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Financial Intermediaries – Bridging the Gap

Financial intermediaries, specially the insurance intermediaries, have a pivotal role in the huge machinery of the financial products industry. They can actually be seen as the bridges between the financial product providers and the public at large.

In a particular day, each one of us utilizes a number of products. These could range from a simple tooth paste to the daily provisions to the lot more valuable cars and motorbikes that we use for transportation. While the actual products are manufactured by particular entities, it is very seldom that these entities actually come in direct contact with the end consumers for selling the products. There are a number of other entities involved in ensuring that the innumerable products reach the intended final consumers at the appropriate time and shape. The usual name with which these entities are known is 'intermediaries' and add value to the product in question in one way or the other. Take the example of the motor vehicles. A specific car model which is assembled in, suppose the National Capital Region by the concerned automobile company, is transported to various parts of the country by a large number of transporters to the equally great number of dealerships in different cities. These dealerships set up at various locations sell the car to the people in the respective places and also help the owners in maintaining the car and claiming for the warranties, etc. through the network of authorized workshops and service stations. In this case, the transporters and the dealerships are the main intermediaries without whose presence and assistance the different automobile companies will find it difficult to cater to the demand of their clients in a timely and efficient manner. The intermediaries thus assist the product companies in not only maintaining their brand value in the minds of the customers but also enhancing the same.

Similar is the case for financial products. A great number of financial intermediaries are continuously involved in effective distribution of these products to the final consumers of these products, i.e. the investor population. The financial products range from the simple post office or bank fixed deposits to the

more complicated investment products associated with or based on equity shares of companies or/and various debt instruments, etc. In fact, the intermediation in financial products is much more evident as these products are intangible in nature and the consideration for purchasing these products being mainly a future return or gain or value, the same needs to be explained to the prospective investors so as to convince them about investing in the particular product. A few of the prominent intermediary categories functioning in the various financial and investment markets that would deserve a mention here are the stock brokers, commodity futures brokers, depository participants and distributors of mutual funds and debt products and the insurance intermediaries.

Focusing our discussion on the insurance industry, we will look at why the insurance intermediaries are so important and what can be validly expected from them. The insurance industry in India is still considered as in a nascent stage when compared to those in the developed countries. In our country, this industry comprises of a few entities, namely, the regulator, the insurance companies (involved in the life insurance and the general insurance business), the insured population and the intermediaries. While the insurance companies and the insured / to be insured population are considered to be the two ends, it is mainly the intermediaries which bring these two entities together and help in the growth of the industry.

Insurance intermediaries can be mainly classified into two categories, viz. the insurance brokers and the insurance agents. While there are some other categories such as the third party administrators (mainly concerned with the administration of the health insurance claims), the insurance brokers and the agents are considered as the main intermediaries when it comes to

the point of contact for the insured / to be insured with the insurance companies.

An insurance agent, usually an individual, is qualified to promote the insurance business with the necessary certification obtained from the regulator, the Insurance Regulatory and Development Authority, in this regard. An insurance agent can be a corporate as well. An agent can promote the products of only one life insurance company and one general insurance company. An agent usually works on behalf of the insurance company for consideration of commission payable to him for the business generated. The concept of agents has been present in our country for over a few decades now with them being the main point of contact force for the state-owned life insurance major, the Life Insurance Corporation of India.

An insurance broker is, on the other hand, usually a corporate entity which is engaged in the promotion of the insurance business with the necessary qualifications, requirements and certifications from the regulator. An insurance broker can deal in the products of all the life and general insurance companies operating in India. There are basically two categories of insurance brokers, viz. a direct broker and a composite broker. Direct brokers deal only in the direct insurance business between insurance companies and insured. Composite brokers deal in the re-insurance business between insurance and re-insurance companies, apart from the direct insurance business as dealt with by the direct brokers.

Insurance brokers usually being corporate entities they have their own sales force for meeting the requirements of the insured. Further, as the insurance brokers can deal in the products of all insurance companies, they are better placed to advise the population to be insured about the best available / suited insurance policies. In fact, as the insurance brokers work on behalf of the insured, they are looked upon to strike the best possible deal with the insurance companies.

At this juncture, an important point that needs clarity is the necessity for the insurance intermediaries. Insurance still remains as one of the least understood subjects surrounded by myths that can not only dissuade one from the importance of an insurance cover but also create negative sentiments against the subject. Hence, it becomes absolutely necessary to educate people, specially the individuals looking at taking an insurance policy, about the need for the particular insurance cover, the various policy features and benefits, the rights, responsibilities and obligations of the insured as well as the insurer. Further, apart from the product which needs to be explained to the prospective insured, there are other aspects such as the effects of not honoring the obligations (like the timely payment of premium, etc.) that need to be brought out to their notice to

enable them to fully understand and appreciate the importance of being comprehensively insured. Considering the vast insurable population requiring to be contacted, it will be really very difficult for the insurance companies to themselves take care of this Herculean task alone. And hence they require the continuous assistance of a large number of people who are knowledgeable, qualified and certified to undertake this task. Moreover, with majority of the population of India residing in the villages and towns and having very little or no knowledge of what insurance is all about, the role played by the intermediaries can be looked at as a very important one in ensuring the adequate insurance coverage to most of the people in the country.

Having discussed the importance of the intermediaries specially those in the insurance industry, let us take a look at some of the valid expectations from the insurance intermediaries. These are:

- ❖ Assistance in realization of the actual risks that an individual faces from the contingencies of life and how insurance is an effective tool in the provision of the necessary financial protection against these risks.
- ❖ Assistance in the basic understanding of the various insurance policies and more importantly of the ones that a particular individual will require.
- ❖ A proper and full explanation of the specific products detailing both the positive features of the product(s) as well as the shortcoming in these in form of exclusions, limitations to cover, etc.
- ❖ Providing an unbiased opinion about the product(s) in discussion.
- ❖ If possible, an impartial analysis covering all the details of the product(s) in question, thereby enabling the prospective insured to himself take an informed decision.
- ❖ Assisting the prospective insured in taking the right policy which includes assistance in completion of all the paperwork and the medical formalities (if so required), etc.
- ❖ Reminding the insured to pay the policy premiums in time and renew the policies (in case of non-life policies) to ensure a continued cover.

The above will certainly go a long way in making the insured population realize and appreciate the important role of the intermediaries, specially the insurance intermediaries, in assisting in getting the right and adequate insurance cover.

Product Showcase :: Jeevan Aastha

Jeevan Aastha is a traditional life assurance policy with a guaranteed additions component. The policy has been introduced by Life Insurance Corporation of India.

Unique features

Single premium, closed ended insurance policy: This is a single premium policy and is available for only for a duration of 45 days ending on January 21, 2009.

Guaranteed addition: Policy provides for a guaranteed addition of Rs.100 and Rs.90 per thousand maturity sum assured every year for a policy term of 10 years and 5 years respectively.

Loyalty addition: Depending upon the Corporation's experience the policy will be eligible for loyalty addition on death during the last policy year or on the life assured surviving the stipulated date of maturity at such rate and on such terms as may be declared by the Corporation.

Premium rebate: A rebate is available on the policy premium for high sum assureds. The detail of the rebate rates per Rs.1,000 sum assured is as in the below table.

Basic sum assured value	Rebate rate (per Rs.1,000 sum assured) for	
	Policy term of 5 years	Policy term of 10 years
Upto Rs.2,99,999	Nil	Nil
Rs.3,00,000 to Rs.5,99,999	Rs.2.00	Rs.3.00
Rs.6,00,000 to Rs.11,99,999	Rs.2.50	Rs.3.50
Rs.12,00,000 & above	Rs.3.00	Rs.4.00

Loan availability: Loan facility is available under this policy after the completion of one policy year.

Policy benefits

Death benefit: In the unfortunate event of death of the life assured during the:

First policy year – the nominee / beneficiary will receive basic sum assured with guaranteed additions.

Policy term after the first year and excluding the last policy year – the nominee / beneficiary will receive one-third of the basic sum assured with guaranteed additions.

Last policy year – the nominee / beneficiary will receive one-third of the basic sum assured with guaranteed additions along with loyalty addition, if any.

Maturity benefit: With the life assured surviving at the end

of the policy term, the maturity sum assured along with the guaranteed addition and loyalty addition (if any) will be paid to the policy holder. The maturity sum assured will be equal to one-sixth of the basic sum assured under the policy.

Eligibility parameters

Age at entry: minimum – 13 years (completed); maximum – 60 years (nearest birthday)

Basic sum assured value: minimum – Rs.1,50,000; maximum – no limit (cover is subject to underwriting guidelines & decisions).

The basic sum assured shall be available in multiples of Rs. 30,000.

Policy term option: 5 years and 10 years

This is a single premium policy

Policy surrender

Policy can be surrendered for cash after the policy has run for at least one year. The minimum guaranteed surrendered value allowable is equal to 90% of the single premium value paid excluding all extra premiums.

Corporation may however pay special surrender value as applicable on the date of surrender provided the same is higher than the guaranteed surrender value. The special surrender value will be the discounted value of the maturity sum assured and guaranteed additions accrued as on date of surrender.

Indicative premium

The indicative premium rates (per Rs.1,000 sum assured) for some ages is as in the table below.

Age at entry	Policy Term of 5 years	Policy Term of 10 years
20 years	Rs.174.50	Rs.165.00
30 years	Rs.174.70	Rs.165.40
40 years	Rs.176.10	Rs.167.95
50 years	Rs.180.85	Rs.175.90

Tax benefits

Premium paid under this 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.

Product Showcase :: Met Growth

Met Growth is a unit linked insurance policy from MetLife India Insurance Company Limited. The policy aims at the creation of wealth to support the income during the post retirement years as well as provides for the necessary life insurance cover. This is a non-participating policy.

Unique features

Guaranteed loyalty additions: First year premium under the policy is utilized for the provision of the guaranteed loyalty additions. These additions are expressed as a percentage of the first year premium and are added at the end of the 10th and 15th policy year. At the end of the 10th policy year, the loyalty additions equivalent to 50% of the first year premium will be added to be investment fund(s). At the end of the 15th year, depending on the annualized premium value, the additions will be as per the below table:

Annualized premium value	Guaranteed Loyalty Additions as a % of first year premium value
Silver (Rs.12,000 to Rs.25,000)	55%
Gold (Rs.25,001 to Rs.2,00,000)	60%
Platinum (Rs.2,00,001 & above)	70%

Further, the guaranteed loyalty additions calculated at the rate of 2% of the average fund value* of the regular premium account are also added at the end of the 20th policy year and every five years thereafter.

* The average fund value is the average of the fund value of the last 36 monthly anniversaries preceding the due date after monthly deductions preceding the loyalty addition calculation.

The guaranteed loyalty additions would be allocated to the chosen investment funds in the same proportion as the existing premium allocation instruction of the policyholder at the time of additions. The fund value pertaining to top up premiums is not eligible for loyalty additions.

Top up premium: Top up premium can be paid to enhance the investment fund value. The minimum top up premium amount is Rs.5,000. The sum assured would also be increased by 125%

of the top up premium on each such payment. Any top up premiums paid would not be eligible for partial withdrawals for three years from the date of such payment.

Policy benefits

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

If the death of the life assured happens before attaining 7 years of age, and:

- (a) If death happens before completion of one policy year, then all the regular premiums received till date of death will be paid back without interest.
- (b) If death happens after the first policy anniversary, the death benefit payable will be the fund value plus the amount equal to the regular premium paid in the first policy year.

Maturity benefit: At the end of the policy term, the investment fund value including the guaranteed loyalty additions are paid to the policy holder.

The maturity benefit payment can be received by the policy holder as a lump sum amount or in installments ranging to maximum of 5 years from the policy term end under the settlement option.

Eligibility parameters

Age at entry: minimum – 3 months; maximum – 60 years

Maximum age at maturity: minimum – 18 years; maximum – 75 years

Policy term: minimum – 15 years; maximum – 30 years

The policy term options available are: 15 years, 20 years, 25 years and 30 years

Sum assured value: minimum – 5 times the annual premium value; maximum – 20 times the annual premium value. For entry age of 55 years and above, maximum sum assured is only 5 times the annual premium value.

Premium payment term is the same as the policy term

Minimum annual premium amount: Rs.12,000

Premium payment frequency: annual, semi-annual, quarterly and monthly

Investment fund choice

Policy provides the choice of 5 investment funds. Any one of these or a combination of these two or more of these funds can be opted for to customize the asset allocation under the policy as per ones unique investment requirements. In case of a combination of investment funds, a minimum allocation of 20% is necessary in each of the chosen funds. The allocation in the chosen investment fund(s) starts from the second policy years onwards. The details of the investment funds are:

Fund name	Investment objective	Risk return profile	Asset allocation in				
			Equities	Money market instruments	Long & short term bonds	Government securities	Infrastructure / Social sector securities
Multiplier	To generate long term capital appreciation by investing in diversified equities	Very high	80% to 100%	0% to 40%	0%	0%	0%
Virtue	To generate long term capital appreciation by investing in diversified equities of companies promoting healthy lifestyle and enhancing quality of life.	High	60% to 100%	0% to 40%	0%	0%	0%
Balancer	To generate capital appreciation and current income, through a judicious mix of investments in equities and fixed income securities	High to moderate	35% to 65%	0% to 40%	0% to 60%	10% to 60%	0% to 60%
Protector	To earn regular income by investing in high quality fixed income securities	Low	0%	0% to 40%	0% to 60%	25% to 90%	0% to 60%
Preserver	To generate income at a level consistent with preservation of capital, through investments in securities issued or guaranteed by Central and State Governments	Very low	0%	0% to 40%	0%	80% to 100%	0%

Policy provides the option of re-directing or changing the premium allocation pattern to suit the change in the investment and financial requirements of the policy holder. This re-direction will be subject to condition of minimum allocation of 20% of the premium in each of the funds chosen. One premium re-direction option is available free-of-charge in every policy year. Subsequent re-directions in a policy year will be charged for.

Policy also provides the option of switching the investment value from one fund to the other either partially or fully. There are 12 free-of-charge switches in a policy year. The minimum value of s switch is Rs.5,000.

Policy charges

The first year premium is utilized towards the provision of the guaranteed loyalty additions. The premium being allocated to the investment fund(s) chosen, from the second year onwards, the policy charges are also levied from the second year. The details of these charges are:

Premium allocation charge: This charge is nil and hence results in a 100% allocation of the premium to the chosen investment funds. However, the premium allocation charge for top up premiums is 3.50%.

Policy administration charge: This charge is a percentage of the sum assured and would be deducted every month from the fund value from the 2nd year onwards. Policy administration charges will be waived in the first year. This percentage will also depend on the annualized premium value. The details for the charge are:

Annualized premium value	Policy administration charge as a % of the sum assured (S.A.) when S.A. is		
	5 times the annualized premium	10 times the annualized premium	20 times the annualized premium
Silver (Rs.12,000 to Rs.25,000)	0.225%	0.1125%	0.05625%
Gold (Rs.25,001 to Rs.2,00,000)	0.15%	0.075%	0.0375%
Platinum (Rs.2,00,001 & above)	0.10%	0.05%	0.025%

Insurance company reserves the right to increase the charge to 0.33% with prior approval from IRDA.

Fund management charge: This charge is levied for the management of the investment fund(s) chosen and are expressed as a percentage of the fund value managed. The details are:

Fund	Multiplier	Virtue	Balancer	Protector	Preserver
Fund management charge	1.75% p.a.	1.75% p.a.	1.50% p.a.	1.25% p.a.	1.25% p.a.

Insurance company reserves the right to increase the charge to 2.50% with prior approval from IRDA.

Mortality charge: This charge will be levied, for the provision of the life assurance cover, from the second year onwards. It will be deducted at the beginning of each month by cancellation of an appropriate number of units. No mortality charges are levied in the first policy year. The indicative mortality charge per Rs.1,000 of sum assured is:

Gender	Age of life assured		
	20 years	30 years	40 years
Male	0.134667	0.147542	0.254167
Female	0.124667	0.146875	0.213083

Surrender charge: This charge is expressed as a percentage of the annualized premium and is deducted from the fund value to arrive at the surrender value payable. As policy surrender is not permitted during the first three policy years, the surrender charge is not applicable in these first three years.

Number of years for which premium has been paid	Surrender charge as a % of the first year premium	
	In policy year 4	In policy year 5
Less than one	Not applicable	Not applicable
One to less than two	75%	Not applicable
Two to less than three	15%	15%
Three or more	10%	5%

The surrender charge will be nil if the surrender is opted for in the sixth year or later on with three or more years premium having been duly paid.

Switching charge: A subsequent switch after 12 free-of-charge switches in a policy year will be charged at the rate of Rs.250 per switch.

Insurance company reserves the right to increase the charge to Rs.750/switch with prior approval from IRDA.

Partial withdrawal charge: A subsequent partial withdrawal after first two free-of-charge withdrawals in one policy year will be charged at the rate of Rs.250 per withdrawal.

Insurance company reserves the right to increase the charge to Rs.750/switch with prior approval from IRDA.

Miscellaneous charge: The insurance company has the option to charge Rs.250 for alterations like premium redirection (the subsequent one after first free-of-charge redirection in a policy year) and reinstatement of the policy.

Insurance company reserves the right to increase the charge to Rs.750/switch with prior approval from IRDA.

Policy surrender

Policy surrender can be opted for after the completion of first three policy years. The surrender value is as available after the deduction of the surrender charge detailed in the 'policy charges' section.

Partial withdrawal

The partial withdrawal facility provides financial liquidity to the policy holder to enable him / her to meet the intermittent financial needs. The facility is available after the life assured attains 18 years of age and after the completion of first three policy years. The minimum amount of a partial withdrawal is Rs.5,000.

The minimum fund value remaining after the partial withdrawal should be equal to 120% of the annualized regular premium. The current limit on the maximum partial withdrawal is restricted to 10% of the fund value in a policy year. This limit shall apply only during the first 15 policy years. First two partial withdrawals are free-of-charge in one policy year.

Tax benefits

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

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

Editor: S. Gopichand

Personal Finance Team:
Atul, Pradeep, Murugavel

Designed by: Raju, Priya

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