the various investment funds to cater to the changing financial priorities and objectives. This option is available 2 times in a policy year and is subject to the condition that minimum allocation in each selected fund should be at least 10%.

Policy also provides for a provision for switching of the investment value from one fund to the other. Here, the minimum amount switched and the minimum balance in a fund after the switch should be Rs.5,000. Policy provides for 4 switches, free-of-charge in a year. Every additional switch will attract a charge of 0.50% of amount switched subject to maximum of Rs.500 per switch.

Policy charges

Premium allocation charges – ranges between 7.50% to 25% in the 1st year, depending on the annual premium amount; 2nd year onwards it is 2%. For single premium policies, it is 2% for premium amount below Rs.5,00,000 and 1% for a premium amount of Rs.5,00,000 and above. For top-up premiums, premium allocation charge is 2%.

Policy administration charge – is Rs.51 p.m. to be increased at the rate of 5% p.a. on 1st of January every year. For single premium policy it is Rs.30.

Fund management charge – ranges between 0.75% and 1.50% p.a. depending on the choice of the investment fund.

Policy surrender

Policy can be surrendered after the completion of the first 3 policy years and provided premium for more than one year has been paid. The surrender value is subject to deduction of a charge. However, if more than 4 years of premium has been paid, no surrender charges will be applicable.

Tax benefits

Premium paid under the policy is eligible for deduction as per the provisions of Section 80C (which includes Section 80CCC for pension plans) of the Income Tax Act, 1961. The policy benefits are exempt from tax under the provisions of Section 10(10D) of the Act.

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

KARVY Regional Offices: **Hyderabad:** Karvy Centre, 8-2-609/K, Road #10, Banjara Hills, Hyderabad-34, Ph: 040 - 2331 2454/2332 0251 ⇨ **Ahmedabad:** 201-203, Shail, Opp: Madhusudhan House, Behind Girish Cold Drinks, Off C G Road, Ahmedabad - 380 006, Ph: 079 - 2642 0422/2640 0527/28 ⇨ **Aurangabad:** Shop No.214/215, Tapadiya City Centre, Nirala Bazar, Aurangabad - 431 001, Ph: 0240-2363517/23/24/30 ⇨ **Bangalore:** No.59, Skanda, Putanaroad, Basavanagudi, Bangalore - 560 004, Ph: 080 - 2662 1192, 2662 1193 ⇨ **Bhopal:** Kay Kay Business Centre, 133, Zone 1, M P Nagar, Bhopal - 462 011, Ph: 0755 - 3013113, 3010728 ⇨ **Chandigarh:** Sco 371-372, Above HDFC Bank, Sector 35-b, Chandigarh - 160 022, Ph: 0172 - 5071726, 5071727 ⇨ **Chennai:** G-1, Swati Court, 22, Vijaya Raghava Road, T Nagar, Chennai, Ph: 044-2815 3445 ⇨ **Cochin:** Kochi, G 39, Panampally Nagar, Opp: Kerala State Housing Board, Kochi-682 036, Ph: 0484-2310884, 2322152 ⇨ **Coimbatore:** SNV Chambers, 482/483, Cross Cut Road, Opp: Power House, Gandhipuram, Coimbatore-641 012, Ph: 0422 - 2237 501 to 506 ⇨ **Indore:** DM Towers, 105, 106 & 107, Above Standered Chartered Bank, Near Jangeerwala Chowrah, Indore - 452 001, Ph: 0731 - 3014200-19 ⇨ **Jaipur:** S-16/A, Land Mark, Opp Jai Club, Mahaveer Marg, C-Scheme, Jaipur-302 001, Ph: 0141 - 2375039, 99, 2363321 ⇨ **Kolkata:** Jatin Bagchi, Road-16, Jatin Bagchi Road, Ground Floor, Kolkata -700 029, Ph: 033 - 2465 5006, 2465 5392 ⇨ **Lucknow:** 94, Mahatma Gandhi Marg, Opp: Governor House, Hazratganj, Lucknow - 226 001, Ph: 0522 - 2236820 to 26 ⇨ **Ludhiana:** Ground Floor, Sco 2, Aptech Building, Feroze Gandhi Market, Ludhiana - 141 001, Ph: 0161-3018445, 3018460 ⇨ **Mumbai:** Transworld Bldg., 16-26, Bake House, Maharashtra Chamber of Commerce Lane, Opp: MSC Bank, Fort, Mumbai - 400 023, Ph: 022 - 2204 0229/230 ⇨ **Nagpur:** 230-231, 3rd Floor, Shriram Shyam Bazar, Next to NIT Building, Sadar, Kingsway, Nagpur - 440 001, Ph: 0712 - 5612374, 5612375 ⇨ **Nasik:** F-1, Suyojit Sankul, Sharanpur Road, Nashik - 422 002, Ph: 0253 - 5602542/43 ⇨ **New Delhi:** 105-106, Arunachal Building,19, Barakhamba Road, Connaught Place, New Delhi -110 001, Ph: 011 - 41520316, 66305325, 2332 4401, 4409 ⇨ **Pune:** Rachana Trade Estate, Law College Road, Erandwane, Pune - 411 004, Ph: 020-6604 8790 to 95 ⇨ **Vadodara:** Sayajigunj, 31-34, Payal Complex, Near Vadodara Stock Exch, Opp: Vakal Seva Kendra, Sayajigunj, Vadodara - 390 005, Ph: 0265 - 2225 168/169, 2361 514 ⇨ **Vijayawada:** 39-10-7, Opp: Municipal Water Tank, Labbipet, Vijayawada-520 010, Ph: 0866 - 2495 200, 400, 500 ⇨ **Vizag:** 47-14-4, Eswar Paradise, Dwaraka Nagar Main Road, Vishakapatnam - 530 016, Ph: 0891-2752915 to 18

KARVY BAZAAR BAATEIN

KARVY the Finapolis
 Your Personal Finance Advisor

21st Nov 2008 to 27th Nov 2008

8

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


KARVY the Finapolis
 Your Personal Finance Advisor

Published from Karvy House, 46, Avenue 4, Street, No.1, Banjara Hills, Hyderabad-500 034. Ph: 040-2344 0601, Email: kbb@karvy.com.

Printed at Harshitha Printers, 6-2-985, Yousuf Building, Adj. Railway Gate, Khairatabad, Hyderabad-500 004. Ph: 040-2330 2133.

by **S. Gopichand** on behalf of Karvy Stock Broking Limited.

Editor: S. Gopichand

Personal Finance Team:

Atul, Pradeep, Murugavel

Designed by: Raju, Priya

RNI Regn. No. APENG/2007/20423

For further details on personal finance products please visit: www.thefinapolis.com

Subscriber's Address:

For information on DEBT PRODUCTS contact: 1800 425 8282 or visit: www.thefinapolis.com