

MEETING THE NEEDS OF THE FINANCIALLY VULNERABLE

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In 2008, delegates from the Financial Intermediaries Association of Southern Africa (FIA) attended a presentation by the Life Offices' Association (LOA) - now incorporated into the newly-formed ASISA - which had published a survey that showed South Africans are radically under-insured in terms of life and disability cover. In fact, according to this study, the estimated shortfall between the actual and ideal insurance cover for these categories was pegged at a whopping R10 trillion or ten thousand billion rand!

The study, conducted by True South Actuaries and Consultants, includes all sectors of society and income levels. The results of the survey are based on the average South African earner, who earns around R60 000 per year.

According to the study, this average earner should be making provision for life cover of between R431 000 and R531 000 - between seven and eight times their annual earnings. In truth however, it was found that the average earner is only covered for R239 000 or four times their annual earnings.

Looking to disability, the average South African should be covered for an estimated R645 000 to R833 000. In reality, actual average disability cover only amounts to R430 000.

As a bottom line, the study found that the total need for life cover for employed South Africans lies between R6,1 trillion and R7,8 trillion. However, in force, life assurance totals only R3,5 trillion - a shortfall of between R 2,6 trillion and R4,3 trillion. On the disability front, the need for cover is believed to be between R9,6 trillion and R12,3 trillion. However, the actual amount of cover is only between R6,3 trillion

and R6,4 trillion, translating to a cover shortfall of between R3 trillion and R6 trillion.

The research indicates that bridging the great divide between the ideal and actual amounts of cover would cost between R19,7 billion to R34,4 billion. So to close this gap would only require the average earner to commit between R1 330 and R 2 322 per annum or a mere 2,2% to 3,9% of total household expenditure. Surely a small price to pay to secure a safe financial future for one's family and contribute to a more financially stable South African community?

The gaps between actual and ideal life and disability cover have been steadily increasing over time. Now, while this trend is certainly sobering and cause for concern, it also presents intermediaries with an opportunity to bring more South Africans into the fold - particularly those individuals who have not yet heard the story of how they can help rescue their offspring from a life of poverty.

It is a sad yet predictable fact that the gap study concludes that the shortfall in death insurance is most pronounced in households earning less than R45 600 per year. In the face of this, we intermediaries should be asking ourselves whether we have the right approach and products in place. Do these products meet the needs of consumers and are they affordable for the majority of South Africans? What are we missing and why are we not getting it right? These questions must be asked and answered collectively by the insurance industry including intermediaries.

It is clear from the gap study that the biggest discrepancy lies with the most financially vulnerable individuals whose families can least

afford the loss of a breadwinner. While South Africa is home to an internationally renowned insurance industry with some fine and very sophisticated products, are these products suited to lower income earners? As intermediaries, we must take steps to ensure we are able to increase the number of lives covered for death and disability by offering affordable, relevant solutions that meet the needs of a great deal more South Africans.

It's not just the products we should be reviewing but also how we get these to the markets that need them. The big gaps between actual and ideal cover also highlight the fact that access to financial planning services and consumer education - which go hand in hand - need to be significantly ramped up. It is a well-known fact that the best way to educate consumers is through appropriately trained and motivated advisors who meet clients face to face and tailor advice and solutions to meet that particular client's needs. In order to accomplish this, we will need to attract greater numbers of financial planners operating at all levels in the industry.

It is self-evident from the gap study that if the breadwinner of an average family dies or becomes disabled, the family would have to halve its living expenses! This is no easy feat for a family, now missing a breadwinner and facing the high cost of living and tough economic times we currently find ourselves in.

We, as intermediaries, can make a huge difference to the futures of our fellow citizens. We need to take a good, hard look at the reasons why South African's are so under-insured or not insured at all. Some believe that the long-term industry is unattractive for new entrants but seen from another perspective, we have a real opportunity to make a positive impact on millions of South African families and contribute to a more financially stable society with robust inter-generational wealth being built at all levels of our communities.♦

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