YOUR MONEY

Consider benefits, costs before agreeing to policy splitting

HIMALI PATEL

The Insurance Regulatory and Development Authority of India (Irdai) recently issued a master circular stating that policies should only be split at the customer's request and with their consent. No additional fees, charges, or commissions should be imposed if a policy is split without obtaining the customer's consent.

What is splitting?

Customers can choose to purchase a single insurance policy for a certain sum assured, with a specified tenure and benefits. Alternatively, they can buy multiple policies that cumulatively provide the same coverage and have the same features. Buying several similar policies at one go is called policy splitting. While splitting is common in life insurance, it sometimes happens in health insurance as well.

"A customer who plans to buy a cover of, say, ₹1 crore, may be advised by an agent to split it across multiple, say, four policies of ₹25 lakh each," says Abhishek Kumar, Sebi-registered investment advisor (RIA) and founder, SahajMoney.com.

Pitfalls of splitting

Insurers typically offer discounts on premium for purchasing a policy with a higher sum assured.

"Splitting can result in losing the benefit of a larger policy, which is a better rate, with a higher discount. A customer may end up paying more for split policies," says Kapil Mehta, co-founder, SecureNow Insurance Broker.

Sometimes, customers buy multiple traditional policies without paying heed to their payment capacity and default on paying the premium of one or two.

"Customers have to pay a surrender charge in such a scenario," says Shilpa Arora, co-founder and chief operating officer, Insurance Samadhan.

BEWARE OF TAX MYTHS ABOUT SPLIT POLICIES

- Many buyers believe lower premiums on split policies will help them enjoy tax benefits
- That is not true as the latest tax laws consider aggregate premiums paid each year
- In case of non-Ulip policies bought on or after April 1, 2023, tax exemption under Section 10(10D) is available if the aggregate premium of all policies during the year is less than ₹5 lakh
- For Ulips bought on or after February 1, 2021, if the aggregate annual premium exceeds ₹2.5 lakh in a financial year, the maturity proceeds will be taxable

Sometimes, it can be beneficial

If a customer has multiple smaller term policies, instead of one large one, she can close down each of them gradually as her insurance needs decline. "As their wealth grows, investors may feel over-insured and may wish to stop paying the premiums of some term policies. Splitting gives them the flexibility to continue some policies and give up others," says Vishal Dhawan, founder and chief executive officer (CEO), Plan Ahead Wealth Advisors.

A customer may have multiple nominees and may not want them to know about the existence of each other. "In such a scenario, the customer may buy two separate policies and name one the nominee for each," says Karthik Chakrapani, chief business officer (CBO), Pramerica Life Insurance. He adds that it is also okay to split if you want the benefits in two different forms, say, as income from one policy and as endowment from the other.

Why agents push for it

One reason for splitting is that it sometimes allows agents to earn higher commissions. Additionally, advisors encourage splitting to meet their targets. "Insurance advisors' targets are often linked to the number of policies sold, besides premium," says Arora.

To split or not to split?

Splitting must result in tangible benefits for the customer, otherwise it will only mean more work for them in maintaining the policy and for their nominees in getting the death benefit from multiple policies.

According to Arora, the return from a single (investment-cum-insurance) larger policy is better than from multiple split policies. If an agent splits without informing the customer, it amounts to mis-selling, according to Irdai. "When splitting is done without the consent of the customer, they can get a refund of premium from the insurer and reapply for the product they want," says Arora.

Want to make changes to your EPFO account? Here's how to do it

The Employees' Provident Fund Organisation (EPFO) has set up a process to make corrections to Universal Account Number (UAN) profiles to make employee records accurate and prevent fraud. Here's how you can make these changes.

Corrections allowed

Members can update their name, gender, date of birth, father's/mother's name, marital status, date of joining (an organisation), reason for leaving, date of leaving, nationality, and Aadhaar number.

Documents required

All correction requests need to be supported by relevant government-issued documents. For minor corrections, at least two documents from the specified lists are required. For major ones, at least three documents would be necessary.

Process for submitting changes

You can submit a joint declaration request for corrections through the Member e-Sewa portal. But corrections can only be made for EPF accounts managed by your current employer. Employers are not authorised to modify details of EPF accounts from previous employer. Additionally, there is a limit on the number of times personal information can be updated.

Read full report here: mybs.in/2dYujjQ

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