

## ■ LIFE INSURANCE

# Look out for options, assess needs before buying life plan



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LIFE insurance is the foundation of financial security for you and your family. However, strange as it may sound, it is rare for a consumer to be discerning at the time of buying a life insurance plan. As with any major purchase, while choosing a policy, it is important to understand individual needs and the options available in the market.

### PRE-PURCHASE

The process of buying a life insurance policy begins by filling up personal details in a proposal form. Along with generic details, you will need to indicate your health status, work profile and also the medical history of your family, which are used by the insurer to evaluate the risk profile to ascertain the extent of cover that they can offer without further investigations. It thus becomes essential to provide correct information, as the first principles of insurance rests on utmost good faith also known as *uberrimae fides*. Failing to provide correct information can result in insurance being denied and in some instance, at the later stage, claims being denied.

### WHEN BUYING

The main purpose of life insurance is to provide a cash stream to your family and financial dependents after your death. It is, therefore, crucial to correctively evaluate the amount of insurance cover based on the financial liabilities that you have and the income replacement that your dependents will need in your absence.

There are broadly three types of insurance policies — one that addresses only the risk on your life; second, that offers you a combination of risk protection and savings and lastly a mix of risk protection and investments. Individually and collectively, these are designed to meet your insurance, savings and investment needs in life.

Each insurance policy is offered for a specific tenure at a cost called the premium, which

varies depending on the frequency of payment. The frequency could be monthly, quarterly, half-yearly or yearly. Make sure that you understand the costs through the tenure of the policy. It is better to be under-insured without defaulting on your premium payment than sign on a policy that seeks a high premium payment, which turns into a financial strain later.

At this stage you will get a policy illustration, which is a roadmap of how the plan works through its entire tenure. It illustrates all details such as the premium paid each year, the death cover in the policy and the value of the investment (in case of investment-linked plans) based on an indicative return. However, in

case of unit-linked policies, the illustration format is standard and prescribed by the insurance regulator IRDA.

Though the illustration is a simple document it might seem complicated owing to the financial details present in it. For instance, in case of unit-linked policies the illustration is very elaborate and can put many financially literate individuals in a spot with details of IRR (internal rate of return) or the asset allocation followed by the fund in which the premium is invested. However, IRDA has initiated a step of prescribing standardised illustrations to be used by all life insurers at the point of sale to protect policyholder's interests.

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### POST-PURCHASE

One aspect in which insurance scores over all other investment products is the free-look period, wherein despite all precautions and safeguards if the policyholder feels that the policy is not the same that he wanted or understood, it can be returned to the insurer at a minimal cost or loss. The insurer is permitted to deduct prorated risk premium or mortality charges, stamp duty and free-look cancellation expenses. However, it is always wise to fully understand the details of a policy and be sure that you are comfortable with the insurer and the agent before purchasing. ♦

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