

Insuring your life

– Buy Term and invest the rest

You may be thinking of buying a life insurance policy. You might be thinking you need more life insurance. Whichever of these applies to your circumstances today, pause for a moment to consider the various options available to you.

There are hundreds of insurance companies worldwide and thousands of products on offer, but here in the UAE there are a limited number of authorised providers. A quick check of the Insurance Authority website (www.ia.gov.ae) will tell you exactly which companies are regulated here, offering you all the statutory consumer protection you would expect.

Term, Savings or Whole of Life?

It may seem an impossible task narrowing down the choice to the right product for you but, don't worry: all the products generally fall into one of three categories; Term insurance, Savings or Whole of Life and an adviser should be able to steer you through the purchasing process. Let's take a moment to look at the three types:

- 1 Term insurance** – this is the most cost-effective way to insure your life against death and/or a critical illness. You select a term (typically between 1 and perhaps as many as 50 years) and the level of cover you desire. At the end of the term there is no return: think of it like car insurance – if you have an accident, you are covered but if you don't, you don't get any money back.
- 2 Savings** – again you select a term but this is essentially a savings product so instead of selecting a level of cover, you select how much you wish to save on a regular basis. A savings product has a minimal level of cover payable if you die (usually to qualify for favourable tax treatment) and the vast majority of your premiums are invested for you to generate a return. You can typically either choose your own investments (unit-linked funds) or leave it to the insurance company (with-profits).
- 3 Whole of Life** – this is a hybrid product that combines life and/or critical illness cover and savings. Depending on the life company, your payments can be directed mainly to life cover or savings. The difference between Whole of Life and the other two products is that you don't have to select a term. It continues until you stop paying premiums, the policy value can't sustain your cover, you die or suffer one or more of a defined range of critical illnesses.

Now let's look at your options when it comes to arranging cover on your life

What do they cost?

Let's imagine you are a non-smoking, non-resident, Indian male, aged 40 and you want your spouse to receive a sum of **USD 1 million** if you die and you want a sum of **USD 1 million** payable to yourself if you are diagnosed with a critical illness. Here are your three main options:

Product type(s)	Cost per month	Total paid over 25 years	Return after 25 years**	Net loss/gain
Term	USD 525.58 p.m.	USD 157,674	USD 0	-USD 157,674
Whole of Life	USD 1,198 p.m.	USD 359,400	USD 341,898	-USD 17,502
Term plus separate savings	USD 1,198 p.m.*	USD 359,400	USD 441,226	+USD 81,826

USD 525.58 p.m. Term insurance + USD 672.42 p.m. Savings = USD 1,198 p.m.

**Assumes growth rate of 6% p.a. after charges. Standard rates apply.

Term is the best value for money and Term plus separate savings can earn you more than a Whole of Life policy

Term is the low cost option, but if you want a return on your investment, buying Term insurance and investing the rest in a separate savings would earn you (on a net basis) **USD 99,328**** more than a Whole of Life policy. This won't cover you for life, but after retirement, most people don't have an income to insure, are likely to have repaid their mortgage and won't have dependent children – basically, you probably won't need cover for the whole of your life.

And there are two more important reasons why it may be preferable to buy Term plus separate savings rather than Whole of Life:

Your Whole of Life insurer may ask you for more money in the future to maintain your life cover

The premium you pay on a unit-linked Whole of Life is reviewable depending on the performance of the underlying investments. If the policy does not perform as expected, you may find your initial premium will rise – sometimes substantially after 5 or 10 years or you may need to reduce the amount of cover. It's not guaranteed for life. On the other hand, the life insurance component of Term insurance is guaranteed as it contains no investment element so you will never have to increase your premium.

Term plus separate savings will give you higher life cover than Whole of Life and some protection against inflation too

The level of life cover you receive on death for a combined Term insurance plus a separate savings will increase over time. The surrender value of the savings policy will be in addition to the sum insured on the Term insurance. This means that your savings grow, so does your overall life cover. The level of life cover on a Whole of Life policy will however always remain the same (so long as you pay the required premium, which may increase after purchase), which means in real terms, inflation will erode the value of your life cover.

You should speak to your adviser to find out which life and critical illness option is best for you. If you don't have an adviser you can visit our website www.fpinternational.ae where we have a list of suitably authorised key distribution partners.

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Please seek professional advice, taking into account your personal circumstances, before making investment decisions. We can accept no liability for loss of any kind incurred as a result of reliance on the information or opinions provided in this document.

Important information

- For the purpose of illustration, we have assumed 6% rate of investment returns. The returns shown in the illustration are not guaranteed and they are not the upper or lower limits of what the customer might get back, as the value of a policy depends on a number of factors including future investment performance.
- The benefit of this combination solution shall accrue only if the customer pays premiums for the entire premium payment terms.
- The benefits available under this combination solution shall be as per the policy terms and conditions of the respective products.

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