

# **FINANCIAL PLANNING ASSOCIATION OF MALAYSIA**

## **INSURANCE PLANNING AND ESTATE PLANNING**

### **MODULE 2**

#### **Course Objectives**

This course is designed to help candidates understand the fundamental concepts of risk management, insurance and estate planning and gain the knowledge about various personal insurance products, both life and general, which are related to financial planning and estate planning tools such will, power of attorney and trust as well as taxation issues affecting estate planning. The candidates are expected to be able to apply these concepts and understand how to formulate appropriate financial plans in assisting their clients.

#### **Course Outline**

##### **Topic 1: Fundamental Concepts in Risk Management**

- Understanding risks – comparing pure and speculative risks
- Categories of pure risks – personal, property and liability risks
- Related concepts of risks – perils and hazards
  - fundamental and particular risks
- The Risk Management Process
- Risk Management techniques and insurance

Candidates should be able to understand the nature of pure risks and the related terms used in describing the various aspects of these risks. The three categories of pure risks affecting individuals should be understood. Candidates are expected to be familiar with the risk management process, with particular reference to the various techniques that may be used. Insurance as a favourable risk management technique must be appreciated. Candidates should know how to classify risks into pure, speculative and insurable risks. They should also know how to implement appropriate risk management techniques to different types of loss exposures.

##### **Topic 2: Insurance Fundamentals**

- Understand the concept of insurance
- Criteria of insurable risks
- Life and General insurance companies and reinsurers
- Marketing of insurance products – the various intermediaries

- Pricing fundamentals – mortality and morbidity factors
- The basis of determining life insurance premiums

Candidates should understand the basis of insurance being a contract of risk transfer. The criteria of pure risks for an insurer to consider offering an insurance coverage, must be understood. The role of life and general insurers and the common types of policy contracts that they offer to individuals must be made familiar to candidates. The importance of mortality and morbidity rates as well as the various components to determine insurance premiums must be appreciated by candidates.

### **Topic 3: Legal Principles in Insurance**

- The role of legal principles and legislation in insurance
- The law of contract – elements of a contract and how they are seen in insurance policies
- Legislation that influence legal principles in insurance contracts
- The unique legal characteristics of insurance contracts
- The law of agency – the principal-agency relationship
- The law of tort – negligence and liability contracts

Candidates should understand the fundamentals of the law of contract as they are applicable to insurance policies. The combination of legal principles and legislation must be familiar to the candidates. Utmost good faith principle and its implications in an insurance contract should also be known. Agency law and the law of tort with particular reference to negligence is important for the understanding of candidates.

### **Topic 4: The Role of Insurance in Financial Planning**

- Insurance as the most suitable risk management technique for individuals
- The responsibility of a financial planning professional in the risk management process
- How much of life insurance is needed
  - settlement of debts and liabilities
  - maintenance of dependents and the 'Human Life Value' Concept
  - capital sums required for specific needs

Candidates must know that as a risk transfer mechanism, insurance plays a dominant role in the financial management of individuals as well as business owners. The roles of the financial planning professional in identifying the various risk exposures as well as estimating the amount of coverage needed, particularly for life insurance are discussed. The various needs and the role of life insurance as funding mechanism must be understood. Candidates must be able to work out simple calculations to determine the required needs.

## **Topic 5: Factors Affecting Life Insurance Needs**

- The important factors of premature death and total permanent disability and its impact on the individual and dependents
- Factors that influence needs – age and occupation
- Life insurance needs for business owners and business organisations
  - “key-person” indemnification
  - loans/debts cancellation
  - retirement/death benefits
  - business continuation by “buy-out” arrangements
  - group insurance
- Trust policies – its advantages to policy owners
- Assignments of insurance policies – its uses and advantages to individuals

Candidates must know the various factors, the influence and the needs of life insurance as a funding mechanism to individuals. The importance of permanent disability and the financial implications must be understood. The role life insurance plays to business owners and organisations is increasingly important. The advantages of statutory trusts and assignments and the role they play in fulfilling life insurance needs must also be familiar to candidates.

## **Topic 6: Understanding Life Insurance Policy Contracts**

- Types of life insurance products
  - Conventional/traditional life insurance – term, whole-life and endowment
  - Investment-linked life insurance and the relevant regulations
  - Disability (income protection) insurance
  - Annuities
  - Takaful
  - Critical illnesses/dread diseases
- Comparing traditional and investment-linked insurance
- Participating and non-participating contracts
- Bonuses – reversionary and cash bonuses
- Takaful principles and the growing importance of takaful contracts in Malaysia
  - comparison with conventional policy contracts
  - principles in conventional contracts that are unacceptable to Shariah principles

Candidates should be familiar with the common policy contracts, their features and main advantages to the policy owners. A better understanding is achieved by a comparison of the various contracts and their specific uses. It is also important to understand the significant differences between traditional and investment-linked insurance policies. Candidates must also know the important regulations that affect investment-linked policies.

## **Topic 7: General Insurance Policy Contracts**

- Fundamental principles of general insurance contracts
- Special features of general insurance policies
  - indemnity, co-insurance, average clause, subrogation principle, proximate cause
- Basis of claim payments
- Common insurance policy contracts for individuals
  - Personal Accident
  - Fire
  - Houseowners & Householders
  - Burglary
  - Motor
  - Professional indemnity
  - All risk
  - Public liability

Candidates should be familiar with the fundamental and special features of general insurance contracts that are frequently purchased by individuals. The basis of determining the insured sum and the principles adopted by insurers when paying out claims must be understood. Common policy contracts, their benefits, perils covered, exclusions and other features must be highlighted with reference to individual policy owners.

## **Topic 8: Health Insurance**

- Medical insurance and the various types of coverage available
- Comparison with critical illnesses/dread diseases cover
- Common features of medical insurance contracts in Malaysia
- Use of medical insurance cards for admission into hospitals
- “Major” medical insurance
- Health withdrawal scheme provided by the Employees Provident Fund (EPF)
- Purchasing medical insurance in Malaysia

Candidates must realise the importance of medical insurance in financial planning. The various types of coverage and their scope as well as limitations must be understood. Common misconceptions and exclusion clauses in medical insurance contracts must be noted. In the purchase of medical insurance, candidates should be able to advise individuals help to cater for their specific needs accordingly.

## **Topic 9: Annuity Policy Contracts**

- Types of annuities and their features
  - Immediate Annuities
  - Deferred Annuities
- Other types of Annuity contracts and their specific uses
- General principles of Annuity payments
- EPF Conventional Annuity Scheme

Candidates should be able to identify the main features of each type of annuity and their specific uses. As annuities are increasingly being used as retirement schemes the options available to the individual must be understood.

## **Topic 10: Legislation and Rules in the Insurance Industry**

- The basis of legislation and objectives of supervision in the insurance industry
- Important requirements in the Financial Services Act 2013 and the Islamic Financial Services Act 2013 that affect licensees
- The role of Bank Negara Malaysia (BNM)
- The role of Self-Regulatory Organisations
- Life Insurance Association of Malaysia (LIAM)
- Income Tax Act provisions relating to premium paid and claim proceeds received by individuals and business organisations

Candidates must understand the importance of legislation, regulation and supervision of the insurance industry. Significant requirements in the Malaysian Insurance Laws must be made familiar to candidates because these influence the operations of insurers in the industry. The role of BNM and Self Regulatory Organisations with LIAM as an example must be noted. Candidates should also be familiar with the tax issues relating to insurance.

## **Topic 11: Consumer Protection and Insurance Industry Codes of Practice**

- Specific provisions in the Insurance laws that provide protection for policyowners and claimants
- Understanding – cash/surrender values
  - paid-up options
  - non-forfeiture privileges
- Nominations – its effects and advantages
- BNMLINK and BNMTELELINK
- Complaint departments of insurance companies
- Financial Mediation Bureau
- The role of Insurance Brokers
- Choosing an insurer

- LIAM's Code of ethics and conduct

The law and regulations provide a strong basis of protection to consumers and policyowners. Candidates should be familiar with all the important mechanisms and organisations in the industry that maintain the spirit of "consumerism" with reference to the purchase of insurance products.

### **Topic 12: Estate Planning Fundamentals**

- What is estate planning
- Estate planning purposes and objectives
- What is an estate
- The players in estate planning
- The process involved in estate planning
- Strategies of protection, preservation and distribution of wealth
- Overview of estate planning instruments commonly used
- Taxation implications of estate planning

Candidates should be aware that estate planning is an important part and subset of financial planning both for individuals and business owners. They should have a basic understanding of the concepts and planning process of estate planning.

### **Topic 13: Wills and Will Planning**

- The definition of a Will
- Types of Wills
- Law of testacy and intestacy: Distribution Act, 1997, Probate and Administration Act 1959, Wills Act 1959, Islamic law of inheritance
- Planning considerations in Will planning
- Steps and legal requirements in Will planning
- The probate and administration process
- Will planning for business owners

Candidates must understand that will planning is fundamental to the estate planning process. As such, they should be well versed in the concepts, legal requirement and procedural aspects in will planning for the individuals and business owners of various types of businesses.

## **Topic 14: Trusts**

- The characteristics and components of a trust
- Methods of classifying trust
  - Express trusts
  - Implied trusts
    - Resulting trusts and Constructive trusts
    - Statutory trusts
- Types of trusts and their characteristics
  - Fixed trusts vs. Discretionary trusts
  - Living trusts vs. Discretionary trusts
  - Living trusts vs. Testamentary trusts
  - Revocable trusts vs. irrevocable trusts
  - Funded vs. Unfunded trusts
- Application of trust instruments in estate planning and advantages of a trust
- Rights and remedies of beneficiaries
- Taxation of trusts

Candidate should be familiar with the various types of trusts, which is another important tool of estate planning, and uses of trust instruments to meet the estate planning needs of the client. Candidates are also required to have a general understanding of the rights of beneficiaries of a trust and remedies available in different circumstances. There will be situation a financial planning professionals may faced with the difficulty of deciding between complaints that are groundless and should not be pursued but where the clients understanding of the problem can be aided, and those which have a basis worthy of further investigation by a solicitor, where referral is appropriate.

## **Topic 15: Powers of Attorney**

- Definition and characteristics of Power of Attorney
- The Power of Attorney Act, 1949
- Procedural aspects of the Power of Attorney
- Duties and powers of the Donee

Candidates should be familiar with various types and uses of the power of attorney to meet the estate planning needs of the client. A power of attorney, coupled with a trust, comes in useful in handling the affairs of the incapacitated and disabled individuals.

## **Topic 16: Duties and Power of the Personal Representative**

- Estate administration
- Duties of a Personal Representative
- Duties of a Trustee
- Powers of a Personal Representative or Trustee
- Investment management of trust assets

Candidates should be familiar with the duties and roles of the personal representative of a deceased client. A personal representative may also act in the capacity of a trustee who has the power to invest on behalf of the deceased client. This topic also covers the “prudent person” test and the system of “authorized trustee investments”.

## **Topic 17: Special Estate planning issues for business owners**

- Types and characteristics of businesses
- Business continuation problems of owners: Death, disability and retirement
- Solutions to business continuation problems: The buy-sell concept?
- Types of buy-sell plans
- Valuation of businesses: Methods, discount factors and selection
- Funding options: Valuation principles, role of business insurance and tax issues
- The key employee factor in business owner and non-owner-employee
- Tax implications of estate planning for business owners

Candidates should understand the various types of problem faced by business owners in succession planning and planning for their estate. Business succession issues are common among small business owners and financial planning professionals should be conversant with these problems and the types of solution available to best solve these problems.