

A 4–5% return and too little cover: the cost of mixing insurance with investment

Published by OneRightAI · 5 min read

Maxim: *Never mix insurance with investment.* — Monika Halan, in substance

A plan that promises protection and returns in one premium usually delivers too little of both. Buy each separately, and you can see exactly what you are paying for.

Insurance is a cost you hope never to use. Investment is money you fully intend to use. Combining them makes both worse.

Picture a scene familiar to many bank customers. A depositor comes in to renew a maturing fixed deposit. The relationship manager suggests something better: a “guaranteed” savings plan with life cover thrown in, a tax benefit and a lump sum at the end. The pitch is warm and the brochure is glossy. What the brochure rarely puts on its front page is the effective return. Traditional endowment and money-back policies often work out to about 4–5% a year before tax once the long lock-in is accounted for, [Business Standard](#) noted in January.

The complaints data suggests many buyers find out too late. Grievances about unfair business practices against life insurers, the category that covers mis-selling, rose about 14% to 26,667 in 2024-25 according to the regulator’s annual report, and made up 22.14% of all grievances against life insurers, up from 19.33% a year earlier, [NewsBytes](#) reported. In July, IRDAI chairman Ajay Seth proposed that every policy be traceable to the individual who sold it, and asked insurers to reward suitable advice rather than sales volume.

Too little of both

Monika Halan has made the case against bundled plans for years. Summing up a 2020 episode of her [Money with Monika](#) series for Mint, her site put it bluntly: bundled insurance plans neither give you a good life cover nor a good return, and in India they are built like traps.

The cover problem is the one most people miss. A policy that also has to build a savings pot spends most of each premium on the pot, so very little is left to buy protection. A 2016 comparison by Policybazaar’s head of life insurance, published in [Business Today](#), made the gap concrete. For a 30-year-old paying about ₹20,000 a year for 30 years, an endowment plan bought cover of around ₹16 lakh. The same premium in a pure term plan bought cover of more than ₹2 crore. The prices have changed since, but the structure has not.

That is the trap. The family that needs protection most, young parents with a home loan, can end up underinsured because it has spent its insurance budget on a low-yield savings product. And the savings part, locked in for decades at a modest return, can do much less than a simple, low-cost investment would have.

The exit is the hidden clause

The second problem is getting out. Bundled plans are designed to be held to maturity, and leaving early has historically been expensive. Before October 2024, insurers generally paid nothing to a

customer who surrendered a policy soon after the first year.

The regulator has narrowed that gap. Under IRDAI's revised surrender value norms, effective from 1 October 2024, insurers must pay a larger special surrender value to policyholders who exit after paying one full year's premium, [Business Standard](#) reported. Insurers expected the change to dent their margins. Sales surged in September 2024, before the rules took effect, and individual policy sales then fell about 42% year on year in October, the first month under the new norms. Fairer exits, it seems, make these products harder to sell.

The new rules help, but they do not change the basic arithmetic. An early exit still returns less than you paid in many cases, and the years of low returns are already gone. The cheapest way to escape a bundled plan is never to enter one.

Two products, two jobs

The alternative is simple to describe. For protection, buy a pure term plan large enough to replace your income if you die; Halan's own rule of thumb, in a 2018 [checklist](#) for YourStory, is cover of at least seven to ten times annual income. Add a health policy of your own. For growth, invest separately, through provident fund, mutual funds or whatever suits your goals and timeline. Each product then does one job, and you can judge each on its own terms: the term plan on cost per lakh of cover, the investment on returns after costs and tax.

Two cautions apply. If you already hold a traditional policy, do not cancel it in a hurry. Compare what you would get by surrendering, by making it paid-up and by continuing, and buy adequate term cover first so your family is never left without protection in between. And the separation only works if you actually invest the difference. Buying cheap term cover and spending the rest leaves you worse off than the bundled plan would have.

If you do one thing: Find every life insurance policy in your household and write down two numbers for each: the cover it provides and the premium it costs. If the total cover is well short of seven to ten times the main earner's income, fix that first with a term plan, before signing up for anything that promises returns.

The depositor at the branch counter was offered a product that sounded like the best of both worlds. It was built to be easy to buy and hard to leave. Saying no is not a rejection of insurance or of saving. It is a refusal to let one quietly weaken the other.

Protect your family with insurance. Build your wealth with investments. Keep the two in separate boxes, and you will always know what each one is doing for you.

Sources

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