Introduction –Brief #6

Client circumstances change, and with it does the requirement for life insurance. Here we cover the most commonly reported situations in which people choose to exit early and make use of their funds elsewhere.

Life Policy Trading triggers: When circumstances change

Changes in financial and life circumstances (e.g. divorce, financial hardship, or death of a beneficiary) can often be a trigger for advisers to check in with a client regarding whether their financial needs are being served with their current portfolio. Below are some common scenarios in which we see policyholders reassessing their needs, and sometimes deciding to exit a life insurance policy.

When the house is paid off

If the initial reason for purchasing life insurance was to provide mortgage protection cover, once the mortgage is paid off a life policy may be surplus to requirements. Rather than continue paying premiums for insurance cover they may no longer need, some policyholders elect to exit their policy and make use of the funds now rather than wait for the policy to mature.

A change in marital status

When a marriage ends, as well as being sad for both parties it can be financially challenging. In addition to disentangling the finances and splitting the assets there may now be two separate households to run on the same level of income. Both parties can find it very difficult to start over.

Recently Policy Exchange received an enquiry from a policyholder undergoing a marital split; she sold her policy to fund a deposit on a house to start afresh. Rather than home ownership being inaccessible for many years she was thankful to have access to the funds now, when she needed them.

When the client outgrows their policy, or no longer needs insurance

Perhaps a client took out a life insurance policy decades ago when they had young children. Now the children are grown and have life insurance policies of their own, the client's insurance is no longer a necessity. Many policyholders appreciate being able to access the surrender value of a policy now, and put those funds to use elsewhere.

When there's a financial requirement for cash

A policyholder might cash in their policy to meet a financial commitment for many reasons - clearing debt, helping out family or even to fund an overseas trip or a new car. Recently Policy Exchange purchased a policy from a policyholder who was helping fund a grandchild into their first home. He was happy to cash in one of his several policies (having more than one policy is not uncommon) for this important event.

Whatever the reason, these policies may be the only source of new funds available to policyholders and any additional amount they can source is very well received.

Most frequent reasons given for early exit

The most commonly stated reason policyholders decide to sell their bundled life insurance policy is ”we no longer need insurance”. The second is that they need retirement income. Thirdly, some people choose to sell their policy because they'd rather invest the money elsewhere (often in property investment in recent years), or they have an upcoming financial commitment.

It's not just older policyholders

It's commonly assumed that selling a life insurance policy only suits older policyholders looking to cash in. However, recent data indicates that almost one-third of clients choosing to surrender their policy are under 50 years of age. Keep in mind therefore that life policy trading therefore may sometimes also be appropriate for younger clients whose circumstances have changed.

Quickly assess a policy's eligibility for trading

A quick indication of tradability for each policy is available using the webform on the Policy Exchange website: www.policyexchange.co.nz/do-you-qualify/

In 2-3 minutes you'll receive an onscreen indication of the likelihood of the policy being tradable, plus the estimated dollar value enhancement. The data you'll need is the policy start date, current age of life insured, maturity date, sum insured, attaching bonuses and the gross surrender value as quoted by the life company. There's no obligation to continue through to a formal quote.

Many advisers use this form to quickly pre-qualify each policy that comes across their desk. There's no cost, and it enables you to offer another option to your client to ensure they get the most value possible from their policy.

Was this useful?

Please share this article if with anyone you know would find this useful. To learn more about life policy trading please visit our website www.policyexchange.co.nz/industry-portal

If anything here is unclear, or there are other issues you'd like us to cover, please do get in touch; we're always happy to discuss.

And if you'd like to receive our quarterly market updates on the policy trading market, including tips on how to get the best value for your clients, please let us know here.