

People are reconsidering life insurance as life itself gets more expensive. Here's why that's a bad idea.

The elections have come and gone, President Cyril Ramaphosa has taken office... and real life in South Africa, with all its pros and cons, reasserts itself again. The good news is that our president seems earnest about rooting out corruption and the various concerns international investors have. The bad news is that those concerns are still very much with us for now.



Image source: Getty/Gallo

In the weeks since South Africa's elections and inauguration, cash-strapped citizens have been squeezed even further in the wake of returned load shedding and an unstable rand and petrol price increases, with more fuel hikes on the way.

It's a poor state of affairs, with grudge purchases on each side and a relatively grim view of any more money going to, well, the state.

"One of the biggest shocks I got from our Benchmark findings this year was how many people chose to preserve their retirement funds savings just because they heard that they would be taxed on withdrawal, saying 'I had no idea that I would have to pay more tax so I want to save where I can'," said Barend le Grange, head of individual member support at Sanlam Employee Benefits at Sanlam's recent Sanlam Benchmark media briefing for 2019, mentioning that it came from a culmination of people feeling squeezed on all sides by tax already and of frustration towards the government.

Decline in life insurance

Another thing people may increasingly think about cutting? Life insurance. In 2017, a Swiss Re study showed that, across all different types of insurance, there were 0.7% less policies taken out than previously. "The number of in force policies declined from 2016 to 2017 and with the financial stress that people are under, the expectation is that it will decline further to 2018," says Craig Baker, CEO of MiWayLife insurance. "So, the number of policies is declining."

This is not a new phenomenon. Various research studies shows that, due to the average person in the street not being able to fully understand or visualise the benefits of life insurance, it has long been viewed as a grudge purchase. And grudge purchases are historically the second thing removed from budgets, right after big luxury expenses like annual family holidays.

“It seems intuitive to reduce or cease spending on something you never usually see the rewards of in everyday life – particularly your own life, but cancelling your life insurance is a serious mistake that we see people make every day,” says Craig Baker, CEO of MiWayLife insurance. “Not having life insurance in place can ruin an already precarious position and impact your family’s financial future in perpetuity. Then there is that chap called Murphy – we literally see people cancelling their policies only to then suffer a car accident, become a victim of crime or have a serious health event soon afterwards. They or their families land up having to pay for it all with what little money they have left.”

In fact, now is exactly the right kind of macroeconomic environment which makes life insurance vital, says Baker.

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