What kind of life insurance do you need?

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You may already have a life insurance policy. You may be thinking of buying a life insurance policy. You may be thinking you need more life insurance. Whichever of these applies to your circumstances today, pause for a moment to consider the various alternatives at your disposal, and what might be your best course of action.

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 UAE 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.

It may seem an impossible task narrowing down the choice to the right life insurance product for you, but don't worry: all the products generally fall into one of three categories - term insurance, endowment 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 one and perhaps as many as 50 years) and the level of cover you require. 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 won't get any money back.

2. Endowment –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. An endowment typically 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 usually 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, die or suffer one or more of a defined range of critical illnesses.

So far so good. Let's look at your options when it comes to arranging cover on your life.

Let's imagine you are a non-resident Indian or a UK expat. You want your spouse to inherit a sum of USD 1 million if you die, and you want a sum of USD1 million for yourself if you are diagnosed with a critical illness:

Your (three) options:

1. Term insurance is the low cost option. For a male non-smoker aged 40 who wishes to take life insurance and critical illness insurance for a period of 25 years, the cost would be USD541.83* per month with Friends Provident International. In summary, USD162,549 paid over the term of the policy, for USD1 million cover, with no return on investment.

2. Whole of life would cost more but there could be a surrender value to offset this. A typical premium from one of our competitors (we do not offer whole of life for protection – more on this later) reveals it would cost the same male aged 40 USD1,198* per month and there would be a surrender value of USD341,898 in 25 years based on a growth rate of 6% pa. after charges. In summary, USD359,400 paid over the period for the same USD1 million cover, for a return that is USD17,502 less than the total premium paid.

Now let's go back momentarily to why we don't offer whole of life for protection. We believe that whole of life policies currently available in the UAE market do not represent great value for customers. When we launch a whole of life policy we want to tackle the issue of having to pay for cover at times when you don't need it, for example before you have any dependents or liabilities (such as children or a mortgage). We find many people buy cover (quite rightly) before they need it ,because it is extremely difficult to secure cover once you begin to suffer health complications.

3. There is another way today, however: buy term insurance and invest the rest. In the same example above, a combination of a term insurance and a savings plan for 25 years (for the same cost as a whole of life with a competitor) would cover you for the same USD1 million of benefits but would generate a value after 25 years of not USD341,898 (competitor's whole of life projection) but USD430,618, based on a growth rate of 6% pa. after charges. It wouldn't cover you for life but after retirement most people don't have an income to insure, have repaid mortgages and loans and don't have dependent children – basically you probably won't need cover for the whole of your life. The exception to this might be when you are seeking cover to pay an inheritance tax liability, but that requires setting up a policy in a totally different way.

In summary, USD359,400 paid for a 25 year Friends Provident International term insurance and a separate savings plan, assuming 6% pa growth after charges would return USD430,618.

Or, to put that another way, USD88,720 more after 25 years than a competitor's whole of life policy for the same cover and premium.

You should speak with your financial adviser to find out which life and critical insurance 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.

* Assumes standard rates apply

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