Money Wise

Colin Bloodworth writes about one of the most overlooked forms of coverage

Insurance: Is Your Car Worth More Than You?

How many people have insured their car but not their own lives? No doubt in many cases the car is insured because it is a condition of a loan agreement. In other cases many people could not bear the thought of the expense of repairing or replacing their pride and joy. Yet so often the far more valuable owner of the car goes through life uninsured.

Who needs coverage, and how much?

Life coverage is most critical in the case of young to middle-aged family breadwinners. The loss of the breadwinner can be catastrophic. Some professionals may be fortunate to have life coverage as part of their benefit packages but if it provides coverage of only one or two years' salary, it could be seriously inadequate. For someone with a wife and children a more appropriate figure is likely to be in the region of 10 times the annual salary.

The nonworking wife should not undervalue herself. Her loss would also have a big financial impact on the family.

Young single men and women may argue they do not need life cover as they have no dependents. Yet one day this could change and by then the cost of life cover will be much higher and there is always the possibility that a medical condition will have occurred that precludes them from cover.

Why delays can be expensive

No-one wakes up thinking 'today, I really must buy life insurance'; there is always something more pressing to do so it is easy to postpone. But should a medical condition arise, it may then be impossible to obtain coverage. It if is obtainable, it will be conditional or subject to a heavy premium. I recall a case where a man had to have life coverage as a condition of employment. Unfortunately he had developed a minor heart ailment. He was offered coverage, but at five times the normal premium. He didn't get the job.

Insurance companies are not charitable organizations; they perform an essential service but they are hard-nosed businesses. They want only fit and healthy applicants and will do all they can to ensure their risk is kept to a minimum.

Apart from the result of medical issues, premiums also rise with every year of age so the earlier a policy is started the lower the cost.

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Do you need to cover a large liability?

Life coverage can be used to cover a mortgage or a business loan. It can be used to cover a "key man or woman," so that a company can afford to buy expertise and not allow the business to fail because it depends so heavily on one person.

Life coverage may no longer be necessary once a home is paid for and the family wealth is significant. An exception however is when you come under a regime under which your estate is subject to inheritance tax. British expatriates, for example, may be residents in Indonesia but still legally domiciled in Britain, which means that they could be subject to up to 40 percent tax on their worldwide assets upon death. With tax authorities now far more aggressive, it is not a pleasant thought that they would be pursuing dependents to recover their share of those assets. While the cost to protect the liability will be expensive, it would cost far less than the tax bill the family would receive.

What if you are rejected for cover?

Many are surprised to find their applications for life insurance are rejected, with or without a medical examination, even though they are in the best of health. Rejection may be due to a hereditary issue or a minor condition that could one day become more serious. Occasionally a medical exam will reveal a problem the applicant is unaware of.

It may not be the kind of news you want to hear but on the positive side it's a chance to adjust one's lifestyle or seek treatment for the underlying cause of the rejection. It could even turn out to be life-saving so the trouble taken to apply for coverage will have been worth it.

From the financial standpoint, dependents would now remain at risk. The best way to compensate would be to allocate what would have been the insurance premiums to a savings plan and to make an effort to build up wealth faster than would otherwise have been the case.

You need life coverage but where do you start?

This is where it gets confusing. The most expensive insurance may or may not be right. We'll look at this next time.

Colin Bloodworth, director of PPI Indonesia, has spent over 20 years in Indonesia. If you have any questions on this or related topics you can reach him at indonesia@ppi-advisory.com