8
Identifying client needs

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Learning objectives

After studying this chapter, you should be able to:

- identify who your prospective clients are;
- describe the typical life stages of a client;
- describe the factors that affect the life stages of a client and the different client needs by life stages;
- explain the differences between real and perceived needs of a client;
- describe the communication, questioning and listening skills essential for an insurance agent;
- explain the process of prioritising needs;
- discuss the difference between short, medium and long-term needs;
- explain how to confirm assumptions and agree objectives.

Introduction

An individual changes roles several times throughout their lifetime and a man can be a responsible son, a loving husband and a caring father. The series of roles that an individual plays in their lifetime can be seen through a **lifecycle**.

Though each client will have their own unique set of needs, life insurance companies and industry analysts have identified some standard needs based on the different life stages, and in this chapter we will study how an insurance agent can help in fulfilling these needs.

Key terms

This chapter features explanations of the following ideas:

Assets	Lifecycle	Prioritisation of needs	Communication skills
Listening skills	Questioning skills	Quantifying needs	Long-term needs
Real needs	Income	Medium-term needs	Short-term needs
Liabilities	Perceived needs	Surplus funds	

A Who is your client?

A1 Prospective clients

As we have seen, an insurance agent's main task is to understand their client's needs and then recommend suitable products. Any individual that an insurance agent comes across and who has any financial need is a prospective client. Prospective clients may have various needs which they themselves may not be aware of. In such a case it is the duty of the insurance agent to make the prospective client realise their needs and recommend suitable insurance protection and/or investment products to meet them. As we have established in the previous three chapters, life insurance companies and other financial institutions offer a range of products which cater for the different needs of an individual. To remind you, some of the most important of those needs are as follows:

The need to:

- provide sufficient funds for dependants in case of the premature death of the family income provider;
- build a contingency fund to take care of any emergencies that may arise;
- save funds for the children's education, marriage etc;
- provide protection for family members against home loan and other debts in the absence of the family income provider;
- save funds for retirement; and
- address any other requirements that may arise from time to time.

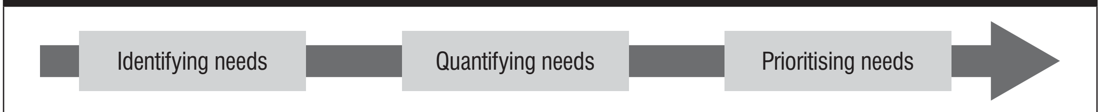
Any individual who has at least one of the above needs is **a prospective client** for the insurance agent.

A2 Client needs

In this section we will draw together all that has already been said in previous chapters about identifying and satisfying client needs. We will discuss the overall process and so consolidate your understanding of how you should go about the process in order to provide a professional service to your clients.

As we have established, it is the responsibility of the insurance agent to determine the legitimate needs of their clients, prioritise them and then to recommend suitable insurance or savings products. The process involves the following steps:

Figure 8.1



1. **Identifying needs**: an insurance agent needs to collect and analyse the following information:
   - details of the client in terms of their financial assets and liabilities;
   - marital status;
   - future financial goals of the client for themselves and their children;
   - number and age of dependants;
   - employment status, i.e. their existing grade and scope of promotion within their company;
   - income – which includes salary, business income and income from other sources and investments (if any);
   - details of health status and heredity medical conditions; and
   - existing protection, savings and retirement provision (if any).
2. **Quantifying needs**: in the financial planning process an insurance agent needs to quantify each of the needs in monetary-terms and then calculate suitable amounts that an individual needs to save and invest for the future.
3. **Prioritising needs**: the amount available for investment is the client's income less their living and other expenses, i.e. the monthly surplus available. The client's needs must be prioritised, as their investment capacity may be limited and the total amount to be spent may be more than the surplus funds available. The insurance agent should suggest the best product mix, where limited funds can be allocated to fulfill the maximum needs of the client. Prioritising these needs helps the client to determine which investment(s) can be deferred, and so the needs which are given highest priority in the ranking are the ones for which investment should be made first.

What if the client already has some existing insurance plans?
In this case, the insurance agent needs to find out two things:

Figure 8.2

Whether the existing insurance plan takes adequate care of the client's needs. If yes, is the amount of the insurance sufficient to fulfill the client's future financial liabilities? If not, a suitable product (complimentary to the existing product or the same product with higher cover) should be recommended.

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The agent should analyse the other needs of the client for which protection is to be considered. If the client has already taken out a term plan with adequate cover, then the income protection need is taken care of. But their other needs, such as planning for their children's education and marriage and their own retirement planning etc. might be outstanding. So a suitable product(s) needs to be suggested to take care of these unfulfilled needs.
If the client is keen to look at investment schemes and has the appetite to take risk, fully understanding the risks involved in such products, then a suitable suggestion can be offered by the agent.

Example

Narendra is a 32-year-old government employee. He is married to Mamta, who is a housewife. The couple have two children – a son and a daughter. What could Narendra's different financial and protection needs be?

1. To provide for his wife and children in case of his premature death.
2. To provide funds to his family to repay the home loan and the car loan taken out by him, in case of his premature death.
3. To provide medical protection for the entire family including himself.
4. To save for the children's education and marriage.
5. To save for his retirement.

Narendra has already taken out a term plan with a cover of Rs. 10,00,000. In this case, the insurance agent needs to analyse and advise on two things:

1. Whether the insurance cover of Rs. 10,00,000 is sufficient to take care of the liabilities and the family's needs in case of Narendra's premature death. If the answer is no, then another term plan to cover the liabilities and family's needs that have not been already provided for, should be recommended.
2. Products for Narendra's other needs such as house purchase, pension plan, child plan etc. But remember the decision has to be based on the priorities and investment capacity of the client.

Narendra wants to send his children abroad for higher studies. For this he is ready to make substantial financial sacrifices in his leisure activities for the future benefit of his children. For Narendra his children's education takes priority over his other needs. In this case the insurance agent should suggest a suitable child plan into which a major share of his investments can be directed with the remaining amount being directed towards other needs. Later, as Narendra's income increases and he has more money at his disposal, he can increase investments to meet his other needs.

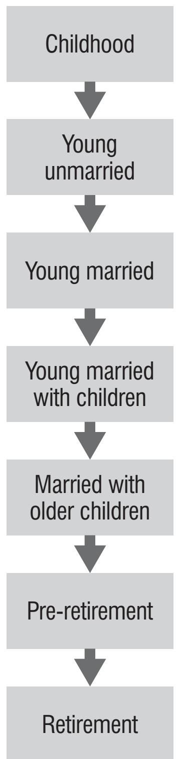
Suggested activity

Prepare a list of your own future financial goals. Estimate the amount that you will need to invest to achieve these goals. What investments will you make in order to achieve them?

B The typical life stages of a client

The life stages of a client can be divided as follows:

Figure 8.3



The life stages listed above are applicable to a person whether they are an employee, self-employed or business person etc.

B1 Childhood

Children are very unlikely to have protection needs. Children normally do not have any income of their own and are almost entirely dependent upon their parents/guardians.

At this stage there are two basic needs for parents/guardians:

- to secure their children's financial position, if they themselves die prematurely; and
- to provide for their children's future expenses, such as primary and higher education, marriage and other living expenses.

Investment towards their children's future is an important need that every parent will want to give top priority to. There are two things that an insurance agent has to do:

Figure 8.4

Firstly, pre-determine the regular amount of money that will be needed to be invested today for the children's future; and

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Secondly, suggest suitable investment products, keeping in mind the client's investment capacity (which may be limited).

B2 Young unmarried

This stage of the lifecycle can be divided into two categories:

- **Young unmarried with no dependants** – in this case, the individual's protection need is low as there are no dependants. Instead, the need to invest any surplus income and earn high returns gains priority. So suitable investment plans such as ULIPs – which allow participation in the growth of capital markets along with tax benefits – should be recommended. The ability to change these when other priorities arise (for example marriage and dependants) should be considered. The individual may also look forward to saving money for their marriage, payment toward purchasing a house, providing health insurance for parents (if not already taken out or the parents are unable to fund it themselves).

Case study

Young unmarried

Ankur Arora is a 24-year-old civil engineer, who works as an assistant manager with a construction company. He draws Rs. 18,000 as his net monthly salary. Ankur is a 'young unmarried' individual and lives with his parents. His father is an engineer in a thermal power plant. Being unmarried, Ankur does not have any responsibilities or liabilities. Ankur's father advises him to save money for the future and invest in some good investment plans.

Accordingly Ankur meets with an insurance agent who advises him to invest in a unit-linked insurance plan (ULIP) which will give him exposure to the equity market for long-term capital growth of his investments.

- **Young unmarried with dependants** – if an individual is one of the income providers for a family (along with the parents), then the family will be adversely affected if the young person dies prematurely. Hence the individual needs to protect their income. The individual should be recommended to take out a suitable life insurance plan and the sum insured should be sufficient to take care of the family's financial needs after their death. The remaining money can be invested for long-term wealth accumulation.

B3 Young married

At this life stage the individual gets married. Their financial needs change, as they now start thinking about purchasing a house, starting a family etc. These individuals can be further categorised into two types:

- **Double income family** – when both the partners work then financial dependency on one person is reduced. Such couples are also commonly known as **Double Income No Kids (DINK)** couples. In the event of one of the partner's premature death, the effect on the family's finances will be considerably lower than compared to a single income family. An individual **term** life insurance plan for both partners is suitable at this stage so that the loss of income due to the death of one partner can be compensated for to some extent. The couple may also look to invest in products that can offer them high returns and help them with wealth accumulation for the future. Investment in unit-linked insurance plans (ULIPs) is recommended for such couples as ULIPs have the potential to deliver high returns through participation in the capital markets along with insurance protection.

- **Single income family** – if only one partner is earning and the other partner manages the home then savings are likely to be lower than for the double income family. For such couples the need for income protection assumes priority over other needs. The income earner should buy a term insurance plan so that in the event of their premature death, the surviving spouse will receive a sufficient sum from the insurance company to replace the income provider's loss of income.

Case study

Young married

Continuing with Ankur's case study, three years after becoming established with his company, he gets married to Kavita. She is a teacher in a private school. Ankur and Kavita are now an example of a double income family where both partners are earning. In the event of the premature death of Ankur, Kavita will not be entirely affected financially as she will still be earning in her own right.

At this stage, Ankur and Kavita's main need is to protect their income against premature death, disability resulting from injury or long-term sickness. If one of them dies, the sum insured along with their own income will support the surviving partner. The couple should buy individual term life insurance plans and look at investing their remaining surplus cash in mutual funds or unit-linked insurance plans for long-term capital growth of their money.

B4 Young married with children

At this stage the responsibility of an individual increases when children are born. This stage can be further classified into two types:

- **Double income family** – here both the parents are earning, meaning that the effect of the loss of income due to the premature death of one of the partners will be less. Protection of income is important. A suitable individual term life insurance plan for both partners should be recommended so that in the event of the death of one partner an adequate sum is received by the family to replace the loss of income.

  As both the partners are earning, the investment capacity of such families will also be higher. Investments towards their children's future can be a high priority for these families. A suitable child investment plan should be recommended after the income protection need has been taken care of. A family floater health insurance plan covering the couple and their children is advisable at this stage. The couple should also start making small contributions towards a retirement plan, which can be stepped up later.
- **Single income family** – for these families, income protection is very important. A suitable-term life insurance plan should be recommended as the loss of income of the earning member of the family could lead to serious financial problems. In the event of the earning parent's death, an adequate sum insured will help the family to maintain a decent lifestyle, and the children's education also will not be affected. Once the income protection need is taken care of, a child investment plan should be given priority. A family floater health insurance plan covering the couple and children is advisable at this stage.

Case study

Young married with children

Ankur and Kavita are blessed with a daughter after two years of marriage. Kavita leaves her job to take care of the child. At this stage the family's income is reduced with Kavita no longer working, and at the same time expenses increase with the birth of the baby. Hence the income protection needs of the family have greatly increased. It is advisable that Ankur increases the term insurance cover that he already has. He should also start investing in a child investment plan to provide for his daughter's education and marriage expenses. Ankur should also buy a family floater health insurance plan which covers him, Kavita and their daughter. He should also start making small contributions towards a retirement plan which can be stepped up later.

Be aware

Child education planning

- The insurance agent should take into consideration the cost of the education course selected by Ankur.
- The agent should assume an education inflation rate and, based on the date when Ankur's daughter will enrol for higher education, work out the amount that will be required at that time.
- Then, assuming a reasonable rate of return, the agent should arrive at the monthly amount to be invested to accumulate the education fund.
- Accordingly Ankur should start making regular investments towards the daughter's education fund in a child insurance plan.

B5 Married with older children

This is the stage where the financial responsibility of the couple towards their children will be in respect of their higher education and marriage. The income of the couple is likely to be higher than previously as they will have gained considerable experience and made progress in their working lives. At this stage the need to protect children against the premature death of their parents is low compared to previous years as the parents will have already made significant investments towards the children's future needs. However, the couple should review their investments to ensure that there will be sufficient funds to cover the cost of higher education and the marriages of their children.

The need to focus investments towards their retirement fund also gains importance at this stage and as the couple has already made significant investments towards their children's education and marriage, they can now step up investments towards their retirement fund. As their age increases, the couple will be more vulnerable to sickness and disease and should therefore also look at enhancing their health cover.

Case study

Married with older children

Ankur is now aged 48 and his son and daughter have grown up. His daughter has enrolled in a medical college as she wants to become a dentist and his son has enrolled in an engineering course. Ankur's father has retired and receives a pension which is enough to support both him and Ankur's mother. At this stage, Ankur's risk appetite has reduced significantly. He has gradually started shifting his investments from high risk ones like equities to low risk ones like deposits, as there is a need for guaranteed funds for the education and marriages of his children over the next few years. He is also more focussed towards stepping up investments towards his retirement fund. Ankur has also enhanced the family floater health cover.

B6 Pre-retirement

This is the stage when the children will have completed their higher education, be married and will have become financially independant. The income of the individual/couple will still be high as they will be at the peak of their careers. At this stage the entire focus is shifted towards the retirement fund and health protection as other needs are mostly taken care of. After retirement, the major area of concern for a couple would be meeting day to day financial expenses, regular health checkup expenses, hospitalisation and other medical expenses. The individual will see how the investments already made towards the retirement fund are faring and will consult with his insurance agent on whether there is a need to make any changes. The couple should also review the health cover and see if it is adequate.

Case study

Pre-retirement

At this stage Ankur's children have become independant. Ankur's daughter has become a dentist and now runs her own clinic. She recently married an eye surgeon and has settled down. Ankur's son is working with a leading MNC as a software engineer. He is also married. Ankur's parents have died and have left their estate to him.

At this stage Ankur is concentrating on his retirement fund as most of his other needs have passed. Ankur meets his agent and discusses the performance of his retirement fund so far and whether any changes are required. The agent advises him to transfer the remaining small portion of his equity portfolio to low risk investments as he cannot afford to take any risks at this stage that the retirement fund will fall in value just when it is needed to provide an income for the rest of his life. Ankur also consults his insurance agent to review the family health cover at this stage to see if it is adequate.

B7 Retirement

This is the stage where the income of an individual/couple is limited to the returns on investments that they made in the earlier stages of their working life. In the case of salaried employees, their regular monthly income will have stopped. If the returns from their investments are not sufficient to meet their financial liabilities little can now be done. The individual can use their accumulated retirement fund and their employee benefits amount from provident fund, gratuity, leave encashment etc. to buy an annuity plan from an insurance company. This will provide a regular monthly income to take care of living expenses for the rest of their lives. This is also the age when individuals are most prone to illness and disease. The individual should review the health cover for themself and their spouse to see if it is adequate to meet the couple's healthcare requirements.

In the case of self-employed professionals and businessmen, there is no defined retirement age. If they and their insurance agent feel that they have accumulated enough money in their retirement fund to take care of their expenses for their remaining lifespan then they can retire. With the retirement fund they can buy an annuity plan from an insurance company which will give them enough regular income to meet their expenses.

But if the individual and their insurance agent feel that the retirement fund is insufficient to sustain the post-retirement years, then the businessman must continue to work and the self-employed professional continue with his profession until sufficient money is accumulated. The retirement fund proceeds can then be used to buy an annuity plan from an insurance company for regular annuity payments to meet retirement expenses. At this stage the individual should also review the health cover for self and spouse to see if it is adequate to meet their healthcare requirements.

Case study

Retirement

Ankur and Kavita, with the help of their insurance agent, planned and managed their retirement fund well during their working lives. As a result they are now receiving sufficient monthly income from the annuity plan they bought that more than takes care of their living expenses during their retirement years. Even after retirement Ankur and Kavita do not have to make any compromises in their standard of living. They have also consulted their insurance agent regarding their health cover to make sure it is enough to cover their healthcare requirements. Having led a successful and responsible working life, both are now enjoying spending time with their grandchildren.

B8 Summary

We have seen that in a typical lifecycle, all clients have two primary needs – protection and investment. However, remember that there can be changes in these needs over a person's lifetime. Below is a summary:

Lifecycle stage	Client needs
Children	Need for parents to: • financially secure the children in the event of the premature death of parents; • provide for their future financial responsibilities, such as education, marriage etc.
Young unmarried	• Protection need – life cover for self, provide for family in case of premature death, disability etc. • Health protection for dependent parents (if not already taken out). • Saving for short-term needs like marriage, house etc. and long-term needs like retirement.
Young married with children	• Protection need – life cover against death for both spouses. • To provide for the children's future – education, marriage etc. • A family floater health insurance plan covering the couple and children. • Small contributions towards a retirement plan, which can be stepped up later.
Married with older children	• Protection need – financial protection for the family in the event of the premature death of the income provider. • To continue providing for the children's future – education, marriage etc. • Step up investments towards retirement plan. • Enhance health cover with increase in age.
Pre-retirement	• Investment for retirement. • Income protection needs. • To leave inheritance to children. • Review the health cover and see if it is adequate.
Retirement	• Need to invest funds wisely to ensure an adequate regular income during retirement. • Review the health cover and see if it is adequate. • Estate/inheritance planning.

Suggested activity

Visit any two couples who are in the following stages of the lifecycle:

- Young married without children.
- Young married with children.

Gather information from them and prepare a list of different needs of each couple. Are the needs of the two couples similar? Consider your findings.

Question 8.1

What could be the different needs in a typical lifecycle for the following life stages?

- Young married with children.
- Married with older children.

C Factors that affect the life stages

Not every client will go through all the life stages discussed in the last section. The presence of several factors influences these life stages significantly. The main ones are:

Figure 8.5

- Age
- Martital status and dependants
- Employment
- Health issues
- Individual's income and expenditure
- Individual's assets and liabilities
- Divorce, separation and bereavement

C1 Age

The younger the age of an individual, the lower their liabilities will be. As a person grows older they will complete their higher education and become employed. Their protection needs will increase due to the new responsibilities they take on such as marriage and a family.

C2 Marital status and dependants

When an individual gets married and starts a family, their responsibilities will increase and they will wish to provide for their family. They are also likely to be thinking of buying a home, a car and taking annual vacations etc. These can all result in increased financial liabilities. With all the above responsibilities and increase in liabilities you can see that protection needs become very important for an individual after marriage.

C3 Employment

An individual's employment status can influence their financial planning needs and investment capacity. An individual can be employed as a:

- public sector employee;
- private sector employee; or
- self-employed.

In addition, a person may have a short professional career (such as a professional sportsman) or they may be unemployed.

C3A Public sector employee

If an individual works in the public sector, then their need for life insurance, pension plans and other medical related plans will not be high. The reason for this is that the public sector makes contributions towards provident funds, pension funds and gratuities under retirement benefit schemes for its employees. Public sector employers also offer benefits such as life insurance for the individual and health insurance for their family.

C3B Private sector employee

The need for a pension plan, life insurance, health insurance etc. is greater in the case of private sector employees. While most private sector employers provide benefits such as a gratuity and provident fund, many of them do not provide any pension benefits. Some companies provide life insurance for the individual and health insurance for their family, and some give the option to the employee to contribute towards the premium. However, other companies do not provide any of these benefits and the employee needs to make their own arrangements.

C3C Self-employed

In case of self-employed individuals two important factors need to be considered:

- self-employed individuals may have fluctuating income; and
- they may be the sole income provider for their families.

The need for life insurance is high amongst the self-employed. Once this need is taken care of then the focus can be shifted towards other needs such as child investment plans and retirement plans.

C3D People with short careers

Some people have a short earning career span. Film or television actors and actresses, sport persons, professional artists etc. will typically have a short earning career spanning, say, 5, 10 or 15 years. During these years when they are at the peak of their performance they will make a substantial amount of money in the form of professional fees. But once this peak earning phase is behind them, their income falls drastically or even stops completely.

People in this category need to protect their income from premature death or disability during their peak earning years, and the income earned during these years needs to be invested in such a manner that it will provide a regular income for the remainder of their career and in their retirement.

C3E Unemployed

Unemployment can occur at any stage of a person's life. It can happen to a self-employed individual as well as to salaried individuals and can occur due to ill health or the economic situation.

If someone becomes unemployed their financial plans can be severely affected as their priority will shift towards ensuring they can provide basic amenities for their family such as housing and food. In the case of prolonged unemployment, the individual will not be in a position to meet the regular premium payments for any policies or investments they have. This may result in policies being lapsed. In such cases the individual should try to revive the policy at a later stage when they are employed again or they can convert the policy into a paid-up policy. Surrendering the policy is another option.

So you can see that this is the stage for which an individual needs to plan in advance. They should have disability insurance and also have built up an emergency fund that will cover their expenses in the short-term.

C4 Health issues

Health risks tend to increase as an individual gets older and their chances of obtaining life and health protection will be reduced. There can also be instances where a person may suffer from continued bad health, irrespective of their age.

If insurance companies accept these risks, they may modify the conditions of acceptance and/or charge a higher premium.

C5 Individual's income and expenditure

Every individual's income and expenditure pattern is different based on their lifestyles and habits. Expenditure includes all outgoings i.e. amount spent on food, clothing, housing and leisure activities. It also includes the liabilities of an individual such as repayments of a home loan, car loan etc. For financial planning purposes it is essential that an individual has surplus income after meeting all of their expenses.

However, if expenditure exceeds income then this will result in debt and the individual's capacity to make investments will be nil.

C6 Individual's assets and liabilities

Assets are what an individual owns and liabilities are what they owe. Assets can be acquired by an individual through saving, inheritance or business activity. If an individual's assets are more than their liabilities, they will have surplus money available for investment. If their liabilities exceed their assets, then they need to ensure that all due payments are met on time.

Example

Raghav Mishra is a doctor and runs his own private clinic. His father was also a doctor and used to run a clinic. After his death, Raghav's father left his house, clinic, plot of land and bank fixed deposits worth Rs. 10,00,000 to Raghav.

Raghav is fortunate enough to have a substantial income of his own as well as the assets that he has received from his inheritance. In the case of individuals like Raghav, who have substantial assets and good cash flows from their regular income, their investment capacity is high and their ability to take risks is also high.

Any assets which are no longer suitable or are earning fewer returns than expected should be reviewed and cashed-in for investment into other assets. Similarly an individual's liabilities, such as a home loan or a car loan, should be covered by adequate life insurance so that in the event of the income earner's premature death, the family can pay off the debts and avoid financial troubles with lenders.

C7 Divorce, separation and bereavement

Marital breakups can adversely affect the financial planning for individuals. In the case of divorce or separation, the financial objectives of individuals will change and also their investment capacity will decrease (especially if both spouses are working). As a result, existing investments should be reviewed.

In the case of divorce and separation, financial planning for women (housewives) becomes extremely important as a woman may not have any financial arrangements other than those of her husband. So protection and retirement needs assume even greater importance.

A widowed woman will become the custodian of her husband's financial assets and she will have the responsibility of providing for her dependent children. Her main concern will be to manage the assets and enhance or preserve their investment value to provide for her dependent children.

D Client needs: real and perceived

It is important to understand that there are differences between *real* and *perceived* needs. Real needs are the actual needs of a client which should take priority over others, whereas perceived needs are imagined or thought to be important by the client (for example wanting to buy an expensive car when there is adequate public transport and the client has insufficient savings or income to buy one).

Real needs are determined by the use of financial planning techniques and analysis. Perceived needs can be understood by analysing an individual's thoughts and desires. Let's have a look at some of the problems faced by agents in advising clients about real and perceived needs:

- As we discussed earlier in this chapter, different financial needs occur at different stages of the lifecycle of an individual. However, when the time comes for financial planning, an investor might shy away from actually making investments. A young man might aspire to have Rs. 10,00,000 ten years from now, but for this he needs to sacrifice some of his leisure activities and save and invest regularly.
- The second problem is that clients often fail to understand the importance of saving for the future and do not appreciate the benefits that this will bring. They will want to give priority to their present needs as opposed to their future intangible needs.
- Individuals may not understand their real needs and may fail to prioritise them sensibly. There can be cases where an individual might choose to invest in child plans first, whereas their priority need would be to provide financial protection for their family in the event of their premature death, illness or disability.

The job of an insurance agent is to help clients in identifying real needs. The process is as follows:

Identification of real needs	• Insurance agents should help their clients in understanding their real needs. This can be done by educating them about the concept and importance of insurance.
Identification of current and future needs	• Insurance agents should help their clients to understand their current and future needs.
Quantification and prioritisation of needs	• Once the needs are identified, they must be quantified in terms of monetary value and prioritised.
Financial planning review	• Clients should meet with their agent regularly to review whether their financial planning needs have changed over time. If so, then new investments should be made to suit the changed circumstances.

eg

Example

Real need – I need to save for my retirement.

Quantification of real need – I need to make provision to have a continued monthly income of Rs. 20,000.

?

Question 8.2

Explain in brief how the following factors influence life stage needs:

i) Health issues.

ii) Income and expenditure.

iii) Assets and liabilities.

E Communication, questioning and listening skills

For an insurance company an insurance agent is very often the first contact point with their prospective clients. When advising clients the insurance agent must be able to evaluate effectively the information being provided by them. This can be done by asking focused questions and using good listening skills. Agents may have to 'read between the lines' as clients may be unfamiliar with insurance-terms and jargon and this may hinder their understanding of their needs.

In this section we will discuss three essential skills that every insurance agent must have – communication skills, questioning skills and listening skills.

E1 Communication skills

An insurance agent should have good communication skills so that they are able to establish and retain a client's interest and involvement in the financial planning process. Effective communication skills are important right from the start of any meeting with the client and even more so if the client starts to lose interest in the process at any point.

Good communication skills include:

- a good command of the client's local language and dialect;
- a friendly approach towards clients and a genuine interest in them. Agents should be able to encourage clients to speak about their concerns relating to their future and present needs; and
- whenever a client asks a question, or makes a point, the agent should answer the question honestly and continue to engage the client in a two-way dialogue. This will encourage the client to participate in the financial planning process.

E2 Questioning skills

An insurance agent needs to ask different questions in order to understand clients' financial planning needs. For this an insurance agent needs to have good questioning techniques. These techniques include:

- using different types of questions; and
- the phrasing of the questions.

E2A Different types of questions

An agent can ask different types of questions to help understand their clients' needs. Questions can be classified by structure or by purpose:

1. **Classification by structure**: in this classification, questions can be of two types: open-ended and closed-ended. Both types of questions have different objectives and effects and you should make sure that you can use them correctly.
   a) **Open-ended questions** – this type of question encourages the client to talk freely and highlight issues which are most important to them.

Example

Some examples of open-ended questions are:

- Why do you think that?
- Where do you see yourself 10 years from now?
- How do you feel about that?

   b) **Closed-ended questions** – these questions are structured so that the client has to provide short specific answers. The client's response is restricted to 'yes', 'no', 'a specific fact', or 'a specific amount'.

Example

Some examples of closed-ended questions are:

- Are you currently employed?
- How many children do you have?
- Do you have any current investments?
- Are you married?

2. **Classification by purpose** – in this classification, questions can be either open or closed and include questions that:
   - seek information;
   - explore and collect additional information;
   - check meaning or understanding;
   - confirm points already agreed; and/or
   - commit the client to action.

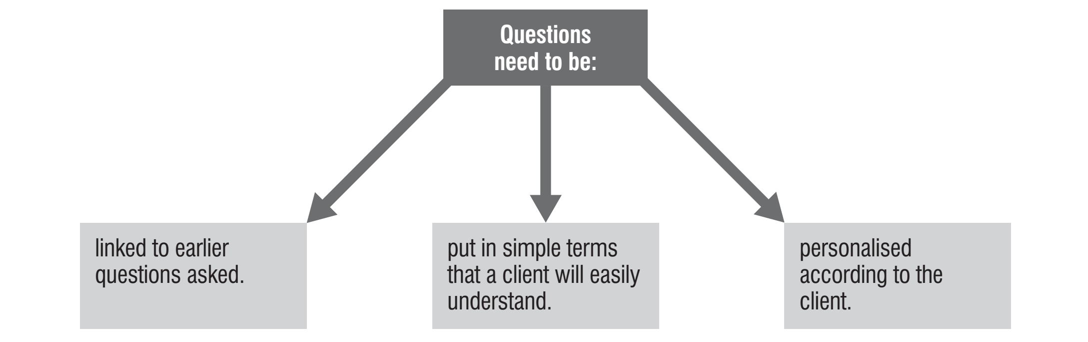
Example

Classification based on purpose	Open-ended questions	Closed-ended questions
Information-seeking questions	Tell me about your children.	How many children do you have?
Questions for collecting additional information	What plans do you have for your children's future?	Do you wish to provide professional education for your children?
Questions to check meaning or understanding	When you say that you want to provide professional education, would you like to send them abroad for further studies?	When you say you want to provide medical education, do you mean for them to be a doctor or pharmacist?
Questions to confirm on points already agreed	Just refresh my memory as to how concerned you are about your children's education.	You did say earlier that you would like to send your children abroad for higher studies?
Questions for committing the clients to action	You really want to do something about your children's education?	Can I assume that you wish to purchase a child plan?

E2B Phrasing of questions

The questions listed above are an illustration to help you to understand the different types of questions that can be asked. In reality, the above questions will not be asked in such an abrupt manner, and instead, they need to be phrased more pleasantly and personally. For this:

Figure 8.6



E3 Listening skills

Developing good listening skills is also important for an insurance agent so that they can interpret the client's answers correctly.

The agent should concentrate on the client's answers and the other information that is provided. The agent should record the client's answers and their body language should also be studied by the agent, as this will help in determining their level of interest in financial planning.

E4 Handling objections from clients

You should always bear in mind that some prospective clients may be reluctant to purchase a life insurance policy as they fail to see the importance of life insurance; they may also be uncomfortable in discussing the timing of their death and what will then happen to their family. An insurance agent must overcome this situation sensitively before being able to recommend suitable needs-based products to clients.

Once an agent has made their recommendations, some of the common objections that a prospective client may have are:

1. The product doesn't meet my need(s).
2. A competitor's products are offering additional benefits.
3. I don't have the funds for investment.

As an insurance agent you must be extremely careful in handling such objections. Whenever clients raise objections, you should make use of open-ended or closed-ended questions to understand the real reason behind the objections, and try to overcome them. Good communication and listening skills, as well as asking appropriate questions are tools that can be extremely useful in this case.

Some ways of handling the above objections include:

The product doesn't meet my need(s)	• Ask the client some open-ended questions to understand their concerns and provide more information on the product, or else suggest another product after reviewing the needs of the client again.
A competitor's products are offering additional benefits	• Present a comparative analysis on some of the related products and discuss their pros and cons. Then accordingly advise as to why the particular product is being suggested to them.
I don't have funds for investment	• Revisit the importance of proper financial planning and the importance of needs-based investment. Explain the importance of a having an insurance plan and the consequences of not having one.

Suggested activity

Suppose that you have an appointment with a client for whom you have to analyse their different needs and prepare a financial plan. Prepare a list of open-ended questions and closed-ended questions that you will ask to gather the necessary information.

Question 8.3

Explain the difference between real and perceived needs in brief.

F Gathering client information including family information

As part of the planning process, the insurance agent needs to gather personal (including family) data, professional data and information related to the client's finances using a form called a **fact-find**.

- The personal details section includes the client's name, age, address, contact details and marital status.
- The family details section will include the number of members in the family and their details such as their name, age and occupation.
- The agent may also record the address of the client's family physician and the addresses of some close friends of the client etc.
- The agent will then note the professional details of the client such as whether they are employed, self-employed or run a business. Based on the client's profession the agent will ask more details about it.
- The agent will then ask about the client's cash flows and their existing investments.

Note: more details on all the sections of the fact-find will be discussed in the next chapter when we look at the financial planning process.

G Understanding priorities – a summary

As we have already discussed, an insurance agent should help his clients to understand their real financial and protection needs. These needs can be prioritised based on several factors:

Lifecycle	• Different needs are prioritised depending upon the different stages of the lifecycle. For an unmarried young individual, life insurance cover will gain priority over a pension plan.
Existing insurance policies	• If the client already has adequate term insurance cover then the priority shifts to other needs.
Amount of surplus funds available	• The amount of surplus funds available will also affect the priority rating given to different needs. A client with substantial funds available for investment might purchase different products based on their diverse needs. However if the surplus funds are limited, then they should choose financial products which can provide cover for their basic needs.

Example

If a young married couple with a small child already has adequate life insurance cover, their priority will shift towards a child insurance plan and a savings or retirement plan.

H Confirming assumptions and agreeing objectives

A needs analysis should be done by an insurance agent after agreeing the client's objectives. During the needs analysis any assumptions made should be confirmed with the client. The agent's professional expertise will be important at this stage when evaluating the information gathered from the client.

For the needs analysis, an agent must evaluate all financial investments and commitments already made and the future commitments that will be required in order to fill the remaining gaps.

Similarly the client's objectives need to be analysed. This is done in order to estimate the amount that will be required to achieve these objectives. The insurance agent needs to determine if sufficient funds can be put aside to meet these objectives.

If there is a gap between the amount needed for the future and the amount now available, additional cover should be suggested to the clients to protect against it.

Be aware – the importance of reviewing financial plans

In spite of all the financial planning techniques available, the exact amount of funds needed in the future cannot be precisely determined. This amount is subject to various assumptions. Insurance agents will derive only an estimated amount and not the exact amount. Hence the financial plan needs to be reviewed once every 12 months or so to see if there are any changes in the client's needs and whether the investments are doing as expected. This is also a good way for the insurance agent to keep in regular contact with the client to show that he is concerned about the client's ongoing financial welfare.

Apart from the amount, the other aspect that the insurance agent needs to be concerned with is the **duration** of the policy. The exact duration for which a life insurance policy is needed cannot be pre-determined. Once again this figure is determined based on certain assumptions.

Example

Rahul Sharma is a 32-year-old civil lawyer. His wife Rekha is a housewife. He has two children aged 1 and 3 years respectively. Rahul wants to invest in a suitable insurance plan to provide for his children's education and marriage in case he dies prematurely.

His major concern is – what should be the duration of the policy? Rahul wants to use the funds for his children's education and marriage. But he does not know exactly when his children will get married and will require the funds. If he takes a policy for 10 years, then he would receive the funds before his children are ready to pursue their higher education. If he takes a policy for 20 years, then he would receive funds after his children have completed (or almost completed) their higher studies (children aged between 21 and 23 years) and would be a little early for their marriage.

Therefore Rahul will have to be very prudent in deciding the duration for which he wants to keep the funds invested.

Consider this…

What are the different factors which an insurance agent and client should use to determine the duration of investments? What would happen if a client is unable to withdraw their investments at the time of need, as funds invested may be locked-in for a specific period?

Key points

The main ideas covered by this chapter can be summarised as follows:

Who is your client?

- Any individual that an insurance agent meets who has any financial need is a potential client.

The typical life stages of a client

- The life stages of a client can be divided into the following: childhood, young unmarried, young married, young married with children, married with older children, pre-retirement and retirement.

Factors that affect the life stages

- The presence of several factors influences the life stages of an individual.
- Assets can be acquired by an individual through saving, inheritance or business. If an individual's assets are more than their liabilities, then they will have surplus money available for investment.

Client needs: real and perceived

- Real needs are the actual needs of an individual which should gain priority over others.
- Perceived needs are those imagined to be important by a client.

Typical client needs by life stages

- In a typical lifecycle all clients have two primary needs – protection and investment. However, needs can be added or deleted over time.

Communication, questioning and listening skills

- Effective communication skills are required at the beginning of the meeting and/or at the point when the client starts to lose interest in the process.
- An insurance agent needs to ask different questions in order to understand their financial planning needs. For this an insurance agent needs to have good questioning techniques.
- Open-ended questions encourage the client to talk freely and highlight issues of importance for them. Closed-ended questions are structured in a manner where the client only has to provide short specific answers.
- Developing good listening skills is important for an insurance agent so that they are able to interpret the answers of the client correctly.

Understanding priorities

- Having gathered client information via the fact-find, different needs should be prioritised depending upon the different stages of the client's lifecycle.
- If the client already has adequate insurance cover, then their priority moves to other needs.
- A client with sufficient funds available for investment might purchase different products based on diverse needs.

Confirming assumptions and agreeing objectives

- Needs-analysis should be done by an insurance agent after agreeing objectives with the client. During needs-analysis the assumptions made should be confirmed with the client.