



Widening the Reach of Insurance in SA – A Futures Perspective

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Executive summary

- Insurance futures problem:
 - Increase access to financial services
 - Catalyse the market provision of risk management tools for poorer households
 - Provision and distribution of good value, low-cost micro-insurance products
- Framework for insurers to assist in the debate

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Agenda

1. Background
2. A futures perspective on the insurance industry
3. Micro-insurance environment
4. Complexity framework
5. Probable futures for the broader industry
6. Conclusion

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1. Background

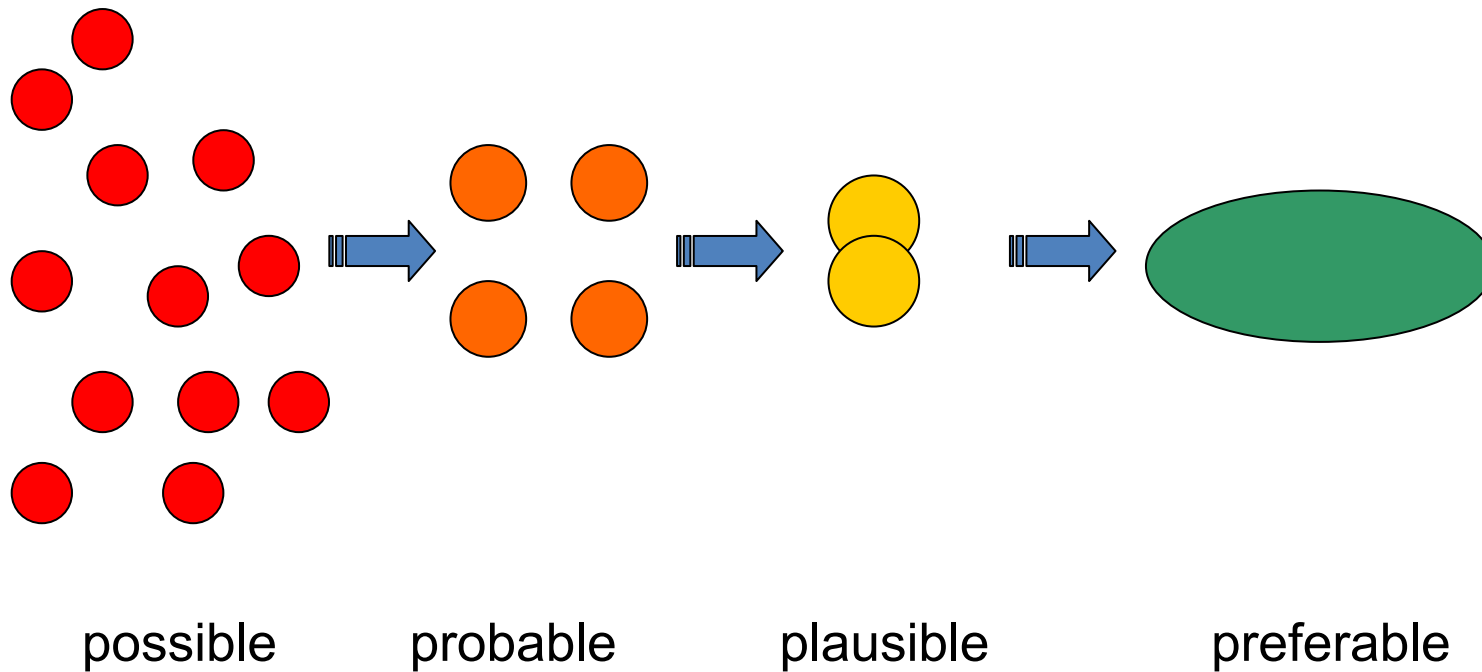
- Futures Studies
 - Design of social action (thought leadership)
 - Multiple perspectives
 - Transdisciplinary social science
 - Prospective thinking
 - Improving the quality of foresight

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1. Background...

- Classification of futures:

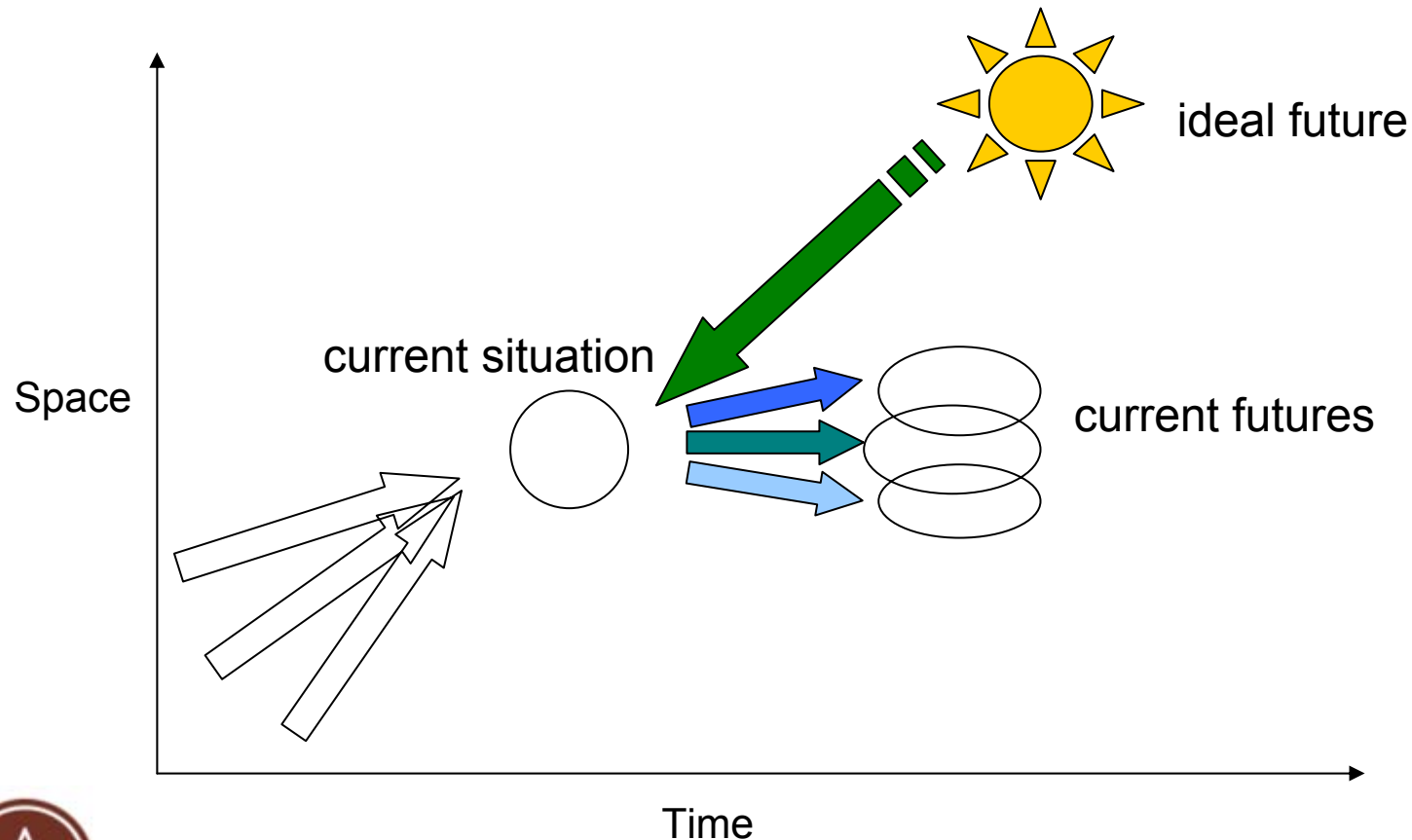


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1. Background...

- **Extrapolation** (...possible from current state of affairs?) vs.
- Idealised design & **backcasting** (...ideal state of affairs?)



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2. Futures perspective on the ins. industry

“The approach to insurance must be in tune with the changing times.”

- Complex operating environment & globalisation
- Multiple of perspectives
 - world class industry vs. large uninsured population (poor)
- Ideal image of the industry
- Need for proper long-term planning

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3. Micro-insurance environment

- Insurance futures problem:

How do we widen the reach of insurance?

- Micro-insurance paper

Risk management tools for poor households

- Commercial viability
- Scope: risk business; LT insurers



3. Micro-insurance environment

- Products targeted at low-income households
- Idealised future:
 - Life gap: R2.6 trillion – R4.3 trillion
 - Disability gap: R3.1 trillion – R6.0 trillion
 - Close the gap: R19.7bn - R34.4bn
2.2% - 3.9% of annual HE
 - Gap appears at all income categories, but mostly poor

3. Micro-insurance environment...

- Insurance penetration for LSM 1-5...

	Insurance penetration
Formal Funeral Cover	33%
Other Life Cover	2%
General Insurance	0.5%

Source: [Republic of South Africa: 2008c]

- Household expenditure towards insurance

1% - lower income

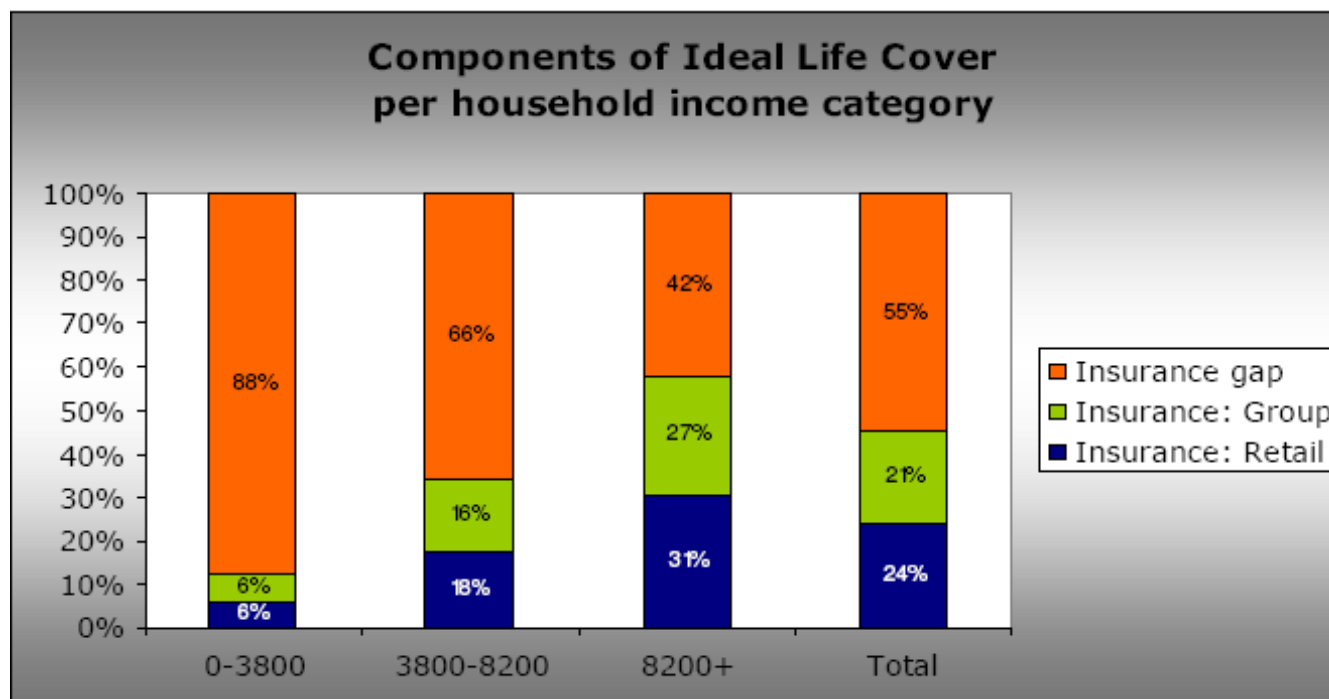
7% - higher income

Source: [Martins: 2004]



3. Micro-insurance environment...

- Comparison of size of gap...



Source: [Hugo: 2007]

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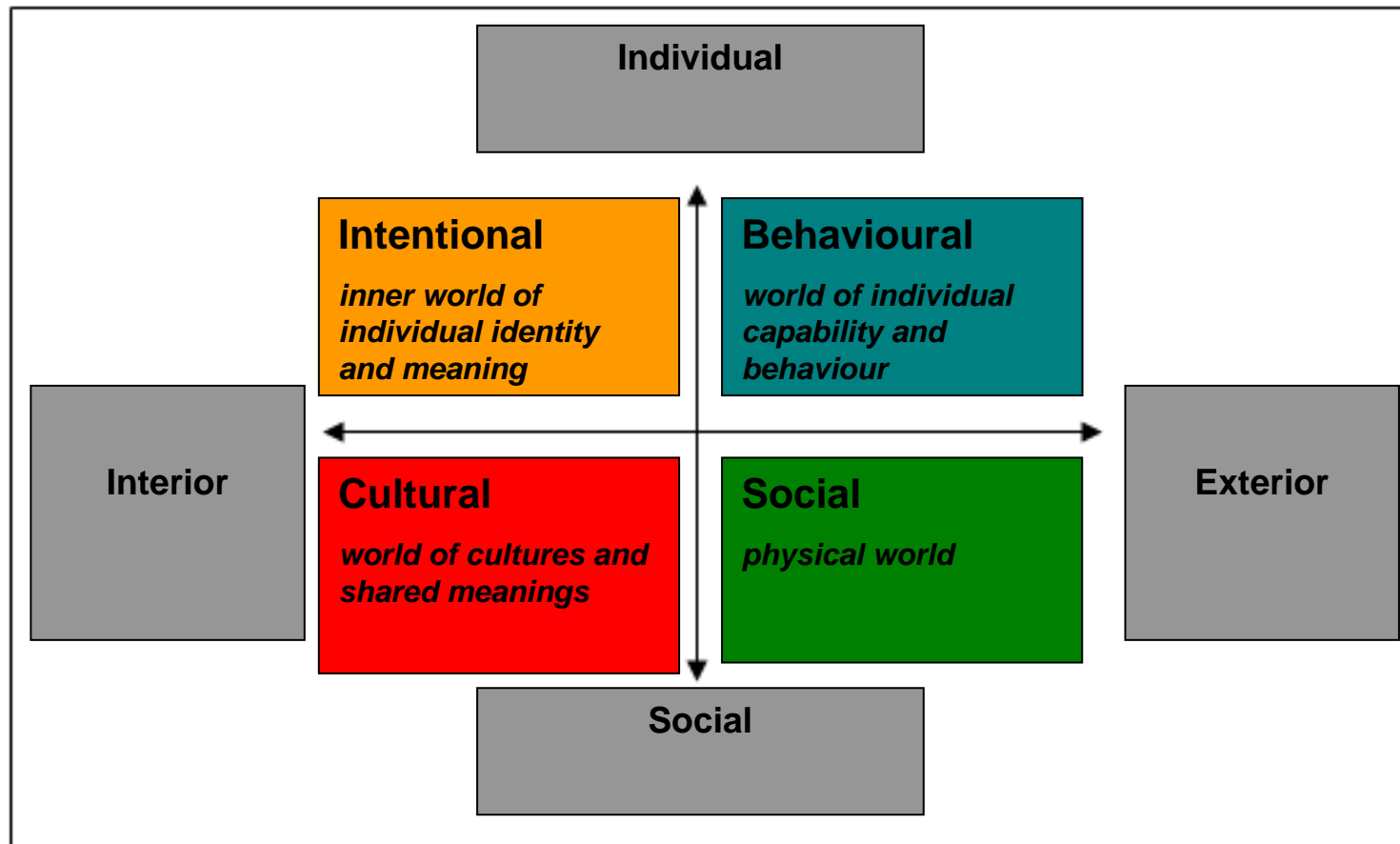
3. Micro-insurance environment...

- Profile of clients:
 - Poor levels of education
 - Vulnerability (complexity of insurance)



3. Micro-insurance environment...

Profile of clients – Wilber’s Four Quadrants



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3. Micro-insurance environment...

- Profile of clients:
 - Spending patterns of asset poor blacks
 - Asset deficit experienced by blacks
 - Intra-group inequality
 - Middle class goods
 - Consumption vs. saving
 - Community

Source: [Nieftagodien: 2007]

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3. Micro-insurance environment...

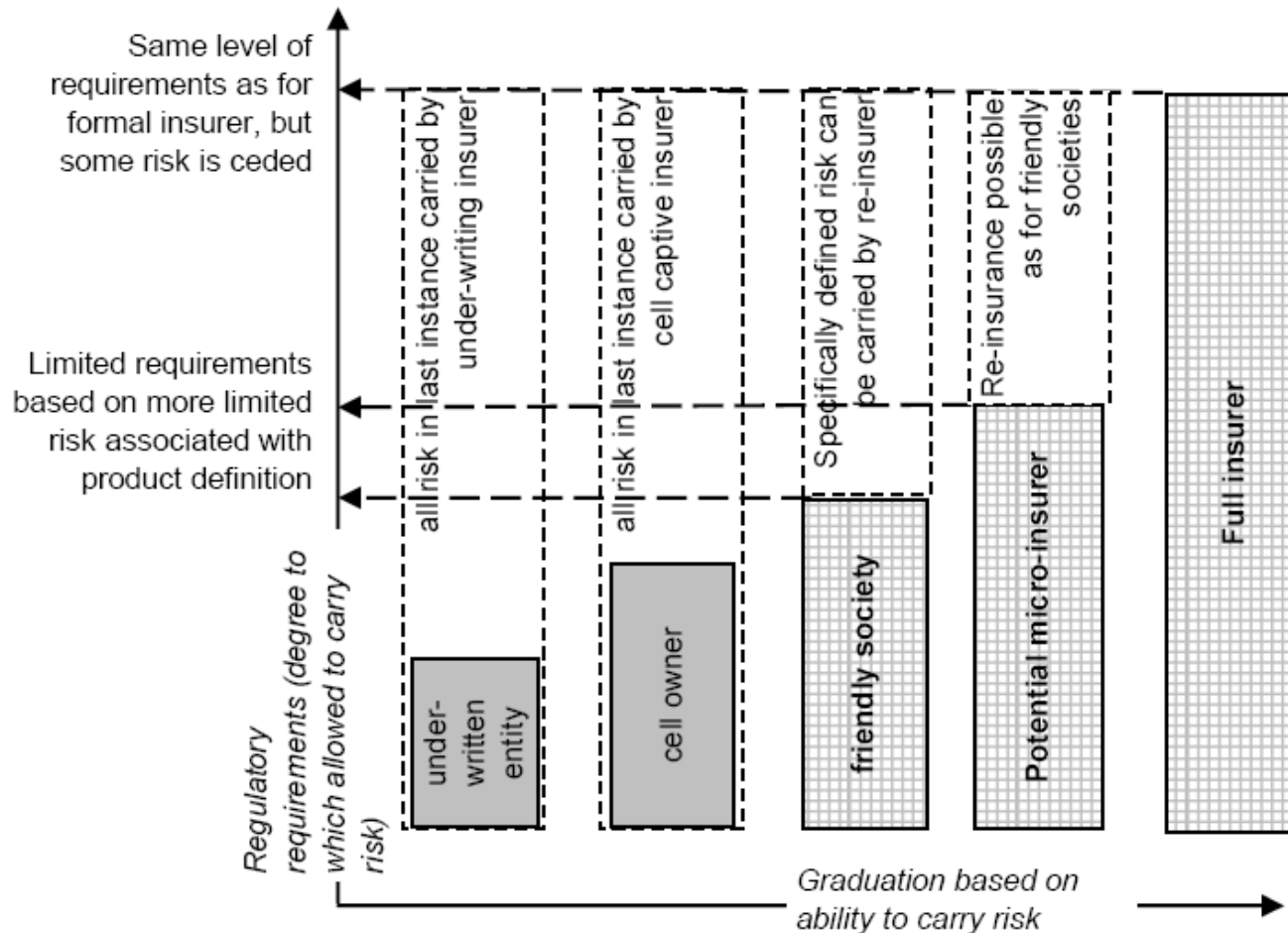
- National Treasury framework:
 - Dedicated micro-insurance license
 - Simplified distribution regime
 - Uncapped commission levels; hybrid basis
 - Life and property classes of insurance
 - Contract terms < one year
 - Benefits capped
 - Reduced capital & regulatory requirements

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3. Micro-insurance environment...

- Graduation



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3. Micro-insurance environment...

- Distribution/ business technologies & innovation
 - Insurance value chain
 - Success = commercialism, not technical supremacy
 - Enabling role eg. industry formalized stokvels
 - Mutually beneficial relationships - cell captive arrangements
 - Volatile customer clusters, profiling
 - Multi-distribution strategies
 - Mobile technology/ Internet (“leapfrogging”)

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3. Micro-insurance environment...

- Categorisation of insurance customers:

Support-seeking individualists
Product optimizers
Uninterested minimalists
Price-sensitive analyzers
Relationship-orientated traditionalists

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3. Micro-insurance environment...

- Commercial viability:
 - Regulatory costs
 - Advice- or non-advised based intermediation
 - Innovation
 - Economies-of-scale

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4. Complexity theory

- Complex operating environment
- Targeting complexity vs hedging complexity in micro-insurance strategic planning
 - Organisational complexity
 - People complexity
 - Product simplicity
- Capacity building (thinking futures)
- How to model this complexity?



4. Complexity theory...

- Systems thinking
- Complex vs complicated
- Micro-insurance as complex social system:
 - Openness
 - Purposefulness
 - Multi-dimensionality
 - Emergent property
 - Counter intuitiveness

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4. Complexity theory...

Cilliers' ten characteristics:

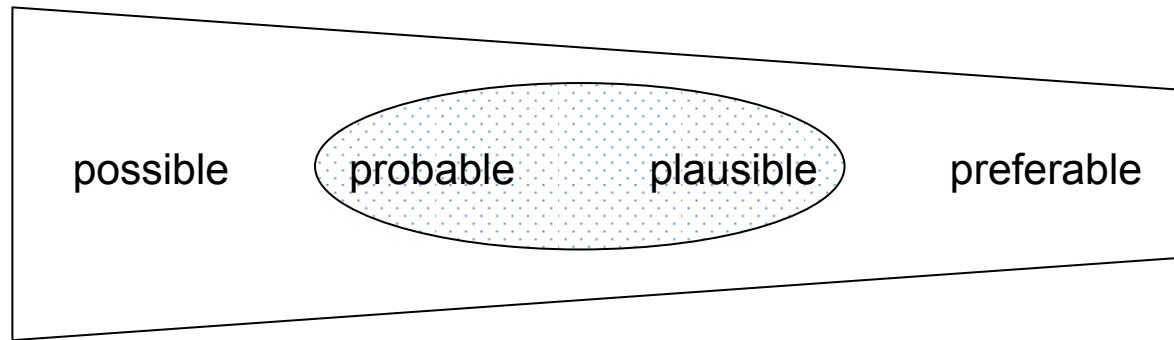
- Large number of elements
- Elements interact dynamically
- Interaction fairly rich
- Interactions are non-linear
- Interactions have short range,
but wide influence
- Recurrency
- Interaction with environment
- Constant energy; disequilibrium
- Time dimension
- Local responsiveness

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5. Probable futures

- Scenario planning



- Images of the future
- Broader insurance context
- Global context

5. Probable futures...

- Global context...
 - Shift in power from West to East
 - Industrial revolutions in China and India
 - Survival in the West – technological advancement
 - Opportunities in Africa
 - Emergence of new diseases
 - Declining fertility
 - Self-service consumer experience

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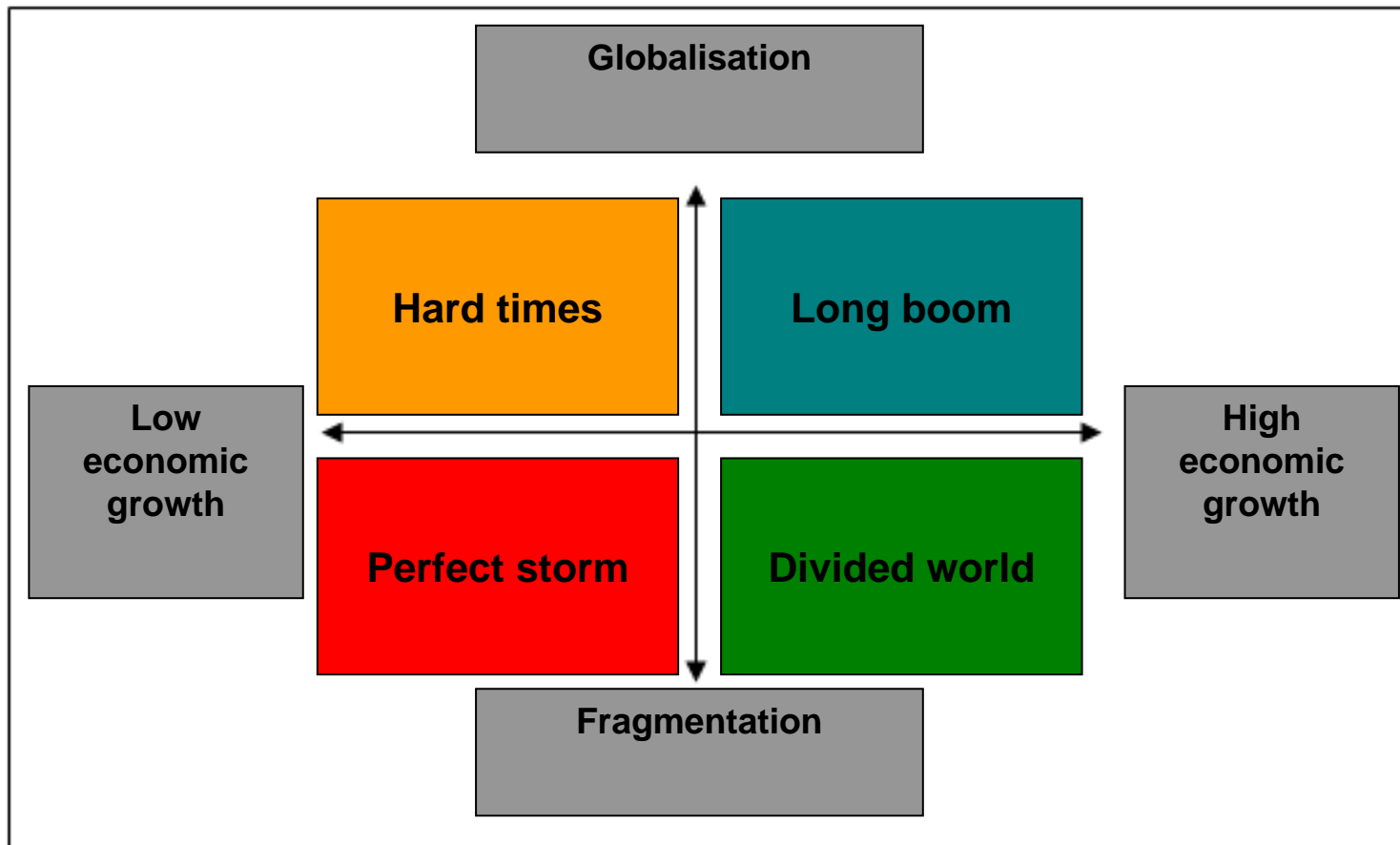
5. Probable futures...

- Sunter scenarios
 - 2 key uncertainties:
 - Competitiveness relative to the rest of the world
 - Cohesiveness as a nation
- Scenario gameboard



5. Probable futures...

Scenario gameboard



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5. Probable futures...

Long boom

- High levels of economic growth (China, India, Africa)
- Increased competition and search for new markets (eg MI)
- Higher savings rate
- ↓ income inequality
- Distribution technologies
- Financial education and transition
- Self regulation
- Longevity

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5. Probable futures...

Divided world (“us” vs. “them”)

- High growth, but fragmentation (protectionism)
- Income inequality putting pressure on fiscal basis
- Push for social security reform > market efficiencies
- MI licence directed to BEE, niche MI entry
- Stronger regulatory intervention eg. pricing standards
- Mobile communications strategies
- Consequences of poor getting poorer
- Negative perception towards LT insurers

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5. Probable futures...

Perfect storm

- US recession...
- Squeeze in margins = low appetite for MI
- Political instability & push to left
- Stronger regulatory control
- Poor unable to survive
- Pressure could lead to innovative designs

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5. Probable futures...

Hard times

- Low economic growth, but relatively more cohesion
- Relegation among competitive emerging economy peers
- Could be pro-longed period
- Pressure on disposable income
- Transition to middle class
- Public private partnerships
- Fewer MI insurers
- Living standards

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5. Probable futures...

- Complexity:
 - Various role-players in MI
 - Understanding of inter-relationships
 - Benefit of scenarios lie in the process itself



5. Probable futures...

- Cilliers' ten characteristics:
 - Large number of elements
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5. Probable futures...

- Complexity/ scenario framework

	Past	Present	Future
1. Large number of elements, difficult to quantify.	<p>Few large insurers dominating local insurance industry</p> <p>Large population segment with no insurance cover at all and no guaranteed income streams</p>	<p>Large number of registered insurers in long-term space; many illegal providers in micro-insurance space</p> <p>Limited customer bases in low-income market; healthy informal economy income streams</p>	<p>New competitors entering micro-insurance market eg cell captives, SMME's; how will illegal providers be dealt with?</p> <p>LSM 1-5 penetration must be increased against backdrop of increasing income inequality</p>
2. Large number of elements necessary and interaction dynamic.	<p>Competition from within insurance space drives innovation</p> <p>Focus on price</p>	<p>Serious competition for disposable income from outside traditional insurance space - alternative investment providers</p> <p>Focus on price and value-for-money</p>	<p>Financial Sector Charter initiatives to establish more competitors in traditional- and micro space; insurance innovation boom</p> <p>Focus on price, value-for-money and social cohesion</p>
3. Rich interaction among elements.	<p>Government social security net has limited spread</p> <p>Poor standards of living for low income households</p>	<p>Government social security spend has good spread</p> <p>Improved access to water, sanitation, housing, jobs etc increases standards of living</p>	<p>Private industry and government working together to spread social security to the poor</p> <p>Increased longevity and standards of living for the rich; poorer longevity and health for the poor if economic downturn sticks</p>
4. Interactions are non-linear	<p>Insurance products are popular at almost all income levels</p>	<p>Insurance needs do not necessarily grow in line with increasing levels of wealth</p>	<p>Emerging black middle class may choose consumption spending on retail middle class goods above savings culture and insurance spend</p>
5. Interactions have short range, but wide influence.	<p>Beneficial tax regime makes insurance products popular for high- and middle income market</p>	<p>Tight regulatory controls and demarcation of insurance- and other banking products makes insurance business less attractive and more costly</p>	<p>A separate tax regime for micro-insurance providers that incorporates a review of the tax basis for friendly societies and other financial services co-operatives.</p>

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6. Conclusion

- Role of FS in long-term strategic planning
- Qualitative methods professional development
- Insurance futures challenge:
 - commercially viable micro-insurance products
- Multiple perspectives
- Complexity dynamic/ complexity framework
- Scenario planning

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