DIRECT PURCHASE INSURANCE

PART 1 – FACT SHEET

What are Direct Purchase Insurance (DPI)?

DPI are life insurance products that you can buy directly from insurance companies, without paying any commissions. You do not need to pay commissions because these products are sold without any financial advice. Please read this fact sheet together with the cover page, policy illustration, product summary, bundled product disclosure (if applicable) policy contract[1] and product brochures (if available) carefully before buying any DPI. A checklist is also provided to help you in your purchase of a DPI.

What are the types of DPI offered?

There are two main types of DPI available:

(a) Term life with Total and Permanent Disability (TPD) cover and an optional Critical Illness (CI) rider
(b) Whole life with TPD cover and an optional CI rider

TPD is the complete inability to engage in any business/occupation, or total and irrecoverable physical loss, due to accident or sickness.

What is the difference between a term life DPI and a whole life DPI?

A term life DPI provides insurance protection for a fixed period of time and may be suitable if you wish to provide for your financial dependants until they become self-reliant. There will be a payout if you pass away, or suffer a terminal illness during the coverage period. Terminal illness is the conclusive diagnosis of an illness that is expected to result in death within 12 months. In comparison, a whole life DPI generally provides life-long insurance protection.

As term life DPI are pure protection policies with no savings or investment feature, they are generally cheaper than whole life products. However, this also means that a term life DPI has no cash value when the policy expires, or if you end the policy early.

[1] As life insurers only provide policy contracts upon request, you may wish to request for a copy of the DPI policy contract to find out more details about the policy, such as the exclusion clauses and other terms and conditions of the policy.

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Whole life DPI are typically more expensive than term life DPI as their premiums are invested to build up cash value in addition to paying for insurance coverage. If you end a whole life DPI early, there may be a cash value (known as surrender value). However, there may be no cash value if you end the policy in the first few years as most of the premiums you have paid would have been used to pay for the initial administrative expenses incurred by the insurers for setting up the policy. For more information, visit www.moneysense.gov.sg/buying-direct-purchase-insurance

Should I buy a critical illness rider for my DPI?

Once you have chosen a term or whole life DPI, you may choose to add a CI rider. The CI rider pays out the full coverage amount of a term or whole life DPI in a lump sum either when you are first diagnosed with a CI or after you have undergone surgery covered under the rider (except for Angioplasty[2]). This payout may ease your financial burden as your treatments and medication can be costly. Your income may also be affected as you may not be able to work due to the CI. It is important to note that the term or whole life DPI, together with the CI rider, will be terminated once the coverage amount is paid out under the CI rider.

There is a total of 30 CIs covered under the CI rider. For more information on the CIs covered, please refer to www.moneysense.gov.sg/buying-direct-purchase-insurance. You should also refer to the policy contract for detailed definition of each CI as you will receive a payout under the CI rider only if the illness falls within the definition stated in the contract.

How much insurance coverage do I need?

You should consider your financial commitments (e.g. loans, family expenses and children's educational needs) and existing insurance coverage, including insurance provided by your employer, when deciding the insurance coverage that you need.

You should also consider whether you can afford to pay the premiums for the entire duration of the policy, taking into account your outstanding loans, regular expenses and your income over the long term. If you are unable to pay the premiums, your insurance policy will lapse (or end) and you will no longer be covered.

How much insurance coverage can I buy?

You can insure yourself for up to S$400,000 per insurer, with a cap of S$200,000 for whole life DPI.

[2] The CI rider will only pay out 10% of the coverage amount of the main policy or $25,000 whichever is lower, for Angioplasty and other invasive treatment for coronary artery. After the insurance company pays out the above, the remaining coverage amount for the main policy and CI rider continues to be in effect.

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The following are some scenarios to illustrate how the cap of S$400,000 for DPI and sub-limit of S$200,000 for whole life DPI work.

Scenario 1:
If you have bought a term life DPI with sum assured of S$300,000, you may buy an additional term life DPI or whole life DPI with sum assured of $100,000 from the same insurer.

Scenario 2:
If you have bought a whole life DPI with sum assured of S$150,000 from an insurer, you may buy another whole life DPI with sum assured not exceeding S$50,000, or a term life DPI with sum assured not exceeding S$250,000 from the same insurer.

The scenarios above are not exhaustive. Visit www.moneysense.gov.sg/buying-directpurchase-insurance for more examples on the amount of DPI you can buy.

What are the different coverage periods offered for term life DPI and how do I choose among them?

You may choose from three different coverage periods for your term life DPI:
- (a) 5 year renewable
- (b) 20 years
- (c) Term up to age 65

A 5 year renewable term life DPI may be suitable if you prefer shorter coverage and the flexibility to renew your policy. The premiums may be higher at the point of renewal due to your age, but any medical conditions uncovered since the start of the term life DPI will continue to be covered after the renewal.

The other options are a term life DPI with coverage period of 20 years, and a term life DPI that covers you up to age 65. These may be suitable if you prefer longer coverage.

As your dependants will not benefit from the DPI's coverage after it expires, you should consider the age of your dependants when choosing your policy coverage period.

What are the different premium payment periods offered for whole life DPI and how do I choose between them?

You may choose to pay premiums for your whole life DPI up to age 70 or age 85.

If you choose to pay premiums until age 70, you will need to pay higher premiums every year, but the total amount paid over the entire premium payment period will be lower.
If you choose to pay premiums until age 85, you will pay lower premiums every year, but the total amount paid over the entire premium payment period will be higher.

Consider if you can afford to pay the premiums until the age you have chosen, taking into account that you may not be earning any income after you retire.

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What other important points should I be aware of?

You should read and understand the policy contract and product summary which set out the terms and conditions of the policy, such as the following:

1. <u>Coverage period (for whole life DPI)</u>

Insurers may either set a maturity age (e.g. age 99 or 100) when all benefits would be paid out, or pay the benefits only upon your death or diagnosis of a terminal illness, even if this occurs beyond age 99 or 100.

2. <u>Premiums for TPD coverage</u>

The coverage for TPD lasts up to a maximum age of 65.

The premiums that you pay may change throughout the premium payment period, depending on how the insurers price the TPD coverage.

(a) If the TPD coverage is priced separately from the main DPI, the premiums will be reduced once TPD coverage ends after age 65.
(b) If the TPD coverage is priced as part of the main DPI and spread out equally over the entire premium payment period, the premiums will remain the same even though TPD coverage ends after age 65.

3. <u>Exclusion clauses</u>

Different insurers may have different exclusion clauses which state the situations when benefits under the DPI are not payable. For example, some insurers may not pay out the TPD benefit if the policyholder becomes totally and permanently disabled arising from travel on a non- commercial aircraft. Some insurers may void the policy contract if the policyholder's death arises from any criminal activity; or an act of war (whether declared or not). You should read the product summary and policy contract to find out what these exclusions are and whether the DPI meets your needs.

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What do I need to disclose in my DPI application?

You should disclose all information requested in the proposal form (including any preexisting medical conditions) fully and truthfully. If material information[3] is not disclosed, or is falsely disclosed, you or your dependants may not be able to claim the benefits under the DPI. If you are unsure whether the information is material, you are advised to disclose it.

After you submit your application, the insurer will conduct its underwriting. As the terms and benefits of the DPI may change after underwriting, you should consider whether the revised terms and benefits still meet your needs when you receive the policy documents.

I am still not sure what type of DPI to buy and how much coverage I need. What should I do?

DPI may not be suitable for you if you are unsure about which type of DPI or how much coverage to buy as no financial advice is provided during the purchase process. In such a case, you are encouraged to seek advice from a financial advisory representative who will be able to advise you on a suitable product.

Useful resources and tools:

1) MoneySENSE website (including Frequently Asked Questions on DPI): www.moneysense.gov.sg/buying-direct-purchase-insurance
2) Web Aggregator (for life insurance products): www.comparefirst.sg

[3] Examples of material information include:

- Whether you are a smoker
- Whether you are currently on any medication or receiving any treatment
- Whether you have any pre-existing medical conditions

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