

A disabled economy



by

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South Africa has endured a tough couple of years – both from an economic and a political perspective. Employers and employees alike are facing financial pressure and are looking for ways to cut costs. Due to the subjective nature of disability claims, these costs are often the first to escalate in a struggling economy, and thus may be the first to be cut. Despite this, brokers and employees are recognizing the need for a solid critical illness offering and there has been significant growth in this area.

Challenges facing businesses

Clients identified the two biggest challenges facing them today. The biggest challenge identified was the lack of economic growth in the country. One of the primary reasons for this is the political instability and corruption over the last few years. Financial pressure causes companies to try to cut costs, and often the first cut made is to employees' costs. This can come in the form of retrenchments or reduced employee benefit offerings. Personal financial stress also causes an increase in the cost of insurance, as financial health has a direct correlation to disability, and even life, insurance claims.

The second biggest challenge identified was the new regulation and compliance requirements. There are many new regulations being introduced in the coming months and all of these have additional costs to implement – both in terms of monetary expenses as well as time spent deciphering and implementing. In the end, most of the new regulations are good for the market, but the short-term pressures introduced by them can be significant.

Disability

There is a real need for disability cover in our society - disability cover provides a lump sum or income in the unfortunate event of a member becoming disabled. If the member becomes disabled and cannot earn a salary, the potential economic damage to their families (and themselves) is enormous. Despite this, around 75% of respondents did not offer disability as a lump-sum benefit, with 45% not offering disability income benefits to members. Furthermore, of those that offer lump-sum benefits, the average multiple of salary has dropped from over 3 to under 2.5 over the last three years. Unfortunately, disability can be an expensive product – particularly in tough economic times when insurers tend to face increasing claims. Disability is often the first product to be cut or to be removed completely. It is imperative for insurers and clients to work together to structure the disability offerings to be affordable and suitable to the clients' needs.

Critical Illness

On a positive note, more than 85% of the brokers surveyed recommended critical illness benefits to their clients. Respondents indicated that they increasingly saw the need for critical illness products and that there was a greater awareness of health – particularly cancer and heart conditions - among their clients. However, the respondents found that the product was still very complicated. Unfortunately, despite some effort, there is no real standard for illness definitions or benefit structures. Products can have different definitions or different tiering options. This makes comparison between insurers very difficult. Insurers can work harder to ensure some standardization, which would make this increasingly necessary product easier to understand and more attractive to clients.