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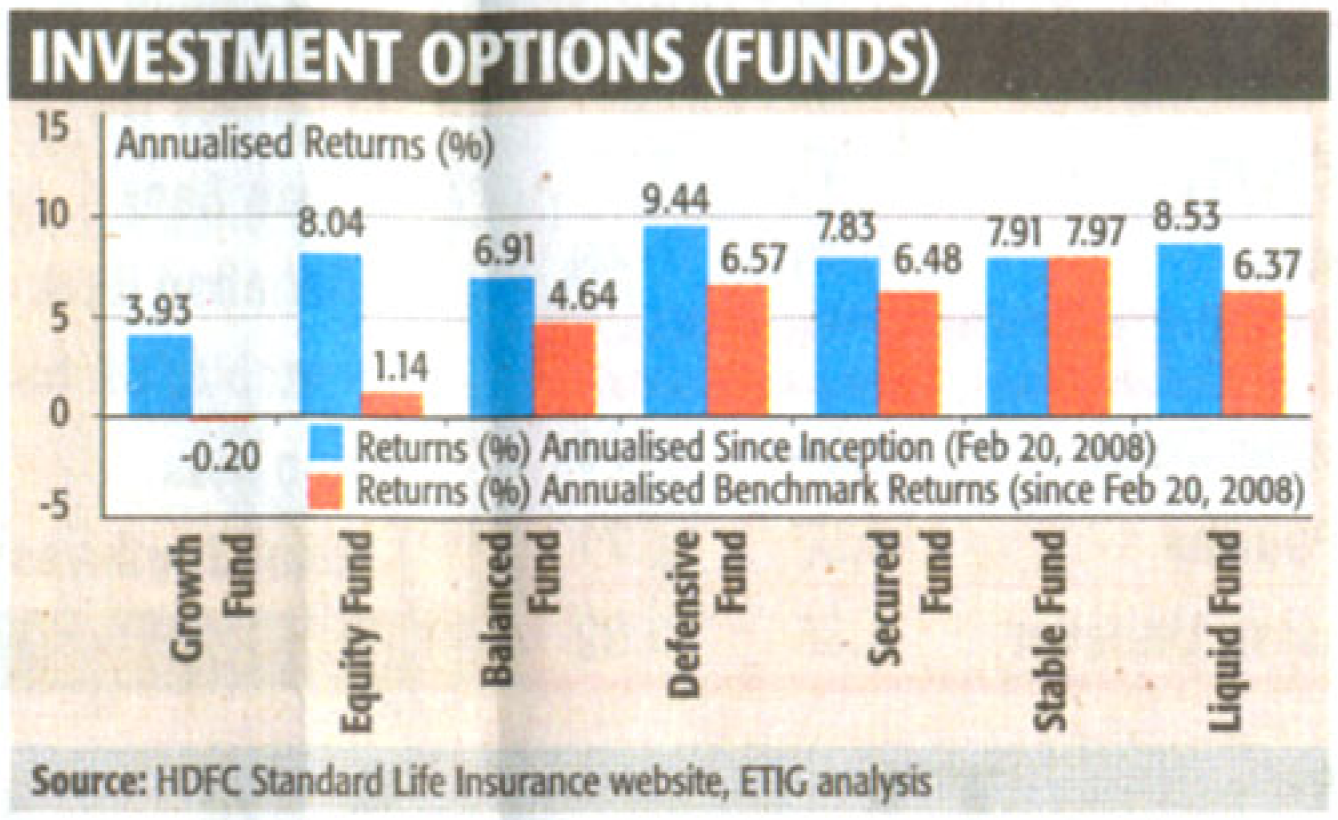
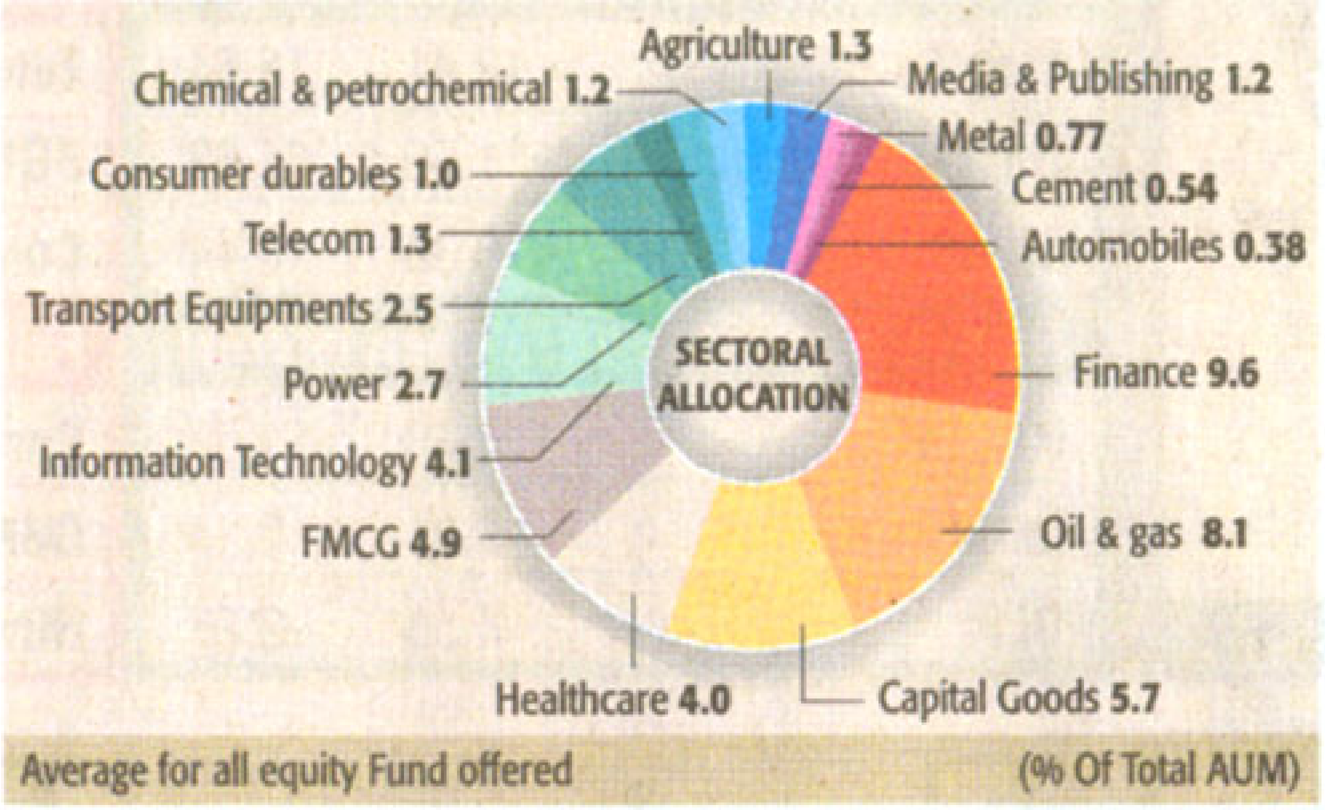
Pick And Choose

HDFC Endowment Supreme is quiet flexible with no upper limit on premium payment and a window to choose the sum assured. But unlike other policies, it requires an exhaustive medical checkup

LAUNCHED in January 2010, HDFC Endowment Supreme is one of the few Type II plans (policies that provide sum-assured and fund value as death benefit) in the market. With the new guidelines by insurance regulator on the capping of charges on yearly basis, Type II plans will shrink further as they generally have high charges. This policy is quiet flexible in terms of premium, sum assured and policy tenure. It also provides seven investment options (funds options) having varied proportion of equity and debt for one to choose as per their risk and return appetite. For instance, equity managed and growth funds are equity based, whereas liquid, stable and secure fund are debt based. Those looking for balanced portfolio can opt for defensive or balanced fund.





COST STRUCTURE: The cost of Type II plan is generally high, so are the charges of HDFC Endowment Supreme. But the additional allocation and maturity benefits reduce the overall charges. The premium allocation charge of the policy for the first three years together comprises almost 55% of the annualised premium. These charges go nil from the fourth year onwards. Additional premium paid towards investment purposes only (top-ups) are charged at 2% allocation charge.

Policy administration charge is 4.8% of the annualised premium. So, as premium increase these charges would also increase. Mortality charge on Type II plan is also high as, for these plans mortality is calculated on the sum assured, throughout the policy tenure. While in Type I plans (policies that provide higher of the sum assured or fund value as death benefit), mortality is only calculated till the fund value is lower than the sum assured. Considering these charges, if the fund were to generate returns at 6% and 10 % as mandated by Insurance Regulatory and Development Authority (Irda), the net yield in the hands of investors after factoring the above costs would be 4.1% and 7.9% (approx.), respectively per annum. This is fairly higher than 3.5% and 7.4% annualised net return offered by its peer products.

HDFC Endowment Supreme's Cost Structure

	Year	% of AP
Premium allocation charges* (PAC)	1	30% - 12.5%
	2	15% - 10%
	3	10% - 7.5%
Allocation charge on top-up		2%
Fund management charges		1.25% pa
Policy administration charges		4.8% of the AP
	Year	% of FV
Surrender charges	1	100
	2	50
	3	30
	4	15

* PAC varies with the annual premium (AP- Annual Premium, FV- Fund Value)

Source: Company Website

ULIP REVIEW

BENEFITS: HDFC Endowment Supreme gives investors choice to opt for a sum assured, between 5X to 40X the annualised premium. This plan also provides additional units at 5% of annual premium every year from the sixth policy year onwards. Besides, the policy gives maturity benefit of 50% of annualised premium in policies having 10-year tenure, while policies with more than 10-year tenure gets a maturity bonus of 100% annualised premium. With all these guarantees, the net expense trims down. For instance, say a 35-year-old healthy male invest Rs 50,000 in HDFC Endowment Supreme for a period of 20 years. The premium allocation charge will be Rs 27,500, policy administration charges for 20 year will work out to be Rs 49,000 and mortality charges will be Rs 45,000. Additional units received to policyholder will be Rs 37,500 and Rs 50,000 from the maturity benefit. So the net expense throughout the policy period of 20 years will be Rs 34,000 along with 1.25% fund management charges.

PERFORMANCE: Investment in Ulips is primarily done to get market-linked returns and so it is important for investors to choose products and funds as per their risk appetite and keep a track of their performance. HDFC Endowment Supreme is only six months old but the funds are in place since the past two-and-a-half year now. Most of the funds have outperformed their respective benchmarks over the period. For risk loving investors, equity fund is a good option as its past record is quiet encouraging. It has given 27.5% return in the past one year. It has a scope to increase the equity exposure to 100%. Many of large-cap investments have still not performed well and thus there is possibility for this fund to give better returns in future. Capital-guaranteed return is another fund launched by the company two months back. It is a quiet promising fund, with assured returns of 8.5%. Its undersized equity exposure may prove to be winner for risk-averse investors in the long run. Those looking for balanced portfolio can go for balanced fund. This fund has also given returns of 21% in the past one year. Apart from this, there are other funds also which have done reasonably well.

PORTFOLIO REVIEW: HDFC Standard Life Insurance follows a balanced investment strategy. It has high exposure in cyclical sectors such as financial services and oil and gas sectors. This has been balanced out with sufficient exposure in growing but low beta sectors such as FMCG and healthcare. The company has, however, cut exposure in banks and has switched to more of NBFC stocks. According to the fund manager, the financial sector will face instability in the going forward due to treasury position and asset quality concerns. The fund manager has asserted to occasional churning of the portfolio, the same being restricted to mid-cap companies largely. Roughly, only 20% of the portfolio is churned every year.

DEATH/MATURITY BENEFITS: Upon maturity, the policyholder receives the amount accumulated in the fund, whereas in case of death, sum of both fund value and sum assured will be received. For instance, say a 35-year-old healthy male invest Rs 50,000 pa in equity fund for a period of 20 years. Assuming sum assured equivalent to 10X the annual premium, the total sum assured receivable, in case of any eventuality, would be Rs 5 lakh. By the end of 20 years, assuming the rate of return of 6% and 10%, the fund value shall be Rs 15,29,959 and Rs 25,50,875, respectively, receivable at the maturity along with the maturity bonus. However, in case of demise of the policyholder, the nominee receives the sum assured of Rs 5 lakh along with fund value then existing.

OUR VIEW: For those seriously interested in insuring themselves should opt for Type II policies. HDFC Endowment Supreme is quiet flexible with no upper limit on premium payment and a window to choose the sum assured. Net charges are also low. But, unlike other policies it requires an exhaustive medical checkup and is completely underwritten. It provides a whole gamut of funds, with a few like equity fund, balanced fund and capital guarantee return fund being a good investment.

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