

LIFE ASSURANCE IS CHANGING

As a proud financial planner, one of the few things that makes me squirm in embarrassment about my industry is life assurance. Life assurance is necessary and could prove invaluable if the worst happens to someone but I believe that clients of life assurers are not treated fairly in South Africa. I am hoping that new legislation and new entrants to the market will tip the scales again in the next few years.

LIFE ASSURANCE PRODUCTS ARE OPAQUE AND COMPLEX

Whenever people are treated as a collection of numbers that can be analysed and categorised, you need to understand that some outcomes are nearly inevitable. Firstly, all of us will be reduced to binary numerals in a computer model, there is no room for humanity or concern for the individual – it is all about the model. Unfortunately, this is how life assurance companies work. They try to determine *when* most of us are likely to die and then work out a price for insuring our lives in the unlikely event that we do die *before* the predicted time. As a concept, I understand the need for life cover and agree that there is merit in having life cover in certain situations. The problem is when life assurance companies start using their financial models to determine how they can reduce their payout risks whilst still charging us a lot of money. I am sure most life assurance companies initially tried to reduce their risks for the right reasons however I feel that this risk reduction drive eventually became a move to increase value for shareholders and clients lost out.

I believe that South Africa's death, disability and dread diseases insurance products are so complex that it takes highly intelligent people at least 5 years to become knowledgeable about the industry. I cannot understand how people who are not proficient in the mysteries of life assurance (myself included) can buy these policies with any certainty that we will be covered if the worst happens. There are so many specific terms and conditions in the policy agreements (especially with critical illness policies) that I am sure a life company can repudiate any claim if they really wanted to. We know that they do pay claims but how do I know that my specific claim will be honoured?

The second problem with life assurance is the pricing. Having seen the prices these companies charge, I cannot believe that they are charging fairly – it cannot be so expensive to insure our lives.

CHANGE IS COMING

You will be forgiven for being cynical about the heading above but I believe it is true. Around the world, regulators are starting to entrench the concept of fairness in their financial legislation. For ordinary people like us, this is a blessing. The South African government is also working on legislation called Treating Customers Fairly (TCF) and it is likely to shake up the life assurance number crunchers forever. Soon they will have to start looking at us as individuals with real families and determine whether they are taking our money in exchange for cover that will really pay out if the worst happens and they will have to charge a fair price for doing so. It will no longer be good enough to repudiate our claims because clause 724 in the contract says they can. They will have to answer a fairly basic and powerful question, did you treat the person fairly and was clause 724 fair to you and the client?

I cannot wait for TCF, if done correctly; it will level the playing fields for all of us.