

Why buying life insurance today could be your best purchase – ever

By Philip Cernik, Chief Marketing Officer,
Friends Provident International

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Life insurance...I don't buy it?

It appears that many people are loath to buy life insurance. Of the 500 UAE residents we surveyed last year, 58% didn't have life insurance and 79% did not have cover against the effects of a serious illness.

Allow me a moment to reflect on the seriousness of these staggering statistics.

It was Winston Churchill who said 'If I had my way, I would write the word 'insure' over every door of every cottage and upon the blotting pad of every public man, because I am convinced that, for sacrifice that are conceivably small, families can be secured against catastrophes which otherwise would smash them forever'. He wasn't wrong.

We don't think twice about insuring our homes, our cars, our pets even, so why are we so reticent when it comes to the most valuable asset of all – our livelihood? Our livelihood (by this I mean our ability to earn) is the starting point for all the necessities of life – the roof over our head, the food in our belly before we go on to enjoy ourselves with worldly goods, entertainment and other discretionary items.

The consequences of not insuring are unthinkable

Take away your ability to earn, due to death or serious illness, and where will the money come from for your family to pay the mortgage, or put food on the table, or educate the children down the line, let alone enjoy the occasional brunch or foreign holiday?

Not being able to afford it isn't an argument. It's a statement that your financial plans are non-existent and that your budgeting needs to be seriously overhauled.

Why you should act now

Some of us think about taking cover once we have responsibilities but, in my experience, that's taking a serious gamble with your health and your family. The time to buy life insurance is always now - for three good reasons:

1. You are almost certainly going to need it at some point: even if you have no responsibilities today, one day you are likely to want to settle down, buy a property, perhaps raise a family and educate children. Somebody will depend on your livelihood at some stage.
2. The premiums you pay for term life insurance are fixed at your age at entry and will never increase. So, the earlier you start a protection plan, the less it will cost and let's be frank, today you are the youngest you are ever going to be.
3. You cannot guarantee your health. You should buy life insurance now while your health is good. Illnesses such as asthma can mean the cost of your life insurance is increased and more serious illnesses such as heart disease could preclude you altogether from getting insurance.

So, on the basis you are likely to need cover at some point, the best time to buy it is today, while at your youngest and healthiest. Once you have started a policy, nobody can take it away from you or increase your premium, regardless of any changes to your health in the future. It's the risk we insurers take.

Working out how much cover you need is not difficult. Many take financial advice but in general terms, you need to consider how much of your income your family would need in the event of your death or inability to work due to long-term serious illness and then consider how many years the family would need it for. Let me try to illustrate this.

Case study – Amit Singh

Amit is a senior engineer, aged 34, earning USD8,000 per month and a non-smoker. He is engaged to be married and is thinking of buying an apartment in Abu Dhabi. Amit wants to start a family within three years and will take a mortgage with a UAE bank for USD200,000.

He calculates that in the event of his premature death his wife-to-be would need 75% of his income for 25 years, until their children complete their university studies. This will allow the family to continue to lead a normal life, including saving for retirement.

A lump sum payable on death of USD1.8m, earning 4% per annum – net of any charges - would replace Amit's USD8,000 per month income indefinitely and allow for a little protection against inflation.

Separately, Amit calculates that he would need cover to replace his income in the event of being diagnosed with a serious illness at any time over the next 25 years. He estimates that he would need to cover his loss of earnings for perhaps a year. In addition - in case he becomes severely incapacitated – Amit would like to include the cost of modifications to his home, some medical home help and medical equipment. He concludes that he will need a critical illness sum insured of USD150,000 in total.

This can be achieved by purchasing a policy for USD1.65m of life cover, and a policy for USD150,000 that will pay out on either death or critical illness. Amit can cover his life insurance and critical illness cover requirements from UD279.62 per month through Friends Provident International's *International Protector Middle East* plan - that's equivalent to the cost of just one brunch every month for him and his fiancée.

The best purchase you'll ever make?

Friends Provident International is promising to pay Amit's family USD1.8m if he dies at any time during the plan term, potentially even if he has only paid one premium. That's a return of 643,630%! Even if he dies in the last year of his policy, that's a 2,048% return.

Similarly, if Amit suffers a stroke two years later aged 36, he will have paid USD1,324.56 for the life or critical illness aspect of his cover for a payment of USD150,000. That's a return of more than 113 times the amount of premiums paid, and he will still be left with USD1.65m of life cover. Compare that to any investment you are likely to make over the next 25 years – it's probably beyond compare, I'd argue.

NB. If Amit survives beyond the duration of his life and critical illness insurance there will be no return on the premiums he has paid, as term assurance will never accrue a surrender or maturity value.

Of course, no one likes to think about their own mortality or the possibility of becoming seriously ill, but if you plan accordingly you will have peace of mind of knowing that those you leave behind will be financially taken care of if the worst should happen.

After all, you don't take out life insurance because you are going to die, but because those you love will continue to live. In my opinion, that's why it's the best purchase you are ever likely to make.

All information contained within this article is correct at the time of publication, March 2017.

Philip Cernik is Chief Marketing Officer for Friends Provident International and lives and works in the UAE.

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