

In the News

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SMART MONEY | LIFE INSURANCE

THE PERILS OF STOPPING YOUR LIFE INSURANCE PREMIUM

Discontinuing abruptly will put your life cover and other policy benefits at risk



Illustration by SIDDHANT JUMDE

Do you know what happens to your insurance policy when you stop paying premium? Does it continue to offer insurance cover? Abruptly stopping payment of premium because you are unhappy with the policy or facing a financial crunch—without considering the consequences—is unwise. Here's a lowdown on the options available should you wish to discontinue a traditional life insurance policy, and how to go about it.

▶ **TRADITIONAL PLANS**

A traditional life insurance policy is a protection-cum-savings plan. It assures the policyholder a payout sum along with bonus on maturity of the policy. Unlike unit-linked plans, which have the option of investing in equities, traditional plans invest only in fixed-income instruments and offer a return of around 4-6

per cent.

▶ **THE PREMIUM QUESTION**

Life insurance is a long-term agreement, so if the policy is discontinued midway, the maturity benefit is interrupted and not received. If circumstances prevent you from continuing your traditional life insurance policy, follow these options:

● **Surrender:** One can opt for this only when the policy attains surrender

value, which is usually after payment of full premium for two to three years, depending on the terms of the policy. On surrendering the policy, the amount is paid immediately, but the policyholder will not be entitled to life cover. Also, there could be tax implications depending on the year of surrender.

● **Paid-up policy:** If a policyholder stops paying premium after the policy has attained surrender value, it automatically becomes paid-up. The life cover and maturity benefit continue, but are proportionately lower—the calculation is based on the number of premiums paid against the total number of premiums due. Such a policy will not be eligible for bonus in the future. When the policy matures, the policyholder will receive only the paid-up value.

● **Lapse:** If a policy that hasn't crossed the initial years and acquired surren-

der value is discontinued, it will lapse. All benefits will be lost.

● **Revival:** Most insurance companies allow you to revive a policy that has been stopped midway provided it is done within a certain prescribed period. This can be done by paying late fee in addition to the pending premiums, or after additionally undergoing a medical test.

▶ **WHAT SHOULD YOU DO?**

Before buying life insurance, understand the purpose of the policy and how it works so that it's easier to make it run its full course. However, discontinue the policy if you are unhappy with it or if you are over-insured. Financial advisors say investors can surrender and reallocate to other asset classes that offer higher returns. But, before surrendering an insurance policy, buy a substitute life cover to guard against unforeseen eventualities. ■

▶ **EXPERT VIEW**



Ashish Vohra
MD-CEO, Reliance Nippon Life

"Holding the policy till maturity entitles the policyholder to benefits in full, payable at maturity with bonus, if any, and death benefit in case of demise during the policy tenure."