FINANCIAL Chronicle

Bangalore - Jan 07, 2014

Page No: 3
Page Name: My Money
Size: 127 sq. cm
AVE: INR 64,648
Type: Newspaper
Language: English
Circulation: 23,000
Frequency: Daily

News monitored for: PNB MetLife

SHOULD you surrender your insurance or not?

MANY a times you come across a situation where you genuinely need to liquidate your assets due to a financial emergency. In some cases, you may receive a more lucrative investment offer that makes you relook at your existing financial portfolio. However, when looking to exit a life insurance policy, one must consider some critical factors before making any rushed decisions. It is important to understand that life insurance is primarily a protection tool to financially secure your family's future incase something were to happen to you.

Let me try and explain the logic simply to you: When you surrender a life insurance policy, you lose out on all benefits associated with it, that is, death benefits and maturity benefits. Also, as insurance policies are typically issued for long-term, fund managers invest with a long-term objective and hence, these products typically deliver results over a period. As the basic premise for buying insurance is protection over long-term, there are surrender charges if you decide to prematurely exit the policy. So, one of the primary considerations when deliberating on exiting an insurance policy is a clear understanding of the surrender charges associated with it. A surrender charge is a fee levied on policyholders upon cancellation of their policy before matu-

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rity. This fee is levied to cover the cost of keeping the policy on an insurer's books, and also to offset additional costs incurred by the insurer due to early termination. It is calculated as a percentage of the premiums paid by you till date. Recently, the insurance regulator has revised the surrender charges, rewarding customers who stay invested for long-term, while ensuring that those who exit prematurely don't lose their investment. As per the new guidelines, those who exit within two to three years get a minimum of 30 per cent of premiums paid as surrender value. On the other hand, they get 50 per cent if they exit between four and seven years and 90 per cent if they stay invested till two years before maturity.

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