

# ***Inseta Research Report 2014/15***

*Part 4: Overview of Transformation and Skills Availability in the South African Social Security Sector including Retirement Funding, Healthcare and Funeral Insurance*



**inseta**  
INSURANCE SECTOR EDUCATION  
AND TRAINING AUTHORITY

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# Executive Summary

This is the fourth 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 and third reports focused on the South African short-term and life insurance sectors. This report focuses on the various sub sectors that make up the Social Security Sector.

## Research process

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

- 22 in-depth interviews with human resources directors from leading companies operating in the retirement funding, healthcare and funeral sectors
- 112 structured telephonic interviews with human resources managers from large and medium levy paying Inseta members in the retirement funding, healthcare and funeral sectors
- 120 self-completion web-based surveys with SMME levy and non-levy paying Inseta members in the retirement funding and healthcare administration sectors

## Challenges facing the retirement funding sector

Led by National Treasury and the Financial Services Board (FSB), the sector is seeking to overcome a range of challenges.

- High administration costs
- Poor governance by inadequately trained trustees
- Inequitable regulation of different products
- Excessive product complexity
- Inadequate preservation of retirement fund savings
- Poor and deteriorating retirement planning by individuals

### *Key drivers of change*

A number of key trends are driving change in the retirement funding sector, but those that gave rise to the most comment by respondents are:

- Legislative and regulatory changes to boost the national savings rate and introduce mandatory retirement
- Cost of administration and management fees
- Good governance, including trustee training and member education
- Low levels of preservation of retirement savings

## Challenges facing healthcare administration

The major challenges facing the healthcare administration sector are:

- The need for affordable, accessible healthcare for all citizens
- Unsustainable healthcare funding
- The need to reinforce private healthcare

## ***Key Drivers of Change***

A number of key trends are driving change in the healthcare administration sector, but those that gave rise to the most comment by respondents are:

- National Health Insurance (NHI)
- Legislative and regulatory changes
- Cost management and value delivery
- Shrinking market due to mergers and acquisitions
- Growing the lower income market

## **Challenges facing the funeral insurance sector**

The major challenges facing the funeral insurance sector are:

- The low level of compliance by the significant proportion of informal providers
- The unsophisticated, often functionally illiterate market, that is vulnerable to exploitation
- The high percentage of policyholders who lack access to banks

## ***Key drivers of change***

A number of key trends are driving change in the sector, but those that gave rise to the most comment by respondents are:

- Legislative and regulatory changes
- Skills development and qualifications
- Growing the lower income market

# Research Mandate

*This is the final report in a series of studies into the skills requirements in various sectors within the South African insurance sector. 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 sector.** Inseta's mandate is to grow the pool and quality of scarce and critical skills serving the insurance sector. 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 sector.

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

- Short-term insurance
- Life insurance
- Retirement funds
- Risk management
- Healthcare
- 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 sector. 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 sector, 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 sectors of the insurance sector 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 sector expectations regarding how to address these gaps

**Study follows Inseta breakdown of insurance sector.** Inseta has divided the insurance sector 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<sup>1</sup>

| Sectors of insurance sector  | Percentage of members |                   |
|--|-----------------------|-------------------|
|  | LPE <sup>2</sup>      | NLPE <sup>3</sup> |
| Auxiliary to insurance and pension funding (brokers, intermediaries, financial advisors, compliance officers, skills development and training consultants) | 491                   | 4 045             |
| Short-term insurance   | 425                   | 2 269             |
| Life insurance   | 217                   | 1 427             |
| Insurance and pension funding (retirement funding)   | 204                   | 2 060             |
| Healthcare   | 55                    | 142               |
| Retirement 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 sector, but most are small companies and individual consultants operating within the SMME sector. In addition, several banks have divisions that register as members of Inseta, but their corporate training programmes are accessed through Bankseta.*

**Five companies dominate insurance sector.** 80-90 % of each sector 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

<sup>1</sup> Reworked from the Inseta Sector Skills Plan 2011-2016.

<sup>2</sup> Levy-paying employers

<sup>3</sup> Non-levy-paying employers

player in life insurance, pension investments, health insurance and short-term insurance. Because of the centralised nature of its 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 sectors, we focused on their perceptions of skills needs, key drivers, and expectations for the next five years.

**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 sector needs.

**Four reports cover defined sectors.** These reports focused on:

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



# 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<sup>4</sup>:

- Desktop research
- 22 in-depth interviews with human resources directors from leading companies operating in the retirement funding, healthcare and funeral sector.
- 112 structured telephonic interviews with HR managers from large and medium levy paying Inseta members in the retirement funding, healthcare and funeral sector.
- 120 self-completion web based surveys with SMME levy and non-levy paying Inseta members in the retirement funding, healthcare and funeral sector.<sup>5</sup>

**Expert sampling technique.** "Expert sampling" involves identifying and interviewing individuals with particular expertise. Given the interdependence of the sector 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 sector 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.<sup>6</sup>

**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.

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<sup>4</sup> 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.

<sup>5</sup> 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.

<sup>6</sup> The findings contained in the desktop report do not necessarily reflect the opinions of either Inseta or LDA.



## 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 sector 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.
- 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 sector

### Breakdown of interviews conducted

|                         | All sectors | Social security sample |            |                   |
|-------------------------|-------------|------------------------|------------|-------------------|
|                         |             | Retirement funding     | Healthcare | Funeral insurance |
| Briefing: sector bodies | 10          | 2                      | 2          | 1                 |
| F2F: sector leaders     | 58          | 10                     | 7          | 5                 |
| Telephonic: HR          | 228         | 60                     | 27         | 25                |
| Online survey: SMME     | 251         | 44                     | 39         | 26                |

*As appropriate, respondents included members of allied and auxiliary sectors, such as reinsurers and brokers. In some cases one or two interviews 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 sector leaders.** At the start of work on each section of this study, the LDA team sought input from insurance sector 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 (total sample)*

|               | Social Security       |                              |                      | SMME<br>Web-based<br>survey |
|---------------|-----------------------|------------------------------|----------------------|-----------------------------|
|               | Retirement<br>funding | Healthcare<br>administration | Funeral<br>insurance |                             |
| %             | n = 70                | n = 34                       | n = 30               | n = 251                     |
| Gauteng       | 46                    | 46                           | 37                   | 54                          |
| KwaZulu-Natal | 15                    | 10                           | 20                   | 19                          |
| Western Cape  | 25                    | 9                            | 25                   | 28                          |
| Eastern Cape  | 6                     | 16                           | 7.5                  | 15                          |
| Mpumalanga    | 1                     | 2                            | 2.5                  | 7                           |
| Free State    | 2                     | 3                            | 2                    | 5                           |
| Limpopo       | 1                     | 8                            | 2                    | 7                           |
| NW Province   | 2                     | 3                            | 2                    | 5                           |
| Northern Cape | 1                     | 2                            | 2                    | 2                           |
| Outside SA    | 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 sector, 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 sector is employed by Inseta’s members (123 large organisations with 150 to 70 000-plus employees).

**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.

# Retirement Funding



# Challenges Facing the Retirement Funding Sector

**Lack of a savings culture.** South Africa today lacks a savings culture. The national gross savings rate fell from a peak of 33,6 % of GDP in 1980 to 18,9 % in 1990, and declined further to 14,9 % in 2014.

**Inadequate preparation for retirement.** Two independent surveys completed in 2014 by Alexander Forbes and Old Mutual<sup>7</sup> found that most South Africans' retirement planning is still in disarray and could even be getting worse. These surveys found that

- Only four % of pensioners are confident that their retirement savings will not run out before they die
- Most members of the Alexander Forbes umbrella fund will probably receive a pension equivalent to less than 20 % of their pre-retirement salary, while only 6 % of members may receive a pension equivalent to more than 60 % of their pre-retirement salary. Most members can expect to receive a low pension despite an increase in the average contribution rate from 13,6 % to 14,7 % of pensionable income over the past three years.

**Government statistics confirm findings.** National Treasury estimates about half of South African household savings enter the pension and retirement sector, and only 10 % of people can maintain their pre-retirement level of consumption after they stop working. About 6-million workers are without employer-sponsored retirement benefits, and become dependent on the state when they retire.

## Key drivers of change

**Drivers affect the full spectrum of the retirement funding sector.** A number of key trends are driving change in the sector, but those that gave rise to the most comment by retirement sector respondents<sup>8</sup> are:

- Legislative and regulatory changes to boost the national savings rate and introduce mandatory retirement.
- Cost of administration and management fees
- Good governance, including trustee training and member education
- Low levels of preservation of retirement savings.

### *Changes in legislation and regulation*

**Generally positive attitude toward regulatory trends.** Respondents agree that compliance with regulation is costly, but that regulation also provides direct and indirect benefits to fund members.

**Retirement fund reform.** The Financial Services Board (FSB) and National Treasury Department have launched a pension reform programme to boost the national savings and investment rate. This programme is building on measures Government announced in the 2007 Budget to reform the pension and social security system, to bridge the gap between

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<sup>7</sup> The fourth annual Old Mutual Retirement Monitor, which involves 1 180 face-to-face interviews, including with pensioners; and Alexander Forbes' Annual Retirement Fund Survey, which focuses on the behaviour of the 201 369 members and the 644 participating employers of its umbrella fund.

<sup>8</sup> The information in this section is drawn from 10 face-to-face interviews with the leaders of the retirement funding sector.

the state old age grant and tax-incentivised savings for formally employed workers. Through the reform process government seeks to:

- Encourage employees to save and provide adequately for retirement
- Encourage employers to provide retirement saving plans as part of the employment contract.
- Ensure that employees receive fair returns for such retirement savings, that their savings are prudently and diligently managed, and that they are kept informed about their investments
- Improve standards of retirement fund governance, including trustee knowledge and conduct

**Four pillars of old age support.** The World Bank has defined four “pillars of income support in old age”:

- Pillar 0 – social grant system. This exists in South Africa in the form of the state pension, which is funded by taxes
- Pillar 1 – national scheme with mandatory membership. Not established in South Africa, but the SA Treasury is working toward developing a mandatory government pension scheme for all employees who are not contributing to an existing scheme
- Pillar 2 – mandatory occupation or accredited funds. South Africa has thousands of private funds, with contributions paid directly by the employer. Membership is not legally mandatory, but is usually required by employers providing such funds.
- Pillar 3 – individual retirement funds for voluntary investment. The South African insurance sector offers a range of vehicles such as retirement annuities for private investors.

**Recent legislation launched first stage of reform.** In recent years a series of amendments to existing financial services legislation have passed some of Government’s retirement reform proposals into law.

- In 2013 an amendment enhanced governance by ensuring that trustees of retirement funds manage the funds diligently and properly, and that employers are personally liable for failure to transfer collected retirement contributions into a pension fund.
- March 2014 saw an increase in the tax-free lump sum payment on retirement.

**Further reforms proposed.** The process of reform is ongoing and is set to continue for the foreseeable future.

- Government aims to align the regulations governing provident funds with those of pension and retirement annuity funds. In particular, provident fund members will:
  - Be required to convert at least two thirds of their retirement savings into an annuity upon retirement, instead of taking the full value as cash
  - Enjoy the same tax deduction as is applied to pension fund contributionsThis change was to be implemented in March 2015, but is now expected to be implemented in 2016 or 2017.
- Annexure D (Financial Sector Regulatory Reforms) of the 2015 Budget Review contains further proposals to deal with fund consolidation, standardisation, mandatory membership, and improved governance, to be finalised over the next few years.
- The Tax Laws Amendment Bills contain proposals to close loopholes to ensure that no retirement funds are inadvertently excluded from reform measures already enacted.
- Pre-retirement savings preservation measures are under consideration, to discourage employees from cashing in and spending rather than reinvesting their accumulated retirement savings when they change job.
- Retirement savings likely to become mandatory. Government is considering the creation of a state retirement fund that will be compulsory for all employees who do not belong to

an existing fund. Under debate is the question of how to make this affordable to lower income earners.

- Government has reached an agreement with the Association of Savings & Investment of SA on reduced charges for retirement savings. National Treasury plans to introduce “tax-preferred saving accounts”, in which investments won’t qualify for tax deductions, but all capital and interest gains will be exempt. Contributions to the funds will be subjected to a lifetime limit of R500 000, and R30 000 per year.

## ***Administration costs and fees***

**Inbuilt factors hamper decision-making.** Benefit design and fee structures within the South African retirement sector are almost entirely driven by market mechanisms, with only partial limits imposed by tax structures. As a result, the system has become both complex and expensive. Employers have difficulty identifying which decisions will be in the best interests of their retirement fund members, because they have to consider their options in the light of:

- Product complexity
- An array of high charges
- Low rates of preservation and participation in the retirement system, particularly by lower paid workers

**Product complexity is a significant cost driver.** If products are complex they become harder to compare, making it possible for providers to hide, and therefore raise, their charges. It may also allow providers to practise various forms of price discrimination. This situation is exacerbated because providers may not disclose many costs. Charges may be:

- Netted off investment returns, and therefore not disclosed
- Disguised as performance fees
- Disguised as charges for guarantees
- Not disclosed at all, as in the case of some basic costs of investment management, such as brokerage, bid-offer spreads, and Securities Transfer Tax.

**Various factors drive costs.** A variety of factors determine the costs incurred in managing a retirement fund.

- Size. Large funds incur costs that are recovered from members through charges.
- Preservation rate. Funds with a better preservation rate tend to accumulate more assets per member, and so cost less per unit of assets invested.
- Whether the fund is mandatory or voluntary. Voluntary funds incur sales and marketing costs, and the need to make them more attractive may affect design costs.
- Subsidisation. Some fund functions may be centralised or subsidised, which reduces costs.
- Level and cost of risk benefits. Funds with many low-paid members have much higher risk benefit costs than funds with higher-paid workers, due to the higher probability of death and disability in many lower-skilled, more manual jobs.
- Investment approach. Passive investment is usually cheaper than active investment.
- Functions performed. The provision of individual financial advice, the capacity to customize the fund’s investment strategies or risk benefits, and the level of discretion given to trustees all influence fund management costs.
- Service quality. It is more costly to hire professionals to provide a higher quality of service, greater financial soundness, and more skilled investment management than to use internal services.
- Approach to governance. Different forms of fund governance can significantly affect fund management charges, since this affects the relationship between the fund, the member and service providers, and how funds conduct themselves.

- The cost basis of the fund. In a competitive market, there should be a close match between the costs incurred by a fund and the charges levied
- Regulation of charges. Many countries regulate the type, size or number of charges retirement funds may levy, but in South Africa only commissions are limited.
- Redistribution. In South Africa, charging structures are often structured such that higher income earners subsidise the membership costs of lower income earners.
- Customer price sensitivity. Charges do not affect member cash flow but do affect benefits. Because of this delayed effect, members may not be sensitive to overall charges, and will tend to be more sensitive to initial charges than to recurring charges that appear smaller.
- Sales approach. If service providers sell through intermediaries, they may be able to increase both the complexity and the level of charges without deterring customers.
- Competition. The South African retirement funding sector rates low in several key elements of a competitive market, such as:
  - Transparency of charges and product terms
  - Comparability and portability of products between providers
  - Financially informed and active consumers
  - Low barriers to entry and exit by sponsors

## Good governance

**Trustee excellence key to good governance.** The scale of pension fund investments, coupled with economic, political and administrative risks, places a huge responsibility on trustees to govern these arrangements wisely. It is essential that they equip themselves with the skills they need to meet their obligations.

**Employer trustees need training.** Professional trustees are expected to have skill and experience, but employer trustees seldom serve on the board for more than one term, so lack both specialised knowledge and experience. In a recent study<sup>9</sup> PWC identified some of the issues around trustee training:

- Trustees are typically not released from their regular responsibilities to deal with fund issues or receive training, and they are usually not paid for the extra time involved. Research indicates that company trustees typically allocate only 17-22 hours a year to fund business.
- Many trustees lack the level of education to fully understand the complicated fiduciary issues surrounding investing other people's retirement money.
- Trustee education is often not treated as a priority. Trustees may be invited to training and fail to attend.
- Untrained trustees don't have the knowledge to exercise diligence, and leave decision-making to the administrators. This can create a conflict of interest. Many professional administration firms also function as brokers, and the lack of trustee involvement in decision-making means trustees can be persuaded to approve decisions that benefit the administrators but that aren't necessarily in the best interests of the members.
- Most trustees do not remain in office long enough to absorb and apply their education, training and on-the-job experience to the task of overseeing funds. According to a 2012 PwC SA survey, only 13 % of member-elected trustees have more than 10 years' experience.

**FSB should regulate standards.** Sector members believe the FSB should set required standards for education and training, and should establish and manage a system for formally recording relevant continuous professional development of trustees.

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<sup>9</sup> Retirement fund strategic matters and remuneration survey Fourth edition May 2014

**Member education also central to effective retirement investment.** Fund members who are not educated about their retirement investment tend not to understand the need to preserve retirement savings. Failing to preserve their investment during the course of their professional career can profoundly affect their ability to live independently during retirement.

**Retirement fund member education.** In research completed by Sanlam<sup>10</sup> in 2010, results indicated that investment knowledge is not high on the average member's agenda.

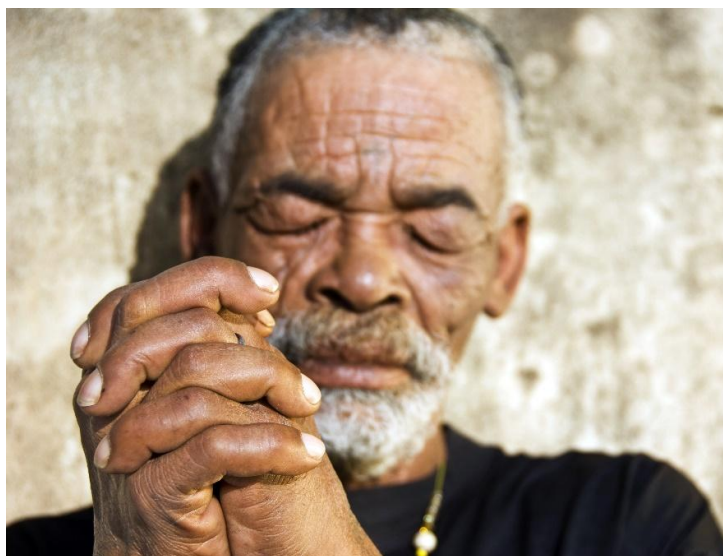
- 32 % of members had never reviewed their retirement portfolio construction.
- 49 % of respondents did not understand how market movements could affect their fund.
- 43 % were unaware of how their money was invested.
- 53 % were not interested in learning how to invest their retirement fund effectively.
- 69 % could not name one of their retirement fund trustees.
- 33 % were not aware that they could nominate trustees.

**Some sign of improvement.** The 2015 Sanlam Employee Benefits Benchmark Survey indicates that a drive by employers and retirement funds to educate retirement fund members was starting to pay off in the improved financial stability of pensioners.

**Member education still lacking effectiveness.** According to the 2015 Sanlam survey, the financial advice members receive from employers is usually limited to an induction process on the first day of employment, when they receive information about the company's retirement provisions.

- 36 % of fund members do not remember being informed about retirement benefits.
- More than 70 % of members do not revisit the decisions they made about their retirement fund when they were first employed.

## *Poor preservation of retirement savings*



### **Most members do not preserve long-term savings.**

The 2015 Sanlam Employee Benefits Benchmark Survey found that almost 60 % of retirement fund members who had withdrawn benefits after resigning or being retrenched during the previous year had taken their full benefit in cash. Most of the money withdrawn was used to reduce short-term debt and fund living expenses.

### **Trustees concerned about failure to preserve retirement savings.**

According to Sanlam, 70 % of trustees believe that the lack of preservation is the

biggest mistake a member can make with regard to planning for their future retirement. They believe members make financial decisions without fully understanding the implications for their long-term future.

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<sup>10</sup>2010 annual Sanlam survey of SA retirement fund sector



## Respondent perceptions of key drivers

**Respondent rating of key drivers.** We asked respondents from small, medium and large companies<sup>11</sup> to rate 26 drivers that our research identified as key to change over the next five years. We asked them to rate the impact they believed these drivers would have on their sector. They used a scale of 1 to 10 where 1 = very little impact, 5 = some impact and 10 = significant impact.

### Key drivers with “significant impact”

|  | Overall | Large | Medium | Small | SMME |
|--|---------|-------|--------|-------|------|
|  | N=60    | N=12  | N=12   | N=36  | N=44 |
| Changing and new regulation  | 73      | 33    | 42     | 81    | 87   |
| Rapid technology change  | 63      | 42    | 58     | 69    | 62   |
| Increased regulation and reporting requirements                                  | 63      | 33    | 25     | 78    |      |
| Longevity: Retirees come back as consultants                                     | 62      | 50    | 42     | 78    | 49   |
| Good governance - King 3 board performance board evaluation PF 130               | 62      | 58    | 42     | 69    |      |
| Trends in digital technology   | 60      | 50    | 42     | 64    | 60   |
| Risk management  | 60      | 83    | 42     | 69    |      |
| Pension fund reforms   | 58      | 33    | 42     | 61    |      |
| Integration of social media with employer's corporate strategy                   | 57      | 58    | 33     | 67    | 60   |
| Political trends   | 55      | 25    | 42     | 67    | 49   |
| Broader consumer awareness, education and protection                             | 53      | 50    | 50     | 58    |      |
| Globalisation, and an increasingly interconnected world                          | 53      | 50    | 58     | 58    | 29   |
| Social security - pressure on solvency of social security and welfare programmes | 52      | 25    | 42     | 61    | 29   |
| Cost of compliance   | 52      | 0     | 42     | 64    | 84   |
| Ageing workforce loss of skills – skills not being passed on                     | 50      | 33    | 50     | 58    | 55   |
| Emerging markets and growth in Africa  | 48      | 67    | 50     | 39    | 49   |
| Social security and wellness   | 48      | 33    | 33     | 58    | 29   |
| Solvency Assessment and Management framework (SAM)                               | 48      | 8     | 42     | 58    | 24   |
| Social instability and terrorism   | 47      | 25    | 25     | 61    | 22   |
| Building analytical capabilities for the information economy                     | 43      | 25    | 25     | 47    | 36   |
| Saturated markets limiting growth in some sectors of the local market            | 43      | 75    | 17     | 58    | 42   |
| Green Agenda: Protecting environment by minimising environmental footprint       | 40      | 67    | 25     | 47    | 25   |

*This table shows the percentage of respondents who gave the key driver a 9 or 10 rating. It is significant that the HR representatives who took part in this telephonic survey had very different perceptions of the key drivers than did sector leaders at CEO level.*

<sup>11</sup> Respondents from small, medium and large company HR departments were interviewed telephonically, using guidelines developed based on the face-to-face interviews with sector leaders. Large employees are defined as those with more than 150 employees. Medium have 50-150 employees. Small have fewer than 50 employees. SMME representatives completed a survey online.

# Retirement Funding Sector Perceptions of Transformation

**Ongoing process of transformation.** The retirement sector has made progress toward greater inclusion of Black professionals over the past 20 years.

- In 1995, the Association of Black Securities and Investment Professionals (ABSIP), was established to increase representation of Black professionals in the securities and investment sector, to address the objectives of previously disadvantaged sector players and to create a forum for Black professionals.
- In 2004, the Financial Sector Charter was established. This defined the financial sector code in terms of the BBBEE Act, committing to promote a globally competitive financial services sector that reflects the demographics of South Africa.
- In 2001, Regulation 28 of the Pension Funds Act was amended to require trustees to promote BBBEE when contracting with service providers.



## Recruitment challenges experienced by employers

We asked respondents to rate various statements about transformation within the retirement sector on a scale of 1-10, where 1 = completely disagree and 10 = completely agree. We then asked them to rate their own companies' level of success areas, where 1 = not at all successful and 10 = very successful.<sup>12</sup>

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

### High-rated responses to statements about transformation

|  |          | Overall | Large | Medium | Small | SMME |
|--|----------|---------|-------|--------|-------|------|
| %  |          | N=60    | N=12  | N=12   | N=36  | N=44 |
| Black representation at management level needs to improve  | Sector   | 58      | 58    | 75     | 53    | 58   |
| We actively recruit, train and promote qualified Black people to upper management positions                                  | In-house | 43      | 33    | 75     | 36    |      |
| Larger financial services companies are more successful in achieving transformation  | Sector   | 57      | 25    | 58     | 67    | 40   |
| We are actively effecting change within our own organisation   | In-house | 62      | 58    | 58     | 64    |      |
| BEE compliance does not always mean a company meets employment equity requirements.  | Sector   | 53      | 58    | 42     | 56    | 42   |
| We are compliant and have achieved employment equity across all levels   | In-house | 53      | 42    | 75     | 50    |      |
| There is a skills shortage in certain areas of the retirement sector   | Sector   | 48      | 25    | 67     | 50    | 64   |
| Our organisation experiences a skills shortage in certain areas  | In-house | 45      | 50    | 67     | 36    |      |
| Young Black employees can be easily influenced to change jobs  | Sector   | 62      | 48    | 75     | 64    | 58   |
| We have curbed job hopping   | In-house | 42      | 17    | 50     | 47    |      |
| The sector must recruit, train and promote qualified Black people to ensure an ongoing supply of upper management candidates | Sector   | 62      | 83    | 50     | 58    | 65   |
| We try to collaborate with the sector to promote skills development and eliminate discrimination                             | In-house | 65      | 58    | 83     | 61    |      |
| Companies increasingly need people with wider, more flexible skill sets to meet the needs of the changing work environment   | Sector   | 75      | 50    | 75     | 83    | 65   |
| We are increasingly looking for people with wider, more flexible skill sets  | In-house | 55      | 25    | 75     | 58    |      |
| Inadequate school education is a key underlying cause of skills shortages  | Sector   | 73      | 67    | 75     | 75    | 64   |
| We have found entry level candidates in the work place lack suitable qualifications  | In-house | 37      | 33    | 50     | 33    |      |
| There is a lack of suitable candidates for middle management positions   | Sector   | 43      | 33    | 50     | 44    | 55   |
| We have experienced difficulty in finding suitable candidates for middle management positions                                | In-house | 35      | 33    | 42     | 33    |      |
| Employers need a transformation policy to encourage and promote employment equity  | Sector   | 60      | 83    | 50     | 56    | 58   |
| We create opportunities within our organisation for all employees to grow within the organisation                            | In-house | 70      | 58    | 75     | 72    |      |

*This table shows the percentage of 8-10 ratings given with regard to perceptions of transformation within the sector, and direct in-house experience viewed from within HR departments. In many respects there is a clear disconnect between perceptions of sector challenges, and the actual challenges faced by employers.*

# Addressing Skills Needs within the Retirement Funding Sector

**Trustee training an important aspect of retirement fund governance.** Both sector and Government recognise that many trustees lack the competence to make investment and management decisions in the best interest of fund beneficiaries. Yet most company trustees who help oversee hundreds of billions of rand in retirement fund savings are selected by their fellow employees or appointed by management, often with no consideration for their level of financial skill.

**Challenging field of special expertise.** The complexities of pension-related law and regulations (Pension Funds Act, Income Tax Act, Divorce Act, Long-Term Insurance Act, Financial Advisory and Intermediary Services (FAIS) Act, Regulation 28, etc), as well as difficulty of making wise investment decisions, are enough to challenge even full-time professional trustees. As National Treasury embarks on a programme of retirement reform, Government is concerned that many current sector practices serve the retirement fund sector rather than retirement fund savers.

<sup>13</sup>**Early intervention within schools is essential.** All the large life and pension 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

**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 sector 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 sector. 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 sector 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 sector 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.

**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

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<sup>13</sup> The following data in this section has been imported from Part 2, The Life Insurance Sector. Respondents interviewed named all of these issues in addition to trustee training.

to an organisation. Respondents perceive a need for learnerships to offer more practical application and hands-on implementation.

**In-house training has strong advantages.** Most respondents favour growing needed skill sets 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.

**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.



**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.

**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.

**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 sector 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.

**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.

**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.

## Employers' opinions about skills shortage

This portion of the study<sup>14</sup> focused on respondents' experience in terms of finding the skills they needed, and their experience of skills shortages.

We read respondents a list of reasons that employers found it challenging to implement employment equity. We asked them to indicate which of these issues they had faced within their own organisation, and rate the impact it had had on their ability to match jobs to individuals with the appropriate skill set and technical competence to master their work and advance their careers. We asked respondents to use a rating scale where 1 = very little impact and 10 = significant impact.

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

### Factors that have a high Impact on companies' ability to find needed skills

|  | Overall | Large | Medium | Small | SMME |
|--|---------|-------|--------|-------|------|
|  | N=60    | N=12  | N=12   | N=36  | N=44 |
| Poor maths and science outcomes of school leavers  | 67      | 58    | 67     | 61    | 67   |
| Learnerships are focused on entry level rather than more advanced candidates   | 57      | 50    | 67     | 47    | 44   |
| Lack of appropriately qualified young Black candidates   | 51      | 50    | 50     | 42    | 52   |
| Pressure of BBEEE requirements means many candidates are promoted before they are qualified  | 49      | 33    | 42     | 50    | 43   |
| The shortage of Black candidates with required qualifications inflates the salaries of suitable candidates   | 49      | 33    | 58     | 44    | 52   |
| There are too few Black candidates in certain areas, e.g risk management, investment management, governance and compliance.                                  | 44      | 25    | 58     | 42    | 47   |
| Despite the memorandum of agreement between the financial services Setas there is insufficient information about of how to access the most suitable training | 44      | 25    | 42     | 47    | 44   |
| Younger BEE candidates often display a culture of entitlement  | 43      | 42    | 42     | 42    | 52   |
| Younger Black employees and they are easily enticed to change jobs   | 42      | 50    | 58     | 47    | 50   |
| Suitable candidates are not attracted to the retirement sector as a career   | 36      | 25    | 33     | 36    | 43   |

*This table shows the percentage of respondents who gave 8-10 ratings to each area of concern. It indicates that poor maths and science outcomes from schools, and the need to provide suitable qualifications for BEE candidates, are the major challenges to employment equity.*

We asked respondents to name the areas in which their company was experiencing the greatest skills shortages.

### Major skills shortages

|   | Overall | Large | Medium | Small | SMME |
|---|---------|-------|--------|-------|------|
| %   | N=60    | N=12  | N=12   | N=36  | N=44 |
| Actuarial   | 23      | 33    | 25     | 39    | 32   |
| IT professionals  | 22      | 33    | 33     | 36    | 54   |
| Investment management   | 20      | 33    | 17     | 33    | 33   |
| Compliance skills   | 20      | 33    | 8      | 33    | 37   |
| Candidates with suitable soft skills for middle and senior management | 18      | 17    | 8      | 31    | 24   |
| Accounting experts  | 15      | 25    | 0      | 25    | 17   |
| Accounting and tax specialists  | 13      | 25    | 8      | 22    | 37   |
| Underwriters  | 13      | 25    | 0      | 22    | 35   |
| MBA   | 10      | 25    | 8      | 17    | 24   |
| Client services   | 8       | 0     | 17     | 14    | 28   |
| Governance  | 8       | 8     | 8      | 14    | 33   |
| Claims assessors  | 8       | 8     | 8      | 14    | 17   |
| Sales and distribution  | 7       | 0     | 8      | 11    | 33   |
| Legal   | 7       | 8     | 0      | 11    | 37   |
| Other   | 13      | 8     | 0      | 22    | 20   |

*Retirement sector companies appear to have the greatest need in the areas of IT, compliance, accounting and tax specialists and underwriters.*

# Healthcare Administration





# Challenges Facing Healthcare Administration Sector

**Universal coverage a challenging goal.** Government's goal of making quality healthcare available and accessible to all citizens within the next 14 years demands an effective, sustainable approach by both the public and the private healthcare systems.

**Healthcare administration sector funding unsustainable.** National Health Insurance (NHI) is not expected to change the healthcare landscape overnight, but given economic realities the private healthcare administration sector's current funding arrangements are not sustainable, according to sector observers.

**Regulation recommended to reinforce private healthcare.** According to a study published in 2013<sup>15</sup>, funding through medical schemes and hefty out-of-pocket payments is threatened by a lack of regulation in some areas. The study indicates that targeted regulation can protect an sector by defining parameters that steer players in a desired direction and protect citizens. The Competition Commission is expected soon to publish the findings of its private healthcare enquiry, which started in January 2014, and make detailed recommendations regarding government intervention and regulation.

## Key drivers of change

**Six key drivers.** A number of key trends are driving change in the healthcare administration sector, but those that gave rise to the most comment by respondents<sup>16</sup> are:

- NHI
- Legislative and regulatory changes
- Cost management and value delivery
- Shrinking market due to mergers and acquisitions
- Growing the lower income market
- Development of digital technology<sup>17</sup>

## National Health Insurance

**Inequitable quality of healthcare remains a concern.** Administrators say the pilot phase of NHI has delivered mixed results, although many of the country's 10 pilot sites making reasonable progress to improve the public health.

**Logistical details still unclear.** Healthcare administrators are waiting for clarity as to how it will be funded and administered, and what role, if any, the private sector will play. They do not expect NHI to have any significant effect on the private healthcare market during the next five years.

**Concerns about possible redundancy.** Administrators fear that centralised control of the NHI will make them redundant, as claims will be handled directly by an NHI administrator. 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.

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<sup>15</sup> The South African Private Healthcare Sector: Role and Contribution to the Economy - A study conducted by Econex on behalf of South African Private Practitioners Forum (SAPPF) and HealthMan, November 2013

<sup>16</sup> The information in this section is drawn from seven face-to-face interviews with the leaders of the healthcare administration sector.

<sup>17</sup> We discussed this trend with sector leaders, but because the technology is still at an early stage of development we did not raise it with HR representatives of smaller companies.



**Private sector administrators a valuable asset.** Healthcare administrators within the private healthcare administration sector have over many years developed administration systems, skills and knowledge. The Board of Healthcare Funders (BHF) considers private medical administrators' skills a national asset that can benefit the NHI. However, Dr Motsoaledi is critical of private healthcare costs and has stated that most private healthcare services, including their administration, are "designed for the rich with exorbitant prices that are unaffordable to the NHI".

**Administration to be considered during phase 2.** The NHI is in its first, five-year implementation phase, during which health facilities are being upgraded and health workers recruited. Dr Motsoaledi has said the second phase will focus on the financing and administration of the scheme, which is likely to involve the introduction of either additional general taxes or compulsory salary deductions.

**Funding decision.** During the second phase, the Health Department will make final decisions on how services will be purchased and claims and payments processed. The Department must choose between:

- A single purchaser system, in which a single fund purchases health services across the NHI, as envisaged in the NHI Green Paper of August 2011
- A multi-purchaser system, in which different funds – for instance district health departments or medical schemes – may also purchase medical services on behalf of the NHI

**Potential to involve private administrators.** South Africa could have a single NHI fund, or single purchaser, but multiple payers, with the administrators managing the payments. This would leave open the option for the NHI to contract private medical administrators – companies that administer the claims and payments of medical schemes – to help process and manage claims. A Treasury document on NHI funding, which could provide more clarity, has yet to be made public.

**Private administrators could cut development costs.** The Actuarial Society of SA has estimated that implementing the NHI will cost R235-billion, but could be as high as R336-billion if modelled on current private sector expenditure. However Rajesh Patel from the benefit and risk department of the BHF says the cost of setting up a new NHI payment system from scratch would be more expensive than using established, proven private administration systems.

## *Legislative and regulatory changes*

**Slow progress.** NHI has been high on Government's political agenda since 2007, but progress to date has been slow. Government published a broad outline of its plans in a Green Paper in August 2011, but despite repeated promises the more detailed White Paper has yet to be published. According to Dr Motsoaledi, the White Paper will launch an affordable plan involving both public and private sector providers.

**Low-cost benefit options.** A proposal to introduce low-cost benefit options (LCBOs) for people who can otherwise not afford medical cover has received widespread support from Government and sector. It provides a framework and detailed guidelines on LCBOs that allows for exemptions from compliance with relevant sections of the Medical Schemes Act.

**The demarcation debate.** This debate between medical schemes and insurers regarding their respective roles is ongoing.

**Solvency framework for medical schemes.** A project to review the solvency framework for medical schemes commenced during 2014, and the Council for Medical Schemes (CMS) is continuing to treat this as a priority project. The sector will be invited to comment on a proposed framework in 2016.

## *Cost management and value delivery*

**Non-healthcare expenditure (NHE).** Expenses that do not relate directly to the cost of medical claims include administration fees, managed care fees, broker commission, distribution costs, bad debts and reinsurance costs. In terms of CMS guidelines, medical schemes should hold NHE at or below 10 % of contribution income.

**Higher than guideline but declining.** According to Alexander Forbes, total NHE as a proportion of gross contribution income declined to 11,2 % in 2012 from 11,3 % in 2011 and 12,0 % in 2010. This decline is probably due to the fact that NHE increases with general inflation, while contributions increase with medical inflation (which is usually higher than general inflation).

**Negotiate lower prices.** When NHI comes into play, it is expected to negotiate lower prices with both medical schemes and administrators. A tendering system and economies of scale should help reduce costs across the board.

**Need a more sustainable approach.** NHI will also force private healthcare providers to rethink their approach to service provision. The existing infrastructure is too expensive for a national health environment and is not sustainable. When Medscheme tendered for the Government Employees' Medical Scheme (GEMS), it used technology to streamline and automate processes and drastically cut costs.

## *Shrinking market*

**Funds consolidating through mergers and acquisitions.** The number of registered medical schemes decreased from 85 in March 2014 to 83 in March 2015. Sector observers see the ongoing merging of medical schemes as a natural market process, as smaller schemes are absorbed into larger entities and achieve greater risk pooling.

**Loss of administration business.** A continued decline in the number of medical schemes market could drive smaller administrators out of business. As at 31 March 2015, the sector is served by 17 accredited third-party administrators, while 11 self-administered medical schemes have been issued with compliance certificates.

## *Growing the lower income market*

**Cost of medical cover too high for many.** Most of the 15-million South African households that lack medical scheme cover incur medical expenses, which they pay out-of-pocket. In the absence of legislation compelling medical aid membership, affordability is the major reason for not belonging to a medical scheme.

**State subsidy could extend range of cover.** International examples show that if the state sponsors low income earners in the same way that employers subsidise medical scheme members within the formal sector, health insurance can be extended in South Africa to include low earners, including people working in the informal sector.

**Low cost benefit options framework under consideration.** The CMS has developed a paper proposing the introduction of a LCBO framework as its contribution to the draft demarcation regulations published by National Treasury and the FSB. The CMS now plans to consult with sector and develop a framework to guide medical schemes that may be interested in applying for these types of options.

## *Rise of digital technology*

**Key role in future of healthcare.** Technology adoption, and development of technological skills, has been slower in healthcare administration than in other financial services sectors. However sector leaders perceive it as a critical tool for transforming patient engagement, enabling personalised medicine, augmenting labour and contributing to better outcomes.

**Wearable devices gaining ground.** Wearable health technology has the potential to transform medical care. There is increasing clinical evidence of the value of continuous physiological data in managing chronic diseases and monitoring patients' post-hospitalization. New wearable health gadgets range from headsets that measure brainwaves to clothes that incorporate sensing devices for personal health monitoring. ABI Research<sup>18</sup> projects that by 2016 global sales will reach more than 100 million medical devices and 80 million sports and fitness-related monitoring devices annually.

**Wi-fi sensor networks provide affordable real-time monitoring.** Recent technological advances in wireless communications and wireless sensor networks have enabled the design of low-cost, intelligent, tiny, lightweight medical sensor nodes that can be strategically placed on the human body, to monitor various physiological vital signs for a long period of time and providing real-time feedback to the user and medical staff. This promises to revolutionize health monitoring.

## Respondent perceptions of key drivers

**Respondent rating of key drivers.** We asked respondents<sup>19</sup> to rate 26 drivers that our research identified as key to change over the next five years. We asked them to rate the

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<sup>18</sup> "Wireless Health and Fitness", ABI Research

<sup>19</sup> Respondents from HR departments with less than 500 employees were interviewed telephonically, using guidelines developed based on the face-to-face interviews with sector leaders. SMME representatives completed a survey online.

impact they believed these drivers would have on their sector. They used a scale of 1 to 10 where 1 = very little impact, 5 = some impact and 10 = significant impact.

### Key drivers with “significant impact”

|   | Company HR | SMMEs |
|---|------------|-------|
|   | N=27       | N=34  |
| Lack of qualifications  | 64         | 59    |
| Poor maths and science outcomes of school leavers                                   | 64         | 63    |
| Lack of apprenticeship - culture of entitlement                                     | 56         | 56    |
| Negative perception of the sector – people not attracted to the sector              | 56         | 56    |
| Overall lack of Black candidates in speciality skilled areas                        | 52         | 59    |
| Modern technology – people no longer think for themselves – no initiative           | 52         | 50    |
| Learnerships should be multi-disciplined and include using modules from other setas | 52         | 53    |
| Climbing the ladder too soon – not prepared or qualified to take on the positions   | 48         | 47    |
| Poaching / job hopping – no loyalty, go to the highest bidder                       | 48         | 69    |
| Learnerships are only at the entry level and should be also at higher levels        | 44         | 53    |
| Fewer large players that used to incubate and train people.                         | 36         | 44    |
| IT skills so short in South Africa that many employment options available           | 24         | 53    |
| IT staff difficult to attract and retain  | 24         | 44    |

*This table shows the percentage of respondents who gave 8-10 ratings to each key driver to change. It indicates that a lack of qualifications and poor maths and science outcomes from schools are the major factors influencing change within their sector.*

## Perceptions of transformation

**Transformation mostly at lower management levels.** The availability of Black and female candidates with needed skills has improved within the healthcare administration sector, but this is evident mainly at junior management level and below. At higher more senior management levels the numbers of Blacks and women declines noticeably.

**Complex demand of sector.** A reason for the slow transformation of the healthcare administration sector is its relative complexity. As staff climb the ladder they must undergo a continual learning process. The nature of the sector is such that much of this training needs to be hands-on, making it necessary to promote from within the sector rather than bringing people in from the outside.

**Unwillingness to progress.** Sector members say that, while there has been an influx of Blacks into the sector, they tend to be hesitant to step out of their comfort zone and undertaking the challenges involved in moving up within their organisations. Few recognize the benefits of learning more than the skills they already know, and tend to be content with no more than their annual salary increase.

**Male dominance being challenged.** Men dominate this sector, especially at upper management levels, where men tend to be in the 40-plus age range. However increasingly women are returning to the sector after spending a period of their time focused on raising a family, and some of them are showing the drive and ability to push for more senior roles.

### Recruitment challenges experienced by employers

We asked respondents in company HR departments to rate various statements about transformation within the healthcare administration sector on a scale of 1-10, where 1 = completely disagree and 10 = completely agree. We then asked them to rate their own

companies' level of success areas, where 1 = not at all successful and 10 = very successful.<sup>20</sup>

### Healthcare administration recruitment challenges

| Perception of the sector   |    | Actual experience   |    |
|--|----|---|----|
| N = 34   |    |   |    |
| Skills shortage is a serious concern in the healthcare administration sector. Companies increasingly need people with a wider and more flexible skill set to meet their needs. | 70 | Ongoing skills shortage is a serious concern for our organisation. We are increasingly looking for people with a wider and more flexible skill set to meet our needs. | 44 |
| All sectors of the healthcare administration sector need to work together to recruit, train and promote qualified Black people to senior and top management positions.         | 67 | Where we can we work with other sector members to promote skills development and eliminate discrimination.  | 41 |
| Employers need a transformation policy to encourage and promote employment equity within the healthcare administration sector.   | 67 | We create opportunities for all employees to grow within our organisation   | 48 |
| The poor standard of school education is a key underlying cause of skills shortages  | 59 | We have found entry level candidates in the work place lack suitable qualifications   | 33 |
| BEE compliance does not always mean a company fulfils employment equity requirements.  | 56 | Our organisation has effected an acceptable level of employment equity across all employee levels as well as being compliant  | 52 |
| There is a skills shortage in certain areas within the healthcare administration sector, and too few skilled individuals in the pipeline available to the sector               | 52 | Our organisation experiences a skills shortage in certain areas, with a lack of suitable candidates to fill the positions.  | 44 |
| Black representation at the professionally qualified level needs to be greatly improved.   | 44 | We recruit, train and promote qualified Black people to senior and top management positions.  | 48 |
| There is a serious lack of suitable candidates for middle management positions.  | 44 | We have experienced difficulty in finding suitable candidates for middle management positions.  | 41 |
| Young Black employees tend to readily change jobs for monetary or other reasons.   | 41 | We have been successful in curbing job hopping.   | 26 |
| The larger institutions within the health services sector are more successful in achieving transformation.   | 37 | We are actively effecting change within our own organisation.   | 48 |

*This table shows the percentage of respondents who gave 8-10 ratings regarding their perceptions of transformation within the sector and the actual experience within HR departments. Many of these ratings indicate a clear divergence between the perception of the sector need and the actual experience of day-to-day reality.*

<sup>20</sup> Because of the small sample base, respondents' perceptions cannot be considered statistically representative of their segment of the sector. While the overall results may be regarded as representative, the data broken down by size of company is presented for interest purposes only.

# Addressing Skills Needs within Healthcare Administration

**Constrained access to needed skills.** A challenge facing healthcare administrators is that they need staff with practical medical skills and experience to fulfil certain roles, but the healthcare administration sector cannot afford to lose doctors, nurses and other health professionals.

**Complex mix of skills required.** Healthcare organizations operate in a constantly changing business environment, and as such require a high level of management expertise. Health managers must both possess managerial skills and be familiar with the realities of healthcare.

## Employers’ opinions about skills shortage

This portion of the study focused on respondents’ experience in terms of finding the skills they needed, and their experience of skills shortages. We read respondents employers’ reasons for the difficulty of implementing employment equity. We asked respondents to indicate which of these issues they had faced within their own organisation, and to rate the impact it had had on their ability to correctly match jobs to individuals with the skill set and technical competence to master the work and advance their careers.

Respondents used a rating scale where 1 = very little impact and 10 = significant impact.

### Reasons for difficulties experienced in finding needed skills

|  | Overall | SMME |
|--|---------|------|
|  | N=34    | N=36 |
| Learnerships are focused at entry level candidates and should be more available for advanced level candidates.   | 52      | 53   |
| The shortage of suitable BEE candidates with the required health IT skills in South Africa can lead to inflated remuneration packages                          | 48      | 53   |
| Suitable candidates are not attracted to the healthcare sector as a career, because it doesn’t offer a lot of scope for development                            | 48      | 56   |
| Poor maths and science outcomes of school leavers  | 48      | 63   |
| Because employers need to fulfil BEE requirements many candidates are promoted before they are qualified to do the job   | 44      | 48   |
| Younger BEE candidates often display a culture of entitlement  | 44      | 69   |
| There is a lack of Black candidates in needed skills areas.  | 44      | 56   |
| Although there is a memorandum of agreement between the services setas there is insufficient information about how to access suitable training for a candidate | 44      |      |
| Younger Black employees are easily enticed to change jobs  | 41      | 48   |

*This table shows the percentage of respondents who gave 8-10 ratings regarding their perceptions of the reasons employers give for slow transformation.*

**Skills shortage.** We asked respondents to name the areas in which their company was experiencing the greatest skills shortages.

**Skills shortages within healthcare administration**

|  | Overall | SMME |
|--|---------|------|
|  | N=34    | N=36 |
| Health actuaries                                 | 19      | 9    |
| Accounting experts                               | 19      | 24   |
| Soft skills for middle and senior management     | 15      | 15   |
| IT professionals – e-health                      | 11      | 30   |
| Sales and distribution                           | 11      | 22   |
| Professional skills in healthcare administration | 11      |      |
| Claims assessors                                 | 11      |      |
| Medical loss ratio adjustors                     | 7       | 15   |
| Client services                                  | 7       | 15   |
| Accounting and tax specialists                   | 7       | 24   |
| Governance skills                                | 7       | 28   |
| Public health - looking after populations        | 7       |      |
| Health coding skills                             | 7       |      |
| Medical advisor skills                           | 7       |      |
| Underwriters                                     | 7       | 24   |
| Compliance skills                                | 7       | 28   |
| Legal skills                                     | 7       | 22   |
| MBA  | 7       | 15   |
| Medical auditing                                 | 7       |      |

*This table shows the percentage of respondents whose companies were experiencing given shortages. The greatest need is for health actuaries and accounting experts.*



# Funeral Insurance



# Challenges Facing the Funeral Insurance Sector

**Long history of sector.** The apartheid regime largely ignored rural and poor communities, which responded by developing a thriving informal business sector, of which the funeral sector is one example. Today, funeral insurance is the most prevalent form of insurance in South Africa, accounting for just under 90 % of all risk policies written.

**Key features.** Characteristics of this market are:

- It is provided by a large number of insurers, most of whom also are licensed to sell life insurance.
- It features a large number of unregistered providers that do not have the means to comply with regulatory requirements.
- A large percentage of policyholders are low-income and unsophisticated, and cannot always read or properly understand the terms of the insurance policies. They are completely dependent intermediaries to explain what they are buying.
- A high percentage of patrons live in rural areas, and many do not have bank accounts.

**Especially important to low end of market.** More than 25% of funeral insurance is through burial societies and stokvels. Funerals are costly affairs, especially within sectors of the lower income community where there are traditional social expectations that go beyond the cost of a casket and a burial lot. For these groups, funeral insurance amounts to savings for an inevitable need.

## Key drivers of change

A number of key trends are driving change in the sector, but those that gave rise to the most comment by respondents<sup>21</sup> are:

- Legislative and regulatory changes
- Skills development and qualifications
- Growing the lower income market

### *Legislative and regulatory changes*

**Unregulated providers.** One of the challenges of this market is its informal structure. Funeral insurance falls under the Long-term Insurance Act of 1998, which is designed to ensure that insurers are financially sound and ethical, but it is difficult to enforce in an extremely informal market environment.

**Concerns over abuse.** The funeral insurance sector first became a target of debate in 2003, after evidence of abusive practices was presented to the Parliamentary Committee on Finance. Following hearings in 2003 and 2005, Parliament requested National Treasury and the FSB to investigate abuses and propose regulatory reform to protect vulnerable consumers, especially those in the lower-income segment.

**Regulation of the sector.** The FSB and National Treasury explored a microinsurance policy framework over the next few years, in an effort to formalise funeral insurance and facilitate the commercial insurance sector access to the lower-income market. In 2011 they issued the South African Microinsurance Regulatory Framework. Working groups, comprised of

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<sup>21</sup> The information in this section is drawn from five face-to-face interviews with the leaders of the funeral insurance sector.

representatives of National Treasury, the FSB, sector and other stakeholders, are still in process of translating the broad policy proposals outlined in the regulatory framework into more detailed legislation.<sup>22</sup>

**Consumer protection is key.** A primary driver of the proposed new regulations is protection of the consumer. The goal is to ensure that products sold to consumers are appropriate, affordable and suitable for their identified risk needs.

## *Skills development and qualifications*

**Creative approach to formalisation.** Reformers are seeking to make the formal sector more attractive to entrepreneurs through training, skills enhancement and business development. They encourage entrepreneurs to join a recognised organisation such as the SA Funeral Practitioners' Association or the National Funeral Directors' Association.

**Training generally not through Inseta.** The training provided by these associations is through the services seta. Skills development that falls under Inseta is within the ambit of insurance regulatory organisations, and does not touch on services provided by funeral providers. However many informal funeral insurers and burial societies play a dual role, both supplying the service and selling the policy.

**Uneducated sales force presents a risk.** Many representatives involved in the formal and informal funeral sectors have not matriculated, much less attained any formal qualification. This lack of knowledge can easily give rise to selling of inappropriate products, misunderstandings about policy terms, misleading marketing, inaccuracies in calculating proceeds, poor management, and misconduct by illegal operators.

**Standards exceed capabilities.** All intermediaries and financial advisors are governed by the FAIS Act, which demands registration as a financial service provider, payment of annual licence fees, appointment of a compliance officer (except for sole proprietors), submission of annual compliance reports and financial statements, and numerous other requirements. For many providers in the informal funeral sector the regulation and qualification requirements are insurmountable.

**Wide range of skills development needs.** Respondents agree that skills development must cover the full spectrum, including:

- Improving the broad base of skills within the informal sector
- Helping vulnerable groups become more productive
- Helping schools develop students with high value "soft skills" like critical thinking, problem-solving, teamwork and communication
- Grooming and training of potential sales and marketing students at entry level
- Encouraging such students to move into internships and obtain qualifications

## *Growing the lower income market*

**Funeral business opens underserved market.** Representatives serving the funeral insurance sector are well positioned to introduce other low-entry insurance products to low-income buyers, as proposed microinsurance legislation make insurance more affordable.

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<sup>22</sup> The International Development Research Centre, Canada, funded a study, "Reaching the client: Update on microinsurance innovation in South Africa", 2010, commissioned by Finmark Trust and published by the Centre for Financial Regulation and Inclusion. The study investigated the implications of the microinsurance policy framework for the funeral assistance business.

**Simplified products will attract market.** Key features of the proposed legislation include a lower entry barrier and less burdensome requirements. Policies would need such options as:

- A one-year term that the policyholder must renew
- Simple, easily understood risk-only products
- Low benefit caps
- No exclusions for pre-existing conditions
- A grace period for overdue premiums

## Respondent perceptions of key drivers

**Respondent rating of key drivers.** We asked respondents<sup>23</sup> from company HR departments to rate 26 drivers that our research identified as key to change over the next five years. We asked them to rate the impact they believed these drivers would have on their sector. They used a scale of 1 to 10 where 1 = very little impact and 10 = significant impact.

### Respondent rating of key drivers

|  | Corporate HR |
|--|--------------|
| %  | 30           |
| Effect of rapid technology on the sector                                     | 52           |
| Integration of social media with the corporate strategy of the company       | 52           |
| Debt and inflation   | 52           |
| Increased regulation and reporting requirements                              | 52           |
| Impact of changing and new regulations                                       | 48           |
| Cost of compliance   | 44           |
| Ageing workforce leading to loss of skills                                   | 40           |
| Emerging markets – growth in Africa  | 40           |
| Client-centricity: broader consumer awareness, education and protection      | 36           |
| Challenges of big data   | 36           |
| Social instability and terrorism   | 36           |
| Rise of smart machines and systems   | 36           |
| Trends in digital technology   | 32           |
| Political trends   | 32           |
| Globalisation and interconnected risks                                       | 28           |
| Cross-cultural competency  | 24           |
| Pressure on solvency of social security and welfare programmes               | 20           |
| Geopolitical instability and global resource scarcity                        | 20           |
| Saturated markets - growth potential limited in some sectors of local market | 20           |
| Solvency Assessment and Management framework (SAM)                           | 20           |
| Longevity: impact on the sector  | 16           |
| Building analytical capabilities for the information economy                 | 12           |
| Superstructured organisations  | 12           |
| IFRS 10 and 3rd party cell captive arrangements                              | 12           |
| Cost of climate change   | 8            |
| The Green Agenda: the changing landscape                                     | 4            |

*This table shows the percentage of respondents who gave 8-10 ratings regarding key drivers affecting their sector.*

<sup>23</sup> Respondents from HR departments of companies with fewer than 500 employees were interviewed telephonically, using guidelines based on the face-to-face interviews with sector leaders. The funeral sector was not covered in the online survey of SMMEs.

# Perceptions of Transformation in the Funeral Insurance Sector

**Variable progress.** Respondents indicated that the pace of transformation differed between companies. Some funeral insurance providers have achieved full integration, while within other insurers transformation is mostly in the lower ranks up to junior management level.<sup>24</sup>

**Too few Black broker consultants.** Black broker organisations operating within the funeral market say insurers tend to appoint Indian or Coloured rather than Black broker consultants to service brokerages with a predominantly Black client base.

## Recruitment challenges experienced by employers

**Respondent ratings.** We asked respondents<sup>25</sup> to rate statements about transformation within the funeral insurance sector on a scale of 1–10, where 1 = totally disagree and 10 = totally agree. We then asked respondents to rate their company’s level of success in these transformation areas where 1 = not at all successful and 10 = very successful.

### Funeral insurance recruitment challenges

| Perception of the sector   |    | Actual experience   |    |
|--|----|---|----|
| %  |    | N = 34  |    |
| The poor standard of school education is a key underlying cause of skills shortages  | 73 | We have found entry level candidates in the workplace lack suitable qualifications  | 64 |
| Young Black employees can be easily influenced to change jobs  | 62 | We have been successful in curbing job hopping  | 58 |
| Skills shortage is a serious concern in the increasingly complex financial services operating environment.                   | 62 | Skills shortage is a serious concern for our organisation within an increasingly complex operating environment              | 52 |
| There is a skills shortage in certain areas within the sector and too few skilled individuals available to the sector        | 58 | Our organisation does experience a skills shortage in certain areas with a lack of suitable candidates to fill the position | 23 |
| Employers need to make a concerted effort to create opportunities for all employees  | 58 | We create opportunities for all employees to grow within the organisation   | 48 |
| Black representation at the professionally qualified level needs to be greatly improved                                      | 54 | We actively seek to recruit, train and promote professional Black people to senior and top management positions             | 39 |
| Every sector of the sector needs to recruit, train and promote qualified Black people to senior and top management positions | 54 | Where we can we work together within the sector to promote skills development and eliminate discrimination                  | 31 |
| There is a serious lack of suitable candidates for middle management positions   | 54 | We have experienced a lack of suitable candidates for middle management positions   | 23 |
| Larger institutions are more successful in achieving transformation  | 46 | We are active in effecting change within our own organisation   | 35 |
| BEE compliance does not always mean a company fulfils equity requirements.   | 38 | We are compliant and have achieved equity across all employee levels  | 35 |

*This table shows the percentage of 8-10 ratings given of perceptions within the sector and experience within HR departments with regard to success in each of these transformation areas.*

<sup>24</sup> We have covered transformation within insurers operating under a life license in detail in the section of this research focusing on the life insurance sector.

<sup>25</sup> Respondents from HR departments of companies with less than 500 employees were interviewed telephonically, using guidelines developed based on the face-to-face interviews with sector leaders. No SMMEs within this sector responded to the survey.

# Addressing Skills Needs in the Funeral Insurance Sector

**Most of sector lacks training systems.** In the formal funeral insurance sector, skills development takes place within the context of the institution's training policies. These organisations are also involved with learnerships and internships. But within the informal sector, which has the greatest exposure to the funeral insurance market, there is a lack of candidates with basic skills and qualifications.

**School leavers lack essential skills.** According to the 2013 National Diagnostic Report on Learner Performance issued by the Department of Basic Education, many physical science candidates, including "A" candidates, could not express themselves clearly, had poor mathematical skills, and were unable to use a calculator effectively.



**Need bridging programmes.** All respondents perceive a need for a curriculum within TVET colleges or a similar environment, to provide bridging programmes for the insurance sector. 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 sector players.

**Learnerships benefit both employer and candidate.** Respondents define learnerships as similar to apprenticeships, but with a more focused, tightly-controlled approach to training. They believe learnerships will offer more practical application and hands-on implementation.

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

## Employer opinions about skills shortage

**Employer perceptions of skills shortage.** We asked respondents<sup>26</sup> about their experience in terms of finding the skills they needed, and about their experience of skills shortages.<sup>27</sup> We read respondents a list of reasons given by employers regarding difficulties in implementing employment equity. We asked which of these issues they had faced within their own organisation, and to rate the impact it had had on their ability to match jobs to

<sup>26</sup> Respondents from HR departments of companies with less than 500 employees were interviewed telephonically, using guidelines developed based on the face-to-face interviews with sector leaders.

<sup>27</sup> Because of the small sample base, respondents' perceptions cannot be considered statistically representative of their segment of the sector. While the overall results may be regarded as representative, the data broken down by size of company is presented for interest purposes only.

individuals with the appropriate skillset and technical competence to master their work and advance their careers. Respondents used a rating scale where 1 = very little impact and 10 = significant impact.

#### **Significance of issues with regard to finding needed skills**

|  | <b>HRI</b>  |
|--|-------------|
|  | <b>N=34</b> |
| Lack of qualifications   | 64          |
| Poor maths and science outcomes of school leavers  | 64          |
| Culture of entitlement   | 56          |
| People not attracted to the sector   | 56          |
| Overall lack of Black candidates in certain areas, particularly risk management, investment management, governance, and regulation and compliance. | 52          |
| Modern technology – people no longer think for themselves – no initiative  | 52          |
| Learnerships should be multi-disciplined and include modules from other setas  | 52          |
| Candidates promoted before they are qualified for their position   | 48          |
| Poaching / Job hopping   | 48          |
| Learnerships are only at the entry level and should be also at higher levels   | 44          |

*This table shows the percentage of 8-10 ratings given of perceptions within the sector and experience within HR departments with regard to finding needed skills that will enable transformation.*

**Experience of skills shortages.** We asked respondents to indicate where their company experienced the greatest skills shortages.

#### **Skills needed in funeral insurance industry**

|   | <b>HR</b> |
|---|-----------|
| <b>%</b>  | <b>30</b> |
| IT skills   | 92        |
| Underwriters  | 36        |
| Claims  | 28        |
| Specialist quantitative, mathematical and investment skills | 20        |
| Middle and senior management                                | 16        |
| Sales and distribution                                      | 16        |
| Compliance  | 16        |
| Credit risk specialists                                     | 8         |
| Statisticians and data analysis                             | 8         |
| Actuarial   | 8         |
| CRM managers  | 8         |
| Tax specialists   | 8         |
| Legal experts   | 8         |
| Accounting experts  | 4         |
| Risk surveyors and assessors                                | 4         |
| Strategists / specialised skills                            | 4         |

*Within the funeral sector, the need for IT skills is of paramount concern. Given the nature of the sector this suggests that there is a strong need to improve IT skills among school leavers and within low-income communities, even where access to IT equipment may be lacking.*