More than only protection from term plans

Variants like staggered payout, higher entry age, return of premium are being introduced to tap insurance-seeking customers

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Most financial planners advise term plans as the backbone of any financial planning. These are the cheapest and also provide what life insurance policies are supposed to — only insurance cover. "In the event of death of the primary earning member, an insurance policy should ideally provide for your loans, children's education, family's health expenses and income for your family. It is best achieved through term plans," says Yashish Dahiya, chief executive and co-founder, PolicyBazaar.com.

After the runaway success of online term plans, insurers are finding ways to make these more attractive for buyers. In the past month, three life insurance companies — Aegon Religare, Kotak Life and Edelweiss Tokio — have launched term plans. In addition to protection, these plans offer added features like higher maturity age, return of premium and option to receive the death benefit in the form of recurring income. Other companies have been offering such features for some time.

Staggered payout

For instance, Edelweiss Tokio Life Insurance's 'Edelweiss Tokio Life – MyLife+' offers three death benefit options — a lump-sum benefit option, income benefit option and a combination of both. Under the first, the entire sum assured is paid at one go. Under the income benefit option, one per cent of the sum assured is paid every month for 10 years, starting from the following month from the date of death.

HDFC Life Insurance also offers a lump-sum option, income option and an income-plus option. In the income option, only 10 per cent of the lump-sum is paid on death and the rest as monthly income. Since the payment is over a longer period, the premiums are lower than the lump-sum option. "This is because the liability is spread over 15 years. The company has time to pay the death benefits, unlike in the case of lump-sum, where it is paid out in one go," says Sanjay Tripathy, senior executive vice-president.

Under the income-plus option, the costliest product, there are two payments. One, 100 per cent of the sum assured, is paid as lump-sum and two, 0.5 per cent of the sum assured is paid every month over 10 years. The premium in this case is higher because there is a double payout, says Tripathy. However, the plan will cost 50 per cent more than a regular term plan, while the repayment will be 100 plus another 60 per cent over 10 years.

COST OF A HIGH LIFE COVER

HDFC Life's term plan for ₹25 crore sum assured, for a male, 30, on a 20-year-old policy:

	Offline	Online
Lump sum option	2,01,500	1,90,418
Income option	1,69,250	1,59,941
Income option plus	3,02,250	2,85,625

Figures in ₹ Source: HDFC Life

According to Atrey Bhardwaj, principal officer, Probus Insurance Brokers, such plans can help families which are not financially literate and might not know how to invest a corpus if they receive it at in a lump-sum. "When the family receives the benefits as regular income, they will not spend the money on unnecessary things," he says.

Depending on their requirements, nominees can opt for any one of the options. For instance, if they have a home loan, they can opt for a combination of lump-sum plus income option. The lump-sum can be used to repay the loan and the regular income can be used to meet regular and recurring expenses.

The Kotak Preferred e-Term Plan also offers two payout options - immediate payout (lump-sum on death) and recurring payout (regular income for 15 years). Here, too, the recurring payout option offers lower premium for the same cover. Customers, at present, seem to preferring the staggered payment option. "For Policybazaar, about 25 per cent of the term plans sold are the staggered payout options, as these are tax-free," says Dahiya.

Return on premium

These policies are not purely term plans because there are survival benefits.

AEGON Religare's (ARLI) iReturn Insurance Plan, with Return of Premium (RoP) offers a life cover that pays a lump-sum on death. At the end of the policy term on survival, the premiums paid are returned. "This particular feature has been introduced based on the requests we received from our agency force. There is a certain segment of customers who want this feature," says Yateesh Srivastava, chief operating officer.

Rajeev Kumar, chief and appointed actuary, Bharti Axa Life Insurance, says RoP has been successful in offline plans, sold through agents. "Those buying term plans online are more price-sensitive and do not prefer RoP plans, where the premiums are higher," he says.

Many insurance experts do not advocate it because RoP only pushes up the core product – a pure term plan's price for a payback, which is only a fraction of the sum assured. In a regular term plan, you can cover your entire life for just one per cent of the amount.

Higher entry, maturity age

Earlier, those above 50 years of age could not think of buying term plans and the maximum age at expiry of the policy did not exceed 60 years. However, today, many companies allow older proposers to buy term plans. For instance, Bharti Axa Life eProtect allows entry up to 65 years. And Edelweiss Tokio Life – MyLife+ allows coverage up to the age of 80 years. "Such features are useful for those who are elderly and healthy. Today, at least those who are 50-55 years can think of buying term plans but the premiums would be higher," says Bhardwaj.

Higher sum assured

The thumb rule is to have a sum assured of seven to 10 times your annual income. Today, the average size for term plans is ₹70-75 lakh. In online plans, the maximum sum assured is ₹5 crore, though there is no restriction on selling higher-size policies. But it isn't easy to buy these. "In the case of big-ticket policies, we check the medical records and income tax returns. We will ensure the person is not more worth dead than alive," says Kumar of Bharti Axa.

Most high-ticket policies, say ₹25 crore and above, are sold by reference, say insurance officials. They are typically keyman policies and bought in the name of the business. In case of the death of the proposer, the proceeds go to the business. The proposers, in such cases, are typically owners of small unlisted companies or start-ups. While high-ticket policies bought in the name of individuals are not denied, the due-diligence and underwriting will be stricter, Kumar says. Professionals such as doctors or lawyers, are also likely candidates for such policies.

While deciding how much sum assured you need, look at your earning capacity, liabilities and likely future expenses. In the case of big-ticket policies, the insurance company will look into the occupational risk of the individual more thoroughly. Sometimes, wealthy individuals might avail of such a policy only to pay the outstanding liabilities, so that the savings are left untouched for the family.