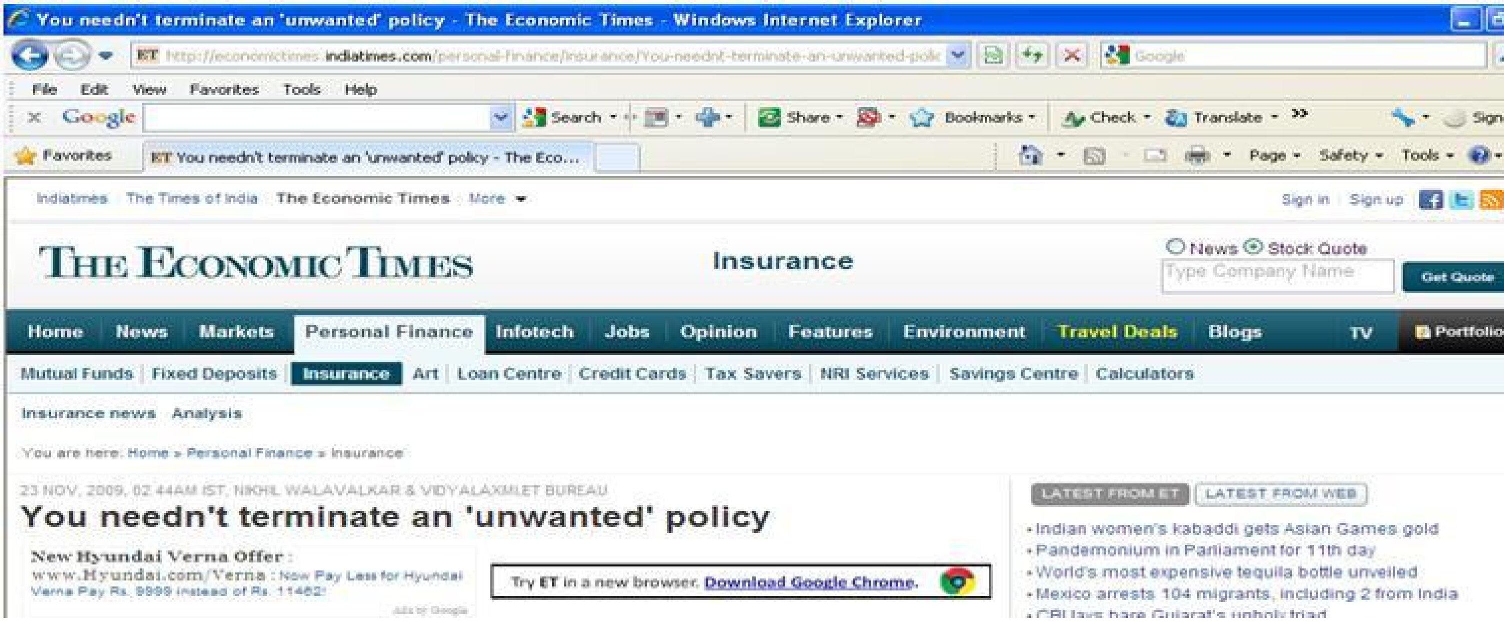

Have you been missold an endowment policy, which requires regular premium payment, as a single premium policy? If you are not the sort to be bothered by the fine print, you probably came to know that you have been cheated only when the company sent you a notice for the renewal premium.

By then it is too late to cancel the policy and the agent has probably already spent his commission. What do you do in that case? Complaints with the insurance company take their due course. Exiting an insurance policy is not an easy decision. Its procedural aspects have financial implications, so you have to decide if it's viable to do so.

C Radhakrishna, India Insure Risk Management & Insurance Broking Services, says: "There will be a financial loss to a customer if he prematurely exits an insurance policy. The cost structure of endowment plans is such that the insurance company has account for policy charges, agent commission, etc. So the policy will start building returns only after 10 years, after accounting for the initial charges." The best option, therefore, is to wait for 3-4 years for the policy to acquire some surrender value.

If you plan to surrender the policy, you will earn one-third of the premium money you have spent so far. For example, if you pay an annual premium of Rs 30,000 and want to exit in the fifth year, the surrender value will work out to Rs 45,000. That would be 30% of the premiums paid for five years.

"In fact, an insurance company will discard the first year premium amount for calculating the surrender value, as the company will have to account for its charges and the agent commission," says Suresh Sadagopan, certified financial planner with Ladder 7 Financial Services.

After paying premiums for three years, if you do not wish to continue paying any more instalments, you can convert your policy into a paid-up policy. This will freeze your investments at that level. But you have to keep a track of the policy till it matures. Secondly, you will pay a significant opportunity cost for keeping that money locked for more than 10 years.

If there is a cashflow issue, then a policyholder has no option but to surrender or convert it into a paid-up policy. Alternatively, the policyholder can think of raising some loan against the policy.

Insurers extend up to 75% of the surrender value as a loan. If a policyholder fails to repay money to the life insurance company, the insurer can foreclose the policy. The rate of interest on the loans is definitely lower than personal loans offered by banks.

The insurer reverses the assignment of the policy done at the time of extending the loan, if the loan is paid back as per schedule. "It's advisable to exercise this option only if it's a one-time cash crunch. Moreover, the loan amount will be too small if a policyholder avails of this option in the early years of the policy," Mr Sadagopan added.

The most important thing a customer should understand about an endowment or any other insurance plan is that it cannot substitute term plans in your financial portfolio. You should adequately cover your life and liabilities before stepping into a combination of insurance and investment products.

"If a customer is pumping in money towards an endowment plan without a family cover, he is simply buying an unnecessary luxury which he can't afford," Mr Radhakrishnan added. At such times, it's better to knock off your investment and buy a term plan.

But look at the tax implications before deciding to terminate your insurance policy. If you exit from your policy within three years from the effective date, then you have to pay off for the tax benefits you enjoyed on the previous premium payments. The simplest way to avoid all the hassle is just to read the fine print. The next time your agent tells you to sign on the marked spots, resist from getting the easy way. Read the document before signing on the dotted line. Otherwise you have no one but yourself to blame for the poor investment decision.