

## Media Release

Association for Savings and Investment South Africa (ASISA)

29 September 2009

### New business slows, but life industry remains healthy

The South African life insurance industry experienced a 14% drop in new individual business for the first half of this year. The 2009 half-yearly statistics for the long-term insurance industry released this week show that from January to the end of June this year the industry attracted new individual premium income of R27.7-billion, compared to R32.4-billion in the second half of last year.

Peter Dempsey, deputy CEO of the Association for Savings and Investment South Africa (ASISA), comments that the slowdown in new business did not come as a surprise to the industry.

“Given the magnitude of bad news that consumers have had to absorb over the past 12 months, we are surprised that the slowdown did not prove more intense. Until the end of last year the industry was still seeing a growth in new business. But when the outlook for global financial markets and the local economy had not improved by early this year, consumers put on the brakes.”

Nevertheless, says Dempsey, the local life industry remains in good health with assets strongly exceeding liabilities.

“At the end of June this year excess industry assets were 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.”

### Wait and see approach

Dempsey says life industry sales statistics for the first half of this year indicate that consumers adopted a “wait and see” approach.

“Last year consumers surprised us with an increase of 14% in new individual recurring and single premiums compared to 2007. However, by the end of 2008 the FTSE/JSE All Share Index had lost 26% of its value and the Rand had shed 35% against the US dollar. The New Year did not bring relief and the FTSE/JSE All Share Index fell by another 5.3% in the first quarter. Combined with a massive retrenchment wave, consumers were no longer prepared to enter into long-term financial commitments such as taking out policies.”

As a result new individual recurring premium income decreased by 16% in the first six months of this year, from R7-billion in the second half of last year to R5.9-billion in the first half of this year.

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.

Individual single premium business dropped by 14%, from R25.4-billion in the second half of last year to R21.9-billion in the first six month of this year. Lump sum investments into retirement annuity (RA) fund policies took the biggest knock, followed by compulsory annuities. Living annuities, on the other hand, experienced the same level of flows in the second half of last year.

Dempsey says the swing towards living annuities is explained by the drop in guaranteed annuity rates and a strong recovery in equities markets in the second quarter of this year.

## Surrenders and lapses

Unexpected good news for the life industry was the massive 26% reduction in surrenders of savings policies. A policy is surrendered when the policyholder stops paying premiums and withdraws the reduced fund value before maturity.

The value of surrendered individual policies decreased from R19.8-billion in the second half of last year to R14.6-billion in the first half of this year.

Dempsey says this is not only good news for the industry, but also for policyholders since surrendering a policy almost always results in a reduction of value and impacts negatively on a long-term savings plan.

In recent years the life industry had seen a steady increase in the surrenders of savings policies. Dempsey says this year's decrease can be attributed to a number of factors.

“Faced with a lower sales rate, a number of companies intensified their focus on business retention. We also believe that policyholders who really felt the pinch probably surrendered their policies in the second half of last year. Those that could hold on to their policies would have done so given the lower fund values caused by volatile markets and falling interest rates.”

Similarly, the total number of individual policies that were lapsed during the first six months of this year dropped by 2% compared to the previous half year. 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.

However, the value of individual policies lapsed during the first half of this year increased by 7% from R2.6-billion in the second half of last year to R2.7-billion in the first half of this year.

Dempsey says this indicates an increase in the lapsing of higher premium policies. The average monthly lapse premium for second year and older policies increased by 26% to R106 in the first half of this year.

Dempsey says closer analysis reveals that the value of policies lapsed in their second year of existence increased over the second half of last year by 19%, but that first year lapsed premiums reduced by 3%.

“This shows that the majority of consumers who took out policies between the end of June last year and the end of June this year made sure that they could afford their premiums. Policyholders in their second year and beyond were, however, caught financially unprepared when the credit crunch shock waves hit South Africa.”

## Benefit payments

Dempsey says the life industry paid beneficiaries, policyholders and pension fund members benefits of more than R75.7-billion in the first half of this year as a result of death and disability claims, maturity pay-outs, surrenders and pension and annuity payments. This was 16% less than in the second half of last year, when benefits worth R90.7-billion were paid.

Individual policyholders received benefit payments of R43.6-billion from the life industry during the first half of this year - a reduction of 11% from the R49-billion paid during the second half of last year. The drop in individual benefit payments was partly driven by the lower surrender rate.

Group schemes and pension funds paid out benefit claims worth R32.1-billion, a 23% decrease over the R41.6-billion paid during the second half of last year.

Dempsey comments that overall the drop in equity markets until March this year would have played a significant role in reducing the value of benefit payments.

### **Measuring Zimele**

By the end of June this year, there were 1.97-million Zimele approved policies in force - an increase of 270 000 policies from the end of December last year.

The first Zimele branded policies were launched early in 2007. 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 Western Cape. An interesting fact is that in all provinces more women own Zimele policies than men.

### **Ends**

**Note to Editors:** The 2009 half-yearly 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).