

POLICIES FINANCED THROUGH HUF

A proposal whether wherein income from HUF is mentioned for the purpose of arriving at the Actual sum Assured that can be granted, is to be dealt with as per the guidelines indicated below. (Ref. Actl /1002/4/dated 8.4.94)

SCRUTIINY OF PROPOSAL (UNDER HUF)

Te ACR/MHR should be carefully gone through so as to find out whether“ under the income” is mentioned HUF, if that be the case, ascertain where that income is proposed to be taken into account for financing the proposal under consideration. If so, get the HUF addendum which should be carefully scrutinized to ensure that all the coparceners are males only, In the event of females being a mentioned, get clarification from the karta that the females are merely the member of the HUF. As far as HUF is concerned a female member cannot be a coparcener. However, she can be member of the HUF. The difference between the two being the right of the coparcener to quit the HUF demanding portion of income. Where as a female cannot be a coparcener, sometimes she may act as the karta of the HUF under the following circumstance.

Suppose karta of the HUF, the father dies leaving a minor child as the eldest coparcener of the HUF, then during the minority of the sons, mother will be acting as the karta. It will be appreciated that this position arises only because the minor is barred from dealing with the HUF funds. Keeping these points in view, different cases may be dealt with as under.

A. Where the karta (male) proposes and wants to pay the entire premium out of HUF :

This can be allowed. However, if the policy is to be financed partly out of his other income and partly out of HUF, this cannot be permitted since the policy effected under HUF loses the Privilege of getting loan, appointment of nominee etc. The only way is to advice the proposer to spilt the proposal in such way that one proposal is financed totally out of the HUF income.

B. Where the proposal is received from the karta on the life of co-parcener :

In view the legal position stated in the earlier paragraphs, this would happen only in case of a male lives. Since the karta himself proposes, no separate consent is required to be obtained, However, while dealing with such cases extra care is to be taken to eliminate moral hazard. This arises due to fact that when there are more co-parceners, the karta's intention to choose only co-parcener tends to indicate adverse selection, in such cases it is desirable to subject the party to medical examination from reliable medical examiners and special reports whenever necessary from reliable specialists.

C. Where the proposal is received from the karta to cover the risk on the of a female member :

In addition to what is stated above (point B), We have to get a letter from the other coparceners and all other member to the effect that they have no objection of effecting the policy on the of that particular female member out of the HUF funds. The karta should also clearly indicate as to why the particular life is being chosen in preference to the coparceners and the other members. Since moral Hazard plays a much more serious role in these cases, If necessary to insist on special moral Hazard Report from the Sr. Branch Manager.

D. Where a proposal is received from a female as the karta of the HUF :

These cases may be refered to zonal office without any commitment. A detailed letter from the proposer should accompany the proposal indicating the circumstances under which she is acting as the "karta"

Sometimes, proponents apply for the insurance on the basis of income of HUF, It is better to propose on such insurance separately, otherwise purpose of claming tax relief may not be served. In case of HUF income, proposer should be Karta/ HUF and insurance proceed should form part of HUF only. In other cases, the following requirement should be submitted;

- a. Particular of insurance on the life of proponent.
- b. The reasons from the proponent why he cannot take insurance on his life.
- c. The undertaking from him that the premium will be paid out of his income.
- d. The details of insurance on the lives of family members being financed by him.
- e. In case of wife, why joint Life insurance is not proposed.