

## What Is Term Life Insurance?



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Term life insurance is a basic financial security tool for an individual to park and save money to safeguard the future of the nominee(s) in case of any unforeseen event.

It is basically a simple protection plan or pure insurance where a customer gets life coverage, which is normally a large sum of money for which a customer pays a premium over a given period of the life cover.

A term insurance can help the insured to prepare for any eventuality arising from the financial stability that may occur if the breadwinner of a family passes away due to an illness, accident or unforeseen death.

### **Here's how a term insurance plan works and ways in which you can take one.**

#### **Who Should Purchase a Term Plan?**

Term plan is a traditional insurance plan that can be purchased by anyone; it is a basic financial instrument which should ideally be present in everyone's investment portfolio. Any individual contributing financially towards the household and with dependent parents and other liabilities should opt for a term life insurance as it offers a safety net in the event of the death of an individual.

#### **Quantifying Protection**

One of the primary purposes of a life insurance cover is to ensure financial support, including children's education and other needs, to the immediate family in the absence of the breadwinner. An approximate

corpus can be easily derived by doing the simple math of multiplying the annual income with the time left till retirement.

According to experts, one should go for a term insurance cover that is at least 15-20 times of the annual income. Going by the tried and tested formula that industry experts recommend, if you have an income of INR 10 lakh per annum, your cover should be at least of INR 1.5 crore to INR 2 crore.

One has to take into account the human life value to decide the sum assured or in simple terms life cover. Then the premium is determined depending on the age and tenure of the policy. The premium amount may also vary according to habits and health status of the individual.

Smokers generally have to shell out a higher premium due to comparatively higher mortality risk. For such individuals, higher premiums may be applicable and in cases of adverse health conditions or severity of any lifestyle diseases, there is a possibility of the insurance application being rejected.

### **Ideal Age for Protection**

Prior to the coronavirus pandemic, it was common to find individuals with family responsibilities agreeing to insurance solutions for their families. This trend has seen a shift and the younger population of India is now seeking life cover for long-term protection for themselves as well.

Specifically, millennials have emerged as more financially-savvy and aware of the advantages of taking a term plan at a young age. When a young individual takes a term plan, the premium amount is considerably lower and remains constant throughout the tenure of the plan.

### **Key Features of Term Life Insurance Plan**

**Financial Freedom at Affordable Premiums:** A term insurance guarantees maximum financial independence at a minimum cost. Its benefits provide cushion in case of death at premiums better than those offered for critical illness insurance plans, depending on your age.

**Easy to Buy:** Buying a term insurance is a considerably no-sweat affair because everything you possibly need to know is available online. From finding a form, to a term insurance calculator to doing the math about the premium you need to pay based on your criteria, you can get online access to all the information you need.

**Essential Investment for the Future:** Making monetary investments from a young age has huge significance in securing one's future. And term insurance is one of the recommended types of investments that help in dealing with death.

**Flexible Payment Options:** A term plan gives you the liberty to choose from a range of payment options such as monthly/quarterly/yearly payment, as per your convenience.

**Various Payout Options:** If you are concerned about your family quickly spending all the payout, you can opt from various payment options. You can request the insurance company to dispense the money to the family on a monthly basis, much like a regular income.

**Wide Range of Customized Offers:** Premiums of a term insurance are often customizable, and your age and habits play a decisive role on determining whether you are eligible for the offers. For example, a non-smoker has better chances of availing a rebate on premium, as opposed to a smoker. Being a female also guarantees additional advantages in premium rates.

### **Types of Term Insurance Plans**

While planning to purchase a term insurance plan, you will often come across a variety of options that might lead you to a pool of confusion. However, you need to make an informed decision.

Make sure to do a thorough research on the available plans in the market and look for a plan that fits your current financial aspects, as well as your future requirements. Making it easier for the buyers, a lot of new-age term insurance plans are available with in-built features to cater to the evolving needs of consumers and their subjective requirements.

For instance, some plans come with the provision to change the "sum assured" based on the changes in protection needs after the lock-in period. In most cases, there will be no alteration in your premium amount post increase or decrease in "sum assured" chosen by you. If the insured adds X to their plan after the lock-in period, their premium may remain the same but an additional benefit will be added with a slightly lower sum assured.

Similarly, if the insured drops Y from their original plan after the lock-in period, their premium may remain the same but their sum assured may increase. The product brochure usually has detailed information on the terms and conditions applied in the increase or decrease of sum assured under these plans.

Some new-age plans offer a reduction in premium aligned with a good health status of the life assured.

As consumers, we have a tendency to expect to receive our capital investment at the end of the tenure. There is a variant of term plan available that returns the premiums paid to the consumer on survival till the end of the tenure. Such plans are more expensive than ordinary term plans that pay the sum assured only in the event of death.

The best way to reap the benefits of a life insurance plan is to stay invested throughout the tenure. It is not advisable to exit an insurance plan prematurely as the life cover will cease and your family's financial security may be jeopardized in case you die. It is recommended to continue with the purchased plan for the entire tenure for long-term financial protection.

Most importantly, in the event of death, the insured person's family will receive death benefit only if you continue the plan.

#### Important Considerations Before Deciding on the Term Plan

Some important things to keep in mind before finalizing your term plan include:

##### **Premium Evaluation**

The premium should be competitive and one can compare for the same tenure, age and habits. The premium should be affordable throughout the policy tenure so that you're not tempted to stop paying.

One should decide the term of the policy keeping in mind the time horizon of the financial goals of the family. Protection should remain until the individual is free from all liabilities.

##### **Claims Settlement History**

The claim settlement history of the insurer should be a critical parameter of selection. This is found by learning about the claims settlement ratio.

Claims assistance support of the insurer is another criteria. Nobody would wish their families to run around from pillar to post to receive the claim during times of distress.

##### **Disclosure of Material Facts**

The customer should declare all facts pertinent to the policy and should not conceal any vital information. Declaration of any adverse health condition or family history may rate up the premium but would ensure a hassle-free experience for the family during claim payments.

### **Importance of a Medical Test**

It is common for a layman to avoid the hassle of a medical check for a life insurance cover. However, medical examination is an important process if called for. This is to reconfirm the health status of an individual as we may not be aware of an underlying ailment.

Further, you have a lesser chance of getting the claim denied if you have undergone a medical test under instruction from the insurance company. Usually, medical tests are undertaken for a higher life coverage, age, and existence of any ailment or habits such as smoking.



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