

The Smart Girl's Guide to Choosing Insurance (excerpt)

By Gouri Shah | The Established | 01 April, 2022

A succinct introduction to starting the financial year with wise investment options

It was everyone's worst nightmare. But two years on, the Covid-19-induced pandemic and the indelible destruction it has left in its wake has transformed our relationship with money. Insurance is just one cog in that wheel to financial security, but one that is crucial as a means of protection against unforeseen risk. A lack of proper information has meant that most people are going in blind when they pick an insurance policy, one that has been bought on a recommendation by a friend or family member, or one that fits their budget but rarely covers the need.

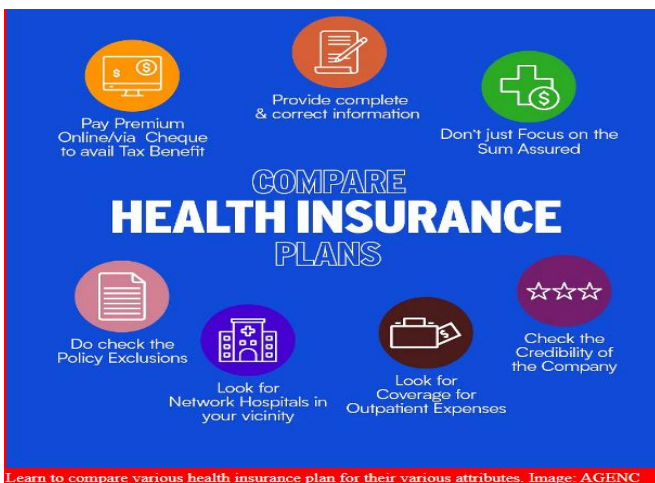
A survey conducted by SBI General Insurance of over 1,000 women across tier-two cities in India found that while women strive to be financially independent, a third said that the lack of proper information and knowledge about investment and insurance was a major deterrent. "Only 38 per cent women have claimed to have insured themselves to be financially independent, signaling low levels of awareness and insurance penetration. There is a need to equip women with the necessary information so that they can make more informed choices about their finances," said PC Kandpal, MD & CEO, SBI General Insurance.

For a large part, insurance can be segregated into two baskets—life insurance and general insurance. While life insurance protects your dependents against financial risk associated with your demise, general insurance offers financial protection against any losses linked to other liabilities such as health, motor, home, fire and travel among others.

We talk to experts to decode some insurance plans on offer and give you an insight into how you can pick the one best suited to you.

LIFE INSURANCE POLICY

This is the insurance that you choose to secure your family's financial future against life's uncertainties such as death. Under the broad umbrella of life insurance there are different types of policies available in the market to suit individual needs. Some, such as term life insurance policies are pure policies which protect your family against financial risk in your absence. Others such as endowment, Unit-Linked Insurance Plans (ULIP), Child Plans and Pension Plans have some element of saving or investment built into them along with insurance.



"Investment products bought through endowment and ULIPs compete against longer-term investment products like equity mutual funds. While endowment plans tend to deliver returns that are in line with bank deposits, ULIPs and equity mutual funds tend to deliver returns which can be between 1.5 to two times a bank FD over a longer period, which can have a meaningful impact on your corpus. Since ULIPs have lower flexibility, using equity mutual funds is preferred for longer-term investments as they offer greater flexibility," says Vishal Dhawan, CEO and founder, Plan Ahead Wealth Advisors. Furthermore, Dhawan also recommends the separation of insurance through a term plan and using pure investment products like diversified or index equity mutual funds.

UNIT-LINKED INSURANCE PLAN (ULIP)

ULIPs address the need for investment to fulfill long-term financial goals, and a life cover to financially protect your family in the event of your demise. The premium paid towards a ULIP is divided into two parts. A part of it is contributed to your life cover, and the remaining is invested in the fund of your choice. You can choose to invest in equity, debt or a combination of both funds depending on your risk appetite and financial goals. Experts recommend reading the fine print carefully and understanding the numbers before picking an endowment plan or ULIP, in place of term insurance.

"...USING EQUITY MUTUAL FUNDS IS PREFERRED FOR LONGER-TERM INVESTMENTS AS THEY OFFER GREATER FLEXIBILITY." Vishal Dhawan