

The direct channel offers the ability for the insurer to be on risk in roughly 30 minutes

## Direct distribution of life products in South Africa

“Cut-out the middleman!”, “Get 20% cash back”, “No medical exam” are but a few of the marketing campaigns of recent years (and months) encouraging consumers to purchase life insurance directly from insurance providers themselves – commonly through a call centre environment and/or an online mechanism.

For consistency of interpretation, this article considers that direct distribution of life insurance is non-intermediated, coupled with paperless/electronic application with automated Point-Of-Sale (POS) underwriting, with typically only an HIV test requirement. Sums assured are generally above ZAR 200,000 for life and associated covers. Different strategies, products, rates and terms and conditions generally apply between Inbound and Outbound sales methodologies, which we will discuss later.

These newer players are, through the aid of technological advances of administration and underwriting platforms, able to sell the more complex life insurance products and riders, including disability (both lump sum and income replacement) and critical illness for covers up to ZAR 10,000,000. Covers in excess of this amount are also possible through this channel but tend to be associated

with physical medical and financial verifications over and above the POS underwriting.

Whilst many companies have over the years embedded more efficient processes, a traditional application for life insurance can be deemed a lengthy process in this age of instant gratification, lasting anywhere between 3 days to 3 weeks from application to final acceptance.

The direct channel offers the ability to conclude a sale and for the insurer to be on risk in roughly 30 minutes either through the call centre or internet medium. Commencement of cover generally only begins on receipt of the first premium.

Given the diverse population groups in South Africa, and considering our infrastructure and road networks, it is evident that the direct offerings have complemented the broker and agency models to a large extent. Consumers that may never be afforded the opportunity of face-to-face discussions have access to a trained consultant that can aid with their insurance-purchasing decisions.

This “new” channel has seemingly also made inroads in expanding the penetration of insurance if we consider the relative number of first time purchasers of insurance being seen in the data. From our data, we estimate that upwards of 60% of policyholders in the direct channel did not previously have any form of life insurance cover. According

to the most recent gap study conducted by True South Actuaries and Consultants, it is estimated that there is an insurance gap of ZAR 9.3 trillion and ZAR 14.7 trillion for death and disability covers respectively. Hopefully this channel will assist in reducing these deficits over the coming years.

## Outbound/Inbound and Online Sales

There is a limitation to the advice that can be rendered through this medium, which means that consumers need to be reasonably well-versed on their insurance needs themselves. It is imperative that unless FAIS<sup>1</sup> accredited, the consultants are not offering any form of advice when engaging consumers.

Some companies provide calculators and tools to aid in this education and knowledge sharing process and there have been suggestions to explore whether algorithms can be accredited!

<sup>1</sup> Financial Advisory and Intermediary Services

### Sales dynamics

Aspect	Outbound (external)	Outbound (internal)	Inbound	Online
<b>Target markets</b>	Partner-driven	Owned databases	All consumers	Internet users
<b>Link to insurer</b>	Contractual	Affiliate/insurer	Insurer	Insurer
<b>Consumer friendliness</b>	Lowest	Low	Medium	Low
<b>Sum assured maximums</b>	Lowest	Low	Artificial maximum	Artificial maximum
<b>Products</b>	Limited	Limited	Full suite	Full suite
<b>Underwriting</b>	Limited (1-10 questions); Pre-ex and/or waiting periods	Limited (5-10 questions); Pre-ex and/or waiting periods	Full at POS + HIV test	Full at POS + HIV test
<b>Sales control</b>	Minimal (partner audit reviews)	Full	Full	Ultimate (mechanised)
<b>Sales time</b>	10 minutes	10 minutes	10-40 minutes	At leisure
<b>Quality assurance</b>	Lowest percentage	Lower percentage	High percentage	Complete (mechanised)
<b>Level of servicing</b>	Generally non-existent	Limited	Best	Constrained

Telesales can be conducted as Outbound (External), whereby the call-centre is outsourced to a third party or Outbound (Internal), where the call-centre and consultant are controlled, managed and employed directly by the insurer.

Inbound calls would generally always be to the insurer-controlled call-centre.

The table below compares Inbound and Outbound telesales against each other and also against the Online channel, taking the relative dynamics of the sale into account.

## Is it cheaper to go direct?

The perception of being a cheaper alternative to the traditional broker and agency model may not always ring true for all consumers. Whilst there are certain savings on the commission components of the office premiums and to an extent on the overhead expenses, direct insurers do incur expenses that their traditional counterparts do not (or at least not to the same extent).

Direct insurers have a significant spend on two aspects: firstly educating consumers about this insurance purchasing alternative and secondly creating greater brand awareness and the provision of product information. With more players coming into this space, the first cost is being spread and should thus reduce this spend per direct insurance player.

However, with increased competition comes the need to spend on reinforcing brand and product awareness with the intention of creating positive association.

The table below is a comparison of quotes for ZAR 1 m of life cover across the traditional and direct channels for a common risk profile and assumes standard health.

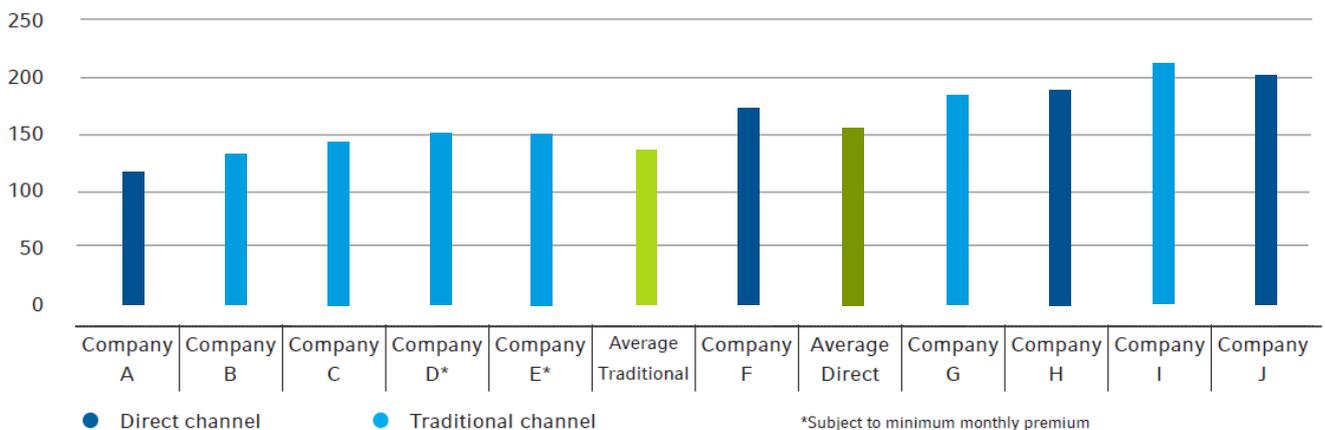
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Surprisingly, the direct channel offers both the cheapest and most expensive premiums of the quotes received.

Clearly the allocation and spreading of expenses across policies can play a far larger role in the actual premium charged to the consumer than a regulated cost, such as commission.

Quotes were sourced through “quick quote” facilities where available; call centres and a financial advisor. Naturally, premiums are influenced by a number of factors, foremost being the individual risk profile.

### Pattern of comparative monthly premiums in ZAR



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## Advice and servicing support in relation to insurance purchases cannot be disregarded and are important elements for deciding on where to buy life cover.

It should be pointed out that a different demographic risk profile could show very different premium results and thus the rankings would be different.

An important aspect of the direct channel is that all interactions between insurer and consumer are fully recorded (and form part of the contract of insurance), providing full and 'objective' evidence of information disclosed.

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Currently we are at a very nascent stage of the direct market; competitive pricing within the direct channel is only just becoming more apparent, which would be expected to be followed by competition across servicing, support and customer satisfaction.

Retention of clients should be a top priority amongst the direct players given the ease of intra-channel switching (we are yet to see any substantial impact on inter-channel switching) and this will only be ensured through quality of interactions coupled with market-related premiums.

The various channels tend to serve quite different market segments and thus with time the reach and knowledge of insurance products in the broader population should be enhanced. Hannover Re plays a pivotal role as reinsurer to the South African life insurance market, offering expertise in product development, design, pricing and processes across all channels.

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## Life Trends

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