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FDs to fund premium of insurance schemes

Deposit plans and gift cheque are long-term subscription initiatives aimed to boost participation

In the backdrop of Raksha Bandhan, which falls on 29 August this year, the government is set to increase its efforts to promote Pradhan Mantri Suraksha Bima Yojana (PMSBY) and Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY) by launching a long-term subscription initiative to fund the premiums of these products.

According to a Ministry of Finance circular issued to insurance companies on 1 August, the government has launched Suraksha Deposit Scheme, Jeevan Suraksha Deposit Scheme and Jeevan Suraksha Gift Cheque. Under these schemes, you can make a deposit of

Rs.201, Rs.5,001 and

Rs.351, respectively. The money will be used for long-term subscription of the two insurance schemes.

Insurance companies have welcomed the initiatives. "It is an empowering initiative, especially when you consider that most women don't give their personal financial security topmost priority. The government is using the festival of Raksha Bandhan to enable women to receive these gift cards instead of receiving cash. They can use the cards to buy the Pradhan Mantri insurance schemes. This should also help the uninitiated learn about banking," said R.M. Vishakha, managing director and chief executive officer, IndiaFirst Life Insurance Co. Ltd.

However, banks are yet to get an update on the new schemes. "Tweaks have been happening for a while and we are waiting for the final circular. We will be able to get a clear picture by tomorrow (6 August)," said an official of a public sector bank who didn't want to be named.

Based on what insurance companies and banks said, and contents of the finance ministry circular (Mint has a copy), here's what to expect from the three new products.

The money from Suraksha Deposit Scheme and Jeevan Suraksha Deposit Scheme will be used for subscription of PMSBY and PMJJBY, respectively. In May this year, Prime Minister Narendra Modi had launched PMSBY, a group life insurance term plan, and PMJJBY, an accident insurance plan, in an attempt to increase the focus on providing access to financial services.

PMJJBY is a pure term plan with a sum assured of Rs.2 lakh and renewable yearly. You can opt for this if you are between 18 and 50 years of age by paying a premium of

Rs.330. PMSBY is a personal accident insurance with a sum assured of

Rs.2 lakh at a yearly premium of Rs.12. Claims are payable on accidental death, permanent total disability or permanent partial disability.

If you opt for Suraksha Deposit Scheme, out of Rs.201, Rs.24 will be reserved to pay two annual premiums of Rs.12 each for PMSBY. The remaining

Rs.177 would be retained with the bank in a fixed deposit (FD) for five to 10 years for payment of premium for PMSBY.

If you pick Jeevan Suraksha Deposit Scheme, you will have to deposit

Rs.5,001. Out of this amount, Rs.684 will be used to pay two annual premiums for both PMSBY and PMJJBY (

Rs.12 and Rs.330, respectively, per year). The remaining Rs.4,317 will be converted in an FD for 5-10 years. This will pay the future premiums of the two insurance schemes till the maturity of the FDs.

If you decide to gift someone a Jeevan Suraksha Gift Cheque, you will have to pay

Rs.351 for the gift card. The recipient can use the gift cheque to enrol for the insurance schemes. Of the cheque's value, Rs.342 ( Rs.12+ Rs.330) will be used to subscribe to the two insurance programmes. The remaining

Rs.9 will be retained by the bank as service charge.

According to banks that we spoke to, the money that goes into an FD—

Rs.177 in case of Suraksha Deposit Scheme and

Rs.4,317 in case of Jeevan Suraksha Deposit Scheme—will earn interest rate as per the prevalent rate for the particular tenor.

Here's an example. ICICI Bank Ltd offers 8% interest per annum on deposit of 5-10 years. If you opt for ICICI Bank, the money put in an FD under the two deposit schemes—

Rs.177 and Rs.4,317—will earn 8% interest per annum. If you take a yearly interest payout on the FD under Suraksha Deposit Scheme, it will earn about

Rs.15. Out of this, the bank will deposit

Rs.12 on your behalf towards the premium for PMSBY. The remaining interest amount, along with the principal, will continue to earn interest. At the end of tenor, the money will be credited to the customer's account.

According to banks, all terms and conditions that apply to a normal FD will be applicable on these deposits too.

The deposit schemes and the gift cheque have been launched to provide more access to the insurance plans.