

Fact Sheet

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Offering Micro-insurance products for the BOP A Sanlam Initiative

The insurance industry in South Africa, as in many other countries around the world, has gone through momentous changes over the last decade or two. One of the main forces the industry has had to deal with was increasing deregulation of financial services, allowing banks and insurance companies to offer similar services and compete for customers in each other's backyards. Another change that has gained momentum is the increasing offering of insurance products to cater for the needs of lower income segments at the base of the pyramid (BOP). This trend is not unique to South Africa as many other emerging countries have seen a strong development of so-called micro-insurance. Micro-insurance refers to insurance policies covering risks with relatively small payouts for very low premiums, providing affordable insurance products for lower income segments.

Selling insurance products to lower income segments is certainly not a new phenomenon in South Africa, as several of the main players in the insurance industry have been offering customised products, mainly funeral cover, for many decades now. In addition, burial societies and semi-formal risk pooling mechanisms have been operating for years as well. However the challenge today is to extend insurance coverage beyond that and provide the lower income segments with products such as affordable life insurance, health cover, asset insurance covering cellphones for example, or even home loans and home content insurance. This factsheet will look at the example of Sanlam, one of South Africa's

leading insurance giants, and how it has approached the BOP market and the challenges it faces over the next few years in expanding into this market.

Situational information

a. Corporate ID¹

Sanlam was founded in 1918 by a group of Afrikaner lawyers and a Scottish banker. Over the next few decades, it grew into one of South Africa's major insurance companies, and played a prominent role in the economic revival of the Afrikaner community. The company's vision and

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corporate culture are firmly rooted in the economic empowerment and upliftment of the poor, a theme that is of course

“IF WE stop thinking of the poor as victims or as a burden and start recognising them as resilient and creative entrepreneurs and value-conscious consumers, a whole new world of opportunity will open up”
C.K. Prahalad, Prof. Of Strategy, Author of “The Fortune at the Bottom of the Pyramid”

1 Source : <http://www.sanlam.co.za/eng/aboutus/companyinformation/history/sanlams+history.htm>

2 RADEBE Polo, « Afrikaner Empowerment is a powerful model for today », Business Report/Cape Times, 5 August 2008

3 Clarissa BURMEISTER, Sanlam Sky, Presentation at BOP learning lab lunch on June 2nd, 2008

4 www.sanlam.com, & Clarissa BURMEISTER, Sanlam Sky, Presentation at BOP learning lab lunch on June 2nd, 2008



more relevant than ever in South Africa today, and has put Sanlam at the vanguard of black economic empowerment initiatives from 1993 onwards. Sanlam's role in the so-called "Afrikaner empowerment model" is certainly seen as relevant in the current BEE context².

Sanlam's long-running experience in catering for low income markets has also given it an edge beyond South Africa's borders, and today the company is active in several key emerging markets in Africa and Asia, such as Tanzania, Ghana, Kenya, Botswana and India³.

b. Case background

Why is insurance important for the lower income segments, and how can insurance be beneficial to the lower income segments? The main answer of course is that insurance covers the risk of asset loss, but more importantly for the BOP, insurance can be a crucial instrument in the actual process of asset formation, the first step toward the very economic security that is so absent for the BOP segment. Insurance that covers the risk of asset or income loss can be crucial in this context, because people belonging to the BOP segment have few assets to begin with: If an event causing asset or income loss materialises, an interruption in the process of asset

formation can constitute a fatal setback in any efforts to alleviate poverty. In this regard, it could even be argued that insurance is, as a financial product, possibly more important for the BOP segment than holding a bank account. It may also be for this reason that informal risk-mitigating mechanisms have existed for decades in South Africa's lower income segments, in the form of stokvels, and burial societies for example.

This simple reality constitutes the background against which the issue of insurance has to be considered in an emerging country with huge developmental challenges such as South Africa. While government in South Africa is currently developing a comprehensive social security system, the stark reality is that public funds alone will not be sufficient to provide an adequate safety net for lower income segments. In this context, the private sector will be an absolutely crucial stakeholder, and South Africa is fortunate to have several large insurance groups with decades of experience and the financial clout to make a major potential contribution to alleviating poverty.

There is also government support for the development of a regulatory framework specifically aimed at facilitating the development of micro-insurance as a point

Key Figures for 2007 : ⁴

- New business volumes (Sanlam Group) : 102 bn Rand (ca. 8,7 bn EUR)
- Total Assets under management for Sanlam group: 353 bn Rand (ca. 30 bn EUR) in 2005
- Staff : 9500 in-house staff and 1500 advisers
- Number of funeral claims paid in 2007 : 30,000 (Sanlam Sky)
- Value of funeral claims paid in 2007 : 210 million Rand (Sanlam Sky)

of access to financial services for lower income segments. The national treasury is currently working on proposals that aim to simplify distribution regimes of micro-insurance policies in order to stimulate market development, and other incentives such as removing unnecessary entry barriers.⁵ Another point of focus is the issue of protecting vulnerable sections of the population with limited financial literacy.⁶ The proposals include passing specific legislation aimed at regulating the micro-insurance industry separately from the current legislation governing the industry, mainly the Short-term Insurance Act, the Long-term Insurance act, the Cooperatives Act and the Friendly Societies Act.⁷

2. Reaching the BoP – the business case for Sanlam

The micro-insurance sector in South Africa is comparatively large compared to other emerging markets. Several reasons may have contributed to this, among them the South Africa's peculiar mix of formal and informal economic sectors, enabling the country's long-established and fairly developed formal financial services sector to seek ways of bridging the gap with the large market represented by the lower income groups. When it comes to funeral cover, the insurance industry has approached the lower income segments on a purely commercial basis, without particular government prompting, as these products are in such high demand that they sell themselves.⁸ More recently however, and in line with economic empowerment measures, the government and the financial

5 NATIONAL TREASURY DPT OF SOUTH AFRICA, The Future of micro-insurance regulation in South Africa, Discussion paper, 7 April 2008, pp12-13

6 NYAMAKANGA Regis, Poor may get insurance under new proposals, Business Day, 5 May 2008

7 Ibid., p 15

sector to extend its services to lower income groups and its provisions have provided momentum for insurance companies to offer products beyond funeral cover up demand.

Today over 26 million South Africans over the age of 16 do not have formal life insurance, for example. The vacuum has so far been filled by informal and mostly unregulated forms of mutual savings such as stokvels. But the existence of such informal schemes suggests that there is unmet, pent-up demand. Public and private stakeholders both have a role to play in ensuring those needs are addressed: Government needs to provide a proper legal framework, and the insurance providers have to adapt their offer to suit the needs of market.

Sanlam has been keen to develop the non-funeral side of the business in the lower income segment for years. Once the regulatory proposals concerning micro-insurance are translated into legislation, Sanlam will be in a good position, as an experienced player in the industry, to adapt its business model further into providing customised micro-insurance products for the BOP.

3. The challenges

Strong financial and cultural entry barriers, as well as administrative hurdles and form part of the challenges faced by the industry in providing insurance to the BOP.

- **Selling products beyond funeral cover:** Limited financial literacy and cultural barriers. Perhaps one of the main challenges faced by insurance firms such as Sanlam in the lower income segments is the limited financial literacy of people and cultural barriers on the concept of insurance beyond funeral cover. In fact the Finscope survey of 2005 has revealed a lack of awareness about products on offer: only 50% of those earning less than 1000 R / month have ever heard of life insurance, compared to 75% who understand and can explain the concept of a burial society.¹⁰ Furthermore, the Finscope survey has revealed that asset and life insurance products have not yet taken off as suitable products to the lower income segments. In fact according to the Finscope survey, penetration rates for life

insurance products actually decreased between 2005 and 2007 from 12% to 10%. During the same period, asset protection insurance penetration marginally increased from 9% to 11%.¹¹ These figures would indicate that a better understanding of the market is required before real growth can be achieved in the BOP. The challenge is to provide a product that is affordable and distributed through channels that can overcome the cultural hurdles that constitute a barrier

- **Economies of scale are difficult –** how to create a critical mass? Another of the issues faced by insurance companies is the cost and paperwork involved in making insurance products accessible to all. The cost of selling, processing paperwork, and administering large volumes of very small policies is not necessarily financially viable. In this regard, the answer is to find ways to simplify procedures, reduce paperwork and administration to minimal levels. In response to this reality, government and the industry have been working together to (1) create the proper legislative framework for micro-insurance and (2) to adhere to a specific set of guidelines to make insurance, specifically life insurance, more accessible and affordable to the BOP. Known as Zimele, a set of standards has been agreed upon in 2005 amongst government and the industry to achieve this aim. Among these standards are simplified procedures, availability of proper documentation in all national languages, and basic features such as minimum policy terms, fair charges and easy access.¹²

4. The Response

Sanlam's approach to the BOP segment has been shifting over recent years, as a result of changes in the economy, the regulatory and political framework in which it is operating, and the growing awareness in the industry as a whole that efforts to improve accessibility and affordability need to be intensified further. This approach is fully in line with Sanlam's corporate culture, its vision and its long experience in economic empowerment.

In order to give the proper focus to the lower income segments, Sanlam has created a specific subsidiary called Sanlam Developing Markets, which has divisions in South Africa, but also in other important emerging markets such as Kenya, Tanzania, Ghana and India.¹³ Within South Africa, Sanlam Sky is the main channel through which products aimed at the lower income



8 NATIONAL TREASURY DPT OF SOUTH AFRICA, The Future of micro-insurance regulation in South Africa, op. cit., p27
9 X, How poor women are building wealth in South Africa, THE CSI Handbook, 9th Edition, Triologue, November 2006, p211

10 X, How poor women are building wealth in South Africa, THE CSI Handbook, op. cit., p211

11 Making financial markets work for the poor, Research presentation prepared for Finmark Trust by TNS research surveys, downloadable report available on www.finscope.co.za.

12 See www.loaszimele.co.za for further information on Zimele

13, 14 & 15 Clarissa BURMEISTER, Sanlam Sky, Presentation at BOP learning lab lunch on June 2nd, 2008

segments are distributed. The product mix includes the classic funeral cover, but crucially also contains new products such as health income, educational savings plans, and retirement plans.

The flagship product, however, remains funeral cover for the time being. One of Sanlam's early achievements in terms of reaching the BOP was in 1991, when it became an underwriter for the Zionist Christian Church (ZCC), one of South Africa's most important religious authorities, with worshippers overwhelmingly coming from lower income segments. Through a group scheme granted to the ZCC, Sanlam provided funeral cover in one stroke for 410,000 clients. Over the following years, Sanlam developed a deliberate policy of making its product more competitive, more accessible and more affordable to this core market. It was the first insurance company in South Africa to offer free legal advice, extend cover to the wider family, offer a burial repatriation benefit and lift HIV exclusions. Such measures helped increase Sanlam's profile in that market segment and now gives it a definite edge. The purchase of African Life Insurance and its incorporation into Sanlam Sky during 2008 further enhances Sanlam's positioning in the BOP.¹⁴

In terms of its marketing and distribution strategy, one of the main channels through which Sanlam Sky approaches the market is through both local and national radio stations. One key element in the strategy is to advertise in people's own languages rather than English. Language is a crucial and often underestimated factor when it comes to building trust and long-term relationships with customers. Further advertising channels include interior advertising in minibus taxis, the most common form of public transport in South Africa. On its own, Star radio, the so-called "taxi radio station", reaches a daily audience of 2.4 million people.

Beyond the marketing campaign itself, sales are supported by a network of distributors that comprise in-house agents employed by Sanlam as well as independent brokers. These agents and brokers are recruited within local communities and as a result have a better grasp of local needs and enjoy the trust of the people. Sanlam also provides in-house training for its selling agents. Building an adapted distribution network will be a crucial strategic component in the coming years, as Sanlam is preparing to innovate its offering to the BOP and expand into non-funeral policies, starting with short-term asset insurance and endowment policies.¹⁵

Conclusion

There seems to be no doubt that the insurance landscape in South Africa is transforming itself and that the industry gearing itself for further market penetration in the BOP segment. The projected changes in the regulatory framework will play an important role to give the necessary momentum, but beyond that, the reality is that insurers will be driven mainly by commercial considerations. There is a business case for expanding the currently limited insurance offering to the

lower income segments. And from a socio-economic and poverty-alleviating point of view, the potential impact of greater asset security for lower income segments is very real.

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