

Insurance products standards to reach low-income consumers in South Africa: Help or hindrance?

A review of the experience of Mzansi and Zimele insurance product standards

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Table of Contents

List of tables.....	v
List of figures.....	v
List of boxes	v
Preface.....	vi
Executive summary	vii
1. Introduction	1
2. Financial Sector Charter context	3
2.1. History of the Financial Sector Charter (FSC)	3
2.2. Monitoring and evaluation of Charter progress	4
2.3. Access to financial services pillar	5
2.4. Insurance industry response to the FSC.....	7
3. Mzansi product standards	8
3.1. Development of short-term industry product standard	9
3.1.1. The beginnings of the ‘Mzansi’ product	9
3.1.2. From conception to definition	9
3.1.3. The Mzansi product.....	12
3.1.4. The move to Mzansi product standards.....	16
3.2. Impact of the Mzansi standards	18
3.2.1. Mzansi, near-Mzansi and Access products	19
3.2.2. Mzansi branding and marketing	26
4. Zimele product standards	28
4.1. Development of standards.....	28
4.2. Targets, measurement and scoring	34
4.3. The Standards	38
4.4. Impact of the Zimele product standards.....	41
4.4.1. Adoption of standards.....	41
4.4.2. Zimele products	43
4.4.3. Near-Zimele funeral products.....	49
4.4.4. Zimele branding and marketing.....	52
5. Fundisa Product.....	54
5.1. Development of Fundisa	54
5.2. Implementation	55
5.3. Features of the Product	56
5.4. Impact	58
5.5. Emerging themes from Fundisa.....	58
6. South African Retail Savings Bond.....	60
6.1. Product design	60
6.2. Product distribution	60
6.3. Factors contributing to success	61
7. Microinsurance policy statement.....	63
7.1. Microinsurance Policy Statement product requirements.....	63
7.2. Market conduct regulation.....	64

7.2.1. The policy statement and the Charter standards	64
8. Cross-cutting themes and conclusions	66
9. Where the standards successful?.....	70
10. Issues to consider going forward.....	73
11. List of references	77
Appendix A: The Mzansi product standards	79
Appendix B: Zimele simplified wording template	80
Appendix C: Example of Zimele form D report	84
Appendix D: Example of near-compliant funeral products	85
Appendix E: Meeting list.....	87

List of tables

Table 1 Generic Access Standards.....	11
Table 2: Mzansi short-term insurance product timeline.....	13
Table 3: Mzansi insurance product premiums and sums assured in South African Rand	14
Table 4: Summary of Mzansi policy document	15
Table 5 Overview of Mzansi short-term insurance product standards.....	18
Table 6 Full-Mzansi product features.....	22
Table 7 Near-Mzansi and Access product features	24
Table 8: Range of existing pricing as at May 2006 and proposed pricing for Zimele standards for R10,000 cover	32
Table 9: Timeline of the development and launch of Zimele standards	39
Table 10: Approved Zimele standards.....	40
Table 11: Companies listed as selling Zimele compliant products by ASISA	41
Table 12: Excerpt of December 2010 Form D report	44
Table 13: Features of selected Zimele-compliant products	47
Table 14: Basic features of Zimele compliant products and near equivalent products	50
Table 15: Features of the Fundisa savings product.....	57
Table 16 South African retail savings bond product summary	60
Table 17 Application, registration and payment for RSA Retail Savings Bond	61
Table 18: Basic Features of Assupol’s Zimele and Non-Zimele funeral products	85
Table 19: Basic Features of Metropolitan’s Zimele and Non-Zimele funeral products.....	86

List of figures

Figure 1 Mzansi Insurance Brand.....	26
Figure 2: Zimele logo which accompanies all compliant products	34

List of boxes

Box 1: The role of the SAIA Access Committee.....	8
Box 2: UK CAT standards	30
Box 3: Formula used to calculate individual company targets	35
Box 4 Mzansi Standards.....	79

Preface

The South African Insurance Association (SAIA) and its members have been travelling on an important journey to increase access to short-term insurance products for the past few years. The Financial Sector Charter can probably be seen as the starting point of this journey. Although short-term insurers have met with many challenges on this journey, many of them are now even more eager to make this a successful journey because of the dual purpose of building long term socio-economic stability in South Africa and realizing the potential that the vast, yet largely untapped, low income market can offer insurers offering appropriate and affordable products.

With a new microinsurance dispensation for South Africa on the horizon, this is an opportune time to take a fresh look at what can hinder or enhance efforts to achieve financial inclusion. One of the aspects that the SAIA decided to revisit was the role of product standards in the low income market environment, and particularly the Mzansi standards that came into being because of the Financial Sector Charter.

We thank the SAIA members who contributed funds for this project, i.e. Hollard, Mutual & Federal, Zurich and SASRIA, as well as Old Mutual and FinMark Trust who are co-funders of this project. We also thank ASISA for their important contributions, and Cenfri who delivered a sterling report which we will be able to use in many important ways.

Vivienne Pearson

General Manager Projects: South African Insurance Association (SAIA)

Executive summary

This study documents the experience of a number of collective industry initiatives launched between 2005 and 2008 to support the development of the low-income insurance and savings markets in South Africa. These initiatives were launched specifically to facilitate delivery on the objectives of the Financial Sector Charter, a transformational charter promoting black economic empowerment.

The study was developed by the Centre for Financial Regulation and Inclusion (Cenfri) and funded by the FinMark Trust, Old Mutual and the South African Insurance Association (SAIA) to assess the impact of various initiatives emerging from the Financial Sector Charter process, including:

- *Zimele product standards*: This set of life insurance product standards were launched in 2007 by the then Life Office Association (LOA), now the Association of Savings and Investment SA or ASISA.
- *Mzansi product standards*: This household content and structure insurance product standard was launched in 2006 by the South African Insurance Association (SAIA).
- *Fundisa product*: Standard tertiary education savings product launched in 2007 by the Association of Collective Investment (ACI) and department of education.

The study also discusses the experience of the South African Retail Savings Bond as a comparative review with Fundisa, as both are essentially savings products.

The study draws on a number of information sources, including in-person and telephonic interviews with stakeholders who were part of the development process of the Mzansi and Zimele product standards, the Fundisa product and the Retail Savings Bond. Interviews with current distributors of Mzansi, Zimele and Fundisa products were also conducted. Information collected in interviews was complemented by data on product take-up rates of the four product types.

The Financial Sector Charter

Following the attainment democratic freedoms in 1994, South Africa's financial sector received pressure from government and civil society organizations to extend the provision of financial services to the previously neglected black low-income population. This came to a head in 2000 with talk of the government enacting a Community and Reinvestment Act to compel banks to lend to the lower end of the market. Within this environment, the banking industry and the financial sector as a whole realized the need for commitment towards transformation and provision of financial services to the low-income market.

Financial Sector Summit of 2002. At the 2002 Financial Sector Summit, the financial sector committed itself to the transformation of the sector through the development of an industry specific black economic empowerment charter. The Charter would set out the objectives and targets that the financial sector would aim to achieve in order to promote black economic empowerment. Following the summit, representatives from government, the financial sector, labour and community negotiated the objectives and targets that would form the Financial Sector Charter. The Charter, which is a voluntary agreement, came into

effect in January 2004. Various players within the financial sector are signatories to the Charter including SAIA, ASISA and the Banking Association of South Africa (BASA).

Commitment to six pillars of transformation. The Charter identifies six key areas or pillars according to which the objectives and targets for the transformation of the financial sector are articulated. These are: (1) Human resource development (2) Access to financial services (3) Empowerment financing (4) Procurement (5) Ownership (6) Control. The Charter made provision for a reward of Black Economic Empowerment (BEE) points to companies that achieved their targets under each of the pillars. With BEE points, a company is regarded as a preferential service provider to the government.

Access to financial services pillar. The access to financial services pillar (the “Access pillar”) sets out the financial sector’s objectives and targets for access to banking, insurance, credit and other financial services for low-income black households (or households within the LSM 1 – 5 income category)¹. The Charter emphasizes the provision of first-order financial services that are basic, appropriate and affordably priced through appropriate and physical channels. In terms of insurance, the Charter specifically refers to the provision of insurance products that mitigate the impact of first order basic risks such as life insurance, funeral insurance, burial society, household insurance and health insurance. The Charter also sets out access targets for insurance, namely that 6% and 23% of LSM 1 – 5 should have effective access to first order insurance products within short-term and long-term respectively by 2014.

Alignment with DTI BBBEE Codes of Good Practise and stalling of Charter process. In 2006, the Department of Trade and Industry (DTI) promulgated the Broad Based Black Economic Empowerment (BBBEE) Codes of Good Practise to monitor, develop and evaluate various industry charters, such as the Financial Sector Charter. Therefore, a process to realign the DTI codes with the Financial Sector Charter began in 2007. In 2008, however, stakeholders could not agree on the Charter targets and their realignment with the DTI codes. This stalled negotiations and as a result the Financial Sector Charter went into limbo.

As of July 2011, the realignment process and the attendant negotiations had recommenced.

Collective product standards initiated in response to the Charter. The Financial Sector Charter catalysed a number of collective processes to deliver on the objectives and targets imposed. Both the long-term and short-term insurance industries initiated the development of product standards to assist their members in complying with the Charter objectives. Others, such as the collective investments industry developed a standard savings product, called Fundisa, in response to the Charter.

Mzansi products standards.

Mzansi product standards, short-term industry response to Financial Sector Charter. The short-term insurance industry response to the Financial Sector Charter’s access targets took

¹The Living Standard Measure (LSM) is a tool used to segment the wider South African market according to individuals’ living standards. It uses location (urban vs. Rural), ownership of household assets and access to services to group individuals into one of ten LSMs through calculation of a composite indicator (Eighty20, 2005). LSM 1 is the lowest LSM, containing the poorest individuals in terms of the composite indicator, while LSM 20 is the highest category and contains the wealthiest individuals if ranked according to the composite indicator (Genesis, 2006).

the form of a collective industry approach through the South African Insurance Association (SAIA). SAIA is a representative association tasked with looking after the short-term insurance industry's interests. After the FSC came into effect in 2004, SAIA formed an Access Committee to drive the industry's response to the Charter. The industry initially responded by developing a generic industry product called the Mzansi insurance product. The Competition Commission, however, deemed certain aspects of the product to be anti-competitive. The Mzansi product was therefore withdrawn and replaced by the Mzansi product standards. The standards were largely based on the initial product's policy document and its terms and conditions.

Features of the Mzansi standards. Products developed under the Mzansi standards were to be marketed exclusively to LSM1-5. Such products were to be appropriate to the insurable needs of LSM 1-5 with the needs identified as home owner's household contents and building insurance. Lastly, products inspired by the Mzansi standards needed to be affordable and offer value. To this end, the standards allowed for irregular and missed premium payments. In addition, pricing guidelines were provided to assure affordability. The Mzansi standards were officially launched in 2006.

Standards accompanied by targets and a scoring proposal. As required by the Charter, the short-term insurance industry decided on a market penetration target of 6% by 2014. In other words, the industry was to ensure the sale of 262 500 Mzansi-inspired policies to people in LSM 1-5 by 2014. This target was divided among companies in the industry according to overall market share. Companies meeting their targets would receive access points up to a maximum of 6 points for every year.

Standards process culminated in the emergence of three product types. The initial proposal for the standards envisaged that companies would approach the Financial Sector Charter Council for approval of their products under the Mzansi standards. However, some inconsistencies emerged in the product approval process. For instance, products not fully compliant with the standards would gain approval. The inconsistencies led to the emergence of three product types: full-Mzansi, near-Mzansi and access products. Full Mzansi products are those that are compliant with all the standards and have received Charter accreditation. Near-Mzansi have received accreditation but do not comply with all of the standards. Access products are not accredited by the Charter Council but are similar to other two product types in that they target LSM 1-5.

Poor industry adoption of the Mzansi brand and poor collective marketing drive. The short-term industry developed a Mzansi logo to be used for shared marketing and branding purposes. However, none of the full-Mzansi or near-Mzansi standard products included the logo on their products. Naturally, this led to a situation whereby companies were reluctant to individually or collectively market the brand and what it stood for. They instead opted to market their individual Mzansi or near-Mzansi products. Not surprisingly, to date, there is very low awareness of the Mzansi brand within LSM 1-5.

Limited take-up of Mzansi-inspired products but impressive nonetheless. As at December 2010, the short-term industry had sold a combined total of 30,000 Mzansi-inspired policies. This falls short of the 146,000 policies that the industry was required to have sold by December 2010. While this might be viewed as low take-up, Mzansi standards-inspired products represent products that are far removed from traditional asset insurance for a

market in which the short-term industry had no position (As at 2003, short-term insurance penetration was estimated at 0.2% of LSM 1-5 by the FinScope 2003 Access to Finance survey). The standard and, particularly, the process of developing it have been instrumental in getting short-term insurers to think about the low-income market. In the absence of the standard design process, it could be argued that the progress would have been more modest.

Zimele product standards

Zimele standards, long-term industry response to the Financial Sector Charter. Like SAIA, the life industry, whose interests prior to 2008 were represented by the Life Offices Association (LOA), constituted an Access Committee, in 2004, to drive the Charter response. Unlike the short-term industry, the life industry immediately settled on the idea of generic product standards, the Zimele standards, as their preferred approach to the Charter. The Access Committee believed that minimum standards for each product were a better choice for the life industry with its existing variety of options, allowing each life office to provide the flexibility to offer a range of enhanced or additional benefits. Standards would also not undermine the competitive element, which was key for innovation on the product and distribution front.

Product needs discerned from existing research, standards only developed for life cover. In order to identify priority needs around which to develop standards, the LOA Access Committee used the FinScope 2004 survey on financial usage and a FinMark Trust study called “Making insurance markets work for the poor in South Africa”. From the two studies, the following key risks were identified in terms of importance: death of main wage earner, serious illness of member of household, death of family member, illness preventing main wage earner from working, death of partner and poverty in old age. The Zimele standards were only developed for funeral insurance, credit life, personal disability and pure life. In this way, the standards addressed three of the identified priority needs. Standards for health insurance, retirement provision and a savings product were not developed for various reasons.

Features of the Zimele standards. The Zimele standards were launched in February 2007. The initial standards were only for funeral products. In the following year, 2008, additional standards were launched and approved for life cover, credit life and personal disability. The standards are structured to cover eight categories of product features such as pricing, cover levels, grace periods and exclusions. The Zimele standards also provide broad guidelines in as far as policy wording is concerned to ensure that products are comprehensible to LSM 1-5. Unlike the short-term industry, life offices can score up to 14 points for meeting specific features of the standards. Targets are shared between the different companies in accordance with market shares.

Sizable industry adoption of the standards with bias of products towards funeral. According to ASISA, there are currently a total of ten life assurance companies that are selling Zimele-compliant products. This number has remained relatively unchanged since 2007. The Zimele product range, however, is dominated by funeral products. This may reflect the fact that funeral insurance is the most popular voluntary long-term product in LSM 1-5 or it may reflect the fact that the scoring proposal associated with the standards offers little incentive to move beyond funeral.

Zimele products catalyse new generation of funeral products. In addition to catalysing a set of products that comply fully with the Zimele standards, the standards process has also catalysed a set of near equivalent products. These products comply with most of the requirements of the standards. In most cases, the near equivalents are distributed in the same manner as the Zimele products and marketed to the same income category, LSM 1-5. However, unlike the Mzansi experience, the near equivalents do not receive access points.

Good progress made towards targets with medium and small companies pulling most of the weight. As at December 2010, the life industry had sold a total of 3.5million Zimele policies. ASISA also reports that 58% of the in-force policies were sold by what the industry classifies as “small/medium” sized companies. This represents good progress towards the target as the life insurance industry was expected to have sold 3.2million policies by December 2010.

Limited marketing and limited brand awareness. Unlike the Mzansi experience, companies on the long-term side included the Zimele logo on their product documentation. However, and like the Mzansi experience, little individual company effort was made to market the brand. Several reasons have been advanced for this including the fact that the Zimele brand is not unique to one company (thus advertising rents might accrue to another company) and intra-brand competition (marketing Zimele at the expense of near-equivalents). It comes as no surprise that the latest FinScope 2010 survey reports that only 5% of LSM 1-5 is aware of the existence of Zimele products.

Cross-cutting themes and conclusions

Differing processes across the standards. SAIA and the LOA adopted different approaches in developing their standards. SAIA went for an evolutionary, try and learn, approach whereas the LOA immediately went for product standards. This might be accounted for by the fact that the two industries were at different stages of market development: the short-term industry had LSM1-5 penetration of 0.2% while the long-term industry had penetration of 13% prior to the standards.

Varying compliant approaches resulting in different categories of compliant and non-compliant products. On the long-term side, products are either strictly Zimele compliant or not. On the short-term side, products are fully Mzansi compliant or near-Mzansi compliant. Both products are accredited and receive access points. The product approval process on both sides accounts for the difference. Zimele products are approved via an internal company process where as Mzansi products are approved at the Charter level. With the latter process, companies can negotiate their way to approval.

Charter uncertainty undermined the standards, but FSC objectives still met. The delays in gazetting the Charter resulted in uncertainty as to whether the access pillar of the Charter would continue. As a result, no access points have been awarded since 2008. Despite this, the industry still continued to pursue the implementation of the access requirements, albeit under a laxer application of the compliance process. This resulted in the emergence of near-equivalent products that undermined the product standards process but ultimately served the purpose of the FSC.

Problems with LSM 1-5 market as target. Consultations with industry reveal the fact that classifying the market according to LSM 1-5 may be too narrow, with most favouring an extension to LSM 7. Further, the use of the LSM criteria imposes compliance costs on companies as they have to use sampling techniques to estimate the proportion of their product portfolio that is within LSM 1-5. SAIA and ASISA, however, have proposed the use of the tax income threshold as an alternative to the LSM criteria.

Limited branding, limited awareness. On both the long-term and short-term side, various surveys indicate that there is little awareness of the product standards and their benefits among LSM 1-5. This is a result of the fact that there were little collective or individual efforts at building the two brands.

The challenge of distribution. A cross-cutting theme from the analysis is that distribution presents a great challenge to achieving the required penetration for compliant products as well as commercial viability. Companies that are able to surmount the distribution challenges have registered great success with product penetration and seem to have viable products.

The need to move beyond narrow definitions. The analysis reveals that both the Mzansi and Zimele standards suffer from too narrow product offerings. For instance, the Mzansi standards effectively allow for only one comprehensive insurance product. Whereas the Zimele standards allow for life, personal disability, funeral and credit life, the products were ultimately only funeral. Going forward, it will be important for the standards to facilitate a wider product offering.

Where the standards successful?

Even though the standards process did not fully articulate its objectives, we can ultimately consider the performance of the standards against the following five inter-related and implied objectives:

Compliance tool to assist companies in obtaining FSC points. We conclude that the standards have been successful in facilitating compliance (for both fully-compliant and near-compliant products) with the Charter objectives. Had the FSC access components been in-force, the standards would have been successful in securing access points as well.

Assisting companies in reaching Charter targets. As noted above, the short-term industry had effectively no presence in LSM 1-5. In this way, the Mzansi standards were successful in assisting the industry to pursue the targets set by the FSC, even if the ultimate targets were not achieved. On the long-term side, and owing to the prior existence of a market in LSM 1-5, we conclude that the Zimele standards had little impact on the ability of the industry to meet the targets.

Catalyse better value, commercially viable products. In terms of value, we conclude that both the Mzansi and Zimele product standards were successful in catalysing a portfolio of near compliant products offered by a relatively large group of companies. In terms of viability, our analysis concludes that none of the standard features presented insurmountable problems.

Not all models, however, have achieved viability, but this depends more on the access to an efficient distribution mechanism.

Facilitate collective efforts to develop the market. The product standards did provide the basis for industry players to collaborate to develop the low-income market. The two areas of collaboration were in collective product development and in the development of a collective brand. Little collective effort was, however, invested in implementing the standards.

Establish trust in common brand. The product standards held great promise as a vehicle to build trust in a common brand trust. Unfortunately, this objective was never achieved. Firstly, the long- and short-term industries diluted their efforts by creating separate brands. Secondly companies did very little to build the respective Mzansi or Zimele brands individually or collectively. The product standards held great promise as a vehicle to build that trust but as was clear from the preceding analysis, this objective was not achieved. **Without the benefit of a powerful collective brand, the standard is reduced to industry-designed product regulation and a compliance exercise with little commercial benefit to the participating insurers.** While this may be sufficient for funeral and credit life, it has little benefit for the other product markets.

Issues to consider going forward

Is there value in product standards moving forward? We conclude that the standards could still play an important role in creating a market for insurance and building trust in products and providers with whom the low-income market is not yet familiar. It could also play an important role in incentivising the development of better value products. In the absence of this, more direct regulation may be expected down the line to address the problems experienced with this product category. If the standards are to continue, the following points need to be addressed:

- Recognise and clarify objectives;
- Consider broader standards with stricter enforcement;
- Build in some flexible to accommodate learning and variations in business models;
- Revisit the targets, scoring and accreditation process;
- Implement collective and individual branding exercises;
- Seek endorsement from regulators (and government) to assist brand credibility;
- Continue with engagement to secure FAIS category for access products while the proposed new microinsurance regulatory framework is being implemented;
- Align standards process with new microinsurance policy statement, financial sector charter and commercial realities; and
- Develop closer ties between consumer education initiatives and product sales.



1. Introduction

This study documents the experience of a number of collective industry initiatives launched between 2005 and 2008 to support the development of the low-income insurance and savings markets. These initiatives were launched specifically to facilitate delivery on the objectives of the Financial Sector Charter, a transformational charter promoting black economic empowerment.

The study was developed by the Centre for Financial Regulation and Inclusion (Cenfri) and funded by the FinMark Trust, Old Mutual and the South African Insurance Association (SAIA) to assess the impact of various initiatives emerging from the Financial Sector Charter process, including:

- *Zimele product standards*: This set of life insurance product standards were launched in 2007 by the then Life Office Association (LOA), now the Association of Savings and Investment SA or ASISA.
- *Mzansi product standards*: This household content and structure insurance product standard was launched in 2006 by the South African Insurance Association (SAIA).
- *Fundisa product*: Standard tertiary education savings product launched in 2007 by the Association of Collective Investment (ACI) and department of education.

In addition to the above products, we will also discuss the South African Retail Savings Bond as part of a comparative review of the Fundisa product as both are essentially 'savings' products.

The Charter's objectives (and targets) were negotiated by government, labour, business and community constituencies and other stakeholders within the financial sector. These product and product standards were an attempt by industry bodies to assist their member companies to comply with the Financial Sector Charter targets and requirements allowing them to obtain the relevant points. In the process it also assisted members in evaluating their existing product offering.

This study aims to take stock of this experience to inform the use and revision of such standards under the new Charter processes as well as product definitions (and their intermediation requirements) proposed in the new microinsurance regulatory framework.² In addition to the product standards we also review the Fundisa initiative as well as the experience with the South African Retail Savings Bonds. Although different approaches, these products target the same market and their experience may hold insight for the product standard process. Lessons drawn from these experiences will be of relevance to other jurisdictions looking to pursue standards and/or product regulation in support of microinsurance development (and that of other financial services or products catering to the low-income market).

² The Financial Services Board, the South African regulator of the non-banking sector has released a position paper concerning its intentions with regards to low-income products such as those within the initiatives discussed within this document.

Methodology employed in study:

This document draws on a number of information sources, including in-person and telephonic interviews with stakeholders who were part of the development of the Mzansi and Zimele product standards, and the Fundisa product. Interviews were also conducted with companies who currently distribute Fundisa, Mzansi, Zimele as well as other products that were inspired by the development of the standards (but did not necessarily comply with them). An interview was also held with the South African National Treasury concerning the Retail Savings Bond product, (please see Appendix E for the full meeting list).

During the research process additional data was collected concerning the take-up and performance of the Retail Savings Bond, Fundisa, Zimele and Mzansi products.³

³ Due to sensitivities, much of the collected data could not be published in this document. The data was however used to inform the authors understanding of the product and product standard experiences.

2. Financial Sector Charter context

2.1. History of the Financial Sector Charter (FSC)

Financial sector faces political pressure. The legacy of apartheid was one that resulted in a society characterized by high levels of poverty and income inequality within South Africa. From the year 2000, the financial sector experienced political pressure to extend the provision of financial services to the previously neglected black low-income sector. The banking industry faced the most pressure (as the most visible industry within the financial sector). In the year 2000, the government expressed frustration at the banking industry's pace of extension of credit and lending to the lower end of the market. There was even talk of the government launching a Community and Reinvestment Act which would compel banks to lend to the lower end of the market. Within this environment, the banking industry and financial sector as a whole realized the need for commitment towards transformation and provision of financial services to the low-income market, (Bankable Frontier Associates, 2009).

The move to a transformation charter. At the Financial Sector Summit in 2002, the financial sector committed itself to the transformation of the sector through the development of an industry specific black economic empowerment⁴ charter. This charter would set out objectives and targets that the financial sector would aim to achieve in order to promote black economic empowerment. In addition the Charter would aim to achieve improved provision of financial services within the black low-income market, defined as LSM⁵ 1-5. After the summit, the financial sector, government, labour and community negotiated the various objectives and targets that would form the industry charter namely, the Financial Sector Charter (FSC). The Financial Sector Charter came into effect January 2004 and is a voluntary agreement between the financial sector, labour, community and government towards the transformation of the financial sector through black economic empowerment. Various players within the financial sector are signatories to the Charter including SAIA (the South African Insurance Association), the then LOA (now ASISA) and the Banking Council of South Africa.

Charter life span. The Charter (and its respective pillars which embodied the various targets and objectives) runs up to December 2014. It was initially envisaged that the targets under the various pillars (excluding the ownership pillar) would run up to December 2008. At this same time, the targets under the various pillars would have been reviewed and renegotiated. This review would have provided the platform for the renegotiation of the various targets with the various financial sector stakeholders. These renegotiated targets then would have been incorporated into the Financial Sector Charter and would also run through to December 2014.

⁴ Black economic empowerment or BEE is an initiative led by the South African government to promote the increased participation of black people within various sectors of the economy.

⁵ The Living Standard Measure (LSM) is a tool used to segment the wider South African market according to individuals' living standards. It uses location (urban vs. Rural), ownership of household assets and access to services to group individuals into one of ten LSMs through calculation of a composite indicator (Eighty20, 2005). LSM 1 is the lowest LSM, containing the poorest individuals in terms of the composite indicator, while LSM 20 is the highest category and contains the wealthiest individuals if ranked according to the composite indicator (Genesis, 2006).

Commitment to six pillars of transformation. The Charter identifies six key areas or pillars according to which the objectives and targets for the transformation of the financial sector are articulated namely,

- Pillar 1: Human resource development
- Pillar 2: Access to financial services
- Pillar 3: Empowerment financing
- Pillar 4: Procurement
- Pillar 5: Ownership
- Pillar 6: Control (Standard Bank, 2011).

The targets under all the pillars (excluding ownership) were to be completed by and reviewed in December 2008 (and would have been extended to December 2014 upon re-negotiation). As an illustration of one of the objectives, under the human resource development pillar, companies were required to ensure 20-25% of their senior management were black persons.

Charter also created incentives for the financial sector. The Charter made provision for incentives for companies who achieved the targets through rewarding of Black Economic Empowerment (BEE) points. Companies would receive BEE points according to their annual progress in achieving the FSC targets and objectives.

2.2. Monitoring and evaluation of Charter progress

Oversight committees for each transformation pillar. Charter progress is monitored by the Financial Sector Charter Council (FSCC) and its respective committees, with some assistance from the respective industry bodies. The Financial Sector Charter Council's secretariat collects industry data and information, and also evaluates the various company scorecards. In addition, within the Financial Sector Charter Council, sectoral committees were appointed to oversee various compliance processes within each pillar. For instance, the access to financial services pillar had its own committee, namely Sectoral Access Committee. The Sectoral Access Committee was comprised of representatives of labour, community and the financial sector as well as persons who are considered 'experts' in the area of access to financial services (Dlamini, 2011). In 2008, the sectoral committees were replaced with one combined industry-wide gazetting committee that oversees all the Charter pillars.

Sectoral access committee develops general access standards. All targets within the Financial Sector Charter excluding the access pillar contained explicit and negotiated targets when the Charter came into effect early 2004. The access pillar on the other hand contained generalized access requirements, with the specific access targets being negotiated after the Charter came into effect. The access targets were negotiated and agreed upon by both the Financial Sector Charter's Sectoral Access Committee and the financial sector (including the insurance industry). The Sectoral Access Committee also produced the Generic Access Standards (within the access pillar) which guide financial sector efforts in meeting the access pillar's objectives and targets.

Annual submission of scorecards as part of monitoring and points scoring process. Ideally companies would submit individual scorecards to the FSCC secretariat on an annual basis. The secretariat is comprised of employees of the FSCC and does not have any

representatives from the financial sector and thus is an independent body within the Charter Council. The independence of the secretariat is an important point considering the secretariat deals with sensitive industry information and data. While the scorecard assessment processes may vary from industry to industry, the individual company scorecards are first verified by a BEE rating agency⁶ and then submitted to the FSCC secretariat. The secretariat evaluates the verified scorecards and determines the scores to be received by the individual financial institutions.

Role of industry bodies in assisting respective sectors. The respective industry bodies play a role in the monitoring and evaluation of industry efforts in meeting the Charter targets. Within the short-term insurance industry, SAIA⁷ does not review individual company submissions but collates industry statistics and submits these to the Financial Sector Charter Council on an annual basis. On the other hand, in the long-term industry, ASISA receives returns on a half yearly basis on the number of policies in-force, collates these returns and submits them to the Financial Sector Charter Council. ASISA also analyses these statistics and disseminates them to the broader public audience.

2.3. Access to financial services pillar

Improved access to first order financial services. The ‘access to financial services’ pillar of the Charter sets out the financial sector’s targets for access to banking, insurance, credit and other financial services for low-income black households (that is households falling within LSM 1-5). The Charter emphasizes the provision of first-order⁸ financial services that are basic, appropriate and affordably priced through appropriate and accessible physical channels.

First order insurance services defined as life, household and health insurance. In terms of insurance, the Charter specifically refers to the provision of insurance products that mitigate the impact of ‘first order’ basic risks being faced by the low-income market. The Charter cites “life insurance, funeral insurance, burial society, household insurance and health insurance” as the insurance products that meet the immediate needs of the low-income market (Financial Sector Charter, 2003). The Charter also sets out general insurance product access targets for LSM 1-5 market namely “6% of the population have effective access⁹ to short-term and 23% to long-term insurance by 2014” (Smith et al, 2010a). The exact definitions of allowed products defined in subsequent negotiations manifested in the development of the product standards.

Consumer education also under the access pillar. Under the access pillar, the Charter sets out targets for required annual consumer education spend from various financial institutions. The Charter requires that companies commit 0.2% of post-tax profits towards consumer education initiatives. Consumer education promotes access to financial services through “empowering consumers with knowledge to enable them to make more informed decisions about their finances and lifestyles” (Financial Sector Charter, 2003).

⁶ BEE rating agencies assist companies through the verification and rating of their respective scorecards.

⁷ South African Insurance Association

⁸ According to the Financial Sector Charter, first-order retail services are transactions products and services that are a basic and secure means of accessing funds or accumulating services (Financial Sector Charter, 2003).

⁹ Effective access being defined as financial services and electronic devices (other than ATMs) within a distance of 20km, non-discriminatory practices, appropriate and affordable products that are easy to understand amongst other requirements.

Charter alignment with DTI BBBEE Codes of Good Practice. At the end of 2006, the Department of Trade and Industry's¹⁰ Black Economic Empowerment (BBBEE) Codes of Good Practice were promulgated. The purpose of these codes is to monitor, develop and evaluate various industry charters such as the Financial Sector Charter (The Department of Trade and Industry, 2011). As a result of the promulgation, in early 2007 the Financial Sector Charter Council and other financial sector stakeholders came together to negotiate the alignment of the Charter targets and objectives to these codes. For instance, within the Codes, black economic empowerment targets for ownership were 15% while the Charter stated 10%. This resulted in the recommencement of negotiations around the various Charter targets particularly access to financial services and ownership.

Stalling of Charter negotiations and alignment. In 2008, various financial sector stakeholders could not agree on the Financial Sector Charter targets and their alignment with those of the Department of Trade and Industry's BBBEE Codes. This led to stalled negotiations and as a result, the Financial Sector Charter went into limbo.

FSC target negotiations are on-going with uncertainty about final outcome. The stalling of the Charter negotiation process in 2008 also put the various Charter processes including the submission and rating of various company scorecards in limbo. This ultimately affected whether companies received their BEE points under the Financial Sector Charter. While Charter targets (excluding ownership) ran between 2004 and 2008, the Charter itself runs until 2014. (As it was envisioned, targets would be renegotiated in 2008 and then extended to 2014). The stalling in negotiations brought an end to the formal Charter reporting and scoring processes at the end of 2008 (Dlamini, 2011).

While Charter fell away, companies could score under BBBEE codes. While formal Financial Sector Charter reporting and scoring ended in 2008, companies were still able to earn BEE points under the promulgated BBBEE Codes of Good Practice. This allowed companies to gain BEE points for all the pillars under the Charter, excluding the access to financial services pillar with the exception of consumer education. Access to financial services targets (with the exception of consumer education) are not within the BBBEE Codes. Consumer education falls under the (Corporate Social Investment) CSI pillar of the Codes.

Companies receive scores for consumer education under CSI codes. While companies cannot score under the targets under the access pillar, they are still able to gain two points for their consumer education spend under the Corporate Social Investment Pillar of the BBBEE Codes of Good Practice.

Submission of verified scorecards to the DTI. Individual companies have their BBBEE scorecards verified by black economic empowerment agencies¹¹. These verified scorecards are then submitted to the Department of Trade and Industry which then assesses and determines the number of points scored. Companies are then able to use these 'verified' scorecards as a means of proving BEE status to the government and other clients. At the same time they benefit from the current relaxed monitoring of Charter efforts.

¹⁰ The Department of Trade and Industry is the department within the South African government that deals with industrial and commercial policy. The department has various agencies that deal with specific areas including black economic empowerment and the implementation of commercial law, (Wikipedia, 2011).

[http://en.wikipedia.org/wiki/Department_of_Trade_and_Industry_\(South_Africa\)](http://en.wikipedia.org/wiki/Department_of_Trade_and_Industry_(South_Africa)).

¹¹ Agencies that assist companies comply with various BEE regulations, including verification of scorecards amongst other related tasks.

Recommencement of Charter negotiation process. The Financial Sector is currently in the process of finalizing negotiations concerning the alignment of the Charter to the Department of Trade and Industry's Codes of Good Conduct. In addition, at present both the short-term and long-term insurance industry bodies are preparing for the recommencement of the Charter negotiation process around targets (with particular focus on those that fall under the access to financial services pillar) in July 2011. It is important to note that the outcome may potentially see the Charter's objectives and targets change in relation to the short-term and long-term insurance industries.

2.4. Insurance industry response to the FSC

Collective product standards and consumer education projects initiated in response to the Charter. The Charter catalysed a number of collective processes to deliver on the objectives and targets imposed. Both the long-term and short-term Insurance industries initiated the development of product standards to assist their members in complying with the Charter objectives. In addition collective projects were developed to deliver on consumer education targets which are also under the access to financial services pillar of the Charter. In both cases the respective industry bodies, namely SAIA¹² representing the short-term industry¹³ and ASISA¹⁴ representing the long-term industry played a leading role in guiding these initiatives yet ultimately, they adopted different approaches. The focus of this document is to explore the impact these product standards on the development of the microinsurance market. In addition, the document will also explore other respective initiatives, namely Fundisa and Retail Savings Bond in more detail.

¹² South African Insurance Association

¹³ Long-term insurance equates to life insurance while short-term insurance equates to general insurance.

¹⁴ Association for Savings and Investment for South Africa.

3. Mzansi product standards

Short-term insurance industry response to FSC targets spear-headed by industry association.

The short-term insurance industry's response to the FSC's access targets took the form of a collective industry approach through the South African Insurance Association (SAIA). SAIA is a representative association, established in 1973, with more than 57 members. Members are composed of 50 short-term insurers and 7 reinsurers. Key priority areas for the association include managing the short-term insurance industry's image and reputation, assessing the impacts of insurance and financial sector legislation for the association's members, and managing the various transformation initiatives which aim to improve access to insurance in disadvantaged and low-income markets. Ultimately, SAIA's value proposition to its members is in overseeing, managing and protecting their interests and those of the South African short-term insurance industry (Smith et al, 2010b).

SAIA Access Committee established to devise product response to access targets. After the FSC came into effect in January 2004, SAIA wrestled how best to achieve the FSC targets and essentially, assist the industry in navigating the creation of low-income products. In response to the Charter, later in that year, SAIA established a transformation committee which was tasked with the promotion of transformation and black economic empowerment within the short-term insurance industry. Out of the transformation committee various sub-committees were created including the SAIA Financial Sector Charter Short-Term Insurance Access Group (more commonly referred to as the Access Committee). The Access Committee ultimately became the committee which oversaw the development of industry standards for access products targeted at the low-income market.

Box 1: The role of the SAIA Access Committee

The Mzansi short-term insurance product standards were developed through the Access Committee which was comprised of various SAIA member company representatives. The SAIA Access Committee was tasked with assisting the industry to meet the access to financial service targets set out in the Charter. The mandate of the Access Committee (SAIA, 2006b) was defined as:

- Design of a short-term industry low-income product
- Assist members with the implementation of this product
- Setting targets for individual member companies
- Monitoring these targets
- Negotiating industry targets with the Financial Sector Charter Council on behalf of the short-term insurance industry

First time engagement for both the industry and the market. The Charter presented the short-term insurance industry with the challenge of actively engaging with the low-income market for the first time. In addition, the low-income or LSM 1-5 market had also never actively engaged with short-term insurance products (including asset) as funeral products (falling under life insurance) are often a greater priority. Typical short-term insurance products such as asset insurance were not a priority for this market and it is common knowledge that people in this market do not have the means to acquire this product.

3.1. Development of short-term industry product standard

In 2005, the short-term insurance industry's first response to the Charter was through the development of a generic industry product namely the Mzansi product. The Competition Commission deemed aspects of this product as anti-competitive (namely the policy wording) and in 2006, the Mzansi product was then replaced by industry standards namely the Mzansi standards. The standards, which were derived from the Mzansi product, were essentially industry guidelines supporting the development of products targeting the LSM 1-5 market. Essentially the product standards aimed to achieve the same goal as that of the Mzansi product: catalysing short-term insurance industry engagement with the low-income market with the aim of achieving the Financial Sector Charter objectives.

3.1.1. The beginnings of the 'Mzansi' product

SAIA Access committee consult with others concerning FSC initiated initiatives. In August 2004¹⁵, the SAIA Access Committee began exploring the development of a generic short-term insurance low-income product as a way to meet the Charter's short-term insurance industry targets. The committee held a number of exploratory conversations with other financial industry members such as the LOA (now ASISA) and the Banking Association of South Africa (BASA).¹⁶ Both BASA and the LOA were also tackling reaching the low-income market in order to achieve Charter targets. The banking sector was in the process of developing a low-income product (which became the Mzansi bank account), while the LOA was also exploring the development of a long-term insurance low-income product.

Mzansi insurance product was shaped by the Mzansi bank account. As a result of the discussions with BASA, the SAIA Access Committee explored the development of a similar industry-branded low-income insurance product. The Access Committee sought permission from BASA to use the same 'Mzansi' brand as a joint effort in reaching the low-income market. BASA also shared their industry knowledge and experience during the development phases of its Mzansi bank account product. In addition members of BASA had also offered to facilitate the payment of the Mzansi insurance product through client's individual Mzansi accounts.

Product parameters derived during discussions with low-income people in Soweto and Kliptown. During this period SAIA also conducted research into the risks and insurance needs of the low-income market. This included discussions with members of the low-income market who lived in informal settlements such as Soweto and Kliptown in Johannesburg. Three key perceived risk events were identified: the biggest fear was fire, the biggest threat was theft while the biggest concern was weather related risks (Neille, 2005).

3.1.2. From conception to definition

SAIA negotiated on interpretation, responses, exceptions and target on behalf of its members with the FSC council. In June 2005, the committee released a "Financial Sector Charter Access to Financial Services Short-term Insurance Positioning Paper" which was a presentation of the industry's proposed response to the Charter (SAIA, 2005a). The

¹⁵ As reported in SAIA Access Committee Meeting minutes for August 2004.

¹⁶ The Banking Association of South Africa is an industry body representing the banking industry in South Africa.

document was presented to the Financial Sector Charter Council. The document included SAIA’s own interpretation of the short-term insurance industry’s product definition as the Charter cites the provision of insurance products that meet first-order basic needs and gives the relevant examples but did not give specific products. The only examples that were applicable to the short-term insurance industry included ‘household contents and structure’ insurance which was the same definition that SAIA adopted. While SAIA’s product definition fell within the boundaries of the Charter’s cited example, being household insurance, this definition could have been widened to include other short-term products applicable to the low-income market. Short-term insurance products such as agricultural insurance and insurance addressing the needs of small to medium enterprises could have also been incorporated into this definition.

Position paper highlights challenges within insurance industry and proposed product. Challenges that were cited within the position paper included low short-term insurance product take-up and penetration citing insurance usage data from the FinScope¹⁷ 2003 survey. The survey showed that only 0.2% of the targeted market had indicated they had purchased short-term insurance. At the same time, the position paper was also the SAIA Access Committee’s commitment to “draw up guidelines for a suitable short-term insurance product based on guidelines in the Charter” (SAIA, 2005a).

Position paper defines effective measurement and exemption. The Charter calls for the low-income market to have improved and effective access to financial products including insurance. Effective access is defined within the Charter as a first-order retail financial service being within 20 kilometres from the client (physical access) as well as affordable and fair products for the low-income market, (Financial Sector Charter, 2003). Within the position paper the SAIA Access Committee argued for the short-term insurance industry’s exemption from the physical access requirement under effective access due to the unique nature of short-term insurance distribution channels. The position paper provided the SAIA Access Committee’s definition of effective access to short-term insurance as the number of policies sold to the LSM 1-5 or low-income market within a year.

Position paper and access standards (provisions). The FSCC’s Sector Access Committee developed Generic Access Standards (provisions) which guided overall financial sector efforts in meeting the objectives and targets of the Charter (including initiatives such as the Mzansi product). It was important for the Mzansi product to comply with the Generic Access Standards in order to obtain approval from the Sectoral Access Committee. The Generic Access Standards are namely: physical accessibility, non-discrimination, appropriateness, affordability, simplicity and understanding (as shown in Table 1 below).

Generic Access Standard (or principles)	
Physical accessibility	<ul style="list-style-type: none"> •Products to be available in areas previously un-served or underserved •Sufficient service points to meet needs of population previously un-served or underserved.
Non-discrimination	<ul style="list-style-type: none"> •Non-discrimination in the provision of products and services.

¹⁷ Finscope, a FinMark Trust initiative, is an annual nationally representative survey assessing financial service usage and attitudes and opinions on financial services in South Africa.

Generic Access Standard (or principles)	
Appropriateness	<ul style="list-style-type: none"> •Products targeting Black people, low-income and falling within LSM 1-5. •Products meeting first-order needs of this market •Products to meet identified needs of LSM 1-5. •Products must be flexible in terms of regularity and size of payments.
Affordability	<ul style="list-style-type: none"> •Cheaper products offering better value. •Pricing must ensure sustainability. •If applicable, a return of contributions to be guaranteed. •If appropriate, impose price guidelines or maximum prices. •Consumer education to be offered free of charge.
Simplicity and understanding	<ul style="list-style-type: none"> •Products must be simple and understandable in terms of design, pricing, terms and conditions. •Disclosure of product features, terms and conditions to be standardized to enable comparisons across products. •Standardized disclosure must apply to fees, commissions, and other charges.

Table 1 Generic Access Standards

Source: SAIA, 2006a.

Position paper defines points earning system. In addition, the position paper defined the points earning system for the short-term insurance industry.

- **1 point** for companies within the short-term insurance industry (even those that are not providing products to the low-income market). This was a means for rewarding industry efforts in meeting the Charter targets. It was also hoped that this would catalyze involvement in the provision of low-income products in line with the Charter requirements.
- **3 points** for companies that reached the LSM 1-5 market based on calculations of actual sales to the target market.
- **2 points** for consumer education for companies within the short-term insurance industry that contributed 0.2% of their post-tax profits (as per the Charter requirements) towards consumer education initiatives.

Ultimately if a company was a member of the short-term insurance industry, contributed 0.2% of post-tax spend towards consumer education and had proven sales to the target market and received accreditation from the FSCC, they earned a total number of 6 points. While if a company was a member of the short-term insurance industry and did not contribute towards consumer education and also did not provide products targeted at the low-income market as part of efforts to meet Charter targets, that company only earned 1 point.

Allocation of industry targets to individual companies. The Charter stipulated the short-term insurance industry as a whole had an industry target (6% of the LSM 1-5 market). Companies were allocated individual targets according to gross written premiums for personal lines

market share as per the Financial Services Board¹⁸ (FSB) 2004 short-term insurance annual returns.

Position paper highlighted development of Mzansi product. Ultimately, the position paper discussed the short-term insurance industry's response to the Charter. The document outlined the framework for the development of a generic, low-income 'Mzansi' short-term insurance product including the product definition, premium collection and distribution channels. This framework laid out high level suggestions and propositions for this product, leaving the Access Committee to flesh out the finer details including pricing and policy wording.

Mzansi product, common industry product with common wording. The Mzansi product would be a common short-term insurance industry product with common wording. Such a "common" product would simplify the short-term insurance industry's engagement with the low-income market through the provision a simplified and easily understood contract. Simplicity and ease of understanding are important points of consideration as this was the first time both the short-term insurance industry and the low-income market engaged with each other.

Development of the Mzansi product. Upon the submission of the position paper to the Financial Sector Charter Council, the Access Committee began to flesh out details concerning the Mzansi insurance product including product definition, pricing¹⁹ and policy wording, (which were all to be common features across the product). At the time, it was envisioned that once the Mzansi product details had been finalized by the Access Committee, the product would then be presented to the Financial Sector Charter Council Sectoral Access Committee for approval. Prior to the finalization of the relevant Mzansi product details, SAIA launched the Mzansi product for publicity purposes.

3.1.3. The Mzansi product

SAIA Access Committee launches Mzansi product. The SAIA Access Committee launched the Mzansi low-income product initiative from the 12th to the 13th of September 2005. The launch was for press and publicity purposes as the committee was yet to finalize policy wording and to flesh out other product details. During the launch various members of the Access Committee availed themselves to respond to queries and partake in various media related activities concerning this initiative. At the same time, the SAIA Access Committee also highlighted the timeline for roll out of the Mzansi insurance product which included seeking approval from the Financial Sector Charter Council concerning the product as well as receiving industry feedback and inputs that would contribute to the final Mzansi product.

Envisioned time line for the Mzansi product. At the launch, the SAIA Access Committee presented the time line (as seen in Table 2 below) for the finalization of the Mzansi product. Following the media launch, the Access Committee received industry input and feedback which fed into the finalisation of the Mzansi product policy wording. After this, the Mzansi insurance product would be compared with the Financial Sector Charter Generic Access

¹⁸ FSB – The Financial Services Board is the regulator overseeing non-banking financial service providers including the insurance industry

¹⁹ The committee consulted with actuaries from ABSA and Standard Bank with regards to a 'recommended price' which was then reviewed by the Access Committee.

Standards. This comparison would help to reinsure the compliance of the Mzansi product with the Generic Access Standards and the targets under the access pillar. Following this, the Mzansi product would be reviewed by the FSC Sectoral Access Committee and upon its recommendations, the product would gain approval from the Financial Sector Charter Council.

Mzansi short-term insurance industry product timeline	
Industry launch	12 to 13 September 2005
Industry feedback	23 September 2005
Finalize product wording	7 October 2005
Comparison with financial sector Generic Access Standards	11 October 2005
Sector Access Committee Approval	18 October 2005
Charter Council Product Approval	5 November 2005

Table 2: Mzansi short-term insurance product timeline

Source: Neille, 2005

Interpretation/definition of first order financial services. The development of the Mzansi product was informed by the Charter definition of a short-term insurance product meets “first order basic needs”, which were illustrated with household insurance as an example. Subsequent interpretation (by the SAIA Access Committee), however, narrowed the definition to be limited to household insurance (i.e. household content and structure) only. The proposed Mzansi insurance product combined household and contents insurance with liability cover of R50,000 as a value added component. It covered loss or damage to buildings and contents due to fire, theft, impact by cars or animals lighting and other weather phenomena. It is important to note that theft cover was limited to no more than 2 claims within a 12 month period (SAIA, 2005a). This definition excludes other standalone short-term insurance products such as cell phone, warranties, motor vehicle, accidental death, legal and hospital cash-back insurance. Given how underdeveloped the asset insurance market is in the LSM 1-5 target market, a wider and more flexible definition may have been beneficial to market development and innovation.

Industry exempt from physical accessibility. The short-term insurance industry was exempt from the ‘physical accessibility’ component of effective access within its access targets, that is, ensuring the products are within 20km distance from the client. In the position paper the SAIA Access Committee argued that short-term insurance products are mostly sold through brokers, agents and out-bound calls. This exemption came about as one of the proposals which were discussed in the short-term insurance industry’s positioning paper (under the Mzansi generic product) and it was approved by the Financial Sector Charter Council, (even for products under the Mzansi product standards).

Derivation of the Mzansi product premium. The premium for the Mzansi product was derived based on estimates provided by actuaries from member companies. This premium was risk based and did not incorporate elements such as administration and distribution fees. Despite this, the Mzansi product’s premium did not deviate greatly from it. The Mzansi product suggested premiums and sum insured options are seen in Table 3 below:

Sum Insured Options	Combined Sum Insured ²⁰	Maximum theft cover	Suggested Premium (Rand)
Option 1	10,000	500	15
Option 2	15,000	500	20
Option 3	40,000	1,500	30
Option 4	75,000	2,500	60
Option 5	150,000	5,000	115
Option 6	220,000	7,000	170

Table 3: Mzansi insurance product premiums and sums assured in South African Rand

Source: SAIA, 2005a

Derived product premium provided a suggested premium. The derived premium for the Mzansi product was a “suggested” product premium. Members did not have to strictly comply with it, as this would have been deemed uncompetitive.

Mzansi product details. Table 4 below provides an overview of the Mzansi product. The following features are worth noting:

- The Mzansi product covered combined household structure and household contents against loss or damage caused by theft, impact by cars, fire and weather phenomena (hail, storm or rain).
- In addition there was a value added liability component of up to R50,000.
- SASRIA cover is also included at a discounted rate (if products comply with all the Mzansi product requirements).
- The Mzansi product allowed for irregular payment of premiums. If policyholders missed their first premium payment they were still covered within that first month, upon missing the second payment they were given a grace period of 15 days for payment of the second month’s premiums. Policies would then be cancelled if premiums had not been paid for three consecutive months.
- Irregular payments are also catered for as clients have to pay 80% of their premiums within a 12 month period while insurer and the client determine the settlement of the remaining 20%. It is important to note that where the client fails to pay they are not covered.
- Clients were given the options of repair, replacement, cash payment or any combination of the three when claiming.

Mzansi product also included SASRIA cover. SAIA negotiated discounted SASRIA²¹ rates for members who complied with the Mzansi standards and received accreditation from the Financial Sector Charter Council (FSCC). Following Mzansi product accreditation from the FSCC, SASRIA further assesses the products according to the Mzansi product requirements. Products only qualify for the SASRIA discount if they comply with all the Mzansi product

²⁰ The combined sum insured includes household content and structure cover with a value added liability component of R50,000.

²¹ SASRIA, The South African Special Risks Insurance Association, is a reinsurance company that covers extraordinary risks that insurance companies do not cover including damage caused by non-political riots and public disorder amongst other things. Clients are required to first have a policy with their respective insurer. Within the premium there is a SASRIA component.

requirements. SASRIA cover is for extraordinary risk events such as public riots (due to political instability) and acts of terrorism amongst others.

Premiums	To be paid at an agreed date between the client and the insurer.
Premiums not paid	It is important that the policyholder pays their premiums each month to make sure that they remain covered. If you as the policyholder cannot afford to pay your premium in any one month, we will not cancel your policy and we will give you a 2nd chance to pay that premium.
	If the policyholder does not pay the premium on the agreed payment date, they will not have any cover for that monthly period. From the second payment the insurance company will allow a 15 day period of grace for payment of the premium. All premiums must be fully paid before any claim will be finalised.
What is covered	Loss or damage caused by: <i>a. Fire,</i> <i>b. Theft</i> <i>c. Impact by cars or animals</i> <i>d. Lightning, explosion, storm, wind, hail, snow, flood</i>
	Cover is provided by SASRIA Limited and is automatically included in all sections of your policy, excluding Personal Accident.
	Liability (legal liability): Owner or tenant of the insured building, are covered up to R50,000 (fifty thousand rand) for any one event, including cost of expenses, where policy holder are legally responsible for: <i>a. accidental death of or bodily injury to other people caused by fire at policy holder's building</i> <i>b. accidental loss of or damage to other peoples' property caused by fire at the policy holder's building</i>
Policy cancellations	Policies may be cancelled at any time by the client
	Insurer may cancel your policy by giving you 30 days' notice
	Policies are cancelled when premiums are not paid for three months in a row
Claims	Can choose from the following options: 1. Repair 2. Replace 3. Cash payout 4. Any combination of the above
	When claiming at least 80% of premiums must have been paid at the time of the claim. The policyholder will need to pay the remaining, outstanding premiums before the insurance company will settle the claim.
	Proof of ownership required when claiming
First amount payable/excess	The first amount payable is the client's contribution towards loss or damage, and under this section you may be required to pay the first 1% of each and every claim with a minimum of R50.00
What is not covered	1. Consequential loss 2. Wear and tear of goods 3. Damage from pollution 4. Any loss from a contract entered into 5. Confiscated property

Table 4: Summary of Mzansi policy document

Source: SAIA, 2005b

Finalization of the Mzansi insurance product design. After the launch of the Mzansi insurance product, companies were then able to design their own products and create their own product strategies. The premiums shown in Table 3 above were recommended premiums and companies were free to stipulate their own pricing. SAIA provided the industry with a policy document which was to be adopted by all companies (a summary can be seen in Table 4 above). The individual company Mzansi insurance product design and implementation process took some time as it spilled over into the following year, 2006.

Some companies expressed issues with the theft component product features. Some member companies had issues with certain components of the Mzansi product, in particular, with the inclusion of theft cover. These companies reasoned that the inclusion of the theft component within the Mzansi product would increase the price of the product by up to 40%.

Envisioned outcome – the Mzansi insurance product. The main outcome of this process that was envisioned was the creation of a Mzansi generic short-term insurance industry product with standard policy document. Essentially, the Mzansi product was a common short-term insurance industry product with common wording. The product would carry the Mzansi brand (a variation of the Mzansi bank account brand). Companies were given flexibility to determine the product price (but were provided with suggested product prices).

Mzansi product approval process. The Financial Sector Charter Council's Sectoral Access Committee determines and recommends the various industry approaches towards meeting the Charter targets. In the case of the Mzansi product, the Sectoral Access Committee would have determined whether the Mzansi product met the Generic Access Principles and targets and then recommended it to the Financial Sector Charter Council. The Charter Council would have then determined the approval or disapproval of this product. To obtain individual company product approval, the companies would have had to approach the Sectoral Access Committee individually and present their respective products.

3.1.4. The move to Mzansi product standards

Challenges to the implementation of Mzansi product

On the 1st of November 2006, SAIA informed its members that Mzansi insurance standards (instead of the Mzansi product) would be used in guiding its members. The standards would also be used to design products that assist members of the short-term insurance industry in meeting Financial Sector Targets.

Implementation challenges delays adoption of Mzansi product. While the product design commenced with great momentum in 2005, 2006 revealed some challenges to the roll-out of the Mzansi product, namely the disapproval of the policy by the Competition Commission. In addition, the Mzansi product never went through the approval processes via the Sectoral Access Committee. The Competition Commission's disapproval of the Mzansi generic product's policy wording resulted in the move to the standards.

Competition Commission disapproval of policy wording. SAIA submitted a request to the Competition Commission for their opinion concerning the Mzansi product. This submission was in the form of a letter highlighting the information and details around the Mzansi

product. Competition Commission informed SAIA that it had disapproved the generic wording of the product as they stated it was uncompetitive.

Changes in policy wording in response to the Competition Commission. Due to the Competition Commission’s disapproval, the Mzansi standards went on to replace the Mzansi generic product. The Mzansi standards are largely based on the original Mzansi product’s policy and proposed terms and conditions. In response to the Competition Commission’s disapproval the Mzansi product provided the same requirements as the product, but provided more flexibility. While the Mzansi Generic Product had specific requirements, for example under irregular payments it was stipulated that 80% of premiums should be paid upon claiming. The Mzansi standards on the other hand, cited the payment of 80% of premiums under irregular payments as an example and not stipulated as a requirement. In essence the standards allowed more room for flexibility in terms of determining and interpreting the various product terms and conditions.

Mzansi product standards

Mzansi product standards based on the previous Mzansi product. The Mzansi standards were largely based on the original Mzansi policy document and the terms and conditions proposed. These standards would also guide the industry in the development of a ‘no frills’ short-term insurance product that would cover buildings or property and household contents. The standards were finalized by November 2006 and members were provided with a sample policy which companies could adapt according to their individual products. Companies were given flexibility concerning product design and distribution and were free to use individual company branding rather than the standard Mzansi logo (which were rejected by the industry as discussed above).

SASRIA discount for Mzansi standard accredited products still applicable. Products under the Mzansi standards also received the SASRIA discounted rate. As with the Mzansi generic product, only products that complied with all of the standards and received approval from the Financial Sector Charter Council would receive the discounted SASRIA cover of R1, compared to the normal price of R3.50.

Mzansi insurance product standards in brief. Table 5 below provides a summary of the Mzansi insurance product standards in comparison with the FSCC Sectoral Access Committee’s Generic Access requirements which insurance companies have to comply with in order to receive product approval. For an amplified version please see Appendix A.

Target market	Black people within LSM 1-5
Physical Accessibility	No physical accessibility standards as products marketed mainly through brokers, call centres or other financial institutions’ infrastructure
Appropriateness	<ol style="list-style-type: none"> 1. Meeting first order basic needs 2. Basic homeowners household contents and building insurance done on a sum assured basis 3. Small contributions need to be accepted but should have a choice of lump sum if this reduces costs 4. Ability to make up missed premiums should be allowed 5. Ability to pay premiums any day of the month

	6. Irregular payments should be allowed
Affordability and fair value	1. Allowance for irregular payment of premiums - 2. Household contents and Homeowners insurance should aim to replace that which was lost rather than provide cash. Replacement should be at the value selected; That is averaging should not apply.
Simplicity and understanding	1. The Mzansi policy wording must be constructed in the simplest language possible, in order to ensure both readability and understanding

Table 5 Overview of Mzansi short-term insurance product standards

Source: *Mzansi Insurance Standards and the FSCC Sectoral Access Committee Generic Access Standards*

- *Target market.* As per the Charter requirements the target market is stated as black people within LSM 1-5.
- *Physical accessibility.* As with the Mzansi product, the short-term insurance industry's exemption from the physical accessibility requirement of the Charter was still applicable to the Mzansi product standards.
- *Appropriateness.* To comply with the standards, products need to be appropriate for the target market and meet first order basic needs - the most basic insurable needs of the low-income market. These needs were identified as home owner's household contents and building insurance (as discussed in Section 3.1.2)
- *Affordability and fair value.* Products under the standard should be affordable and provide fair value, including allowing for irregular premium payments. Even where clients have missed payments of premiums, policies would not be automatically cancelled. The pricing scheduled developed for the Mzansi product remained as guidance but companies were free to determine their own pricing.

3.2. Impact of the Mzansi standards

In this section we consider the overall impact of the development and implementation of the Mzansi product standards.

Simplicity and understanding. Mzansi policy wording must be understandable in a manner that the terms and conditions are easily understandable and readable by the client. The document would also incorporate simplified SASRIA wording (as a part of the discounted SASRIA cover that had been included within Mzansi standard products). SAIA also provided sample policy wording for the standards in order to assist members in complying with this aspect of the Generic Access Standards.

Sales targets determined by overall market share. In October 2006, the short-term insurance industry negotiated a target of 262 500 policies (that represented 6% of LSM 1-5) with the FSCC Sectoral Access Committee. This target was not originally included in the Financial Sector Charter and was the outcome of subsequent negotiations between SAIA and the FSCC. The SAIA Access Committee proceeded to distribute the 6% LSM 1-5 market target across a short-term insurance companies according to the individual companies' overall market share (and not their share in the low-income market) as at 2004. This implied that larger companies (in terms of overall market share) received more onerous targets irrespective of whether they offered products to low-income clients at that time. At the

same time smaller companies with more substantial presence in the low-income market received proportionally less onerous targets.

3.2.1. Mzansi, near-Mzansi and Access products

Process issues concerning implementation of the Mzansi standards product. There were a number of issues with regards to the implementation of the Mzansi standards product.

- *Inconsistent product approval.* It was originally envisaged that companies would approach the Financial Sector Charter Sectoral Access Committee for approval of their products under the Mzansi standard. Initially the first companies who applied strictly complied with all the standards received accreditation. However as time progressed companies began receiving Charter accreditation even when their products did not strictly comply with all of the Mzansi standards.
- *Inconsistent product approval led to industry frustration and increased price.* Inconsistent product accreditation resulted in products under the Mzansi standards being more expensive as companies failed to benefit from the SASRIA discount which required strict compliance. Inconsistent product approval resulted in companies within the short-term insurance industry being more reluctant to implement the standard as accreditation could be achieved without strict compliance.
- *Inconsistent product approval also led to Mzansi brand resistance.* The inconsistent product approval process has also been cited as contributing towards industry resistance to the Mzansi Brand. In addition, due to what was described as “competitive” reasons and the inability of insurance companies to capture the full rents from their marketing efforts, companies did not use the Mzansi logo and did not individually or collectively market the Mzansi brand. Instead, companies chose to embark on individual marketing and branding drives for their respective Mzansi or near-Mzansi products. These marketing campaigns focused on the product and insurance company, with no effort to inform the public on the nature and value of the product standards. The inconsistent product approval and accreditation process may also have undermined members’ perceptions of the value of the Mzansi brand.
- *Certain companies negotiated for exemption.* Certain companies within the short-term industry received exemption from achieving the access to financial services targets. One cited example was an insurer who received exemption from the Financial Sector Charter Council because they argued that their products do not typically serve the LSM 1-5 market. These exemptions also created industry resistance to the Mzansi product due to inconsistent enforcement of compliance.

Mzansi, near-Mzansi and Access products. The combination of the Mzansi standards and the inconsistent approval process noted earlier resulted in the emergence of three types of products: full-Mzansi, near-Mzansi and access products. Full-Mzansi products are those that are compliant with all of the standards and have received accreditation from the Financial Sector Charter Council. Near-Mzansi products are those that have received accreditation from the FSCC and comply with most but not all the requirements of the standards. Access products may have been influenced by the Mzansi standards but are further removed in their features. For various reasons these products have not received accreditation from the FSCC but they target LSM1-5.

Five insurers developed Mzansi standard products but three received Charter accreditation. In response to the standards, 5²² SAIA members engaged in designing 2 full-Mzansi standard products, 1 near-Mzansi standard and 2 access products all targeted at the LSM 1-5 market.

Limited take-up. From discussions with insurance companies, the total sales to date of full-Mzansi and near-Mzansi products can be estimated at no more than 26,000 policies. This fell far short of the 2014 target of 262,000 policies, of which 146,000 was due at the end of 2010. Below, we give an overview of Mzansi, near Mzansi and access products.

Full-Mzansi standard products. As noted earlier, full-Mzansi products refer to those that are fully compliant with all of the Mzansi standards and received Charter accreditation. Only two products meet these criteria:

- *Santam Multihome.* In response to the creation of the Mzansi standards Santam launched the Multihome product in 2006. The product is distributed through affinity groups such as church groups and burial societies. Premiums range between R21 to R100 with the average premium being R80 which provides R250,000 cover on a sum assured for building and or household contents (without household content having a limited amount). Clients may choose to insure either household contents or building structures individually or both. Clients can choose to have their premiums paid in cash or through debit order. If clients pay for the premiums on a cash basis, they only have one month's worth of cover.
- *Mutual and Federal Insurance 4 All.* Mutual and Federal's Insurance 4 All product was launched in April 2008 and covers both household contents and building structure. Premiums start at R21 with cover for household contents ranging from R10,000 to R40,000 while cover for building structure could range from R18,000 through to R108,000. The product also includes liability cover to the value of R50,000. A flat excess of R100 is payable on any claim. In addition, the product included a form of funeral cover, referred to as bereavement cover, amounting to R2,150 and payable on the death of the main policyholder. Mutual and Federal utilises Nedbank and Mutual and Federal agents to source leads in target areas within reach of the LSM 1-5 market. These leads are then followed up by Mutual and Federal Call Centre agents.

Near-Mzansi standard products are those that received Charter accreditation but did not strictly meet all the Mzansi requirements.

- *Hollard Jet Protect.* Hollard partnered with Jet, one of South Africa's leading clothing retailers targeting the low-income market, to distribute this product. The Hollard Jet Protect product is available exclusively to Jet account holders and premiums are incorporated in monthly account repayments. For a premium of R99, clients receive R50,000 worth of household contents cover, R50,000 building cover and R15,000 cover in the event of theft (limited to two events per annum). The main sales channel is through Jet stores with out-bound calls to Jet account holders being the primary sales method. Hollard representatives highlighted that while the product has received Mzansi accreditation from the Financial Sector Charter Council it does not comply with all of the standards. Firstly, the product does not cater for the irregular payment of premiums and

²² This figure is based on companies that designed products to meet the needs of the low-income market – even though these are not all Mzansi accredited. Mzansi accredited: Mutual and Federal, Santam and Hollard. Access or near Mzansi: ABSA and OUTSurance.

secondly the product does not offer liability cover. The product did not receive the SASRIA discount as it did not comply with all of the standards.

Access products refer to those that have not received accreditation from the Financial Sector Charter Council but were inspired by the Mzansi product standards. These products target LSM 1-5 and largely follow the Mzansi standards but may not comply with all of the requirements.

- *OUTSurance essential.* OUTSurance launched the Essential product in 2005 as the company's only product offering targeting the LSM 1-5 market. Initially this product offered motor vehicle insurance only, but household content and building were added in 2008. The household content and building products can be sold separately. The average premium for household contents is R74, for R40,000 cover, for building R50 for R140,000 cover and for motor vehicle R185 for R27,000 cover. Risk is written on an individual basis and the product is flexible in design allowing customers to choose which products they want and levels of cover.
- *ABSA Flexisure.* ABSA Flexi-sure product is sold to clients with ABSA Flexi-sure bank accounts via the tick box method. The product targets those who fall within the LSM 1-5 market. Potential clients are identified by the bank's agents upon signing for a Flexi-sure bank account and are then prompted by the teller as to whether they would like to purchase the product. The product has two components: household content cover and building cover. The household content component also includes theft, public liability and personal accident cover. The second component allows the client to add on building cover as a separate product. Each of these products is sold separately but clients can choose to combine the two. Premiums for household contents and others are set according to various plans from plan A to D ranging from R22.35 to R82.75 for combined cover for all the elements ranging from R71,500 to R132,500. Premiums for the building component are also set from plan A to D. R8.75 to R52.50 for cover ranging from R25,000 to R150,000.



Mzansi products								
Insurance company	Product	Premium	Cover/sum assured	Cover premium ratio	Liability cover	Distribution	Irregular payments	Excess
Santam	MultiHome	R21 (minimum) - R100 (Maximum) Average premium R80	Building and/or household contents: R250,000 for average premium of R80 but can also range from R40,000 - R370,000 Theft/robbery: Limited to 10% of the sum assured SASRIA cover included	Building and/or household contents - using average premium and cover: 32 cents per R1000	R50,000	Affinity group, and previously through Shoprite	Allowed	1% of the claim cost minimum R50
Insurance company	Product	Premium	Cover/sum assured	Cover premium ratio	Liability cover	Distribution	Irregular payments	Excess
Mutual and Federal	Insurance 4 All	R21 (minimum)	Building: R18,000 - R108,000 Household contents: R10,000 - R40,000 SASRIA cover included	Building and household contents combined - using minimum figures: 75 cents per R1000 cover	R50,000	Through Nedbank and Mutual and Federal agents who advertise within local communities and other target areas	Allowed	R100

Table 6 Full-Mzansi product features

Source: Various insurance company sources of information



Near Mzansi products									
Insurance company	Product		Premium	Cover/sum assured	Cover premium ratio	Liability cover	Distribution	Irregular payments	Excess
Hollard	Jet Protect		R99.00	Household contents: R50,000 Building: R50,000 Theft/robbery: R15,000 SASRIA cover included	Building, household contents and theft combined: 86 cents per R1,000 cover	None offered	Through Jet stores retail outlets	Not allowed	R100
Access products (not Mzansi accredited)									
Insurance company	Product		Premium	Cover	Cover premium ratio	Liability cover	Distribution	Irregular payments	Excess
Absa	Flexisure	PLAN A - PLAN D	R22.25 to R82.75 for (household contents, public/personal liability, personal accident and theft) and R8.75 - R52.50 for building	Household contents: R15,000 - R70,000 Building: R25,000 - R150,000 Personal Accident: R5,000 Theft/robbery: R1,500 - R7,500 SASRIA cover included	Household contents and others - using plan A premiums and including liability: 31 cents per R1000 Building - using plan A premiums: 35 cents per R1000	R50,000	Tick-box method - Through ABSA bank account holders	Not allowed	No excess required upon claiming



Insurance company	Product	Premium	Cover	Cover premium ratio	Liability cover	Distribution	Irregular payments	Excess
OUTSurance	Essential	R50 (average) for building R74 (average) for household contents R185 (average) for motorvehicle	Household contents: R40,000 (average) Building: R50,000 Motor-vehicle: R185,000 (average) SASRIA cover included	Household contents - using average rates: R1.85 per R1000 cover Building - using average rates: R1 per R1000 cover Motor vehicle - using average rates: R6.85 per R1000	Yes	In-bound call sales	To be verified	R300

Table 7 Near-Mzansi and Access product features

Source: Various insurance company sources of information



Table 6 provides Mzansi and Access product features. From these tables there are a number of issues worth noting:

- *Not all Charter-accredited products comply with all of the standards.* Both the full-Mzansi and near-Mzansi product categories obtained Charter accreditation. While the near Mzansi product (Hollard's Jet Protect product) was accredited it did not comply with all of the standards, namely the allowance of irregular payments.
- *Additional features added to Mzansi requirements.* There are a number of products that included new and add-on components beyond the requirements of the standards such as motor vehicle insurance (e.g. OUTSurance Essential), bereavement cover (e.g. Mutual and Federal Insurance 4 All) and personal accident cover (e.g. ABSA Flexisure). These are positive additions indicating that companies are exploring additional needs of the target market and also seeking ways of differentiating their offering while still aligning with the standard.
- *Excess payments vary.* The Mutual and Federal Insurance 4 All and Hollard's Jet Protect products make reference to the payment of a R100 flat excess. Santam's Multihome product has an excess of 1% of claim amount with a minimum value of R50. ABSA's Flexisure product does not require clients to pay any excess upon claiming. OUTSurance's Essential product has an excess of R300.
- *SASRIA cover.* Interestingly all products (Mzansi, near Mzansi and Access) have SASRIA cover. Products that receive Mzansi accreditation and have complied with all of the standards receive discounted SASRIA cover. In this case the products that have received SASRIA discounted rate are Mutual and Federal's Insurance 4 All and Santam's Multihome. Both the near Mzansi and access products also include SASRIA cover but not at the discounted rate. While Hollard's near Mzansi product received accreditation from the Charter Council, it did not receive the SASRIA discount as it was not fully compliant with the Mzansi standards.
- *Not all products allow for irregular payments.* The standards require that companies allow for irregular payment of premiums. ABSA's Flexisure and Hollard's Jet Home Protect do not allow for irregular payment of premiums. The main problem noted is the high cost of amending current accounting systems to allow for flexible payments. This feature was one of the key stumbling blocks noted to compliance with the Mzansi standard. The degree to which this requirement is a problem is likely to be determined by the flexibility and nature of a particular firm's management information system.
- *Cost of allowing irregular payments and call centre access noted as the main stumbling block.* It is interesting to note that the near Mzansi products complied with the majority of the Mzansi standards. Several reasons were raised for stopping short of compliance with the standard. Firstly, the stalling of Charter negotiations raised substantial uncertainty and undermined the incentive that Charter points gave to compliance with the standard. Furthermore, given this uncertainty, some of the features of the standard requiring particular up-front implementation efforts became less attractive. For some companies features such as grace periods and premium flexibility may, for example, require costly up-front changes to management information systems. Call centre access was also noted as costly to implement, particularly at current low volume levels. The conclusion seems to be that these features are not impossible to implement but will require innovation and up-front effort to implement.
- *Average premium/cover ratios in-line with actuarial suggestions for Mzansi product.* It is interesting to note that the premium ranges are still in line with the ranges suggested for



the Mzansi product (prior to the standard). The premium range for the household structure and content products reviewed is between R21 and R100 with corresponding cover of between R10,000 and R370,000 for building and property. As measure of comparison, the premium cost per thousand of building cover varied from 32c to R1.85.

- *The cost of Mzansi features.* As noted earlier, some industry actuaries estimated that the on-going cost of the additional features including irregular payment of premiums (and the inclusion of theft cover) could add 40% to the overall premium. Interestingly the pricing of some of the products has recently been reduced by almost 50%²³. This would suggest that industry is revisiting their earlier pricing expectations and that the cost impact of Mzansi features seems to have been over-estimated.
- *Actively sold products achieved more success.* Finally, it is worth noting that active sales seem to be a requirement to achieve take-up and that the level of sales achieved is correlated with the sales effort. This reflects the fact that the low-income market is not familiar with asset insurance and successful sales channels would therefore have to be able to explain and sell the product.

3.2.2. Mzansi branding and marketing



INSURANCE

Figure 1 Mzansi Insurance Brand

Source: SAIA, 2011

Poor adoption of the Mzansi brand. SAIA developed a Mzansi²⁴ logo which was intended to be used for shared marketing and branding purposes. None of the full-Mzansi or near-Mzansi standard products²⁵ actually included the Mzansi branding in their marketing material or policy documents.

Individual marketing efforts versus collective branding. Furthermore, due to what was described as “competitive” reasons and the inability of insurance companies to capture the full rents from their marketing efforts, companies did not individually or collectively market the Mzansi brand. Instead, companies chose to embark on individual marketing and branding drives for their respective Mzansi or near-Mzansi products. These marketing

²³ Hollard’s Jet Protect product has seen a price decline from R99 to R49.

²⁴ As noted earlier SAIA negotiated with the Banking Council of South Africa the use of the Mzansi bank account logo as part of a joint quest to reach the low-income market.

²⁵ Excluding Mutual and Federal who are yet to provide us with marketing material and the official policy document.



campaigns focused on the product and insurance company, with no effort to inform the public on the nature and value of the product standards. While the Mzansi product standard was partially incorporated in SAIA's consumer education initiative, more would need to be done in order to successfully raise awareness. An indication of the investment required to establish a universal brand offering is the initial joint marketing cost of the Banking Association of South African who spent R10 million²⁶ in joint marketing campaigns to create initial brand awareness for the Mzansi bank account. This initiative (combined with industry efforts) successfully raised awareness of Mzansi bank account with 64% of people in LSM 1 – 5 (FinScope, 2010) indicating that they knew of the Mzansi bank account.

Potential negative connotations to the brand. In addition, industry consultations revealed that some insurance companies believed that the low-income market carried a negative impression of the Mzansi brand. This is one factor that contributed to lower adoption rates of the Mzansi branding by companies in the final product branding process. It must be noted, however, that the banking industry achieved substantial levels of take-up based on the Mzansi brand and their collective marketing efforts suggesting that they had no such problem with the brand.

Low brand awareness in target market of Mzansi insurance standards. It is no surprise, therefore, that to date, the Mzansi standard achieved very little brand awareness amongst the target population. Ironically, this has resulted in some insurance companies questioning the value of the brand. This is, however, a questionable position given that no investment was made by the companies individually or collectively in building the brand. Without the benefit of a powerful collective brand, the standard is reduced to industry-designed product regulation and a compliance exercise with no commercial benefit to the participating insurers.

²⁶ Estimated figure provided by Stuart Grobler, Banking Association of South Africa Senior General Manager



4. Zimele product standards

In contrast to the short-term industry, the long-term industry already had an established presence in the low-income market prior to its Charter-led initiatives. The LOA reported that, by 2004, close to 2.3 million policies had been sold to people in the LSM 1 – 5 category, mostly funeral and credit life. It is perhaps this fact that accounts for the differing approaches adopted by the LOA in responding to the Charter’s access pillar. The particular details of the LOA response leading up to the launch of the Zimele standards is contained in section 4.1 below.

ASISA and the LOA. Prior to 2008, the industry body representing long-term insurers in South Africa was the Life Offices Association (LOA). From 2008, the functions and responsibilities of the LOA were subsumed into the Association for Savings and Investment South Africa (ASISA). In addition to the representing the life industry, ASISA took over the responsibilities of the Association of Collective Investments (ACI), the Investment Management Association of South Africa (IMASA) and the Linked Investment Service Providers Association (LIPSA). One of the LOA’s primary functions was to represent its members in discussions and negotiations with regulators, policymakers, and other stakeholders on issues impacting on the life industry. In the discussion of the history of the standards, we shall refer to the LOA and in rest of the document we will make reference to ASISA when discussing the long-term insurance industry body.

Access committee to drive Charter response. In 2004, one of the primary concerns of the long-term industry was the uncertain impact of the Financial Sector Charter’s Access to Financial Services pillar (the “Access” pillar) on the industry. To this end, the LOA constituted a subcommittee on access to co-ordinate and drive the life industry’s response to this particular aspect of the Charter. The committee’s terms of reference included, inter alia, the following: (i) provide a common interpretation of access for the life industry, (ii) develop strategy for industry compliance with the Charter, (iii) implement the strategy and provide on-going monitoring and reporting of progress to the LOA board and through them the Charter council. The committee was made up of representatives of the different life offices.

The Charter defined effective access to financial products as the following: (i) physical access, (ii) appropriateness of products, (iii) affordability and fair value, and (iv) simplicity and understanding of products (Financial Sector Charter, 2004). The subcommittee on access, therefore, used this conception of access as point of departure in developing their response.

Even though the overall objective of the Charter was to enhance “effective access”, the LOA proposed to use penetration levels (usage of appropriate insurance products) as the best way of measuring success in providing effective access to the LSM 1 -5 category.

4.1. Development of standards

Following its formation, the subcommittee on access worked closely with industry in preparing their collective response to the Charter. Towards the end of 2004 and the beginning of 2005, the committee began work on preparing an industry proposal that would detail the industry’s course of action in as far as the Charter’s Access pillar was concerned.



After making progress on the proposal, the committee organised an access workshop where various aspects of the proposal were tested with the life industry. Following the workshop, a formal proposal called the “Access Interpretation for Life Insurers” was submitted to the Financial Sector Charter Council in June 2005 for approval. The LOA submission extensively addressed issues pertaining to access. What follows below is an account of the content of the proposal and the thinking that went into its development.

LOA proposal centred on product standards. The Charter’s access to financial services pillar (or simply the Access pillar) emphasised the development of appropriate products as one facet of effective access. To this end, the committee proposed a set of product standards to act as a guide to the industry in their efforts to develop appropriate products. The standards were the centrepiece of the proposal in the sense that all other industry initiatives to enhance effective access followed from them. Further, the industry’s assessment of how well it had done in enhancing effective access would be dependent on the market penetration of standard-compliant products in LSM 1 – 5.

Standards and not products. Similar to the banking sector’s Mzansi account, the subcommittee on access opted for standards as opposed to an industry-wide uniform product. The committee believed that minimum standards for each product were a better choice for the life industry with its existing variety of options, allowing each life office to provide the flexibility to offer a range of enhanced or additional benefits. Standards would also not undermine the competitive element, which was key for innovation on the product and distribution front.

Subcommittee consulted competition commission. The committee was also aware of the fact that an industry-wide uniform product may have contravened the Competition Commission Act of 1998. The committee, through the Charter Council, wrote to the Competition Commission in September of 2006 seeking an opinion as to the legality of the standards in terms of the Competition Act. In its ruling, the commission stated that the product standards for both the long-term and short-term did not appear to violate the provisions of the Act.

LOA provided interpretation of effective access. A first step in the LOA response to the Charter was to provide an interpretation of effective access, essentially a direct response to the Access pillar’s six facets. For the LOA, a person in LSM 1 – 5 who wishes to mitigate a first-order basic risk would be considered to have effective access to a life product when:

- *Needs-based products.* “they are able to obtain a product with benefits that address his/her relevant insurance needs appropriately...”
- *Affordability and value.* “...they are able to meet the monetary obligations attaching to the product and is able to obtain fair value from the product...”
- *Simple and understandable.* “...they are able to understand the benefits, terms and conditions applying to the product because of the simplicity of the explanation of the product...”
- *Non-discriminatory.* “...they are not discriminated against when seeking access to the product/service...”
- *Transactional access.* “...they can access the selling, servicing and payment points/mechanisms when reasonably required...”



- *Awareness.* “...they are aware of the existence of these products, the risks they are able to mitigate and the location of selling, servicing and payment points/mechanisms for these products...” (LOA, 2005).

The standards, therefore, were very much shaped by the above interpretation of effective access. In this way, the ensuing standards were therefore addressed at products relevant to the risk mitigation needs of the LSM 1 – 5. Furthermore, the standards were to act as price guidelines for such products and in the process guaranteeing affordability and value for money. Thirdly, the standards were to ensure that all policy documentation was to carry simple and understandable information. Finally, such products were to be sold on a non-discriminatory basis.

Transactional access and increasing awareness not part of standards but part of broad overall initiative. The LOA in their proposal did not develop separate standards for transactional²⁷ access and consumer awareness. However, the two were ascribed targets that were interlinked with the standards. For instance, transactional access had to be granted to Zimele products only. Similarly, awareness campaigns needed to promote the existence of such products.

Finalization of the format of the standards

Standards modelled around the UK’s CAT standards. In developing the standards, the subcommittee on access adopted an approach similar to the United Kingdom’s CAT standards. The CAT standards (which stand for fair Charges, easy Access and decent Terms) were introduced in 1998 by the Treasury to guarantee the sale of appropriate savings products to the low-income population in the UK (see Box 2). The CAT concept was thus used as point of reference in developing the Zimele standards. As a matter of fact, the Zimele standards were initially referred to as the CAT standards.

Box 2: UK CAT standards

In 1998, Her Majesty’s Treasury (HM Treasury) in the United Kingdom introduced a set of voluntary standards for Charges, Access and Terms for certain kinds of Individual Savings Accounts (ISAs). ISAs are types of savings accounts that are designed to encourage people to save through different types of tax incentives and are mostly targeted at the lower end of the income spectrum. Companies offering CAT compliant ISAs should ensure that advertising material for such products does not imply that:

- They are automatically more suitable for all savers
- Their performance is guaranteed
- CAT standard ISAs are in some way approved either by government or the regulator.

In as far as the last point is concerned, the Pensions Investment Authority (PIA) which is the regulator, does not certify whether an ISA meets the CAT standards. Companies are encouraged to self-certify that their ISAs comply with the regime prescribed by the HM Treasury. The PIA maintains on-going monitoring of ISA advertisements to check that firms are not making any unfair or misleading statements and are making the appropriate disclosure with details of whether or not their ISA meets

²⁷ Physical access under the access to financial services pillar of the Charter is referred to as transactional access within the life industry.



the CAT standard.

Source: Financial Services Authority (FSA), 1998

Needs discerned from FinScope 2004. In order to identify priority needs around which to develop standards, the subcommittee on access turned to the findings of the 2004 FinScope survey on financial usage and a 2004 FinMark Trust study titled “Making insurance markets work for the poor in South Africa” (Bester, et al, 2004). The LOA did make some input into the design of the questionnaire for the 2004 edition of the FinScope survey. From the two studies the following key risks were identified in order of importance: death of main wage earner, serious illness of member of household, death of family member, illness preventing main wage earner from working, death of partner and poverty in old age.

Standards developed for life cover only. The standards were accordingly shaped to address the three priority needs identified: covering death of main wage earner, death of family member and death of partner. The strict demarcation between health insurance and medical schemes²⁸ meant that the committee focused their efforts around health insurance on various forms of income replacement due to illness and injury. Retirement provision, though an identified need, was not contained in the Charter’s definition of first-order priority needs and was therefore considered to be outside the committee’s purview. In a similar manner, the committee did not consider developing standards for a savings product as this was also not covered by the Charter’s definition of first order products. Furthermore, the National Treasury was at the time considering the introduction of the National Savings Fund (NSF) so this area would have been dealt with under a different process.

Initial proposal was for standards for funeral and credit life. The industry felt that it was most urgent to develop standards for funeral and credit life, products that already had achieved significant penetration in LSM 1 – 5. The understanding at that stage was that standards for life products and disability products would be proposed at a later stage. The proposal, therefore, only included standards for funeral insurance products (covering member, spouse, children and parents) and for credit life. Even though the original proposal also contained standards for mortgage protection, they were not implemented as the industry was of the opinion that mortgages were rarely marketed and applicable to the LSM 1 – 5 or low-income market.

Prevailing funeral prices used as anchor for pricing guidelines. In early 2005, the LOA commissioned a study that compiled and analysed average prices for existing funeral products in South Africa. The range of existing prices and the proposed maximum prices for R10,000 cover are summarised in Table 8. What is evident from the table is that the proposed maximum prices were on average R28 higher than existing products. The committee justified this by arguing that the additional product features and characteristics intrinsic to LSM 1 – 5 necessitated the price differential. The following four characteristics were singled out as justification for the price incremental:

28 The LOA/ASISA could not develop standards for a health insurance product since health insurance in South Africa falls under the Medical Schemes Act of 1998 whereas life insurance is regulated under the Insurance Act of 1998.



- *Link between mortality and socio-economic status.* Mortality was argued to have a very strong socio-economic link, with people from poor households experiencing significantly higher mortality than the general population.
- *Existing products were mainly distributed to a population within easy reach.* Existing products were mostly sold to areas within urban centres. The fact that the Zimele compliant products had to be distributed across the country implied additional costs.
- *Enhanced product features inspired by the standards implied additional costs.* For instance the standards (see Table 10 for a summary of features of the standards) required an additional grace period over and above the standard one month. In actual fact the grace period was extended by one month for each year that the policy had been in-force up to a maximum of 6 months. Secondly, the standard waiting period was 9 to 12 months for funeral products whereas the Zimele standards were proposing 6 months. Thirdly, whereas pricing for exiting products increased in line with age of principal member, the standards proposed that age-at-entry would be the only factor affecting price.
- *Lapse rates higher within the low-income market.* Policy lapse rates were argued to have a socio-economic link with policyholders from poor households having higher lapse rates than the rest of the population. Limited access to reliable payment mechanisms and unaffordability of premiums as a result of variable incomes are some of the factors that were suggested to influence this.

	Individual			Family			Parent		
Age at first entry	35	45	55	35	45	55	65	75	80
Average premiums (existing products)	R38	R39	R45	R62	R64	R71	R88	R126	R157
Proposed maximum premiums	R45	R45	R65	R75	R75	R135	R85	R175	R240

Table 8: Range of existing pricing as at May 2006 and proposed pricing for Zimele standards for R10,000 cover

Source: LOA/ASISA, 2006

Broad guidelines provided for ensuring that policy documents are comprehensible. The Access pillar of the Charter required that policy documents for products sold to LSM 1 – 5 be easily understood. To this end, the subcommittee on access proposed that Zimele policies had to include a brief and simple summary of key policy terms that would provide a broad summary of the product at the sale and policy issue stages. In addition, these summaries, where practicable, were to be made available in South Africa’s eleven national languages. The initial proposal did not contain a standard template of the type of wording to be used for the summaries. It merely contained broad guidelines or principles. It was only in December 2006 that the LOA subcommittee on access developed and circulated a standard template at the request of the industry (see Appendix B for an example of the template).

Country divided into adjacent polygons to operationalize transactional access. Unlike the short-term insurance industry, the life industry did not seek exemption from transactional access requirements but sought a different interpretation that suited the life cycle of an insurance product. The Access pillar of the Charter required that 80% of LSM 1 – 5 have



transactional access to appropriate products. This required of life insurance companies to ensure that 80% of LSM 1 – 5 adults were within easy reach of sales and servicing points. To achieve this, the subcommittee commissioned AfriGIS, a geographical information and communications solutions provider, to draw equal-sized regular polygons of 40kms in diameter which were to be over-laid on a socio-economic mapping of the country in such a way that 80% of LSM 1- 5 adults spent most of their time working and/or living within such polygons. The committee then proposed that transactional access would be achieved in any polygon if a company:

- “Makes at least twelve sales of approved products per annum within the area defined by that polygon, i.e. where policyholder resides and/or works,
- Is able to collect premiums and service the policy within the area defined by that polygon at least monthly, and
- Is able to process a claim in that polygon or any adjacent polygon (i.e. within 80kms) at least every second day because of the existing servicing point, that is, a location where life insurance services are available, or the existence of a suitable electronic transaction or communication infrastructure e.g. a bank branch or ATM²⁹ or postal and phone/fax facilities, or the presence of an intermediary or representative” (LOA, 2005).

Raising awareness and consumer education. The subcommittee adopted the Charter requirement of spending 0.2% of post-tax operating profit to increase the level of knowledge and awareness on where appropriate products could be purchased. The awareness campaigns needed to point out the characteristics and suitability of such products.

Pure life and disability standards conceptualised later. As stated previously, the initial proposal submitted to the Financial Sector Charter Council in 2005 only contained standards for funeral, credit life and mortgage protection. Following the approval of the funeral standards by the Charter council, the subcommittee on access began developing standards for pure life products and disability products thus addressing more of the needs identified in the 2004 FinScope survey. Much of the crafting of the additional standards took place in 2006. They were then submitted to the Council for approval in 2007 with formal approval granted in January of 2008.

Collective brand to establish trust. The industry chose the Zulu word Zimele, meaning to “stand on your own two feet”, as the name to refer the standards by, in quite the same way that the short-term standards were referred to as the Mzansi standards. A logo was designed to accompany all Zimele compliant products (see **Figure 2** below). The logo was meant to provide assurance for customers buying Zimele compliant products in similar fashion to the South African Bureau of Standards logo.

²⁹ Automated Teller Machine



Figure 2: Zimele logo which accompanies all compliant products

Source: ASISA³⁰

4.2. Targets, measurement and scoring

Section 8 of the Financial Sector Charter required the life insurance industry to propose a set of targets against which the industry's progress could be gauged. The targets were separated in to two parts: overall industry targets and individual company targets. In addition, a scoring proposal was also included to incentivise the companies to meet their targets. Below we discuss the rationale for arriving at the various targets and how the scoring was distributed among individual companies.

Targets focused on take-up and ease of access. The LOA proposed that the best measure of success for the industry would be the penetration rates of appropriate products and the extent to which these products were accessible to LSM 1 – 5 adults. The scoring proposal, which is discussed below, reflected this thinking.

23% take-up in LSM 1-5 targeted by 2014. The committee proposed a target of 23 per cent for market penetration in LSM 1 – 5 by 2014. Given that 2004 penetration was estimated at 13 per cent, the 2014 target implied an 80 per cent increase in penetration. In other words, the industry wanted to increase the number of policies from 2.3 million in 2004 to 4 million by 2014 (as per the Charter deadline for targets).

Rationale for industry and individual targets. To arrive at the industry target, the LOA looked at data concerning life insurance usage derived from the 2004 FinScope survey. From the survey, the total penetration of any life insurance (excluding credit life) plus burial societies and stokvels³¹ within the LSM 1 – 5 or low-income market was estimated at 40 per cent. This was used as a proxy for the potential market for both formal and informal insurance products within LSM 1 – 5. The next step was to derive what level of penetration of this potential market could be achieved by formal insurance products. LSM 9, which was the most highly penetrated category, was used to derive the industry target for penetration of formal insurance. Firstly, it was assumed that the total potential market in LSM 9 would be 100% of that category as it was assumed that access barriers such as affordability or transactional access would not apply. FinScope reported that 46 per cent (or 50 per cent

³⁰ www.asisa.org.za

³¹ Burial societies and stokvels are informal groupings. Stokvels are primarily savings and loans groups.



when rounded off) of people in LSM 9 had a funeral insurance policy. Thus, the 46 per cent (or 50 per cent) was taken to represent the maximum penetration achievable, for formal funeral insurance, in LSM 9. Applying this to the potential market estimate in LSM1-5 meant that the total potential formal penetration was estimated at 20%³².

Additional 3 per cent added for credit life due to industry reservations. The access sub-committee had a difference of opinion as to whether to include credit life in the industry target. Arguments in favour of credit life were that it mitigated risk by providing life cover and that it was successfully sold to the LSM 1 – 5 or low-income market. The main argument against the inclusion of credit life was that its success depended on a factor that was outside the control of the life industry, namely the issuance of loans which was the preserve of the banks and micro-lenders. As a compromise, the committee recommended a 3 per cent target for credit life product provision to the LSM 1-5 market. This brought the total target to 23%.

Two concerns on the target can be raised:

- *Funeral insurance may be considered an “inferior good.”* This is based on the assumption that the higher your income, the less demand you would have for this product. Penetration in LSM 9 segment of the population may, therefore, underestimate the potential penetration at lower-income levels.
- *Credit life penetration is under-reported in the FinScope survey.* Given that practically all credit agreements will include compulsory credit life insurance, it may be reasonable to estimate penetration by looking at credit penetration. Earlier estimates of credit penetration estimated the number to be in-excess of 1.75 million people (Aliber, undated). This would suggest that the 3% target for credit life was too low.

In favour of the estimate, it did include stokvels in the estimate of the potential market, while most stokvels will only provide credit and savings and not informal insurance.

Individual targets arrived at by apportioning industry target using the market share of the individual companies. As at 2004, there were a total of 17.4 million adults in LSM 1 – 5 or low-income market. The number of life insurance policies in-force was 2.3 million. A target of 23 per cent meant that the industry had to collectively add 1.7 million policies by 2014. Annual targets for individual companies that would cumulatively and collectively add up to the 1.7 million extra policies were determined via Box 3 below.

Box 3: Formula used to calculate individual company targets

Annual target = $(N/9 \times A \times B) + C$,

Where:

N = 1 for 2006, 2 for 2007 and so on up to 2014

A = New business market share (2004) across all products and income categories

B = target of additional 1.7m in-force policies

C = Number of LSM 1-5 policies in-force at 31 December 2004

³² This was calculated as 50 per cent (LSM 9 penetration) of 40 per cent (penetration of all formal and informal insurance products in LSM 1 – 5).



The formula has the following implications:

- The formula allows for successive increases in the annual target, as N runs from 1 to 9. Bigger companies (defined as market share across all products and income categories) will be awarded a larger proportion of the target irrespective of whether they have business in LSM 1-5.
- Offices with policies already in-force in LSM 1 -5 also had higher targets than the rest.

For transactional access and raising awareness, the targets were as discussed before: the industry had to ensure that 80% of LSM 1 – 5 could easily access a sales and servicing point. As for raising awareness, life companies were expected to spend at least 0.2% of post-tax operating profit on consumer education and awareness campaigns.

70% of access points awarded to market penetration and transactional access. The LOA proposed that 10 points out of a total of 14 be awarded to any company meeting its annual targets. This was done to underscore the fact that market penetration and transactional access were the primary measures of effective access. More specifically, a maximum of 7 points was awarded for market penetration of appropriate products and a maximum of 3 points awarded for transactional access. Companies meeting fractions of their targets would also receive pro-rated scores.

Two points awarded for compliant products. Any life office selling compliant products stood the chance of scoring up to a maximum of 2 points, calculated according to the formula $1/n \times 2$ for each compliant product meeting the standards. n in the formula stands for the total number of products for which product standards had been developed. So for example, the industry developed standards for 4 product types (funeral, life, disability and credit life) implying that $n = 4$. So a company hoping to score a maximum of 2 points would have to offer compliant products in all four categories, i.e. $(1/4 \times 2) + (1/4 \times 2) + (1/4 \times 2) + (1/4 \times 2) = 2$.

2 points for consumer education bringing industry total to 14 points. Any company spending at least 0.2% of post-tax operating profit scored 2 points. Unlike the other targets, proportional scores were not awarded for meeting fractions of the target. Failing to meet the 0.2% target implied zero points scored. Another complication with this scoring proposal was that the current year's spending would be measured against the current year's profits, which can only be known after the fact. This might lead to a situation where by companies spend more than required (i.e. more than 0.2% of post-tax profits) without commensurate compensation, or in the worst case underspend due to underestimating the current year's profits. A better proposal would be to allow (see Smith et al, 2010b). The 2 points for consumer education brought possible total to 14 points.

Limited incentive for offering products beyond funeral. The Zimele funeral insurance standards were the first to be launched in February of 2007 and to date funeral insurance dominates reporting under the Zimele standard. With the scoring proposal as set out above, a company could in theory achieve a score of 12.5 out of 14 by just offering one compliant funeral product. This could be achieved if the company scored maximum points for market penetration (i.e. 7 points), maximum points for transactional access (i.e. 3 points), 2 points



for consumer education and 0.5 points ($\frac{1}{4} \times 2$) for appropriate products. So the 1.5 points forfeited under appropriate products could be more than made up for under the other categories. Conversely, a company could score maximum points under appropriate products (i.e. gain the 1.5 points forfeited) by offering a wider variety of products, some of which may be more complex to sell. So the 1.5 points gained may not compensate for the points lost on other factors such as assuring transactional access and increasing take-up of a more complex product like life insurance. As a result only two companies offer Zimele-compliant life products and the take-up has been limited.

“Form D” returns required to claim points. To claim annual points with respect to market penetration and transactional access, each life office was required to submit semi-annual returns of their progress towards the market penetration and transactional access targets. These returns were to be submitted in a standardised form, referred to as “Form D” (see Appendix C), to LOA for onward forwarding to the Charter Council Secretariat for the awarding of points. Verification of the information contained in the form was to be done by each company’s auditors.

Form D compilation costly and problematic. Insurance companies rarely capture income information when selling policies. The process of compiling the Form D, however, required companies to identify the number of compliant policies sold to LSM 1 – 5. The approach derived allowed the companies to conduct a sampling exercise to establish a rough estimate of LSM 1 – 5 policies sold. There were different ways of achieving this. For instance, each life office would look at the most recent block of business and ask the distribution channel to estimate the proportion of clients with incomes lower than R3,000 (the approximate upper-bound income cut-off for LSM 1 – 5). Alternatively, life offices could use some of the LSM factors such as geographical area or housing type to arrive at an estimate. Views from the industry were that such sampling methods were both time consuming and costly to undertake. The preferred approach for most companies was to use the maximum cover of a product. For example, any funeral product sold with maximum cover of R20,000, which was the upper limit set in the standards, would be reported as an LSM 1 – 5 product. The approach might have been acceptable for funeral products but much more complicated for life and disability products where the standards stipulated a minimum cover of R30,000 as opposed to a maximum cover.

Companies initially allowed to count all LSM 1 – 5 products for scoring. The proposal allowed companies to initially count all products (and not just Zimele compliant) sold to LSM 1 – 5 for scoring purposes pending Financial Sector Charter Council approval of standards. The Council approved the standards for funeral in December 2005 (about six months after submitting the proposal), but the first Zimele-compliant products were only launched in February 2007 (The reasons for the delay in launching the standards are discussed below). So for 2006, all LSM 1 – 5 products counted for scoring purposes with the understanding that strictly Zimele products would count from 2007 onwards. It is, however, not clear the extent to which the latter rule was enforced as most companies are at present still reporting all LSM 1 – 5 products for scoring purposes.

Treasury appointed as pricing arbiter by the Charter Council. The proposal submitted to the Financial Sector Charter Council for approval in 2005 contained pricing guidelines for funeral and credit life. The council in December 2005 approved the standards for funeral but with



some apprehensions regarding the pricing guidelines. They were of the opinion that the maximum prices set out were too expensive for LSM 1 -5. On the other hand, the LOA was of the view that the pricing was right considering the many peculiarities of the low-income market as highlighted earlier. To resolve this issue, the Council appointed National Treasury to act as arbiter between itself and the LOA. To this end, LOA held meetings with National Treasury in April 2006 where the association’s position was explained. The LOA made the argument that the guidelines were maximum guidelines and companies were at liberty to price below the maximum. In any case, one of the reasons for the developments of standards as opposed to a uniform product was to encourage competition and its attendant cost efficiencies allowing for much better pricing. Treasury ruled that the suggested pricing was appropriate but instructed LOA to conduct annual pricing reviews to guarantee on-going affordability.

Standards approved by Charter Council, products approved by life offices. Whereas the actual standards were approved by the Charter Council, individual products, however, were to be approved through internal company processes. A new Zimele compliant product had to be validated as such by the respective company’s auditors. The Charter Council, however, reserved the right to call for an external audit.

Competition Commission approval of standards. In 2006, the Financial Sector Charter Council wrote the Competition Commission, on behalf of LOA and SAIA, requesting the commission’s opinion on the legality of the standards in respect of the Competition Act. The Commission replied to the request in November 2006 with the ruling that the standards were not in contravention of the Act. The Commission was comforted by the fact that pricing standards/guidelines did not imply price fixing.

The result of the above was to delay the launch of the funeral standards by about a year from 2005 when they were formally approved.

4.3. The Standards

As captured in **Table 9**, the standards for funeral were approved in December of 2005 with the formal launch for funeral taking place in February of 2007. Additional standards for life, disability cover and credit life were approved the following year in February of 2008. The additional standards including credit life were launched in May of the same year.

Date	Activity
April 2005	LOA/ASISA Access Workshop held to discuss life industry response to Financial Sector Charter
June 2005	LOA/ASISA Proposal on product standards submitted to the Financial Sector Charter Sectoral Access Committee
December 2005	Approval of standards for funeral
April 2006	LOA/ASISA subcommittee on Access meets with National Treasury to motivate pricing guidelines for standards
October 2006	Financial Sector Charter Council Secretariat writes to Competition Commission to check legality of product standards
November 2006	Competition Commission rules that product standards do not contravene Competition Act



Date	Activity
February 2007	Industry launch of first Zimele compliant funeral products
February 2008	Approval by Financial Sector Charter Council of Additional Standards for life, credit life and disability cover.
May 2008	Industry launch of Zimele compliant products for life, credit life and disability cover
July 2008	First Review of the performance of the standards conducted by LOA/ASISA

Table 9: Timeline of the development and launch of Zimele standards

Source: Author compiled from interviews, press reports and internal ASISA memoranda

The standards are structured to cover 8 categories of product features such as pricing, cover levels, grace periods and exclusions.



Product aspect	Funeral	Life	Physical disability cover	Credit life
Pricing	<ul style="list-style-type: none"> If member aged 55 and lower: R5 + R8 per R1000 cover If member aged 55 and older: R5 + R13 per R1000 cover 	<ul style="list-style-type: none"> Below age 55: R5 + R2.70 per R1000 cover From age 55 to 65: R5 + R4.5 per R1000 cover From 65 to 75: R5 + R6.3 per R1000 cover For age 75 and above, R5 + R12.6 per R1000 cover 	<ul style="list-style-type: none"> If below age 55: R5 + R1 per R1000 cover From age 55 to 65: R5 + R2 per R1000 cover From age 65 to 75: R5 + R3 per R1000 cover For 75 and older: R5 + R6 per R1000 cover 	<ul style="list-style-type: none"> Life cover: R5 + R3.5 per R1000 cover Life and physical impairment cover: R5 + R4.25 per R1000
Maximum/minimum cover	Minimum cover of R5000 and maximum of R20000	Cover should not be less than R30000	Cover should not be less than R30,000	Cover may not exceed the outstanding debt
Grace period	One month grace period in the first year of policy, extended by an additional month for each year policy has been in-force up to a maximum of 6 months.			No grace period required
Standard terminology and documentation	<ul style="list-style-type: none"> Documentation to include product description and sales process. Fulfilment/servicing documentation must be provided in easily understandable way, where applicable Summary of policy terms must be provided to client in writing and available on request in any of the eleven languages (see appendix for template). 			
Premium increases	<ul style="list-style-type: none"> Insurance companies free to set prices but cannot exceed the maximum pricing guidelines. 			
Exclusions	<ul style="list-style-type: none"> No HIV/AIDS exclusions or reduction in benefit amount may be applied at claims stage on lives accepted onto the policy 			
	<ul style="list-style-type: none"> 6 months exclusion for death by natural causes 	<ul style="list-style-type: none"> For life and physical impairment: 12 month waiting period for pre-existing conditions 2 years for suicide 	<ul style="list-style-type: none"> Pre-existing conditions excluded for a maximum of 24months No waiting period for accidental impairment 	<ul style="list-style-type: none"> No temporary exclusions for accidental death Pre-existing conditions excluded for a maximum of 24 months Exclusion for suicide during the first 2 years
Same terms reinstatement	<ul style="list-style-type: none"> During term of policy at least one "Same terms Reinstatement" must be available to the client for 3 months from date of last premium payment, without requirement for catch-up on the unpaid premiums. 			No requirements for same term reinstatement
Maximum/Minimum ages	<ul style="list-style-type: none"> Maximum: 65 or higher Minimum: 14 	<ul style="list-style-type: none"> Maximum age at entry no less than 60 	<ul style="list-style-type: none"> Maximum age at entry no less than 55 	

Table 10: Approved Zimele standards

Source: LOA and ASISA³³

³³ www.asisa.org.za



4.4. Impact of the Zimele product standards

In this section we consider the overall impact of the development and implementation of the Zimele product standards.

4.4.1. Adoption of standards

Sizeable industry adoption of standards. According to the ASISA website, a total 10 life assurance companies are currently selling Zimele-compliant products (see **Table 11** below). This number has remained relatively unchanged over the four years the standards have been in place. Hollard insurance company's only Zimele product is no longer compliant as the company opted to re-introduce exclusions for pre-existing conditions. On the other hand, Momentum completely withdrew its Zimele funeral product in 2008 and decided to re-launch another product catering to the needs of LSM 4 – 7 but non-Zimele compliant. Nedgroup Life is expected to launch its first Zimele compliant product soon.

ABSA Life
African Life
Assupol Life
Avbob Mutual Assurance
Discovery Life
Liberty Active
Lion of Africa
Medscheme Life
Metropolitan Life
Old Mutual
Nedgroup Life ³⁴ (no active Zimele product)
Momentum ³⁵ (no active Zimele product)
Hollard Life ³⁶ (no active Zimele product)

Table 11: Companies listed as selling Zimele compliant products by ASISA

Source: ASISA website³⁷

Significant initial take-up of funeral Zimele products by life industry. In the first month of the standards, February 2007, at least 9 long-term insurers launched Zimele funeral products. These were Discovery Life, Hollard Life, Metropolitan, Liberty Life, Lion of Africa, African Life and ABSA Life³⁸. Others were Assupol Life, Avbob and Clientele Life.

³⁴ Nedgroup Life does not have a Zimele compliant product but is planning to launch one

³⁵ Momentum had a Zimele compliant product but it was withdrawn from the market after six months

³⁶ The Pep-Hollard product is as August 2009 no longer Zimele compliant.

³⁷ www.asisa.org.za

³⁸ See for example "Insurers take mass market plunge", that appeared originally in Business Day on 20th February 2007, link: <http://www.insuranceadvisor.co.za/insurance-news/107/Insurers-take-mass-market-plunge.htm>



Business as usual with minimal implementation costs. Whereas a few insurers had to design new products from scratch to meet the standards, most simply took existing products and made minor adjustments to meet the standards. Therefore, the costs of implementation were much lower than the comparative experience for the Mzansi standard where a market for low-income short-term insurance did not exist yet and no insurers offered products in this space. The implementation costs were spread-out across a number of months as the industry anticipated the standards from as far back as 2005. For instance, as soon as funeral standards were approved in December 2005, companies with existing funeral business began to slowly adjust their products in preparation for the actual launch³⁹.

Credit life, life and permanent disability standards launched, but little action. The credit life, life and permanent disability standards were approved by the Charter Council in February of 2008 and launched in May of 2008. In contrast to the launch of the funeral standard, this was followed by limited take-up of these product standards by the industry. Only Old mutual and ABSA Life have launched life products that were Zimele compliant (See Table 13). To date, not a single credit life policy has achieved Zimele accreditation. Despite this, the industry still continues to report 25% of all LSM 1 – 5 credit life policies for Charter scoring purposes. The credit life, life and disability standards also received less press coverage than the funeral standard.

Scoring approach impacted on incentives to participate and diversify. The financial sector landscape in South Africa is mainly comprised of large holding companies with interests in many business lines. This is also the case for insurance where several insurance companies with interests in different product lines across different income categories are part of the same group. Section 4.9 of the Financial Sector Charter states that if an institution is a member of a group, the institution will be measured and reported on as part of the South African group (see Financial Sector Charter Council 2006 BEE Reporting Guidelines). In this manner, a group holding company with many subsidiaries could shift the burden of compliance to one of its subsidiaries whilst continuing with business as usual in the rest of the group. Depending on how important the access points in the Charter score sheets is to a group, this may also create incentives for acquisitions where groups with little presence in the low-income market acquire companies active in that market for the purposes of compliance.

In addition, individual company targets are determined by market share (overall). For smaller firms that were active in the low-income space, this resulted in proportionally lower targets than would have been the case if their low-income market share was taken into account. Where these smaller firms were subsequently taken over by larger groups, the targets were not adjusted to the market share of the largest group. Combined with the fact that group compliance on access requirements could be achieved through compliance in one license in the group, it meant that limited effort was required in order to achieve compliance for the whole group. The result was that it removed much of the incentive for the remainder of the group to comply on the access requirements of the Charter and the level of effort required was not in line with the market share of the group.

³⁹ See the newspaper article referenced in the previous footnote.



4.4.2. Zimele products

Zimele vs near-Zimele products. Similar to the Mzansi experience the Zimele standard resulted in two categories of products: Zimele compliant and near-Zimele products. Unlike the Mzansi experience, only fully compliant Zimele products have obtained Charter accreditation. However, as will be discussed below, industry reporting has not maintained the strict separation between Zimele and non-compliant products. The relative features and experience of the Zimele and near-equivalent products provide some useful insights about the impact of the product standards and will be considered below.

Good progress made towards targets. The December 2010 Form D report from ASISA shows that the life industry has a total of 3.5 million in-force Zimele policies (see **Table 12** below). ASISA also reports on the estimated total number of all LSM 1 – 5 policies (Zimele and non-Zimele) sold (for companies stated by ASISA as selling Zimele products). As at 2010, the industry had sold a total of 4.9 million LSM 1 – 5 policies⁴⁰. As with the Zimele policies, the bulk of all LSM 1 – 5 policies sold is contributed by medium/small companies. These numbers reveal that the life industry has made good progress in as far as meeting its targets is concerned. In 2005, the industry proposed to increase market penetration of appropriate products from 13% of LSM 1 – 5 to 23% by 2014. 3.5 million policies sold implies that the industry has increased adult LSM 1 -5 penetration to 20% in the 3 years the standards have been in place. If the total number of LSM 1 – 5 policies sold is considered, a penetration rate of 27% has been achieved.

Medium and small companies driving sales. For the purposes of reporting, ASISA distinguishes between medium/small and large companies in terms of market shares. From the table we see that most of the Zimele policies were sold by the medium/small companies. For instance, of the 3.5 million Zimele policies sold so far, 2 million (or 58%) were sold by the medium/small companies. While this distinction is useful, there are a few issues to note in interpreting this categorisation:

- The categorisation is based on companies' contribution to total market share at the time that the targets were derived. While some companies may have a small share of the total insurance market, they may have a relatively big share in the low-income market. Some of the companies counted as small or medium include Assupol and Avbob, companies that have been serving the low-income market for close to 80 years.
- Some small/medium insurers may be tied to large entities, whose size could be leveraged for distribution purposes. E.g. some insurers tied to banks such as Liberty and ABSA Life were also categorised as medium/small insurers.
- Some companies have also been taken over by larger groups and it is not clear whether the reporting is reflecting the new status as part of large groups or the previous status as small or medium companies. E.g. African Life was taken over by the Sanlam Sky group.

⁴⁰ ASISA underweights credit life policies in arriving at the total number of LSM 1 – 5 policies sold.



	All Offices	Large	Medium & Small
No. of Zimele policies in force (excluding credit life)	2 187 383	111 166	2 076 217
No. of Zimele Credit life policies in force	1 261 257	570	1 260 687
Total No. of all LSM 1 - 5 policies in force ⁴¹	4 224 910	707 313	3 517 597
Total No. of all in-force credit life policies	3 095 291	12 769	3 082 522
Total	4 998 733	710 505	4 288 228

Table 12: Excerpt of December 2010 Form D report

Source: LOA/ASISA⁴²

Numbers may overstate Zimele penetration. For a number of reasons, the numbers reported for Charter purposes are not strictly restricted to Zimele compliant products and may, therefore, overstate Zimele penetration.

- *Figures reported for Charter purposes include non-Zimele.* As stated in Section 4.2, the LOA initially allowed companies to report all LSM 1 – 5 policies for scoring purposes. Following the introduction of the respective standards, reporting should have converted to compliant products only. Industry consultations have, however, revealed that the original practice still continues and that the distinction between Zimele products and LSM1-5 products is blurred in reporting.
- *The inclusion of credit life.* As discussed earlier, in as much as standards were developed and approved for credit life, no Zimele compliant credit life policies have been developed to date. Current practice is to report 25% of all LSM 1 – 5 credit life policies in-force for Charter purposes.
- *LOA/ASISA reports on the number of policies sold as opposed to the number of policyholders.* Form D reports on policies and not policyholders. Since most people will have more than one policy, there might be an element of double counting in these figures.

If the figures are more strictly limited to Zimele compliant products, the estimated take-up may reduce to around 2 million policies or 11% of LSM 1 – 5 adults. Even though less than currently reported figures, this still represents substantial progress. More importantly, compliance with the standard is not the primary objective of the Charter. If some non-compliant products are able to deliver on the objectives of the Charter, these may legitimately be included in the reported progress. The balance between the objectives of the Charter and the product standards is a critical issue that will be interrogated further in the concluding discussions.

Zimele-compliant products. In total 10 Zimele products were developed of which there are currently 8 active products in the market. These products are outline below:

- *Flexi plan and Phase-in by ABSA Life.* ABSA Life was one of the first companies to issue Zimele products for funeral and life covers. The Flexi Funeral Plan was launched in

⁴¹ Total number of LSM 1 – 5 policies is only reported by companies that have a Zimele product. So it counts both Zimele and Non-Zimele policies.

⁴² Available at www.asisa.org.za



February 2007 while the Phase-in Plan (life product) was launched in May of 2008, immediately following industry's launch of the two product standards. ABSA had a significant low-income presence in funeral prior to the standards. The Flexi Plan offers cover of up to R20,000 for main member and member's family. The premium rates for main member range between R28 and R70. The bulk of the product's distribution occurs through ABSA's branch network. Phase-in is a life product with cover ranging between R30,000 and R50,000. The product is distributed similarly to Flexi Plan. The bulk of ABSA's Zimele portfolio is made up of the Flexi Funeral Product.

- *Future provider funeral plan by Metropolitan.* Metropolitan, launched its Future Provider Funeral Plan in 2007. The product is sold by salaried face-to-face sales force. Cover for the product ranges between R5,000 and R20,000 for main member with premiums priced at between R25 and R85. Cover can also be extended to immediate family and parents (including in-laws).
- *Cornerstone solution provider by Assupol.* Assupol, which has a long-running association with the low-income space, launched its Cornerstone funeral Zimele product in February of 2007. The product is mainly sold through salaried agents and offers cover for main member up to R10,000. The main member has options to extend cover to immediate family and parents (including in-laws). The maximum price for the product for main member is R65, with a lower price reflecting the fact that cover only extends up to R10,000. Assupol offers a wide range of funeral products, with the Cornerstone product (which is the only Zimele compliant one) constituting a small proportion of those sales.
- *Zonke Bonke by Avbob Life.* Avbob launched its Zimele product, the Zonke Bonke plan, in 2007. The product is mostly sold through funeral parlours, a passive medium. The premium rates for main member are between R24 and R81 and the cover ranges between R5,000 to R20,000 for main member. Options are also available to extend cover to immediate family and parents. Like Assupol, the bulk of Avbob's insurance portfolio is within the low-income space.



Insurer	Product Type	Product name	Sales channel	Premium range per month	Cover	Policies in-force
ABSA Life	Funeral	Flexi Funeral Plan	<ul style="list-style-type: none"> Outbound call centres(active channel) ABSA branch network (passive channel) 	<ul style="list-style-type: none"> Member only: R28 to R70 Member & Spouse: R48 to R130 Member, spouse & children:R53 to R160 	<ul style="list-style-type: none"> Member: R6k to R20k Member plus spouse: R6k to R20k member, spouse plus children: R6k to R20k 	Greater than 300,000
Metropolitan	Funeral	Future Provider Funeral Plan	<ul style="list-style-type: none"> face to face sales force (active channel) 	<ul style="list-style-type: none"> Member if in age category 18 to 54: R25 to R85 Member if in age category 55 to 65: R35 to R125 Member, spouse plus children if member in age category 18 to 54: R45 to R165 Member, spouse plus children if member in age category 55 to 65: R70 to R265 Parents and/or parents in law: R13 to R165 per parent 	<ul style="list-style-type: none"> Member: R5k to R20k Member plus spouse: R5k to R20k Children: R2k to R20k 	Less than 50,000
Assupol	Funeral	Cornerstone Solution Provider	<ul style="list-style-type: none"> Agents (active sales) Brokers (active sales) 	<ul style="list-style-type: none"> Member if in age category 18 to 45: R35 to R65 Member only if in age category 46 to 54: R40 to R75 Member only if in age category R70 to R115 	<ul style="list-style-type: none"> Main member: R5k to R10k Spouse: R5 to R10k Children: R625 to R10k 	Less than 50,000
Avbob	Funeral	Zonke Bonke	<ul style="list-style-type: none"> Funeral parlours (passive channel) 	<ul style="list-style-type: none"> If member in age category 16 to 54: R24 to R81 If member in age category 55 to 65 R34 to R121 Member, spouse plus children if member in age category 16 to 54: R44 to R161 	<ul style="list-style-type: none"> Member: R5k to R20k Member, spouse and children: R5k to R20k 	Less than 50,000
Old Mutual	Funeral	Funeral Plan	<ul style="list-style-type: none"> Sold through salaried agents (active channel) 	<ul style="list-style-type: none"> Member only if in age category 18 to 54: R42 to R84 Member only if in age category 55 to 65: R55 to R110 Member plus spouse: R29 to R116 Member plus children: R29 to R116 Parents in age category 65 to 74: R41 to R165 	<ul style="list-style-type: none"> Member: R10k to R20k Member plus spouse: R5k to R20k Children: R2k to R20k 	Less than 50,000



Insurer	Product Type	Product name	Sales channel	Premium range per month	Cover	Policies in-force
Liberty Active	Funeral	Funeral Plan	<ul style="list-style-type: none"> Outbound call centres (active channel) Branch network (passive channel) 	<ul style="list-style-type: none"> member and immediate family: R69 R36 for an additional parent 	<ul style="list-style-type: none"> member: R20k spouse:20k parent: R4k per parent 	Greater than 300,000
Old Mutual	Life and disability	Life & disability	<ul style="list-style-type: none"> Sold through salaried agents(active channel) 	<ul style="list-style-type: none"> If member younger than 55: R81 If member older than 55: R135 to R675 	R30k to R150k	not provided
ABSA Life	Life product	Phase-in	<ul style="list-style-type: none"> Outbound call centres (active channel) ABSA branches (passive channel) 	<ul style="list-style-type: none"> premiums not contained in brochure but based on age 	R30k to R50k	Less than 50,000
Hollard ^[2] (Pre Aug 2009, product no longer compliant)	Funeral	Pep funeral product	<ul style="list-style-type: none"> Sold through Pep stores (passive channel) 	<ul style="list-style-type: none"> immediate family policy of R39 per month 	<ul style="list-style-type: none"> policyholder R7,500 (plus additional R7,500 for accidental death) Spouse: R7,500 (plus additional R7,500 for accidental death) Children up to R7,500 	Greater than 300,000
Momentum (product withdrawn)	Funeral	Funeral Plan	<ul style="list-style-type: none"> Outbound call centres 	<ul style="list-style-type: none"> Premiums not provided 	Not more than R50k	Less than 50,000

Table 13: Features of selected Zimele-compliant products

Source: Author compiled from company brochures

^[2] Product no longer compliant from August 2009, see discussion below on the Pep-Hollard product discussion.



- *Funeral plan by Liberty Active.* Liberty, which is part of the Standard bank group, launched its Zimele funeral product in February 2007. The maximum premium for Liberty's funeral plan is the lowest among those selling the product. For instance, R20,000 cover for main member fetches R69 per month in premiums. Options also exist for extending cover to immediate family and parents. The bulk of this product is sold through the Standard Bank branch network with some sales conducted through the outbound call centres. The plan is offered as an optional product to anyone opening a transactional account. According to industry players, Liberty Active has the bulk of in-force Zimele funeral products.
- *Pep-Hollard funeral product.* Hollard was also one of the first insurance companies to launch a Zimele funeral product in February 2007. The product was Zimele compliant until August 2009 when Hollard decided to re-introduce the exclusion for pre-existing conditions in order to manage anti-selection⁴³ experienced on this product. The product was distributed via Pep stores, a chain of clothing stores located across the country.

Comparing the different product offerings, there are a number of issues worth noting:

- *Funeral products dominate.* There are more funeral compliant products than there are life or disability cover products. Only Old Mutual and ABSA Life offer Zimele compliant products and for both of these the funeral products still make up the bulk of their Zimele portfolios. This may reflect the fact that funeral insurance is the most popular voluntary long-term product in LSM 1 – 5. However, it also reflects the fact that the standards offer little incentive for companies to move beyond funeral products. This is discussed in more detail in Section 4.2.
- *Salaried sales agents and call centres dominate as sales channels.* Most Zimele products are sold through call centres or marketed by salaried sales agents. The Pep/Hollard product is an exception and is sold over-the-counter at Pep Stores. Only Assupol's product, the 'Cornerstone Solution Provider', is partly distributed via a broker.
- *Active out-bound sales.* Interestingly, most of these products utilise relatively expensive active outbound sales channels (compared to passive and in-bound channels). The exception to this is Hollard where the products are placed on Pep shelves. It must be noted, however, that for a number of these models, active sales are discontinued once the targets are achieved. This reflects the difficult trade-off between the need for active sales to achieve take-up but the unattractive cost of doing so. It also relates to the relative commercial attractiveness of Zimele relative to near-equivalent products.
- *Banks driving bulk of Zimele sales.* Industry consultations have revealed that Liberty Active and ABSA Life between them contribute the biggest proportion of in-force Zimele policies. Both companies utilise the branch network of their sister banks⁴⁴ to distribute insurance products and the products are packaged as optional benefits on a transactional account. This approach leverages off the existing client relationships of the partner banks. It also utilises the brand of the banks, which is likely to be stronger than the insurer's brands in the low-income space. While it uses a different sales process, the Hollard funeral product also benefited greatly from the Pep brand as a distribution channel.
- *Zimele catalyse non-Zimele near equivalent products.* In two cases, companies withdrew Zimele products but replaced them with near-equivalent products that met most but not

⁴³] Anti-selection is the tendency of persons who represent a poorer-than average risk to apply for, or continue, insurance. If not controlled by underwriting, it results in higher-than-expected loss levels (see: <http://www.microfinancegateway.org/p/site/m/template.rc/1.11.48248/1.26.9201/>)

⁴⁴ Liberty Life is part of the Standard Bank Group



all the product standard requirements. The Pep funeral product was Zimele compliant from February 2007 up to August 2009 when Hollard decided to re-introduce exclusions for pre-existing conditions. The experience of anti-selection with this product necessitated the change. Premiums before and after the “switch” have remained the same while sales have dropped marginally. Momentum, in turn, pulled its funeral insurance product off the shelves after six months. The decision was based on the realisation that the risk profile of the main member was quite different to that of additional lives covered, such as parents. Momentum later on re-launched a new funeral product (not compliant with Zimele) with adjusted premiums reflecting the more complicated risk profile of member and additional lives covered. The new product was also marketed to LSM 4 – 7 instead of the LSM 1-5 market targeted by Zimele. While neither of these products met all the requirements in the standard, they did comply with most of the requirements. It is, therefore, positive to see that these companies were willing to develop better offerings (from their perspective) and were willing to offer these without the benefit of Charter points. In both the case of Hollard and Momentum, the adverse risk experience catalysed the revision. In both cases, the companies considered specific requirements (pre-existing conditions for Hollard and premium cap for Momentum) of the standards too restrictive in order to solve the risk problem. There are further insights to be drawn from the near-Zimele products that we explore in the next section.

4.4.3. Near-Zimele funeral products

Companies selling Zimele funeral insurance can be separated into two categories. The first group includes those companies whose sole funeral product is a Zimele product. This group includes ABSA Life and Liberty Active. The second set includes companies that sell a range of funeral products including one or more Zimele products. This set includes Avbob, Assupol, Metropolitan and Old Mutual among others. Companies in the latter group also had a low-income presence predating the Zimele standards.

The comparative experience of the near-Zimele products provides some interesting perspectives on the Zimele products. This section, therefore, explores the differences between Zimele compliant funeral products and a ‘near-equivalent funeral product’ (NEP) offered by the same company. The near-Zimele product, or near equivalent product (NEP), is marketed to the same income category, LSM 1 – 5, as the Zimele product. In some cases, the two types of products are distributed in the same way through the same channel. Such a comparison may provide insight into the cost of Zimele requirements and the potential attractiveness of the additional features. Where companies offer both it also offers perspective on the incentives to sell Zimele products.

As illustration, Table 14 below provides a comparison between the basic features of a Zimele compliant product and the basic features of a near equivalent product. Appendix D contains specific examples of Zimele compliant products and near equivalent products for Assupol, Avbob and Metropolitan.



Features	Zimele compliant	Near equivalent product
Maximum cover	R20,000	R20,000
Average premium per month	R81 for maximum cover for single member younger than 54	R93 for maximum cover for single member younger than 54 ⁴⁵
Cover options	Single member Immediate family	Single member Immediate family Parents and Parents-in-law Extended family members: uncles, aunts, brothers, nephews
Exclusions	Pre-existing conditions not excluded	Pre-existing conditions not excluded
Waiting period	6 months	6 months
Other benefits	<ul style="list-style-type: none"> One month's grace period in the first year of the policy. Grace period increases by an extra month for every year up to six months One same terms reinstatement available for 3 months from last date of premium payment. 	<ul style="list-style-type: none"> Double accident cover Additional savings element for as little as R50 per month Option for policy to be paid-up for rest of family members in the event of death Up to four parents and six members of extended family can be covered under one policy Option for cover to grow with inflation After premiums have been paid for three years, policy acquires paid-up, loan and surrender values.

Table 14: Basic features of Zimele compliant products and near equivalent products

Source: Various company product brochures

From Table 14 the following issues are worth noting:

Different pricing experiences for Zimele bank distributed, Zimele agent distributed and near equivalent products. By looking at the information in Table 13 and Table 14, we can draw the conclusion that near equivalent products are more expensive than both agent and bank-distributed Zimele products. For instance, near equivalents on average cost 15% more than agent-distributed products (i.e. the average near equivalent product costs R93 while the average agent-distributed product costs R81 for the same amount of cover). Similarly, near equivalents cost 30% more than bank distributed Zimele products (the average bank distributed Zimele product costs R70). Below, we make the case that distribution costs account for this inter product price differential.

However, the averages used to make the above comparison mask the fact that there are price differentials existing within each product type. For instance, the price range for near equivalents is R90 to R110 for R20,000 cover. For agent distributed Zimele products the

⁴⁵ This is the price for a basic policy that excludes optional benefits.



range is R80 to R85, while the range for bank distributed Zimele products is R68 to R72 for R20,000 cover.

Distribution drives price differentials. The point above has been made about NEPs being more expensive than Zimele products (both agent and bank distributed Zimele products). One would expect NEPs to be cheaper than the Zimele products since they do not strictly comply with the Zimele standard. Similarly, the additional benefits offered by NEPs should not influence the premium as they are additional options to the policy requiring extra payments. Therefore, the only other factor that might account for the difference in pricing between NEPs and Zimele products might be distribution costs. For instance NEPs are mostly distributed via brokers and agents who receive a sales commission whereas Zimele is sold by salaried staff either via outbound call centres or through salaried door-to-door sales agents. The fact that distribution accounts for the price difference was mentioned during our conversations with industry players.

NEP complies with some but not all features of Zimele products and offer more options. In terms of product features, the biggest difference between Zimele products and NEPs is that NEPs do not offer a “same terms reinstatement benefit” and an increasing grace period (i.e. the grace period increases by one month for every year the policy has been in-force capped at six months). However, the NEPs do comply with several requirements of the Zimele standard such as the six months waiting period and not excluding pre-existing conditions. In addition, the NEPs offer optional additional benefits that are not offered by the Zimele products. For instance, Metropolitan’s NEP has options for paid-up benefits at retirement, automatic inflation adjustment for cover and a legal assistance benefit. Avbob’s NEP offers an additional savings benefit for R50 per month. Assupol’s NEP offers an optional cash-back benefit and an option to pay 10% of the sum assured to the deceased’s family for the six months following death of principle member.

Near equivalent extends cover beyond immediate family and in-laws. The Zimele standards initially developed standards for member only, member and immediate family and parents (including in-laws). It is important to point out that the standards were minimum standards and did not prohibit adding additional family members. In contrast, near equivalent products always provide the option for providing cover for one’s extended family. For instance, Avbob’s extended family plan provides cover for up to six members of the extended family (aunts, uncles, nieces, etc). Industry players confirmed that the extended family option is popular in the low-income market reflecting the strong social ties.

Near equivalent product sells more policies. In all the cases where it is available, the non-Zimele equivalent has achieved higher sales figures. This may reflect the attraction of the additional features but most likely reflect the additional marketing and sales effort that can be afforded with the higher price. It certainly shows that the absence of the Zimele brand from the product does not discourage clients from taking these options. For example, Assupol estimates that the “Excellence Family Plan” comprises the bulk of total in-force business, with a small proportion shared between the “Cornerstone” Zimele product and other funeral products.

Near equivalent initially cheaper. Table 8, which was used by the access committee to justify their pricing standards, shows that the pricing for the near-equivalent products was initially much lower than that of the proposed standards. The average price differential between the



two was R28. But overtime, this has changed with Zimele products now costing less than the nearest equivalent product. Industry players point to several reasons for this outcome. Some noted that this might be the effect of adjusting premiums for inflation. However, the average inflation rate over the last five years has been 8%⁴⁶ whereas premiums for near-equivalent products rose by about 44% over the same period. Perhaps the rise in prices is due to additional features added on to the non-Zimele products over time as well as the pressures to incentivise sales through brokers.

Zimele products catalyse new generation of funeral products. The analysis conducted in the previous section reveals some similarities that exist between Zimele products and the near equivalent products. Some of the features of the near equivalent products are based directly on the standards. For instance, at the time the standards were being developed, the average waiting periods for most funeral policies was between 9 months and 12 months. However, the average waiting period with most of the near equivalent products is 6 months in line with the standards. In addition, near equivalent products include pre-existing conditions whereas this was not the case before. In addition to the Zimele products on offer, it is clear, therefore, that the standard has catalysed a new generation of non-Zimele products, which comply with many of the standard requirements. These products are achieving higher take-up rates. Given that these products are pursued on a completely commercial basis, it suggests that they are viable.

4.4.4. Zimele branding and marketing

The Zimele branding and marketing experience seems somewhat better than the Mzansi experience but the efforts were still insufficient to develop a strong Zimele brand.

Limited brand awareness. Preliminary findings from FinScope 2010 indicate that only 5% of adults in LSM 1 – 5 have heard of the Zimele brand (Ncube et al, 2011). This low-level of awareness was confirmed by interviews with industry players who held the opinion that there was little brand recognition of Zimele among their customers. This is accounted for by the fact that the industry conducted very little branding and marketing exercises at the inception of the standards. At the collective industry level, only R2,5 million was spent on raising general awareness about the standards in comparison to about R10 to R15 million spent by the Banking Association of South Africa (BASA) in raising awareness around the Mzansi bank account.

Limited marketing. The limited brand awareness comes as no surprise given the limited investment in building the brand collectively or individually. While all compliant companies included the Zimele brand on their product documentation, little effort was made to market the brand. The LOA initiated a limited marketing campaign for the standard including a number of radio and newspaper advertisements. At the individual company level, no on-going marketing was done on the Zimele brand or their Zimele compliant products specifically. Several reasons have been advanced for the limited individual company marketing exercise, such as:

⁴⁶ The average inflation rate obtained from the World Bank's eAtlas of Global development available at <http://www.app.collinsindicate.com/worldbankatlas-global/en>



- *Zimele brand not unique to one company.* Whenever a company marketed its Zimele compliant products, it was perceived that benefits of such an advertising campaign would not be captured exclusively by that company as the Zimele products are quite standardised across companies.
- *Intra- brand competition.* Some companies sell two or more products under the same range (as suggested by our analysis of Zimele and near-Zimele products). Every time a company markets one particular product, it is does so at the expense of another product. This would disincentivise marketing of the Zimele product, particularly if the nearest equivalent product is more profitable.



5. Fundisa Product

Prior to the formation of Association for Savings and Investments South Africa (ASISA), the interests of the collective investments industry were represented by the Association of Collective Investments (ACI). In its separate response to the Charter, ACI launched the Fundisa savings product in 2007. Fundisa is a targeted savings product that encourages people to save towards meeting costs of tertiary education. The product was launched on a four year pilot basis with the pilot phase ending in November of 2011. The discussion of the Fundisa savings product offers an interesting counter point to the discussion of the standards as Fundisa is essentially a standard product. In this section we therefore trace the development of the product and assess its impact on enhancing access.

5.1. Development of Fundisa

The Association of Collective Investments (ACI) was initially a member of the LOA/ASISA subcommittee on access. ACI was included to provide input into the development of standards for savings products, since the need for such products was identified in FinScope 2004. The LOA/ASISA subsequently decided against the development of a savings product as the National Treasury was at the time considering the introduction of a National Savings Fund (NSF). ACI, therefore, decided to go it alone in developing a response to the Charter.

ACI access committee formed, immediate challenges noted. In early 2006, the ACI access committee on access was formed and tasked with developing a response to the Charter on behalf of the collective investments industry. Early on, the committee took cognisance of the fact that there was little traction of collective investments products in LSM 1 – 5. This realisation implied a different approach to that adopted by SAIA and LOA/ASISA in their respective responses to the Charter. The committee spent most of 2006 consulting its members on the best way of approaching the issue of access within the industry. This process culminated in their submission of a proposal to the Charter Council in October 2006 detailing their modus operandi and the justifications for it.

Below we discuss the contents of the ACI proposal as well as the thinking that went into it.

Fundisa fund – access through education. The ACI proposal was centred on the creation of a uniform targeted savings product called Fundisa, a Xhosa word meaning to educate. The product would be marketed by members of the collective investments industry through their various distribution partners.

Low-cost plus tangibility. In developing the Fundisa proposal, the ACI access committee consulted the economics literature on savings which makes the point that low-income people are much more impatient than high-income people. The implication of this is that for the poor, consumption today is much more valuable than consumption deferred to a future date via savings. On the other hand, behavioural economics delivers the insight that low-income people are more likely to be less impatient, in the sense of saving more, if the savings are aimed at a particular tangible target. By combining these two insights, the access committee was able to develop a low-income savings product offering tangibility, that is, a parent could save towards a child's education. With the Fundisa product, a saver could set aside as little as R40 per month. The product is low-cost in the sense that it at most costs 1% of the upper limit of the income of LSM 1 – 5.



Seller's commission capped at 3%. To further assure low costs, the industry capped the amount of commission that sellers could obtain from the product at 3%. So for instance, a monthly contribution of R40 would attract a monthly commission of R1.20.

Matching grant to incentivise savings. In as much as education was a tangible goal to which someone could direct their savings, it is also true that it competes with other goods or services which are just as tangible. For instance, education might compete with healthcare, housing or food. To this end, the committee built-in a bonus structure within the product in such a way that annual savings would attract a 25% bonus paid over and above the market return on savings. The bonus would be capped at R600 per annum per saver. For instance, if the market paid an 8% return over the previous year, a Fundisa saver would realise a total return of 33% (25% + 8%) for that particular year.

Educational financing, leading challenge faced by students. The 2004 General Household Survey reported that close to 28% of students surveyed singled out educational related expenses as the biggest problem affecting them. This coupled with national government initiatives to enhance the country's skills base filtered through into the committee's thinking around developing an educational savings targeted product.

Department of Education approached as matching grant partner. During the course of preparing its proposal, the Association of Collective Investments approached the Department of Education (DoE) as a prospective partner for the initiative. The proposal required for the DoE to enter the initiative as a co-contributor towards the annual incentive bonus. In other words, the DoE and ACI would share between them the costs of paying the 25% bonus. The proposal did not detail the exact split of the 25% between ACI and the DoE, but the agreement was made in principle that the cost of the bonus would be shared.

Standard product and not product standards. Unlike the approach adopted by the life industry and the short-term industry, ACI opted for a standard product in its response to the Charter. The committee held the view that, since the industry had no presence in the low-income space, the uniform product would be the easiest way of getting their members involved in the low-income space. Further, the fact that no companies were involved in the low-income space implied that the standard product would not compete with existing products.

It is, however, not clear whether Competition Commission approval was obtained for the product.

5.2. Implementation

The Fundisa product was launched in November 2007 on a pilot basis. In this section we briefly discuss the industry's experience with implementation of the product. In 5.2.1., we discuss the specific features of the product.

Limited member distribution network led to low-level adoption of the product. Initially, ACI was of the idea that every member of the industry would sell Fundisa. However, most of the collective investment companies are located in or around urban centres with minimal presence in the townships or rural areas where the bulk of the low-income population resides. Therefore, only those companies with a wide ranging distribution network, such as



the banks could afford to sell the product. As such, most of the ACI members did not adopt the product.

Adoption of product only by banks. Because of the above point, only banks were in the position to offer the product to LSM 1 – 5 on account of their wide reaching branch network. Among the early and only adopters were Standard bank, through their investments division Stanlib, ABSA investments and Nedgroup Investments.

Independent financial advisors deterred by small commission. ACI also envisioned that independent financial advisors would be engaged as distributors of the product. However, financial advisors declined to do so on account of the product not being as attractive to sell as other more traditional products.

Fundisa fund created and housed within Standard bank. To further limit the costs of offering the product, ACI proposed that the funds obtained from selling the product would be housed and managed with one investment house. Stanlib, through a bidding process, was picked as initial fund manager. Stanlib is therefore responsible for managing the Fundisa fund from which interest on savings are derived.

Fund investment universe clearly defined. To guarantee the financial security of the Fundisa fund, the ACI access committee spelled out the types of instruments that the company hosting the fund could invest in. The fund can only invest in the following securities:

- Bonds
- Fixed deposits
- Money market instruments
- Listed or rated companies
- Other interest earning securities which have a fixed date and either have a predetermined cash flow profile or are linked to benchmark yields.

The fund is prohibited from an equity stake in listed companies, in this way the fund is assured of regular and high-level income.

Strict demarcation between Fundisa proceeds fund and bonus fund. For purposes of accountability, the access committee proposed that the Fundisa fund be separated into two. That is, one fund would house the proceeds of product sales with interest payments derived from it and a second fund would house the bonus pool from which the 25% annual bonus would be paid.

Limited marketing exercise. Mirroring the experience on the long-term side, the industry conducted a minimal collective marketing exercise. However, the individual investment houses that currently distribute the product (Stanlib, ABSA and Nedgroup) continue to conduct limited on-going marketing exercises by running newspaper, radio and television advertisements.

5.3. Features of the Product

This section discusses the various features of the Fundisa savings products.



Pricing	Minimum monthly contribution of R40
	Or annual lump-sum contribution not less than R480
Annual return on savings	market return + 25% bonus (up to R600 per annum per beneficiary)
Fees	up to 3% (excl. of VAT) fee
	1.25% (excl. VAT) charged and deducted from income earned on investment
	Banks may charge monthly debit order fee (estimated at 7.5% of minimum monthly contribution) ⁴⁷
Who can invest?	Anyone can open a Fundisa account but beneficiaries are restricted to South African nationals within LSM 1 – 5.
Beneficiary age cut-off	Beneficiaries must be younger than 35 in order to earn bonus
How are savings utilised?	Money saved can only be utilised to study at a public college or university that is recognised by the National Student Financial Aid Scheme ^[1]

Table 15: Features of the Fundisa savings product

Source: ASISA⁴⁸

The following themes can be gleaned from Table 2

Offer of bonus over and above market return. One of the distinguishing features offered by Fundisa is the fact that it pays additional interest in addition to the return the marketing paying. In this way, a Fundisa saver is guaranteed to always make a positive return on their annual investment irrespective of what the market is paying. This feature should make Fundisa an attractive proposition.

Fees might be higher than stated. One of the access committee’s objectives in developing Fundisa was the development of a low cost product that would be easily affordable by LSM 1 – 5. To this end, the fees for selling the product were capped at 3%. However, the Fundisa pilot project requires savers to be holders of bank accounts to easily facilitate the monthly collection of contributions via a debit order. Porteous, et al (2009) estimate that the minimum monthly cost for the cheapest transaction account, the Mzansi bank account, is R12. Taking into account the 3% commission would imply a minimum monthly cost of at least R13 (or 33% of the minimum monthly contribution). Further, annual interest payments are subject to a 1.25% fee charged on income earned. The combination of all these factors leads to the conclusion that the costs of Fundisa might very well be in excess of 3% per month.

Any one free to open a Fundisa account but not everyone can be beneficiary. The Fundisa account is essentially an access product born out of the Charter process. As such, Fundisa is

⁴⁷ See Porteous, et al (2009) where they estimate that the minimum monthly debit order cost for the Mzansi bank account is R3 per month.

^[1] The National Student Financial Aid Scheme of South Africa provides student loans and bursaries for academically deserving and financially needy students to take up college or university education at a list of accredited institutions.

⁴⁸ ASISA website www.asisa.org.za.



expected to benefit members of LSM 1 – 5 who are younger than 35. Therefore, anyone can open a Fundisa account but the beneficiary is strictly required to be in LSM 1 – 5.

Steps for claiming from the fund. An investor can follow these steps when claiming:

- 1) Investor or saver calls investment company call centre.
- 2) Investment company issues an investment certificate showing Fundisa account balance.
- 3) Beneficiary presents certificate to his/her institutions' Financial Aid Officer of the National Student Financial Aid Scheme (NSFAS).
- 4) NSFAS pays the institution directly.

5.4. Impact

Limited adoption of the product by industry. Only 3 companies out of an industry with a membership of 55 investment companies are currently selling the product.

Limited take – up of Fundisa, bulk of products sold by Stanlib and Nedgroup. As at December 2010, only 16,000 Fundisa products had been sold. Although the ACI proposal was not explicit in stating a take-up target for the pilot study, the informal target, according to industry players was 40,000 products. By this account, 16,000 policies fell short of the informal target. The three distributors contributed the following to the overall take-up figure: Stanlib sold 8,000 policies, Nedgroup selling 7,000 policies and ABSA sold 1,000.

Limited brand awareness. Our interviews with industry players revealed the fact that there is little awareness of the Fundisa brand among LSM 1 – 5. This is despite the fact that the product offers a much better return, with 25% guaranteed annually.

Even with a substantial subsidy, distribution remains the final hurdle. The Fundisa product offers a substantial subsidy in the form of co-contribution. Yet, despite this, it has not achieved take-up. A clear issue is the lack of distribution network and insufficient incentives for distribution.

5.5. Emerging themes from Fundisa

Current set-up of collective investments industry not supportive of such a product. Most members of the investments industry only have single branches located in the financial districts of major cities. Further, most companies utilise independent financial advisors to distribute some of their products, with the advisors located in and around urban centres. This makes it very difficult for the industry to reach the LSM 1 – 5 who reside in the townships or the peri -urban or rural areas of the country. This is why the only companies that have adopted the product are investment companies linked to banks.

Low commission rate not attractive for alternative distribution methods. In theory, the lack of a wide branch network should not hinder efforts at distribution. Investment companies should be able to partner with independent distributors such as financial advisors who might have a wider reach to sell the product. However, the low commission on selling the product



is not attractive for such distributors who have the option of selling other products with higher commission scales.

FAIS requirements limit alternative distribution. Coupled with the point above is the fact that requirements under the Financial Advisory and Intermediary Services (FAIS) Act requiring financial advisors to be accredited prevent the utilisation of other distribution networks. For instance, at the conception stage, ACI thought of going to every community and nominating a local champion (respected resident of the community) as a possible distributor of the product. However, this could not take-off as FAIS required the “local champion” to have accreditation first, defeating the low-cost nature of the product.

Charter exemption might explain low adoption. Section 4 of the Financial Sector Charter allowed exemption of certain companies from its provisions. A company could gain exemption if it could prove that extending access products would be inconsistent with its business model. It is, therefore, possible that some companies in the investments industry sought exemption from the Charter Council with the reason that LSM 1 – 5 was a great way off their traditional clientele of high net-worth individuals and pension funds.

Scoring proposal not included in industry proposal. The proposal submitted by ACI to the Charter Council did not include a scoring proposal for access points. It is also not clear whether participating members were being scored during the 3 year pilot phase as it coincided with the Charter process going into limbo, as explained earlier.

Not clear about what will happen after the pilot phase. The marketing brochures for the Fundisa product clearly state that the product is being offered on a pilot basis for three years up until November 2011. The brochure does not go on to say what will happen after the pilot phase is completed. The uncertainty around continuity might discourage take-up.



6. South African Retail Savings Bond

The South African Retail Savings Bond was launched in 2004 by the South African National Treasury as part of campaign to encourage a culture of savings and improve financial literacy and financial management. The product is widely distributed, widely marketed, readily and easily available across a variety of channels. It is also easy to understand and secure as it is through a trusted brand or government institution.

This product was launched for a number of reasons, namely:

- To raise funds for government;
- To encourage a longer-term savings outlook amongst South African households and improve overall savings levels and ultimately develop a “savings culture” through encouraging South Africans to save;
- Provide an affordable investment product accessible to all South Africans;
- Promote the personal economic empowerment of the South African population across all economic strata; and
- Deepen financial literacy through the provision of a simple and easily understandable investment product.

At present there are 36,000 active users or 70,000 active accounts as at January 2011. That is, users can have any number of accounts in which they use the individual products. To date the total amount invested since the launch is R10.9 billion. November 2010 recorded the highest monthly investment amount of R916 million.

6.1. Product design

Clients have the choice of two bonds, namely between nominal fixed rate bonds and inflation linked bonds. A summary of product information can be seen in Table 16 below:

	Maturity	Determination of yield rate	Active users	Active accounts
Nominal fixed rate bonds	2, 3 and 5 years	Fixed-rate retail bonds earn a market-related fixed coupon rate, which is priced off the current government bond yield curve.	36,000 (as at January 2011) for both nominal and fixed rate bonds	70,000 (as at January 2011)
Inflation linked bonds	3, 5 and 10 years	Inflation-linked retail bonds are adjusted for inflation, resetting nominal values semiannually over the term of the bond.		

Table 16 South African retail savings bond product summary

Source: The South African Reserve Bank March 2011, Quarterly Bulletin

6.2. Product distribution

Passive sales. The product employs a passive sales effort. There is heavy investment in the sales and marketing of the product but the various channels employed do not actively sell the product. Rather, clients have to come in and ask for the product.



Fragmented distribution process. Registration, application and payment occur at different channels as seen in Table 17 below. Clients first need to apply and select the bond and maturity they want. Applications can be made through a wide number of channels including the South African National Treasury, South African Post Office branches, Pick n Pay, Boxer and Score Supermarkets.

Application (selection of bond and maturity)	Registration (provision of personal details)	Payment
Pick n Pay branches	South African National Treasury Offices	PicknPay branches
Score branches	South African Post Office branches	Score branches
Boxer branches	Telephonically	Boxer branches
RSA Retail Savings Bond website	RSA Retail Savings Bond website	Internet Banking
South African National Treasury Offices		Direct deposit via a bank
Telephonically		
South African Post Office Branches		

Table 17 Application, registration and payment for RSA Retail Savings Bond

Source: Author compiled

Once clients have applied, they go on to register, which can only be done through the Post Office or National Treasury channels (including the website and telephonically). Documentation required for application is a South African ID (as the product is open to South African citizens only). Clients then go on to pay for the bond that they have selected at a wider set of touch points including the Pick n Pay group’s retail infrastructure (PicknPay, Score, Boxer – all of which are a part of the PicknPay group of companies). The narrower set of application points may, therefore, present a bottle neck in the process relative to the wider network of application and payment points.

6.3. Factors contributing to success

Given the above information, it can be argued that the retail savings bonds product has seen success in terms of funds accumulated. And this is due to a number of factors listed below.

- *Leveraging off government support.* The retail savings bond was able to leverage off the support of government giving South African National treasury easier access to typical marketing channels such as radio, and television.
- *Product not restricted to market segments.* The product is not restricted to a particular market segment (in the case of the Mzansi and Zimele products).
- *Marketing subsidised.* With the support of government, the South African National Treasury faced less of a cost burden concerning marketing expenditure.
- *Concerted marketing efforts.* The National Treasury regularly embarks on various marketing initiatives across the country. These include marketing campaigns at various taxi ranks, road shows, advertisements on South African television and radio.
- *Ultimately marketing reaches across various LSMs.* The various marketing efforts concerning the product have a wide reach across the various LSMs. This is due to the fact that various marketing mechanisms and channels have been used.
- *Leveraging off National Treasury brand.* While the South African National Treasury had not previously engaged with the retail space, knowledge of the institution was



widespread due to the role that it plays within the country's economy. This made marketing and advertising easier as people identified with a known brand and trusted institution. Unlike players within the private sector who must first overcome 'market trust inertia'.

- *Variety of distribution channels.* The South African National Treasury chose to use a variety of distribution channels that reach different market segments. For instance, Pick n Pay supermarkets would typically be found within suburbs and more affluent areas that reach higher LSM segments. Boxer and Score Supermarkets on the other hand are found within locations that reach the lower LSM segments. In addition, South African Post Office branches are found across South Africa. Overall, the RSA retail savings bond product is one with a 'mixed bag' of distribution channels.
- *Commission incentives for distributors.* While clients are not charged any commission themselves, the National Treasury has a commission service agreement with the various distributors. That is the various distributors pay commission on the products but this is not deducted from client contributions. This may potentially be due to the fact that government sees the channels as raising funds for them.



7. Microinsurance policy statement

At this point we take a slight diversion to consider the recently released Microinsurance Policy Statement. While this is not part of the scope of the analysis it is an important element in considering the impact and future of the product standards.

In August 2011, the South African National Treasury released the Microinsurance Policy Statement, highlighting the proposed framework for the proposed new microinsurance regulation (to be released at a later date⁴⁹). This policy statement has implications for both the long-term and short-term insurance industries as they continue to engage with the low-income market. The microinsurance policy statement highlights the introduction of a new regulatory regime in South Africa overseeing products within the microinsurance space. Essentially, products under both the Mzansi and Zimele standards fall under microinsurance as they target the low-income market.

While the standards are essentially a product of the Charter, going forward, the development of microinsurance regulation will potentially impact products under the standards in terms of product design and compliance.

The policy statement highlights a number of product features that have implications for product under the standards including benefit caps and maximum contract periods. While the Financial Sector Charter is an industry BEE charter and the microinsurance policy statement presents future microinsurance regulation, the insurance industry will have to align the objectives of the two in the future.

7.1. Microinsurance Policy Statement product requirements

Product requirements affect all products in both short and long term industries. The product requirements within the Microinsurance Policy Statement refer to all products that are under both the short-term and long-term insurance acts. This also includes the products that are under the product standards. Product requirements that are of relevance to the standards are listed as follows:

- *Risk only.* Products that cover risk only, excluding savings and cash back products.
- *Benefits on sum assured basis.* Benefits are to be provided on a sum assured basis with the option to review.
- *Benefits caps.* Benefit caps on the various products under microinsurance, for both life and in-life products R50,000, and for asset R100,000.
- *Max contract period.* The maximum contract period is 12 months (renewable).
- *Maximum waiting period.* Maximum waiting period is 6 months.
- *Grace period.* The grace period is one month for each year of membership with a maximum of 6 months.
- *Pre-existing conditions to be covered.* Pre-existing conditions must be covered.
- *Simplified policy documentation.* As the microinsurance products will potentially target the LSM 1-5 market, simplicity of policy documentation is deemed a necessary requirement.
- *Right to monetary benefit.* The client has the right to monetary benefit.
- *File-and-use product approval process.* File and use product approval process.

⁴⁹ This policy document was preceded by a discussion paper which was released for public comment.



7.2. Market conduct regulation

The Microinsurance Policy Statement also highlights the relevant market conduct regulation that will govern the selling of microinsurance products. Key highlights of the market conduct regulation applicable to microinsurance products under the proposed microinsurance regulations are:

- *New FAIS category.* The FAIS (Financial Advisory and Intermediary Services) Act regulates the activities of financial service providers who give some form of service and provide intermediary services⁵⁰ to clients. Under the FAIS Act such providers are required to have members of staff registered according to the various FAIS categories (upon completion of the relevant examinations). Microinsurance providers will be registered under a new category (replacing the previous category A⁵¹). In addition, the new FAIS category for microinsurance providers will have reduced entry requirements in comparison to other FAIS categories.
- *Uncapped commission.* The Microinsurance Policy Statement also states that there will be uncapped commission on microinsurance products.
- *Embedded products to be capped.* Embedded products such as credit life insurance will be capped.
- *Actuarial technician to verify total premiums.* An actuarial technician (versus a qualified actuary) will verify the total premium. This is less burdensome for microinsurance providers as qualified actuaries are an expensive resource in comparison with actuarial technicians.
- *Claims payment within 48 hours.* Claims payment should be done within 48 hours.

7.2.1. The policy statement and the Charter standards

Both the Microinsurance Policy Statement and the Zimele and Mzansi standards aim to catalyze improved access to financial services for the low-income market. It is important to ensure that the objectives of the both the standards and the microinsurance policy statement are married to ensure cohesive efforts and processes in reaching the low-income market. When comparing the Charter (including the standards) and the policy statement we find:

- *Standards more generic.* The standards more generic and accommodate a wider range of products than the proposed microinsurance regulation. For instance with the standards there are no income restrictions and no commission caps.
- *Policy statement restrictive.* Some aspects of the proposed microinsurance regulation are more restrictive than the standards that is, risk only products with benefit caps and a 12 month maximum term are permitted. In addition there will be restrictions on embedded products such as credit life. Such restrictions are not present under the standards.
- *Aspects mirrored in both standards and policy paper.* A number of aspects are mirrored in both the standards and the policy statement namely: sum assured, maximum waiting periods, grace periods, pre-existing conditions, as well as simplification of document wording. While the specificities may be different, these aspects are dealt with in both the policy statement and the standards.

⁵⁰ Elikos Risk Applications. <http://www.eikosriskapplications.com/RegulatoryInformation/FAISAct/tabid/8844/Default.aspx>.

⁵¹ FAIS category A for the selling of products under assistance business .



- *Charter lead to limited regulation.* Charter product standards referenced as the reason for limited product regulation as the standards did not necessarily regulate the products but provided the guidelines for their development.
- *Standards address distribution.* While the policy statement does not deal with distribution specifically, the standards (particularly Zimele) address the distribution of their various products. Under Zimele members have to comply with various physical access requirements in order to comply and obtain the relevant points.



8. Cross-cutting themes and conclusions

This section of the document draws together cross-cutting conclusions from the Zimele and Mzansi standards experience.

Differing processes across the standards. SAIA and LOA adopted different approaches in developing their respective standards. For instance, SAIA's response to the Charter can be viewed as an evolving process whereby the industry initially conceived of a uniform product but later on changed their approach in favour of standards. On the other hand, the LOA immediately went for product standards route as their preferred response to the Charter. Accounting for this is the fact that the two industries were at different stages of low-income market development going into the standards process. The short-term industry virtually had no low-income presence, whereas the LOA reported a market penetration rate, within LSM 1 – 5, of 13% (LOA, 2005). Competitive considerations, therefore, on the long-term side favoured the development of standards over a uniform product. On the other hand, the lack of a market on the short-term side meant that no company's low-income market share would be threatened by introducing a uniform product.

Varying compliance approaches results in different categories of compliant and non-compliant products. Another distinguishing feature of the two processes is their classification of compliant products. On the long-term side, products are either strictly Zimele compliant or not depending on whether they meet all the requirements of the standards. On the short-term side, product compliance is divided into two categories: products are either fully Mzansi compliant (meeting all the standards) or near-Mzansi compliant (in the sense of meeting all but a few of the standards). The near-Mzansi products do qualify for access points in the same way as the full-Mzansi products. The difference between the two approaches in classifying compliance might be accounted for by the product approval process. For instance, on the Zimele side, compliant products are certified as such by the individual company auditors whereas on the Mzansi side approval is obtained at the Charter level. The former process leaves little room for compromise with the standards, auditors (or compliance officers for that matter) tend to be conservative in behaviour, whereas with the latter process, companies have room to negotiate with the Financial Sector Charter.

Scoring for access and near equivalent products. In the short-term industry, we identified three product types in as far as the standards are concerned: full-Mzansi, near-Mzansi and access products. As discussed earlier, the first two product types have received Charter accreditation and qualify to earn points. Access products, however, have not received Charter accreditation even though they are partly compliant with the standards. The Zimele side does not have a similarly layered product typology: products are either fully Zimele compliant or not compliant. However, we have identified a set of near equivalent products that comply with all but a few of the standards but do not qualify for points. One could make the argument that even though near-equivalents and access products are not fully compliant with the standards, they, like the near-Mzansi products, meet the general Charter objectives. To this extent, the life and short-term industries might consider reflecting this in the scoring. An option may be to score these products at less than full points in line with what proportion of the standards they meet to encourage a graduated approach to full accreditation. Ultimately the scoring should reflect the balance of objectives pursued (see discussion in Section 9).



Charter uncertainty undermines the standards but FSC objectives still achieved. The delays in gazetting Charter described in earlier sections resulted in uncertainty over whether the access component under the FSC will continue. As result, no access scores were awarded since 2008. Despite this, the industry continued to pursue the implementation of the access requirements and the standard as agreed under the FSC. The fact that scoring did not continue, however, resulted in a laxer application of the compliance process. Where compliance was directly reliant on the participation of the FSCC, this resulted in the emergence of near-equivalent products that did not comply with all the requirements of the standards but were awarded Charter approval. In some cases companies developed compliant products but did not submit these for approval as the FSC process was not active. As was noted above, the existence of near-equivalent products have undermined the product standards process but have ultimately served the purpose of the FSC.

Problems with the LSM 1 – 5 market as target. To date, the Financial Sector Charter’s Access pillar requires that the target market for appropriate products should be LSM 1 – 5. Our consultations with industry (and particularly the short-term industry) revealed the fact that this way of classifying the market may be too narrow, with most favouring an extension of the cut-off to LSM 7. As a matter of fact, most of the products that companies classify as low-income but not standards compliant, such as the near equivalents, are actively marketed to the LSM 1 – 7 income category. Further, the use of the LSM criteria imposes compliance costs on life companies: Due to the compliance approach adopted, life companies have to apply sampling techniques to estimate the proportion of their product portfolio sold to LSM 1 - 5. It is, however, important to note that both SAIA and ASISA have proposed the use of the tax income threshold as an alternative to the LSM 1 – 5 income categorisation going forward.

Limited branding, limited awareness. One of the central themes in the foregoing analysis is that both industries conducted limited branding and marketing exercises. This is reflected in the fact that surveys such as the FinScope report little or no awareness of the standards by people in LSM 1 – 5. None of the Mzansi products actually included the Mzansi branding in their marketing material or policy documents. The Zimele-compliant products carried the logo but none of the companies emphasised this in their marketing. None of the companies marketed the standard and collective marketing campaigns were limited. It is no surprise, therefore, that to date, both the Mzansi and Zimele standards achieved very little brand awareness amongst the target population. Ironically, this has resulted in some insurance companies questioning the value of the brands. This is, however, a questionable position given that no investment was made by the companies individually or collectively in building the brand.

A similar experience is mirrored on the Fundisa side where the product has little traction within LSM 1 – 5. This can be contrasted with the Retail Savings Bond (RSB) experience or that of Mzansi Bank Account initiative where the large measure of awareness around these products is owed to the significant marketing and branding campaigns by National Treasury and Banking Association of South Africa respectively.

Impact of key features of the standards. The overall conclusion from this analysis is that none of the particular features of the standards presented insurmountable challenges to implement. Having said this there were some features that were more problematic than others.



- *Pricing guidelines.* The Zimele standards impose maximum price caps while the Mzansi standards only provide pricing guidelines. Our analysis has revealed that the presence of low pricing caps makes Zimele products less attractive to sell when compared to near equivalent even though it still allows viability. On the other hand, the pricing guidelines adopted by the Mzansi standards do not pose a similar constraint. Therefore, it would seem that pricing guidelines might be more preferable than outright price caps. At the least it would be appropriate to revisit the current pricing caps for Zimele given the experience to date.
- *Grace periods.* Both Zimele and Mzansi have standards for dealing with missed premiums. With Zimele, the grace period increases to a maximum of six months in the sixth year of membership. The grace period on the Mzansi standard side is only 1.5 months. There is some anecdotal evidence that grace periods are favoured by customers. In the Mzansi case, premium flexibility has been one of the key features separating compliant from the near-compliant products. The main problem noted is the high cost of amending current accounting systems to allow for flexible payments. The degree to which this requirement is a problem is likely to be determined by the flexibility and nature of a particular firm's management information system. It is also exacerbated by the fact that these schemes are still run on a pilot basis and at small scale.
- *Pre-existing conditions.* In isolated cases the inclusion of pre-existing conditions on the life side has undermined viability. Passive sales models such as that employed by Pep/Hollard have shown particular vulnerabilities to anti-selection due to the over-the-counter process. Removing the exclusion for pre-existing conditions for such models has, therefore, been problematic. Given that this is not the general experience, consideration could be given to whether the standards process could allow for some variation in extreme and justifiable cases.
- *Theft cover.* While features such as the inclusion of theft cover caused much controversy initially, it seems that the industry has found ways of managing this. In contrast to the costly risk and management experience industry initially expected, some Mzansi products have actually lowered the premiums recently reflecting a more benign risk and cost experience.

Clients not yet exercising preference for standard-compliant products. Do the additional features offered by standard-compliant products translate into value for the clients? This can be more clearly observed in the life industry where near-equivalent products are available for comparison. With few exceptions, industry members were not willing to disclose details such as claims ratios and premium persistency that would have allowed a more careful analysis of potential value derived by clients. Where such information was disclosed indications are that claims ratios for life products were higher for standard than non-standard products. Further indications on the life side are that clients do make use of the grace periods and this has avoided lapses.

Comparing the sales experience of standard-compliant and near-equivalent products shows that consumers are, however, not systematically choosing compliant products over the nearest-equivalent alternatives. Where both products are available through the same channel, near-equivalent products are achieving higher sales. In most cases, however, this seems to be the result of the incentives and decisions of the channel rather than those of the client. It is also exacerbated by the lack of brand awareness achieved by the standards, which undermines the value proposition communicated by the standard.



The details of claims were not available on the Mzansi side but the information provided suggests that a fair number of claims have been received even though the values of those claims were not clear. There is, therefore, indicative evidence that clients are deriving value from the specific features of the standards. For both the Mzansi and Zimele experiences the evidence base is insufficient to definitively conclude on the value experience for the client (particularly as perceived by the client) and further research will be required.

The challenge of distribution. A cross-cutting theme from the analysis is that distribution presents a great challenge to achieving the required penetration for compliant products as well as commercial viability. This is particularly a challenge for Mzansi as there is no provision yet for a low-income sales agent under FAIS regulation. At the same time we also noted that the nature and incentives of the distribution channel seems to be stronger driver of sales than the features of the product. For both Mzansi and Zimele, companies with access to already existing low-income distribution channels, such as banks or retail stores, find it easier to distribute their products and competitively price them. These models have also achieved commercial viability.

Premium caps on Zimele products presented additional challenges. Life companies without access to convenient low-income distribution channels have, as result, sold more of the near equivalent products where additional distribution costs can be afforded. Such channels would typically also sell Zimele products until the required numbers are achieved and then revert to selling non-Zimele products. While the Zimele products may be viable, near-equivalent products are clearly more profitable. A similar story can be told on the comparative performance of Fundisa and Retail Savings bond (RSB). The relative success of the RSB in comparison to Fundisa is in large part due to the fact that the former has access to myriad distribution options. The process of purchasing an RSB can be initiated at various retail stores across the country. On the other hand, only three banks are currently selling Fundisa, out of an industry that has at least 50 members, underscoring the importance of distribution in achieving take-up.

Need to move beyond narrow definitions. While the causes differ for Mzansi and Zimele, both suffer from too narrow product offerings.

- The Mzansi standard effectively only allows for one comprehensive product. Given the early stages of development in the short-term insurance market we believe much more variety and innovation should have been encouraged.
- While the Zimele standards included life, funeral, personal accident and credit life, ultimately the products were limited to largely funeral (although with enhanced features). As noted in the earlier analysis, this is largely due to the fact that i) funeral is the easiest product in this market to work with and ii) the scoring process did not provide any incentives for companies to offer a wider set of products.
- Furthermore, the credit life standards are not implemented at all and the scoring is based on a proportion of all LSM 1-5 credit life policies irrespective of whether they comply with the standard or not. The lack of application to the credit life product market is a substantial missed opportunity to address concerns that have been raised about this market.

Going forward it will be important for the standards to facilitate and encourage a wider product offering.



9. Where the standards successful?

In conclusion, we finally return to the question on whether the product standards were successful. While the previous sections highlighted various levels of impacts achieved by the standards, it is necessary to return to the actual objectives of the standards to evaluate whether these were indeed achieved through the impacts noted. In addition, we also explore some of the implications of the impact and success of the product standards on the Charter process and standards going forward.

Objectives never formally articulated. Before exploring these objectives, it is important to note that the objectives of the Mzansi and Zimele product standards are not formally articulated or captured in any of the industry documentation. The objectives we state below are those we have inferred from industry discussions and documentation. In some cases these were imposed after the fact rather than set out as part of the design. In other cases it reflects the intentions of those involved in the various processes but not necessarily formally agreed objectives.

We propose that there are at least five inter-related objectives that the standards could pursue.

- Compliance tool to assist companies in obtaining Charter points.
- Assisting companies in reaching Charter targets.
- Catalyse better value, commercially viable products.
- Facilitate collective efforts to develop the market.
- Establish trust in common brand.

We consider performance of the standards relative to each of these in turn below:

Compliance tool to assist companies in obtaining FSC points. The product standards were initiated as means to assist insurers to comply with the access requirements of the FSC and to establish a common measure with which products will be assessed for Charter purposes. This was particularly important as the Charter definitions were quite broad and it was not clear what industry had to do to comply. The Mzansi and Zimele standards were, therefore, the outcome of collective industry discussion on what should be done to comply with the FSC requirements.

This objective is somewhat difficult to assess as no access points have been rewarded since 2008. Due to the uncertainty around the access component of the Charter, companies have been reporting on progress but have not officially received any Charter points on access. For the same reason, limited scrutiny has been given (by all the parties involved) to the reporting process. As noted in the preceding analysis, the result of this was that compliance with standards were not strictly adhered to or enforced in the reporting process. In some cases this meant that near-compliant products were also “accredited” for Charter purposes (and therefore would have scored points if the process was active). In other cases on the life side, reporting reverted to originally agreed status where all LSM1-5 products could be counted towards compliance and not just those that strictly comply with the standards.

Nonetheless, this does not mean that the objectives of the FSC were not achieved through the wider set of products. Compliance with the standards was an additional level imposed by



the industry. Where products met the broader FSC requirements but not strictly all the standard requirements, it still achieved the objectives of the FSC.

As result, we conclude that the standards have indeed been successful in facilitating compliance (for both fully-compliant and near-compliant products) with Charter objectives and, had the FSC access components been in force, obtaining FSC points. The exception to this statement relates to products on the short-term side that may have met the broader FSC objectives but have not fitted within the narrow product definition adopted in the Mzansi standard. In these cases a strict enforcement of the standards in the scoring process would have meant that these would not have been recognised for scoring.

Assisting companies in reaching Charter targets. Of course, the Charter's objective was not simply to award points but to achieve certain access outcomes, which were translated into targets for specific product categories. The product standards were meant to assist companies in achieving these targets.

As at December 2010, there were 3.5m in-force Zimele policies reported compared to the target of 3.2m for the same period (4m by 2014). Mzansi has, however, fallen far short of the target reaching only 30,000 out of the targeted 146,000 policies (262,000 policies by 2014). In light of this one could conclude that Zimele was successful in assisting companies to reach their targets and Mzansi not. We argue that the conclusion may, in fact, be the opposite.

While the Mzansi take-up has been relatively low, the product standard represents a product that is far removed from traditional asset insurance for a market in which the short-term industry had no position. The standard and, particularly, the process of developing it have been instrumental in getting short-term insurers to think about the low-income market. In the absence of the standard design process, it could be argued that the progress would have been more modest.

In contrast, Zimele was developed on the basis of an already substantial life (mostly funeral) market. While non-funeral standards were developed, effectively no standard-compliant products are offered beyond funeral. The standard, therefore, resembled the features of existing products and was mostly offered by players already active in this market. It is likely that the targets could have been achieved without Zimele standard. This is particularly the case due to the lack of marketing and branding to support the standard. If more effort had been invested on the non-funeral products and the marketing effort, the conclusion would have been different.

As result we conclude that the Mzansi standards were successful in assisting the short-term industry to pursue the targets set by the FSC, even if the ultimate targets were not achieved. On the life side, we conclude that the Zimele standards had little impact on the ability of the industry to meet the targets.

Catalyse better value, commercially viable products. In seeking compliance with the FSC, the standards were meant to reflect requirements, which, if met, will ensure appropriate, affordable and accessible products for households in LSM 1-5 (the ultimate objective of the FSC's access requirements) that can be delivered on a commercially viable basis.



In terms of **value**, we can conclude that both the Mzansi and Zimele product standards were successful in catalysing a portfolio of compliant and near-compliant products offered by a relatively large group of companies. This is reflected in the extent of take-up of the standard by firms (i.e. how many firms offer compliant products) as well as the nature and variety of products developed.

2 short-term and 10 long-term companies respectively have active Mzansi and Zimele products. In addition, 1 short-term and 4 long-term products can be considered as near-compliant and directly catalysed by the standards. The near-compliant products catalysed by the standards are of particular interest. While it could be argued that the existence of such products points to the failure of the standards, we argue that it could also be seen as a measure of success, particularly from the Charter's perspective.

Having said this, it remains a missed opportunity that, while a number of products were included, delivery under the Zimele standards was ultimately limited to funeral products. Other product standards such as that for credit life could have made a substantial impact on a product market notorious for poor value. Similarly, the Mzansi standard could have catalysed a much wider variety of products. Finally the preceding analysis has concluded that, while there is indicative evidence that clients are deriving value from the specific features of the standards, the available evidence does not allow a definitive answer. Going forward, we recommend that further analysis on these dimensions will be required including consideration of claims ratios and persistency.

In terms of **viability**, our analysis concludes that none of the standard features presented insurmountable problems to viability even though substantial up-front investments may have been required. Not all models have achieved viability but this seems to depend more on access to efficient distribution channels rather than the specific features of the product. Distribution has been a particular challenge on the Mzansi side where low-cost agents are not provided for under FAIS. The experience of the near-equivalent products on the life side, has, however, shown that these are more profitable than those compliant with the standards. Some amendment to the price cap may be justified to accommodate a wider set of distribution models.

Facilitate collective efforts to develop the market. Another potential objective of using product standards in meeting the FSC objectives is that it provides the basis for leveraging collective industry efforts and resources to develop the microinsurance market.

The product standards did provide the basis for industry players to collaborate to develop the low-income market. Two areas of collaboration can be noted:

Collective product development. The Mzansi process leveraged a much more collective process to develop the Mzansi product and eventually the Mzansi standard. The Zimele product, in contrast, was developed largely as a variation of products existing at the time with limited collective effort invested.

Collective brand but very limited collective marketing and branding. Firstly, the fact that independent brands were pursued for life and short-term represents a lost opportunity for collaboration. In the case of Mzansi, collective marketing was limited to press releases and



radio interviews at the time of the launch. For Zimele a limited marketing campaign was used to launch the product standard.

As such, it seems that the industry did not fully utilise the opportunity for collaboration. While competition legislation is sometimes noted as a reason for the lack of collective effort the preceding analysis suggest that competition legislation left substantial room for collaboration but this was not utilised because of “competitive” reasons.

Establish trust in common brand. Finally product standards also used to establish a common brand that can be used to instil trust in the products provided and, in that way, assist in creating a market for insurance in the low-income market. This is particularly important for products with which the low-income market may not be familiar.

The product standards held great promise as a vehicle to build that trust but as was clear from the preceding analysis, this objective was not achieved. Firstly, the long- and short-term industries diluted their efforts by creating separate brands. Secondly companies did very little to build the respective Mzansi or Zimele brands individually or collectively.

Without the benefit of a powerful collective brand, the standard is reduced to industry-designed product regulation and a compliance exercise with little commercial benefit to the participating insurers. While this may be sufficient for funeral and credit life, it has little benefit for the other product markets.

10. Issues to consider going forward

What does this mean for the Charter process and the existence of the product standards moving forward? Below we highlight some of the issues to be considered.

Is there value in product standards moving forward? It is clear that the product standards have not been fully utilised for the benefits it can offer. For various reasons (but particularly the lack of branding and marketing), we argue that the product standards exercise has been reduced to voluntary product regulation with limited commercial benefit to the industry despite the substantial investments required. This would amount to very expensive product regulation.

Ultimately the industry is now confronted with the question of whether it is useful or necessary to continue with product standards. We propose that a clear decision is required on whether the standards will be pursued in their own right to leverage the value it can bring to industry players or whether it remains to be used as a compliance tool.

If the decision is to continue using the standards as compliance tool, we propose that this function may be replaced by the proposed new microinsurance regulatory framework, which mirrors several aspects of the product standards. It must be noted that the existence of the standards have to date given industry the initiative to design appropriate products and may have avoided more detailed product regulation. Should the standards not continue or not effectively address the issue of quality and trust, this may trigger further direct product regulation over which the industry has little control.



Our conclusion is that the standard could still play an important role in creating a market for insurance and building trust in products and providers with whom the low-income market is not yet familiar. It could also play an important role in incentivising the development of better value products. In the case of credit life, quality and value of the product delivered is a critical area of impact that could be achieved by the standards. In the absence of this more direct regulation may be expected down the line to address the problems experienced with this product category.

If the standards should continue the following needs to be considered:

Recognise and clarify objectives. One of the key issues going forward will be to recognise that there are different objectives that are being pursued through the instrument of product standards. The fact that these objectives are not explicitly stated or recognised makes it difficult to manage the trade-offs where objectives do not align. Moving forward it will be important to clarify and make explicit the objectives that will be pursued by the next phase of the standards. This should explicitly take into account the varying state of development across different product markets (so different objectives may be prioritised for markets that still has to be made relative to those that where quality may be the emphasis).

Consider broader standards with stricter enforcement. While we argue that the narrower standard played a useful and catalytic role in the initial stages of development it may not be useful on an on-going basis to have a narrow standard with limited compliance and a set of near-compliant products catalysed by it. This may fulfil the catalytic role of the standard but it only benefits products for which there is an existing market (i.e. funeral insurance). For the other products where the market still needs to be developed, the benefit of a well-known and widely applied standard is still of great value. In particular for the Mzansi standard, it is necessary to broaden the standard to allow for a wider variety of products. In the case of Zimele, a wider set of standards exist but due to the scoring bias, there is little incentive to move beyond funeral. Some re-calibration of the details of the existing standards may be appropriate given the learnings from the first phase of implementation. However, our assessment is that, implementation solutions have been found for all the requirements of the standards.

Flexibility. Given the need to accommodate innovation, the question is whether some mechanism can be designed to accommodate flexibility without compromising the standard. This will require further consideration but two options are:

- **Comply or explain:** There may be a legitimate argument why a specific feature is problematic for a particular sales channel. So far limited cases have been observed and these may be better dealt with on an exception basis. If, however, there is a wider set of experiences such as this, it may worthwhile considering whether variations (perhaps for a pre-defined set of features) may be allowable on a public “comply or explain” basis.
- **Partial scoring:** Consideration could be given to whether near-compliant products may be awarded a proportional score based on the level of compliance achieved. This may be in line with the FSC objectives but it risks undermining the integrity of the standard. Again, clear decisions are required on which objectives to pursue.

Particular care should be taken to ensure that this mechanism does not undermine the objectives pursued.



Targets, scoring and accreditation. Stricter enforcement will require revisiting the scoring and accreditation process. There are a number of issues that could be considered:

- *Scoring needs to be aligned with the objectives agreed.* Currently, for example, the scoring process does not incentivise development beyond funeral for the life industry. Consideration could also be given to awarding points for branding of product and marketing material as well as participation in collective marketing campaigns.
- *Targets will need to be updated.* Targets were applied to entities based on their overall market share. Some of these entities have been taken over by larger groups but the targets have not been updated to reflect this.
- *Accrediting non-compliant products.* As noted above it would be in the interest of the standard process to accommodate some variation. If this is achieved we would argue that it would be appropriate to ensure more strict compliance with the agreed standard. This may also require closer collaboration between the industry association (that typically leads the standards process) and the FSCC (which deals with aspects of accreditation).
- *Reporting non-compliant products.* Stricter enforcement will also be required on data reported. Reported figures should clearly distinguish products that comply with all the standard requirements.

Collective and aggressive marketing is essential to the success of the standard. To derive value from the standards, it has to be supported by collective and aggressive marketing campaigns to establish awareness and trust in the brand. Consideration should be given to whether a joint brand cannot be achieved for short- and long-term insurance standards. Even if ASISA and SAIA continue to support separate brands, collective marketing exercises that may link these two brands could be explored.

Endorsement from regulators (and government) to assist brand credibility. In addition to more aggressive marketing, the standards could also gain the trust of the market through a 'seal of approval' from the Financial Services Board. This may assist the market in overcoming the lack of trust surrounding insurance products. Given government's own commitments under the Charter as well as the intentions set out in the microinsurance position paper, industry could argue for such support from government.

Continue to lobby for FAIS category for access products. This is of particular importance for the short-term industry but also for life products beyond funeral insurance. Companies offering Mzansi accredited products have to comply with the same intermediary regulation of non-accredited products. The nature of product standards is to simplify policy wording, leading to increased consumer protection and potentially reducing the need for strict intermediary regulation. Relaxed intermediary regulation may allow insurance companies to widen the distribution channels. SAIA is already engaging with the FSB FAIS department to lobby for the creation of a category of intermediary for access products. The microinsurance position paper is also proposing to create a special category of intermediary for microinsurance. The first prize would be to find a way to align the access products with the proposed microinsurance product definition as this will ensure maximum space under FAIS. If this is not possible, we recommend that the current access products engagement needs to be continued.



Alignment of microinsurance discussion paper, financial sector Charter and commercial realities. Closer alignment with the microinsurance position paper holds a number of benefits over and above simplification of compliance with multiple regimes. In the first instance this supports the argument for widening the target market and product definition. Secondly a special FAIS category will be created to simplify distribution. In addition the position paper references the Charter product standards and proposes to use such standards instead of more detailed product regulation. Closer alignment will, therefore, avoid more costly and cumbersome product regulation down the line. Finally, the regulatory process will include consumer education campaigns. Closer alignment with the regulatory framework may allow industry to maximise the benefits from such a campaign.

Closer ties between consumer education initiatives and product sales. As an illustration, SAIA conducts a number of consumer education initiatives in line with Charter requirements⁵². These consumer education initiatives are conducted on an annual basis and include community workshops, media campaigns at various taxi ranks, and high school training programmes. These initiatives focus on various aspects of short-term insurance. All of the various consumer education projects have the Mzansi insurance products as one of the themes. Companies have failed to leverage off the awareness created by these various consumer education initiatives through product sales. While SAIA members are informed of the dates and locations of the various consumer education initiatives, members do not take advantage of these potential sales opportunities. Going forward consideration should be given to better leveraging the growing range of consumer education initiatives.

⁵² The Financial Sector Charter stipulates that companies should dedicate 0.2% of their annual turnover to consumer education initiatives.



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Appendix A: The Mzansi product standards

Box 4 below provides a detailed version of the Mzansi product standards. This is what is used by the Financial Sector Charter Council during the product evaluation process.

Box 4 Mzansi Standards

- 1.1 If the sale of a product is made as part of any group scheme, the product must comply with the standards in the same way as if it was an individual policy.
- 1.2 The documentation must be simple and understandable and comply with the proposals in the sample policy wording.
- 1.3 Underwriting:
 - 1.3.1 Underwriting is permitted and underwriting questions may be asked
 - 1.3.2 Existing information on record may be used in underwriting
- 1.4 The various components of the insured cover cannot be sold as individual policies.
- 1.5 The policy must cater for irregular premiums payments.
- 1.6 The policy must offer cover at pre-determined levels. The cover that the insured selects then is the cover that is paid. This means that averaging will not apply for these policies.
- 1.7 The policy cannot be cancelled after the first non – payment. The policy holder must be given the opportunity to make up premiums. The principle of no premium no cover will still apply however.
- 1.8 Due to the nature of the target market, alternatives to application in writing and changes in writing must be sought.
- 1.9 Cognisance must be taken of the fact that most people in this target market will be unbanked and therefore alternative premium collection facilities should be sought.
- 1.10 Cognisance must be taken that due to the low premiums for these products they will not generally be sold through traditional broker channels. Alternative distribution channels should therefore be sought.
- 1.11 The product should cover both the household and the household contents. As a minimum the policy must provide catastrophe cover.
- 1.12 Repair or replacement must always be the first option when settling a claim.
- 1.13 Proof of ownership is not always possible in this target market and should not be absolute criteria. Where proof of ownership is not possible an affidavit should suffice.
- 1.14 In order to reduce the incidence of fraud an excess must be built into the policy.
- 1.15 Theft cover must be build into the policy at a limited percentage of the total cover.
- 1.16 The policy must include limited liability cover.
- 1.17 A simplified version of the SASRIA wording has been designed for products meeting these standards. This must be included in the policy wording.



Appendix B: Zimele simplified wording template

Box 6: Standard template for simplified description of policy

FULL NAME AND CONTACT DETAILS OF ABC INSURER AND LETTERHEAD TO BE SHOWN HERE

Before you apply for the policy you must see how it works and be happy with it. This summary tells you in clear and simple language how the policy works. If you want to know more, you can ask your insurance adviser or the insurance company who manages this policy. The name of the insurance company is ABC Insurance Company.

The Benefits

The policy is a funeral insurance policy. It pays Funeral Benefits for Insured Persons. The Insured Persons are the persons named below. If an Insured Person dies and you have paid all the premiums, a cash benefit for funeral expenses will be paid to out. The premiums are the amounts of money you must pay every month for the insurance. The Conditions of the policy that are shown below must be met in order for ABC Insurance Company to pay the benefit.

How it works

You are the person who owns and pays for the policy.

The policy starts on 1 April 2006, called the Start Date.

You pay premiums of R[XXX] each month to ABC Insurance Company.

[Optional: These premiums will not change for at least 1 year.]

If one of the Insured Persons dies and all the Conditions are met, his or her Funeral Benefit will then be paid by ABC Insurance Company.

When you apply for the policy, you must say who will receive the benefits if you die. If you say nothing the Funeral Benefit will be paid to [Optional; your estate].

If any other Insured Person (not you) dies, the Funeral Benefit will be paid to you.

Funeral benefit

When the policy starts, the Insured Persons whose names appear in the list below will receive the Funeral Benefits shown in the list.

Insured Persons	Age	Funeral Benefit
[Name].....	45.....	R 10 000
[Name].....	42.....	R 10 000
[Name].....	18.....	R 5 000
[Name].....	7.....	R 2 500
[Name].....	2.....	R 1 250

Child's funeral benefits

[Optional: Only children under age 21 can have a Funeral Benefit from this policy. On a child's 21st birthday, the child's Funeral Benefit will be cancelled.]

[Optional: May add funeral cover up to age 25 if student and may add funeral cover as additional family member.] If the Insured Person is a child under age 14, the Funeral Benefit will be increased in the future as the child gets older, as shown below:

- If the child is under age 6, the Funeral Benefit will be R1 250 ,
- On the child's 6th birthday, the Funeral Benefit will be increased to R 2 500 ,
- On the child's 14th birthday, the Funeral Benefit will be increased to R 5 000 ,
- Once the Child is 14 years old or older, the Funeral Benefit will not change.



Conditions of the policy

If an Insured Person dies, the Funeral Benefit for that Insured Person will be paid only if the Conditions below are met:

Family members only

The Insured Persons must be members of your family. These are: your husband or wife and your children up to age 21. [Optional: parents, siblings, and maximum number of children]

Premiums must be paid

See the special Conditions for Premiums below.

Dying in the First 6 Months from the Start Date:

If an Insured Person dies from an accident in the first 6 months from the Start Date, the Funeral Benefit will be paid. An accident means something that happens from outside our body or with force, and so quickly that the Insured Person was not prepared for or expecting it. Examples of an accident are a car crash or drowning.

If an Insured Person dies from an illness in the first 6 months from the Start Date, the Funeral Benefit will not be paid. If an Insured Person dies from an illness after 6 months from the Start Date, the Funeral Benefit will be paid. If a new-born child dies from an illness in the first 6 months, the Funeral Benefit will be paid.

If an additional Insured Person is named in the policy after the Start Date, the Funeral Benefit will not be paid if this person dies from an illness in the first 6 months from the date he or she was named. If this person dies from an illness after 6 months from the Start Date, the Funeral Benefit will be paid.

Dying in the First 2 Years from the Start Date:

If an Insured Person commits suicide (kills himself) in the first 2 years from the Start Date or when he or she was named under the policy, the Funeral Benefit will not be paid.

If an Insured Person commits suicide after the first 2 years from the Start Date or when he or she was named under the policy the Funeral Benefit will be paid.

[Optional: Maximum Funeral Benefit]

A person can have more than 1 policy with ABC Insurance Company, as long as the total Funeral Benefits are not more than RXXXX. If the cover is more than RXXXX, then ABC Insurance Company will pay only RXXXX.]

[Optional: Policy Can Continue after Your Death]

Premiums

Premiums must always be paid every month from the Start Date.

30 days are allowed to pay each premium. If any premium is not paid within the 30 days, the policy will be cancelled and no Funeral Benefit will be paid. After 1 year from the Start Date, if you have paid all the premiums, you can miss 1 month's premium for each full year you have paid and the policy will not be cancelled. This means after 1 year from the Start Date, if you have paid all the premiums from the Start Date, you are allowed to pay only 11 premiums in that year instead of 12 premiums. If you miss 2 months' premiums, the policy will be cancelled.

After 2 years from the Start Date, if you have paid all the premiums from the Start Date, you are allowed to miss 2 month's premiums and the policy will not be cancelled. If you miss 3 months' premiums, the policy will be cancelled. After 2 years from the Start Date, if you have missed 1 premium in the second year, you are allowed to miss another 1 month's premium in the third year and the policy will not be cancelled. If you miss another 2 months' premiums, the policy will be cancelled.



The same applies:

- After 3 years, when you can miss 3 premiums in total from the Start Date;
- After 4 years, when you can miss 4 premiums in total from the Start Date;
- After 5 years, when you can miss 5 premiums in total from the Start Date;
- After paying all the premiums for 6 years or longer from the Start Date, you are allowed to miss 6 months' premiums in total without the policy being cancelled. If you miss 7 months' premiums, the policy will be cancelled.

[Optional: If you claim (see below) a Funeral Benefit when premiums have not been paid as above, the benefit will] be reduced by the premiums you have not paid.]

[Optional: ABC Insurance Company can increase the premium because more people with this type of funeral policy die than was expected. The premium will not change because of Funeral Benefits paid on your policy. If the premium is changed, ABC Insurance Company will tell you [Optional: 30 days] before the premium is increased. If you are not satisfied with the changed premium, you can then ask ABC Insurance Company to tell you about the other options you have.]

Policy can be Reinstated

If the policy is cancelled because the premiums have not been paid, it can be reinstated (started again) at any time in the 3 months from the date it was cancelled. If the policy is reinstated, the missed premiums do not have to be paid. No Funeral Benefit will be paid from the date the policy was cancelled until the policy was reinstated. The policy will have the same Conditions as it had at the Start Date. For example, no Funeral Benefit will be paid in the first 6 months if an Insured Person dies from an illness during this period.

Charges

All charges for this policy are included in the premiums. The law says how much commission can be paid to insurance advisers for their work. The commission payable to your insurance adviser for this policy is [X]% of the premium. This means the commission will be R [XXX] in the first year. If your insurance adviser is a representative or agent of ABC Insurance Company, the commission payable can be a little different because the representative can get other benefits that do not come directly from this policy.

How to Claim a Funeral Benefit

If one of the Insured Persons dies, you can claim that person's Funeral Benefit. This means that you must tell ABC Insurance Company as soon as you can or at any time in the [12] months after that person's death to get the benefit. If you do not tell ABC Insurance Company before the [12] months are up, the Funeral Benefit will not be paid. Please contact your insurance adviser for the forms to be filled in or phone ABC Insurance Company's [Customer Care Line].

Early Cancellation – in 30 days

If you have not claimed, you can cancel the policy in the first 30 days from the date you receive the policy. [Optional: If no benefit was paid you will receive a full refund of all the premiums you have paid] To cancel, write [Optional: phone] to ABC Insurance Company to tell them to do so.

Cancellation after 30 days

You can cancel this policy at any time by writing [Optional: phone] to ABC Insurance Company to tell them to do so. It will take 30 days to cancel the policy.



Replacing an Existing policy

If you were told to cancel or change a policy that you had before, so you can take this policy, you must be told why this can be bad for you. This can be:

- paying charges twice
- higher premiums because of your age and health
- not being able to insure yourself and the other people insured.



Appendix C: Example of Zimele form D report

LOA/ASISA Form D Template

A. **Transactional Access**
% of LSM 1-5 grid references covered
SCORE

B. **Market Penetration**

1. Number of Zimele Products 1-5 policies in-force excluding credit-life business
2. Number of Zimele credit life policies in-force for LSM 1-5
3. Total number of all LSM 1-5 policies in-force excluding credit-life business
4. Total number of all in-force credit-life policies
Net total (3 + 25% of 4)

TARGET
SCORE

All Offices	Large	Med & Small



Appendix D: Example of near-compliant funeral products

Features	Cornerstone Solution	Excellence Family Funeral Plan
Zimele compliant	Yes	No
Maximum cover	R10,000	R20,000
Premium range	Single: R22 to R42 (or R4.20 per R1,000)	Single: R99 for maximum cover (or R4.95 per R1,000 cover)
Cover options	Single member Immediate family Parent cover (stand-alone)	Single member Immediate family Parents and Parents-in-law Extended family members: uncles, aunts, brothers, nephews
Waiting period	6 months	6 months
Other benefits	<ul style="list-style-type: none"> No medical testing or AIDS testing required Claims settled within 6 days Grace period of one month for each 12 consecutive month's payment up to a maximum of 6 months. 	<ul style="list-style-type: none"> Optional family income benefit providing 10% of sum assured on a monthly basis for 6 months on the death of principle life assured. Premium waiver death benefit automatically included: should principal life assured die, funeral benefit provided for free to all lives assured on the policy for a period of 5 years Optional cash back benefit Assupol on-call benefit: transportation of deceased, guaranteed hospital admission and medical, financial and tutor lives. Inflation adjustment option for cover

Table 18: Basic Features of Assupol's Zimele and Non-Zimele funeral products

Source: Assupol product brochure

Features	Future Provider Funeral Plan	Future Builder Funeral Plan
Zimele compliant	Yes	No
Maximum cover	R20,000	R30,000
Maximum monthly premiums	R85 if member younger than 54 (R4.25 per R1000 cover)	R92 if member younger than 54 (R3 per R1000 cover)
Cover options	Policy owner Immediate family cover Parents and/or parents-in-law Policy owner and parents Policy owner, life partner, children and parents	Policy owner Immediate family cover Policy owner and life partner Policy owner and children Parents Extended family members
Waiting period	6 months	6 months
Exclusions	Pre exiting conditions included	Pre existing conditions included



Features	Future Provider Funeral Plan	Future Builder Funeral Plan
Additional benefits over and above paying for funeral		Covers costs associated with travelling and accommodation for guests
Other benefits	<ul style="list-style-type: none"> • No medical testing or AIDS testing required • Cover paid within 48 hours of making claim • If premiums missed, cover still provided under certain conditions 	<ul style="list-style-type: none"> • No medical examinations • Payment of valid claims within 48 hours • Paid up benefits: At death or disability of policy owner, policy becomes paid up. • Option for paid-up benefit at retirement • Double accidental benefit • Funeral services: optional benefit that provides loved ones with funds whilst awaiting the settlement of the deceased's estate • Automatic inflation management to ensure benefit stays in-line with inflation • Funeral assistance benefit • Legal assistance benefit • Repatriation of mortal remains benefit • Emergency medical services benefit • Trauma, assault and HIV protection cover benefit

Table 19: Basic Features of Metropolitan’s Zimele and Non-Zimele funeral products

Source: Metropolitan product brochure



Appendix E: Meeting list

Meeting list for the Mzansi insurance product standards.

Organization	Person spoken to	Position
SASRIA	Thokozile Mahlangu	Executive manager business operations division
Mutual and Federal	Michael McCann	Regional sales manager
Mutual and Federal	Vusi Ndlovu	General manager - New markets
Financial Sector Charter Council	Busi Dlamini	
ABSA	Mkhuseli Sethuse	Product manager - personal lines
SANTAM	Simon Mokhema	Business development manager
OUTSurance	Judy Watson	Business development - actuary
SAIA	Viviene Pearson	Spokesperson and stakeholder relationship manager
SAIA	Dawie Buys	Motor manager
SAIA	Gary Benton	Consultant
Hollard	Jeremy Leach	Group business development
Hollard	Thabo Gumbi	Assistant principal - Low-income markets
Legalwise	Jan Luwes	CEO
Banking Association of South Africa	Stuart Grobler	Senior General Manager

Meeting list for South African Retail Savings Bond.

Organization	Person spoken to	Position
South African Reserve Bank	Johan Krynauw	Director of debt operations - Asset and liability Management Division

Meeting list for the Zimele products.

Organization	Person spoken to	Position
SANLAM	John Solomon	Head of Compliance
Assupol	Johan Dippenaar	General Manager
Hollard	Jayesh Madhav	Product Development
Old Mutual	Andrew Le Roux	
Old Mutual	Andrew Codd	Product Development
FNB	Phil Penlington	Manager Loans
Momentum	Ernst Dinkelmann	Product Manager
ABSA Life	Tumelo Lestwaba	Assistant Product Manager
ABSA Life	Noxolo Cawe	Product Manager
Avbob	Deno Pillay	General Manager



Organization	Person spoken to	Position
Avbob	Lucia Rosberg	Assistant General Manager
Liberty Active	Killy Bacela	Compliance officer
Liberty Active	Felix Kagura	Product Manager
	Sid Kaplan	Private Consultant
ASISA	Leon Campher	CEO
ASISA	Trevor Chandler	Consultant
ASISA	Geoff London	Consultant to ASISA
Metropolitan	Berniece Hieckmann	Head Mass-Markets
Metropolitan	Eugene Kruger	Product Manager

Meeting list for Fundisa products.

Organization	Person spoken to	
Stanlib	Sizwe Ndebele	Product Manager
ASISA	Stephen Smith	Savings Consultant
ASISA	Janet Nel	Marketing Manager
Lombard Insurance	Rob Rusconi	Savings Consultant
Consultant	Di Turpin	Former Head of Association for Collective Investments