Protect your child's dreams by insuring yourselves first

CHIRAG RATHOD

LAST week I had the chance to spend some time at a bank branch with one of our partner banks, and meet customers. One of them was a smart young couple, proud parents of two kids aged five and one. As is to be expected, having small kids around the house (and tagging them along into the bank branch) brings in its own share of challenges, and they were trying their best to cope with the situation and the pressures of managing the family, their job and their finances — which can be tough.

But what surprised me was how quickly they understood that in this unique situation, they needed a plan that would help them plan for their children's growing years and their higher education and could be customised to their requirements, not just a standard insurance or investment option. The young mother said she was very clear she wanted a plan that would protect the education and marriage fund they were creating and provide for the school fees, in case, something happened to them, who were the earning members of the family.

Thankfully, many such plans are available in the market today, viz. child plans. We understand the importance of investing in a long term plan for our children's higher education and marriage needs, which are becoming more expensive every day. The key proposition is the security of your child's financial plan, that is, it is a plan that would accumulate to the target amount (depending on the type of investment) irrespective of whether the parent is surviving or is no more alive. Additionally, you can purchase coverage that can make your plan more robust. For example, where the plan continues even if the parent has met with a critical illness or a permanent disability.

But the couple was not sure what they should fill in the form — they'd decided to buy an insurance policy, but should we buy it in our name or the children's names?

The simple answer is that the life insured in the policy must be the person whose absence would cause financial loss and hardship, that is, the earning member(s) of the family. Parents should always buy life insurance where they are the life insured and child is the beneficiary because the core purpose is to cover the loss of income from a working parent.

A child plan should have the earning parent as the life insured and the child is the beneficiary or nominee. Premiums are paid in by the policy owner and the maturity amount will be paid to the child on completion of the policy term. This maturity amount can be used for various planned goals like higher education or marriage.

A child plan should accumulate the target amount irrespective of whether the parent is surviving or is no more alive

WHAT'S IN IT FOR YOU

But during the policy term in case of an unfortunate event of death of life insured, all unpaid future premiums are contributed by the life insurance company on behalf of the deceased.

The corollary is whether should one buy life insurance for a child where child is the life insured? The answer is clearly a No. For the core insurance purchases — here the parent must be the life insured. However, there are a few secondary reasons why sometimes it may be useful to purchase a plan in the name of your child. First, if it's a long term policy, then it builds a foundation for long-term saving discipline in the child where parents pay premiums till child starts earning and post that, child takes care of the already ongoing policy. Second, for long-term policies oriented towards life cover, it may be beneficial to start the policy early and get the benefit of low premiums. In addition, you may be able to get a relatively high coverage with minimal medical requirements, which may be more difficult in later years. Third, for individual health covers where the risk of ill-health and hospitalisation exists across all ages, it may be beneficial to start early and ensure continuing coverage with minimal upfront requirements.

Ideally, parents should first buy child insurance where they are the life insured. Once sufficient financial protection for your child has been achieved, then the secondary reasons can be explored.

(The writer is the appointed actuary and director — actuarial, products and strategy at Canara HSBC Oriental Bank of Commerce Life Insurance)