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## Underinsured? It's your funeral

Although, South Africans face considerable risks to their assets and lives as well as the additional threat of economic uncertainty, there appear to be few changes or increases in the insurance market according to the latest data from the annual study of South African financial habits, FinScope 2008. This survey also indicates that South Africans are generally underinsured even though they express a desire to be insured.

### Funeral cover

Although there was an increase in funeral products from 2006 to 2007 (39% to 46% respectively), in 2008, the overall percentage of people in South Africa with some sort of funeral product decreased to 43%. This decrease was driven by a reduction in the percentage of people who belong to burial societies. In 2006, 19% of people belonged to a burial society. In 2007, we saw a large increase to the point where 29% of people belonged to a burial society. In 2008 that figure dropped to 25%.

The table below indicates racial differences in the types of funeral products held.

Funeral product	Total 2007 %	Total 2008 %	Black %	Coloured %	Asian/Indian %	White %
Shop or store (e.g. Edgars, Jet, Pep)	4	3	3	1	1	4
Through an undertaker or funeral parlour	9	9	9	17	5	4
Current employer	2	1	1	1	2	4
Union (e.g. SADTU)	-	1	1	-	-	2
Church	-	2	1	8	1	2
Insurance company - policy	8	8	6	9	10	17
Intermediary - policy	2	1	1	1	3	3
Bank - policy	7	8	8	5	5	8
Cover from a funeral home (including AVBOB)	-	3	3	3	1	7
Funeral cover from any other (e.g. spaza, stokvel, neighbourhood etc)	-	1	2	1	-	-
Belong to a burial society (not AVBOB)	29	25	29	24	3	3

The incidence of burial societies remains highest among the black community. Of the people who belong to a burial society, most belong to only one society.

Fifty-seven percent of people with a bank-based funeral policy claim that it is included in their account and is not a completely separate product. Of those people who have a funeral policy included in their current account, 44% opened the account to access additional products, such as funeral cover.

In 2008, 41% said that the reason they did not have funeral cover was because they did not have a job and 19% said it was because they did not have a regular income.

Of the people who have contributed to a funeral from their own pockets this year, the average amount spent has dropped from R2 940 in 2007 to R2 515 in 2008.

### Short-term insurance

In 2008, there were few changes in the short-term insurance market, with the overall percentage of people with some form of short-term insurance remaining static at 10%.

The pay-out bonus concept has grown in popularity in the past three years. In 2008, 41% of people mentioned that they would prefer to use insurance service providers who offered cash-back benefits, compared to 40% in 2007 and 36% in 2006.

Of the people who hold a short-term insurance product, on average, two kinds of policies are held. Vehicle insurance is the most popular kind of short-term insurance at 7%. Black people have very little insurance, with the highest being cellphone insurance at 2%.

From the table below it is evident that more white people and Asians/Indians have short-term insurance.

Short-term insurance product	Total %	Black %	Coloured %	Asian %	White %
Vehicle or Car insurance	7	2	4	22	40
Household contents or possessions insurance (e.g. furniture and appliances)	6	1	5	17	31
Building or property insurance on your house structure (often sold with your bond)	5	1	4	14	25
Insurance for hand tools or agricultural equipment	1	-	1	1	6
Cellphone insurance	4	2	2	11	18

For people who have short-term insurance, the most important decision-making criterion when choosing insurance is the affordability of the monthly instalments. Forty-three percent of short-term insurance users mentioned that the affordability of the premiums was the most important decision-making factor, followed by the reassurance that you are actually covered (36%) and understanding how the premium is calculated (35%).

Seventy-eight percent of South Africans who have a vehicle have vehicle or car insurance (60% are self-insured, 18% are insured by someone else), 9% of people who have a cellphone have cellphone insurance, and 24% who have electric equipment have insurance for it. Roughly half of the people who own assets, but do not have insurance for them, claim that their preferred method to replace or repair their assets would be to save up some money and then replace or repair the asset when they could afford to. Overall, it appears that South Africans are underinsuring their assets.

### Long-term assurance

Life assurance is the most common form of long-term assurance and is the only assurance category that seems to have increased from the previous year. The number of people with life assurance/life cover has increased from 10% in 2007 to 12% in 2008. However, of those people who don't have life assurance, 18% said that they just do not want it. It is worth noting that a quarter of people who earn between R4 000 and R7 999 a month, and who do not have life assurance, also give this reason for not having life assurance.

Although 34% of South Africans indicated that they would like to have some form of loss-of-earnings insurance, only 6% of South Africans have this type of insurance. This again indicates how under-insured South Africans are, even though they desire insurance.

Medical insurance has shown a slight decrease from 10% in 2007 to 8% in 2008. Medical aid is perceived to be costly and 51% mentioned that the main reason why they did not have medical insurance was that they could not afford it.

The table below shows the racial differences in terms of long-term insurance products held.

Long-term insurance product	Total %	Black %	Coloured %	Asian %	White %
Disability insurance or cover	4	2	3	9	13
Personal accident insurance or cover	3	2	3	9	15
Dreaded disease insurance	1	-	1	8	5
Loss of earnings insurance (in addition to UIF)	3	2	2	7	10
Accidental death and disability cover	5	3	4	13	19
Life insurance or life cover	12	7	13	32	46
Medical aid or medical scheme	8	3	7	21	38
Hospital cash plan which pays you cash if you are hospitalised	2	1	3	9	13
Professional indemnity cover	-	-	-	1	1
Insurance that pays your loan or borrowing when you die, lose your job, are disabled (not life insurance)	7	4	10	14	24
Legal insurance, e.g. Legal Aid, Legalwise	2	1	3	4	7

## Summary

2008 marked a drop in the percentage of people with funeral products, particularly with burial societies. Burial societies are a funeral product used primarily by black communities. In general, white and Asian/Indian South Africans are far more insured than black and coloured South Africans.

We saw few changes in the short-term insurance market in 2008. Larger increases were tracked in long-term insurance, with life insurance/life-cover showing a two percentage point increase. The overall lack of short-term insurance indicates that South Africans are generally underinsured although they do express a desire for some kinds of insurance products, especially long-term insurance such as loss-of-earnings insurance. It seems that people are entering the unstable economic landscape of 2009 with little protection for their assets, health and lives; a worrying scenario for any South African.

*FinScope was launched in 2003 by the FinMark Trust ([www.finmarktrust.org.za](http://www.finmarktrust.org.za)). It was an attempt to establish credible benchmarks for the use of, and access to, financial services in South Africa. It was designed to highlight opportunities for innovation in products and delivery. The findings in 2003 and subsequent years have identified barriers to access for low income people and provided insights for policymakers, in both the public and private sectors, who wish to remove or reduce the barriers. For more information see: <http://www.finscope.co.za>*

*FinScope SA 2008, a study to monitor use and perceptions of the financial sector in South Africa, was conducted by TNS Research Surveys, South Africa's leading marketing insights company, on behalf of FinMark Trust and syndicate members. Face-to-face interviews were conducted among 3 900 South African residents aged 16 years and older, between August and October 2008. A nationally representative sample was drawn, which was weighted and benchmarked to the 2008 mid-year estimates based on 2007 Community Survey estimate information.*

*The 2008 South African syndicate members are: Absa, First National Bank (FNB), Liberty Life, Metropolitan Life, National Treasury, Nedbank, Old Mutual, Sanlam, Standard Bank and Teba Bank.*

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