

High net worth insurance - can the product withstand inflationary pressures?

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18 Nov 2022

Economics helps businesses comprehend the country's economy, rules, policies, regulations, resources available for usage, and government actions. It also helps acquire information about a target market's income levels and lifestyle. This makes it possible for companies to consider the dynamics involved in creating a successful business model.

Inflation refers to an overall rise in the cost of goods and services throughout a nation. Each unit of currency may purchase fewer products and services as the general price level rises; hence, inflation is associated with a decline in the purchasing power of money. These factors are crucial to keep in mind in a country such as South Africa, which is shown to be the most unequal nation in the world, exemplifying a society in which 10% of the population controls more than 80% of the wealth.

Who exactly is a “high net worth individual”?

The World Inequality Lab is a tool that allows users to compare their wealth to that of others. According to the simulator, if you made R24,051 (QES, 3Q21), the average formal sector pay in South Africa, you would be amongst the wealthiest 12% of citizens. The data reveals that you would need to make about R151,451 per month to be in the top 1% of earners. In terms of overall wealth, one would require a net worth of about R4.2m to be a member of South Africa's top 1%. However, the average net worth of the 1% is closer to R22.6m.

How do these factors influence the insurance market?

A different approach to high net worth insurance products

The process of segmentation of individuals as high net worth individuals (HNWI) for product qualification analyses the asset value of an insured's portfolio.

Inflation increases the cost of claims, especially with regard to the replacement of niche assets. Consider a Hermès handbag that is priced in euros. When the rand depreciates, the cost of replacing the same item naturally increases. Regardless of this effect, however, studies have shown that not all HNWI purchase insurance for their assets. They believe that they have the capital to shield these losses and do not see the sense in paying a premium for a loss that they could fund themselves. Moreover, there is an assumption amongst some service providers that HNWI are not as bothered by the costs of insurance premiums, which could not be further from the truth. High insurance premiums do play a part in HNWI's reluctance to purchase insurance products for their assets. This creates a substantial void in profitability for insurers.

Here is where the paradox of increasing profitability comes in for insurers: do you increase your risk pool for an increase in premiums by lowering the net asset criteria, or apply stricter underwriting rules to keep your claims costs down? Note that the latter option of “tidying up” the book by means of cancellation or higher premiums offers a gap in the market for other players to offer the same cover at a reduced cost. With retention of policies being another key factor of profitability, short-term solutions should not replace long-term strategic profitability.



Clearly, inflation is affecting every South African; however, simply put, the majority of South Africans cannot manage inflation. As it stands, the majority of people are deeply indebted, with many using over 75% of their salary to pay off debt. To combat the inflationary constraints on all consumers, service providers should therefore continue to use a value-added differentiation strategy to attract and retain clients in the high net worth sector specifically.

Understanding client spending and consumption patterns, and being able to establish coordinated production models with competent labour, would therefore be critical to corporate success. Moreover, understanding economics (of which inflation is a large factor) is crucial for making rational product development choices. To remain agile in this market, constant monitoring of economic trends and pricing strategies will need to remain the focus of insurers in their efforts to remain relevant and profitable in the HNWI space.

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