

LIFE ASSURANCE THE RIGHT WAY?

HYDE PARK: For more than 15 years, I have been criticising the life assurance industry in South Africa for only paying advisors an upfront commission for life assurance products. I have always felt that this method of payment was not in the clients' best interest and it would be better for advisors to earn on a pay-as-you-go basis. Finally there is one life assurance company in South Africa that seems to share the same view and has launched South Africa's first true ongoing commission model for life assurance products. This is a move that I hope will be the first step in a major evolution of the life assurance industry in South Africa

CONGRATULATIONS TO ALTRISK

The company in question is Altrisk; if you don't know of them, their marketing material says they have been going for 12 years and are a Hollard associate company. More importantly, they have obviously realised that it is important to offer the South African market a more ethical way of doing life assurance. This means they now offer their insurance products with two alternative methods of advisor remuneration i.e. upfront commission or monthly on-going commission. There is no other life assurance company in South Africa that offers pure ongoing commission to advisors who provide life assurance advice to clients. Some life assurance companies pay their upfront commission to advisors over a short period of time e.g. 12 or 24 months but this is still upfront commission in a different form.

Note: Our business has no commercial interest in Altrisk and we have minimal commercial interaction with them.

WHAT IT MEANS FOR YOU

I asked Altrisk to provide me two examples of how these different remuneration models would save clients money. It seems there is a substantial saving for younger clients but minimal benefit for older people.

Example 1:

A client aged 30 would pay a premium of R233 per month for R2m life cover had 100% upfront commission applied. Should the advisor agree to offer the maximum ongoing commission only, the premium would reduce to R205 per month (i.e. a 12% saving) and the advisor would receive 15% of the premium per month i.e. R31 per month.

Example 2:

A client aged 60 would pay a premium of R1 556 per month for R2m life cover had 100% upfront commission applied. Should the advisor agree to offer the maximum ongoing commission only, the premium would not reduce and the advisor would receive 9% of the premium per month i.e. R140 per month.

Source: Altrisk

"At the extreme, younger clients could enjoy up to 12% discount in premium but this will taper off, as will the maximum ongoing commission available, with age."

In my view this is a major step forward, Altrisk have also structured the ongoing commission so that clients cannot be charged more than the regulated amounts and they cannot pay more ongoing commission than the equivalent upfront commission. As you can see the amounts of commission

earned by the advisor are quite small e.g. R31 per month but it would be paid over 30 years and would ensure that the advisor continues to service the client on regular basis.

THE INDUSTRY HAS A LONG WAY TO GO

Insiders in the life assurance industry tell me that it costs a lot of money to change the remuneration model for insurance policies. It seems that the entire IT process of the company has to change and so it cannot be easy for a company to spend large sums of money on something which might not work. Surely it is always more profitable in the long run for companies to do the right thing for their clients? On that note, I hope that the industry will work on creating simpler life assurance products that are easy for all to understand. That would be another major breakthrough and would go a long way to changing the perception of the industry in South Africa.

There are thousands of life assurance advisors in South Africa and many of them are resisting the move away from upfront commission because they feel that they cannot service clients and only earn R31 per month (as an example). I have some sympathy with them because the life assurance product providers make their products and application procedures so complex that it takes an average of 8 – 10 hours to get a client insured. This could be substantially reduced if the life assurance companies streamlined their products and application processes.

POLL: HOW WOULD YOU PREFER TO PAY?

If you need a life assurance or investment product in future and you decide to make use of an advisor, how would you like the advisor to be remunerated? You have four choices:

1. The advisor gets an upfront commission paid by the product provider
2. The advisor gets a monthly fee from the product provider
3. You pay the advisor an upfront fee directly
4. You pay the advisor a monthly fee via debit order