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Choosing an adviser for your insurance needs

Almost every adult in Singapore buys insurance but most take the easy route of relying on financial advisers and insurance agents to make sense of a technical topic. LORNA TAN offers tips on how to pick a capable adviser

IN RECENT years, there has been a proliferation of consumer guides to help people make better choices when buying life insurance.

This shows that people are becoming increasingly aware that insurance is an essential aspect of money management.

It also shows that they need help to work their way through a maze of insurance jargon and legalese.

The latest and arguably most authoritative guide comes from the Life Insurance Association which recently published an improved version of its guide to life insurance.

Financial advisers and insurance agents have been handing out the new guide to clients since Oct 1.

Besides this, customers also get other documents, such as a reference checklist, a product summary and benefit illustration, when they are buying insurance.

One important new feature in the latest guide is an easy-to-follow flowchart that describes the 'Comprehensive Advisory Session' that should take place when a consumer meets a financial adviser to discuss life insurance options.

This underscores key changes in attitudes on how insurance should be sold. The sale of insurance is now part of a financial advisory process; it is not simply a product to be pushed so an agent can earn quick and fat commissions.

But a successful insurance industry needs both sides to work hard. Qualified advisers with integrity are vital, but so are informed consumers who know what to expect from advisers.

The main types of complaints from insurance customers are: getting misinformation on insurance and bad recommendations on what products to buy from advisers.

Take the experience of Mr Larry Ho, for example. In February 2004, at the age of 53, Mr Ho signed up for a regular premium investment-linked insurance plan with a death cover of $1 million.

This type of plan is a blend of an insurance policy and an investment; a portion of the premium is invested in stock markets, for instance.

After a few years of paying the premiums, he now realises that the plan was not what he really wanted.

He had wanted to invest his money for the long term and an investment-linked plan was not the best way to achieve that result given the changing proportion of funds invested.

'I had not been advised that as I get older, more of my premiums go into paying for assurance charges than for investments,' he said.

So how does a consumer pick a capable financial adviser from the wide selection on the market?

What to ask your adviser

MANY people buy life insurance from friends and relatives because it is convenient. Still, this may not necessarily be a good thing as the close ties sometimes make it difficult to ask pointed questions.

And there are hazards, too.

Mr Ben Fok, the chief executive of Grandtag Financial Consultancy, said that it is not a good sign if the adviser tries to push you into signing up as a client on the spot.

'This can be a bad sign. Refuse politely and continue asking questions. You are looking for an adviser, not a salesperson,' he said.

Here is a checklist of key questions to ask your potential adviser:

1. What services can you provide?

Find out if the adviser offers cost-effective solutions from multiple product providers or if the products he recommends are restricted to one source.

Some consumers feel safer with advisers and products from large, well-known institutions. Others may want to deal with advisers that offer a wider choice of products.

2. Who else could benefit from your recommendations?

An adviser who promotes insurance, unit trusts and stocks may have separate tie-ups with the firms that supply these products.

He may also have other business relationships that should be disclosed to you. This includes income he receives for referring you to an insurance agent, an accountant or a lawyer in relation to recommendations that he makes to you.

3. What are the risks and disclaimers?

Don't hesitate to ask the adviser to highlight any risks, potential downside or restrictions that may apply to the product he is recommending.

Ms Wendy Lee, 40, suffered a rude shock when she realised, after her divorce, that she was unable to change the person who would be a beneficiary of her life insurance policy.

She was not told at the point of sale that an 'irrevocable statutory trust' is created - under Section 73 of the Conveyancing & Law of Property Act - for the spouse and/or children when they are named as beneficiaries in a policy.

In simple terms, that means her ex-husband is entitled to the insurance proceeds because he was named as the beneficiary when the policy was taken out.

Even having a will does not change this situation.

4. How do I pay for your services?

Payment can take several forms.

- Commissions paid by a third party for the sale of products. These are usually a percentage of the amount you invest in a product.

- Fees based on a percentage of the assets you invest.

- A combination of fees and commissions. Fees are charged for the amount of work done to develop financial advisory recommendations and commissions are received from any products sold. Some planners may offset a portion of the fees you pay if they receive commissions when you buy products they recommend.

- A salary paid by the firm for which the adviser works. The adviser's employer receives a payment from you or others, either in the form of fees or commissions, in order to pay the planner's salary.

5. What commissions do you earn?

Don't be afraid to ask the exact commission amount that the adviser will earn from the sale. For instance, the commission for a regular premium investment-linked plan can be as high as 50 per cent in the first year, before dropping to 25 per cent in the second year, 10 per cent in the third year, and 5 per cent each in the fourth, fifth and sixth policy years. This means that if the annual premium is $50,000, the first-year commission earned by the adviser is a substantial $25,000.

For a single premium investment-linked plan, the one-time commission is typically a much smaller 2 per cent to 3 per cent.

In the case of hospitalisation Shield plans, some generate first-year and renewal commissions of up to 25 per cent and net premiums of 15 per cent for the adviser, as long as the plan stays in force.

6. What experience do you have?

You have a right to be nosy. Find out the adviser's experience and the number and types of firms which he has been associated with. Some experts advise consumers to choose an adviser with at least three years of experience in providing financial advice.

7. What qualifications do you have?

Ask the adviser what qualifies him to offer financial advice and whether he holds or has held any financial planning designation.

If the answer is yes, check on his background with the respective organisations.

8. Can I have it in writing?

Ask the adviser to put in writing the services he has provided and the recommendations he has made. Keep this document for future reference.

Necessary documentation

FINALLY, an adviser should give you the following documents when recommending a financial product, says IPP Financial Advisers. They include:

- A summary of your financial information such as investment objectives, current financial situation and personal needs.
- Recommendations made by the adviser and the basis for making these recommendations.
- A copy of the benefit illustration and product summary for insurance products.
- A copy of the prospectus for unit trusts.
- The name of the firm he represents and the type of advisory service he is licensed to provide.

If all this sounds like too much trouble, consider the problems faced by Mr Albert Soon simply because a critical illness policy was not explained properly when he bought it.

He thought he was properly covered for all serious illness when he bought the critical illness policy.

But the 52-year-old had a rude shock when his claim was rejected by his insurer early last year.

After feeling breathless and bloated in December 2005, he was diagnosed as being at a high risk of sudden cardiac death and had a pacemaker implanted.

The insurer threw out his claim, explaining that his medical condition did not fulfil the definition of any of the 26 major illnesses stipulated in the plan.

To make matters worse, he had not purchased a hospitalisation and surgical plan.

Thus it is always better to protect yourself by having an inquiring mind and being well-informed, as opposed to assuming that all advisers will automatically have your best interests at heart.

On the flip side

MUCH has been said about unprofessional advisers but many advisers have stories of encounters with 'unscrupulous' customers too.

Mr Patrick Lim, the associate director of financial advisory firm PromiseLand Independent, recalled a 'nasty client' who invited his entire family of five for dinner at an expensive Chinese restaurant, during their first meeting.

'He had already pre-ordered food and made me pay for dinner, which came up to over $500. After a few meetings and agreeing to buy a policy for himself and his wife, he finally cancelled the policies.

'He was the most nasty client in my 10 years of working as a financial adviser,' recalled Mr Lim.

Other advisers have also had their fair share of clients willing to play hard when it comes to getting the best deal.

They obtain advice and recommendations from one adviser and then proceed to shop around for cash rebates and negotiate for better terms.

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Be on your guard

'Refuse politely and continue asking questions. You are looking for an adviser, not a salesperson.'
MR BEN FOK, chief executive of Grandtag Financial Consultancy, on what to do if a financial adviser tries to push you into signing up as a client on the spot