



MAKING FINANCIAL MARKETS WORK FOR THE POOR

File ref: 2646

TOWARDS A BENCHMARK FOR ACCESS TO LIFE INSURANCE IN LSM 1-5

29 October 2004

Prepared for the LOA Access Committee by:

Illana Melzer

Matthew Smith





FOREWORD

At the time of writing, the Life Offices are still due to set targets for access to insurance products in LSM 1-5, as part of the South African Financial Services Charter. To support this exercise, Eighty20 was commissioned by FinMark Trust to undertake an analysis of available data (both industry and survey data) to determine the current level of penetration within LSM 1-5 and to highlight potential mechanisms of setting meaningful targets.

The following report ¹ provides the results from that exercise. In terms of measuring access, the FinScope survey's estimates of usage is within acceptable confidence levels and insurance penetration is broadly as stated below.

2008 Charter target:	of LSM1-5	Usage of financial services in LSM 1-5
Transaction products	80%	32%
Bank savings	80%	31% [Stokvels 10%]
Collective investment	1% +250000	0%
Short term insurance	6%	0%
Life insurance products	To be set	Funeral policy 8% Life insurance 5% Endowment 2% Pension/Provident 5% [Burial society 30%]

Source: Finscope 2003

Although FinScope data shows relatively low current penetration, FinScope's FSM segmentation model provides an indication that there is considerable potential for providers willing to engage innovatively in the low-income market. This potential is reinforced by the widespread use of burial societies. As shown by FinScope and the Financial Diaries exercise being run by UCT, low-income consumers use a considerable number of financial instruments, both formal and informal, to cope with risk. This demonstrates that there are opportunities for formal providers to cover the risks that really matter.

¹ The information in the report is aggregated to protect the competitive interests of those who shared the data.



In many ways, the most interesting part of such an exercise is the process. With regard to a provider's need to understand its customer, the exercise found very few insurers had accurate data on their client base. Eighty20 found that *"income data is available for just over half of all policyholders"* whereas, for the funeral insurance industry, information on income was available *"for less than 15% of ...policy holders"*. As will be seen from the report, there is a significant lack of available data held by insurers on the insured's' interests – on who they are, how many policies they hold and, more importantly from the perspective of affordability, what they earn. The lack of information may well be a key driver of the poor persistency of insurance products sold to the low-income market. Intuitively, when one considers the costs associated with the high lapse rates it is surprising how little information insurers obtain on their customers.

FinScope 2003 & 2004 provide a nuanced understanding of usage or non-usage of financial products, which provides powerful information that can be used to define and access previously untapped markets. Looking forward, and until such time as insurers are able to clearly assess their penetration into the low income market, a survey such as FinScope will be necessary to assess penetration levels. This has clear implications in terms of setting and monitoring targets under the Financial Sector Charter.

However, survey data is clearly no substitute for organisations understanding their own clients. SAIA has developed an Insurance Data System to capture claims data as well as policy data. While this is primarily to prevent multiple claiming on risk policies, there is potential for extending the database to the insurance industry. The benefit would be in enabling agents and brokers to determine how many policies a consumer holds (using a unique identifier such as an ID number) and what they are paying-- which would allow a judgement call on what is affordable and appropriate. With new technology, the additional costs of data capture should not be prohibitive and could support brokers and agents in complying with FAIS. Certainly this is an area that could be worth investigating further.

As you will see from the following exercise, Eighty20 has collated considerable data from the contributing insurers². We would encourage these insurers to liaise with them to understand what the major issues are and how that data could be analysed to support their business case.

Finally, it goes without saying that the insurance industry is about risk. As detailed in the report, the population within LSM 1-5 faces considerable risks that are often different from those of the established market. Due to lack of access to formal services, it has often used informal mechanisms to safeguard against those risks; an estimated 30% of LSM 1-5 belong to burial societies and contribute



in excess of R60 pcm. This certainly demonstrates the need and use of such insurance – and, if insurers can provide an appropriate value proposition, could provide opportunities for insurers to provide complementary or alternative services. We suggest that the insurance industry therefore needs to consider ways to target this market effectively. To quote Robert Shiller, in his book *The New Financial Order* (2003), “risk sharing has been used primarily for certain narrow kinds of insurable risks...*We need to extend the domain of finance...to cover the risks that really matter in our lives.*”

Jeremy Leach
FinMark Trust
28 October 2004

² The contributing insurers were African Life, Charter Life / Stanbic, Metropolitan Life, Old Mutual and Sanlam.



TABLE OF CONTENTS

1	EXECUTIVE SUMMARY	6
2	PROJECT CONTEXT	9
3	COMPANY-PROVIDED DATA	12
4	FUNERAL INSURANCE	15
4.1	A review of FinScope data: Formal sector provision	15
4.2	A review of company-provided data: Funeral insurance	19
4.3	Comparison between company data and FinScope: Funeral insurance	19
5	CREDIT LIFE.....	21
6	ENDOWMENTS AND EDUCATION POLICIES.....	22
6.1	A review of FinScope data: Formal sector provision	22
6.2	A review of company-provided data: Endowments	25
6.3	Comparison between company data and FinScope: Endowments	26
7	LIFE ASSURANCE.....	27
7.1	A review of company-provided data: Life assurance.....	29
7.2	Comparison between company data and FinScope: Life assurance	30
8	CONCLUSION: COMPARISON BETWEEN COMPANY-PROVIDED DATA AND FINSCOPE.....	31
8.1	Availability of company data on client income or LSM.....	31
8.2	Policyholder awareness.....	32
8.3	Product confusion	32
8.4	Multiple policies per policyholder	32
8.5	Survey sample size	33
9	RECOMMENDATIONS	34
9.1	Industry reporting	34
9.2	Consumer surveys	35
9.3	Further supply-side analysis	35
9.4	Develop an industry-wide client database.....	36
10	INSIGHTS FROM FINSCOPE RELATING TO INSURANCE ACCESS.....	37
10.1	Key risks faced by low-income market and risk mitigation strategies	37
10.2	Informal sector provision of insurance	39
10.3	Basis for access target segmentation: LSM, FSM or income	42

1 EXECUTIVE SUMMARY

The publication of FinScope data regarding ownership of long term insurance products by adults in LSMs one to five has generated much discussion within the industry. While comparisons against census information, presidential surveys and a syndicate bank's own data set demonstrate that FinScope's data has considerable credibility, some have asserted that the survey understates the true level of ownership of insurance products significantly. In order to assess whether FinScope's estimates are plausible, FinMark with the cooperation of the LOA undertook to gather data from key players in the industry and compare this data with FinScope's findings.

There are a number of factors that complicate a study of this nature:

- FinScope does not report product ownership by company. Direct comparisons between company data and FinScope data are therefore not possible;
- FinScope identifies the number of policyholders in LSMs one to five across the industry. In contrast, company data tends to focus on the number of policies rather than policyholders. In many cases it is not possible to determine the number of unique policyholders by product within a company because data on client identities is not captured or is not accessible. In addition, no data is available to determine the extent of multiple policyholding across companies;
- Companies do not gather data on the various living standards indicators that would enable a direct comparison of the number of customers in LSMs one to five. A personal income proxy has therefore been used. However, data on personal income at the time of purchase is available in only a minority of cases primarily because of the widespread use of voluntary group products used to serve low-income clients. Typically, very limited client data is captured at the point of sale in order to keep acquisition costs as low as possible;
- Data was collected from five significant providers of insurance products on clients in LSMs one to five, representing approximately 66% of the market share, and not for the industry as a whole.

In order to overcome these limitations, company data has been manipulated using various proxies and assumptions. These include assumptions regarding:

- The extent of multiple policyholding both within and across companies;
- The rate of growth of personal income to adjust personal income estimates obtained at the time of purchase to current levels of income;
- The income distribution of the client base where income data is only partially available or not available at all;
- The relationship between personal monthly income and LSM;

- The market share of companies under review in LSMs one to five in order to extrapolate industry-wide estimates based on data received for the five companies under review.

Based on these assumptions, this study broadly concludes that FinScope's estimates appear reasonable in the case of funeral policies and life assurance. FinScope appears to understate ownership of endowments and, as expected due to the high incidence of product bundling, underreports ownership of credit life, which no FinScope respondents in LSMs one to five currently own. The high level findings are summarised in the table below.

Table 1. Summary findings³

	Raw company data: Policyholders in LSM 1-5	Policies per policyholder	Company to industry factor	Extrapolated industry data: Policyholders in LSM 1-5 (penetration)	Finscope 95% confidence interval: LSM 1-5 (penetration)
Funeral policies	1,764,962	1.6	1.5	1,654,651 (9.5%)	1,217,900 – 1,706,841 (7% - 9.8%)
Life assurance	737,871	1.2	1.5	922,339 (5.3%)	617,537 – 975,173 (3.5% - 5.6%)
Endowments including education policies	481,275	1.2	1.5	601,594 (3.4%)	281,628 – 526,848 (1.6% - 3%)
Credit life <i>(micro loans only)</i>	1, 168,664	NA	NA	NA	0

Of course, the conclusions of this study are only as robust as the underlying assumptions. In the absence of conflicting reliable data these assumptions appear reasonable. Should they be incorrect, there may well be a discrepancy between FinScope and industry-based or supply-side data with regard to funeral and life insurance.

³ Using a census 2001 sample frame, FinScope 2003 estimates the number of adults above 18 in LSM 1-5 as 17,453,454 against a total adult population of 26,928,819.



Aside from factors relating to the size of the survey panel and structure of the questionnaire, there are a number of possible explanations as to why discrepancies exist in the case of endowments and credit life. These include:

- Low awareness of product ownership by clients; This is more likely where products are sold as rider benefits or as secondary products where disclosure may be poor. In the case of credit life this is likely to be a significant factor.
- Product confusion; Clients may not be familiar with product classification as per FinScope. For example, clients may not be familiar with the term 'endowment', but may refer to their policies as savings plans.

2 PROJECT CONTEXT

The Financial Sector ("FS") Charter commits to providing effective access to assurance products for the low-income market defined in the charter document as those in LSMs one to five. Effective access includes the availability of first-order retail products and services. In the case of life insurers this encompasses products such as basic endowments products, life assurance and funeral insurance. Access also encompasses the 'proximity or availability of financial advisors to community-based infrastructure'⁴.

Unlike basic banking products, collective investment and short term insurance, no specific market penetration targets were stipulated for the life insurance industry as part of its FS Charter access commitments.

Table 2. Financial Sector Charter access targets

	2008 access targets	Definition of effective access
Transactions products and services	80% of LSMs 1 – 5	<ul style="list-style-type: none"> ■ Being within a distance of 20kms of service points at which first order retail financial services can be undertaken. For non-life insurers this includes ATMs and other origination points ■ For life insurers access is defined in terms of availability of products and services as well as proximity of financial advisors ■ Being within a distance of 20kms of the nearest accessible device at which an electronic service can be undertaken (other than ATM) ■ Availability of a sufficiently wide range of appropriate products and services aimed at those in LSMs 1 – 5 ■ Non-discriminatory practices ■ Appropriate and affordably priced products for effective take-up by those in LSMs 1 – 5 ■ Structuring and describing financial products in a simple and easy-to-understand manner
Bank savings products and services	80% of LSMs 1 – 5	
Life assurance products and services	Detailed target to be determined	
Collective investment products and services	1% of LSMs 1 – 5 plus 250,000	
Short term risk insurance products and services	6% of LSMs 1 – 5	

Source: Financial Sector Charter⁵

⁴ Source: "Financial Sector Charter"

⁵ According to the Banking Council, the distance target for transaction products and services is due to be amended. The Banking Council have confirmed that the targets for full service points (i.e. branches) will be reduced to 15km and transactability service points (i.e. ATMs) will be reduced to 10km.

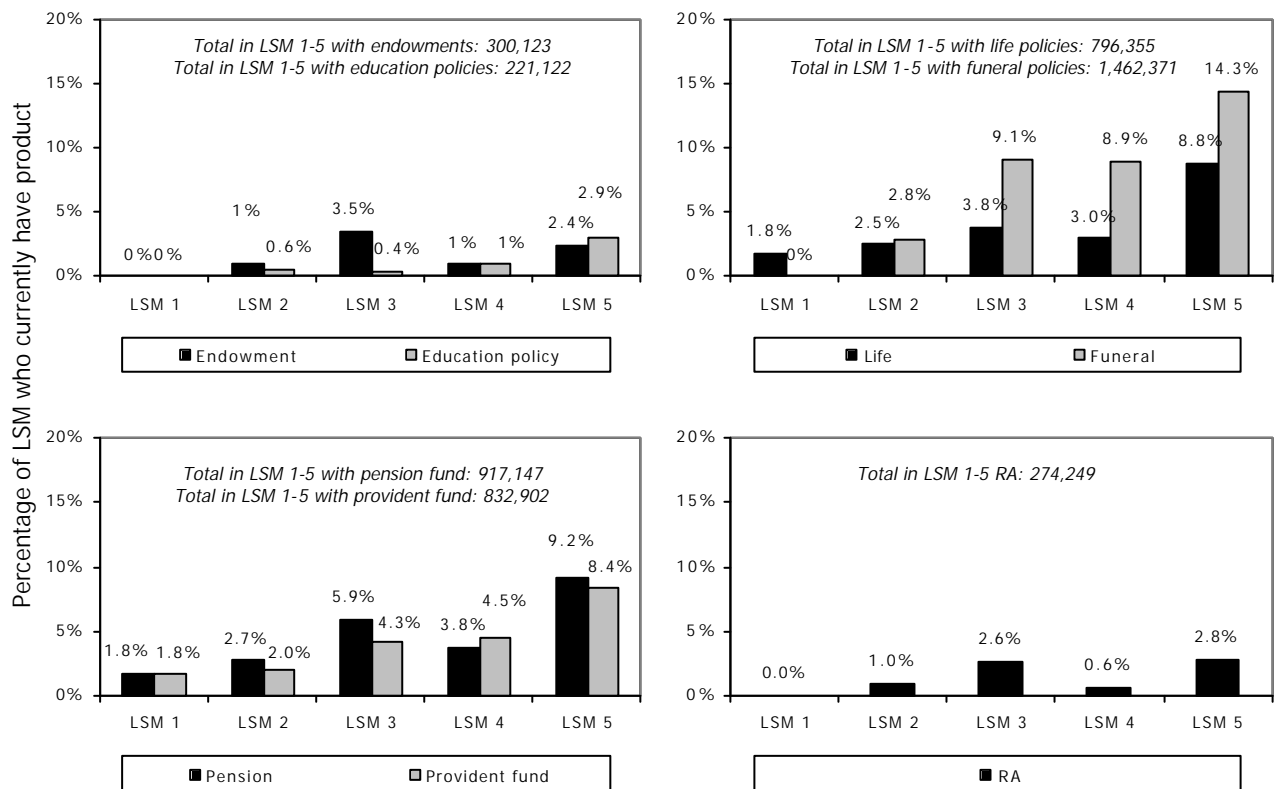
Life insurers have committed to developing meaningful access targets regarding for LSMs one to five in the near future with reference to three basic retail products, namely:

1. Funeral insurance,
2. Basic endowments or savings products, and
3. Credit life.

The industry has begun a process of defining a set of parameters that would delineate the minimum product and service requirements for these products. At the same time, it would also like to determine current levels of market penetration of the above-mentioned products with some degree of accuracy to ensure that any targets in this regard are well formulated.

The data provided by FinScope, a national survey of 2,984 respondents conducted in August 2003, offers one such view. The survey's findings on product holdings for those in LSMs one through five are summarised in the charts below.

Figure 1. Product holdings for LSM 1-5; selected products provided by long term insurers⁶



Source: FinScope 2003

⁶ No respondents indicated ownership of credit life. This may be a result of the way the question was phrased. It may also reflect poor client knowledge of credit life.

However, industry stakeholders have raised some concerns as to the reliability of the FinScope data. These concerns may be justified given some intrinsic limitations of a survey of this nature. At 2,984 respondents, the survey panel is at times too small to provide comfort for some detailed analysis. The sample size limits the degree to which the data can reliably be cross-tabulated by insurer, income or LSM as the number of observations decreases dramatically with each additional segmentation dimension.

There are also some limitations arising from the 2003 questionnaire structure with regard to ownership of insurance products and provider companies. Both are multiple response questions. It is therefore not possible to determine product holding by company using FinScope 2003 data⁷. In addition, the question on funeral policy ownership refers to 'big institutions'. This term is not clearly defined and is therefore subject to the interpretation of the respondent.

It is worth noting that at a national level the credibility of the survey has been widely accepted. The findings have been cross-checked against the 2001 Census, the Presidents Survey of 2000, the Department of Statistics, the Department of Social Development and a syndicate member's client database. In the case of the latter, FinScope's numbers were within 8% of a major bank's own client base.

FinMark with the cooperation of the LOA undertook to gather supply-side data from significant providers in the target market in order to assess the validity of FinScope data. This report summarises the findings of this process and compares company-provided data on product ownership with FinScope's findings.

⁷ For example, a respondent may have a funeral policy and an endowment and may be a client of Old Mutual and Metropolitan. It is not possible to determine which product is provided by Old Mutual and which by Metropolitan. The 2004 FinScope questionnaire does not suffer from this weakness with respect to funeral policies.

3 COMPANY-PROVIDED DATA

Data was collected from five large insurers, namely Old Mutual, Metropolitan Life, Sanlam, African Life and Charter Life (the product provider for Stanbic) as part of the supply side review. These companies were selected because of their importance as formal sector product providers to the low-income market as indicated by FinScope.

Each of these companies was asked to provide an estimate of the size of their low-income client base and the number of associated in-force funeral, life, endowments and credit life policies sold on an individual, voluntary group and compulsory group basis⁸. In most cases data on the total number of policies and policyholders was provided. However, in some cases, this was restricted to low-income clients only.

On aggregate, the availability of income-based data for low-income clients is limited. In total across all individual and group products, income data is available for just over half of all policyholders. Income data for policyholders of voluntary group products for the largest providers of such products is not available at all. In addition, data for products sold on an individual basis is relatively sparse. The richest income data is available for compulsory group products. However, scheme members may well have low levels of awareness of both the benefits offered by their employers as well as the identity of the provider, making it unlikely that FinScope's findings reflect ownership of these products accurately.

Table 3. Availability of policyholder income data by product

		Percentage of policyholders	Percentage: income data available
Funeral	<i>Individual</i>	32%	18%
	<i>Voluntary group</i>	57%	0%
	<i>Compulsory group</i>	10%	63%
	Total		12%
Life assurance	<i>Individual</i>	53%	10%
	<i>Voluntary group</i>	11%	0%
	<i>Compulsory group</i>	36%	86%
	Total		36%
Endowments	<i>Individual</i>	62%	50%
	<i>Voluntary group</i>	38%	0%
	Total		31%

⁸ The distinction between individual and voluntary group products is not always clear-cut. Products can be distributed, underwritten or administered on an individual or group basis. In this document, the distinction refers primarily to administration and underwriting as opposed to distribution.

Data provided by companies surveyed is therefore problematic for the purposes of this study, namely a comparison with data generated by FinScope.

In order to generate a partial comparison between FinScope and company data, various assumptions have been used to enhance company-provided data as follows:

- In order to obtain a current estimate of income, available point-of-sale income data has been factored up by CPI;
- Where income data is available for only a subset of the client base, this distribution has been applied across all clients. Clearly, this assumes that there is no bias in terms of income data availability across income segments;
- Where no income data is available at all, the income distribution associated with the company generated by FinScope has been used. While the absolute numbers generated by FinScope are in dispute, it may well be reasonable to assume that any over- or underestimation is uniform across income groups and that the income distributions suggested by FinScope are broadly accurate⁹;
- An adjustment is required to convert income data to a segmentation based on LSM. Income data was mapped to LSM using FinScope's LSM allocation for each income category using the percentages below.

Table 4. Personal income to LSM: FinScope

Monthly personal income	Percentage in LSM 1-5
No income	78.88%
R1-R500	83.04%
R501-R750	82.77%
R751-R1 000	82.06%
R1 001-R1 500	62.62%
R1 501-R2 000	66.58%
R2 001-R3 000	45.60%
R3 001-R4 000	25.10%
R4 001-R5 000	18.90%
R5 001-R6 500	17.46%
R6 501-R8 000	9.55%
R8 001-R9 500	0.00%
More than R9 500	3.59%
Refuse to answer	22.20%
Don't know	52.75%

Two further complications limit the degree to which the data received from companies can sensibly be compared to FinScope data.

⁹ The income distribution of Old Mutual and Metropolitan policyholders generated by FinScope differs from that generated by AMPS. This may indicate that income distribution data for individual companies is not reliable.

1. *Unique policyholders*; FinScope data reports the number of unique policyholders but does not indicate whether they own more than one policy. Thus, FinScope implicitly adjusts for any duplicate policyholding within or across companies. This is not the case with company-provided data. While some companies are able to determine the number of unique policyholders for certain classes of business, none of the companies under review can determine the number of unique policyholders across their various divisions. In addition, it is not possible to derive a meaningful estimate of extent of multiple policyholding across companies.

In order to derive a proxy of the degree of within-company cross holding, the ratio of *individual* policies to policyholders has been calculated for each product under review using the most complete data set provided by reviewed companies. The total cross holding incorporating voluntary and compulsory group schemes products within companies as well as across companies is thought to be significantly higher than this proxy.

2. *Market share of companies under review*; Company data was collected for five large companies and not the industry as a whole. In order to assess the true levels of access provided by the industry, the data received from companies under review should be scaled up to incorporate the those companies that were not reviewed.

Estimating company market share for specific lines of business in LSMs one to five is not possible given available industry data. Statistics maintained by the Financial Services Board ("FSB") and the Life Offices Association ("LOA") cannot easily be segmented by product and market. Given the unique nature of the low-income market, overall statistics for the industry are not likely to provide a useful proxy.

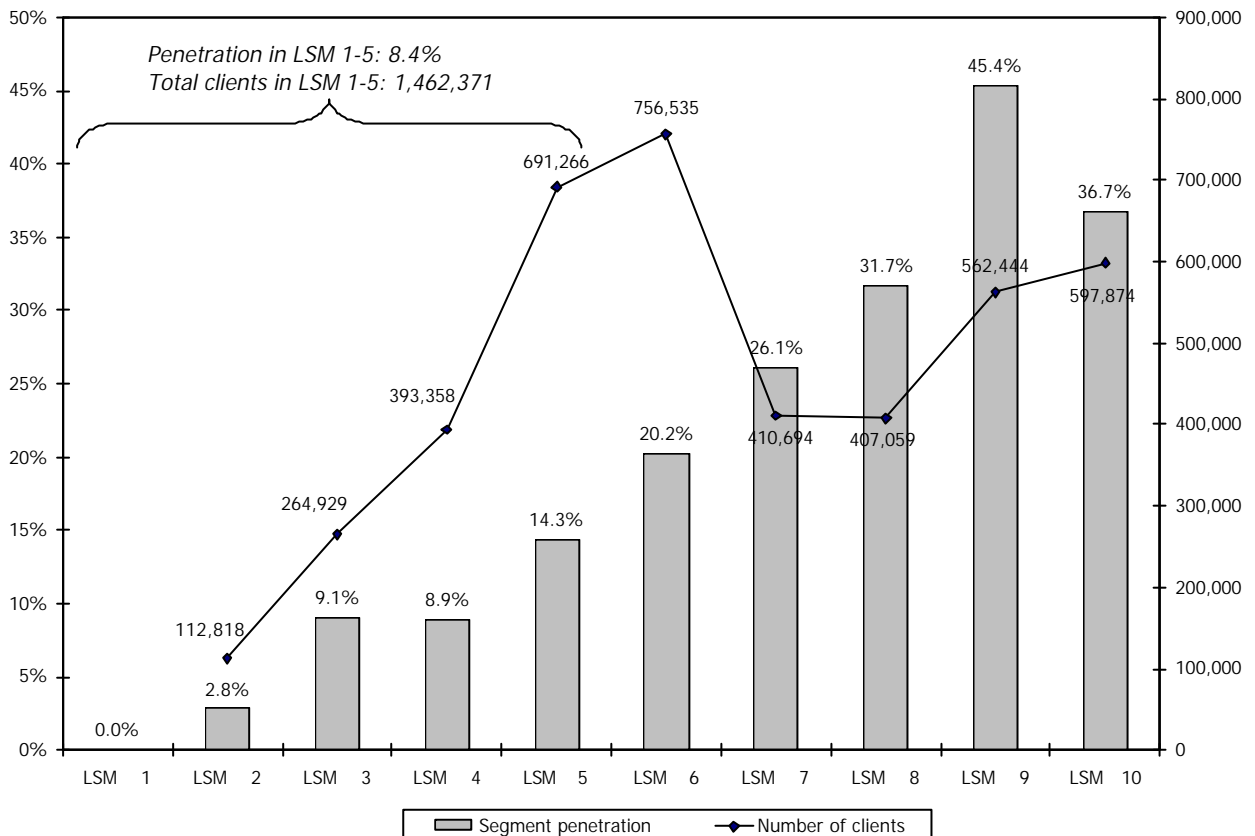
Company data from FinScope and AMPS can provide an indication of the market share of providers in the lower income market, albeit on a non-product specific basis and for those products where ownership awareness levels are high. According to FinScope 66% of the population in LSMs one to five who currently have a long term insurance product are policyholders with at least one of the five companies under review. By implication, the rest of the industry accounts for a further 33% of those in LSM one to five. The number of unique policyholders is therefore factored up by 1.5 to arrive at an estimate for the industry.

4 FUNERAL INSURANCE

4.1 A review of FinScope data: Formal sector provision

According to FinScope there are 4.2 million adults in total who currently have at least one funeral policy with a big institution¹⁰. Of these, just under 1.5 million are in LSMs one to five. Broadly speaking, segment penetration of funeral policies increases in higher LSMs peaking at 45% of LSM 9.

Figure 2. Funeral insurance by LSM



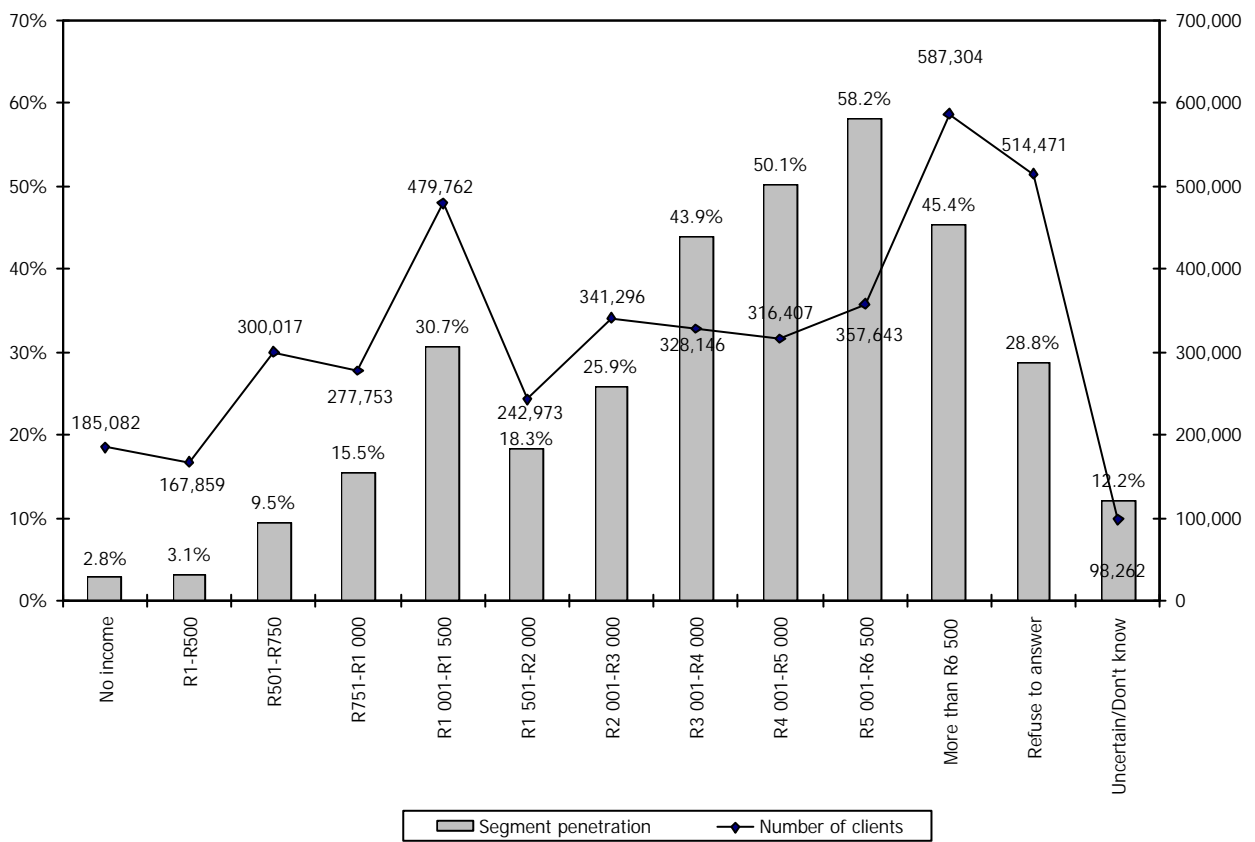
Source: FinScope 2003

FinScope's overall estimate with regard to funeral insurance is higher than that of the All Media and Product Survey¹¹ ("AMPS"). According to AMPS, the number of adults who have a funeral policy is 3.4 million across all LSMs, with 1.08 million in LSMs one to five. This discrepancy can be explained by the fact that AMPS does not focus strongly on financial services. It also has a bias towards urban households and therefore possibly underreports penetration in rural households.

¹⁰ A further 205,806 adults responded as "Don't know".

A review of funeral insurance segmented by personal income is shown below. As with LSM, penetration generally increases with income, the exception being the segment earning between R1,000 and R1,500 per month, which at over 30%, is higher than the penetration levels in contiguous segments. A surprisingly high number of people with no monthly income have funeral policies. Presumably, these individuals either have sporadic income or their premiums are funded by other household members. According to FinScope, less than 8% of those with no personal income have no household income.

Figure 3. Funeral insurance by personal monthly income

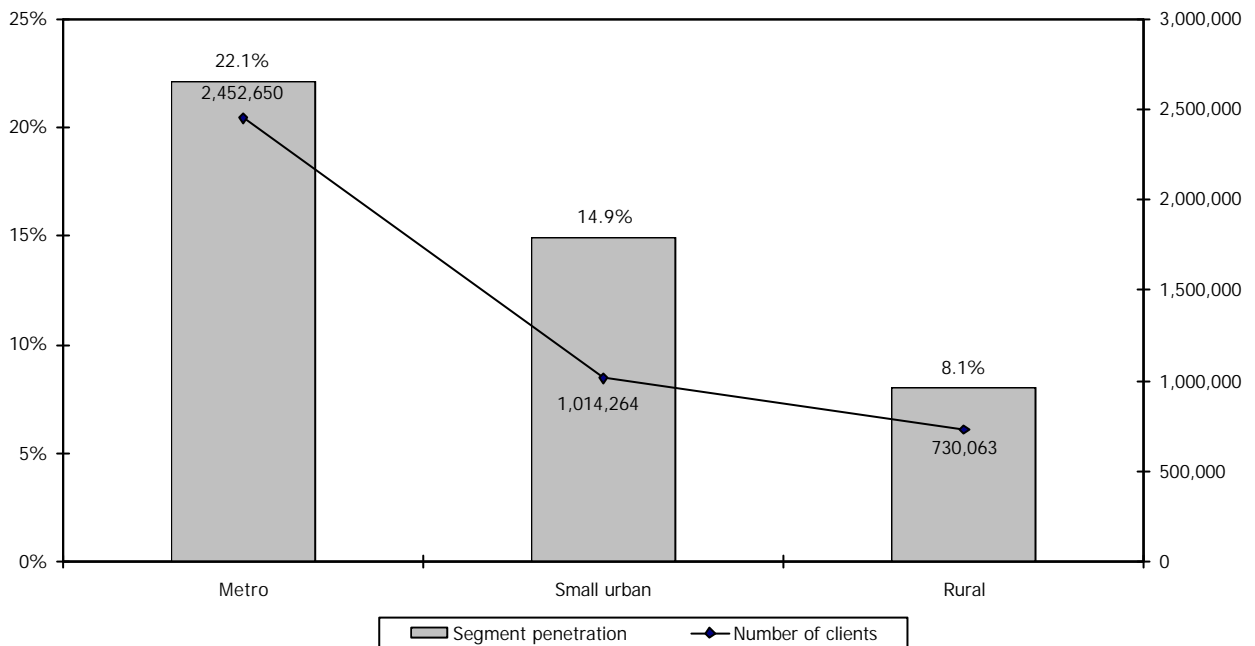


Source: FinScope 2003

As expected, a geographic segmentation shows highest penetration levels in urban areas in line with greater levels of access to financial infrastructure as well as generally higher income levels in those areas.

¹¹ The AMPS survey has 25,114 respondents and is conducted by SAARF

Figure 4. Funeral insurance by geography: Urban, small urban and rural areas



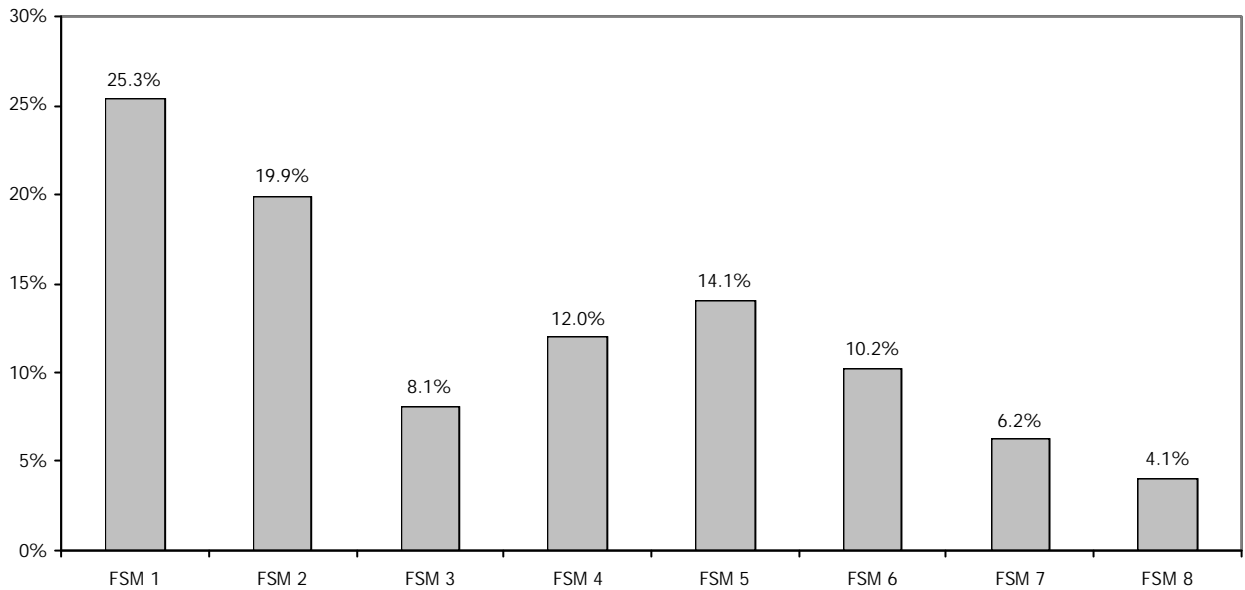
Source: FinScope 2003

A final view of the data is based on FinScope's Financial Summary Measure ("FSM"). FSM segments respondents by their propensity to use and understand financial products. By overlaying this segmentation basis on income or LSM, one can develop a more nuanced understanding of the potential market within the low-income segment¹².

Figure 8 below shows the distribution of the adult population by FSM. A significant proportion fall in FSM tiers one and two (predominantly rural and poor), although the combined importance of more aspirant adults in higher FSMs is not insignificant.

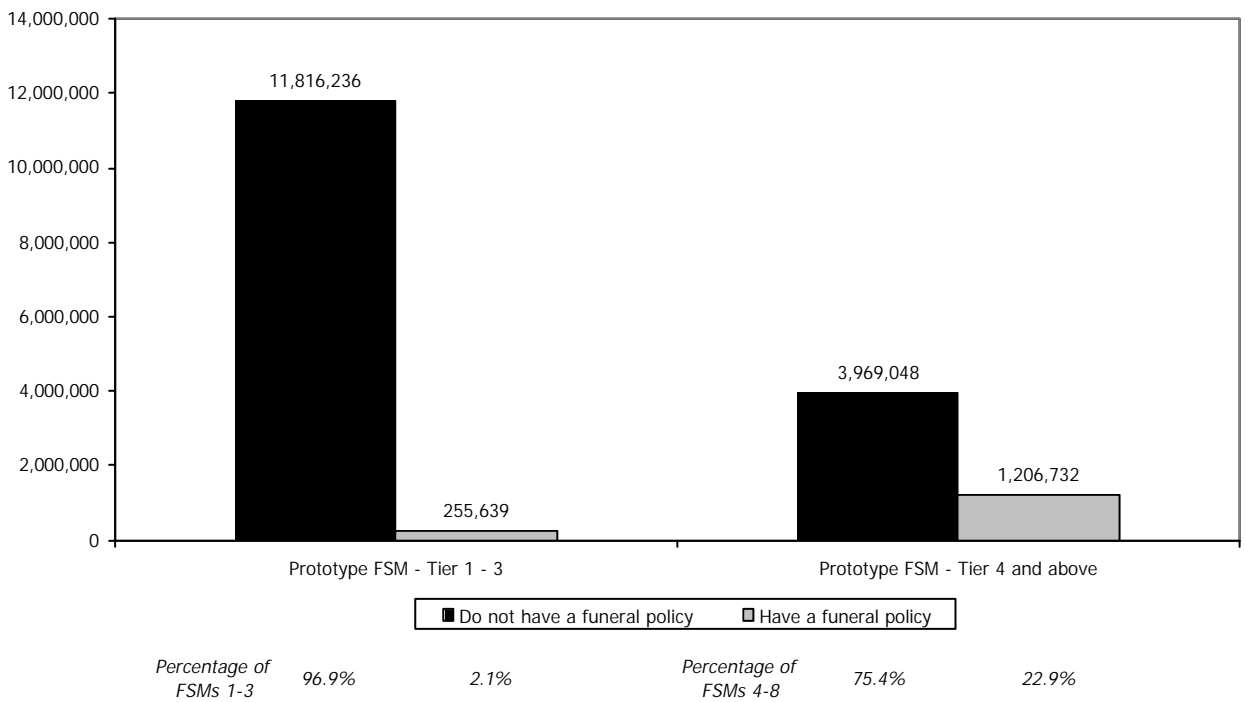
¹² More detailed information on FSMs is provided in section 10.3 of this document or at www.FinScope.co.za.

Figure 5. Population distribution by FSM



By overlaying FinScope FSMs over the target market of LSMs 1 – 5, one can gain a deeper understanding of the size of the potential market for funeral insurance.

Figure 6. Ownership of funeral insurance in LSM 1- 5: FSM 1 – 3 compared to FSM 4 and above



Source: FinScope 2003

The analysis indicates that there is a significant market of potential clients within LSMs one to five. One in five people in FSMs 4 and above (1,206,732 or 22.9%) have a funeral policy compared to just over 2% in FSMs one to three. By way of comparison, within the target market of LSMs one to five, 22.8% of those in FSMs one to three and 46% in FSMs four and above belong to burial societies. Further analysis of FinScope and the FSM model is needed to identify the factors driving ownership of funeral policies versus burial society membership.

4.2 A review of company-provided data: Funeral insurance

As mentioned earlier in this document, the availability of policyholder income data at the point of sale (“POS”) is limited at a company level. Reliable income data is available for less than 15% of the total of 3.6 million reported funeral policyholders across all LSMs for the five companies under review.

Table 5. Availability of income data: Percentage of funeral insurance policyholders

	Percentage of policyholders	Percentage: income data available
<i>Individual</i>	32%	18%
<i>Voluntary group</i>	57%	0%
<i>Compulsory group</i>	10%	63%
Total		12%

Various assumptions have therefore been used to derive a policyholder income distribution as discussed in Section 2.6 of this document.

An analysis of individually owned funeral policies at one company places the ratio of policies to policyholders at 1.25. However, it is believed that the true level of multiple policy ownership, both across group and individually sold products as well as across companies is significantly higher. For the purposes of this analysis, this ratio is assumed to be 1.6.

4.3 Comparison between company data and FinScope: Funeral insurance

Based on the above income distribution, a ratio of policies to policyholders of 1.6 and a company to industry factor of 1.5, the total number of funeral policyholders in LSMs one to five is estimated to be 1.65 million. This is only slightly higher than FinScope’s estimate of 1.46 million policyholders and falls within FinScope’s 95% confidence interval of 1.218 million to 1.706 million for funeral policies¹³.

¹³ There is 95% chance that the true value lies within this range.

Of course, the adjusted industry estimate based on company data is very sensitive to assumptions with regard to multiple policy ownership and the market share of companies under review as shown below.

Table 6. Key sensitivities for funeral policies: multiple policyholding and market share

Policies per policyholder	Derived number of policyholders	Finscope 95% confidence interval
1.2	2,206,202	1,217,900 - 1,706,841
1.6 (base case)	1,654,651	
1.8	1,470,801	

Company market share	Derived number of policyholders	Finscope 95% confidence interval
83%	1,323,721	1,217,900 - 1,706,841
66% (base case)	1,654,651	
50%	2,206,202	

While the base case assumptions may or may not be correct, the analysis appears to indicate that FinScope's findings are unlikely to be very different from actual levels of ownership in the low-income market.

5 CREDIT LIFE

FinScope probes access to credit life (Insurance you personally took out to maintain credit payments) only peripherally. No respondents in LSMs one to five indicated that they had such a product. This may be a result of ambiguity in the question. Respondents may have interpreted it to imply discretion on the part of the policyholder. This is not the generally the case with credit life which is often a requirement accompanying the purchase of a primary product such as a loan. It may also reflect low levels of awareness of credit life ownership as a result of poor disclosure on the part of the primary good provider.

Credit life is typically a requirement for instalment purchases and long-term micro loans. Underwriters include long-term insurers, short-term insurers and cell captives established by the providers of the primary credit product. Of the companies under review, only one provides credit life products. No data was available on the income distribution of policyholders. It is therefore difficult to infer any sensible estimates based on data gathered as part of this project.

According to the Micro Finance Regulatory Council (“MFRC”), there are currently over 3.8 million in-force micro loans that have credit life. Based on an estimated income distribution provided by the MFRC, almost 1.2 million of these loans have been granted to customers in LSMs one to five.

Table 7. Credit life policies: LSM one to five

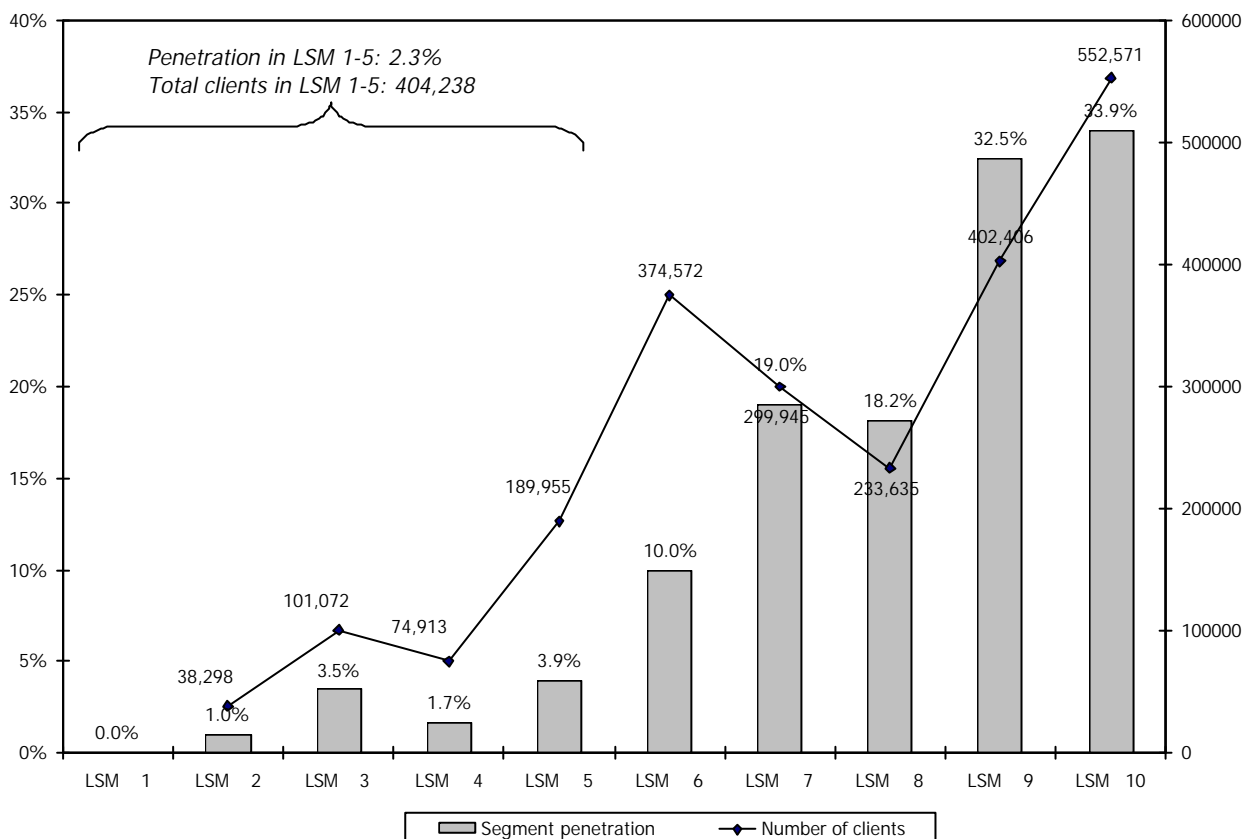
NEW LSM	Number of credit life policies
LSM 1	21,085
LSM 2	120,747
LSM 3	164,064
LSM 4	312,893
LSM 5	549,876
Grand Total	1,168,664

6 ENDOWMENTS AND EDUCATION POLICIES

6.1 A review of FinScope data: Formal sector provision

According to FinScope there are 2.26 million adults in South Africa who currently have some form of endowment or investment policy with a big institution¹⁴. Of these, just over 400,000 are in LSMs one to five.

Figure 7. Endowment or investment policy by LSM

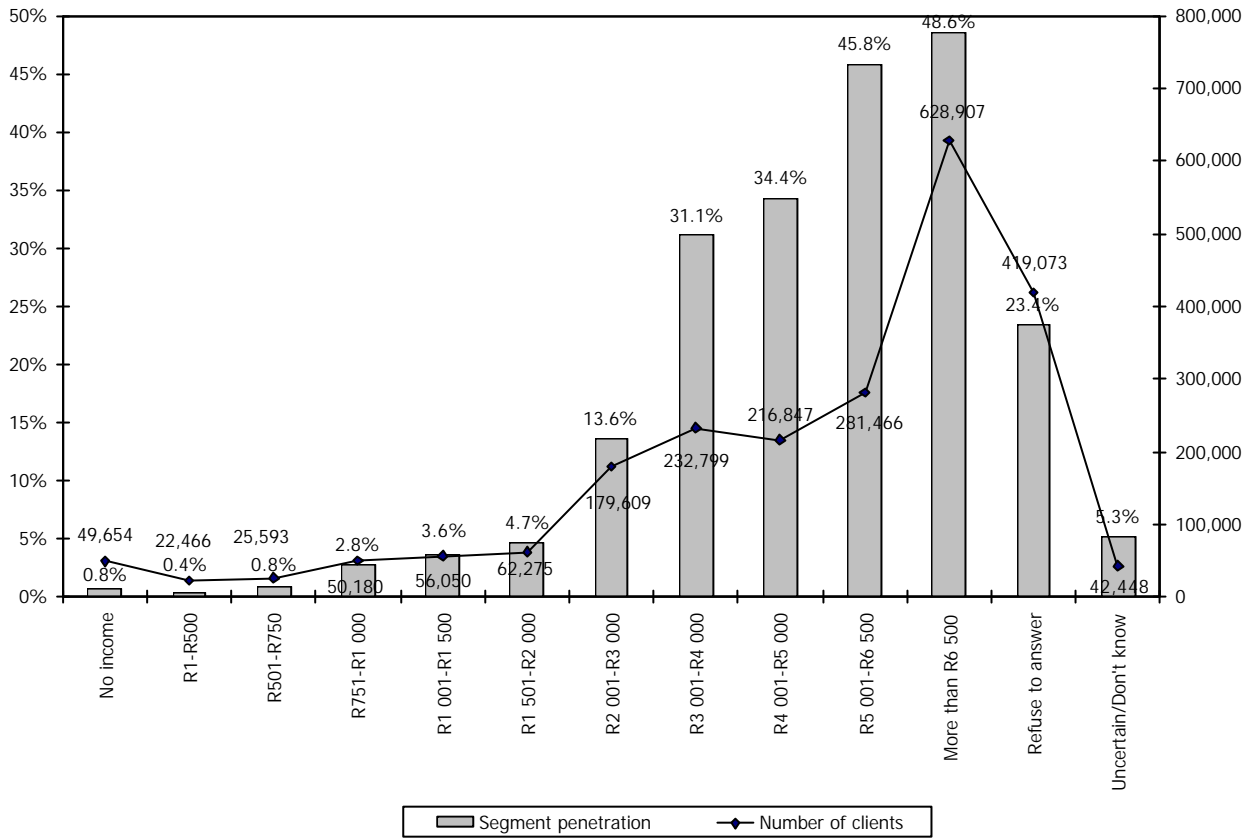


Source: FinScope 2003

A view of endowment or investment policy ownership segmented by personal income is shown below. As with LSM, penetration generally increases with income.

¹⁴ The analysis in this section incorporates education policies.

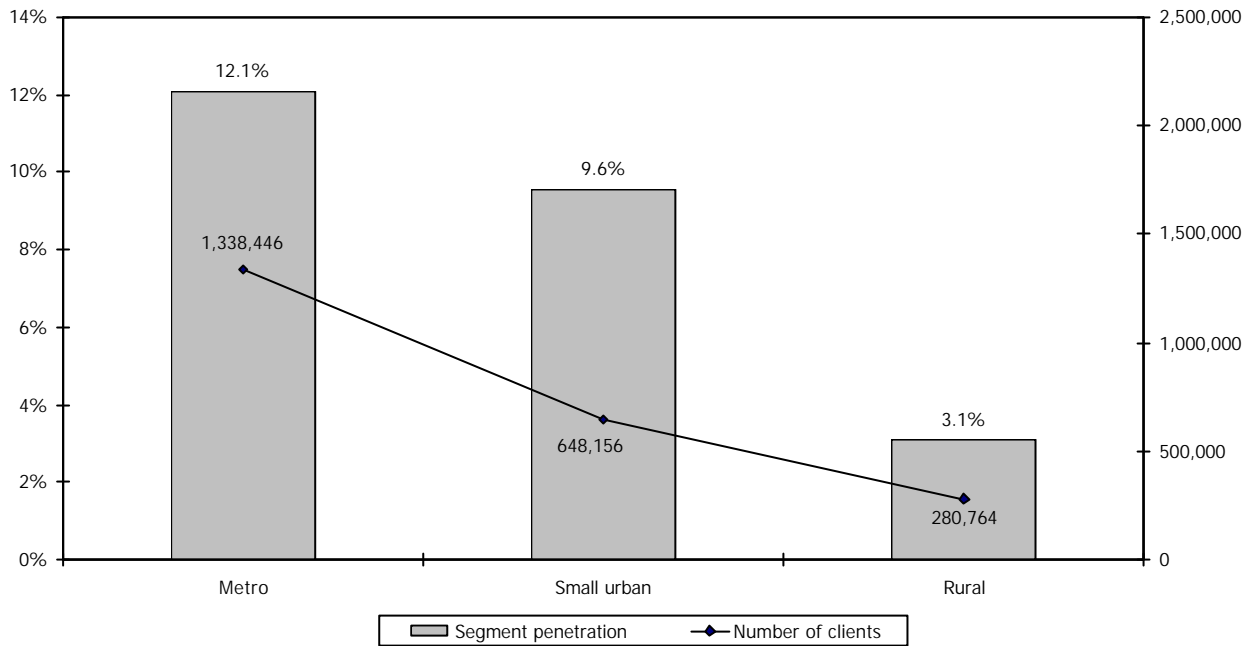
Figure 8. Endowment or investment policy by personal monthly income



Source: FinScope 2003

As with funeral policies, a review of the data by a geographic segmentation shows highest penetration of endowments or investment policies in urban areas.

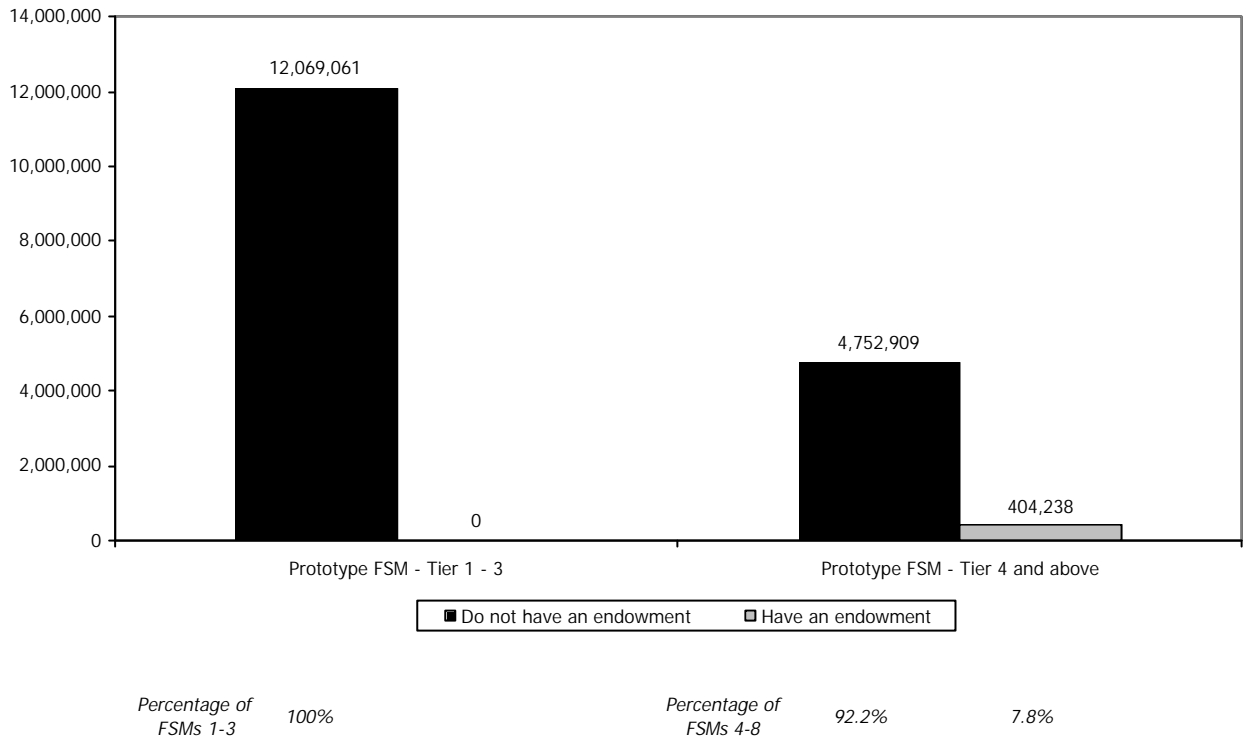
Figure 9. Endowment or investment policy by geography: Urban, small urban and rural areas



Source: FinScope 2003

A final view of FinScope data on penetration of endowment or investment policies shows a sophistication-driven sub-segmentation of the targeted LSMs one to five. No clients in FSMs one to three and comparatively few in FSMs four and above have endowments or investment policies. The analysis appears to indicate that there is significant potential for growth in penetration of endowments in LSMs one to five. Almost five million people in that segment do not have endowments but are potential candidates.

Figure 10. Ownership of endowments in LSM 1- 5: FSM 1 – 3 compared to FSM 4 and above



Source: FinScope 2003

6.2 A review of company-provided data: Endowments

Income data from the surveyed companies is available for roughly one third of all policyholders of endowment products. This is primarily because a high proportion of endowments are sold on an individual rather than a group basis.

Table 8. Availability of income data: Percentage of endowment policyholders

	Percentage of policyholders	Percentage: income data available
Individual	62%	50%
Voluntary group	38%	0%
Total		31%

Multiple policyholding of endowments is not uncommon although it appears to be less pronounced than with funeral policies. Based on an analysis of individually held endowments, the ratio of policies to policyholders is estimated to be 1.2 on average.

6.3 Comparison between company data and FinScope: Endowments

Using this ratio together with the above income distribution and a company-to-industry factor of 1.5 to adjust for the market share of the reviewed companies, the total number of endowment policyholders in LSMs one to five is estimated to be just over 600,000. This is 33% higher than FinScope’s point estimate of 404,000. However, the 95% confidence intervals for both endowments and education policies are relatively large as a result of FinScope’s small survey sample size. The estimated confidence interval for those who have endowments or education policies according to FinScope ranges from 281,628 to 526,848. Using this upper limit, the discrepancy between FinScope and company data is 12%. Once again, these findings are highly sensitive to key assumptions.

Table 9. Key sensitivities for endowments: multiple policyholding and market share

Policies per policyholder	Derived number of policyholders	Finscope 95% confidence interval
1	721,913	281,628 - 526,848
1.2 (base case)	601,594	
1.4	515,652	

Company market share	Derived number of policyholders	Finscope 95% confidence interval
83%	481,275	281,628 - 526,848
66% (base case)	601,594	
50%	802,126	

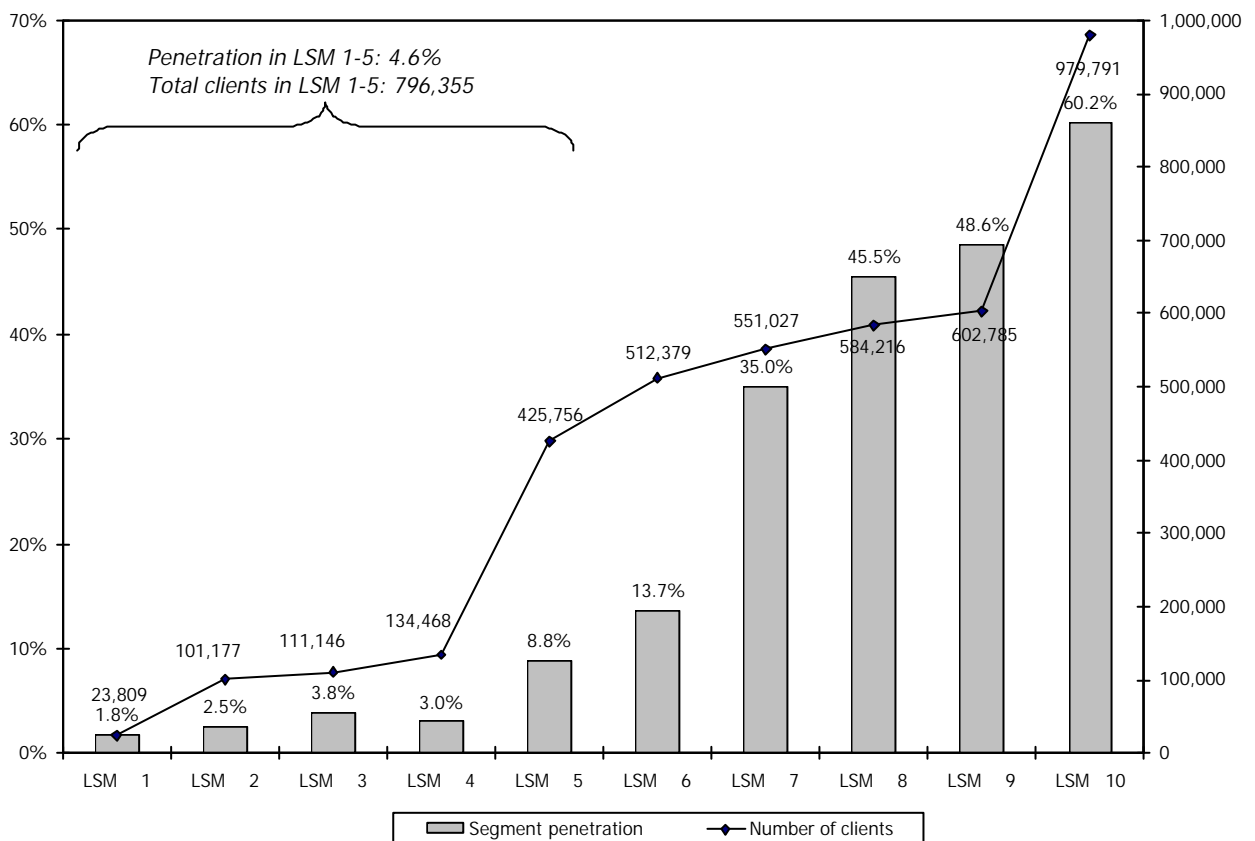
Aside from the validity or otherwise of the assumptions relating to multiple policyholding and market share, other factors may account for discrepancy between company and FinScope data. Compared to funeral policies, awareness levels of ownership for endowments are likely to be relatively high, as endowments are not typically bundled with other products as rider benefits. However, FinScope respondents may not be familiar with the term endowment or investment policy as companies may market and sell the product using other descriptors such as savings plans or policies.

7 LIFE ASSURANCE

While not currently included as part of the scope of the LOA's Access Committee, because it is an important product in the low-income market, a brief comparison of FinScope and company data with respect to life assurance has been included in this report.

According to FinScope, over four million adults have life assurance, with approximately 800,000 of these in LSMs one to five. As expected, penetration increases with living standards and at 60%, penetration in LSM 10 is the highest across all products under review.

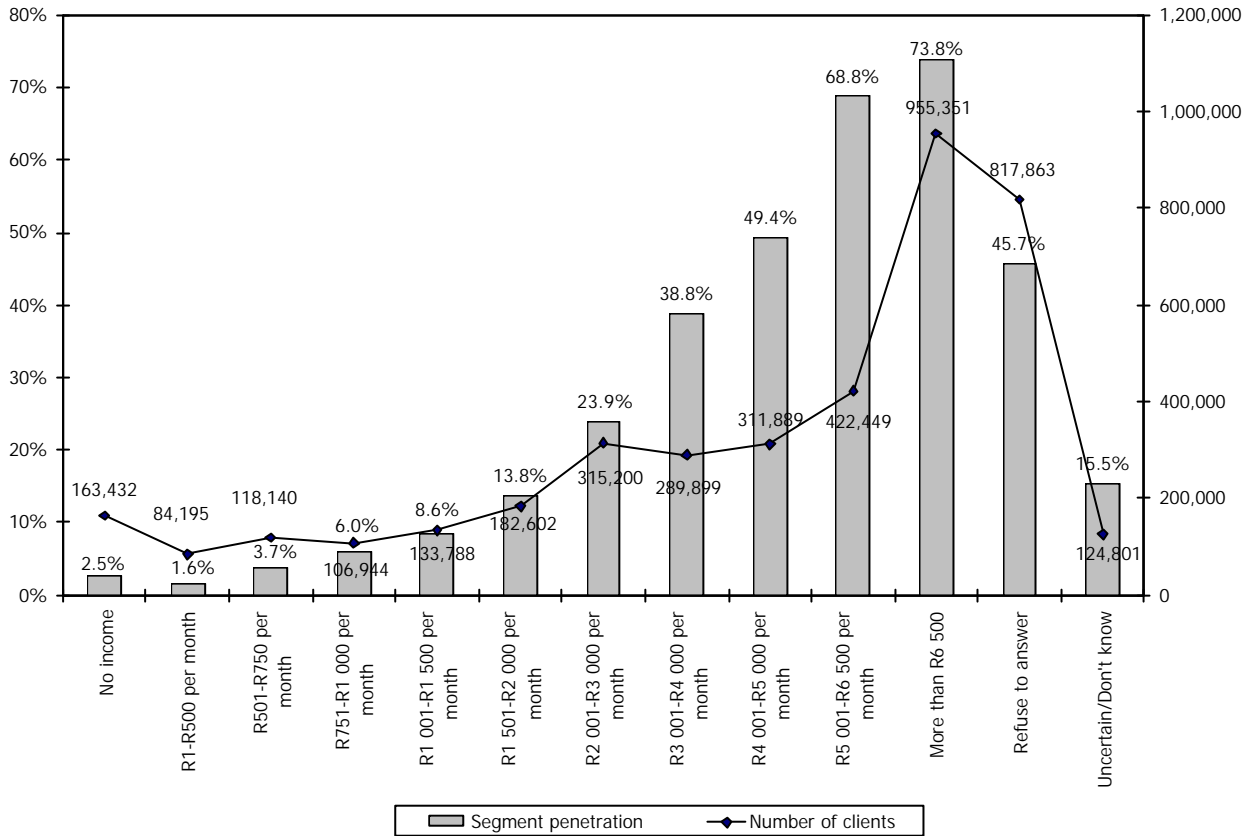
Figure 11. Life assurance policies by LSM



Source: FinScope 2003

A view of penetration by personal monthly income reveals a similar pattern. It is interesting to note how high penetration is in upper income categories.

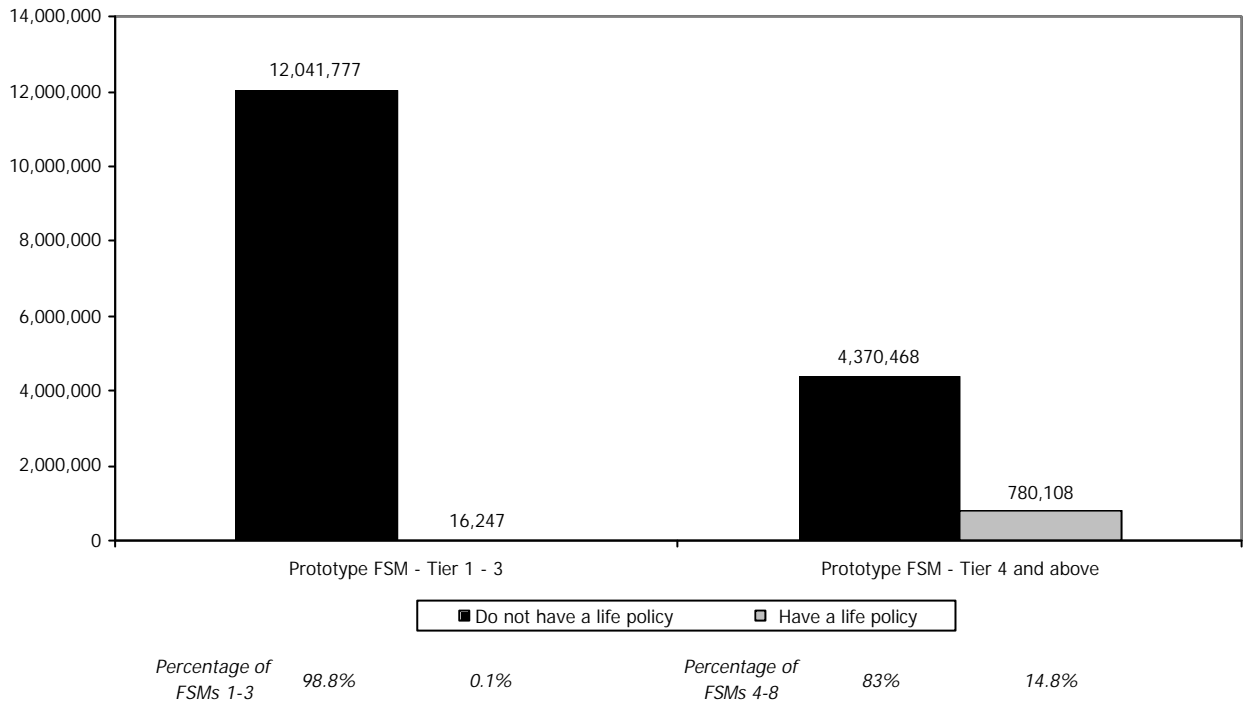
Figure 12. Life assurance policies by personal monthly income



Source: FinScope 2003

A review of FinScope data by FSM reveals that approximately 15% of those in higher FSMs within the target market of LSM one to five have life assurance. In contrast, very few clients in FSMs one to three have life policies.

Figure 13. Ownership of life assurance in LSM 1- 5: FSM 1 – 3 compared to FSM 4 and above



Source: FinScope 2003

7.1 A review of company-provided data: Life assurance

Income data is available for 36% of life policyholders, primarily because a significant proportion of life benefits are provided on a compulsory group basis where income data is fairly rich.

Table 10. Availability of income data: Percentage of life assurance policyholders

	Percentage of policyholders	Percentage: income data available
Individual	53%	10%
Voluntary group	11%	0%
Compulsory group	36%	86%
Total		36%

Based on the data provided by companies, it does not appear that multiple product holding is significant for individual life products. However, because of the importance of compulsory group provision, the true level of cross holding is assumed to be 20% higher than indicated by individual data. For the purposes of this analysis, an estimate of 1.2 has been used.

7.2 Comparison between company data and FinScope: Life assurance

Based on a ratio of 1.2 policies per policyholder, together with the derived income distribution and an adjustment factor of 1.5 to generate industry estimates from company data, the total number of life assurance policyholders in LSMs one to five is estimated to be approximately 922,000, 14% higher than FinScope's point estimate of 796,000. However, this estimate falls within FinScope's 95% confidence interval of 617,537 to 975,173 for life assurance products.

Table 11. Key sensitivities for life assurance: multiple policyholding and market share

Policies per policyholder	Derived number of policyholders	Finscope 95% confidence interval
1	1,106,807	617,537 - 975,173
1.2 (base case)	922,339	
1.4	790,576	

Company market share	Derived number of policyholders	Finscope 95% confidence interval
83%	737,871	617,537 - 975,173
66% (base case)	922,339	
50%	1,229,786	

8 CONCLUSION: COMPARISON BETWEEN COMPANY-PROVIDED DATA AND FINSCOPE

The table below provides a summary of company and FinScope data for each product.

Table 12. Summary findings

	Raw company data: Policyholders in LSM 1-5	Policies per policyholder	Company to industry factor	Extrapolated industry data: Policyholders in LSM 1-5 (penetration)	Finscope 95% confidence interval: LSM 1-5 (penetration)
Funeral policies	1,764,962	1.6	1.5	1,654,651 (9.5%)	1,217,900 – 1,706,841 (7% - 9.8%)
Life assurance	737,871	1.2	1.5	922,339 (5.3%)	617,537 – 975,173 (3.5% - 5.6%)
Endowments including education policies	481,275	1.2	1.5	601,594 (3.4%)	281,628 – 526,848 (1.6% - 3%)
Credit life <i>(micro loans only)</i>	1, 168,664	NA	NA	NA	0

Broadly speaking, the analysis indicates that the FinScope estimates for product penetration in LSMs one to five are reasonable for funeral and life insurance, with an understatement of endowment ownership and, as expected, a significant undercount for credit life. However, because of the relatively poor quality of income data provided by the companies under review, various assumptions and proxies have been required in order to generate comparable industry figures. Clearly, the validity of the conclusion is only as strong as the validity of these underlying assumptions.

There are a number of reasons why one might expect FinScope data to differ from company data. Some of these are discussed briefly

8.1 Availability of company data on client income or LSM

A key finding generated by this analysis is the relatively poor quality of company data relating to client income. This is not surprising given the importance of low cost wholesale or group-based distribution

in this market and the need to keep processes, including those relating to client data capture and verification, simple and inexpensive. For many of the large voluntary group schemes, insurance companies retain only minimal data on scheme members, relying instead on partners who 'own' the relationship with the client to verify and maintain client details.

In addition, a comparison of the number of clients by LSM is simply not possible given that companies do not collect the data required to determine the living standards of their clients. A further set of assumptions is therefore required to map an income-based segmentation to one based on living standards.

8.2 Policyholder awareness

FinScope data may understate levels of insurance access relative to company-provided data because of a lack of awareness of ownership on the part of respondents. This is plausible given the low transaction nature of insurance products, and is likely where the distribution method requires limited involvement or consent from the end-user. This is frequently the case with compulsory group products provided by employers and rider benefits associated with other financial or club-based products.

This assertion can be quantitatively assessed by analysing the claims ratios of various portfolios distributed by various mechanisms such as individual distribution, affinity marketing which may or may not require the consent of the end-user, and rider benefit provision.

8.3 Product confusion

While FinScope respondents may be aware of what policies they have, there may be some confusion as to the categorisation provided in the survey. For example, endowments may be marketed as savings policies.

8.4 Multiple policies per policyholder

FinScope 2003 does not enquire as to the number of policies owned by respondents, although this has been corrected for FinScope 2004. On the other hand, company data will at best identify the number of unique clients within the company and cannot account for multiple policyholding across companies. The policies-to-policyholder adjustment factor used in the analysis is intended to account for this phenomenon.

8.5 Survey sample size

For less popular products, a small sample size reduces the reliability of the survey point estimates particularly where the data is cross tabulated by LSM or income.

9 RECOMMENDATIONS

The analysis completed as part of this project clearly demonstrates the paucity of client data captured and maintained by the life insurance industry for the low-income market. While this is primarily a result of the low-cost distribution models and administration processes used to reach and serve this market, it places the industry in an invidious position with respect to its ability to measure penetration within the low-income market and demonstrate its fulfilment of Charter targets.

Market forces may well require a more sophisticated and data-intensive marketing approach to the low-income market over time. However, the need for reliable client data to track performance with regard to Charter targets is more immediate. There are four possible alternatives open to the industry:

1. Enhance industry reporting
2. Rely on consumer surveys to establish current levels of access and to track changes over time
3. Conduct further supply-side analysis of company data, including claims data and data maintained by scheme administrators as well as insurers. This data can be augmented by other data maintained by third parties such as credit bureaus.
4. Develop an industry-wide client database for selected products that target the low-income market.

Each of these is discussed in more detail below. It is worth noting that the first three alternatives listed above are complementary and if implemented, would dramatically enhance the level of knowledge in the industry regarding the low-income market.

9.1 Industry reporting

Both the LOA and the Financial Services Board (“FSB”) collect and disseminate industry data. As part of their statutory returns, insurers must disclose the value and number of new and in-force policies as well as claims, lapses and surrenders¹⁵. However, this data is not gathered by product type but rather by type of business (with-profit business, with-profit annuities, without-profit annuities, linked, market related and other). In addition, many insurers report funeral business as part of life business rather than as assistance business.

As an initial step, the industry may consider reporting activity on key products (funeral policies, endowments and credit life) more comprehensively to the access committee of the LOA, using the FSB returns as a template.

9.2 Consumer surveys

The dynamic nature of client incomes coupled with the low transaction nature of insurance products makes it unlikely that income data, even if accurately captured at the point of sale, can be reliably and continuously updated by insurance providers. Consumer surveys can offer an alternative way for the industry to track the income profile of clients over time. However, surveys are relatively expensive and can often be unreliable for this purpose, particularly if the survey panel is not representative of the client base, or if it is relatively small. In addition, respondents may misinterpret questions, not know the answer to the question or may have an incentive not to disclose the truth. By way of example, in the FinScope study, almost 9% of respondents refused to provide income data. A further 2.75% did not know their monthly income. However, FinScope, using a national sample frame, has proven to be remarkably valid. In the absence of better quality supply-side information, a survey such as FinScope does provide a wealth of information and has the added advantage of enhancing understanding of the other dynamics in the market.

9.3 Further supply-side analysis

This study has highlighted three areas of analysis that require further investigation.

1. The number of policies per policyholder
2. The degree to which clients are aware of policy ownership
3. The income distribution of low-income policyholders

While FinScope 2004 probes the first issue in some detail for funeral policies, asking respondents how many policies they have, it cannot determine the true level of multiple policyholding if clients are not fully aware of what policies they own.

An analysis of a well-structured sample of company data may be required to provide a more detailed picture of the true level of multiple policyholding across compulsory and voluntary business. This would require participating companies to submit a list of identity numbers for selected clients. The list would be analysed to determine how many are unique, and for those that are not, how many policies are associated with that identity number.

In order to assess whether a lack of awareness is indeed a significant feature of the market, it may be worth reviewing the mortality or claims experience of various large books of business, including individually distributed products, those sold through various affinity groups and those sold as riders on other insurance or non-insurance products, and comparing these mortality rates to suitable population

¹⁵ See sheets B4 and B6 of the statutory returns spreadsheet.

mortality. If the rates are extremely low (beyond the possibility of statistical chance at some threshold level), this may indicate that customers are not aware that they have cover and may not claim as a result. Alternatively, lack of awareness could be gauged by comparing the response of a sample of individuals who are known to have funeral cover with their response to a direct question on their ownership status.

With regard to the income distribution of policyholders, it may be possible to obtain relatively current income data from third parties. For example, providers of consumer credit often collect income data as part of their credit vetting processes and retail banks can determine formal income through an analysis of account activity.

9.4 Develop an industry-wide client database

In the long term the industry may consider creating a client information management infrastructure to capture and maintain client identity and basic product data¹⁶ for key products targeted at the low-income market. This would require a critical mass of insurers to submit identity numbers of all clients who own, purchase, terminate or claim to a central product registry or database on a regular basis¹⁷. Such a registry would facilitate reporting on industry statistics such as number of policies purchased, average premiums, policies per policyholder as well as mortality and claims ratios. It could also provide the added advantage of supporting an understanding of affordability¹⁸.

Identity numbers of individual policyholders or group scheme members can be gathered either from insurers or from those who maintain the client relationship and administer schemes on behalf of insurers. On and off movements can be recorded as and when they occur. While identity numbers for some group schemes may not be available at all, it is believed that these account for a relatively small percentage of the total client base.

A key challenge for such a registry is to create a standardised set of definitions with regard to product classifications. For example, the industry would need a clear basis for distinguishing between a life policy and a funeral policy. In addition, it would need to determine how rider benefits should be treated. Clearly, the industry needs to determine whether the required investment in creating and the ongoing costs of updating such a database are warranted.

¹⁶ Such data could include premiums, benefits, distribution mechanism, administration or underwriting basis and so on.

¹⁷ While the FSB requires insurers to submit statutory returns that probe the number of policies sold, these do not require insurers to disclose the identity of clients. In addition, insurers frequently group assistance business with life business.

¹⁸ There is a complication in understanding whether personal or household income be utilised to calculate affordability.

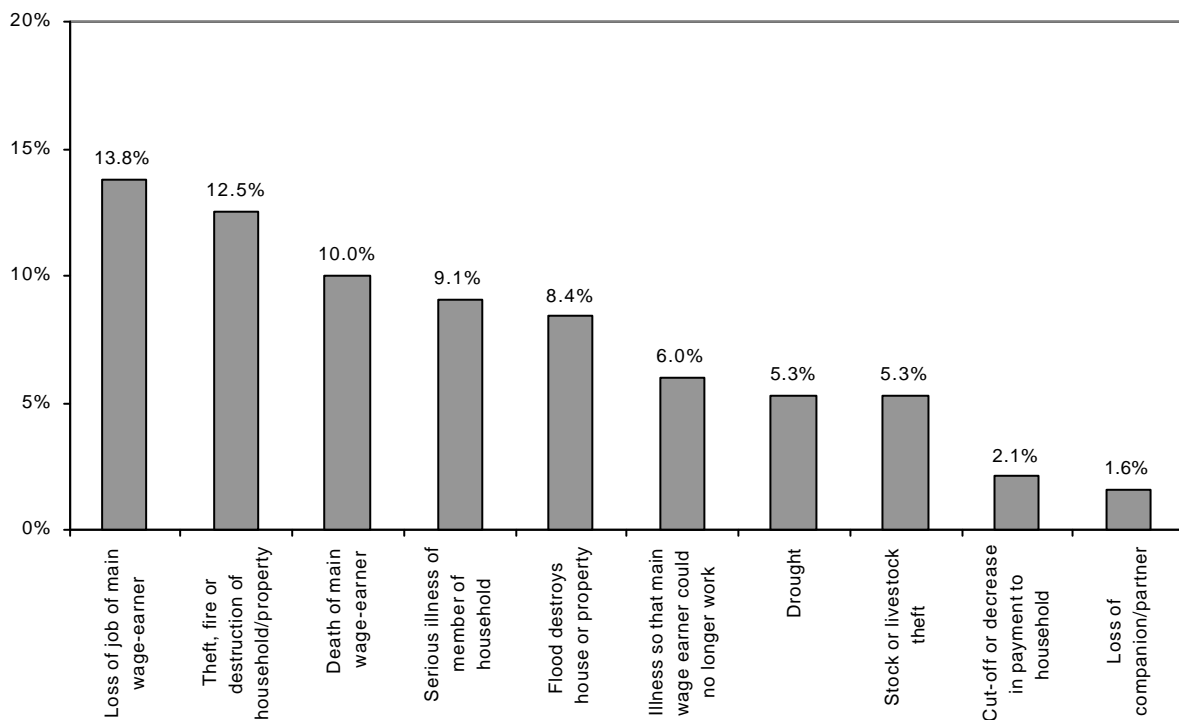
10 INSIGHTS FROM FINSCOPE RELATING TO INSURANCE ACCESS

Given that FinScope's findings with respect to insurance are broadly in line with reality, it may be useful to review the data from FinScope relating to insurance access in LSMs one to five more broadly. Three key areas relating to the access debate are discussed below, namely risk exposure and mitigation strategies in LSMs one to five, the extent of informal sector provision of funeral insurance, and the implications of using LSM as the basis for access targets determined by the industry.

10.1 Key risks faced by low-income market and risk mitigation strategies

Low-income risk households¹⁹ typically employ various strategies to manage and mitigate financial risks. These risks include the loss of income or income-generating assets, the loss of other household assets as well as risks that give rise to unexpected non-discretionary household expenditure²⁰ such as funeral or medical expenses. The FinScope survey provides some indication of the perceived magnitude of the various risks typically faced by the poor.

Figure 14. Top Ten Risks: Percentage of LSMs one to five citing risks as "likely to happen"



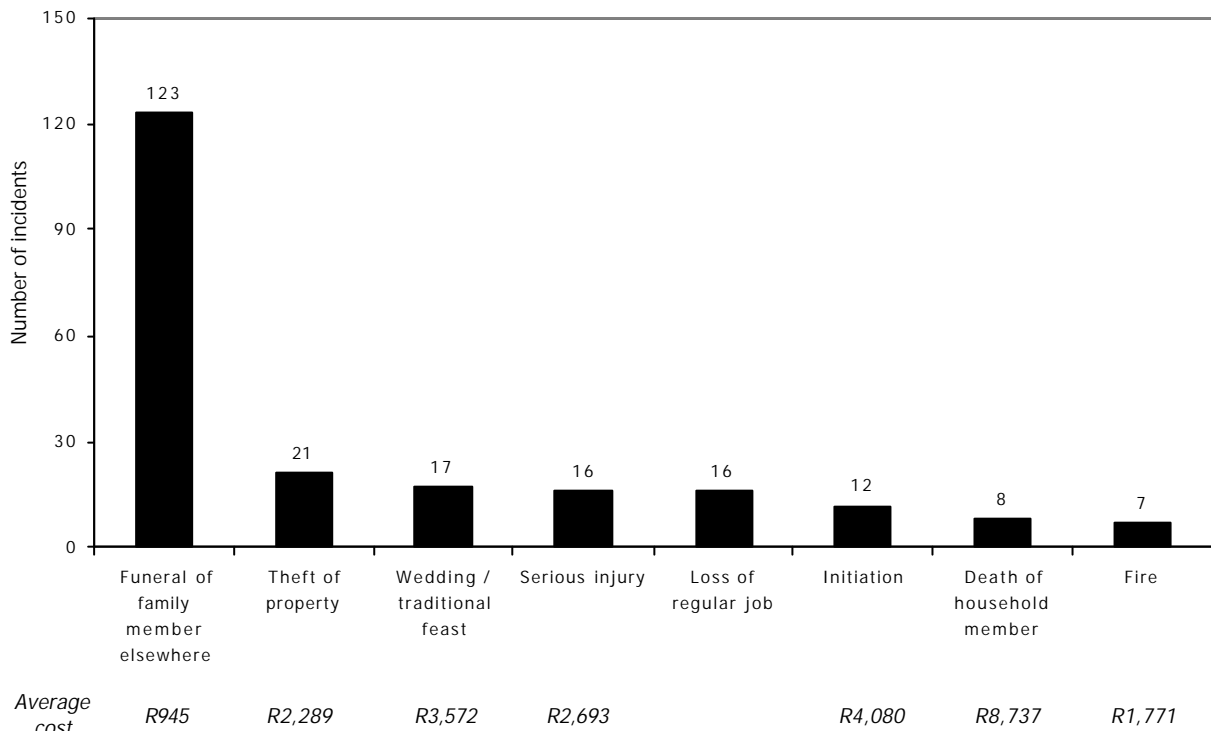
Source: Finscope

¹⁹ For a comprehensive discussion of the risk household and mechanisms to manage risk, refer to the scoping study "Making Insurance Markets Work for the Poor in South Africa" compiled by G:enesis in February 2004.

²⁰ Risks that result in a loss of assets tend to be mitigated by products provided by the short term insurance industry.

Data gathered by the Financial Diaries Project, a detailed on-going survey of 167 poor households²¹, provides further insight into the financial impact of various risks. Data gathered over a 16-month timeframe quantifies the frequency and financial magnitude of various life stage and other unforeseen events that typically impact on poor households.

Figure 15. Event frequency and average cost: Financial Diaries Project

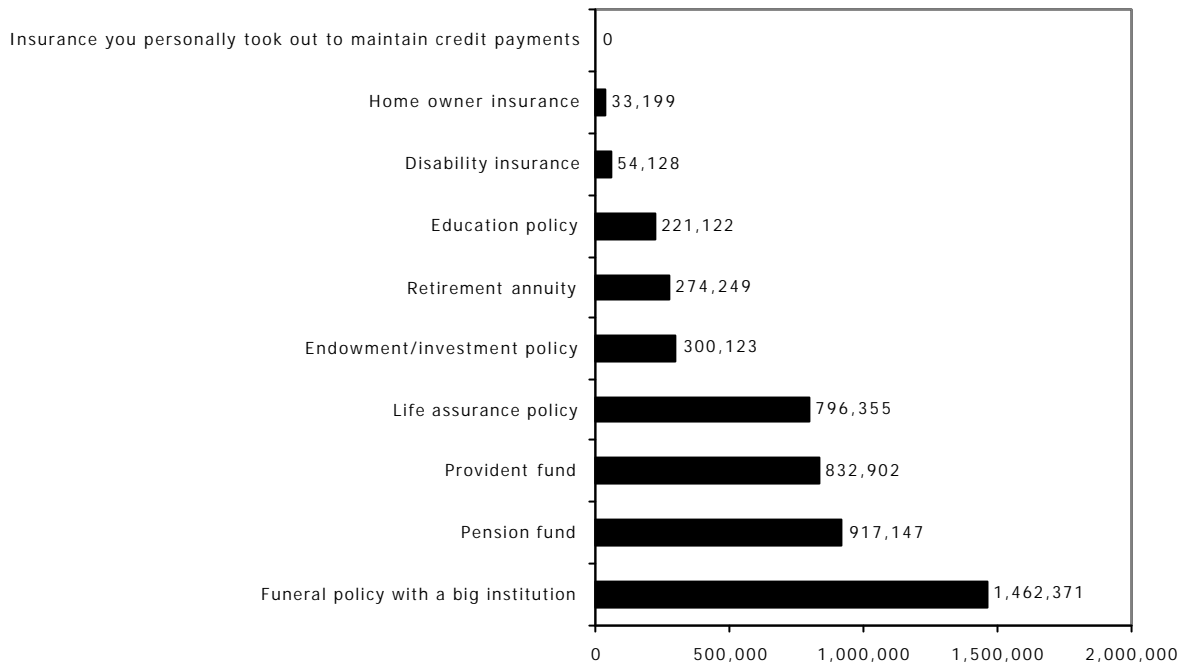


Source: Financial Diaries Project

Both the frequency and costs associated with funerals of either household or family members are relatively high. It is therefore unsurprising that low-income household ownership of funeral policies significantly exceeds that of other formally provided insurance products.

²¹ The Financial Diaries Project examines financial management in 167 poor households in Langa, Diepsloot and Lugangeni by means of fortnightly interviews. More details on the project are available at www.uct.ac.za/depts/saldru.

Figure 16. Product ownership in LSMs one to five



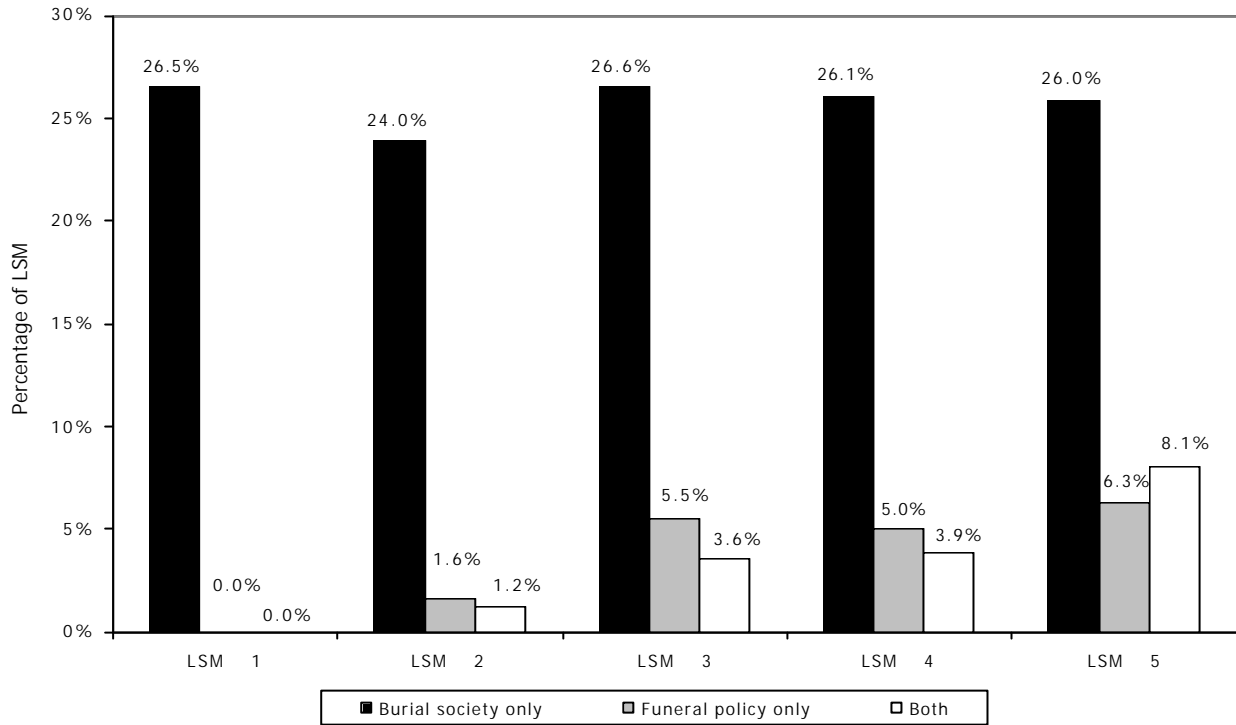
Source: Finscope 2003

10.2 Informal sector provision of insurance

Aside from regulated insurers, informal institutions such as burial societies are more commonly relied on by the low-income market as a source of insurance. Data from FinScope shows that almost 5.2 million adults in LSMs one to five belong to a burial society, more than three times the number with formally provided funeral insurance.

FinScope also indicates that a significant percentage of the market purchases funeral cover from both formal and informal sector providers.

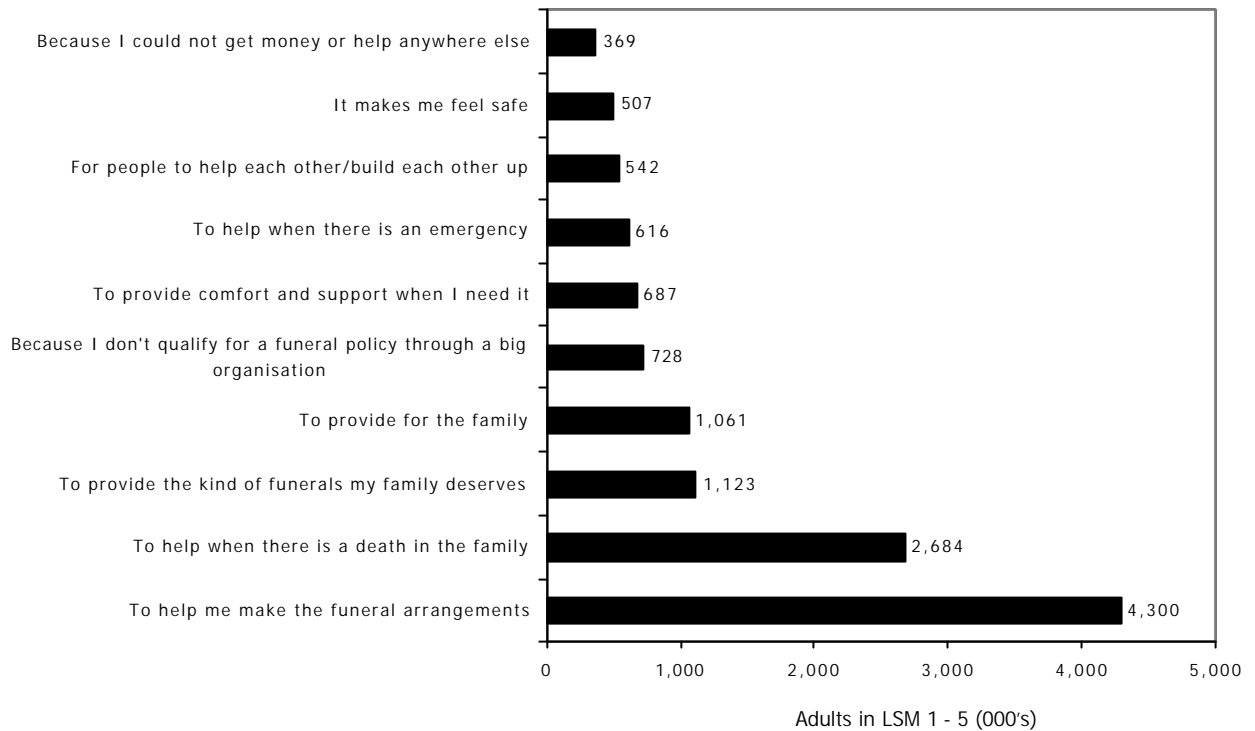
Figure 17. Funeral insurance and burial society membership: Percentage of LSMs one to five



Source: Finscope 2003

Based on FinScope data, people appear to join burial societies for many of the same reasons they would purchase formally provided funeral insurance. However a sizeable sub-segment appear to be unable to obtain cover through formal means; 728,000 claim they could not get cover through a big organisation and 369,000 claim they could not get assistance elsewhere.

Figure 18. Top ten reasons for belonging to burial societies: LSMs one to five (Thousands)



Source: Finscope 2003

Anecdotal evidence gathered by the Financial Diaries Project indicates that members value burial societies' ability to pay claims rapidly as well as the social support and assistance they provide.

FinScope respondents who are members of burial societies were asked how much they contribute to their burial societies. A surprisingly high percentage contribute in excess of R50 per month possibly indicating that willingness to pay is not a significant barrier to ownership of formally provided funeral insurance. Of course, the value proposition offered by burial societies may be more compelling than that of formal insurance providers. Clients may therefore be prepared to pay more for the latter than the former.

Table 13. Last month's contribution to burial society: LSM one to five

	Less than										R100 or more	Did not contribute	Don't know
	R20	R20 - R29	R30 - R39	R40 - R49	R50 - R59	R60 - R69	R70 - R79	R80 - R89	R90 - R99				
LSM 1	0.0%	54.5%	18.1%	2.5%	6.3%	4.7%	5.0%	4.9%	0.0%	4.1%	0.0%	0.0%	
LSM 2	4.5%	25.0%	19.5%	17.3%	16.1%	11.4%	0.0%	0.6%	0.0%	5.6%	0.0%	0.0%	
LSM 3	1.3%	17.1%	16.0%	13.3%	30.3%	8.2%	9.6%	1.7%	0.0%	2.3%	0.0%	0.3%	
LSM 4	6.7%	17.2%	19.1%	5.7%	19.6%	16.1%	4.8%	3.9%	0.2%	6.8%	0.0%	0.0%	
LSM 5	3.1%	7.1%	16.6%	10.7%	22.2%	6.1%	5.4%	3.7%	1.0%	17.9%	2.3%	3.9%	
Grand Total	3.8%	18.0%	17.8%	10.5%	20.6%	9.9%	4.9%	2.9%	0.4%	11.1%	0.7%	1.3%	

Data on monthly premium expenditure relating to formal sector funeral insurance was not gathered as part of the FinScope survey. While one would expect there to be a linear, positive relationship between

income and monthly funeral insurance contributions, qualitative research indicates that, as with burial society contributions, it is not uncommon for low-income households to spend in excess of R100 per month on funeral insurance premiums.

10.3 Basis for access target segmentation: LSM, FSM or income

In determining access targets for the industry, it is important that the metric for the target itself is measurable and well understood. A review of possible target bases is discussed below.

10.3.1 Living Standards Measure

While Living Standards Measure (“LSM”) forms the segmentation basis for the access targets for banking products defined in the Financial Sector Charter, much confusion exists as to what LSM is and how it is calculated.

LSM is a composite household statistic based on location (rural Vs urban, province), access to various services (including electricity, telephone) and ownership of various assets (TV, radio, dishwasher, PC, electric stove etc.). Of particular relevance to the financial sector is the fact that ownership of financial products in no way influences the calculation of LSM. It should be noted that the primary purpose of LSMs is for media planning.

The basis for the determination of LSM is summarised in the tables below.

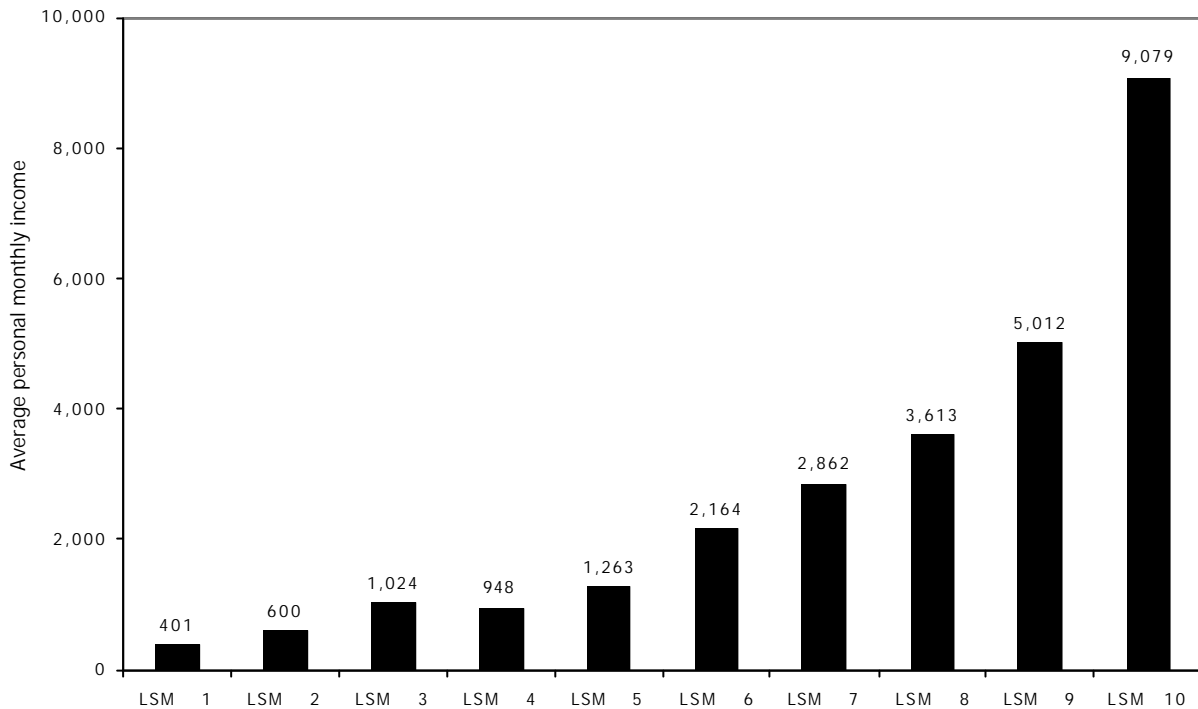
if this is present...	then add	if this is present...	then add
Built In Sink	0.165505	Dishwasher	0.119925
Electric Stove	0.163219	Tumble Dryer	0.117338
Hot Water	0.1582	Hi fi	0.105378
Motor in hhold	0.155217	Telephone (home)	0.09714
Freezer/Fridge	0.152515	Deep Freezer	0.093849
Flush toilet In/Out	0.142228	Home security service	0.091632
Washing Machine	0.13893	Sewing machine	0.09032
Polisher/Vacuum	0.135318	W.Cape	0.079999
VCR	0.134488	Gauteng	0.056788
TV Set	0.13383	Rural	-0.09322
PC	0.132148	Radio	-0.15825
Electricity	0.128613	No Cellphone	-0.17518
Water	0.127671	Hut	-0.20108
Microwave	0.126829	No Domestic	-0.22236
Mnet/DSTV	0.126068		

LSM calculation

0 < x < 0.721 then LSM = 1
0.721 < x < 1.053 then LSM = 2
1.053 < x < 1.356 then LSM = 3
1.356 < x < 1.726 then LSM = 4
1.726 < x < 2.127 then LSM = 5
2.127 < x < 2.685 then LSM = 6
2.685 < x < 3.01 then LSM = 7
3.01 < x < 3.324 then LSM = 8
3.324 < x < 3.65 then LSM = 9
x > 3.65 then LSM = 10

Many companies simply use a household or personal income proxy to determine LSM. In fact, LSM and income are not synonymous. Neither personal nor household income forms part of the LSM calculation and while there is a correlation between income and LSM, this relationship is not a simple one. The average income per LSM differs for households in rural and urban areas, and it is noteworthy that this relationship is not strictly linear as illustrated below.

Figure 19. Average personal monthly income by LSM²²



Source: Finscope 2003

While LSM is perhaps the most commonly used basis for segmentation used by marketers in South Africa, it may not be an appropriate one for the determination of access targets for financial products and services. In the first instance, companies do not maintain sufficient data to identify a client's relevant LSM group, making performance relative to an LSM-based target difficult to track. Secondly, the LSM segmentation basis was not developed with the specific needs of the financial services industry in mind. Finally, a statistical analysis of funeral product ownership using a logistic regression model²³ reveals that income is in fact a better predictor of ownership than LSM.

10.3.2 FSM

FinScope includes an alternative composite statistic whose objective is to "deliver a segmentation or continuum of the financial market in terms of that access to financial services from those who have full access (the "fully banked") through to those who have no access at all²⁴." This statistic, the Financial Summary Measure ("FSM"), incorporates respondents' attitudes to financial services and sense of well-

²² In order to calculate this average, the mid point of the income categories provided by FinScope was used

²³ The analysis used personal income, LSM, urban / rural and education as predictors of the likelihood of a given individual having funeral insurance. It showed that 13.2% of the variation in ownership is explained by income whereas only 9.7% of the variation is explained by LSM. Logistic regression is used to ensure that the outputs generated by the model (i.e. the likelihood of owning funeral insurance) are between 0 and 1.

²⁴ See Research Surveys' document prepared for FinMark in November 2003 entitled "Understanding the (prototype) Financial Summary Measure (FMS)"

being – both important indicators of the respondent’s propensity to purchase or use financial products. Overlaying this statistic on an income- or LSM-based segmentation provides a strong indication of the size of the potential client base within an income or LSM segment.

FSM classifies each individual on the basis of four components:

- Financial penetration (take-up of both formally and informally provided financial products and services);
- Physical access to banks;
- Attitudes to money, comprised of:
 - Financial knowledge and control; and
 - Financial discipline;
- Connectedness and optimism.

With regard to insurance penetration, the following table summarises the relative weightings given to specific products used. These are coupled with banking and investment product usage to determine overall financial penetration.

if have now and usethen add
Burial society	3
Funeral policy with a big institution	4
Life assurance policy	6
Retirement annuity	7
Provident fund	5
Pension fund	5
Endowment/investment policy	7
Home owner's insurance	6
Medical aid	6
Hospital plan	8
Medical insurance	8
Insurance taken out to maintain credit payments	6
Disability insurance	8
Education policy	5
Household contents insurance	8
Car insurance	7
NONE OF THE ABOVE	1

The physical access score is determined using the FinScope question on travelling time to get to the nearest bank for those with bank accounts or the reason the respondent is unbanked for those without.

The last two components of the FSM calculation relate to attitudinal questions in FinScope that, unlike the first two components, are not correlated to income.

The degree to which respondent agreed with the following statements regarding financial management determines their score relating to attitudes to money.

- Taking loans should be avoided as much as possible
- With money you trust your own experience and knowledge rather than advice/promises of others
- If you save/invest regularly, eventually the small amounts mount up and you'll be secure
- In times of need you would rather deal with people you know than with a large organisation
- You would rather deal face to face with a person rather than with an electronic device, even if the device is quicker
- When it comes to money young people know more than older people
- You don't trust informal associations like savings clubs
- You are prepared to learn how to use new technology
- You often don't feel in control of your finances
- Banks take advantage of poor people
- You love spending money to buy things even if you have to use credit to do so
- When buying credit it ends up being more expensive than you thought it was
- You try to save regularly
- You do not like carrying cash
- You hate owing money to anyone
- When you make financial decisions, you like to get advice from family/friends
- Having a bank account makes it easier to get credit
- To get ahead in life, one needs to take some risks
- You are worried that you won't have enough money for old age
- You prefer to save where money is safe, even if interest rate/return is a little lower
- You go without basic things so that you can save
- You know quite a bit about money and finances
- You avoid banking machines such as ATMs as much as possible
- You can easily live without having a bank account
- People often ask your advice on financial matters
- You usually read the finance pages in newspapers and magazines
- You are saving for something specific, such as a car, a holiday, an appliance or furniture
- You have a good idea of what interest/returns you get on the money you save

Respondents' scores with respect to connectedness and optimism are based on Research Surveys' Everyday Quality of Life Index. To quote Research Surveys²⁵: *"A person's overall well being or everyday quality of life is a function of the resources that a person has, various external factors that affect how that person is able to live (in the broadest sense), various internal choices and decisions that a person makes in living her or his life, how that person perceives his or her individual needs are being satisfied, and the resultant perceived level of subjective well-being or happiness."*

The variables used in the FSM calculation describe how people are connected to their networks and how happy they are. According to Research Surveys *"Networks are important filters people use in*

²⁵ "Understanding the (prototype) Financial Summary Measure (FMS)" prepared by Research Surveys

processing information and making decisions. Happiness levels influence the confidence with which these decisions are taken as well as the level of involvement people use when processing information. This was felt to be a key indicator in showing how people might react to new financial ideas". Scores used in the FSM calculation are determined based on the extent to which respondents believe the following statements apply to them.

- I don't feel really well most of the time
- I consider myself physically fit
- I feel lonely
- I feel alive and energetic
- Generally I am a happy and cheerful person
- I don't know very many people
- People very seldom ask me for my advice
- I have a varied life with lots of different activities
- I don't feel I really belong - I want to be more accepted
- I regard myself as a spiritual person
- I don't really have a really close relationship with anyone
- I have many dreams in life but will never achieve them
- I feel well and in good health
- My life has meaning and purpose
- My life is close to my ideal
- My life is fairly close to my ideal
- My life is not close to my ideal
- My life is not at all close to my ideal

While FSM has been designed with reference to the financial services sector, defining access targets in terms of FSM is also problematic. As with LSM, companies do not gather and maintain sufficient data to determine the FSM group of individual clients. FSM is also partly a function of access to the infrastructure and products of the financial services industry resulting in a close correlation between improved access and higher FSMs. By definition, improved access will result in a redistribution of clients into higher FSMs rather than an increase in product penetration within a given FSM tier.

10.3.3 Personal income

This project has demonstrated that income data, particularly for the low-income clients, is sparse. While insurance companies may gather data on personal income as part of a financial needs analysis prior to selling individual products, it is often not captured, stored or maintained. It is also worth noting that individual products account for a relatively small proportion of the total products sold to the low-income market segment.

Income data for members of compulsory group schemes tends to be both available and relatively accurate. In contrast, demographic data on clients accessed by means of voluntary group products is typically minimal. Given that low-cost voluntary group products will remain a key component of the product set targeted at the low-income market, reliable client income data is likely to remain elusive unless the industry makes a concerted effort to obtain and maintain the currency of such data.

It would therefore appear that whether the access target is defined in terms of LSM, FSM or income, measurement of industry performance relative to this target will require survey-based research²⁶. Because of the inherent limitations of such research, some of which have been discussed in this document, findings can always be disputed. However, as the body of both qualitative and quantitative research on insurance usage in the low-income market grows, it will become easier to assess the accuracy of survey findings.

²⁶ Of course, because LSM and FSM are composite measures, the survey must include questions relating to the components of the measure that might otherwise be omitted. This has obvious implications for the length of the survey and associated costs.