Media Release
Association for Savings and Investment South Africa (ASISA)
2 November 2022

South Africa's life and disability insurance shortfall = R34.3 trillion

The average South African income earner had a life insurance shortfall of at least R1 million and a disability cover gap of around R1.4 million at the end of December 2021, according to the findings of the 2022 Life and Disability Insurance Gap Study released by the Association for Savings and Investment South Africa (ASISA) today.

The study shows that South Africa's 14.3 million income earners had only enough life and disability insurance to cover 45% of the total insurance needs of their households. The average South African household supported by at least one income earner would, therefore, be forced to cut living expenses should the earner die or become disabled, and no other source of income can be found.

The life and disability insurance gap is estimated every three years by ASISA in partnership with True South Actuaries & Consultants. The insurance gap is defined as the difference between life and disability insurance cover in place and the actual amount required by households to maintain the same standard of living after the death or permanent disability of an income earner. The insurance need excludes immediate expenses related to the risk event such as funeral costs, medical costs, and the cost of adapting a home and car for the needs of a disabled person.

Understanding the gap

Hennie de Villiers, deputy chair of the ASISA Life and Risk Board Committee, says the combined insurance need of South African households amounted to an estimated R62.9 trillion at the end of December 2021. With total cover in place of only R28.6 trillion, the total insurance gap amounted to R34.3 trillion. This represents a marginal widening in the gap when compared to the 2019 findings of 0.2% per annum.

To give context to the sheer size of South Africa's insurance gap, De Villiers points out that the consolidated Government expenditure for 2022/23, as announced in the 2022 Budget, amounts to R2.16 trillion, of which R1.3 trillion is allocated to social spending. This means that the insurance gap of R34.3 trillion exceeds the National Budget by around 15 times and Government's social spending by more than 26 times.

According to De Villiers, the main reason for the small widening in the gap between 2018 and 2021 is not one to celebrate. In the three years since the last gap study was done, the country's income earners declined from 15.6 million earners at the end of 2018 to 14.3 million at the end of 2021. This means that 1.3 million people stopped earning an income.

De Villiers explains that since the gap study calculates the amount of life and disability cover needed to cover a loss of income following the death or disability of an income earner, a drastic reduction in the number of earners therefore also decreases the insurance need calculation.

"The three-year period since the insurance gap was measured at the end of 2018 included the two years during which the COVID-19 pandemic resulted in unprecedented economic hardship, which caused significant job losses," says De Villiers.

He adds, however, that the pandemic also highlighted the importance of having risk cover in place like few other events in the history of South Africa. During this period many life insurers paid the highest number of claims in their history.

According to De Villiers, a total of 1 985 303 death claims was received in the 24 months from 1 April 2020 to 31 March 2022 – this period covered the four COVID waves. Life insurers paid out benefits of R120.5 billion to the beneficiaries who submitted these death claims.

"While these payments undoubtedly assisted to ease the financial burden brought about by such a tragic event, the gap study demonstrates that in many instances the payment would not have been sufficient. Many families probably had to make difficult financial adjustments during a time when they also had to deal with the loss of a loved one."

In 2021 life insurers noticed an increased uptake of new risk policies by consumers and a drop in the policy lapse rate for the first time in many years, notes De Villiers. "But unfortunately, as this study highlights, we are nowhere near closing the life and disability insurance gap."

According to De Villiers, the 2022 Gap Study shows an average annual growth of 5.5% in life cover over the three years to the end of December 2021, while disability cover increased by 2% per annum. Therefore, combined with the effect of losing 1.3 million income earners, the widening of the insurance gap was small, says De Villiers.

De Villiers points out, however, that while the widening of the insurance gap was marginal, the actual gap remains significant and will mean that many South African families will face severe financial hardship should their main breadwinner die or become disabled.

"Insurance represents a grudge purchase for many earners as there are no immediate tangible returns for the money spent. Younger people especially tend to think that death and disability affect only older people and therefore they are less likely to spend their hard-earned money on insurance premiums."

He adds that COVID-19 highlighted that tragic life events do not differentiate between age. A study released by the Continuous Statistical Investigation (CSI) Committee of the Actuarial Society of South Africa (ASSA) in December 2021 showed that the impact of COVID-19 had been surprisingly similar across all age groups and that the number of claims against fully underwritten life policies almost doubled for young lives as well as for the older ages.

According to actuarial statistics, more than 500 families, young and old, are likely to suffer a death or disability event on any given day this year.

WS Nel, Actuarial Research Lead at True South Actuaries and Consultants, says using Actuarial Society of South Africa models, it is estimated that in 2022 more than 142 000 income earners will die and that around 47 000 income earners will become disabled.

Earners under 30 most likely to be underinsured

The findings of the 2022 ASISA Life and Disability Insurance Gap Study show that income earners under the age of 30 are most likely to face a substantial life and disability shortfall, followed by earners between the ages of 30 to 39.

Since eight million of South Africa's 14.3 million earners are younger than 40 years, the majority of the country's earners are likely to be significantly underinsured, says Nel.

He says earners younger than 30 face an average insurance shortfall of R1.6 million for life cover and R1.7 million for disability. Earners between the ages of 30 and 39 years face life insurance shortfalls of R1.4 million per earner and R1.8 million for disability.

Nel explains that younger earners and their households would need to rely on the income from their insurance for much longer following a death or disability event than older earners drawing closer to retirement. For this reason, the insurance needs in younger age groups are typically higher than in older age groups.

He points out that the insurance gap narrows substantially for earners above the age of 50 years. Older earners are likely to have more life cover than needed, while the disability insurance gap is greatly reduced. This is because the study assumes that the insurance need exists only until retirement age since provision for income in retirement should be covered by retirement savings rather than risk insurance, explains Nel.

"Often older income earners have settled their mortgage bonds and have paid for their children's education, reducing the need for life and disability cover. Their concerns then shift to whether sufficient provision has been made for income after retirement."

Life and disability insurance gap per age group on 31 December 2021

	Under 30 (3.7 million earners)	**30 to 39** (4.3 million earners)	**40 to 49** (3.7 million earners)	**50 to 54** (1.4 million earners)	**55 +** (1.3 million earners)
Life cover gap per earner	R1.6 million	R1.4 million	R1 million	No gap	No gap
Disability cover gap per earner	R1.7 million	R1.8 million	R1.3 million	R0.6 million	R0.1 million
Total insurance gap per earner	**R3.3 million**	**R3.2 million**	**R2.3 million**	**R0.6 million**	**R0.1 million**

Closing the gap

The loss of an earner without adequate life and disability cover could have devastating financial implications for families.

Nel says when a breadwinner dies or becomes permanently disabled without sufficient insurance cover in place, families are often forced to make difficult financial decisions that may involve downscaling and forcing adult children to abandon their education to get a job.

He points out that it is generally easier and often cheaper for the earner to close the insurance gap before death or disability forces the family to find ways of making up for the loss of an income.

According to Nel, the average earner would need to spend an additional 4.5% of their monthly pre-tax income to purchase adequate life insurance. However, without adequate life cover in place, the average family would be forced to generate an additional monthly income of R5 630 to maintain their standard of living following the loss of an income earner or alternatively reduce household expenditure by 30%.

Nel says the disability of an income earner would force the average family to generate an additional monthly income of R7 443 to maintain their standard of living or alternatively reduce household expenditure by 33%. Closing the gap, on the other hand, would cost the income earner an additional 2.6% of their pre-tax monthly income.

"The additional income required by a household following the permanent disability of a breadwinner is higher than when an income earner dies, because the disabled family member still incurs expenses until retirement," explains Nel. He adds, however, that the cost of buying additional cover is generally lower because disability insurance is cheaper than life cover.

He points out that the financial impact of a disability on the country's poorest income earners and their households (those earning R33 154 or less a year) is often less severe, because Government disability grants cover the full disability insurance needs of these South Africans.

Other interesting findings

- Income earners in Limpopo have the lowest life and disability cover adequacy (actual cover versus the insurance need) of 26% and 32% respectively. The highest cover adequacy is in place in the Western Cape with 56% of adequacy for life cover and 54% for disability cover. (More details in section 8 of the 2022 ASISA Insurance Gap Study.)

- South Africa's 14.3 million income-earning population is approximately 58% male and 42% female. The life and disability insurance gap is slightly lower for women. (More details in section 9 of the 2022 ASISA Insurance Gap Study.)

- Income earners with the highest level of education on average also have the highest cover adequacy in place. The 2022 ASISA Insurance Gap Study shows that degreed earners have provided for at least 76% of their life cover needs and 58% of their disability cover requirements. The life insurance gap is the biggest for earners who have not completed school. However, many of these earners would have at least 50% of their disability cover needs provided for, largely due to government disability grants. (More details in section 6 of the 2022 ASISA Insurance Gap Study.)

Ends

Notes to the editor:

- The South African earner population of 14.3 million was estimated based on various sets of statistics sourced from Statistics South Africa.
- A disability event is defined as total and permanent disability of an active earner. The disabled person is unlikely to return to work.
- Retirement age was assumed to fall between 60 and 65 years of age. In determining the insurance need, it was assumed that it would exist only up to the intended retirement age since prior retirement provisions would then fund the household expenses.

To set up interviews please contact:

Lucienne Fild
Independent Communications Consultant
082 567 1533
lucienne@fild.co

Issued on behalf of:
The Association for Savings and Investment South Africa (ASISA)

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.