

Media Release

Association for Savings and Investment South Africa (ASISA)

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SA INCOME EARNERS UNDERINSURED FOR DEATH AND DISABILITY BY R28.8 TRILLION

The families of South Africa's 14 million income earners face a combined insurance shortfall of R28.8 trillion should these breadwinners die or become disabled.

This amounts to an insurance gap - the difference between actual risk cover in place and the insurance need - of R2.1 million for the average South African earner. The insurance need is the amount of cover required to meet the financial need that is created by a death or disability event.

Announcing the results of the 2016 Life and Disability Insurance Gap Study, Peter Dempsey, deputy CEO of the Association for Savings and Investment South Africa (ASISA), says the insurance gap widened by R4.8 trillion from R24 trillion at the end of 2012 to a staggering R28.8 trillion at the end of 2015. This represents an annual increase of 6.3%.

ASISA measures the life and disability insurance shortfall in South Africa every three years in partnership with True South Actuaries & Consultants.

The first study in 2007 established that South African earners were underinsured by an estimated R10-trillion. However, since this was the first study of its kind in South Africa, data limitations impacted on the accuracy of the findings. More detailed and refined data that became available for subsequent studies reveals a distressing insurance gap that is widening aggressively.

SOUTH AFRICA'S GROWING RISK COVER CRISIS

Insurance Gap Study	Total Insurance Gap	Total Life Cover Gap	Total Disability Cover Gap
2007	R10 trillion	R4 trillion	R6 trillion
2010	R18.4 trillion	R7.3 trillion	R11.1 trillion
2013	R24 trillion	R9.3 trillion	R14.7 trillion
2016	R28.8 trillion	R12.9 trillion	R16 trillion

Figures have been rounded

The Gap Study is premised on the assumption that households would want to maintain their standard of living after a breadwinner has died or suffered disability. It further assumes that the need extends to retirement age only. The Study did not take into consideration any additional short-term expenses related to the risk event, such as funeral costs, medical costs and structural changes to homes and cars in the case of a disability event.

UNDERSTANDING THE GAP

Dempsey says the 2016 Gap Study indicates that only 41% of the insurance need of the country's income earners is currently met by actual cover. This means that the majority of South African households would not be able to maintain their current standards of living in case of a death or disability event.

According to the Gap Study the families of the country's income earners are facing a death insurance gap of around R12.9 trillion since the extent of actual cover in force amounts to only R7.4 trillion, while the actual need is in the region of R20.2 trillion.

Equally, in order to maintain their standards of living after a disability event, households would require insurance cover of around R28.9 trillion. However, the extent of actual cover in force amounts to only R13 trillion, leaving a disability insurance gap of around R16 trillion. For the average individual income earner, this represents a life cover shortfall of more than R900 000 and a disability cover shortfall of over R1.1 million.

MAKING THE GAP STUDY RELEVANT

Dempsey acknowledges that a figure in its trillions, which would have 12 zeros if written out, is meaningless unless it is made relevant to the average earner and the members of the household that he or she supports financially.

The Gap Study therefore breaks down the shortfall numbers into various categories and numbers that people can relate to. The aim is to assist financial advisers and other stakeholders in the savings and investment industry to use the outcome of the study to highlight the critical importance of adequate death and disability cover to consumers. "The reality is that the majority of South Africa's 14 million earners between the ages of 18 and 65 do not have adequate cover for death and disability. Sadly many families would therefore be forced to drastically cut their living expenses if an earner of the household dies or becomes disabled."

Given that some 140 000 income earners are expected to die in 2016 (based on models by the Actuarial Society of South Africa) and more than 46 000 are likely to become disabled this year, thousands of families will have been left destitute before the year is over. Dempsey says while consumers in the higher income brackets generally think that they are sufficiently covered for shock events like death and disability, the Gap Study shows that the group most critically underinsured in Rand terms is made up of those who earn the most.

For example, an earner that finds her/himself in the top 20% of South African earners with average annual net earnings of R500 000 would typically need life cover of almost R4.5 million. However, according to the Gap Study, such an earner is likely to only have life cover of R2.1 million, leaving an average insurance gap of almost R2.4 million. Furthermore, such a high-income earner would typically require disability cover of almost R6 million. However, they are likely to only have disability cover of R2.7 million in place, leaving an average insurance gap of almost R3.3 million.

The current average insurance shortfall for this group means that households supported by these earners would need to source an additional income of almost R13 000 a month

should one of the earners die and more than R17 000 a month to plug the gap should one of the earners become disabled. The alternative would be to cut household expenditure by 36% in the event of death or by 32% should the earner become disabled.

The study also shows that while earners in the lowest income brackets (poorest 20% of income earners) are likely to have a small life cover shortfall of R61 000 on average, the reverse is true for disability insurance. This is because of the Government disability income grant is very effective at replacing lost income in the lower income brackets. Most South Africans earning less than R2 200 a month would not have a need for disability insurance.

Dempsey says according to the study the only group of people likely to have sufficient life and disability cover are high-income earners older than 55. This is because the insurance needs of this group are lower than the cover in place, often as a result of group life and disability cover through years of membership of an employer's pension fund.

CLOSING THE GAP

Dempsey says underinsured earners and their households are faced with at least three choices: closing the gap by buying sufficient life and disability cover, reducing household expenditure should one of the household's earners die or become disabled, or increasing the monthly earnings of the household should something happen to one of the main earners.

Closing the life and disability insurance gap would require South African earners to spend on average an additional 4.2% a year of their personal income on life cover (R88 billion a year) and 2.4% a year on disability cover (R49 billion a year).

Alternatively, if additional insurance is not bought, the tables below show by how much households in each income bracket would have to cut their monthly expenditure or increase earnings should one of the households' earners die or become disabled.

AVERAGE LIFE INSURANCE GAP PER INCOME BRACKET

	Average net annual income	Average gap per person	Total gap for all earners	Additional monthly income (net of tax) needed post death	Or cut household expenses by
Poorest 20% earners	Up to R26 310	R61 055	R171 billion	R330	7%
Next 20% earners	R26 311 to R54 272	R323 548	R906 billion	R1 751	28%
Next 20% earners	R54 273 to R102 305	R655 388	R1.8 trillion	R3 546	41%
Next 20% earners	R102 306 to R214 244	R1.2 million	R3.3 trillion	R6 349	38%
Richest 20% earners	More than R214 245	R2.4 million	R6.7 trillion	R12 874	36%

AVERAGE DISABILITY INSURANCE GAP PER INCOME BRACKET

	Average net annual income	Average gap per person	Total gap for all earners	Additional monthly income (net of tax) needed post disability	Or cut household expenses by
Poorest 20% earners	Up to R26 310	-R182 930	-R512 billion	-R959	-15%
Next 20% earners	R26 311 to R54 272	R221 815	R621 billion	R1 163	14%
Next 20% earners	R54 273 to R102 305	R761 433	R2.1 trillion	R3 991	36%
Next 20% earners	R102 306 to R214 244	R1.6 million	R4.5 trillion	R8 406	39%
Richest 20% earners	More than R214 245	R3.3 million	R9.2 trillion	R17 283	32%

Ends

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Association for Savings and Investment South Africa (ASISA)

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. These members hold assets under management of more than R8.6 trillion.