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2 - 5 April

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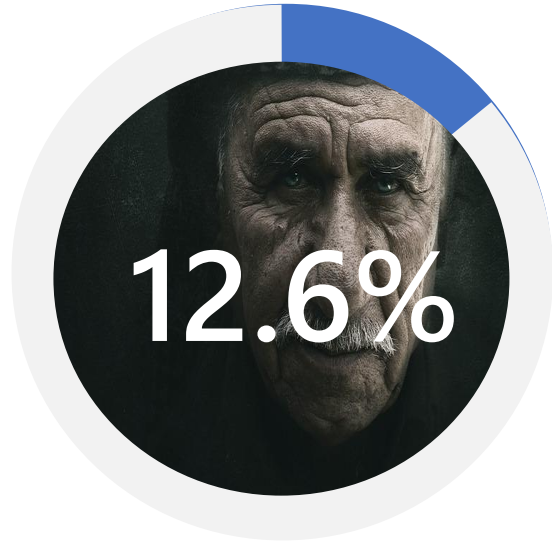
Behavioural Science and Retirement Savings

EXPLORING THE IMPACT OF BEHAVIOURAL SCIENCE ON THE PERSISTENCY AND PROFITABILITY OF VOLUNTARY RETIREMENT SAVINGS IN THE RETAIL SECTOR

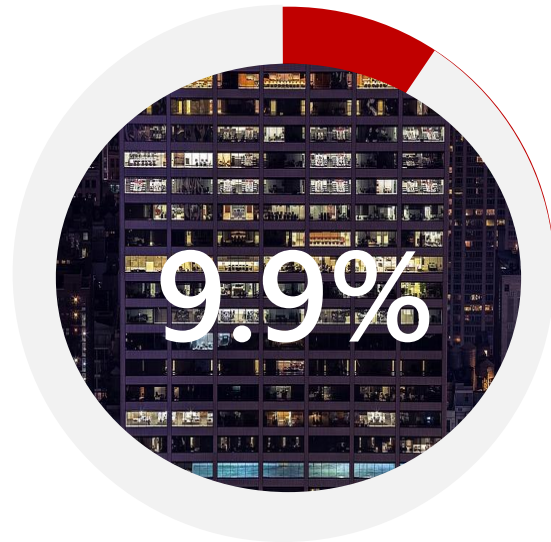
Nathea Nicolay
Head: Product, Sanlam Reality
2 April 2019



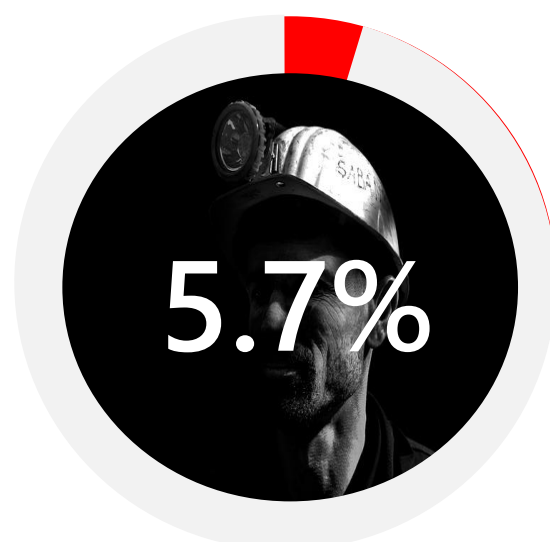
Trend in Retirement Savings – Corporate



SA Net Retirement Provision



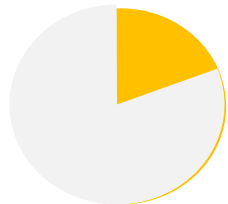
Employer: 9.9%
Below 10% 1st time since 2014



Employee: 5.7%
Reduced from 7.8%



3 year moving average decline 1st time since 2014



Only 18.9% of members will be able to maintain their standard of living in retirement
This is the lowest figure in the past 5 years.



Trend in Retirement Savings – Total (Ind & Corporate)

Loyalty Overall



Loyalty: **16%**
SA Net Retirement
Provision

Salaried



16% in Sanlam Reality
loyalty program vs
12% non-loyalty

Entrepreneurs



10% in Sanlam Reality
loyalty program vs
8% in non loyalty

Considering lower savings by Entrepreneurs towards retirement, we expect a lower % of Entrepreneurs will be able to maintain post retirement standard of living

Source: Reality & TaxTim research - unpublished, March 2019



Are Default Regulations Enough?

Default Fund Regulations in SA released in 2017 effective from 1 March 2019: The regulations aim to provide retirement fund members with appropriate pre and post retirement solutions that are more cost effective than current solutions.

Default investment strategy



Impact long term

Fund preservation



Every fund must offer preservation option. But will it change behaviour in SA's high risk and low employment environment

Retirement benefit counselling



Trustee endorsed annuitization strategy



“Question: Higher compliance & cost vs Better individual retirement outcomes”

David Gluckman –
SEB



Default regulations might not be enough to change individual behaviour



Financial planner David Bach suggested the root cause of the retirement crisis was a “daily latte factor”

= Flawed humanity’s need for small luxuries and a reluctance to delay consumer gratification

Danelle van Heerde – Actuary at Sanlam – *Are quick take-out coffees eating into your budget?*

New Age Problem Solvers are needed

Problem:

Inadequate retirement savings
Hardship in old age
Social dependency



Problem solvers:

Governments
Employers
Trustees

Behavioural science:

Rebates on investment fees
Increase with tier status
Tier status increases with duration

Increased savings?
Increased persistency?



New Age Problem Solvers:

Loyalty programs



Behavioural Science - Tools of the Loyalty Program



The Reward

Tier Points



The Competition

Tier Status



The Daily Treat

Benefits



The Special Offer

Discounts on
Financial
Products

Is behavioural science effective in changing individual behaviour?

Investment Management Fee Rebate

Bronze



15%

Silver



50%

Gold



100%



Fears and retirement savings

Fear of losing a good deal - lower lapses?

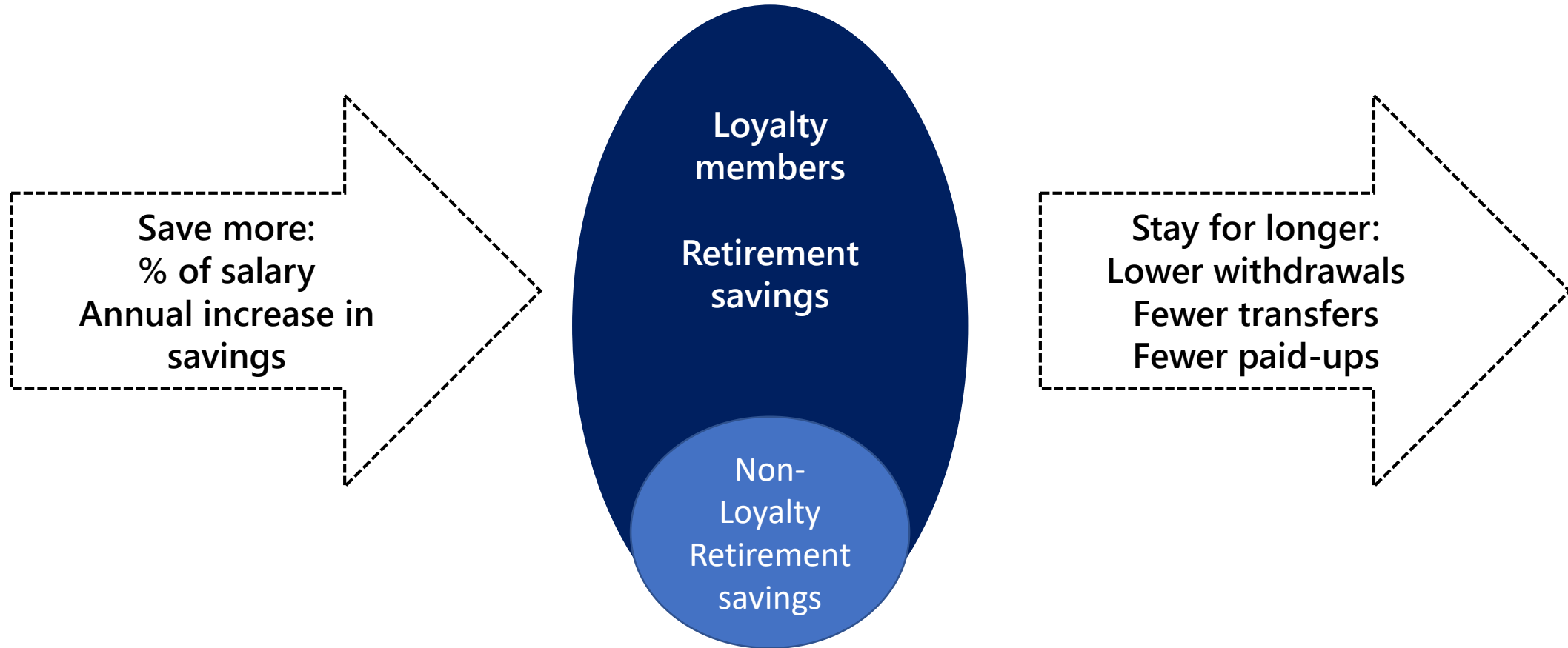


Fewer paid-ups
Fewer section 14 transfers

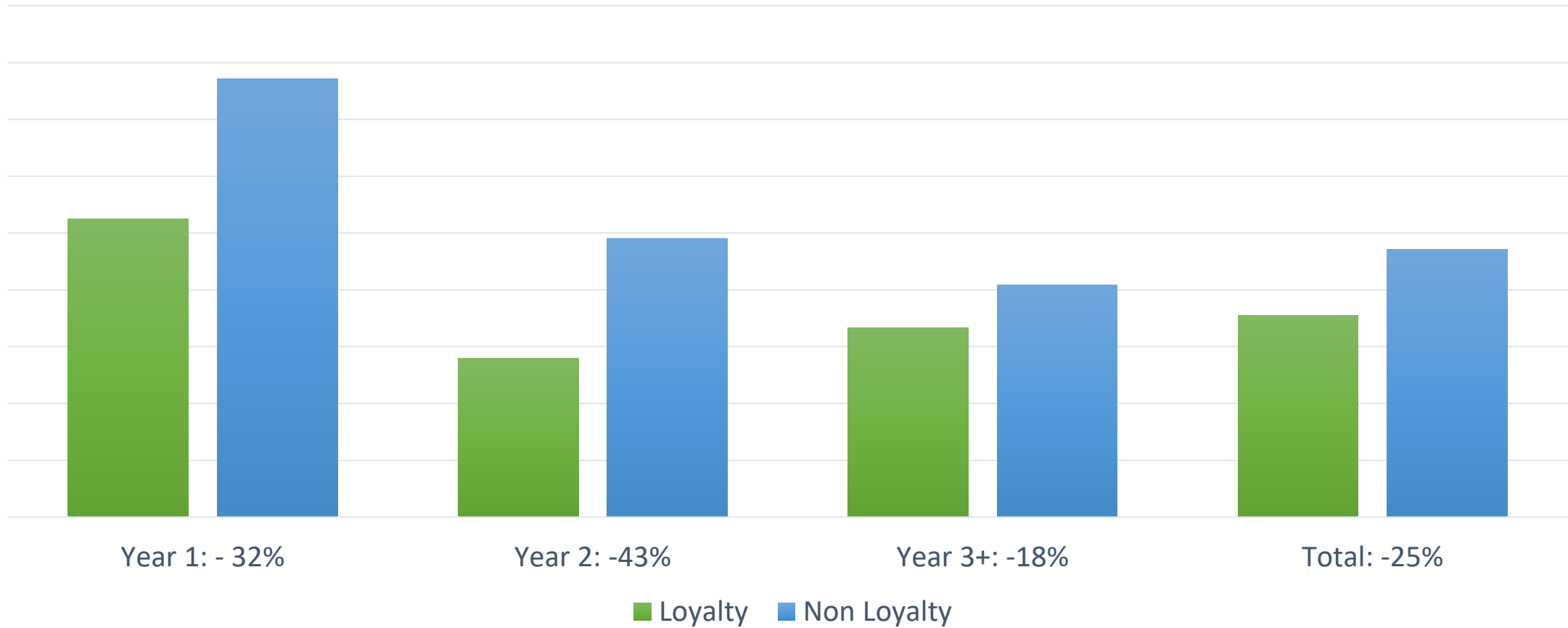
Fear of hardship in retirement - lower lapses?



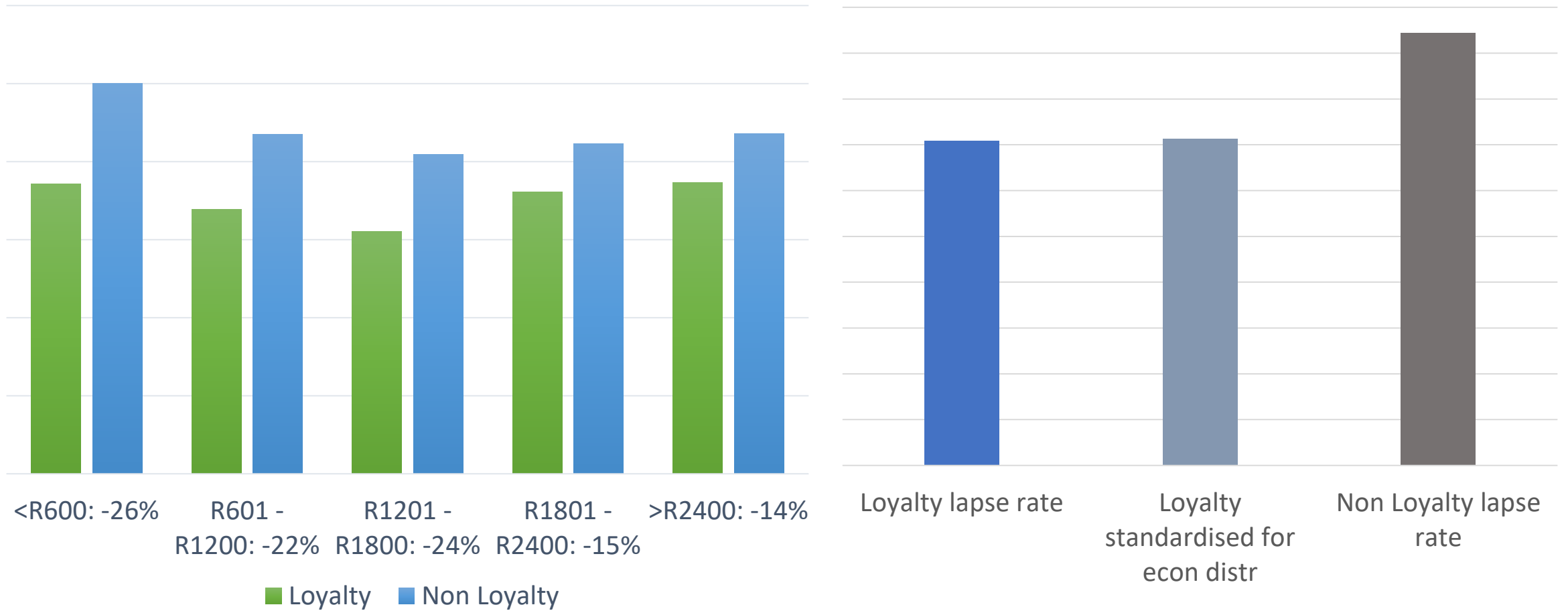
Impact of loyalty on retirement savings



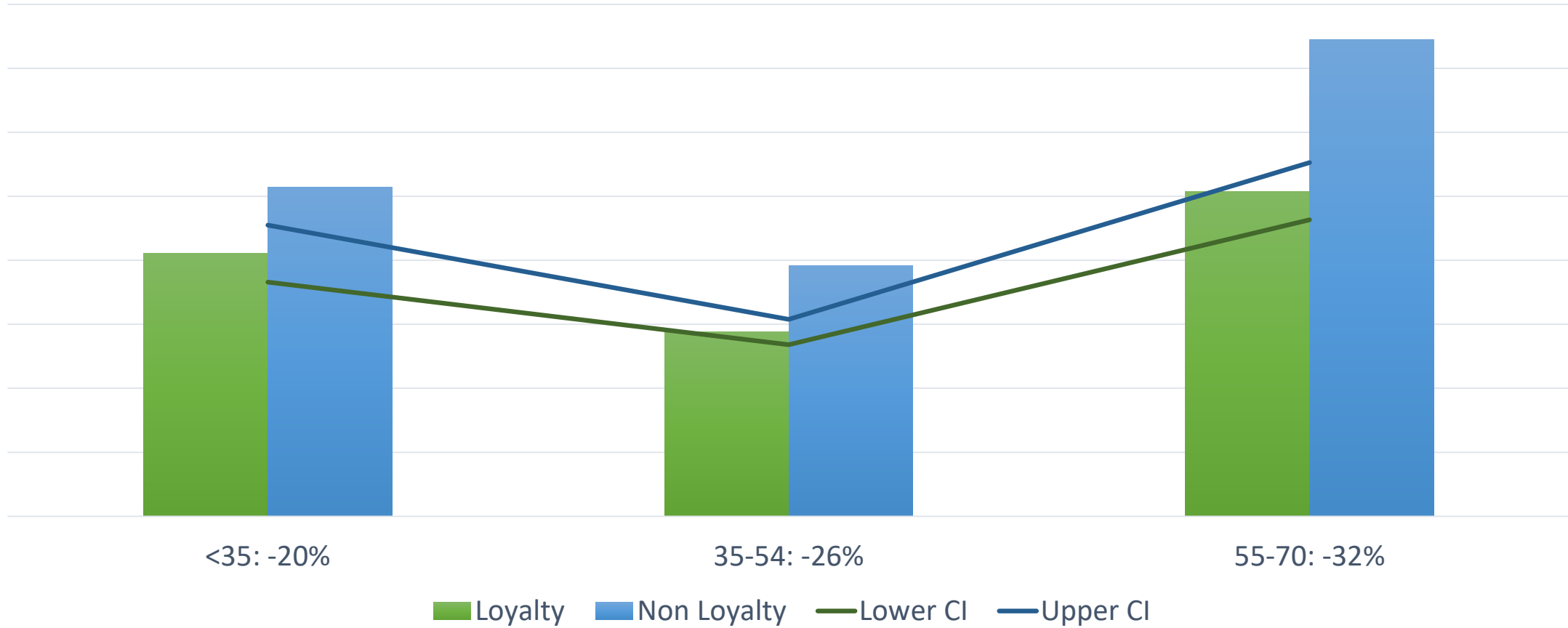
Persistency(lapse rates) by Duration in Force



Persistency by Avg Premium Size – Econ Indicator



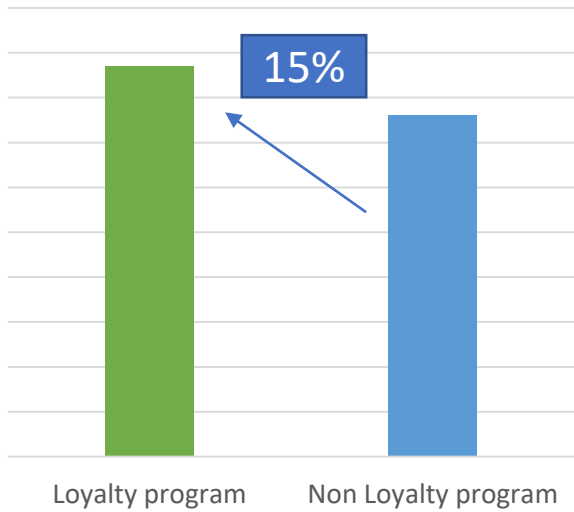
Persistency by Age – Increasing Impact



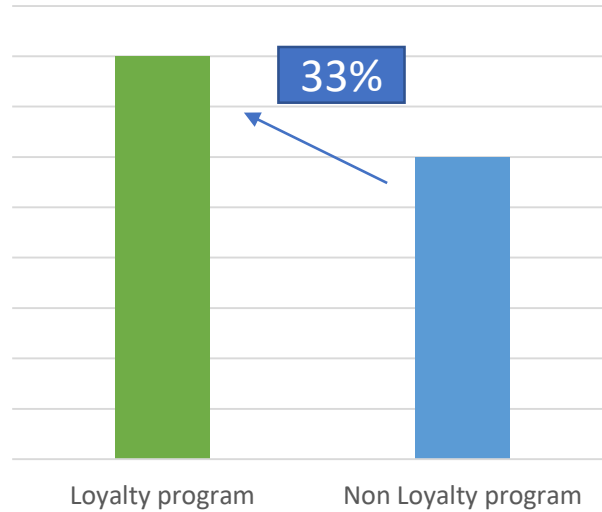


Impact of Loyalty on RAs

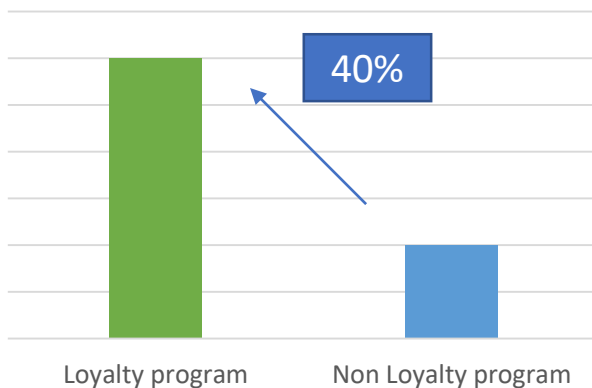
% members saving for retirement



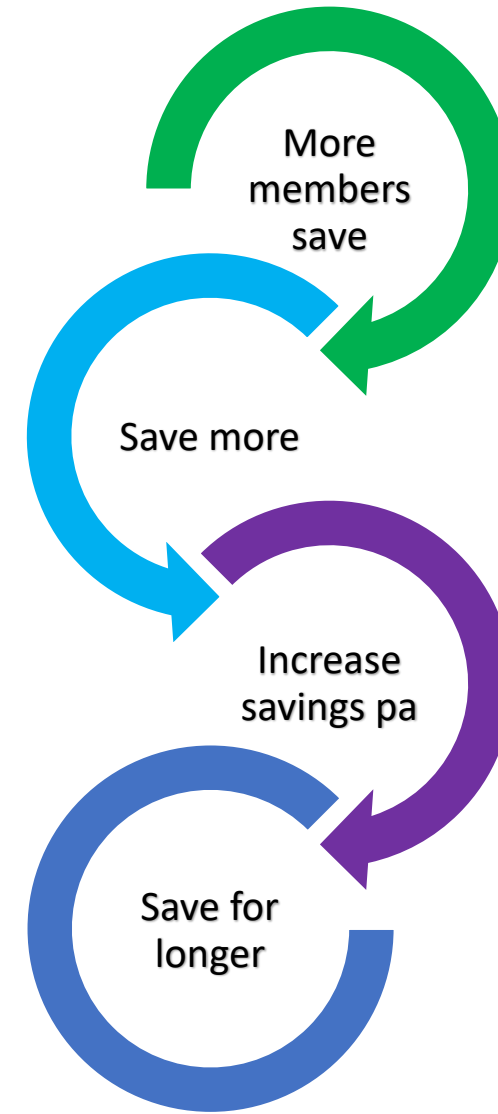
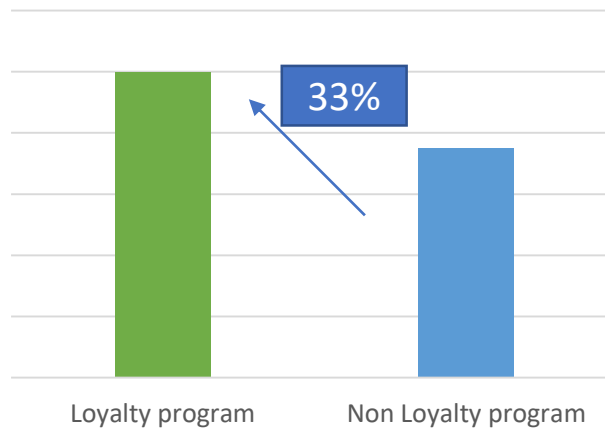
% of salaries saved for retirement



increase in new RA contributions since special offer



% of members staying after 3 years

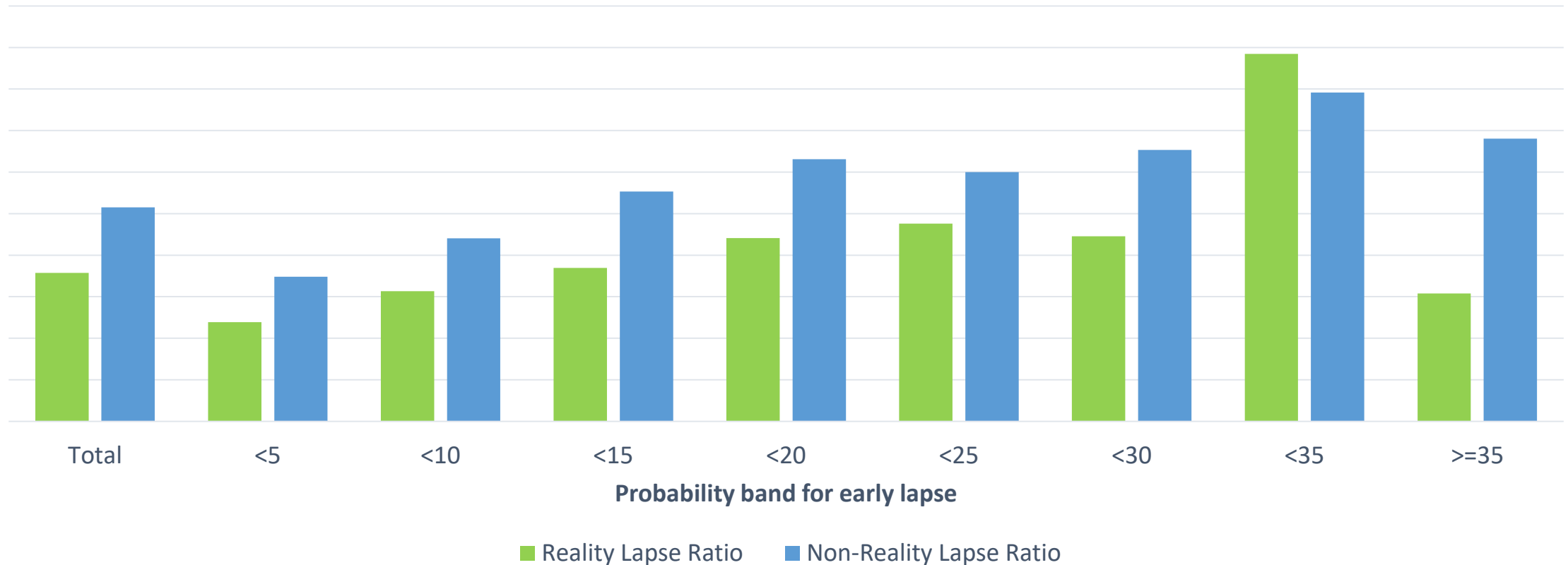




Causality and Loyalty:

1. Regression analysis

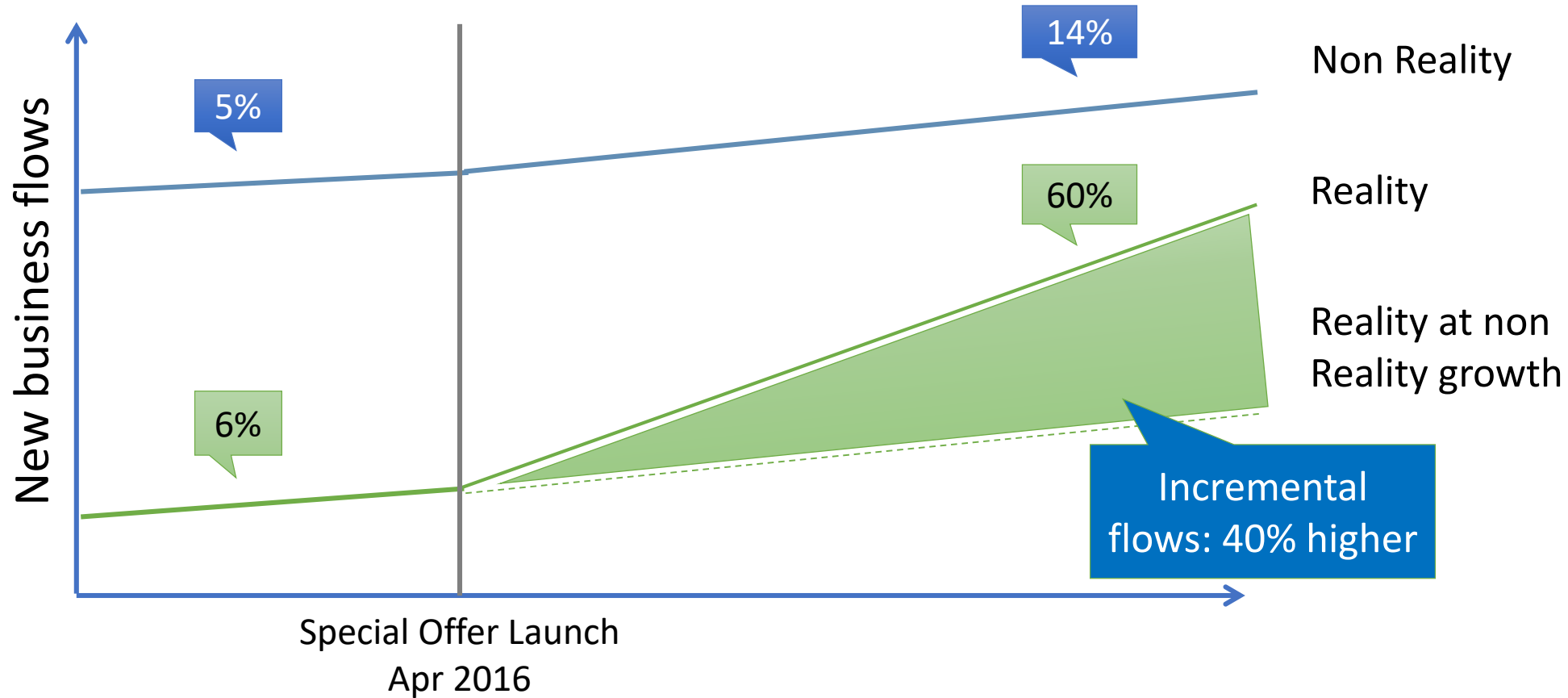
Lapse rates Reality vs Non-Reality (Bought an RA policy)





Causality and Loyalty:

2. Behaviour pre and post special offer



Incremental profits = VNB of incremental flows – PV of rebates

Final Take-away Latte

Do not underestimate the power of behavioural science in a world driven by the digitally empowered individual customer

Loyalty programs in SA are effective in driving higher profits for insurers as well as higher savings for individuals

Behavioural science is therefore effective in driving higher persistency and profitability of personal retirement savings

Acknowledgements to Sanlam:

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