



The Great North Burial Society (GNBS): the growth of an informal insurer

Munich Re Microinsurance Conference
22 November 2006



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Purpose of the presentation

- Describe the **development** of an informal risk mitigation organisation to the point where it is large enough to potentially become an insurer in its own right
- Note the **challenges** that have been faced by this society, how these challenges have been overcome and in some instances not overcome
- Assess the **obstacles** that the society faces now in trying to move into the next stage of development and the **options** going forward



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Outline of presentation

- **What is a burial society?**
- The beginnings and growth of GNBS
- The unstable years for GNBS
- Relationship with New Era Life
- Current obstacles to GNBS
- Options going forward



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What is a burial society?

- Burial societies are the result of the need in lower-income communities in South Africa to cope with the **cost and shared responsibility** of death
- The **purpose** of societies is to encourage members to save each month so that they are able to provide funds at the time of death
- Societies are formed by people who know each other and have a common bond (e.g. family, friends and communities)
- Societies are **not for profit** and are governed and managed by members
- Average membership of societies is 50 to 80
- **Financial benefits** of most societies are **not guaranteed**
 - These societies do not offer insurance, but a form of cash flow management or a risk pooling service
 - No third party profits from the risk management



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What is a burial society?

- Most societies in South Africa are **contributing societies** (members contribute the same amount on a periodic basis) – as opposed to collection societies (funds are collected at the time of death)
- Burial societies also offer **emotional and physical** ('helping hands') support at the time of death – to members and family
- In general, societies are **highly organised**, with procedures, financial reporting and a written constitution to control operations
- Estimated that there are between 80,000 and 100,000 burial societies in South Africa (contributing premium income of about \$1bn/annum)
- Although **GNBS** shares most of the same traits as the typical society described, it is different in that it is substantially larger (currently about 9,000 lives covered) and **contractually guarantees benefits**



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The beginnings and growth of GNBS

- GNBS was founded in **1955** as the Northern Transvaal Burial Society (NTBS) by Hebron Leshabane – initially there were 7 founding members
- Founding of the society was prompted by an incident where a family had insufficient funds to transport the body of a man killed in White City Township back to his rural home
- Realisation that death can strike at any time – best to be financially prepared
- To grow the society and secure funds on a continual basis, there was a need for the society to draw up a constitution, be registered and have a legal base
- Registered in **1962** under the Friendly Societies (FS) Act of 1956 and changed name to GNBS (46 members at time of registration)
- Under the FS Act – GNBS required to open a bank account, appoint an auditor and actuary, hold AGMs
- AGM to set premiums and benefits – had to be agreed by the actuary and authorised by the regulator (the Financial Services Board (FSB))
- Growth in the society in the early years as people saw the advantages of saving small amounts each month, which were paid out in a defined lump sum at the time of death



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The beginnings and growth of GNBS

- **1970s** also saw tremendous growth in the societies membership
- Driven by a number of factors:
 - Opened **first office**: a permanent place of contact for members, administer the organisation, manage claims
 - Introduced **different plans** (A, B and C) with different premiums/benefits – better tailored to the needs (level of affordability) of different members
 - Started **working with undertakers** to bury members – better deals on funerals
 - Soweto uprisings in **1976**: many deaths, particularly children – great realisation of the need to provide financially for the time of death
- Growth in the society was sustained into the **1980s** as political violence increased and, as result, increasing numbers of deaths
- By **mid-1980s** society was in its 'glory days' with membership reaching 25,000
- A number of means were implemented to maintain the **common bond and trust** of such a large burial society:
 - Society is broken up into **regions**, each region has its own committee to administer the region (assessing claims, recording deaths, collecting contributions)
 - Members in a region **meet every month** and gather at the time of death to provide support (often members from other regions will come to pray and offer support)
 - Joint **regional executive meetings** take place once a year
 - Members from all regions are nominated to attend the **AGM**



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The unstable years for GNBS

- **1988:** death of the founding president (Hebron Leshabane), society began an uncertain/unstable period
- Initial membership decline, as a result of management issues (second president was suspended and later dismissed for a misappropriation of funds)
- **1989:** moved to new office space, opened a mortuary
 - Specifically to bury members
 - In violation of legislation whereby only registered undertakers can bury (GNBS was not aware of this at the time)
- **1993:** a decision was made by the membership to introduce a **super-policy**
 - R25 premium for a R3,500 benefit
 - This was a change from the R1/R100 premium/benefit ratio that had been the norm
 - Actuary was not in agreement (not financially sustainable)
 - Benefit for super-policy would not be in cash, but in burial services provided by the mortuary
- **1995:** decision was taken (against the actuary's advice) to offer a cash benefit for the super-policy



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The unstable years for GNBS

- During **late 1990s** super-policy began to put strain on cash-flow and sustainability of society (actuarial predictions showed that if super-policy continued, GNBS would have to apply for liquidation within 5-10 years)
- Also, FSB picked up that GNBS was running a mortuary
- Both these factors led to an FSB inspection and a **report by the actuary**, outcomes:
 - Mortuary business to be closed until it had a proper licence (finalised in 2001 and became known as the Great North Funeral Provider – GNFP)
 - Either scrap the super-policy (go back to R1:R100) or get **underwriting**
- When GNBS investigated underwriting option, realised that they could get a policy with a **R10,000 benefit** for a R38 premium!!
- And so, GNBS took a new step as a society and formed for the first time a relationship with a formal insurer (New Era Life)
- Given that GNBS operates differently from other burial societies, in that it **contractually guarantees benefits**, it seemed at the outset that there would be compatibility between formal insurer and society
- And that it would spell the end of the unstable years for GNBS



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Relationship with New Era Life

- Although there was an initial increase in membership (to over 27,000) when New Era Life (NEL) policies were introduced, the relationship between NEL and GNBS did not turn out as expected
- Problems included:
 - **Differences in premium revision**
 - NEL revised premiums twice yearly, whereas GNBS could only do this at an AGM (FS Act) – difficult and expensive to call an AGM more than once a year
 - Thus, increases in the interim by NEL were carried by GNBS until the next AGM
 - **Lapses were treated differently by GNBS & NEL**
 - Non-forfeiture clause (FS Act and adopted in the GNBS constitution) meant that members of 5 years or more could miss 6 payments before policy lapsed
 - Contract with NEL stated that policy would lapse if 2 payments were missed
 - GNBS remained liable for benefits (increased to R10,000 in some cases) to members who lapsed according to NEL, but were still within GNBS grace period
- This cost GNBS substantially – from 1999 to 2003 GNBS investments and current assets fell by 46%



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Relationship with New Era Life

- **2002:** FSB noticed that some members were receiving benefits up to R10,000 (contravening FS Act)
- Even though an underwriter was paying the benefit, members of a friendly society are limited to a R5,000 benefit – benefits on all policies were again adjusted to R5,000 and below
- **2003:** GNBS decided to end the relationship with New Era Life (investments were being depleted rapidly)
- FSB put a moratorium on the need for GNBS to get underwriting whilst GNBS considered its options
- GNBS reverted back to a *R1/R100 premium/benefit ratio* in the interim



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Current obstacles to GNBS

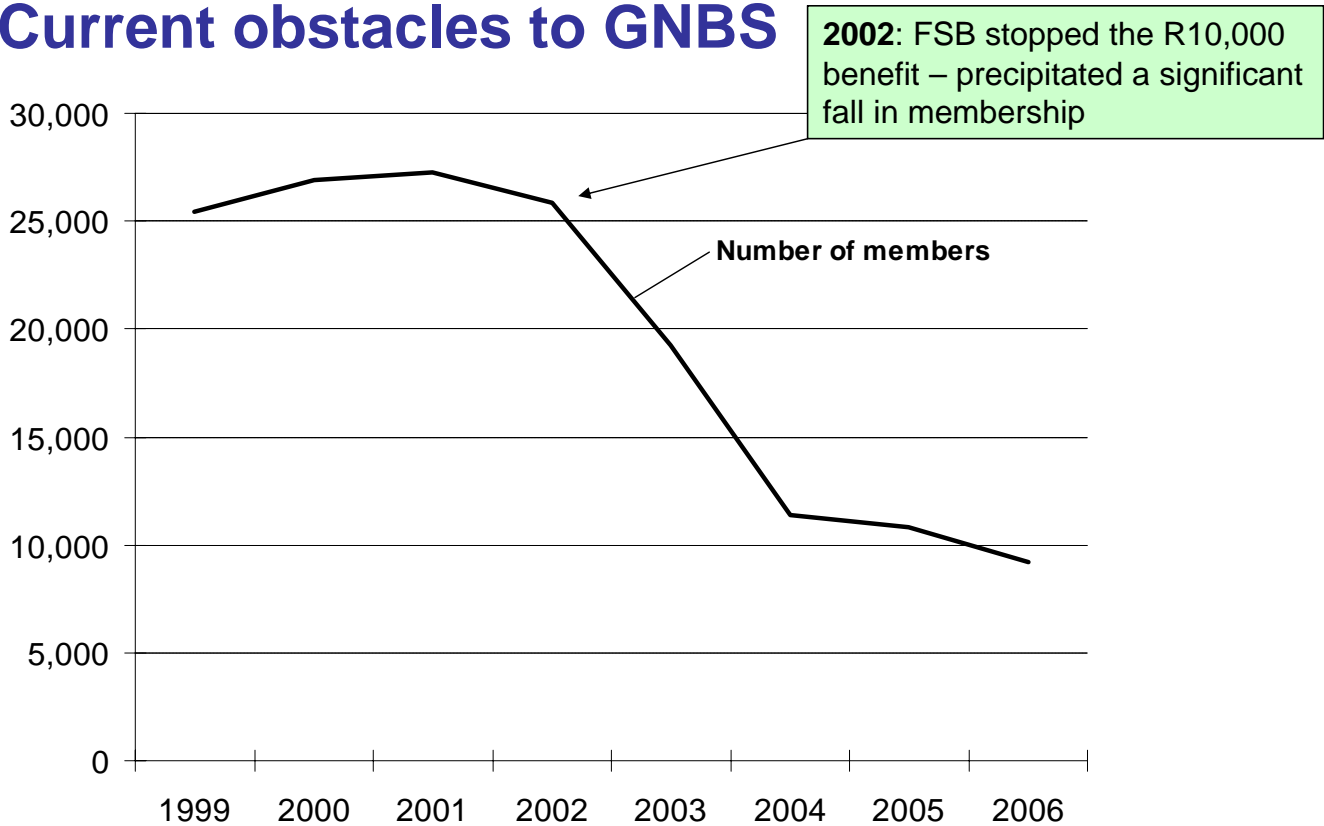
- Before looking at obstacles, consider briefly the current position of GNBS
 - Membership down 66% since 2001



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Current obstacles to GNBS



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Current obstacles to GNBS

- Before looking at obstacles, consider the current position of GNBS
 - Membership down 66% since 2001
 - Subscriptions (income from premiums) down 67% since 1999
 - Investments & current assets down 46% between 1999-2003
- GNBS is on a downward spiral



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Current obstacles to GNBS

Limitations posed by the Friendly Societies Act

- R5,000 cap on benefits
 - R5,000 is now too low for a decent funeral
 - As a result, GNBS is losing members to other financial institutions (banks, formal insurers)
- Investments are limited
 - To government bonds, bank accounts and a proportion into fixed assets (at this stage only allowed to own one property for an office location)
 - Investments into other asset classes (e.g. equities) not allowed
- Non-forfeiture clause
 - Lapses are treated differently by GNBS ('caring' society) and formal insurers (profit-driven)
 - Main reason that GNBS does not want to revisit the underwriting/intermediary route – do not feel that this is something that could be aligned

Inability to get reinsurance

- Legally possible for a Friendly Society to obtain re-insurance, however, in practice it will be difficult for GNBS to find a re-insurer to re-insure their fund
- 6 of the 7 re-insurers have licences which restrict (FSB imposed condition) them to only dealing with insurers
- Furthermore, 1 re-insurer that is able to re-insure a fund business like GNBS, needs to be compliant with the Financial Advisory and Intermediary Services Act (FAIS)



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Options going forward

1. Lobby for regulatory change
 - **Increase R5,000 cap**
 - Primary means to stop the rapid decline in membership
 - 1983: cap changed from R1,000 to R5,000 – time for a revision of the benefit cap?
 - Cap is contained in the Long-term Insurance Act
 - **Re-insurers able to re-insure a Friendly Society without being FAIS compliant**
 - **Dedicated licence for Assistance Business**
 - Existing registration and reserve requirements imposed by the Long-term Insurance Act constitute an overly-prohibitive barrier to entry into the assistance business market
 - Keeps relatively smaller players (funeral parlours, administrators and more established/larger burial societies) out of the market
 - Dedicated licence would reduce capital and other requirements, cap benefits, be limited to providing funeral insurance only and ultimately facilitate the development of the financial services market
- Dedicated licence would achieve both *an increased benefit* (greater than the cap in the FS Act) and allow for *re-insurance* (a limited licensed insurer)



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Options going forward

2. Buy into a cell-captive
 - Investment constraint on Friendly Society (not being able to purchase shares in a cell-captive) may prevent this
 - Discussions with a cell-captive owner seem to indicate that premium levels of a potential cell buyer would have to be quite substantial (upward of R5m)
3. Act as an intermediary
 - Cross-sell other products
 - Banking products (e.g. Wizzit Bank)
 - Medical schemes
 - Other?
 - Insurance agent
 - Face similar problems to New Era Life relationship
 - vs.
 - Lose common bond and current nature
 - GNBS becomes a channel (agent/broker) to sell products, collect premiums & pay claims
4. Operate illegally
 - e.g. increase benefit to R10,000
 - Only option to keep going in the face of regulatory apathy, or...
5. Exit the market
 - Regulatory change is too slow and GNBS chooses not to operate illegally



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Questions and Discussion



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