EXPERT SPEAK

Single-premium life insurance plans

The latest monthly business figures for life insurance companies released by the Insurance Regulatory and Development Authority of India (Irdai) show that the premiums collected for individual single-premium policies in November, for all life insurance companies, went up by 507%—from Rs1,103 crore in November 2015 to Rs6,692 crore in November 2016. Even on a monthly basis, the segment grew 170% from Rs2,481 crore in October 2016. While this could be an immediate after effect of the demonetisation of high-value currency notes, *Mint* spoke with experts to understand if one should indeed go for single-premium policies?

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I prefer regular-premium life insurance, particularly for term insurance. The main advantage of single-premium insurance—to avoid renewal payment—comes at a high cost. For example, if a 30-year-man buys a 30-year term plan, the single premium is about Rs1.5 lakh for a sum assured of Rs1 crore. The annual renewal premium is about Rs7,300. Simplistically, Rs7,300 over 30 years works out to Rs2.19 lakh. This appears more expensive than the one-time payment.

If you were to invest this in an instrument earning even 5% per year, the interest itself will cover the annual premium.

An advantage of regular premium is you can stop paying premiums. In single premium, surrender can be difficult in many products.

Single premium makes sense if you have uncertain income and want to pay in one go, or if you live in a remote area with limited banking access.

When it comes to any lump sum money received in the form of windfall gains, say, through inheritance, there is always the temptation to spend this money injudiciously. Single-premium insurance products often come in handy for better utilisation of this lump sum money.

Such products are more suitable for those with cyclical or infrequent income, as they will not have to worry about financing future premiums and the continuation of life cover.

These products also offer income tax benefits in addition to life cover, scoring significantly over other similar instruments.

One can also customise the plan and enhance the proposition by adding other protection riders of choice.

However, for somebody with stable and regular income, one should consider buying regular paying products as those work better in long-term value creation.

Any type of life insurance policy—protection, endowment, or Ulip (unit-linked insurance plan)—should be purchased based on one's financial goals and insurance needs. Single-premium policies may be considered for investing lump sum gains, bonuses, retirement benefits, and others, or by persons with sporadic income, since these policies offer the option of investing available funds in one go without any future commitment.

One must note that unlike regular-pay policies, you may lose out on the rupee cost average advantage or face a higher investment risk in case of market-linked plans. But on the other hand, such plans come with relatively lower charges.

Before purchasing a single-premium policy, one must ensure that the amount of life insurance cover provided is adequate. Also consider its tax implications.

If one has surplus, it is preferable to buy a single-premium term plan. But one has to be careful because if the premium is more than 10% of the sum assured, only 10% of the sum assured is allowed as tax deduction. Further, the maturity proceeds are fully taxable if the premium is more than 10% of the sum assured. If the maturity benefit is more than Rs1 lakh, 2% TDS (tax deducted at source) is deducted.

Another disadvantage is that in case of untimely demise of the life assured, there is monetary loss as premiums for the full term have been paid.

In single-premium Ulips, there is an element of market risk if market P-E (preice-to-equity ratio) is high.

Single-premium endowment plans are sold as competing products to bank fixed deposits. This is risky, especially for senior citizens, since the post-tax return will be much lower if the insured comes under the 30% tax bracket.