RISK MANAGEMENT STRATEGIES
for Mature High-Net Worth Clients

Mention insurance and it not only rings a bell, but to most, an alarm bell.

But mention risk management and you rarely get any reaction.

For too long, risk management has been the domain of the select few risk management consultants who offer their services to big corporations only, either by itself or in conjunction with general insurance. This form of risk management for corporations encompasses a wide spectrum of subjects and delivers a comprehensive review of a corporation's risk exposures and how to manage them.

The term "risk management" connotes not just insurance, which is just one part of the solution, but the full spectrum of techniques like risk avoidance, risk reduction, risk absorption and risk transference. Insurance is only a feature in the last technique of risk transference.

In the last decade, these risk management techniques have been increasingly applied to individuals, and rightly so. For, like corporations, individuals are also exposed to all kinds of risks and the consequences of these events happening can cause individuals and families to suffer severe financial consequences.

What are the typical risks that an individual encounters? This list is not exhaustive:

- Early death causing loss of income
- Disability causing loss of income and increased medical and living expenses
- Medical expenses
- Legal suits – arising from business, professional or personal action
- Business failures
- Investment failures
- Robbery, kidnapping and blackmail
- Cheated by business partners, friends and family
- Standing as guarantors and being liable

Of particular interest to us here are the risks faced by the high net-worth mature or older age group.

These are the people who have done well in their earlier years and have built a good nest egg for themselves. They may or may not still be working, but one important thing is that they have sizeable assets. What should they do to manage risks?

The risks typically faced by older people will be discussed under:

1. **Health protection**
2. **Asset protection**
3. **Legal protection**
4. **Business protection**

HEALTH PROTECTION

Despite all the new drugs and keep fit regimen, ageing can only be slowed down, if at all. Health deteriorates with age and it is very important to manage health risks. Risk avoidance and protection can only be done up to a degree by proper dieting, exercise and healthy lifestyle. Risk transference would be a better alternative through several types of insurance:

1. Basic medical
2. Major medical
3. Critical illness
4. Long-term care

Basic medical and major medical insurance become more important with age. Retirees would no longer be covered by their employers' group medical plans since most group policies are not "portable", i.e. they cannot be transferred to the individual. Moreover, most of the disability benefits in whole life, endowment and term insurance policies would stop at age 60. Disability income benefit which is meant to replace one's income in the event of total disability leading to cessation of work can only be extended to age 65 if one is still working. Most private medical plans also stop at age 60 or 65. But there are some plans which cover up to an older age. For example, AXA's Prime Care and Premier Care cover up to age 75. Fortunately, for the mature, Medisave-approved schemes like MediShield, IncomeShield, HealthShield, Supremehealth and a few others cover up to age 80.

For health protection, it is extremely important to have a medical plan with a

guaranteed renewability feature. This means that even if one has made a claim or one's health has deteriorated, the plan can still be continued. But note, however, that the premiums may be raised and new exclusions or limits can be imposed.

In arranging for medical plans, it is important to distinguish between those which pay on "indemnity basis" and those which pay a lump sum benefit or a benefit sum per day, for example a hospital cash benefit plan. There is no point in having medical plans on indemnity basis which overlap and have "coordination of benefits" i.e. you will not be paid more than what you have incurred. It is also important to look at details like deductible (the amount you have to pay yourself), co-insurance (the percentage you have to shoulder for the amount that is claimable) and limits of payment (the maximum amount the insurance company is prepared to pay) for individual expense items, per year and per lifetime.

To illustrate how medical plans should be coordinated, let us look at Mr John Lim who is approaching 55 and will be retiring. He will not be able to carry on with his employer-sponsored group hospital and surgical policy. Assuming he is still insurable, Mr John Lim can do the following:

1. Take a Medisave-approved plan (e.g. IncomeShield), the most popular because of its low premiums among all the private insurers.

2. To ensure that he covers the deductible amount (IncomeShield Plan A $2,500), he can take an AXA Prime Care Plan 2. This plan pays a list of benefits irrespective of all other medical plans.

3. Take a critical illness plan (if he has not done so) to obtain a lump sum benefit on diagnosis of any of the 30 critical illnesses. If desired, he can take this plan from three companies and cover 39 illnesses (Asia Life, OUB Manulife and Aviva). This critical illness plan should be for the whole of his life. (Medical plans have expiry age). A coverage of $100,000 to $200,000 may be adequate.

Another thing to consider in the area of health protection is that after age 80, all current medical plans stop to cover except for long-term care insurance. The concept of long-term care insurance is widely publicised, though not well understood by most, through the government's promotion of ElderShield. ElderShield is a national opt-out programme with premiums paid from one's Medisave account. The $300 per month benefit for a maximum of five years is small. Private insurance plans for long-term care are available and can supplement this.

ASSET PROTECTION

The largest assets for most mature people are their owner-occupied property and possibly one or more investment properties. House owner's policy (for the building) and householder's policy (for contents) or packages covering both are a must to protect against fire and a host of other extraneous perils (EP) like earthquake, storm, flood, aircraft falling, burst pipes, etc.

Because of the high fire safety standards and security in Singapore, the probability of destruction of property by fire and EP is low. Therein lies the danger of our taking it for granted and not insuring our property. The principle to adopt is to insure against what can cause severe or catastrophic loss regardless of the low probability because low probability will translate into cheaper premiums.

Another danger is to only insure the reconstruction cost and not the total cost, especially for landed property. This is all right if the whole house is destroyed and reconstruction is the best way. However, for partial damage, the insurance payout will not be complete as the principle of average will be applied. For example, if the insured sum is half of the market value of the property, only half of the claim for partial damage will be paid. This can mean that the owner has to pay quite a hefty sum himself.

For investment properties, it is not only necessary to insure against fire and extraneous perils, but also a property owner's policy to cover the owner's liability vis-à-vis the tenant. Very few Singaporeans take this cover although it is certainly important.

LEGAL PROTECTION

Mature people who may or may not be retired are still liable for their actions as private individuals and as employees or business persons. Accordingly, there must be personal liability insurance, professional indemnity insurance and, where applicable, directors and officers liability (D & O).

Personal liability insurance to protect oneself against injury caused to another person or damage caused to another's property is usually given free up to $1 million cover under a house owner's package policy.

Mature high net-worth clients would frequently be sought to stand as guarantors for scholarships and loans. Great care should be taken to avoid being liable.

Professional indemnity is a must for those in professions where due care and diligence are expected.

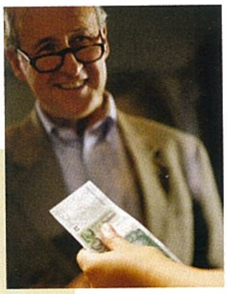
D & O has only recently become more appreciated given the onerous duties and responsibilities placed on directors by common law and the Corporations Law.

To quote the write-up of CHUBB, the foremost company in writing this risk:

A wide range of actions can be brought by any number of parties: shareholders, customers, creditors, competitors and government regulators such as the Commercial Affairs Department of Singapore. A protracted dispute could place the financial well-being of your company and its directors and officers at risk. One factor which is not always accorded the proper weight is the often prohibitive cost of defending allegations brought against individual directors and officers. Irrespective of the merits of the litigation, a director or officer needs to be able to fund his/her defence.

Statistics quoted include:

- A Supreme Court case costing $1 million
- Average costs of senior counsel is $8,000 per day
- A hearing in the Supreme Court can cost up to $15,000 per day
- Simple proceedings such as defamation can cost up to $250,000 to defend



BUSINESS PROTECTION

Mature high net-worth individuals who are still active in business continue to face risks commonly faced by business. This is the area of general insurance and encompasses a host of liability under common law and the Workmen's Compensation Act.

Of particular interest is how the mature businessmen can also ensure continuation of their businesses that can be threatened by death of key persons. With age, the risks of death and disability increase rapidly. Insurance-funded buy-and-sell agreements should be looked into to ensure smooth business continuity, particularly for sole proprietorships and partnerships which are not separate legal entities and die with the death of the proprietor or one partner. Key person insurance is important for all businesses, which are highly dependent on certain individuals, to indemnify the corporation in the event of death or disability of key persons.

Just a quick survey of the potential risks faced by mature high net-worth clients suggests that it deserves some attention. Besides insurance, the other risk management strategies can be applied considering the individual circumstances. Pre-nuptials and family inheritance strategies may be necessary. Political risks and currency risks may feature in case of an overseas investment.

Certainly one's senior years is not the time to be too aggressive in investments.

To ensure that there is a minimum amount for retirement, life annuities should be purchased as this is the only product which pays a guaranteed sum for life. Annuities purchased through CPF under either the Minimum Sum Scheme or Minimum Sum Scheme Plus (for amounts exceeding the minimum sum) are tax-free. Annuities purchased with cash enjoy a competitive special tax rate.

The Supplementary Retirement Scheme (SRS) introduced in April 2001 certainly favours the high-income earners if they are still below 62 because of its special tax features.

Proper estate planning (e.g. wills and trusts and gifting) will prevent family disputes and paying a large estate duty. Effective investment planning and retirement planning would also go far to ensure a happy retirement. Making decisions regarding one's family and wealth distribution can often be swayed by one's emotions. It is important to let reason and good sense prevail in making all decisions and after seeking professional advice.

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