

**Wealth protection (1)  
Insurance Planning**

## Wealth Protection

- 1) Wealth Protection: Why
- 2) Wealth Protection: What
- 3) Wealth Protection: How

### 1. Wealth Protection: Why

- Basic principles to maintain sustainable wealth
- Technical analysis of risk impacts to wealth
- Risk management method
- How do you handle your risk?
- Conclusion of maintaining sustainable wealth

### 1. How do you define “wealth”?

- All wealth come from “you”

### 1. How do you define “wealth”?

- Using financial ratios to check: Survival ratio and wealth ratio
- Financial Freedom

### Wealth Protection

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    graph LR
      A[Unexpected events occur to the assets] --> B[Financial Loss]
      B --> C[Wealth Subside]
      C --> D[Obstacle to achieve financial goal]
      B --> E[Risk Protection]
      E --> F[Insurance Planning  
Retirement Planning]
    
```

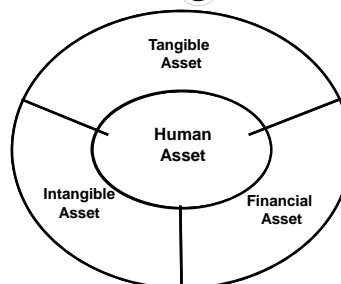
## Wealth Protection

### Insurance Planning

- Planning to protect against possible financial loss from assets
- Assets are human assets and non-life assets
  - Human assets are the one who earns income create wealth.
  - Non-life assets such as house, automobile etc.,

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## Insurance Planning



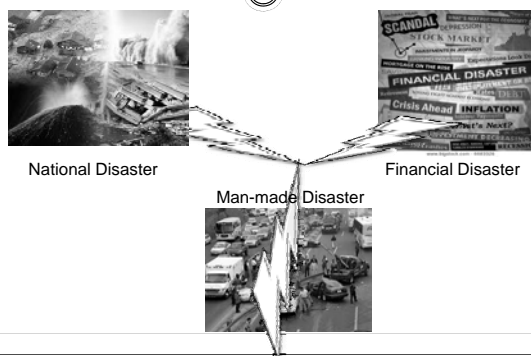
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## Various Situations that Might Have Impacts on Assets

<b>Human Asset</b>	<ol style="list-style-type: none"> <li>1. Cause of premature death</li> <li>2. Inefficient income after retire</li> <li>3. Health problem</li> </ol>
<b>Tangible Asset</b>	<ol style="list-style-type: none"> <li>1. Property Damage</li> <li>2. Robbery</li> <li>3. Loss of assets value</li> </ol>
<b>Intangible Asset</b>	<ol style="list-style-type: none"> <li>1. Professional Responsibility</li> <li>2. Copyright Violation</li> </ol>
<b>Financial Asset</b>	<ol style="list-style-type: none"> <li>1. Asset Devaluated</li> <li>2. Debt defaulted</li> </ol>

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## Various Situations that Might Have Impacts on Assets



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## Risk Management Methods

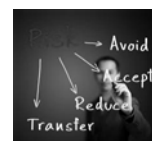
- The process of identifying (what risk), quantifying (how much risk) and managing the risk by taking the appropriate action (or inaction) given your investment objectives and risk tolerance.



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## Risk Management Methods

- 1) Risk avoidance
- 2) Risk reduction
- 3) Risk assumption (risk retention, risk acceptance)
- 4) Risk shifting (risk transfer)




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## Risk Management Methods

**Risk avoidance**

- To avoid risk is to put a **stop to any activities** that might put yourself at risk
- Elimination of hazards, activities and exposures that can negatively affect an assets.




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## Risk Management Methods

**Risk avoidance**

**Examples:**

- Avoid car accident: **not driving**
- Avoid health hazard: **not smoking**

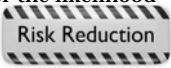



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## Risk Management Methods

**Risk Reduction**

- Reduce the **severity of the loss** or the likelihood of the loss from occurring
- How:**
- Business:** Risks can be reduced by implementation of standard operating procedures
- General:** education and training, establishing security methodologies,


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## Risk Management Methods

**Risk Reduction**

**Examples:**

- Reduce **health risk:** Balanced diet and exercise
- Reduce **car accident:** Careful driving
- Reduce **injury** of car accident: Use seat belts
- Reduce potential **damage in fire:** Smoke alarm, fire extinguisher



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## Risk Management Methods

**Risk Assumption**

- Some situations or activities are **uninsurable and non-transferable**, or the **cost of insurance is expensive**
- When the potential **loss** is very **small**, some people may **prefer to take the responsibility for the loss** or injury that may result from the risk.

**Example:**

- Some drivers may decide not to buy insurance collision for the old car. If an accident occurs, they will bear the cost of repairing themselves





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## Risk Management Methods

**Risk Shifting**

Transfer the risk to other parties by:

- Contractually
- Purchase of insurance

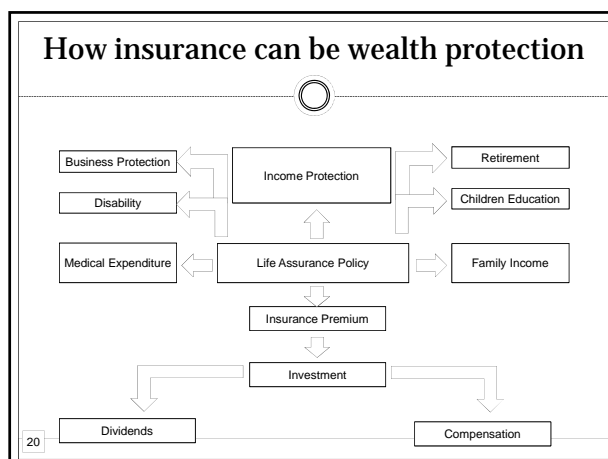



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## Insurance Planning

- How insurance can be wealth protection
- Get to Know “Life insurance”
- Life insurance for tax deduction purpose

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## Get to Know “Life insurance”

### Basic Classification of Life Insurance

Types

- With dividend
- With non-dividend

Kinds

- Individual
- Group

Natures

- Term: have time period for protection
- Whole life : protection period for whole life
- Saving : provide protection and saving
- Annuity: protection for income after retirement

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## Importance Terms

- Insurer – Insurance Company
- Insured – Policy holder, policy buyer
- Insurance policy – Insurance Agreement
- Main Policy – identifies who is an insured, the insured's address, the insuring company, what risks or property are covered, the policy limits (amount of insurance), any applicable deductibles, the policy period and premium amount.
- Rider – subcontract eg.
  - Compensation for disability
  - Compensation for inpatient
  - Medical and surgery expenses
  - Serious illness protection
  - Individual accident protection
- Note to contract : special condition that the insurer will not cover

## Composition of Life Insurance Policy

When purchasing life insurance, think of Main Policy first.

- **For death benefits:**
  - Specific period type..... Protection focus
  - Whole life type.... Heritage focus
- **For death / maturity benefits:**
  - Saving Type ..... Saving focus
  - Pension type..... Spending after retirement focus

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Term	Whole life	Saving	Annuity
• If the insured dies during the term, death benefits paid to beneficiary	• If the insured dies, death benefit paid to beneficiary	• If the insured <u>survives</u> to the end of term, get face value • If the insured <u>dies</u> during the term, death benefit paid to beneficiary	• The insured will get a series of regular payments for whole life or specified period after retirement
• Provide protection, not saving service	• Focus more on protection rather than saving	• Focus more on saving rather than protection • Combination between term and saving life insurance	• Focus more on saving rather than protection
• <u>Surrender value</u> or termination of insurance policy is not possible since there is no cash value	• Possible if there is cash value	• Possible and cash value is higher than that of whole life policy	• Possible if there is cash value

Term	Whole life	Saving	Annuity
• For low income /anyone needs S-T protection, eg. working abroad	• For low / middle income earner	• For high / middle income who wants to provide education or save	• For anyone who wants to have income after retirement
• <u>Premium</u> rate is lower	• lower than that of saving type	• high	• high
• <u>Fixed premium</u> rate within the time • <u>Premium payment period</u> is shorter or equal to protection period	• Fixed premium • Payment period is shorter or equal to protection period	• Fixed premium within the time or shorter • Premium is higher for shorter protection period	• Fixed premium within the time
• Has the same features as non-life insurance	• Has different features from non-life insurance	• Has different features from non-life insurance	• Has different features from non-life insurance

### Other Types of Life Insurance Policy

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**Universal Life Insurance (UL)**

- Focus on protection and saving.
- Premiums are broken down insurance and savings.
- Allow the policy owner to shift money between the insurance and savings components of the policy (within the range specified by insurance firm)
- Return will be paid back to each of the insured's account at the end of the period.

### Other Types of Life Insurance Policy

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**Unit – Linked Insurance Plan (ULIP) : Invest in mutual funds**

- Focus on protection and saving
- Saving amount will be invested within 3 days
- Return paid back at the end of the period based on NAV
- NAV varies from one ULIP to another based on market conditions and the fund's performance.

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### Comparison

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	Ordinary Life Insurance	Universal Life Insurance	Unit-Linked Insurance
<b>Investment policy</b>	No disclosure	Possible disclosure for the insured's decision making	Disclosure
<b>Investment risk</b>	Insurer is the risk taker only	Insurer and insured are risk takers	Insured is the risk taker only
<b>Premium</b>	A combined amount of insurance expense & saving	More transparent (Separated amount of insurance expense & saving )	More transparent (Separated amount of insurance expense & saving )

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### Comparison

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	Ordinary Life Insurance	Universal Life Insurance	Unit-Linked Insurance
<b>Investment</b>	Invest in company portfolio	Invest in special portfolio	Invest in mutual fund
<b>Return to the insured</b>	Fixed rate	Variable rate but not less than the promised rate	Variable rate depending on the price of unit fund (profit / loss)

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### Tax Benefits

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• Premium is the deductible expense for calculation on tax payment

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