

What is Life Insurance?

- **Q: Okay, let's get right into our topic for the day. To kick us off, please would help us understand what a life insurance policy is?**

A life insurance policy is a contract between policyholder and a registered insurer, for which you will be required to pay monthly premiums to the insurer, and in exchange the insurer will pay the beneficiaries listed on the policy a benefit amount when a risk event occurs. A risk event could be death, disability or suffering from or diagnosed with a critical illness. This benefit amount is often in the form of a lump sum payout or can also be paid as a monthly income.

- **Q: Are there different types of life insurance?**

Yes, there are. There are also other types of long-term insurance products that will protect your family and loved ones when other unforeseen events occur. Broadly these are funeral cover, life cover, disability, and critical illness, and income protection. We will be focusing on life, illness and disability for the next few episodes.

- *Life cover* provides higher amounts of cover compared to funeral cover to assist your family members to meet their expenses after your death.
- *Disability cover* will provide a payout to assist you financially if you to become disabled and no longer able to work. *Critical illness cover* will provide a benefit amount if you are suffering from or diagnosed with a critical illness claim event. All of the claim events covered by the policy will listed in your policy contract.
- Where disability, death or critical illness cover provides a once off payout when you claim, *salary protection* will pay out a percentage of your salary each month in the event that you are no longer able to work.

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- **Q: Who can be covered by life insurance?**

You can insure yourself, the life of a spouse or life partner, or another person, such as an employee or a business partner as long as you can prove that their death would impact you financially. This is a question of what is called insurance interest in the insurance industry.

- Here is a quick list of the people you can generally cover in a life or funeral policy:

- Spouse, life partner or fiancé
- Child (with limited amount of cover)
- Key employees
- Anyone who supports you financially
- Business partner
- Person who owes you money

Insurable interest- The interest that a person has in something such as a particular property or another individual, which means that the person would suffer a loss should that property or individual be harmed. Imagine buying building and content insurance for your own house but not for your neighbour's house. You would not have an insurable interest in any financial loss as a result of damage to your neighbour's house.

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- **Q: I am certainly learning some new things today. This discussion on insurable interest makes me think about other possible reasons a claim may be rejected. Would you be able to share some insight with us about what a common exclusion from life insurance policies may be?**

There are a number of common exclusions on life and disability policies that may prevent you or your family from claiming for your death, disability or severe illness. Any exclusions on your policy will be outlined in your policy wording, but if you are unsure about this or have any questions, you can contact your insurer for assistance.

Let's look at a quick list of some common standard exclusions:

- Suicide
- Your participation in dangerous activities or wars or riots or your living in a dangerous place
- Your participation in illegal activities
- Consuming too much alcohol or taking drugs
- You harming yourself
- Radioactivity or nuclear explosions – particularly for disability or dread disease benefits
- Not following medical advice – particularly for a disability income benefit

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- **Q: How can a life insurance policy help me or my family?**

As the breadwinner of the family there are a number of family members who rely on your income to meet daily expenses. The different types of life insurance products provides cover so that should an unfortunate claim event occur, the benefit amount can be used to cover your loved ones' living expenses and long-term needs, including education costs and home loan repayments or in the case of disability and critical illness used for supplementing any loss of income and additional expenses that may arise from the condition suffered.

When you hear the term fully underwritten it means that when you apply for the cover, the insurer gathers and analyses more information about your health and lifestyle through questions and medical examinations. This means the healthier you are and the better your lifestyle, the lower your premium will be. We will be discussing the underwriting process and compare a fully-underwritten and partially or semi-underwritten product.

There are products where you can add disability and/or critical illness to your life cover, all on one policy.

- **Q: Life and funeral cover is always spoken about at the same time. How is Life insurance policy different from a funeral policy? And do they do different things?**

Life cover usually provides a higher benefit amount than a funeral policy. A funeral policy is designed to pay out enough funds to only provide for a funeral, but will likely not be enough to provide for family members' needs and expenses for an extended period of time.

Whereas life cover is intended to replace the income you were earning/bringing into the household each month. Life cover is therefore usually a much larger pay out than a funeral policy to ensure that your loved ones you leave behind receive enough funds to pay school and university fees for children, settle long-term debts such as a home loan, or draw a monthly income to provide for continued living expenses.

Another important difference between life and funeral policies is that funeral cover is normally referred to as being non underwritten, whereas life insurance will often be underwritten. The process of underwriting refers to having certain medical tests done to assess your health. This may include blood tests, cholesterol tests, having your blood pressure taken, and having an ECG exam (cardiac/heart health examination). This means that funeral cover is normally very quick and easy to purchase and get cover for, whereas life insurance/cover can take up to a few weeks before you will be covered as the underwriting process will need to be completed first.

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- **Q: Okay, we have spoken about what life cover is and how this can help us and our families, but if someone is listening to us today and wondering about how to figure out or understand how much life cover they need, how do you know how much life cover is right for you and your family?**

Determining exactly how much life cover you will require can be tricky. Speak to your financial advisor or insurer in order to help you calculate how much insurance cover will be enough to give you the peace of mind so that your loved ones will be taken care of after you pass away. Think about:

1. Your budget right now: Once you have deducted expenses, such as living costs debt repayments and other insurance policies you may have, calculate how much money would be left in your budget to pay for monthly premiums on a life insurance policy. How much you are able to afford each month in your insurance premiums will assist you in determining what kind of life policy you are able to take out and how much cover you will be able to receive. Keep in mind that your insurer may increase your monthly premiums annually.

2. How much will your dependents require to live on and for how long? Consider what the monthly income requirements are of your family members. In other words, consider the amount of earnings you were contributing each month or week to your household. Determine the cost of supporting your family members, and any additional dependents (as well as how long you think you will need to financially provide for them) with inflation. Your life cover policy will need to replace this monthly income in your absence.

Your total value of your life cover policy will need to be able to provide for these living expenses of your family members after you are gone.

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3. Do you have any debt that will need to be repaid once you pass away? Consider any debt that you may have, such as a home loan, vehicle finance plan, or credit card loans, and whether your family members will be able to continue paying this debt were you to pass away. If not, consider providing enough life cover payout for your loved ones to pay for their expenses and settle all of your outstanding debt.

You could also consider a credit life insurance policy, which will pay off your debts were you to pass away.

4. Do you have any savings that could be used to support your family members? Consider how much money you have already saved that could be used to support your family members were you to pass away. You can reduce your total amount of required cover by this amount. Also consider the future savings needs of your loved ones. For example, your spouse might be saving for retirement and you may need to save for your children's education. If you were to pass away, and no longer be able to contribute towards this savings goal, what could happen? You may need to increase your total life cover value in order to provide for these future savings needs of your loved ones.

A financial advisor will perform a financial needs analysis to determine how much and which insurance cover you require to give you the peace of mind that you and your family are adequately covered should a claim event occur.

- **Q: How can I save money when buying life insurance?**

Buying a policy early in life is also a good way to ensure a lower premium. The older you are, the higher the premiums, and the more risk you have of developing a health condition that could increase your premium even more or disqualify you from getting coverage at all.

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- **Q: Once I buy the policy, will I even need to change my insurance coverage?**

If you have any significant changes in your life circumstances, such as if you:

- Are recently married or divorced
- Have or adopt a child (or became a grandparent)
- Have children or grandchildren who are about to enter college
- Provide care or financial help to a child or elderly parent
- Receive an inheritance
- Retire (or your spouse retires)
- Start a business
- Change or lose your job or salary

- **Q: How long does it take to get my policy?**

That depends on the insurance company and the type of coverage that you applied for. Generally speaking, the underwriting process for a traditional, fully underwritten process can take anywhere from two to eight weeks. A no-exam or something closer to a semi-underwritten policy can be issued from a few minutes after submission to about two weeks. The delivery time is about a week after the policy's approval. We will be talking about all these different types of life insurance policies in coming episodes, so keep dialing in each Monday.

- **Q: What is Key Person Life insurance?**

Key person life insurance is protection a business owner can purchase on key employees to cover premature death. A key employee is a valuable asset to a company because he/she holds a special talent or skill that is hard to replace. For instance, if you own a tech company and have a highly skilled developer whose death would essentially cause your business to diminish overnight, you may consider key person life insurance.

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