

The South African Insurance Gap (2025)

Understanding the evolving protection needs of South Africans: life, disability, and critical illness.



TRUE SOUTH
ADVISORY

A study by True South Advisory

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1 INTRODUCTION

1.1 Definitions

Terms for which a definition is supplied in Appendix A, are denoted in italics.

1.2 Background and brief

ASISA retained True South Actuaries and Consultants to update previous studies conducted to determine the extent of under-insurance in South Africa. This study is referred to as the “2025 *Insurance gap* study” and reflects the situation as at the end of 2024. Previous studies were conducted in 2007, 2010, 2013, 2016, 2019 and 2022 which reflected the extent of under-insurance in South Africa as at the end of 2006, 2009, 2012, 2015, 2018 and 2021 respectively.

For the first time since the inception of the study, the 2025 update also includes an assessment of the critical illness coverage. The inclusion of critical illness coverage represents a significant broadening of the study’s scope, complementing the existing life and disability gap analyses, and providing a more comprehensive view of South Africans’ protection.

1.3 Acknowledgements

We express our thanks to the life insurers who participated in the study through the provision of data on fairly tight timelines. We are also particularly grateful for the many instances where senior officials in the respective organizations got personally involved to assist us in securing the necessary data.

1.4 What is included and what is excluded

In Appendix A (defining terms that are denoted in italics throughout this document), the *insurance gap* (see modelling notes in Appendix B) is defined as the difference between the *insurance need* and *actual cover*:

- The *insurance need* is defined as the amount of cover required to meet the need that is created by the *death event* and/or the *disability event* (see modelling notes in Appendix C):
 - It assumes the household would want to maintain the pre-event standard of living.

- It further assumes that the need extends to the deceased / disabled household member's *retirement age* only as this study doesn't express any view on post-retirement provision adequacy.
- It excludes any additional short-term expenses related to the risk event, such as funeral costs, medical costs and/or cost of structural changes to one's home in the case of a *disability event*.
- *Actual cover* considers benefits received post-event from insurers (retail and group-type cover), self-insurance pension schemes (like the GEPP), and government disability grants. (See modelling notes in Appendix D.)
 - It excludes funeral cover (as it is pragmatically assumed that the objective of such cover does not include income replacement).
 - It excludes cover that provides for certain selected situations only, such as accident only cover and cover from the Road Accident Fund, the Compensation Fund, and short-term insurance.
 - It ignores any shortfall that may result due to any waiting periods that may be enforced by the disability cover product design.

Critical illness coverage is defined separately as the ratio of actual *critical illness cover* in place to gross annual earnings. Unlike the death and disability measures, the critical illness analysis does not quantify an insurance need but instead provides an indicator of adequacy through this coverage ratio.

2 EXECUTIVE SUMMARY

2.1 Number of *death events* / *disability* / *critical illness events* expected

The table below shows the number of *earners* expected to suffer a *death event* ¹ and / or a *disability event* ² and / or a *critical illness event* during 2025:

Table 1 - Number of earners suffering a death and/or disability event in 2025

	Death event ³	Disability event	Critical Illness event
Number of <i>earners</i>	16.1m	16.1m	16.1m
Number of events expected per year	160 646	53 013	24 097
Number of events expected per day	440	145	66

2.2 The *insurance gap*

At a macro level

The *insurance gap* was determined using the same principles as used for previous studies. (See appendices B, C, and D.) The *insurance gap* as at the end of 2024 was calculated to be R50.4 trillion (1 trillion = 1 000 billion = 1 000 000 million = 10¹²):

- If South African households wanted to maintain their standards of living after a *death event*, the *insurance need* for all *earners* combined is in the region of R33.6 trillion (see section 3.1). The extent of *actual cover* in force in the economy only amounts to R12.4 trillion (see section 3.2). This leaves a death *insurance gap* of around R21.1 trillion (see section 3.3).
- If South African households wanted to maintain their standards of living after a *disability event*, the *insurance need* for all *earners* combined is in the region of R48.6 trillion (see section 3.1). The extent of *actual cover* in force in the economy only amounts to R19.4 trillion (see section 3.2). This leaves a disability *insurance gap* of around R29.2 trillion (see section 3.3).

¹ By reference to the demographics of the *earners* in each segment and application of the AIDS model of the Actuarial Society of South Africa.

² By reference to a disability investigation of the Actuarial Society of South Africa calibrated so that ratio of disabilities to deaths is consistent with group premium rates obtained.

³ The number of *death events* expected aims to illustrate a long-term stable view of mortality and would therefore exclude increases in deaths experience over recent years.

(Numbers are rounded.)

At a micro level

The *insurance gap* as at the end of 2024 was calculated to be R3.1m for the average South African *earner*:

- If the average South African *earner* wanted to ensure that her/his family can maintain their standard of living in the event of her/his death, provision would need to be made for R2.1m of cover. However, the average South African *earner* has life cover of just more than R0.8m. This leaves an average death *insurance gap* of about R1.3m.
- If the average South African *earner* wanted to ensure that her/his family can maintain their standard of living in the event of her/his being subject to a *disability event*, provision would need to be made for R3.0m of cover. As the average South African *earner* has disability cover of just more than R1.2m, this leaves an average disability *insurance gap* of about R1.8m.

2.3 Critical illness coverage

Critical illness coverage plays a unique role in the protection landscape, bridging the gap between life and disability insurance. While life cover responds only at death and disability cover generally requires permanent inability to work, critical illness policies (usually) provide a lump-sum payout on diagnosis of a serious condition such as cancer, heart attack, or stroke. This benefit is designed to absorb the financial shock of survival, covering indirect and non-medical costs, funding lifestyle adjustments, and providing liquidity during recovery. Medical aids often leave shortfalls and disability benefits may not apply; critical illness cover provides essential protection to ensure survival from a major illness does not result in financial hardship.

At a macro level

South Africa's 16.1 million earners generate approximately R4.0 trillion in annual gross earnings, while maintaining R1.1 trillion in critical illness cover. This translates into a *critical illness coverage* ratio of 26% as at the end of 2024.

At a micro level

The average South African *earner* has annual gross earnings of around R0.25 million and holds approximately R0.07 million in *critical illness cover*. However, this average conceals a highly

uneven distribution: it is estimated that more than 85% of *earners* have no critical illness cover, while a small minority hold high levels of cover.

2.4 Responses to the *insurance gap*

A response to the *insurance gap*, could be to pro-actively purchase additional death and disability cover.

Reactive responses (post the *death event / disability event*) include [1] curtailing household expenditure and [2] shifting the burden of under-insurance to the remaining household members of working-age by requiring increased contributions from them to total household income. The extent required by each of the responses is summarised in the table below:

Table 2 - Possible responses to the *insurance gap*

	Pro-active	Reactive post death event / disability event	
	Cost to close gap (% of earnings)	% reduction in household expenditure	Generating additional income per month
Death event	5.2%	34% ⁴	7 431
Disability event	3.0%	37%	9 767
Total	8.2%		

2.5 The *insurance gap* and critical illness coverage broken down into segments

In the main body of this document, the *insurance gap* and *critical illness coverage* is reported for different segments of the population in terms of income, education, age, province, and gender.

⁴ Expressed as a percentage of post event household expenditure (i.e. reduced due to smaller family size).

3 INCREASE IN THE *INSURANCE GAP* SINCE THE PREVIOUS STUDY

3.1 The *insurance need* grew by 9.3% pa

In the table below, the *insurance need* is expressed as the product of three numbers:

Table 3 – Three components combine to define the *insurance need*

	Note	Total insurance need (in R'bn) 2022 study		Total insurance need (in R'bn) 2025 study	
		Death	Disability	Death	Disability
Total income at risk	1	3 042	3 042	4 042	4 042
* Replacement ratio	2	57%	78%	56%	78%
* Capitalisation factor	3	14.9	15.6	14.8	15.5
Insurance need	1*2*3	25 712	37 209	33 579	48 647

Note 1 - Income at risk: This includes all income as per the definition (Appendix A) of *earnings*. The fast growth in the income at risk was due to an increase in the workforce (by about 1.8m workers), coupled by *earnings* per *earner* growing at roughly 0.5% above CPI pa. (For more information, see Appendix C1.)

Note 2 - Replacement ratio: This represents the proportion of household members' personal income that "will be missed" after the *death event* or the *disability event*. The replacement ratio is lower for the *death event* reflecting the fact that the deceased *earner's* portion of expenses will no longer be part of the household budget. (For more information, see Appendix C2.)

Note 3 - Capitalisation factor: This factor is related to the number of years that the *earner* would still have contributed to the household. It reflects the period from current day up to *retirement age*. The capitalisation factors are slightly lower than that of the 2022 study, as the age of the average *earner* increased marginally over the 3-year period. (For more information, see Appendix C3.)

3.2 *Actual cover* grew by 5.0% pa

As for the 2022 study, regulatory returns form the basis of the *actual cover* information requirement, which ensures credibility of the results in at least two ways:

- High response rates: As the requested information is readily available, (the bulk had already been provided to the regulator), most insurers respond to the information request resulting in a lesser need to ratio data to account for non-respondents.
- Quality and comparability of information: Returns are audited and the specification for what is required is uniform for all insurers alike. There is therefore less possibility for interpretation / data extraction errors.

See Appendix D for more information on the sources used for determining the total level of *actual cover* in the market and allocating this to different segments of the *earner* population.

Table 4 - Total actual cover held relative to previous study

<i>Actual cover in R'bn</i>	<i>Note</i>	<i>2022 study⁵</i>	<i>2025 study</i>	<i>Increase pa</i>
Life cover	1	11 116	12 441	3.8%
Disability insurance cover	2	12 417	14 232	4.7%
Disability grants	3	4 014	5 200	9.0%
Total		27 548	31 872	5.0%

Note 1: Growth in life cover since previous study

Table 5 - Growth in life cover, split between retail and group insurance

<i>Actual life cover in R'bn</i>	<i>2022 study⁵</i>	<i>2025 study</i>	<i>Increase pa</i>
Retail insurance	6 557	7 411	4.2%
Group insurance	4 559	5 030	3.3%
Total life insurance cover	11 116	12 441	3.8%

Note 2: Growth in disability cover since previous study

Table 6 - Growth in disability cover, split between retail and group insurance

<i>Actual disability cover in R'bn</i>	<i>2022 study</i>	<i>2025 study</i>	<i>Increase pa</i>
Retail insurance	4 758	5 305	3.7%
Group insurance	7 659	8 927	5.2%
Total disability insurance cover	12 417	14 232	4.7%

⁵ The 2022 study's actual life and disability cover figures were restated. The actual life and disability cover in place at the end of 2021 was overstated (and the insurance gap thus understated) in the 2022 study. The restatement was necessary to ensure that both studies are on a like-for-like basis, enabling sensible comparisons to be made and conclusions to be drawn.

Note 3: The amount of the maximum social security disability grant increased by ~CPI per annum since the 2022 study, while the qualification criteria were not increased. In addition to this, the number of low-income *earners* eligible for the grant increased and thus the total cover available in the scenario where all *earners* become disabled has increased by 9.0% pa since the 2022 study.

3.3 The total *insurance gap* increased by 12.5% pa

Table 7 - Insurance gap: Comparison against previous study

R'bn	2022 study ⁵			2025 study		
	Death	Disability	Total	Death	Disability	Total
<i>Insurance need</i>	25 712	37 209	62 921	33 579	48 647	82 225
<i>Actual cover from insurance</i>	-11 116	-12 417	-23 534	-12 441	-14 232	-26 673
<i>Disability grant cover</i>	-	-4 014	-4 014	-	-5 200	-5 200
<i>Insurance gap</i>	14 596	20 778	35 373	21 138	29 215	50 353
<i>Cover adequacy</i>	43%	44%	44%	37%	40%	39%

From the end of 2021 to the end of 2024, the *insurance gap* increased by 12.5% pa. The *insurance gap* per *earner* increased at a rate of 8.2% pa; the rest of the increase in the *insurance gap* was driven by the increase in the number of *earners* over the 3-year period.

The *actual cover* as percentage of the *insurance need* (referred to as *cover adequacy*) indicates that only 39% of the *insurance need* is currently met by *actual cover*. This percentage worsened since the previous study due to the *insurance need* growing at a faster rate than the *actual cover*.

From the end of 2021 to the end of 2024, the *death insurance gap* and *disability insurance gap* increased by 13.1% pa and 12.0% pa respectively.

4 PERSONALISING THE *INSURANCE GAP* AND *CRITICAL ILLNESS*

COVERAGE

4.1 The *insurance gap* per earner

The table below shows how the *insurance gap* of R50.3 trillion can be expressed as an average gap of R3.1m per South African *earner* (R1.3m for *death events* and R1.8m for *disability events*):

Table 8 - *Insurance gap in total for all earners and per-earner*

	Total insurance gap (in R'bn)		Insurance gap per earner (in Rand)	
	Death	Disability	Death	Disability
Insurance need	33 579	48 647	2 090 229	3 028 179
Total income at risk	4 042	4 042	251 631	251 631
* Replacement ratio	56%	78%	56%	78%
* Capitalisation factor	14.8	15.5	14.8	15.5
Actual cover	-12 441	-19 432	-774 408	-1 209 610
Retail insurance	-7 411	-5 305	-461 327	-330 202
Group insurance	-5 030	-8 927	-313 081	-555 724
Government grants	-	-5 200	-	-323 685
Insurance gap	21 138	29 215	1 315 822	1 818 568

In the case of a *death event*

If the average South African *earner* wanted to ensure that her/his family can maintain their standard of living in the event of her/his death, provision would need to be made for R2.1m of cover. However, the average South African *earner* has life cover of just less than R0.8m. This leaves an average death *insurance gap* of about R1.3m.

In the case of a *disability event*

If the average South African *earner* wanted to ensure that her/his family can maintain their standard of living in the event of her/his being subject to a *disability event*, provision would need to be made for R3.0m of cover. However, the average South African *earner* has disability cover of just more than R1.2m. This leaves an average disability *insurance gap* of about R1.8m.

4.2 Critical illness coverage per earner

The table below shows how the *critical illness cover* of R1.1 trillion can be expressed as an average cover amount of R56k per South African *earner*, which equates to a *critical illness coverage* ratio of only 26%:

Table 9 – Critical illness coverage in total for all earners and per-earner

	Total (in R'bn)	Per earner (in Rand)
Gross annual earnings	4 042	251 631
Critical illness cover	1 055	65 683
Retail insurance	894	55 650
Group insurance	161	10 022
Critical illness coverage	26%	26%

4.3 Responses to the insurance gap

A response to the *insurance gap*, could be to pro-actively purchase additional death and disability cover.

Reactive responses (post the *death event* / *disability event*) include [1] curtailing household expenditure and [2] shifting the burden of under-insurance to the remaining household members of working-age by requiring increased contributions from them to total household income.

The table below indicates the extent required by each of these responses:

Table 10 - Possible responses to the insurance gap

	Pro-active	Reactive post death event / disability event	
	Cost to close gap (% of earnings)	% reduction in household expenditure	Generating additional income per month
Death event	5.2%	34% ⁶	7 431
Disability event	3.0%	37%	9 767
Total	8.2%		

⁶ Expressed as a percentage of post event household expenditure (i.e. reduced due to smaller family size).

4.4 Further personalising the *insurance gap* and *critical illness coverage*

Due to the diversity of the South African socio-economic landscape, the concept of the “average South African *earner*” is less clear than (say) the “average Australian *earner*”. For this reason, it makes sense to consider the *insurance gap* and *critical illness coverage* for different segments of the South African *earner* population.

In the sections below we show the *insurance gap*, possible responses to it, and *critical illness coverage* for the following segments of the South African *earner* population:

- Section 6: *Earnings* groups
- Section 7: Level of education
- Section 8: Age groups
- Section 9: Province
- Section 10: Gender

5 THE *INSURANCE GAP AND CRITICAL ILLNESS COVERAGE PER EARNINGS GROUP*

5.1 Segments

The 16.1 million *earners* were divided into 5 groups with equal representation by number. The first group represented the 20% poorest individuals within the universe of *earners*. The next group represented the next 20% poorest individuals, etc.:

Table 11 – Demographics of earners in each of the earning segments

Segment	Segment bounds (net earnings)	Number of earners (million)	Average annual net earnings (Rand)	Average Age
Poorest 20%	up to R39 645 p.a.	3.2	20 114	37
2 nd Quantile	R39 646 to R77 940 p.a.	3.2	58 263	37
3 rd Quantile	R77 941 to R140 078 p.a.	3.2	107 273	38
4 th Quantile	R140 079 to R291 363 p.a.	3.2	232 598	39
Richest 20%	more than R291 364 p.a.	3.2	839 547	43
All		16.1	251 631	39

5.2 Findings

The numbers in the remainder of this section reveal that:

- For a *death event*, the *cover adequacy* shows a strong positive correlation with personal income - i.e. the higher the income, the bigger proportion of the *insurance need* is met by *actual cover*.
- This would have been the case for the *disability event* as well had it not been for government disability grants. The level of the grant is such that it covers the full disability *insurance need* of the poorest 20% *earners*. Most *earners* within this (poorest 20%) group would therefore not have any need for additional (or any for that matter) disability insurance cover.
- There is a strong positive relationship between income and *critical illness coverage*, with higher-income individuals maintaining greater cover relative to their gross earnings.

5.3 The size of the *insurance gap* per segment

Death *insurance gap* per earner

Table 12 - Derivation of the per-earner death *insurance gap* by earnings

	Poorest 20%	2nd Quantile	3 rd Quantile	4 th Quantile	Richest 20%
Insurance need	154 283	641 955	1 219 354	2 340 372	6 091 841
Total income at risk	20 114	58 263	107 273	232 598	839 547
* Replacement ratio	43%	61%	65%	61%	54%
* Capitalisation factor	18.0	18.1	17.5	16.5	13.5
Actual cover	-16 642	-64 293	-158 336	-665 047	-2 966 716
Retail insurance	-2 731	-10 993	-34 616	-301 754	-1 955 997
Group insurance	-13 911	-53 299	-123 720	-363 293	-1 010 719
Government grants	0	0	0	0	0
Insurance gap	137 641	577 662	1 061 019	1 675 326	3 125 125
Cover adequacy (Cover/Need)	11%	10%	13%	28%	49%
Number of <i>earners</i> (millions)	3.2	3.2	3.2	3.2	3.2
Total <i>insurance gap</i> (R'bn)	442	1 850	3 421	5 382	10 043

For example, an *earner* that finds themselves in the top 20% of South African *earners*, would typically need life cover of almost R6.1m. Typically such an *earner* would only have life cover of R3.0m, leaving an average *insurance gap* of around R3.1m.

Disability *insurance gap* per earner

Table 13 - Derivation of the per-earner disability *insurance gap* by earnings

	Poorest 20%	2nd Quantile	3 rd Quantile	4 th Quantile	Richest 20%
Insurance need	373 656	1 082 984	1 895 401	3 506 263	8 278 004
Total income at risk	20 114	58 263	107 273	232 598	839 547
* Replacement ratio	100%	100%	97%	88%	70%
* Capitalisation factor	18.6	18.6	18.2	17.1	14.1
Actual cover	-617 851	-613 717	-617 850	-1 067 882	-3 130 153
Retail insurance	-440	-4 661	-20 973	-245 509	-1 379 049
Group insurance	-29 537	-107 567	-260 019	-685 715	-1 694 895
Government grants	-587 873	-501 490	-336 858	-136 657	-56 210
Insurance gap	-244 195	469 266	1 277 550	2 438 381	5 147 851
Cover adequacy (Cover/Need)	> 100%	57%	33%	30%	38%
Number of <i>earners</i> (millions)	3.2	3.2	3.2	3.2	3.2
Total <i>insurance gap</i> (R'bn)	-784	1 503	4 119	7 833	16 544

For example, the 20% poorest South African *earners* would typically need disability cover of about R0.4m. Typically such an *earner* would have disability cover far exceeding this need, mostly due to government grants leaving no *insurance gap*.

Critical illness coverage per earner

Table 14 - Derivation of the per-earner critical illness coverage by earnings

	Poorest 20%	2 nd Quantile	3 rd Quantile	4 th Quantile	Richest 20%
Gross annual earnings	20 114	58 263	107 273	232 598	839 547
Critical illness coverage	1 675	2 711	7 542	54 094	262 318
Retail insurance	1 205	913	3 346	42 252	230 390
Group insurance	469	1 798	4 196	11 842	31 928
Critical illness coverage	8%	5%	7%	23%	31%
Number of earners (millions)	3.2	3.2	3.2	3.2	3.2

For example, an *earner* that finds themselves in the top 20% of South African *earners*, would make just more than R0.8m in gross earnings per year while having R0.26m worth of critical illness coverage in place. This equates to a *critical illness coverage* ratio of 31%.

5.4 Responses to the *insurance gap*

Death insurance gap

The table below gives (for each of the segments) the degree of intervention required for each of three possible responses to the *insurance gap* in the case of a *death event*:

Table 15 - Responses to the death insurance gap by earnings

		Poorest 20%	2 nd Quantile	3 rd Quantile	4 th Quantile	Richest 20%	All
Purchase additional Insurance	Cost of insurance (as % of current <i>earnings</i>)	6.9%	9.9%	9.9%	7.2%	3.6%	5.2%
	Increase in current level of cover (e.g. 1.5x implies additional cover required equal to 1.5 times current level)	8.3	9.0	6.7	2.5	1.1	1.7
Reduce household expenditure	Required reduction in household expenditure	10%	32%	40%	36%	35%	34%
Additional income required	Extra income required per month (net of tax)	777	3 263	5 992	9 462	17 650	7 431
	Extra income as % of <i>earnings</i> pre-event	46%	67%	67%	49%	25%	35%

Disability insurance gap

For a *disability event*, the figures are as follows:

Table 16 - Responses to the disability insurance gap by earnings

		Poorest 20%	2 nd Quantile	3 rd Quantile	4 th Quantile	Richest 20%	All
Purchase additional Insurance	Cost of insurance (as % of current <i>earnings</i>)	-5.0%	3.3%	4.9%	4.3%	2.6%	3.0%
	Increase in current level of cover (e.g. 1.5x implies additional cover required equal to 1.5 times current level)	-0.4	0.8	2.1	2.3	1.6	1.5
Reduce household expenditure	Required reduction in household expenditure	-14%	20%	38%	42%	46%	37%
Additional income required	Extra income required per month (net of tax)	-1 312	2 520	6 862	13 096	27 648	9 767
	Extra income as % of <i>earnings</i> pre-event	-78%	52%	77%	68%	40%	47%

6 THE *INSURANCE GAP AND CRITICAL ILLNESS COVERAGE PER EDUCATION LEVEL*

6.1 Segments

Each *earner* is allocated to one of five education categories depending on the highest level of education achieved:

- PS or lower: Primary school not completed.
- Some HS: Completed primary school, but not high school.
- Matric: Completed high school, but no diploma or degree.
- Diploma: Diploma but no degree.
- Degree: Degree or more.

Table 17 - Demographics of earners in each of the education segments

Segment	Number of <i>earners</i> (million)	Average annual <i>earnings</i> (Rand)	Average Age
PS or lower	1.2	72 740	44
Some HS	5.4	129 455	40
Matric	6.3	196 273	35
Diploma	1.1	418 563	39
Degree	2.1	756 434	41
All	16.1	251 631	39

6.2 Findings

The numbers in the remainder of this section reveal that:

- For the *death event*, the *cover adequacy* shows a strong positive correlation with highest level of education achieved.
- This would have been the case for the *disability event* as well had it not been for government grants. These grants are targeted at the poor where there is a bias to lower levels of education.
- There is a strong positive relationship between *critical illness coverage* and the highest level of education attained.

6.3 The size of the *insurance gap* per segment

The tables below highlight how different the *insurance gap* is for the different segments. We show figures for the “average *earner*” within each segment.

Death *insurance gap* per earner

Table 18 - Derivation of the per earner death *insurance gap* by education

	<i>PS or lower</i>	<i>Some HS</i>	<i>Matric</i>	<i>Diploma</i>	<i>Degree</i>
Insurance need	562 946	1 074 066	2 002 166	3 423 065	5 199 794
Total income at risk	72 740	129 455	196 273	418 563	756 434
* Replacement ratio	64%	62%	60%	55%	51%
* Capitalisation factor	12.0	13.4	17.1	14.9	13.4
Actual cover	-57 314	-229 034	-470 244	-1 477 901	-3 175 992
Retail insurance	-26 946	-98 168	-253 086	-865 219	-2 085 852
Group insurance	-30 368	-130 866	-217 158	-612 682	-1 090 140
Government grants	0	0	0	0	0
Insurance gap	505 632	845 032	1 531 921	1 945 164	2 023 803
Cover adequacy (Cover/Need)	10%	21%	23%	43%	61%
Number of <i>earners</i> (millions)	1.2	5.4	6.3	1.1	2.1
Total <i>insurance gap</i> (R'bn)	619	4 523	9 723	2 081	4 192

For example, *earners* with matric as highest qualification would typically need life cover of almost R2.0m. Typically such an *earner* would only have cover of R0.5m, leaving an *insurance gap* of R1.5m – implying that only 23% of the life *insurance need* is protected by *actual cover*.

Table 19 - Derivation of the per-earner disability *insurance gap* by education

	<i>PS or lower</i>	<i>Some HS</i>	<i>Matric</i>	<i>Diploma</i>	<i>Degree</i>
Insurance need	850 768	1 592 807	2 897 560	5 028 305	7 390 835
Total income at risk	72 740	129 455	196 273	418 563	756 434
* Replacement ratio	93%	86%	83%	76%	69%
* Capitalisation factor	12.6	14.2	17.9	15.7	14.1
Actual cover	-414 176	-606 783	-996 361	-2 027 935	-3 468 050
Retail insurance	-13 480	-54 855	-198 531	-711 429	-1 435 386
Group insurance	-47 360	-170 721	-432 344	-1 142 062	-1 926 139
Government grants	-353 335	-381 208	-365 487	-174 444	-106 524
Insurance gap	436 592	986 023	1 901 198	3 000 370	3 922 785
Cover adequacy (Cover/Need)	49%	38%	34%	40%	47%
Number of <i>earners</i> (millions)	1.2	5.4	6.3	1.1	2.1
Total <i>insurance gap</i> (R'bn)	534	5 278	12 067	3 210	8 126

For example, an *earner* with at least a degree, would typically need disability cover of about R7.4m. Typically, such an *earner* would only have cover of R3.5m, leaving a substantial *insurance gap* of R3.9m – implying that 47% of the disability *insurance need* is protected by *actual cover*.

Critical illness coverage per earner

Table 20 - Derivation of the per-earner critical illness coverage by education

	<i>PS or lower</i>	<i>Some HS</i>	<i>Matric</i>	<i>Diploma</i>	<i>Degree</i>
Gross annual earnings	72 740	129 455	196 273	418 563	756 434
Critical illness coverage	4 075	15 043	38 349	136 106	280 321
Retail insurance	3 132	11 061	31 157	116 246	245 524
Group insurance	942	3 982	7 192	19 861	34 797
Critical illness coverage	6%	12%	20%	33%	37%
Number of earners (millions)	1.2	5.4	6.3	1.1	2.1

For example, *earners* with matric as highest qualification would make R0.20m in gross earnings per year while having R0.04m worth of critical illness coverage in place. This equates to a *critical illness coverage* ratio of 20%.

6.4 Responses to the *insurance gap*

Death insurance gap

The table below gives (for each of the segments), the degree of intervention required for each of three possible responses to the *insurance gap* in the case of a *death event*:

Table 21 - Responses to the per-earner death insurance gap by education

		<i>PS or lower</i>	<i>Some HS</i>	<i>Matric</i>	<i>Diploma</i>	<i>Degree</i>	All
Purchase additional insurance	Cost of insurance (as % of current <i>earnings</i>)	7.0%	6.5%	7.8%	4.5%	2.6%	5.2%
	Increase in current level of cover (e.g. 1.5x implies additional cover required equal to 1.5 times current level)	8.8	3.7	3.3	1.3	0.6	1.7
Reduce household expenditure	Required reduction in household expenditure	32%	35%	43%	33%	23%	34%
Additional income Required	Extra income required per month (net of tax)	2 856	4 773	8 652	10 986	11 430	7 431
	Extra income as % of <i>earnings</i> pre-event	47%	44%	53%	31%	18%	35%

Disability insurance gap

For the *disability event*, the figures are as follows:

Table 22 - Responses to the per-earner disability insurance gap by education

		<i>PS or lower</i>	<i>Some HS</i>	<i>Matric</i>	<i>Diploma</i>	<i>Degree</i>	<i>All</i>
Purchase additional insurance	Cost of insurance (as % of current <i>earnings</i>)	2.6%	3.2%	4.0%	3.0%	2.2%	3.0%
	Increase in current level of cover (e.g. 1.5x implies additional cover required equal to 1.5 times current level)	1.1	1.6	1.9	1.5	1.1	1.5
Reduce household expenditure	Required reduction in household expenditure	22%	32%	42%	40%	35%	37%
Additional income required	Extra income required per month (net of tax)	2 345	5 296	10 211	16 115	21 069	9 767
	Extra income as % of <i>earnings</i> pre-event	39%	49%	62%	46%	33%	47%

7 THE INSURANCE GAP AND CRITICAL ILLNESS COVERAGE PER AGE GROUP

7.1 Segments

Earners were categorised based on their age last birthday:

Table 23 – Demographics of earners in each of the considered age segments

Segment	Number of <i>earners</i> (million)	Average annual <i>earnings</i> (Rand)	Average Age
Under 30	4.1	142 734	25
30-39	4.7	228 292	34
40-49	4.1	323 142	44
50-54	1.5	311 380	52
55 and over	1.6	358 139	58
All	16.1	251 631	39

7.2 Findings

The numbers in the remainder of this section reveal that:

- Cover adequacy for *death events* is lowest at younger ages, as their insurance need is much higher due to longer time to retirement. Older earners (50+) generally show adequate cover, since their insurance need diminishes with age while actual lump sum cover remains relatively stable.
- *Disability* adequacy follows a similar pattern, with younger earners most exposed, while older earners show better adequacy as their working years shorten.
- There is a strong positive relationship between age and *critical illness coverage*, with older individuals typically maintaining higher levels of cover relative to their gross annual earnings.
- It is noteworthy that the incidence of critical illness increases sharply with age: individuals over 55 experience roughly ten times as many events as those aged 30-39.

7.3 The size of the *insurance gap* per segment

The tables below highlight how different the *insurance gap* is for the different age-group segments. We show figures for the "average *earner*" within each segment:

Death *insurance gap* per earner

Table 24 - Derivation of the per-earner death *insurance gap* by age

	<i>Under 30</i>	<i>30-39</i>	<i>40-49</i>	<i>50-54</i>	<i>55 and over</i>
<i>Insurance need</i>	2 087 504	2 568 345	2 459 128	1 262 001	522 016
Total income at risk	142 734	228 292	323 142	311 380	358 139
* Replacement ratio	57%	56%	57%	55%	55%
* Capitalisation factor	25.5	20.0	13.4	7.4	2.7
<i>Actual cover</i>	-175 856	-695 479	-1 033 986	-1 327 307	-1 346 287
Retail insurance	-68 284	-362 735	-633 920	-945 518	-855 372
Group insurance	-107 571	-332 744	-400 065	-381 790	-490 915
Government grants	0	0	0	0	0
<i>Insurance gap</i>	1 911 648	1 872 865	1 425 143	-65 307	-824 271
<i>Cover adequacy (Cover/Need)</i>	8%	27%	42%	> 100%	> 100%
Number of <i>earners</i> (millions)	4.1	4.7	4.1	1.5	1.6
Total <i>insurance gap</i> (R'bn)	7 826	8 862	5 875	-98	-1 326

For example, an *earner* aged between 30 and 39 typically needs R2.6m of life cover to ensure the household can maintain its standard of living after her/his death. Typically, such an *earner* would have life cover of less than R0.7m, leaving an average *insurance gap* of more than R1.9m.

Disability *insurance gap* per earner

Table 25 - Derivation of the per-earner disability *insurance gap* by age

	<i>Under 30</i>	<i>30-39</i>	<i>40-49</i>	<i>50-54</i>	<i>55 and over</i>
<i>Insurance need</i>	3 182 814	3 741 010	3 347 066	1 827 885	846 087
Total income at risk	142 734	228 292	323 142	311 380	358 139
* Replacement ratio	86%	80%	75%	75%	74%
* Capitalisation factor	26.0	20.5	13.9	7.9	3.2
<i>Actual cover</i>	-1 021 956	-1 564 808	-1 372 754	-914 548	-500 969
Retail insurance	-110 887	-398 626	-482 517	-420 053	-212 534
Group insurance	-323 533	-796 890	-688 125	-387 271	-255 897
Government grants	-587 536	-369 293	-202 111	-107 223	-32 539
<i>Insurance gap</i>	2 160 859	2 176 201	1 974 312	913 338	345 118
<i>Cover adequacy (Cover/Need)</i>	32%	42%	41%	50%	59%
Number of <i>earners</i> (millions)	4.1	4.7	4.1	1.5	1.6
Total <i>insurance gap</i> (R'bn)	8 846	10 297	8 139	1 377	555

For example, an *earner* that is younger than 30 typically needs R3.2m of disability cover to ensure the household can maintain its standard of living after her/his disability. On average, such an *earner* has life cover of around R1.0m, leaving an *insurance gap* of R2.2m.

Critical illness coverage per earner

Table 26 - Derivation of the per-earner critical illness coverage by age

	Under 30	30-39	40-49	50-54	55 and over
Gross annual earnings	142 734	228 292	323 142	311 380	358 139
Critical illness coverage	17 083	60 973	89 817	91 219	117 434
Retail insurance	12 815	49 496	77 344	80 525	103 684
Group insurance	4 268	11 477	12 473	10 694	13 750
Critical illness coverage	12%	27%	28%	29%	33%
Number of <i>earners</i> (millions)	4.1	4.7	4.1	1.5	1.6

For example, an *earner* aged between 30 and 39 would make just more than R0.2m in gross earnings per year while having R0.06m worth of critical illness coverage in place. This equates to a *critical illness coverage* ratio of 27%.

7.4 Responses to the *insurance gap*

Death insurance gap

The table below gives (for each of the segments) the degree of intervention required for each of three possible responses to the *insurance gap* in the case of a *death event*:

Table 27 - Responses to the death insurance gap by age segments

		Under 30	30-39	40-49	50-54	55 and over	All
Purchase additional Insurance	Cost of insurance (as % of current <i>earnings</i>)	14.1%	7.8%	4.3%	-0.2%	-2.4%	5.2%
	Increase in current level of cover (e.g. 1.5x implies additional cover required equal to 1.5 times current level)	10.9	2.7	1.4	0.0	-0.6	1.7
Reduce household expenditure	Required reduction in household expenditure	56%	53%	34%	-2%	-17%	34%
Additional income required	Extra income required per month (net of tax)	10 797	10 578	8 049	-369	-4 655	7 431
	Extra income as % of <i>earnings</i> pre-event	91%	56%	30%	-1%	-16%	35%

Disability insurance gap

For the *disability event*, the figures are as follows:

Table 28 - Responses to the disability insurance gap by age

		<i>Under 30</i>	<i>30-39</i>	<i>40-49</i>	<i>50-54</i>	<i>55 and over</i>	<i>All</i>
Purchase additional Insurance	Cost of insurance (as % of current <i>earnings</i>)	6.1%	3.9%	2.6%	1.4%	0.5%	3.0%
	Increase in current level of cover (e.g. 1.5x implies additional cover required equal to 1.5 times current level)	2.1	1.4	1.4	1.0	0.7	1.5
Reduce household expenditure	Required reduction in household expenditure	50%	48%	37%	17%	6%	37%
Additional income required	Extra income required per month (net of tax)	11 606	11 688	10 604	4 905	1 854	9 767
	Extra income as % of <i>earnings</i> pre-event	98%	61%	39%	19%	6%	47%

8 THE *INSURANCE GAP AND CRITICAL ILLNESS COVERAGE PER PROVINCE*

8.1 Segments

Earners were categorised based on the province they reside in:

Table 29 - Demographics of earners in each of the provinces

<i>Segment</i>	<i>Number of earners (million)</i>	<i>Average annual earnings (Rand)</i>	<i>Average Age</i>
Western Cape	2.5	321 855	39
Eastern Cape	1.3	199 512	38
KwaZulu-Natal	2.7	190 030	37
Northern Cape	0.3	205 179	37
Free State	0.8	180 831	39
North West	0.8	188 087	40
Gauteng	5.4	304 354	39
Mpumalanga	1.1	213 067	38
Limpopo	1.1	190 644	39
All	16.1	251 631	39

8.2 Findings

The numbers in the remainder of this section reveal that:

- *Cover adequacy (actual cover / insurance need)* for the *death event*, ranges quite a lot from 20% (Northern Cape) to 48% (Gauteng).
- For the *disability event*, the *cover adequacy (actual cover / insurance need)* ranges from 27% (Northern Cape / Mpumalanga) to 49% (Gauteng).
- The *critical illness coverage* ratio ranges from 20% (Northern Cape / North West) to 30% (Gauteng).

8.3 The size of the *insurance gap* per segment

We show figures for the “average *earner*” within each segment:

Death *insurance gap* per *earner*

Table 30 - Derivation of the per-earner death insurance gap by province

	Western Cape	Eastern Cape	KwaZulu-Natal	Northern Cape	Free State	North West	Gauteng	Mpumalanga	Limpopo
Insurance need	2 502 386	1 788 564	1 795 433	1 864 493	1 437 359	1 517 489	2 415 318	1 980 858	1 665 738
Total income at risk	321 855	199 512	190 030	205 179	180 831	188 087	304 354	213 067	190 644
* Replacement ratio	56%	60%	59%	57%	54%	56%	55%	57%	57%
* Capitalisation factor	13.9	14.9	16.0	15.8	14.8	14.4	14.4	16.2	15.3
Actual cover	-1 017 857	-587 684	-441 375	-380 766	-347 098	-352 941	-1 171 219	-411 012	-382 374
Retail insurance	-651 231	-368 107	-297 024	-304 500	-304 818	-285 121	-584 832	-336 216	-336 045
Group insurance	-366 625	-219 577	-144 351	-76 265	-42 281	-67 820	-586 387	-74 796	-46 329
Government grants	0	0	0	0	0	0	0	0	0
Insurance gap	1 484 530	1 200 880	1 354 058	1 483 727	1 090 260	1 164 548	1 244 099	1 569 847	1 283 364
Cover adequacy	41%	33%	25%	20%	24%	23%	48%	21%	23%
Number of <i>earners</i> (m)	2.5	1.3	2.7	0.3	0.8	0.8	5.4	1.1	1.1
Total <i>insurance gap</i> (R'bn)	3 765	1 574	3 609	499	833	913	6 748	1 738	1 458

For example, the average Limpopo *earner* typically needs R1.7m of life cover to ensure the household can maintain its standard of living after her/his death.

Typically, such an *earner* would have life cover of less than R0.4m, implying that only 23% of the life *insurance need* is protected by *actual cover*.

Disability insurance gap per earner

Table 31 - Derivation of the per-earner disability insurance gap by province

	Western Cape	Eastern Cape	KwaZulu-Natal	Northern Cape	Free State	North West	Gauteng	Mpumalanga	Limpopo
Insurance need	3 577 636	2 542 538	2 591 291	2 851 436	2 273 925	2 336 820	3 468 380	2 879 499	2 467 189
Total income at risk	321 855	199 512	190 030	205 179	180 831	188 087	304 354	213 067	190 644
* Replacement ratio	75%	80%	81%	82%	80%	82%	76%	81%	81%
* Capitalisation factor	14.8	15.8	16.9	17.0	15.7	15.2	15.1	16.8	16.0
Actual cover	-1 361 997	-1 065 306	-923 340	-765 981	-669 087	-689 435	-1 685 764	-774 917	-712 001
Retail insurance	-441 389	-261 561	-234 043	-248 110	-221 887	-212 611	-411 585	-261 732	-243 318
Group insurance	-657 233	-424 332	-282 939	-155 286	-80 329	-123 627	-1 009 593	-149 579	-86 348
Government grants	-263 375	-379 413	-406 358	-362 586	-366 872	-353 198	-264 587	-363 606	-382 335
Insurance gap	2 215 639	1 477 232	1 667 952	2 085 455	1 604 838	1 647 385	1 782 616	2 104 582	1 755 189
Cover adequacy	38%	42%	36%	27%	29%	30%	49%	27%	29%
Number of earners (m)	2.5	1.3	2.7	0.3	0.8	0.8	5.4	1.1	1.1
Total insurance gap (R'bn)	5 620	1 937	4 446	701	1 227	1 291	9 668	2 330	1 994

For example, the average Gauteng *earner* typically needs approximately R3.5m of disability cover to ensure the household can maintain its standard of living after her/his disability. (This is higher than the average *earner* in South Africa due mostly to the superior average *earnings* of *earners* in Gauteng.) Typically, such an *earner* would have disability cover around R1.7m, implying that additional disability cover of almost R1.8m is required for the average Gauteng *earner*.

Critical illness coverage per earner

Table 32 - Derivation of the per-earner critical illness coverage by province

	<i>Western Cape</i>	<i>Eastern Cape</i>	<i>KwaZulu-Natal</i>	<i>Northern Cape</i>	<i>Free State</i>	<i>North West</i>	<i>Gauteng</i>	<i>Mpumalanga</i>	<i>Limpopo</i>
Gross annual earnings	321 855	199 512	190 030	205 179	180 831	188 087	304 354	213 067	190 644
Critical illness coverage	84 454	51 814	41 708	41 311	39 271	37 439	90 439	43 893	43 562
Retail insurance	72 706	44 654	36 981	38 787	37 893	35 262	71 701	41 425	42 075
Group insurance	11 748	7 160	4 728	2 523	1 378	2 176	18 737	2 468	1 487
Critical illness coverage	26%	26%	22%	20%	22%	20%	30%	21%	23%
Number of <i>earners</i> (millions)	2.5	1.3	2.7	0.3	0.8	0.8	5.4	1.1	1.1

For example, the average Western Cape *earner* would make R0.32m in gross earnings per year while having R0.08m worth of critical illness coverage in place.

This equates to a *critical illness coverage* ratio of 26%.

8.4 Responses to the *insurance gap*

Death *insurance gap*

The table below gives (for each of the segments) the degree of intervention required for each of three possible responses to the *insurance gap* in the case of a *death event*:

Table 33 - Responses to the death *insurance gap* by province

		Western Cape	Eastern Cape	KwaZulu- Natal	Northern Cape	Free State	North West	Gauteng	Mpumalanga	Limpopo	All
Purchase additional Insurance	Cost of insurance (as % of current <i>earnings</i>)	4.6%	5.9%	7.0%	7.2%	5.9%	6.2%	4.0%	7.3%	6.7%	5.2%
	Increase in current level of cover (e.g. 1.5x implies additional cover required equal to 1.5 times current level)	1.5	2.0	3.1	3.9	3.1	3.3	1.1	3.8	3.4	1.7
Reduce household expenditure	Required reduction in household expenditure	31%	39%	44%	46%	40%	44%	26%	46%	46%	34%
Additional income required	Extra income required per month (net of tax)	8 384	6 782	7 647	8 380	6 158	6 577	7 026	8 866	7 248	7 431
	Extra income as % of <i>earnings</i> pre-event	31%	41%	48%	49%	41%	42%	28%	50%	46%	35%

Disability insurance gap

For the *disability event*, the figures are as follows:

Table 34 - Responses to the disability insurance gap by province

		Western Cape	Eastern Cape	KwaZulu- Natal	Northern Cape	Free State	North West	Gauteng	Mpumalanga	Limpopo	All
Purchase additional Insurance	Cost of insurance (as % of current <i>earnings</i>)	2.9%	3.1%	3.7%	4.2%	3.7%	3.7%	2.4%	4.1%	3.9%	3.0%
	Increase in current level of cover (e.g. 1.5x implies additional cover required equal to 1.5 times current level)	1.6	1.4	1.8	2.7	2.4	2.4	1.1	2.7	2.5	1.5
Reduce household expenditure	Required reduction in household expenditure	37%	38%	43%	50%	44%	47%	30%	48%	49%	37%
Additional income required	Extra income required per month (net of tax)	11 900	7 934	8 958	11 201	8 619	8 848	9 574	11 303	9 427	9 767
	Extra income as % of <i>earnings</i> pre-event	44%	48%	57%	66%	57%	56%	38%	64%	59%	47%

9 THE INSURANCE GAP AND CRITICAL ILLNESS COVERAGE PER GENDER

9.1 Segments

Earners are split between male and female as following:

Table 35 - Demographics of earners separately for males and females

Segment	Number of earners (million)	Average annual earnings (Rand)	Average Age
Male	9.1	277 397	38
Female	7.0	218 350	39
All	16.1	251 631	39

9.2 Findings

The numbers in the remainder of this section reveal that:

- Females are generally better covered than males for *death events* and *disability events*.
- Males make up roughly 60% of the total *insurance gap*, and females the remaining 40%.
- Females generally maintain higher *critical illness cover* relative to earnings compared to males.
- The cost of purchasing additional insurance is cheaper for females compared to males.

9.3 The size of the *insurance gap* per segment

Death *insurance gap* per earner

Table 36 - Derivation of the per-earner death *insurance gap* by gender

	Male	Female
Insurance need	2 190 080	1 961 255
Total income at risk	277 397	218 350
* Replacement ratio	56%	57%
* Capitalisation factor	14.1	15.8
Actual cover	-788 749	-755 884
Retail insurance	-482 283	-434 259
Group insurance	-306 467	-321 624
Government grants	-	-
Insurance gap	1 401 331	1 205 372
Cover adequacy (Cover/Need)	36%	39%
Number of <i>earners</i> (millions)	9.1	7.0
Total <i>insurance gap</i> (R'bn)	12 689	8 450

For example, a male *earner* with would typically need death cover of about R2.2m. Typically such an *earner* would only have cover of R0.8m, leaving an *insurance gap* of R1.4m – implying that only 38% of the life *insurance need* is protected by *actual cover*.

Disability *insurance gap* per earner

Table 37 - Derivation of the per-earner disability *insurance gap* by gender

	Male	Female
Insurance need	3 166 273	2 849 806
Total income at risk	277 397	218 350
* Replacement ratio	76%	80%
* Capitalisation factor	15.0	16.4
Actual cover	-1 181 414	-1 246 031
Retail insurance	-335 322	-323 588
Group insurance	-508 590	-616 605
Government grants	-337 502	-305 837
Insurance gap	1 984 859	1 603 775
Cover adequacy (Cover/Need)	37%	44%
Number of <i>earners</i> (millions)	9.1	7.0
Total <i>insurance gap</i> (R'bn)	17 972	11 242

For example, a female *earner* with would typically need disability cover of about R2.8m. Typically such an *earner* would only have cover of R1.1m, leaving an *insurance gap* of R1.7m – implying that 40% of the disability *insurance need* is protected by *actual cover*.

Critical illness coverage per earner

Table 38 - Derivation of the per-earner critical illness coverage by gender

	<i>Male</i>	<i>Female</i>
Gross annual earnings	277 397	218 350
Critical illness coverage	59 603	73 537
Retail insurance	49 903	63 035
Group insurance	9 700	10 501
Critical illness coverage	21%	34%
Number of <i>earners</i> (millions)	9.1	7.0

For example, a male *earner* would make R0.28m in gross earnings per year while having R0.06m worth of critical illness coverage in place. This equates to a *critical illness coverage* ratio of 22%.

9.4 Responses to the *insurance gap*

Death insurance gap

The table below gives (for each of the segments) the degree of intervention required for each of three possible responses to the *insurance gap* in the case of a *death event*:

Table 39 - Responses to the death insurance gap by gender

		<i>Male</i>	<i>Female</i>	All
Purchase additional Insurance	Cost of insurance (as % of current <i>earnings</i>)	5.2%	5.1%	5.2%
	Increase in current level of cover (e.g. 1.5x implies additional cover required equal to 1.5 times current level)	1.8	1.6	1.7
Reduce household expenditure	Required reduction in household expenditure	38%	30%	34%
Additional income required	Extra income required per month (net of tax)	7 914	6 808	7 431
	Extra income as % of <i>earnings</i> pre-event	34%	37%	35%

Disability *insurance gap*

For the *disability event*, the figures are as follows:

Table 40 - Responses to the disability insurance gap by gender

		Male	Female	All
Purchase additional Insurance	Cost of insurance (as % of current <i>earnings</i>)	3.1%	2.8%	3.0%
	Increase in current level of cover (e.g. 1.5x implies additional cover required equal to 1.5 times current level)	1.7	1.3	1.5
Reduce household expenditure	Required reduction in household expenditure	41%	32%	37%
Additional income required	Extra income required per month (net of tax)	10 660	8 614	9 767
	Extra income as % of <i>earnings</i> pre-event	46%	47%	47%

APPENDIX A: DEFINITIONS

"Actual cover"

The *actual cover* is the total amount of existing insurance cover of various kinds. It includes cover from insurers (retail and group-type cover), self-insurance pension schemes (like the GEPP), and government disability grants.

Cover types designed to provide for shorter term expenses are excluded (consistent with the definition for *insurance need*). Cover disregarded in *actual cover* include:

- Funeral Cover: It was pragmatically assumed that funeral cover provides for short-term expenditure related to the death-event and is therefore not typically earmarked for post-event provision.
- Road Accident Fund: The Road Accident Fund provides cover for expenses incurred (medical and legal) as well as loss of support that are the result of certain types of road accidents. It would not be suitable for an individual will take this into consideration when doing a financial needs analysis.
- Compensation Fund: Workman's compensation cover is of a short-term, immediate nature. Since the definition of *insurance need* excludes such short-term costs, this source of cover was excluded from the study.
- Short-term insurers: Short-term insurers also provide a degree of life and disability cover. Given [a] the fairly modest quantum and [b] the complexities involved in obtaining detailed data from providers this source was pragmatically excluded.

"Cover adequacy"

Cover adequacy is calculated as the *actual cover* as percentage of the *insurance need*. It therefore reflects the extent to which the *insurance need* is covered by *actual cover*. A number of 100% indicates no need for additional insurance.

"Death event"

For purposes of this report, a *death event* is defined as the death of an *active earner*. To determine the death *insurance gap*, we essentially consider the separate death of each of the

earners in South Africa (assuming that all other members of the household survive) and then aggregate the result over the 14.3 million people.

“Disability event”

For purposes of this report, a *disability event* is defined as total and permanent disability of an *active earner*, i.e. where it is unlikely for the disabled person to return to work any time after the event.

“Critical illness event”

For the purposes of this report, a critical illness event is defined as any health event affecting an active earner that would give rise to a valid claim under a critical illness insurance policy.

“Earner”

These are the individuals for which an *insurance gap* was calculated and aggregated to arrive at the total gap for purposes of this study. To be included, an individual had to be [a] South African, [b] earning a regular income (i.e., be an “active *earner*”) and [c] between the ages of 18 and 65.

Only individuals with the following main sources of incomes were counted as “active *earners*”: salaries or wages, net profit from business activities, net profit from professional practices or net profit from commercial farming. Individuals with other main sources of incomes were not considered “active *earners*”, these sources include: social welfare grants, regular allowances/remittances received from non-household members, regular receipts from pension from previous employment, income from letting fixed property, interest received on deposits, etc.

“Earnings”

Throughout this document reference to *earnings* implies annual payments for ordinary-time, standard or agreed hours for all *active earners* before taxation and other deductions. It includes salaries, wages, commissions, fees, and employer’s contributions (e.g. to pension, provident, medical aid, sick pay and other funds). The definition includes bonuses (performance or otherwise) and overtime payments.

"Insurance gap"

The *insurance gap* is defined as the difference between the *insurance need* and *actual cover*. It therefore represents the total net additional cover that will be purchased by South African *active earners* in the following situation:

- Those that are under-insured purchase additional cover, so that their *actual cover* equals their *Insurance need*.
- Those that have adequate insurance cover in place, reduce their current *actual cover* to reflect their respective *insurance need*. (This includes those that do not have an *insurance need*, but do have *actual cover*, terminating their policies.)

"Insurance need"

This is the amount of cover required to meet the need that is created by the *death event* and/or *disability event*. It excludes any short-term expenses related to the risk event. E.g. for the *death event*, funeral costs were not considered. Neither was additional medical or equipment expenditure that may be required as a result of the *disability event*.

It was assumed that the household maintains its current living standards after the *death event* / *disability event*. Expenditure post event changes only insofar as this event would lead to a reduction or elimination of certain household expenses from that point forward.

It was assumed that an *insurance need* only exists up to intended *retirement age*. From this point onwards it was assumed that prior retirement provision would fund the household's expenditure. This study therefore ignores the extent to which insufficient allowance may currently be made by *earners* for post-retirement expenses.

"Critical illness coverage"

For the purposes of this report, *critical illness coverage* is defined as the total amount of critical illness insurance cover in force for an *earner*, expressed relative to their annual gross earnings. It represents the extent to which *earners* have protection in place against a *critical illness event*.

"Retirement age"

Retirement age was taken to be between 60 and 65, depending on the *earner's* current age: For those younger than 58, it was assumed that retirement would take place at age 60. *Earners*

older than 63 were assumed to have intended *retirement age* of 65. The assumption for the intended *retirement age* of *earners* aged between 58 and 63 was phased in between 60 and 65.

APPENDIX B: MODELLING NOTES - *EARNER* POPULATION

Where assumptions were required, we generally aimed to set these at objective “best estimate” levels. However, where this proved difficult, our approach was to rather err in the direction that would provide a lower *insurance gap*.

The base source of information in terms of the composition of the South African *earner* population was the metadata from StatsSA’s Living Conditions Survey 2014/2015. The 16.1m *earners* are represented by about almost 21,000 model points with suitable weights to ensure objectively weighted representation.

Information was updated using a combination of the following sources:

- The latest General Household survey published by StatsSA
- Quarterly Labour Force Surveys (QLFS) published by StatsSA
- Quarterly Employment Statistics (QES) published by StatsSA
- Consumer Price Indices (CPI) published by StatsSA

For each of the model points representing a number of South African *earners*, the *insurance gap* was determined as the difference between the *insurance need* and *actual cover* (see modelling notes in Appendix C and Appendix D).

APPENDIX C: MODELLING NOTES - *INSURANCE NEED*

The modelling of the *insurance need* is best explained by considering its breakdown into three components:

Table 41 - Insurance need represented as product of three numbers

	More information	Total (R'bn)		Average per earner (Rand)	
		Death	Disability	Death	Disability
Total income at risk	Appendix C1	4 042	4 042	251 631	251 631
* Replacement ratio	Appendix C2	56%	78%	56%	78%
* Capitalisation factor	Appendix C3	14.8	15.5	14.8	15.5
Total		33 579	48 647	2 090 229	3 028 179

Appendix C1: Total Income at Risk

Definition

Total income at risk allowing for all income as per the definition (Appendix A) of *earnings*.

Increase in workforce since previous study = 4.0% pa

The Living Conditions Survey 2014/2015 reported 14.8m *earners*. For the 2019 study, to derive the number of *earners* at the end of 2018, we allowed for growth of 5.4% (in total, not pa). For the 2022 and 2025 studies, we allowed for a decline / increase in the workforce of -8.4% and 12.6% (in total, not pa) from the 2019 and 2022 studies respectively, as per the QLFS publication. Total number of *earners* end 2024 (16.1m) has therefore increased by 4.0% per annum from the previous study.

The sharp decrease in the workforce was a result of substantial rises in unemployment during 2020, because of the Covid-19 pandemic and related lockdowns. This decrease in the workforce is substantiated by the QES publication and by information on the Trading Economics website.

Growth in average *earnings* since previous study = 5.7% pa

This study assumes that the average level of *earnings* increased by 5.7% pa since the previous study. The main data source for arriving at this parameter was the QES publication.

This increase in average *earnings* is substantiated by BankservAfrica "take-home pay report" and by information on the Trading Economics website.

Total level of *earnings* modelled

Combining the increase in *earners* (4.0% pa) and the growth in *earnings* (5.7% pa) results in a modelled increase in total *earnings* of 9.9% pa:

Table 42 - Total earnings by earners increased by 9.9% pa

	2022 study	2022 study	Increase per annum
Number of <i>earners</i> (million)	14.3m	16.1m	4.0%
Average annual <i>earnings</i> (Rand)	213 093	251 631	5.7%
Total annual <i>earnings</i> (R'm)	3 041 512	4 042 356	9.9%

Appendix C2: Replacement Ratio

The replacement ratio represents the proportion of the household *earner* member's personal income that "will be missed" after the *death event* or the *disability event*. It is calculated as the "household budget deficit post-event" divided by personal income at risk. The "household budget deficit post-event" is calculated (for each of the model points) as the difference between:

- Household expenses post-event (an annual figure): This takes into account the fact that, in a *death event*, expenses directly related to the *earner* considered will disappear from the household expense budget.
- Household income post-event (an annual figure): This takes into account income that will continue after the *death event* / *disability event* mostly from other *earners* and retired household members.

Insurance proceeds are not taxed (the taxation on both life and disability insurance products is now mostly based on "tax-free benefits through post-tax premiums"). The portion of personal income that was directed towards income tax is therefore excluded when the *insurance need* is calculated.

For the death *insurance need*, the replacement ratio additionally takes the following into account:

- Insurance cover for single-member families is only required to the extent that support payments to other households formed part of income.
- When an *earner* dies, the household expenditure will be lower post-event. For modelling purposes, we allocated total household expenses into different categories:

- Fixed expenses: Expenses that cannot sensibly be assigned / allocated to any specific member in the household and would therefore not change materially much should the family become smaller. Examples include expenditure on housing, washing and cleaning expenditure, and domestic worker wages.
- Adult expenses: Post-event expenditure is adjusted by taking into account the number of adults in the household before and after the event. Examples include alcoholic beverages.
- People expenses: Post-event expenditure is adjusted by taking into account the number of people in the household before and after the event. Examples include food, clothing, reading matter, and stationary.
- To the extent that savings represent provision for retirement, it needs to remain in the expense base as we are relying on these contributions to provide the household with an income from the intended *retirement age*. To the extent that it represents wealth creation though, it should be excluded from the expense base in line with definitions of *insurance need* (maintenance of current standard of living).

For the disability *insurance need*, the replacement ratio also takes into account the savings-element with wealth creation motive that will not be required in the post-event situation.

Appendix C3: Capitalisation Multiple

A capitalisation factor is calculated by determining the number of years that the *earner* would still have contributed to the household up to *retirement age* only.

Generally speaking, the term is the period that household members would have remained dependent on income at risk. As current retirement provision expenditure was retained in the expense base, it is appropriate to allow the dependency duration to cease at what would have been the retirement date.

In determining these factors, an interest rate that exceeds living expense inflation by 1.9% was assumed.

APPENDIX D: MODELLING NOTES - ACTUAL COVER

Accurate calculation of the *insurance need* for each of the sample / model points on the representative dataset (populated metadata from Statistics South Africa) is possible as all information affecting it is available at this level. This, however, is not the case for *actual cover*. The StatsSA datasets do not contain any information on product ownership or insurance cover. Hence, additional resources had to be used to [1] determine the total level of *actual cover* as at end 2024 and [2] assign this cover to each of the sample points in the dataset.

Appendix D1: ASISA questionnaires

The long-term insurance industry is the primary source of life and disability cover. A questionnaire was sent to all relevant insurers who were requested to provide

- Information on total cover amounts in the format that this information is reported annually to the regulator (the so-called TP2.1 and TP2.2 statements). These statements contain information on the total payments (separately for Retail and Group cover and per cover type) that would be made in the hypothetical scenario where all their policyholders were subject to a separate and independent *death event*, *disability event* and *critical illness event*.
- Additional information that would allow adjustments to these figures for purposes of determining the *actual cover* for this study. This includes information that would allow approximate allocation of total cover amounts between different age groups, genders, and socio-economic groups.

The following adjustments were made to the insurer-provided data:

- Capitalising disability income cover: Income disability cover was capitalised by discounting regular payments. Payments were multiplied by annuity factors allowing for the term to retirement (dependant on current age) as well as whether payments would escalate or not and at which rate (supplied by most insurers).
- Translating socio-economic groups to income groups: For retail cover, insurers were requested to provide information split per socio-economic group as per their own definition / categorisation.
- Allowing for non-respondents: The response factor was quite high with all the major insurers (by market share) providing information. Approximate allowance was made for the (around 10% of market share) non-respondents.

- Excluding out-of-scope cover: As the study is concerned with the *actual cover* of *active earners* only, we had to (approximately) exclude such (retail) cover held by retired and unemployed individuals.

Appendix D2: Other data sources

Self-insured pension schemes provide a material proportion of total group risk cover. Allowance was made for such cover based on approximations from publicly available information (e.g. annual reports) as well as discussions with advisors to these schemes.

Government is a major source of disability cover through its disability income grant and the study paid due consideration to the conditions for payment of these grants. Current qualification criteria and levels were allowed for.

Appendix D3: Allocation of *actual cover* to each modelled *earner* - True South models

This total level of *actual cover* (derived from the above sources) then had to be allocated to each of the “model points” representing the South African *earner* population. This was done separately for individual life cover, individual disability cover, individual critical illness cover, group life cover, group disability cover and group critical illness cover using two True-South developed models which were calibrated using the data sources described above:

- TSPO-model: The True South Product Ownership model returns the probability of a South African *earner* having life or disability cover based on supplied information such as education, age, income, marital status, family composition, and geography (per province).
- TSCL-model: The True South Cover Level models return the level of cover given that cover does exist based on similar information required by the TSPO-model.

Genetic algorithm technology⁷ was used to solve the optimisation problem of fitting the model parameters. As mentioned elsewhere, input for deriving the parameters were obtained from a wide variety of sources.

⁷ A genetic algorithm is an experience-based technique for problem solving that mimics the process of natural evolution (i.e. using concepts inspired by natural evolution, such as inheritance, mutation, selection, and crossover). This approach is routinely used to generate useful solutions to optimization and search problems, including previously unsolvable, complex non-linear problems.

The total *actual cover* for each of the sample points was derived by multiplication of the probability of being insured (from the TSPO-model) with the average level of cover (from the TSCL-model) for each of the four cover types (life vs. disability and retail vs. group).