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Insurance: What not to do

AVOID GETTING LOCKED INTO A BAD PLAN The sale of insurance policies saw a rise in the last three months of the financial year. Experts, however, say that it is unwise to buy plans just to save taxes

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IT WOULD BE PRUDENT FOR YOU TO START LOOKING AT YOUR INSURANCE PLANS IN THE BEGINNING OF THE FINANCIAL YEAR

It is quite common to see a growth spurt in the sale of life insurance policies during the last three months of a financial year. This happens mainly because most tax payers will be doing the last minute tax-saving by buying policies. For instance, new business premium in February for retail policies grew 12%, as per an Insurance Regulatory Development Authority of India data. According to the same report, there was an increase of 33% in the overall new business premium numbers. It indicates that usually tax payers wait till the end of the financial year to carry out tax-saving investments. “The growth has also happened owing to various other factors, notably, vast young population, the projected strong GDP growth and rising income and wealth accumulation,” said Bharat Kalsi, head of strategy, analytics and marketing at Tata AIA Life. However, it is not advisable to buy insurance policies just to save tax. Here are the three wrong reasons to buy an insurance policy: BUYING INSURANCE POLICY TO SAVE TAX Insurers say it is a seasonal growth due to the tax filing season. “The driving force behind an increase in new business premiums during the on-going quarter is actually a seasonal growth and it is because of the tax filing season,” said Ashish Vohra, chief executive officer, Reliance Nippon Life Insurance. But is this a wise decision? Experts think otherwise. According to Suresh Sadagopan, founder of Ladder7 Financial Advisories, your investment portfolio should match with your goals. “Insurance is supposed to be a product for long-term commitments. Hence, it is not a product that is supposed to align with your tax saving goals,” he added. You should never buy an insurance policy to just save tax. Insurance is for protection and tax is only an added benefit to it and not the other way round. TO USE INSURANCE POLICY AS A SAVINGS INSTRUMENT Individuals look at insurance as a savings instrument. “Long term savings are becoming a growing trend because of the fast rate of increase in life stage related costs and investments such as education. For instance, 20 years ago, an MBA course cost around □10,000 to □20,000. Today, a similar course can cost as high as around □20-25 lakh and could be significantly higher in the next 20 years, thus mandating a savings plan for future,” said Vohra. However, insurance is not for savings. “By keeping your investment and savings in a single investment product you lose out on the flexibility. If the need for one of the two diminishes, just because both investment goals are packaged in one product for you, you will lose out on both of them,” said Vishal Dhawan, founder, Plan Ahead Wealth Advisors. “Also, had you invested in another product for savings purposes, you will have the option of shifting to another fund manager which may not be available when it comes to an insurance product,” he added. BLINDLY TRUSTING YOUR BANK EXECUTIVE In February, the market share in new business premium of private life insurers has seen a growth of 33.24%. “The growth can be attributed to the growth in bancassurance products. Customers are seeing a lot of value in banks because banks are dealing in all kinds of financial products and customers tend to find comfort in the same,” said Karthik Raman, chief marketing officer and head of products and strategy, IDBI Federal Life Insurance. When you are buying insurance products from your bank executive, you should know what product specifics. Understand the insurance plan in detail. Don’t get locked into a bad product only because you did not ask enough questions. WHAT SHOULD YOU DO? Since the new financial year is round the corner, it would be prudent for you to start planning about your insurance plans in the beginning of the year itself. If you have dependents, you should have a life insurance cover that is at least 10 times your annual income. “You should get a health cover of at least □5-10 lakh if you live in a metro city. You could also get a base cover of □5 lakh and a super top-up plan of □5 lakh,” said Dhawan. You can also seek help from a financial planner.

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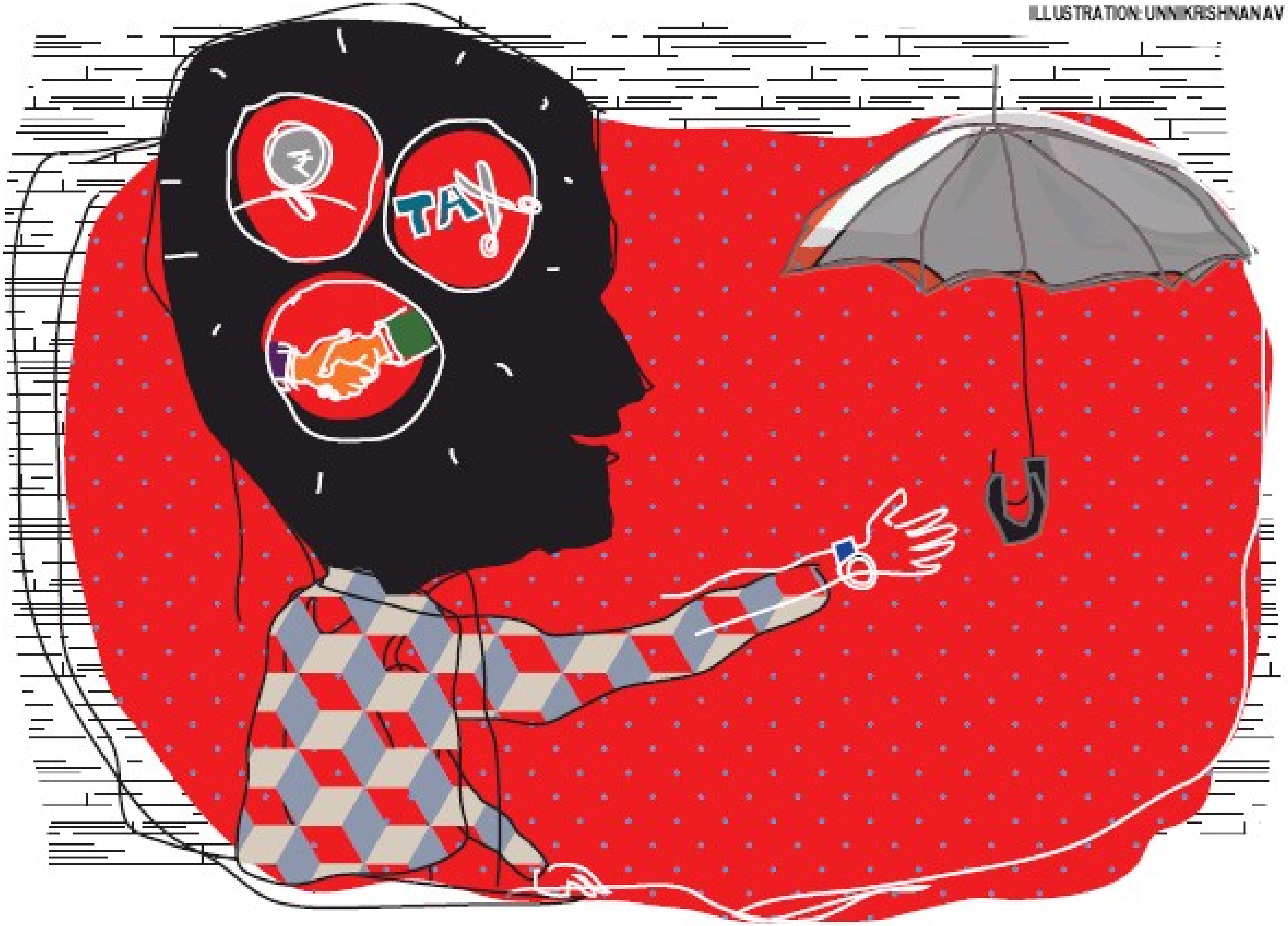

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