

Life Insurance – A Need Analysis

In the previous issue we discussed some aspects of documentation. This week we will discuss how life insurance can be sold on various needs of the client, what questions need to be asked to get long term commitment from the client and also to reduce a possibility of misselling a policy.

Balance Sheet of Our Life

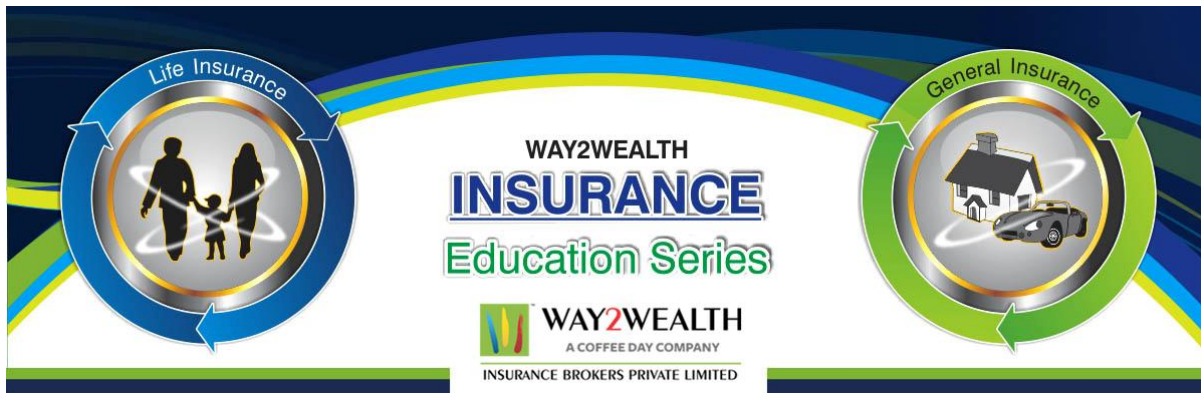
To start with, let us look at our life as a balance sheet and compare it with a balance sheet of any company but not from accounting perspective. If you would have seen a balance sheet of any company, it has normally two sides – Assets and Liabilities. Assets are the ones owned by the company and liabilities are the ones which company needs to payoff as and when due. In assets also there are fixed assets and liquid / current assets. Few of the liquid assets may be generating extra income for the company apart from its normal business activities. In case of liabilities, the companies has long term liabilities like equity shareholders etc. Companies also has certain short term liabilities like interest payment, tax payment, cash reserves etc

Now let us put ourselves in place of the company – we also have certain assets and liabilities. Our fixed assets may be self-owned house, vehicles or any other property we may have. Just like a company, we also have current assets in the form of fixed deposits, provident fund investments and cash in hand / in savings account etc which keep generating interest income for us. Similarly , we also have long term liabilities like housing loan repayment, child's higher education and marriage expenses (after all our family is the shareholder in our life), income after retirement etc. We also have some current liabilities like household expenses, credit card and telephone bills etc. We also have to provide for certain emergencies like hospitalization and other out of pocket / unplanned expenses.

Professionals are available to companies to balance their assets and liabilities. They can guide the management how to reduce certain liabilities and generate more income / profits etc. But is there any such professional available to guide individuals us on how to reduce our liabilities or generate more income? We will see below how life insurance professionals can use such details to help such clients.

Questions to Ask to Generate Need for Life Insurance

Let us now discuss what questions need to be asked to get the required details by an example. Mr. A is a salaried person, aged 45 years with annual income of Rs. 15 Lacs. He has a parental house worth Rs. 1 crore as per current price. He has taken a car loan from a financial institution and his EMI is Rs. 5,000 p.m. for 5 years. Mr. A is married, his wife is a housewife and they also has a 10 year old son. With the family lifestyle, their monthly household expenses are close to Rs. 50,000 excluding credit card spending. He has accumulated close to Rs. 12 lacs by investing in various financial products.



The first question to be asked is what life insurance he has in terms of sum assured and policies. Has he taken the policies as per his needs and have his needs changed over a past few years? As a thumb rule, he can be covered up to 15 times of his annual income to protect his income earning capability towards his family, so the amount of total life cover he has can also be checked and new plans can be suggested. You can ask him whether or not he would like his family to maintain the same lifestyle even if his income stops because of some unfortunate event? Honestly, who will like the family to suffer? The natural question he will ask is how much premium need to be paid and can he afford that much premium? **A simple term plan can be pitched to cover his income earning capability / family lifestyle.**

The second important question to be asked if he has planned for retirement and what lifestyle he expects to maintain after he stops working. Again as a thumb rule, approximately 75% of his expected income at the time of retirement can be assumed as his post retirement income and then a pension plan or an endowment plan can be pitched to him.

Apart from questions on protection or retirement planning a few more questions can be asked. These questions can lead to various another needs which can be partially fulfilled by suitable life insurance products. Let us see some examples.

Innovative / Basic Questions

The next question that can be asked if he has thought for his son's marriage expenses. He can be taken through a simple mathematical calculation showing him the expenses today and what they will be in future just by taking an appropriate inflation rate into consideration. He can obviously reach his planned amount by investing in various investments options available. But you can ask if he has a cushion to fall back in case if any of his investments don't give him estimated returns or if something unfortunate happens to him during this period. A child policy or an endowment policy can be pitched for a small cover of Rs 5 to 10 Lacs for a term of 15 years or so.

Ask him if he has provided for medical emergencies apart from mediclaim policies he may have from his employer. As far as provision for hospitalization is concerned, a critical illness rider can be pitched to him. For medical provisions for his family, a separate health / mediclaim policy can be pitched to him because mediclaim policy from his employer will not be available once he leaves the organisation.

Every person has various financial goals to be achieved in short term (within 3 to 5 years), mid term (within 5 to 10 years) and long term (after 10 years or more). Over and above the sample questions given earlier, some very basic questions can also be asked which can lead to cross selling opportunities. These basic questions may be like what are his short term financial goals, mid-term financial goals and long term financial goals? Also ask him if you can give him solutions on mid term and long term financial goals on tax favored basis how much money he thinks he can put aside for his goals and for how much time frame? Answer to these questions will give you his premium commitment and you can suggest him suitable plans.



Not every client you come across will have more liabilities than assets. You may come across somebody like Mr. A in above example, who practically doesn't have any liabilities. Still life insurance can be pitched into him to make him aware that he needs to make sure that his asset side will be always higher than his liabilities as long as possible. You may not pitch him life insurance to protect loan liability etc but you can pitch him life insurance to protect his income earning capability / lifestyle, generate more assets on tax favored basis and with a back up cushion on life cover. **Life insurance can not only help protect from the liabilities but it can also help in maintaining the financial value of assets over a long term.**

We have seen one of the examples of how life insurance can be sold even when an individual may not have any liabilities. In the coming weeks we will discuss couple of more examples on selling life insurance to clients in different financial situations.