
Three Generation (3G) Insurance

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Saturday, 06 February 2010

The following is my opinion. Others may disagree.

What's 3G insurance? Insurance companies come up with a rather innovative product for legacy planning. The idea of 3G is that it is a (1) 3rd party, (2) whole life insurance, (3) limited pay premium that is (4) anticipated:

- 1) It is a third party insurance usually in which the Life assured is a juvenile and the policyholder the parent (let's called him Client A because my next few paragraphs can become very confusing);
- 2) It is a whole life insurance because it covers the life of the Life Assured for Life;
- 3) It is limited pay premium in which the premium is limited to X years;
- 4) It is anticipated because after X years, the insurer pays the policyowner Y% of the sum assured in yearly coupons until the insurance contract ends. The insurance contract ends when the Life Assured dies in which case the death benefit goes to the estate of the policyowner at that point of death.

The marketing idea is like this: Client A (a parent) buys on the life of his son B (the life assured). After Client A pays for X years, the insurance company pays Client A every year of Y% of sum assured [thus 1st generation]. When the son B grows up, Client A assigns the policy to son B and hence son B starts receiving the yearly coupons [thus 2nd generation]. When son B becomes old, he dies and as a result the whole life insurance pays the death benefit to son B's estate [thus 3rd generation].

Typically a 3G insurance premium is huge and it is usually affordable only to the higher end of the mass affluent market and high networth individuals. I personally dislike such a plan because of the following:

- 1) One should buy insurance based on needs. It is not necessary to worry about the 3rd generation. The 3rd generation supposed to be looked after by the 2nd generation. So there is no need to think about the 3rd generation.
- 2) Secondly, as a parent they should ensure they themselves are well insured so that they can look after their children;
- 3) Thirdly, if there is some surplus after setting aside for all basic needs of the entire family (1st and 2nd generation) and personal retirement needs, they can also consider giving their extra surplus to charity. There are many destitutes and unfortunate people in our society who currently are in desperate need of help. The 3rd generation haven't even born. Why bother to plan for the hypothetical grand children whose responsibility belongs to the 2nd generation?

4) If die-die must plan for multi-generation because there is just too much money to spare, it will be better to do a proper legacy planning rather than leaving the money to the insurance company to manage. Insurance company will just invest in their own participating fund which historically in Singapore have been cutting bonuses like nobody business. There is no way for the beneficiaries of these yearly coupons to change the "fund manager".

For a proper legacy planning, it is possible for the beneficiaries to sack the fund manager and get another one. This option is not available for participating fund from insurance companies.