

DOLLAR LIFE PODCAST SERIES:

YOUR FUTURE IS GLOBAL. PROTECT IT.

EPISODE ONE: An introduction to offshore life insurance

Bruce Whitfield (00:00 - 01:48)

Diversification is a golden rule of investing. How beneficial can it be for your risk protection needs? Today's reality is that lifestyles are increasingly global; and as such, so are the risk protection needs of individuals and their families. What if you could hedge your unique life cover and that need against a hard currency? Discovery Life International is now giving you the opportunity to access the first and only authentic offshore life insurance policy for South Africans – The Dollar Life Plan. It's a unique life cover opportunity providing financial freedom in the most widely used currency in the world – the U.S Dollar.

Join me, Bruce Whitfield, as I discuss the world-leading benefits of offshore risk protection with some of the expert team behind this life insurance offering; as well as the global investment expert and author, David Joshua. Together, in the Your Future is Global. Protect it series, brought to you by Discovery, we examine why offshore financial planning is so important for all of your future needs. No matter where you might find yourself in the world, you can be comprehensively protected with The Dollar Life Plan – and rewarded too. If the future is global, here is how you can best protect it...

In this episode, I'm joined by Discovery Life Deputy Chief Executive, Gareth Friedlander and Global investment expert and author, David Joshua. And today, we're going to be looking at offshore life insurance cover and the importance of considering offshore risk protection, in this day and age. Talk to me, if you would, Gareth Friedlander, of just this basic need of life cover. I mean, before we start getting to fancy stuff, the basics of life cover please.

Gareth Friedlander (01:49 - 03:10)

Yes - And I think that's the right place to start, Bruce; because ultimately offshore risk cover is just risk cover that you then take offshore in hard currency. So, 'why do you need it?' - it kind of comes back to, well, 'why do you need life cover?' - And there's a few reasons one needs life cover - things like covering liabilities and bonds, et cetera. But ultimately, it's there to ensure that if something happens to me today or in the future - 20, 30, 40 years' time, that my family will be okay. They will have the means to continue with the lifestyle that I'd hoped they would have and that I'm working so hard to give them today. So essentially, that's why you need life cover. When you think of it in those terms, you can also see why offshore risk protection becomes important.

But what the Dollar Plan then does is it says, well, 'normal life cover and why you need it'. But we then make 'the getting it offshore' a lot easier. So, we've got a Discovery Life International Company based out of Guernsey - And when you buy The Dollar Life Plan through us, you simply buy our

home-grown life insurance. But we then take it offshore and put it into dollars, and that's where it sits and it pays out.

Bruce Whitfield (03:11 - 03:34)

David, when we look at investments, we're familiar with this concept of diversifying your investments globally. We're familiar with this idea that South Africa is less than 1% of global GDP, less than 1% of the value of global stock markets. It makes complete sense, therefore, to diversify our investments. Do the same principles then apply when it comes to insurance?

David Joshua (03:35 - 05:09)

Thank you, Bruce. Absolutely. Financial planning has two elements to it, and those are investments and insurance. And they are really two sides of the same coin. What's so interesting about South Africa, is given its very unique past and history, is what's normal here just isn't normal globally.

In most countries across the world, you would automatically think about externalizing - what we call externalizing - most places, just call, diversifying globally.

You pointed out that we're less than 1% of global stock markets; we're less than 1% of global domestic product we produce - it's actually about 0.4%. And also the Rand is a less than 1% currency, in terms of currencies in global circulation.

So, those numbers alone tell you that we're a less than 1% country. And obviously most countries are around about that size. And if you're that size of country, then you want to be using as many tools as you can to diversify your wealth away from single country risk.

The Rand also depreciates at around 6% per year against the dollar and also sterling. So there's an added incentive to make sure that your money isn't subject to the volatility that a very small currency inevitably provides in the rand, in particular.

When it comes to investments, I'm obviously a very big proponent of a diversified global approach, and I support anything that is going to add to our client's diversification, their optionality and most importantly, their peace of mind. Life insurance does that generally, but The Dollar Life Plan does it specifically by giving clients the gift of global diversification in hard currency.

Bruce Whitfield (05:10 - 05:24)

Gareth, when it comes to choosing the dollar as the currency, is it for now – and it probably will be at least for the next 10, 15, 20 years, - the reference currency - But why specifically choose the dollar as the currency of choice here?

Gareth Friedlander (05:25 - 06:11)

Why we chose the dollar specifically is because we were looking for a means of creating a vehicle to diversify your risk insurance. And as you say, the dollar is by far the most widely used currency, and we believe gives that sufficient kind of currency risk and hedge.

Remember also that at the point of claim - so death or disability or severe illness - if you don't want dollars, you can obviously bring it back. You can pay it out in any other currency. It's just that during the duration of the policy, it's linked to dollars. And we think that provides sufficient hard currency diversification against potential Rand depreciation and volatility.

Bruce Whitfield (06:12 - 06:27)

Is life cover just life cover, just life cover? I pay a premium, I meet an untimely and tragic end, and everyone's very, very sad, of course, but then the payment arrives. Does it really matter where the payment comes to? What currency it's paid out in? David, let's ask you that question first - and then I'm interested in Gareth's feedback on that.

David Joshua (06:28 - 06:57)

Yeah. So, I'm a huge fan of optionality. And in my life, ever since I've been an adult, I couldn't see maximum three years ahead about what I was going to do, where I was going to be. All of those good things.

Now, you massively constrain your optionality if you are in the rand, even just from an externalization perspective - there are limits on that. But also, if you're in another country, the rand isn't terribly useful. You go anywhere in the world; the dollar is tremendously useful. So to answer your question Bruce, cash is king and dollar is the king of the currencies.

Bruce Whitfield (06:58 - 07:19)

All right, there you go. Gareth, in terms of the depth of a life insurance product, is there a fundamental difference between life insurance products? Whether I buy one domestically, whether I choose to buy one option or whether I choose to buy another particular product? Is there a fundamental difference in its functionality and what it achieves?

Gareth Friedlander (07:20 - 09:45)

So that's a big question Bruce, and I think the answer is quite broad. But let me give you some of my views on that. Life cover in its narrow sense, is simply life cover. You pay a premium, it pays out when you die. The value of what that cover gives you at point of death can vary dramatically from one currency to the next. And as David said really succinctly, when you are trying to protect your family for 30, 40 years in the future - which is essentially what life cover is trying to do - having that comfort that you at least are diversifying your rands - because that is a long time with a lot of uncertainty attached to it - we think is responsible and important.

But then life cover is also the umbrella term for lots of other types of insurance. So, life cover itself; then there's disability, severe illness cover, global education cover. So, there's a number of different types of risk protection that are included under the umbrella term of life insurance. And I think when you start drilling down into that, it is certainly not the case that 'life cover is life cover'.

When you think in the context of severe illness: why do you take out severe illness? Well, it's because when a severe illness happens, there's a number of new costs that start to become apparent that aren't necessarily covered by health care insurance. And in the context of where the

world is going, when you look at some of the biggest medical trends around the world, there's this kind of concept of 'super specialization'. Some of the rarest cancers have particular centres of excellence based in Europe, in America, that are highly specialized at treating a very specific type of cancer.

It's nothing about what our local health care industry is like. It's actually very good on the private side. But there are just these centres of excellence that have become incredibly effective at treating new types of cancers, new breakthrough treatments. They're also incredibly expensive and typically won't be covered by medical aid. So, we think that that's where having hard dollar-based severe illness cover becomes incredibly important. It helps you to protect yourself and give yourself access to the best possible treatment for you or your family when one of these sad and tragic illnesses occur. And that is invaluable, we think Bruce.

Bruce Whitfield (09:46 - 10:58)

The world's an exciting place. David, I mean, we look at the world and we look at it as in the olden days, we used to have a thing called a passport. You'd utilise that to get on an airplane, go somewhere fun. Maybe one day we'll do it all again. But in real terms, the issue of migration - South Africa, goes through waves of migration from time to time, and we're going through one of those waves at the moment, and I think it's fairly normalized in South Africa.

But there is also, just as you I think put it earlier, the optionality - we are global beings. I mean, why not... if a great opportunity comes up in Birmingham, or Bangkok or Bangladesh, wherever it might be. Why don't we grab that opportunity? And having a global solution solves the problem to reinvent yourself wherever you go to work and live.

I've got a friend, for example, who works for the United Nations. She's worked in five different countries in eight years. And luckily, because she's with the UN, it's all nice and stable and sorted and centralized - a stable set of financial planning. But if you're going to be job hopping or opportunity seeking around the globe, as many people can do, that stability, the certainty of the admin bit being in place is unshakable in value.

David Joshua (10:59 - 11:58:)

I would 100% agree and having lived in London for eight years of my life - London is made up of people from all over the world. And again, the South African paradigm is people migrate, and they emigrate and we go through waves. All countries do. There is a natural inbuilt tendency and desire for exploration within the human spirit, shall we say. And so that should be supported and encouraged. And the fact that you can have these financial solutions, which didn't exist a year, well, five years ago, let alone a decade ago, is a tremendous boon. And it provides the peace of mind as well as the optionality. And as you've said, you know, this digital nomad trend, it's here. You know, the last 18 months have proved that people can get their work done anywhere in the world, provided they have a Wi-Fi connection.

And just being forward thinking enough to think, 'I don't know what the future looks like, but I am in a position to protect it. What provides me with the most optionality, both geographically, in terms of currency, and then also in terms of the additional offerings that it can give me?'

Bruce Whitfield (11:59 - 12:31)

And that's the point here, Gareth. I mean, from a pure product perspective, just the sense of optionality, that sense of globalization, the sense of being... I have a very well-known friend. His name is David Shapiro. You might know him. He's been a stockbroker for 50 years. He lives in Joburg. He's got one kid in New York, another in Australia, another in Johannesburg, grandchildren at opposite ends of the world in different time zones... And it's that sense of flexibility of the 21st century life that the very needs of globalized families can be addressed.

Gareth Friedlander (12:32 - 14:05)

Absolutely, Bruce. And I think when you think of that in the context of long-term risk planning, where you really are looking at 20, 30, 40 year horizons; how many of us are there who can say with certainty - myself, my children, my grandchildren will not be moving around during that period of time when we look at the trends.

So, it seems like the responsible way to do financial planning - to have that element of hard currency protection and diversification in the context of your planning. I think something else to mention, which is one of the key benefits that we see on our Dollar Plan, is our education protection product.

And there the idea behind it is that - and it's a local product that we've had for many years very successfully, but we've extended it onto our offshore platform - whereby if something happens to you or your spouse, we effectively indemnify your child's education right from crèche to university.

And on the dollar version of that -the offshore version of that, we've set the indemnification levels in line with overseas schooling and university costing. So, again, that provides wonderful optionality. If something were to happen to me or my wife; to know that my daughter is covered wherever she may end up studying and over the full duration of that study period. So that's a popular benefit on this plan, and we think a really important piece of the financial planning puzzle.

Bruce Whitfield (14:06 - 14:23)

Part of the financial planning is also understanding the costs of what you're buying and what you're spending your money on, Gareth. In terms of Rand for Rand, what are you getting in terms of cover that you're getting versus the potential pay out and what that might be one day? Just take me through the structure one might expect.

Gareth Friedlander (14:24 - 16:39)

Usually one tends to think that anything offshore feels a little bit less accessible and more expensive and for a certain part of the population. And we've really tried to ensure that's not the case. This is a highly accessible product. We've set the minimum premium at fifty dollars a month. So that would really include a large portion of the target market that we play in. We think that most of our clients would be able to access this Dollar Life Plan at that fifty-dollar level.

And then something else that we've put a lot of work into is ensuring that the financial planning process and the budgeting process each month is not volatile, because usually you would have to pay a rand amount that fluctuates with how the dollar fluctuates. So, we've introduced a new feature called our Vitality Exchange Rate Protector, which effectively locks in the exchange rate on the product at the level it is today, or even at a discount to that level. So, we've actually got a special offer running at the moment up until the end of 2021 where we're locking in R10.90 to the dollar for the first three years of the policy. It really adds huge value, but also a huge certainty to your structure. You know exactly what you're paying in rands, even though your cover has the benefit of attaining that appreciation due to Rand depreciation.

So, it's a very accessible benefit and designed with real certainty and no volatility. And when you do all those calcs, especially with that special offer, you'll find that it might even be cheaper than the equivalent Rand cover that you can buy today.

It's a highly valuable product and highly accessible, and we think that when you're looking at your financial planning, this should be a natural question that you ask. Do my FNA. How much cover do I need? And once I've determined how much cover I need, the next question should naturally be, well, how much are we going to put local and how much are we going to put offshore? That's how you do your investment planning with diversification, as David mentioned. And we believe that, that should be the natural path of risk financial planning as well.

Bruce Whitfield (16:40 - 17:09)

I never dream of trying to get into the mind of a Discovery actuary because I think I'd get lost very, very quickly. They follow pathways that are unknown to most other human beings. But when it comes to underwriting life cover in a place like South Africa, our risk profile is very different to many other parts of the world. By its very nature, South African life cover is probably more expensive because it's a more dangerous place to live. You have that something of a protection, I suppose, in a globalized world. Do you factor that into your considerations at all?

Gareth Friedlander (17:10 - 19:14)

That is true. Obviously, in different countries, you'll have different based mortality rates that go into the pricing of life insurance. Where we've been particularly successful in the South African space is using Vitality and our Shared-value model to really change client's behaviour and be able to bring down that mortality curve quite dramatically.

We did a study about three or four years ago where it shows that our engaged clients - so clients on a gold or diamond Vitality status - they actually have a life expectancy of about 88, which rivals that of Japan, which is the country with the longest life expectancy in the world.

So in that context, you don't find that you're paying more in the South African market than for an equivalent product that you could buy offshore and one of the more developed markets. The flip side of that also is that South Africa is a global leader in insurance innovation. We have the best insurance products in the world. You find year in and year out that we are winning insurance innovation awards and the type of cover that comes out in the South African market is highly competitive and hugely differentiated compared to what you can buy overseas. So, we think

actually having access to the South African benefits, which are frankly streets ahead of what you can buy around the world, as well as this shared-value pricing model, allows you the best of both worlds. You can get access to the best benefits, but still have them offshore and in hard global currency, which we believe is very important.

I urge advisors or clients out there to go and test this out. You'll see if you were to quote on a client's policy in most developed countries around the world, you won't get a better premium and you certainly won't get better benefits or a wider range of benefits compared to what you get on our Dollar Life Plan here.

Bruce Whitfield (19:15 - 19:23)

David, what does this mean for global wealth planning in terms of structuring estates? Take me through what you would need to consider as that part of the process?

David Joshua (19:24 - 19:50)

Do you know, it's far less arduous than it's ever been, and it's significantly less arduous than it was even five years ago. So, the key here is using an international finance centre to hold the physical contract and the physical wealth.

So, I'm from an island called Jersey that has a huge South African expat community, as well as South African financial institutions. Discovery use Guernsey, which you can actually see across the ocean from Jersey on a clear summer's day.

Bruce Whitfield (19:51 - 19:54)

So that's what, once a year, maybe twice the next global warming?

David Joshua (19:55 - 21:03)

Yeah. And not this year either. Anybody who's lived in the UK this year, they haven't had a summer. So it's a blessing to be in South Africa. And what happens is Discovery take care of the admin in a seamless fashion - And this isn't just Discovery, it's actually across the financial services industry. The friction involved with a client externalizing their wealth and then recalling it or in terms of estate planning, having a life-changing event or death even; the probate process and the legalities alongside that are actually, in a lot of instances, more seamless than the South African system, where there can be frozen bank accounts for wives. And you can run into all sorts of technicalities, which are technicalities when you're not in them, but they can make a moment of how last longer and be more intense.

The beautiful thing about the externalization of wealth and then the offshoring back on - it is governed by the International Finance Centre's legal system - And those systems are specifically designed to assist people - get their money, protect their money and give it to them when they need it.

Bruce Whitfield (21:04 - 21:25)

And that's critical. There's nothing more agonizing, Gareth -you guys see this all the time in life insurance - It's just the real despair that families suffer in terms of that. There was the concept of loss, of course, and that's deeply emotional. But some people - when the stakes get tied up in knots - it's very, very time consuming, messy... And for many families, it can be quite debilitating.

Gareth Friedlander (21:26 - 22:39)

Absolutely, Bruce. And all the more complex when you've got beneficiary's - children of the deceased living overseas, have been potentially financially immigrated. Sometimes it becomes hugely tricky to get the proceeds of the policy to them.

So, this really solves for that scenario where money is already offshore through the net and much easier to get to beneficiaries...kids who are living offshore. So that is a huge upside and benefit of looking at offshore financial planning and through The Dollar Life Plan... and something that, I know Harry Joffe, our Chief Legal Officer, is particularly strong on. He's seen the downside of these estates and how difficult and stuck the estates can get in some of those scenarios.

So, it is hugely important. It's a wonderful way of transferring wealth to the next generation, as well as avoiding some of the sticky issues with Forex as part of that estate roll up. And as you said, Bruce, it's the last thing that a bereft family wants to be dealing with - is all of these hurdles at that point in time.

Bruce Whitfield (22:40 - 23:26)

We'll be talking to Harry Joffe in episode three of this particular series, and we'll get his horror stories because he's pretty good at telling them and we'll get those perspectives from him as well.

Gareth Friedlander, thank you very much. He is Discovery Life's Deputy Chief Executive - and global investment expert and author, David Joshua, joining us today to explain the ins and outs, the benefits of The Dollar Life Plan.

To better understand how a comprehensive life insurance can, not only protect you and your family, but also adapt to suit your ever-changing needs, head over to the 'Covering what you care about' section in the Discovery magazine, Smart Money Hub at discovery.co.za. There, you could also find more details on Discovery Life's full range of cover benefits or chat directly to a Discovery certified financial adviser.