PF PERSONAL FINANCE

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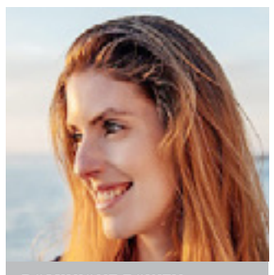
By having life insurance, you're saying to your family: 'I love you. I've got you, and I'm seeing to your future no matter what.'
Kelly Rowland

Looking at life insurance? Read this first



DOMINIQUE BOWEN
Freelance writer specialising in personal finance issues.

ACCORDING to the Association for Savings and Investment South Africa, more than 1.5 million death claims were received by insurers between April 2020 and September 2021, with an eyebrow-raising R92 billion paid to beneficiaries of these claims. Under the spotlight for insurers, in particular, is the 53% surge in deaths in the last six months of that period; that's 200 000 more deaths than were claimed during the same period in 2019. As for the value of these claims, this more than doubled, with an increase to R44.4 bn from just under R20bn in 2019.

These statistics paint a picture of the severity of Covid-19's impact on the life insurance industry, but also demonstrate how much of a financial relief life cover can offer beneficiaries of it.

Tomorrow isn't guaranteed, and many of those who were uninsured or under-insured before the pandemic took much-needed steps to get serious about their financial planning to cater for this reality.

The Goldilocks scenario for insurance – the right amount of cover at the right price – is beneficial to insurer and insured. When this is thrown out of balance, there's the risk of over- or under-insurance, and there's no true "winner" in either of these scenarios. So, is your cover as balanced as the rest of your financial plan?

The purpose of life cover

It's important to be on the right page about your intentions for the policy payout, and there can be several. The traditional narrative is that benefits can be used to cover the living expenses of your dependants, if you have any, on your passing. Even if you don't have dependants, your estate could have liabilities that would need to be covered, such as debts, estate duty and executor's fees.

George Kolbe, head of marketing at Momentum Retail Life Insurance, says that you may be compelled to apply for insurance as a condition of a personal loan you'd like to take out, or consider it as a safety net to help with the continuation of a business you own.

Particularly when it comes to cover needed for your surviving dependants, life insurance should be seen as an aid that offers financial continuity in the absence of your income.

What that means is placing your dependants in a similar financial position as before your death, says Sonja Linde, a Certified Financial Planner and owner of InSync Financial Services.

Bearing this in mind is key. "Insurance is not intended for enriching oneself or your family," says Linde. "When you have an amount of cover that pays out on death or disability that will significantly enrich the lives of you or your family, that would be seen as overinsurance."

Insurers have stringent protocols in place at application stage to prevent applicants from being granted cover that would enrich their lives, or those of family left behind if they were to pass away.

Kolbe provides an example of what an application for overinsurance would look like: "If you earn R10 000 a month, and you apply for R20 million life cover to replace your income should you pass away, it is clearly a case of overinsurance, as the R20 million is significantly more than what the income replacement requirement realistically should be."

No one wins with overinsurance

Even with protocols in place, there are those who will consider trying to swindle the system, but this can only end in tears. First, knowing that there is a payout on the other side of a claim event, some people will go to concerning lengths to get their hands on it. "Overinsurance can lead to unethical and dangerous incentives to claim against cover," says Linde.

Then, while insurers do commit to paying the benefit out on valid claims, they are as committed to ensuring a valid contract is in place at the time of a claim.

If it's found you intentionally applied for cover to enrich your loved ones' lives, not only may that claim be declined, but you may also garner a mark on your record with that insurer (and perhaps others, too), which would come with its own range of unfortunate consequences.

Let's also not forget that paying a higher premium for an overinsured amount can take an immediate toll on your finances.

"Paying too much on insurance can result in shortfalls on other financial planning goals, such as retirement, children's education or even just settling some debt," says Linde.

How to avoid it

Your first step is to contact a trusted financial adviser, because they will take an objective view of your current financial situation and offer expert holistic advice.

Any good adviser will put you, the client, at the centre of the planning process, and not just "try to sell you another policy you don't need".

"It is important to have a financial plan done with a professional financial adviser, who can review all these areas for you to make sure that your risk needs are covered adequately, and that you then also address your other areas of financial planning," says Linde.

QUICK READ

Consumers

The Momentum Unisa Consumer Financial Vulnerability Index rose slightly in the fourth quarter of last year (to 50.5 points from 50.3 points in the third quarter), showing that South African consumers were less financially vulnerable than in the previous quarter. It also shows a marked improvement on the previous year, 2020, when the index averaged 43.4 points. Breaking down the index into its four components, consumers were less vulnerable in terms of their income, their debt servicing vulnerability was lower, their expenditure vulnerability was lower, but their savings vulnerability increased. The report attributes this to many consumers having to forego contributions to employee benefits, such as saving for retirement, while others delved into their savings to fund their day-to-day expenses.

Interest Rates

Interest rates are higher after Thursday's announcement by the SA Reserve Bank's Monetary Policy Committee. The repo rate jumps by 25 basis points to 4.25%, pushing the prime lending rate to 7.75%. CEO of RE/MAX of Southern Africa, Adrian Goslett, predicted that interest rates would climb in response to rising inflation and the global instability surrounding the Russia-Ukraine conflict. "South Africans will have to tighten their belts. Rising fuel and food costs, as well as higher debt repayments, will undoubtedly put pressure on household budgets," he says. The interest rate hike came a day after the announcement by StatsSA that inflation in February had risen to 5.7% year-on-year.

PERSONAL FINANCE

DEALING WITH DEBT

If your debt is threatening to overwhelm you, there are various options open to you, depending on how much you owe and what legal steps have already been taken against you by your creditors. The 1st quarter 2022 edition of Personal Finance spells out your options and their advantages and disadvantages, enabling you to tackle your debt problems fully informed.

Also in the latest edition:
◆ Reining in crypto: different approaches to regulating this elusive asset class.
◆ Meet South Africa's newest Financial Planner of the Year.
◆ How last year's riots affected the South African insurance sector.

Personal Finance quarterly magazine is the only publication in South Africa dedicated to giving you the information you need to manage your money wisely and grow your wealth. It is available at selected outlets at R34.95. The digital version is available at Zinio (www.zinio.com) for R25.

QUICK READ

FINTECH FLIES IN PAYMENTS AND SAVINGS

South Africa's burgeoning fintech sector is one of the country's major success stories. Just three months into 2022, there have been major funding announcements from Floatpays, Lipa, Tall Order and Stitch, among others, says Tony Mallam, managing director at UBU and part of the team involved in developing upnup, a microsavings platform. Mallam has also been an angel investor in various startups, including Clickatell, which has just raised over $91 million in funding. Google's recently released Africa Developer Report reveals that South Africa has a strong developer landscape.

BUDGETING TIPS TO GET YOU THROUGH WINTER

Budgeting means creating a spending plan that allows you to balance your expenses and your income to determine whether you will have enough money to do the things you need to do or would like to do. Assupol's head of group corporate affairs, Velmah Nzembela, lists easy budgeting hacks to start from where you are to reach your savings goals: create a system that works for you, be honest with yourself, create an emergency fund, and be transparent with your family. She says the basic rule of budgeting and saving is having your priorities in order.

TIPS FOR GOING BACK TO WORK AFTER A BREAK

Devan Moonsamy, chief executive of the Ichaf Training Institute, says it isn't uncommon for people to want to take a break from their careers. Previously, listing a career sabbatical on your resume might not have been applauded, but given the tough few years we have experienced, it has become more acceptable. However, as much as there is an encouraging call for career breaks to be accepted, there are obstacles that must be overcome before you can rejoin the workplace. It is crucial that the correct steps are taken when heading back into the corporate world.

When can my bank close my bank account?

RANDS & SENSE

DESIREE REDDY

THERE has been considerable media attention over the last few weeks on account closures by banks. Although there are no statutory requirements in this regard (the Banks Act is silent on the issue of account closures), it is not the case that a bank has unfettered discretion regarding account closures. An overview of relevant considerations is set out below.

Your account opening terms are likely to contain a clause relating to account closure, and what happens in the event of such a closure to funds held in the account. It is important to read and understand these clauses. It is also important to remember that the bank is bound to follow the process for account closures, as set out in the terms.

Our courts have accepted that one of the implied terms of the bank-customer contract is that a banker may not cease to do business with a customer "except upon reasonable notice". The bank may also not close an account in credit by payment of the credit balance without giving reasonable notice (*Joachimson v Swiss Bank Corporation,* 1921). What constitutes "reasonable notice" depends on the character of the account and the special facts and circumstances of each case. (*Prosperity Ltd v Lloyds Bank Ltd,* 1923).

The Code of Banking Practice, issued by the Banking Association of South Africa, provides that a bank may not close an account without reasonable prior notice given to the client to the client's last contact details. The code reasonably expects customers to ensure that they provide the bank with their most up to date contact details to enable the bank to send the required notice to the correct address. The code is a voluntary code that sets out the minimum standards for service and conduct you can expect from your bank with regard to the services and products it offers. Most licensed banks in South Africa subscribe to the code.

The Ombud for Banking Services is of the view that it is clear from case law and the Code of Banking Practice that it is insufficient to warn a client that the account may be closed if the client does not comply with certain conditions. Formal written notice, which is capable of being tracked, is preferred – so as to provide evidence that the notice has, in fact, been sent within a reasonable period prior to the actual closure. The bank should notify the customer of the date on which they intend closing the account.

As to what constitutes a reasonable period, each case would be considered on its own merits. However, a period of one to two months for individual accounts and two to three months for business accounts is considered reasonable by the Ombud, depending on the nature of the accounts and the number and nature of transactions on the account.

Reasonable notice of closure is also required under the Financial Sector Conduct Authority's Conduct Standard for Banks (March 2020). The Conduct Standard further prescribes that a bank must provide the client with reasons for the account closure and provides for limited circumstances where a bank may close an account without first providing reasonable notice and reasons to a client. These are if the bank:

◆ Is compelled to do so by law; or
◆ Has reasonable suspicion that the account is being used for any illegal purpose; and
◆ Has made the necessary reports to the appropriate authority.
◆ Know your rights, understand your position. Remember also, that as an individual or small business, you are able to refer certain disputes with your bank to the Ombud (www.obssa.co.za).

Reddy is a director of Norton Rose Fulbright SA who specialises in banking law.