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INSIGHTS

Deciding on term insurance: What is the ‘Right Time?’

While term insurance is the simplest and most cost-effective form of life insurance, there is a twist in how it is perceived by both customers and insurers. For many customers, especially young individuals, the purchase of term insurance is very often overlooked or delayed till the product becomes expensive or simply unavailable. The reluctance often stems from a casual understanding of the need for and importance of insurance. To add to it, the attraction of immediate financial gratifications versus saving for long-term financial security! For insurers, when individuals delay or defer purchasing term insurance, it leads to an older and less-than-ideal mix of customers where more complicated onboarding processes are needed.

People in their 20s often think that term insurance is something they can “put off for tomorrow” when they are older and maybe insurance will be more relevant at that age. Financial priorities lean towards what is more here and now —like upgrading to the latest smartphone or planning trips with friends. Or even finding the next multi-bagger investment idea. Unlike some other financial products, term insurance is not on the marketing radar for the younger demographic, possibly because it lacks the exciting appeal of investment-based returns. Our potential customers also see insurance as less of a priority in their ‘managing their money’ journey.

As individuals age and take on significant life responsibilities, such as earning to support their parents, getting a loan to purchase their first house, or starting their family, the urgency to purchase term insurance grows. Often, by the time this realization sets in, the cost of term insurance premiums may have already increased significantly. Additionally, health issues that develop over the years can pose a serious threat to one’s eligibility for higher coverage. Since premiums are fixed for the tenure of the policy once purchased, buying term insurance at an earlier stage in life allows individuals to lock in lower premiums and often add on more coverage options, making it a sound financial decision but only if acted upon early.

Delaying the decision to purchase term insurance increases the risk of rejection of your proposal. The chances of developing health conditions that can lead to your term insurance application being turned down increase with age. Lifestyle factors, such as smoking or high-risk occupations, may further impact eligibility. Incomplete or delayed medical disclosures can cause complications during medical exams, potentially resulting in claim rejections later. Insufficient income documentation is another common reason for rejection. These factors, combined with age and health issues, mean that its far better to go for term insurance at younger ages when there is a significant period ahead of you when likely you’d be in good health before the middle age and their common health problems kick in.

It is never too early to break this cycle of delay and dilemma regarding term insurance; go for term insurance as part of your financial plan as early as possible. When you are young and healthy, premiums are lower, and your eligibility is higher, ensuring you secure the best possible coverage.

From the insurer's perspective, this delay in decision-making also presents a significant challenge. When individuals finally decide to purchase term insurance, they often do so at a stage where they are no longer the ideal candidates—either because of their age or health condition, making the process more complex and costly for insurers as well as assessing the suitability of the coverage applied for in the context of the health and other considerations of the customer.

It is also essential to review your insurance needs at regular intervals, particularly at key life stage points – starting work or change in work status, marriage, the birth of children, taking a home loan, etc. As life changes—whether through new responsibilities, financial growth, or health shifts—your coverage needs will evolve. Regularly assessing your policy will help you adjust accordingly.

Full disclosure to your insurer on health issues and lifestyle preferences is equally crucial. Transparency about your health status prevents future claim issues. If the insurer comes back with a counteroffer based on a health assessment, consider it seriously, as declining it now could mean missing coverage entirely later.

In this decision to purchase term insurance, don't be delayed by the allure of other financial priorities. The cost of waiting can be significant! Younger individuals should re-think their approach to term insurance, realizing that it is not just a financial safety net for later years but an essential component of long-term financial security now. Select insurers also offer specific term plans oriented towards young customers, which are better options for younger customers to start their term insurance journey. Starting early, providing transparent disclosure to your insurer in the application, and reviewing your coverage needs periodically can help break the cycle of delayed decision-making, ensuring you and your loved ones are protected at the right time and cost.

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