Inseta Research Report 2014/15

Final Combined Report - Overview of Transformation and Skills Availability in the South African Insurance Sector

inseta
INSURANCE SECTOR EDUCATION AND TRAINING AUTHORITY

Contents

Tables and graphs

Glossary

BBBEE	Broad-Based Black Economic Empowerment
CEE	Commission for Employment Equity
DOL	Department of Labour
EAP	Economically Active Population
EEA	Employment Equity Act
FPI	Financial Planning Institute of Southern Africa
FSB	Financial Services Board
HCP	Human Capital Project
IFRS	International Financial reporting standards
IISA	Insurance Institute of South Africa
LDA	Len Deacon & Associates
POPI	Protection of Personal Information Act
SMME	Small, medium and micro enterprises
TVET	Technical and vocational education and training
WSP	Work skills plan

Executive summary

This final report summarizes the findings of an in-depth study of the South African insurance industry serviced by Inseta, focusing especially on the effects of transformation within the industry, on skills development, and the role Inseta needs to play. This report contains the highlights of the study. More detailed information will be found in the individual reports on each sector.

Background

Study to equip Inseta to fulfil its mandate. Inseta's mandate is to grow the pool and quality of scarce and critical skills serving the insurance sector. In March 2014 Inseta commissioned Len Deacon & Associates (LDA) to complete an in-depth study into the status of skills development within the insurance industry

Comprehensive brief. Inseta's brief to LDA was to:

- Determine the status of transformation in the insurance industry
- Determine what skills are available and identify skills shortages
- Highlight areas that offer job opportunities
- Identify gaps between existing and needed levels of qualification and skill
- Define industry expectations regarding how to address these gaps

Five reports generated. Over 20 months LDA generated five reports:

- An overview of transformation and skills availability within the insurance sector based on desktop research
- An interview-based study of the short-term insurance sector
- An interview-based study of the life insurance sector
- A combined interview-based study of the three smaller insurance industry sectors that contribute to social security: retirement funding, healthcare, and funeral cover
- An analysis of public domain data relating to transformation and skills availability in the insurance industry (provided as an additional value added service to Inseta)

Approach to research

Multiple methodology approach. This study involved:

- Desktop research that drew on industry data, published Inseta data, and proprietary data accessed by LDA for use in this project
- In-depth face-to-face interviews with 58 senior representatives of leading organisations within each of the industries covered by Inseta
- Structured telephonic interviews with 228 senior representatives of large and medium levy paying organisations
- A web-based survey distributed to 4 000 small, medium and micro enterprise levy and non-levy paying members.

Key drivers of change

Five key trends of major interest. A number of key trends are driving change in the insurance industry, but those that gave rise to the most comment by respondents are:

- Social, political and economic pressure toward transformation (covered in a separate section)
- Legislative and regulatory changes
- Developments in technology
- Changes in the competitor environment
- New market opportunities

Regulation beneficial but presents challenges. The increased regulation of the entire South African financial services industry, including the insurance industry, has been powered by the need to achieve social and economic transformation, control the effects of the last global financial crisis, and improve governance. However, compliance is costly, people with the skills to administer compliance are lacking, there is uncertainty regarding implementation, and industry members fear regulations may affect their ability to do business.

Technology changing human interactions at all levels. Sophisticated and ubiquitous technologies are both changing the way humans interact with each other and with their providers, and creating floods of information with the potential to change the way sellers interact with buyers. These trends are creating a need for a new, high-tech skill set within the Insurance industry. Key trends include:

- Big data
- Automated underwriting
- Greater use of technology in marketing, sales and service provision

Competitor environment evolving. Various trends are changing the face of competition within the insurance industry.

- Non-traditional players such as mobile phone companies and vehicle dealers are seeking insurance licenses
- Globalisation is creating fresh opportunities to enter new markets, while at the same time increasing local players' vulnerability to distant economic, environmental and other catastrophic events and competition
- Commoditisation of insurance products is putting pressure on margins
- Opportunities and competition are intensifying in sub-Saharan markets
- The traditional market is close to saturation, while the local emerging market does not prioritise wealth creation, forcing financial services companies to change their marketing approach

African opportunities most attractive. Both short-term and life industry respondents identified Africa as the most desired destination for geographic expansion, followed to a much lesser extent by Asia. They say margins in sub-Saharan markets are more attractive than in South Africa

Transformation

Reasons for slow adoption. The insurance industry has been criticised for being slow to adopt full transformation at all levels. Respondents identified several issues that they say are hampering their efforts to meet transformation goals.

- The education system is failing to produce work-ready job applicants.
- Needed skills are in short supply, making professionals and managers costly to recruit.
- In-house training is expensive and time-consuming.
- Poaching is adding to the cost of doing business, and fostering a lack of loyalty among employees.

Education system not meeting needs. It can take 18 months of in-house training and mentoring before a new entry employee has the basic skills to contribute to their company. Employers blame the education system, which produces school leavers with poor communication or mathematical skills and a lack of basic business know-how such as interview skills, grooming, problem-solving and teamwork.

Fast-track promotion can lead to weak management. In common with most South African industries, insurers are dealing with the shortage of needed skill sets and socio-political pressure for transformation by promoting employees much more rapidly than their peers in developed economies. This results in managers who lack the experience and life skills to handle their responsibilities well. Many lack the strategic and decision-making skills that are crucial to a good manager.

Attitude of entitlement. Educators and employers complain of an entitlement attitude. They say both students and young Black employees are often unwilling to work hard to obtain the skills and knowledge they need to advance, but they expect to receive high pay and perks.

Limits on the value of in-house training. Consolidation of the insurance industry means there are fewer corporate giants offering training grounds for new entrants who would traditionally have moved through into the rest of the insurance industry. At the same time, lack of certification means in-house training programmes have programmes has limited value.

The challenge of the skills shortage

Available talent doesn't match needed skills. The biggest challenge facing the insurance industry today is the growing mismatch between the skills employers need and the talent available. The greatest demand is for:

- Specialist skills, particularly actuaries, IT professionals and compliance managers
- Middle and senior management and sales and distribution personnel

Employers adopting different strategies to attract grow and retain skilled staff. Attracting and retaining skilled staff in a highly competitive market is a challenge, and employers are increasingly taking the initiative to grow qualified personnel in-house. They are engaging with learners at school and university level, offering bursaries to those with strong maths and science ability and drawing in graduate students on internships.

Input by employers covers a broad field of training. On-the-job training begins with developing basic work skills and ethic to equip a new entrant to cope with the work environment. Classroom training is typically supplemented by job shadowing, hands-on training and mentoring. There is a growing awareness of the need for career path planning that will keep employees engaged, interested and constantly learning.

Job creation opportunities

Not job creation but skills creation. The term “job creation” typically refers to the need to create work opportunities for unemployed people. In the case of the insurance industry, many jobs already exist and others are developing as a result of the evolutionary effect of technology. The need, however, is for people with the skills to fill those positions productively. While members of the insurance industry are well aware of the plight of the unemployed, and the larger players actively support community projects aimed at encouraging entrepreneurship, the insurance industry’s primary focus is on developing urgently needed skills.

Industry expectations of Inseta

Inseta’s role not always understood. Most participants in the study recognise the value Inseta adds, but there is a general lack of understanding of the extent of Inseta’s offering. There is also a perception that Inseta and other industry associations could work more effectively with each other and with the regulators.

National strategy to overcome skills shortage. Respondents would like to see a coherent national strategy to tackle the skills shortage that pulls together all the segments of the insurance industry in a joint effort. In particular, such a strategy would encourage corporate involvement, ensure accreditations are relevant, and support corporate training efforts through accreditation.

Education and training. Specific areas where respondents believe Inseta should be active include:

- Helping to revitalise the education system
- Supporting community-level skills development
- Developing and supporting TVET colleges
- Engaging industry in defining meaningful professional qualifications

Industry accord. Industry members also believe Inseta should play a leading role in establishing an industry accord to deal with the problem of poaching, and improve joint training efforts.

Support for intermediaries. Intermediaries, especially those serving the emerging Black market, need support in the form of training, mentoring and business development. Respondents believe Inseta has a role to play in this process.

Improve industry image. Respondents are very conscious that the insurance industry lacks appeal to school leavers and graduates. There is a general lack of awareness and understanding of the opportunities the industry offers, and many individuals drift into insurance almost by accident. Inseta has a role to play in improving the image and public profile of the industry, and to continue exposing learners to the potential offered by the insurance industry.

Background

This is the final report on a series of studies into the skills requirements in various sectors within the South African insurance industry. This report consolidates the findings of in-depth studies of individual sectors. It provides detailed and comprehensive insight into the transformation process within each sector, as well as the availability of skills, and need for skills development, within these sectors. This information will equip Inseta to develop a strategy to fulfil its mandate to its constituency.

Role of Inseta within the insurance industry. Inseta's mandate is to grow the pool and quality of scarce and critical skills serving the insurance industry. In the process, Inseta strives to promote South Africa's transformation by developing skills that will foster employment equity and broad-based black economic empowerment. Its vision is to facilitate a skilled and capable workforce to serve the insurance industry.

Sectors served by Inseta. The organisation's membership covers a substantial portion of the insurance industry. It includes:

- Short-term insurance
- Life insurance
- Retirement funds
- Risk management
- Healthcare benefits administration
- Unit trusts, retirement annuities and other investment instruments
- Funeral insurance
- Reinsurance
- Auxiliary activities, including underwriting management agencies(UMAs) and brokers

History of study. In March 2014 Inseta commissioned Len Deacon & Associates (LDA) to complete an in-depth study into the status of skills development within the different sectors of the insurance industry. The study was conducted in phases from March 2014 to September 2015.

Project goals and scope

Equip Inseta to fulfil its mandate. This research project was intended to establish Inseta as an authority on labour market intelligence within the insurance industry, to identify skills needed, and to provide the foundation for a strategy that will have a clear positive effect on the availability of scarce and critical skills to the sector.

Study reinforces Inseta's defined goals. One of Inseta's stated goals in 2013 was to increase access to occupationally-directed programmes. This study sought to engage as many employers as possible where employees were assisted by Inseta.

Primary areas of focus. This study was designed to:

- Determine the status of transformation in the subsectors of the insurance industry served by Inseta
- Determine what skills are available and identify skills shortages
- Highlight areas that offer job creation opportunities
- Identify gaps between existing and needed levels of qualification and skill
- Define industry expectations regarding how to address these gaps

Study follows Inseta breakdown of insurance sector. Inseta has divided the insurance industry into 10 sectors, which together employ more than 100 000 people. Across the various sectors Inseta lists employer groups as single entities, regardless of size or of whether they are levy payers or non-levy payers. Individual members may have as few as one employee or as many as 38 500 plus.

Number of Inseta's members operating in each sector[1]

Sectors of insurance industry	Percentage of members	
	LPE[2]	NLPE[3]
Auxiliary to insurance and pension funding (brokers, intermediaries, financial advisors, compliance officers, skills development and training consultants)	491	4045
Short-term insurance	425	2269
Life insurance	217	1427
Insurance and pension funding (retirement funding)	204	2060
Healthcare benefits administration	55	142
Pensions Funding	30	352
Risk management	37	109
Funeral insurance	23	118
Unit trusts (or collective investments)	24	104
Reinsurance	21	49

Inseta's membership is dominated by the short-term insurance, retirement funding, and life insurance sectors. More than a third of Inseta's members play various auxiliary roles to the industry, but most are small companies and individual consultants operating within the SMME sector.

Review of previous research. The first phase of this study was to collect and analyse the findings of previous research by numerous respected authorities. This focused on trends in transformation and skills development, and observations regarding the availability of skills within the insurance sector. It provided a basis for subsequent studies focusing on specific industry needs.

Four reports cover defined sectors. These reports focused on:

- The overall background of the South African insurance industry
- The short-term insurance industry
- The life insurance industry
- A combined study of industries that are individually small, but that contribute significantly to social security::
  - Retirement funding
  - Health care administration
  - Funeral cover
- Reinsurance, risk management and intermediaries are included in the sub-sectors they serve

[1] Reworked from the Inseta Sector Skills Plan 2011 – 2016 update. It's important to note that 80-90% of each industry sector served by Inseta is controlled by the five largest companies, which operate across a spread of industries. For example, MMI Holdings (formerly Momentum and Metropolitan) is a leading player in life insurance, pension investments, health insurance and short-term insurance. Because of the centralised nature of their decision-making and training processes, a single interview with the head of the training department provided us with the overall corporate strategy and policies. During subsequent interviews with senior staff members within the different industry divisions, we focused on their perceptions of skills needs, key drivers, and expectations for the next five years.

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In addition, several banks have divisions that register as members of Inseta, but their corporate training programmes are accessed through Bankseta.

[2] Levy Paying Employers

[3] Non Levy Paying Employers

Approach to Research

This study entailed a broad-brush approach to research as we sought to establish the historical context of our findings, and also to engage a representative selection of participants across the full spectrum of Inseta's activity.

Methodology

Various approaches to data collection. This study involved[4]:

- Desktop research
- In-depth face-to-face interviews with 58 senior representatives of leading organisations
- Structured telephonic interviews with 228 senior representatives of smaller organisations
- A web-based survey focused on 4000 SMME levy and non-levy paying members[5].

Expert sampling technique. "Expert sampling" involves identifying and interviewing individuals with particular expertise. Given the interdependence of the industry sectors covered in this study, this was the most appropriate approach.

Multi-method approach to information collection. The scope of this study's objectives necessitated the use of both exploratory (qualitative) and explanatory (statistical) research gathered from a broad range of sources.

Thematic analysis. Our analysis and findings are organised to address the five key objectives set out in the research brief. This is intended to equip Inseta with a practical tool it can use in developing strategies for fulfilling its mandate.

Desktop research

Wide range of sources. During the desktop phase of this research we drew on industry data, published Inseta data, and proprietary data held by LDA and not available within the public domain. A bibliography is provided as an annexure to the first report, "Background to the Insurance Sector".

Desktop research provided necessary background. This first report, published in June 2014, synthesises a broad-based preliminary desktop study of the South African and international insurance sector. It serves as a backdrop to further studies focusing specifically on different segments of the insurance sector.[6]

Ongoing desktop research. We conducted additional desktop research as needed to support our analysis of our findings during the course of subsequent phases of the study.

Original research

Each phase led to the next. The interview process moved through phases.

- We started with a briefing session with senior members of the insurance industry representative bodies.
- Based on their input, we designed the discussion guide that was used during in-depth face-to-face interviews with corporate decision-makers.

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[4] We developed a detailed explanation of our methodological approach, which we presented to Inseta's board of directors in June 2015. A copy of this Methodology Document will be made available upon request.
[5] Companies whose annual payroll exceeds R500 000 pay levies to the Receiver of Revenue, which are used to finance organisations like Inseta. Smaller companies do not have to pay this levy. Because of this, small non-levy paying companies cannot apply to Inseta for assistance with bursaries.
[6] The findings contained in the desktop report do not necessarily reflect the opinions of either Inseta or LDA.

- The outcomes of these interviews informed the design of the questionnaire used in telephonic interviews with companies with 50 or more employees.
- Finally, we created a web-based self-completion questionnaire that gathered input from SMMEs within the insurance industry

Breakdown of interviews conducted

	Total	Short-term insurance	Life insurance	Social security		
				Retirement funding	Healthcare admin	Funeral insurance
Briefing: Industry bodies	10	2	3	2	2	1
F2F: industry leaders	58	22	19	10	7	5
Telephonic: industry	228	70	46	60	27	25
Online survey: SMME	251	78	64	44	39	26

As appropriate, respondents included members of allied and auxiliary sectors, such as reinsurers and brokers. It is also important to note that in some cases one or two interview covered several sectors. For instance, the major life insurers are also involved in social security insurance, and the largest companies offer both short-term and life insurance. Training for the different sectors within these companies is covered by the same HR manager. Similarly, reinsurers could be involved in a spread of sectors.

Face-to-face interviews

Subjects identified by industry leaders. At the start of work on each section of this study, the LDA team sought input from insurance industry leaders as to the best people to interview. These leaders provided lists and specific recommendations, for instance of individuals with particular expertise. We also drew participants from the Inseta membership list, and we spoke to senior executives within other representative bodies and regulators.

Open-ended questions. Face-to-face interviews with senior representatives of large companies (with more than 150 employees) used a question set that ensured all respondents covered the same subject matter. However, questions were open-ended and we encouraged respondents to volunteer opinions and information.

Telephonic interviews

Structured questionnaires. Based on the results of the face-to-face interviews we designed questionnaires for use in telephonic interviews with medium-sized companies with 50-150 employees. These interviews were highly structured, but did provide some opportunities for respondents to volunteer information and opinions.

Web-based self-completion study

Goal was full coverage of sector. The intention was for the full population of Inseta's small levy-paying membership to have an opportunity to take part in the study. To achieve optimal coverage of this sector, we also sought input from qualifying non-levy paying employers that fell within the required sector.

Poor response. The response to the survey was disappointing. Despite repeated requests for participation emailed to Inseta's small levy paying and non-levy paying membership base (a total of 4000 invitations), we collected only 251 responses, all from small members. This sample was too small and too skewed to be representative of Inseta's total constituency, but it did offer value. To present this data in a more appropriate context, we restructured the survey and redeveloped it as a separate study that is incorporated within this final report as SMME.

Respondent demographics

Location of respondents' offices

	Short-term insurance	Life insurance	Social Security			SMME Web-based survey
			Retirement funding	Healthcare admin	Funeral insurance	
%	**n = 92**	**n = 65**	**n = 70**	**n = 34**	**n = 30**	**n = 251**
Gauteng	61	33	46	46	37	54
KwaZulu-Natal	48	22	15	10	20	19
Western Cape	47	27	25	9	25	28
Eastern Cape	29	16	6	16	7.5	15
Mpumalanga	24	4	1	2	2.5	7
Free State	23	7	2	3	2	5
Limpopo	16	9	1	8	2	7
NW Province	14	4	2	3	2	5
Northern Cape	14	9	1	2	2	2
Outside SA	3	4	1	1	-	-

"N" indicates the number of large and medium-sized employers interviewed within each sector. The data shows the percentage of respondents in each sector with offices in a given location. For example, we interviewed 92 employers within the short-term insurance industry, and of these 61% had offices in Gauteng. Note that the percentages in each column do not add up to 100, because many respondents' companies had offices in more than one location.

Most people employed by few companies. 72% of the workforce in the insurance industry is employed by Inseta's members (123 large organisations with 150 to 70 000-plusemployees).

Most Inseta members are in three provinces, but study is nationwide. While Gauteng, the Western Cape and KwaZulu-Natal have the highest number of employees per sector, given Inseta's objective of greater inclusion of outlying areas, it was important to do surveys across the nine provinces.

Key Drivers of Change

Our desktop research highlighted key drivers for the various industry sectors identified by international and local consultancy companies and industry specialists. During interviews, Inseta members evaluated these drivers, revealing several key trends that will drive change within the local insurance sector during the next five years. Each trend has implications for the skills the sector will need to survive and thrive, and must be taken into account when creating a strategy for developing human resources.

Drivers affect the full spectrum of the insurance industry. A number of key trends are driving change in the industry, but those that gave rise to the most respondent comment are:

- Social, political and economic pressure toward transformation (see the next section, page 22, where this subject is covered in detail)
- Legislative and regulatory changes
- Developments in technology
- Changes in the competitor environment
- New market opportunities

Changes in legislation and regulation

Intensive regulation necessary but costly. The increased regulation of the South African insurance industry has been driven by the need to achieve social and economic transformation, control the effects of the last global financial crisis, and improve governance. However, insurance industry members are concerned about:

- The high cost of compliance
- The difficulty of finding staff with the skill sets needed to ensure compliance
- Uncertainty regarding many requirements for implementation
- Possible effects on their ability to do business effectively

Regulation is wide-ranging. New regulations affecting the insurance sector include:

- A new B-BBEE code of good practice focusing on ownership, management control, skills development, enterprise and supplier development, and socio-economic development
- Amendments to the Employment Equity Act to eliminate workplace discrimination - equal pay for equal opportunity
- IFRS 10, which forces organizations to consolidate entities they control
- Various social security transformation initiatives such as the National Health Insurance (NHI) proposals and retirement reform proposals
- The Treating Customers Fairly (TCF) programme, intended to replace the Consumer Protection Act within the insurance sector
- The Protection of Personal Information Act (POPI) the stringent requirements of POPI provide specific requirements as to how personal information must be processed and protected.
- Amendments to the Skills Development Act
- Various fiscal regulatory changes, including:
  - Changes to the Income Tax Act
  - The Solvency Assessment and Management framework (SAM)
  - Proposed introduction of a micro-insurance regulatory framework
  - IFRS 10 and third party cell captive arrangements, under consideration by the FSB
  - The Foreign Accounts Tax Compliance Act (FATCA)

More regulations coming. Respondents within the short-term and life insurance sectors are aware that the Treasury, in collaboration with the FSB, is:

- Developing a stronger regulatory framework
- Strengthening the effective supervision of the FSB
- Addressing systemic institutions
- Conducting international assessments
- Introducing crisis resolution programmes to prevent or manage failures among systemically important institutions
- Benchmarking South African principles and assessments against international norms

Changing B-BBEE scorecard burdensome. The requirements of the revised B-BBEE codes of Good Practice, became applicable in October 2014, are of particular concern. The new code requires more points for each contributor level, and imposes a sub-minimum threshold for companies with an annual turnover of more than R50-million. Many respondents to this study perceive this legislation as beneficial to small, black-owned companies, while serving as a stick to beat nonconforming companies. They believe it imposes a heavy burden on medium and larger employers that are already battling to meet required standards.

Advance effect of SAM. The entire insurance industry is gearing up for the implementation of SAM from 1 January 2016. Throughout the second half of 2014, insurers completed the "light parallel run". During 2015 they have stepped up their preparatory activities by moving to the more intensive "comprehensive parallel run". These processes are described in detail in a document published in 2013 by PWC, "Moving ahead to SAM readiness".[7]

Compliance officer plays a key role. Most financial transactions cut across numerous pieces of major legislation. The role of the compliance officer has always been important, but it is now crucial. Developing individuals with the industry understanding and insurance and legal skills to play this role has become a priority. A significant concern is that, while in-house compliance officers servicing the large insurers are insurance specialists, the compliance agencies serving smaller players may have little or no insurance industry knowledge.

Costs of compliance becoming overwhelming. Increasing regulatory demands on the industry are driving up costs at a time that market pressures have squeezed margins. Respondents indicated that they expect costs to rise as governance and regulatory demands pile on more non-core costs.

Access to information under threat. The insurance business depends on collecting, analysing and processing personal information to develop and market products effectively, but new legislation like POPI limits the industry's ability to access and use that information. Respondents say the ongoing availability and management of data is a key concern.

Developments in technology

Transformational technology. Sophisticated and ubiquitous technologies are both changing the way humans interact with each other, and creating floods of information with the potential to change the way sellers interact with buyers. Short-term and life insurance sector participants believe smart phones and tablets will present the most important opportunities for technological innovation over the next five years. In particular, they predict improved direct insurance and online distribution, new actuarial systems and real-time data mining and new actuarial.

Bringing new skills into the industry. Respondents within the life insurance sector found an unexpected benefit in the technology-driven changes within the insurance industry. They

[7] http://www.pwc.co.za/en/assets/pdf/sam-parallel-run-survey-july-2013.pdf

believe the industry now needs a set of brand new skills – and they say this need is helping to drive the transformation process, because young Black professionals tend to be comfortable with technology and social media.

Big data will change the world. "Big data "is transforming the dynamic between seller and buyer. Its predicted effects include:

- Increasingly sophisticated risk management
- Use of real-time sensor data, unstructured data from social networks, and multimedia data in strategic decision-making
- Developments in artificial intelligence

Transformational effect of big data defined by available skills. But, to translate this data into insights that lead to more effective relationships within the market, the insurance sector needs an influx of technological talent with strong business skills, and there is a global shortage of people with the mix of IT and a diverse other skills to manage big data.

Greater use of technology. Most carriers are reassessing their marketing, sales and service systems to adapt to changes in consumer behaviour and preferences, which are driven primarily by advances in web and mobile technologies. More people are spending more time in the virtual world, through their laptops, tablets or smart phones, and they expect their insurers to be there with them. These consumers are surfing the web over wifi-enabled devices to learn about products and services, to price-shop and to exchange customer experiences. Many buy policies and file claims online.

Effect of a transformed IT environment. The massive shift toward technology throughout the insurance sector is having a radical effect on staffing. Information management has become bigger, more complex and more important at every level of an insurance organisation. To compete over the long term, insurance providers will have to be able to capture and analyse vast quantities of data, and use this information to develop workable product development and marketing strategies. But the more complex skill set the industry now needs will intensify pressure on the available pool of IT experts.

Restoring value to person hours. Industry observers believe increasing use of technology will drive a shift away from the commoditisation of human labour. Technological systems will either replace or augment workers. Potentially this may free people with skills, or the potential to be trained, from mundane tasks.

Changing competitor environment

Non-traditional players exploiting the market. Mobile phone companies, retailers and vehicle dealers have obtained insurance licences from the FSB or are forming associations with insurers to exploit the new opportunities in the insurance market. Given their huge technology and customer bases, mobile operators and retail companies could become formidable competitors as the use of technology increases within the life and personal lines markets.

Effects of globalisation

Small boat on a big sea. Only a few members of South Africa's insurance sector can compete effectively against multinational competitors in a global market, but they can defend themselves, and take advantage of opportunities, by developing their awareness and understanding of international trends.

Both opportunities and challenges. Local players are seeing fresh opportunities to enter new markets, but they are also increasingly vulnerable to distant economic, environmental and other catastrophic events, as well as competition. The frequency and severity of catastrophic events has increased over the past 20 years. Insurance carriers of commercial property, business interruption, workers compensation, life and benefits cover are also facing more risk as the incidence of unrest and terrorism rises. This is forcing a more sophisticated approach to risk modelling and risk transfer.

Still seeing market weakness. Despite having avoided a complete meltdown, the South African financial services industry is still experiencing some aftershocks from the recession. Interconnected global markets means that individual shocks can send tremors throughout the world's markets, and this has increased the risks associated with expansion.

Insurance products becoming commodities. Commoditisation will lead to price transparency and bulk buying by social community groups. Over the short term good margins will be possible in emerging and under-developed markets, but with globalisation these margins will vanish. Competition will be increasingly price-based.

Intermediaries feeling the squeeze. As more customers become comfortable with internet transactions, insurers' move to direct marketing has had a significant impact on brokers. A few years ago many brokers left the industry, but the survivors seem to have adapted and stabilised. They have reacted by either reinventing themselves or competing with direct insurers by using social media and offering access to multiple quotations, or by specialising in products that don't lend themselves to direct sales.

Corporate leaders rethinking their markets. The past 10 years have seen a strong trend toward outsourcing everything from customer services to software development, while innovation and design have remained in R&D labs in developed countries. As markets in developing countries grow, the US and Europe are losing their hold on job creation, innovation, and political power.

No more satellites. Multinationals are learning that they must have a physical presence in areas where new competitors are emerging in order to survive, and that they must also integrate local employees and business processes into the global organization.

Strong competition for the sub-Saharan market. International companies are recognising the potential of the African market and using South Africa as a gateway to the rest of Southern Africa. This trend creates both challenges and opportunities. Local insurance companies could see opportunities arising from foreign companies seeking to outsource their activities. Cheaper locations are available, but South Africa's pool of experienced insurance expertise makes this country attractive.

- This could put strain on tight human resources, especially as companies paying in rands compete with those paying in euros and dollars.
- At the same time, it could introduce fresh skills and new resources for skills development to the local environment.

Trends in the local emerging market

Emerging market potentially substantial. Based on 2013 estimates, the young Black professional group could include 4,2 million people. Independent sources estimate the number of self-employed Blacks at around 2,6 million.

Emerging markets feature two distinct profiles. There are two components to the emerging market attracting life insurers' attention.

- Young Black professionals dominate the emerging market.
- Black South Africans employed as blue collar workers or working outside the formal sector make up a very diverse market segment, ranging from entrepreneurs to independent truck drivers to shop assistants to domestic servants.

High debt will discourage savings in upcoming generation. As a new generation of South African workers begins earning income, while traditionally-minded employees move toward retirement, the insurance industry's core target market will change fundamentally. Burdened by heavy student debt and barred from home ownership by the Consumer Credit Act[8], younger workers will tend to postpone investment and saving.

First generation privileged Africans burdened by disadvantaged extended family members. In many cases, African managers and professionals earning substantial income are expected to support family members who are unemployed, uneducated, and poor. Because they must stretch their resources further than most Whites, Coloureds and Indians, they are likely to have less income available for long-term investments.

Buying direct may not be the smartest option. Young Black professionals tend not to place a high value on saving and investing for the longer term, and have had little exposure to financial intermediaries and consultants. Respondents believe a broker can help customers with limited experience or knowledge of insurance ensure they buy the right product for their needs. But members of the emerging market prefer to deal with Black brokers, who are in short supply. This makes appointing and upskilling black brokers a high priority...

Wealth creation not a priority for younger generation. Young Black professionals tend to prioritise visible status symbols, such as cars, designer clothing and recent model digital technology. They are typically comfortable with technology, cost-sensitive, and active on social media forums, and will most easily be accessed via direct marketing and sales.

[8] The Consumer Credit Act was Government's response to over-indebtedness. It introduced tough regulations, putting the onus on the lender to ensure the borrower could afford to take on the loan. Consequently, many young professional people cannot qualify for a bond.

Foreign market opportunities

Emerging markets offer best opportunities. Most South African insurers focus more on expanding into foreign markets than on the local low-income market. They tend to seek partnerships with companies within the country, to minimise barriers and manage risk.

Opportunities and challenges of expanding into Africa. Most local insurance companies are including the rest of Africa in their growth strategies. These countries have limited human resources, and local companies will draw from the local pool of skills to meet their needs. In particular, they will need people skilled in compliance and risk management and able to cope with the demands of different environments.

African opportunities most attractive. Both short-term and life sector respondents identified Africa as the most desired destination for geographic expansion, followed to a much lesser extent by Asia. They say margins in sub-Saharan markets are more attractive than in South Africa, and the opportunities are vast because only 3,5% of the market is insured. Most of the larger life insurance companies are involved in expansion into Africa and Asia, where:

- The top three considerations for insurers moving into sub-Saharan Africa are low penetration rates, higher margins and profitability, and the quality of local management.
- The three main barriers to entry are regulatory restrictions, cultural conflicts, and lack of local insurance skills.

Respondent perceptions of key drivers

Respondent rating of key drivers. We asked respondents from small, medium and large companies to rate 26 drivers that our research identified as key to change over the next five years. They rated the impact they believed these drivers would have on their industry, using a scale of 1 to 10 where 1 = very little impact, 5 = some impact and 10 = significant impact.

Respondent rating of top five key drivers (significant impact rating of 9 or 10)

	Short-term insurance	Life insurance	Social Security			SMME web-based survey
			Retirement funding	Healthcare admin	Funeral insurance	
%	**n = 92**	**n = 65**	**n = 70**	**n = 34**	**n = 30**	**n = 251**
Impact of changing and new regulations	69	40	45	44	48	64
Increased regulation and reporting requirements	46		40		52	64
Consumer awareness, education and protection	46	36		48		38
Integration of social media: into corporate strategy	42	40			52	
Effect of rapid change in technology	46	36		44	52	
Debt and inflation				44	52	45
Cost of compliance						64
Risk management			33			
Good governance - King 3 board performance board evaluation PF 130			40			
Health technology				48		
Pension fund reforms			37			
Global resource scarcity		38				

"N" indicates the number of large and medium-sized employers interviewed within each sector. The data shows the percentage of respondents who gave the driver a rating of 9 or 10. We identified the five drivers that most frequently received a 9 or 10 rating within each sector.

Regulation has the greatest impact. Only one driver – the impact of changing and new regulation – received a high impact rating in all sectors.

Sector-specific perspectives

All sectors of the insurance industry are interconnected, to a greater or lesser extent, and therefore have many concerns and interests in common. However, regulations governing these sectors vary, and there are some significant differences in the market segments they serve. Because of this, some drivers and trends will affect certain sectors more than others.[9]

Short-term insurance sector

Personal lines

Increased competition. Personal lines insurers remain locked in a battle for market share. Vehicle and homeowner carriers have felt the bite of the economic downturn and depressed housing market, but a need to offset high catastrophe losses, rather than increased demand for coverage, has driven premium increases.

Automated underwriting. As insurers expand globally, aging underwriting resources in the developed world and a lack of underwriting skills in emerging markets are leading to a talent shortage. Automated underwriting, more common in the developed world, will be increasingly adopted in emerging markets.

Disintermediation. Research indicates that carriers are seriously exploring the potential to reach more buyers via a one-stop, web- or mobile-based transaction. This is a threat to intermediaries serving the personal lines and small-commercial markets, as well as insurers who depend heavily on intermediaries to distribute their products.

Commercial lines

Virtual business affinity groups. Social networking among small business owners will create virtual business affinity groups, which will pool their risks and retain more predictable layers of risk. Greater availability of information and increased price transparency will facilitate this trend.

Automated underwriting. Trends in automation of quotes will continue. Commercial insurance will be more affected than personal by the general lack of underwriting talent.

Business model transformation. Real-time data from sensors and devices will continue to transform the commercial insurance model. Commercial insurance will focus on providing standardised products and value-added services, working proactively with clients to avoid or reduce loss and manage risk. Risks, meanwhile, are becoming more complex, driving a need for improved data analytics to develop new risk transfer options.

Life insurance sector

Saturated market driving growth into non-traditional areas. South Africa's medium and higher-income market has high penetration of life insurance, due to both the state's limited

[9] For detailed information about the individual industries, please see the relevant industry sector reports from this study.

provision of social security, and the presence of a well-established, sophisticated life insurance industry. This is driving insurers to seek growth opportunities among lower-income consumers, who tend to be under-insured, as well as in the rest of Africa, India and Southeast Asia. To be effective in these markets, however, insurers must develop techniques and technology that attract and capture low-income customers.

More customer-centred approach brings new challenges. Life insurers seeking to interact effectively with their customers must do so within a challenging social, political and economic environment. This involves an ongoing need to adjust the insurer's skill set and systems to suit the market, while also educating customers

Intermediary role continuing to shrink, while direct marketing expands. Most of the large life insurers have embraced the direct sales model, especially as they focus on the potential of the emerging market of young Black professionals and entrepreneurs. Intermediaries who plan to survive in this market must develop new skills, such as the POPI requirements relating to Treating Customers Fairly, and dealing with financially naïve, often illiterate and less educated individuals.

Social security sector

Retirement funds

Lack of commitment to savings. Savings reached a record low in 2014, as South Africans from all income and population groups become less inclined to make long-term investment plans for their retirement. The gross national savings rate has declined from a peak of 33,6% of GDP in 1980 to 18,9% in 1990 and 14,9% in 2014.

Pension reform. South Africa has embarked on a pension reform programme, in an effort to boost the national savings rate.

Good governance and trustee excellence. The scale of pension fund investments, coupled with economic, political and administrative risks, places an enormous responsibility on trustees. Professional trustees typically have relevant knowledge and experience, but this is not often the case with employer trustees.

- Often selected by popular vote, they may lack even a basic education.
- They rarely serve more than one term, so do not acquire experience over time.
- Many employers don't pay for trustee training, so their ability to become "fit and proper" to manage huge investments is limited.

Healthcare administrators

Can NHI improve the health status of the nation?
Inequitable quality of healthcare remains a concern. Administrators say the pilot stages of NHI has delivered mixed results with many of the country's 10 pilot sites making reasonable progress to improve the public health.

The NHI is revolutionary in its aim to unite public and private healthcare resources into a single healthcare scheme so that all South Africans have equal access to quality healthcare. However Healthcare administrator are waiting for clarity regarding how it will be funded and administered, and what role the private sector will play, if any. Administrators fear that centralised control of the NHI will make them redundant, while at the same time they believe the lack of progress to date shows that government is not equipped to manage such a programme without engaging with the private sector.

Cost management and value delivery. Administrators are questioning how the NHI will lower costs across the value chain while improving overall healthcare outcomes. While the weak economy means that there is little spare cash for such a massive undertaking as financing NHI, Finance Minister Nhlanhla Nene has promised that Treasury would soon release a "discussion paper on financing options to accompany the NHI White Paper". Health Minister Aaron Motsoaledi has cautioned that it will take 14 years before South Africans begin to see tangible results of the move to NHI.

Identify waste in spending. Spending on redundant testing, inefficient administration and treatment of preventable conditions creates waste at all levels of the healthcare industry. Administrators see this as a major concern.

Funeral funds

Informal nature of funeral insurance a concern. More than 25% of funeral insurance is managed within the informal sector, yet this is the most prevalent form of insurance in South Africa. It is often the first, and may be the only, type of insurance the most economically vulnerable members of the population will buy. Respondents believe providers of funeral insurance need to be better regulated to protect investors. This will also create opportunities for insurers to develop a more flexible and varied product range to meet the various investment and savings needs of people at the poorer end of the market.

Transformation

Most industry members who took part in this study are optimistic about the future. They believe the leaders of the insurance industry have largely bought into the transformation process, and they see the relationship between regulators and industry members as strong. The biggest challenge they perceive is the shortage of Black industry entrants with the experience and skills to take on professional and management roles.

Industry criticised for slow adoption. The insurance industry has been criticised for being slow to adopt full transformation at all levels, although many employers have responded favourably to pressure to achieve employment equity.

Insurance industry outperforming others.[10] Recent research by Inseta indicates that the insurance industry is advancing toward parity at management and professional levels more effectively than other sectors of the financial services industry.

- Whites account for 37% of professionals in the insurance industry, and 64,2% in the overall financial services industry.
- Blacks account for 36% of professionals in the insurance industry, and only 15% in the overall financial services industry.
- Coloureds account for 14% of professionals in the insurance industry, and only 7,7% in the overall financial services industry.
- Indians account for 11% of professionals in the insurance industry, and only 9% in in the overall financial services industry.

Challenges to the transformation process. Respondents identified a number of issues that they say are hampering their efforts to meet transformation goals.

- The education system is failing to produce work-ready job applicants.
- Recruitment challenges: needed skills are in short supply
- In-house training is expensive, and limited in what it can achieve without certification
- Constant poaching, together with a lack of loyalty on the part of employees, is inflating salaries and driving down productivity

Failing education system

Matriculation not an indicator of ability. Despite a very low passing grade for the National Senior Certificate, only 50% of children matriculate from school, and of those only a few qualify to take a degree that will open up the insurance sector. Even distinction-level matriculants often cannot express themselves clearly, and their mathematical skills are poor.

Narrow academic approach not meeting the real need. Insurance employers say the university system doesn't produce the level or type of skill the industry needs. Typical graduates take up to 18 months to become productive due to their lack of workplace skills, and then are of limited use outside their area of specialty. New entrants into the job market often lack basic interview skills, etiquette and grooming, and have little ability to work within a team, solve problems, or expand their skill set into new fields.

Call centres an ineffective entry point to insurance industry. Call centres tend to attract a high percentage of young Black school leavers, but there is a gap between skills at this level and those needed in other career fields within the insurance industry. Many potentially

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[10] See Part 1- Desktop Overview

suitable candidates seem to lack interest in studying further to qualify for positions in more skilled areas.

Employers' needs not being met. Insurance companies today want employees who can thrive in a process-driven, collaborative environment. Instead of specialists, they are seeking people with good education and technical skills, and the ability to add a wide-ranging set of competencies through experience to qualify for middle and senior management. They especially value people with:

- Strategic and governance thinking skills
- Creativity
- An innovative mind set
- An ability to interact with stakeholders
- Willingness to cooperate in a team
- An ability to influence without imposing authority
- Good judgment that balances individual needs and behaviours, the requirements of business, and the demands of the greater environment

Recruitment challenges

Senior staff often ill-equipped. In common with most South African industries, insurers are reacting to the pressure to meet transformation goals by promoting employees much more rapidly than their peers in developed economies. This results in managers who lack the experience and life skills to handle their responsibilities well. Many lack the strategic management and decision-making skills that are crucial to a good manager.

Difficulties with recruitment slowing transformation. Members of the insurance industry say the recruitment pool is too small to meet their needs.

- There is a shortage of qualified Blacks at senior management and professional level, and those that are out there are expensive and difficult to retain. Short-term industry respondents say it can be easier to find a suitable candidate for a senior directorship than for middle or senior management.
- The IT profession is dominated by white males.
- IT staff from all racial groups are expensive and difficult to attract and retain.
- There is an overall lack of Black candidates in certain specialist areas, particularly risk management, investment management, governance, and regulation and compliance. The number of Black actuaries has improved, but there is still a substantial skills gap.
- Companies outside Gauteng find it difficult to attract top candidates.
- The investment banking and asset management subsectors pay the highest packages for specialist risk management and investment management candidates, putting other segments of the insurance industry at a disadvantage.
- Employers are competing for experienced staff from a pool where demand exceeds supply. It can take a year to source suitable staff, and because they are in short supply their salaries are inflated and they are subject to headhunting.
- Many applicants lack interview skills.

Lack of awareness. School leavers generally have little knowledge about or interest in the insurance industry. Banking and accountancy appear to be perceived as more attractive financial services career options. Many job seekers land in the industry almost by accident, or switch from another financial services sector such as banking or accounting. The insurance industry has few role models or icons, and short-term insurance remains a foreign concept to many South Africans.

Needed skill sets not available. The desired mix of qualifications and job experience may not be available in one candidate. Someone with the right qualifications may come from a different industry sector, while others may have the right skills and work experience without the required qualification.

Commission not attractive. Commission-based payment is not attractive to up-and-coming Black male candidates. At middle and senior management level, employees want a more secure remuneration package.

Respondent perceptions of recruitment challenges. We asked respondents from small, medium and large companies to indicate what recruitment challenges their companies faced

Recruitment challenges experienced by employers top 5 per industry sector

	Short-term insurance	Life insurance	Social Security			SMME web-based survey
			Retirement funding	Healthcare admin	Funeral insurance	
%	**n = 92**	**n = 65**	**n = 70**	**n = 34**	**n = 30**	**n = 251**
Strategists / specialised skills	36		28	19		
Actuarial skills	26	18	22	33		
Underwriters	23				36	38
Sales & distribution	21				16	
Middle and senior management	20	22	22	24		31
IT skills		20	20	22	52	49
Customer relationship managers		16				
Regulation and compliance skills		16	18	15	16	36
Claims administration					28	
Graduate Skills MBA						25

"N" indicates the number of large and medium-sized employers interviewed within each sector. The data shows the percentage of respondents who indicated that their company had difficulty recruiting employees in this field.

Training challenges

In-house training only a partial solution. Most employees depend on in-house training to bring new hires up to speed, rather than trying to recruit the skills they need. However this process brings its own challenges.

- HR directors say a culture of entitlement limits the potential to fast track a candidate through the ranks. Often the fact of having being identified as suitable creates an expectation of frequent salary increases and other perks, while these candidates may not be diligent in acquiring the qualifications they need.
- School leavers generally need substantial input to acclimate them to a work environment. This is a costly process, and employers need more cooperation from Inseta in certifying internal training programmes.

Regulatory restrictions. Promotion within the insurance industry often depends on a candidate having the qualification required by regulations.

- The South African education system does not reliably produce school leavers with the capacity to achieve higher qualifications.
- The cost of acquiring a qualification can be prohibitive for many employees who wish to further their careers.
- Some observers believe these regulatory requirements enhance the credibility of the industry.

Traditional training grounds have largely disappeared. Historically the traditional large multi-line insurers gave industry entrants an apprenticeship opportunity. With the consolidation of the industry, these opportunities have diminished. Increasingly skills development is the responsibility of partially-trained managers with limited experience and large gaps in knowledge.

Specialised skills held by aging workforce. Older members of the workforce own a large part of the knowledge and skills employers need – and they can be protective of their expertise if they plan to return to the industry as consultants after they retire. The challenge to employers is to:

- Rethink traditional career paths, creating more diversity and flexibility for older employees
- Engage in rigorous succession planning
- Reward those with expertise for sharing their knowledge and skills
- Establish systems and forums for effective skills transfer
- Import experienced personnel from developed economies to transfer skills and knowledge to South African employees

Retention challenges

Greater need for stimulation. People are living longer and postponing retirement, and it is now the norm for people to change career paths three to five times in a lifetime. Meeting employees' need for fresh stimulation and lifelong learning is a key function of HR management.

Loyalty cannot be assumed. Employees are no longer loyal toward their employers, and readily change jobs to improve their situation in the short-term. Life industry respondents report that lower-paid employees will switch jobs for as little as a R100/month salary increase, and even highly paid staff will readily change jobs to achieve short-term improvements.

Job hopping an ongoing challenge. Life insurers seek to lock in their more talented staff by identifying potential candidates for training, capturing their imagination through career planning, offering ongoing in-house training, and supplying bursaries for university-level study. However in some fields the demand for skilled staff is so high that larger, more powerful employers will pay out promising young employees' contracts and attract them with astronomical salaries.

Effect on company morale. Headhunting throughout the industry results in remuneration that is out of line with other employees in similar categories. This can cause dissatisfaction among other members of staff.

Respondent perceptions of challenges

Difficult to match people to jobs. We asked respondents which issues they had faced within their own organisation. They rated the effect of these issues on their ability to match jobs to individuals with the appropriate skill set and technical competence. Respondents used a scale of 1-10, where 1 = little impact and 10 = high impact.

Top five challenges respondents have faced within their organisation

Challenges %	Short-term	Life	Social security			SMME (web survey)
			Retirement funding	Healthcare admin	Funeral	
%	n = 92	n = 65	n = 70	n = 34	n = 30	n = 251
Poor maths and science outcomes of school leavers	44	66	67	48	64	55
Lack of young black candidates qualified to meet insurance industry skills needs	36	51	51		64	52
Candidates promoted before they are qualified and experienced		53	49	44	48	
Learnerships should focus less on entry-level candidates and more on advanced candidates		57	57	52		
Culture of entitlement among inexperienced graduates	30				56	52
Suitable candidates not attracted to insurance industry				48	56	
Poaching, job-hopping, lack of loyalty, go to the highest bidder	41					49
Culture of entitlement	30	49				
Shortage of suitable black candidates expands available options, and leads to inflated remuneration packages			49	48		
Learnerships should be multi-disciplined and include modules from other setas						50

"N" indicates the number of large and medium-sized employers interviewed within each sector. The data shows the percentage of respondents who indicated that their company had difficulty recruiting employees in this field. We identified the five drivers that most frequently received a 9 or 10 rating within each sector.

Failing education system the biggest problem. Respondents across the board identify poor maths and science outcomes as a significant problem. Lack of qualified young black candidates is a key concern for all sectors except healthcare administration.

The Challenge of the Skills Shortage

There is a growing mismatch between the skills employers need and the talent available. This applies both to technical skills and knowledge and to employees' capacity to learn, adapt, lead, think laterally and solve problems creatively.

Skills shortage is biggest challenge. The shortage of key skills is the biggest challenge facing the financial services industry today, according to members of the industry.

Global problem, local political issue. An estimated 31% of employers worldwide find it difficult to fill positions because of talent shortages in their markets, and the PwC/CFSI's Insurance Banana Skins 2013 Survey indicates that the challenge in South Africa is far greater than the global average. But according to the 2014 CEE Annual Report there is no shortage of qualified Black people who can fill senior and top management positions, and it suggests that the private sector is not doing enough to recruit, train and promote them.

Anomalies in defining the size of the problem. Not everyone agrees on the extent of the issue, and this study revealed some interesting anomalies.

- Respondents in smaller companies perceive a skills shortage across the greater industry, but say their own organisations are not greatly affected.
- According to a survey of business leaders in five African countries[11], some employers don't perceive a lack of skilled, experienced workers as an obstacle to business growth.

Perceptions of skills shortage. We asked respondents to use a 10-point scale to rate:

- Statements about transformation within the industry (1 = totally disagree and 10 = totally agree)
- Their personal experience of their own organisation's success in each of these areas (1 = not very successful and 10 = very successful)

Perceptions and personal experience of transformation challenges[12]

Transformation statement %	View of industry vs in-house success level	Short-term	Life	Social security			SMME (web survey)
				Retire-ment funding	Health-care admin	Funeral	
Poor standard of school education is a key underlying cause of skills shortages within the insurance industry	Perception of the industry	60	51	72	59	73	
Poor standard of school education affects our ability to recruit the skill sets we need	In-house experience	30	29	27	33	19	
Every sector must strive to recruit, train and promote qualified black people to senior and top management positions	Perception of the industry	57	66	62	67		
We actively recruit, train and promote qualified black people to senior and top management positions	In-house experience	30	62	37	41		

[11]McKinsey Global Institute, 2012
[12] This data has been extracted from more detailed tables within the individual reports generated for this study.

Transformation statement %	View of industry vs in-house success level	Short-term	Life	Social security			SMME (web survey)
				Retire-ment funding	Health-care admin	Funeral	
Skills shortage is a serious concern in the increasingly complex and interrelated financial services environment	Perception of the industry	57		75	70	62	69
Skills shortage is a serious concern for our organisation in an increasingly complex and interrelated financial services environment	In-house experience	26		37	44	27	
Employers must create a transformation policy to promote employment equity.	Perception of the industry		60	60	67	58	
We create opportunities for all employees to grow within our organisation	In-house experience		63	40	48	38	
There is a skills shortage in certain areas within the industry	Perception of the industry		51		52	68	77
We face a skills shortage in certain areas	In-house experience		66		44	23	
African representation at the professional level needs to improve	Perception of the industry	63	53				62
We have good African representation at the professional level	In-house experience	17	64				
Industry members need to cooperate to develop skills and eliminate discrimination.	Perception of the industry	79					69
We work with other industry players to develop skills and eliminate discrimination	In-house experience	23					
Companies increasingly need people with a wide range of skills	Perception of the industry	66					65
We are looking for people with a wide range of skills	In-house experience	37					
Young Black employees are prone to job hopping	Perception of the industry			57		62	
We have been successful in curbing job hopping	In-house experience			33		19	

"N" indicates the number of employers interviewed within each sector. The data shows the percentage of respondents who gave a 9 or 10 point rating to the questions.

The purpose of this table was to evaluate the level of divergence between what employer perceptions are of skills shortage within the industry versus their practical in house experience when recruiting needed skills.

Skills needed

Specialist skills. There is a growing demand within the corporate environment for high-level professionals. In 2012 the most sought-after executive professional positions were specialist underwriters and actuaries, followed by capital management and risk management professionals. Non-executive directors and audit committee members were also in high demand.

- Larger companies reported a shortage of actuarial skills, sales & distribution, and middle and senior management
- Medium-sized companies reported a shortage of sales & distribution, IT skills and CRM managers
- Small companies reported a shortage of actuarial and IT skills

Attracting and retaining skills a challenge. The number of qualified high-level professionals is rising in some professions, such as actuaries. But they are not necessarily feeding into the insurance industry. Many individuals with needed skills are choosing rather to join consultancy companies or non-insurance industries.

Risk modelling need rising. The frequency of natural and manmade catastrophic events has been increasing over the past 20 years. Managing these types of risks will not only demand more sophisticated risk modelling and innovation, but highly specialised skills.

Range of other skills needed. Engineers, already in short supply within their own industry sector, are among the scarce skills within the insurance industry. Other skills listed by respondents include actuarial, mathematics, economics, general underwriting, death and loss adjusters, and technical accounting for insurance and reinsurers.

Retention of actuarial skills. The number of actuaries qualifying has risen, but this skill set is not necessarily feeding into the insurance industry. Needed skills are moving into consultancy companies or non-insurance industries.

Corporate solutions to the skills shortage

Early intervention is needed. Respondents believe the industry must find ways to engage directly in the education process from school level, to improve science and mathematics outcomes.

Offer internships. Bringing graduates into companies on internships will improve the supply of suitable Black candidates for the industry, and help overcome the shortage of Black actuarial, reinsurance, technical underwriting, operations and IT skills.

Segment the training strategy. Some study participants believe employers should focus on developing employees' strengths. For example, when candidates' personal strengths, interests and skills particularly equip them for development as managers, technicians or customer relationship specialists, focusing on developing those strengths will optimise their progress along the fast track.

Facilitate learning by doing. Job shadowing and coaching aid in practical skills development. Learners who enter the workplace with theoretical knowledge need real-life practise to bridge the gap between theory and experience.

Improve public perception of industry. Education and training alone are of limited value as long as school-leavers don't see the insurance profession as a career option. Respondents believe more needs to be done to make the industry more attractive.

Encourage older employees to qualify. It is difficult for an employee in their 40s, who lacks the academic grounding that is expected today, to qualify and become FAIS-compliant. Respondents believe more needs to be done to accommodate older employees with the right skill set to obtain the desired qualifications.

Offer a well-defined career path. Employers are recognising that their most talented workers are people who need to be challenged and kept interested. In the rapidly evolving business environment, changes in direction are increasingly the norm during a lifelong career. Approaches to this include:

- Working with staff to create and maintain a career development plan

- Actively encouraging staff to gain additional qualifications, including offering financial incentives and support
- Identifying opportunities emerging within the company, and guiding employees' study plans so that they will qualify for those opportunities
- Providing ongoing in-house training and mentoring
- Engaging in leadership programmes

Plan human resources development. Identifying potential candidates for promotion needs to go hand-in-hand with defining a career pathway, supporting them through internships or scholarships, and ongoing mentoring within an organisation.

Proactive strategy needed to retain key employees. Companies need to identify employees who contribute most to the bottom line and develop programmes that meet their needs. This process includes providing compensation programmes offering the kind of rewards that are important to each employee, and re-evaluating the overall culture of the organisation.

Collaboration with the community

Reap what you sow into schools. A 2012 survey of youth, education providers and employers in nine countries[13]found that employers who reach out regularly to education providers and youth, offering them time, skills and money, are most successful in hiring the talent they need.

Working together to achieve solutions. Public-private partnerships have become more common. These typically involve using public money to purchase training services from the private sector in order to expand a school's skills development capacity.

Engage at local level. Large and small employers from the formal and informal sector can also get involved in implementing skill development programmes, for instance through:

- Involvement in the governance of institutions for instructor training and upskilling
- Helping develop training programmes and learning materials
- Providing access to specialised equipment
- Offering on-the-job training and work experience to students
- Helping provide vocational guidance and information
- Supporting quality assurance of the teaching and assessment of learners

Community upliftment a path to top learners. The large life companies are involved in projects to uplift rural and under-privileged communities. Top learners who exit these programmes are offered jobs and bursaries to further their studies. For many, this is an introduction to the career potential of the life insurance sector.

In-kind support. In addition to donating cash, the private sector can add value in-kind to a workforce development partnership.

- Participation on alliance steering committee, secretariat or other intermediary
- Internships, apprenticeships and learnerships
- Mentoring, job shadowing and career advice
- Donations of technology and equipment
- Providing classroom and meeting space
- Supporting donated staff time and expertise
- Access to business connections and networks
- Supporting entrepreneurs through:
  - Competitions focused on innovations
  - Helping develop business plans
  - Providing loan guarantees

[13]Mourshed et al McKinsey Centre for Government 2012

- Supporting job skills needs assessment or market assessment, including training NGOs or others to undertake such work
- Designing and/or implementing a social marketing campaign to reach targeted groups

Early intervention in schools is essential. All the large life insurers interviewed identified a need for intervention from a very young age in the areas of maths and science. All these organisations have set up foundations that work with disadvantaged communities to support initiatives that build excellence, starting at pre-primary and continuing to secondary education. The goal is to increase the number of learners passing maths and science, progressing through tertiary education and, ultimately, becoming part of a skilled workforce. Interventions at schools focus primarily on:

- Improving the quality of learning and teaching of mathematics and science
- Developing school leadership and management
- Providing maths and science teaching resources

In-house training and mentoring

In-house training has advantages. Most respondents favour growing needed skill sets using internal resources, for several reasons.

- On-the-job training that enhances an employee's skills and prepares them for the next promotion ensures more natural, lasting knowledge transfer than classroom training.
- Internal training and development is based on the organization's culture. It uses real life examples that participants encounter at work, and identifies the skills and knowledge participants need.
- It ensures natural, lasting knowledge transfer for the trainee, while at the same time the employee providing the training cements their own knowledge.
- It builds the trainee's knowledge of the organisation's culture.
- It typically uses real examples, problems and challenges that participants encounter at work, and in the process identifies the exact skills and knowledge participants need to succeed in their specific jobs.
- It exposes learners to different scenarios and career opportunities within the organisation.

Productivity paradox. For people to perform at their optimal level, they need to follow a structured learning process. But the most urgent need of business is output, which puts pressure on investing more in production and less on getting employees to a level where they can consistently perform as required. This paradox can undermine employee mentoring and coaching programmes, because these don't contribute directly to the bottom line.

E-learning offers value. Younger employees tend to be competent in the use of technology, and e-learning programmes are a proven way to develop skills such as leadership, time management, and communications, team work and client care. Effective e-learning is tailored to users' needs, and focuses on the learning experience rather than on the technology.

Transference of skills. Many older employees are leaving the short-term sector on retirement without transferring their skills and knowledge to suitable candidates within the organisation. Some resist transference as they plan to return to the industry as consultants. Employers need to find ways to incentivise these employees to mentor younger employees before they leave the organisations.

Shadowing, observation, mentoring. Trainees should start by shadowing their coach, with no responsibilities except to observe and link what they have been taught during preliminary training to the real process. Next, they should perform the tasks under direct supervision of the coach, who should be relieved of their normal work or performance targets for this period. As the trainee's skills progress, they should move into a mentoring relationship.

Job Creation Opportunities

Our research indicates that job creation initiatives do not have a high priority within the financial services industry itself. Rather, the concern of the insurance industry is the development and nurturing of skills to fill jobs that already exist.

Not job creation but skills creation. The term “job creation” typically refers to the need to create work opportunities for unemployed people. In the case of the financial services industry, many jobs already exist and others continue to develop organically, in response to social change and the evolutionary effect of technology. Members of the insurance industry are focused largely on the need to develop employees with skills and experience to function effectively.

New and evolving job opportunities. Several areas within the insurance industry are subject to a particularly high rate of change, and companies wishing to remain competitive must be alert to trends and quick to establish and fill job positions as new opportunities emerge.

IT specialists

Rapidly evolving field. The IT field is probably the most fast-changing. It is dominated by white male professionals who are driven to keep abreast of technology in order not to become obsolete themselves. Most insurance companies have core systems that use specific programming languages and offer little scope for change, development or growth on the part of the IT engineer. At the same time, IT professionals are in high demand in all fields of business and industry, and can take their pick of stimulating, highly paid jobs.

Geeks need broader perspective. It is no longer enough for IT people to have a narrow knowledge of programming languages and systems. They also need to develop their underlying knowledge of how investments are structured, regulations, business processes and products.

Opportunities arising from big data. At present there is a global shortage of people with the mix of IT and a diverse range of other skills to manage big data. But as the technology becomes more sophisticated and the data more accessible, big data will become an increasingly important part of all aspects of business, in particular:

- Loss control and risk management
- Strategic decision-making
- Artificial intelligence

Compliance officers

Complex and demanding area. Compliance is not a new field, but it is becoming increasingly complex due to the growing complexity of the regulatory environment. A skilled compliance officer will have legal and/or accounting experience, a broad-based knowledge of their company's industry segment, and an understanding of the big financial services industry picture. They also need personal skills, such as an ability to work well with regulatory bodies, management and trustees. Their role is key to most companies within Inseta's sphere of influence.

Product development and marketing specialists

Shifting balance of power. One of the most important changes facing the insurance industry is the role of social media in informing and influencing customers. Today's customers share information across huge networks, and regard basic insurance products as a commodity. Young entrants into the industry tend to bring an affinity for social media and related technology with them.

Shake-up in traditional business patterns. The primary driver of success in this environment is the customer's experience and convenience. An increasingly mobile customer, armed with online and mobile technology, is demanding simplicity, transparency and speed, and is more inclined to bypass the broker and work directly with insurance carriers.

Intermediaries

Opportunities within the emerging market. One area offering clear potential for conventional job creation is in the development of intermediaries to serve the less sophisticated low income market. While members of this market are increasingly inclined to buy direct online, some members of the industry believe it would benefit them to have the advice of a skilled, experienced intermediary. Developing an intermediary base for this market – including developing their business management skills – is a potential growth area.

Industry Expectations of Inseta

Understanding the key challenges facing the industry is central to developing and implementing a strong business strategy. Inseta's service offering to the industry must take these challenges into account in order to remain relevant.

Industry members unaware of important Inseta offering. A significant finding of this study is that, while insurers make extensive use of learnerships offered by Inseta, they are largely unaware of the funding available to offer internships to graduates with management potential or professional skills.

Engage effectively with other industry bodies

Align the diverse industries within the insurance segment. Our analysis of previous research uncovered several areas where work is needed to align the various insurance sector players and resources, and get them working together to meet the need for quality human resources at all levels. One area where this is of significance is in training within call centres.

Align the professional bodies serving and overseeing the financial services sector. Respondents perceive a disconnect between Inseta, other industry associations and the FSB. They believe these bodies need to work together more effectively.

Develop national strategy to tackle skills shortage

Support government efforts. Many countries are implementing programmes for businesses to play a role in the strategic development, governance and design of their national skills development system. The G20 strategy paper on lifelong learning emphasized employers' contributions to policy development with regard to:

- Providing training
- Matching education and training to labour market needs
- Encouraging and supporting lifelong learning
- Maintaining the relevance of education and training through continuous evaluation and system improvements

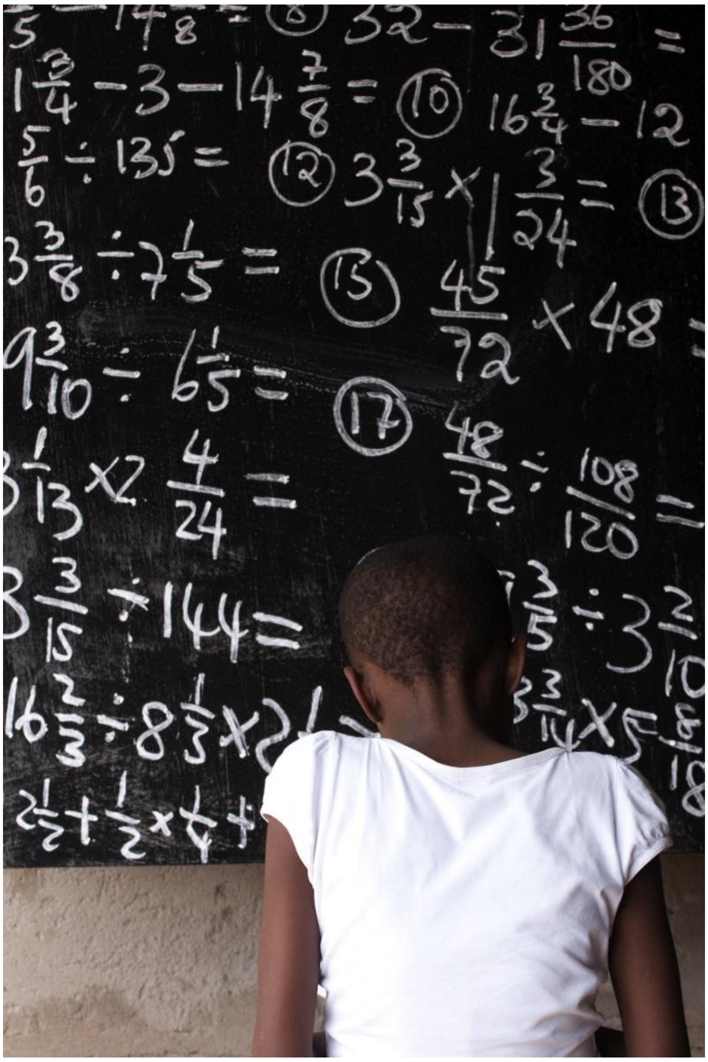
Keep accreditations relevant. Government initiatives include national qualification frameworks based on occupational standards and competence-based curricula, and the creation of sector skills councils. For these initiatives to succeed, employer involvement is critical.

Encourage corporate involvement. Companies need to work together to develop strategies that grow the skill base the entire industry needs, and so achieve industry-wide transformation. This will eliminate the need for poaching, will help balance employers' and employees' expectations, and will align salary scales and rate of promotion with comparable norms outside the insurance industry

High cost of training. School leavers generally require substantial, costly input to acclimate them to a work environment. Some respondents believe Inseta should be more willing to accredit in-house training programmes, to allow candidates to achieve a recognised qualification that they can take with them if they move to another company. Others believe the need is for greater conformity and less customising of already-accredited Inseta training programmes that are used in-house.

Help transform the education system

Promote desirable qualifications among matriculants. Activities by Inseta, life assurers and industry representative organisations to promote the insurance sector must go hand-in-hand with programmes to improve the number of candidates passing matric with the required level of skill in maths and science.



Education costs more than governments can afford. As more young people complete their education, the number entering the workforce is rising while the demand for skilled workers in an increasingly globalised world is growing. The cost to a government of providing skills development for all who need it are prohibitive, but research indicates that donor contributions are slowing down.

Reinstate insurance college. Some respondents would like to see the reinstatement of an insurance college. They believe this would improve the industry's professional image and attract a suitable candidates.

Support skills development

Improving skills in the informal sector. According to the 2012 African Economic Outlook report, the informal and rural sectors will play an important role for young people seeking work. Areas that need attention are:

- Make education systems more comprehensive and link them to the labour market
- Recognise informal apprenticeship training
- Offer guidance on jobs and the labour market at all stages of the education system
- Government policies must nurture entrepreneurial talent

Target the vulnerable. Skills development programmes should engage with the informal sector and vulnerable employees, to help them become more productive.

Make training pay for itself. Ideally, training programmes for disadvantaged groups include income-earning opportunities, such as apprenticeships, with formal recognition of the competencies gained.

Successful funding approaches. Studies have identified several types of initiatives to fund education and skills development that work even in an impoverished setting.

- Global inter-sectoral partnering – a cooperative effort between global corporations, international institutions, government entities and civil society organisations that stimulates the flow of private funding into developing countries
- Skills development programmes moving from international and national companies down through their supply chains

- The establishment of sectoral alliances
- Earn-and-learn programmes
- Soft skills development
- Voucher schemes
- The establishment of national training funds
- Application of low-cost technology

Encourage employees to overcome tough qualification requirements. There is a high dropout rate, and the industry needs to find ways to incentivise employees to complete their qualifications. As part of this process, Inseta is engaged in a joint venture with one of the larger life insurers to develop a segmented approach to a basic qualification. Candidates will receive a qualification for each segment completed of a larger BCom degree, enabling them to work and progress in their career while still studying.

Role of TVET colleges

TVET colleges offer a solution. The *White Paper for Post-School Education and Training*, launched in January 2014, positions Technical & Vocational Education & Training (TVET, formerly FET) colleges as the institutions where scarce and critical skills urgently needed for South Africa's economic development can be developed.

Need bridging programmes. All respondents perceive a need to set up a curriculum within the TVET college environment that provides bridging programmes for the insurance industry. This will create a pool of qualified learners for recruiters. Inseta's involvement in this process is essential, but the work needs to be done in collaboration with the industry players.

Vision for TVET is for efficient integration. The vision of the White Paper on the new TVET colleges is a single, integrated post-school system. The hope now is that Inseta and the insurance industry can design a programme focusing on basic business skills to run through the colleges, rather than every employer having to provide this training in-house. The intended outcome will be learners and entry level staff who are ready to go to work while they continue their more advanced training.

TVET can help make industry more attractive. Respondents believe the TVET colleges should be used to expose learners to the widest possible scope of career opportunities within the industry. In part, this should include directly involving different types of insurance-related companies. They believe an awareness of wide-ranging potential will help encourage learners to stay with the industry.

Professional qualifications

Regulation is a concern. A huge and potentially life-threatening challenge facing insurance companies is the complexity and cost of regulation. The challenge to Inseta and other industry leaders is to find ways to make this simpler for smaller operators, by finding creative solutions, training and support.

Good intentions, not such good results. Respondents and industry observers acknowledge the benefits of tough regulation, and perceive the high professional standards set within the sector as a positive thing in the long-term. However, they perceive the roll-out of programmes like FAIS as less than satisfactory. They also say skilled, experienced, effective people are being driven out of the industry because they are unable to cope with exam conditions, even though they fully understand the subject matter.

Legislate professional designations. The Insurance Institute of South Africa (IISA) and the Financial Planning institute of Southern Africa (FPI) offer various professional qualifications that could help create a professional pathway similar to other professions such as medicine, engineering and accountancy.

Establish industry accord to tackle poaching

Companies and representative bodies should work together. Respondents called for greater cooperation between employers and Inseta, IISA, FSB and other representative bodies to develop a pro-training, anti-poaching accord. While these organisations do interact, the perception within the industry is that they operate largely in isolation.

Industry members must protect each other's interests. Respondents concur that, given the limited pool of qualified candidates available for a wide range of posts, industry leaders need to sign an accord to encourage skills development and adopt a non-poaching philosophy. This would force trainees to lock in more firmly with an employer, ensuring that employers receive a reasonable return on the time and funds they invest in training and fast-tracking suitable candidates.

Accord would expand effectiveness of in-house training. Larger companies can expose trainees to many different scenarios within the organisation for maximum job exposure, but smaller and medium-sized companies don't have the variety of activities in-house. With an industry accord, however, companies could work together to develop an exchange or visitor system that would expose their trainees to a wider range of skills and experiences.

Support intermediaries

Independent consultants may need support. Such specialists as insurance brokers, reinsurance brokers and loss adjusters often work as independent consultants, and may need non-technical training such as business management, IT and communication skills, and marketing.

Consultants could provide high-cost skills. South African insurance companies prefer to keep their more sensitive roles in-house, but in the current market certain skill sets may not be available to smaller organisations. There may be benefit in exploring the potential for teams of independent consultants to provide certain key skills to multiple client companies.

Two levels of intermediary. In South Africa there are two levels of insurance intermediary:

- Sophisticated teams and individuals who usually use modern technology and can benefit from economies of scale
- Smaller, less sophisticated members of the emerging sector, generally less endowed with technology

Regulations put pressure on intermediaries. The plethora of regulations has significant implications for intermediaries' business. Requirements for intermediaries to be "Fit and Proper" can be challenging for brokers serving the lower income market. Smaller operators face challenges, from a regulatory perspective, regarding the advice they are giving.

Industry's role in supporting broker education. Respondents perceive a need to create an online learning platform to enable brokers to achieve the required qualifications and knowledge and to be able to operate effectively and responsibly. Two potential avenues of support for this would be the FPI and the Black Broker's Social Network

Shortage of brokers increasing. Many experienced brokers are leaving the industry because they feel their extra legal responsibilities take them away from their core business as brokers. At the same time, potential candidates are not entering the industry because of their perception that there are prohibitive barriers to entry.

Change the image of the insurance industry

Industry must compete effectively. Transformation difficulties appear to relate mostly to the challenge of finding Black candidates with the desire and the skills to enter the insurance industry. Insurance is generally not perceived as a desirable career choice, in part because of the tradition of commission-based pay, and in part because it is not perceived as “sexy” compared with other opportunities.

Industry needs higher profile as career option for matriculants and graduates. Many job seekers land in the insurance industry almost by accident, without understanding what it offers in terms of career potential. While the life insurance industry has a more positive image than the short-term insurance industry, it is not generally well understood.

Improve insurance image. To attract quality young talent, the insurance sector must be perceived as an important, innovative and interesting workplace. In part, the solution to the skills shortfall is to market financial services as a dynamic, challenging growth area with alluring job prospects and clear career paths.

Complacent attitude toward image. Respondents believe the industry has become complacent about managing its market image, in part because it has been more focused on increased regulatory and legislative requirements and the effects of climate change and economic changes. Despite intensive product advertising, the industry has not addressed the stigma attached to the industry by disappointed customers.

In conclusion

In its original brief to LDA, Inseta posed five questions. During the course of this research we found that the answers to these questions often overlapped, while at the same time our findings gave rise to fresh questions. Ultimately, however, the results of this study hold the keys to Inseta's future success in meeting its mandate.

1. Determine the status of transformation in the insurance industry

The industry is making progress. Notwithstanding criticism from certain quarters, the insurance industry is making slow but steady progress in addressing transformation. The biggest challenge it faces is in finding and developing suitably qualified, committed young black men and women to move into middle and senior management positions. There is also a shortage of professionally skilled people of all racial groups and genders.

2. Determine what skills are available and identify skills shortages

Skills available to meet most needs. Most of the respondents to this study have little difficulty filling positions that require general skills, such as administration, marketing and sales. The shortages are in qualified, experienced middle and senior management, and in certain specialised skills, in particular IT, investment management, risk management and compliance. There is a great need for the older generation of managers and professionals to mentor young, up-and-coming employees.

3. Highlight areas that offer job opportunities

New generation's strengths match opportunities. Apart from the identified areas where there is a talent shortfall, specifically professional skills and management, changes in technology are creating some interesting opportunities. As a new generation of technology-savvy workers enters the industry, they are naturally equipped to tackle the new marketing opportunities offered by social media.

4. Identify gaps between existing and needed levels of qualification and skill

Gaps exist at different levels. School leavers enter the job market lacking needed math skills and with limited knowledge of business etiquette, time management, teamwork, or other core workforce skills. Learnerships exist to fill the gap, but only a small percentage of learners is channelled on into the lower level insurance industry workforce. Graduates also enter the job market with inflated opinions of their worth, and limited ability to add value. Throughout all sectors of the industry there are areas of need, especially within some professional fields and in middle and senior management.

5. Define industry expectations regarding how to address these gaps

Industry training resources need to be used more effectively. The insurance industry already uses learnerships for school leavers, mentoring of graduates, and ongoing training to enhance employees' skills and knowledge. However many learners go through the initial upskilling process only to find there is no position available for them, while many management and professional employees switch jobs before they repay their employer's investment in their training. Industry members, led by organisations like Inseta, need to work together more effectively to combine their resources, to develop and channel skills where they are most needed.