

## How to choose the right insurance policy

Choosing the right kind of insurance cover not only determines the care that we receive should our health take a wrong turn, but it can be the wild card in your financial plan. There are many benefits of an insurance cover; however, topping the list of benefits is the financial support that a family gets in the event of the untimely death of the income provider. As getting the insurance cover is an important aspect of a sound financial future, choosing the *right* insurance cover is equally important.

With the increasingly uncertain times, what with terrorist attacks and tumultuous financial markets, getting an insurance cover for you and your family has become imperative. However, many of us do not take decisions because of it being such a big ball of wax.

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**First and foremost**, choosing an insurance policy must be based on your current and projected income or simply put your current and projected ability to pay the insurance premiums, your medical state, your age, future financial plans etc.

**Secondly**, you also need to look at:

**Cost-Benefit Ratio:** The cost of the insurance cover depends upon many reasons, some mentioned above and other factors depending on what is covered in the cover or its riders. Thus, you have to keep a close eye on the cost of buying insurance and ensure that it justifies the benefits covered under the policy. Simply put, a right balance must be struck between the cost and benefits available.

**Cover:** You need to ensure that the insurance covers all your dependants and that it also covers the majority of health problems.

**Thirdly**, the promises made by different insurance companies are all fine; however, it depends on you whether you need a pure insurance cover or you need an insurance cover coupled with an investment opportunity. The four major kinds of insurances that most people opt from are:

- **Term Insurance** - Term life insurance or term assurance is life insurance which provides coverage for a limited period of time
- **Endowment Policy**- An endowment policy is a life insurance contract designed to pay a lump sum after a specified term (on its 'maturity') or on earlier death.

- **ULIPs** - Unit Linked Insurance Plan (ULIP) provides for life insurance where the policy value at any time varies according to the value of the underlying assets at the time.
- **Money-back Policy** - Unlike ordinary endowment insurance plans where the survival benefits are payable only at the end of the endowment period, money back policies provide for periodic payments of partial survival benefits during the term of the policy

When comparing between these plans it is important that you keep in mind the factors that were talked about in the first point. Let's take a look at an example:

Arun is a 25 year old businessman who wishes to take an insurance cover for Rs. 20 lakh for a period of 20 years. There are two options he can choose from.

- **Option 1** - He can opt for an endowment/money-back policy and pay a premium of Rs 90,000 annually. If he survives through the policy term, he shall be eligible to receive the entire sum assured and vested bonuses, if the same are declared by the insurance company.
- **Option 2** - He pays Rs 4,000 annually and enjoys the risk cover of Rs 20 lakh. Being a term insurance cover, he is not eligible to gain any survival benefit from the insurance company and the insurance premium paid can thus be treated as the cost of covering his life for 20 years.

Whereas under Option 1, he has earned an annualized return of about 6%; Option 2 gives him about 9% returns during the period. Therefore, it is important for Arun to decide what he wants and opt for a plan accordingly.

It's important to correctly identify your dependants' financial needs to establish just how much life insurance cover to arrange. A general rule is to choose a policy providing at least ten times your salary, but more may be appropriate, with the amount varying depending on how you intend it to be used. Basically you decide how much you want your dependants to receive in the event of your death, and your premiums will be determined accordingly. Hence, make sure you keep all these factors in mind, compare different plans and choose your cover accordingly.

*Our technical advisor Mr. G Krishnamurthy adds:*

*Insurance is for risk coverage and cannot be judged in terms of return, much less between two insurance products. It is not desirable to advise consumers on product selection on the basis of return. I think we need not get into this exercise.*

Source: Bankbazaar.com