

Business Standard

Online term plans: Too good to be true?

Jayant Pai / December 21, 2011, 0:04 IST

Despite scepticism on their financial prudence, they are not a threat to costumers.

The slew of online term insurance plans launched by various industry players is certainly evoking awareness among prospects and interest among the financial planning community.

While term plans were already touted as the best solution for one's insurance requirements, online term plans are that much more preferable, considering the (nearly unbelievably) low premia they charge. However, for every five enthusiasts, there is one Doubting Thomas who believes that if something looks too good to be true, it probably isn't.

According to them, the main reasons for such scepticism are:

In their quest for market share, companies are sacrificing financial prudence. This race to the bottom may help them increase the number of customers but the nominees of these customers will encounter problems while making a claim, as companies will pull every trick out of the book to deny claims.

The problem will be compounded by the fact that no agent will be present to guide the nominees. Hence, they will have to run from pillar to post to get a hearing.

Companies will be diluting underwriting requirements to gain customers. This would backfire at a later stage, as evidenced by an outsized increase in the 'Adverse Claim Experience'. This may even jeopardise the financial solvency of these companies.

While I will not profess to know all the answers, here is my view:

Companies are not indulging in any hara-kiri by launching such policies, as none of them is charging a premium below the mortality charges incurred. Also, these charges themselves are trending downward (as the new mortality tables depict).

The Insurance Regulatory and Development Authority is fastidious about companies adhering to the mandated liquidity and solvency ratios. Hence, new businesses cannot be garnered indiscriminately by throwing caution to the winds. This mode of distribution is extremely cost-efficient for companies and they are merely passing on the savings to the customer. Another article on this subject deals with this aspect.

While a customer satisfaction survey is possible in a term insurance policy, (owing to the customer not being there to answer it), only a foolhardy company would sacrifice goodwill by denying genuine claims. Also, if there is suspicion of fraud, the claim would be withheld anyway until the investigation is complete. In such a case, no agent can hasten the process.

I have opted for online term insurance policies from two different companies and I must say the medical underwriting standards are not lax by any yardstick. Also, the onus is on us to be as truthful as possible in the application form. If we are not, the threat of discovery at a later stage will always hang over our head like the Sword of Damocles. In such instances, it is we and not the insurance company who is doing our nominees the

greatest disservice.

Finally, if it is of any comfort, the Life Insurance Corporation of India is set to launch its own online term policy. That, I guess, should set all doubts to rest.