- # DIY may cost you

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A number of companies are advertising products with “no fees and no commissions”, thereby appealing to the consumers’ rather jaded opinion of the financial advice industry. Much of the advertising appears to be aimed at “cutting out the middleman” and saving “huge” amounts in commission and fees.

A few quick examples are the ad campaigns of 1Lifedirect, Frank.net, RSA Retail Savings Bonds, Fedbond and Nedbank savings bonds to name a few. But the promise of “massive” savings by going direct often turns out to be an empty promise. Some examples:

1LifeDirect, OutSurance Life and Frank.net are offering savings of up to 22% on life insurance. I have no idea how they arrive at 22%, but in every instance we have investigated, they’ are significantly more expensive than life cover through just about any traditional company -– even with full commission on it. On top of that, going direct for life insurance also exposes you to other risks.

The direct insurers claim that they cut out the need for paperwork. This could turn out to be a real negative the next time you apply for insurance cover; no paper work means that you have no record of what you answered on the medical questions. This means you significantly increase the risk of accidental non-disclosure. As a consequence, this increases the risk of a claim being repudiated by the insurance company (because of the accidental non-disclosure). You would be better off using (and paying for) the services of a reputable financial planner.

RSA Retail Bonds – “There are no charges, commission or costs when you invest in RSA Retail Savings Bonds. This means no unnecessary fees eat into your investment.” At least that’s what they claim. But they don’t mention that while you may get a reasonable rate, you’ will draw all the income and there will be no capital growth.

While that may not sound serious to you now, if you invest for five years, the purchasing power of your capital will have decreased by around 26% of its original value (assuming inflation of 6% per annum). So while your capital is guaranteed by Government, it is only the nominal amount that is guaranteed and your R100 000 initial investment will only be worth around R74 000 five years later.

Now if you sought some financial advice you might be offered an “enhanced- income fund” as an alternate to the RSA Retail Bond. In this instance, based on a realistic performance of around 7.5% per a year, you could reasonably expect to get an income equivalent to the RSA Retail Bond as well as the potential for some capital growth on the funds. Yes, there would be some risk and yes, there would be some fees -– but I know that I would rather pay a fee and probably keep up with inflation than pay no fee and definitely fall behind it!

Nedbank’s JustI-invest – “get a great rate of up to 5.25% – – no fees or commissions”. But “T’s & C’s apply” and, in this instance, unless you have more than R525 000, you are not getting 5.25%! In fact, unless you have more than R50 000 you would definitely be better off in a money- market unit trust account (or even an enhanced income fund). But then you would not know that unless you were prepared to pay for advice…

For the record, I have no problem with people going direct. To me it is much like fixing the toilet at home – I can do it but it will take time and effort and I might not have the necessary tools. Either I invest the time and energy or I pay a plumber to do it for me.

In the same way, if a broker or advisor can’t add value to clients and clients know what they want and have the time to do it, then there’ is no reason that they should not go direct. They just need to be aware that it may not always be the best option and that while in some cases it may appear to be cheaper it could turn out to be a very costly exercise.

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