

# Think Insurance; Think **Term** Insurance



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It is always better to go for term insurance when taking life insurance cover as it provides maximum cover at cheapest cost, advises Deepak Yohannan

Let me start with a simple description of 'Term Insurance' – in the unfortunate event of death of the policyholder, the nominee gets a pre-decided amount, called the "sum assured". There is no money paid back to the policyholder in case he survives the term of the policy. This type of policy covers only risk and is not an investment tool. In fact, we can also go to the extent of calling it the only "pure insurance" product available. Hence term insurance is also the cheapest form of insurance product. You can pay a small premium and get a very large insurance cover. The rest of the products are a mix of insurance and investments with increasing levels of complexity and charges to add to them. Of course trust the financial wizards to bring some complexity into term insurance also – increasing term insurance, decreasing term insurance and a host of riders which all come with a cost attached to them! There are merits in these variations also, provided one knows which suits them best.

Most people spend a lot of time, effort and money in different forms of investments – ULIPs, mutual funds, equities and fixed deposits, to name a few. All these products use your money and try to make more money out of it. In some cases, the returns are fixed and in some they are linked to the market. So if the market goes up, you make money and if the market goes down, you lose



money. And wherever the returns are fixed, the rate of interest is usually very low. Well, I am not suggesting that one should not invest in these, but it should ALWAYS be after one has taken adequate term insurance cover. In fact, a healthy portfolio is always a mix of sound insurance and investment products. Just as one invests in debt and equity to "hedge risks" in investments, one should insure and invest for "complete peace of mind" when it comes to planning for your family. And when I say adequate cover, I would be suggesting between 7 to 10 times your current annual income, maybe even more, given the inflation levels we have seen in the current times. The investment tools should be used to multiply your money and not to provide the basic cover which ensures peace of mind for you and your family.

If it is so obvious, why don't people take adequate term insurance cover?

Well, for starters, money paid by you in the form of premiums is not returned back to you. This seems to be the only factor which people seem to be using to evaluate term insurance and hence go on to opt for the more attractively packaged "high returns" products. This is the wrong way of looking at your safety net because we are talking about insurance and not investments. When you think insurance, your only aim should be to provide as big an amount to your family and children, in case you are not around. In case you survive till retirement you would anyway end up saving a substantial amount through investment tools or by just putting money into the bank.

All the confusion and counter-arguments start when you mix insurance and investments. Hence, I suggest that we delink insurance and investment for the moment. If your objective is to provide a lump sum amount for your family in case you are not around, you should be looking at the highest possible amount by paying the least possible premium. Well that is exactly what a term insurance provides - lots of cover at very low premiums. Let me explain this in detail by citing an example – by paying an annual premium of Rs 3,000 one can get an insurance cover of Rs 10 lakh if you opt for term insurance. But if you go for an endowment policy you would need to pay an annual premium of