

# Life Insurance

A Guide Without Jargon  
Just Clear Answers for Confident Decisions



# Life Insurance

**Life insurance is a promise of care that turns today's planning into tomorrow's security.**

We plan for everything, from dream homes, family vacations, to children's education, and even weekend groceries. But there's one part of the future most of us quietly skip over: what happens if we're not around? Life Insurance is one of the most powerful financial decisions you ever make, for the people who matter most.

## What is Life Insurance and Why It's Often Misunderstood

Life insurance is a financial agreement where, in exchange for a payment (called a premium), the insurance company promises a payout (called the death benefit), either as a lump sum or as regular income, to your family (or nominee) if you pass away during the policy term.

But it's more than just a payout. It's a promise of financial security when your loved ones need it the most, whether it's paying off debts, managing household expenses, or funding your child's education.



## Common Misconceptions Around Life Insurance

Despite being one of the most essential financial tools, life insurance is often misunderstood. Assumptions, half-truths, and hearsay stop people from making informed choices.

Let's clear the air by addressing a few common myths and the truth behind them.

**1. "I'm too young to need life insurance."**

Reality: Starting early actually works in your favour. The younger and healthier you are, the lower your premium. And since life is unpredictable, getting covered early gives you long-term protection at an affordable cost.

**2. "It's a waste of money if nothing happens to me."**

Reality: Life insurance is often misunderstood as money gone if nothing happens. In reality, it provides something invaluable, which is financial security for your loved ones when they need it most. If the idea of "no returns" bothers you, there are options such as Return of Premium (ROP) that refund premiums you outlive the policy term.

**3. "I already have life insurance through my job."**

Reality: Employer-provided insurance typically ends when your employment does. It's also usually limited in coverage and rarely enough to secure your family's financial future on its own.

## Types of Life Insurance

Different plans serve different needs; some offer pure protection, others help you save, invest, or plan your retirement. Choosing among them should be guided by your financial goals, which is why life insurance is best seen as part of your overall goal-based financial planning. Here are the different types of life insurance plans that can be considered.

### Term Life Insurance

1

Term insurance is the simplest and most affordable form of life insurance. It provides financial protection to your family in case of your untimely demise during the policy term. You pay a fixed premium for a specified duration, and if you pass away within that period, your nominee receives the full sum assured. However, if you outlive the policy, there's no payout unless you've opted for a Return of Premium (ROP) version, which refunds the premiums paid. Term insurance is ideal for those who want high coverage at a low cost to protect their dependents.



# 2

## Whole Life Insurance

As the name suggests, whole life insurance provides coverage for your entire lifetime. Unlike term plans, these do not expire during your life, ensuring a guaranteed payout to your beneficiaries whenever the eventuality occurs. Premiums are usually higher, but remain fixed. This type of insurance is often chosen by people who want to leave behind a financial legacy or ensure long-term support for their family members.

# 3

## Endowment Plans

Endowment plans are a mix of insurance and savings. Along with offering life cover, they also provide a lump sum amount if the policyholder survives the term. If the policyholder passes away during the term, the nominee receives the sum assured. These plans are popular for long-term financial goals such as funding children's education, saving for a home, or planning for a child's wedding. Since they offer both protection and maturity benefits, the premiums tend to be higher than pure term plans.

# 4

## Unit Linked Insurance Plans (ULIPs)

ULIPs combine life insurance with investment. A portion of your premium goes towards providing life cover, while the rest is invested in equity, debt, or balanced funds, based on your chosen risk profile. The value of your policy fluctuates with market performance, offering the potential for higher returns. ULIPs are suited for people who are comfortable with market-linked instruments and want to build wealth alongside insurance protection.

# 5

## Money-Back Plans

Money-back policies are a variation of endowment plans that provide periodic payouts during the policy term. These payouts are a percentage of the sum assured and offer liquidity at regular intervals, which can help meet short-term financial needs. In case of the policyholder's death during the term, the full sum assured is paid to the nominee, regardless of the money already received. These plans are a good fit for individuals who want life cover along with guaranteed returns spread over time.



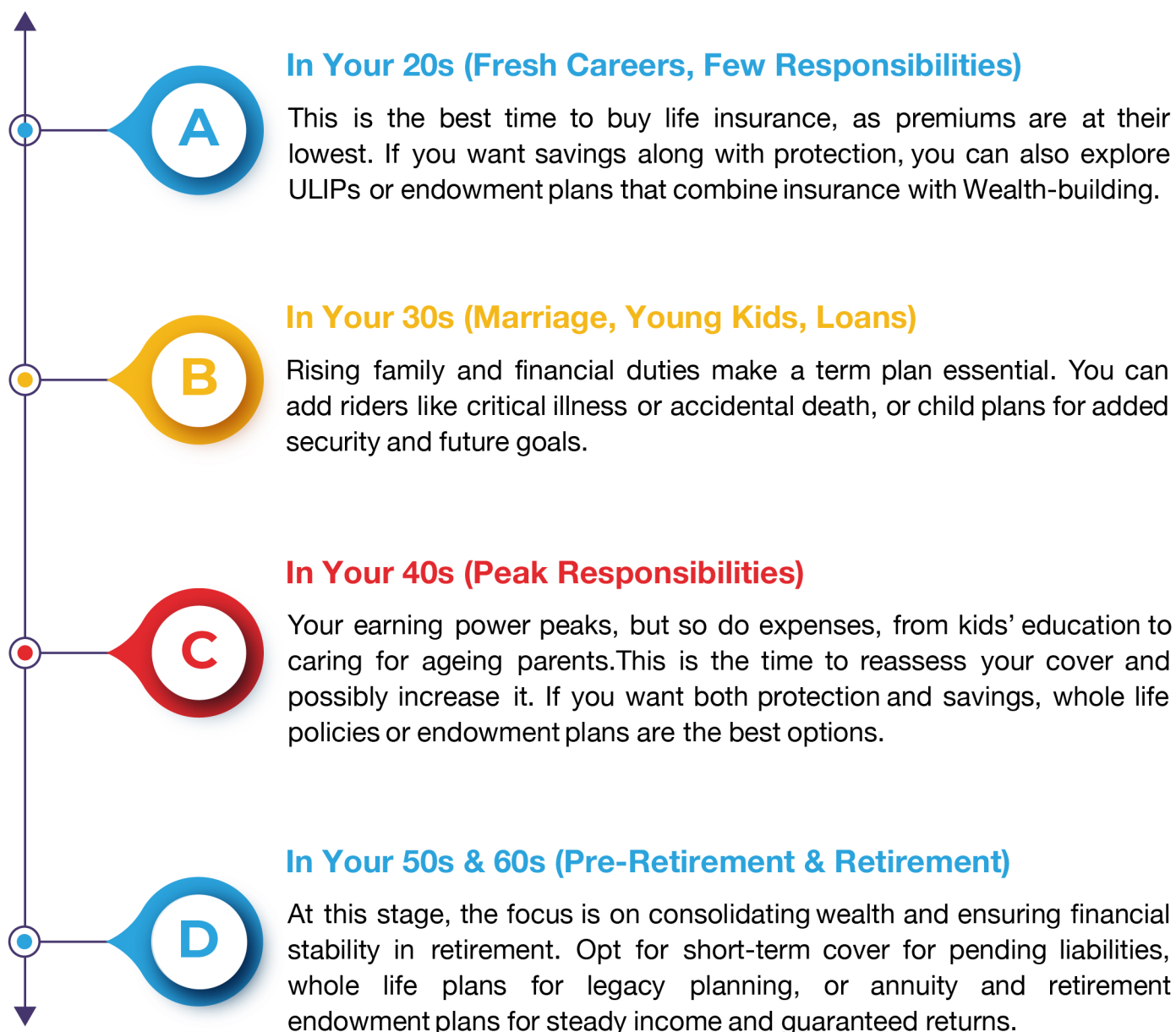
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## Retirement or Pension Plans

These plans are designed to help you build a retirement corpus. You invest during your earning years, and upon maturity or retirement age, the plan either gives you a lump sum amount or a regular pension (annuity). Retirement plans don't just secure your future but also give peace of mind knowing you won't be financially dependent in your later years. Starting early ensures a larger corpus and better post-retirement income.

## Who Needs It and When?

Life insurance coverage needs to evolve with age, responsibilities, and financial goals. Looking at it through the lens of goal-based planning ensures your policy keeps pace with life milestones like marriage, children's education, or retirement. Here's how to look at it through different life stages:



# How Much Cover Do You Really Need?

## Start with Your Goals

Your insurance should support what matters most:

- Paying off liabilities
- Securing your child's education
- Leaving a legacy for your loved ones

## The Rule of Thumb

A common starting point:

**Life cover = 10–15 × your annual income**

But this is only the beginning.

## Refine Your Cover

Adjust your cover based on your real financial picture. Add outstanding loans and long-term goals (education, marriage, etc.) and subtract existing savings and investments.

## Go Beyond the Numbers

Consider factors that shape your true protection needs:

- Does your spouse have a stable income?
- How will inflation affect future costs?
- Do you want your cover to only clear liabilities or also leave a legacy?

## Review Regularly

Your life changes so should your cover. Re-evaluate every 3–5 years or after major milestones like:

- Marriage
- Having children
- Buying a house
- Receiving an inheritance

# Common Mistakes People Make When Buying Life Insurance

Life insurance is meant to provide financial security for your loved ones, but the impact gets diluted if you fall into common traps while purchasing it. Here's what to watch out for:

## 1. Underinsuring to Save on Premiums

Choosing a low cover to reduce premiums can leave your family financially short. Ensure your sum assured covers income replacement, liabilities, and future expenses.

## 2. Mixing Insurance and Investment Without Understanding the Product

Don't buy ULIPs or endowment plans just for returns. Term plans suit pure protection, while investment-linked plans fit wealth-building goals. Always map your insurance decision to your long-term needs before committing.

## 3. Delaying the Decision

Procrastination can be costly. The longer you wait, the higher your premium goes, especially as age and health risks increase. A delay of just a few years can raise your costs significantly or, worse, lead to a denial if a medical condition arises.

## 4. Not Disclosing Health or Lifestyle Habits Honestly

Some people hide facts about their smoking habits, pre-existing conditions, or even occasional drinking to avoid higher premiums. If the insurer discovers this during claim processing, your policy could be declared void and the claim rejected.

## 5. Relying Solely on Employer/Group Life Insurance

Many salaried professionals feel their company-provided group insurance is sufficient. However, these covers are usually limited and usually end when you leave the job or retire. Treat group insurance as an add-on, not a replacement for a personal life insurance policy.



## Add-ons That Actually Matter

When buying life insurance, choosing the right riders (or add-ons) can significantly enhance your policy's usefulness. While they slightly increase the premium, the protection they offer in specific scenarios is often well worth it. Here are the ones that truly make a difference:

### 1. Critical Illness Rider

This rider provides a lump sum payout if you're diagnosed with a major illness such as cancer, stroke, kidney failure, or a heart attack. The payout happens on diagnosis, not death. You can use these funds to cover high treatment costs, manage hospital bills, or compensate for lost income during recovery. In an age where medical expenses are skyrocketing, this rider can prevent your family from draining their savings or taking on debt.

If you're diagnosed with a critical illness or suffer a permanent disability, this rider ensures you don't have to pay any further premiums, yet your policy remains active and your family stays protected. It's particularly helpful because health-related issues can impact your ability to earn, making it hard to keep up with premium payments. This rider takes away that burden while keeping your insurance intact.

### 2. Waiver of Premium

### 3. Accidental Death Benefit Rider

This rider offers an additional payout, over and above your base sum assured, if your death results from an accident. For example, if your term policy cover is ₹1 crore and you've added a ₹50 lakh accidental death rider, your nominee will receive ₹1.5 crore in case of accidental death. It's especially relevant for individuals who travel frequently, commute long distances daily, or work in high-risk environments.

#### 4. Income Benefit Rider

Instead of giving your family a large lump sum amount, this rider provides a steady monthly income over a fixed period after your death. This can be very useful for families that may struggle with managing large sums of money or prefer a predictable income for monthly expenses like school fees, rent, or EMIs. It helps your loved ones maintain their lifestyle without financial stress.

The Married Women Property (MWP) Act is a legal provision that can add an important layer of protection. Buying your life insurance policy under this act (Section 6) ensures that the policy proceeds go exclusively to your wife and/or children. Creditors, business partners, or even relatives cannot claim this money, regardless of any outstanding debts or disputes. It's especially recommended for businessmen or individuals with financial liabilities.

#### 5. MWP Act Add-On (Married Women's Property Act)

## Buying Online vs Offline - A Practical Decision

Buying life insurance online gives you the advantage of convenience, transparency, and cost-effectiveness. You can compare multiple plans at your own pace, access detailed features instantly, and often pay lower premiums since there are no agent commissions involved. This makes online purchases ideal for those who are digitally confident and prefer managing their decisions independently.

Buying life insurance offline through an advisor or agent gives you personalised guidance and support, especially with paperwork and claims. Though slightly costlier due to advisor fees, many prefer the trust and reassurance of in-person assistance. Ultimately, the choice depends on your comfort.

## Real Questions to Ask Before You Buy

Buying life insurance isn't just about picking a high cover and low premium, but ensuring your family will actually benefit when it matters most. These essential questions will help you look beyond marketing brochures and truly understand the policy you're signing up for:

### 1. What is the Claim Settlement Ratio of the Insurer?

This ratio indicates the percentage of claims an insurer settles out of the total received in a year. A higher ratio (above 95%) means the insurer is more reliable when it comes to honouring claims. Don't just look at the latest number; check their 3 to 5-year average to understand consistency. Also, look at the Claim Settlement Turnaround Time, how quickly are claims paid out?

### 2. Does This Policy Cover all Causes of Death?

Ensure the policy covers death due to illness, accidents, and natural causes without unnecessary restrictions. Most good term plans do, but it's important to double-check. Also, confirm if deaths occurring abroad are covered, especially if you travel or work internationally.

### 3. Are There any Exclusions I Should Know About?

Most term plans have standard exclusions like suicide, death due to participation in illegal activities, or certain high-risk occupations unless disclosed. Ask for a full list of exclusions and read the fine print carefully. Knowing this upfront can prevent claim rejection later.

### 4. How Does Inflation Impact the Payout Amount?

A ₹1 crore cover may seem adequate today, but in 15–20 years, its real value will be much lower. Ask whether the policy allows for increasing cover options, such as automatic annual increase or step-up benefits tied to life milestones (e.g., marriage, having children). This helps keep your coverage relevant over time.

### **5. Can I Upgrade the Cover or Add Riders Later?**

Life changes, so your insurance should be flexible. Ask whether you can increase your sum assured or add riders like critical illness or accidental death in the future. Some insurers allow this during specific periods or life stages, while others may require fresh underwriting or medical tests.

### **6. What Happens if I Miss a Premium Payment?**

Understand the grace period, usually 15 to 30 days, and what happens if you miss it. Can the policy be revived? Are there penalties? Is there a revival window? Knowing this is crucial, especially during periods of financial difficulty when you may miss a due date.

### **7. Can my Policy be Challenged or Denied Later?**

After a certain period (usually two years), your policy becomes indisputable, which means it cannot be challenged except in cases of proven fraud. Ask when this window starts and whether your nominee is truly protected from potential challenges, like from creditors, estranged relatives, or legal disputes.

### **8. Will my Family Know how to Claim and Whom to Contact?**

Even the best policy is useless if your family doesn't know about it or how to claim it. Ask if the insurer offers claim assistance services, helplines, or guidance for nominees. It's also your responsibility to inform your family about the policy location, insurer contact, and documents needed.



## Glossary

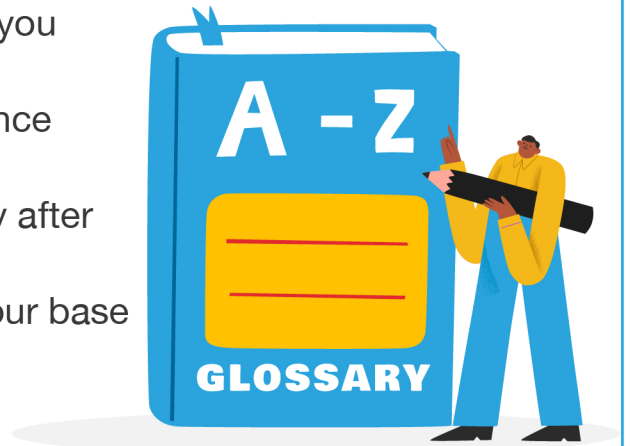
**Premium:** The regular payment you make to keep the policy active

**Sum Assured:** The amount your family gets if you pass away

**Policy Term:** The number of years your insurance stays active

**Nominee:** The person who receives the money after your death

**Rider:** An add-on benefit you can include in your base policy



## Checklist: Your 5-Minute Life Insurance Readiness Test

Use this quick checklist to see if you're ready to buy:

- ☒ I have people who depend on me financially
- ☒ I understand the difference between various life insurance plans
- ☒ I've calculated how much life cover I actually need
- ☒ I know which riders I may need (critical illness, waiver of premium, etc.)
- ☒ I've disclosed all health conditions honestly
- ☒ I've chosen a trustworthy nominee
- ☒ I understand how my family can make a claim
- ☒ I'm clear on what the plan doesn't cover

## Canara HSBC Life Insurance | Promises Ka Partner

For more details on risk factors, terms and conditions, please read the sales brochure carefully before concluding a sale.

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