



ROSE

Financial Planning

Financial Services - Insurances and Assurances – Ignorance is NOT bliss!

Part 1

Would you drive a car without car insurance?

If you have answered in the negative, that is because of various reasons. Firstly, you accept it is the law and to do so is not only crassly stupid but illegal. Secondly, because you accept the responsibility that is placed on you to protect, not only yourself and your asset, but also your fellow drivers on the road. Thirdly, you understand what the policy provides for. And then it is accepted as an every day part of life and is in our mindset. Car = car insurance. Most people would not even have to think about this; it's a 'no brainer' as they say! Similarly, if you buy a house you would always want buildings and contents insurance, again to protect against life's little foibles!

So why is it then that, when it comes to protecting the most important assets that you have, your health and income for your and your family's benefit, that suddenly a blanket of apathy descends over reason

The answer is simple enough to give. It's a combination of reasons actually! Firstly, it is not seen as mandatory. If such protection were made compulsory by law, such as car insurance, it would long have been accepted by now. And then there is the cost versus the benefit. Most people have this strange attitude that their health is permanent and that they will never suffer from an illness or an accident. Odd isn't it but that is the reality that we financial advisers have to deal with. And apathy is a tremendous brake in taking action. Why do we not do more in charitable works? Apathy. It's a comfort zone in part, it's not on our doorstep and therefore doesn't really affect us, and also there is a belief that we cannot change certain things in life. But, ironically, it is that one part of man that has changed the shape of the world in which we live; the ability to 'think outside the box' and make a difference!

So why then, if we can change the world, why do we not look after the most basic yet important people in our lives; ourselves and our family? Again, apathy and, arguably, ignorance.

There is no easy fix to this, only an acceptance of the responsibility and an identification of the risks. And the latter are very real! We have all heard stories of families that have been decimated by the loss of family members and, whilst the personal impact can never be replaced, the financial impact can be.

And that is why certain insurances and assurances have been developed; to help control the negatives.

So, rather than go into a tirade of what the ins and outs of these policy types are, I think I will give a simply real life example as to the impact of having or not having the relevant protection in place. It should make it that much more palpable to you, the reader. You will actually know about these policy types and why they are there i.e. what benefits they offer, so we can arguably brush the 'ignorance' argument away. What is left is the 'apathy' part.

Before I get into these though, I need to explain what an insurance is as opposed to an assurance. Simply, an 'insurance' is to protect against something that may happen. Car Insurance, for example. 'Assurance', on the other hand, is protection against something that WILL happen. Life Assurance (not Life Insurance as some people assume) provides for something that is certain; we all die! It is more a question of when, of course!, or how.

Life Example 1 – Life Assurance

Not so many months ago a lady, aged I thought late 40's and a youngish lad, walked into the office requesting to speak to the manager. That responsibility falls to myself and, having heard the introduction and, more to the point, seen the ladies face, I knew immediately that something was not right! The lady had an ashen face and my years in life let alone in financial services told me that there was a crisis in her own life that needed urgent attention.

I wasn't wrong! She announced herself as a client of a colleague of mine for whom we had arranged a mortgage on the family home here in Spain in early 2005. She wanted to know whether we had arranged life assurance for the mortgage as her husband had died suddenly a week or two before. On checking the client's file we found that we had discussed the protection with the husband but he had declined cover. His reasons were unclear; our notes suggested a general apathy to the whole issue and, despite numerous prompts from us, he never responded.

The result? The widow had no earned income in her own right, he being the breadwinner, and she was left with a 70% mortgage for which she could not pay the monthly repayment. I believe it was likely that she would have to sell the home and return back to her family in the UK. That was the impression that I had from the meeting.

There are several points that I would make at this point!

Firstly, that little episode not only hurt me but it has left a permanent scar. I have a lot of them, I can assure you! It is nigh impossible to do our job well without being personally involved in each of our clients life situations; we really buy in to what we are doing for them. So, when something like this happens, we feel partly responsible that we allowed it to happen.

The reality is of course that we can never insist on a client taking any action against their own will and, in this case our notes were clear; the husband and himself failed his family, not us!

He can be understood in not taking the right action; the life assurance policy, that was offered to him. We insist that such protection is discussed and documented and you cannot arrange such a large debt without having to address the consequences of something going wrong! Such a policy comes at a cost; it is only when the policy is successful in providing the relevant protection that the cost is put into perspective. Would the gentleman have taken the policy if he knew his destiny? Of course! But, and this is another element of this case that shook me, he was only in his mid 40's. Younger than me! And, sometimes, we all think that we will live forever and these occurrences happen to others and not to ourselves. He had no inkling of what was about to happen to him. There were no signs, just the consequences!

Make a point of reading this article in next week's issue as I will cover off in part 2 of this subject some other areas of protection that you need to understand and decide whether they are right for you.

See www.rosefp.com or call 0034 677 874 948.

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Part 2

Last week I gave some thoughts as to why it is, based on my personal and professional life experiences, as to why it is that certain insurances are readily accepted as mandatory, such as car insurance for example, whereas others, as important if not more so, are ignored.

There is another reason to those given and it comes down to priority. Because you have no alternative than to have car insurance if you want to drive, the cost is deemed a priority to come out of your monthly wage packet. If it is a choice between meeting the car insurance direct debit or going out for a meal, there is no choice! It is a cost that is built into the budget in the same way as the mortgage, rent, electricity and food are. What is left is what is spent on meals out, not the other way around!

And this is so important when it comes down to why most people do not adequately insure themselves and their income to protect all that they hold dear; their health and their family. If it was a choice between a meal a month or provide financially for life's risks it should not be open as to which to decide upon. And yet we do! It is the importance of the subject that is not accepted, yet we accept the risks and hope that we and our family do not suffer as a consequence. If you think that is shocking, then you understand what we, as financial planners, have to deal with on a daily basis. 'You can take a horse to water', as the saying goes!

So the only way really that I can drive home the importance of self protection is to 'paint a picture' and I have decided to do with some real life examples.

Last week I covered off basic life assurance, normally used for basic mortgage and family protection purposes. Fortunately, this is a class of policy that is understood, and yet we still find that brakes are applied by too many people when it is discussed even as part of arranging the finance for the purchase of their home! Some will not see the need to protect the family home!

Arguably, income protection is far more important, for it is the monthly pay packet that meets all bills including paying the life premium. Without income, most people are in trouble in a very short period of time. And yet income protection is not readily understood and certainly not accepted as a 'need'.

So I am hoping that these two examples give a little insight as to what the effect of having them or not mean in real life.

Life Example 2 – Critical Illness Insurance

This class of protection is the newest generic type having been introduced in the States some 30 years or so ago. The Americans call it 'Dread Disease'; self explanatory really!

Like Life Assurance, it provides for a lump sum payment, but on the diagnosis of an illness as opposed to being paid on death.

It is there for two reasons; firstly, it can provide the cash to buy in immediate and urgent treatment for the ailment; cancer, for example. Alternatively, or in addition, it can provide the funds to ease the consequences of a lost income or eliminate a debt.

This is a sad story but it partly softened by the fact that we had a critical illness policy in place and enough funds were released to clear the family's mortgage and provide a small capital base to assist with the loss of income.

Some good friends of mine, both accountants and financially astute, had the good sense to prepare for worst case scenarios. The wife, again only in her early 40's, was

diagnosed with MS and, over the years since, we have seen her deteriorate into a shadow of her former self. Yes, the family was decimated by the effects of this terrible debilitating illness, but the fact that they did not have to address the finance consequences as well as the awful personal ones, perhaps may have helped a fraction! They still in the same home; they have repaid their mortgage and the husband only needs to work part time. He can spend more time in caring for his wife.

The result of this example, as awful as it is, could have been worse if the insurance policy was not there!

Life Example 3 – Income Protection or Mortgage Payment Protection Insurance

The types of policies provide for a lost income, either temporarily or permanently, as opposed to the lump sum payments of critical illness or life assurance. And the policies cover pretty much most eventualities that created lost income, including unemployment.

This case relates to a client of some 20 years ago, but I can still remember the details as, once again, I felt that I had let the client down!

The client in question was a single lady and working for the Police, attached to the local council office in an administrative role. I had arranged mortgage financing for her.

As a single person, with only the one income to rely on, it is always critical for an advisor to explore the effect of the loss of that income. Her employment offered good benefits and a pension in the event of permanent disability so the client and I decided that protection was not necessary.

This actually a common oversight with large employers and pension schemes; that, in the event of a problem arising, they will always look after their staff. The reality is far different!

My client had a car accident which resulted in a neck problem that prevented her from sitting a desk for any real length of time. The employer decided that it was affecting her working ability and dismissed her. That's right! She lost her job and, to make matters worse, the supposed strong pension disability benefits were not payable either.

The result? She got into mortgage difficulties but found alternative work in the end, albeit at much less of an income.

This case sticks in my mind because, foolishly, I made the same mistake as the client. I 'assumed' that such a good employer would always support their own and there was no need for additional income or mortgage payment protection insurance. How wrong I was!

The primary lesson I personally have learned over the years in my role as a financial advisor is never, never assume anything will positively fall in favour of the client and always look to the worse case scenario. It's always better to have the protection policy than suffer the dreadful consequences of not! The examples above prove that beyond doubt! I always take a tough stance on this because I do not want to see any client of mine in a position where they are compromised because not enough time went into discussing the risks to their health or livelihood.

Take a few minutes to review your own position. If you want any input, the qualified and regulated advisers at Rose Financial Services are here to assist you.

See www.rosefp.com or call 0034 677 874 948.