



The FINANCE column in SA Family Practice features articles for sound personal and practice financial advice. Kindly send any suggestions for future topics to: douw@medpharm.co.za, fax (012) 664 6276 or Finance column SAFF, PO Box 14804, Lyttelton, 0157.



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CANCEL YOUR OLD POLICIES... GOOD IDEA OR BAD ADVICE?

Brokers often advise their clients to replace their existing policies with new ones. This could be due to the bad performance of the current portfolio, but it could also be a quick way to earn commission. Sometimes it may be a better options, but very often the costs of the replacements are not disclosed.

Every financial product has initial costs involved – there are various administration fees, commissions, and many more. Age also plays a vital role in life insurance – the older you are, the more expensive your premiums become.

It is vital that your broker explains the full implications of any replacements he or she may suggest, when they are restructuring your financial portfolio.

Compulsory disclosure requirements

When proposing a replacement, your broker needs to disclose the full consequences of such a replacement. This includes:

- The fees and charges of the replacement product;
- Any special terms and conditions, exclusions of liability, waiting periods, loadings, penalties, excesses, restrictions or circumstances in which benefits will not be provided;
- In the case of an insurance product, the impact of age and health changes on the premium payable;
- The tax implications of the replacement product and the terminated product;
- Material differences between the investment risk of the replacement product and the terminated product;
- Penalties or unrecovered expenses deductible or payable due to termination of the terminated product;
- To what extent the replacement product is readily realisable or the relevant funds accessible, compared to the terminated product; and
- Vested rights, minimum guaranteed benefits or other guarantees or benefits which will be lost as a result of the replacement.
- You should be in a position to make an informed decision regarding the financial advice provided, and you should be aware of the consequences of your decision.

Next month: Changing your advisor and lodging a complaint.