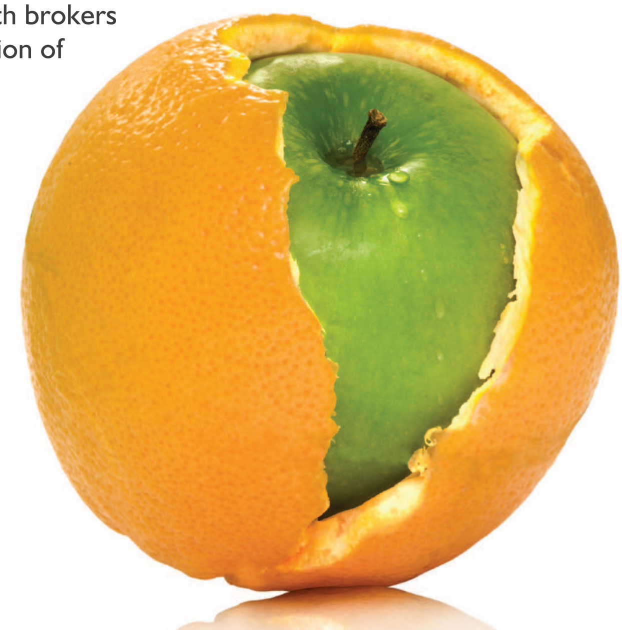
Compare competitive pricing to avoid nasty surprises

As providers begin to compete heavily on price, both brokers and employers should be wary of the commoditisation of group risk benefits related to retirement savings.



Price competition on group risk benefits has increased significantly over the last few years, resulting in changes to product features and terms and conditions of group risk benefits.

Do not lean towards cheap

Walter van der Merwe, Chief Executive Officer (CEO) of FedGroup Life says, "the cheapest option is seldom the best option. This is because the price is not sustainable in the long-term, putting both the employer and the broker's own business at risk."

He adds that because cheap options cannot possibly cover all the risks relevant to members of a retirement fund, disappointed employers and employees will cancel the fund sooner rather than later when their benefit expectations are not met. "The employer suffers a loss of credibility with its employees. The broker suffers loss of business and also damage to his reputation when he is obliged to significantly increase the price for the group risk benefits after initial under-pricing to secure the business," he says.

Focus on relationships

The insurance industry has always been an industry that benefits from relationships. Van der Merwe points out that broker businesses founded on the sale of retirement funds that include group risk benefits cannot prosper without long-term relationships with their clients. "You cannot build long-term relationships if the products you recommend escalate sharply in price at renewal to fund the low prices used to get through the door," he says.

An over-emphasis on price by product providers also causes reputational damage to the life industry itself as employers and employees become suspicious of industry offerings.

This puts hundreds of thousands of employees at risk of not having appropriate or sufficient cover for death, disability or illness before retirement. It can also put retirement savings at risk because companies may choose not to offer retirement savings facilities to their employees.

Detrimental to growth

While this is destructive to the economy as a whole, it also creates unnecessary obstacles to growth for brokers. "In terms of risk benefits, cheap can be extremely nasty," van der Merwe says.

The trend to commoditise group risk benefits is being driven by the erroneous idea that all such products are the same, and they are only distinguished by the name of the brand offering them.

However, each life insurer assesses risk differently and therefore has its own definitions of benefits, different terms and conditions, and variations in enhancements of the group risk offerings.

"It is vital that brokers and their clients do thorough comparisons of the available products," van der Merwe says. "The last thing you want is to be taken by surprise by the small print or exclusions of group risk benefits you might have taken for granted until price became such a market differentiator. Brokers are required to give customers comprehensive advice in order to empower them to make the best choices. Such advice includes explaining the benefit structures of the products recommended to enable a complete comparison," van der Merwe says.

Be careful with recommended cover

"There is also a natural tendency to think that some cover is better than no cover, especially when the client company is trying to stretch its budget to improve employee benefits and the quality of life for its employees," van der Merwe says. "It is tempting to try and help that process by recommending the cheapest product. In such a case, however, it is essential to take management through the details of the exclusions so that a sensible decision can be made about whether limited risk benefits really do serve the needs of employees," he says.

Price is indeed an important aspect of addressing affordability in relation to net retirement savings. However, it is profoundly destructive to all stakeholders when it is used as the only rationale behind a recommendation.

Walter van der Merwe
CEO
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