

Media Release
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SA life industry shows clean bill of health

South Africans bought life insurance products worth R62-billion in new premiums last year, only 5% less than was spent on new recurring and single premiums in 2008 when R65.5-billion was received.

Reporting back on the 2009 sales statistics for the South African long-term insurance industry, Peter Dempsey, deputy CEO of the Association for Savings and Investment South Africa (ASISA), says the uncertainty caused by the global financial crisis and the resulting economic woes had slowed consumer uptake of life products, particular in the single premium space, in the second half of 2008 and during the first half of 2009.

However, life insurers experienced a sudden surge of 18% in new recurring and single premium business during the second half of last year resulting in the collection of R33.6-billion in new premiums for the six month period. This means more than half of last year's new life insurance premiums were collected in the latter six months of 2009 as consumer confidence gradually started improving.

Dempsey says given the economic hardships experienced by the majority of South Africans last year, the initial slowing in single premium business did not come as a surprise.

“We believe that many South Africans probably chose to defer their retirement and therefore did not have lump sum retirement savings to invest in living annuities and compulsory annuities. In addition a lower number of consumers would have been inclined to commit spare cash to their retirement annuities and other life linked investments.”

Dempsey points out, however, that the reluctance to commit single premiums started changing in the second half of last year when demand in new individual single premium business increased by 20%. New recurring premiums also showed an 11% increase in the second half of last year from R6.1-billion to R6.7-billion, bringing the total half yearly increase for new recurring and single premium business to 18%.

In addition to purchasing new life and disability insurance and savings policies last year, policyholders also maintained and increased their recurring premiums for existing business. Total recurring premiums increased by 9% last year from R61.3-billion in 2008 to R66.8-billion in 2009.

Industry health check

Dempsey says while the life insurance industry had assumed the brace position given the economic hardships experienced by South Africa last year, the impact had not been as severe as had initially been expected.

“Total income for the industry from existing individual premiums, group insurance premiums, investment income and fees dropped by only 1% in 2009 compared to 2008, from R251.9-billion to R248.8-billion,” he says.

Dempsey points out that the industry's total assets increased by 4% to R1.13-trillion at the end of December last year from R1.08-trillion at the end of December 2008. This brings the industry close to the pre-crisis asset levels of R1.15-trillion held at the end of 2007.

“Long-term insurance industry assets continue to strongly exceed liabilities by more than three times the legal reserve buffer required. This is good news for policyholders as it means that life companies remain well positioned to honour benefit payments due to clients.”

Benefit payments

The life industry paid out benefits of more than R175.6-billion in 2009 to policyholders, beneficiaries, and pension fund members as a result of death and disability claims, maturity pay-outs and pension, annuity and other payments.

Dempsey says this represents a slight drop of 3% compared to 2008, mainly as a result of a decrease in individual policy surrender values and lower retirement fund withdrawals.

He adds, however, that death and disability benefit payments for individual policies recorded significant increases of 16% and 17% respectively.

Surrenders and lapses

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

Dempsey says the value of surrendered investment policies dropped by 14% last year from R38.3-million in 2008 to R33-million in 2009.

“We suspect that the value enhancements of investment policies surrendered after December 2006 may have tempted more people to surrender their policies in 2007 and 2008. This trend appears to have slowed.”

In 2007 the value of surrendered individual policies was R32-billion and in 2006 it had been R28-billion.

Dempsey says while the lapsing of policies is always a worry, the increase in the 2009 lapse rate was not too steep at 14%. 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 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.

In 2009, a total of 5.2-million policies were lapsed, 3-million first year policies and 2.2-million policies in their second year. The value of the policies lapsed in their first year was R2.9-billion and policies lapsed in their second year R3.3billion.

Dempsey says the lapse rate must be seen in the context of new recurring premium business written over the same period. While new recurring premiums for 2009 amounted to R12.8-billion, only R2.9-billion of first year premiums was lapsed. He cautioned, however, that new business and lapses never tie up exactly for the period measured, meaning that actual new business lapsed last year was probably even lower.

Measuring Zimele

At the end of December 2009, there were 1.9-million Zimele approved policies in force (1.7-million at the end of December 2008) and 1.3-million Zimele approved credit life policies.

Zimele approved funeral cover was introduced in 2007, and in 2008 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 Financial Sector Charter (FSC).

Dempsey says the majority of Zimele policies were sold in Gauteng, followed by KwaZulu Natal, and then the Eastern Cape. In all provinces more women own Zimele policies than men.

Ends

Note to Editors: The 2009 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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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).