

DO YOU NEED LIFE ASSURANCE?

JOHANNESBURG: This is the second article I am writing aimed at younger investors in response to their requests. This one deals with my least favourite aspect of financial planning...life assurance. I am proud to say I have never sold a life policy and I generally despise South African life assurance companies however, there are times when you need their products.

LIFE ASSURANCE PRODUCTS IN SA ARE TOO COMPLICATED

I have no doubt that SA life assurance companies need a real competitor who is prepared to shake up the industry the way Capitec is nailing the banks. There are NO simple products that people can buy that will provide them with life cover or disability cover. There are always a range of exceptions and fine print that make it impossible to know when you are really covered. This is especially true when it comes to disability cover as the definition of disabled is rather vague. To compound this problem, the “underwriting” questions that they ask you to determine whether you are a risky prospect are crazy. I recall a telephonic interview with a Cape based underwriter where she asked me if I have EVER drunk more than four units of alcohol in a week. When I asked her if my student days (more than 15 years ago) counted she said yes. Needless to say when I went for the compulsory HIV test they had also included a liver function test!

To me it is fairly obvious that the products have been made unnecessarily complex so that it is hard to compare them across providers. Complexity also makes it difficult to know what you are actually getting. I have a CFP and I have been in the money business since 1996 and I still have no idea about their products. What makes the situation even more complex is the “new generation” providers who suggest that you join their club, use their credit cards and invest in their complex products and your life cover will be even cheaper! Life cover should be like fixed deposit accounts – you should be able to compare prices for exactly the same cover across all the companies and see who is the cheapest.

What irritates me even more is the way they pay agents/advisors. They should pay commissions in the same way unit trusts do i.e. pay as you go. For as long as I am your advisor, I get a commission paid to me monthly. If you fire me or cancel the policy, I get no more money. This is the way the insurance industry works (cars, houses etc.) so there is no reason why the life industry can't be the same.

THERE ARE TIMES WHEN YOU NEED COVER

I am sure there are life assurance agents who could give you a really long list of all the instances when you need assurance cover. When you are young and money is tight, I would suggest that the following are the most important instances

- You need disability cover - if you can't work after an accident and you are 30, what will you do?
- If you owe someone a lot of money – if you have a home loan or other big debt
- If you have children – someone needs to look after them if you die. Don't assume that their mother will look after them, if she is working she will need someone to look after them.
- If you have business partners – if you die then the other partners need the money to pay out your wife/kids/parents