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# Term Insurance:

## The most appropriate form of insurance

### Concept of term insurance

Term life insurance is a specific type of insurance that provides insurance cover that provides you with a high level of protection at a very economical price. In the unfortunate event of your death during the policy term, the beneficiary would receive the Sum Assured as a lump sum. The cover expires at the end of the term, and if the policyholder wishes, he/ she can to pay premium and renew the plan for a further term.



Being a pure risk cover, term plan does not involve a maturity payout in case the life assured survives by the end of the term.

### Term insurance: Why is it required?

Every-one wants to see their family secure and happy at all times. As time progresses and as one crosses important milestones in life, the responsibilities and liabilities increase. While one tries best to fulfill them, however, life is unpredictable and one should be prepared well in advance to handle any adversity that comes one's way. A term insurance plan helps to protect the family against the uncertainties of life and to ensure that they are able to cope with financial obligations should anything unfortunate happen.

It is a fundamentally incorrect thought to assume that whatever premium you pay for insurance should return something in form of returns. Because of this thought, investors prefer putting their money in traditional and ULIP plans, and even term plans, which promise a return of premium. However, when they do this, the sum assured opted by them is very miniscule as compared to their needs. Hence, in such case, the whole purpose of buying insurance is defeated.

It needs to be remembered that the sole purpose of insurance is to cover one's dependents and secure the family's future in case of one's death. This is where term insurance is a clear winner. It is one of the most important pillars in the financial well being of any individual's life because of two reasons:

- A term plan ensures that a person can buy sufficient amount of insurance cover as per his needs, at a very nominal premium (in case of women or non-tobacco users, some companies charge even lesser premiums). Sufficient risk cover ensures that in the unfortunate event

Sr. No.	Name of company	Name of product	Mode	Premium (SA : Rs. 50 lacs) Rs.	Premium (SA: Rs. 1 crore) Rs.
1	ICICI Prudential	I-Care	Online	8,493	15,221
2	HDFC Life	Click2Protect	Online	6,000	10,600
3	Kotak Life	Preferred e-term	Online	6,150	11,500
4	Aviva Life	I-life	Online	4,550	8,127
5	Aegon Religare	I-term	Online	4,100	7,300
6	Bharti Axa	E-protect	Online	4,100	7,300
7	SBI	Smart Shield	Offline	9,649	16,798
8	LIC	Anmol Jeevan	Offline	17,850	35,700

(The above premiums are exclusive of service tax and have been picked up from the premium calculators available on the official websites of insurance companies. Premiums are for a 30-year old non-smoker healthy male for a policy term of 30 years.)

of demise of the individual, his family's living expenses and amount required for important goals like children's education and marriage, etc. are taken care of.

- Term plan coverage at a nominal premium frees up the individual's balance savings for various long term and short term goals in the right instruments.

Term insurance is a pure form of insurance where if the insured dies during the term, the death benefit is paid to the beneficiary whereas if the insured survives till the end of term, no benefit is paid out. As compared to this, plans like endowment or whole life plans or ULIP plans are a combination of investment and insurance, whereby whatever premium is paid by the policy holder, is bifurcated in two portions one goes towards coverage of risk and other goes towards investment. While in case of traditional products, the investment is mainly in gilt and debt securities, in case of ULIP, there is more flexibility in terms of choice to policyholder as to the fund options.

### Evolving market for term insurance in India

The market for term insurance is an evolving one. Whilst the focus of insurance companies till some time back was on ULIP products, after the new ULIP regulations in 2009, it has considerably shifted towards traditional variants. With the growing awareness of term plans being a better choice to get insurance, insurance companies have also started marketing of term insurance aggressively. Also, with the increased penetration of insurance and people getting increasingly net-savvy, the concept of online insurance has also become popular.

Off late, companies have started selling term policies online. This trend was started by Aegon Religare with launch of its I-term plan. Later, established companies

like ICICI Prudential and more recently, HDFC Life have rolled out their online term insurance products.

A comparison of offline term insurance plans vis a vis online plans reveals a significant savings in term of premium outgo for the policyholder. The reason for this is two fold:

- Since the selling channel is online mode, there is no intermediary between the insurance company and distributor. Hence, the insurance company stands to save a substantial amount in terms of the distribution cost, which it passes over to the customer.
- The population segment opting for online insurance are people who are net-savvy and generally professionals, who have better access to medical and health care facilities. Accordingly, insurance companies perceive this segment to be of a lower mortality risk and price the product accordingly.

Apart from the savings, it is very convenient for the policy holder to buy an insurance policy over the internet, from the convenience of home (no messy paper work, no going to branch!)

### Comparative analysis of premium charged in term insurance plans offered by various life insurance companies

The below table presents a comparison of health insurance plans offered by insurance companies for a 30-year old health male., at 2 levels of Sum assured-Rs. 50 lacs and Rs. 1 crore. (Please note that the premiums exclude service tax)

Following points are clearly evident:

- For a nominal premium in a term plan, the cover offered is huge, and hence is very affordable.

## Insight



No matter whether you are young or old, rich or not-so-rich, if you have a family who is dependent on your income and you don't have sufficient insurance cover, the best way you can protect their future is by purchasing the right term insurance.

Traditional and ULIP plans can never offer such kind of cover at this low premium, due to the product design

- As regards mode, the premiums charged under online mode is far cheaper (less than half!) as compared to offline mode.

### Rider protection

Term plans offered by some companies also offer additional protection in form of add-on covers known riders, on payment of a nominal additional premium:

- **Accidental Death Benefit Rider:** An additional amount (generally equal to the Sum Assured) is paid out in case the insured dies due to an accident
- **Accidental total and permanent disability rider:** An additional amount (generally equal to the Sum Assured) is paid out in case of total and permanent disability due to accident
- **Critical Illness Benefit rider:** Lump sum payment in case of detection of any specified critical illnesses (like cancer, heart attack etc.)
- **Women Critical Illness rider:** Lump sum payment in case of detection of any specified critical illnesses pertaining to women (pregnancy complications, congenital disorders etc.)

### Things to note before you buy

Following things may be kept in mind while buying for term insurance:

- **Decide on the right sum assured:** This is very important. At the time of choosing sum assured, it is pertinent to ensure that the money received from the insurance company should replace the

insured's income and thus help the family in running the household in the same way as prior to death of insured member. Also, it should provide for settlement of all outstanding loans and liabilities and funding of important financial goals like children's education and marriage etc. As a thumb rule, sum assured may be kept as 10 times of the annual income of the person, however, deciding on sum assured basis some thoughtful calculations may always be more worthy.

- **Disclosure of complete family medical history and other existing insurance covers:** Insurance contract is a contract of utmost good faith and hence it is imperative that the insured should make a full and complete disclosure of his/her medical history and that of family members, as well as full details of existing insurance covers. In a possible case of adverse medical history disclosed in the proposal form, insurance company can levy some small extra premium. However, in case the same is not disclosed fully, the insurance company can reject the claim on the ground of suppression of facts

### Conclusion

No matter whether you are young or old, rich or not-so-rich, if you have a family who is dependent on your income and you don't have sufficient insurance cover, the best way you can protect their future is by purchasing the right term insurance. With increased competition amongst the players in the insurance sector, every day new products are launched with cheaper premiums, so an investor stands to benefit immensely from these developments. So the mantra is ---don't wait, buy a term plan for sufficient cover and protect your family's future NOW!