

MIPs — A smart way to help generate income

CHIRAG RATHOD

HISTORICALLY, life insurance in India has been taken through traditional life insurance products such as endowment and money-back plans. After the liberalisation of insurance sector, unit-linked insurance plans (Ulips) took the centre stage and became the fancy of the market and customers. Customers were thrilled by the bull run in equity markets and were excited to see exponential returns in their policies until the global financial crisis hit in 2008.

Faced with significant volatility in equity markets, customers shifted their demand back to alternate plans which provide some guarantees to returns. Due to an increase in customers' demand for traditional products, which can provide smoother returns, insurers started introducing variations of endowment and money-back plans.

Several independent research pieces have been conducted, which reveal that while planning for the long term, many customers are averse to taking risks and instead prefer guaranteed returns. Hence, they tend to prefer traditional products over Ulips. A customer



research conducted by Canara HSBC Oriental Bank of Commerce Life Insurance Co. Ltd. along with a research organisation reveals that a significant percentage of customers prefer a regular income over a lump sum payout to achieve life stage goals. Hence, the prevalence of guaranteed Monthly Income Plans (MIPs) in the market.

MIPs are typically for customers who either wish to have supplementary income along with their regular source of income and/or who are looking for a regular income source to support their retirement needs. There are various types of MIPs in the market today and so it is important to consider which is right for you.

How do MIPs of insurance companies work

Typically, MIPs offer payouts at regular intervals on a monthly basis (although some companies offer annual payout as well) for a period ranging from 10 to 15 years.

Another important feature is that life cover is available in MIPs during the premium payment term and

additionally some plans offer life cover during the income receipt period as well. Life cover in MIPs is a unique advantage over simple wealth accumulation products like fixed or recurring deposits which offer no such benefit in the event of death. This offers peace of mind — loved ones are safeguarded in the event of untimely death. As life cover can vary from plan to plan, it is important to check that the protection is right for you. If protection is very important for you, you may wish to opt for a MIP which covers you not only during premium payment but also during income receipt period. Further, you may wish to opt for a plan that does not deduct monthly incomes already paid from the death benefits payable to the nominee, so that life cover is not reduced.

Is it suitable for me to buy an MIP from an insurance company?

If your goal is to build up a lump sum for a defined need say, buying a house or children's marriage, then an endowment plan which pays out a lump sum, may be more suitable option. However, if you are looking for an additional income, besides your regular income, to support your lifestyle or your depend-

ents' needs (e.g. child's needs of additional support during their hostel life or support your parents on an ongoing basis), then a MIP is more suitable. Another important factor to consider is the duration of your goal. If you are looking for an income payout for life, an annuity plan would be more suitable since payouts continue throughout life. However, if you are looking for a regular income for say, 10-15 years, a MIP would be more suitable.

What should I do after buying an MIP?

You must keep yourself updated on the progress of the plan purchased, to see that it remains on track to fulfil your desired life goals. It is also important to ensure that you pay all premiums in your policy to maximise the value of the plan. Stopping paying premiums or surrendering the plan early may impact policy benefits severely. To conclude, MIPs can provide a great means of achieving a tax-efficient supplementary income with in-built life cover to protect your life goals.

The author is Appointed Actuary and Director, Products and Strategy, Canara HSBC Oriental Bank of Commerce Life Insurance. The views expressed in this article are his own