



South Africa – A Fertile Ground for Product Innovation

by Ronald Schwärzler, Gen Re, Cologne

Working in the Life/Health Research & Development department of Gen Re involves lively exchanges with our worldwide locations and helps us to provide efficient and effective insurance solutions. Over the years, the South African life insurance market has gained a reputation as a consistent source of product innovation. So, the chance for me, a Critical Illness and Health product specialist based in Cologne, to spend some time there was an attractive proposition. My aim was to gain a better understanding as to why South Africa’s life insurers have often been at the leading edge. This article explores some of the reasons and describes several recent innovations, but first it is important to know the background conditions in more detail, as these offer a partial explanation.

Socioeconomic, cultural and demographic background

Taking a closer look at the country’s social security system is a revealing place to start. While most Western countries ensure that people who are in need of help can get by, the state support available to South Africans is often perceived as inadequate. This means people without insurance often struggle to meet even the most basic needs, and those who can afford it have a strong incentive to finance themselves and rely less on benefits from the state. This illustrates clearly the enormous need for insurance solutions in South Africa – a situation similar in some Western countries although not affecting the broad population to the same extent.

To understand better another aspect of the socioeconomic influence on South African product innovation, we can refer to the Gini coefficient, a common measure of inequality in the distribution of income among residents of a country. The coefficient ranges from 0 (where everyone has the same income in a perfectly equal distribution) to a value of 1 (meaning perfectly unequal distribution). South Africa’s Gini coefficient of 0.63 is among the highest in the world.¹ Other sizable insurance markets, such as the UK (0.34), received estimates that are far lower. This helps explain the highly heterogeneous nature of the South African insurance market, which offers many different solutions for consumers.

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About This Newsletter

Risk Insights is a technical publication produced by Gen Re for life and health insurance executives worldwide. Articles focus on actuarial, underwriting, claims, medical and risk management issues. Products receiving emphasis include life, health, disability income, long term care and critical illness insurance.

Life/Health Research & Development at Gen Re

The R&D department in Cologne comprises people from a variety of disciplines – including actuaries, lawyers, teachers, economists and medical professionals – each bringing unique expertise and experience. This diversity is the foundation of successful management of a wide range of activities within the life and health insurance sector. R&D activity includes developing new products and pricings, investigating new trends and supporting our market managers with complex product questions. In addition, a diverse range of seminars aimed at worldwide clients and our own people is an indispensable role of our department. To be able to offer the latest international expertise involves keeping up to date by attending seminars and on-site training. Therefore, the work in R&D is occasionally connected to business stints in other locations.

Heterogeneity extends to other fields, too. South Africa has 11 official languages – most of them quite distinct. Every common religion and variety is represented together with indigenous cultures. All this contributes to a diversity that has influence across class and society. Thus it is common to find young academics from widely contrasting cultural and socioeconomic backgrounds working together on social solutions. An environment that blends a broad range of perspectives and experiences is perhaps more likely to come up with original approaches than one in which everybody has taken a similar path.

The influence of younger generations is a distinctive feature of South Africa, and one that may contribute to the modernity of its insurance market. The median age of South Africans is low at 26.8 years, compared to 42.7 in the European Union.² We can infer that, relative to its population, many more people of young generations live here than elsewhere. Millennials are a particular focus for insurers, as they remain less convinced of traditional buying methods and favour technology-based solutions. New technologies will play a key role in future product design and distribution in South Africa, particularly as younger generations already make up the lion's share of insurance customers today.

Short-term guarantee environment

An important question for people involved in the development of new insurance products is whether or not a regulator dictates that premium rates be guaranteed, and over what duration. The advantage for the consumer of policies with guaranteed premiums is obvious. In cases where the insurer failed to foresee correctly the development of future claims, the policyholder receives cover that would be more expensive if the insurer had assessed the risk correctly. Adding premium rate guarantees, however, not only poses a significant risk for the insurer, but also translates into higher premiums for the insured. In markets where guarantees are optional, individuals may choose whether they are willing to pay a bit more for their insurance policy right away – or only if the overall claims experience is poorer than envisioned in pricing.

However, the requirement for guarantees hardly ever feels positive from the perspective of a product developer. For example, each little change in design must be considered more carefully than a policy with no premium guarantee. Moreover, once a product element has been identified as adding significant uncertainty to the future, this risk of change has to be accurately considered in pricing. These obstacles not only affect product changes but also hold back many product inventions.

South African insurers have realised that customers value innovative products more than having the certainty of significant premium rate guarantees, which typically range from five to ten years and are bearable for most product lines. The variety of product development across international insurance markets suggests that a short-term guarantee environment provides greater opportunity for creativity and innovation. All of these circumstances have combined to make South Africa a rather fertile ground for new insurance products but also for creative minds in the insurance industry.

South African product innovations

Arguably, the most significant and enduring product has been Critical Illness (CI) insurance, introduced in 1983 to give protection against the financial costs of surviving cancer, heart attack or stroke. CI has shaped the international product landscape significantly over the last three decades and has proved a popular concept with insurers and consumers in many markets, including Australia and New Zealand, the United Kingdom, and across Asia.

Today's CI products range from cancer-only cover to plans with 50 or more defined conditions. South African producers were amongst the first to expand the scope of coverages not only by its number of CI triggers but also by tiered benefits and multiple pay-outs for different diseases. While these advanced benefit structures are now commonplace in South Africa, many of these products remain a niche in markets where consumers failed to see the need for such cover during the past. However, we observe that some Western insurance companies are only now rediscovering the CI concept and the benefits it can offer their customers.

Life insurance linked to physical fitness and lifestyle is another topical subject. It is driven by the growth in popularity of wearable fitness devices and individuals' desires to play an active role in maintaining and improving their health. Again, this idea was initiated in South Africa and has developed to provide life insurance customers with incentives and rewards based on performing regular exercise and choosing healthy foodstuffs. Attracting customers who are fit and healthy, and then acting to keep them that way, has proved to be a successful formula for both insurers and consumers.

However, not everyone who needs life insurance is completely well. The first whole of life cover for people with HIV was launched by a South African insurer in 2005. It has proved popular in a country where in 2015 an estimated 19.2% of 15-to 49-year-olds had the virus.³ Key to the success is a simple onboarding process and the obligation on policyholders to prove ongoing compliance with medical treatment, rewarded with premium discounts.

New CI trend in Western countries

One explanation for the resurgence of interest in CI insurance products is the increasing cost of medical treatment for severe illness, which makes a catch-all health insurance policy unaffordable for many people.

Part of such an all-encompassing cover is, for example, the treatment of cancer, which has become more expensive year-on-year at a rate far greater than that of consumer price indices. As higher treatment costs are reflected in rising premiums, there is a shift towards basic health insurance policies that are then supplemented by CI insurance instead.

Moreover, these days disability products are often supplemented or substituted by CI insurance.

The recent success story of the "functional impairment cover" in Germany is one example: this cover combines CI benefits with basic disability and accident elements. A functional impairment cover is usually bought as a substitute for more comprehensive occupational disability covers, which might not be available or affordable to everybody because of pre-existing conditions or occupational hazards.

Other examples are disability products that transform smoothly into CI insurance. This format can either be a more favourable alternative for expensive age groups or it can ensure a reasonable continuation of cover at retirement age.

In a similar manner, death and disability cover has been introduced for people with diabetes at affordable premiums. It is based on the same concept as the HIV cover in that compliant Type 1 or Type 2 diabetic customers are rewarded with favourable premium adjustments.

One product that is currently attracting attention is a unique education benefit that covers the death, disability or critical illness of a parent. Education, especially higher education, is often dependent on parental financial support, and so the idea of buying insurance as backup for a child's future education is nothing new. However, this product is distinguished by earmarking benefits that guarantee every education expense and obligation from pre-school to university graduation.

What's next, South Africa?

There is much more to South African insurance innovation than CI products. The market continues to play a pioneering role by developing novel product lines, and many are likely to be taken up by other markets. Life insurers in every market are continually searching for new ideas, particularly products that are personalised to customers' specific needs and lifestyles. Although reward-for-fitness products are now established in markets outside of South Africa, the full potential for insurance that couples wellness with technology is not entirely exhausted by a long shot. Given the global impact of its innovations to date, and based on the potential that is available, it is exciting to contemplate what products the South African market might pioneer next.

Endnotes

- 1 <http://databank.worldbank.org/data>.
- 2 <https://www.cia.gov/library/publications/the-world-factbook/fields/2177.html>.
- 3 <http://databank.worldbank.org/data/reports.aspx?source=2&country=ZAF>.

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