Inseta Research Report 2014/15

Part 3: Overview of Transformation and Skills Availability in the South African Life Insurance Sector

INSURANCE SECTOR EDUCATION AND TRAINING AUTHORITY

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Executive Summary

This is the third in a series of reports arising from a comprehensive study of the insurance sector. The first phase defined the context of the research. The second report focused on the South African short-term insurance sector. This report focuses on the life insurance industry.

Research sample

The findings in this report are based on data drawn from:

- 17 in-depth interviews with human resources directors from leading industry brokers, life insurers and reinsurers
- 45 structured telephonic interviews with levy and non-levy paying Inseta members

Challenges facing the life sector

As the industry worldwide moves increasingly towards digitally interactive transactions across all electronic media, which is preferred by the younger generation, it requires a new set of skills within the insurance industry

Regulations are forcing industry players to become much more customer focussed. Regulations are making them much more diligent in doing the right thing.

The need for getting the marketing mix right when looking at your various market segments. The traditional market versus the new emerging market

Economic trends. Challenges such as sluggish economic growth, high unemployment and low foreign investment continue to put South Africa's insurance industry under pressure, although in recent years strong equity performance and net positive client cash flow has offset this.

Changing shape of the insurance market.

Costs and efficiencies are the critical levers of performance in the life insurance industry today.

South Africa's medium and higher-income market has high penetration of life insurance. 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.

Ongoing changes in industry regulations and taxes will materially influence which products are sold, and how they are sold

Understanding the key challenges facing the industry is central to evolving the strategic plan and placing good tactical plans in place to drive the overall outcomes of sound life insurance business in the next five years.

Perceptions of transformation

As with the short term insurance industry, transformation difficulties appear to relate mostly to the challenge of finding Black candidates with the required qualifications and the desire to embark on a career in the life insurance market in either specialist or management roles.

Meaningful interventions which map out potential career pathways and lock potential candidates in so that in the long term the company will benefit from the cost of their training and apprenticeship seem to be a core focus of most of the skills development programme's

Medium-sized companies with 50-100 employees face similar challenges to the larger life assurers with regard to transformation and finding suitable middle management and skill sets to fill vacant positions

As older employees retire, skills and expertise are draining from the industry. Some employers are experiencing resistance to transference from experienced employees. Mentorship programmes are becoming a major focus point in most companies.

Internal company training programmes are expensive and time-consuming, and trained candidates are very likely to be poached by competitors at the end of the process. There needs to be an industry accord to limit the poaching of suitable candidates from competitors and focus on providing a qualified pool of suitable candidates to draw from

Industry players suggest employers should use internships to rotate new and potential employees through as many departments as possible. This would reveal their strengths and interests, making it possible to establish them on a rewarding career path within the organisation

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

Addressing the skills shortage

There is a greater need for intervention from a very young age in the areas of maths and science. 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.

A need to set up a curriculum within the current Technical & Vocational Education & Training (TVET, formerly FET) college environment that provides bridging programmes for the industry. This will create a pool of qualified learners for recruiters.

Life insurers make extensive usage of learnerships offered by Inseta, however employers are being encouraged to make greater use of funding available for internships to draw in graduates with potential for management positions

In-house training, and in particular mentoring, are seen as key approaches to up skilling staff. Most respondents spoke about the crucial need for transference of skills from older experienced employees to the newer employees.

Companies need to be more proactive in retaining key employees. Identify employees who contribute most to the bottom line and develop programmes that meet their needs.

Respondents wish to see greater cooperation between employers and Inseta, ASISA, FSB and other representative bodies, to develop a pro-training, anti-poaching accord..

Key drivers predicted for next five years

Increasing regulation and the rising cost of compliance. The role of the compliance officer has always been important, but it is now essential to the survival of any insurance company. Analysts say compliance with insurance sector legislation could prove so complex and costly that it forces many smaller insurers out of the market.

Local industry characterised by strong competition for the emerging market. More than one million potential clients made up of about 2,6-million self-employed Black South Africans, of which 25% are in LSM 6 or higher. This suggests that the emerging market may be more than one million.

Tapping into the offshore market where Respondents identified Africa as the most desired destination for geographic expansion, followed to a much lesser extent by Asia. The top three concerns for South African 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.

Targeting new mediums and products to fit changing consumer demographics. Smart phones and tablets will present the most significant opportunities for innovation in consumer digital technology over the next five years. Most important applications of the new technologies will centre on direct insurance and online distribution, real-time data mining and new actuarial systems.

Driving innovative, faster time-to-market product development to enable higher sales volume Changing B-BBEE scorecard is perceived as a stick to beat nonconforming companies and to do away with fronting. Respondents question whether the changes to the existing score card will in fact speed up the transformation. Concerns that, instead of developing and hiring people with the skills and experience to do the work, some employers may feel pressured to hire under-qualified Black candidates in order to meet the required score.

Research Sample

This study had three components.

- Face-to-face interviews with large employers (i.e, companies with xxx or more permanent employees), comprising brokers, insurers and reinsurers based in the Western Cape and Gauteng
- Telephonic interviews with small and medium employers drawn from lists provided by Inseta
- Web-based surveys with small and medium employers: these were not conducted since we accessed the entire available respondent pool during the course of the telephonic interviews

Large employers

Suggested sample n=19 interviews with human resources directors and CEOs,

- 3 industry brokers
- 11 large life insurers
- 3 reinsurers
- 3 representative organisations

Respondents were drawn from lists of employers within the industry supplied by Inseta and the Association for Savings and Investment SA (ASISA).

Regional demographics: Face-to-face interviews

Completed interviews	
Western Cape	3 large life insurers 1 reinsurance company
Gauteng	6 large life insurers 3 reinsurance companies 3 large brokerage companies 3 direct life insurance companies
Refused interview	
Gauteng	2 large life insurers 1 large direct life insurer

Medium and small employers

Suggested sample n=70 interviews with the person responsible for skills development or interaction with Inseta within the company

Respondents for telephonic interviews were drawn from a list of 172 Inseta members, both levy-paying and non-levy-paying, listed under life insurance.

At the time of publication of this interim report we have completed 45 telephonic interviews. Upon starting this study we found:

- 58 could not be contacted due to inaccurate data (wrong numbers, numbers that are no longer operating, and no online record of the company)
- 35 refused to participate
- Eight were not available despite repeated efforts to contact them
- Six were auditing companies that are not involved in the life insurance industry

A number of listed members used facilitators to complete the required "Work Skills Plan" questionnaire for Inseta and could not participate in the interview due to lack of knowledge about skills needs, availability, etc. Our 45 telephonic respondents include five such facilitator companies.

We compared Inseta's member list with a list provided by the Financial Services Board (FSB), and all life insurance industry players on the FSB list are listed members of Inseta.

Based on this experience, we believe the actual number of small and medium companies that are listed under life insurance on the Inseta list is closer to 108.

No web based surveys have as yet been completed. These will be done concurrently with Pensions and Unit Trusts and included in the final report.

Demographics: telephonic interviews (n=45)

Location of offices[1]	
Gauteng	33,3
KwaZulu-Natal	22,2
Western Cape	26,7
Eastern Cape	15,6
Mpumalanga	4,4
Free State	6,7
Limpopo	8,9
North West	4,4
Northern Cape	8,9
Outside South Africa	4,4
Type of company[2]	
Individual proprietorship (including close corporations)	4,4
Limited partnership	4,4
Private limited company	33,3
Public limited company	6,7
Cooperative	-
Other [3]	48,9
Areas of business[4]	
Short-term personal lines	31,1
Short-term commercial lines	13,3
Life assurance	40
Healthcare insurance	11,1
Employee benefits / pensions	22,2
Medical scheme business	15,6
Other [5]	57,8

[1] Multiple mentions, shown as a percentage.
[2] Data shown as a percentage
[3] "Other" comprises brokers / financial planners, Department of Trade & Industry, Central Business Academy, investment and risk analysts, Compliance Institute of SA (CISA)
[4] Multiple mentions, shown as a percentage.
[5] Investment advice, asset management, compliance, financial planning, training and development, pension and provident funds

Challenges Facing the Life Sector

Changes in the insurance market range from fluctuations in the local and global economy, ongoing regulatory pressures and shifting customer needs to evolving products, technology and business practises. Each change in the market environment presents insurers with a fresh challenge to adapt by developing the skills and business models they need to survive.

Planning must be based on solid insight. Understanding the key challenges facing the industry is central to developing and implementing a strong business strategy. For this reason Inseta's service offering to the industry must take these challenges into account in order to remain relevant.

Effects of challenges on industry. In this section we identify the challenges facing the life insurance sector, and, if relevant, indicate briefly how they affect insurers' distribution models and skills needs. We will discuss in greater depth how skills development will enable the industry to meet these challenges in the section "Addressing the Skills Shortage", below.

> *"Many insurance companies are already striving to move ahead of the curve to become more cost-effective, agile and efficient. The journey however takes time, and needs careful planning and a clear roadmap to show the business value delivered by each step."*
> *Dimension Data*[6]

Economic trends

Challenging market environment features significant risks and rewards. The greatest risks to the future prospects of the South African life insurance sector are sluggish economic growth (less than 2% in 2013), interest rate hikes and high unemployment levels, combined with a volatile labour environment.[7] Other factors driving down market prospects include high personal debt and rising government debt. On the other hand the performance of the Johannesburg Stock Exchange in recent years has kept insurers buoyant.[8]

Equities have underpinned assets. The strong equity market in 2013 drove insurance companies' aggregate assets up 20% compared with the previous year. Most of the asset growth represents unrealised investment gains, but it also includes strong net positive client cash flows. Market returns slackened in 2014, however, and are expected to drop off further this year.

Poor foreign investment could drive up lapse rate. Low levels of investment in the country, exacerbated by South African's downgrading by the three leading investment rating agencies (Standard & Poor, Moody's and Fitch), could constrain household spending. In turn, this could lead to increased insurance policy lapse rates.

Industry confidence weakened. Confidence within the life insurance industry used to be the strongest in the financial services sector, but this has now been overtaken by the asset management industry.

[6] Unlocking the Power of Information in Insurance Businesses Dimension Data White Paper
[7] Standard & Poor's (S&P) April 2014
[8] KPMG The South African Insurance Industry Survey 2014

Changing shape of the insurance market

Varied set of performance drivers. Costs and efficiencies are the critical levers of performance in the life insurance industry today.[9] These include:

- Business agility: remaining competitive by achieving sustainable, profitable growth and driving down costs
- Operational efficiencies: lower investment returns demands focus on achieving profitability by improving process efficiencies and reducing core operational costs
- Transforming and streamlining policy administration
- Ensuring regulatory and legislation compliance: cost of functioning within an industry that is comprehensively and heavily regulated

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 provision of social security, and the presence of a well-established, sophisticated life insurance sector. 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.

"By 2020/30 the insurance market client will be predominantly black and will be delivering most of the new business value. When developing products for the lower income market we work very closely with the reinsurer and make use of high level actuarial skills."
Respondent, Life Insurer

Rate of savings has increased. ASISA reported a 24% growth in single premium income during 2013, while new recurring premiums increased by 13%. A sizeable portion of single premium investment growth comes from investment-linked living annuities (i.e. annuities where the draw-down rate is at the discretion of the policyholder without guarantees offered by the insurer).[10]

Strong new business margins may give rise to criticism. Most insurers either maintained or improved their new business margins in 2014 compared with 2013, due in part to the growing exposure to the lower-income market. Acquisition costs increased in line with new business volumes. General marketing and administration costs in 2013 increased by 13%, well above the CPI of 5,8%, which continues the trend of life office expenses outpacing inflation since 2010.

Continuing effort to limit lapses. The industry's goal is to improve persistency (not taken up and lapses), especially in the entry level market. More insurers are adopting a client-centred approach and focusing on better quality business at the point of sale. This approach appears to improve persistency, but cannot altogether overcome the affordability challenges experienced by customers at this level.

Regulatory costs and market returns continue to generate uncertainty. Ongoing changes in industry regulations and taxes will materially influence which products are sold, and how they are sold. At the same time, global pressures on the South African economy will affect local investment markets. For this reason, industry executives must be cautious when talking to investors about the short to medium-term prospects of the South African insurance industry. That said, the industry's financial results of the past year again shows

[9] Unlocking the Power of Information in Insurance Businesses Dimension Data White Paper
[10] KPMG The South African Insurance Industry Survey 2014

that it is able to respond to change and tough trading conditions whilst still producing quality financial results.

> *"There have been a lot of regulatory changes in South Africa in the past five years. We have been playing catch up to the international market. Now South Africa has a strong regulatory environment. Regulation levels the playing field. It makes sure every business is operating as it should."*
> *Respondent, FSB*

Changing customer expectations

More customer-centred approach brings new challenges. 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 skillset and systems to suit the market, while also educating customers. For example:

- Legislation, underpinned by the requirement to "treat customers fairly", is driving changes in relationships between insurers, intermediaries, administrators and the customer,
- Ongoing political and macroeconomic instability affects people's willingness and ability to spend
- High levels of consumer debt limit people's ability to save and invest
- Youth unemployment, recently estimated at 36,1% by Statistics SA, means that people in survival mode cannot focus on saving or investing for the long term
- An increasingly technology-savvy market demands real-time access to up-to-date information and customer support that makes the insurer accessible, for example through call centres, interactive websites and social media
- Combating policy churn involves managing the cost and affordability of insurance products, and potentially the customer's full portfolio, in a tough market. At the same time, customers are demanding more flexible, customisable products
- Changing customer demographics create a need for changes in distribution channels, which may be difficult to incorporate into existing systems created for a more traditional market

Intermediary role continuing to shrink, while direct marketing expands. Most of the large 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.

Need to increase premium volumes in a tough market. The challenge to insurers is to improve customer satisfaction and quality interaction, to reduce churn and increase new sales volumes. But in the current market, customers with less spending capacity are more likely to choose to reduce their coverage, switch to a competitor's cheaper policy, or not insure at all.

Focus on products may not be the most direct route to the customer's heart. Product needs, distribution systems and developments in digital technology will continue to shape the relationship between insurers and their customers. As insurers seek to become more customer-centred, their focus is on developing products that meet customer needs and expectations. But this approach comes with built-in challenges.

- Some products may have the potential to fulfil customers' wishes but be too costly to provide in the present regulatory environment.

- Other products may have the potential to be popular, but considered by regulators to be potentially detrimental to customers.
- Others may be popular with customers but difficult to sustain in certain economic climates.

Modern technology. Mobile technology will have a major impact on the industry. All participants perceive smartphones and tablets as the innovations that will have the greatest impact on the industry, although slow broadband is seen as a limiting factor in applying mobile technology to sales, claims and information processing. All respondents mentioned the marketing potential of social media.

Big data key to meaningful connection with the customer. Access to and the ability to analyse and use big data has become a business imperative. In addition to providing solutions to insurance companies' long-standing business challenges, it can transform processes, organisations and entire industries.

> *"Consumers are becoming more aware of the value of the data they share with companies and are increasingly only interacting when they choose to deal with companies."*
> *Paul Matthews, CEO UK and Europe at Standard Life*

Business and operational challenges

Key issues are growth and regulation. Industry observers agree that the key questions facing the industry at present are:

- What role can insurers most usefully play in the mature economies of the West and the fast-growing economies of the East and Africa?
- Are political and regulatory expectations within the local market reasonable?

> *"The regulatory space and the technology space are the biggest issues for us as an organisation as we look forward to 2020. This is the same challenge here in South Africa as well as in Asia and other parts of Africa where we also do business."*
> *Respondent, Large Life Insurer*

Change at all levels. As the life insurance industry adapts to the environment encapsulated by those questions, it is evolving a broad spectrum of business models that affect operations at all levels. In this evolving environment, insurers face a number of key business and operational challenges. In almost every case, inadequate skills and poorly developed systems are at the heart of the challenge.

> *"At a macro level in financial services, we are still bearing the brunt of the past in the financial services industry. Black people never penetrated the market due to lack of skills in math and physical sciences. There is a huge gap in maths and science in schools and the number of qualified teachers who can offer these subjects. Not so much in previous Model C schools, but in rural schools if they offer the subjects, teachers are ill-equipped, and in many of the impoverished areas, maths and science are not even offered."*
> *Respondent, Large Life Insurer*

Many operational challenges. Almost every aspect of operations within life insurance companies is affected by changes in the market. Challenges include:

- Flat and declining premium volumes within traditional middle- and high-income markets

- Regulatory pressures, in particular costly capitalisation requirements, that especially challenge larger companies seeking to gain critical mass by targeting niche insurers in mergers and acquisitions
- Low investment yields due to falling interest rates and listless economic conditions, which grind down loss revenues and premium rate
- The high cost and limited availability of quality staff
- The need to balance the cost of compliance with the real benefits to the consumer when developing innovative products
- Making prudent investment decisions in a challenging global market – a process that demands access to skilled underwriters using better processes that help remove financial uncertainty
- Complex, often poorly documented business rules, making it difficult to consolidate information and ensure consistent customer data drawn from multiple sources. This problem is often exacerbated during mergers and acquisitions, resulting in customer dissatisfaction and policy churn
- The need to develop skilled staff using processes that make rapid underwriting decisions and issue policies quickly, because the quicker the response the greater the likelihood of winning the business
- The need to reduce the time taken to develop and release new products, which at present is typically three to 12 months
- Pressure to upgrade systems and technology to cope with a more dynamic business model

Skills challenges

Students not acquiring needed skills. South Africa's education and skills development statistics have improved, but employment continues to lag. The reason for this is a mismatch between the types of skills students acquire at universities or FET colleges, and the jobs available to them.

"A better-equipped youth in terms of education does not necessarily equal a more employed youth."
Haji Mohamed Dawjee, Weekly Mail & Guardian [11]

Loyalty no longer a given. Loyalty toward an employer cannot be taken for granted among today's young first-time employees. 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. Life insurers seek to lock in the more talented members of this group 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.

Lack of interest. School leavers generally require large levels of 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. This will allow candidates to achieve a recognised qualification that they can take with them if they move to another company.

[11] "Youth, unemployment and the South African dream", Haji Mohamed Dawjee, Mail & Guardian

"All employees go into intensive three-month training before they are even allowed to get on a phone or interact with a client. The cost of this is huge. However we lack a developmental path and then we lose the staff. A lot of our staff are headhunted. We have also lost a lot of middle and senior managers as people look for people trained by our company."
Respondent, Large Insurer

Industry needs higher profile as career opportunity for matriculants and graduates. Many job seekers land in the industry almost by accident, without understanding what the financial services industry 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.

Professionalisation adds value but can be a barrier. Regulation has enforced a higher level of skills within the sector.

"The financial advisor is a key skill that we need to drive our business. Regulation is minimising the number of people that are able to operate within the environment. There needs to be a qualification scale based on the product that they are selling. Funeral policies, etc., don't need as much knowledge and skill to sell as an investment product. People operating in the rural areas need to be skilled but they are not able to cope with the current regulatory environment."
Respondent, Large Broker House.

Perceptions of Transformation

Large employers' opinions about transformation

Progress at lower levels but specialists and managers still in short supply. We conducted 13 face-to-face interviews with life insurers, reinsurers, brokerage companies and direct life insurance companies within the top five companies in their market segment. They believe the transformation process has progressed well among base level employees. However finding Black candidates with the needed qualifications for a specialist or management role and a desire to enter the life industry remains a challenge.

Transformation is slow in senior and middle management, the base levels are okay, experience in these areas is lacking, and remuneration is a challenge at higher levels. You don't mind paying but there is a limit. Skills are also lacking. This is more apparent in the highly specialised skill sector, like actuarial science and senior underwriters.
Respondent, Large Insurer

Challenges of transformation

Lack of human resources slowing industry transformation. The life insurance sector has made progress in transforming the workplace, but still faces an acute shortage of certain specialised skills. Respondents believe this shortage is slowly being addressed, but the industry needs to do more to develop and preserve skills within the life insurance sector.

Skills not being transferred. As older employees retire, skills and expertise are draining from the industry. Some employers are experiencing resistance to transference from experienced employees, who may perceive a potential opportunity to return to the industry as consultants after they retire. Employers need to find ways to incentivise these employees to help train and mentor younger employees before they leave their organisations.

"The people and existing leadership are dying on the job, preserving their jobs, and many don't want to transform."
Respondent, Reinsurer

Senior staff is often ill-equipped. Like many most South African companies, life insurers are facing social and political pressure for transformation while there is a critical shortage of employees with the skillsets they need. This can lead to employees being promoted 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.

Lack of quality management prospects. Respondents report difficulty in finding suitable candidates for middle and senior management positions. Sometimes it is easier to find a candidate for a senior directorship position than one with middle or senior management qualifications. The focus has therefore shifted to growing the needed skills and qualifications internally and looking for ways to lock in potential candidates to the company.

"Getting actuaries and CAs is not a problem, but defining if they have the required skill and experience is the problem."
Respondent, Large Insurer

High cost of training. Internal company training programmes are expensive and time-consuming, and trained candidates are very likely to be poached by competitors at the end of the process.

Needed mix 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. Given the frequent pressure to achieve set outcomes, business units do not always have the time or appetite to train on the job.

> *"Finding an affordable candidate is a challenge, they are coming in with a very high price due to their scarcity. Agencies don't cast their nets wide enough to find the right candidates."*
> *Respondent, Large Insurer*

Difficult to attract suitable candidates. Banking and accountancy appear to be perceived as more attractive financial services career options. Most senior executives interviewed had entered the industry via other financial services sectors or had landed in the industry almost by accident.

Call centres an ineffective entry point to industry. Call centres tend to attract a high percentage of young Black school leavers. However, there appears to be a gap between skills at this level and those needed in other career fields within the industry. Many potentially suitable candidates seem to lack interest in studying further to qualify for positions in more skilled areas.

Culture of entitlement. Some human resources directors believe a culture of entitlement limits the potential to fast track candidates along their career paths. In many instances, the fact of having being identified as a suitable candidate creates an expectation of frequent salary increases and other perks, while these candidates may not be diligent in acquiring the qualifications they need.

> *"In some areas we have career paths, and in some we don't. If you start doing career development with people it creates the expectation that they will be in line for higher and better positions."*
> *Respondent, Large Insurer*

Regulatory restrictions hamper promotion. Promotion within the insurance sector 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.

Financial limitations constrict employees. The cost of acquiring a qualification can be prohibitive for many employees who wish to further their careers.

Possible solutions to HR supply challenges

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.

> *"With employees, not just Black employees, retention is an issue. They are looking for opportunity and support and if you can't provide it they move on.*
> *Respondent, Large Insurer*

Use internships to provide broad-based exposure. Graduates may have qualifications but usually lack relevant employment experience. Some respondents suggest employers should use internships to rotate new and potential employees through as many departments as possible. This would reveal their strengths and interests, making it possible to establish them on a rewarding career path within the organisation. At the same time, it would equip them with a broad understanding of the entire business and how each section relates to the others.

Our courses are a mixture of external vendors (mostly university based) and internal training. Most of the training is done on site here.
Respondent, Large Insurer

Industry-based transformational strategies. Companies need work together to develop strategies that to achieve major, industry-wide transformation. They should cooperate to grow the skill base the entire industry needs. 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.

Skills transfer essential. Industry observers say there is a need to reward those with expertise for transferring their knowledge and sharing their skills. They advocate:

- Establishing mentoring forums for young future leaders to have access to the knowledge and skills of older employees who are moving to exit the workplace
- Developing processes that involve rigorous succession planning and forward thinking

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

"We need to look at developing a math bridging facility for matric learners. Before they start the learnership there needs to be a six-month maths bridging course first."
Respondent, Large Insurer

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, this year will see a joint venture between Inseta and 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.

"One suggestion is to break down the overall qualification into segments, and certify candidates for qualifying in specific areas of expertise, such as wealth management, rather than requiring that they study for three to four years before receiving any formal qualification."
Respondent, Large Insurer

Small and medium employers' opinions about transformation

Contrasting perceptions of industry and own organisation. This study revealed some interesting contradictions between respondents' perceptions of the industry as a whole, and of their own organisation.

Perception of industry-wide skills shortage not reflected in direct experience. Respondents agree that the skills shortage and a need for people with a wider, more flexible skillset is a concern for the industry. However respondents within small companies are not strongly aware of the problem, and the general perception was that the problem applied more to the greater industry than to their own organisations.

Poor education standard causing qualified school leavers. Respondents agree that the poor standard of education means new entrants to the workforce lack needed qualifications, and this problem is affecting their own organisations as strongly as the industry as a whole.

Strong need for Black professionals. Respondents agree that there is a need to improve Black representation at the professionally qualified level, but most feel they are successfully recruiting, training and promoting Blacks to upper management positions.

Question asked of respondents: *I am going to read you a list of statements made by various people with regard to transformation within the industry. Please rate your personal experience within your own organisation with regard to how successful you have been in each of these areas, using a scale of 1-10.*

Disagree				Not sure		Agree somewhat		Totally agree	
1	2	3	4	5	6	7	8	9	10

Transformation perceptions of small and medium employers[12]

Transformation statement	Own org or industry		Size of company by number of employees		
		Overall n=45	<50 n=17	50-100 n=14	>100 n=14
The skills shortage is a serious concern in the increasingly complex and interrelated financial services operating environment, Companies increasingly are looking for people with a wider or more flexible skillset to meet the needs of the changing workplace environment.	Industry	8,4	8,3	8,9	8,1
The ongoing skills shortage is a serious concern for our organisation looking ahead within an increasingly complex and interrelated financial services operating environment. As a company we are increasingly looking for people with a wider or more flexible skillset to meet the needs within our organisation.	Own	7,4	6,9	8,0	7,4
The poor standard of school education is a key underlying cause of skills shortages.	Industry	8,4	8,1	8,4	8,8
We have found entry level candidates in the workplace lack suitable qualifications.	Own	8,2	8,3	7,9	8,4
Black representation at the professionally qualified level needs to be greatly improved.	Industry	8,2	8,1	8,3	8,1
We have made a concerted effort to recruit, train and promote qualified Black people to senior and top management positions.	Own	8,0	7,7	8,4	8,1
Every sector of the insurance industry needs to make a concerted effort to recruit, train and	Industry	8,0	7,7	8,4	8,1

[12] Because of the small sample base, respondents' perceptions cannot be considered statistically representative of their segment of the industry. While the overall results may be regarded as representative, the data broken down by size of company is presented for interest purposes only.

Transformation perceptions of small and medium employers[12]

Transformation statement	Own org or industry		Size of company by number of employees		
		Overall n=45	<50 n=17	50-100 n=14	>100 n=14
promote qualified Black people to senior and top management positions.					
Where we can we work together within the industry to promote skills development and eliminate discrimination.	Own	7,7	7,2	8,4	7,6
There is a serious lack of suitable candidates for middle management positions.	Industry	7,7	7,2	8,4	7,6
We have experienced a lack of suitable candidates for middle management positions.	Own	8,4	8,1	8,9	7,2
The larger institutions within the financial services industry are more successful in achieving transformation.	Industry	7,6	8,0	7,0	7,6
We are active in effecting change within our own organisation.	Own	8,2	8,4	8,1	8,1
Employers need to make a concerted effort to create sufficient opportunity for all employees.	Industry	7,5	7,4	7,5	7,4
We create opportunities within our organisation for all employees to grow within the organisation.	Own	7,5	7,7	7,5	8,4
Young Black employees do not always show great loyalty towards a company and can be easily influenced to change jobs for monetary or other reasons, leading to job hopping.	Industry	7,2	7,5	7,4	6,7
We have been successful in curbing job hopping	Own	8,4	8,1	8,4	8,8
There is a skills shortage in certain areas within the life assurance industry, and insufficient skilled individuals in the pipeline available to the industry.	Industry	6,3	6,2	6,4	6,5
Our organisation does experience a skills shortage in certain areas, with a lack of suitable candidates to fill the position.	Own	8,4	8,3	8,4	8,1
BEE compliance does not always mean a company fulfils employment equity requirements.	Industry	5,7	6,4	4,9	5,5
Our organisation has effected an acceptable level of employment equity across all employee levels as well as being compliant.	Own	8,1	8,2	8,1	8,1
Overall average score	Industry	7,5	7,4	7,6	7,5
Overall average score	Own	8,0	8,0	8,3	7,9
Median	Industry				
Median	Own				

Addressing the Skills Shortage

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

Training, mentoring and skills transfer are core activities. Respondents see in-house training and mentoring as central to the process of improving staff skills. They believe a crucial need is for transfer of skills from older, experienced staff to newer employees.

Large employers' opinions about skills shortage

Early intervention within 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

> *"There is a huge gap in maths and science in the schools. Teachers are ill-equipped, not so much in the model C schools but in the large number of schools in the rural and impoverished areas. Maths and science are not even offered. The foundation focuses on education in maths and science, and there are a lot of initiatives run to encourage the growth of education from a pre-primary level all the way up to secondary education level."*
>
> *Respondent,*

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 in collaboration with industry expertise.

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 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.

What to do about job-hopping

TVET can help make industry more attractive. Respondents also 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.

Offer learnership candidates practical support. Many companies offer bursaries and other assistance to encourage candidates to earn desired qualifications. Respondents perceive this as an effective way to acquire and retain the skills they need, in part because it builds loyalty. Also, typically, bursary recipients are contractually obligated to work for the company for a given period after qualifying.

> *"We have a programme with the learnerships where we offer bursaries and we offer wealth management even though we don't need it in our organisation, but it equips them for the industry."*
> *Respondent, Direct Insurer*

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.

Approaches to in-house training

Learnerships benefit both employer and candidate. Respondents define learnerships as essentially the same as apprenticeships, but with a more focused, tightly-controlled approach to training. Effectively managed learnerships offer financial and other advantages to an organisation. Respondents perceive a need for learnerships to offer more practical application and hands-on implementation.

> *"We bring the learners in and we take them though a detailed induction and they have to pass that first before we can progress them any further in the company."*
> *Respondent, xxx*

In-house training has strong advantages. Most respondents favour growing needed skillsets using internal and on-the-job training and development, for several reasons.

- It enhances an employee's skills while preparing them for the next promotion.
- 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.

E-learning offers huge potential value to insurance sector. E-learning programmes are a new tool with proven value in developing skills such as leadership, time management, communication, teamwork and service. Effective e-learning is tailored to users' needs and complements traditional learning techniques. It is especially suited to self-motivated younger learners, because younger employees tend to be comfortable with technology. Several respondents feel South African companies are lagging in adopting this technology.

Rapid learning is key to an organisation's success. In a knowledge-based economy, people's ability to absorb and process new information and adapt quickly to new realities is critical to the continued success of an organisation. This creates a need for an innovative approach to training both teams and individuals.

> *"There is a lot of administration involved in a learnership, and yes it is heavy on the line managers. But we have mitigated that by spreading the mentorship load and we here in HR have taken a lot of the load as the managers just don't have the time so it does not get done. Inseta wants to train the line managers but that is pointless because training them does not give them the time they need to do the administration."*
> *Respondent Direct Insurer*

Efficient use of limited training resources is essential. With the demand for training likely exceeding capacity, resources must focus on the most important initiatives for optimal return on training investment. In the highly regulated life insurance sector it is essential to align skills development activity with industry qualifications.

Track learners' progress. Many learners and interns move through training or acquire qualifications with no clear record of how the process has advanced their career or added value to their organisation. Respondents suggest that forward-looking learning management could identify desirable training opportunities and external resources specific to an employee's needs. This process should involve a national system to track learners and their development over time.

> *"Learners come into an organisation and if that organisation cannot absorb them at the end of the learnership period they leave. No one tracks whether or not that learner is re-employed and if they are is it within the financial services industry or not. If not all that money and time has been wasted."*
> *Respondent, Direct Insurer*

Key role of skills transfer

Encourage skills transfer. Employers need to develop ways for experienced employees to transfer knowledge. After new employees assimilate the basic facts about their job, their next learning stage should be on-the-job coaching, and peer-to-peer coaching has proved to be the most effective way to introduce a trainee into the actual work environment.

> *"We are facing a problem in the medical underwriting space. Our two specialists are going to retire soon and their experience cannot be replaced."*
> *Respondent Large Insurer*

Shadowing, observing, and mentoring. Respondents believe 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.

Importance of mentoring. Respondents agree it is important for senior executives within an organisation to serve as mentors, in particular because this helps build loyalty to the company. Regular evaluation and a focus on addressing identified weak points are central to effective mentoring.

"Regardless of the form mentoring takes, it must facilitate the sharing of knowledge, expertise, skills, insight and experiences through dialogue and hands-on learning."
Respondent, Large Insurer

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 drives greater investment in production and less in training. This paradox can undermine mentoring and coaching programmes, because these don't contribute directly to the bottom line. It also affects the process of selecting a job candidate. Managers may insist that they need staff with specific qualifications, instead of considering suitable candidates with a qualification that shows they have the capacity to learn, but who need training and mentoring to do the job.

"In our industry we have to focus on outcomes because that affects our bottom line, and many times mentoring is seen as a nice-to-have but does not achieve immediate results. The industry has to take a longer-term view on mentoring and realise that it promotes professional and personal growth among participants, it helps attract, motivate, develop, and retain profitable talent and will increase productivity."
Respondent, Large Insurer

Industry accord a solution to poaching

Companies and representative bodies should cooperate. Respondents wish to see greater cooperation between employers and Inseta, ASISA, FSB and other representative bodies, to develop a pro-training, anti-poaching accord. While these organisations do interact to some extent, respondents believe they operate largely in isolation.

"I am not confident that Inseta understands our business so I cannot trust Inseta to provide us with what we as a business need."
Respondent, Broker House

Members of the industry must work together. Respondents agree that an accord will improve the overall level of skills within the industry, end poaching and bring remuneration for currently rare professionals to a more reasonable level. Such an agreement will force trainees to lock in more firmly with an employer, ensuring that companies receive a reasonable return on their investment in training and fast-tracking staff.

Effect of regulations on intermediary training

Regulations benefit consumers. An array of regulations protects consumers and enhances the professionalism of the industry, but they often have cost implications.

Unique challenges to broker training. Respondents say keeping their intermediaries up to speed in terms of training and compliance is a challenge because, for a broker, time out of the field is money. Any time spent in training must be highly effective, and should also improve their product knowledge and their ability to get business. It must also help brokers manage the high and growing cost of compliance effectively.

Compliance can be an impenetrable barrier. Promising brokers are leaving the industry because they struggle to achieve the required qualifications through the Financial Planning Institute (FPI). At the same time, experienced brokers are leaving the life insurance sector because they feel their extra legal responsibilities take them away from their core business as brokers.

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
- Less sophisticated members of the emerging sector, generally less equipped with technology, increasingly dependent on loans from micro-lenders, and more heavily burdened by compliance requirements

Regulations put pressure on intermediaries. 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 permitted to give.

Industry’s role in supporting broker education. Respondents believe the industry needs an online learning platform to enable brokers to achieve the required knowledge and qualifications through FPI, 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.[13]

Changing the image of the industry

Opportunities not recognised by graduates and school leavers. The life assurance sector has a much more positive professional image than the short-term industry, as it deals with people’s retirement savings, life insurance protection and other policies that affect people’s daily lives. Despite this, school leavers and university graduates do not generally perceive the insurance industry as a desirable field.

Community upliftment a path to top learners. The large life companies are very 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 industry.

[13] The Black Brokers Services Network (BBSN) links young brokers with independent black brokerages. The experience gained shadowing a broker can help reinforce a young black broker’s training.

Small and medium employers' opinions about skills shortage

This portion of the study[14] focused on three questions.

- We asked respondents about their experience in terms of finding the skills they needed. Based on their responses, small and medium employers have much greater difficulty hiring the skills they need than do large employers.
  - The biggest challenge facing small and medium employers in this industry is the lack of math and science skills among school leavers. This significantly limits these employers' ability to achieve employment equity.
  - There is a general perception that Inseta learnerships are available only at entry level.
- We asked respondents about their perceptions of skills shortages. They indicated that middle and senior management, IT skills and actuaries are the three leading skills shortages they face.
- We asked respondents whether their companies offered their staff a career path or progression plan. 62% said they did, but when invited to comment further their comments revealed that there are many different perceptions of what a career path is. It could benefit the industry for Inseta to write a specification of how employers should approach developing a sustainable career path, to ensure that all industry players are moving in the same direction toward improving the availability of needed skills.

Question asked of respondents. *I am going to read you a list of reasons given by employers as to the challenges faced in implementing employment equity. Please indicate which of these issues you have faced within your own organisation, and rate the impact it has had on your ability to correctly match individuals to jobs, with the appropriate skillset and technical competence to master their work requirements and advance their careers, using a scale of 1-10.*

Disagree				Not sure		Agree somewhat		Totally agree	
1	2	3	4	5	6	7	8	9	10

Experience with regard to finding needed skills

		Rating by company size		
	Overall n=45	<50 n=17	50-100 n=14	>100 n=14
Poor maths and science education of school leavers	7,3	7,6	7,5	6,8
Learnerships only at entry level and should also be at higher levels	7,2	7,4	7,5	6,9
Promoted too fast, so lack grooming and experience for position	7,1	7,1	7,3	7,1
Lack of apprenticeship - culture of entitlement	7,1	7,0	8,0	6,4
Negative perception of the industry; people not attracted to the industry	7,0	7,1	6,8	7,0
Lack of qualifications	7,0	7,1	7,5	6,5
Learnerships should be multi-disciplinary using modules from other SETAs	7,0	7,1	6,9	6,9

[14] Because of the small sample base, respondents' perceptions cannot be considered statistically representative of their segment of the industry. While the overall results may be regarded as representative, the data broken down by size of company is presented for interest purposes only.

Experience with regard to finding needed skills

		Rating by company size		
	Overall n=45	<50 n=17	50-100 n=14	>100 n=14
Lack of Black candidates in certain areas, particularly risk management, investment management, governance, and regulation and compliance.	6,8	7,4	6,4	6,5
Poaching / job hopping: no loyalty, go to the highest bidder	6,6	6,6	7,0	6,2
Modern technology: people no longer think for themselves, no initiative	6,5	6,0	6,3	7,1
Fewer large players that used to incubate and train people.	6,5	6,4	6,8	6,4
IT skills in such high demand in SA that many employment options available	6,3	6,0	6,9	6,0

Question asked of respondents: *In which areas does your company experience the greatest skills shortages?*

Experience with regard to skills shortages

		Rating by company size (#)[15]		
	Overall (%)[16] n=45	<50 n=17	50-100 n=14	>100 n=14
Middle and senior management	22	2	2	5
IT skills	20	8	1	
Actuaries	18		2	6
Customer relationship managers	16	5		2
Regulation and compliance skills	16	1		3
Risk surveyors and assessors	11	1	1	3
Sales and distribution	11		1	4
Specialist quantitative, mathematical and investment skills	11		1	4
Accounting experts	9	3		4
Statisticians and data analysts	9	2		2
Credit risk specialists	7		1	2
Legal experts	7	1		2
Strategists / specialised skills	7			3
Tax specialists	7	1	2	
Underwriters	7	1	1	1
Claims	4			2

Question asked of respondents: *Does your company have a career pathway or progression plan for employees?*

Company career paths for employees

Yes, we have a career path or progression plan for employees	62 %
No, we do not have a career path or progression plan for employees	38 %

[15] Indicates the number of respondents who identified a shortage of the skill.
[16] Indicates the percentage of total respondents that identified a shortage of the skill.

Respondent comments

We invited respondents to comment freely with regard to career paths and progression plans for employees.

Respondents whose companies have a career plan for employees

Some smaller companies have plans in place. We found that about half the respondents who answered in the affirmative went on to indicate that their company had some sort of individualised personal plan in place for employees. Several referred to this plan as a "succession plan", which may indicate that in small companies promotions depend on higher-level employees leaving. Comments included:

- We have talent discussions and development strategies.
- Each employee has a personal development plan for career development.
- Each employee has a career plan.
- We take them and train them and get them to a stage where they can write their RE exam.
- Specialized to individual needs.
- We understand the culture of the business and have knowledge of career aspirations. We always have a development plan in place. We complement people with their current knowledge and learning programmes and offer promotion.
- There is a succession plan in place. We also have a talent management programme.
- We are pretty small, but we have a financial advisor and I have trained under him. If he leaves then I will take over and people will move up. We train and upskill regularly.
- You sit with the company and you plan with the company for your own individual needs. We assist with their own equity and plans and we advise them.

Some respondents do not fully understand the concept of a personal career path. About half the respondents believe that their company offers a career plan, but in fact no individualised planning is in place. In many cases, the "plan" is simply the availability of opportunities to move ahead, through training and encouragement. In some companies there is simply an assumption that the employee will move through different stages as they develop skills. Comments included:

- Our company provides in-house training up to the CFP level.
- If you pass, you start at the bottom and you work your way up.
- If someone is doing well they can move up.
- They go and study in insurance to get more knowledge. They are responsible for creating their own career pathway but we encourage them.
- We initiate training through the various levels, but everyone is encouraged to study up to post-graduate levels.
- We bring people in and then move them up. They assist financial advisors. The opportunity is created with encouragement. We prefer that.
- There is the opportunity to build their careers.
- From the call centre, if one meets certain criteria you could be promoted to top levels.
- Learners come in at data level and start to do claims, then underwriting, and then move on from there.

Respondents whose companies do not have a career plan for employees

Too small to play. Typically companies that do not offer individual career plans are too small to have many growth opportunities. Business pressures and budget constraints are also a concern.

- There is too much legislation to conform to and we can't do long-term business plans because they are constantly changing the legislative environment.

- We’re too small an organization. There is very little opportunity for advancement.
- There is no vision for development in our company. They don't want to increase budgets for training.
- No, it is just a small company - there is nowhere to move.
- Because we are a specialised company. There is not really place for growth, especially in management.
- There are very limited opportunities. If you are in a small town it is most likely that you have two people in the office and there won’t be space to move up. This is the nature of the business. We have one call centre and there will only be one call centre manager. There are no other opportunities within that spectrum.

Key Drivers Predicted for Next Five Years

We identified certain local and international key drivers during the background research done initially for this project. In both the face-to-face and telephonic interviews we asked respondents to identify what drivers they believed would have the greatest effect on the local life insurance industry during the next five to 10 years.

Perceptions are similar, but priorities differ between large and small companies. Industry leaders foresee a number of key changes that they believe will have a significant effect on the industry in the foreseeable future. Smaller players recognise these changes, and are increasingly finding the cost of remaining compliant to be a disincentive to remaining in the industry.

Small players struggling to survive. When looking toward the future, the small companies' attention is almost entirely on survival. Other issues, such as lack of skills, are a concern, but only if they can see a way to remain both profitable and FAIS-compliant.

New markets and technology interest medium-sized employers. Regulations are the primary concern for mid-sized companies, but they are investing a lot of energy into identifying breaking into new markets. They are also responding to market trends by increasing their use of technology and social media.

Big companies play on the world stage. The industry leaders are looking to new markets locally and international. The main challenge they face is to line up with international trends prevalent in first world and developing economies outside South Africa. The cost of regulatory compliance is a concern, but their focus is most strongly on developing the skills to compete in a global market.

Ongoing consolidation. While small players question the feasibility of remaining in the market – and, in many cases, drop out of sight, a number of medium-sized companies are being swallowed up by the bigger players.

Large employers' opinions about what lies ahead

Regulation

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 financial 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. Historically the total cost of compliance is around 5% of turnover, but respondents expect it to rise as governance and regulatory demands pile on more non-core costs. They are focusing on efficient governance, and effective management of risk and capital.

More regulation coming. Respondents are bracing themselves for the implementation of Solvency Assessment & Management (SAM), proposed legislative changes to health and credit insurance, retail distribution review, retirement reform, and proposals to tax risk business sold directly in the shareholders' tax fund. They are also aware that the Treasury, in collaboration with the FSB, is:

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

Access to information under threat. The insurance business depends on collecting, analysing and processing personal information to develop and market products effectively. The stringent Protection of Personal Information Act (POPI) provides specific requirements as to how personal information must be processed and protected. Respondents say the ongoing availability and management of data is a key concern.

> *"Business executives need a change in their limited view of customer experience and a shift towards understanding what customers want and need to improve the customer experience throughout the value chain."*
> *Insurance Industry Survey 2014, KPMG*

New market opportunities

Local emerging market

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. They typically earn at least R8 000/month (or fall within at least the LSM 7[17] group), own their own vehicles, live in suburban neighbourhoods, and are employed full- or part-time in white collar positions. They are typically 25-39 years old, and have some tertiary qualifications.
- The second part of the emerging market is made up of Black South Africans employed as blue collar workers or working outside the formal sector. This very diverse market ranges from entrepreneurs to independent truck drivers to shop assistants to domestic servants. An estimated 25% of this group is in LSM 6 or higher.

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.

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 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. 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.

> *"The more traditional insurance products that you and I grew up seeing our parents buying do not always appeal to this market. They are also much more tech-savvy than you or I and have not grown up with the example of having a broker deal with their insurance needs, so are quite happy to deal direct."*
> *Respondent, Large Insurer*

[17] LSM 7: R15-20 000 monthly household income

High debt will discourage savings in upcoming generation. As Generation 2020 (people born around 2000 and coming to maturity around 2020) enters the market, the industry's core target market will change fundamentally. Burdened by heavy student debt and barred from home ownership by the Consumer Credit Act[18], they will tend to postpone investment and saving.

> *"B-BBEE has given rise to a totally new middle class who before 1994 never qualified for more traditional insurance products. However with the emergence and access now to earnings beyond what their parents were ever able to earn, in many cases their priorities and focus are not so much on saving as on status, and status comes with things."*
> *Respondent, Large Insurer*

Buying direct may not be the smartest option. Respondents are concerned that customers with limited experience or knowledge of insurance may benefit from interacting with a broker, to ensure they buy the right product for their needs. But they say members of the emerging market prefer to deal with Black brokers. This is a barrier to entry into this market, due to the dearth of Black brokers with the necessary CFP qualifications, which makes upskilling black brokers a high priority.

> *"The challenges with this are that, in buying direct, are they buying the right product for their needs? Do they fully understand what they are buying? Brokers need to look for more innovative ways of approaching this market, more customer-centric, more innovative products. And the insurers have to look at developing products more suited to this market's profile and background."*
> *Respondent, Broker House*

Tapping the offshore market

African opportunities most attractive. Respondents identified Africa as the most desired destination for geographic expansion, followed to a much lesser extent by Asia. The top three concerns for South African 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.

Higher returns from Africa. Some insurers believe margins in sub-Saharan markets are more attractive than in South Africa. This may change as numerous different players implement their pan-African expansion plans. A factor to take into account is the lack of needed skills in these markets. Insurers will need to take qualified staff from the already undersupplied local market, as well as investing in training of staff hired locally in these markets.

> *"One of the challenges of moving into Africa is that, although the opportunities are incredible, there is not the available skills needed to be able to maximise the growth potential. We also cannot deplete our South African operation by taking people with us, so it is a balancing act most of the time."*
> *Respondent, large insurer*

Vast untapped market. Only 3,5% of the African market is insured, indicating a vast opportunity for insurance firms. Most of the larger life insurance companies are involved in expansion into Africa and Asia.

[18] 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.

Competition for new markets

Local industry characterised by strong competition. International companies are seeing the potential of the African market and using South Africa as a gateway to the rest of Southern Africa.

Ongoing technological innovation

Bringing new skills into the industry. The insurance industry is beginning to experience a need for a set of skills that it has never really needed before. This need is helping to drive the transformation process, because young Black professionals tend to be comfortable with technology and social media.

Greatest influence on direct sales and distribution. Participants believe smart phones and tablets will present the most significant opportunities for innovation in consumer digital technology over the next five years. Most important applications of the new technologies will centre on direct insurance and online distribution, real-time data mining and new actuarial systems.

Technology gives a competitive edge. New technologies will provide the most innovative and technologically savvy insurers with a competitive advantage. A challenge that must be met through training, however, is that candidates with the needed IT skills will tend to lack knowledge of the industry.

Non-traditional players exploiting the market. Mobile phone companies, retailers and vehicle dealers have already obtained insurance licences from the FSB or are operating in liaison 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 personal lines market.

Skills needs

Specialist skills. There is a greater demand within the corporate environment for high levels of professional skills. 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.

> *"Talent shortages exist across the entire industry with specialist underwriters, followed by actuaries and then non-executive directors taking the lead."*
> *Respondent, xxx*

Range of other skills needed. 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 skillset is not necessarily feeding into the insurance industry. Needed skills are moving into consultancy companies or non-insurance industries.

Social transformation through Black economic empowerment

Changing B-BBEE scorecard perceived as punitive. In October 2013 the Department of Trade & Industry released the revised B-BBEE Codes of Good Practice. These will become fully applicable in the second quarter of 2015. The new code requires more points for each contributor level, and imposes a new sub-minimum threshold for companies with an annual turnover of more than R50-million. This legislation is perceived as a stick to beat nonconforming companies and to do away with fronting.

Concerns that scorecard will be counter-productive. Several respondents question whether the changes to the existing Employment Equity scorecard that will come into play in 2015 will in fact speed up the transformation. They are concerned that, instead of developing and hiring people with the skills and experience to do the work, some employers may feel pressured to hire under-qualified Black candidates inin order to meet the required score.

Status will decline for many companies. Changes to laws governing Black economic empowerment benefit small, Black-owned companies, but will put pressure on larger companies don't meet the new empowerment expectations. In terms of the new score card, companies with an annual turnover of more than R50-million will be required to score at least 40% in specified areas of Black ownership, skills development and supplier development. Companies that do achieve this score for all three areas will automatically drop one status level. This is expected to affect thousands of companies, including some in the insurance sector.

Burdensome requirement. Organisations will now be required to put significantly more effort into transformation in the areas of Black ownership, skills development and supplier development to maintain levels that they held previously. Many respondents believe the change in the BBBEE legislation imposes a heavy burden, especially on medium and larger employers that are already battling to meet required standards.

Small and medium employers' opinions about what lies ahead

Same view of the future as the big players. During this study, the small and medium company respondents rated the same key driver areas as the large employers. These findings are illustrated in the table below.

Social media a big issue. Smaller brokers recognize the potential of social media for their activities. Some brokers are already using social media to function as a direct marketer. This reflects a trend already evident in the short-term market. It has the potential to cut costs and expand their market reach.

Regulation is an issue. A huge and potentially life-threatening challenge facing companies at this level 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, through finding creative solutions, training and support.

Question asked of respondents: I am going to read you some of the key drivers that industry experts say will impact the local industry in the next five years. Please rate the impact you believe each of these key drivers will have on the industry.

Disagree				Not sure		Agree somewhat		Totally agree	
1	2	3	4	5	6	7	8	9	10

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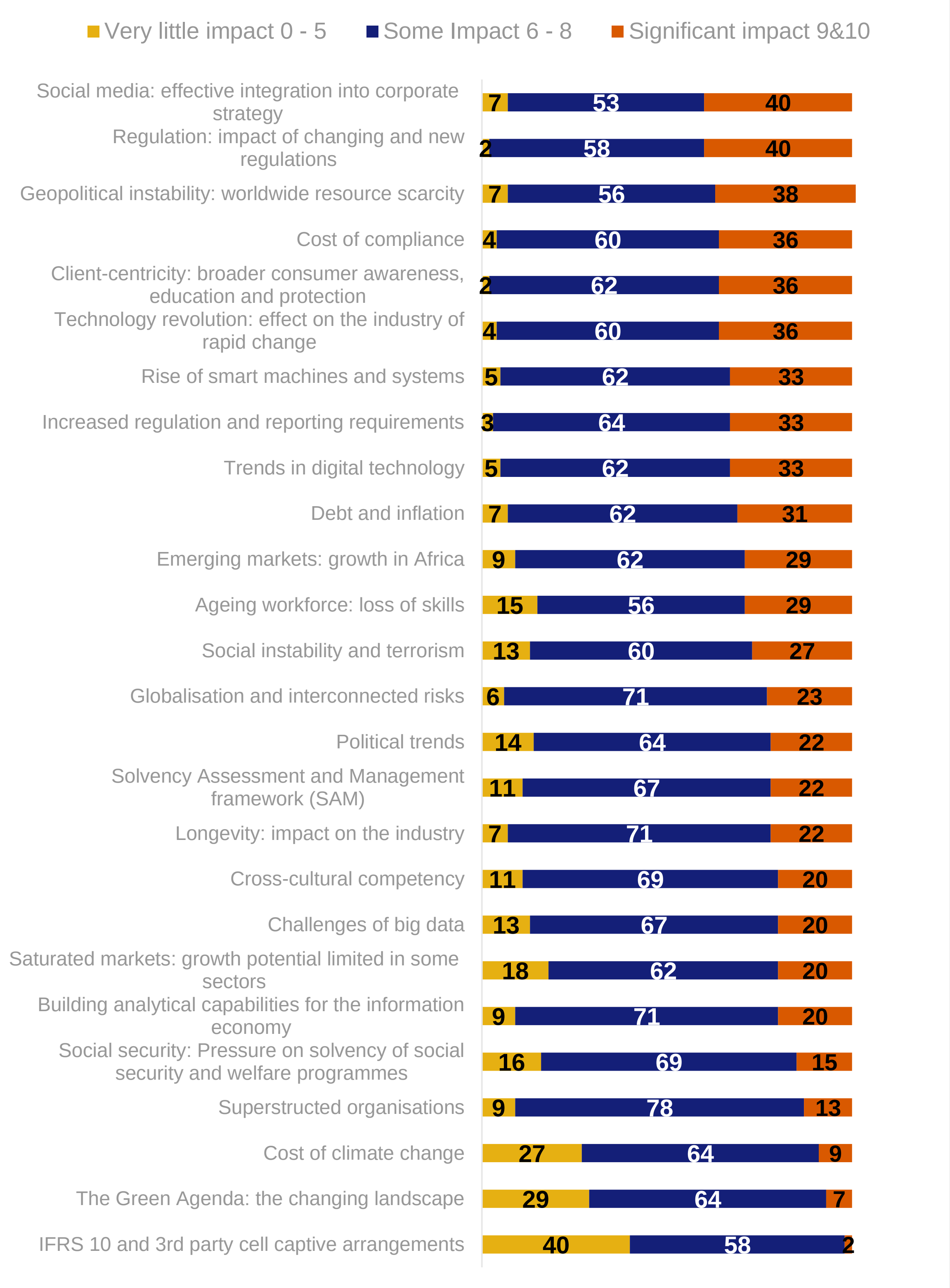
Graph 1: Key drivers in the next 5 years



Respondent Perceptions of Organisations

We asked respondents to evaluate how effective Inseta and other organisations are in improving the level of skills within the insurance industry.

Inseta

Inseta's purpose is to expand the pool and improve quality of scarce and critical skills in the insurance sector, enhancing the sector and supporting South Africa's transformation.

TInseta;s performance must be evaluated in terms of:

- Its ability to understand the skills priorities of the insurance sector
- The speed at which it addresses these priorities through various programmes
- The placement of work-ready learners into the workplace

Inseta actively seeks to reach all stakeholders in the various insurance industry subsectors, to ensure that its offerings are aligned with the needs of each sector. Recent initiatives include:

- An investment of R30,7-million in developing actuarial talent within the industry, in partnership with the South African Actuaries Development Programme (SAADP) over the past five years. This supported 301 unemployed learners, and a further R9.8million has been set aside for 2015
- Six scholarship learners enabled to study through the ASISA Academy programme in ife assurance underwriting and claims assessing.
- Ongoing involvement with various universities and TVET colleges to support unemployed learners seeking to qualify in scarce and critical skills for the insurance industry. This has, with industry input, included developing formal registered qualifications for areas of scarce and critical skills.

ASISA

ASISA and its members recognise that the savings and investment industry can thrive sustainably only in a healthy, growing economy in which people are employed and earning, and therefore empowered to save and invest.

The ASISA Academy designs practical programmes in partnership with industry practitioners, then taps into the combined experience of hundreds of experts. Since January 2008, more than 3 000 people in Cape Town, Johannesburg, Pretoria, Gaborone, Windhoek and Polokwane trained through the ASISA Academy.

The Academy exists to serve:

- Employers and employees within the financial services industry, to ensure that the industry's skills base allows South African companies to compete as professionals with the best in the world
- Young people entering or considering a career in the industry, to bridge the gap between the theories learned at university and the realities of the work environment, so that students can become work-ready while still studying
- Retirement fund trustees, to help the ASISA Foundation raise the levels of consumer financial literacy in South Africa
- Internal company programmes

Corporate sector

All the larger life insurers have established foundations or trusts that partner with NGO foundations, schools and communities in rural and under privileged areas. Typically they focus on

- Improving education and helping schools develop
- Integrating and implementing HIV/AIDS policies
- Other outreaches, in keeping with national government priorities and regulations

Interventions in schools create an opportunity to improve maths and science literacy skills among students and the larger community.

Some initiatives also partner with universities and other learning organisations. They supply bursaries and may also assist with planning the curriculum.

The Financial Planning Institute of Southern Africa

FPI is the leading independent professional body for financial planners in South Africa. It seeks to improve the level of professionalism and positively influence the quality of advice delivered by its members, and is the only institution in Southern Africa able to offer the Certified Financial Planner (CFP) certification.

The CFP Certification Examination is designed to assess a broker's or financial planner's ability to integrate and apply a broad base of financial planning knowledge in the context of real life financial planning situations. Passing this exam demonstrates that they are competent to practice independently as a financial planner.

Results of interviews

We asked respondents to indicate which industry organisations they believed had contributed most to enhance the skills competency of the industry.

Organisation	Mentions #
Inseta – Insurance Sector Education & Training Association	32
ASISA – Association of Savings and Investment SA	29
Internal training programme	17
None that come to mind	14
Other	9
FPI – Financial Planning Institute of Southern Africa	8
SAUMA – SA Underwriting Managers Association	5
SAIA – SA Insurance Association	3

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