

# It's All in the Balance

By Timmy Tan

## MANAGING YOUR RISK, BUILDING YOUR WEALTH

If you figure your insurance needs are well taken care of just because you have life insurance cover in the event of an untimely death, then think again. There is more to it than that, and you first need a deeper understanding of the risks you face. And have you ever wondered about the insurance products available that can assist you in the wealth creation or accumulation process?

Too often, people fail to grasp some of the basic elements of financial planning, notes David Pierce, vice president of marketing at American International Assurance Co. One of the simplest ideas that most people have is to cover the risk of an untimely death through some form of life insurance. This might insure you against uncertainty and death for as long as you pay the premiums, but how many of us know how to make good use of other products like term insurance and insurance-linked products (ILPs) as well?

There are two components to financial planning, says Mr Pierce. One is the management of risk and the other is asset accumulation. "To fully understand how to make the best use of insurance products, I believe one must go back to the basics. The first is the risk component and it very much depends on your life stage and circumstance," says Mr Pierce.

For example, your insurance cover should not just take care of death; how about coverage in the event that you suffer from a disability, a critical illness, or are hospitalised? Illnesses like heart attacks or cancer can severely affect an individual's income-generating ability and current financial position because of the hefty costs of medical treatment. If you were hospitalised tomorrow, could you afford the fees?

"There is now a shift going on at AIA, to go back to 'risk'-related products," adds Mr Pierce. "This shift makes perfect sense because it allows us to focus on our core strengths and competencies. The shift is to re-focus



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on helping people who are interested in protecting their future and realise that such events as death, cancer, heart disease, or accidents can seriously affect their overall plan.”

And what about term insurance products? As the term implies (no pun intended), coverage under such policies is only for a stated and



defined period. When the term ends, so does your cover. “Term insurance has several applications, especially in business insurance, for high-net-worth individuals, and for young families who need to provide maximum cover at minimal cost,” reckons Mr Pierce.

“But you must understand that you are not getting anything back on a net cost basis,” he explains. “The general rule of thumb is: if you can, whenever possible, buy permanent products. If you can’t, then at least buy a product that can cover some of that risk. If you can afford it, it is better to have a solid foundation. This is the most critical component. Take care of your risks and remember that you cannot profit from everything.”

There are several components in a personal financial plan, and they all fall into three broad categories – accumulation, conservation and, ultimately, distribution. “Life insurance can play a tremendous role in all three,” says Mr Pierce.

## FIVE POINTS TO REMEMBER

- Commit to a plan. Do it. Put the plan into action.
- Think more long-term and less short-term.
- Think risk first and accumulation second.
- You must invest in time. This is your personal future and it is your money.
- Find a trusted adviser and stick to this person.
- Have a financial goal and be honest with yourself.

“But if we’re talking about risk, the role insurance plays is to help an individual conserve, or hold on to, what they have worked so hard to accumulate. Why not spend pennies on the dollar to conserve what took dollars on the dollar to accumulate? It just makes good financial sense.”

Term can also prove especially useful when you need coverage only for a short to medium length of time. “When I have had higher risk, I supplement that with term cover,” says Mr Pierce. “For instance, I recently took term cover for 20 years because I had exposure to some real-estate investments and loans for 18 to 20 years. The key concern was: if I die during these years, would my wife be in a good position to continue the accumulation plan these properties would ultimately yield while not having to cash in other assets?”

The second component of financial planning is all about asset accumulation. The thought of spending now and having your kids look after you in your later, non-productive years is already out of fashion. Instead, it is now more towards building assets that can be passed down to your next generation for their future financial well-being. Some call this leaving a legacy, and one product that offers insurance cover and yet allows one to gain possible investment returns is known as an investment-linked product, or ILP.

Simply put, these are hybrids of an insurance product and a unit trust. Either all or part of your premiums are used to acquire units in a unit trust, but there are several advantages to investing in an ILP. With this product, you can be assured of insurance coverage, be it for a permanent disability, critical illness or death, in addition to the potential for investment returns through the exposure in unit trusts.

Some single-premium ILPs, for example, provided returns of as high as 30% over the last year or so because of investments in regional equity unit trusts and the buoyant stock markets. Over a more realistic and longer term, if returns average 5% or more then an ILP could also be deemed a good savings vehicle to build your wealth.

“ILPs are good buys as compared to the plain old unit trust because there is the additional feature of providing death cover and you can even switch to other funds,” says Mr Pierce. But, he qualifies, “Whether an ILP is suitable depends on the outcome of an individual’s personal financial review. There cannot be a blanket statement that it is a be-all, end-all product for everybody.”

Indeed, as Mr Peirce points out, the most important thing is for people to invest time in the planning process: “Don’t just say, ‘I don’t know or I don’t understand this insurance product.’ Put the time and effort into understanding it. After all, it is your family, or your business, and it is your plan.” **si**