Be wary of long-term insurance par contracts

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As someone with over 20 years of experience in the insurance industry, I feel it necessary to address the recent article regarding endowment plans, which portrayed them as a "bad" investment that ultimately leads to client disappointment. While the article raises some valid points about changing returns, it is essential to present a more comprehensive and balanced view of the benefits endowment plans offer, especially when compared to alternative savings and investment vehicles.

The Role of Endowment Plans for Non-Savers

- It is true that endowment plan returns may not be as impressive as other investment instruments, and yields have indeed fluctuated over the years. However, endowment plans serve a critical purpose beyond pure financial returns. One of their primary benefits is assisting non-savers in developing disciplined savings habits.

- Many people struggle to save regularly due to lack of discipline, competing financial priorities, or simply the absence of a structured approach. Endowment plans help solve this issue by allowing individuals to set aside a manageable sum of money regularly, which is then allowed to accumulate over time. While this amount may seem insignificant initially, over a longer term, it becomes a substantial sum that provides financial security to policyholders.

- For non-savers, endowments are not just about returns; they are a vital tool in enforcing financial discipline, helping them reach savings goals that they may have otherwise struggled to achieve.

Guaranteed Sum Assured: A Unique Benefit

- Older endowment policies also offer an essential feature that sets them apart from other financial instruments: the sum assured. In contrast to fixed deposits, bonds, and treasury bills, endowment plans often guarantee a certain payout upon maturity or death of the policyholder. This guaranteed benefit gives individuals and their families peace of mind that their loved ones will have financial protection if the worst were to happen.

- While life insurance may be seen as a more direct way to provide this financial protection, the reality is that not everyone fully appreciates or feels the need for life insurance. Endowment plans, with their combination of savings and protection, often have a higher take-up rate than standalone insurance policies. The combination of protection and savings in one product adds tangible value for many clients who might otherwise be uninsured.

Convenience and Consistency: An Advantage Over Short-Term Instruments

- While treasury bills, fixed deposits, and bonds may currently offer attractive returns, they often require ongoing management and reinvestment. I have had clients who initially switched to such instruments because of their higher returns, only to stop after a short period. One client, for example, moved her funds to T-bills with great enthusiasm but grew frustrated after a year. The short-term duration of 6 to 12 months meant she had to constantly monitor and reinvest her funds each time the investment matured—a task that can become a burden for busy individuals who do not have the luxury of time to handle their portfolio management actively.

- Endowment plans, by contrast, are designed to be "set-and-forget" vehicles, where the policyholder can make regular contributions without the need for frequent intervention. For those with busy schedules, the convenience of having a stable long-term instrument that requires minimal maintenance can outweigh the higher but more complex returns of short-term investments.

Long-Term Financial Planning and Stability

- As with all types of investments, it is essential to acknowledge that returns fluctuate over time. Fixed deposits, treasury bills, and bonds all experience changes in their interest rates depending on market conditions. No single instrument offers perpetual high returns, and each type of investment carries its own risks and benefits.

- Endowment plans provide stability in a financial portfolio. Their long-term nature encourages a patient and steady approach to saving, providing consistency and avoiding the volatility that some other investments experience. In an era where uncertainty is high, the predictability of an endowment plan can be a significant advantage for individuals seeking steady financial growth.

Asset Protection

- For individuals such as business owners, medical professionals, or individuals at risk of facing lawsuits (e.g., directors and officers in corporations), endowment plans offer a unique advantage when it comes to asset protection.

- By making an irrevocable nomination, policyholders can shield their assets from creditors, ensuring their family's financial security even in times of legal or financial distress. This benefit of asset protection is typically far more accessible and cost-effective compared to setting up a formal trust, which can involve significant expenses and complexity.

Conclusion: Beyond Returns

- While it is true that the rate of returns on endowment plans has dropped in recent years, focusing solely on returns misses the broader picture. Endowment plans offer a range of other benefits, including enforced savings discipline, guaranteed protection, convenience, stability, and potential bonuses, all of which contribute to their enduring appeal.

- No single financial tool can guarantee perpetual satisfaction, and all investments require periodic reviews to ensure they align with an individual's evolving financial goals. What matters most is that clients are encouraged to maintain a diversified portfolio and regularly assess their strategies to avoid disappointment.

- In summary, while endowment plans may not offer the highest returns, they remain a valuable and reliable option for those looking for a balanced approach to saving and protecting their financial future.