The janus head of insurances in South Africa:
Networks of inclusion and bureaucracies of exclusion

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Summary

Drawing on fieldwork (open interviews, participant observation, household surveys), the increase of insurances marketed for the poor and lower middle classes in South Africa are examined. South African companies, such as Sanlam, Old Mutual, and Metropolitan, establish a myriad of policies in order to incorporate the previously excluded, mostly non-White, poor and middle classes. While poverty, violence, and AIDS put state institutions and social relations, particularly kin, under severe pressure, insurances enable people to manage risks in hitherto unthinkable ways. The paper examines these initiatives as a 'double faced head'. It reveals how social capital, often of intermediary grassroots organisations, is crucial for the marketing of policies but that, once poor and lower middle class customers try to claim benefits, it is insecure whether they can mobilise these same networks. The paper reveals, how they are caught up in a, at times, Kafkaesque bureaucracy and reveals which type of networks can be drawn on to manage these bureaucracies. This raises fundamental questions with regards to the ability to establish social security through (commercial) bureaucratic institutions.

Risk and Insurance in South Africa

South Africa is a society with tremendous risks, particularly for the urban poor. AIDS is spreading at a horrifying rate and some estimates are that almost 30% of the population is infected with HIV.[1] Particularly the poor and lower middle classes have to live in a state of fear for being robbed, murdered, assaulted, or raped. South Africa has the world's highest murder and homicide rates, the world's highest assault rate, as well as the highest rate of reported rapes.[2] The lack of confidence in the state, the result, in part, of the inadequate police and judiciary system, as well as the apartheid legacy, only adds to the high level of risk (see Bähre 2007a).

For residents of urban areas such as Cape Town the police is simply unavailable.[3] For vulnerable people, predominantly Africans, exposure to life threatening crisis has become a matter of daily affairs. In the year 2002, 'two out of three black households in Cape Town townships did not have enough food to eat' (BBC 2003). AIDS, violence, and loss of income effect many people: household members look after the diseased, income is lost, debts accumulate due to funeral costs, and people are traumatised by illness and death of loved ones. The main causes of death among Africans in Cape Town are HIV/AIDS and tuberculosis (39%) and physical assault (29%) (BBC 2003). The rising occurrence of risks turn idiosyncratic risks into collective risks that undermine the capacity of people and institutions to manage them.

[1] Based on antenatal testing by the end of 2004 29,5% of the population is already HIV positive. See http://www.avert.org/safricastats.htm., also on the reliability of these statistics.
[2] See http://www.nationmaster.com. Colombia rates first with 'intentional murders'. South Africa ranks first on all the other kinds of murders and homicides.
[3] In at least one residential area of Cape Town the police even closed its offices because they were destroyed and plundered time and again. It moved its office into a shipping container and left the area during the night.

Welfare provided for by the state is limited, although it is elaborate compared with other African states.[4] State hospitals offer medical care that is fairly inexpensive yet of limited quality and the government provides a small and often poorly distributed old age pension and disability grant.[5] But the high level of poverty and risks that many are exposed to mean that reliance on kin and neighbours is often necessary. Remittance of money from employed kin in urban areas to the destitute relatives in rural areas is a common practice that was strengthened by apartheid policy (Bähre 2007a, Bank 1999, Sharp and Spiegel 1985). The urban poor organise a myriad of financial mutuals such as burial societies, which play a vital role in the distribution of resources within familial networks. Burial societies ensure that, whenever a member or dependent dies, between a few hundred rands up to R6000 (about 600 Euro) is contributed to the costs of the funeral.[6] These care arrangements are extremely important but also inadequate in the light of the many risks that poor people are exposed to. Although social relations, particularly among kin, are crucial for containing the crises that the poor experience, they should not be idealised or romanticised (see Bähre 2007b). But in the absence of alternatives, social relations are often the only way to deal with risks (cf. Dercon 2002; Von Benda-Beckmann and Von Benda-Beckmann 1994; Leliveld 1994, 1997).

Very recently, however, alternative forms of dealing with risks are becoming available to those working as domestic workers, security guards, or lower ranking civil servants. Large-scale South African insurance companies, such as Sanlam, Old Mutual, Metropolitan, and Liberty Life are expanding their business to the African population, predominantly poor and lower middle class families. These companies are establishing a myriad of insurance schemes aimed at the previously excluded poor. Insurance brokers are selling policies, ranging from life insurance to cover for theft of property; they visit the poor in their homes, approach commuters at taxi ranks and train stations, or offer packages via employers. Insurance companies also cooperate with already existing organisations, such as churches, burial societies, unions, and local undertakers in an attempt to attract new clients.

While poverty and violence puts state institutions and social relations particularly kinship under severe pressure, these new insurances enables poor people to manage risks in hitherto unthinkable ways, at least that is the expectation it raises. This paper examines the dynamics between bureaucratic insurance companies and its clients and the effect this has on the social security that insurances can provide. In order to analyse these dynamics I refer to Janus, the two faced Roman god of gates and doors, opening and closing. Based on interviews with actuaries, brokers, medical officers, intermediary organisations, and clients living in the townships of Cape Town, the Janus faced character of insurances for the poor and lower middle classes became apparent. On the one side,

[4] See a.o Dietz and Foeken (2001) on the financial weakness of African states.
[5] 'In 1995/96 about 60 per cent of the *total* national social security budget was spent on old-age pensions (South Africa 1997, 42. cf. Le Roux 1995, 28)' (Sagner and Mtati 1999, 398). For the corruption in the distribution of welfare, see Bähre (2005) and Brown (1998). These limited resources can be so vital for survival that a poor woman purposefully attempts to get AIDS in order to qualify for a R180 p.m. (€ 23) disability grant (p.c. Niehaus 30-6-2003 on the South African Lowveld).
[6] See Bähre (2007a) and Delius (1993) on the history of burial societies.

insurance companies rely extensively on social capital, both through brokers as well as through intermediary organisations such as churches, to gain access to African, mostly illiterate, clients. Simultaneously, insurance companies rely strongly on bureaucratic procedures when it comes to administering premiums as well as deciding on the benefits that a claimant is entitled to.

This combination of social networks and bureaucracies is a global practice. Insurance companies all over the world largely rely on the networks of brokers and intermediary organisations for establishing and maintaining relations with clients. Moreover, also in The Netherlands there are many stories and incidences of claimants being caught up in Kafkaesque bureaucracies. These are not uniquely South African. However, what is particular to insurances in South Africa, is that these dynamics of the open doors of networks and the closed doors of bureaucracies take place in a society with almost unprecedented levels of risk and inequality. What are the consequences of these high levels of risk and inequality for the way in which insurance companies target 'the bottom end of the market' or 'previously disadvantaged communities', as the insurers like to refer to poverty stricken African residents. South Africa is also unique because, unlike other developing countries, it has a very strong insurance industry. The penetration of the insurance industry is estimated at 14,5% of GDP, which is very high compared with many other developing countries such as Indonesia (1,19%) and India (0,62%), but also compared to the United States (5,23%).[7]

High rates of risk and inequality, and a strong presence of insurance companies make it very interesting to examine what happens when insurance companies start to market their policies towards the poor, mostly African population. How do intermediaries insurance companies deal with risk and inequality when it comes to developing policies, marketing their policies, and managing claims? How do brokers, churches, and informal burial societies that function as intermediaries carry out their task under such conditions of high risk and inequality?

Why insure the extremely vulnerable?

It appears to be a contradiction to include people that are more prone to violence, diseases, and many other risks commonly associated with a lower socio-economic status, in insurance schemes. If de Swaan's (1996) assertion with regards to Europe that collective arrangements tend to exclude more vulnerable people because of the costs and the reputational damage that they can do to collective arrangements, is true in South Africa as well, it is awkward for insurance to expand in this way. Also if Beck's (1992) arguement that modern societies are prone risks that are increasingly difficult to predict and manage, which in turn puts insurance schemes under pressure, holds ground, it appears senseless to include the most vulnerable people of society. If insurances are indeed under increased

[7] South African figure according to the insurance report Q4 2004, business monitor international, mermaid house, London, p.3. Other countries 'According to a study by the Insurance Information Institute, expenditures on non-life insurance in 2003, see
http://www.marginalrevolution.com/marginalrevolution/2005/02/insurance_fact_.html

pressure created by nuclear threats, mad cow disease, HIV/AIDS, terrorism and the consequences of environmental degradation, than why include the more vulnerable people into their schemes?[8]

During conversations with actuaries, medical officers, insurance brokers and intermediaries, it became clear that offering insurances to the less wealthy of South African society, sometimes people that earned less than R6000 per month, sometimes even less than 2000 a month, was felt to be inevitable. It was inevitable for two reasons, namely market forces and political change of the post apartheid era.

First, the insurance market in South African, at least when it concerns the wealthier and predominantly white section of the population, is saturated. In the past, and to some extent still to this day, insurers sold policies in such a way that Africans were hardly included. It was not that insurance companies had to have an explicit racial policy to exclude Africans. Most insurances were sold via the employers as they were part of the secondary labour rights of workers with a permanent contract. Only if you had a permanent contract you could take out insurance and those working on short term contracts were therefore excluded. Particularly with labour migration policy of the apartheid state permanent workers were predominantly white, which meant that in practice insurance was unavailable to most Africans. Also clauses on education led to the exclusion of Africans. One insurance company offered policies only to people who had finished standard 10, which meant they had graduated and completed secondary education. Here too the high levels of inequality meant that for most Africans these insurances were unavailable. Moreover, until a few years ago, insurance companies were completely absent in the townships: they had no offices there and only very few brokers working in African urban areas.

Over the last few years, insurances are exploring new ways to sell policies to the African poor and lower middle classes because they try to find ways to expand their business. Insurances have also stimulated market research that explicitly addresses the inclusion of previously uninsured (read relatively poor, predominantly non-white). In 2002, FinMark trust was established as a result of an agreement between the UK's Department for International Development (DFID) and the Banking Council of South Africa.[9] DFID sponsors FinMark trust with 5 million pounds, and also other development organisations, such as the Consultative Group to Assist the Poor (CGAP), USAID, Year of Microcredit, an initiative of the United Nations, have started to sponsor this initiative.[10] Although the research commissioned by FinMark trust is largely paid for with public money the data that is collected is only accessible to the participating South African financial institutions.[11] The moto of Finmark Trust is 'making financial markets work for the poor'. They commission research on how to

[8] For a critique on Beck's argument with regards to insurance see Erickson and Doyle (2004).
[9] (See Finmark Trust Annual report 2003, p.4)
[10] See website of Finmark trust for sponsors. On sponsoring by DFID, see http://www.webarchive.org.uk/pan/10144/20041206/www.dfid.gov.uk/mdg/povertyfactsheet.html
[11] FinMark trust and the research companies that it hires to do the research, such as FinScope and Genesis Analytics, do provide some reports but the information is very superficial and decontextualised.

deliver financial services to the poor, and device policy proposals for government and the financial sector. The market research and other data is made available to actuaries within the participating insurance companies who, based on this information, device new type of policies, and make assessments of risks and costs.

During conversations with actuaries, policy makers, medical officers, and others working in the insurance industry, it becomes clear that it is not expected that large profits can be made. But as long as not too much money is lost, or a relatively small profit is made, it is regarded to be worth while to explore this new market. For insurance companies, the investments are 'small change' and if a policy or scheme proves to be successful in reaching the lower middle classes, these policies can be exported to other countries with a relatively large lower middle class. Here, the focus is primarily on other countries in Southern Africa, India, China, and Indonesia. African Life, for example, has established offices in other African countries such as Botswana and Malawi. An actuary of another insurance company told me that only months ago they had send a delegation to India to enquire if it would be possible to market new products to lower and lower-middle income groups. As such, the South African market of the poor and lower middle classes function as a playground where, through trial and error, eventually new business opportunities with a global outreach can emerge. A short term profit is not the insurers main ambition as long as the costs of these experimentations are limited.

Second, political change puts pressure on insurance companies to include 'previously disadvantaged communities'. Since the first democratic elections of 1994, the South African government emphasizes the importance of redistribution of resources in order to overcome the vast discrepancy between a predominantly white elite and the predominantly African poor. In addition to jobs, housing, sanitation, education, and social grants, historically disadvantaged communities should also have access to financial services, become owners of financial companies, and be part of the higher ranks of employment. The government wants banks to make their services available to the poor through the establishment of new offices, by lowering bureaucratic burdens for the customer, and by developing new types of services that are more suitable to the financial needs, banking skills, and financial circumstances of 'previously disadvantaged communities'.[12]

Too some extent this concern is also shared with those working in the insurance industry. Insurance companies such as Sanlam and Old Mutual are of South African origin and many of the actuaries I spoke with expressed a sense of responsibility. Most actuaries working on policies for the poor were relatively young, in their mid thirties to mid forties, male white South Africans, who had received their degree at the University of Stellenbosch, University of Cape Town, or University of Witwatersrand. As one actuary said: 'it is now our time. We are young and we do not have the burden of history like the older people working here. We have to make something of this country.' The Actuarial Society of South Africa (ASSA), has established mentor and training programmes to

[12] The Zantsi account is an example of a new type of bank account especially made to cater to the needs of the poor. It appears to be relatively successful.

increase the number of Black actuaries in the country. Hillary Murashiki, chairman of the diversity committee of ASSA stated in the newspaper: ‘Thanks to a R20 million series of initiatives by the Actuarial Society of SA (Assa) and its sponsors, there are today four black South African actuaries and many more to come.’ About 60 percent of the actuarial students are black, which reveals that a large shift can be expected in the future.[13]

However, actuaries and policy makers that deal with the inclusion of the poor express a great concern about government pressure. During an interview the director of the Life Offices Association argued that government officials and policy makers have a naïve socialist view on people and their behavior. They failed to acknowledge how people really behave. Actuaries, in contradiction to government views, are confronted with ‘real’ human behaviour that does not fit these socialist ideas. Insurance companies are very worried that the government will establish legislation that forces insurers to sell policies under conditions that are not sustainable and not profitable. Unlike during apartheid, when relationship between government officials and the financial sector were quite intimate, there is a great sense of hostility and distrust between insurance companies and the state. In many cases insurance companies act on the threat of legislation, among others spread to rumours. For example, in 2005 there were rumours about an obligatory national funeral scheme. Companies feared that the government was going to use tax money to take a profitable business away from them. In the beginning of 2006 this rumour had gone but nonetheless insurance companies remained worried about unpredictable government plans. Many wondered: ‘what is going to be next? What legal restriction will we have to face in the future? Time and again, it was expressed that government was regarded as a threat to profitable business and even consumer interests.

Self regulation proved to be a key strategy to anticipate government pressures and legislation, for example through the establishment of the Financial Sector Charter on Black Economic Empowerment. In this charter the financial sector commits itself to increase non-whites in senior positions, to support the establishment of black owned small and medium enterprises, as well as to make it easier for the poor to access financial services. Among others, the charter stipulates that by 2008, 80% of LSM1-5 should have access to transaction products and services, while ‘a percentage (to be settled with the life insurance industry) of LSM1-5 households have effective access to life insurance products and services’ (Financial Sector Charter p.9).[14]

To sum up, insurance companies offer policies to the poor, even when they are extremely prone to risks such as HIV infection, unemployment, or falling victim to violence, because they foresee a profitable global market and because of pressure from the South African government.

Insuring the poor: managing costs

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[13] Lloyd Coutts, Black actuaries are on their way, says Assa, in business report, January 22, 2006 (http://www.busrep.co.za/index.php?fArticleId=3076460)

[14] on-line: http://www.treasury.gov.za/press/other/2003101701.pdf

One would expect that risk was the key obstacle for inclusion of poor and lower-middle class customers. After all, people with a lower income tend to be more exposed to risks such as unemployment and disease. Moreover, people who live in townships are more vulnerable to violence than wealthy people who protect themselves with burglar bars, security gates and armed response units. Mostly, actuaries emphasised that AIDS was not a threat to the sustainability of their products. Some actuaries expressed a sense of proud that the industry coped so well with HIV and stressed that South Africa is the only country with a comprehensive insurance market that is hard hit by AIDS. Over the last years insurance companies had built up sufficient reserves to manage the increasing cost of AIDS. These funds, in combination with reinsurance and underwriting through companies such as Swiss-Re or Hanover Re, ensured that an increase in claims was not a threat. That HIV was not felt to be a major problem was also one of the reasons why in 2005, insurance companies agreed to remove some HIV exclusion clauses that had been instituted a few years earlier. In addition to financial reserves, actuaries working for insurance companies told me that they had developed models on HIV that proved to predict the increase in disease far better than the government had done. A number of times I was assured that the predictions they had made ten years ago had been very accurate, but a few actuaries also confided in me that the current HIV incidences exceed even the most pessimistic scenarios.

Another reason why HIV was not of a major concern was that the levels of HIV among the insured are still much lower than the national average. An actuary working for a large insurance company explained to me that 'only' 2,4% of their clients are infected with HIV while he estimated the national prevalence rate to be 13%. The discrepancy is due to the fact that insurance companies still mainly focus on a relatively wealthy and predominantly white elite that is less affected by HIV.

Instead of risk, the costs of insurance policies market towards the poor were a major concern. The policies marketed towards the poor were relatively small, sometimes monthly premiums were only a few rand, while simultaneously a whole new infrastructure had to be build up. Moreover, by nature of their vulnerability to adversities, the poor and lower income clients are much more likely to discontinue their policies than the wealthier clients. By the end of January 2006, the Life Offices Association (LOA) released a press release on the provision of life insurance products for people earning up to R3000. 'The LOA's target for 2014 is to increase penetration to 180% of current levels (i.e. to 3.8 million policies), which is no easy task when taking into account the large number of policies that are typically terminated each year.'[15]

Time and again, actuaries expressed their concern about the high costs of administering such small policies. The salaries and commissions of sales agents, the administrative burden of registering policies, the costs of financial transactions, as well as the fact that people with a low income were much more prone to discontinue their policy, sometimes even within months, posed a major problem.

[15] press release LOA, 27 januarie 2006.

Therefore, when talking with people in the insurance industry the discussions revolved much more about costs than about risks. In order to sell policies to costumers that are not wealthy the insurance companies have to find ways to cut these costs as much as possible.

Insurance companies increasingly rely on social networks of intermediaries in order to limit these costs. In order to more closely examine the way in which these intermediaries function, particularly given the pressure to cut costs, it is helpful to distinguish organisations from brokers. Both function as intermediaries, both are used instrumentally to limit costs, but the way in which they function are markedly different.

Brokers

All major South African companies have established units that target previously uninsured people. Some companies open up offices in the African and Coloured townships. They hire African and Coloured brokers that live in these areas and they sell policies on their behalf. They visit people at their homes, approach them at taxi ranks and train stations, and give presentations at schools, police stations, medical centres, and even on military bases. The broker sets up his overhead projector or posters in the staffroom and he (I did not encounter a single female broker) explains to the staff which products he has (mainly funeral policies, endowment plans, retirement annuities, and an insurance that covers the cost of schooling for children or grandchildren), and what the benefits are. Such presentations occur far from occasional. Several schoolteachers told me that they had an insurance broker presenting at their school about once a month. Only a few years ago they never had a broker visiting their school. Sometimes the teachers would listen but mostly continued eating their lunch, mark tests, or converse with colleagues. Many people also regularly received calls on their mobile phones from insurance brokers, again once a month was not unusual.

The brokers receive their payments based on commission only, a system which has become quite controversial. Typically, someone working for an insurance company explained, the broker receives a commission of 85% of the annual premium. For example, if a costumer takes out a policy that costs R7000 per year, the insurance representative will receive approximately R6000. Insurance companies were used to offering relatively large policies to relatively wealthy people who hardly ever discontinued their policy. However, when policies are sold to poorer and predominantly non-white costumers, the situation changes. Here, policies can have premiums of only ten rand a month, which means that the insurance representatives only receives about a hundred rand. Moreover, due to the many risks that relatively poor people are exposed to, costumers discontinue their policy much more frequently. Regularly, people told me that the policy was not a high priority. If there were financial problems, which was very common, one stopped paying the premium. Some people also told me that they changed their mind about the policy or felt it was difficult to refuse the policy that the broker offered. It was quite common for the broker to be a neighbour, relative, or church member. One costumer told me: 'He [the insurance representative] was introduced via someone from church and he came to speak with me. I took out a policy but I did not really need it so I canceled it after a few months.'

To my knowledge all insurance companies have a rule that if the policy lapses within a year, the insurance salesman must repay the commission. One broker told me that he had sold a policy but then he did not receive any commission. He enquired at administration and found out that the policy had lapsed because the premium could not be taken out of the costumer's account. He knew the costumer quite well and asked her what had happened. She assured him that she did not know and that she had been paying for the policy. They both agreed that there must have been an administrative problem within the insurance company that led to these problems and the insurance representative felt robbed by the company. Although there definitely were administrative problems, I also sometimes was under the impression that the costumer did not want to confront the insurance representative with the fact that she did not want the policy. She canceled it but when facing the friend of a fellow church member it is difficult to admit him that one was not really interested in the policy, or did not have the means to pay the premium.

A broker who worked for the insurance company for four months, was very positive about the commission system. The man was in his mid twenties and worked mainly in Kayelitsha, the largest township in Cape Town. His command of English was very poor but just like most residents of Kayelitsha his mother tongue was Xhosa. Before he got the job he was unemployed. He was very happy with his job and he had no problems with the commission system. Before he started working he had to sign a contract. The contract meant that he would have to work as an insurance representative for at least one year. During the first three months of his contract he would receive a salary of R5000 per month. He was very thrilled with this high salary. After all, someone working full time as a cleaner would earn about a third or even less. During these three months he received a training; he had to learn what policies he was going to sell, the procedures he had to follow after a policy was sold, as well as some sale skills. He really liked the training and spoke very positive about what he learned, particularly the sale techniques: 'I can now look right through you, and then I know what you need, which policies, and how much you can afford', he said with a confident smile. After three months training he started policies. The fourth month he would still receive a salary of R2500, and the fifth month a salary of R1500. After that, he would have to generate his income through commissions only. The contract stated that, if a customer canceled the policy within a year, the broker would have to reimburse the commission. Moreover, it stated that he had to stay with the insurance company for at least a year. If he left the company within a year, he had to pay a fine of R19000, which is the salary that he received during the first five months. He only started selling policies a few weeks ago and was confident that he was going to do well financially.

During an interview with someone who had been a broker in the past, it became clear that this confidence in the future was quite optimistic. This man was in his mid thirties and came from East London and had only recently moved to Cape Town. In East London he worked as a hotel manager and was approached by a recruiter. The recruiter told him that he could earn much more money by selling insurances: he could expect to make R12.000 a month and buy himself a very nice car, which was far better than his financial situation at the time. Consequently, he quit his job and signed a contract with very similar conditions as mentioned above. He followed their training and when the training period was over they organized a barbeque that was also attended by the sales representatives. At the barbecue, he explained to me, he started to get the feeling that his future might not be so rosy. When he arrived at the barbeque in his very old car, he immediately realized that some promises had been false: most cars were old and rusty, and even the car of the top salesman was modest. When he started to sell policies, it became clear that he could manage to make R5000, which was about the same he earned as a hotel manager. Some of his colleagues earned more, even R12000, but other colleagues earned far less. He explained it was very embarrassing at the end of the month: 'we would meet and the manager would show how many policies everyone had sold and the top salesman would be praised and treated as a role model. But during these meetings it became also clear that some colleagues had not sold a single policy. I really felt sorry for them as they had no income. Sometimes a colleague would come to me and ask me: 'can you please borrow me some money'. You know they have a family to feed and no income, but you are also hesitant to give money. Are you ever going to get it back?' He also complained about the expenses he had to make. He had to pay for his own petrol and cellphone, and even had to pay for small present with the company logo that he wanted to give to his clients. His manager urged all the brokers to set a small sum of their income aside for this purpose only. This money would be put in a personal account and with this money he could buy pens, t-shirts, or other gifts with the company logo on it.

In addition to the financial pressures, he complained strongly about the social pressures he had to deal with. In order to sell policies, he aggressively had to mobilise his social networks. He visited his neighbours and residents of other township near East London, he would attend as much funeral services as he could and would try to sell his policy to people who were present. He is still a bit embarrassed when he explains to me how he used funeral services to market his insurance products. He would say things as: 'Is it not terribly sad to die and leave your family with nothing except the worry about how to pay for the funeral? A funeral insurance really takes this burden away from you', and then he would hand out a pamphlet. He would also visit people at his church and try to get to know other people through the church. The consequence was, he explained, that they expected him to do all kinds of favours: 'you know how our people are. They think you are making a lot of money on them and take advantage. Therefore you have to help them, otherwise your reputation goes down the drain.' He explained to me how he would receive phone calls from customers who asked favors such as: 'could you bring my child to school, I don't have money for transport', 'could you come and pick me up and bring me to the shop in town, I need to do some groceries?' He was getting sick and tired of these request. About half his day he spent on driving people around or helping people sort out client's financial problems with banks and insurance companies, even if these problems had nothing to do with his work or the company he worked for. If he refused to help he was worried that customers were going to gossip about him and that it would become very difficult to sell policies. When eventually his car broke down and he had no money to send it in for repairs or buy another one, it became even more difficult to make a living. Exactly after a year, not even a day longer, he resigned. He had no other job but desperately wanted to get out of it. Quite soon he left East London and moved to Cape Town. When I first spoke with him he was living in a shack near the township Philippi and desperately in need of a job. But work was not the only reason why he moved to Cape Town. He also wanted to escape the people in East London: they continued to bother him with their financial problems and expect him to solve them, write letters, phone, visit the banks and insurance companies, and so on. The fact that he did not anymore work as a broker was not relevant anymore: he had become the financial expert in their midst. Moving to Cape Town was a way to escape these social pressures. After having been unemployed for almost a year he eventually got a job as a restaurant manager at a police training institute.

These examples illustrate how the commission system forms a big burden on those that sell insurances to relatively poor people. One insurance representative who lived in Kayelitsha said that he also experienced a racial dimension:

'White representatives only sell policies to white people and we have to sell to our own people. It is still apartheid. When you visit a white costumer, they send you away, I see that happen. I remember one white costumer who wanted to take out an investment policy worth five million rand. A black colleague went to see him but he was sent away. The client phoned the insurance company and said that he would go to another company if he did not get a white broker. But that's where the big money is. Selling policies in the townships is much more difficult. People are uneducated, you have to explain everything, they stop their policies and cannot afford much. It is much harder and racist.'

Some of the actuaries and other people working in the insurance industry said that the insurance companies acknowledged that there were problems with the current system. However, they defined the problem in a very different way and seemed to be completely unaware, or disinterested, that many of their brokers worked under conditions that closely resemble bondage labour. According to them the problem was that brokers resorted to illegal means to sell policies, only to make a profit. There were numerous rumors and also some accounts of insurance agents lying to customers about the policies they sold or withholding important information about the conditions. Withholding this information was fairly easy as many of the clients were illiterate. In their attempts to make money, insurance representatives sometimes became very pushy and this would threaten the reputation of the industry.

Sales were at times indeed aggressive. One broker told me that he had joined several trips organized by the company. He explained to me, without any sense of irony that one might expect in a country devastated by rape and HIV: 'We would go on a trip to penetrate virgin territory. All the men would go on a bus and for two or three days we would aggressively sell door-to-door in an area where we had no clients. We would sleep in the schools' sports hall or another inexpensive accommodation. It was great fun and we were really pushing each other to sell.'

One woman in her thirties who ran a little shop from her house that was largely made of corrugated iron sheets, wood, and some cement blocks, had her own experience with brokers. She told me that she was approached by an agent who wanted to sell her a health insurance. The broker explained that, if she felt a bit sick, an ambulance would fetch her from her home and bring her to the doctor or the hospital. Unlike most of her neighbors, and notwithstanding that she lived in an area that largely consisted of shacks, this woman could read English fairly well. She insisted on having a look at the policy papers and it became clear that this was not a health insurance. Instead, it was an accident funeral cover. It pays a certain amount of money if one dies from an accident. From other cases that I collected it became clear that these policies hardly ever pay out. One of the clauses is that, if you die of an accident, you should not have exposed yourself to any unnecessary risks. Mostly, the insurance company refers to this clause to argue that the beneficiaries are not entitled. For example, someone was hit by a car while crossing the street. The insurance company refused to pay because the deceased had exposed himself to unnecessary risks by crossing the street at a place where there was no zebra crossing. Given that in most areas where Africans live there are no zebra crossings, it would be impossible to walk around at all without exposing yourself to unnecessary dangers.

When I told actuaries that the commission bases system, particularly used in an area where clients only took small policies, were often illiterate, and frequently discontinued their policies, they said that they knew about these problems. However, they argued that this was a practice of relatively new and small insurance companies, so called 'fly-by-nights'. This assertion that was certainly not reflected in the interviews with clients living in Kayelitsha, and not by the larger well established insurance companies. Nonetheless, they were worried about the reputational damage that these new 'fly-by-nights' would cause to the industry as a whole. The vulnerable income situation that the commission system posed to brokers, particularly when they were selling policies to Africans, was never addressed.

By the end of 2005 some insurance companies started to review their commission system. As a result, increasingly insurance companies have changed their payments to brokers. Instead of paying a lum sum after the policy is taken out, brokers receive their commission over a period of many years, depending on how long the client stays. This only aggravates the already desperate situation of brokers. Because many brokers discontinue their work after a year they do not even receive all the money they are entitled to.

When it comes to submitting a claim, clients often turn to their brokers and expect them to help. Sometimes these brokers are able to help by filling in a form, or make a phone call to the offices. However, the brokers are not paid for this service and in most cases the brokers are unable to assist. The social network that was so crucial for selling the policy cannot be mobilized to receive benefits. Instead, clients have to call toll-free numbers where it is no exception that they cannot be addressed in their mother tongue. They need to fax documents to distant offices while living in an area where it can take up to an hour to travel to the nearest fax machine. Even ombudsman structures are so heavily bureaucratized that they are only accessible to the elite. For example, one ombudsman only accepts cases that are submitted via internet or that are dropped of at their office in Pretoria. All ombudsman organizations in the financial sector only accept written requests, and these requests all need to be written in English. It was very common for clients not to receive benefits, even when after having seen the policy papers and hearing the situation, it appeared very obvious that they should have received benefits. But there was nothing they could do about it. One woman explained to me how she had tried for over a year to receive benefits. Eventually she finally visited the offices of the company. She spoke with a consultant who promised to sort out the problems for her but in order to do so she needed her policy papers. She handed over the policy papers, expecting that things would be sorted out for her. After a few weeks she gave the company a call. She was told that she would not be given any benefits. After all, the person on the phone told her, she had come in with her policy papers and had asked them to cancel her policy. Because she has canceled the policy she could not get any benefits. Very often I was told about incidents such as these and frequently these were by large scale, international insurance companies, not so called ‘fly-by-nights’.

Intermediary groups

Another strategy for insurance companies to limit the costs of small insurance policies that are mostly sold to the poorer population is to use the infrastructure of intermediary organizations, such as furniture shops, supermarkets, but also informal burial societies, undertakers, churches, and soccer clubs. The advantage, at least from the insurers point of view, is that it is much cheaper than building up an infrastructure. Particularly churches, undertakers, and burial societies were regarded as promising. In contrast to the more commonly used intermediary organizations, such as unions or contracts with employers, these organizations would enable access to people who are not have secure formal employment. Insurance companies hoped that these organizations would enable them to access the bottom end of the market while simultaneously limit costs.

For example, undertakers who had organised burial societies in the townships are targeted specifically. Some undertakers collected money by establishing burial societies. These informal insurance schemes ensure that the undertaker is not left with a large debt after the funeral has taken place. The undertaker or his wife would go door-to-door to collect a monthly fee and when a relative died they would in turn organise the funeral. Insurances have approached these undertakers and offered their services. Insurance companies increasingly work together with these undertakers and actually turn the informal burial society into an insurance policy. The money that the undertakers collect goes into the bank account of the insurer and in return the undertaker receives a cheque to cover the cost of a funeral of a member. In this way, mutual benefit societies have become insurance policies, mostly without the knowledge of the clients. Undertakers experienced that clients did not really trust insurances and therefore they often did not inform their clients about this change.

Here too, burial societies and undertakers were confronted with tightening insurance rules. An undertaker who worked in Guguletu, and had established a burial society in the neighbourhood, explained me how the insurance company put increasingly more pressure on them. About once a month, an insurance broker visits them and asks them whether they want to make use of their services. Eventually she decided to work together with the insurance but that she would not inform her clients about this. She would keep the informal insurance scheme exactly the same and without the clients' knowledge she would deposit the money into the insurance account. She felt that this was financially a much better deal. However, after about a year they received a letter that stated that they had made too many claims and that the premium had to go up. Indeed, over the past months they had had several funerals. Not only due to old age of some members but also due to the high incidence of violence, road accidents, and AIDS in their area. The letter stated that the premium would go up by 50%. Thus, the next month she had to collect another 50% premium and put it into the account of the insurance company. If she failed, the contract would be terminated and she would have lost everything. The owner was very upset when she told me about this: 'How am I going to explain to people that they have to pay one and a half times as much? How am I going to raise this money, particularly because nobody knows I work together with an insurance company? Here too, the intermediary organisation is faced with the pressures from the insurance company, which threatens her business as well as her reputation in the area that she lives for over thirty years.

A well known example, at least within the insurance industry, is the insurances that are offered via the Zion Christian Church (ZCC), appears to be more succesfull. In 1998, John Solomon of African Life had contacted the bishop of this church. The Zion Christian Church is probably South Africa's largest church with 1100 congregations across the country. The bishop of this strongly led church (church members are not allowed to talk about church issues with outsiders) had contacted him and asked to set up a funeral scheme. Many ZCC branches already had their own burial societies. John Solomon was told that there were some problems with these small local burial societies. For example, if a ZCC member moved to another part of South Africa he or she would have to leave the burial society and start anew with the burial society of the new branch. Moreover, some branches had no burial societies while again other branches had organizational problems. A new universal funeral scheme for all the ZCC branches should solve these problems. Apart from these practical motivations, a universal funeral scheme also fits well with a quite hierarchical and centrally led church. It could be, although I have not heard someone from the ZCC or the insurance company claim this, that it also helped the church to gain more control over the financial situation of its branches and members. Someone working at the South African Revenue Services told me that there were some problems with regards to the financial situation of the church. He told me that the ZCC did not pay taxes and that it was estimated that the ZCC had a multi million tax deficit. The South African Revenue Services, however, will not approach the church with regards to these tax deficits because of political pressures. The fear is that the bishop might mobilize its members against the ANC.

Over the years, this initiative has led to the Kganya Group, which offers ZCC members financial as well as organizational support after the death , as well as a personal accident insurance scheme which pays out a lump sum when one dies in an accident. In addition to insurance, the First National Bank offers a Kganya Card Account, a transmission account for Kganya members belonging to the ZCC.[16] From the few conversations that I could have with ZCC members about these insurances.

In general, the collaboration between the ZCC and African Life is regarded as a prime example of how to deliver insurances to the predominantly African poor. The major advantage of this scheme is that it limits administrative costs. But even here, as the founder of this scheme explained to me, the cost of administration exceeds the risk premium 3:1. Administrative costs are three times higher than the costs of paying out claims. This means that more than half of the premium is used to cover expenses.

The R23 monthly insurance premiums are collected by the committee of each ZCC branch. They collect the money from the members and deposit it in the account of the company. The committee also does the bookkeeping: they keep a record of the payments which they in turn hand over to Kganya. Moreover, the church members help with the organization of the funeral. A ZCC church minister who I interviewed, but who did not want to be named because he actually needed the bishop's personal approval for the interview, told me that he and fellow church members also supported members with the claims: they helped them to fill in the papers, would bring them to the office of Kganya, and also mediate when there were conflicts within the family about who should get the benefits. They also organized wakes, the funeral services, and many other tasks that burial societies generally undertake. Although it took a lot of his time, the minister was very pleased with this arrangement. These tasks were largely done anyway and the cooperation with Kganya worked very successfully. What also helped was that the ZCC had its own discretionary fund. The minister gave the example of death after long illness; the person would be hospitalized for a long time and would have missed more than two installments. Then, after the person died, the insurance would not pay because the policy had lapsed. For circumstances such as these, the ZCC had its own discretionary fund.

The ZCC is known to be a very hierarchical church. Members are not allowed to speak with outsiders about the church and they have to follow a strong disciplinary regime with regards to clothing, presence at meetings and other church events, as well as the use of alcohol which is prohibited. It appears that because of these hierarchical relationships, the insurance scheme works quite well. When there are problems with regards to claims, senior church members are able to function as brokers between the insurance company and the church members. Only by being part of a system of patronage (see also van der Linden 1998 and Smets 1997), clients are able to overcome the bureaucratic hurdles that are part of an insurance claim.

[16] For more information on the Kganya Group see www.kganya.co.za. On the bank account see www.fnb.co.za/FNB/content/personal/banking/transmission/kganyaCard.scml.

Converting costs into risks

When establishing insurance policies for the poor and lower middle classes in South Africa, insurance companies are very concerned about costs. When it comes to previously disadvantaged communities, costs are of much bigger concern than when insurances are sold to the relatively wealthy and predominantly white population. The policies are relatively small which makes the costs relatively large. Moreover, clients who are much more prone to risks, who have an unstable income and have to deal with many competing financial demands are much more likely to discontinue their policies within a year than wealthier clients. In such cases the expenses of the policy are higher than the premiums. Notwithstanding the dramatic spread of HIV aids, notwithstanding the high incidences of other risks such as violence and unemployment, when selling policies to 'the bottom end of the market' costs are of much greater concern than risks. Even under very favorable conditions such as the ZCC scheme, the premium consists predominantly of costs, not risks.

In order to cut costs, insurance companies increasingly rely on inexpensive intermediary organizations and brokers. Brokers who work in impoverished parts of South Africa end up in a situation that in some cases resembles bondage labour. Some are forced to work for the insurance company and are unable to changes employers, even if they do not earn any money, because of fear of being confronted with a tremendous financial penalty. The disastrous financial situation of brokers motivates them to exploit their social networks. Often they sell policies that fail to provide any form of social security and it is not uncommon for brokers to deceive their clients about the conditions of the policy. When clients submit a claim they are often unsuccessful. Their changes of submitting a successful claim are severely aggravated by illiteracy, inability to physically reach the insurance companies offices, as well as the inability of the broker to mediate between the claimant and the insurance company. Brokers draw on their social networks to sell policies, while these social relations call on the broker for services that are often unrelated to the policies. At the same time, bureaucratic procedures make it often impossible to successfully submit a claim.

It appears that only hierarchically structured organizations with very clear boundaries between insiders and outsiders, can successfully represent the claimant towards the insurance company. It is ironic that the political ambition to strengthen democracy through among others financial inclusion is most successful when applied to hierarchical and undemocratic organizations.

The emphasis on costs furthermore does seem to relate to risks. While insurance companies argue that the collective risks that the poor are exposed to is not of major concern, the way in which insurance companies try to limit costs appears to increase idiosyncratic risks. The socio-economic position of brokers, undertakers and members of burial societies can worsen when insurance companies fail to pay salaries to brokers, when clients pay premiums of policies they cannot afford to continue, or when the insurance company's bureaucratic procedures make it virtually impossible to submit a claim successfully. Because these are not risks from the point of the insurance company, but instead are part of insurance companies trying to manage costs, these idiosyncratic risks remain.

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