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More Insurance Myths Busted

Myths not only put curtains on the important reality of the subject matter but could also create negative sentiments about the same. We present some of the myths associated with the subject of insurance and the real picture.

1. An insurance policy is just like any other investment product.

✦ An insurance policy should be primarily looked at as a risk mitigation tool and not as an investment instrument. As such an insurance policy is very different from any investment product and comparing the two will be like comparing apples and oranges. An investment component, if so available in an insurance (usually a life insurance) policy, should be looked at as an additional or secondary benefit.

2. Insurance is mainly for saving taxes. This is evident from so many tax benefits available to insurance policies.

✦ The concept of insurance in general provides freedom from the worries associated with the financial losses that are possible on the happening of certain contingencies. Insurance, from an individual's point of view, can be looked at as a very robust social security system which is provided for by the individuals themselves. The government is thus relieved of a great financial burden which it would otherwise have to provide in the absence of insurance. The various types of insurance policies are such promoted by the government through incentives such as deductions and exemption from the tax computations on individual incomes. However, one should not forget that the main objective of insurance policies is financial protection against contingencies of life.

Tax benefits available under insurance policies are only ancillary benefits.

3. The premium payable for an insurance cover is costly.

✦ Premium payable under an insurance policy is the consideration payable to the insurance company in return of the promise from it to provide protection against the financial loss on the occurrence of the risk that is insured against. The premium payable is usually a very small proportion of the sum insured but provides the basis for the financial compensation in the form of the sum insured (or sum assured in case of life insurance policies) on the occurrence of the covered risk. A requisite insurance cover should thus never be considered as expensive, as opting to go without the insurance cover could actually prove more expensive.

4. Insurance policy can be taken on the life of any family member.

✦ As a principle, the life of the main bread winner of a family should be covered first and on priority under a life insurance policy. It is only after this life has been adequately insured that the provision of life insurance cover to other family members should be considered. This is so because the unfortunate death of the bread winner can put his/her dependants in financial hardships. An adequate life insurance

cover on his/her life avoids such an adverse situation. On the other hand, while the lives of the dependants are also precious there is actually little or no reason for an insurance cover on the life of a person on whom nobody is financially dependant.

5. I need to have more than one insurance policy to have a full coverage.

As a life insurance policy provides the necessary financial support to the dependants in the unfortunate event of death of the bread winner, a number of factors need to be taken into consideration to have an adequate insurance cover. Some of these factors are: proper assessment of the usual financial requirements of the family / dependants in case of the death of the life to be assured, the increase in expenses with passage of time, the future lump sum expenses such as higher studies and marriage of children, repayment of loans (if any) and the premium payment capacity of the policy holder, etc. A sum assured properly calculated after taking into consideration all the above and more of such factors can be provided for through a single insurance policy.

6. A group insurance cover takes care of ones insurance needs.

A group insurance policy can be looked at as a thoughtful gesture on the part of the employer towards the employees. While a group insurance policy does provide a similar cover as in case of an individual insurance policy, it is based on the attributes of the group at large and may or may not match with the insurance requirements of an individual who is a part of this group. It could be that the sum insured available under the group insurance policy may not be adequate or even the type of the insurance policy might not be what is actually required by the individual. As such, the individual should have in place his/her own insurance policies apart from the group insurance cover(s) available to him/her.

Further, group insurance covers are not available when an individual is changing jobs and at such intervals it is the individual insurance policies that provide cover to the risks to which the individual is exposed to.

7. I get ancillary insurance covers such as those through credit cards. Why do I need to go in for a stand alone policy?

The insurance covers available as a part of another product/service like that of a credit card are as per the standard plans of the product provider (in this case a credit card provider). Once again, the terms and conditions and various aspects of this insurance cover may or may not match with the exact insurance requirements of the individual who is using the above product/service. As such, it is recommended that the individual looks at the permanent coverage of his/her insurance requirements through independent and stand alone policies. This is advised more so as an insurance cover which is a part of a service such a credit card will come to an end as soon as the credit card service / relationship is terminated.

8. It is always good to have a change. One can look at a change in the insurance policies as well.

A life insurance policy is provided by an insurance company after taking into consideration (or 'underwriting') various aspects about the life proposed to be insured. One of these very important aspects is the age at the time of the insurance proposal. As the mortality rate (i.e. chances of death of the person) usually increases with the increase in age, the life insurance company may insure the same but more aged person under the same policy at a higher premium or at more conservative terms and conditions. The insure cover could also be denied to the person. Moreover, a life insurance cover is usually meant for the major portion of the life of an individual and hence changing policies should be avoided unless the change is very necessary.

Product Showcase :: Spot Suraksha

Spot Suraksha is a unit linked policy from Bharti AXA Life Insurance Company Limited. It is a non participating policy.

Unique features

Simple and instantaneous insurance coverage: The policy provides the advantage of an *'on-the-spot'* insurance coverage. The prospective policy holder, after understanding the policy thoroughly, has to fill up the application form, submit the same with the relevant support documents and instantly a cover note is issued with the life insurance cover starting immediately at that point of time.

Guaranteed Special Addition: The first year premium under the policy gets utilized for the provision of a guaranteed special addition. This addition is equivalent to 130% of the first year's premium value and will form part of the maturity benefits or the death benefits.

100% premium allocation: Policy provides for the allocation of the entire premium amount to the investment fund(s) chosen by the policy holder, as no premium allocation charge is applicable under the policy.

Cover continuance option: If in case the policy holder is not able to pay the regular premium, the policy will continue based on the existing fund value with the life assurance cover remaining intact. This facility is available when policy has been in force for seven years.

After the submission of the written request by the policy holder to the insurance company for exercising this option, no further regular or top up premiums can be paid by the policy holder, subject to policy conditions.

Here it will be important to mention that, the policy will be in force as long as the fund value is greater than one year's annual regular premium, failing which the policy will be terminated.

The guaranteed special addition will be available on maturity or on an earlier death of the life assured, even when the cover continuance option is availed.

Top up premium: Payment of top up premium can assist in enhancing the investment value under the policy. The minimum amount of a top up premium is Rs.5,000, subject to the total top up premiums amount not exceeding 25% of the total regular premium at any point of time during the policy term. Top up premium does not affect the policy sum assured.

Policy benefits

Death benefit: In the event of unfortunate death of the life assured during the policy term, the nominee / beneficiary will receive either the sum assured (less the partial withdrawals as applicable) or the investment fund value (plus the guaranteed special addition).

In case of death occurring in the first year, either 50% of the sum assured or market index factor* multiplied with annual premium amount, whichever ever is higher will be payable as the death benefit.

* Market Index Factor is the ratio of the NSE CNX Nifty Index (closing value) as on the date of intimation of death to the NSE CNX Nifty Index (closing value) as on the date of policy issue.

Maturity benefit: The investment fund value, as existing 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 under the structured settlement option, or as a combination of both.

The policy holder has the option to withdraw the entire maturity proceeds at any time during the settlement option period. Also, during this period, fund management charge will be levied as applicable.

Eligibility parameters

Age at entry: minimum – 5 years; maximum – 55 years

Maximum age at maturity: 70 years

Policy term: fixed tenure of 15 years

Minimum annual regular premium: Rs.12,000

Premium payment frequencies: annual, semi-annual and monthly

Sum assured is equivalent to 5 times the annualized premium.

Maximum sum assured limit: Rs.5,00,000 for entry age of 5 years to 45 years; Rs.3,00,000 for entry age of 46 years to 55 years.

Investment fund options

The policy holder can choose from three investment funds, namely Grow Money Fund, Save'n'Grow Money Fund and Steady Money Fund. The details for these funds are:

Fund Name	Investment Objective	Risk & return profile	Investment allocation			
			Listed equity	Cash & money market	Government bonds	Corporate bonds
Grow Money	To earn high returns	High	80% to 100%	0% to 40%	0%	0%
Save'n'Grow Money	To achieve a balance of growth on investments and steady returns	Moderate	0% to 60%	0% to 40%	0% to 40%	0% to 50%
Steady Money	To earn steady returns	Low	0%	0% to 40%	20% to 80%	20% to 80%

Policy provides the option for switching the investment value from one fund to the other to match the changed investment objectives and requirements. 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.

Policy charges

The first year regular premium being utilized for the provision of the guaranteed special addition and not allocated towards the investment funds, the below charges are levied from the second year onwards.

Premium allocation charge: This charge applicable from the second year is nil for regular premium. For top up premiums, this charge is 1.5% of the premium amount.

Mortality charge: This charge is applicable from the second year onwards for the provision of the life insurance cover and is levied on the sum at risk (i.e. the policy sum assured less the policy fund value). Mortality charge will be guaranteed to remain constant throughout the policy term.

Policy administration charge: This is fixed charge, applicable from the second year onwards. For premium payment done on an annual and semi-annual basis, the charge is Rs.65 per month. For premium payment done on monthly basis, the charge is Rs.80 per month.

Fund management charge: This charge, levied from the second year, ranges between 1.00% and 1.50% per annum of the policy fund value, depending on the choice of the investment fund.

Surrender charge: This charge is applicable if the policy is surrendered within the first five policy years. The charge structure applicable if the policy is surrendered after the first policy year.

Policy year	Surrender charge as a percentage of the policy fund value
2nd year	10%
3rd year	5%
4th year	4%
5th year	2%
6th year onwards	0%

If the policy is surrendered in the first policy year, with less than one year of premium paid for the same, then surrender charge will be 100% of the first year premium surrender value payable will be nil. If in case one year's premium has been paid, 90% of first year premium will be the charge and only remaining 10% of first year premium will be payable to the policy holder as the surrender value.

Switching charge: A subsequent switch after 4 free-of-charge switches will be subject to a charge of Rs.100 per switch.

Partial withdrawal

Partial withdrawal facility is available after initial five policy years. Minimum partial withdrawal amount is Rs.5,000 and is subject to maximum 20% of the Policy Fund Value in that policy year. Only two partial withdrawals are allowed in a policy year and are free of charge. If in case the policy fund value becomes less than one year's annual regular premium after the partial withdrawal, the policy will be terminated.

Policy surrender

The surrender value payable will be as per the surrender charge structure discussed above. If the policy surrender is opted for before the completion of three policy years, then the surrender value as applicable will freeze and will be payable only on the completion of the three policy years. Once the policy is surrendered it will cease to exist.

Tax benefits

The premium payable under this policy is eligible for deduction under the provisions of Section 80C of the Income Tax Act, 1961. The benefits from 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 :: Mediclaim Policy

Mediclaim Policy from National Insurance Company Limited is a health insurance policy covering the expenses incurred towards hospitalization for treatment of illness, disease or accident and surgery, etc.

Unique features

Family coverage – The policy covers the entire family which is defined as including the primary insured person, his / her spouse, dependent children* and dependant parents.

* dependant children can be legitimate or legally adopted. Children above 18 years, if employed, can not be covered. Male children, if not employed, but a bonafide student can be covered upto age of 25 years. Female children, if not employed, can be covered until the time she is married.

Medical tests – Health check-up is mandatory when the person to be insured is 50 years and above and he/she is seeking insurance cover for the first time as an individual or as member of a family where there is break in insurance increase in sum insured on renewal.

TPA option – The policy premium includes the provision of cashless facility through TPA (third party administrator). If the policyholder does not require cashless facility then 6% discount on premium may be given.

Eligibility parameters

Age at entry: minimum – 18 years; maximum – 59 years

The Policy can, however, be renewed upto the age of 80 years.

Policy can also cover children above the age of 3 months, provided parents are covered concurrently and suitable premium is paid. Dependant children, as defined above, are covered under the policy.

Further, if the insured has continued to be covered under the policy for a minimum of 5 years before attaining the age of 80 years, the policy can be renewed beyond the age of 80 years upto the age of 90 years as a special case and subject to policy conditions and underwriting guidelines. The premium chargeable for insured aged more than 80 years is subject to policy conditions.

A family member cannot be included under the insurance cover during the policy currency, except for a new born child aged between 3 months and 6 months and a newly married spouse within 60 days of marriage. Otherwise inclusion of family member shall be allowed only at the time of renewal. Prorata premium shall be charged for such inclusion during the currency of the policy for the unexpired period.

Sum insured: minimum – Rs.50,000; maximum – Rs.5,00,000

Sum insured can be taken in multiples of Rs.25,000 upto Rs.5,00,000. The sum insured should be identical for primary insured and the dependents. However, children can be insured for 50% of the sum insured value for the adults.

Policy cover

Hospitalization expenses: Policy covers the following hospitalization expenses:

- Room, boarding expenses as provided by the hospital/nursing home. The cover is subject to rent limit of 1 % of the sum insured per day subject to maximum of Rs.5000. In case of hospitalization in I.C.U. (Intensive Care Unit), the covered expense will be limited to 2% of sum insured per day subject to maximum of Rs.10,000. Over all limits under this head is 25% of sum insured per illness.
- Nursing expenses.

- c) Fees of surgeon, anaesthetist, medical practitioner, consultant and specialist, subject to maximum of 25% of sum insured per illness.
- d) Expenses on account of anaesthesia, blood, oxygen, operation theatre charges, surgical appliances, medicines and drugs, diagnostic material, X-ray, dialysis, chemotherapy, radiotherapy, cost of pacemaker, artificial limbs and cost of organs and similar expenses. These expenses will be covered under the policy to the extent of maximum 50% of sum insured per illness.
- e) Ambulance services are covered upto the extent of 1% of the sum insured subject to maximum of Rs.1000, provided a registered ambulance is used for shifting patient from residence to hospital if admitted to ICU or emergency ward OR from one hospital to another subject.
- f) Hospitalization expenses of person donating an organ during the course of organ transplant will also be payable subject to the policy conditions.

Indicative premium

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.

Age Group (in years)	Sum Insured Value					
	Rs.50,000	Rs.1,00,000	Rs.2,00,000	Rs.3,00,000	Rs.4,00,000	Rs.5,00,000
18 to 25	Rs.608	Rs.1,179	Rs.2,219	Rs.3,096	Rs.3,863	Rs.4,629
26 to 35	Rs.798	Rs.1,547	Rs.2,912	Rs.4,063	Rs.5,070	Rs.6,076
36 to 45	Rs.1,074	Rs.2,081	Rs.3,919	Rs.5,467	Rs.6,821	Rs.8,176
46 to 55	Rs.1,837	Rs.3,552	Rs.6,792	Rs.9,672	Rs.12,311	Rs.14,952
56 to 59	Rs.2,425	Rs.4,697	Rs.9,017	Rs.12,919	Rs.16,542	Rs.20,165

The above premium is inclusive of service tax at the rate of 12.36%

Tax benefits

The premium paid under the policy by means of a cheque is eligible for deduction under the provisions of Section 80D of the Income Tax Act, 1961.

Important: Please refer to the policy document for the exclusions and the policy details.

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