Life Insurance Association Singapore
LIFE IS WORTH PROTECTING. INVEST IN IT.

Your guide to Life Insurance

2018

An initiative of MoneySENSE
A National Financial Education Programme for Singapore

This Guide is an initiative of LIA and the MoneySENSE national financial education programme.

The information in the Guide is of a general nature and may not apply to every situation or to your own personal circumstances. This Guide should not be regarded as a substitute for seeking legal or financial advice on any specific issue.

For educational resources on personal financial matters and information on MoneySENSE events, visit the MoneySENSE website at www.moneysense.gov.sg

This Guide has been translated into Chinese. In case of discrepancies between the English and Chinese version, the English version shall prevail.

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Contents

This Guide describes to you as a prospective buyer the various types of life insurance products, the various distribution channels and provides some general information about life insurance.

It gives you the basic information you need so you can discuss your needs with an authorised financial advisory representative.

I. TYPES OF LIFE INSURANCE ADVISORY SERVICES

You can get insurance advice from financial advisory representatives of licensed or exempt Financial Advisers who are qualified to advise on and distribute life insurance products. Under the Financial Advisers Act (FAA), financial advisory representatives must pass the appropriate entry examinations and continuously develop their technical and professional skills by completing training courses, seminars and relevant programmes every year.

The financial advisory representative must tell you which Financial Adviser he is acting for and the products and services that he is authorised to provide. Some Financial Advisory firms may qualify as independent if they meet certain conditions under the FAA.

A Financial Adviser includes life insurance companies (insurers), insurance brokers, banks, securities firms, finance companies and financial advisory firms. A financial advisory representative refers to a person acting for any one of these financial institutions.

You can contact the following types of financial advisory representative for advice on life insurance products:

Financial Advisory Representative of a Life Insurance Company

He represents one life insurance company only and can advise you on the products of that company. He may also advise you on the products of other financial institutions as long as the life insurance company has an agreement to distribute those products. Your financial advisory representative has to tell you the other financial institutions from which he can provide the products.

Financial Advisory Representative of a Bank or Other Financial Institution

He represents one bank or another financial institution only and can advise you on the products of one or more life insurance companies with whom the bank or financial institution has an agreement to distribute those products. Your financial advisory representative has to tell you the life insurance companies from which he can provide the products.

Financial institutions include insurance brokers, securities firms and finance companies.

Financial Advisory Representative of a Financial Advisory Firm

All Financial Advisory firms are licensed by the MAS.

Financial Advisory firms that meet certain conditions of the FAA may qualify to be "Independent Financial Advisory" (IFA) firms.

Some of those conditions in the FAA Guidelines will mean that the IFA representative can provide and advise on the products of at least four life insurance companies. He will clearly show you that he does not have financial or commercial links with these insurance companies that could influence his recommendations to you.

II. INTRODUCER OF LIFE INSURANCE ADVISORY SERVICES

Financial Advisers may appoint introducers to introduce their services to you. Introducers may be a corporation or an individual person. The introducer must clearly tell you whether he is paid by the Financial Adviser, and how much, for making the introduction, if he is asked.

The introducer is not authorised to give advice, provide any recommendation, or arrange any contract of insurance.

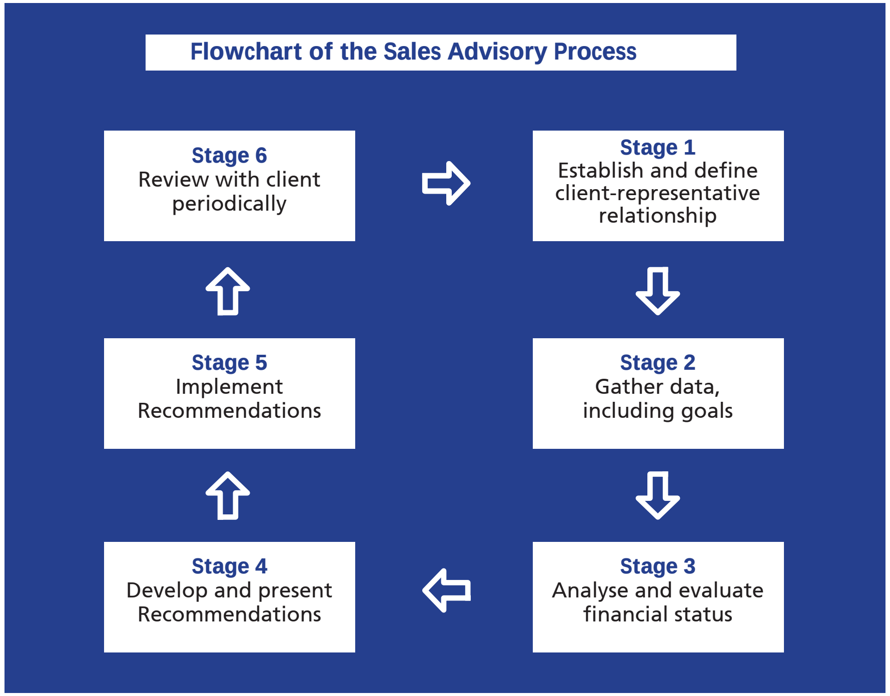
III. NEEDS-BASED SALES ADVISORY PROCESS

Your financial advisory representative must identify your needs by using a fact-finding process. He will then analyse your needs and make recommendations. This process is closely monitored by the Financial Adviser to make sure that you receive the appropriate advice and product recommendations.

Your financial advisory representative needs to have enough information before he can make a suitable recommendation. He will use the information you disclose on your investment objectives, financial situation and particular needs to advise you accordingly. To get appropriate advice, you need to give your financial advisory representative relevant personal and financial information by completing the 'know your client' (fact-find) form.

A product purchased without completing the questions stated in the fact-find form or based on incomplete information may affect the suitability of the recommendation made by your financial advisory representative.

Flowchart of the Sales Advisory Process



Stage 1: Establish and define client-representative relationship

Your financial advisory representative will meet up with you and explain the purpose of the meeting. He will introduce his company, disclose his status, and explain his role and the types of financial advisory service and investment products he can provide.

Stage 2: Gather data, including goals

Before recommending an insurance policy to you, your financial advisory representative will first need to identify and analyse your financial needs, starting with a 'know your client' (fact-find form).

He will establish which life stage you are at, for example, a student, newly married, planning a family, nearing retirement, and so on. He will gather all relevant financial information to understand your needs, and determine your concerns and financial goals. He will also need to ascertain your attitude to risk.

Your financial advisory representative relies on the information you have provided to assess your financial needs. To assist him in giving you the best advice, it is important to share as much information as possible regarding your financial circumstance.

Customer Knowledge Assessment (CKA)

To safeguard the interest of clients, Financial Advisers are required to assess clients on their financial knowledge and experience to determine if the clients understand the risks and features of unlisted Specified Investment Products (SIPs) before allowing them to purchase these policies independently. Unlisted SIPs refer to investment products[1] which have structures, features and risks which are more complex in nature and difficult to understand. These are not listed on an exchange, and include certain type of Investment Linked Policies (ILPs) where the underlying funds are derivatives (i.e. SIP-ILPs).

(1) Investment Products are defined as any securities, futures contracts, contracts or arrangements for the purposes of foreign exchange trading, contracts or arrangements for the purposes of the leveraged foreign exchange trading; any life policy or any other product as may be prescribed.

Below are the three criteria set for the customer knowledge assessment. To fulfill or "pass" the CKA, you need to satisfy just ONE of the criteria:

1) Investment Experience

Have performed at least 6 transactions in unlisted SIPs, for example 6 different purchases of SIP-ILPs in the last 3 years.

2) Working Experience

Have a minimum of three consecutive years of working experience[2] in the past 10 years in the development of, structuring of, management of, sale of, trading of, research on and analysis of investment products, or the provision of training in investment products. Work experience in accountancy, actuarial science, treasury or financial risk management activities will also be considered as relevant work experience.

3) Education Qualification

a) Have a diploma or higher qualifications in accountancy, actuarial science, business/ business administration/business management/business studies, capital markets, commerce, economics, finance, financial engineering, financial planning, computational finance and insurance.

b) Have a professional finance-related qualification. Examples of this would include the Chartered Financial Analyst Exam conducted by the CFA Institute, USA and the Association of Chartered Certified Accountants (ACCA) Qualifications.

Risk Profile

Your risk profile refers to how much investment risk you are willing to bear. It varies from individual to individual, and changes as you grow older, as your financial situation and investment objectives change. Please note that cash value of life insurance products may not be guaranteed. For example, if you invest in an ILP, you need to be prepared that the cash value of your policy will fluctuate according to the fund(s) performance. You need to re-evaluate your investment at different points of time as your risk profile changes.

(2) Such working experience would also include the provision of legal advice or possession of legal expertise on the relevant work experience.

Stage 3: Analyse and evaluate financial status

Your financial advisory representative will analyse all information gathered and evaluate your financial situation in relation to your objectives.

The analysis and evaluation of the information provided form the basis on which recommendations are made.

Stage 4: Develop and present Recommendations

Your financial advisory representative will explore relevant alternatives to meet your financial objectives. He will design solutions and provide options that can reasonably meet those objectives. He will explain to you the basis of his recommendation, as well as the costs and charges involved, and the features and risks of the recommended products.

Your financial advisory representative is required to present to you a proper Recommendation in writing. A copy of the Fact-find form, Needs Analysis, and Recommendations will be given to you.

Stage 5: Implement Recommendations

You should evaluate the advice and Recommendations given by your financial advisory representative, and select the appropriate policy or policies for yourself.

Stage 6: Review with client periodically

Your financial advisory representative will contact you to conduct a review of your policy or policies.

Monitoring them ensures that you are achieving your financial objectives. There is no hard and fast rule as to when a review should be done. The normal practice is to monitor and conduct a review annually.

You should also contact your financial advisory representative to initiate a review whenever there is a change in your objectives, personal or financial circumstances.

IV. DISCLOSURE DOCUMENTS AT POINT OF SALE

You should receive the following disclosure documents either in soft or hard copy format from your financial advisory representative:

- Your Guide to Life Insurance
- Product Summary
- Policy Illustration, if relevant
- Product Highlights Sheet, if relevant

Your financial advisory representative should explain the general terms and conditions, and your contractual rights, as shown in this Guide, which are relevant to your policy.

The Product Summary describes the features of the particular product you want to buy.

The Product Highlights Sheet is provided for ILPs. It describes the key features and risks of the relevant ILP sub-fund.

By law, insurance companies must reveal all costs and charges associated with the product you are buying. This includes, specifically, the distribution costs which include any commission the insurance company will pay to your financial advisory representative. These details are shown in the Policy Illustration of your product.

Reference Checklist of Disclosures

Your financial advisory representative must present you with a reference checklist for you to ensure that he has made the disclosures and provided the documents that should be given to clients during the sales process.

The reference checklist should include information as required under the FAA Notice on Information to Clients and Product Information Disclosure (FAA-N03).

You will be asked to verify that you have received all the necessary information by signing on the reference checklist, at the end of the sales advisory process.

V. CUSTOMER'S COMMITMENT AND RESPONSIBILITIES

Your Commitment to Understand

As a prospective buyer, you should first understand the type of policy that best suits your needs.

compareFIRST
www.comparefirst.sg

compareFIRST is a joint effort by the Consumers Association of Singapore (CASE), the Monetary Authority of Singapore (MAS), the Life Insurance Association Singapore (LIA) and MoneySENSE to enable consumers to more easily compare and find life insurance products most suited to their financial objectives. You will find information on life insurance products that are offered by all life insurers catering to the retail market in Singapore.

You can compare Direct Purchase Insurance products (DPIs), term life insurance, whole life insurance and endowment policies. You can also obtain general product information on investment-linked policies.

compareFIRST is a purely informational portal that does not promote or distribute life insurance products. You will need to approach the life insurers or their financial advisory representatives to purchase the product that you are interested in. As buying life insurance is a long-term commitment, you should speak to a financial advisory representative for advice if you are unsure about your insurance needs.

Your Duty to Disclose Information

A life insurance contract is based on good faith on the part of the proposer (customer). You must truthfully disclose all the information asked for in the proposal form and provide any other details asked for.

If you do not provide important information set out in your proposal form, any policy issued may not be valid. If you are not sure whether a fact is important, you should disclose it anyway. This includes any information you may have given to your financial advisory representative but was not stated in the proposal form.

Please make sure that you are fully satisfied with the information shown in your proposal form.

Balanced Scorecard Framework for the Remuneration of Financial Advisory Representatives

Financial advisory representatives need to meet key performance indicators that are not related to sales target, such as providing suitable product recommendations and making proper disclosure of material information to customers. Failure to do so will affect their commissions or variable income.

In order to assess the quality of financial advisory services provided by the financial advisory representative, the Financial Adviser will obtain a sample of his sales transactions to conduct client surveys.

"Selected Client"

You are a "Selected Client" if you meet any two of the following three criteria:
i) 62 years of age or older
ii) not proficient in spoken or written English
iii) have below GCE 'O' level or 'N' level certifications, or equivalent academic qualifications

Criterion ii) above does not apply if the financial advisory representatives conducts the financial advisory services in a language (other than English) which he and you the client are proficient in and all sales documentation are provided to you in that language.

If you meet any two of the above criteria but are assessed to have adequate investment experience and knowledge to transact in the investment product being recommended, you will not be considered a Selected Client.

To safeguard all Selected Clients, the insurance company will make phone calls to Selected Clients to assess the quality of financial advisory services provided by the financial advisory representative.

VI. TYPES OF LIFE INSURANCE PRODUCTS

Life insurance gives you and your family financial protection against the financial loss that can happen after your death or if you suffer a total and permanent disability.

It can also give you a retirement income or act as a financial back-up in emergencies and protect you against health-care costs.

Whole Life Insurance

With whole life insurance, you get life-long protection. You pay premiums throughout your life, but this can be changed to a limited period. The policy will pay out the sum insured and any bonuses you have built up when you die or become totally and permanently disabled (if this benefit is provided).

This plan is suitable for long-term savings if you would like the insurance company to invest on your behalf. As with all investment products, you are exposed to the risk that your investment returns underperform expectations.

Term Insurance

With term insurance, you get protection for a set period. It pays the sum insured only if you die or become totally and permanently disabled (if this benefit is provided) during this period. These products are typically cheaper as they do not provide a savings element (no cash value if you cash in).

Endowment Insurance

With endowment insurance, you get both protection and savings. The policy pays the sum insured and any bonuses that have built up at the end of the set period of time (maturity date), when you die or become totally and permanently disabled (if this benefit is provided) during this period. As with all investment products, you are exposed to the risk that your investment returns underperform expectations.

Health Insurance

Critical Illness

Critical illness will pay out a lump sum when you die or are diagnosed with a major illness. The illnesses that are covered vary, but usually include: heart attack of specified severity; stroke; coronary artery by-pass surgery; kidney failure; and major cancers.

Medical Expense

Basic medical expense insurance, also known as hospital and surgical insurance or hospital income plan, provides benefits for certain medical costs that result from accidents and sicknesses.

Hospital and surgical insurance will refund the in-patient expenses you have to pay while in hospital as well as certain out-patient expenses, depending on the limits shown in the policy.

A hospital income plan will pay a fixed daily amount of benefit based on the number of days you are an in-patient. This will depend on the limits shown in the policy.

Major medical insurance covers the expenses arising from a period longer than the limits in basic hospital and surgical insurance.

Disability Income

This is an income-protection product as it helps to replace part of your income if you become totally or partially disabled and cannot work as a result of an accident or sickness, under certain conditions.

Long-Term Care

Long-term care is designed to meet some or all of the costs of daily living of a person who, as a result of accident or sickness, is physically disabled to the extent that he cannot live alone. He has to depend on others to help him carry out the most basic activities of daily living such as feeding, bathing, moving around in the home and so on.

Life Annuity

A life annuity provides a regular income to you. Usually you pay a lump sum which is invested by the insurance company in return for monthly payouts.

Investment-linked Insurance

Your premiums buy life insurance protection and investment units in a managed fund. You can usually decide on which funds to invest your premiums into depending on your risk appetite.

The price of your units depends on how the investments in the fund perform. What your policy pays out depends on the price of the units at the time you cash it in or die. You may also get a death benefit on top of the value of your investment units.

Insurance coverage charges generally increase as you age. If you have a combination of high insurance coverage and a poorly performing investment-linked sub-fund, there is the risk that the value of the units in your policy may not be adequate to pay the insurance coverage charges.

Universal Life Insurance

Universal life is a form of 'interest sensitive' whole life insurance that offers a death benefit and provides the opportunity to build cash values which you can borrow from or withdraw. The cash values earn interest at a declared rate, which may change over time. Notwithstanding that, most universal life plans guarantee a minimum interest crediting rate.

These plans give you flexibility to assist you in meeting your financial goals. Within certain limits, you may choose the amount, method and timing of your premium payments. Hence, it is important to regularly review your policy's performance to ensure it continues to support your financial goals.

VII. DIRECT PURCHASE INSURANCE

Direct Purchase Insurance (DPI) is a class of simple term and whole life insurance products with total and permanent disability (TPD) cover and optional critical illness (CI) rider that you can buy directly from life insurance companies. As DPI are sold without financial advice, no commission is charged and you pay lower premiums than comparable life insurance products. DPI have broadly standardised benefits and features which makes it easier to compare products when deciding which DPI to purchase.

DPI are offered by all life insurance companies who cater to retail customers. You may purchase DPI - which can be identified by the prefix "DIRECT" in their product name - from the customer service centres or websites (if available) of the insurance companies.

Please visit the Life Insurance Association, Singapore website at www.lia.org.sg for the contact information of the insurance companies and a list of the locations where you can purchase DPI.

VIII. GENERAL TERMS AND CONDITIONS OF A POLICY CONTRACT

The following describes the general terms and conditions of a life insurance policy contract. As the terms and conditions may not be exactly the same for every life insurance product, you should check the details of your policy with your financial advisory representative.

Policy Contract

Life insurance is a contract signed between you and a life insurance company. You pay a certain amount (a premium) for a set period. In return, the insurance company will pay an agreed amount to you (or your estate if you die) if you are totally and permanently disabled or any other specified event happens.

Rider

For extra premiums, a rider can provide additional protection or enhance existing benefits payable under a basic insurance policy.

Interim Cover against Death by Accident

Most life insurance policies provide temporary insurance cover that protects you against the risk of death caused directly and solely by an accident in Singapore between the time the insurance company receives your completed and signed application form together with full payment for the first premium and the actual commencement of that policy. The payment is treated as a conditional deposit. The duration and amount of this interim cover against accidental death differs from company to company.

General Conditions

Making a policy void

After your policy has been in force for a certain period of time (usually one or two years), the insurance company cannot treat the policy as if it had never been issued. However, the insurance company can contest the policy if fraud is proven, in which case it has the right to end the policy at any time, even after the said period of time.

Suicide

If you commit suicide within a certain period shown in the policy, the insurance company will not pay the policy proceeds.

Giving your age incorrectly

If you gave your age incorrectly in the policy document when you bought it, the insurance company will adjust the policy proceeds accordingly.

Free-look period

You have 14 days to review your policy. If you decide that the policy is not suitable for your needs, the insurance company will refund all your premiums less medical and other expenses they have had to pay. You will need to send them written notice within 14 days from the date you received your policy.

If your policy is an investment-linked policy, the insurance company, as well as charging for any medical expenses, can adjust for any change in the market value of the units the policy holds when working out the amount to return to you.

Conditions relating to Premiums

Period of grace

The insurance company will give you extra time (usually 30 days) after the premium due date, to pay your premium to renew your policy. During this period, the policy continues to be in force and the insurance company will expect you to pay the premium.

Reinstating your policy

If your policy comes to an end (other than due to policy expiry or claim settlement), you may reinstate it within a certain period of time (usually two years), as long as you meet certain conditions.

Conditions relating to owning the Policy

Transferring your policy

You can transfer your policy to another person or organisation. This is called assignment. You must write to inform the insurance company of the assignment, as otherwise it would not be valid when it comes to paying an insurance claim. However, the insurance company is not responsible for making sure that the transfer is valid.

Conditions relating to Loans

Policy loan

You may apply to your insurance company for a loan as long as the policy has a cash value. The insurance company will charge interest on the policy loan.

Some types of insurance may not provide this option.

This feature is not available in term insurance policies.

Automatic loan to pay for your premiums

If you do not pay your premium within the period of grace and as long as your policy has sufficient cash value, the insurance company will automatically pay your overdue premium by taking a loan against the policy's cash value. By doing this, the company will keep your policy in force. You will have to pay interest on this loan.

Some types of insurance may not provide this option.

This feature is not available in term insurance policies.

Conditions relating to Policy Values

'Participating' policy or 'Non-participating' policy

A 'participating' policy participates in or shares in the profits of the insurance company's participating fund. Your share of the profits is paid in the form of 'bonuses' or 'dividends'. Bonuses or dividends are not guaranteed as they depend on how the life fund's investments are performing, how many claims are made on the fund, and expenses incurred.

A 'non-participating' policy is not entitled to any profits the life fund may make.

Cash Value or Surrender Value

The cash value (surrender value) is the amount you will be paid if you cash in (surrender) your policy.

Whole life and endowment policies usually build up cash values after a minimum period (usually at least three years). Cash values for investment-linked plans depend on the current value of the units in them, while term insurance plans usually do not have any cash value.

Paid-up Value

If your policy has built up a cash value, this condition allows you to change your policy to a paid-up policy. In this case, you can stop paying premiums and your policy will stay in force for a reduced sum insured for the rest of the policy term.

Reports for your Policy

If you have an investment-linked policy, you will receive a statement on the units you hold in your policy at least once a year. You can also expect to receive a fund performance reportat least every year.

If you have a participating policy, you will receive a yearly statement on any annual bonus or dividend from your insurance company.

IX. DISPUTE RESOLUTION

If you have a complaint about your insurance policy, you should first refer the matter to your insurer, Financial Adviser or the financial advisory representative who sold you the insurance policy. However, if you fail to reach an agreement, the Financial Industry Disputes Resolution Centre Ltd (FIDReC) provides an independent alternative dispute resolution scheme.

You must lodge your complaint with FIDReC within six months from the date when you failed to reach an agreement with your insurer.

FIDReC is staffed by full-time employees who are familiar with insurance law and practice.

FIDReC aims to settle disputes in a fair and cost-efficient way. This should hopefully mean you avoid time consuming, stressful and costly legal proceedings.

At present, FIDReC covers the following:

- For claims between insured persons and insurance companies, up to S$100,000 per claim
- For other claims (including disputes between banks and consumers, capital market disputes, third party claims and market conduct claims), up to S$50,000 per claim

FIDReC's rulings are final and binding on the financial institution, but not on you. You may choose to accept or reject FIDReC's decision. If you are unhappy with the ruling by FIDReC, you can choose to pursue legal action or other options such as approaching the Consumers Association of Singapore or the Singapore Mediation Centre. However, if you do accept FIDReC's ruling, you may lose your right to proceed with legal action against the financial institution.

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