ACTUARIAL SOCIETY OF SOUTH AFRICA

# Swimming in the deep end of the risk pool: Why are healthy individuals purchasing non-underwritten/limited-underwritten life insurance products

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# Agenda

1. Introduction
2. Laying out the problem
3. Hypotheses 1 to 10
4. Conclusion

# Introduction

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| | Complex products | Simple products |
|---|---|---|
| **Application form** | | |
| **Length** | In the region of about 20-40 pages | In the region of about 5-10 pages |
| **Medical questions** | - A wide range of medical questions exploring all aspects of personal and family medical history.<br>- Many open-ended questions | - A short list of the most severe medical conditions.<br>- Typically yes/no answers.<br>- A list of pre-existing conditions is required |
| **Medical underwriting** | Depending on the responses to medical questions and the sum assured, but all applications typically require at least a blood test for HIV and possibly nicotine. | No medical testing required |
| **Product features** | Short or no waiting periods | Usually cover is phased in.<br>The full sum assured is typically only available after 2-5 years |
| **Time to issue** | - Depends on how quickly forms can be completed, medical tests done and policy issued.<br>- An average turnover rate of about 2 weeks seem reasonable | - Shorter forms and no medical tests speed up the issuing process.<br>- An average turnover rate of about 48 hours seem reasonable |
| **Advice process** | Typically sold through high-advice channels: independent financial advisors and tied agents.<br>Full financial needs analysis conducted | Sold through a mixture of independent and tied financial advisors as well as direct channels<br>Full financial needs analysis conducted through intermediaries. |
| **Commission** | Regulated by Long Term Insurance Act | Regulated by Long Term Insurance Act<br>Life cover typically starts from around R50,000 sum assured, therefore this is not assistance business and identical commission rate to complex products |

# Introduction

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Monthly Premium - Fully Underwritten Product

Average

| Age next | Sum Assured 50,000 | 100,000 | 150,000 | 200,000 | 250,000 |
|---|---|---|---|---|---|
| 26 | R 24.77 | R 36.77 | R 45.95 | R 54.86 | R 64.36 |
| 31 | R 25.48 | R 39.48 | R 48.66 | R 59.27 | R 69.88 |
| 36 | R 27.79 | R 46.79 | R 57.71 | R 71.55 | R 85.40 |
| 41 | R 32.29 | R 58.29 | R 72.99 | R 91.82 | R 110.65 |
| 46 | R 40.06 | R 80.07 | R 100.23 | R 128.25 | R 146.62 |
| 51 | R 50.67 | R 108.17 | R 138.45 | R 172.79 | R 207.45 |
| 56 | R 66.35 | R 145.85 | R 183.75 | R 234.54 | R 287.10 |
| 61 | R 94.24 | R 211.32 | R 264.92 | R 341.11 | R 397.78 |

Monthly Premium - Emerging Market Simple Life Product

Average

| Age next | Sum Assured 50,000 | 100,000 | 150,000 | 200,000 | 250,000 |
|---|---|---|---|---|---|
| 26 | R 120.56 | R 198.89 | R 256.67 | R 331.67 | R 396.67 |
| 31 | R 128.89 | R 205.56 | R 288.33 | R 376.67 | R 455.00 |
| 36 | R 135.00 | R 230.00 | R 305.00 | R 398.33 | R 490.00 |
| 41 | R 141.67 | R 241.67 | R 320.00 | R 428.33 | R 515.00 |
| 46 | R 155.00 | R 265.56 | R 361.67 | R 481.67 | R 591.67 |
| 51 | R 166.67 | R 282.22 | R 390.00 | R 516.67 | R 633.33 |
| 56 | R 206.67 | R 366.67 | R 506.67 | R 656.67 | R 811.67 |
| 61 | R 180.00 | R 337.50 | R 502.50 | R 670.00 | R 837.50 |

Percentage More Expensive

| Age next | Sum Assured 50,000 | 100,000 | 150,000 | 200,000 | 250,000 |
|---|---|---|---|---|---|
| 26 | 387% | 441% | 459% | 505% | 516% |
| 31 | 406% | 421% | 493% | 536% | 551% |
| 36 | 386% | 392% | 429% | 457% | 474% |
| 41 | 339% | 315% | 338% | 367% | 365% |
| 46 | 287% | 232% | 261% | 276% | 304% |
| 51 | 229% | 161% | 182% | 199% | 205% |
| 56 | 211% | 151% | 176% | 180% | 183% |
| 61 | 91% | 60% | 90% | 96% | 111% |

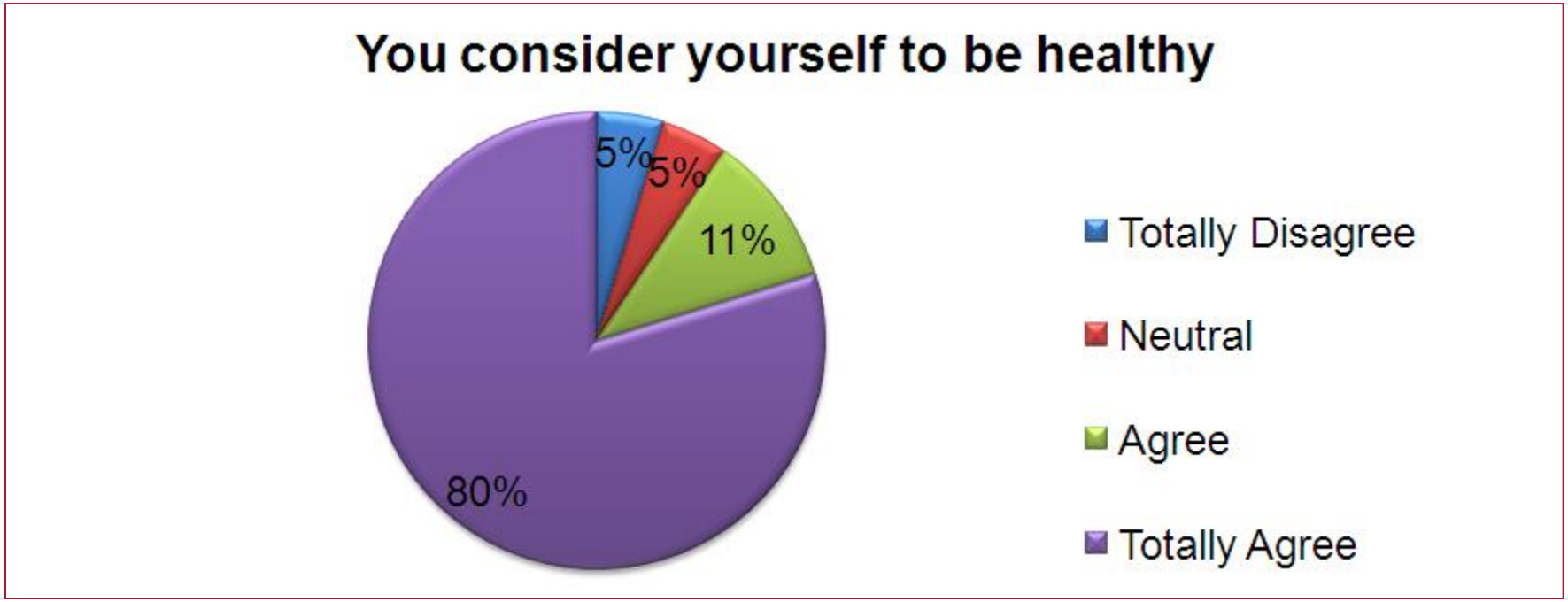
Assumptions: Male, non-smoker, factory worker (100% manual work), no ancillary benefits, no cover for dependants, 0% commission discount

# Laying out the problem

*Why are South African emerging-market consumers purchasing simple life insurance products when the value proposition seems clearly more attractive for the complex-product counterpart?*

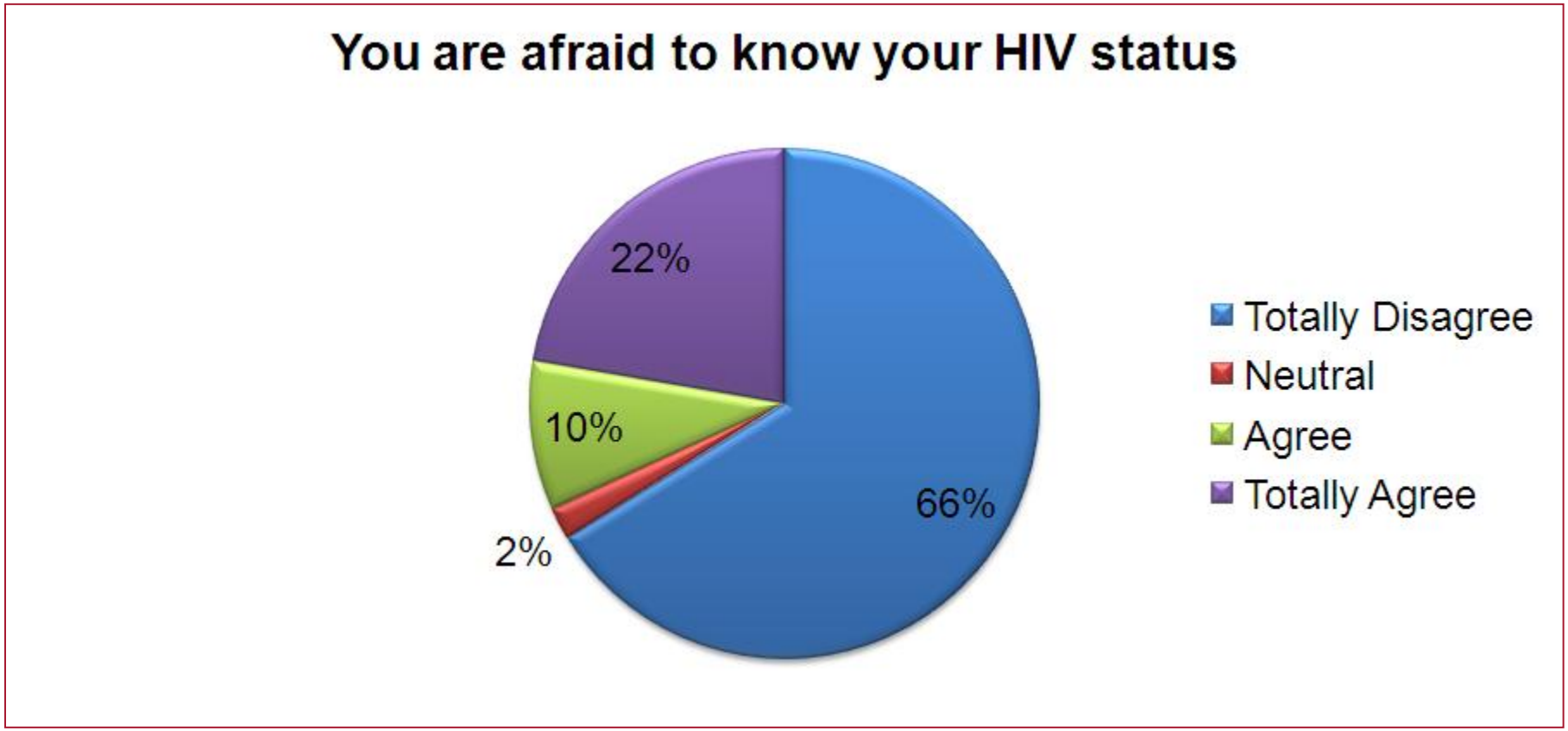
# Hypothesis 1

Customers in this segment are unhealthy and would therefore not pass the underwriting requirements of a complex life product without significant loadings or exclusions being applied.



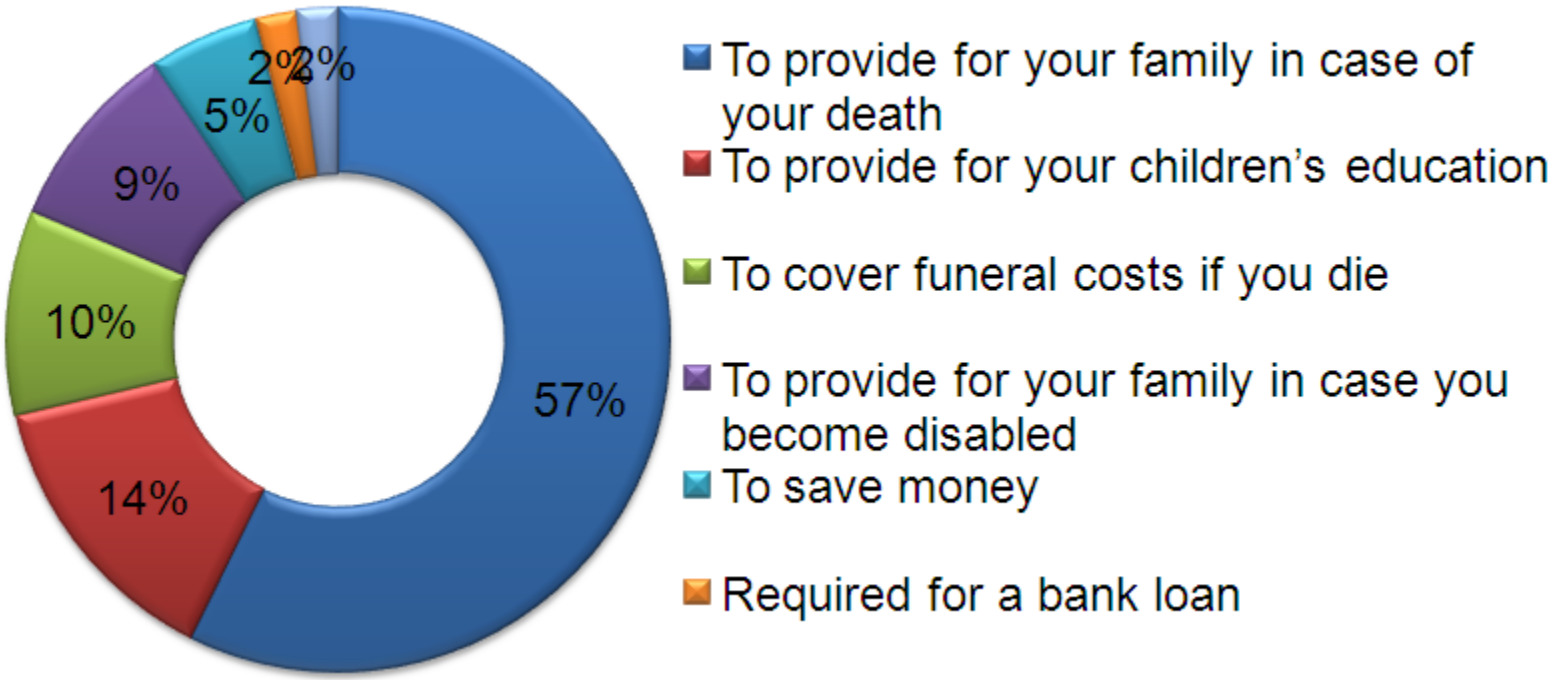
# Hypothesis 2

Customers don't want to undergo medical examinations for the fear of knowing their HIV status.



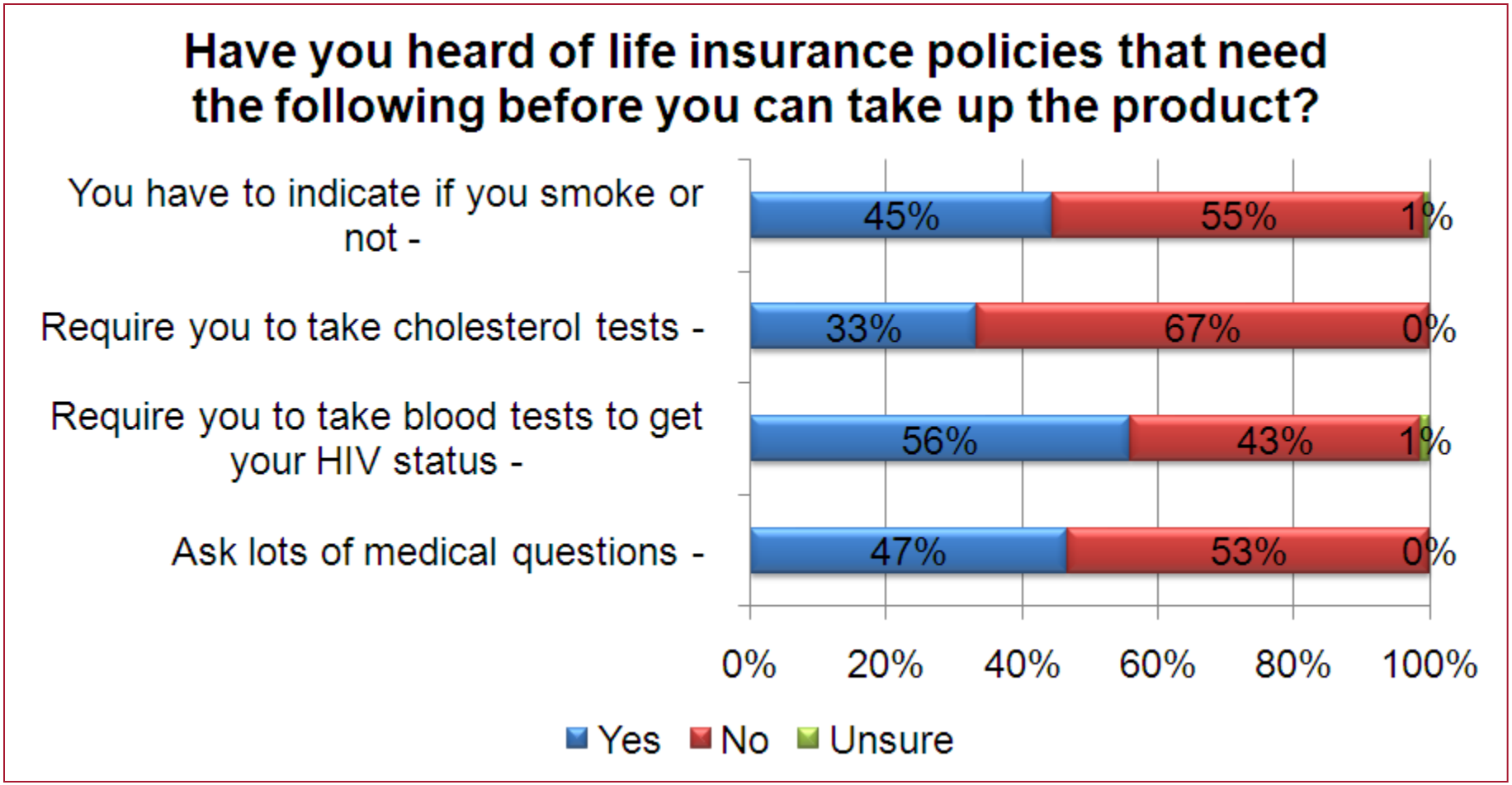
# Hypothesis 3

Customers are buying emerging-market life cover as a replacement for funeral insurance and therefore expecting a similar sales process.



# Hypothesis 4

Customers are unaware that fully underwritten products exist.



# Hypothesis 5

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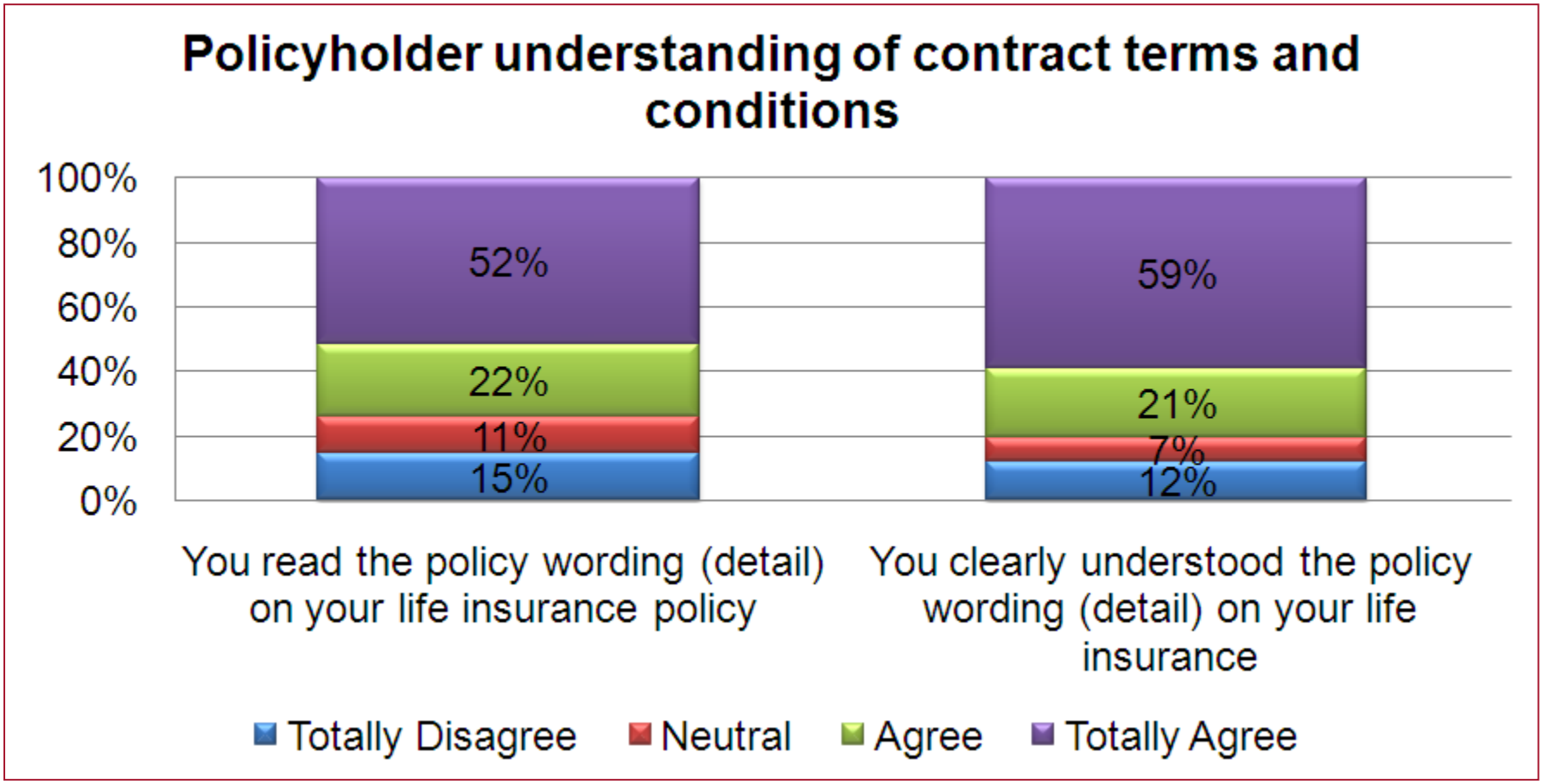
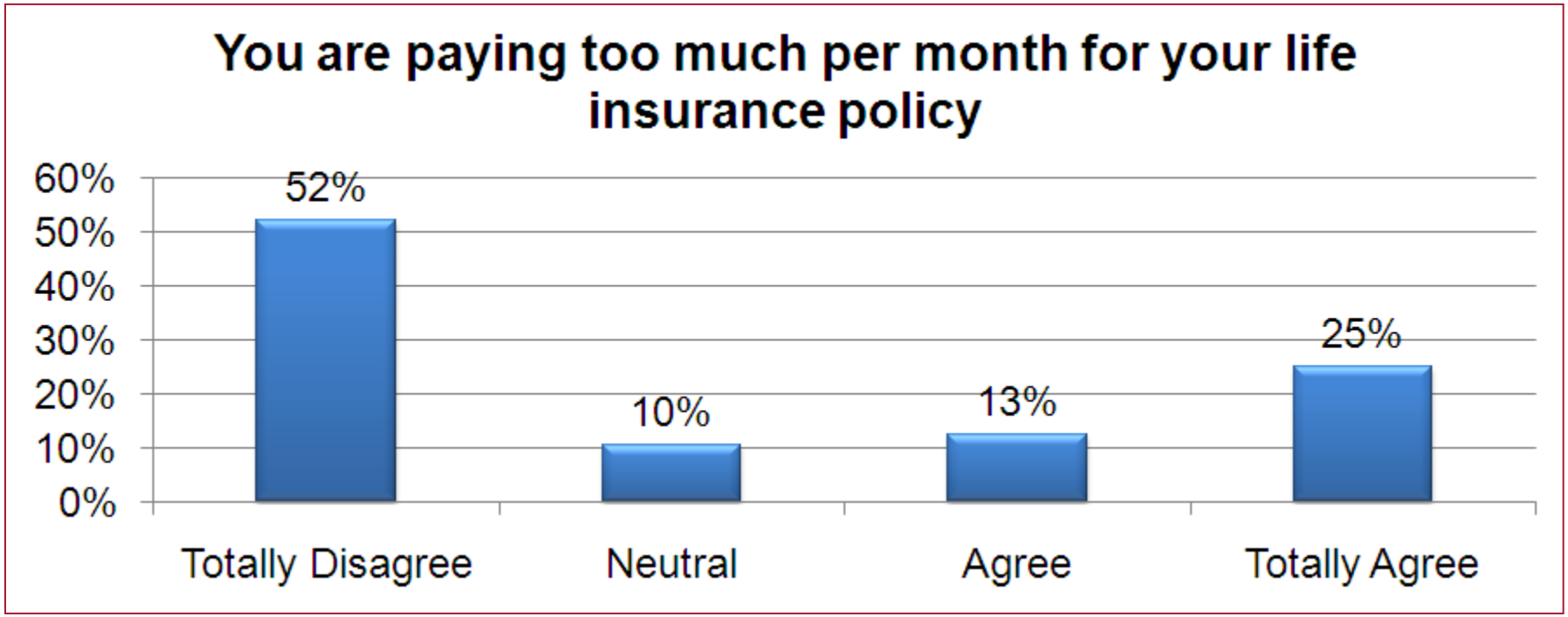
Policyholders don't understand what they are buying.



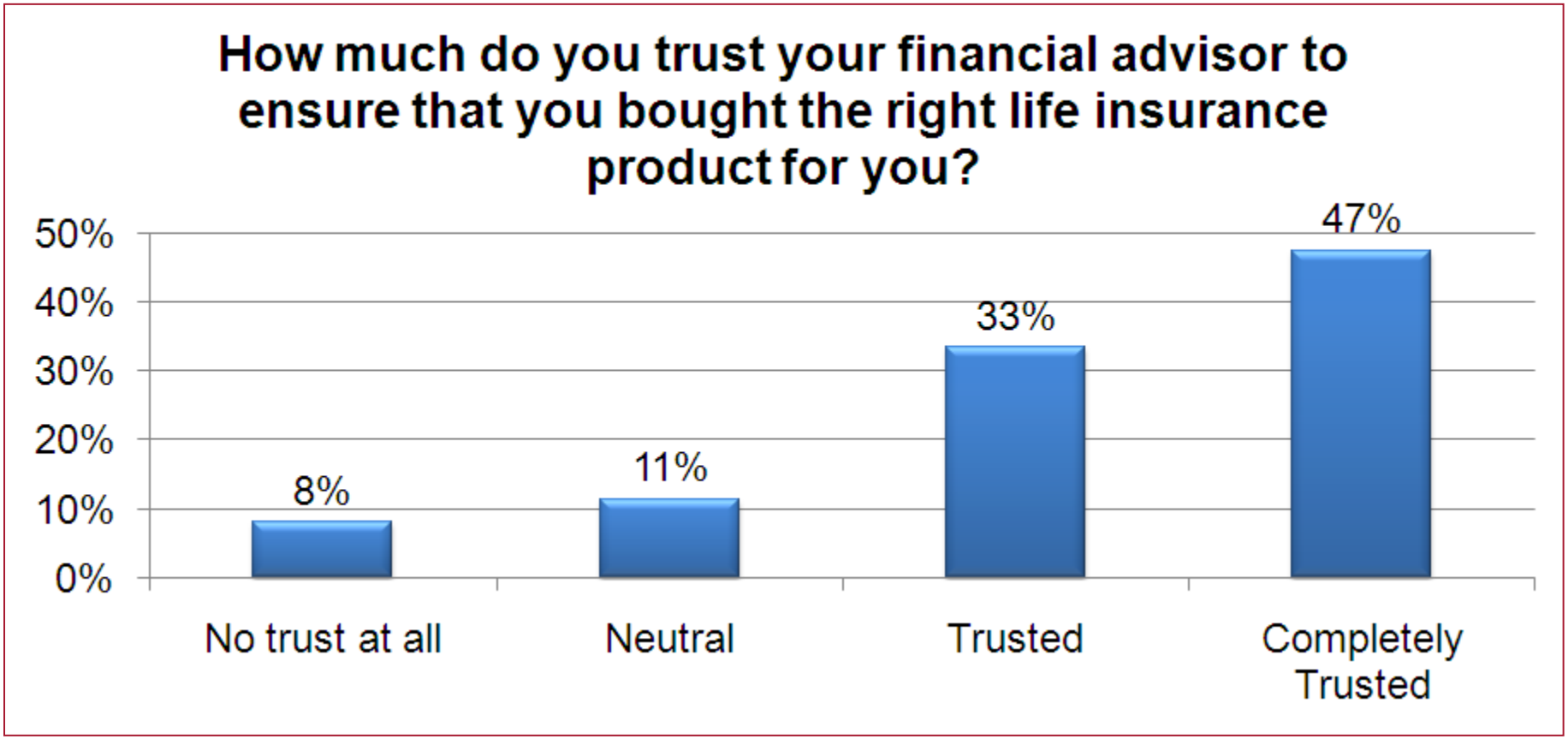
# Hypothesis 6

Customers in this market find it difficult to assess the value of insurance contracts and therefore cannot compare across different company value propositions.



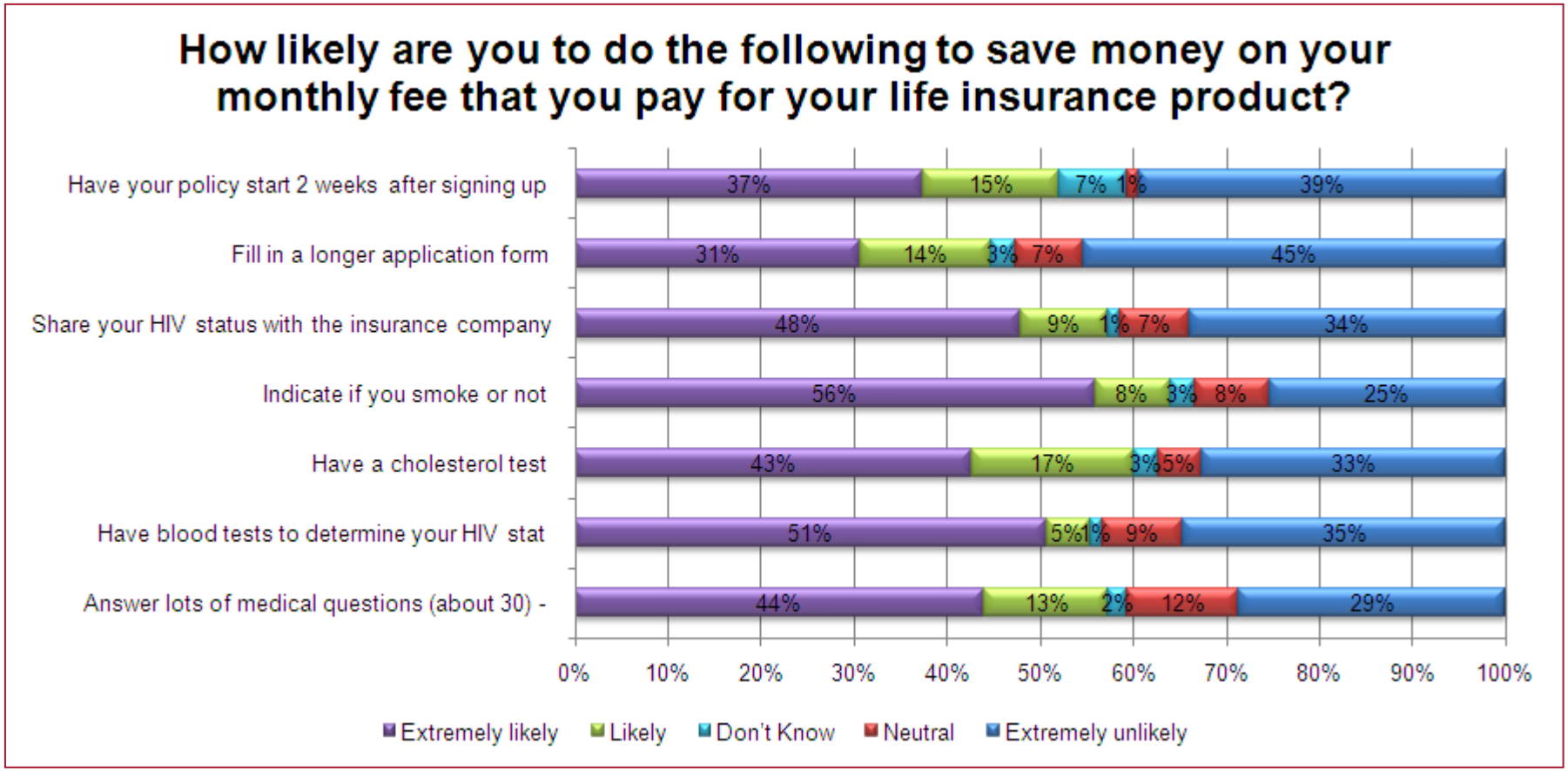
# Hypothesis 7

Financial advisors or other sales channels have pushed this product range onto customers.



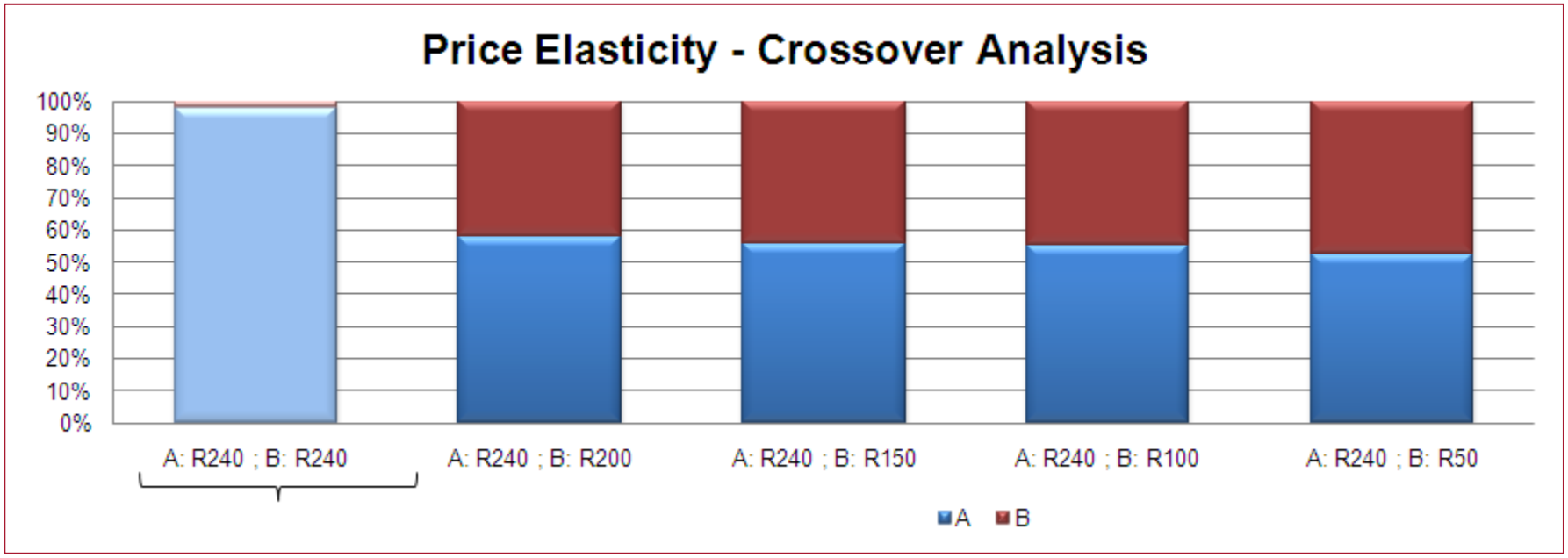
# Hypothesis 8

Customers prefer convenience and are not prepared to go through the underwriting process to qualify for a cheaper premium



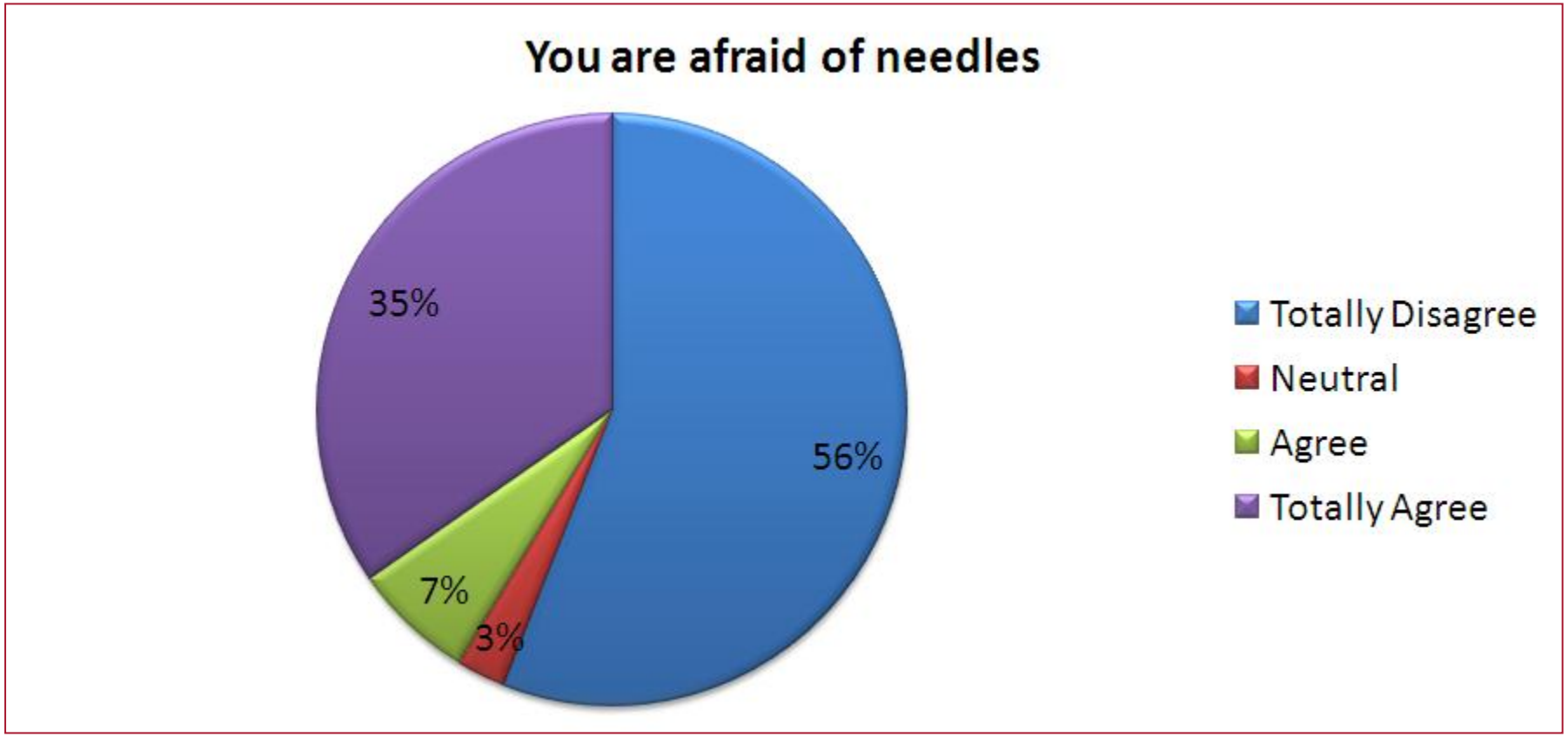
# Hypothesis 8

| | Product A | Product B |
|---|---|---|
| Sum Assured | R100, 000 | R100, 000 |
| Description | ➢ Four medical questions<br>➢ Three page application form<br>➢ On average 48 hours until policy begins. | ➢ Thirty medical questions<br>➢ Requires blood tests<br>➢ Insurer knows your HIV status, any current or past illnesses, if you smoke, and your family medical history<br>➢ A 15 page application form<br>➢ On average 2 weeks until policy begins |



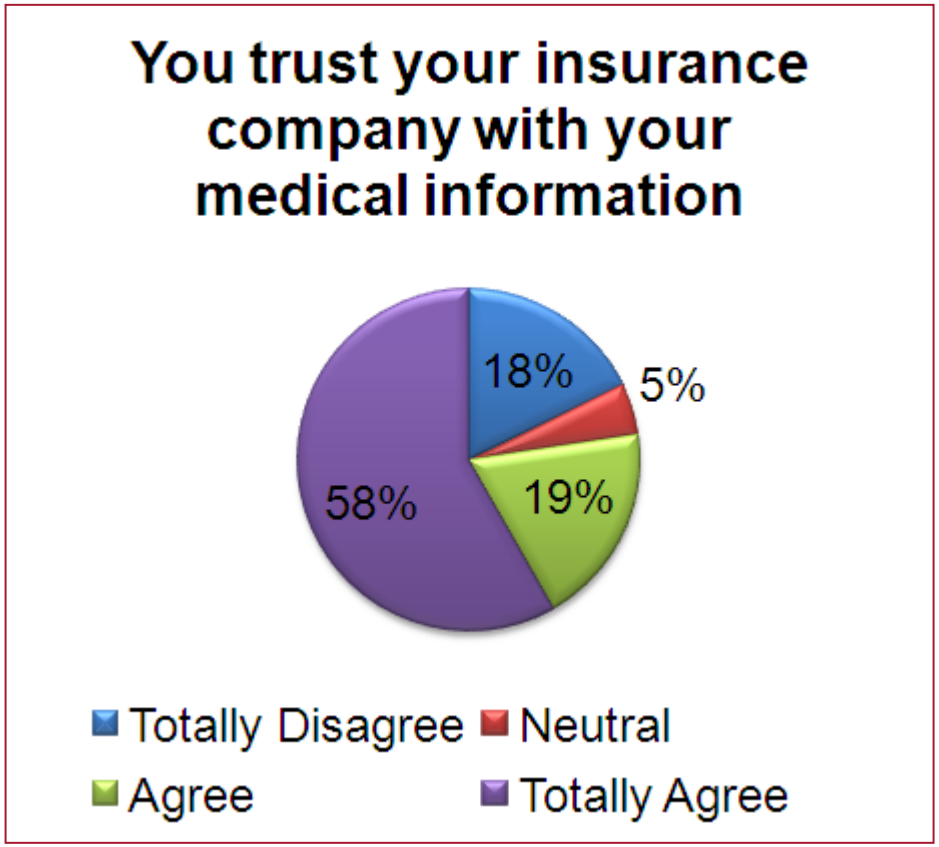
# Hypothesis 9

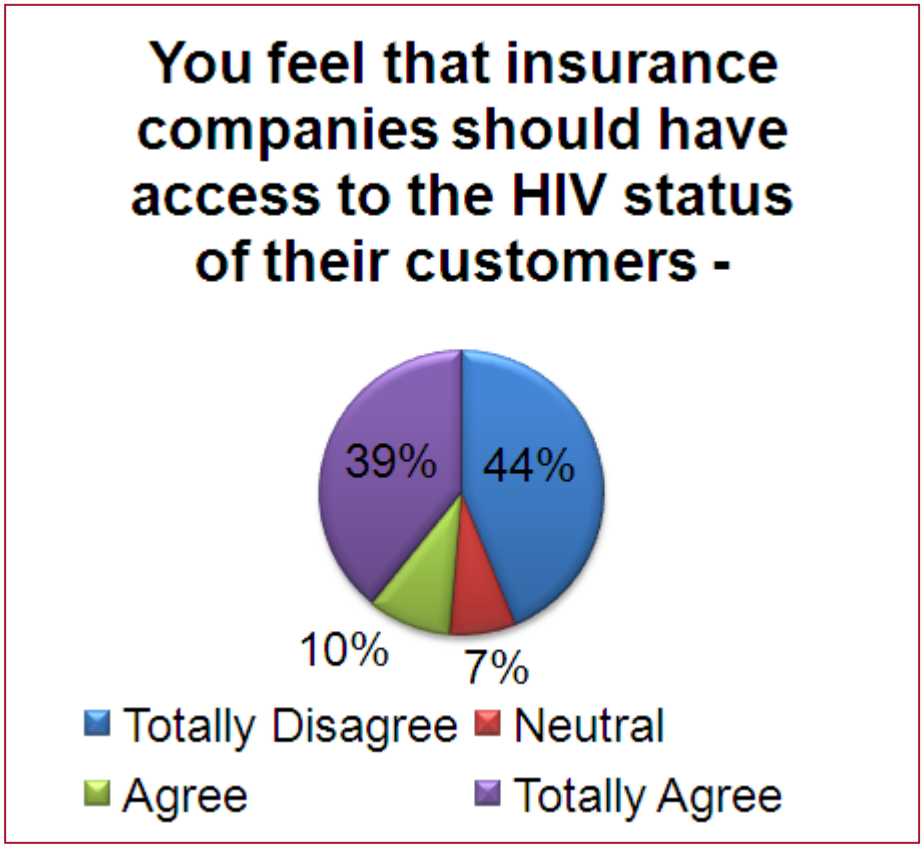
Customers fear needles and therefore avoid the process of full medical underwriting



# Hypothesis 10

Customers do not trust insurers with their HIV status and other mdeical information



# Conclusion

- Customers have a basic but clear understanding..
- But they find it difficult to quantify the value of these benefits...
- Therefore they don’t believe they are over-paying & trust advice...
- This is further reinforced since customers do not compare offerings...
- This results in very low levels of price elasticity...
- Advisors may not be presenting a full spectrum of product solutions...
- There seems to be a ready market for fully underwritten products...
- Don’t overlook unique behaviours and attitudes.

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