LIFE ASSURANCE IN SOUTH AFRICA

IVAN LOCKYER, BCom, MB, ChB
Chief Medical Officer
South African Mutual Life Assurance Society
Cape Town, South Africa

Historical background

Corporate bodies which have been in existence for many generations usually reflect the economic, political, social and cultural changes in their country of operation. Old Mutual is a fine example. Founded in 1845 it has grown with the discovery of new lands and frontiers, contending with primitive transport and communications; enduring many wars, economic and natural disasters; witnessing significant political changes — from colony to dominion to Republic; Old Mutual has continued to flourish and presently ranks among world leaders in life assurance.

Indeed, with pride, we at Old Mutual claim the history of Old Mutual is that of Southern Africa.

From inception, Old Mutual’s directors realised that life style affected mortality. All applicants for assurance appeared personally for interviews to confirm their life styles commended insurability. In addition two separate medical examinations by a surgeon and a physician were obligatory.

As Old Mutual grew both in size and geographic extent the directors’ interview was replaced by requiring reports from two friends (of social standing) confirming the impeccable life style of the applicant. This requirement was dispensed with during the 2nd world war. (What a useful underwriting and marketing tool if used today!)

History of medical requirements

Urinalysis was introduced as a routine requirement during the 1890s and blood pressure included in the examination around 1920.

A standardised medical examination report was introduced by the Life Offices Association of South Africa in the mid 1920s.

Additional investigations (depending upon medical history and sum assured) such as chest x-ray (± 1935) and electrocardiograms (± 1950) were subsequently requested. Since inception South African assurers insisted upon a effort Electrocardiogram (with tracings repeated at 3 and 6 minutes post-effort) for applicants up to age 65 years.

Biochemistry profiles entered the underwriting scene during the early 1960s — incidentally, following a visit to this country by Dr Ancel Keys — who had demonstrated the significance of hyperlipidaemia in epidemiological studies.

The medical underwriting philosophy and practice were altered significantly in an educational and competitive way with the advent and development of the reassurance market in South Africa in 1953. Reassurers introduced at once competition from the smaller life offices. The reassurance market provided smaller offices with the same clout from an underwriting and capacity point of view that the larger offices had previously enjoyed.

Competition quickly increased within the reassurance market as more international reassurers entered the fray. Underwriting standards gradually deteriorated, culminating in a period which equated with “cash flow” underwriting. This international phenomenon continued up to 1985. Because of poor claims experience in the reassurance market sanity began returning soon after.

The threat of AIDS has provided impetus to this trend as companies in South Africa look for improved mortality from more conservative underwriting to act as a cushion against AIDS claims.

Assessment of substandard applicants

Until the early 1930s applicants were either accepted standard or simply rejected. Subsequently a cash extra was imposed, such as 5 shillings to 7 shillings and 6 pence percent for mild risks, 10 shillings to 15 shillings percent for moderate risks and 1 pound to 1 pound 10 shillings percent for moderate to severe risks. Such amounts were imposed irrespective of the applicant’s age, sex or term of the assurance. The Reassurers had introduced to South Africa the concept of numerical Extra-Mortality ratings and the conversion of such to cash loadings varying both with the age of the applicant and the term of the assurance. Needless to say, South African companies quickly accepted this concept and applied it in practice.

Physicians and Life Assurers

During 1953 old Mutual appointed South Africa’s first full time insurance medical officer.

Presently there are in excess of 38 life offices in the Republic of South Africa — the four largest companies enjoy over 90% of market share. The larger direct writing offices have full time medical officers where the reassurance companies have part time consultant physician specialists. Smaller life offices employ a clinician on a sessional basis; others simply use the services of Reassurers who incidentally, are eager to accept 100% of the risk.

There simply was, and still is, not enough full time medical advisors to form an effective and dynamic association such as
the Association of Life Insurance Medical Directors of America. A compromise was reached some 17 years ago in forming an association which comprised doctors, lay underwriters and actuaries (SASIMU).

Life Offices in South Africa are generous with donations for research and health projects — most of which are stimulated and run by medical faculties at our various universities and at any time there is one or more programmes which are actively pursued.

Life, Health and Disability Insurance

Life Assurance products, benefits and services in the Republic of South Africa are very similar to those offered in the United States of America. Regular and frequent visits by medical officers, actuaries, marketing and other managers of life offices to the United States, Great Britain and the Continent ensure constant updating. Computerisation is fully employed in almost all insurance operations except in medical underwriting. How long this will endure is questionable, as automation has already occurred in non-medical and pre-underwriting stages (viz for medical requirements) but not yet for final underwriting decisions.

Inter-alia The Actuarial Society of South Africa, has an ongoing inter-company mortality investigation of South African insured lives.

Medical examiners

All insurance companies accept medical examinations done by a general practitioner registered with the South African Medical and Dental Council. They do not have official "panels" of medical examiners, however, many have a list of so-called "approved" general practitioners whose medical examinations are acceptable for larger sums assured than usually allowed. These approved general practitioners are in the outlying areas to facilitate the acquisition of our primary underwriting requirements for larger sums assured where distance to Physician Specialist is perceived as a negative factor.

The limit (by amount) for a general practitioners's examination varies inter-company, no limit is set for the amount of assurance when a medical examination is performed by a Physician Specialist.

Paramedicals:

Paramedicals have been mooted on and off during the past 20 years. The geography of South Africa militates against the cost-effectiveness as the system is really only suitable for metropolitan areas. In addition, there is a strong resistance from the South African Medical Association as most medical practitioners are willing to perform medical examinations for assurance companies.

National Insurance Medical Organizations

"SASIMU" — South African Society of Insurance Medical Underwriters was established 17 years ago. Membership comprises doctors, lay underwriters and actuaries. This group is active and growing and has an active membership of over 600 members, who meet regularly.

Regional, National and Ethnic differences in South Africa

The Republic of South Africa is an epidemiological laboratory and has a mix of 1st, 2nd and 3rd world populations. There are significant differences in disease patterns in various sectors of the population. For example, South African born Indians have among the world's highest incidence of diabetes mellitus. The white Afrikaner population has a particularly high incidence of hypertrophic obstructive cardiography, oesophageal carcinoma and hypertension. The coloured population shows unusually high incidence of diabetes, coronary artery disease and hypertension.

In light of the recent and rapid economic development of non-whites in the Republic of South Africa, the spending capacity of black South Africans exceeds that of white population. There has been a concerted and rapid penetration of this market by life assurance companies. The total number of new applicants for life assurance from non-whites exceeds that of the white applicants, though not yet in premium income.

In excess of 95% of all applicants are accepted standard and fewer than 1% are rejected for life cover. Insurance medical consultants and underwriters in the Republic of South Africa are uniquely privileged to be presented with such a plethora of stimulating and changing challenges.

Product Developments

The main emphasis of the life assurance industry in South Africa in recent years has tended towards savings and investment contracts. Nonetheless, there has also been a focus on innovation in the life and disability cover market.

The so-called 'dread disease' benefits (which are only now being developed by companies in the United States) were pioneered in 1982 by a small South African life office with the help of a well-known physician. These are now popular additional benefit to the products of most S.A. Life Offices.

A further feature of the life market has been the extent to which underwriting factors, including financial lifestyle and medical, have been used to offer advantageous life cover rates to individuals with better risk profiles.

Health insurance in South Africa has largely been in the hands of Medical Aid Societies operating under strict legislative constraints. Exciting opportunities for life companies are expected to arise in the next few years, as these barriers are likely to be removed.

Permanent disability cover which offers a lump sum benefit is added to approximately half of the individual life insurance policies sold in South Africa.

Traditional reversionary-bonus products have to a great extent been superceded by universal life and variable life products
where risk benefits are charged for on a monthly rate per age basis. The major difference in the South African market is that the underlying accumulation accounts are generally linked to an investment portfolio comprising mainly growth assets.

We in the Republic of South Africa, in many ways, are pioneers in new fields of life assurance medicine — rather reminiscent of these exciting days following the world’s first heart transplant performed in Cape Town.

Some differences in practice in the Republic of South Africa vis a vis United States of America:

Life Offices in RSA:

- have never requested inspection reports. South Africans respect their privacy and insurers are aware of this, though there is no legal constraint involved
- do not use paramedicals
- do not have Home Offices laboratories. (however, Old Mutual has on-line computer facilities with a large independent pathological laboratory)
- do not yet have phone-in Personal Medical Attendants’ Reports

- Claims are contestible at death, there is no two year period for contestibility and claims may well be repudiated. Very few, however, are ever contested.
- The Republic of South Africa has a Life Offices’ Association Life Registry similar to Medical Information Bureau. The existence of this registry is generally known, but the contents are coded and confidential; access is strictly limited to members of the Life Offices’ Association of South Africa. Information coded is informative; complete extracts of medical files are available to member companies.

Insurance medical practice in the Republic of South Africa, in my opinion, is far ahead of that on the Continent and Great Britain and nudging that of the United States of America.

It is innovative, sophisticated, competitive, alive, well and prospering.

In conclusion my assurance colleagues in the Republic of South Africa and I congratulate ALIMDA on its centenary and wish your organisation every success for the future. May it continue to prosper.