

The SA insurance gap



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TRUE SOUTH ACTUARIES AND CONSULTANTS
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Agenda

BACKGROUND & APPROACH

THE TOTAL SOUTH AFRICAN GAP

THE GAP PER AVERAGE EARNER

THE GAP PER SOCIO-ECONOMIC SEGMENT

OTHER VIEWS ON THE GAP

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Background & Approach

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Background & Approach

- **Insurance gap = Insurance need – Actual cover**
- **Insurance need**
 - Household budget deficit post event
 - ✦ Income post-event
 - ✦ Expenditure post-event
 - Preserving current living standards
 - Capitalisation until retirement age only
- **Actual cover**
 - Included: Life insurers, pension schemes & disability grants
 - Excluded: RAF, Workman's Comp, Short-term insurance

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Background & Approach

- Definition for disability
- Calculated for active earners
 - South African
 - Regular income
 - Between 16 and 65
- Interpretation of the gap
 - The under-insured purchase extra cover
 - The over-insured reduce or cancel their cover

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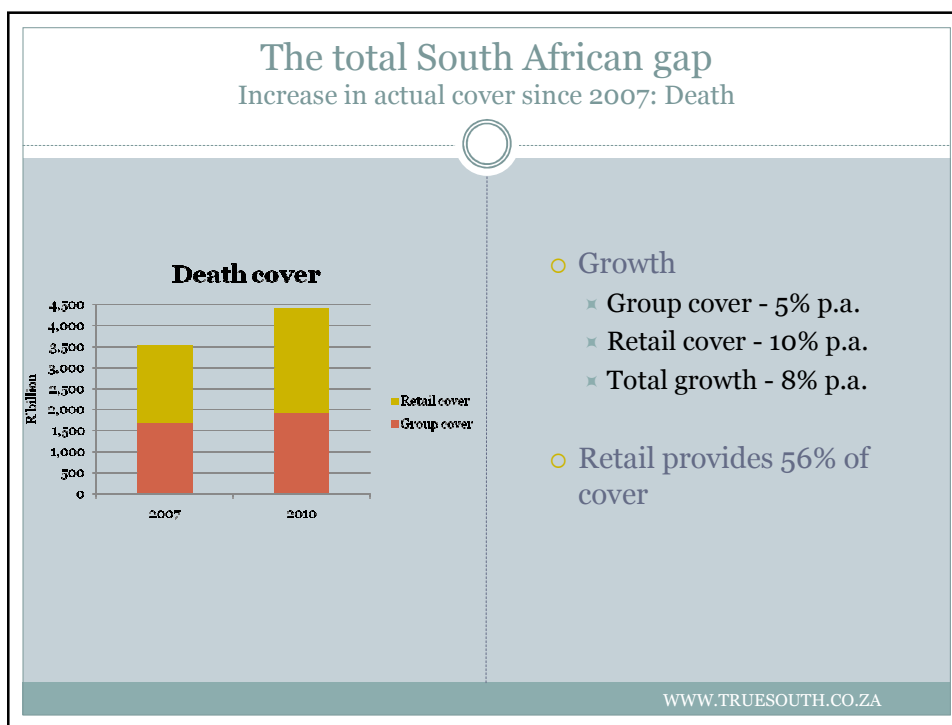
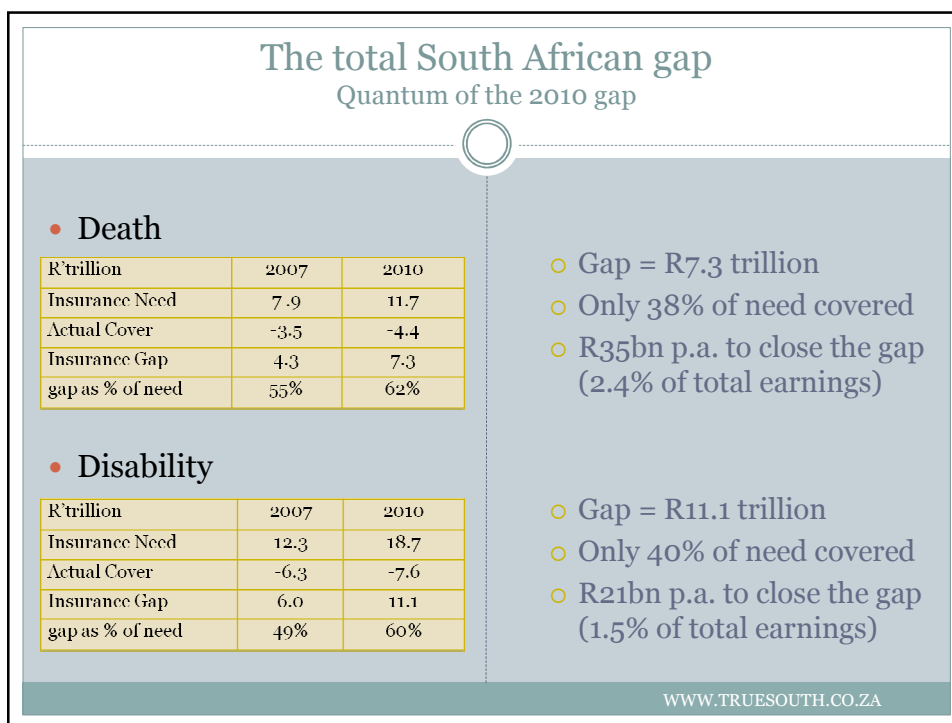
The total South African gap

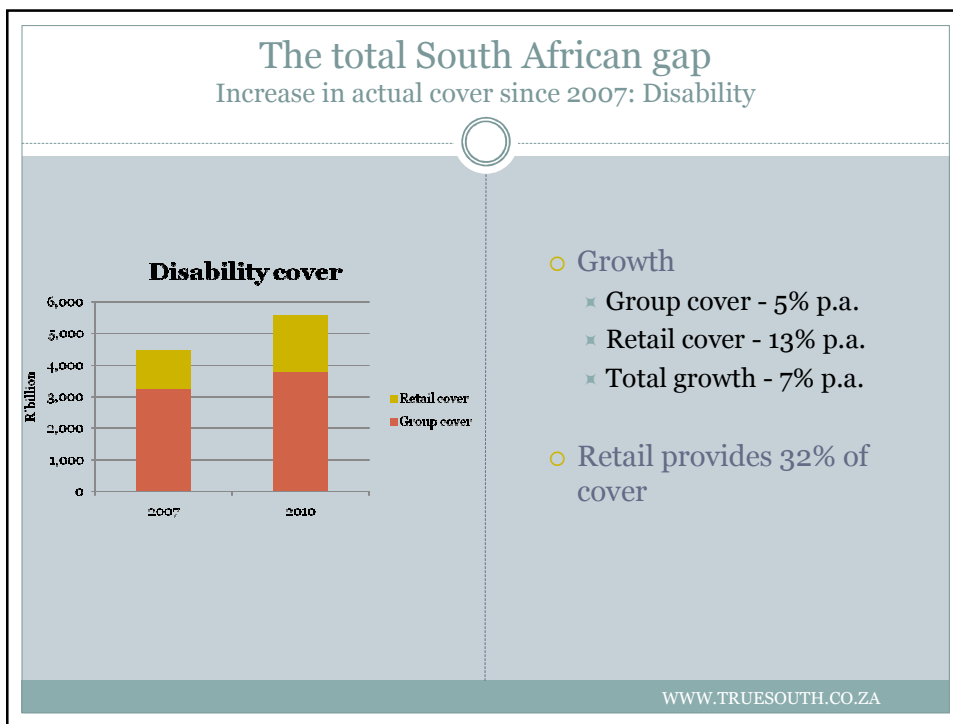
Quantum of the 2010 Insurance Gap

Increase in actual cover since 2007

Increase in Insurance Gap since 2007

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The total South African gap Increase in the gap since 2007

R'trillion	Insurance Need	Actual Cover	Insurance Gap
2007 Insurance Gap	20.2	9.9	10.3
Expected inflation	5.6	2.7	2.9
Wider income definition	2.9	-	2.9
Negative need removed	2.0	-	2.0
Real structural increase	-0.3	-0.6	0.3
2010 Insurance Gap	30.4	12.0	18.4

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The gap per average earner

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The gap per average earner

- The gap per average earner

Rand (rounded)	Death	Disability
Insurance Need	950,000	1 500 000
Actual Cover	-350 000	-600 000
Insurance Gap	600 000	900 000

- Number of events expected

# Events	Death	Disability
During 2011	159 034	52 481
Per day	435	144

- Three possible responses

	Death	Disability
Buy insurance	2.4% of earnings	1.5% of earnings
Cut expenses	30%	34%
Increase earnings	R3 177 pm	R4 696 pm

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The gap per socio-economic segment

Gap per average earner for 5 earnings categories

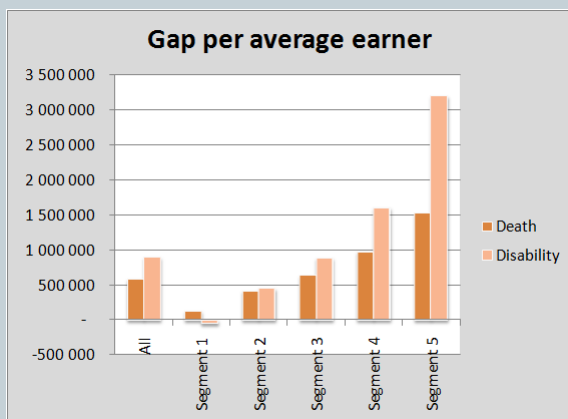
Number of death / disability events expected during 2011

Three possible responses to the Insurance Gap

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The gap per socio-economic segment

Gap per average earner for 5 earnings categories



Segment 1	R0-R3,000
Segment 2	R3,000-R5,800
Segment 3	R5,800-R8,300
Segment 4	R8,300-R16,700
Segment 5	R16,700+

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The gap per socio-economic segment

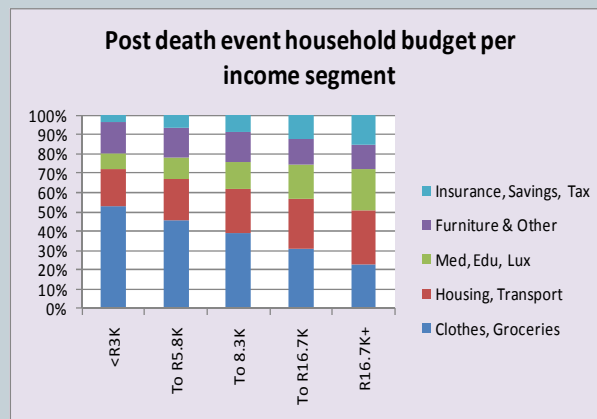
3 Possible responses to the gap: Death

Death Insurance Gap		< 3,000	3,000- 5,800	5,800- 8,300	8,300- 16,700	16,700 +	Total
Earnings (million)		4.7	2.3	1.5	2.3	1.7	12.4
Deaths expected per day		217	83	49	55	32	435
Three possible responses	Buy insurance (% of earnings)	3.6%	3.9%	3.6%	3.1%	1.6%	2.4%
	Household expense (% cut required)	29%	34%	35%	31%	25%	30%
	Extra monthly income required (net of tax)	581	2 070	3 277	5 132	8 787	3 177

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The gap per socio-economic segment

3 Possible responses to the gap: Death



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The gap per socio-economic segment

3 Possible responses to the gap: Disability

Disability Insurance Gap		< 3,000- 3,000	3,000- 5,800	5,800- 8,300	8,300- 16,700	16,700 +	Total
Earnings (million)		4.7	2.3	1.5	2.3	1.7	12.4
Disability events expected per day		62	28	17	22	15	144
Three possible responses	Buy insurance (% of earnings)	-0.6%	1.7%	2.0%	2.0%	1.4%	1.5%
	Household expense (% cut required)	-7%	27%	36%	39%	39%	34%
	Extra monthly income required (net of tax)	-211	2 060	4 247	8 042	18 243	4 696

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Other views on the gap

Income

Age


Education

Household size

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Other views on the gap

Income




- 10 percentile groupings / categories
- Interesting facts
 - Higher earners tend to be older (35 to 41 in top category)
 - Lower earners often have no Insurance Need
 - ✦ Net consumers of household resources
 - ✦ Contributions from other families
- Gaps
 - Death: R43,000 (0-10th) vs. R1.5m (90th to 100th)
 - Disability: No gap (0-10th) vs. R3.5m (90th to 100th)

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Other views on the gap

Age



- 8 groupings / categories
- Interesting facts
 - Age 50 is 2.5 times more likely to own life cover than age 20...
 - ... but need lower since shorter period to retirement
- Gaps
 - Death: Negative gap for 50+ (i.e. this group is over-insured)
 - Disability: More appropriate cover structure from income insurance

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Other views on the gap

Education

- 6 groupings / categories
- Interesting facts
 - Extremely strong correlation with product ownership
 - Income at risk in top category about 10 times that of bottom
- Gaps
 - Death: R0.2m (no education) vs. R1.1m (degree)
 - Disability: R0.2m (no education) vs. R2.6m (degree)

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Other views on the gap

Household size

- 5 groupings / categories
- Interesting facts
 - Those in bigger households tend to earn less
 - Bigger households: more children and more unemployed
- Gaps
 - Death: Single member families tend to be over-insured
 - Disability: Fairly stable gap% due to offsetting factors

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