Understanding how to manage risk in **unpredictable** times

IT WILL NEVER HAPPEN TO ME

A guide on adapting to the unexpected in a constantly unpredictable world

UAE Expats

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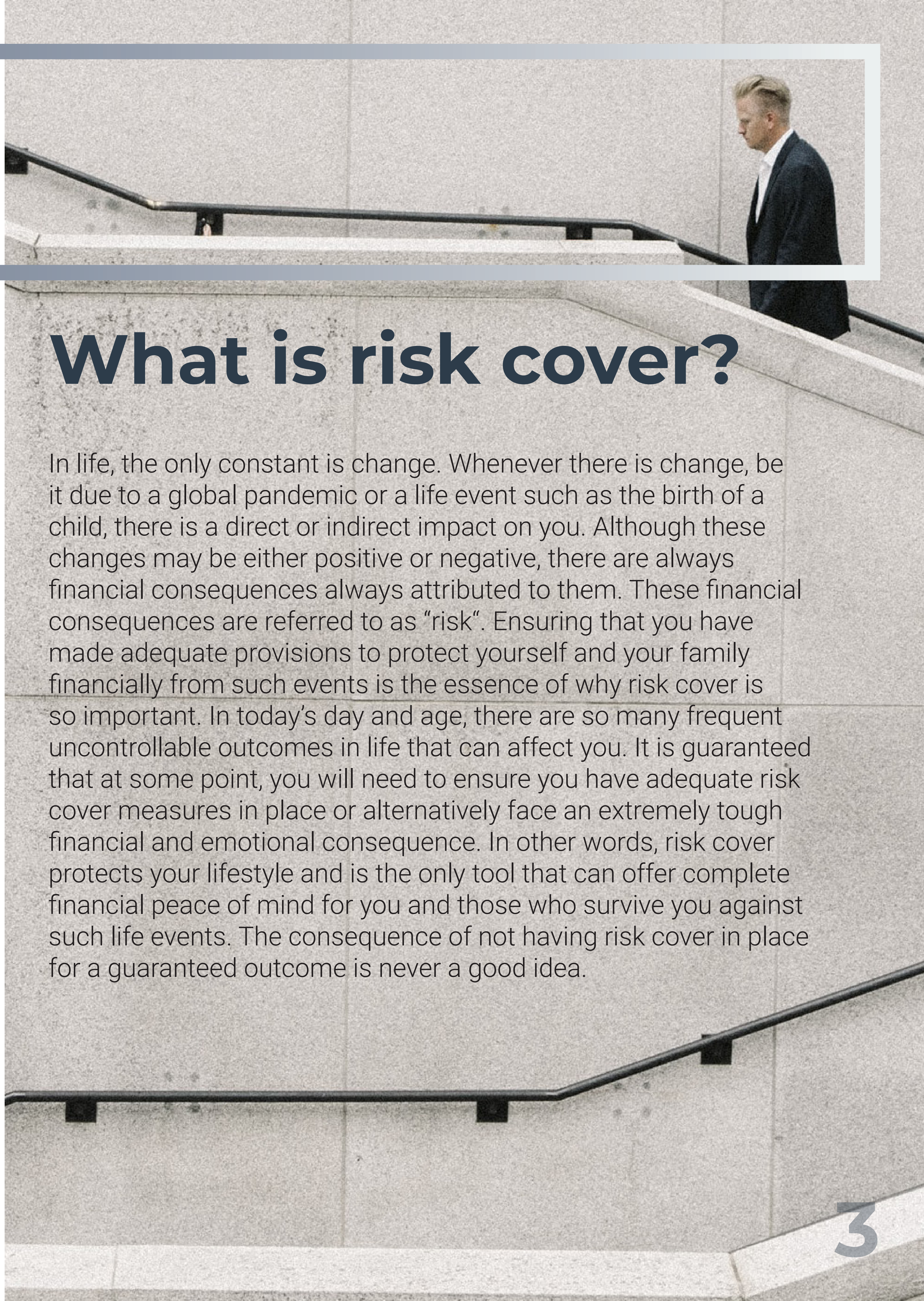

What is risk cover?

In life, the only constant is change. Whenever there is change, be it due to a global pandemic or a life event such as the birth of a child, there is a direct or indirect impact on you. Although these changes may be either positive or negative, there are always financial consequences always attributed to them. These financial consequences are referred to as "risk". Ensuring that you have made adequate provisions to protect yourself and your family financially from such events is the essence of why risk cover is so important. In today's day and age, there are so many frequent uncontrollable outcomes in life that can affect you. It is guaranteed that at some point, you will need to ensure you have adequate risk cover measures in place or alternatively face an extremely tough financial and emotional consequence. In other words, risk cover protects your lifestyle and is the only tool that can offer complete financial peace of mind for you and those who survive you against such life events. The consequence of not having risk cover in place for a guaranteed outcome is never a good idea.

So, what components make up risk cover?

Risk cover may take the form of mitigating financial loss from a single event or a number of events. As there are many components that make up one's financial wellbeing, there are many components that make up one's comprehensive risk cover solution, too. These components will be discussed later on in detail but mainly comprise of:

- A valid and updated Will
- Protection of assets
- Comprehensive life cover
- Protection of your ability to earn an income
- Protecting the future lifestyle of your family
- Succession planning

Often, only certain aspects of risk cover are addressed and others not, leaving one exposed to a risk they did not even know could affect them. An example of this could be in the form of inheritance tax. There may have not been sufficient liquidity in the estate to cater for such an expense and the consequence could result in financial loss such as assets being sold to create the much-needed liquidity to cater for these taxes. The importance of having a comprehensive plan in place, integrating all components of risk cover is extremely important as many of these components overlap. You need all the pieces of a puzzle to complete the full picture, right?

How relevant is this to me?

It is not an understatement to say that risk effects every single individual in the world. There are 2 certainties in life... death and taxes. Both these certainties have a financial consequence associated with them. As every person in the world is either affected by tax or will pass away, you are kidding yourself if you think risk cover is not relevant to you. As mentioned earlier, given the current state of events in the world such as global warming, Covid 19 or financial market movements, it is fair to assume that people are exposed to multiple risks more frequently than ever.

Wills

Now that we have established a basic understanding of risk cover, let's explore the fundamentals that make up risk planning, starting with the most important of these fundamentals, your Will. Your Will is a document that instructs, upon your death, how your estate is to be dealt with and how your assets are to be disposed of. In many circumstances, the way in which the Will is structured can have different consequences such as inheritance tax or donations tax payable, to capital gains tax implications on disposal of assets. The contents of a Will also make provisions of who is appointed as a guardian to care for your beneficiaries in the event of death, as well as the details of how your remains are to be dealt with.

It is very important to be aware of the fact that Wills drafted in certain jurisdictions only govern assets in those jurisdictions. Often, a Will drafted in your home country does not always govern the treatment of assets you have in the country of your residence. This is particularly important for expats living in the UAE as Sharia'h law dictates how your estate is to be dealt with if you pass away in the UAE, which might be opposite to what your intentions are. Ensuring you have a Will governing assets you own in each jurisdiction is exceptionally important. If there is no Will in place in a specific country, the implications could mean dying intestate. If this happens, normally the laws of that country determine what happens to your wealth and your estate, and in some circumstance, the government may appoint a guardian for minor children or invest wealth on behalf of minors. This is common practice in countries such as South Africa where the intestate succession act is followed should a Will not be present. In the UAE for example, if no Will is in place, UAE law will apply to your assets situated in each of the Emirates which may result in the local Court ordering for your assets to be distributed amongst your surviving family members in accordance with Sharia'h principles.

Another important point to note is ensuring your Will remains updated and relevant to your current circumstances. A Will is a live, working document that needs to be constantly reviewed or updated. If this is not done, it could lead to an ex-spouse inheriting your wealth and your current family having nothing. In essence, it could be said that your global and/or local Will is the golden thread that ties your entire estate planning and risk planning together.

Guardianship

As mentioned previously, guardianship is extremely important as it determines who would be responsible to look after your children should you and your spouse pass away. There are some really important factors to determine when appointing a guardian:

- Are the guardians residing in the same country as you are currently residing in or will your children need to relocate? Logistically, this can cause many issues.
- Are the guardians able to take care of your children? It is very important to appoint guardians who have the capabilities to and are willing to look after your children. By way of an example, appointing grandparents who are in their late 70's to be guardians of two infants might not be practical.

It is therefore always recommended that when drafting your Will and appointing guardians, careful consideration be placed on the individuals appointed.
In the worst-case scenario, if young children are left without family or friends to exercise guardianship where the parents did not leave a Will, the local authorities will act in the best interests of the child and be obliged to safeguard them. Having said that, it is important to note that the UAE does not have the social services support structures enjoyed in some countries and there could be a reluctance on their part to intervene and become involved with matters. By contrast, in the UK for example, there would be a formal court order bringing the children under the protection of the courts. A Will that clearly specifies guardianship provisions will provide certainty at such a difficult time, and help to avoid any potential requirement for the local authorities to intervene and take care of your children.

The benefits of using a beneficiary trust

A very effective way, commonly used to ensure that wealth is distributed in accordance with your wishes, is to set up policies using trusts, beneficiary nominations or the establishment of a testamentary trust in your Will. In a testamentary trust, a trust woud be set up for the beneficiaries (normally minors) to distribute wealth to them at the discretion of the trustees. This is an exceptionally efficient tool to use as it prevents minors who inherit a large sum of wealth to lose said wealth or spend it recklessly. The trustees can be instructed to distribute wealth to the beneficiaries according to your wishes based on certain events. An example of this could be a provision that states when the minor turns 18, they will inherit a portion of the wealth. Upon reaching the age of 25, they will inherit a further amount and at the age of 30, the remainder of the amount.

It is important to choose your trustees carefully as these trustees are solely responsible for dispensing the proceeds to the beneficiaries according to what your wishes had dictated. These could be close family members or professional trustees.

Further to this, having a life policy that stipulates beneficiaries means that any policy proceeds that do not form part of your estate and can be paid directly to a trust or people of your choosing without the necessity to obtain a probate. This means funds can be paid directly into a trust for the benefit of the beneficiaries in a tax efficient and timely manner.

How do you protect yourself from financial obligations should the unthinkable happen?

Unfortunately, no one can predict when they are going to pass away. One of life's unfortunate uncertainties is dying too soon. This can put immense financial stress on the loved ones left behind, especially if there are still debt obligations, such as a mortgage, or tax obligations caused by death, such as inheritance tax, that need to be accounted for. In order to protect yourself from this risk, you need liquidity in your estate. One of the best measures to provide this much needed liquidity is in the form of life cover. This allows for funds to be made available in order to settle these financial obligations. It is imperative that the correct amount of life cover be in place in order to protect yourself from such risk. Imagine the unfortunate circumstance of your loved ones having to sell your home in order to cater for these financial obligations.

Protecting your biggest asset and lifestyle

Your biggest asset is your ability to earn an income. This ability allows you to cater for your children's education, provide food for your family, pay for necessities such as medical insurance as well as many other needs. The sad reality is that many individuals have not made sufficient provision to cater for the risk of not being able to derive an income due to disability, severe illness or death. In a world where

severe illness such as cancers or heart attacks are common, you need to ensure that should these affect you; your current and future lifestyle provisions are catered for. Statistics show that 1 in 3 people will experience some form of severe illness during their life. This risk is addressed through comprehensive disability cover and critical illness cover. This allows you, should you no longer be able to work, to receive a lump sum payout that can cater for both your current and future provisions. Whilst there may be a prolonged period in which you cannot work, there is the security that financial obligations, such as school fees or mortgage payments, are still being met. Whilst some corporates may offer benefits such as disability cover or life cover, these are not always sufficient to address your needs and often, supplementary cover is required. It is critically important to ensure that these calculations are done by a financial professional and revisited constantly to ensure the numbers remain relative. You must also be aware that should you no longer be employed, these corporate benefits may fall away at which point, risk cover in your personal capacity may be too expensive either due to age or health status. This is also why supplementary cover in your personal capacity is highly recommended. Another point is that whilst you are healthy, ensuring you have cover in your personal capacity sooner rather than later allows you the peace of mind that you have made provisions for future obligations at today's price. Afterall, your family's current and future lifestyle is dependent on these provisions.

Succession planning

Ensuring the next generation receives the wealth efficiently and timely is extremely important. As mentioned previously, the fundamental tools that allow for this can be in the form of your Will, beneficiary or testamentary trusts, life cover or even ensuring basic everyday protocols have been addressed. Examples of these protocols can range from what happens, should you pass away, to your bank accounts or the implications for dependents who are sponsored on your Visa.

If an Expatriate dies while resident in the UAE, any bank accounts they hold in the country will be frozen until Probate is granted by a UAE court, and all the deceased's UAE debts and any fines are paid. This applies to all local and international banks where deposits are held. This is the case even when the account is held in joint names, unlike in most other countries, where the account would automatically be transferred to the surviving account holder.

The granting of Probate is the first step in the legal process of administering the estate of a deceased person, resolving all claims and distributing the deceased person's property under a Will. A Grant of Probate is a document that details the executors named in a Will, and gives them the right to act in accordance with the wishes of the deceased.

While having a Will in place will not prevent the freezing of a bank account, its existence should speed up the 'defrosting' process. To avoid any potential delays in dealing with your affairs while waiting for Probate, you should consider setting up UAE bank accounts in single names, or set up a joint account offshore to ensure that your spouse has access to a level of liquidity should anything happen to you.

It is also important to understand what happen to dependents sponsored on a visa. In the past, if a male expatriate had sponsored family members on his visa and died while residing in the UAE, the other family members' visas would have been cancelled, and they would have had 30 days to leave the country.

However, with effect from 21 October 2018, the UAE implemented a new visa rule for divorced women, widows and their children. The rule grants a one year residence visa extension for widowed and divorced women and their children, without the need for a sponsor, from the date of death of the husband, or the date of their divorce.

The extension rule applies even if a widow has no children. Certain conditions must be met before the visa will be granted in the event of the male sponsor's death.

- Both mother and any children must be under the husband's visa at the time of the death
- The visas of the mother and children must be valid at the time of death
- The children's residency period must not exceed the residency period of the mother.

To apply for the visa, the widow needs to submit an application through the relevant General Directorate of Residency and Foreigners Affairs (GDRFA) channel for a residency extension along with the following:

- Proof of death
- Proof of availability of accommodation
- Proof of the woman's ability to earn a living
- Medical fitness certificates for the woman, and any children over the age 18
- Emirates ID card
- Health insurance cards (depending on the Emirate)

Wealth protection

In summary, there are many components to a full proof risk protection strategy. Each of these components need to be combined when assessing risk protection to create a comprehensive solution that takes all factors into account. Although each component may have its own part to play, they all need to come together and create the bigger picture with the underlying focus of wealth protection. In essence, the objective of risk planning is to protect your current and future wealth from uncertainties that life may throw at you and your family. The last thing you would want is to spend your entire career generating wealth for your dependents, only to have that wealth diminished because of ineffective risk planning in the case of an unfortunate event. The best advice would be to address these factors whilst you still have the time and capabilities to do so. You would rather have a wealth protection strategy in place 10 years before its needed as opposed to needing it 1 minute after it's too late.

How is it calculated?

Below are some useful tips in risk planning that can really make a dynamic impact in your risk planning strategy:

- Ensure your Will is up to date and reviewed regularly. Make sure that all important parties have a copy of your most up to date Will such as the executors, your spouse, appointed guardians, trustees or family members
- Create a life folder with all important information such as:
  I. Bank account details
  II. Email and online usernames and passwords
  III. Your Will
  IV. Title deeds to property
  V. Policies
  VI. A list of all parties that need to be notified upon your death such as your landlord, financial advisor, solicitor etc.
- Review your risk policies at least annually and ensure the values are relevant and up to date
- Understand how to conduct your estate planning within the laws of your current residence home country
- Make sure you nominate beneficiaries on your end of service gratuity as well as risk policies

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