

## INSURANCE

# SECURE YOUR FUTURE

Understanding the different plans available in the market is essential before preparing for the changing needs

■ **YASH MOHAN PRASAD**



**E**VERY PERSON is exposed to the perils of premature death, disability or disease. It may never happen to most, but in case it happens even to a few, it severely ravages them and their near and dear ones. While it is impossible to predict and completely prevent the occurrence, it is possible to provide against the financial consequences of such events through life insurance. Collectivity of similarly exposed people creates a pool through equitable contributions and lucky many pay for the unfortunate few.

Objective assessment of the value of a human life for insurance purposes is apparently vague. The Anglo Saxon law of the 8th-9th century was used in Europe to determine compensation to be allowed to relatives in case of an individual dying at the hands of a third party wrongfully. Today's courts also adopt certain method to decide upon valuation while estimating loss to legal heirs.

Professor S. S. Huebner (Wharton Business School) in the early 20th century fine-tuned it further for insurance purposes by propounding a concept that every person who earns more than what is required for his own maintenance has a monetary value to those dependent upon him called Human Life Value or HLV. Theodore W. Schultz (Nobel laureate 1979, in Economics) wrote a series of articles on role of human capital—education, talent, energy, will in economic development. Investment in and returns from human capital is the wellspring of development. Individuals

have become capitalist from the acquisition of knowledge and skills mostly through investments in self that endows them with an economic value or estate value. In addition, he also has a potential estate value, which exists in possibility. It is his ability to earn more than what he requires and to accumulate the surplus earnings in estates. Both acquired estate value and potential estate value are function of good character, good health and willingness to work, qualifications, creativity, ability, judgement, patience and ambition. All these taken together determine the individual's insurable value.

In short, Insurable Value is the capitalised value of the net earnings of an individual for the rest of his normal working span and it can be lost due to premature death, temporary disability, permanent disability, loss of employment or slip-down and hence needs to be insured.

The family needs to be adequately provided for through:

- Clean-up funds—for medical expenses, funeral expenses, outstanding loan.
- Readjustment income—enough income for permitting time to smoothly shift to required adjustment in living conditions.
- Income for family till children are self supporting.
- Life income for spouse after children become independent.
- Special needs—mortgage redemption, emergency medical needs, marriage of daughter, higher education of children. Computing cumulative value of these helps in computing one's insurable need.

### LIFE INSURANCE PLANS

Various types of plans emerged during the course of evolution of life



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insurance industry keeping in step with emerging customer profiles and changing needs and demands of the market. Three generations of plans are identifiable:

■ **Term-Assurance plans:** Most original form of insurance—payment of a lump sum amount is made in event of loss only.

■ **Endowment-Assurance plans:** This plan marked introduction of living benefits in the insurance offerings. A comparison of an Endowment Assurance Plan with a Recurring Deposit Scheme would be helpful in understanding it. Say, in case of death before maturity date of a customer holding a recurring deposit scheme (RDS) while the banks would give only the accumulated amount of the sums deposited along with accrued interest, an endowment assurance plan would give the full target amount also called sum assured in similar situation. A substantial difference!

■ **Wealth-Creation/Preservation plans:** Single Premium Policies, Unit Linked Insurance Policies (ULIPs). Life insurance companies

also cater to the needs of corporate through key man insurance, group insurance and act as managers of their pension, gratuity and leave encashment funds.

■ **Basic individual plans fall in following categories:**

1. Protection plans—covers risk of death or major illnesses at very low premium, for instance a term plan of Rs 50 lakh for a person of age 25 years (term 20 years) would cost only Rs 9,603 per annum (as offered by HDFC Standard Life).
2. Investment plans—primarily single premium type with focus on creating real returns over a longer period.
3. Pension plans—to adequately provide for a retired life, an emerging risk due to improving medical facilities, hygiene conditions and family values.
4. Savings plans—for life stage events like child's education, marriage, house purchase or any such big event. Customisation for cost effectiveness is brought in by offering Riders and Options along with these basic plans as add-on benefits with payment of a little extra amount as per need of the individual customer.

When the above plans are bought on traditional platform, investments of mobilised funds are strictly regulated by the IRDA and carry an element of guarantee on maturity value. In products on ULIPs platform, since the customer has an authority to guide or direct their funds to available funds of his choice, only the risk cover element is guaranteed. He shares the risk on returns and regular monitoring of performances of various funds of ULIPs is important. 🏹

*These are the author's personal views.*