

Media Release

Association for Savings and Investment South Africa (ASISA)

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Life insurers have the reserve buffers to withstand COVID-19 fallout

The South African life insurance industry has more than double the legally required reserve buffers in place and is therefore well positioned to deal with the COVID-19 fallout over the coming months. The Association for Savings and Investment South Africa (ASISA) today released the new long-term insurance statistics gathered from ASISA members in line with the new regulatory reporting requirements introduced by the Insurance Act of 2018.

Hennie de Villiers, deputy chair of the ASISA Life and Risk Board Committee, says the statistics show that the life insurance industry held assets of R3 trillion at the end of 2019 while liabilities amounted to R2.7 trillion. De Villiers says this left the industry with free assets of R373 billion, which are more than double the reserve buffer required by the new Solvency Capital Requirements (SCR).

He points out that life insurers safeguard ring fenced reserves against volatility in financial markets by minimising exposure to listed equities. In addition, while free market-linked assets would have declined as a result of the recent market shocks caused by COVID-19 concerns, liabilities would have reduced as well. "We are therefore confident that our industry remains well capitalised despite the current turmoil."

De Villiers says a healthy reserve buffer is critically important for the long-term insurance industry, because it enables insurers to honour long-term promises made to policyholders. "When a policyholder buys life cover at age 25, the life company must be in a financial position to make a promise to honour a claim, even if it comes 50 years later. Equally, policyholders with savings policies like retirement annuities want the peace of mind that a company will still be around to honour the maturity value of their investment policies many years down the line. "

He adds that healthy reserves take on even greater importance in times of crisis. "As an industry we understand that the COVID-19 pandemic will present challenges that are unprecedented. While we are not able to predict with certainty how this will unfold in the months to come, we can give policyholders and their beneficiaries the assurance that the industry is well positioned to weather this storm and that we will be able to honour every single valid claim."

De Villiers points out that the life industry exists to make sure that valid claims and benefits are paid to policyholders and beneficiaries as quickly as possible to ease financial burdens in a time of need. He adds that while sometimes processes might fail, the statistics show that for the most the industry is getting it right.

At the end of 2019, there were 42.5 million individual recurring premium policies and 2.9 million individual single premium policies in force. The statistics from the Long-term Insurance Ombudsman show that on average around 5 500 complaints made against life

insurers are investigated annually of which around 1 000 are ruled in favour of the complainant.

Claims and benefit payments

South African life insurers injected R491 billion into the economy last year through claims and benefit payments made to policyholders and beneficiaries.

De Villiers explains that the payments made to consumers would have included retirement annuity and endowment policy benefits as well as claims against life, disability, dread disease and income protection policies. "In most of these cases the benefit payments would have come at a time of great financial need or would have assisted retirees to sustain their lifestyle," explains De Villiers.

He says the significance of the size of the life industry's claims and benefit payments becomes evident when compared to the Government's R309.5 billion Social Development budget for 2020.

De Villiers explains that the ability of the life industry to pay claims and benefits will be of critical importance to the South African economy in months ahead as the COVID-19 pandemic reduces the income stream of citizens.

Growth in risk policies, but decline in savings policies

According to De Villiers the number of individual risk policies (life, disability, income protection and dread disease) showed a healthy increase of 30.8% in 2019, from 8.9 million policies at the start of 2019 to 11.6 million at the end of the year. Individual funeral policies increased by 11.6% from 13.5 million policies at the beginning of 2019 to 15 million at the end of the year.

"As an industry we hope that this trend will persist and that South Africans are taking heed of our calls to close the insurance gap," says De Villiers.

ASISA announced last year 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. This translates to a total insurance gap of R34.7 trillion for South Africa's 15.6 million earners.

De Villiers says while the slight decline of 3% in the number of savings policies (endowment and retirement annuities) was of concern, it was not surprising given the economic environment. At the beginning of 2019 there were 6.7 million in force savings policies compared to 6.5 million at the end of 2019. "When times are tough consumers are less likely to take out new savings policies. At the same time more policyholders surrender their savings policies to access their savings due to financial hardship."

Message to consumers

De Villiers says the true value of having in place long-term insurance cover is generally only realised during times of crises. He adds that during the tough times that lie ahead for

millions of South Africans as a result of the drastic measures that had to be implemented to stop the spread of COVID-19, policyholders should do their level best to hold on to the risk cover that they have in place.

“Policyholders who are experiencing financial difficulties and who might not be able to afford their premiums should contact their financial adviser or insurer with urgency to discuss potential solutions. In the same vein, given the turmoil on the financial markets, now is probably not a good time to cash in your savings policy. Rather speak to your financial adviser.”

De Villiers says life insurers are looking at ways to assist policyholders who may be struggling financially as a result of COVID-19 measures, but adds that this will be done 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.