

Media Release**Association for Savings and Investment South Africa (ASISA)****17 November 2010****South African life and disability insurance shortfall remains critical**

During the course of next year some 160 000 South African income earners are expected to die, while an estimated 52 000 earners will suffer total and permanent disability. This means that in addition to grappling with the loss of these income earners, more than 212 000 families will face unexpected financial hardship next year brought about by South Africa's massive life and disability insurance gap.

New research conducted on behalf of the Association for Savings and Investment South Africa (ASISA) shows that the average South African income earner is underinsured by R600 000 in the event of death and by R900 000 in the event of disability.

Releasing the results at a media conference in Johannesburg, Peter Dempsey, the deputy CEO of ASISA, says on average South African earners are underinsured by 62% for death and 60% for disability. This means that the average family would have to cut living expenses significantly if the main earner of a household dies or becomes disabled.

"Apart from a general belt tightening exercise, sadly this may also mean selling the family home and sacrificing a decent education for the children," says Dempsey.

How big is the gap?

The first independent study aimed at measuring South Africa's life and disability insurance shortfall was conducted in 2007. The astonishing finding was that South African earners were grossly underinsured by an estimated R10-trillion.

Dempsey says for the 2010 study, again conducted by True South Actuaries & Consultants, but this time in partnership with the UNISA Bureau of Market Research, more detailed data was available on personal income than in 2007. It was also possible to eliminate individual earners with no need for insurance. As a result the findings of the 2010 study are even more realistic than those in 2007.

He says the 2010 Life and Disability Insurance Gap Study shows that South Africa's 12.4-million income earners between the ages of 16 and 65 are underinsured by R18.4-trillion. The insurance gap was calculated separately for death and disability and is defined as the difference between the insurance need and the actual cover. The death insurance gap is R7.3-trillion and the disability insurance gap is R11.1-trillion.

"Given the fact that it was possible to interrogate data in much greater detail this year and factoring in the growth in earnings over the past three years since the last study was conducted, we conclude that that the insurance gap has not necessarily widened," explains Dempsey.

He adds that the insurance gap is likely to have remained static in real terms over the past three years, which is positive given the tough economic conditions that South Africans had to endure for the past couple of years.

"What this means is that consumers did not rush out and increase their levels of life and disability insurance since the last study was done in 2007. This is understandable given the global financial crisis and the recession that followed. But this also means that people held on to the life and disability protection cover they had. This is positive and consistent with the lower policy lapse rates we have seen in the industry."

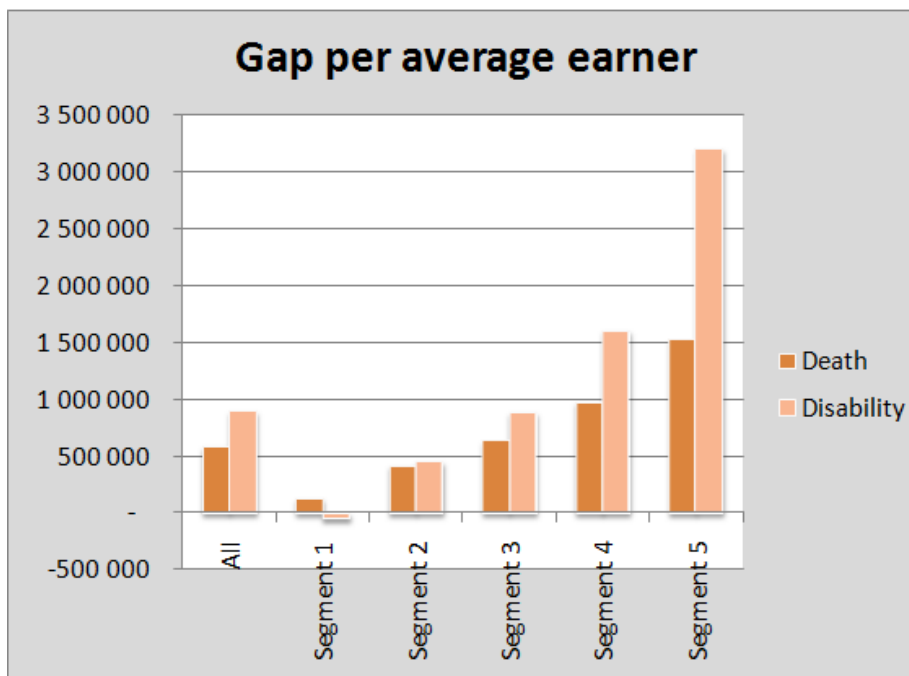
Where is the biggest gap?

Dempsey says while the R18.4-trillion life and disability insurance gap shows that South Africans are in trouble as far as life and disability protection is concerned, the number is so large that it becomes meaningless unless it is unpacked and made relevant to individual consumers.

He says especially middle to high income earners are usually quick to dismiss these statistics, believing mistakenly that low income earners are likely to be the only group hard hit by the loss of an earner due to death or disability.

“This thinking is fundamentally flawed. Our research shows that consumers earning more than R16 700 a month will leave their families with the biggest financial shortfall when they die or become disabled. The higher an earner’s income bracket, the more life cover is required to maintain living standards.”

The Life and Disability Insurance Gap Study also shows that while consumers earning less than R3 000 have a life cover shortfall, the reverse is true for disability insurance. This is because of the Government disability income grant which, due to its fixed amount nature, is very effective at replacing lost income in the lower income brackets.



Monthly net income for each of the segments: Segment 1 R0-R3 000; Segment 2 R3 000-R5 800; Segment 3 R5 800-R8 300; Segment 4 R8 300-R16 700; Segment 5 R16 700+

Dempsey says the only group of people who have sufficient life cover according to the study are high income earners older than 55. This is because this group has generally saved enough money and has often also benefited from group life cover through years of membership of an employer’s pension fund. On the disability side, however, this group also finds itself underinsured.

Below follows a snap shot of the life and disability insurance gap for individual earners, segmented per income group.

Death

Personal Income per month after tax	Insurance Need	Actual Cover	Insurance Gap
R0-R3 000	R133 372	R7 318	R126 054
R3 000-R5 800	R483 301	R65 628	R417 674
R5 800-R8 300	R800 628	R167 138	R633 490
R8 300-R16 700	R1 408 200	R431 635	R976 565
R16 700+	R3 325 942	R1 802 173	R1 523 768

Disability

Personal Income per month after tax	Insurance Need	Actual Cover	Insurance Gap
R0-R3 000	R235 744	R284 346	- R48 602
R3 000-R5 800	R777 277	R325 728	R451 548
R5 800-R8 300	R1 270 763	R385 047	R885 716
R8 300-R16 700	R2 227 830	R621 934	R1 605 896
R16 700+	R5 309 603	R2 103 374	R3 206 229

Closing the gap

Closing the life and disability insurance gap would require South African earners to spend on average an additional 2.4% a year of their personal income on life cover (R35-billion) and 1.5% a year on disability cover (R15-billion).

Dempsey says if earners do not close the current insurance gap, the average household will be forced to cut expenditure by about a third should the earner die or become disabled. The alternative would be to increase the monthly earnings of the household after the death or disability of an earner by an average of R3 177 on death or R4 696 on disability.

“For many families this will present a challenge. In addition, this figure will be higher or lower depending on the actual income bracket of the earner whose income has been lost due to death or disability.”

About the Gap Study

Francois Hugo, Executive Director at True South Actuaries and Consultants, says the study only considered data relevant to South Africa’s 12.4-million citizens between the ages of 16 and 65 who were earning a regular income.

He points out that the study took a conservative approach, taking into consideration only the levels of life and disability cover required to maintain ongoing household spending after the death or disability of an earner and then only for the period up to the earner's intended retirement date. One-off costs such as funeral costs, executor fees, estate duty and capital gains tax were therefore excluded, as were post-retirement living expenses.

The primary source of information for determining the insurance need was household income, household expenditure and personal income data as provided by UNISA's Bureau of Market Research (BMR). Additional information was sourced from life companies, which provided statistics of total payouts should all policyholders with life cover die and should all policyholders with disability cover become totally and permanently disabled.

Ends

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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. ASISA was formed in 2008 by members of the Association of Collective Investments (ACI), the Investment Management Association of South Africa (IMASA), the Linked Investment Service Providers Association (LISPA) and the Life Offices' Association (LOA).