



RISKS AND THE RICH

The rich faces several types of risks, and often if not managed properly, will cripple their financial capacity severely. Financial planner David Choo highlights the problems, and offers his solution.

If, indeed, the rich get richer, and the poor get babies, then, the rich have nothing to worry about.

But the rich also face risks and would benefit more from proper risk management.

A thorough risk management covers the full spectrum of techniques like risk avoidance, risk reduction, risk absorption and risk transference. Insurance features only in the last technique of risk transference.

What do the rich face that could cause them to suffer severe financial consequences?

- A whole gamut and this is by no means exhaustive.
- Early death causing loss of good income (Is it true the rich die young?)
- Disability causing loss of income and increased medical and living expenses (The rich do have

the means to take part in dangerous and extreme sports)

- Medical expenses (At unsubsidized rates, if ever a means test is applied)
- Legal suits – arising from business, professional or personal action
- Business failures
- Investment failures
- Robbery, kidnapping, car-jacking, blackmail
- Cheated by business partners, friends and family
- Standing as guarantor and being liable

Those who have become rich would have to protect both income and asset. Not all risks can be insured but, as far as possible, the following risks should be protected:

- Health protection
- Asset protection
- Legal protection
- Business protection

HEALTH PROTECTION

Despite all the new drugs and keep fit regime, ageing and health deterioration

can only be slowed down at best by proper dieting, exercise and healthy living. Risk transference should be explored through the following insurance:

- Basic medical (e.g. Hospital and Surgical)
- Major Medical (e.g. MyShield)
- Critical Illness (e.g. 30 Dread Disease Cover)
- Long-term Care (e.g. ElderShield)

Much has been written about these alternative medical plans and a good independent financial adviser should be consulted to recommend the most suitable and competitive.

The rich would probably prefer the plans with life-time cover and without limit (i.e. as charged). Where desirable, a medical plan should also be worldwide to take care of possible change of country of residence or work.

It is important to distinguish between plans that pay on "indemnity basis" and plans that pay a lump sum benefit (e.g. critical illness), or a benefit sum per day (e.g. hospital cash benefit plan). There is no point of having medical plans on indemnity basis which overlap and have "co-ordination of benefits", i.e. you will not be paid more than what you have incurred. It is important to look at details like deductible (the amount you have to pay yourself), co-insurance (the percentage you have to shoulder for the amount that is claimable) and limits of payment (the maximum amount the insurance company is prepared to pay) for individual expense items, per year and per lifetime. The rich can explore getting cheaper premiums by shouldering bigger deductibles.

ASSET PROTECTION

The largest assets for most rich people are their owner-occupied property and possibly one or more investment properties. House owner's policy (for the building) and householder's policy (for contents), or packages covering both, are a must to protect against fire and a host of other extraneous perils (EP) like earthquake, storm, flood, aircraft falling, burst pipes, etc.

Because of the high fire safety standards and security in Singapore, the probability of destruction of property by fire and EP is low. Many are lulled into complacency and do not insure their property, or only insure the amount owed to the bank. The principle to adopt is to insure against what can cause severe or catastrophic loss regardless of the low probability, because low probability will translate into cheaper premiums anyway.

Another danger is under insurance and, for investment properties, failure to take up a property owner's policy to cover the owner's liability vis-à-vis the tenant.

LEGAL PROTECTION

No matter what age or how rich a person is, there are potential legal liabilities posed by his actions, that of his pet animals, and discharge of duties as professionals, as directors and as business owners.

Personal liability insurance to protect oneself against injury caused to another person or damage caused to another's property is usually given free up to \$1 million cover under a house owner's package policy.

Professional indemnity insurance (PI) is a must for those in professions where due care and diligence are expected.

Directors' and officers' liability insurance (D&O) is becoming more in demand, especially with the insistence of independent directors. Directors face onerous duties and responsibilities by common law and under the Act.

Standing as a guarantor for scholarships and loans impose financial risks and must be entered into advisedly. The Biblical advice is, never be a surety or guarantor.

BUSINESS PROTECTION

Rich business owners face many risks commonly faced by business. This is the area of general insurance and includes liability under common law and Workmen's Compensation Act.

Business continuation is always a concern.

With age, the risks of death and disability increase rapidly. Insurance-funded buy-and-sell agreements should be looked into to ensure smooth business continuity, particularly for sole proprietorships and partnerships which are not separate entities and die with the death of the proprietor or one partner. Key person insurance is important for all business which are highly dependent on certain individuals to indemnify the corporation in the event of death or disability of key persons.

To wrap up the matter, the rich who want to play it safe may need to look at other risks that may apply to individual circumstances. For example, pre-nuptial agreements and family inheritance strategies may be necessary.

Businesses with investments abroad will have to consider political risks and currency risks.

Proper estate planning (e.g. wills, trusts and gifting) will prevent family disputes and paying a large estate duty.

For the rich to stay rich, effective investment planning and retirement planning would also be essential to let their money work for them, and not against them.

The adage must be taken to heart – it is hard to get rich, it is harder to stay rich. **SI**

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