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HDFC Life's new term policy has diverse options

HDFC Life's online term insurance policy, called Click2Protect 3D Plus comes with nine options packed in

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HDFC Life Insurance Co Ltd has launched a new online term insurance policy, called Click2Protect 3D Plus. This is a term insurance policy with nine options packed in. We take you through these options.

The base

The base version under this plan is a term insurance policy with an in-built waiver of premium benefit on account of accidental total permanent disability. So, if the policyholder dies or is diagnosed as terminally ill, the policy will pay the sum assured and terminate. Or if the policyholder becomes permanently and totally disabled, the policy will waive off future premiums and pay it on behalf of the policyholder. Subsequently, if the policyholder dies or is diagnosed with a terminal illness during the policy term, the sum assured will be paid and the policy will end. This term plus the waiver of premium benefit on account of accidental total disability is the core of the product; in other words, all the variants have this feature.

The second option throws in a waiver of premium due to a critical illness in addition to the base policy. There are 34 critical illnesses identified under this plan; so if the policyholder is diagnosed with any of the specified critical illnesses or there is accidental permanent total disability, the future premiums are waived off. The third option adds accidental death benefit to the base option. This means, the policyholder can choose an additional sum assured (up to the sum assured chosen by you on the base policy) that will be payable to the beneficiary in case the policyholder dies due to an accident.

The fourth option turns the base option into a periodic income plan. Under this, you have the complete flexibility to tailor the sum assured as lump sum payments and periodic payments. Further, you can also choose for how long you want the insurer to make the annual payments (payable in monthly installments) to the beneficiary. The maximum pay-out term under this is 20 years. You can also choose the rate at which you want the annual pay-outs to increase. The fifth option adds the accidental death benefit along with the annual pay-out option.

The sixth option is the income replacement option. Income replacement plans offer periodic income until a certain age or goal regardless of when the policyholder dies. They differ from income payment plan, because income payment plans will make periodic payments for a fixed number of years regardless of when the death occurs during the policy term. Income replacement plan on the other hand will make pay-outs only till a certain point; for example, say till retirement. In other words, the closer the policyholder dies to retirement, the lesser is the total payout. Under this plan, the policy promises 12 times the monthly pay-outs as a lump sum and subsequently monthly pay-outs are made to the beneficiary till the end of the policy term or for four years whichever is higher. The policyholder can choose to increase the pay-out option. Under this, the annual pay-out increases at the rate of 10% before and after the death of the policyholder and the lump sum paid on death are 12 times the increased monthly income.

The seventh option is a return of premium version of the base plan. If the policyholder dies or is terminally ill, the policy pays the sum assured. If he does not die, then at the end of the policy term, the premiums are paid back to the policyholder. Keep in mind that return-of-premium plans are very expensive as it includes a savings component also. The eighth option is a whole life version of the base plan, which means you are insured for life. You pay premiums till 65 years of age, but if at any point you are diagnosed terminally ill or die, the beneficiary gets the sum assured. The ninth option adds the waiver of premium on account of critical illness to the whole life version. So if you suffer an accidental permanent total disability or a critical illness mentioned in the policy, the future premiums are waived off. The policy also allows you to systematically increase the sum assured right from the start or during key milestone events like marriage and having children.

How does this plan work?

While these plans have many options to choose from, keep in mind that each of these options will have an impact on cost. To give you an example; suppose a 35-year-old buys the base version of this plan for a sum assured of Rs1 crore and for a policy term of 25 years. The premium will work out to be Rs11,589. A similar plan in the market will cost around Rs12,000. But if you choose the third option that doubles the sum assured on accidental death, the annual premium will be Rs17,240. If you choose the whole life option, the annual premium for the next 30 years (65 years minus age) will come to Rs1.02 lakh.

What should you do?

For the insurer, the idea of having so many options was to make sure customers get all their needs met under one plan. “This plan caters to almost all the needs of customers; whether it is looking at lump sum or periodic payments or estate planning or even income replacement for the salaried. This plan offers flexibility and choice,” said Sujoy Manna, vice-president, products, HDFC Standard Life Insurance Co. Ltd. “Moreover, the waiver of premium on account of accidental permanent total disability and critical illness make sure the policy doesn't lapse because the policyholder is no longer able to pay the premiums,” added Manna.

The accidental total permanent disability benefit is recommended, says Surya Bhatia, managing partner, Asset Managers, a Delhi-based financial planning. “It is important to have the waiver of premium of benefit on account of disability because one's financial situation is already stressed given that one is no longer able to work. A waiver of premium basically funds the insurance policy so you don't have to worry about it. Also, the premium for this extra benefit is not much,” said Bhatia.

But according to Bhatia, the policy has too many options that can end up confusing customers. “One will have to go through the policy carefully to understand the many options. This is not a policy you can buy quickly online. An average customer is bound to need help,” he said.

You need to understand that a term plan is supposed to be a financial cushion for your dependants in case you are not around. You also need to remember that you need this cushion only in your income earning years. Once retired and with no dependants, you don't need a life cover.

In order to keep it simple you can choose either the base version or the payout version and explore the flexibility and options given on these. For other options it's best to consult a financial planner. Our advice is to keep it simple.