Media Release
Association for Savings and Investment South Africa (ASISA)
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South Africa's life and disability insurance gap widens to R34.7 trillion in 2018

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.

South Africa's life and disability insurance gap is measured every three years by the Association for Savings and Investment South Africa (ASISA) in partnership with True South Actuaries & Consultants. The insurance gap is defined as the difference between actual risk cover in place and the insurance need of South Africa's earners and their families. The insurance need is the amount of insurance cover required to meet a household's financial requirements after a death or disability event, assuming that the aim is to maintain the same standard of living as before the event until retirement age. This 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.

Announcing the findings of the 2019 ASISA Life and Disability Insurance Gap Study, Rosemary Lightbody, senior policy adviser at ASISA, says the total insurance gap widened by R5.9 trillion from R28.8 trillion at the end of 2015 to R34.7 trillion at the end of 2018. This means the gap grew by 6.4% a year.

South Africa's growing risk cover crisis

Insurance Gap Study	**Total Insurance Gap**	**Total Life Cover Gap**	**Total Disability Cover Gap**
2007	**R10 trillion**	R4 trillion	R6 trillion
2010	**R18.4 trillion**	R7.3 trillion	R11.1 trillion
2013	**R24 trillion**	R9.3 trillion	R14.7 trillion
2016	**R28.8 trillion**	R12.8 trillion	R16 trillion
2019	**R34.7 trillion**	R15.4 trillion	R19.3 trillion

Figures have been rounded

Understanding the gap: life cover

The 2019 Insurance Gap Study shows that if South African households supported by earners had wanted to maintain their standard of living in 2018 after the death of an earner, the total insurance need would have been R24.5 trillion. However, the actual life cover in place at the end of 2018 amounted to only R9 trillion, leaving a shortfall of R15.4 trillion.

For the average individual household supported by an earner, this would have meant a shortfall of R1 million. The study found that the average South African family would have required a life cover payout of at least R1.6 million in order to maintain their standard of living should an earner die. However, the average South African earner had life cover of only R0.6 million (R600 000), leaving the R1 million gap.

Lightbody points out that the loss of an earner can have devastating financial implications for families if no provision was made for adequate life cover. "Very often this results in significant financial hardship for families in addition to the emotional trauma caused by the loss of a loved one."

She points out that it is generally easier and often cheaper for the earner to close the insurance gap than for the family to find ways of making up for the loss of an income when a family member dies.

"The average earner would need to spend only an additional 4.6% of their monthly after-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 362 to maintain their standard of living following the loss of an income earner or alternatively reduce household expenditure by 32%."

The table below breaks down the life insurance gap per earnings group and shows by
how much households in each income bracket would have to cut their monthly expenditure or increase earnings should an income earner die.

Average life insurance gap per income bracket

	Average net monthly income per person	**Average gap per person**	**Extra monthly income (net of tax) needed post death**	**Or cut household expenses by**	**Cost of buying additional life cover (% of current earnings)**
Poorest 20% earners	Up to R2 338	R0.1 million	R600	11%	6.7%
Next 20% earners	R2 338 to R4 665	R0.4 million	R2 424	31%	9.2%
Next 20% earners	R4 665 to R8 542	R0.8 million	R4 156	39%	8.7%
Next 20% earners	R8 542 to R17 757	R1.3 million	R7 123	36%	6.9%
Richest 20% earners	More than R17 757	R2.3 million	R12 502	32%	3.1%
Average earner		R1 million	R 5 362	32%	4.6%

Understanding the gap: disability cover

According to the 2019 Insurance Gap Study, if South African households supported by earners had wanted to maintain their standard of living should an earner in the family become disabled, the insurance need would have been R35.7 trillion at the end of 2018. However, the actual disability cover in place at the end of 2018 amounted to only R16.4 trillion, leaving a shortfall of R19.3 trillion.

This means that the average South African earner would have had to make provision for disability cover of R2.3 million in 2018 to help his or her family maintain their standard of living in case of disability. The reality is, however, that the average South African earner had disability cover in place of only R1.1 million at the end of 2018, leaving a gap of R1.2 million.

Lightbody explains that the need for disability insurance is higher than for life insurance, because household expenses tend to decrease when a family member dies while disability tends to increase household expenses.

"When an earner becomes disabled, not only is the income likely to fall away, but household expenses also tend to increase due to the specific needs of a disabled person," she explains.

According to Lightbody the average earner would probably need to spend an additional 2.6% of their after-tax monthly income to close the disability insurance gap.

"With the current shortfall in disability cover, the average family would be forced to generate an additional monthly income of R6 475 to maintain their standard of living following the disability of an earner or alternatively reduce household expenditure by 24%."

Lightbody points out that the cover replacement figures are lower for the disability cover gap, because the Government disability grants cover the full disability insurance needs of the *poorest 20% of South African earners.

The table below breaks down the disability insurance gap per earnings group and shows by how much households in each income bracket would have to either cut their monthly expenditure or increase earnings should one of the households' earners become disabled.

Average disability insurance gap per income bracket

	Average net monthly income per person	**Average gap per person**	**Extra monthly income (net of tax) needed post disability**	**Or cut household expenses by**	**Cost of buying additional disability cover (% of current earnings)**
Poorest 20% earners	Up to R2 338	No gap*	No extra income needed*	No reduction needed*	No additional cover needed*
Next 20% earners	R2 338 to R4 665	R0.3 million	R1 843	17%	3.2%
Next 20% earners	R4 665 to R8 542	R0.9 million	R4 493	30%	4.3%
Next 20% earners	R8 542 to R17 757	R1.8 million	R9 478	33%	4.2%
Richest 20% earners	More than R17 757	R3.3 million	R17 505	25%	2.1%
Average earner		R1.2 million	R6 475	24%	2.6%

Other interesting findings

- Income earners in Limpopo have the lowest life and disability cover adequacy (actual cover versus the insurance need) of 22% and 32% respectively. The highest cover adequacy is in place in the Western Cape with 46% of adequacy for life cover and 53% for disability cover. (More details in section 8 of the 2019 Insurance Gap Study.)

- South Africa's 15.6 million income-earning population is approximately 57% male and 43% female. The life and disability insurance gap is very similar for both male and female earners. Reducing the gap would be cheaper for female earners as women generally qualify for lower insurance premiums. (More details in section 9 of the 2019 Insurance Gap Study.)

- Income earners with the highest level of education on average also have the highest cover adequacy in place. The 2019 Insurance Gap Study shows that degreed earners have provided for at least 64% 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, the same earners would have 50% of their disability cover needs provided for by government disability grants. (More details in section 6 of the 2019 Insurance Gap Study.)

- The life and disability insurance gap is substantially wider among earners below the age of 40 years as compared to their older counterparts. The only group of people likely to have sufficient life and disability cover income is earners older than 55. (See separate media release and section 7 of the 2019 Insurance Gap Study.)

Conclusion

Lightbody says that unfortunately insurance represents a grudge purchase for many earners as there are no immediate tangible returns for the money spent. She says this is an even bigger pill to swallow during tough economic times, when every cent matters.

"The sad reality is that the benefit of sacrificing a small portion of your income to protect your family from certain financial hardship should something happen to you only becomes clear once a devastating life event has taken place and you are no longer in a position to fix it."

According to Lightbody a common excuse for not buying adequate risk cover is the misconception that life insurers do not want to pay. In response she refers to the ASISA 2018 statistics of claims made against fully underwritten individual life policies, which show that 99.3% of all claims received were paid to a total value of more than R15.1 billion. A mere 0.7% of claims against underwritten individual life policies in 2018 were declined, mostly due to non-disclosure.

Ends

Notes to the editor:

- The South African earner population of 15.6 million was estimated based on various sets of statistics compiled by Stats SA.
- 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.

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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.