

Long-term Contractual Savings in South Africa

Do they offer value at the bottom of the pyramid?



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Research into entry-level endowments

Study aims to

- ⇒ Determine whether SA providers successfully reach BOP customers
- ⇒ Assess the products from a number of perspectives
- ⇒ Study client experience of the products
- ⇒ Ask
 - ◆ what lessons can be learned from the study
 - ◆ what the implications are for LTCS in this market
 - ◆ and related policy issues
- ⇒ Methods used
 - ◆ Technical product review
 - ◆ Policyholder interviews
 - ◆ Study of consumer advice records

Product analysis

Product assessment involves a combination of factors:

⇒ **Affordability**

- ◆ large range of minimum premiums, a few rather high

⇒ **Charges**

- ◆ few products offered real value for money, some very expensive

⇒ **Flexibility**

- ◆ most offered reasonable levels of early access

⇒ **Quality of documentation**

- ◆ very poor, with few exceptions



Overall assessment

		Affordability	Charges	Flexibility	Document quality
African Life					
Graduate Cash Growth Plan					No policy document
Assupol Life					
School Fund Provider	1	Yellow	Red	Green	Red
Study Policy	1	Green	Yellow	Red	Red
Cash Provider: New Wave		Yellow	Red	Yellow	Yellow
Clientèle Life					
Saver and Protector Plan					No charges information
Hollard Life					
Secure Savings Endowment		Yellow	Yellow	Yellow	Yellow
Umbono As'Investe	3	Green	Green	Green	Yellow
Metropolitan Life					
Dreambuilder Cash Plan	2	Red	Red	Green	Yellow
Momentum					
Investo Investment Plan	1	Red	Yellow	Green	Red
Old Mutual Group Schemes					
Money Care Plan	3	Green	Yellow	Yellow	Green
Sanlam					
Halala Savings Plan	3	Yellow	Green	Green	Green
Endowment & Edufocus	1	Red	Green	Yellow	Green

1 Evidence of trade-offs

2 Unjustified reputation?

3 Successes exist



Policyholder experience

Profile

⇒ Reasons for saving

- ◆ Retirement 32%
- ◆ Education 46%
- ◆ Multiple reasons & combination with other benefits commonly expressed
- ◆ For emergencies or funeral costs 5%

⇒ Collateral-providing benefits

- ◆ Aware of the benefit 38%
- ◆ Important product feature (of these) 39%

⇒ Demographics

- ◆ All but 2 employed formally
- ◆ Only 5 clients paid premiums manually; most prefer the discipline



Policyholder experience - lessons

⇒ South Africa presents at least partial success

- ◆ Some 300 000 people have access to these products
- ◆ Some 25% understand & appreciate the product
- ◆ Most problems are product- not provider-specific

⇒ Lapses present a perverse and tragic reallocation of resources

- ◆ Perverse because the savings of the low income client are transferred to the insurer and to the agent
- ◆ Tragic because poor clients lose their savings

⇒ Only 25% of low-income endowment holders...

...understand and appreciate their product



Recommendations

Options for improvement

- ⇒ Reduce selling costs
- ⇒ Reduce lapse rates
- ⇒ Improve after sales service
- ⇒ Work to improve the policy in line with policyholder needs

The *group v individual* question

Pure individual model has achieved limited success

- ⇒ Costs are high, except for entities...
 - ◆ prepared to take a very long-term view
 - ◆ that compromise access or flexibility objectives
 - ◆ are able to tap into the market through affinity groups
- ⇒ Group market thrives through occupational retirement funds, but
 - ◆ supply-side issues (cost and governance) are receiving attention
 - ◆ demand for funds is low among BOP employers, even in formal sector
 - ◆ these arrangements do not meet the extensive informal sector at all

The *group v individual* question

Success stories exist

The market leader in low-cost individual provision teaches...

⇒ **model**

- ◆ affinity groups and community arrangements are key

⇒ **distribution**

- ◆ through members of the target community

⇒ **incentives**

- ◆ long-term and reliant on persistency of sales

⇒ **products**

- ◆ as straightforward as possible

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