"Comparing life insurance with mutual funds is not appropriate"

Anuj Mathur

CEO, Canara HSBC OBC Life Insurance

In a conversation with ***Babar Zaidi,*** *Anuj Mathur talks about the usefulness of term plans and why sub-5% returns from endowment policies is not such a bad deal.*

Some insurance companies have added new features to their term insurance plans. How useful are these variants of term plans?

These new variants have additional features that suffice the need of the buyer in some way or the other. While the buyer has an option to pick from the variants, at all times he can opt for the pure vanilla term plan which is also available.

Some of these variants don't really offer value to the buyer. For instance, the return of premium plan gives back the entire premium after the policy term. But it also charges a much higher premium.

A term plan is a simple product that provides financial security in case of untimely death. But the Indian consumer (conventionally) has always been looking for a defined benefit from an insurance policy. To satisfy this, insurance companies have come out with plans that return the premium after the policy ends. Having said that, the consumers are also evolving and we see a perceptible change in the way insurance is bought in India. People have begun to understand the value of protection and are hence opting for solutions which meet their needs. Insurance companies also are playing their part in increasing this awareness.

A simple term plan is the best way to insure yourself. So why do companies and agents push endowment plans and other costly policies?

A distributor looks at the needs of the buyer when he offers advice. If pure protection is the objective, then obviously a term plan, whether bought online or offline, is the best solution. But say, if you want to save for your child's education then a child Ulip is a more suitable product. Similarly, for saving for a long-term goal like retirement, an endowment plan will be a better fit. Hence different needs demand different solutions.

But endowment plans give very low returns of barely 5%. Financial planners say a mutual fund will be able to create more wealth for investors than an endowment policy.

Comparing life insurance with mutual funds is not appropriate. Most people suffer from a recency bias, hence end up comparing the returns of recent years and don't take into account the fluctuations of the past. Mutual funds do not offer either guaranteed returns or life cover for that matter, an endowment life insurance policy will offer both.

Besides, a product offering life insurance with a guaranteed return of 5% over 20-25 years is a decent deal.

But there are other investment options, such as EPF, PPF and other small savings schemes that offer assured returns. Won't they be better options than endowment policies that offer 5%?

Not everybody is covered by the EPF. As for the PPF, it is an administered rate. There is also a ₹1.5 lakh limit on how much you can invest in a year. PPF rates are fluctuating and have been coming down over the past years (now below 8%). As bond yields come down further, PPF rates will also decline.

Hence in a falling interest rate scenario, it is important to lock your returns over longer periods . One should also not forget that life insurance is the core solution and the debate on returns should be over and above the primary offering.

Another variant of the term plan is the monthly payout plan. However, they offer far less than what a simple FD would fetch. What do you think of this option?

It boils down to the requirement of the family. If the family is not able to deploy the insurance money on its own, a monthly income option is definitely a good idea. The returns may not match those of fixed deposits because these are for the long term (usually 15-20 years). Fixed deposits are for 5-10 years. The company takes the risk of offering long-term returns in a falling interest rate regime. What is the guarantee that the fixed deposit rate will not fall below 6% in the coming years? Moreover, the income from fixed deposits is taxable while monthly income received from an insurance company is tax free. The monthly payout plan hence offers considerable advantage over the conventional fixed deposit.

Mutual fund houses are supposed to declare if senior officials have invested in any scheme of the fund house. Do you think insurance companies should also make such declarations?

How much life insurance one has and the policies held by a person is confidential information. We don't think such details should be given out in the public domain because it could lead to a moral hazard. It is hence not advisable to tread this path.