

Your Money Matters Podcast Series

EP 7 – The role of comprehensive life insurance as financial protection with Gareth Friedlander

Overall Intro

[00:00:00] **Bruce:** Managing money and knowing what is good for your financial wellbeing at every stage of life is a skill. It's a skill every person needs. Managing money well means having an adequate level of protection, more savings than debt, and knowing how the choices we make can either make us or break us. Of course, we're all human. So, in Your Money Matters, a podcast brought to you by Discovery, I unpack practical aspects on banking, life insurance, investments and more in discussion with experts. Join me for these interesting conversations and hear how small things we do can take us to greater financial security and more of life's rewards.

Episode intro

[00:00:43] **Bruce:** This episode is all about why building a comprehensive life insurance portfolio is so important in this day and age. At its core, it's about financial protection. It's also about quality of life. But do you really need to start considering life insurance? And how much do you really need? Well, alongside me to talk about this and to take us through the real value and fundamental purpose of life insurance the Deputy Chief Executive of Discovery Life, Gareth Friedlander, and again mortality, especially our own mortality, Gareth is a very difficult thing to face and when it comes to sitting down and having that grown-up conversation with somebody who is talking to us about comprehensive insurance or what it might require, it really is a hard conversation. Why is it such a tough conversation that just has to be had?

[00:01:31] **Gareth:** It is Bruce, yes, you know, I think it is something we don't like talking about or planning for. These are horrible things to think about but it's unbelievably important and I think when you talk about comprehensive cover, life cover is not just death cover that people tend to think about when they hear the term. It is a whole range of what we call long-term insurance cover. So those are things like disability cover, income protection, severe illness cover, to name a few. It's a broad range of things of life-changing events that can occur to us and our families that we really need to think about and plan for.

[00:02:09] **Bruce:** Almost death is the easiest option and life insurance as we know it or death cover as you might call it, is the cheapest of the lot and so it's fairly easy sell. If you die, you want to leave something for your beneficiaries - very seldom do people think of the consequences of disability or losing income as a result of illness or severe illness means you're incapacitated and unable to work but you're still a living, breathing, consuming, now burden on an otherwise happily functioning family.

[00:02:43] **Gareth:** Exactly Bruce and there's a study that ASISA performs every three years called the Insurance Gap study where they look at the country and they calculate how much insurance our citizens need and how much they have and what's the gap? And their latest

study put the number at nearly 35 trillion. Now, it is an enormous number. And you know, I think what struck me when reading through the study is how the gap exists for everyone. In fact, the clients with the highest incomes had the highest gaps because you're trying to insure a lifestyle that is at a higher level, so your need goes up as the income goes up. Clients of different ages - You might think that insurance is for people who are older. People who are the youngest ages had the highest gaps because they actually didn't have much in place to begin with. And in actual fact, when you think about your assets, the one thing that people don't tend to think about is their future income and in most cases that will be your biggest single asset. You ask a graduate coming out of university: "What are your assets?" They'll say to you, probably, their car if they've got one, or their smartphone. But not many of them actually tend to think about their future income and that is by multiple times the biggest asset that they have. They've worked and studied very hard for it and it is something that needs to be insured. They tend to insure their phone before they'll insure themselves and their future income which is, in many cases tens of millions of rand when you start to present value what you'll learn between now and the time you retire.

[00:04:27] **Bruce:** And here's the problem Gareth, if you are a 20-something individual and you've got this whole lifetime of earnings ahead of you, you go and sit before a financial adviser and the first thing they said: "Why don't we talk about what cover you've got?" and immediately it feels like a sales job and immediately it starts feeling like, 'hold on a second, you're here just to extract money from me when I'm so young and I've got my whole life ahead of me. I don't need what you're offering, go away and get out of my face.' I think that's one of the reasons why there is this R35-trillion insurance gap is because people are frightened of being sold stuff they don't believe they need.

[00:05:05] **Gareth:** And I think that comes from two perspectives, Bruce. I think the first is just a lack of awareness of what you do need, right? So, they tend to think that insurance is for someone with a big liability, or you need a family and therefore it's not for them. So, they tend to not be aware of the needs that exist at their life stage - at a graduate or young professional's life stage - and I think the second and probably the bigger problem is this feeling of invincibility when you're a 20-something year old and you don't tend to think that these things happen to you. Sadly, that's not the case. Every single year we see young clients passing away, getting severely ill and we've got significantly higher motor vehicle fatality rates than the rest of the world, suicides amongst younger clients are on the up. When you look at our severe illness claims, about 48% of our severe illness claims occurred in individuals younger than 50 - 48%! So, it really is staggering, you do tend to think that the needs behind insurance are for other people and you're invincible. What we've done to try and address this is we've created a really interactive claims website that we hope that people will engage with where you can put down your information, make it personal, so say I'm a 25-year-old male doctor ... what claims happened to people like me last year? And that all of a sudden makes it a lot more real because these are your colleagues, your equivalents, who've had these life-changing events and they're not just these numbers that happen to other people. So, I think those are the conversations out there. It's about getting the importance of the need and the awareness around the need out there and also, kind of dispelling the myth that these things happen only to other people and they'll only be a problem when I'm older.

[00:07:08] **Bruce:** Let me give you some hypotheses. Okay, so young person comes and sits before you Gareth and says: "You know what I'm young. I've got x amount of income, I'm saving for the future. This insurance thing that you're offering me is simply too expensive. I don't have dependents. You want me to insure my future income. Well, if I keep paying these insurance rates, I'm not going to have an income in the future because I'm just going to have to pay massive escalations every year." What do you say to them when they come to you with that basis because I think that is the sort of pushback that you would get quite a lot?

[00:07:42] **Gareth:** Yes, it's quite right. The answer is quite simple. Your savings aren't enough now. Savings take time. Unfortunately, there is no quick fix to savings. You build up savings over a long period of time. Hopefully you start early, and you start building it up and at some stage, later on in life, you'll have sufficient assets and savings. Such that perhaps some of your insurance needs do reduce, but the issue is right now. What you'd say to that person is okay: 'if you've got savings and you don't have cover, if you were to die today or become disabled today and not be able to work, are your savings sufficient to give you the lifestyle that you've hoped to give yourself and your family?' And the answer is obviously no, you've had no time to build up any sense of a safety net. So, insurance is perhaps even more important at that younger phase of your career when you haven't been able to build up any resilience towards these life events that might happen.

[00:08:42] **Bruce:** Then my riposte to you there is: "How am I meant to save when I'm paying it all to you in insurance premiums?"

[00:08:50] **Gareth:** So, the beauty is that the earlier you start, the cheaper it is. So, when you take out insurance as a young client, you can get quite a lot of cover for fairly low premiums. It doesn't mean that you need to throw away every single thing that you are doing with your monthly salary in order to be sufficiently covered. If you get cover at an older age when the probability of things happening obviously starts to increase then sure it becomes expensive, but it doesn't exclude you from saving by taking out cover at a young age. And then the other thing that we've really focused on - Bruce, you're very familiar with what we call our shared value insurance model which tries to create value in the system for clients being healthy. This tends to really appeal to many of our younger clients who go to gym, perhaps in a pre-Covid world, go to gym and are active and healthy and really doing what they can to manage their health and wellness and that is obviously fantastic from a life insurance perspective because it reduces the risk dramatically on our side and we can then start passing that value back to clients through things like paybacks and longer-term value through their policy so that in a sense you start receiving value from your policy through being healthy and you can almost start creating a financial asset that way at the same time as having the insurance. So, we kind of look at it in that sense, using the model to give yourself the ultimate protection and to ensure that you've got proper protection when you need it, but then using health and wellness to create that kind of savings mechanism, so to speak, by creating financial value in the policy over time.

[00:10:36] **Bruce:** I'm curious as to whether or not young people's sense of their own mortality has altered at all in this time of Covid -people who might have felt invincible may feel a little bit more vulnerable now or not?

[00:10:51] **Gareth:** Look I think we've seen that a kind of overall level that vulnerability has gone up. People are, you know, you're in a pandemic; you're seeing these numbers ticking up on the news and not only that you're hearing about friends and family who have had life happen to them. So, it does tend to make you wake up and we have seen the demand increase in line with that. I guess on the flip side, COVID has had a much higher impact and has much higher mortality the older the client is. So perhaps you are still seeing some of the younger factions in the population still feeling relatively invincible even in the face of Covid. But I think at a general level we definitely have seen Covid-19 be a real wake-up call to society.

[00:11:39] **Bruce:** There's also another belief and I think it's a fairly widely held belief that really only the breadwinner in a household needs to have insurance particularly when it comes to comprehensive insurance because if the breadwinner loses their ability to generate an income, well, then obviously that income must be replaced. They were the ones who were doing the hard yards. They were doing the earning. Is that valid?

[00:12:02] **Gareth:** Not at all. And we're seeing this more and more. Firstly, the term breadwinner, I guess, is becoming probably obsolete I think most households require two incomes and most households have two people working and earning an income and obviously that brings with it its protection needs. But, in scenarios where you've got a househusband or housewife who is performing certain roles within the household whether it's looking after the children or doing the various household activities that need to be done those cost an enormous amount of money. So, by doing that you're saving the money that you'd spend on getting those tasks done in the event that that person was no longer there. So, where you have the loss of a housewife or a househusband all of a sudden who's going to do those activities? Who's going to look after the kids, who's going to drive them around? All of these things cost money. So, it's unbelievably important to consider holistically the financial situation that you'd find yourself in no matter who something were to happen to in the family. And that Bruce extends beyond, even the married couple, to the children themselves. Many people tend to overlook the need for cover for something happening to your kids and it's a terrible thing to think about but, if something were to happen to a child, childhood cancer is on the rise and for those of our listeners who have had the tragic event of going through that they'd know the impact that that has on your entire family. Most people will stop working for at least a period of time, they need to go with their kids for the treatment, go through the entire ordeal. It has a massive impact on your life and bizarrely, people tend to take severe illness cover for themselves and not for their kids. So that is something unbelievably important to think about.

[00:14:02] **Bruce:** It's the one thing that I think, we can think of our own mortality, we can think of the risk to our family should something happen to us if we become a burden on our families, I think we can compute that. If our spouse, I think we can compute that but when it comes to kids and the considerable burden on families that happens when a child gets sick then if you've had a child break a leg and you've had to take them to the trauma unit for a morning, you know that that's pretty unsettling. I mean, you feel your child's pain, every time they wince or whimper you cannot do anything else in those few hours that it takes to go to the trauma unit and bring your child back home with a plaster cast on. If you consider it when a child has to have chemo or a child has to go into a hospital for treatment with a possibility

that that that child might never come out. There is no way that any parent can function on any level of efficiency while going through that process, surely not?

[00:14:57] **Gareth:** Absolutely. I think there's an interesting question to pose. If you were to ask yourself: "If I was diagnosed with cancer and there was a treatment that was going to cost millions and millions that could potentially work or may not work but could give me a few more years to live. Would you go through that? Would you bond the house, would you sell off your assets, would you do what you need to do to give yourself that chance? And it's not necessarily the easiest answer to say yes to. It might not work, and you might leave your family and your kids destitute if you weren't sufficiently covered. But if you ask every single parent that exact same question about their kids, there's only one answer. You'll try whatever you possibly can to help your child and yet you'll find so many parents who have way more severe illness cover on their own lives than on their children's lives and it's completely the wrong way around.

[00:15:58] **Bruce:** But I've got a job and I've got a provident fund and in there is - I love the terminology that people use - in there's my pension. I've got my pension and there's life cover there and that's fine. It'll be sorted out because people look after me because I work really hard on a daily basis and people care about my feelings and I think that's probably another one of the big mistakes people make.

[00:16:23] **Gareth:** Look, I think Bruce that's the reason we have financial advisers, and we have proper sophisticated algorithms, forgive the jargon, but it's quite simple to work out how much you need if something were to happen to you. Don't sit idly thinking that yes, because that x amount comes off my salary each month from the group scheme that if something happens everyone in my family are going to carry on living as if nothing had happened and do the work. Get an adviser to have a look, say what cover do I have in place? Maybe it is sufficient. But at least have that conversation, let someone do that calculation for you and understand whether there is a gap and how big that gap is. It is just so important not to sit there in kind of blissful unawareness thinking that everything's going to be okay.

[00:17:16] **Bruce:** "However, it's expensive and the family needs a holiday, Covid has destroyed our happiness. You know what, I'll do it next year and this year rather than spend the money on the insurance, we're going to take a holiday. You know what we've never been to Mauritius. Let's go to Mauritius and when we come back from Mauritius, I promise we'll get it sorted out." And there is that risk as well where we can justify I think almost anything to ourselves when it comes to our lives and our financial planning, Gareth and especially after a year like we've had. As aware as we might be of the needs and the requirements and the responsibilities, we also get pretty fed up sometimes as to pay, pay, pay without any tangible benefit to ourselves. And I mean the insurance industry calls these things "death benefits", which I've never managed to get my mind around but there is a huge burden of responsibility when it comes to understanding what life will be like when the income stops tomorrow or this afternoon or in the next seven minutes where there is no backup plan. The road accident fund is not going to pay you out, the Tooth Fairy isn't going to appear and bail you out. This is again you and your responsibility.

[00:18:37] **Gareth:** Absolutely, and unfortunately in a perfect world if we all had that crystal ball and knew exactly when that event was going to happen, then you could take your holiday and you could do what you need to do and make sure that your affairs were in order just before that event occurred, but we just don't know and unfortunately in a world of uncertainty and I think ever-increasing uncertainty in the context we're living in today, you just cannot put anything above the importance of making sure that you and your family are protected if something were to happen. And, you know, if you do it smartly and responsibly, you often find that it's not the holiday that gets forgone. It's a couple of cups of coffee and some really smart things that you could do to save those small amounts each month that allow you to keep that insurance in place. So, you know, that's where the importance of advice comes in and the importance of really being deliberate about what you're saving, what you're insuring and then spend what's left. Don't do it the other way around where you spend what you want to and then save what's left or insure if there's anything left. That's setting yourself up for failure. Again, it's just about being deliberate about it, being cognisant of how important it is and using financial advice because there are really sophisticated financial advisers out there who will help you change your life and that of your family.

[00:20:06] **Bruce:** How much is enough cover? How do we determine what is enough? I am an individual, I'm not a figure on a spreadsheet, tell me what is enough?

[00:20:16] **Gareth:** Ja, well, it's a great question and I think the world is changing. There are obviously formulas, you know, there are needs. Do you have debts? Do you have a bond? You want to pay your debts if you die. You've got an income that you want to replace... So, there are simple formulas that you can apply. But, on top of that, the world I think has changed. We're no longer living in a world where when life happens you just need to deal with it. There's all sorts of technology around the world that gives you options to get your life back. That's something that we deal with as a provider and you know my team trying to come up with new products each year. We look at the changing world and we see well, how I needs changing around that? In the old days you used to say, okay when you become disabled you need to be covered for your debts and for your income and that was fairly straightforward and maybe to make changes to your house and your car for if you have a disability and you've got to make your house wheelchair friendly or whatever it might be. But today there is an enormous amount of technology, assistive devices, breakthroughs that are being made every single day that are changing the outcome for people. So, it's not about just accepting, "Okay, I've got a disability, how do I live with it?" But it might be about accessing the best possible wheelchair, the best possible prosthetic that can give you your life back, that can give you your lifestyle back to an extent. Unfortunately, many of these are unbelievably expensive upfront and over time, through upgrades and all of that. We've changed how products are designed over the years to account for these changing needs. Now what we do is we've got a disability product called Lifetime where, yes, it will calculate how much you need for your bond and your income or you can calculate that in terms of setting the sum assured but then it provides pay-outs as well to provide you for the assistive device that you may need depending on what your disability was. So, the world is changing, Bruce, the same can be said about severe illness, where there's these breakthrough drugs for cancer in particular that we tend to see coming through, almost it feels on a monthly basis. But you hear about these exorbitant amounts of million-rand per treatment. These are the things; this is why you need insurance. It's not only about out making sure your family is okay

without you or if you are disabled, but also giving yourself access to the best possible lifestyle post one of these events.

[00:22:56] **Bruce:** And, not to put too fine a point on it, but we do live in a society where the odds of something bad happening to you are higher than in many other societies whether it be crossing a road, driving on the road, simply driving about at night. The odds of a bad event happening to you in South Africa are higher than elsewhere. It's a fact of daily life in our country.

[00:23:22] **Gareth:** That is sadly the case. The odds of one of them happening does tend to increase that need for insurance. I think what we have seen though is that odds can be changed by your behaviour. That's something that's been our mantra and we keep proving it to ourselves over and over again that through the right types of behaviour, you really can reduce those odds. You'll never be able to make them go away - death, disability, severe illness is always going to be a reality, but we certainly can, through adjustments to our behaviours and our lifestyle, really make a significant difference to the probabilities that we're exposed to.

[00:24:02] **Bruce:** And nothing would have exhibited that more clearly than the hard lockdown in South Africa when people were obliged to stay at home. I'm sure you had more people slipping in the bath and perhaps falling off step ladders cleaning out the gutters than you normally would, but far fewer people getting smacked on the head with a bottle, stabbed in the face with a glass or ending up underneath the truck, simply because they weren't that many cars and trucks on the roads.

[00:24:24] **Gareth:** Absolutely. It's a classic example of well, what you could call responsible behaviour, obviously it was forced upon us, but we definitely did see motor vehicle accidents go down dramatically. It was well documented that trauma units at hospitals were empty... Obviously things like alcohol, it was well highlighted as well - its impact that that tends to have on the trauma units. So, it's a great example of the power of behaviour change and what it can do in terms of changing probabilities and creating real value for society at large. So, yes Bruce, we've definitely seen that come through and Vitality has obviously been at the forefront for us of really monetising that behaviour change at an individual client level and providing them with things like, up to 50% of their premiums back for the right types of behaviour. So that's something that's hugely important and I think it has to an extent taken a little bit of the grudge out of the purchase. I don't think anyone's ever going to be delighted in buying life insurance, but I think knowing that if you do demonstrate the right type of responsible behaviour that's in your control that you can get a better deal and you can start really earning significant amounts back from the system. It definitely does help, and it creates more positive engagement between clients and the insurer.

[00:25:48] **Bruce:** And if your message then is the only way really to mitigate insurance risk to a point where you don't need any cover at all is behave like you're in lockdown level five. If you can't face that in your everyday life get some insurance and go about your normal life.

[00:26:03] **Gareth:** Ja, you'll never be able to completely eradicate it and I guess obviously something we really are keeping an eye on is the impact on mental claims going forward. I

think most medical professionals are particularly concerned about the impact of depression, anxiety and all sorts of mental poor health that that has manifested from Covid and the associated lockdowns.

[00:26:29] **Bruce:** What an interesting discussion and what a sobering discussion and what an important discussion, like all of these discussions are on the podcast series. Phenomenal contribution today, thank you so much for joining us and for listening to this latest episode. Gareth Friedlander is the Deputy Chief Executive of Discovery Life.

Episode outro

[00:26:48] **Bruce:** To better understand how comprehensive life insurance cover can, not only protect you and your family, but also adapt to suit your ever-changing needs because they will change and consistently and inconsistently so, head over to the 'Covering what you care about' section on the Discovery Magazine's Smart Money hub on discovery.co.za. Here, you'll find a wealth of resources to strengthen your financial footing in the most protective of ways.

You can also visit discovery.co.za for more details on Discovery Life's full range of cover benefits, or chat directly to a Discovery certified financial adviser.

Overall outro

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