Study shows that millennials are underinsured

The low uptake of insurance among millennials is rooted in behaviour typical of this population segment, including frequent job changes, mistrust of the financial services industry and misperceptions about the cost of insurance products - 53% of millennials indicate that they cannot afford insurance.

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However, it would take as little as 4,6% of the average millennial's salary to revolutionise the insurance coverage achieved by the country's 19- to 30-year-olds.

"This is a mobile generation that changes cities and jobs at the drop of a hat. By 35, a quarter of millennials will have worked five or more jobs – making it extremely difficult to plan and save for the future," says Gareth Friedlander, head of research and development at Discovery Life.

Friedlander was presenting the findings of a comprehensive study into insurance among young adults, titled *Marouns* (millennials at risk of underinsurance), which recalculated the insurance gap to reflect the economic realities and behavioural trends relevant to this important social demographic. This generation represents the future of the South African economy in terms of its potential participation in the workforce by 2025.

Insurance gap

"By our calculation, the largest insurance gap is currently presented by millennials between the age of 18 and 30 and we expect this situation to worsen unless we can influence outcomes in some way," says Friedlander.

He observed that the gap was calculated based on the insurance an individual in this age group needed to be optimally protected against a death or disability event, versus the actual insurance cover held.

The key outcomes from the study confirm a gap exists that is likely to widen unless stakeholders in the financial services sector find a way to influence millennials' behaviour. The Association for Savings and Investment South Africa (Asisa) calculated the insurance gap on death and disability for the 19 to 30 age group at R9trn; but Discovery believes it is significantly larger.

"We identified various factors that suggest SA's young adults should be seeking additional life and disability cover as compared to the overall population. Principal among these is the fact that a young person will need more income protection should they suffer a life-changing event, especially given that this population segment is expected to live longer. In fact, we found that the present value of future income for millennials is twice as high compared to indviduals between the age of 50 and 54, at approximately R18m for the average 25-year-old graduate."

Poor savings culture

The savings culture among SA's millennials to date has been disappointing. They have followed the example set by previous generations and worse, with only 35% of this sector saving for the longer term. And a staggering 46% of millennials have no savings at all – they have nothing to serve as a buffer should a financial shock occur. Poor levels of saving are made worse by high levels of indebtedness with almost two in three millennials having some form of personal loan outstanding.

Another challenge is the tendency to defer insurance buying decisions until spouses and children enter the picture. Statistics confirm that the median age for marriage has moved up from 31 to 36 years of age; while the age for first-time mothers has tipped into the 30s. "There are a lot of financial needs that are crucial even before you have a partner or children," he says.

Friedlander urges millennials to get over their present bias and to think of longer-term investment needs rather than immediate gratification.

Contributing factors

Discovery recalculated the insurance gap by taking account of a number of factors. These are the increasing life expectancies seen in this population segment (now sitting at approximately 80 years for the average Discovery member), the larger share of household income lost on a disability event given that people are getting married later, and the higher salary growth rates experienced by millenials early in their careers as a result of promotions (or moving jobs). These factors result in the shortfalls to balloon from R4.1 to R5.6trn in the death insurance market and from R4.9 to R9.4trn in the disability space.

The challenge to the financial service sector is to design affordable, customisable and innovative products that match millennials needs and wants.