ASISA

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Life insurers pay more than half a trillion Rand to policyholders and beneficiaries in 2020

Policyholders and beneficiaries received claims and benefit payments worth R522.7 billion from South African life insurers in 2020. According to the long-term insurance statistics released today by the Association for Savings and Investment South Africa (ASISA) this represents an increase of R31.7 billion from the R491 billion injected into the economy in 2019 through payments made to policyholders and beneficiaries.

Hennie de Villiers, deputy chair of the ASISA Life and Risk Board Committee, points out that the significance of the size of the life industry's claims and benefit payments in 2020 becomes evident when considered against the Government's R335.2 billion Social Development budget for 2021.

De Villiers explains that the payments made to policyholders and beneficiaries included retirement annuity and endowment policy benefits as well as claims against life, disability, critical illness and income protection policies.

"For most of the recipients the payments would have been triggered either by a tragic life event like death or disability, or retirement. This means that more than half a trillion Rand was paid to consumers last year to provide financial stability in a time of great need as contractually agreed when the policy was first taken out."

De Villiers says the life industry recorded 434 216 death claims in 2020, a significant increase from the 317 442 claims received in 2019. More than half of the death claims in 2020 were for funeral policies (266 321) while the rest of the claims were for life policies, credit life policies and other policies that provide life cover.

De Villiers points out that both risk policies and savings policies are long-term contracts entered into between a policyholder and a life insurance company.

"When someone buys life cover at age 25, there is an expectation that the life insurance company will still be in a position to honour a claim many years down the line, even if it comes 50 or 60 years later. Equally, policyholders with savings policies like retirement annuities want the peace of mind that the life insurer will still be around to honour the maturity value of their investment policies when their time comes to retire. "

De Villiers explains that for this reason a healthy capital buffer is critically important for the long-term insurance industry, because it enables insurers to honour long-term promises made to policyholders.

The health of the long-term insurance industry

De Villiers says the South African life insurance industry showcased its resilience in 2020 by completing a challenging year with more than double the legally required capital buffer in place.

The life insurance industry held assets of R3.23 trillion at the end of 2020, while liabilities amounted to R2.89 trillion. This left the industry with free assets of R333.5 billion, which is more than double the capital required by the Solvency Capital Requirements (SCR).

"Our industry remains well capitalised and we will continue to honour our promises made to our policyholders and their beneficiaries," says De Villiers. "The fact that the ratio of free assets to the SCR only reduced marginally from 2019 to 2020 is further evidence of the ability of the industry to withstand challenging circumstances."

He also points out that the long-term insurance industry plays an important role in providing critical growth funding to both government and corporates in the form of bonds. Life insurers directly held government bonds worth R314.3 billion at the end of 2020 and corporate bonds (including SOE debt) worth R217.7 billion. This is in addition to government and corporate bonds held in policyholder investment portfolios. Life companies also invest in viable infrastructure projects including renewable energy, student accommodation, urban regeneration, agriculture and roads.

At the end of 2020, there were 40.4 million individual recurring premium policies and 2.8 million individual single premium policies in force.

Risk policies

According to De Villiers, 8.9 million new individual recurring premium risk policies (life, disability, dread disease and income protection cover) were bought in the 12 months to the end of December 2020, compared to 9.6 million in 2019.

De Villiers points out that since financial intermediaries were not considered an essential service during the hard lockdown period last year, their ability to advise clients was limited. This contributed to a significant reduction in new business volumes for 2020, further impacted by reduced consumer spending power.

He says unfortunately 10.2 million risk policies were also lapsed last year. A lapse occurs when the policyholder stops paying premiums for a risk policy that has no fund value. In 2019, some 8.8 million risk policies were lapsed.

De Villiers says while the increase in the 2020 lapse rate is concerning, it was to be expected given the high number of South Africans who lost their incomes during the Covid-19 lockdown period.

"Every risk policy lapsed means that South Africa's sizeable insurance gap widens even further leaving more families financially vulnerable should their breadwinner die or become disabled."

The 2019 ASISA Life and Disability Insurance Gap Study, conducted every three years, showed that the average South African income earner had a combined life and disability cover shortfall of at least R2.2 million at the end of 2018.

Savings policies

De Villiers reports that 543 561 individual recurring premium savings policies (endowments and retirement annuities) were taken out in the 12 months to the end of December 2020, compared to 773 078 in 2019. He attributes the reduction in new business volumes for 2020 to last year's hard lockdown when financial intermediaries were not able to work, combined with tough economic conditions that impacted on consumers' ability to save.

Unfortunately, says De Villiers, 663 597 recurring premium savings policies were surrendered in 2020, but surprisingly this number is lower than in 2019 when 713 361 savings policies were surrendered. A surrender occurs when the policyholder stops paying premiums and withdraws the fund value before maturity.

Only single premium savings policies recorded an increase in new business in 2020. Last year 166 609 single premium savings policies were bought compared to 157 517 in 2019. In the 12 months to the end of December 2020, some 97 497 single premium savings policies were surrendered, which is lower than the 107 224 surrendered in 2019.

De Villiers says that the drop in the surrender of savings policies could be as a result of the assistance provided to more than 458 000 policyholders who had been in good standing with the insurer, but who were unable to pay their monthly premiums during the hard lockdown. Relief measures worth R1 billion included premium holidays on savings policies of three to six months. Nevertheless, he adds, a large number of policyholders were left with little choice but to surrender their policies, because they needed their savings to survive financially.

"While the surrender of a savings policy should always be a last resort, the reality is that these savings were available to policyholders when they needed the money the most," says De Villiers.

Message to consumers

De Villiers acknowledges that the difficult environment facing consumers as a result of the Covid-19 pandemic is far from over. With an unemployment rate at record highs and retrenchments an ongoing reality for many sectors, consumers are likely to face financial hardship for many months and even years to come, he adds.

"Unfortunately, the true value of having in place long-term insurance cover is generally only realised during times of crises. Losing a second income when a family member dies, for example, can have a devastating financial impact on a family. For this reason policyholders should do their level best to hold on to the risk cover that they have in place."

De Villiers therefore encourages policyholders who are experiencing financial difficulties and who might not be able to afford their premiums to contact their financial adviser or insurer with urgency to discuss potential solutions.

"When approached, life insurers do consider possible ways in which to assist policyholders who may be struggling financially on a case by case basis."

Ends

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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.