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**MEDIA RELEASE: SA LIFE INSURERS AND POLICYHOLDERS SHOW RESILIENCE TO GLOBAL WOES**

For the information of members we circulate a media release issued earlier today.

**PETER DEMPSEY**  
**Deputy Chief Executive**

## **MEDIA RELEASE**

### **ASSOCIATION FOR SAVINGS AND INVESTMENT SOUTH AFRICA (ASISA)**

**31 MARCH 2009**

#### **SA LIFE INSURERS AND POLICYHOLDERS SHOW RESILIENCE TO GLOBAL WOES**

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The South African long-term insurance industry demonstrated a remarkable resilience last year to the single biggest crisis the world's financial markets has ever faced. The 2008 sales statistics released this week for the majority of South Africa's life insurers show that the industry's total assets decreased only marginally by 6% to R1.1-trillion at the end of December 2008 from R1.2-trillion at the end of 2007.

Peter Dempsey, deputy CEO of the Association for Savings and Investment South Africa (ASISA), says while life companies certainly felt the impact of the global market turmoil, the local life industry remains in good health.

"The excess of assets over liabilities at the end of last year remained strong - in addition to covering all policy liabilities the excess was more than three times the legal reserve buffer required. This is good news for policyholders as it means that life companies are well positioned to honour benefit payments due to clients."

Dempsey says given the carnage in financial markets around the world, particularly during the second half of last year, the solid performance of the local long-term insurance industry is a feather in the cap of South Africa's savings and investment industry and its regulators.

#### **Stoic policyholders**

Dempsey says despite tough economic conditions impacting on the majority of consumers last year, the life industry recorded a solid growth rate of 11% for 2008, with total premium and investment income increasing to R252-billion from R226-billion in 2007.

"Surprisingly, individual policyholders not only maintained their premiums for life and disability insurance and savings policies last year, but they also continued to increase them. The statistics show an increase of 11% in these premiums to R115-billion in 2008 from the R103.6-billion attracted in 2007."

Individual business typically consists of endowments, retirement annuity funds, living annuities and compulsory annuities, as well as life, disability, dread disease and income protection policies.

The 2008 statistics show that consumers also continued taking out new policies last year. The life industry managed to attract new individual recurring and single premiums of R65-billion during 2008, an increase of 14% over the R57-billion attracted in 2007.

New recurring premiums for 2008 amounted to R12.9-billion, an increase of 12% from 2007. Single premiums came to R52.6-billion, an increase of 15% from 2007.

Dempsey says a comparison of the new business statistics per half-yearly reporting period, however, highlights a slowdown in single premium business during the second half of last year when the market volatility was at its worst.

Recurring premiums on the other hand showed no decline – instead a remarkable increase of 19% to R7-billion was recorded for the second half of last year, compared to R5.9-billion in the first half year of 2008.

### **Surrenders and lapses**

Dempsey says given the intensity of the financial pinch felt by South African consumers last year, the increase in surrenders of savings policies like endowments was not as high as had been expected given the financial woes of many consumers. The value of surrendered individual policies increased by 21% last year from R32-billion in 2007 to R38-billion. In 2007 the increase in surrenders over 2006 had been 13%, from R28-billion to R31.8-billion.

A policy is surrendered when the policyholder stops paying premiums and withdraws the reduced fund value before maturity.

Dempsey says while the increase in surrenders was most definitely influenced by tougher economic conditions, the higher minimum termination values will also have played a role in pushing up the actual surrender values.

But while the rate of policy surrenders remained relatively low, the value of individual policies lapsed last year increased by 40% from R3.3-billion in 2007 to R4.6-billion in 2008.

Dempsey says while such a high lapse rate is worrying, it needs to be seen in the context of the increase in new recurring premium business written over the same period. New recurring premiums for 2008 amounted to R12.9-billion, and not all policies that lapsed last year were bought in 2008.

Dempsey also notes that the value of policies lapsed was low – the average premium of policies lapsed last year was R82 a month. This shows that South Africans at the lower end of the income scale were cutting costs by letting their policies lapse. A lapse occurs when the policyholder stops paying premiums before the fund value exceeds the unrecovered costs meaning that the paid-up (or surrender) value is zero.

“In the last six months of 2008, policy lapses in their second year increased faster than policy lapses in their first year. This steep increase in the lapse rate of policies in their second year shows that policyholders who bought their policies late in 2006 and early in 2007 before interest rates and consumer goods prices shot up, suddenly could no longer afford their premiums in 2008.”

He says comparing the lapse rate over the three half-year periods from the second half in 2007 to the end of 2008 shows a consistent increase in lapses as the economic turmoil worsened. The number of policies lapsing increased by 15% in the second half of last year compared to the first half of last year, and by 28% over the second half of 2007.

Dempsey says it is important to remember that in the case of pure risk policies, a lapse causes no immediate financial loss for the policyholder as there was no policy value. The policyholder does, however, lose valuable life or disability cover which might not be available at the same premium again.

### **Benefit payments**

Dempsey says the life industry paid beneficiaries, policyholders and pension fund members more than R180.6-billion last year as a result of death and disability claims, maturity pay-outs and pension and annuity payments. This was 9% more than in 2007, when benefits worth R165-billion were paid.

Individual policyholders received benefit payments of R98-billion from the life industry during 2008 – an 8% increase from the R90.7-billion paid during 2007.

Group schemes and pension funds paid out benefit claims worth R82.6-billion, a 11% increase over the R75-billion paid in 2007.

Dempsey notes the significant 41% jump in payments of Group retirement benefits last year compared to 2007, which could mean that more people may have been forced into early retirement last year.

### **Measuring Zimele**

Dempsey says the life industry is also in a position for the first time to report back on the successes of Zimele approved products, albeit on a limited scale since more work is required on standardizing the reporting by different life companies.

The first Zimele branded policies were launched early in 2007. Aligned with Financial Sector Charter (FSC) requirements such as physical accessibility, appropriateness, simplicity and affordability, the Zimele product standards that apply to all policies sold under the Zimele brand were developed in close collaboration with the FSC Council.

Zimele approved funeral cover was introduced in 2007, and last year some life companies also introduced credit life insurance, life cover, and physical impairment cover under the Zimele brand.

The Zimele brand aims to help South Africa's low income earners, those earning R3 000 a month or less, to easily identify those life insurance products that meet the minimum protection requirements of the FSC.

At the end of December 2008, there were 1.7-million Zimele approved policies in force. Dempsey says this means that the life industry had already reached its target of selling 1.7-million policies by 2014.

### **Ends**

**Note to Editors:** The 2008 sales statistics for the long-term insurance industry are based on data received from life companies that were previously members of the Life Offices' Association (LOA) and are now members of ASISA. Not yet included in these statistics is data from investment houses with life licenses who were not previously members of the LOA.

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#### **Issued on behalf of:**

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ASISA represents the majority of South Africa's asset managers, collective investment scheme management companies, linked investment service providers, multi-managers, and life insurance companies. ASISA was formed in 2008 by members of the Association of Collective Investments (ACI), the Investment Management Association of South Africa (IMASA), the Linked Investment Service Providers Association (LISPA) and the Life Offices' Association (LOA).