

Lack of financial planning puts South African families at risk of financial hardship

Justus van Pletzen, COO at the Financial Intermediaries Association of Southern Africa

A lack of proper financial planning has been cited as one of the key reasons for the massive underinsurance problem facing South Africans. According to a new study conducted on behalf of the Association for Savings and Investment South Africa, South Africa's 12,4-million income earners between the ages of 16 and 65 are underinsured for life and disability cover by a huge R18,4-trillion. This is up from R10-trillion in 2007, though ASISA says this can be attributed to growth in earnings and the fact that more detailed data was available rather than a widening gap.

While affordability and access to financial services products are major issues when it comes to insurance, a lack of regular financial planning should not be underestimated as a key reason why so many South Africans have inadequate cover in the event of death and disability. "To the majority of consumers insurance is often still regarded as a grudge purchase. Many consumers are still of the opinion that the unforeseen such as death, disability and dread disease only happen to others."

This is illustrated by the fact that the study shows that consumers earning more than R16 700 a month will leave their families with the biggest financial shortfall, with the average gap between the level of cover they have and the level of cover their families would need to maintain their lifestyle, of R1,52m for death and R3,2m in the event of disability.

People often assume that higher income earners will be financially astute enough to ensure they have the right degree of life and disability cover in place in the event of a tragedy; however, this study shows that this is simply not the case.

Often we see clients taking out cover at the start of their career, but forgetting to update it in line with their changing circumstances. We can go through many life changes in just a few years – salary increases, marriage, having children – and these are all stages at which consumers should review their financial needs. It's critical that all consumers take the time to speak to their financial advisor to assess properly the appropriate level of cover in order to maintain their lifestyle or that of their family in the event of death or disability.

The recent ASISA study found that more than 212 000 families in South Africa will face financial hardship over the next year due to the death or disability of a breadwinner.

Dealing with this kind of tragedy is difficult enough, but, if a family is forced into financial hardship at the same time, the consequences are frightening. The last thing a grieving spouse



wants to do is think about downsizing their home, selling their car or having to remove their children from a good school and place them into a more inexpensive institution.

While the study is a shocking reality check for many South Africans, it is positive news that consumers didn't appear to cancel their existing cover over the last three years. We have just been through a major financial crisis and recession, so the fact that South African consumers held on to their existing life cover is hugely positive and indicates that people are aware of the importance of having this cover in place.

Financial intermediaries play an important role advising clients with regards to their financial needs, but there is still a huge responsibility for the industry to ensure that consumers do, in fact, have the necessary cover. We also welcome the Consumer Education Initiatives that the National Treasury is introducing next year and hope that this will support the industry in closing this huge gap.

We encourage all South Africans to speak to their financial advisor and identify exactly how much cover they should have in order to support their families should the worst happen.