

# Swiss Re Institute: The Life & Health Insurance Inclusion Radar

## Supporting figures and trends -> Focus South Africa

### 1. The Inclusion Radar (dimensions, indicators, sub-indicators)

The L&H Insurance Inclusion Radar framework: indicators and sub-indicators for each of the 3A dimensions

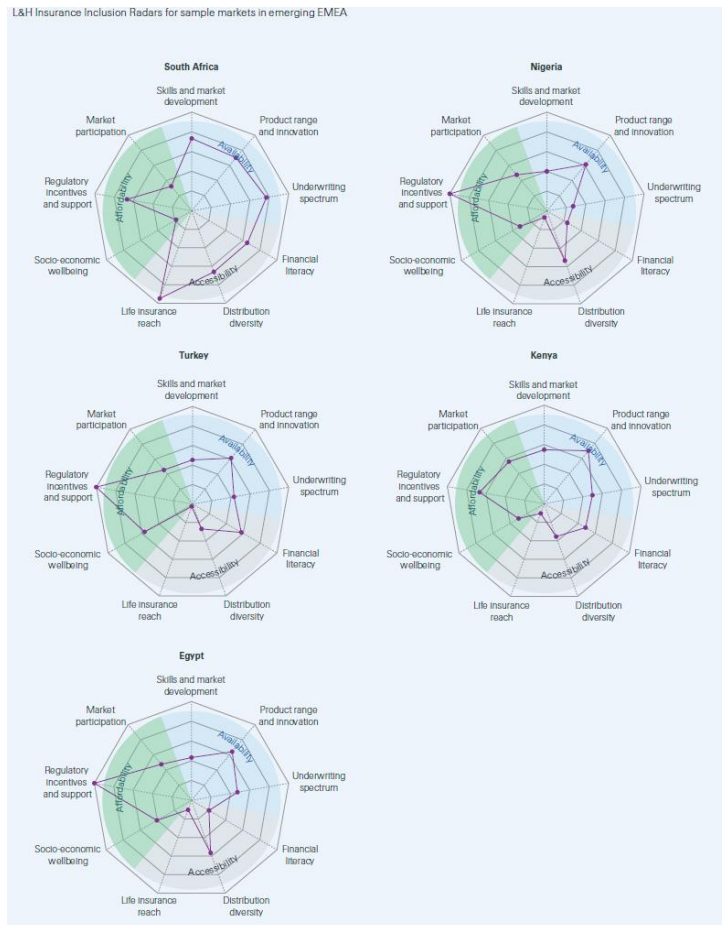
| Dimension     | Indicator cluster                     | Sub-indicators used   |
|---------------|---------------------------------------|---|
| Availability  | Skills and market development         | <ul style="list-style-type: none"> <li>Extent of education and training programmes provided to insurance professionals</li> <li>Maturity of group business</li> <li>Facilitation of new entrants</li> </ul>   |
|               | Product range and innovation          | <ul style="list-style-type: none"> <li>Breadth of the universe of underwritten mortality and morbidity risks</li> <li>Prioritisation of underserved communities in innovation strategies</li> </ul>   |
|               | Underwriting spectrum                 | <ul style="list-style-type: none"> <li>Variety of approaches in risk selection and stratification from minimal to extensive</li> <li>Adoption of underwriting technology and innovation</li> </ul>  |
| Accessibility | Financial literacy                    | <ul style="list-style-type: none"> <li>Bank account holding</li> <li>Access to credit</li> </ul>  |
|               | Distribution diversity                | <ul style="list-style-type: none"> <li>Fair representation by age, gender and ethnicity in the sales agent/advisor force</li> <li>Mobile phone penetration</li> </ul>   |
|               | Life insurance reach                  | <ul style="list-style-type: none"> <li>Penetration rate of life insurance</li> <li>Highest policy size obtainable irrespective of health</li> </ul>   |
| Affordability | Socio-economic wellbeing <sup>A</sup> | <ul style="list-style-type: none"> <li>Gini coefficient of income</li> <li>Gini coefficient of wealth</li> <li>Percentage of population living above the poverty line</li> <li>Percentage of population considered to belong to the middle class</li> </ul> |
|               | Regulatory incentives and support     | <ul style="list-style-type: none"> <li>Tax treatment of life insurance products</li> <li>Maturity of microinsurance legislation and market</li> </ul>   |
|               | Market participation                  | <ul style="list-style-type: none"> <li>Economic/labour participation rates</li> <li>Average in force policy size</li> <li>Lowest policy size obtainable</li> </ul>  |

Source: Swiss Re Institute

<sup>A</sup> The Gini coefficients of income and wealth, ranging from 0 to 1, represents the magnitude of inequality in an economy. They have been converted as a measure of 'equality' by subtracting these from 1. As per the available data series from the World Inequality Database, the Gini coefficients of income are based on the pre-tax national income while the wealth Gini coefficients are based on net personal wealth. See *Distributional National Accounts Guidelines*, World Inequality Lab, June 2021.

### 2. L&H Inclusion Radars for sample markets in emerging EMEA

L&H Insurance Inclusion Radars for sample markets in emerging EMEA



### 3. Trends: South Africa

Overall, South Africa's inclusion score is fourth highest among all 16 of our focus markets and is the highest performing of the emerging markets, a result driven by the nation's well-developed insurance market. There is greater Availability and Accessibility of insurance in South Africa than in many advanced markets. However, South Africa is the second-worst performing of all markets on Affordability, behind only Colombia. This is largely driven by high unemployment and deep social inequalities. In South Africa, the L&H insurance market has high penetration and strong product innovation, while consumer awareness and familiarity with insurance and other financial services is also high relative to other emerging markets.

Accessibility scores are supported by diversity within market distribution models. We see two types of diversity in distribution models: human and technological. To the extent that the life insurance industry relies on traditional agent/broker distribution models, those who sell insurance may be more successful when demographically similar to prospective buyers. Overall, the emerging markets in our sample score better than the advanced markets with respect to the diversity of sales agents and how they reflect underserved communities and the wider population. With respect to diversity in technology, another driver of distribution in the emerging markets is the high rate of mobile phone usage. In our sample of 11 emerging markets, South Africa has the highest per capita mobile cellular subscriptions (1.61 per person)<sup>1</sup>. Mobile technology facilitates distribution of simple insurance products that can be commoditised for scale, and also microinsurance solutions.

This indicates that social inequality on its own need not hold back sector growth. South Africa is an example of an emerging market that exhibits an overall 3A score curve akin to advanced markets. In South Africa, insurance sector professionals benefit from more opportunities to upskill than other emerging markets, while greater use of financial services and the penetration rate of life insurance also buoys Accessibility. Availability gets a lift from product innovation such as Critical Illness insurance, invented in South Africa in the early 1980s. Still, in general, beliefs and rituals around death in African cultures may be a strong driver for social acceptance of life insurance as a tool to manage household finances, with the funeral insurance market well established and aided by cover offered via mobile phones.

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<sup>1</sup> Computations based on data from the World Development Indicators.

Financial services are well established in South Africa.

Social norms, such as beliefs around death also drive uptake of life insurance covers.

The life insurance market in South Africa is well known as a hub for industry innovation.

**South Africa: a top performer for Availability and Accessibility of L&H covers**

Many forces combine to create a thriving L&H insurance market in South Africa. According to the World Economic Forum's Global Competitiveness Report of 2019, South Africa ranks as 60th most competitive overall. However, as a regional financial hub, its financial system ranks far higher – 19th in the world.<sup>20</sup> One of South Africa's largest local insurance groups, Old Mutual, has origins dating back to 1845 and industry leaders have premium market shares in the teens, suggesting a healthy degree of competition. There are more than 70 registered long-term insurers in South Africa and the market is well regulated by the Financial Services Board.<sup>21</sup>

Beliefs and rituals around death in African cultures may be a strong driver for the social acceptance of life insurance as a tool to manage household finances. The funeral insurance market is well established in South Africa and has high penetration. Death does not end an individual's life, but is instead a change in its conditions. Referred to as "ancestors", those who have passed away have continued existence. Families seek to ensure that the lost loved one receives a "correct" funeral to make for a dignified transition, and to ensure that the deceased does not return to trouble the living relatives. Such a funeral involves a number of ceremonies in which the whole community joins in solidarity, at significant cost to the family.<sup>22</sup>

Further, the L&H insurance market in South Africa is recognised as being one of the most innovative globally. Many examples substantiate this view. In 1983, the first policy of the product genre now known interchangeably as Dread Disease, Critical Illness, or Severe Illness cover, was sold in South Africa.<sup>23</sup> In 2005, the country became the home market of the first provider offering protection to HIV+ customers – AllLife.<sup>24</sup> In the domain of mobile phone network operators, various apps and models exist to give low-income customers an easy route to buy funeral cover. The Discovery Group's health engagement programme, Vitality, originated in South Africa and is now internationally recognised.<sup>25</sup> Since 2020, the COVID-19 pandemic has accelerated the



<sup>20</sup> *The Global Competitiveness Report 2019*, World Economic Forum, 2019.  
<sup>21</sup> *The Report: South Africa 2016*, Oxford Business Group, 2016.  
<sup>22</sup> See *The African Concept of Death*, Encyclopaedia of Death and Dying.  
<sup>23</sup> *Critical Illness Insurance – Past, Present and Future*, Institute and Faculty of Actuaries, 2003.  
<sup>24</sup> *AllLife*, Center for Health Market Innovations, 2005.  
<sup>25</sup> "The Latest Hot Innovations from South Africa's Protection Insurance Market", *Life Insurance International*, 24 February 2022.

<sup>26</sup> "Is InsurTech Personalising South Africa's Long-Term Insurance Industry?" *Business Wire*, 22 February 2022.

(Source: The Life and Health Insurance Inclusion Radar, page 17)