

DOLLAR LIFE PODCAST SERIES:

YOUR FUTURE IS GLOBAL. PROTECT IT.

EPISODE THREE: Why offshore financial planning is relevant for South Africans

Bruce Whitfield (00:00 - 01:57)

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...

What are the financial benefits and implications of an offshore life insurance policy? What offshore liabilities need to be considered? How can you go about ensuring that offshore risk protection is the right solution for you and for your family's needs?

Well, here to chat through the offshore financial planning process is the Head of Legal Services at Discovery Life and at Dollar Life International - he's got himself a new title. That's Harry Joffe and the Senior Risk Specialist, Daniel Stoch. This globalisation of risk - It just makes so much sense from a mobility perspective.

Daniel Stoch (01:58 - 02:17)

Definitely, Bruce. I think when it comes to investments, we are all very quick to think diversification and investing offshore. And that isn't necessarily the case with the risk protection. Hopefully today, we can unpack why offshore risk cover is relevant for many South Africans.

Bruce Whitfield (02:18 - 02:25)

So okay, then take me through financial planning benefits, the implications then of an offshore policy. Just take me through the basics.

Daniel Stoch (02:26 - 02:47)

So, when it comes to risk protection in general, you're looking at protecting a client's mortality risk, the risk of becoming very sick, the risk of becoming disabled, and in an offshore risk protection context, it's providing the exact same risk protection mechanisms, but paying out a benefit in dollars.

Bruce Whitfield (02:48 - 03:16)

Okay. No, it's nice and simple, and we've discussed some of the mechanisms of it there as well. We've touched on price, but I need to understand price, Daniel; and Harry, I'll come to you on Ts and Cs, because this is where you will apply.

But when it comes to cost, this breakdown cost of dollar-based global cover versus rand-based domestic cover I suppose, you can move anywhere in the world with a rand-based product, but you then run some currency risk.

Daniel Stoch (03:17 - 03:58)

So Bruce, I think there may be a misconception that something like offshore risk protection would be exceptionally expensive and inaccessible for the majority of South Africans. And fortunately, that isn't the case. So, when you look just at kind of the general premium difference between Discovery's Dollar Life Plan and our Classic Life Plan, you're seeing about a 5% difference in premiums. So, not much more to take out cover in dollars. But at the same time, when you start to factor in all of the different benefits on a Dollar Life Plan, it actually becomes some of the most cost effective insurance in the South African insurance market.

Bruce Whitfield (03:59 - 04:10)

Okay. How? Because it makes no sense that it should be more cost effective than a domestic insurance policy that pays out in rands at some point. Here you're offering me a hedge. Hedges cost money.

Daniel Stoch (04:11 - 05:01)

The big difference between local and offshore cover is offshore cover enables you to play around with the exchange rate, in a sense. So, this is the major differential between a Dollar Life Plan and one of our local plans.

In essence, clients are able to access a benefit called the Vitality Exchange Rate Protector, which lets them lock in an exchange rate, fixed exchange rate for the first three years. They can then re-lock in another exchange rate for the following three years and lock in a third exchange rate for the three years thereafter; effectively providing them with nine years of exchange rate certainty at a rate below the current exchange rate.

At the moment, we're running a limited offer where clients lock in R10.90 to the Dollar for the first three years.

Bruce Whitfield (05:02 - 05:24)

Okay, you've explained it nicely. Harry Joffe, let's bring you in to the legalities of a product like this - jurisdictions, Reserve Bank, exchange control; all of these words with which South Africans are incredibly familiar, but the implications of a product like this within that quite tough regulatory landscape, please.

Harry Joffe (05:25 - 06:33)

Bruce, so we don't want get too technical or too involved, but just to keep it on a simple level: clients at this stage are paying for the Dollar product using their one million single discretionary allowance. We actually facilitate it for them very nicely in that we will take rands out of their account. We will transfer it over to pay the premium in dollars to our Guernsey office, and we report that to SARB, so it all works through the one million single discretionary allowance.

What we're doing as well from October, which has made me really excited, is that clients will, for the first time, be able to actually pay this premium from abroad. So, clients are sitting with dollars abroad that they want to use instead of going through the forex rigmarole and the single discretionary allowance - They'll be able to pay the premium in dollars as an annual premium. We can't bill them monthly in dollars because our systems can't work like that, but they can pay an annual dollar-based premium that suits them better. And for some clients, it does. If they don't have tax numbers or green barcoded ID's, they can then pay this directly from offshore.

Bruce Whitfield (06:34 - 07:09)

That brings an added advantage in terms of the very nature of our mobility nowadays, Harry, I mean, in previous episodes, we could be absolutely anywhere. You could have contract workers working on three different projects in one year across the African continent, and then go and do something in the Middle East and then be on holiday in the United States, one day when you can travel easily. And that ability to pay from an offshore account then allows you the certainty of regularity and the comfort of knowing that you get to stay up to date on those particular premiums.

Harry Joffe (07:10 - 07:21)

Yeah, Bruce, I mean, if I look at myself in the next 10 years, I'll be retired somewhere in some Mediterranean island, drinking Pina coladas or watching Liverpool win trophies. So, I'll be paying it from offshore.

Bruce Whitfield (07:22 - 07:29)

Well, two out of three things isn't bad. I mean, being able to retire on a Mediterranean island and drink Pina coladas, that's two things you can almost guarantee. The third, I'm not so sure.

Harry (07:30 - 08:43)

The third will come as I get older and older and pray harder. But Bruce, I mean, that's the point. South Africans move; so they can start off paying using their one million SDA. They can then move if they do move offshore and they can then pay from a foreign bank account if that suits them.

And that's only the one aspect of mobility, Bruce. The most important aspect probably is that the client's beneficiaries... So let's take the average individual: He or she will have children. If those children are beneficiaries on their policy and those children now go and live overseas or study or travel or work overseas - you know, you don't really want a rand policy anymore, do you? You want a policy in dollars. So if something happens to you, the kids can be paid out directly in U.S. Dollars.

You know, what you don't want is for something to happen to you in South Africa. Another kid is living, let's say, in London. And the kid battles to get the money out of the country because forex rules are quite restrictive on beneficiaries taking money out.

So, dollar takes away that problem. Not only is it payable from offshore, but it will pay offshore on a death of the life assured and then the kid can get the money very, very easy to bank account anywhere in the world without any forex restrictions.

Bruce Whitfield (08:44 - 08:58)

One of the most administratively intensive processes of life is death. How then does this affect the settling of estates, the winding up of estates when it comes to individuals' global wealth portfolio?

Harry Joffe (08:59 - 10:19)

All right, great question, Bruce. So, the first point is because Dollar Life is what we call a non-domestic policy - In other words, it's issued through our Guernsey office - It's not issued in South Africa, and it's generally payable offshore as long as the client's got a foreign bank account. It actually falls out of the Estate Duty Act. So, Dollar Life as a life insurance policy wouldn't be estate dutiable in South Africa, as long as a client has his foreign bank account for the proceeds to pay into.

So, we avoid estate duty quite legitimately, quite legally in South Africa. And because dollar is issued through our Guernsey office, there's no estate duty in Guernsey for non-residents. So it wouldn't be estate dutiable there either. So you can avoid estate duty quite neatly. And of course, the other point you raise, which is a very valid concern, is if a client has got assets around the world, they might very well find they've got what we call Situs Tax on that asset in that jurisdiction. And what Dollar does, which is so neat, is it kicks out this foreign currency pay out - dollars, which can be used by the estate to pay authority estate duty. In those kind of cases, we would normally recommend to the client that they've got a foreign trust as a beneficiary of dollar, and that foreign trust can then receive the proceeds and use them to settle any foreign death duties anywhere in the world.

Bruce Whitfield (10:20 - 10:35)

The business of dying, it's so exhausting. Part of my plan is not to die because I don't want to tie people up in complexity, but I'm not too sure I've got control over that process. It's not adding another layer of complexity - doesn't it - to the death process or does it help simplify it?

Daniel Stoch (10:36 - 12:07)

So, I think the argument here is that it really does help simplify things when you consider someone with offshore liabilities. Even for South Africans without offshore liabilities, you start to reap all of the benefits that Harry's just mentioned. So, saving on estate duty is another kind of layer to The Dollar Life Plan, enabling clients to effectively receive up to 30% more life cover on passing away. Another reason The Dollar Life Plan is incredibly cost effective.

And this is all before we even touch on Discovery life shared-value insurance model, where we enable our clients to get, on a Dollar Life Plan, up to 50% of their premiums back every five years, payable in dollars into an offshore bank account.

So when you start to combine all of the discounts, effect of premium savings and tax benefits with the ability to get premiums back, it starts to become more and more of a no brainer for clients.

And to kind of wrap all of that up, we have a minimum Dollar Life Plan premium of only 50 dollars. So when you factor in the R10.90 to the dollar limited offer, clients, in essence, can access a Dollar Life Plan for R545 a month, meaning a number of clients could really start to consider diversifying their offshore risk cover.

Harry Joffe (12:08 - 12:11)

R545 Bruce, is about the cost of your shirts every month. So it's not that bad.

Bruce Whitfield (12:12 - 12:37)

I haven't bought a new shirt. I haven't had to buy a new shirt in eighteen months. I haven't been outside. But Daniel does 50% back in dollars into an offshore bank account – now - At what rate does that refund get paid? Because you are fixing the pay out at R10.90 for the first three years. Do you pay back at the same sort of rate? Or do you pay it at a market rate? How do you pay back?

Daniel Stoch (12:38 - 13:26)

So, the real beauty of dollar is that while your premium is certain and payable in rands, your pay outs themselves are all payable in dollars, including your PayBack benefit. So, you'll be paying a monthly premium in rands - We'll determine what your actual dollar premiums paid in look like, and then we'll calculate your PayBack in dollars, payable every five years.

One other benefit to our Dollar Life Plan is a guarantee on that PayBack for the first 10 years. So, in your first two PayBack cycles, clients are guaranteed a PayBack of up to 15%. Our more healthy and engaged clients are then able to earn that additional PayBack of up to 50% of their premiums back in dollars.

Bruce Whitfield (13:27 - 13:55)

So, fully engaged Vitality customers. So people have learned the benefits - if you've got short-term insurance via Discovery and you fill up your car at a particular petrol station, you will get a particular benefit back depending on your Vitality status. And that works with the healthy food refund as well, that comes at the end of the month, et cetera, et cetera, et cetera. The structure of this is very much aligned then - shared-value - with that proposition.

Daniel Stoch (13:56 - 14:29)

That's correct, Bruce. And we have another limited offer running at the moment for all of our clients who commit to vaccinate or have been vaccinated. So, if these clients decide to take out a Dollar Life Plan; for their first policy, we guarantee that they will receive their maximum PayBack. So depending on their integration structure, that could be a guaranteed 50% of their premiums back in dollars for the first year. And that will be payable as part of their first five yearly PayBack.

Bruce Whitfield (14:30 - 14:50)

So, you're guaranteeing the premium at ten ninety to the dollar for the first three years. But premium fluctuations - I mean, premiums by their very nature - as risk profiles change, as environments change, when COVID-27 comes along - or whatever it might be; how do we deal with premium fluctuations over time?

Daniel Stoch (14:51 - 15:50)

So Bruce, there are two elements to consider there. The first would be your exchange rate fluctuation, and that's taken care of by the Vitality Exchange Rate Protector. The other element to a client's annual premium increase is their funding pattern, which is often linked to both the client's age and the rate at which their benefits increase every year. On a Dollar Life Plan, a client's benefits increase by US CPI each year. Now, because US CPI tends to be lower than South African CPI, you're looking at about 1% to 2% each year.

That means that a client's actual premiums in dollars increase at a far slower rate in a Dollar Life Plan context than when you'd compare the same cover to any South African policy in our market. So, you have a far flatter premium pattern, meaning more sustainable dollar premiums as a client gets older.

Bruce Whitfield (15:51 - 15:56)

What's the catch, Harry? I'm looking for a catch and I'm struggling to find one.

Harry Joffe (15:57 - 17:19)

Bruce, I must tell you, I've just taken my first Dollar Life policy and it's going to be issued by the end of the month, I hope, if I get through underwriting. I don't see a catch. I see it in the world we're in, as you say, a more mobile world. Stronger currencies are so important, particularly for investments and now moving, as Dan said, into life cover. And in a world where people want to externalise a lot of their assets, not to be anti-patriotic, but just to have access, particularly if their families are going to be living overseas, which is very likely in the future.

There actually isn't a catch. We've actually got an extra offer, which I'd like to link onto Dollar Life, where if clients want to use an offshore trust - One thing we know about offshore trusts is they are incredibly expensive, no matter which jurisdiction you use, which Romanic jurisdiction.

So we've got our own special, what we call bottom drawer offshore trust, which allows this trust to be a beneficiary of our Dollar Life policy. And it's only a beneficiary - it doesn't hold assets, but it benefits from these assets and it basically springs into life the minute there's a death, and it can receive the proceeds. And for that, the fee is only 200 pounds a year. Unlike three or four thousand pounds which is what you'd normally pay for a full offshore trust. So, we actually try to give you, as a client, a way to house the proceeds in a very cost effective and, of course, tax effective way.

Bruce Whitfield (17:20 - 17:26)

And hypothetically, I mean, you would need that trust for the maximum of a year anyway, because an estate should be wound up fairly quickly.

Harry Joffe (17:27 - 17:55)

Yes. So, if you've got the trust as the beneficiary, you actually don't need to wind up any estate. The life assured would die, we would pay to the trust within a couple of days and the trust would have the money, and then the trustees would start deciding what to do with the money. And then when we've got all these nice, fancy offshore vehicles, like a letter of wishes where you can give an instruction to your trustees after you die, how they use the money. So, it actually side-steps the whole problem of actually having to wind up an estate. There's nothing to wind up if it's a trust.

Bruce Whitfield (17:56 - 18:32)

I think a lot of people are really overwhelmed, Harry by the complexity of 21st century globalized life and really need to be very cognizant of the massive jurisdictional differences in taxes in life and afterlife... Different parts of the world. And that's the importance, I suppose, of getting a really global view of what your assets are and being completely honest about what is stashed where, so that your beneficiaries don't spend the next 10 years killing each other to try and find out what dad or mom put where.

Harry Joffe (18:33 - 19:43)

Yeah, Bruce, I mean, and that's the point. People got all these assets all over the world and they kind of forget that, for example, in Europe, they've got totally different laws to us. So, we've got what we call the old British system of freedom of testation. In Europe they've got the old Napoleonic law, - Bruce, you might remember him - of civil law, which is forced heirship. And that means if you die, your family in certain percentages in Europe, get your assets, irrespective of what your will says. So, we've got a lot of different legal concepts. And, of course, we've got a lot of different legal terms. You know, in South Africa, we've got what we call usufruct, which they've got a totally different concept in the UK or in France, for example, FITA commissions, all these old Roman Dutch terminologies, which is different around the world.

I mean, I was reading yesterday about something in the U.K. where they call a 'fraudulent alumni', which is something I've never heard of in South African law, which is where you've got a will and a testator was persuaded by an heir to cut out another heir for bad reason. You know, it's something we don't have in our law. So, you're going to be very cognizant of that. You take a South African will to Europe and they might very well not give effect to it. They might actually ignore it, because it's contrary to their law.

Bruce Whitfield (19:44 - 20:26)

Huge complexity, but it is possible to amplify and simplify as well, which in a complicated 21st century world, frankly, is very, very important indeed.

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