

Return-of-premium option may be positive for some

DESPITE financial planners tirelessly extolling the virtues of pure risk covers — term insurance plans offered by life insurance companies — a vast majority of prospective policyholders remain unconvinced about having to fork out a premium without being assured of any monetary benefit in return, should they outlive the policy tenure. This perception has contributed to the popularity of unit-linked insurance plans (ULIP) and endowment plans, which offer an investment component, but come at a significantly higher cost. Few policyholders realise that in the bargain, they may have settle for an inadequate life cover.

For those seeking the middle ground between the two options, some life insurers offer return-of-premium plans, with HDFC Standard Life's Premium Guarantee plan being the latest among them. Others with similar product offerings include ICICI Prudential Life, Bajaj Allianz Life and Birla Sun Life.

Under HDFC SL's Premium Guarantee plan, upon maturity, the policyholder is entitled to receive an amount equivalent to all the premiums — excluding

any extra premium charged due to underwriting, revival or alteration charges, if any — paid through the policy's tenure. In the event of the insured's death during the policy term, the sum assured will be provided to his/her dependants.

As for the policy, a 30-year-old female opting for a term of 25 years will have to pay a premium of Rs 7,330 per annum for a sum assured of Rs 10 lakh. On maturity, the policyholder stands to receive a sum of around Rs 1,83,250. Compared to ULIPs, which provide life cover that is not commensurate with the premium outgo, the plan is certainly cheaper, and seems like a compelling buy for an individual whose primary aim is to safeguard her family's interests in

the event of her death, but all the same, wishes to get the premium back if she survives the term.

While it does address one of the key concerns of many policyholders, one needs to bear in mind that the comfort and peace of mind it offers comes with a cost attached. A comparison between the premiums charged by HDFC SL's Term Assurance Plan (pure protection

cover) and Premium Guarantee Plan (return-of-premium policy) shows that the former is more cost-effective. Assuming the aforementioned parameters to be the same, the Term Assurance Plan will entail an annual premium of merely Rs 2,541. The difference between the premium payable in the case of the two plans — that is, Rs 4,789 per annum — if invested for the same period in other instruments like equities or even debt, can fetch much higher maturity proceeds than the amount one can expect if one survives the tenure of the Premium Guarantee plan.

WHY GO FOR IT: Those who are looking for a sizeable protection cover at a lower cost and also cherish the desire to get some money in return, can consider buying this policy.

WHY NOT: A pure term cover scores over this product in terms of cost-effectiveness. The difference between premiums payable for the two plans can be invested in higher-yielding avenues instead.

HDFC STANDARD LIFE INSURANCE'S PREMIUM GUARANTEE PLAN

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