

The Life Assurance needs a shakeup

HYDE PARK: The life assurance industry in SA is ripe for a shakeup similar to the way Capitec is transforming the banking industry. Despite all the efforts of the regulators through legislation like the Consumer Protection Act, the life assurance industry is carrying on as they have always done with opaque products, exorbitant costs and flawed remuneration models.

UPFRONT COMMISSIONS ARE IMMORAL

There is no shame in selling life assurance products to people who need the protection. In fact, good life cover can mean the difference between financial security and poverty for some families after a tragedy. At present, the problem lies in the way that people are paid to sell these products. The entire industry is geared towards paying advisors an upfront commission for selling a long term product. When an advisor sells a life policy with a 30 year term, there is minimal financial incentive for the advisor to service that person for most of the life of the contract because the advisor gets the bulk of his remuneration in the first 2 years. If an ethical advisor wants to offer life assurance products and is prepared to earn the income annually, there is no way to do this. Life assurance companies will only amortize your upfront commission and pay it to you over 24 months.

This makes no sense to me; we all know that people need to be incentivised correctly in order to do the right thing. Humans naturally follow the path of least effort when it comes to their jobs unless they are incentivised to act differently. In this instance, advisors should be paid a monthly fee for servicing their life assurance clients. If the client cancels a policy or changes advisor, the income should stop. Most agents who make a living from selling life policies will tell you that they cannot afford to earn a living without upfront commission. In addition, they will tell you that it will be the low income consumers who will suffer if we change the remuneration model because it will not be profitable for advisors to deal with them.

This argument holds no water. The short term insurance industry (insuring cars, houses etc.) has thousands of agents who look after the broadest spectrum of clients. All of these agents have a direct monthly incentive to keep their clients happy and to ensure that they are properly serviced. If this industry has a revenue model that can be applied to any type of client; why won't it work for life cover?

One is sympathetic to agents who have always earned their income from upfront commission, however the industry needs to make the change to protect the consumer. This does not mean that you cannot find a way to make the transition easier for these agents. The remuneration model can be changed over a few years where life companies start paying advisors over progressively longer periods so that their income is not too severely affected. Over the long term, any advisor who only earns income on a monthly basis will run a much better business because there is more predictability of income. In addition, clients will be happier because they will receive better service, this leads to more referrals which leads to increased income for the agents.

THE PRODUCTS ARE TOO COMPLICATED

This article is an open invitation to Capitec or someone like them to look at life assurance as their next service offering. Life Assurance companies in SA have specialised in making their products overly complicated which makes comparisons very difficult. Numerous international specialists have looked at the domestic industry and advised them to offer more simplified products but this advice

has been ignored. In my view, this is a situation that Treasury (Government) should be looking at more closely.

As an example, it is nearly impossible for any non-specialist to understand the differences between different severe illness benefits from the life companies in SA. If you get cancer, one company will pay you from the time you have been diagnosed whilst another company will only pay in stages depending on the severity of the cancer. Who knows how soon you should be paid after you get cancer? Surely there is a method that is best for the afflicted person and surely this should be the way that all companies pay out their benefits? By implication, it means that some companies are doing what is best for themselves not their clients.

As a start, someone with the right knowledge should look at all these different benefits and provide us a model for the best range of benefits that we need for life, disability and illness insurance. From there, we need to instruct the life companies to standardise their terminology for these benefits so that we can compare them and make a slightly more informed decisions when choosing the right product. As we have seen in the past, the life assurance industry does not like this type of transparency, (just ask Rob Rusconi) so I am convinced that they must be forced to change because they will not do so on their own.

Until then, I am fearful for those who need life assurance and related cover. You need to find a highly experienced and ethical specialist and there are only a handful of those.