

GLACIER ON RISK
EXPERT
INSIGHTS ON
RISK MATTERS



PROTECTING CLIENTS' BIGGEST ASSET – THEIR ABILITY TO EARN AN INCOME

Welcoming delegates at Glacier by Sanlam's recent *Glacier On Risk* event, host Jeremy Maggs pointed out that, in the case of a couple aged 65 today, there's a 50% chance that one of them will live to the age of 94. There is therefore a greater need than ever before to work longer and protect one's earning power. The theme for the day was "Protecting clients' biggest asset – their ability to earn an income."

Speaking at the Johannesburg event, Paul Zondagh, the founding partner of True South Actuaries & Consultants, emphasised that South Africans are underinsured by R9.2 trillion on life insurance and by R14.7 trillion on disability insurance. This represents a shortfall of 61% on the life side and 60% on disability cover, meaning that the insurance sold only covers 39% or 40% respectively, of the total need.

He illustrated this by showing that the "average" person (age 42, earning R401K p.a.) in the wealthiest 20% of the population has a gap of R1.9 million in life cover and a disability gap of R3.8 million. Should the breadwinner die or become disabled, the family will experience a drop in their standard of living.

According to Paul, the average person needs to replace two-thirds of their income in the event of death, but if they become disabled they will need to replace 97% of their income. In theory, he stated, people should buy 1.5 times more disability insurance than life cover – but this doesn't happen in practice.

Peter Dempsey, deputy CEO ASISA (The Association of Savings & Investment South Africa), re-iterated these points at the Cape Town event, highlighting the widening in the insurance gap, i.e. the difference between existing life and disability cover and the actual need of the average South African income earner.

Sanlam senior medical adviser, Dr Eric Starke used a number of case studies to show the difference between income protection (which pays out on both temporary and permanent disability) and lump sum disability cover (which only pays out on permanent disability). Income earners need to protect their earning ability in the event of temporary disability. Most cover sold in South Africa is lump sum cover which only pays out in the event of permanent disability, resulting in a large shortfall in temporary disability cover. Research shows that most claims are for temporary loss of income.

Dr Starke stated that there are arguments both for and against lump sum versus disability income protection, and one has to look at a number of factors, including occupation and age, but most importantly, one's financial status, i.e. can the client sustain himself during the waiting period, before the payment is made. Also, many clients are unaware of these waiting periods.

According to Dr Starke, permanence is “a huge hurdle to overcome” and can take a long time to determine. In addition, advances in medicine, diagnostic tools and surgical techniques also mean that fewer cases result in permanent disability.

A combination of sickness benefit, income protection and lump sum disability is possibly the ideal solution for clients.

Panellist and product development actuary at Sanlam Personal Finance, Karen Bongers stated that income replacement benefits are even more important in the case of younger people who have a longer working career ahead of them.

Petrie Marx, product actuary at Sanlam, advised that if cost is an issue, clients should rather insure for a lesser amount, but cover more needs.

Business owners in particular need to secure their income. Estate, trust, tax and financial consultant, Errol Meyer covered the topic of business financial planning and the impact on the owner’s estate planning. Essentially one should apply the same risk profiling principles to business assurance as to personal risk cover.

International research shows that up to 50% of family businesses can fail due to taxes payable on death, if there is no proper planning in place.

CaseJohnson CEO Bruce Sahd ended the day’s presentations by discussing game changers in the distribution landscape as a result of direct distribution channels, the rise of digital and the critical importance of data.

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