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LETTER TO THE EDITOR

Insurance industry shares blame for low term insurance coverage

I REFER to the article, "Insurance protection gap here narrows" (BT, Jan 3 2013). The article claims that Singaporeans are under-insured and need more term life insurance. It is based on a study commissioned by the Life Insurance Association (LIA).

It turns out that the insurance industry itself is mostly to blame for the low term insurance coverage in Singapore. There are two reasons for this:

First, insurance companies make it hard to buy inexpensive term insurance. No Singapore insurer sells the most economical, decreasing term insurance, where coverage declines over the years until it hits zero at retirement.

This policy works best for most of us because term insurance becomes extremely expensive in old age, when it is better to simply let it lapse. Besides that, retired people don't really need term insurance because they have no insurable interest. No wage income is lost when a retired person dies.

Level term insurance is the next-best choice, but it is also hard to buy since most insurers sell "convertible term". This makes it easy to convert the term policy to whole life insurance which, of course, is more profitable for the insurance company.

A second reason Singaporeans are under-insured is that life insurers and agents encourage us to purchase the wrong policies: whole life and endowment.

The term coverage in these policies is minimal. Less than 10 per cent of the premiums go towards the term component of the policy. The rest goes into investments as well as expenses that are paid to the insurance company and sales agent.

It is ironic and almost hypocritical that life insurers create this situation and then admonish us for owning too little term insurance. A better outcome would be for insurers to pitch decreasing term instead of endowment and whole life policies.

Will it happen? Probably not. The relative profitability of these policies works against it.

A final concern is that we have invested so much in the wrong type of insurance. Whole life and endowment policies average a whopping $60,000 per household, and are now the second largest investment after our homes. It is probably attributable to the sales skills of the 15,000 agents, bank reps and financial planners who sell it.

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