


BEST PRACTICE GUIDELINES

# 8 QUESTIONS FOR INSURANCE BROKERS TO ANSWER FOR HNW CLIENTS





**Making the right broker selection is essential for HNW clients when choosing something so fundamentally important as life insurance. They therefore need to ensure they get the right information from their bankers – based on key questions – to create a transparent, rational path to identify the right solution.**

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Every HNW client in Asia – based on the guidance of their relationship manager (RM) – must ensure they are getting the right life insurance solution to meet their needs.

Brokers should be proactive, trained insurance experts with knowledge of a wide variety of policy options. They should therefore be able to point bankers in the right direction to advise their HNW clients, based on specific circumstances and financial needs. Further, value-added services allow a brokerage firm to differentiate from their competitors and create the opportunity for their clients to maximise their total spend.

Yet there are inevitably some brokers who do the minimum work required, but still get paid well, given existing commission structures.

From a client's perspective, making an educated selection – both in terms of the company itself as well as the specific policy – depends on being able to understand the reality of the situation. In short, this means knowing the salient facts.

So what are the difficult questions that a client should expect their RMs to be able to answer for them from a point of knowledge, rather than guess-work, after probing a broker?

For bankers, doing their due diligence in this way will enable them to provide much more value to their clients. RMs must be confident and have conviction that what they are putting in front of a client is relevant and suitable – and won't cause any issues going forward.

Perhaps the best way of making the right decision should be based on the broker providing written responses to the questions, before proceeding to the next step?

This was part of the output from more than 35 in-depth, face-to-face interviews we recently conducted with many of Asia's leading insurance brokers, carriers and distributors such as private banks and multi-family offices.

It formed the research for a separate White Paper focusing on how to evolve the market and broaden the types and volumes of insurance solutions (*beyond Universal Life*) that get traction and add real value to clients.

# 8 QUESTIONS FOR EVERY BROKER TO ANSWER

## 1

### How are you compensated?

Brokers are essentially salespeople, so they receive commissions based on the volume sold and the cases closed.

And compared with many other investment and banking products, the margins for life insurance are relatively large, meaning the commissions paid to brokers are too. This is particularly the case in the first year.

HNW clients are also aware that their broker will be earning commission from any recommendation, so they need know the answers to ask questions like:

- How are you compensated for closing this policy?
- Is this a percentage of the insurance premium or a flat fee?
- Is this negotiable?



- Will you offer full disclosure of commissions earned?
- How does the commission you get from this insurer differ from what you get from the others for this policy?
- How does the bank compensate the broker as well as the RM for this advice?

At the same time, clients need to understand why their private bank has chosen to use a certain broker over another, and whether they receive part of the commission paid on the sale.

# 2

## Who is the insurance carrier?

Providing what some practitioners call ‘market security’ in terms of which carrier is providing the policy, is a key component of any HNW client’s decision-making process.

It means the RM and client looking at the carrier as the issuing entity from the financial institution. And akin to a rating agency assessment, this is based on answering questions like:

- Is the company financially stable and sustainable?
- What is its commitment and longevity?



How often does the broker have the right conversations with a carrier about its ability to sustain this business for the next 5 to 10 years?

- If the firm is a local entity in Hong Kong or Singapore, who is the parent?
- What is the relationship with the parent company?
- What is the underwriting policy?
- What is the underlying asset allocation of the tranches or the par funds?
- What due diligence has been performed by the bank and broker on the insurance carrier(s) recommended?

# 3

## Why do you work with one insurance company rather than another?

It is often the case that when a broker offers a certain proposition from an individual insurance company to a customer, the broker will come up with two or three different options from different providers – most commonly with different benefit illustrations.

Yet industry practitioners say that there are a lot of provider-specific propositions and services that the broker might not mention.

Important questions HNW clients must get the answers to, therefore, include:

- Are there any special arrangements between the broker and the insurer?
- Why is the broker recommending this insurer over the others?
- How does this proposition compare with similar products from other insurance companies – not just the provider(s) the broker is recommending?
- What are the crediting rates like from one insurance company's product to the next?
- Are there any concerns about the sustainability of those rates?
- How do the underwriting policies compare? And which one is most suitable?

- How are funds invested with this policy? What are the non-guaranteed features, such as dividends or additional amounts? What is the insurer's track record with respect to continuing such non-guaranteed features?

Some other practices which might not always be made as clear or transparent as they should be, relate to after-sales service. Given that some brokers can deliver so much volume to a carrier, they can leverage that relationship so that the insurer beefs up their underwriting processes, turnaround times and overall servicing.

Although this is positive in terms of ensuring a higher quality service, this essentially means that the broker is not behaving in the traditional role where they are focused on finding the best product for an end-client. Instead, they become a source of access.

**So is this really in the best interest of customers?**

# 4

## Does the jurisdiction of the carrier make a difference? If so, why?

When considering which carrier to use, clients need to factor in the law of the jurisdiction where the policies reside, particularly at the higher end of the market.

For example, some of the implications may be different when dealing with a Hong Kong carrier-issued policy compared with a Singapore carrier-issued policy. Further, these will differ from the requirements of a Bermuda carrier-issued policy.

From a client's perspective, this might lead to them being concerned over whether they can really pass assets in the insurance policy to the next generation – especially for clients with more complicated family structures.

Also, do Bermuda policies, for example, offer any benefits? As this can help to determine whether there is still space for them.

Local carriers with underwriting teams in Hong Kong and Singapore are certainly gaining market share because they are able to converse and understand the risks locally.

As part of an 'offshore' versus 'onshore locally licensed and serviced' insurance consideration – to provide the service in the local timezone – what are the language options? Is it possible to go into the insurer's offices and meet the staff? Is there the option of an individual, trust or corporate policy, or are there some restrictions?

# 5

## Are there alternative types of insurance I should consider?

Given the different options for which type of insurance might be best suited to an individual, a broker needs to be able to explain the reasons for suggesting UL versus variable universal life (VUL) insurance, or low-life cover UL, or private placement life insurance (PPLI), or whole-of-life, or medical insurance and critical illness cover, for instance.

The broker must clearly be able to communicate the alternatives and associated features and comparisons.

Further, for each specific product, the broker needs to review all the components of it to be able to explain which features or benefits are relevant and suitable for the specific type of client.



### RED FLAGS TO BE AWARE OF

- A broker who mainly talks in industry 'jargon' and won't spend time explaining the technicalities
- A broker who seems unable or unwilling to answer questions with direct, clear responses
- A broker who refuses to reveal any negative aspects of a policy
- A broker who seems uncertain on any regulatory obligations about what can or cannot be done with a policy



# 6

## What are my options based on changing crediting rates?

For UL policies, HNW clients need to understand what happens in the event that the crediting rate in the policy over the life of the contract starts to take the policy off a path where at age 100, the amount of value of the policy will not be equal to the sum assured.

Nobody can predict what will happen over a long-term contract because UL only works if the client passes away, given it is a legacy planning tool.

But there are some key questions as the client goes along that path with the ups and downs:

- Should there start to be a negative deviation from the path expected, what are the options?
- Can clients top up by adding in regular premiums?
- What are the options that different product providers offer?
- How sustainable and realistic are the projections in the broker's benefit illustration?
- What is their achievement rate of their projections over the medium to long term?



# 7

## What else do I need to know about my premium financing?

For clients who take a loan in order to put in place their protection strategy, they need to understand the sustainability of that loan?



They need to remember the loan is callable at one and three months, plus is backed by the policy. As a result, they need to know:

- Are they servicing the interest?
- Are they capitalising the interest?
- Do they have a loan pay-down strategy?
- At what point should clients expect their bank to notify them when they have concerns about the interest rates increasing and the crediting rate staying flat?

Further, clients need to know whether the pay-out includes inflation adjustment? What will USD5 million look like in 30 years' time? While the proposed coverage may seem adequate now, it's important to look ahead and consider changing economic conditions, to make sure their coverage isn't prone to factors that could decrease its value over time.

A potential worst-case scenario is that a HNW client is in their late 70s or early 80s, for example, and need to start topping up their policy and premium, or start paying down their loan.

Clients also need to be aware that they no longer can nominate a beneficiary when the policy is assigned to the bank.

# 8

## How will I be serviced over the life of the policy?

As part of the required after-sales service, HNW clients need to know what follow-up is there on their policy after it has been issued.

The commission the broker gets is typically an upfront, one-time fee, but what happens in the second, third and subsequent years?

So five or more years down the line, what obligation does the broker have to assist the client with any questions or problems they might have?

### MORE INFORMATION FOR HNW CLIENTS TO KNOW FROM A BROKER

There are also other questions which might arise for a HNW client in different scenarios or with different types of policy. For example:

- How much coverage do I need?
- How did the broker determine my coverage requirements?
- How do I compare costs of purchasing a life insurance policy on a like-for-like basis?
- How can I ensure I am comparing similar policies?
- Do I need to take a medical exam to confirm my state of health to qualify for coverage?
- Is there a surrender charge on the cash value of the life insurance policy if surrendered prematurely?
- What happens when my policy ends?
- What if I can't pay my premiums? Is there any grace period, or window of time where I can set coverage back up with identical terms?
- What are the broker's references? Can they put the RM in touch with past customers?
- What calibre of clients does the specific broker cater to?