Media Release
Association for Savings and Investment South Africa (ASISA)
14 March 2018

Policyholders and beneficiaries receive R469 billion in benefit payments

South African life insurers injected R469 billion into the economy last year through benefit payments to policyholders and beneficiaries. Total benefit payments increased by an inflation beating 10% from 2016.

The 2017 long-term insurance industry statistics released today by the Association for Savings and Investment South Africa (ASISA) show that despite the healthy increase in benefit payments, South African life insurers remained strongly capitalized.

The life insurance industry held assets of R2.84 trillion at the end of 2017, an increase of 6% from the R2.67 trillion held at the end of 2016.

Hennie de Villiers, deputy chair of the ASISA Life and Risk Board Committee, reports that industry assets exceed liabilities by R231.1 billion, which is more than five-and-a-half times the legal reserve buffer required. The legal reserve buffer, referred to as the industry's capital adequacy requirement (CAR), was R41.5 billion at the end of December 2017.

De Villiers says this indicates that South African life insurers remain well positioned to honour long-term promises to policyholders. "This is critically important given that a significant portion of the country's long-term savings pool has been entrusted to the life industry."

"While for many consumers these benefit payments would have come at a time of a planned event like retirement, others received the benefit payments following a traumatic event like death or disability," explains De Villiers.

The significance of the R469 billion in benefit payments for 2017 becomes evident when compared to the R528.4 billion in social grants committed by Government over the next three years.

Of the total benefit payments to policyholders in 2017, more than R60 billion was paid to individuals who had experienced either death or disability in their family circle. This marks an increase of almost R5 billion from 2016.

Surrenders

Policyholders accessed R72.6 billion in benefits in 2017 by surrendering their savings policies. A surrender occurs when the policyholder stops paying premiums and withdraws the fund value before maturity.

De Villiers says while surrenders are always of concern, it is encouraging that the life industry reported a 9% decrease in surrenders from 2016. In 2016 life insurers had seen a very worrying 16% increase in surrenders from 2015.

De Villiers explains that surrenders are in many instances prompted by policyholders desperate to access their savings due to financial hardship.

"While surrendering a policy should always be considered carefully as the policyholder will miss out on the benefit of further compound growth, at least policyholders who had to resort to surrendering their policies had a financial back-up when they most needed it."

Risk protection shows strong growth

Last year's economic woes impacted heavily on new premium income for recurring and single premium business, which overall showed no growth from 2016 to 2017.

De Villiers says it is encouraging, however, that more consumers were prepared to commit monthly premiums to risk protection policies and savings policies in 2017 when compared to 2016. As a result, both achieved growth in policy numbers. Recurring premium risk policies showed growth of 8% and recurring premium savings policy business increased by 3%.

De Villiers believes that the increase in the number of recurring premium savings policies sold continues to be driven by consumer demand for the tax-free savings and investment products. This may, however, have contributed to the lower recurring premium retirement annuity sales, which dropped by 17%.

All single premium business categories recorded a significant drop in new policies sold.

In the 12 months to the end of December 2017 there was a decrease of 5% in the number of single premium living annuities sold and a 6% drop in retirement annuities. Sales of compulsory annuities decreased by 32%, largely driven by the introduction of the "de minimis rule", which increased the level below which the proceeds of a retirement annuity may be taken as a lump sum.

In terms of the "de minimis rule" retirement fund members may take in full proceeds that fall below the threshold of R247 500. The threshold increased from R75 000 in March 2016.

Rise in lapses

De Villiers says the fact that consumers are under financial pressure was also evidenced by the high increase in the first-year lapse rate for risk policies of 34%. In 2017, some 2.7 million policies less than 12 months old were lapsed compared to 2 million in 2016.

A lapse occurs when the policyholder stops paying premiums.

De Villiers says the lapsing of a risk policy should always be a last resort for consumers.

"While it may seem like a good way of freeing up extra cash in times of financial difficulties, lapsing a policy removes the financial risk protection buffer leaving the policyholder and beneficiaries financially vulnerable in case of a life-changing event like death or disability."

Ends

To set up interviews please contact:
Lucienne Fild
Independent Communications Consultant
082 567 1533
lucienne@fild.co

Issued on behalf of:
Hennie de Villiers
Deputy chair: Life and Risk Board Committee
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.