



## **Changes to insurance cover could be costly if not done properly**

*Chris de Klerk, PPS Insurance: Corporate Actuary, explores the long-term impact of hasty, short-term decisions around insurance policies.*

There's no doubt that consumers across the board are feeling the impact of the economic downturn. In the past two years, the cost of living has soared and the economy has generally slowed down. Recent interest rate cuts have sought to ease the pressure on consumers, but not before many had already begun drastic cost-cutting measures, most notably by discontinuing premium payments or seeking low-cost alternatives for their insurance needs.

Recent reports indicate that the value of lapsed life insurance policies rose by a massive 40% last year, pointing to consumers' inability to afford policies that were taken out before interest rates and the general cost of living increased so dramatically.

While this trend was most prevalent within the low-income earners bracket, other sectors of the market are being lured with tempting, low-cost alternatives, which promise to help ease households' financial burdens in the short term.

While it is always worthwhile shopping around for the best possible deal, changes like this, made under financial pressure, can be very costly in the long-term. It is crucial that insurance policyholders not only look before leaping, but also understand fully what's waiting in the more distant future.

It is almost never a good time to cut back on a life policy as accrued benefits may be lost. Additional costs may be incurred by cancelling one's policy and then again by taking out another.

When looking at various alternative options to try reduce monthly costs, it's also critical to compare 'apples-with-apples' and not 'apples-with-something very different'. To draw those distinctions across a 20- or 30-year timeline requires a high level of professional skill and knowledge.

It is therefore important to do a review of your policy portfolio with a qualified and experienced financial adviser before making any decisions.

Your financial adviser is best equipped to advise you on the complexities and benefits of the different insurance options. Financial advisers are required to adhere to the FAIS Legislation and assist in ensuring you receive appropriate and unbiased advice on insurance benefits that are in your best interest.

Finally, not all insurance companies have the same level of understanding when it comes to the needs of the individual. In particular, graduate professionals have very different insurance needs to the typical policyholder.

You need to look at your product provider, where its core market is and what expertise it has to operate in that market. This will ensure you have access to the most appropriate products and services.

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