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Sophisticated insurance does not have to mean it is complicated

- *SA is seen as tops for life insurance innovation and BrightRock's flexibility fits the bill*

STEPHEN CRANSTON

Product complexity in insurance is one thing and it was what made the old universal life policies so confusing. It was hard to work out if these multiheaded hybrids of protection and savings were good value for money.

But there is also product sophistication, when highly customised technology can add something new and desirable to the product range.

BrightRock falls in the sophisticated rather than the complex bucket. This insurer was formed in 2011, at a time when there was a race to the bottom as plutocrats such as Douw Steyn turned life cover into a commodity.

BrightRock was founded by a multidisciplinary team, some of whom wanted another challenge after the big company atmosphere at Discovery. No company in the world runs its policies in the same way as BrightRock. As CEO Schalk Malan puts it, it is a needs-matched approach.

A traditional life policy combines all cover in a single capitalised lump sum, which might be fixed or grow at a set rate over time. The trouble is that some financial needs exist only for a few years, others last a lifetime. So why should you pay for cover you don't actually need?

You might have heard of BrightRock from its sponsorship of the Stormers as well as from some chat shows it sponsors on SuperSport and kykNET. But you won't see it much on peak-time conventional advertising slots. I sometimes think Willem Roos of OUTsurance has bought all the slots there and sells them on to competitors when he is feeling generous.

Anyway, BrightRock quite rightly doesn't believe its product set is appropriate for direct sales. It is sold through 3,800 accredited financial advisers, who gathered R611m in premium income in 2016.

BrightRock's key selling point is that it strips out wasted cover to deliver premium savings. And you never lose the value of your savings; when needs fall away you move your premium to buy more cover for a different need, say from death to disability. And if the client needs more cover, he can reserve for future years and take it up when needed.

A feature that impresses me is the ability to make a choice on how to take disability or critical illness cover at claims stage. It is hard to know at the inception of a policy whether a guaranteed income or a lump sum is more important. Expected longevity and the severity of the condition need to be taken into account.

At BrightRock the client does not have to choose upfront but can decide if income, a lump sum or a combination of both is the right approach.

BrightRock provides a graphic with six kinds of needs ranging from household needs, which are likely to grow at least at the rate of inflation, to healthcare, which tends to grow ahead of inflation, as would unpredictable costs of illness or injury and death-related needs such as estate duty and bequests.

In contrast, debt — such as bond and car payments and personal loans — should eventually come to an end, as should childcare costs. Each of these financial goals is provided for by a distinct tranche of the policy, each of which has its own termination date and is disclosed in the written policy updates.

I was interested to see that SA is seen as the most innovative life insurance territory, accounting for 46% of the votes in a recent Munich Re survey. Australia scored a feeble 6%. But in spite of this there is an inefficient pricing structure here and the policies can't adapt to clients' changing needs. It is hard for clients to alter their cover in what BrightRock calls critical change moments.

Marketing director Suzanne Stevens points to a real case in which BrightRock proved to be a better option than any of its competitors. A teacher just 38 years old took out a policy in May 2014 worth R5.5m for disability and dread disease. In September of that year she went into a coma from pneumococcal meningitis and died eight days later. Under the ruling that most life offices follow, if a client dies within 14 days of an "event", such as a stroke, the policy pays nothing. The only exceptions are Discovery Life, though it would have given less disability cover for the same premium, and Liberty, which would have paid somewhat less than BrightRock for disability and paid nothing on dread disease. But life offices such as Old Mutual, Momentum and Sanlam would have paid absolutely nothing. Is that treating customers fairly?

IN FACT, GOOD MANAGERS OFTEN DO MORE ALPHA (EXCESS RETURN) IN WEAK MARKETS THAN IN BULL MARKETS. JUST LOOK AT ALLAN GRAY

Karl Leinberger, the chief investment officer of Coronation, seems quite defensive on the topic of long-term investment. I am not sure why, as the Coronation Equity Fund in its 20-year existence has added 60% to the all share index return. Some people see talking long-term as a way to buy time in a poor year such as Coronation experienced in 2015. And quite a lot of mediocre fund managers do ask clients to wait for the long term even though they are doing badly.

Leinberger has probably added as much value from the shares he hasn't picked than from the shares he has. He showed a slide from the 2008 road show in which he explained why he did not own Murray & Roberts, then seen as bulletproof because the infrastructure boom around the Fifa World Cup was in full swing. The share has since gone from R110 to R11. Leinberger says that in a time of lower returns it makes even more sense to invest with an active manager.

Of course he would say that, but it seems fair enough to argue that skill becomes more valuable in challenging times. In fact good managers often do more alpha (excess return) in weak markets than in bull markets. Just look at Allan Gray, which routinely adds almost all its alpha in bad markets.

I am a strong believer in giving fund managers a balanced mandate instead of trying to juggle a whole range of different asset-class building blocks in a fund. Leinberger makes the point that a balanced manager can make asset allocation decisions in real time — no need to wait for approval at the next trustee meeting. The manager needs to understand the total portfolio, the rand hedge position across asset classes on a see-through basis, the total interest rate holdings and the total inflation hedge.

Dynamic Schalk Malan, the CEO of BrightRock, has pioneered a needs-matched approach. /Russell Roberts