

Living in a fool's paradise

SECURE FUTURE

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Most of us live in a belief of immortality; to us, early deaths or families going through bad times are only stories that we hear from a friend, about a friend, a distant relative or a neighbour. We sympathize with them but ignore the odds that something similar can happen to us, and which can leave our family as well in despair and financial deprivation.

The irony is that we buy car insurance without a second thought but ignore life insurance, which is much more important. Anyone who makes an economic impact on somebody else's life needs life insurance—it could be a youngster who has landed her first job and has an education loan to pay off; or it could be a 45-year-old with heavy financial responsibilities such as children's education, parents' healthcare and a hefty home loan to boot.

One should plan in such a manner that at any point in time, in one's absence, the family does not need to compromise on their current lifestyle and yet-to-be fulfilled needs.

Unfortunately, many people do not fully realize the danger of being un-insured or under-insured. Having insurance is just a starting point and must be put into the context of other liabilities, expenses, inflation and present ability to set aside money for it. The tendency to over-scrutinize or ignore the decision to purchase a life insurance puts the family in a great risk of financial hardship in absence of the bread winner.

Here are seven common mistakes that people make when it comes to the need to have life insurance.

I am single. I don't need life insurance: This is a misunderstanding that many young people have. Life insurance is a necessity if you have any sort of a financial obligation or if you have people financially dependent on you. For example, you may be running a loan or have credit card outstanding. In your

absence, your family will have to pay back the lenders. Even if you are unmarried, you may accumulate assets that you would want to pass on to your family, so any loans that you may have need to be insured. Life insurance can help you cover such liabilities and relieve your family from your financial obligations.

I am young and fit. Why should I take life insurance?: Sudden death of a young and healthy person due to an accident or disease can deprive the dependent family of a sound financial future. In fact, it makes better financial sense to buy life insurance as early as possible as this allows you to lock in lower rates and guaranteed coverage. This is especially helpful because you may develop health issues later in life and will not be eligible for insurance then or will have to pay heavily for it.

I don't have kids. Why do I have to think of life insurance?: You may not have children, but your spouse may be a financial dependent. Life insurance secures the lifestyle and provides a safe financial future for your spouse in your absence. Your spouse will still have to manage the loan instalments and monthly expenses. This will become more difficult if your spouse is not working, as it will take time for a career to start, which may anyway require further education or training. With life insurance, your spouse can cope up and move ahead in life.

I had bought a life insurance policy a few years ago; I am done: A comprehensive insurance cover can be attained only when coverage is reviewed at every important milestone of your life—marriage, birth of a child, purchase of an asset, and even progressing age. Such changes should prompt you to revisit your insurance coverage. Even if there are no big changes, a review every 3-5 years will help you keep pace with inflation, and change in standard of living and income.

Further to this, such reviews help you get the best value for the premiums you pay according to your age.

Life insurance does not give any returns: Many people compare life insurance with an investment product; however it's not about returns but about peace of mind! Life insurance covers the risk of 'dying too early'; by paying a few thousand rupees every year, one can avail a cover in lakhs and crores.

Life insurance is very expensive: The premiums for life insurance have become almost less than half of what was offered 10 years back. Moreover, there are many affordable life insurance



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plans now available online. For instance, a 30-year-old male can get a cover of ₹1 crore by paying a premium of around ₹6,500 for a 20-year term. This works out to be less than ₹18 per day, which is probably cheaper than the cost of your daily commute or mobile bill for a day or even a cup of coffee.

I can buy this policy after a few years. What's the hurry?: You need life insurance till the time you accumulate sufficient liquid assets and/or have reduced dependence. By deferring the decision to purchase, you take a big risk because it means that you are depending solely on your savings and other assets. If you die without coverage for dependants, there may be no other means to provide for them once your current assets have been depleted.

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