

Too rich for cover?



THIS column seeks to shatter the illusion that the super rich do not need life insurance. For such people, life insurance is not only an imperative but offers innovative ways to manage their large wealth.

The stakes are too high to be left uncovered: Take the case of a successful corporate boss, aged about 45 years, who can save Rs 75 lakh a year after paying for lifestyle expenses and taxes. This person is in his 'accumulating years'; he knows that if he works for another four years and retires at 50, he can set aside at least Rs 3 crore. Now, if he were to expire at this point, his family would stand to lose the Rs 3 crore he could have created. Such a situation would also apply to wealthy business families or successful self-employed professionals.

Instant liquidity: In wealthy families, there is no dearth of assets for the survivors. But it takes long to unlock the wealth in those assets. This could be for many reasons: most of the assets are 'real', hence not readily saleable, or there are family disputes on distribution of the deceased's estate among the legal heirs. Here, proceeds from insurance offer immediate liquidity, giving the survivors a sense of security even as they wait for the wealth to be unlocked. Insurance proceeds can even help them finance the cost of this unlocking. In the era of open market competition, most progressive insurers compete to settle

claims at the earliest (the last I heard, it took just two weeks!).

Estate planning tool: A Whole of Life cover is the surest way of defining an estate for each, or the preferred, of the legal heirs. This apart, often there is unequal distribution of estate in wealthy families due to historical reasons. Whole of Life policies help here as estate equalisation tools. This also works well for self-employed professionals who want to ensure a secure future for their heirs with a definite estate.

Protection of assets—MWP: Sometimes, when a person passes away, he leaves the family to settle the liabilities created by him. The liabilities could be due to outstanding borrowings, litigation, third-party liability arising out of events like fire, issuance of personal guarantees on behalf of a company, or because of family disputes over wealth distribution. The Married Woman's Property Act (MWP), 1874 provides special protection to a married woman and her children in such situations. If a husband assigns a policy under MWP to his wife, the policy is the absolute property of the wife; the proceeds from it are free from encumbrances.

Key Man and Partnership policies: There are many successful small and medium enterprises. One common feature of these enterprises is their dependence on either one person or a small group of individuals. These could be small and medium family businesses structured as closely-held companies, or partnership firms with family member(s) as directors and partners. These could also be small and medium professional outfits structured as partnership firms with both owner and employee partners. Due to the lack of scale and overdependence on one or a few, the business may hit an indecisive phase if any of these key people passes away. Life insurances structured as Key Man and

Partnership covers provide these businesses an immediate protection that would help the business weather this phase, possibly till the leadership void is filled again. These policies could also be used to retain key professionals.

Diversification: Endowment policies are an effective tool for the wealthy to diversify their investments. They manage wealth in a different investment style, because, unlike the manager of an open ended mutual fund, the fund manager of an insurance fund is under no pressure to outperform over shorter terms. He can lock into longer-term calls, as he knows his corpus would be available for that period. The portfolio is regulated by Insurance Regulatory and Development Authority norms, which are different from mutual fund norms.

Here, care should be taken to select

Life insurance is a must for the wealthy — and for more than one reason

unit-linked plans that offer more transparency and flexibility at a lower administrative cost, as compared to traditional platforms, where there could be cross-subsidisation resulting from ambiguity.

So the wealthy definitely need life insurance — in adequate measure and through policies structured specifically for them. For choosing the appropriate policies, one should consult a qualified financial planner who would give objective advice instead of just a cover with a steep premium. In such a case, the insured may not insist on a rebate because it's better to subscribe to the right policies than be locked into the wrong ones after saving a little bit on the rebate. ■

Rohit Sarin is partner, Client Associates, a wealth management firm. You can contact him at pj@bworldmail.com.