

TUESDAY TIMES

SOME COMMON MISCONCEPTIONS that may cost your license

SOME COMMON MISREPRESENTATIONS (THAT MAY COST YOU YOUR LICENSE)

BY LUKE HO

In this article, I would like to share some common misrepresentations that may arise in conversation with clients. The effect of them are, at least, twofold. They may cause a serious dent in public confidence in our industry as well as cost a representative his or her license. In view of its criticality, I've reflected some examples so this may reinforce our collective efforts to hold up best practice.

MISREPRESENTATION: 3.25% and 4.75% are the range of bonuses you can make

TRUTH: Bonuses paid out depends on a number of factors. This means you can make more than what is projected or you can make substantially less.

Regrettably, there has been instances where consultants present that their savings plans will compound at 4.75% safely. It is possible they may be either recent in the industry or hadn't sufficiently understood what this means during the formal training given.

The numbers 3.25% and 4.75% have been our estimated range of projections for Participating Funds plans, such as Whole Life Plans and Endowment plans, for quite a while now. Historically, these projections have been higher and have continued to be lowered as interest yields have dropped globally. In fact, some companies have even lowered these projections further than that. Adding to this critical point is the fact that there is a 'Net of Fee' return (below)

Based on the Illustrated Investment Rate of Return of the Participating Fund:

At 4.75% p.a., your total Illustrated Yield upon surrender at age 65 is

3.32% p.a.

At 3.25% p.a., your total Illustrated Yield upon surrender at age 65 is

1.57% p.a.

MISREPRESENTATION: YOU WILL PAY THE SAME PREMIUM EVERY YEAR

TRUTH: PREMIUMS OF PLANS MAY NOT STAY CONSTANT PER YEAR

This is in reference to both Term and Whole Life policies, usually with a Critical Illness rider – multipay, early, late or otherwise.

So, let's use a scenario to crystalize this point. Assume you have a private and customised Term policy insured at \$1000,000 at a premium of \$1000 per year or less, and you're very satisfied with yourself. 6 months before your next yearly premium is due, you get a letter that states ; an increase in premium, to \$1200. This may leave one dismayed with a concern. for a Term policy, which isn't a Hospital plan? It can create a distressing situation, particularly when we aren't sure how this happened as well as how to avoid being uninsurable. Let's break this down and shed some light on why this could happen. Please note that premium rates are not guaranteed. These rates may be adjusted based on future experience.

The premium rates for your Critical Illness Riders, even for the main policy itself, are not guaranteed. Hence, it is a misrepresentation to suggest otherwise, as long as you are selling any policies with Critical Illness in them. This then brings us to two things you need to have, in order to ensure your insurance costs are always the same.

a) *Premiums are Level* - This basically informs that the price quoted is calculated on the assumption that the policy holder pays until the completion of the policy. As a result, this enables the insurer to quote you a more favourable price, since you'll technically be more committed upfront and they can use the larger premium to generate more profit.

A Level Term Policy could look like this:

Age

40 - 45: \$2000
46 - 50: \$2000
51 - 55: \$2000
56 - 60: \$2000

While a Renewable Term Insurance could look like this:

Age

40 - 45: \$1500
46 - 50: \$1900
51 - 55: \$2300
56 - 60: \$2700

b) *Premiums are Guaranteed* - From that point, you want the policy to say 'Guaranteed' because in general, people draw a greater sense of assurance and like 'Guaranteed'.

Guaranteed basically means that your prices aren't affected by things that could impact your policy premium, such as :

- i) High Claims Rates
- ii) Unforeseen Expense Ratios, i.e. high cost of operations
- iii) Medical Inflation

Therefore, without this word 'guaranteed', your policy price is still subject to future change.

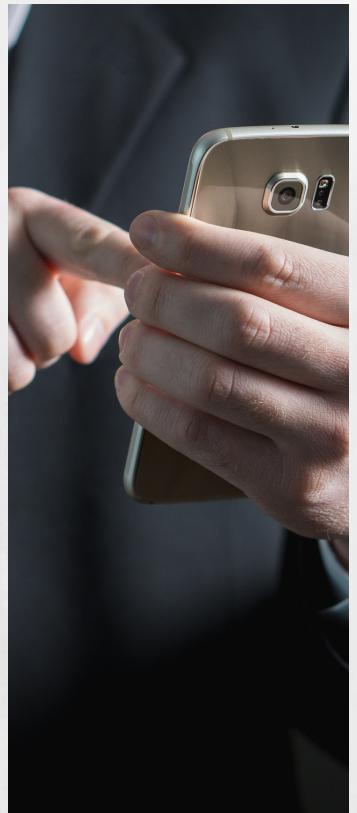


MISREPRESENTATION: A WHOLE LIFE POLICY COVERS YOU FOR LIFE. TRUTH: THE DEFINITION OF 'LIFE' IS SUBJECT TO THE CONTRACT

Long-time practitioners will likely be more familiar with this segment than myself. Over time, in the course of insurance product development, we can see that 'Whole Life' has been redefined several times. In view of this development, it can potentially be detrimental to suggest that an insurance or, a lifetime payout policy, will last the entire duration of one's life.

This is important to note, particularly when we consider that in the last thirty years alone, projections for the average Singaporean has increased by almost 10 years*. This increase in longevity has also contributed to more competition in the market for affordable insurance products. In Financial Planning for young people, it is therefore within reason then to suggest that many of them will live well beyond the present average age of about 84 years*.

To put this in perspective, most life policies currently are till age 99 and they do not continue beyond that point. This is a consideration you may want to account for in your planning, whether it's an insurance policy or a 'lifelong' annuity.



Conclusion

Being practitioners, we take pride in the accuracy and professionalism of our work. They go hand in glove, together. Misrepresentations therefore, however minor it may be, should be avoided. Thus, as members of IFPAS and stewards entrusted with the work and mission before us, let us continue to put our hands to the plough and hold up the stature of the financial practitioner so it sustains the confidence of all stakeholders, including members of the public and government agencies, as well as those we come in contact with in the course of work and the call of duty.

Our Author



Luke Ho is a licensed financial practitioner and an active IFPAS member. He is also an Associate Financial Consultant.

Source:

https://www.macrotrends.net/countries/SGP/singapore/life-expectancy*

AN ONLINE PUBLICATION BY IFPAS © 2020

Insurance and Financial Practitioners Association of Singapore All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without prior permission of the publisher.



@IFPAS.ORG.SG



@IFPAS_OFFICAL



IFPAS



IFPAS

PLATINUM



GOLD



SILVER

