



Life Insurance Association



# Your guide to Life Insurance

An initiative of



**MoneySENSE**

A National Financial Education Programme for Singapore

This guide explains to you (prospective buyer) the idea behind life insurance, the various distribution channels and the products available.

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

## **YOUR DISCLOSURE DOCUMENTS**

You should receive three documents from your adviser. They are:

- Your Guide to Life Insurance;
- a Product Summary; and
- a Benefit Illustration.

Your adviser must explain the general terms and conditions, and your rights as a policy owner that are relevant to your policy. They are all shown in this guide.

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

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 adviser. These details are shown in the benefits illustration of your product.

## **WHAT TYPES OF LIFE INSURANCE ADVISORY SERVICES ARE AVAILABLE?**

You can get insurance advice from representatives of licensed or exempt financial advisers who are qualified to advise on and distribute life-insurance products. Under the Financial Advisors Act (FAA), financial adviser 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 representative must tell you which financial adviser they are acting for and the products and services that they are authorised to provide. Some financial advisers may qualify as independent if they meet certain conditions under the Financial Advisors Act (FAA).

A financial adviser representative refers to a person acting for a licensed or exempt financial adviser.

A financial adviser includes insurers, banks, life brokers, securities firms and financial companies.

You can contact the following types of life-insurance advisers.

### **1 A representative of a life-insurance company**

A representative of a life-insurance company will represent one life-insurance company only and can advise you on the products of that company. They may also advise you on the products of other financial institutions as long as the life-insurance company has an agreement in place to distribute those products. Your representative has to tell you the life-insurance companies from which he or she can provide the products.

### **2 A representative of a bank or financial institution**

A representative of a bank or financial institution may represent one or more life-insurance companies. Financial institutions include life brokers, securities firms and financial companies. Your representative has to tell you the life-insurance companies from which he or she can provide the products.

### **3 Independent financial adviser**

An independent financial adviser can provide, and advise on, the products of at least four life-insurance companies to best meet your insurance needs. The independent financial adviser must clearly show you that he or she does not have financial or commercial links with these companies that could influence their recommendations to you.

## INTRODUCER TO LIFE-INSURANCE ADVISORY SERVICES

Introducers are not authorised to give any advice. Financial advisers may appoint introducers to introduce their services to you. Introducers may be a corporation or an individual. If asked, the introducer must clearly tell you whether he or she is paid by the adviser, and how much, for making the introduction. The introducer is not permitted to give advice, provide any recommendations, or market or arrange any contract of insurance.

## NEEDS-BASED SALES PROCESS

Your adviser must identify your needs by using a fact-finding process. He or she 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 adviser needs to have enough information before he or she can make a suitable recommendation. They will use the information that you give them on your investment aims, financial situation and particular needs to give you advice.

If you buy a policy without filling or only partially filling in a 'know your client' form, it may not be appropriate for you. (A company may want to present the benefits of taking part in a fact-finding process in terms which are easy to understand.)

## HOW DO I MAKE SURE THAT I GET APPROPRIATE ADVICE?

To get appropriate advice, you need to give your adviser relevant personal and financial information in the 'know your client' form.

### a Full advice

For best results, you should take full advice and provide complete and accurate information. With full advice, your adviser will be able to thoroughly analyse your needs and make recommendations that best meet your goals.

Or, you can get less advice.

### b Partial advice

With partial advice, your adviser can only give you advice based on limited information you have given and so you may risk financially committing yourself to a product that may not be appropriate for you. As a result, you must assess how appropriate your adviser's recommendations are to your needs, aims and financial situation.

### c Product advice

With product advice, your adviser can only give you specific advice on a particular product to meet your specific needs.

### d No advice

You do not want to receive any advice from your adviser. You want your adviser to simply carry out your request.

## UNDERSTANDING THE 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 adviser.

### 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**

A rider gives you extra protection at lower cost and you can add it to a basic insurance plan such as a whole-life, endowment or investment-linked policy if you pay extra premiums.

**General conditions****MAKING THE 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 (contest the policy). However, if the insurance company can prove fraud, they have the right to end the policy at any time, even after the period of time given.

**SUICIDE**

If you commit suicide within a certain period shown in the policy, the insurance company would 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 would 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 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 reflect any change in the market value of the assets which back the policy when working out the amount to return to you.

**Conditions relating to premiums****PERIOD OF GRACE**

The 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, 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 the insurance company about the assignment, otherwise it would not be valid when it comes to paying an insurance claim. However, the insurance company is not responsible for making sure 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.)

#### AUTOMATIC LOAN FOR YOUR PREMIUMS

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

### Conditions relating to policy values

#### 'WITH PROFITS' AND 'WITHOUT PROFITS'

A 'with-profits' policy shares in the profits of the company's 'life fund'. Your share of the profits is paid in the form of 'bonus' or 'dividend'. 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 any expenses.

A 'without-profits' 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 do not have any cash value.

#### PAID-UP VALUE

If your policy has earned 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, at least once a year you will receive a statement on the units you hold in your policy. You can also expect to receive a fund performance report at least every year.

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

### UNDERSTANDING YOUR COMMITMENT AND RESPONSIBILITIES

#### Your commitment

As a prospective buyer, you should first understand the type of policy that best suits your needs. Some products offer only protection and do not provide a savings element (in other words, it does not provide a cash value if you cash it in). Other products offer a cash value if you cash them in after a certain number of years. However, if you cash in your policy early, the value you receive may be less than the total premiums you have already paid.

**Your duty to reveal information**

A life-insurance contract is based on good faith. You must truthfully reveal all the information asked for in the proposal form and provide any other details they ask for.

If you do not provide important information on your proposal form, any policy issued may not be valid. If you are not sure whether a fact is important, you should reveal it anyway. This includes any information that you may have given to the adviser but was not included in the proposal. Please check to make sure that you are fully satisfied with the information shown in your proposal.

**TYPES OF INSURANCE**

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 lifelong protection. You pay premiums throughout your life, but these can be changed to a limited period. The policy will pay out the sum insured and any bonuses you have built up (if any) 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

**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.

**Endowment insurance**

With endowment insurance, you get both protection and savings. The policy pays the sum insured and any bonuses you have built up at the end of the set period of time (maturity date), when you die or become totally and permanently disabled if it happens during this period.

**Health insurance****1 MEDICAL EXPENSE**

Basic medical expense insurance, commonly 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 longer period than the limits in basic hospital and surgical insurance.

**2 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, depending on certain conditions.

### 3 LONG-TERM CARE

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

### 4 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, stroke, coronary artery bypass, most cancers, kidney failure, fulminant hepatitis, major organ (heart, lung and kidney) transplants, paralysis and multiple sclerosis.

#### **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.

There are also annuities that are designed specially for members of the Central Provident Fund (CPF), under the CPF Minimum Sum Scheme or Minimum Sum Plus Scheme. For this annuity, you can invest the minimum sum with an approved life-insurance company to provide a monthly income for the rest of your life.

#### **Investment-linked insurance**

Your premiums buy life-insurance protection and investment units in a managed fund. Like a unit trust, your money is pooled with that of other investors and invested in short- and long-term investments.

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

#### **Universal life insurance**

Universal Life is a form of 'interest sensitive' type whole life insurance that offers a death benefit and, because of its flexible premium feature, provides the opportunity to build cash values which you can borrow from or withdraw. The policy cash values earn interest at a declared rate, which may change over time. Notwithstanding, 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 can choose the amount, method and timing of your premium payments. Hence, it is important for regular reviews of your policy's performance to ensure it continues to support your financial goals.

### **DISPUTE RESOLUTION**

If you have a complaint about your insurance policy, you should first refer the matter to your insurer or the insurance adviser who sold you the insurance policy. However, if you fail to reach an agreement, the Financial Industry Disputes Resolution Centre (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 tackle and sort out 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:

- Claims between insured persons and insurance companies: up to S\$100,000 per claim
- 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, the Singapore Mediation Centre or the Small Claims Tribunal. However, if you do accept FIDReC's ruling, you may lose your right to proceed with legal action against the financial institution.

You can contact FIDReC at:

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#13-03 HB Robinson  
Singapore 068902

Phone: **6327 8878**

Fax: **6327 8488**

Website: **[www.fidrec.com.sg](http://www.fidrec.com.sg)**

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