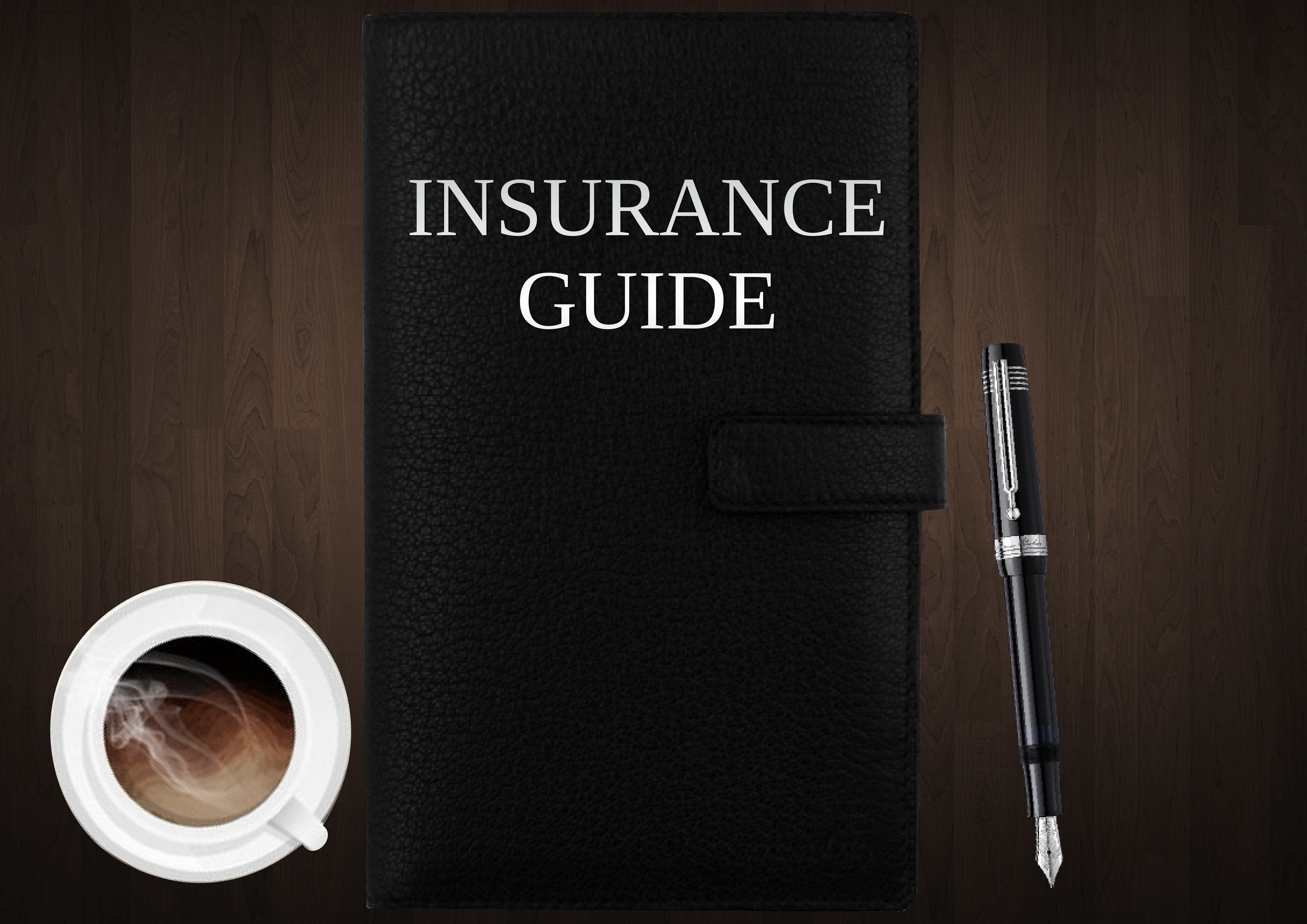

INSURANCE
GUIDE

What is Life Insurance ?

Right from birth an individual has to go through several uncertainties like illness, accidents, unexpected situations that crop up and last of all death. Now you can't be sure that you will have savings or the expected amount to cover these unexpected situations. You can avoid such situation in future by investing in the best life insurance plan available.

Why is insurance needed?

Risks and uncertainties are part of life's great adventure -- accident, illness, theft, natural disaster - they're all built into the working of the Universe, waiting to happen. Insurance then is man's answer to the vagaries of life. If you cannot beat man-made and natural calamities, well, at least be prepared for them and their aftermath. Insurance is a contract between two parties - the insurer (the insurance company) and the insured (the person or entity seeking the cover) - wherein the insurer agrees to pay the insured for financial losses arising out of any unforeseen events in return for a regular payment of "premium".

These unforeseen events are defined as "risk" and that is why insurance is called a risk cover.Hence, insurance is essentially the means to financially compensate for losses that life throws at people - corporate and otherwise.

Roles of Life insurance

Role 1: Life insurance as "Investment"

Insurance is an attractive option for investment. While most people recognize the risk hedging and tax saving potential of insurance, many are not aware of its advantages as an investment option as well. Insurance products yield more compared to regular investment options, and this is besides the added incentives (read bonuses) offered by insurers.

You cannot compare an insurance product with other investment schemes for the simple reason that it offers financial protection from risks, something that is missing in non-insurance products.

In fact, the premium you pay for an insurance policy is an investment against risk. Thus, before comparing with other schemes, you must accept that a part of the total amount invested in life insurance goes towards providing for the risk cover, while the rest is used for savings.

In life insurance, unlike non-life products, you get maturity benefits on survival at the end of the term. In other words, if you take a life insurance policy for 20 years and survive the term, the amount invested as premium in the policy will come back to you with added returns. In the unfortunate event of death within the tenure of the policy, the family of the deceased will receive the sum assured.

Now, let us compare insurance as an investment options. If you invest Rs 10,000 in PPF, your money grows to Rs 10,950 at 9.5 per cent interest over a year. But in this case, the access to your funds will be limited. One can withdraw 50 per cent of the initial deposit only after 4 years. The same amount of Rs 10,000 can give you an insurance cover of up to approximately Rs 5-12 lakh (depending upon the plan, age and medical condition of the life insured, etc) and this amount can become immediately available to the nominee of the policyholder on death. Thus insurance is a unique investment avenue that delivers sound returns in addition to protection.

Role 2: Life insurance as "Risk cover"

First and foremost, insurance is about risk cover and protection - financial protection, to be more precise - to help outlast life's unpredictable losses. Designed to safeguard against losses suffered on account of any unforeseen event, insurance provides you with that unique sense of security that no other form of investment provides. By buying life insurance, you buy peace of mind and are prepared to face any financial demand that would hit the family in case of an untimely demise.

To provide such protection, insurance firms collect contributions from many people who face the same risk. A loss claim is paid out of the total premium collected by the insurance companies, who act as trustees to the monies.

Insurance also provides a safeguard in the case of accidents or a drop in income after retirement. An accident or disability can be devastating, and an insurance policy can lend timely support to the family in such times. It also comes as a great help when you retire, in case no untoward incident happens during the term of the policy.With the entry of private sector players in insurance, you have a wide range of products and services to choose from. Further, many of these can be further customized to fit individual/group specific needs. Considering the amount you have to pay now, it's worth buying some extra sleep.

Role 3: Life insurance as “Tax planning”

Insurance serves as an excellent tax saving mechanism too. The Government of India has offered tax incentives to life insurance products in order to facilitate the flow of funds into productive assets. Under Section 88 of Income Tax Act 1961, an individual is entitled to a rebate of 20 per cent on the annual premium payable on his/her life and life of his/her children or adult children.

How much insurance do you need?

Insuring your life is a must but insuring it adequately is equally important. Having your life uninsured or under insure is exposing your dependants to the financial risk that may arise in your absence. Broadly speaking, the amount of life cover you need depends on your age. Other factors like dependants, age, income, etc. follows next. Different policies works fine for different people. If a particular policy has worked well for a person, it need not work in the same manner for you. In other words, your life insurance needs are influenced by the various circumstances of your life. The need for life insurance at various stages of life have been analysed below. It should help you in making decisions.

What does Life Insurance offer young families?

Protection

Families with young, dependent children need adequate protection against losing their primary wage earner's income if and when premature and unexpected death occurs.

Emergency Fund

Life insurance provides an additional consideration by providing an emergency fund to provide money for survivors. It buys the time so essential and necessary that is needed to adjust to the death of a parent or spouse. The insurance proceeds provide a temporary buffer that gives the survivor the time and the inclination to adjust to the new and unprecedented situation. The surviving beneficiary has the option to consider career alternatives as well as make rationally based and thoroughly informed decisions.

Education

Yet another priority need for young families is building adequate funds for higher education costs. The need for highly specialised education is greater than ever before. Qualified students obviously enjoy better lifestyles and have more rewarding careers compared to other people. Every year, the cost of education rises beyond estimated limits. Capitation fees and deposits only aggravate this situation further. Every young family must start a substantial savings plan. The sooner, the better since compounded interest schemes need time to work and show their appreciative worth. Life insurance also offers handsome reductions in taxes.

Retirement

Young families should also plan for retirement in the long run. Investment and pension plans are not adequate to fund the retirement needs at times. Once a family attains a specific standard of living, it is very hard to adjust to a reduced standard during the retirement years. Systematic savings over a working lifetime is the key towards supplementing other retirement programmes. The old rule of saving 10 percent of the annual income still holds true for single income young families. Young families with modest incomes must commence with at least a 10 percent guideline if they cannot make a total commitment immediately.

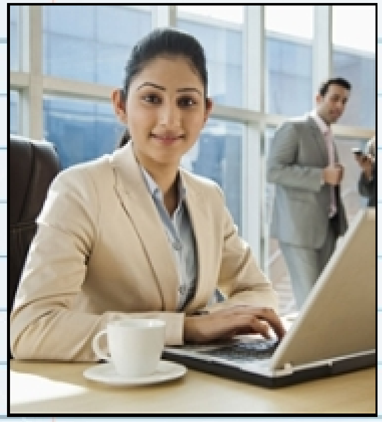
Disability

A single income young family would be in an extremely perilous situation if there would be a loss of income owing to a disability. In case an income provider is unable to work, the economic consequences could be severe for the family.Not only does the family have to maintain the established standard of living, it also has to shoulder the additional burden of a disabled member within itself.Disability is the major need that is to be addressed and protection against this loss is a priority. Besides in most of the families today, two incomes are an absolute necessity. For these households, the protection of both the income producers is extremely essential.

Single Young Adults

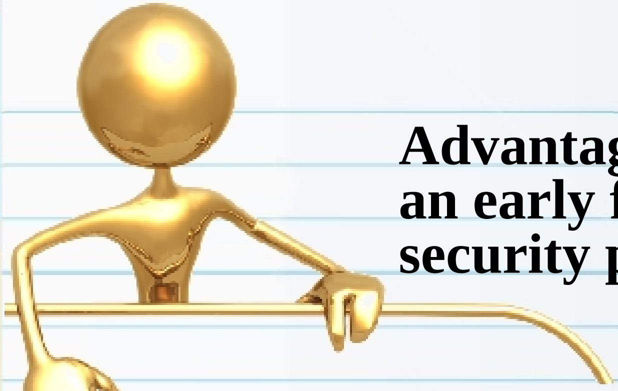
People who belong to the young, single adult age group are young, healthy and energetic. Since they are single, they enjoy more freedom and have fast access to money. Most of them bear carefree attitudes that have been passed on to them from their families. As they begin to assume new responsibilities and gain maturity, it can be a major transition in their lifestyles. The ironic part about single, young individuals is that they might possess extensive funds but none of them have established any specific savings plans or cash reserves in case of any emergency. Single, young people need to protect their newly acquired status and their earning capacity besides their human life-value the most.Their priorities' list must be topped by disability income insurance so they are protected against loss of income and loss of insurability in the future. People from this socio-economic group also have loans to pay off and high credit card balances. They will also need financial help so that their debts are paid off until they learn to provide steady finance for themselves. Rising Debts Most single, young adults are possessed by a dominant need to pay off their debts and fulfill their retirement obligations at the same time. They also need help in planning their budget for the future. Most single, young adults lack an understanding of the virtues of saving.

The value of future planning and adhering to the plans made is yet to be impressed upon their minds. They don't realise the significance of compound interest and tax implications on savings and investment choices. Professional insurance agents can provide a lot of help to



them in this regard, to say the least. One of the most important needs, voiced together by a majority of people in the single young adult arena is to make the right choices that are consistent with proper planning to take care of their needs.

Single people are used to putting off decisions regarding their current status. It is consequently difficult to convince them that they should not put off the events that need to be done immediately. For single, young adults there is an ever-increasing need for life insurance. Yet, the need to save money is equally important since most people don't start any serious savings until they find a suitable means of employment. For them, protection against loss of income owing to a disability must be addressed the moment the person begins earning an income.



Advantages of starting an early financial security program

- Your provision for a guaranteed, immediate financial security is ensured. Besides, lower premiums are also charged at younger ages.
- You qualify for lifelong protection while you are insurable regardless of later hazards that might be ventured through your chosen lifestyle vocation or occupation.
- You start building cash reserves for emergencies and can avail of new opportunities.
- The compound interest schemes prevalent over your insurance policy work towards longer and longer periods of time so the final rewards are greater.
- You can opt to change your policy type with the highest possible flexibility as your status changes.
- In the event of an early death, the funds available can easily pay off debts as well as honour any bequests made in your will.
- Since your policy plan has commenced at a younger age, at retirement the largest pension values are available for you.
- Since your policy plan has started at a younger age, you can qualify for additional coverage and benefits at the most feasible rates in the future.
- You will always enjoy satisfaction and peace of mind since you have opted towards taking positive actions when it mattered the most.

Insurance Policies

Life insurance policies can be broadly classified into three categories, which are ‘term insurance’, popularly known as pure insurance plans, traditional polices which cover (endowment, money back, whole life insurance plans), the other being investment plan, popularly known as unit linked plans. Buying an insurance policy depends on various reasons. Say a person has contracted a particular disease or has undergone by pass surgery the premium payment would increase thereby. At times it becomes difficult to say which policy is the ideal one. As days go by, there are new changes and with that arises new needs. At such times you would need to choose policy that would aptly fit into your future wants. A single policy cannot meet all your needs hence it is advisable to own couple of policies, which will have varied benefits suiting your needs. The types of policies are given below that will give you an insight into understanding the concept of it.

a) Term plans:

Buying a term policy depends on many factors like income, monthly expenditure, number of dependent members, etc. The policy that you choose should completely depend on how much risk you would want to secure. If you are the sole breadwinner of the house and you have more number of dependants then you would need to choose the insurance coverage that is sufficient enough to take care of your family expenses in your absence. In such a case a 'term policy would suit you.

The policy keeps you in the protection net for a specific term. If anything had to happen to you, your nominee would receive the insured amount.Lets say, you have insured yourself for Rs. 20 lakhs. Should the insured person pass away, the family is protected by a certain amount insured by you i.e. Rs. 20 lakhs. Incase you survive the term, the premium paid is not received but one should not look at it from 'expense' point of view. An insurance policy be it a term, whole, endowment or ULIP are good options with its own unique features. It is recommended to opt for a term policy when you are in your teens.

b) Whole life policies:

This policy covers the insured for life. On attaining the maturity age, the insured would receive the due amount along with the bonus. Whole life policies offer the highest bonus and cost less compared to endowment policies. If you want insurance protection that extends throughout your lifetime, whole life policy is the ideal pick for you. However, the premium paid is stretched till the maturity age, which is generally 80-100 years. On reaching the maturity age, the insurer gives you the option to either continue with the cover throughout your lifetime or encash the maturity benefits, which is sum assured plus bonus.

c) Endowment policies:

These policies offer cover for a specific term that has been opted by the insured. On surviving the term, the policyholder receives the insured amount hence the premium payment is more with an endowment policy. The returns are topped with bonus. Endowment policies are broadly classified into two types - With-profit and Without-profit.

'With-profit' policy comes with the bonus declared by the Life Insurance Corporation. It is paid at the time of maturity of the policy. In a 'Without-profit' plan, the due amount is paid without any bonus announced by the Corporation, which otherwise is applicable with 'With-profit' plan. The premium rate charged for a 'With-profit' policy is therefore slightly higher. In a 'Without-profit' policy only the sum assured is offered.

d) Money back policies:

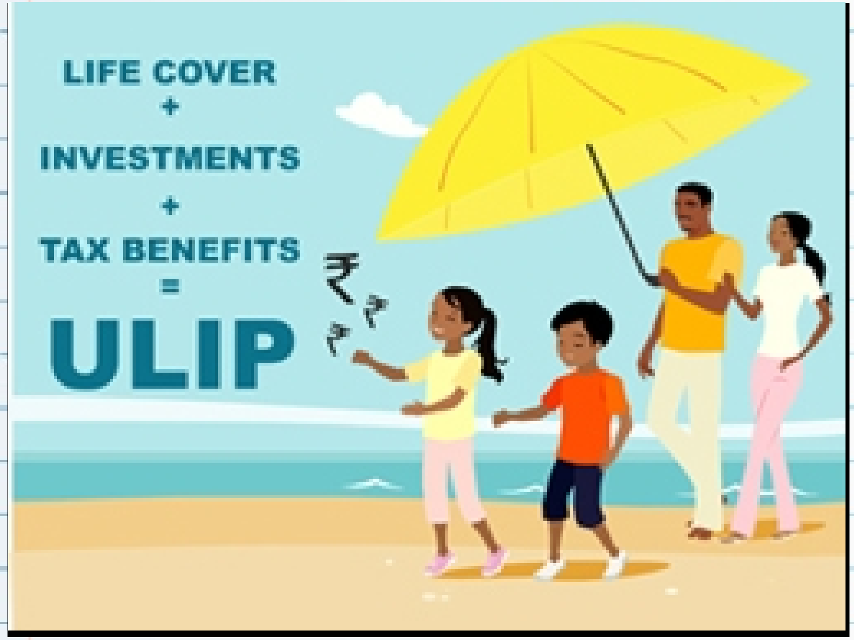
These policies offer a part of the sum assured, usually 25% of the sum assured. The policyholder receives it at regular intervals, which can be put to use for various purposes. The balance sum assured along with guaranteed additions or bonus (as the base might be) is returned at the end of the tenure. However, this early return compared to conventional endowment plans doesn't reduce the sum assured of money-back plans. In case of a death claim, the full sum assured will be paid.

For example, if the policyholder passes away in the 6th year of the term, the nominee will get the full sum assured (Rs. 5 lakh). The premium on money back plans is higher than endowment plans.

e) Unit-linked insurance plans:

ULIPs are one of the popular investments options among individuals. The reason being, it is linked with the stock market, which assures high returns. Especially after the booming Sensex, the stock market has managed to attract a lot of investors. This has made ULIPs a popular investment vehicle. One of the advantages is that the asset allocation decision lies in the hands of investors themselves. They can choose the funds in which they want to invest at the same time they also have the option to switch over between funds, but you do need to know your market well before switching over funds. The impact can be drastic if the decision taken is incorrect. If you wish you can withdraw from these plans (after the initial lock in period) without any tax implication as withdrawals and death claim proceeds under ULIPs qualify for (capital gains) tax exemption under Section 10 (10D) of the Income Tax Act.

The investment plans on offer cover the risk reward spectrum. You can choose from income plans (high on debt, low on equity), growth plans (high on equity, low on debt) and balanced plans (roughly equal distribution between debt and equity). There are other features like 'switching' wherein the policyholder can switch from one plan to another free of cost once a year (a nominal amount is charged for additional switches). So, if you think stocks are going cheap, you can move to growth plan or, if you think stocks are overvalued you can move your money to the income plan. Thus, unlike endowment plans you can control your investment in unit-linked insurance plans.



f) Pension schemes:

Pension schemes are policies that offer money to the insured at the retirement age. If the insured dies during the term of the policy, his nominee will get the insured amount either in lump sum or every month. Pension plans can be classified as immediate or deferred pension plan. An annuity that comes with a pension plan can be defined as the 'income from capital investment that is paid in a series of regular payments that is paid annually to the policyholder. There are two types of annuities –immediate and deferred annuities.

In an immediate annuity, the payments start the year you buy the contract. The policyholder invests the amount in a lumpsum to the insurer and chooses the intervals at which he wants to receive the payments, which would depend on factors like your life expectancy, financial dependants, etc. It is considered ideal for those who have retired or about to retire from work.

The other type of annuity is a deferred annuity. Under this plan an annuity is deferred for later years. During the accumulation phase the investments earn a return and grow without being taxed until you receive your annuity payments.

g) Endowment plans-a safe investment option

Endowment plans have always remained the popular choice of common people. This is mainly because of its 'safe investment' component. It is ideal for ones, who do not want to be a part of the volatile stock market where your money cannot be assured of safety. If you are someone who do not believe in taking risks with your money, then endowment plans are the best for your, as it promises safety for your money along with financial protection. Moreover, you also get bonus and loyalty additions, in any. After having said that, lets understand how an endowment policy is an excellent option for long-term savings.

Firstly, the premium amount outgo for a term or a whole life policy is quite low compared to an endowment policy. Infact, a term policy is the cheapest insurance policy available. Broadly speaking, a term insurance policy offers only pure risk cover. There are no maturity benefits given at the end of the term to the policyholder. However, such is not the case with endowment policies that offers maturity returns.

Hence the premium payment for these policies is much more compared to other policies. Also the premium increases as per the age and tenure selected by the policyholder.

Apart from this, the policyholder also gets to participate in the profits of the company along with the bonus that is announced by the Life Insurance Corporation of India (LIC). Thus an endowment policy is a smart and a safe investment option with a life insurance cover to take of life’s eventualities. On maturity, bonus on the full sum assured and final additional bonus if any is given. The policy also offers you the flexibility of payment, which can be done on a yearly, half-yearly, quarterly, monthly basis or through salary deductions.

It is a with-profit plan and participates in the profits of the Corporation’s life insurance business. It gets a share of profits in the form of bonuses. Simple reversionary bonuses are declared per thousand sum assured annually at the end of each financial year. Once declared, they form part of the guaranteed benefits of the plan. Bonuses for full term on the full sum assured are paid at the end of the term even if death occurs during policy term. Final (Additional) bonus may also be payable provided policy has run for certain minimum period.

So, along with insurance protection and security, returns is what you are looking for, your search ends with endowment plans. Rest is assured to you with this investment option. All you have to do is pay your premiums religiously and reap the benefits at a later stage of life.