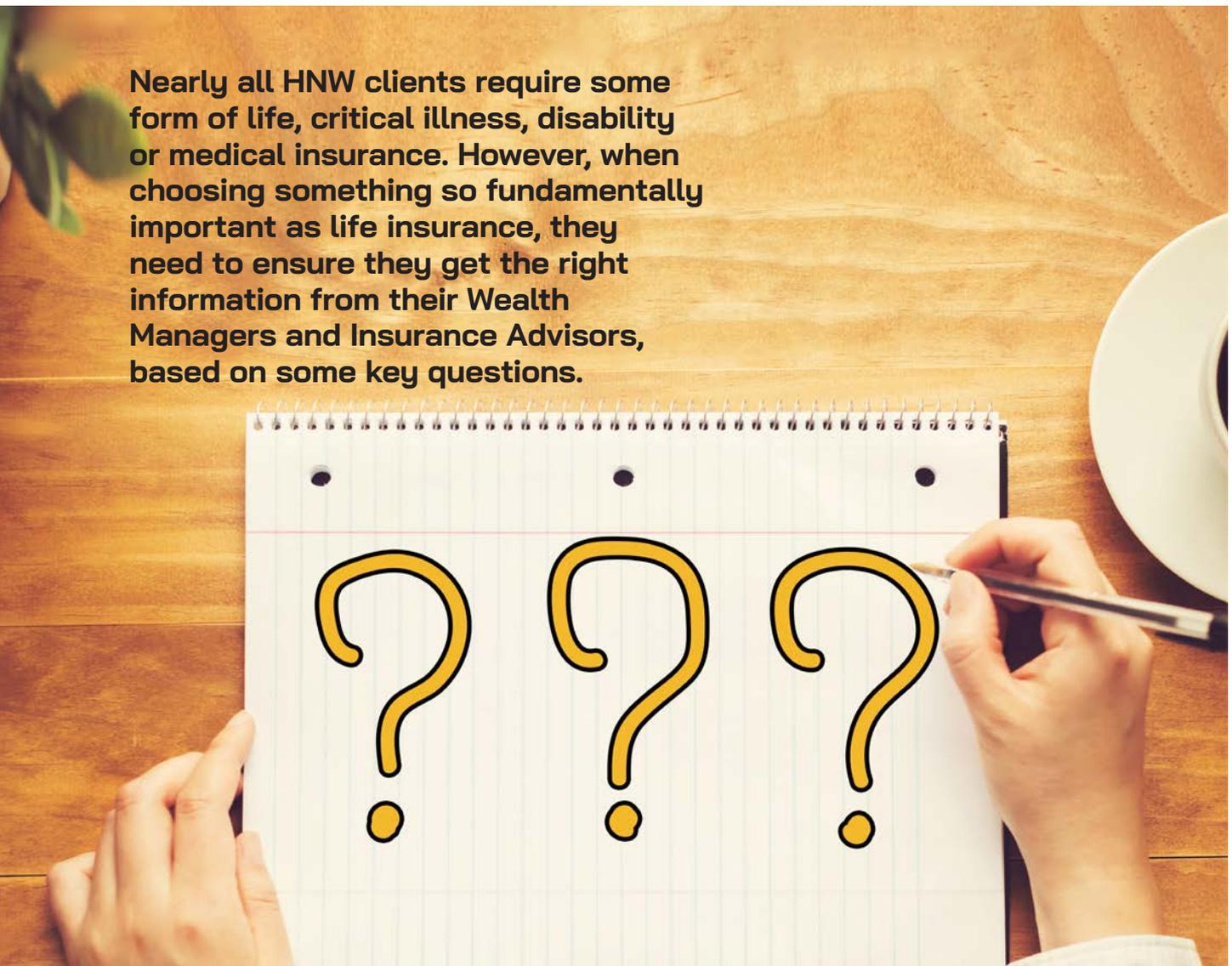


Questions for HNW clients to ask their Wealth Managers and Insurance Brokers when evaluating Insurance Solutions

Nearly all HNW clients require some form of life, critical illness, disability or medical insurance. However, when choosing something so fundamentally important as life insurance, they need to ensure they get the right information from their Wealth Managers and Insurance Advisors, based on some key questions.



The aim is to create a transparent, rational path to identify the right solution. HNW clients who work with private banks and independent wealth managers need to understand the dynamics of advice they are receiving when it comes to the selection of insurance solutions. It is critical that they understand the inhouse or outsourced capabilities of the Wealth Manager, the relationship between the Wealth Manager and the regulated Insurance Broker (typically) and the process by which the Insurance Broker should select the right solution to meet the client's needs.

Creating a transparent and accountable relationship between the HNW client, the intermediary and the product is vital to ensure all parties are aligned in delivering the optimal solution to the client.

There are typically three levels of engagement:

1. The Wealth Manager

This is typically a private banker or independent wealth manager ("the Wealth Manager"). The Wealth Manager should be providing the HNW client with holistic advice which might also include life insurance solutions. In most cases they will not have their own licensed insurance brokerage capability. So, who do they engage with, and what are the terms of such engagement – furthermore, who is the client going to engage with directly for this advice from a legal point of view?

2. The Insurance Broker

A Broker will have a panel of insurers that they work with, which enables them to select the optimal solution at the optimal price from this panel. A HNW client would expect to work on insurance solutions with an Insurance Broker rather than a tied agent who only sells the products of one insurance company. So, what should the HNW client expect from the broker and what should be the process?

3. The Insurance Company

The product/solution selected will be from an insurance company which is on the brokers panel. What is the basis of the selection of the insurance company and solution, and how has the insurance broker come to make its selection?

The key to the selection of the correct insurance solution to meet a HNW client's needs involves the transparent and accountable interaction of these three separate functionaries with the HNW client. Optimisation and the correct co-ordination of these functionaries will lead to an excellent outcome for the client, with the process typically being driven by their Wealth Manager. There are nevertheless weaknesses with the different levels of engagement, and it is therefore important to ensure accountability and to enable the HNW Client to be empowered in the process, so as to make an informed decision.

To this end, what are the difficult questions that a HNW client should expect their Wealth Manager and the prospective Insurance Broker to be able to answer for them as they assess the correct solution.

Commensurately, for Wealth Managers and Insurance Brokers, anticipating these questions and doing their due diligence properly will enable them to provide much more value to their clients, and enhance the overall engagement, experience and outcome. Wealth Managers must be confident and have conviction that what they are putting in front of a client is relevant and suitable – and won't jeopardise their relationship in the long term.

The creation of this added value to the client is a vital part of the long-term holistic process and value differentiation that a Wealth Manager can provide. Which enhances the Wealth Managers role and helps to cement further their long-term relationship with the Client.

We therefore obtained output from more than 35 in-depth, face-to-face interviews, recently conducted with many of Asia's leading insurance brokers, carriers and distributors such as private bankers and independent wealth managers. It formed the basis for a separate White Paper focusing on how the insurance market in Asia is evolving ("The Adapting HNW Insurance Business in Asia").

This output also provided some ideas as to the key expectations and questions that a HNW client would expect to ask, and would want their Wealth Manager and Insurance Broker to be able to answer.

The following are the key questions for every Wealth Manager and Insurance Broker to answer, and for every HNW client to ask:

1. HOW DOES THE WEALTH MANAGER DELIVER INSURANCE SOLUTIONS?

The vast majority of private banks and independent wealth managers are not licensed to sell or advise on insurance. Their model is to have in place arrangements with either an insurance broker or they will have tied arrangements to a single insurance company (not normally in the HNW segment). It is therefore essential for a client to understand the dynamics of the relationship, potential conflicts and most importantly who is ultimately responsible for giving the advice.

Key questions of the Wealth Manager would be:

a. Are you the Wealth Manager providing me with the insurance advice, or will it be from a third party?

This then leads to questions on who that third party is, and whether there is a choice i.e. more than one Insurance Broker to choose from.

b. Will the advice be from an Insurance Broker with the ability to choose insurance solutions from multiple insurance carriers, or from a tied agent who is only able to recommend the insurance solutions of one carrier?

A HNW client would expect to engage with an Insurance Broker.

c. What is the relationship between the Wealth Manager and the Insurance Broker – is there a choice of Insurance Broker?

This will clarify for the client the relationships, the rationale for the choice of broker and where the regulated advice is provided.

d. What are the compensation dynamics between the Wealth Manager and the Insurance Broker?

Transparency in the relationship and the management of potential conflicts of interest will provide additional confidence to the client in the process.



2. HOW DOES THE INSURANCE BROKER WORK IN THE HNW CLIENT'S BEST INTERESTS?

HNW clients will generally be guided towards an insurance broker rather than a tied agent. If not the HNW client will clearly need to understand why, and the limitations of a tied agent relationship. The reason for this is that a broker is able to obtain competitive quotations from multiple carriers based on parameters that best suite the client. It therefore generally leads to optimal sourcing and pricing of the most suitable solution.

Key questions of the Insurance Broker would be:

a. Are you licensed to provide me with insurance advice?

This forms the basis of the legal relationship, where that relationship occurs and what protections the client may have. It is also vital for the wealth manager and insurance advisor to be acting in accordance with their regulatory requirements including cross border requirements.

b. How many insurance companies does the insurance broker work with?

This will provide an idea of how many relationships the broker has and thus its ability to source the most competitive product from multiple carriers.

c. Where are the insurance companies located that the insurance broker utilises?

This will provide transparency on the location of insurance companies and ensure that the client understands what companies can be used dependent on local regulations for the marketing of insurance products. It will also lead to technical questions on for example better pricing ability based on regulatory arbitrage e.g. insurance company in Jurisdiction B has lower capital requirements for a certain insurance contract than an insurance company in Jurisdiction A offering the same contract, and thus obtains better pricing but with possibly more risk to the insurer.

d. What is the breakdown of the insurance brokers business by insurance product?

As an extreme example, if a broker is doing 100% of its business in one type of product, it would indicate that the broker is not providing holistic advice to their clients.

e. How is the broker compensated and is this compensation disclosed on product marketing material?

Life insurance generally involves significant margins and thus costs to the client. For HNW clients where premiums can be significant, the revenue generated on some policies can be disproportionate to the advice given. Transparency helps to ensure that recommendations are driven by real client needs whilst fair compensation is provided.



3. HOW DOES THE INSURANCE BROKER SELECT THE RIGHT PRODUCT TO MEET THE CLIENT'S NEEDS? THE FACT FIND.

Life insurance recommendations should be based on a detailed understanding of a client's personal and family circumstances. The insurance product recommendation should be based on managing an identifiable risk that the client has, selection of the most appropriate product, and then the "broking" of the product to find the most competitively priced product based on the client's age, gender and health characteristics as well as, in the case of investment linked product, their propensity for investment risk.

Critical questions to be asked of the Client, and which the Client should be expected to answer, would include:

a. What are your current and future assets and liabilities?

This will identify the state of the client's current and projected personal balance sheet and then provides the ability to assess where risks lie, particularly on the liability side of the balance sheet. Liabilities will not just be financial liabilities in the form of loans/mortgages, but potential asset gaps resulting from an inability to maintain cash flow (i.e. income, as a result of death or disability).

b. What are your family dynamics?

In the HNW segment, younger clients tend to be income rich and asset poor, with often high net borrowings (business or personal). The result is a need to hedge against death or disability in the short to medium term, the requirement often being an identifiable period of time (term), and amount. In older HNW clients, they can be asset rich and perhaps income rich, but have complex succession or tax related issues which can be resolved with life insurance, requiring long term contracts which are designed to pay out when their life comes to an end, and these liabilities realise (whole of life type risk). A detailed discussion on family members, dynamics and succession plans is therefore essential in order to prioritise the risk mitigation.

c. What are you the Client most concerned about?

Different clients will have different concerns. Some Client's may feel that on a cost/benefit basis their key concern is mortality risk. Other Client's may see this as a risk but be equally or possibly more concerned about being unable to work as a result of a serious illness or disability. Some Clients may only be concerned about a risk materialising within a specified time frame, other Clients may wish for a mortality risk to be managed throughout their whole life. A comprehensive discussion is required to identify the contract that is best suited to providing the Client with peace of mind and appropriate risk management at manageable cost.



4. HOW DOES THE INSURANCE BROKER SELECT THE RIGHT PRODUCT TO MEET THE CLIENT'S NEEDS? – PRODUCT SELECTION

a. Should I select a Term policy, Endowment Policy or Whole of Life Policy?

The Fact Find will have determined the liability and thus the extent of the liability in both amount and duration. The selection of the duration of the policy should be a natural conclusion from the identification of the risk.

b. Should I select a pure life insurance policy providing no cash value, or should I select a policy that builds a cash value?

This will typically be determined by the duration of the risk – there is no free lunch in insurance so if the aim is to have a pay-out whenever death occurs then an investment linked policy will be necessary, whereas if the risk being mitigated is just short term, then a risk only policy for that period of time may suffice. The choice of policy will have a significant impact on cost.

c. Should I just select a mortality-based policy that pays on death, or should I consider also incorporating critical illness or disability?

Typically younger HNW clients who are in the wealth accumulation phase of life will identify a large risk to their ability to accumulate wealth as represented by them suffering from an unexpected critical illness or disability, whereas the older client who has already accumulated wealth will likely have more focus on pure mortality based cover. Nevertheless, options should be assessed on a case by case basis.

d. Should I pay premiums as a Single Premium, Multi-Pay for a determined period or Multi-Pay on a Whole of Life basis?

Answers will be subjective based on a Client's individual circumstances, the type of policy chosen and the availability of capital for premium. The trend in Asia is for HNW premium for long term policies to move towards multi-pay on either a determinable period or a whole of life basis from the previous popular method of Single Premium, which was often financed by the banks. Nevertheless, the Client needs to understand the pros and cons of the different options – for example Premium Financed Single Premium policies expose the Client to additional risks, including financing costs (which can go up or down), and in the case of General Account based Crediting Rate build up of Cash Value, the Client can be exposed to the risk that the Crediting Rate is cut and the Cash Value rise fails to support the Cost of Insurance over time, thus depleting the Cash Value and making the policy potentially unviable.

e. What type of underlying investment link should I use for my policy?

The Client needs to understand the difference between standard general account crediting rates, indexed variable Life with equity index linked caps and floors and variable life policies with links to funds or separately managed accounts. The importance of the growth of the Cash Value must be understood in the context of the draw downs of administration and insurance costs, and thus the volatility of the proposed investment backing is critical to the long-term viability of the policy.



5. HOW DOES THE INSURANCE BROKER SELECT THE INSURANCE COMPANY?

The HNW client should be working with an Insurance Broker for insurance solutions on the basis that a broker has access to a broad selection of insurance companies, and thus is able to obtain competitive terms for the selected product. Typically, the client should expect the Insurance Broker to show illustrations from two or more companies so that a comparison can be made, and the client understands the rationale for the selection of the Insurance Company.

Key questions would be:

a. How many insurance companies will you obtain illustrations from?

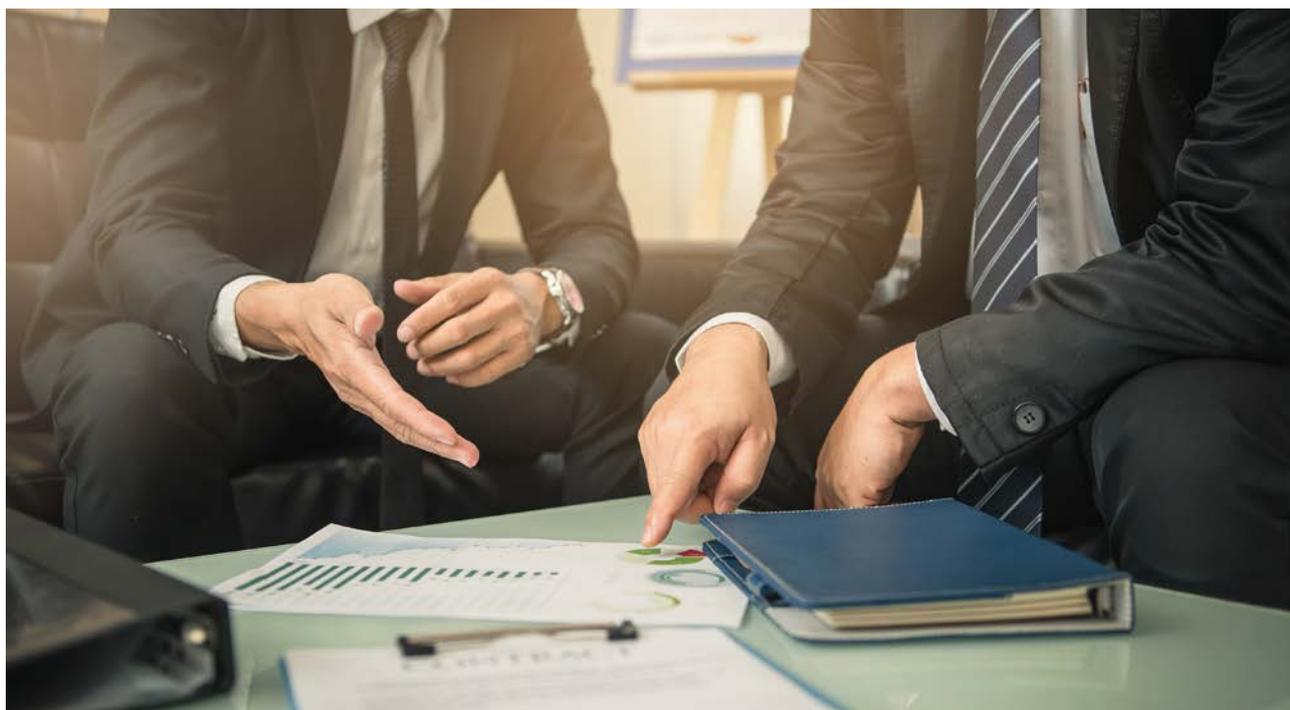
There should be a minimum of 2 and ideally 4 or 5. This provides for the opportunity to discuss the differences between the insurance companies, satisfying the client that a broad analysis has been undertaken, whilst the Insurance Broker can demonstrate the open architecture approach to product and carrier selection and the rationale for the ultimate recommendation.

b. What are the criteria that you are looking at from the insurance company when obtaining the illustration?

The client should understand the importance of the credit rating of the insurance companies and how they compare. The selection of a product should be based not just on price, but on the financial standing of the insurance company, a like for like product comparison and the effects of different regulatory requirements on capital structures which may favour one carrier over another but not reflect the extra risks the carrier is taking.

c. What are the costs of the policy?

The costs of the policies should be evident in the policy terms and conditions but are often difficult for a non-professional to interpret. Nevertheless, a policy illustration should provide transparency on the costs and the commissions payable, and the Insurance Broker should be able to explain this to the client. For HNW clients making substantial premium contributions, the commission structures can provide commissions which are disproportionate to the work undertaken by the broker, and transparency on commissions should allow a reasonable level to be agreed upon.

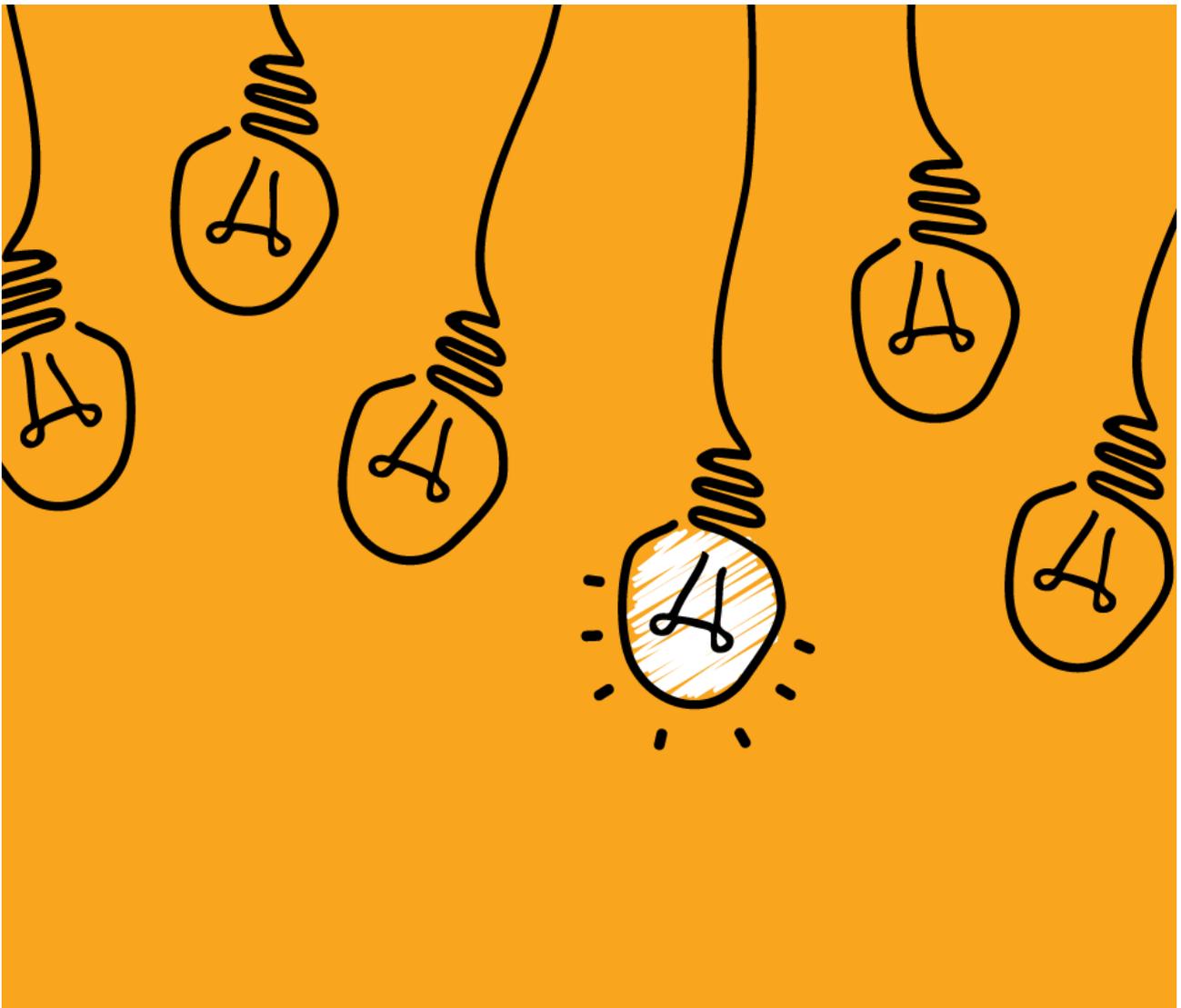


SUMMARY

Provided that a HNW client is dealing with a regulated Insurance Broker in the jurisdiction that the insurance advice is being given, there are substantial safeguards imposed by the regulators. In the case of Singapore and Hong Kong these fall under the purview of the Monetary Authority of Singapore and the Hong Kong Insurance Authority respectively.

Nevertheless, it is important that the client is empowered to ask the right questions and the Wealth Manager and Insurance Broker prepared to answer the key questions that the informed HNW client would want answered. The utilisation of insurance solutions falls within the parameter of a holistic engagement with a client and the HNW client needs to be aware of the importance of their provision of sufficient information (“the Fact Find”) to enable the Wealth Manager and Insurance Broker to make an informed judgement on the most appropriate solution to meet the client’s needs.

Commensurately, transparency in the engagement process with the HNW client will ensure that the client has all the facts, and is confident that they are receiving best advice, suited to their individual circumstances. ■



Written in collaboration with Mark Smallwood - Rapier Consulting