

Media Release

Association for Savings and Investment South Africa (ASISA)
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Life companies outpace inflation with new business growth

South African consumers able to save a portion of their income every month are increasingly turning to retirement annuities (RAs) to provide for their retirement. Sales statistics for the long-term insurance industry released this week by the Association for Savings and Investment South Africa (ASISA), show that consumers committed new recurring premiums worth an impressive R710.2-million towards their retirement in the first six months of this year.

According to Peter Dempsey, deputy CEO of the Association for Savings and Investment South Africa (ASISA), this represents a 22% increase in new recurring premium RA business compared to the previous half year (July to December 2010) and a 30% increase against the first half of last year.

“The substantial increase in new recurring RA premiums is a continuation of the surge experienced last year when consumers committed R1.1-billion in new recurring premiums to RAs, which was 7% more than in 2009. Unfortunately the same was not true for new single premium RA business, which experienced a drop of 12% in the first half of this year.”

Decline in risk cover

Dempsey says while the improved effort by consumers to save for their retirement is good news, it is worrying that the industry recorded an 11% drop in new recurring premiums for risk policies in the first half of this year. Risk policies provide cover for events such as death, disability and dread diseases.

Dempsey says ASISA separated new recurring premiums into risk business and savings business for the first time this year, allowing for more meaningful analysis. Previously the premium inflow statistics for risk policies and savings policies were lumped together.

“For the first time we are now able to track trends specific to risk business and savings business. We now know, for example, that 2.1-million new risk policies were sold in the first half of this year, while consumers took out close to 252 000 new investment policies such as endowments.”

Independent research conducted for ASISA last year showed that the average South African income earner was underinsured by R600 000 in the event of death and by R900 000 in the event of disability.

“Considering that South Africans were already underinsured by a shocking R18.4-trillion last year, a drop in the sales of life and disability insurance is of grave concern. This means that much work remains to be done by our industry to ensure that more people get to benefit from the financial protection offered by life and disability cover.”

In the first half of this year the life industry paid out benefits of R90.1-billion to policyholders, beneficiaries, and pension fund members as a result of death and disability claims, maturity pay-outs and pension, annuity and other payments.

Of this total, R14.9-billion was paid to policyholders or beneficiaries in response to trauma experienced by someone as a result of death, disability or serious illness - R11.6-billion in individual and Group death cover, and 3.3-billion in individual and Group disability cover.

State of the industry

Overall, the life industry experienced a solid first half of the year, with total new premiums (recurring and single) showing an inflation-beating increase of 7% to R37.2-billion compared to the previous half year. (Inflation was about 4% for this period.)

Policyholders also maintained and increased their in force recurring premiums. Total recurring premiums for existing business increased by 2% in the first six months of this year to 38-billion.

The life insurance industry's total assets increased by 1% to R1.33-trillion at the end of June this year. In addition, long-term insurance industry assets continue to exceed liabilities by more than double the legal reserve buffer required.

"This indicates that the life industry remains in good health and well positioned to honour benefit payments due to policyholders," says Dempsey.

Surrenders and lapses

The value of surrendered policies increased by 10% from R16.7-billion at the end of December 2010 to R18.4-billion at the end of June this year.

A policy is surrendered when the policyholder stops paying premiums and withdraws the fund value before maturity. Surrendering a policy almost always impacts negatively on a long-term savings plan.

Dempsey says there could be several reasons for the increased surrender value, including a rise in section 14 transfers (when a retirement annuity is transferred from one company to another it is recorded as a surrender) and better surrender values than in the past, because of good investment returns.

He points out that the statistics for surrendered policies need to be seen in the context of the total value of in force policies - a large portion of the life industry's R1.32-trillion assets - and not just the new business written in the first half of this year.

A positive development, according to Dempsey, is the continuing downward trend of the lapsing of policies. The number of lapsed policies came down by 4% in the first half of this year, following a 2% decline in 2010.

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 first six months of this year, a total of 2.7-million policies were lapsed, 1.4-million first year policies (worth R1.2-billion in premiums) and 1.2-million policies in their second year (worth R1.6-billion in premiums). The average monthly premium of policies lapsed was R91.15.

Dempsey says the lapse rate for risk business is at least four times that of savings policies and retirement annuities. 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. Credit life policies that are cancelled when debt is repaid or when the debtor defaults are counted as lapsed policies and make up a significant portion of this number.

Dempsey says it is important to consider the lapse rate against new recurring premium business written over the same period. While new recurring premiums for the first half of 2011 amounted to R7.1-billion, R1.3-billion of first year premiums was lapsed over this period.

Ends

Note to Editors: The sales statistics for the long-term insurance industry are based on data received from life companies as well as the majority of investment houses with life licences that are members of ASISA.

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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).