



# **Insurance in South Africa A Rainbow Market in the Rainbow Nation**

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## **Introduction**

The term 'Rainbow nation' was first coined by Archbishop Desmond Tutu to describe post-apartheid South Africa, after South Africa's first fully democratic election in 1994. The term was intended to encapsulate the unity of multi-culturalism and the coming-together of people of many different nations, in a country once identified with the strict division of white and black. Within South African indigenous cultures, the rainbow is associated with hope and a bright future.

Looking at the diversity that exists within the South African insurance market, one could also assign the rainbow label to that industry. Across most facets of the market one finds a wealth of diversity. From product design and marketing, to distribution, to process, the market has evolved to ensure solution sets are available for all the customers it seeks to serve.

In this article we offer a very brief overview of the overall market and a deeper insight into the complex underwritten sector that demonstrates that South African Insurers are continuing their long history of innovation and creativity.

### The total market – a brief overview

South Africa's insurance industry is as diverse as are its people. It also reflects the extreme wealth differentials that exist within the country and seeks to serve the needs of a wide range of customers, from the people living in the many townships across the country to those residing in the leafy suburbs of Cape Town and the other big cities.

There are a range of companies operating in the direct market from the larger companies known as the Big 5 (Old Mutual, Sanlam, Liberty, Momentum, and Discovery), through to mid-size and smaller players. There are also a number of 'cell captive' insurers who provide ring fenced insurance cells and supporting administration services, and these enable distributors and in some cases large corporates to design insurance solutions for their customers or own needs.

With regard to product offerings there are three main parts of the protection market:

- **Group** – the needs of corporates are no different in SA to other places and so not surprisingly the main corporate group market is very similar to other places. Insurers compete for business, mainly life and disability, placed by brokers and employee benefit consultants, and price, in this part of the market, is the main factor.

The affinity sector is also an important part of this market and often, particularly for lower earners, protection benefits are provided as part of the union negotiated benefits. It is also the case that many banking products provide inclusive protection covers and these could be sold individually or purchased by the credit provider to protect their own default risk. The smaller affinity schemes will typically be placed with mainstream insurers, but the larger schemes may often consider the cell captive route.

- **Individual Complex Underwritten** – this is the part of the market that would feel most familiar to most insurance practitioners in other lands. It serves the wealthier end of society and is described in more detail below.
- **Individual Funeral market** – The main product that is sold to lower end of the socio-demographic scale in South Africa reflects the huge importance placed on the funeral in South Africa. Here, as in other communities across Africa, the financial and social resources invested in funerals are matched by no other rite of passage, not even wedding celebrations. From buying expensive caskets and tailoring new clothes to slaughtering animals and organising a massive feast, little expense is spared in South Africa's elaborate funeral celebrations.

Yet, honouring those who've passed away can also exact a huge financial toll on the families of those who have passed away. A 2009 report by economists Anne Case and Alicia Menendez found that the average price tag for an 'honourable' funeral in South Africa in the preceding years which they studied, was equivalent to 40% of the average annual household expenditure. Not surprisingly few can afford such an expense if it happens unexpectedly, and consequently a huge funeral market exists to cover these costs and to allow families to spread the expected cost over time through buying insurance.

The products are quite similar to those offered in the UK, being non-underwritten and operating using a waiting period during which only deaths due to accidental causes are covered.

### The complex underwritten sector

The South African market uses the term 'complex underwritten sector' to refer generally to that part of the market which serves the more affluent end of society. This sector of the market offers a full range of risk products - life, disability and critical illness. South Africa is quite like the UK, Ireland and the US where risk products are pure protection products, not bundled together with savings elements as is common with many products in continental Europe for example.

The South African protection products are in many ways quite similar to what customers would be able to buy in other markets offering pure protection products, but there are some very important differences in how the market works and in particular where the focus of competition mainly exists:

- **Price** – whilst South African reinsurers and insurers are of course very keen to be offering good value to their customers, there is not quite the fierce focus on price competition as there is for example in the UK and Ireland. As noted below, the insurers look to differentiate their offerings more than in most markets and consequently the overall proposition that each has to offer is in general terms less directly comparable than in a market like the UK where the structure of the market (with price and feature comparison tools) leads to very similar offerings and consequently price becomes the main focus for many brokers and customers.
- **Product Proposition** – The market loves to innovate and some examples of this are described later in this article. This innovation leads generally to more variety of product offerings than in other markets and a good example of this is within critical illness. Here, rather than just a coverage that pays full benefit for all / most covered conditions, tiered benefits is the norm. This allows firms to offer a broader coverage with partial payments for less severe forms of the various conditions covered. Other 'bells and whistles', such as hospital inpatient benefit, accident benefit and so on are also common.

The ability to vary the exact operation of the core products and extra features enables firms to fine tune their offering to their target brokers and customers and hence compete in this way rather than just on price.

- **Promotion** – Many of the South African insurers work in a more joined up way across their total business than is common in some other markets. This enables them to offer multi-product loyalty discounts both across their life product range but also to customers who may be buying general insurance products such as motor or household cover. Many insurers also work with non-insurance affiliates in order to offer discounts and promotions to their customers on other common purchases – for example gym memberships, cinema tickets, discounted flights and car rentals as well as discounts on high value retail items purchased online.

The clear intention is to create a long term relationship with the customer and a good reason to keep paying the protection premiums. I think other markets could learn an awful lot from the approach in this area in South Africa – evidence that it can work can be seen in the UK and Asia where Discovery is very successfully exporting its way of doing things.

- **Process** – this is an area where things work a little differently. The HIV epidemic in Africa has meant that bloods have generally been needed for all cases and hence the underwriting process takes longer than in markets where mandatory bloods are not needed. Hence although most major insurers do have expert underwriting systems, they have understandably not invested as heavily to date in these underwriting systems, tele-interviewing and straight through systems as has been the case in the UK and Ireland.

Firms tend to work with a treaty insurer up to certain limits, typically R5-10 million for the big-5 and lower limits for smaller insurers. Above this level cases get sent facultatively to a panel of reinsurers and the case gets placed with the best offer, this is a similar practise to the US for

large cases. Over 30,000 new applications sent annually to the reinsurance market! This is a very interesting feature of the market and questionable as to whether it really benefits consumers – whilst an individual customer will get the best reinsurance terms offered, that is of course against a market where the prices offered by reinsurers will naturally reflect that heavy cost burden where five or six reinsurers are underwriting each case but only one can win it. But like many features in many markets, one wonders if it is indeed not actually in the favour of customers collectively, how or if the market could change.

The claims end of the market is also an area that in general terms is somewhat less developed than the UK/Ireland. For example tele-claims is not widely used and processes are largely paper based.

### **A land of Innovation – all the colours of the rainbow!**

It is well known that South Africa has a long tradition of innovation in the insurance space, in particular being the birthplace of what we now know as critical illness. Marius Barnard helped to develop the first critical illness product, then called 'Dread Disease', which was launched in South Africa on 6 August 1983. Marius, whose brother Christiaan had conducted the world's first human heart transplant back in 1967, realised that the patients being treated by him and his brother also needed financial support following major illness or surgery.

- **Innovation case study: competition is not just about price!**

OUTsurance is one of the largest motor and household insurers in South Africa, selling direct to consumer via mass marketing and an in-bound call-centre. Several years ago it started selling complex underwritten life insurance primarily to its existing client base. OUTsurance's motto is 'you always get something back' – due to the no-claim cash bonus. It has successfully taken this concept and adapted it to the life insurance market by offering cash back equal to the sum of all premiums paid at the end of 15 years. Although this benefit adds about 30% to the underlying price, it appears to have been a huge success with their target market.

- **Innovation case study: How the market is dealing with HIV**

South Africa has the largest number of HIV-positive lives in the world - over five million people. That's around 10% of a population of just over 50 million.

Until 2013, cover was available to HIV-positive lives in South Africa, but it was only available as long as they remained fully compliant with their HIV treatment. If proof of treatment compliance was no longer provided by the insured, then their cover would drop to 10% of the full amount. Thankfully, significant advances have been made in the antiretroviral drug treatments available, and there has been a successful roll-out by the government of anti-retrovirals to over two million lives, resulting in the earlier treatment of these HIV-positive lives and improved life expectancies.

In the light of these advances, SCOR (and subsequently other insurers and reinsurers) now believes that it is unnecessary to insist on ongoing compliance and that HIV should be treated just like any other chronic disease, such as diabetes. Firms now underwrite these lives receiving antiretroviral treatment upfront and if they are healthy we offer them cover without insisting on proof of ongoing treatment compliance.

After extensive research and design of approach, SCOR took its solution to market in May 2013. We currently have four clients who offer the product to HIV-positive lives and we are in discussion with other clients. In order to encourage clients to remain compliant, we offer them a premium rebate when they provide us with proof of compliance but even if they don't, the cover would still continue going forward.

Shortly after the first client launched with SCOR, virtually all the major insurers and reinsurers in the South African market had followed suit and introduced similar products.

### **Summary**

South Africa is an incredibly interesting place to do business. Its market is already diverse as we have described above, but of course the country is still going through significant change. In particular there is a growing emerging middle class in South Africa leading to a larger potential insurance market with a large and growing insurance gap. From the old model of funeral cover for the poor end of society to complex products for the wealthy, it will be interesting to see how the market provides for and distributes to this new middle class.

Based on how the market has innovated in the past we have no doubt that it will continue to do so in the future and that the life sector will remain as bright as the many colours of this beautiful Rainbow Nation.

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