



KARVY BAZAAR BAATEIN

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Technology & Mutual Funds

Information technology has in a very great way helped the mutual fund industry in achieving the present high levels of popularity and success. A robust IT basis forms an integral and necessary support system for the industry.

Capital markets have from their very inception being looked upon as places both adored for their potential to make people rich, as well as also dreaded for turning millionaires into paupers overnight. Participation as a successful investor in the financial markets is as such seen by many as the 'cup of tea' of the specialists and not the something that can be mastered by a layman. Over the period of time, a number of investment avenues have evolved to cater to the requirement of professionally managing the investments of the large population which does not wish to take a 'plunge' in these markets all by themselves but is keen at participating in the wealth created by these markets. A mutual fund is one such very popular investment avenue.

The main benefit perceived in the mutual funds is the benefit of ones investments being managed in a professional manner. There is, however, a lot more that goes into making this investment avenue actually very convenient. One of the major factors is the technological support on which is based the very foundation of the modern mutual fund industry. In this article of Karvy Bazaar Baatein, we will look at some of the information technology aspects related to this industry.

The AUM then and now: Assets under management (AUM) of the mutual fund industry in India has grown from Rs.79,501 crore in July 1999 to Rs.5,29,631 crore by July 2008. The figures depict that a lot of people who have entered the capital markets during this period have preferred to do so via the mutual funds route. A main reason for this preference is the extent of services provided by the Asset Management Companies (better known as the AMCs). These services have in turn been made possible

by the removal of a lot of otherwise nearly impossible glitches or hurdles, with the help of state-of-the-art technologies. An example of this will be the allocation of NAV for a particular trading / working day depending on the investment application being filed before a stipulated cut-off time on that day.

The great transaction processing: While investing in mutual funds is very simple and easy from the individual investors' point of view, there are a number of systems and procedures that go into ensuring this simplicity and easiness. The processing of each and every transaction (such as purchase, further purchase, redemption, dividend declaration and dividend re-investment, etc.) at the customer service centers, the fund house (or the AMC), the concerned registrars and bankers, has to be necessarily completed as a time bound activity. Further, a prompt intimation of the transaction being processed to the investor and proper co-ordination of the same amongst all the various entities involved in the transaction has to happen as on a real time basis. All this requires the support of a robust information technology basis. A mention here could be made about the simultaneous handling of thousands of transactions every day, by a mutual fund registrar such as Karvy Computershare Private Limited, having been made possible through the quite necessary technological support.

Great investment potential: The Indian economy is on the fast path of development. The economic growth has lead to the average income for the nationals witnessing an impressive rise in the recent years. This has in turn led to an improvement in the overall savings and investment capacity. Nevertheless, with a large number of people still not very comfortable with the

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idea of direct investments in the capital markets, especially the equity markets, there exists a huge potential for the growth of the investment avenues such as the mutual funds. Technological advancements have so far and will in future continue to keep mutual funds as an attractive vehicle of investment.

Having briefly discussed the importance of information technology in the mutual fund industry, we will look at some of the very important applications in the industry that have been made possible because of technological advancements.

The SIP

The systematic investment plan (or SIP) is a not so recent but a recently very popular way of investing in the capital markets through the mutual funds. SIPs are quite suited to the common man as a means of investing for a number of reasons. As one needs to invest regularly in small amounts over a period of time, this results in the investments being light on the investor's pocket, the attainment of the benefits of rupee cost averaging (in simple words, a reduction in the average cost of investments) and disciplined investing becoming a way of life.

In an SIP, a pre-decided amount of money gets invested at a particular date usually every month or quarter. The investment happens based on the direct credit or the ECS (electronic clearing service) facility provided by most of the banks in our country. These facilities have themselves been made possible because of the technological revolution witnessed by the banking industry in the last decade. These facilities help in instantaneous transfer of investment funds from the bank account of the investor (based on his / her written standing instructions and agreement with the concerned mutual fund house and the bank) to the AMC and the simultaneous allocation of units of the chosen mutual fund(s) to the account (folio number) of the investor. The magnificence lies in the fact that there is actually no physical transfer of funds, but only an online or a wire transfer of funds, which in turn provides a safe transfer with an adequate trial of the entire transaction.

Quant Funds

Quant or 'quantitative' funds are a category of investment funds that selects securities based on quantitative analysis. In these funds, computer-based models determine the decision making

on an investment (i.e. whether to buy / sell a security and what price). In quant funds, however, there is also a scope for little intervention from a fund manager who will use human judgment in addition to a quantitative model. These funds advantage from the fact that computers are not swayed by emotions and react to the financial market changes much faster than a real person can. These are rule-based funds and rebalance their portfolio automatically as per preset formulas at regular intervals in line with the fund's objective. In contrast to the usual actively-managed funds where the buy and sell calls are taken by the fund manager, in quant funds, it is primarily a mathematical formula identifies buy and sell calls as set out in the objective of the fund. These funds are another important application of information technology to the mutual fund industry.

Online Investment Facility

Gone are the days when an individual had to actually make rounds of the office of a financial intermediary or a mutual fund house and deal with loads of paperwork for the purpose of investing in the MF scheme of his choice. Breakthrough technology has made it possible to use the internet (one of biggest inventions credited to information technology) for the purpose of various investment transactions pertaining to not only mutual funds but other permissible investment avenues as well. The online transaction facility provides the payment gateway to the investor's bank account for the funding of the investment transaction that gets concluded over the internet with minimum human intervention. Karvy Online is a very recent initiative in this regard.

Technology usually brings with it a three-fold benefit which can be seen in the form of the systems becoming more effective, efficient and economical. While the mutual fund industry is known for being one of the best regulated industries in the financial sector, the procedures and processes also put it in a leading position as regards being professionally managed. Moreover, the limited fees or charges applicable to mutual fund investment also make it a reasonably good investment choice from the economic point of view. Needless to say that these benefits will be difficult to even think-off without the active role of information technology in the MF industry.

Product Showcase :: Life Maker Platinum

Life Maker Platinum is a unit linked insurance policy from Max New York Life Insurance Company Limited

Unique features

Increasing insurance cover: The death benefit available under the policy comprises of both the policy sum assured and fund value. Hence, the insurance cover under the policy keeps on increasing with the increase in the fund value.

Persistency units: Policy provides persistency units on continuation of the policy and the premium payments being made as per the policy schedule. The persistency units are in addition to those which are credited to the investment fund(s) in the normal course of the policy. The persistency units are credited to the chosen investment fund(s) during the last policy year and will be equal to 2.5% of the annualized premium value multiplied by the policy term. This value is, however, subject to the value of the units not exceeding the amount of one annualized premium.

Option to increase the sum assured value: The policy holder has the option to increase the sum assured value any time during the policy term, subject to the underwriting guidelines and policy conditions. An increase in the sum assured value will result in an increase of the premium payable under the policy.

Here, the premium allocation charges and all applicable charges for the increased portion of the premium payable for the corresponding increase in the sum assured value shall be the same as for a new policy.

Top up premium: Top up premium can be paid to enhance the investment fund value. The minimum top up premium payable is Rs.2,500. This premium will, however, not effect the life assurance cover (or sum assured) value. Also, the cumulative top

up premium amount should not exceed 25% of the cumulative top up premium paid till date.

Policy benefits

Death benefit: In the unfortunate event of death of the life assured during the policy term, the nominee / beneficiary will receive both the sum assured value and the investment fund value.

Maturity benefit: With the life assured surviving at the end of the policy term, the policy holder will receive the investment fund value which is inclusive of the persistency units. The maturity benefit can be received by the policy holder as either a lump sum or in installments spread up to 5 years from maturity under the settlement option.

Eligibility parameters

Age at entry: minimum – 12 years; maximum – 60 years

Maximum age at maturity: 70 years

Policy term available: minimum – 10 years; maximum – 58 years

Minimum annual premium amount: Rs.10,000. The premium payable under the policy is calculated on the basis of the choice of the sum assured and the policy term. Minimum sum assured value: Rs.50,000

Investment fund choice

Policy provides an option to invest in one or more of the four investment funds. The details of these funds are:

Fund Name	Investment Objective is to provide	Risk Return Profile	Asset Allocation in			
			Equities	Money Market Instruments / Cash	Corporate Bonds	Government Securities
Growth Fund	Potentially higher returns by investing primarily in Equities	High	20% to 70%	0% to 20%	0% to 30%	0% to 30%
Balanced Fund	Balanced returns from investments in both fixed income securities and equities	Moderate	10% to 40%	0% to 20%	20% to 40%	20% to 50%
Conservative Fund	Stable returns by investing in assets of relatively low to moderate level of risk.	Low	0% to 15%	0% to 20%	0% to 50%	50% to 80%
Secure Fund	Stable returns by investing in relatively low risk assets.	Very Low	0%	0% to 20%	0% to 50%	50% to 100%

Policy provides the facility to switch the investment value from one fund to the other. The minimum switching amount is Rs.5,000. There are 6 free-of-charge switches in a policy year.

Policy also provides the facility for re-direction of the future premiums in order to change asset allocation of the investment funds as per the changing investment requirements of the policy holder. There are 3 free-of-charge premium re-directions available in a policy year.

Policy charges

Premium allocation charge: This charge is levied as a percentage of the premium amount and depends on the policy term chosen. The details for this charge are:

Policy years	Premium allocation charge as a % of the premium for policy term of		
	10 year to 14 years	15 years to 19 years	20 years & above
Year 1	55%	60%	65%
Year 2	20%	20%	20%
Year 3 and thereafter	5%	5%	5%

Premium allocation charge for top up premiums is 3%.

Mortality charge: This charge is levied for the provision of the life insurance cover under the policy. This is levied at the beginning of the policy month by cancellation of units from the investment fund(s). It will be levied on the net 'sum at risk'

which is equal to sum assured minus the fund value (as on the relevant policy month-anniversary). The mortality rates are guaranteed during the policy period.

Fund management charge: This charge is levied for the management of the investment value under the chosen investment fund(s) and is appropriated on a daily basis. The details are:

Fund Name	Growth Fund	Balanced Fund	Conservative Fund	Secure Fund
Fund Management Charge	1.25% p.a.	1.10% p.a.	0.90% p.a.	0.90% p.a.

This charge is subject to increase to a maximum of 2% p.a. subject to prior approval of IRDA.

Policy administration charge: This charge is a fixed amount of Rs.50 per month and is levied at the beginning of each month by cancellation of the units from the chosen investment fund(s). This charge will increase every at the rate of 5% p.a., compounded annually.

Rider premium charge: If the policy holder has opted for the opted for the Dread Disease rider and/or Personal Accident Benefit rider, the rider charges, i.e. mortality or morbidity charges as the case may be and subject to policy conditions, will be deducted by cancellation of units from the chosen investment fund(s) at each month-anniversary.

Switching charge: Every subsequent switch after the 6 free-of-charge switches in a policy year will be subject to a charge of Rs.500 / switch.

This charge can be increased to maximum of Rs.1,000 / switch with prior approval from IRDA.

Partial withdrawal charge: Every subsequent partial withdrawal after the 3 free-of-charge partial withdrawals in a policy year will be subject to a charge of Rs.1,000 / partial withdrawal.

This charge can be increased to maximum of Rs.2,000 / partial withdrawal with prior approval from IRDA.

Premium re-direction charge: Every subsequent premium re-direction after the 3 free-of-charge premium re-directions in a policy year will be subject to a charge of Rs.1,000 / premium re-direction.

This charge can be increased to maximum of Rs.2,000 / premium re-direction with prior approval from IRDA.

Surrender charge: A charge of 5% of the fund value will be applicable if the policy is surrendered before premiums equivalent to four annualized regular premiums have been paid.

Partial withdrawals

Partial withdrawal facility is available after initial three policy years. The withdrawals can be made up to 50% of fund value in any policy from a chosen investment fund account. The minimum value of partial withdrawal should be Rs.10,000/- and the minimum fund value remaining in a fund account after any partial withdrawal should not be less than the value of one annualized regular premium. Here, it will be important to mention that each top up premium will have a lock in of 3 years for partial withdrawals (except in the last 3 policy years). Partial withdrawal before age of 18 of the life insured is not allowed.

Policy surrender

Policy surrender option is available under the policy after initial 3 policy years. A policy will not acquire a surrender value unless a premium value equivalent to 3 annualized regular premiums has been paid in the first 3 policy years.

The surrender value payable will be subject to the deduction of the surrender charge as applicable.

Riders available

Policy provides the following riders to choose from at the policy inception or on any policy anniversary. The individual rider sum assured cannot exceed basic sum assured under the policy.

Personal Accident Benefit (PAB) Rider – provides a lump-sum amount in case of death of the life assured caused by an accident. Also, if the life assured suffers from a total and permanent disability while being involved in an accident, benefit is available under this rider.

Dread Disease (DD) Rider – provides a lump-sum amount on the life assured being diagnosed with any of the ten dread diseases covered or the life assured undergoing the surgery covered.

Tax benefits

The premium paid under the policy is eligible for deduction under Section 80C of the Income Tax Act, 1961. The benefits received under the policy are exempt from tax under Section 10(10D) of the Act.

If, however, the premium paid (regular premium plus top up premium) in a financial year exceeds 20% of the sum assured value, both the above tax benefits will not be available under the current tax laws.

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

Product Showcase :: Health Shield Online

Health Shield Online is a comprehensive health insurance policy from Royal Sundaram General Insurance Company Limited.

Unique features

Easy and instant coverage:

Policy provides instant health insurance coverage with no / minimum documentation requirements. It also provides the facility for tracking the policy and reporting the claims online.

No medical examinations:

There are no medical examinations required for the purpose of taking the policy.

Family cover:

The policy provides health insurance cover to the entire family. Here, the family includes the primary insured, his / her spouse, children and dependant parents.

Family discount:

A family discount of 10% is available on the policy premium when three or more family members of the family are covered under a single policy.

Value added services:

Such as cashless treatment (subject to conditions and authorizations) at a list of hospitals, a 24 hour helpline and ambulance referral facility at no additional cost, are provided under the policy.

Eligibility parameters

Age at entry: minimum – 90 days; maximum – 50 years

Here, the maximum limit for age at entry will be as that applicable for the senior most member (dependant parent) of the family. Dependant children are covered up to 18 years of age.

The policy can be renewed up to 70 years of age.

Sum insured options: Rs.1,50,000, Rs.2,00,000, Rs.2,50,000, Rs.3,00,000, Rs.4,00,000 and Rs.5,00,000.

Policy covers

Hospitalization expenses: The policy covers the following expenses incurred towards the hospitalization of the insured person:

- Room, boarding expenses for hospital/nursing home subject to maximum 1.5% of the sum insured and for Intensive Care Unit, 3% of the sum insured per day.
- Surgeon, anaesthetist, medical practitioner, consultants & specialists fees, subject to maximum of 40% of the sum insured.
- Nursing expenses during hospitalization.
- Anaesthesia, blood, oxygen, operation theatre charges, medicines and drugs, diagnostic materials and x-ray, dialysis, chemotherapy radiotherapy, donor's medical expenses towards organ transplant, cost of pacemaker, artificial limbs, cost of organs.

Lump sum recovery benefit: A lump sum benefit of 2% of sum insured is payable to the insured if hospitalization exceeds 15 consecutive days and where liability is admitted for hospitalization.

Pre & post hospitalization expenses: Policy covers the expenses incurred up to 30 days prior and 60 days after hospitalization.

Coverage for pre-existing diseases: Policy covers the pre-existing diseases / conditions after four consecutive years of insurance coverage.

Reimbursement of health check up cost: Policy provides for the reimbursement of expenses incurred towards health check up and subject to maximum of Rs.750 per insured person after 5 claim free years of insurance.

Ambulance expenses: Policy covers ambulance expenses incurred in a emergency and subject to maximum of Rs.1,000.

Indicative premium

The indicative premium payable (for one year) under the policy is:

Age Group	Sum insured value					
	Rs.1,50,000	Rs.2,00,000	Rs.2,50,000	Rs.3,00,000	Rs.4,00,000	Rs.5,00,000
91 days to 25 years	Rs.1,313	Rs.1,510	Rs.1,888	Rs.2,264	Rs.2,928	Rs.3,295
26 years to 40 years	Rs.2,319	Rs.2,622	Rs.3,278	Rs.3,935	Rs.4,982	Rs.5,607
41 years to 45 years	Rs.2,719	Rs.3,334	Rs.4,167	Rs.5,000	Rs.6,333	Rs.7,125
46 years to 50 years	Rs.3,119	Rs.4,045	Rs.5,170	Rs.6,291	Rs.7,970	Rs.8,967

The above premium is inclusive of service tax.

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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