

LATEST INDUSTRY NEWS

Denuding the myths about Direct Insurers and Assurers

We continue our discussion on the research conducted by Discovery as summarised in FAnews.

Myth 2: Financial adviser commission inflates premiums of intermediated product

Willem Roos, the CEO of direct insurer OUTsurance was quoted in Business Report as saying:

“But certainly on average our research indicates we offer better value for money than the intermediated businesses and it’s particularly because the acquisition costs are much lower ... they are not necessarily always the cheapest because you get risk differentiation. We tailor make a premium for each and every client so depending on your risk profile we might actually charge more than an intermediated business.”

FAnews said:

The second myth grew out of the specific theme of direct short-term insurers' advertising. They claimed their pricing 'edge' was due to "cutting out the middle man" and not paying over commission to the intermediary. Consumers bought this claim 'hook, line and sinker' and so it comes as no surprise that the direct life insurers are 'peddling' the same lie. The reality, says Discovery Life, is that higher marketing budgets and operational expenses among direct players, including call centre salaries and sales incentives, replace the commissions paid by traditional insurers to intermediaries. A quick look at the Financial Mail Adfocus, published November 2010, confirms that the country's direct insurers spend heavily on advertising. Six direct insurers feature among South Africa's Top 100 advertisers!

The Discovery research showed that, in their sample, the average premium of direct insurers was 9% higher than that of the intermediated products.

The claim that Discovery used selected market sections rings hollow. The direct houses chose to blame intermediary commission as the reason why they were cheaper. They did not differentiate then, so to use this excuse now won't wash.

What they are focusing on, in my view, is the misguided perception by clients that they can handle their own insurance needs. Consumers are woefully unaware of the cost of their own ignorance when it comes to claims. They only discover the real cost at claim stage.

I must admit to a certain degree of glee when I see statistics like this. The clever Johnnies who burn their fingers when it is revealed that they are not as clever as they thought.

Just this week, Martin Klopper of Worcester shared some hair-raising stories about the cavalier way in which direct short-term insurers tried to rip off a client. Through Martin's intermediation the client got a fair deal in terms of what he was insured for.

One has to ask how many others who are too obstinate to ask for help get fleeced in this manner.

The intermediated option offers underwriting at application stage; the direct option at claims stage. Is it any wonder then that the following statistics are published in the Discovery study?:

“... the direct insurer had paid R6m in claim, while Discovery had paid R1.12bn. On the other hand the particular direct insurer had R38m in rejected claims, while Discovery Life’s had R23m in rejected claims...”

A common response to the FAnews article was a call for more public exposure of the findings of the survey.

We have in the past refrained from following this route out of concern for the damage this could cause the image of the industry. Times have changed.

As the old saying goes: you should not go into a gun fight with a knife.

If you want to throw mud, expect a backlash.