CASE STUDY: INSURANCE ADVISORY

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Insurance portfolio review

Client Background

- 48 yrs old senior corporate in a financial services firm.
- Active and well informed investor across mutual funds, equities and real estate
- Review of insurance portfolio

Current status:

- Regular ULIP with life protection till 100 years.
- Rs 3.3 lakhs per annum paid for the first 5 years
- Current fund value : 15 lakhs

Key issues/Concerns to be addressed in portfolio:

- Whether the cover is adequate.
- Whether he should continue with same policies or choose alternatives.
- Whether his existing policies are a cost effective way of providing complete coverage.
- Would there be a financial loss if client invests in alternate policy and discontinues the current one

Insurance portfolio revamp

Our Analysis

- His current investment is giving him a negative IRR of 3.20 % with an outflow of 16.65 lacs
- Simple term plan would take care of his life insurance need.
- Surrender charges:

  - 60% of the first year premium, in the 5th year.

  - In every subsequent year this charge will reduces by 10% (so in the 6th policy year they will deduct 50%, in the 7th, 40% etc)until it is free after 10 years.

Since we did not think it worth incurring such a huge expense to surrender the policy we suggested two options :

- Continuing the policy without paying future premium – apparently the amount of mortality charges that will be deducted is only about Rs. 1200 pa.
- Doing a partial withdrawal, which will not attract any charges. That would mean leaving a fund value equivalent to about 2 years premium and withdrawing the rest.

The client opted for the first option of continuing with the policy without paying any extra premiums and not impacting any charges as well

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