

**Media Release**  
**Association for Savings and Investment South Africa (ASISA)**  
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### **Life industry reports a steady decline in surrender and lapse rates**

South African life insurers reported a 15% increase in new individual business for the first half of this year, compared to the same period last year. During the first six months of this year, new individual premium income of R32.8-billion was collected, while R28.5-billion was received in the first half of last year. Compared to the second half of last year, however, the long-term insurance industry experienced a slight drop of 2% in new individual business.

Peter Dempsey, deputy CEO of the Association for Savings and Investment South Africa (ASISA), says the slight decline in new business half year on half year is as a result of lower recurring premium sales. He explains that recurring premium business is cyclic in nature and tends to be stronger in the second half of every year. "For this reason the first half of every year will typically show a decline in recurring premium income when compared to the second half of the previous year."

Dempsey says single premium new business, however, remained at the same levels this year as for the second half of last year on the back of single premium retirement annuity (RA) sales.

He says single premium RA sales in the first half of this year increased by a whopping 44% to R4.2-billion, both over the first and second halves of last year. He says while single premium RA sales were flat last year, remaining at the R2.9-billion level for both the first half of last year as well as the second half, this figure almost doubled during the first half of 2010.

Dempsey says it is impossible to explain exactly why consumers suddenly decided to commit sizeable lump sum amounts to single premium RAs, but points out that typically many self employed investors place lump sums with RAs at the end of the tax year in February to benefit from the tax breaks on RAs.

Despite experiencing an overall flat first half of the year, the local life industry remains in good health with assets strongly exceeding liabilities, says Dempsey.

At the end of June this year excess industry assets were more than double the legal reserve buffer required. Total long-term insurance industry assets amounted to R1.14-trillion as at the end of June this year, with excess assets (taking into consideration all liabilities and minimum legal reserves) amounting to a healthy R70-billion.

"This is good news for policyholders as it means that life companies remain well positioned to honour benefit payments due to clients," comments Dempsey.

### **Decrease in lapses and surrenders**

Dempsey says good news for both consumers and the life insurance industry is the drop in surrenders and lapses.

A policy is surrendered when the policyholder stops paying premiums and withdraws the fund value before maturity. Dempsey says surrendering a policy almost always impacts negatively on a long-term savings plan.

The value of surrendered individual policies decreased from R18.7-billion in the second half of last year to R17.2-billion in the first half of this year - a reduction of 8%.

Dempsey says for many years a high policy lapse rate has been of great concern to the long-term insurance industry. A lapse occurs when the policyholder stops paying premiums before the fund value exceeds the unrecovered costs meaning that the paid-up (or surrender) value is zero.

However, the lapse rate has shown a steady decline over the past three half yearly reporting periods. There was a 2% reduction in lapsed policies in the first half of this year compared to the second half of last year, and a 6% reduction compared to the first six months of last year.

During the first half of this year, a total of 2.5-million policies were lapsed - 1.3 in their first year and 1.2 in their second year. In the second half of last year 2.6-million policies were lapsed and 2.7 million in the first half of last year. The average monthly premium of policies lapsed in the first six months of this year was R87.91.

Dempsey says the lapse rate must be seen in the context of new recurring premium business written over the same period. While new recurring premiums for the first half of this year (excluding credit life policies) amounted to R5.6-billion, only R1-billion of first year premiums was lapsed.

He says the decrease in surrenders and lapses can be attributed to the fact that many life companies intensified their focus on writing quality business and on business retention in the aftermath of the global financial crisis.

“We have also seen a reduction in call centres selling policies directly to consumers. At the same time call centres still in business have improved the quality of new business written.”

### **Benefit payments**

Dempsey says the life industry paid beneficiaries, policyholders and pension fund members benefits of more than R90.6-billion in the first half of this year as a result of death and disability claims, maturity pay-outs, surrenders and pension and annuity payments.

This was 9% less than in the second half of last year, when benefits worth R99.7-billion were paid, but 19% more than what was paid out in the first half of last year. The drop in individual benefit payments was partly driven by the lower surrender rate.

Individual policyholders received benefit payments of R49.8-billion from the life industry during the first half of this year. Group schemes and pension funds paid out benefit claims worth R40.8-billion.

### **Measuring Zimele**

At the end of June 2010, there were 2.1-million Zimele approved policies in force (1.9-million at the end of December 2009) and 1.3-million Zimele approved credit life policies.

Zimele approved funeral cover was introduced in 2007, and in 2008 some life companies also introduced credit life insurance, life cover, and physical impairment cover under the Zimele brand. The Zimele brand aims to help South Africa’s low income earners, those earning R3 000 a month or less, to easily identify those life insurance products that meet the minimum protection requirements of the Financial Sector Charter (FSC).

Dempsey says the majority of Zimele policies were sold in Gauteng, followed by KwaZulu Natal, and then the Eastern Cape. In all provinces more women own Zimele policies than men.

**Ends**

**Note to Editors:** The sales statistics for the long-term insurance industry are based on data received from life companies that were previously members of the Life Offices' Association (LOA) and are now members of ASISA. Not yet included in these statistics is data from investment houses with life licenses who were not previously members of the LOA.

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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. 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).