

Case Study

- ▶ In this Illustration, we are Evaluating how a traditional insurance policy gives returns.

What is Surrender Value, Paid up value, and what is the best course of action for a person holding the insurance.



► Surrender or Paid up of Policy

- A The policyholder will surrender the policy when better options are available for the policyholder, when the policyholder is getting better returns than holding an existing policy, and hence, the policyholder will decide to surrender the policy.
- In the **paid-up policy, the policyholder will continue to hold the policy without paying a premium, with a reduced sum assured. The Policy will continue until the end of the policy.**
- **Decision to either Surrender a Policy or Make it Paid- Up**
- Surrendering or making a policy paid up, will depend on the remaining policy tenure. **Surrender of the policy will be beneficial** If the policy is in the initial stage (completed 3 years or 4 years).
- **Making a Policy Paid up** will be beneficial; if the policy is near maturity, the remaining tenure of the policy is 4 years or 5 years.
- In the examples below, we suggest surrendering the policy. Our analysis shows that since policyholders discontinue the policy at an early stage, surrendering the policy will benefit them. After surrendering the policy, the investor invests the proceeds in better interest-earning **options**.

If an investor continues to hold the policy, the return on investment will be 3%, and the maturity value will be 8,00,000 at the end of the policy. **This does not even cover the inflation rate!**

- **If he surrenders the policy in the 4th year and reinvests in mutual funds, the return on investment will be approximately be 12%, The Investment will grow to Rs. 16,00,000/-**
- **Note: Policyholders get better returns by surrendering the policy and investing in mutual funds; hence, we recommend surrendering the policy and reinvesting the surrendering benefits in Mutual funds.**

IRR of the policy will be 3%, if the policy holder continue the policy till the end of the policy (Check table 1)

If policy holder surrender the policy and reinvest the surrender proceedings in other assets like Equity Mutual Funds, Hybrid Mutual Funds, for 10 years time period IRR generation (12% to 15%) will be high in this type of assets.

If policy holder looking the policy for risk coverage, then we suggesting to buy pure term insurance policies which will give higher coverage for nominal premium amount.

Table 2 :- If the Policy holder surrender the Policy at 4th Year and reinvest the surrender value in Mutual Funds

Table 2	
Surrender Value (check example 1)	54000
Remaining Premiumus Investing towards Mutual Funds	30000
Remaining Tenure	16
IRR	12%
Future Value of Investments	₹ 16,13,639.67

Table 1	
No of Years	Premium
1	-30000
2	-30000
3	-30000
4	-30000
5	-30000
6	-30000
7	-30000
8	-30000
9	-30000
10	-30000
11	-30000
12	-30000
13	-30000
14	-30000
15	-30000
16	-30000
17	-30000
18	-30000
19	-30000
20	-30000
Maturity Value	8,00,000
IRR	3%

	Insurance Policy	Mutual Fund Investment
Tenure	20 Years (If policy holder continue the policy till the end of the policy)	16 Years (Policy holder will surrender the policy at 4 th year and reinvest in mutual fund for remaining period)
Premium	Rs. 30,000/-	Rs. 30,000/-
ROI	3%	12%
Future Value/Maturity Value	Rs. 8,00,000 /-	Rs. 16,13,000 /-
Opportunity Cost	By Continuing the existing insurance policy, policy holder will lose Rs. 8,00,000/-	By surrendering the policy and re investing in the mutual funds policyholder will get Rs. 8,00,000 additional amount

De-Coding Surrender Value and Paid -Up Value



```
mirror_mod = modifier_ob.  
#set mirror object to mirror  
mirror_mod.mirror_object  
operation == "MIRROR_X":  
mirror_mod.use_x = True  
mirror_mod.use_y = False  
mirror_mod.use_z = False  
operation == "MIRROR_Y":  
mirror_mod.use_x = False  
mirror_mod.use_y = True  
mirror_mod.use_z = False  
operation == "MIRROR_Z":  
mirror_mod.use_x = False  
mirror_mod.use_y = False  
mirror_mod.use_z = True  
#selection at the end -add  
mirror_ob.select= 1  
modifier_ob.select=1  
context.scene.objects.active  
("Selected" + str(modifier  
mirror_ob.select = 0  
= bpy.context.selected_obj  
data.objects[one.name].sel  
print("please select exact  
-- OPERATOR CLASSES ----  
types.Operator):  
X mirror to the selected  
object.mirror_mirror_x"  
mirror X"  
context):  
context.active_object is not
```

Paid up Value

- ▶ The Paid the value of a Life insurance policy refers to the reduced amount of Sum assured that an insurer will provide if the policyholder stops making premium payments after the initial three-year period.
- ▶ **Paid- up value :-** The reduced sum assured after discontinuing premium payments.

$$\text{Paid up value} = \frac{\text{Original sum assured} * \text{No of premiums paid}}{\text{No of premiums payables.}}$$

Example :- Policy term 20 Years, Sum Assured Rs. 5,00,000/-, Premium Rs. 30,000/- per annum, Premium payment – only for 5 years, Bonus credited if any Rs. 35,000/-

$$\text{Paid up value} = ((5/20)*5,00,000)+ \text{Bonus} = \text{Rs. 1,60,000/-}.$$



Surrender Value



- ▶ The Surrender of Life Insurance Policy refers to the amount of money received by policy holder, if he decides that he no longer wish to continue the policy. When policyholders terminate their insurance policy before maturity date, the insurance company pays them the surrender value. This value includes the earnings and savings portion of the policy and subtract any surrender charges as per the terms of the plan.
- ▶ **Surrender Value :-** The amount paid by the insurance company to the policyholder upon surrendering the policy before maturity.
- ▶ Purpose: Provides an option for policyholders to exit the policy early if needed.
- ▶ Types of Surrender Value **1) Guaranteed Surrender Value, 2) Special Surrender Value.**
- ▶ **Guaranteed Surrender Value:-** it is payable after the completion of 3 years (time period will vary based on policy to policy), it is 30% of Premiums Paid (Surrender value factors vary based on policy to policy). It excludes, Premium for the first year, any Additional Premium paid for Riders and any bonus that you may have received from the Insurer.

**Guaranteed Surrender Value = 30% of
(Total Premium Paid - First Year
Premium)**

- ▶ Example :- If policy holder paid Rs 75,000 Premium (25,000 Annual Premium * 3 Years) for Sum Assured of Rs 5,00,000.
- ▶ So Guaranteed Surrender value will be :- 30% of (Total Premium Paid - First Year Premium)
- ▶ (Rs. 75,000 - Rs. 25,000) = Rs. 50,000.
- ▶ The Minimum Surrender Value will be Rs. 15,000 (30% * 50,000).

Special Surrender Value :-If insured discontinue the policy, the amount insured will get is called the special surrender value.

Special surrender value = (Original sum assured *(No of premiums paid / No of premiums payable) + total bonus received) * surrender value factor
or
(Paid up value + total bonus received)* Surrender value factor.


- ▶ Example :- 1
 - ▶ Premium Rs. 30,000/- per year, Sum assured Rs. 6,00,000/-, Policy term 20 years, premium paying stopped after 4th year. The bonus accumulated so far is Rs. 60,000/- and surrender value factor in 4th year is 30%.
 - ▶ **The special surrender value = $(6,00,000 * (4/20) + 60,000) * (30/100) = \text{Rs. } 54,000/-$.**


 - ▶ Example :- 2
 - ▶ A person at the age of 40 yrs takes an Insurance policy for a term of 20 years on 01-04-2012, Premium 30,000, Sum Assured 7,00,000, The last premium paid is on 01-04-2023. calculate the paid up value and surrender value given that the surrender value factor is 60%, expected maturity value including if Bonus is Rs. 12,00,000/-.
- Number of installments paid = (01-04-2012 to 01-04-2022) +1 = 12.
- Total installments to be paid = 20.
- Paid up value = Sum assured * No of years premium / No of years premium is required to be paid
- = $100000 * 12 / 20 = \text{Rs. } 4,20,000/-$.
- Surrender value = Paid up value (inclusive of bonus) * S.V. Factor / 100
- = $60000 * 60 / 100 = \text{Rs. } 2,52,000/-$

Thank you

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