

Case Study – overselling of insurance

1. Introduction

A 28 year single female told me that she paid \$1,700 a year for a \$900,000 term insurance policy covering up to age 65.

I told her that that is too much to pay for coverage.

She does not need to insure \$900,000 which is excessive. She does not need cover up to age 65.

2. 20 year Term Insurance

The Compare First website from MAS provides useful information. She only needed to pay \$224 a year for a \$400,000 policy covering 20 years.

After 20 years, her accumulated savings would probably be sufficient to provide for her parents or her own family. At that time, she probably did not need to have any insurance cover.

The screenshot shows a search results page for life insurance. At the top, it says "Showing 11 of 11" and "Sort by Premium (Lowest - Highest)". The results are as follows:

Company	Policy Name	Premium	Coverage
Great Eastern Life	DIRECT - Great Term	\$224 annually	20 years
Overseas Assurance Corporation	DIRECT - OAC Term	\$224 annually	20 years
AXA Life	DIRECT - AXA Term Lite	\$241 annually	20 years
NTUC Income	DIRECT - Term (non-renewable)	\$252 annually	20 years
AIA Singapore		\$267 annually	20 years

Each result includes a logo, a set of icons (wheelchair, plus, minus, person, etc.), and a "View Details" link with a "Compare" checkbox.

Results(1 - 10)

3. Insurance to age 65

If she really needed insurance to cover up to age 65, she could have purchased a \$400,000 policy for an annual premium of \$338 a year

	AXA Life DIRECT - AXA Term Lite Covers Death and TPD to age 65.	You will pay S\$ 338 annually for 37 years, for a policy coverage term of 37 years.
	Great Eastern Life DIRECT - Great Term Coverage Term to Age 65	You will pay S\$ 340 annually for 36 years, for a policy coverage term of 36 years.
	Overseas Assurance Corporation DIRECT - OAC Term Coverage Term to Age 65	You will pay S\$ 340 annually for 36 years, for a policy coverage term of 36 years.
	NTUC Income Insurance Co-operati... DIRECT - Term (non-renewable) Cover Up to age 64	You will pay S\$ 451 annually for 36 years, for a policy coverage term of 36 years.

The website shows a maximum sum assured of \$400,000, which is adequate for most people of her circumstances. For sum insured of \$900,000 (which I do not consider to be necessary), the annual premium should be \$760.

4. Critical illness cover

Why is she paying \$1,700 a year? Perhaps, she has included critical illness cover.

For a critical illness policy covering \$400,000 up to age 65, the annual premium is \$990. So, the coverage for \$900,000 could be \$1,700 a year.

Comparing the difference in premium, it is not wise for a consumer to pay so much more for a critical illness policy.

	AXA Life DIRECT - AXA Term Lite and Termcare Covers Death TPD and CI to age 65.	You will pay S\$ 990 annually for 37 years, for a policy coverage term of 37 years.
		View Details <input type="checkbox"/> Compare
	Great Eastern Life DIRECT - Great Term with Optional D... Coverage Term to Age 65	You will pay S\$ 1,052 annually for 36 years, for a policy coverage term of 36 years.
		View Details <input type="checkbox"/> Compare
	Overseas Assurance Corporation DIRECT - OAC Term with Optional DI... Coverage Term to Age 65	You will pay S\$ 1,052 annually for 36 years, for a policy coverage term of 36 years.
		View Details <input type="checkbox"/> Compare

5. MAS website

The following statistics are available from the website www.tklcloud.com/mas managed by me. I extract the statistics of the insurance companies submitted to MAS and published in MAS website.

The profit margin for critical illness policy is excessively high. This suggests that the claim rate for this policy is low, and the premium rates charged are too high.

Total for 5 years \$000 - Class: Crit III - Ind

Company	Prem	Claim	Profit	Claim %	Prof %
PRUDENTIAL ASS	856,305	136,825	289,898	16.0	33.9
AIA	668,547	163,496	265,125	24.5	39.7
GREAT EASTERN	450,925	158,979	283,844	35.3	62.9
TOKIO MARINE LIFE	193,540	28,432	-625	14.7	-0.3
MANULIFE	145,295	28,305	67,124	19.5	46.2
AXA LIFE	117,430	12,593	10,391	10.7	8.8
ZURICH INT	46,033	8,396	12,531	18.2	27.2
AVIVA	40,406	8,861	34,075	21.9	84.3
NTUC INCOME	32,432	26,778	7,737	82.6	23.9

6. Conclusion

It is in the interest of the agent to push the consumer to buy a big policy with a high premium.

The consumer needs to pay only \$224 a year for a 20 year term policy of \$400,000 which is probably adequate for her needs.

The insurance agent convinced her to pay \$1,700 a year for a bigger policy that provided more than what she really needed. Furthermore, she probably bought a critical illness policy that had a high premium rate and produced a big profit margin for the insurance company.

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