

# 2020... The start of a new decade

FEBRUARY  
2020

# FANews

FINANCIAL & ADVISORY NEWS

**Global bond  
investments  
getting riskier**

**Risk trends and their  
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**Updates to  
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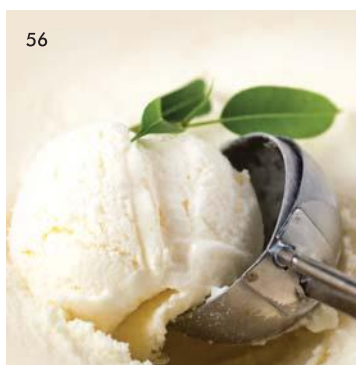
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# Good, better...

## LETTER FROM THE EDITOR



Rianet Whitehead  
Editor

**2020...** a new year, a new decade and a whole bunch of new opportunities.

As always, the year started on a high note for FAnews with the filming of The Insurance Apprentice (TIA) 2020, which happened in January. Episode one (sponsored by Inseta) and episode two (sponsored by Aon South Africa) have already been aired and I can confirm that this year will be the best season of TIA ever. Our viewership numbers have already indicated that, and with a bunch of apprentices who are really doing their part on social media, it can only be a winning series.

Aside from great entertainment, the educational value of the series is once again something we are very proud of, and the fact that you can earn one Continuous Professional Development (CPD) hour per episode, means that we are making the value proposition for the industry just so much better. Moreover, someone stands a chance to win R20 000... just by watching and answering one question about each specific episode. Do it... it's worth a try.

Last year this time, everyone in the industry scrambled to make sure they had the required

CPD hours, and FAnews once again came to the rescue with a no cost CPD system. We are proud to say that FAnews.co.za has close to 12 400 registered users who are doing their CPD hours with us, and I can unequivocally say that those are the brightest 12 400 in the industry, just because they know where to find real value. Thank you for trusting us to be your CPD partner.

When talking about the South African economy, it is clear that we are not doing great. One of the most troubling parts of where we are as a country, is our low employment rate. Coupled with this, is the depleting amount of tax paying citizens... due to the weak employment growth, only 20% of adults contribute to personal income tax and another 6% of income-earning workers are not registered with SARS as per a recent PwC report. Yet, when businesses are suggesting plans to Government to give the economy the boost it so badly needs, ideas are just shot down. Without significant action by Government and the population, the picture will remain bleak.

Regardless, let us look above and beyond this, because in between all this there are a few silver linings. So, here is to a productive and blessed 2020! Enjoy the read.



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# 2020

## THE START OF A NEW DECADE

The year 2020 marks the start of a new decade, bringing with it its own set of challenges and opportunities.

**2**020 started off with a bang when we take into consideration the top stories that made the news. From Donald Trump's impeachment news, to the Coronavirus, US and Iran going close to war, UK government's Brexit deal, the environment and climate change dominating at the top of the Davos 2020 agenda, regulatory hurdles and load shedding on local ground, the year is bound to bring forth immense challenges.

### Hope in sight

There is, however, hope in sight and we remain positive for the year/s ahead. Isaah Mhlanga, Chief Economist of Alexander Forbes for example, said that global economic growth has stabilised, but the recovery remains sluggish.

"The slowdown in the United States and China is expected to be more than offset by improvement in some large emerging markets, the euro area and the United Kingdom. Inflation expectations remain stable, at or below targets in advanced economies and trending lower in emerging markets. Consequently, monetary policy in many advanced economies is expected to remain loose, which will support global growth."

"The direction of the US dollar has a disproportionate impact on the global economy as global trade is priced in US dollars to a large extent. The US dollar is expected to weaken against major currencies, which implies that the emerging market exchange rate driving inflationary pressures will remain muted. This will help emerging market economies and global economic growth," added Mhlanga.

The asset management industry is also consolidating, meaning larger investment managers have used their scales to expand profit margins, while offering products at lower costs. According to Gyongyi King, Chief Investment Officer and Lebo Thubisi, Head of Manager Research at Alexander Forbes, this means small and mid-sized investment managers are lacking scale and battling to maintain profitability.

"The significant cost and complexity of compliance with the revised Markets in Financial Instruments Directive, could even tip managers with tight margins into liquidation or consolidation, accelerating the trend towards a market with fewer, larger investment houses in Europe," added King.

### Let's bring it home

The issues mentioned above are just some of the things that are likely to affect our industry going forward. We have asked some of our industry colleagues to share their views on what the future might look like in their respective industries. •

### About life insurance, dread disease cover and retirement...

**T**he rise in cancer-related claims will continue to impact significantly on life, disability and critical illness insurance. Momentum Corporate's disability claims statistics show that overall cancer claims increased by 48% since 2012. While cancer treatment costs are covered to some extent by medical schemes, there are often many non-medical related or lifestyle expenses associated with cancer, for example home care, transport and clothing. As the number of cancer cases continues to rise, the demand for innovative insurance products to cover the financial gap resulting from these non-medical related costs will also increase.

Another factor likely to have a significant impact on these lines of business is personalised medicine, which customises treatment based on an individual's unique genetic profile. Genetic testing supports the early detection of certain health conditions and can reveal whether an individual has a higher predisposition to develop a particular disease in the future.

Genetic-driven insights into their future health prospects will enable individuals to purchase insurance accordingly. This could be a new source of anti-selection which will need to be managed by insurers. In addition, the legislative and regulatory framework addressing the use of genetic test results will continuously change as genetic testing improves and becomes more widely used. Insurers will therefore have to innovate around their underwriting processes and requirements, products and policy wording to incorporate genetic testing and comply with any regulatory changes.

If personalised medicine becomes widespread and improves the efficacy of treatment significantly, it could have a marked impact on morbidity and mortality. This would in turn impact the premium rates for life, disability and critical illness benefits.



**Rudi Van Rooyen**  
Head: Specialized Pricing in  
Group Insurance  
Momentum Corporate





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# 2020 THE START OF A NEW DECADE

## About the new consumer and innovation in the life, disability and dread disease space...

Over the next decade we will see a dynamic change in the way life, dread and disability products are structured and sold. There is a shift in the way in which consumers view insurance and this, as well as industry innovations, will set the tone for this shift.

Twenty years back, a massive gap in insurance education existed. However, today South Africans have become more insurance savvy – they are more calculated when making purchase decisions, ensuring that they are educated around what is available and their needs are satisfied.

As clients become more empowered around their insurance decisions, insurers will need to innovate to tap into the 'new consumer' - providing products that can be accurately tailored to clients' needs, life stages and their pockets. Clients will dictate the type of cover they want and the benefits that are most relevant to them – be that on product structure or value-added options. We are also likely to see a strong shift in payment frequency. 'As and when' payments, fuelled by the on-demand insurance trend, will become more common and new models of payment will need to be developed – putting the flexibility of cover and payment into the hands of the consumer.

The insurance industry's competitive landscape has evolved rapidly since 2002. Today we are faced with cross pollination of various industries, with mobile operators now selling long term insurance and banks placing strong emphasis on insurance products within a client's portfolio, for example. The insurance sector is up against some tough competition and innovation is going to be critical for success.

This means devising new ways of doing business that places the customer at the centre, as well as developing more flexible actuarial models to manage this shift.

In South Africa, we are in the very early stages of self-fulfilment, and we expect to see this grow as consumers get increasingly comfortable engaging digitally. This will increase the mix of distribution channels available to the consumer. Over the next 10 years the financial advice distribution models (face to face and direct) will still be a significant contributor to insurance sales, and while self-fulfilment may grow significantly, with clients demanding options for engagement, insurers need to ensure they are poised to respond.

**Kobus Wentzel**  
Executive Head of Direct Sales  
& Distribution  
ILife



## About retirement, diseases and investments...

If you look at modern-day retirement savings, the biggest focus is on how to make it tax efficient. Currently, employees get what their employers give them. In the future, products will cater more towards their needs. Instead of just a retirement savings product, they would instead invest in a bundle of products that maximises the benefit to them, including getting the best out of all their possible benefits, such as tax-free savings and other investment options. We will also continue to see development in the trend of people retiring later and later.

With genetic testing, the ability to predict the probability of someone contracting certain diseases has increased exponentially. We may, in the near future, see a legal challenge to what life insurers are allowed to test for and how these tests affect premiums. At the same time, this knowledge could help prevent clients from contracting serious diseases in the first place. While the ability to treat diseases is becoming increasingly advanced, medical affordability is becoming a greater issue. In addition, as the population continues to get older, more people are living long enough to contract conditions such as dementia. It is important to know that their cover will be sufficient to get adequate treatment in old age.

There is a concern that the latest technological advances, such as machine learning and IoT are going to reduce the need for workers and even put entire companies out of business. However, businesses exist to sell things to consumers. Therefore, to continue to operate, businesses will always need a consumer base. It is therefore in their best interest to keep people employed (employee benefits), otherwise there will be no demand for the supply created.

Less and less, people are trying to time the market to make returns. This strategy has not worked for individuals or even fund managers. We have seen an emerging trend where people are still concerned with earning a good return but are increasing their focus on what their investments are actually achieving for the world around them.

Given the persistent local challenges, many people are also looking for offshore opportunities. At the same time, the line between onshore and offshore is becoming increasingly blurred. Many companies are now listed on secondary exchanges and cryptocurrency is also playing its part.

This abundance of choice means that there will be increased pressure on the pricing offered by financial services providers. The pressure will therefore be on them to increase efficiencies to be able to compete on price. Or they would have to use technology to add additional benefits.

**Grant Field**  
Chief Executive Officer  
Fedgroup





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# 2020

## About the pension fund reform system...

A report from the Group of 30, published in November 2019, estimates that the world's top economies will face a pensions shortfall of just over \$5 trillion by 2028, and \$15.8 trillion by 2050. If the world's retirement funding landscape does not evolve to meet the changing needs resulting from persistently low interest rates and an ageing population, the shortfall may hit even harder and sooner.

In 2019, a number of developed and emerging markets were forced to revise their pension fund systems.

The Netherlands provides a recent example. Its pension fund system is regarded as a world leader, and Dutch workers have typically been able to retire on a pension roughly equivalent to 80% of their pay. However, their pension funds rely on bond yields for stable returns to fund pay-outs to pensioners.

The current environment of record low interest rates (intended to kickstart flagging growth post the Global Financial Crisis) has put untenable pressure on pension funds. Bond yields in Germany and Japan, for instance, have been in negative territory for some time. The stress on pension funds from such low or negative rates has led to talk of reduced pension pay-outs to retirees, or increased premiums for working individuals. But due to the demographic shift, the latter is unlikely to be a sustainable solution. People are living longer; populations are aging and there are fewer young people to keep the system afloat. There are two key implications:

- From a regulatory perspective, pension fund reforms have typically entailed raising the retirement age. In the Dutch example, authorities have developed a plan to reform their pension system and raise the retirement age to 67 in 2024. Thereafter, the retirement age will be raised by a further eight months for each year of increased life expectancy.
- From an investment perspective, financial advisers and the retirement industry will increasingly turn to alternative, innovative asset classes and instruments to provide the stable, inflation-beating returns which bonds were traditionally thought to provide.

South Africa, as an emerging market, faces similar pressure in terms of demographic trends. If the current trends in interest rates and inflation persist (with the South African Reserve Bank looking to lower interest rates as inflation remains stable and at the lower end of the Bank's target range) the country will be facing negative real interest rates in line with those experienced in more developed counterparts.

Fran Troskie  
Investment Research Analyst  
RisCura



## About income protection benefits...

Income protection currently makes up only 6% of the life insurance market<sup>1</sup>. However, we are seeing an encouraging shift from lump sum to income benefits. More and more advisers are realising the importance, and advantages, of income benefits as opposed to lump sum only cover for their clients.

Clients relate to the concept of income benefits, as it mimics their monthly salary and budgets; plus, unlike with lump sum payouts, they do not need to worry about the risks of inflation, investment or the irresponsible spending that comes with large once-off lump sums.

The number of customers with income protection is set to grow over the coming decade, as more and more advisers realise the unique advantages that income benefits offer should a client get sick, injured or pass away.

There are two main drivers influencing how income protection will evolve over the coming decade:

- **Advances in assessing risk.** With the growing 'gig-economy', and careers that did not exist just a few short years ago, insurers need to evolve their risk protection products, and explore alternative ways of assessing risk to ensure they are able to continue offering cover to a changing market. Income protection is a core need to all income earners; regardless of whether a client is salaried, a freelancer, or earning an income from multiple occupations.



# THE START OF A NEW DECADE

## About the state of the healthcare system...

The latter part of 2019 was characterised by talk of the National Health Insurance (NHI) Bill that was tabled before Parliament in August. In its current format, the Bill aims to cover every South African regardless of their income level and employment status. Although specific implementation details have not yet been finalised, what has been communicated so far is that it will not officially eliminate individuals' choice to opt for private medical healthcare. A central administrator will be responsible for regulating which medical services will be covered by whom, at what point and to what degree.

In what many have deemed as a surprise move, the Council for Medical Schemes (CMS) has begun to implement certain changes. In Circular 80 of 2019 dated 4 December 2019, the CMS announced that it would be abandoning a decade-long project to make private healthcare available to about 8 million lower-income households. This move is in support of the proposed NHI. In the next 12 months, we expect to see pronouncements on the vaguer details of the Bill with no drastic changes to medical schemes and cover.

In recent years, many medical schemes endeavoured to create medical scheme options to cater to lower income households like income-based options, for example. The uptake for the options has been expectantly high. With the CMS' stance on medical scheme cover and insurance to lower-income households, it will be crucial for medical schemes to reposition in order to be able to continue to provide quality medical cover to the affected citizens in the year 2021.

Earlier this year, the Competition Commission released its findings from the Health Market Inquiry (HMI). It found that the private healthcare sector is highly concentrated and characterised by over-utilisation. It was also reported that the rate of utilisation was without demonstrated improvements in health outcomes as would be expected from an industry with high and rising costs of healthcare and medical scheme cover. With the implementation of the NHI being a long term project, we anticipate that in the interim, private healthcare costs will be regulated more closely to manage costs and identify fraud and misuse.

In light of the proposed changes to public and private health cover, primary healthcare should be of paramount importance in the next year. It has been our government's stated intention to provide primary healthcare and health services that are safe, comprehensive, integrated, accessible and of high quality. It will be essential now to provide and improve facilities and resources to create a conducive environment for the NHI to perform sustainably and effectively.

Over the next year, we anticipate a consultative process including government, the CMS, medical schemes, as well as private and public healthcare stakeholders, to provide a framework that ultimately addresses healthcare needs, whilst recognising fiscal constraints.

- **Product innovation across categories.** The concept of income protection will evolve as insurers start to innovate across products for different risk insurance needs. For example, our first-to-market Critical Illness Income benefit pays clients 130% of their income for up to 12 months should they get a listed critical illness. This has meant that the risks of minor injuries and illnesses, as well as more severe illnesses, have no impact on a client's earning ability. Another instance is our Life Income benefit, which pays an ongoing income to dependants as opposed to a large once-off lump sum. Advisers can now offer a secure estate liquidity solution, education cover, or cover day-to-day living expenses for a specified term whilst the deceased' estate is being wound up, or to pay the beneficiary for the rest of their life. The latter scenario means that they may not need lump sum cover at all, and this may save the client significantly on premiums.

Whatever changes income protection sees over the years ahead, the biggest industry changes will come from insurers and advisers working together, to create the best solutions possible for clients. Understanding the needs of advisers and their clients before taking steps to innovate or disrupt (not the other way around) is a winning strategy every time.

<sup>1</sup>Swiss-Re New Business Volume Survey 2018

Brad Toerien  
Chief Executive Officer  
FMI



Madelein Barkhuizen  
Executive Manager of Sales, Distribution,  
Marketing & Communication  
Bestmed Medical Scheme



## About personal and commercial lines...

**R**ating factors are changing, and insurers are becoming more proactive. Smart home insurance products, for example, are actively monitoring geysers and electricity usage. Insurers provide the smart devices, thus managing their risk while reducing the overall cost to their clients.

The use of AI gives insurers greater control over the replacement value and risk information with respect to construction, without requiring user input. Prevention is better than cure, and behavioural change improves claims occurrence. AI and IoT/telematics are making claims First Notice of Loss (FONL) and tracking automatic and adding significant value to the claims process.

The majority of personal lines business is still on traditional products. Even though certain innovators are testing the market with new types of products like usage based or Stokvel based insurance, it is going to take one of the major players to pursue these types of products to enact any real change in the market.

Insurtech is making the acquisition of information much easier. Smart IoT devices in cars, homes, along with wearables, are driving innovation and adding to the dataset, which can be used for actuarial analysis or improving the claims process. These devices can also change behaviour, which improves the risk profile. B2B digital integration is also improving efficiencies, which can drive down costs as well improve the turnaround times on claims.

A combination of telematics and smart devices will make smart homes and cars commonplace. Insurance will become a value-added function rather than a grudge purchase, helping the client manage their risk, and in doing so, bring down the cost. Insurers will provide simpler products that the consumer can understand, and these products will be easy to buy at the point of contact. We will see an increase in affinity selling.

New types of commercial products are starting to emerge, which are smarter and more geared towards specific types of business. Cyber and data protection products, for example, now include preventative assistance. Mergers and acquisitions pose additional commercial risks, and we are seeing an uptake in M&A insurance. Recent director behaviours highlight the need for legal covers. The demise of the broker was definitely exaggerated, and even direct insurers are adding outsourced broking capabilities to gain access to the market, which prefers working through a broker.

The gig economy and SME markets are growing, and insurers should consider options in these potential markets.

Legislation will bring additional risk to running a business. Unions, the Commission for Conciliation Mediation and Arbitration (CCMA) and Workers Compensation will increase the risk for employers. The Protection of Personal Information (POPI) Act and the General Data Protection Regulation (GDPR), with massive fines and legal fees, will either force insurance or a significant change in behaviour. While the fines are meant as a deterrent, prevention will not always be possible.



**Ben du Preez**  
Group CIO  
Genasys Technologies



**Steve Symes**  
CEO  
Genasys Technologies



# 20

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2019  
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## About cyber insurance in personal and commercial lines...

The new decade will likely see more creative personal lines insurance business models, thus allowing business opportunities for new strategies, new products, new target clients and an almost perfect alignment with client needs, behaviors and expectations. In addition, insurers will be forced to come up with ways to access previously uninsured customers through 'free basic insurance', self-funded from insurers' balance sheets. This will introduce the concept of insurance to the masses and earn premiums through upselling to get comprehensive covers.

The increased reliance on technological innovation will be the driver of personal lines cyber insurance, which covers consumers against cyber risks while using digital means of transacting.

Homeowners, cloud users, telecommunications customers and bank account/credit-cardholders will require insurance that responds effectively to cyber risks in their personal capacity. In the new decade covers such as Identity Protection, which provide for reimbursement of costs resulting from identity theft, are likely to increase. Another cover which is likely to see increased demand is Smart Home cover.

This coverage element indemnifies the insured for the costs of restoring smart home applications (data and physically) after they have been lost or damaged due to a cyber incident. An increase in demand for online sales and shopping coverage is expected, where the policyholder is covered for reimbursement of funds lost due to online sales and shopping fraud. These coverage elements are typically included in personal lines cyber insurance for the consumer market, as opposed to only being available to businesses as it has been in the past few years.

Once the Protection of Personal Information (POPI) Act comes into effect, the industry expects an increased demand of affirmative cyber insurance as all entities that process, store or handle personal information will be obligated to comply with the provisions of the Act. Recent data breach incidents have demonstrated how real the exposure is for businesses and the Act will go further in making the responsible parties, accountable for the breach through fines or penalties. It is anticipated that more businesses will be forced to have a proactive cybersecurity strategy to manage the cyber risks, as well as ensure that the business has a cyber insurance programme to deal with liability that may arise following theft, damage, loss or disclosure of confidential information to unauthorised third parties.

For Casualty and Property classes of business, the insurance industry players should see a heightened interest in the silent cyber topic and actions being taken to address the silent cyber exposures in traditional business. The topic emerged in the last few years, however only few insurers have been proactive in addressing the risk by revising their cyber exclusions to either exclude cyber totally, or alter their exclusion in accordance with their cyber risk appetite. In future, we anticipate a more comprehensive approach in dealing with silent cyber where insurers will assess and quantify their silent cyber exposures and implement effective strategies to deal with the exposures.

**Nico Conradie**  
Chief Executive Officer  
Munich RE





# The massive impact of the NOVEL CORONAVIRUS...

**T**here is a peaking concern-turned-panic about the spread of the recently discovered novel Coronavirus. When South Africa had its first substantiated scares – with the two cases in Kwa-Zulu Natal which were ruled out as not 2019-CoV related, locals started pondering about the threat as the risk was too close to home.

The deadly disease, with flu-like symptoms with harsher implications, has insurers and clients alike scratching their heads and perusing the fine print to determine how risk and liability related to the global viral outbreak should be treated, and where policies cover costs. Preparations can be made, but when the rubber meets the roads, insurers can throw one to the wolves due to technicalities.

## Medical schemes

Medical schemes have a precautionary legislative measure in place, though they are not completely home and dry. For what it's worth, should the pandemic hit South Africa, medical schemes should be able to function – according to one industry leader. The only question would be until when?

Craig Comrie, CEO of Profmed Medical Scheme said “Every scheme holds reserves (solvency level) specifically for events like this. The problem is, if an outbreak is sustained for too long, then those reserves will deplete quickly.”. The precautionary rule is a stopgap measure where there may be a need due to leaking of funds caused by a pandemic. However the coffers are not unlimited.

## Travel insurance

Being that China is a major leader in the global manufacturing sector, experts detail that insurance linked to manufacturers in the country is and should be under major constraint. However, another sector that brings home the bacon for the Chinese economy is travel and tourism. The industry is staggering under the weight of fears let loose by the discovery of the virus.

There have been travel restriction by authorities for about 40 million people in and around Wuhan City, Hubei Province of China – which is the epicenter of the virus. However, there have been thousands, if not millions of others self-imposed travel restrictions involving China

and the other countries with confirmed infections.

## The flight cancellations conundrum

A lot has been said about flight ticket cancellations as a result of fears of contracting the virus and whether that would be enough reason for the policyholder to cancel and still receive a payout. Well, the answer is ‘no’!

Anrieth Symon, Head of Travel at Bryte put the issue to bed and said “While the World Health Organisation (WHO) has cautioned against travel to China, it has not issued global travel restrictions. Accordingly, the cancellation of travel due to fear of contracting the Coronavirus would not be covered under a travel insurance policy.”

“Premier and Business travel insurance policyholders do have the option to purchase voluntary cancellation cover as an additional benefit. This, however, must be done within 48-hours of making payment against their travel booking and is subject to the terms and conditions as set out in our policy wording” added Symon.

## To invest or to disinvest

Looking at some of the data from multinational Morningstar Investment Management Insights, there have been nine major outbreaks since 1998 and there is little evidence linking global epidemics with long-term investment fundamentals.

“The Chinese economy may slow down, perhaps even meaningfully, but that is not a reason to invest or divest. Long-term investing is often best disconnected from short-term economic reactions, so we implore investors to maintain their focus on what matters” states the organisation. The Chinese economy is predicted to bounce back from the bearish impact of the coronavirus in the medium-to-long term.

Regardless of whether South Africa has any confirmed cases or not, the impact on the economy exposed how vulnerable our economy is to the aftereffects of the Coronavirus to the sheer amount of business we do in China. The local economy recently took a knock over fears by investors who felt that South African businesses were too close to the source of the virus, which is the country that boasts the second largest economy in the world. ●



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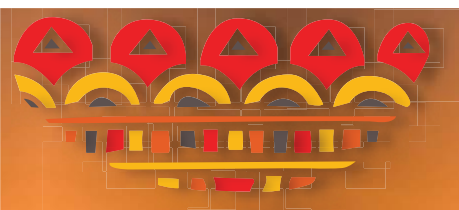
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# Calorie counting is FOR THE BIRDS

2020, another year, another decade! No doubt, to be accompanied by a new set of resolutions and hopes for a “new me.”

**E**very year, I find myself trying harder to accomplish the very activities at which I had failed so miserably the year before. Was it Albert Einstein that said, “The definition of insanity is doing the same thing over and over again, but expecting different results”? Researchers say it is unlikely, but whoever said it, it really speaks straight to my gut.

## Too unpredictable for a programme

My “getting thinner” game plan feels like a fresh start every year. If I break it down though, it is the same thing year on year - a tactical plan to consume less than I burn at every serving.

As hard as I try, life just seems to throw me curve balls. My life feels just too unpredictable for a programme that requires straight lines and repeat processes - day-after-day, month-after-month. It feels like there are just too many opportunities to be led astray, given the unpredictability of what life throws up at me. Every misstep feels like a failure, a reason to start again. Stack these up over a few weeks and I resign myself to, “I will give it up till next year.” There just doesn’t seem to be any programmes flexible enough to bottle up the variability that is my life.

Money is no different. I have been through the calorie counting equivalent, too many times to think about. I have had excel spreadsheets, data aggregating apps, magnets

on the fridge, you name it, I have tried it. My existence knows no boundaries.

## Focus on the behaviour, not the theory

This gets me thinking about the strategies available to Financial Planners when giving advice to clients. How helpful is it to itemise their budgets to the decimal point, hoping upon hope that they will change their wicked ways? And if clients cannot stick to their budgets for a few months, what impact might their unpredictable behaviour have for all their other goals, projected in infinite detail, over a lifetime?

If I cannot stick to a diet, it must follow that my long term commitments are equally vulnerable to my human flaws. The effect of our behaviour means that even the big numbers, the value of a pension fund, investment contributions, salaries, health bills, are simply hypothetical in the face of an existence, over decades, that is so fluid.

I think we have the wrong approach. We have to focus on the behaviour, not the theory, not the detail. Whether we burn 1200 calories or 1500 calories, it does not matter if we have lost the will to make any change at all.

## A simple rule of thumb

I think financial planning often burdens clients with detail to the extent that it makes their ability to stick to the next step too overwhelming. Instead, they fall off the

wagon, and rather than climbing back up, they abandon it altogether, “till next year.”

I think we need to move away from issuing a 3000-piece puzzle to achieving financial (and personal) well-being. Rather give me a simple rule of thumb to make better decisions every moment I shove something in my face. There is too much anxiety hidden in the detail. We have to let go, even if it means introducing an anxiety all of its own - not for the client, but for the adviser.

This has to filter into how we plan for clients. Getting all wound up about the numbers and the infinite detail is nothing but academic if the client is uncontrollably walking in any direction at every opportunity. Let us make it easy for them - show them their big picture and give clear, simple instructions: “Sugar is bad. Equity is good.”

Calorie counting is for the birds.



**Gary Winslow CFP, MBA (GIBS)**  
Kick-Ass-Client-Value-Proposition-Maker  
WORK.THAT.MATTERS





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# Connecting with the YOUNGER MARKET

**T**he Association for Savings and Investment South Africa's (ASISA) latest 2019 Gap Study indicates that income earners under the age of 30 make up the largest portion of the underinsured market, with only 38% of the disability cover they need in place. And yet, when individuals are just starting their careers, with their future earning potential being at its highest, is when younger people need income protection the most.

The average 25-year-old, for example, has a 96% chance of having a temporary injury or illness that will stop them from earning their income for at least two weeks sometime during their working career<sup>1</sup>.

## The fallacy of death cover

Young earners are infamous for not seeing life insurance as a priority: being young, healthy, and largely having no dependants. This is driven by the sad misconception that life insurance only exists to cover death.

According to FMI's 2018 #RealityCheck Consumer Survey, 48% of South Africans think that life insurance is death cover only. It seems unnecessary for many South Africans at this stage in their lives because they do not understand the options available to them – such as temporary income protection for sickness or injuries, and critical illness cover for more serious illnesses.

The concept of insuring one's salary is often overlooked because it is not top of mind when it comes to insurance. We tend to

prioritise medical scheme cover and car insurance, when we should be insuring the income that makes everything in life possible.

## Financial advisers play a critical role

That is why financial advisers play such an important role in informing and guiding young clients to make smart financial decisions, not only for the stage of life they are currently in, but for their future goals too. Financial advisers have the power to help close this insurance gap by shifting the conversation around life insurance to living insurance and to put income protection on young clients' radar.

Perceptions aside, when it comes to life insurance and risk planning, the customer experience creates another barrier for young earners altogether. Product complexity and long processes can scare people away and be an incredibly intimidating journey without the right guidance. As an adviser, the first step is to make a human connection. Only then, once you understand who your client really is and where they are going, can you understand their financial needs well enough to provide a strong solution that works for them. Talking income benefits helps you do just that – it is an easy concept to explain, and one your clients can relate to.

Young earners want to be part of the conversation, and dislike one-way conversations where they feel a product or brand is talking at them, rather than with them. We want to feel connected and involved. We want customised and personalised communication that resonates, and which we can

interact with. Contrary to much buzz around the increasing number of insure techs and digitised insurance solutions, young people continue to place real value on personal connections and support – a welcome opportunity for advisers.

## Building your future client pool

It is the authenticity and transparency that draws people to businesses or advisers. Seeing themselves as a reflection of the brands they choose and the products they use, we should strive to turn customers into fans. Sadly, young earners are currently outliers in the life insurance industry, excluded from the market, because unlocking this customer requires a different conversation.

As an adviser, you may think the typical young earner is a challenging market to crack, but do not be discouraged. Young clients offer the greatest opportunity for growth. It is simply a matter of shifting the conversation from death cover to living insurance, and from life cover and lump sum benefits to income benefits.

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<sup>1</sup> FMI Risk Stats 2019. Risk stats calculated on probability for 25-year old before retirement age of 70.

**Grace Winter**  
Chief Marketing  
Officer  
FMI







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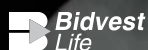
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# Behavioural economics... **A GAME CHANGER**

Human nature is inconsistent. It fluctuates and baffles even the smartest analysts who often think they have people figured out.

Its ever-changing nature is particularly interesting when businesses get involved and try to understand what goes into the decision-making and purchasing processes of their customers.

## Factors affecting purchasing decisions

Previously, economists attempted to rationalise consumer actions, but by studying the psychological, cognitive, emotional, cultural and social factors that affect purchasing decisions, they have come to recognise that most purchasing decisions are deeply irrational.

Instead, people use quick subconscious heuristics to aid them in their decision-making process. One of the more prevalent of these is the tendency to default to the market leaders. When people do not know much about a certain topic or product, they go for the biggest brand.

This, along with aspects such as artificial scarcity and the recency bias, causes people to place disproportional trust in their most recent memories. The prodigious exposure of big brands therefore means that they are always top of mind, even when better alternatives exist.

## Why behavioural economics is crucial

This is especially true of the financial services industry. Conversely, people are quick to spend their hard-earned money on things they do not need in the heat of the moment, but when it comes to investing this money, the decision is often delayed.

One of the reasons for this is hyperbolic discounting, the tendency to opt for a smaller, immediate reward rather than a larger reward at a later stage. This is particularly evident in the pension funds space where most people are either saving too little or not at all.

Behavioural economists recognise that consumers do not see their future selves as a part of them, but rather as strangers, and subsequently do not care about what happens to that future self. People tend to see their monthly salaries as money due to them, and any portion saved towards retirement is seen as a loss.

This subconscious application of personal biases underlines why behavioural economics is crucial in understanding consumer behaviour.

## Two main drivers of choice

This understanding is particularly important in the retirement fund space, where there is also an ethical obligation to assist people in securing their futures. A good example of this is the *Save More Tomorrow* programme pioneered by American behavioural economists, which has helped approximately 15 million Americans to significantly boost their savings rate.

The program makes setting aside money for retirement a default option when employees start at a company and, instead of asking them whether they would like to save, asks them whether they would like to opt out of saving money. By slightly changing the

question, the number of people choosing to invest on their employment forms more than tripled.

Default and opt-out options are key behavioural economic principles and two main drivers of choice architecture. The newly implemented retirement default regulations require retirement funds to adopt a set of default options when it comes to how savings are invested, what happens to their savings if they leave their employer's service before retirement, and to offer members a pension at retirement. Basically, should members not select a fund option, one will be selected for them by default.

Knowledge of behavioural economics places providers at a massive advantage because it taps into the subconscious purchasing decisions of the clients they wish to target. It therefore places a substantial moral obligation on service providers to harness this power to ensure that the purchasing decisions of clients contribute towards long term financial benefits.



**Tim Allemann**  
CMO  
Fedgroup





# The power of a **HANDSHAKE**

**T**he digital revolution has indeed conquered the world. Customers, especially Millennials, are now using technology to make purchasing decisions, to read product reviews, to interact with brands online and to share their experiences with family and friends on social media.

Additionally, technology has changed customer perceptions and expectations in that digital services, such as online shopping, must be fast, hassle-free, and seamless. However, purchasing financial products online may not meet all consumer expectations because of complex, ambiguous and technical descriptions of the services and products.

## **Face-to-face is still important**

According to a study called Marketing of Financial Products and Services to Millennials completed by PPS, personal or physical face-to-face contact still plays a key role in building trust between a company and its client to ensure that they fully understand the products and services offered to them. This will subsequently lead to a loyal and sustaining relationship with the brand or product.

Conducted among 800 university students and young professionals such as doctors, lawyers, engineers and business majors, the study indicated that 90% of them found it easier to understand complex and equivocal financial topics and products, when someone explained these to them face-to-face. A further 85% of those surveyed added that they would consider buying financial products if these were presented to them in person.

The study also showed that 72% of the participants still preferred to use a form of digital communication such as software applications and interactive websites to manage and receive information about their policies and personal finances, only after the relationship had been solidified on a personal, face-to-face basis.

## **Gestures are crucial**

Today, young professionals, specifically Generation Y graduates (individuals born between 1980-1995), are constantly bombarded

with high amounts of digital media and although this still proves to be the way they prefer receiving their communication and marketing material, face-to-face marketing is still considered to be incredibly valuable. Gestures such as personal contact, a handshake, facial expression, tone of voice and immediacy of feedback are absolutely crucial when attempting to get through to the client and create transparency.

If potential clients do not understand these products, they are highly unlikely to spend considerable amounts of money on it.

We should continue to value and implement face to face marketing and recognise that young professionals want greater interaction with financial advisers when it comes to complex product offerings, and they want these explained to them before determining their financial future. As proven, the graduate market at PPS for example, has seen substantial growth and value through implementing this model which has contributed to low lapse rates on policies in the market.

## **A form of trust**

Since customers will soon be able to search for financial products by image, voice, and artificial intelligence, this will subsequently change the face-to-face marketing landscape.

However, we believe that the basis for building a sustaining relationship with financial providers is a form of trust that can only be built on a personal and face-to-face communication model, something that a digital relationship will not be able to achieve.



**Pierre Coetzee**  
Graduate Marketing Specialist  
PPS Life Broker Services



# Where there is no choice **BUT TO REDUCE COVER**

**There is no question of the importance of allocating a portion of one's income to insurance, as this decision could be crucial in the future financial wellbeing of a company or individual.**

**T**he amount of disposable income available after the basic needs are taken care of may dictate how much is spent on insurance. For companies, it could be even more critical as the livelihood of staff members is at risk if adequate insurance cover is not in place.

## **Adequate financial planning**

Insuring assets that could be at risk of various events has proved vital in the sustainability and future existence of a business. Therefore, financial planning around an insurance portfolio is critical considering, what is at risk for an individual or company.

There are multiple benefits to adequate planning. First, is the immediate peace of mind that comes from the knowledge that if an event occurs, an individual is adequately protected.

Secondly, if there is a financial plan for insurance in place, this will also allow for adjustments and changes to the cover that would suit the amount of finance available at a point. If the funding available comes under pressure for any reason, instead of cancelling insurance cover an assessment of various risks and restructuring plans should be done. So, planning for insurance premiums is vital to obtain maximum benefit and control.

## **The options of products**

Where individuals are concerned, they are sometimes faced with situations where less money means some decisions are required. There are many insurance options available

on the market, and most customers have become educated around shopping for insurance products.

With digital platforms available to clients, they can exercise multiple options where they can compare prices relative to similar cover or compare the cost of reduced cover. Self-service options could also assist in the reduction of rates where the customer can do certain things themselves. They, therefore, have the options of products that can offer them as much as possible for the disposal premium available.

Where possible, policies should not be cancelled; and intermediary advice and research should be sought. At the same time, insurers should be looking at developing products that are affordable and provide cost-effective options supported by smart technology.

## **The intermediary's crucial role**

Where there is no choice but to reduce cover, instead of cancelling the entire policy, the intermediary has the opportunity to offer valuable advice in respect of putting in place a mitigating risk management programme where specific covers have been removed. This then puts the insured in a position where the policy can be retained, and the identified risks managed accordingly.

Businesses also go through periods where it becomes necessary to consider reducing insurance cover. After conducting a thorough needs analysis, intermediaries have an essential role to play with the advice that they then

give. The needs analysis will determine what covers could be left out and what must be retained, to ensure that the business will not be without vital cover. This will ensure its existence and its long term sustainability.

At the outset, the intermediary needs to consider the individual or business profile and their specific insurance needs. This knowledge becomes useful when managing price versus product. Product is essential in terms of the insurance profile requirements, and price must be balanced with the requirements as the sustainability and retention of the customer is critical, to avoid not getting into a situation where cancellation is the only option.

Today's consumers pay close attention to the pricing and sustainability of insurance products, and insurers and intermediaries alike have a responsibility to ensure the right fit, best price and appropriate covers relative to the risk profile. Know your customer, understand their requirements as they remain individual to their needs. In this way, retention of customers becomes a focal and mutually beneficial factor.



**Sedick Isaacs**  
**Head of Business Support Services**  
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# EMPOWERING THE CLIENT

Imagine a pebble impacting a still body of water and sending ripples towards the shore, each concentric one larger than the one on its inside – movements within greater movements.

**T**he last two decades have seen insurers slowly handing back the levers of power to the client, which sounds dramatic, but in essence it means that we are paying more attention to the wants and needs of our clients than ever before. And this is a good thing. These wants and needs should rightfully play a key role in how we, as insurers, make decisions and what we offer, but even within this major movement toward client-centricity smaller shifts are taking place.

The increased fragmentation of consumer needs and wants, a demand for customisation, for flexibility, and to be treated as an individual, are quickly swallowing the one-size-fits-all approach. Ultimately, we are moving toward a system in which we continue to offer our clients the solutions they need, but more importantly, also carefully consider what they want. This is crucial to the success of all parties in insurance.

## Need versus want

To remain relevant in an increasingly competitive landscape and to meet the expectations of an increasingly demanding client-base, these client wants should be met with product flexibility and omnichannel servicing, which should not be confused with the core insurance need: the correct insurance cover for a client's specific risk profile.

If we look closely at client needs versus wants, needs directly relate to individual risk profiles and exposures. Each client should go through a needs analysis to ensure they are provided the correct insurance cover(s) for their unique risk profile.

Client wants, on the other hand, may not always be directly related to risk, rather, perhaps, to reward. These can include benefits rewards programmes, access to a bouquet of additional value-add products, such as scratch and dent; payment flexibility; the choice to transact using multiple platforms, including a web platform or an app, or handling their insurance business through a broker.

## Meet both wants and needs

Clients demand a degree of flexibility and customisation, but it should not conflict with their best interests. If we take care of the core need of insurance first, the wants, such as flexibility in servicing platforms,

payment terms, rewards programmes, and value-added products, should follow naturally.

Ultimately, all clients want peace of mind along with a combination of multiple service options that are provided with a personal touch. For insurers and brokers, technology is a key enabler in catering to varying levels of customisation and flexibility requirements.

Insurers need to constantly engage with both partners and clients to understand how the market is evolving in order to meet client needs and wants, especially seeing that the one-size-fits-all approach does not offer any kind of competitive advantage in this modern insurance environment.

## Towards flexibility and customisation

The broker plays an important role in this shift. The broker must ensure the client has the right cover in place that suits their risk profile, while having access to other value-add wants. For instance, a client may have the flexibility/want to reduce their monthly insurance premium by dramatically increasing their motor excess, but there is a stage where increasing the excess is no longer in their best interest.

Furthermore, brokers are going to have to offer an increasingly wider choice of insurance products and services to address the fragmentation of customer wants and needs. Millennials, for example, may demand far more flexibility and control over their policies than older generations, and brokers need to carefully consider how they are going to enable this control.

Eventually, the entire value chain of insurance must become more integrated to enable this movement towards ultimate flexibility and customisation to meet both wants and needs.



**Volker von Widdern**  
Group Chief Executive Officer  
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Changing the claims process to one of ease, accuracy and complete transparency.



# Creating rewarding **CUSTOMER ECOSYSTEMS**

One of the trends that we can expect to gain traction in the coming decade is adapting business models towards creating rewarding customer ecosystems.

**S**imply put, a customer ecosystem is the network of businesses that a customer uses to achieve and manage all aspects of their lives. Most people will have more than one ecosystem, as there may not be an overlap between their investing and hobby ecosystems, although clever businesses are looking at ways to connect these ecosystems.

## **The client ecosystem**

It is virtually impossible to be the only brand within an ecosystem, but if you go about it correctly, you may be the central brand within that ecosystem. Because it is becoming increasingly easy for customers to replace one brand with another, only those brands who strive for mutual benefits instead of just pushing products will be successful within such an ecosystem.

Although the notion of the client ecosystem is relatively new, it has been around in some form for quite a while.

Private banking could be seen as a client ecosystem, where multiple products are tailored to an individual's needs and preferences. However, as technology moved forward, the personal touch and unique understanding of a client's particular needs almost disappeared completely. This necessitated the creation of the Financial Intelligence Centre Act (FICA), to ensure that the now anonymous client's investments and personal data are not compromised.

## **Understanding the client's ecosystem**

So, despite the increased ability provided by technology to personalise the customer

experience, I feel that the large players in the South African financial services industry have not made any great effort to understand their customers' ecosystems. However, this needs to change, because I believe that to be able to survive in the next decade, it will become absolutely essential to build solutions that truly understand clients and offer real value in a product that they actually need.

Many financial services products have been designed to benefit companies and shareholders, with not enough regard to actual client needs.

## **Big players monopolising these ecosystems**

What will be interesting to see is whether we will see the big players entering and totally monopolising these ecosystems, or will there be a natural balance where, if a player becomes so big that it exploits customers, they would rather introduce new providers into their ecosystems. This will depend in large part on how tied into those ecosystems they are.

We have seen that a brand like Apple has been hugely successful in tying customers into their ecosystem with multiple product lines. But, if the customer becomes disgruntled due to price, performance or service, they might leave the entire ecosystem and every single product.

If you look at the businesses that have been successful over the last decade, it is clear that convenience is of huge importance to customers. Coupled with this is urgency. Just think of when you register on a new website. Even though there is a concern about what Facebook does with our data,

we are more inclined to sign up with Facebook in one click, instead of having to fill out a lengthy registration form.

## **A powerful sales tool**

Understanding customer ecosystems can become a powerful sales tool because you can build trust with a client in the knowledge that the only time you would approach them with a product is when you know that they already want that product.

For instance, as a short term insurer, you could recognise that your customer's house has been struck by lightning. Your algorithms can then shop around and find the best deals on replacement products to match the claim amount on damaged goods. This is an incredible service for your clients.

Many providers are sitting on large piles of data, but this has always been used with a view of improving sales or efficiencies. However, it is only with a customer centric view that they will be able to become a major player in an ecosystem that clients will remain loyal to.



**Grant Field**  
CEO  
Fedgroup





# It's all about **THE SERVICE...**

**M**y recent service delivery experience has made me question how service delivery can go wrong. You can have two completely different experiences dealing with the same company and the same division, on the same day!

Allow me to elaborate...

## When the nightmare started

The financial services industry prides itself on delivering quick and efficient banking. However, being a loyal client at a financial institution for 25 years did not even count in my favour.

The nightmare started when my bank discovered that I am in the process of switching debit orders. The new bank completed all the paperwork, started the process, and provided me with regular status updates on the progress. Then the new bank was informed by my former bank that if I wanted to switch two of their direct debit orders I had to go into the branch. Unfortunately, I left the branch after an hour without any progress.

The guy at the counter did his utmost to assist me. I could sense his frustration while he was transferred telephonically from pillar to post. I eventually stopped counting the minutes he spent holding on for assistance. Should service not be reciprocated internally?

To top it all off, my personal banker who is normally very efficient did not respond to my email for four days. After another, not so

complimentary email to my personal banker, I received a watered-down apology stating that over month end it gets very hectic on his side. It took another five days, and yet another follow-up from me to finally get the matter resolved.

Then out of the blue I received notice from my former bank that I qualify for a 20% discount on my homeowner insurance, as well as better interest rates. Really? This was a little too late.

## Questioning service delivery

I seriously questioned the universe's reason for testing my patience. But why did this situation frustrate me so much? Was it because for it to be resolved, I was totally dependent on another human? Or did the problem lie with me? Did I expect a different level of service?

What had left me with a complete sense of dissatisfaction could be totally acceptable service delivery to the next person.

We are such a diverse group of people demanding service based on our own standards and previous experiences. How does one change the DNA in an organisation to become service oriented? How do you change those lackadaisical employees and get them to understand that it really is all about service?

How do you prevent a person saying I was once your customer? One bad service experience will attract many comments on social media but there are hardly ever any likes for excellent service delivery. Why is this the case?

## Get the basics right

If you want your customer to come back for more, you need to get the basics right:

- Understand your customer's needs and listen beyond the actual request;
- Explain the steps in the process;
- Ask for all relevant information upfront;
- Understand the benefit of first call resolution versus the cost of rework;
- Give regular updates; and
- Show customers that you care and deliver the service that you would like to receive.

It could be all about service if it is in the blood of every service delivery organisation... if promises are kept and if customers are assisted by competent and knowledgeable people and easy processes.

I would like to say well done to the handful of organisations who get it right all the time. If you do not, be your own anonymous customer and judge the customer experience for yourself. Then answer the question: is your company really all about the service?



**Rita Kruger**  
Executive: Customer Services &  
Call Centre Operations  
Tracker

# 4IR and skills training IN THE FINANCIAL SECTOR

The Fourth Industrial Revolution (4IR) is currently a matter of world-wide interest. The discussion started around 2015, which some would say is a short time ago.

## ► IN PERSPECTIVE WITH PROF VIVIAN ►►►

**T**he 4IR will have a considerable impact on the labour market, skills and skills training.

### Described in broad outline

Firstly, it is important to know what the 4IR is. Considering the wide publicity given to this concept it is not necessary to discuss this matter in great detail. It is thus described in broad outline. The term 'Fourth Industrial Revolution' is largely associated with Klaus Schwab. He is of course the Founder and Executive Chairman of the World Economic Forum (WEF). The debate started in 2015, and he set his views out in detail in his book with the same title, published in 2017. He then released a second book, 'Shaping the Future of the Fourth Industrial Revolution', in 2018.

Since the words industrial revolution appear within the title of concept of 4IR, it is logical the 4IR should be set-out in terms of the concept the industrial revolution itself, although it is not clear if it was derived from this broader context.

### The stages through which society has passed

It is accepted in economic history that society has passed through a number of stages of development. It is not always clear what the driving force behind these stages were, but it can be accepted population growth played an important part.

The earliest stage was the hunter-gatherer society. As the name implies, this is a society which was sustained by gathering wild berries and fruit and hunted animals. This was a mobile society. This was followed by the pastoral society, which was sustained largely by domesticated herd animals. This society is thought to have emerged between 10 000 to 12 000 years ago.

The third stage was the agrarian society. The economy was based on producing and maintaining crops and farmlands, with domesticated animals. This was the dominant society for a very long period. This society could accommodate larger populations. With hindsight, it is clear this society could not support the modern large urban based societies, and so, society entered the final phase, the industrial society, associated with the Industrial Revolution (1760-1830).

As indicated by the time span, the Industrial Revolution took a long time to evolve, and hence, many criticize the idea that it could be described as a revolution. This idea of a revolution is rather that a significant change took place; a new society evolved out of the old. The industrial society emerged from the agrarian. Now persons who could not gain employment on farms in rural areas could migrate to urban areas and seek employment there. The industrial revolu-

tion is thus associated with the creation of non-agricultural jobs and migration to urban areas. A revolution could also be described as something disruptive which took place. In this sense it was disruptive; one way of life, the agricultural way of life, was disrupted and replaced with an urban way of life.

### Sub-stages within the Industrial Revolution

4IR thus deals with what has happened within the Industrial Revolution. Sub-stages can be identified within the Industrial Revolution. The first stage, or the first industrial revolution, was ushered in with the discovery of steam power. Steam made factories possible, which powered factories such as the cotton mills. It also made mass transportation possible in the form of railways. This led to the second stage, that of the expansion of industry, with the conversion of steam into electricity, innovation, more products and well-organized factories leading to mass production.

The third stage, or the third industrial revolution, was ushered in by the mainframe computer which led to the personal computer and the internet. Just as steam led to electricity and mass production, so the computer and the internet is leading society to a further revolution, as Schwab put it in his book, "a technological revolution ... that is blurring lines between the physical, digital and biological spheres."

### The digital age

The digital age has progressed far beyond what anyone could have imagined a few years ago. The typical smart phone far exceeds what was thought possible when the mainframe was invented. Through voice activated technology it is possible to speak to a phone which can follow the conversation and answer questions; the line between machines and humans is becoming blurred. Voice activated technology is now commonplace on desktop computers and could virtually replace many call centers.

3D printing can produce intricate items previously only produced by highly skilled people using highly sophisticated equipment. This is a characteristic of 4IR; the computer acting as if it was a human being. Today, it is possible in the medical field to get 3D printed parts for hip replacements or bionic arms. Production lines have been replaced with robots.

It is not too far in the future that if someone needs to be transported from point A to B, that no human being will be involved. The passenger, for example, uses Uber for a car. The passenger's location is pinpointed by GPS, a driverless car will arrive, the passenger will be transported to the destination. The cost of the fare will be taken from his bank account and deposited with the transport company. All of this





without any human involvement. This is another characteristic of 4IR and one of concern. What will be the impact on employment?

The 4IR, as in the case of the first industrial revolution, is a continually evolving process, not an event. So, in this sense, it has been with us for a long time. Since the beginning, efforts have always been expended on finding ways to improve, to innovate, to do things more efficiently.

### A cause for concern

What is now of interest is the possible continued impact on the financial industry. If photographs of earlier insurers are examined, rows of employees processing paper will be found. Much of that earlier work is now done through computers.

Not so long ago if anyone wanted to draw money from a bank, they took their bank book to the bank where a teller would record the transaction manually in the book, including the new balance. If the balance in the book was different to the balance on the bank's records, then the book had to be handed in and sent to the head office to correct. That system has long since disappeared with the computer recording the balance and the customer receiving a receipt. In most transactions the teller disappeared as the Automated Teller Machine (ATM) appeared. Increasing internet banking is taking place on personal computers or smart phones. ATMs, a recent invention will be used less frequently.

In the field of investments, computers have been trading for a long time. Because of the speed of computers, the phenomenon of High-Speed Trading developed, making use of price changes which exist for

a mere fraction of a second. A very significant percentage of trading is now done by computers. The 4IR is with us, it has been for some time and it will continue to evolve.

The fundamental questions which need to be addressed is how does this impact on skills development and how does or should skill training adapt because of it?



**Professor Robert W Vivian**  
Finance & Insurance  
University of the Witwatersrand



and

**Albert Mushai**  
School of Economic and Business  
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# PPRs IN LIABILITY INSURANCE CONTRACTS

## ►► SHA CLAIMS CORNER ►►

**L**iability insurance has gained importance over the years, and remains one of the most prevalent ways in which civil liability risks are managed. The rights and duties of parties in liability insurance are not only important at claims stage, but significant throughout the entire contractual relationship.

South Africa has successfully developed legislation that regulates how financial service providers deal with their clients – and there is no doubt that this legislation is pro-consumer.

### A standard of fairness

The Financial Advisory and Intermediary Services (FAIS) Act and the Policyholder Protection Rules (PPRs) entrench the principle of Treating Customers Fairly (TCF). Accordingly, financial service providers (brokers and insurers) have a statutory duty to ensure that they uphold a standard of fairness when dealing with policyholders. The underlying theme of FAIS, the General Code of Conduct, TCF and the PPRs, is the fair treatment of customers. The latter also requires honourable conduct on the part of financial service providers.

Based on the choice of language used, PPR is commensurate to (and seeks to emulate) constitutional values such as justice, equity and fairness. Honour speaks to morality, which is in turn, informed by the *boni mores* (values) of society.

The rules are therefore saying that one should not act in a manner which is reprehensible to society's values or public policy. The same applies to fairness. Do not act in a manner that society deems unfair. What the government seeks to achieve when it introduces terms such as "fair" and "fairness" is a standard that overrides the terms of the parties' contract to ensure that fairness and reasonableness prevails. Determining fairness will inevitably involve the weighing up of various norms and values and considering whether the impugned conduct or action would offend public policy and be regarded as unreasonably unfair by society.

### As obligations are concerned

PPR Rule 1.4. (e) holds that a policyholder must be provided with a product that performs as they were led to expect. This rule has far-reaching consequences. It essentially provides a policyholder with an estoppel defence (to hold someone to a misrepresentation), despite having agreed to a policy which sets out the full extent of the nature and obligations of all parties. This essentially means that

a policyholder could claim that they were led to believe that, for example, they had cover for certain types of claims when the policy document clearly notes them as being excluded.

The PPRs further seek to hold the insurer as liable as the broker would have been for any failings on their part to adequately assess the policyholder's particular needs, and to sell the policyholder a product to adequately cater for those needs. Furthermore, the broker or insurer must make sure the policyholder understands the entire agreement, as far as obligations are concerned.

### A framework for more collaboration

This is a drastic departure from the role that insurers used to play where policyholders had intermediaries that represented them. One could argue that this dilutes the intermediaries' obligations and places all the responsibility on the insurer. We do not believe this to be the intention of the regulations and instead take the view that the rules are intended to create a framework for a more collaborative and responsible relationship between the insurer and broker. It does effectively eliminate underwriting at claims stage – which should never happen – and ensures that the product sold actually meets the client's needs.

While PPRs currently only apply to natural persons or companies with an annual turnover of R2.5 million or less, it seems to be only a matter of time before further legislation is passed which may force all financial service providers to treat policyholders the same way under the regulations.

Brokers (and those working on binders) will therefore also have to take special care that they do actually undertake proper needs analysis and keep comprehensive records of advice to circumvent any allegations by clients that they may have been misled about the products sold to them.



**Bonginkosi Ntuli**  
Claims Specialist (Liability)  
SHA





## What we do

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## How we do it

We live Our Brand Promise and Our Values in everything we do.



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# I PROMISE...

## Misrepresentation at sale stage

The natural assumption when talking about misrepresentation is that this is with reference to misconduct by consumers rather than the industry.

**F**ar from it though, this is not the exclusive turf for consumers. Sometimes even industry players who should be better informed, more conscious and therefore better guarded or conscientious, do fall short.

### A difficult balancing act for insurers

What is it that industry players do which amounts to misrepresentation? How does the industry become vigilant or guard against conduct which misrepresents what the industry is all about, and how does the industry ensure that a more positive image is propagated?

The biggest misrepresentation occurs when insurers incorrectly or unfairly dishonour their own promises to their customers, or otherwise frustrate the latter's enjoyment of policy benefits.

Considering various regulatory and other business efficiency and costs, it becomes a difficult balancing act for insurers to ensure that they obtain just the right amount of information to enable them to conduct their business properly.

### Lost in translation

One of the ways in which industry players seek to minimise errors and miscommunication is through the use of standardised scripting when interacting with consumers. This is more common especially in the direct market. However, even the more conventional players have now adopted, at least to some extent, scripts which must be strictly followed by their agents.

One of the challenges which then comes up is that sometimes the client does not understand the scripted question and then the agent has to abandon the script even if only for a little while. It is when this happens that the wheels usually come off. During explanations things get lost in translation. Misunderstandings still occur.

Poor scripting, where for example multiple questions are asked at a go, also result in possible miscommunication. The danger then becomes that the original information being sought is not quite what is elicited or what is eventually recorded. The underwriting process then becomes flawed.

At claim stage the consumer may then be accused of misrepresenting information when in fact the manner in which information was

drawn from them at the sales stage was defective, or information was recorded incorrectly. In some of the complaints received by the Ombudsman for Short Term Insurance (OSTI), for example, the insurer's agent will have asked, "Have you or anyone being covered by this policy been charged, whether the case was prosecuted in full or not, been found guilty of a criminal offence, been declared an insolvent, been in default or been blacklisted?"

Although multiple questions were asked above, not everyone will necessarily realize this. Let us say the consumer responded in the affirmative; one would expect the agent to then drill down into which specific one of the above questions was being responded to. A less alert or competent agent might not. Depending on the rest of the standard scripting, there is potential for misunderstanding.

### A flawed process

In addition, some agents deliberately conduct discussions in a manner that is designed to secure a sale rather than to obtain accurate information, where there are indications of a conceivable unsuccessful sale, by not probing further even where this is necessary. At claim stage, other agents may then want to rely on that same flawed process through which information was sourced, to reject claims or even invalidate policies.

This becomes unfair on consumers who are then labelled dishonest and sometimes fraudsters, when in fact a flawed process, system or user simply let everyone down.

It is therefore important that agents and insurers are mindful of the shortcomings of standardised scripts, potential misunderstandings or contradictions arising after deviations from such scripts, and also become vigilant that they do not conduct conversations incorrectly or unfairly, to the prejudice of the consumer, the insurer or even the industry.

Peter Nkhuna  
Senior Assistant Ombudsman  
Ombudsman for Short Term Insurance  
(OSTI)







# UPDATES TO THE INSURANCE REGULATORY FRAMEWORK

**T**he Financial Sector Conduct Authority (FSCA) published various updates to the insurance regulatory framework. Here are some of the interesting things on the regulatory horizon.

## 1. Final policy proposals for conduct-related requirements applicable to third-party cell captives

- A Non-Mandated Intermediary (NMI), or an associate that is a cell owner, will be restricted to rendering intermediary services and advice in respect of policies underwritten via the cell structure. The NMI cell owner may not render intermediary services or provide advice in relation to policies outside the cell structure.
- An NMI or associate will only be permitted to have one-third part cell with one life insurer and one non-life insurer.
- The NMI cell owner will be required to be the registered financial services provider in terms of the Financial Advisory and Intermediary Services (FAIS) Act.

## 2. Adviser categorisation and designation

- A two-tier adviser categorisation is envisaged with various designations. The categorisation would be split between a Product Supplier Agent (PSA) and a Registered Financial Adviser (RFA). The FSCA has requested input (by no later than 31 March 2020 to [FSCA.rdrfeedback@fsc.co.za](mailto:FSCA.rdrfeedback@fsc.co.za)) on the following designations:

### Designations to describe PSA tier:

- Product supplier agent
- Product supplier adviser
- Tied financial adviser
- Restricted financial adviser
- Aligned financial adviser
- Financial consultant

### Designations to describe RFA tier:

- Registered financial adviser
- Licensed financial adviser
- Non-tied financial adviser
- Non-restricted financial adviser
- Non-aligned financial adviser
- Financial broker

- The proposed designations are intended to help promote consumer understanding of the:
  - scope of products and services the adviser may recommend, and limitations on that scope;
  - type of relationship between the adviser and product supplier/s; and
  - entity (adviser, product supplier or both) which may be held to account respectively for the advice provided and the performance of the product concerned.

## 3. Standards for referrals and lead generation

- The FSCA has requested input on referrals or lead generations relating to PSAs. Referrals to an RFA should be on the basis that

the PSA cannot provide appropriate advice because its home group of companies does not offer a suitable product or service.

- The FSCA has also invited comment on a proposal that referrals made by PSAs should be subject to the following remuneration-related requirements:
  - as the referral does not constitute advice, neither the PSA nor the home product supplier or group may receive any advice fees;
  - the home product supplier and the referee may enter into an arrangement (which must be documented) detailing the process of payment and the agreed referral fee. The parties may, but are not obliged to, agree that the referral fee is contingent upon the referred customer acquiring a product or service from the referee;
  - the agreement setting out the referral fee arrangements must set out the governance process;
  - referral fee arrangements can be renegotiated from time to time in the normal course of business but should not be negotiated in an ad hoc, case-by-case manner. The individual PSAs concerned should not be party to the referral fee negotiations;
  - the home product supplier may, but is not obliged to, pay a portion of any referral fee received; and
  - the cost of any referral fee may not directly or indirectly be charged to the financial customer concerned.

## 4. Equivalence of reward to be reviewed

- Insurers will be required to prepare a policy covering the remuneration of their tied agents. This policy should include measures relating to the compliance requirements of equivalence of reward and must be approved by the board of the insurer.
- Insurers will be required to report to the FSCA annually about their overall equivalence-of-reward ratio.
- The proposed equivalence-of-reward ratio would be set at 115%. This ratio is determined by looking at the remuneration paid to the tied agent against hypothetical commission that would have been earned. This ratio will not be determined on an individual basis but at the level of an insurer's full tied agency channel.

Christine Rodrigues  
Partner  
Bowmans





# FINANCIAL SERVICE PROVIDERS AND THE FIC ACT

AS PART OF THE AMENDMENTS TO THE FIC ACT IN 2017, CERTAIN MEASURES WERE INTRODUCED TO FURTHER ASSIST IN IDENTIFYING PROCEEDS OF CRIME, TO COMBAT MONEY LAUNDERING AND TERRORIST FINANCING.

**A**mong these measures were: the adoption of a risk-based approach to customer due diligence; the requirement to effectively identify beneficial owners when dealing with legal persons, the requirement for accountable institutions to develop a risk management and compliance programme and, bringing into effect targeted financial sanctions.

These three measures help South Africa fulfil requirements of the Financial Action Task Force (FATF), the international standard and policy setting body for combating money laundering and terrorist financing. At the same time, these measures broaden the extent and variety of information made available to the FIC for its information gathering and analysis.

If you are a financial service provider, these measures have an impact on your business. The broad range of services FSPs provide increase their vulnerability to criminal exploitation, including money laundering and/or terror financing. For this reason, FSPs are included in the FIC Act as Schedule 1 items, or accountable institution.

According to the FIC Act, financial services providers require authorisation in terms of the Financial Advisory and Intermediary Services Act, 2002 (Act 37 of 2002). The authorisation is to provide advice and intermediary services in respect of the investment of any financial product. This excludes short-term insurance contracts or policies, which are referred to in the Short-term Insurance Act, 1998 (Act 53 of 1998); as well as a health service benefit provided by a medical scheme as defined in section 1(1) of the Medical Schemes Act, 1998 (Act 131 of 1998).

## RISK-BASED APPROACH: FLEXIBILITY AND INCLUSIVITY

The risk-based approach requires accountable institutions to take steps to identify and assess the money laundering and terrorist financing risks of doing business with their clients, with a view of deciding how best to manage that risk.

This approach is intended to introduce increased efficiencies and a less burdensome administrative processes for customers. Also, it offers a cost-effective alternative to prescriptive methods for institutions to meet their compliance obligations.

Institutions can vary their approach to customer identification and verification, considering aspects such as type of customer, business relationship, product and location. With a risk-based approach, institutions can also take into consideration factors such as sanctions, regulatory fines issued in similar industries, as well as learnings and criminal methodologies.



## RISK MANAGEMENT AND CONTROL PROGRAMME

It is integral that FSPs and all accountable institutions have in place a risk management and control programme or RMCP, in applying a risk-based approach.

At set up of its RMCP, an institution must consider money laundering and terrorist financing risks it faces. The RMCP must also include detailed processes the institution will follow to achieve compliance with their FIC Act obligations. Furthermore, to ensure the programme has buy in and support throughout the institution, the RMCP must be approved by its board of directors, senior management or the highest level of authority. To ensure the programme remains relevant, the RMCP must be reviewed and updated regularly.

## IDENTIFYING WHO REALLY OWNS AND BENEFITS FROM COMPANIES

The FIC Act requires that FSPs know the people behind companies – those who benefit financially – to bring greater transparency to the financial system. These individuals are often referred to as beneficial owners. Corporate structures are often vulnerable to ML abuse. Identifying beneficial owners will help authorities detect, investigate and prosecute instances where corporate structures have been used to hide illicit financial dealings.

## TARGETED FINANCIAL SANCTIONS

In April 2019, the FIC introduced measures to effect financial sanctions. These measures are intended to assist in combating the financing of terrorism and the proliferation of weapons of mass destruction, as aligned with the resolutions of the United Nations Security Council.

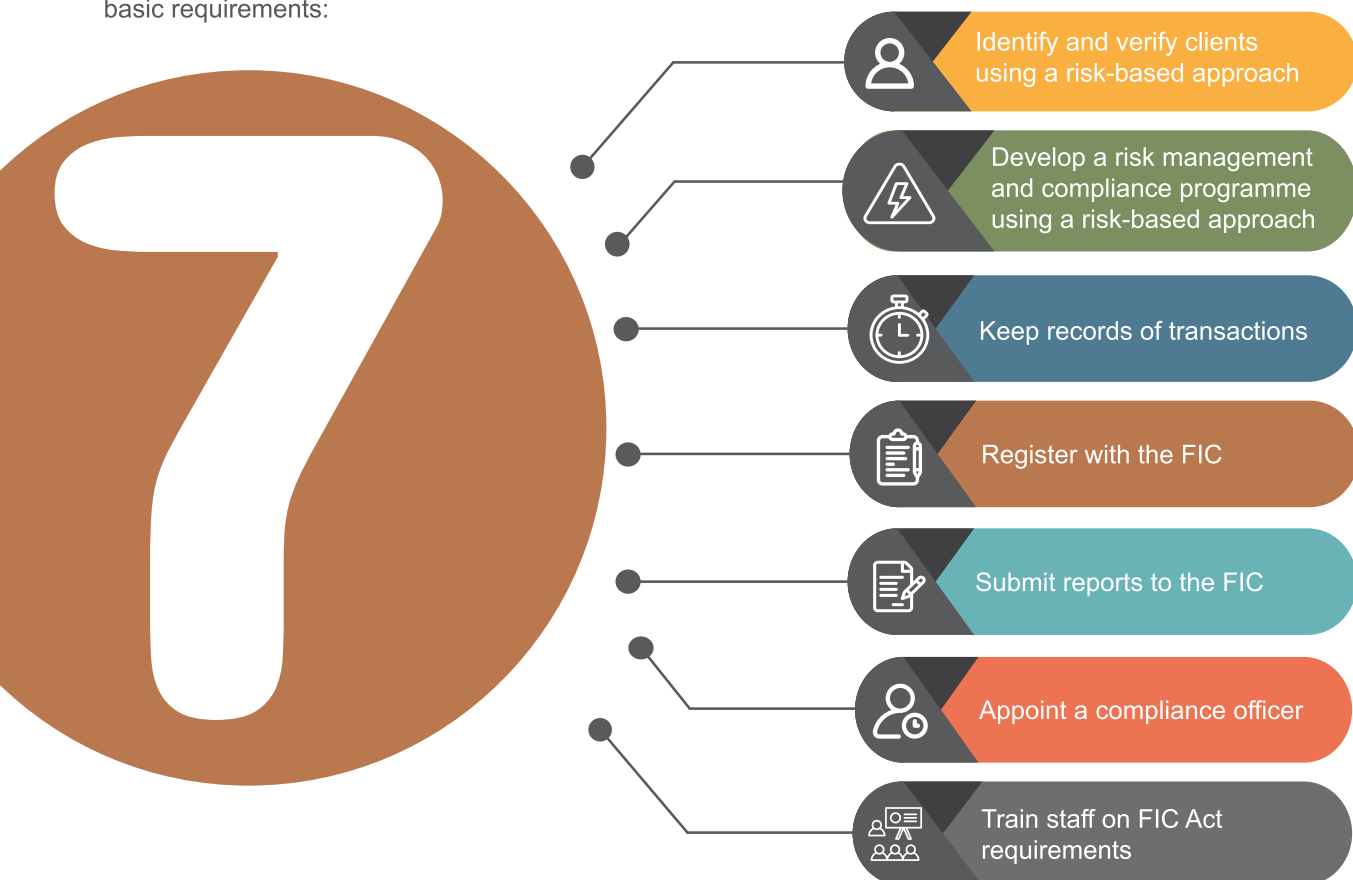
Targeted financial sanctions impose restrictions on activities that relate to specific countries, goods and services, or persons and entities. Measures to implement targeted financial sanction generally include restricting sanctioned persons and entities from having access to funds and property under their control, and from the receiving financial services in relation to such funds and property.

This implies that no one may transact or process transactions for a sanctioned person or entity.

The searchable targeted financial sanction list containing the names and details of the persons and entities identified by the United Nations, is available on the FIC's website, and can be accessed free of charge.

# FIC ACT OBLIGATIONS

As accountable institutions, FSPs and all other accountable institutions are required to fulfil these basic requirements:



For further information or queries on any or all of the three areas: risk-based approach, RMCP and targeted financial sanctions, visit the FIC website at [www.fic.gov.za](http://www.fic.gov.za) or call the FIC's compliance contact centre on 012 641 6000.



**W**e are all confronted with an ethical dilemma, at least once in our lives – when we are forced to make a life-altering decision and must choose between two or more equally compelling or abhorrent choices: where the distinction between right and wrong or good and bad is not clear at all.

### Source of intuition

Yet, we manage to make a choice because we draw on something deep inside ourselves. The source of this intuition is generally regarded as either a deity or man-made. The first approach requires belief without evidence, whilst the second defies belief without evidence.

Businesses in South Africa must exhibit the values of fairness, transparency, responsibility and accountability. This is impossible in ethics shaped by belief without evidence. Only a knowledge-based approach to ethics can achieve this, but it does not happen automatically. Three factors combine.

### Knowledge-based approach

Firstly, we must keep the origins of ethics simple. Ethics originated some 5 000 years ago with the advent of agrarian societies and the establishment of larger villages and cities.

Humans had won the initial battle against survival and started asking questions about the meaning of life, and, in the absence of answers, about ways to live meaningful lives. Also, we needed to find ways to work and live together in harmony in larger

groups. These questions combine to form the seedbed for political, legal and ethical systems.

Ethics are answers to questions about how to derive meaning from the way we live life, whilst making a contribution to (or at least not harm) the society in which we live. This is true about businesses too.

The second major factor is one which distinguishes business ethics from other forms of ethics. Unlike the meaning of life, which is unanswerable, the purpose of the business is known. This provides employees with a backdrop against which to measure their actions. Business ethics need not suffer from the lack of clarity brought about by uncertainties in personal ethics.

Thirdly, major philosophical and neuro-scientific advances are being made in our understanding of consciousness - that which regulates our perceptions about ourselves and enables us to make those calls about good and bad. These advances have removed much of the myth surrounding the topic. Our capacity for empathy, which is seen as the foundation of ethical awareness, develops roughly from our second and third years to our seventh year, and contains two further stages. During our first few years, we are almost exclusively preoccupied with following our survival instincts – an important one in humans manifesting as eagerness to please.

Our consciousness is not a mysterious power implanted in us, and neither is our sense of right and wrong. Our earliest

impressions of right and wrong are functions of our survival instincts and our eagerness to please. Because they are first, it is hard to isolate them for what they are, but they are merely transmissions of the earliest approvals and disapprovals we encountered as babies. We owe it to ourselves to constantly challenge these deep-seated premises on which we base major life decisions without question.

### Business ethics

The modern-day business environment does not tolerate an approach to ethics rooted in myth. The requirement for accountability and responsibility places an obligation on business people to stay at the cutting edge of knowledge, including the advances discussed here.

Business ethics' role and application can be clear, provided the origins are understood. It can be free of ambiguity provided the business has a clear and palatable purpose. It must be recognized as a function of human endeavor and not shrouded in mysticism.



**Chris van der Walt**  
Principal Consultant  
Ethics Africa





# COMPLETE CERTAINTY

## when it is needed most

The death of a loved one is traumatic and emotional. It often leaves the surviving family and dependants with an overwhelming sense of loss and uncertainty about their future.

**A**t a difficult time, such as this, those left behind should not have to worry about changing their lifestyle because of financial liabilities following from this tragic event.

Proper financial planning should include a professionally drafted will that will ensure adequate liquidity in the estate, to pay estate duty and other related expenses, access to professional executor services and provision for an adequate income to the dependants so that they can maintain themselves financially while the estate is finalised.

One insurer, for example, provides their clients with complete certainty that they can address all these financial challenges that arise in the event of a death. This is because they have a product and service offering that addresses all these challenges that clients will face when a loved one passes away.

The benefit pays a lump sum on the last spouses' death, while waiving the premiums on the death of the first spouse. When spouses intend to leave their assets to each other on their deaths, this benefit is an especially useful financial planning instrument to create liquidity in a deceased estate. It is cost effective and saves the dependants from having to sell assets or to borrow money to cover estate duty liabilities; leaving them with untainted, cherished memories that will last a lifetime.

### A will provides certainty

Estate duty is not the only expense associated with a death. There are many costs and fees associated with winding up of an estate for example, executor fees, conveyancing fees, trust costs, motor vehicle transfer costs, and many others. The absence of an executable will, together with these costs and fees often leads to complexities and challenges in winding up an estate; leaving many estates bankrupt and dependants in dire straits and uncertain about their futures.

The insurer, mentioned in the example above, has a professional trust company that specialises in creating wills and trusts and administering estates. While many clients may not be able to afford these services, this insurer and their trust company have created a benefit that is a packaged solution that will pay for these services and also

give significant executor fee savings. The benefit will provide clients with a professionally drafted will, which is kept in safe custody, and professional executor and trust services to administer their estates. This solution provides clients with complete peace of mind and the certainty that their financial affairs and their dependants will be professionally tended to in the event of their deaths.

### Taking things to a whole new level

Over and above the client certainty linked to the previous two benefits, this insurer has launched yet another innovative death benefit that will provide much needed income, immediately after the death of a loved one.

The innovative benefit was specifically designed to ensure that clients can leave their loved ones with a hassle-free monthly income for up to two years after their death, while their estate is being finalised. This income is independent of any other life cover or investments and will assist the dependants in dealing with the harsh realities and demands of paying general expenses like school fees, rent, groceries, short-term insurance, etc. that they may not have dealt with previously.

### Empower your clients

Leaving a legacy is an important objective for many people because it gives meaning to their lives. This is why it is so important to choose a partner that will empower your clients to plan ahead and let their loved ones live their lives uninterrupted when the unthinkable happens.

One insurer has stepped up to this challenge to provide professional services and death benefits that specifically address the main financial concerns that clients have when it comes to leaving lasting legacies.



George Kolbe  
Head of Marketing  
Life Insurance at Momentum



# Insurers grapple with the **HYPER SELECTION CONUNDRUM**

**I**mprovements in the fields of genetics, medicine and technology make it possible for insurers to apply hyper selection to their risk pools. However, the decision to expand tried-and-tested life underwriting questionnaires is not an open and shut case.

## **Raising the adverse selection flag**

David Kirk, a Consulting Actuary and Managing Director at Milliman, said there is nervousness around what is possible in life underwriting in the 21st Century. He presented at the Actuarial Society of South Africa Convention held in Johannesburg, late last year.

'Selection' in life insurance is the process of deciding whether to insure a potential insured (a life) against death, dread disease and disability events. It is handled by the insurer's underwriting team with guidance from reinsurers (who assist in setting underwriting criteria) and financial advisers (who collect information from potential insureds). *Investopedia.com* describes 'adverse selection' as a situation in which buyers [potential insureds] have information that sellers [insurers] do not have, or vice versa, allowing either party to exploit the resulting asymmetric information. A potential insured may, for example, receive better premiums by hiding information about risky habits or family medical history from the insurer.

## **How much tech is too much?**

"Insurers can put in place various mechanisms to prevent the worst of adverse selection including waiting periods, exclusions, underwriting questionnaires and medical testing. But the question most insurers are

grappling with nowadays is to what extent they can (or should) leverage new technologies to select better risks," said Kirk.

According to Kirk there are four considerations that inform the debate including speed, cost, customer experience and more precise risk selection. "The first three are no-brainers. If you can offer a faster, cheaper and better customer experience then it is difficult to argue against such innovation."

The precise risk selection or hyper selection argument resonates with actuaries because it allows them to sort people into smaller homogenous risk groups. There are countless technologies – such as big data; mobile devices and the internet; automation and integration; and machine learning and artificial intelligence (AI) – that can assist them in achieving this. Kirk expects insurers to increasingly turn to AI and machine learning to analyse Big Data gathered via smartphones and smartphone applications.

## **Overreliance could alienate potentials**

One example is the combination of geotagging data with other transactional data to draw conclusions about lifestyle.

Insurers are increasingly turning to social media as a source of raw 'truths' about their potential clients. US-based Admiral Insurance was moments away from launching a product that could 'scrape' Facebook profiles to set insurance premiums; but the plan was abandoned following the widely publicised Cambridge Analytica scandal.

"New technology makes it possible to apply natural language processing or analyse a

network of friends and connections to make underwriting assumptions," said Kirk.

However, overreliance on Facebook could alienate potential insureds who do not participate in social media.

## **Genetic testing on ice for now**

Another hyper selection tool is that of genetic testing. "There is mixed evidence of what the relationship is between taking a genetic test and taking out insurance," said Kirk.

One study suggests a four times higher likelihood of taking out insurance following an adverse DNA test, raising the adverse selection flag. But insurers seem to be avoiding this technology in favour of family history testing. They do not ask potential insureds to undergo genetic testing as part of the underwriting process; but they will expect them to disclose tests taken prior to applying for cover.

What does hyper selection mean for your clients? Financial planners who sell death, dread disease and disability covers must communicate technological developments to their clients to reinforce the need for full disclosures during underwriting.

"Can the industry hyper select? Absolutely. Should insurers apply it? Yes, or they risk being left behind by their competitors. And should your clients participate? That is a topic for ongoing debate," concluded Kirk.

**Gareth Stokes**  
Guest Writer





TEWAHUNTI LASCARIS 923675

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\*Source: The Worth of Women in South Africa: A Flux Trend Report, 2019

# Income protection, re-invented.

Myriad's new Complete Income Protector Benefit is an innovation in income protection cover that simplifies financial planning.

The new Complete Income Protector Benefit combines the best features of income disability and lump sum disability cover in one solution, designed with flexibility in mind to meet your clients' unique and changing needs.

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# Income protection that combines the best features of income disability and lump sum disability benefits

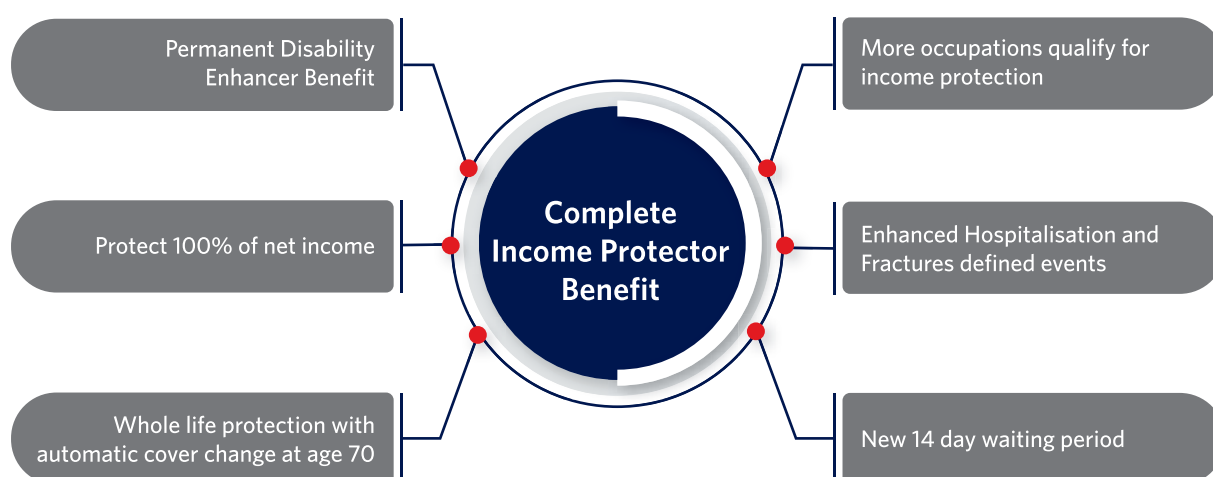
A steady monthly income provides clients with certainty. Certainty that they will be able to fund regular expenses such as bond payments, school fees, groceries, etc. A steady monthly income also serves as the springboard from where long-term goals are funded such as a comfortable retirement.

This is why it is so important to protect your clients' incomes by offering them unique income protection that is specifically designed with certainty in mind. Myriad is taking income protection benefits to a whole new level by introducing our unique Complete Income Protector Benefit and our Permanent Disability Enhancer rider benefit which will suit your clients' bespoke income needs.

## Playing the long game

The goal of income protection is to ensure that your clients continue to receive their monthly income should they become temporarily or permanently disabled, with the sole objective that their financial position remains the same before and after an event.

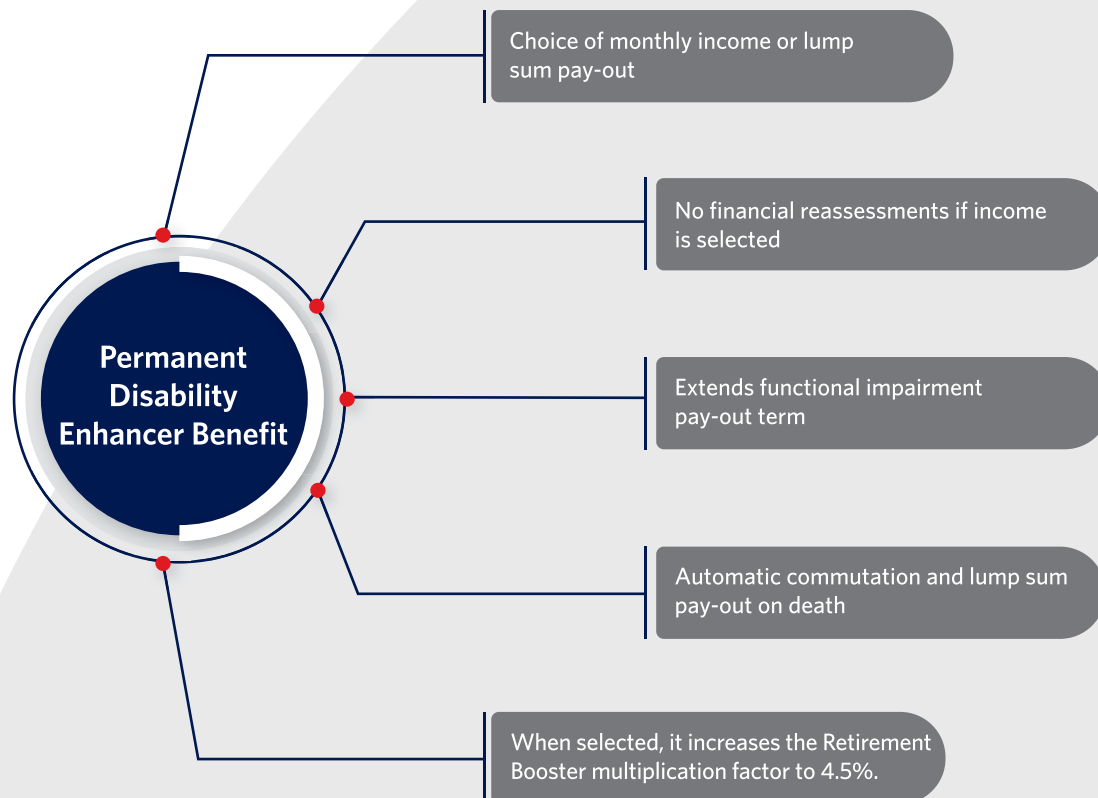
The Complete Income Protector Benefit combines the best features of income disability and lump sum disability in a unique industry-first solution. For clients who require a long-term disability income this benefit provides peace of mind that they will continue to receive a monthly income when they can no longer perform their occupation due to a temporary or permanent disability, or suffer from a defined illness or impairment. This benefit is ideally suited for clients who earn a salary, commission or fees and who do not have a group income protection benefit. The following enhanced features are available on the Complete Income Protector Benefit:



## Permanent Disability Enhancer Benefit

Myriad adds another layer to income protection that will provide your clients with even more income certainty by introducing the Permanent Disability Enhancer Benefit as an optional rider benefit that can be added to the Complete Income Protector Benefit.

This rider benefit was designed to provide the best features of both income disability and lump sum disability at an affordable price. When selecting this rider benefit, a client has the flexibility to commute a part, or all, of their future monthly income protection pay-outs to a lump sum pay-out whenever they choose to; once a permanent disability claim was assessed and approved.



### 100% of net income protected in one benefit

The Complete Income Protector Benefit creates the opportunity for clients to protect up to 100% of their net income in one benefit.

### A whole life term option with automatic cover change at age 70

People are living longer, but not necessarily in good health. Therefore having cover that provide protection against the expenses associated with conditions that require longer term care must be central to your client's long-term financial planning.

A whole life term option is available on the Complete Income Protector Benefit which is suitable for clients who want the benefit of the longest possible pay-out term in the event of a permanent disability and it includes a prefunded automatic cover change at age 70.

At the conversion age of 70, the primary need is no longer to address lost income and retirement provision, but to provide protection against expenses incurred as a result of impairments and long term care needs. To this effect the cover type and amount changes. The type of cover changes to functional impairment cover and the benefit amount is reduced to 50% of the benefit amount that applied before the cover change.



## More occupations qualify for income protection

With the Complete Income Protector Benefit, clients who have occupations that only previously only qualified for temporary income protection and lump sum disability benefits will now also qualify for a Complete Income Protector Benefit with a minimum waiting period of 1 month, for example, nurses, paramedics and hairdressers.

## Enhanced hospitalisation and fractures defined event pay-outs

Myriad first introduced the concept of guaranteed pay-outs for defined events in 2008. This provided more certainty to clients about how long they can expect to receive a pay-out and simplified the claims process. This approach still works well because recovery periods, due to short-term illnesses or minor medical procedures, are best advised by medical practitioners and our approach to claims is to rely mainly on sick notes provided by general practitioners and specialists to determine these guaranteed pay-out periods.

However, in cases of more severe illnesses or procedures, absenteeism from work is more unpredictable and often not continuous (for example the impact of complications after a hysterectomy). To request regular updated sick notes in these instances can create claim uncertainty and unnecessary delays in the claims process. Therefore, the hospitalisation and fractures defined events have been expanded to also specifically include guaranteed pay-outs for these types of events, for example, hysterectomies, knee replacements and hip replacements.

## A 14 day waiting period

In addition to the standard waiting periods, a cost effective 14 day waiting period has been introduced for clients who require a shorter waiting period than 30 days but still want something more cost effective than a 7 day waiting period. This is especially appropriate for clients who can self-insure for shorter periods of temporary disability or illness.

## Living product enhancement

Through a living benefit enhancement all existing Income Protector Benefits will be converted automatically to Complete Income Protector Benefits. This means the enhancements mentioned will be available to existing clients without having to cancel and replace their existing Income Protector Benefits. Some of the enhancements will be free and automatic, whilst others will be optional extras available at an additional charge and enabled via an alteration request from the client.

## The best of both worlds

Just as a monthly income gives clients a feeling of control and certainty that they are in a position to manage their expenses, so too must income protection provide clients with certainty that their monthly income is protected and will continue, no matter what happens. Myriad's new Complete Income Protector Benefit delivers on these requirements in the most concrete way possible.



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**B**udgets are tighter than ever in the current economic climate. Group insurance benefits are a cost-effective way to provide insurance that meets employees' needs in the event of death, disability or critical illness.

However, balancing the cost and level of benefits is challenging, especially in a time of sharp premium increases for income disability.

### Increase in disability claims

Momentum Corporate's research shows a correlation between a weak economy and high-income disability claims. A weak economy often leads to financial pressures on employers, which in turn creates pressure on employees which may affect their health. This ripple effect results in an increase in disability claims.

Momentum Corporate also noticed an increase in the duration of income disability benefit payments. Since 1 March 2015, income disability benefits are no longer taxable, resulting in a large increase in the net income of disability claimants.

This higher disability income, combined with fewer job opportunities in a weak economy, increases the duration of income disability payments.

### Rising premiums

The increase in the number of income disability claims, paid for a longer duration, inevitably leads to a significant increase in claim costs, which consequently results in a significant increase in group insurance premium rates.

Since 2016, income disability premiums have increased roughly by CPI plus 10%, while gross benefit levels (typically linked to salaries) have only increased by CPI plus 2%.

In the wake of these increases, employers may question the financial sustainability of offering income disability benefits. As a result, many employers are looking at alternative benefit structures, in particular reducing benefit levels to make premiums more affordable for employees.

### Set appropriate benefit levels

Instead of purely reducing the current benefit levels, for example from 75% of salary to 50% of salary, many employers are considering restructuring the benefits so that the net disability income closely matches what the net disability income would have been before the 2015 tax change.



# Align benefits closely TO EMPLOYEES' REAL NEEDS

An elegant way to achieve this is to set benefits at a percentage of an estimated net risk salary i.e. risk salary less estimated tax. The structure is easy to understand, and employees have a good idea of the benefit they will get if disabled.

Although the benefit levels may be lower, premiums are generally more affordable for employees. Furthermore, research shows that claimants with a lower net replacement ratio (net income during disability relative to net income before disability) return to work sooner than claimants with a high net replacement ratio, which will further help to keep premiums at sustainable levels.

### Get the timing right

Momentum Corporate's research shows that when an employee becomes disabled, there are usually unexpected expenses in the early stages of disability during the waiting period. There is often also a need for additional funds during the disability period to cover physical adjustments the individual may need to make to their home or place of work, as well as transport costs. Many individuals struggle to cover these additional expenses, often incurring debt or having to make drastic lifestyle changes.

While the monthly income benefit remains the core disability benefit, a lump sum benefit paid during the waiting period when funds

are urgently required should be considered. Benefit payments to cover additional disability-related costs, as and when they occur during the disability period, should also be explored.


Rethinking the traditional income disability benefit structure can change claiming patterns, reduce costs and help to align benefits more closely to employees' real needs.

In addition to ensuring insured benefits are cost-efficient and solutions match needs, financial advisers should also initiate key client conversations on strategies around prevention, early detection, rehabilitation and reskilling which can reduce the direct and indirect costs of disability. This will help clients to develop a holistic view of the value that group insurance can deliver.



**Rudi Van Rooyen**  
Head: Specialised Pricing in  
Group Insurance  
Momentum Corporate





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# Funding in the golden years... **PAST THE 100s**



**T**he world's population will grow rapidly throughout the 21st century as global life expectancies improve. Ages once thought of as impossible, such as the 122 years and 164 days lived by France's Jeanne Calment, will soon become commonplace.

"To live long is not unusual, but we are witnessing the mass ageing of populations globally," said Sarah Harper, Professor of Gerontology at the University of Oxford.

Harper presented at the 2019 Actuarial Society of South Africa Convention, held in Johannesburg late last year.

## A rising trend in life expectancy

There are countless population studies that confirm a rising trend in life expectancy. Modelling based on World Health Organisation (WHO) data puts South Korea, France, Japan and Spain at the top of the tables and estimates the average South Korean woman to live until age 90 by 2030.

Another study suggests half the babies born in Japan in 2007 will make it to 107, with those born in the United States and France making it to 104. This will have significant consequences for the developed world. More than half the population in the United Kingdom is aged 50 or older with the 14 000 centenarians in 2019 likely to grow to 0,5 million by 2050 and a staggering 1,4 million by 2100.

## Factors affecting life expectancy

According to Professor Harper, the stresses introduced by bereavement, disease and achieving an adequate income in retirement are increasingly offset by factors such as economic security, exercise and social networks. She also noted a strong correlation between inequality in a population and reduced life expectancy.

A study of 2,5 million occupational pension records in the UK found that men in the lowest income quartile survived, on average, 12 years past the age of 65 compared to the 22 years achieved by the top quartile of high income earners that had normal health upon retirement and lived healthy lifestyles.

"We measured a 10-year difference in life expectancy in Britain in a relatively well-off subset of the population. Inequality is a major

factor in life expectancy," said Harper. Other factors that improve life expectancy were doing manual work (+0,4 years); having a high income (+2,6 years); and retiring in normal health (+3,5 years). But a healthy lifestyle remains the largest contributor, adding 4,1 years. "A healthy lifestyle across the life course within a population contributes to improvements in both life expectancy and healthy life expectancy."

"Those who abuse alcohol or cigarettes will, on average, die sooner (by up to four years) and experience more years of ill health (at least three additional years). Obesity and unhealthy lifestyles will not dramatically reduce life expectancy but will increase disabled years – i.e. it will decrease healthy life expectancy," added Harper.

## Mirroring the UK age statistics

South Africa shows significantly lower life expectancies than developed world countries; but there is a caveat. The 'skewing' of statistics is largely attributed to the impact of inequality and poverty. Your typical mid to high-income client has a good chance of reaching the ages achieved by those living in the UK. And this makes achieving financial planning goals such as saving enough retirement capital and managing income through retirement more difficult. Your client's best defence against ill health in retirement is to follow the wellness regimes punted by local medical schemes and life insurers. They will meet the 'saving for retirement' challenge by working closely with their financial planners.

The need for adequate long term retirement saving and disciplined investing during retirement is exacerbated by South Africa's demographics.

"There is an interesting contrast between European societies where we are growing old in an old society and this part of the world, where South Africans are growing old in a predominantly young society," concluded Harper.

Under this scenario, government will have fewer resources to direct towards the aged, leaving the ball firmly in their court to fund their golden years.

**Gareth Stokes**  
Guest Writer





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It is not the  
biggest, the brightest  
or the best that will  
survive, but  
those who adapt  
the quickest.

– CHARLES DARWIN

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# ANTICIPATE UNPRECEDENTED TYPES OF CLAIMS

According to prescouter.com, “the use of Artificial Intelligence (AI) to predict the paths of pedestrians and cyclists will decrease traffic accidents and injuries”.

If this is true, **Lizé Lambrechts, Chief Executive Officer (CEO) of Santam** (in an article on the IIG website) mentioned that it would have a major impact on car insurance underwriting and there would be so much to consider and define for insurers.



“So, as AI and automation continue to advance, the insurance industry is developing new ways to assess and underwrite risk. There is so much to consider and define for insurers. We anticipate that unprecedented types of claims will cross our desks over the coming years and the industry is asking, who is responsible when a self-driving car accidentally kills someone? If surgery is performed by a robot, how will medical insurance change? How many jobs will be culled by automation and how many will be created? How dramatically will workplace risks change as a consequence?” she emphasised.



## Heartbeat of the 4th industrial revolution

"Three things in this life are certain; death, taxes, and AI. But what exactly is AI? AI goes back all the way to antiquity with the invention of calculating machines such as the Abacus and the Chinese Suanpan. The modern concept associated with AI is a designed system that performs tasks consistently aided by computational programming often aided by some sensory input, for example, a camera or sonar. Machine Learning (ML) is an extension of computational programming where continuous inputs are used to update the calculations required to perform these tasks," said **Gielie Matthee, Head of Actuarial and Data Analytics at Santam.**



"The concepts surrounding AI/ML are interesting, but what is of more interest is how it impacts our lives. It ranges from wearable technology (for example smart watches and sensors that measure blood sugar levels continuously) to automated manufacturing. Significant design thinking goes into these devices to make our interactions with them seem intuitive. Whether you are a user or a developer, what is evident is that AI is the heartbeat of the 4th industrial revolution," added Matthee.

## Living next door to AI

"AI is meant to augment human endeavours, to make life more meaningful by eliminating mundane repetitive tasks. This means that for the foreseeable future we will have to live alongside AI. The next generation, however, will be at the forefront of a fully-fledged 4th industrial revolution with the associated STEM (Science, Technology, Engineering, and Mathematics) skills required to thrive. Employment opportunities will be focused on designing fully autonomous systems with as little human intervention as possible," continued Matthee.

"AI is infiltrating every aspect of our lives from our health to how we shop. Modern AI came to be in the 1950s with the invention of cybernetics and early neural networks. The concept was to mimic the human brain using computational machines. It turned out more challenging than expected and most funding for this field of research was withdrawn. The early 20th century saw a resurgence with more powerful computers which made it possible to develop more complex solutions to everyday problems using AI. Subsequently it has morphed into a discipline that combines deep learning, big data, and artificial general intelligence," said Matthee.

## The type and design of insurance

"Vehicle related deaths account for 1.2 million people globally. Autonomous vehicles are touted as a solution to this, or at least, reduce the mortality rates associated with this peril. There are numerous manufacturers who already offer driver assisted autonomous vehicles. Einride I, a start-up company in Sweden, has fully autonomous delivery trucks on public roads where no person is required to be present in the vehicle. The technology for fully autonomous passenger vehicles is readily available. Internationally, legislation is hampering progress. The question of liability and Road Traffic Safety is still being discussed in many jurisdictions. The way in which liability law is ultimately defined in this context will play a major role in determining the type and design of insurance policies to cover autonomous vehicles and related perils," continued Matthee.

"Sweden follows a traffic insurance type approach where the victim is first indemnified and compensated by a 'first party'

insurer for damages but not liability. Conceptually first party insurance could be made obligatory for self-driving cars, paid for by the owner, operator or the manufacturer of the vehicle (depending on the jurisdiction and the party responsible for safety). The insurer may attempt to recover the cost of claims from the responsible party, however, in the Swedish example, this might be impacted by the significant social insurance that comes into play. Another option is to hold the licence holder of the vehicle liable. This risk-based liability is already in place in Germany<sup>2</sup>," added Matthee.

## Solving problems

"Another interesting problem AI attempts to solve is population growth. The UN projection is that by 2100 the world population could be circa 11bn people (currently 7.3bn). Improving crop yield is certainly an important problem to solve. Significant progress has been made in creating what is known as a "smart farm". It uses technology and communication to deploy and manage equipment and variable inputs remotely. Take, for example, a seeding machine. Some modern precision seeding equipment measures soil quality, nutrient levels and, in combination with geomapping, calculates the correct density and depth to plant<sup>3</sup>. Machine learning could be applied to improve the yield. This could form part of the risk assessment information for premium rating. Expensive equipment might also require higher premiums.

The use of drones in farming has also become more prevalent. Some drones are programmed to recognise livestock shapes from photographs and count stock in camps. This information could be transferred to the insurer in real time, resulting in far more accurate assessment of stock," said Matthee.

"The last example considers assessing motor claim damage. A photograph could be analysed based on an AI model and a recommendation to refer for assessment or to automatically pay the claim could be generated computationally. This would greatly speed up the claims process. There has been limited success thus far. The challenge is not in the computational aspect of this type of solution but rather the data gathering," continued Matthee.

## The consequences will be significant

"The consequences of AI and ML designed solutions on the insurance industry will be significant. It will impact how we price, how we interpret and lobby legislators, and how we make our customers lives easier," added Matthee.

"Working side by side with these solutions will greatly enhance our industry and enable us to more efficiently mitigate risks on behalf of our clients," concluded Matthee. ●

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<sup>1</sup> <https://www.einride.tech/>

<sup>2</sup> Self-driving cars and the chilling effect of liability law; Maurice Schellekens, Tilburg Institute of Law, Technology, and Society, Tilburg University, Netherlands. Published in the Computer Law and Security Review 31 (2015) p. 506-517  
From the testing to deployment of self-driving cars: Legal challenges to policymakers on the road ahead; Nynke E Vellinga, University of Groningen, The Netherlands. Published in the Computer Law and Security Review 33 (2017) p. 847-863

<sup>3</sup> <https://www.engineering.com/DesignerEdge/DesignerEdgeArticles/ArticleID/16653/Smart-FarmingAutomated-and-Connected-Agriculture.aspx>



# OUTSOURCING

## – governance that's required

Circumstances have changed over the years. Initially, insurers were able to supplement any gap they may have had in their administration capacity or processes with outsourced entities.

“Over time many critical functions came to be outsourced by insurers including claims, underwriting, recovery, compliance, actuarial and risk. That was before the days of the regulator enforcing full responsibility onto insurers for poor customer conduct or breach of regulations and data protection, cyber security and strict solvency legislation. Governance standards have been legislated which dictates how outsourcing can take place, and in 2020, insurers will be forced to be far more careful in the way they operationally handle the outsourcing of insurance functions as well the governance and oversight that is required,” said **Danny Joffe**, Senior Legal Adviser at Hollard Insure.



### Responsible outsourcing

According to **Christine Rodrigues**, Partner at **Bowmans**, outsourcing is, and will continue to be, a regulated function.



“There are sound reasons for insurers to outsource certain functions. Some, for example, rely on niche expertise and skill which may be in short supply in the industry. This is



especially true with specialist underwriting managers. However, in some instances, outsourcing is an unnecessary expense and certain functions are not performed or there is a duplication of functions," said Rodrigues.

"These are the types of scenarios the regulator wants to prevent. In instances such as these, a conflict of interest arises that is not in the best interest of the consumer as well as the insurer. Nothing stops the third party from 'striking a better deal' with another insurer and then moving its business to the new insurer. This results in wasted acquisition costs for the insurer," emphasised Rodrigues.

Where the insurer outsources binder functions, Rodrigues said it is important that a proper due diligence on the binder holder is undertaken. "The binder holder acts as an agent of the insurer, and therefore the insurer is bound by the actions of its agent. This means that the insurer must constantly monitor performance under the agreement and take remedial steps when there is non-performance. The insurer takes the risk of non-compliance in terms of law and cannot defend its non-compliance due to the negligence of its agent."

"The regulator is also concerned about outsourcing between companies within the same group. There is a fear that the inter-dependence can lead to systemic risk for the group. In addition, management and monitoring of inter-group outsourcing can sometimes be considered as 'light-touch' because the parties to the agreement are friendly. Management and monitoring of this type of outsourcing should be treated as if it was to a third party," added Rodrigues.

"There should be additional care where there is sub-outsourcing (not permitted with binder functions) as the insurer is further removed from the monitoring of the performance of the functions. This can lead to the insurer having greater exposure to non-compliance. Contracts can include indemnity clauses, but the reality is that these offer little relief where there is reputational damage. In addition, in certain instances, the third parties are not likely to even be able to indemnify for the loss and damage caused by their negligent actions," continued Rodrigues.

### Ask the following questions

When outsourcing, Rodrigues said that the insurer should ask the following questions:

1. Is there a legitimate reason for outsourcing as opposed to a mere commercial incentive?
2. Is there a conflict of interest?
3. What impact is there on customers (not only in terms of additional costs, but also in terms of service delivery and ensuring that the insurance undertakings in the policy can be complied with and will meet the expectations of customers)?
4. Is it necessary to have access to data and customer information?
5. Does the insurer have adequate internal resources to manage and monitor the outsourcing arrangement continuously?
6. Does the third party have a good reputation? An FSP license does not necessarily mean that the entity has a good reputation.
7. Are outsourcing agreements constantly reviewed and amended to ensure that there is responsible outsourcing? In most instances' agreements are only reviewed and amended when there is a change in legislation.

"Technology will aid insurers in ensuring compliance with outsourcing regulations, but technology will also mean that there may be less of a need to outsource certain functions. Until then, insurers need to ensure that if they do outsource it is done in a responsible manner or face the consequences," concluded Rodrigues.

### Risks that insurers must consider

According to Joffe, there are various risks that an insurer must consider before it makes a decision to outsource to a third party. "These would include reputational, termination, divorce or operational risk where the insured will need to guard against losses they could suffer as result of operational failures by the entity to whom functions have been outsourced," said Joffe.

"If an insurer outsources binder functions, such as entering into or varying policies on its behalf or settling claims, any poor or incorrect decisions made by the outsourced entity will bind the insurer. This risk can be significant with policies that have larger exposure and insurers would need to be comfortable that they have conducted a thorough due diligence, and consistently monitor the ongoing performance of the functions to guard against these risks. The due diligence would be performed prior to entering into any arrangement and would check issues such as potential conflict of interests, what fee would be commensurate with the functions being performed as well as the ability of the system and staff to perform the functions," added Joffe.

"Compliance risks remain a top priority today. Breaches of regulations such as the Policyholder Protection Rules (PPRs), Binder regulations or the Insurance Acts will be deemed to be the insurer's breaches in many cases, and large fines and enforcement action can follow as a result of such breaches. Cyber risks and protection of personal information are becoming a common threat to all entities who rely on IT systems to manage large amounts of data on their behalf. With the Protection of Personal Information (POPI) Act not far away, and the reputational risk of losing or having one's data hacked becoming more real, serious ongoing oversight is required for the outsourced entity's IT systems," emphasised Joffe.

"This would include intermediaries, claims service providers and third party IT systems who all manage and hold large amounts of data. The system will also need to be able to transmit the data to the insurer and have credible back up procedures, given that most files and information is held electronically and the stability of the system is critical to the entity being able to perform its operational requirements. It is becoming very expensive to keep ahead of hackers and cyber criminals as well as make sure proper disaster recovery procedures are in place, but when one outsources, one must look at the worst scenarios and how these entities would be able to recover in the event of disaster," continued Joffe.

### Ongoing checks and oversight

"Strong agreements must be put in place prior to such outsourcing taking place and insurers, as mentioned above, must keep ongoing checks and oversight on the activities, processes and staff. Insurers should acquaint themselves with governance standard five of the Insurance Act which will inform them of what risks need to be fully considered and mitigated, and thresholds for material arrangements carefully considered," said Joffe.

"If an insurer gets it right, outsourcing is still a very effective way of providing quality service to customers, as well as managing core functions with increased focus," concluded Joffe. ●



# CYBER RISK

and the  
knock-on  
effect

**C**yber risk is not a wholly digital risk – it spills over into the physical world of tangible assets too, e.g. hacking into a fire protection sprinkler system could lead to flooding and damage to physical property.

## Cyber insurance developments

An integrated view of cyber activity, according to the 2019 KPMG Insurance Industry Survey, is critical to fully address the range of risks that it can give rise to.

“Cyber insurance has historically been focused on digital assets, such as clients’ personal or transactional data. The increase in cyber attacks has led insurers and their customers to rethink the knock-on effect on other insurance lines like personal (reputation), property (physical damage), intellectual property (competitor information), etc,” said Melanie Miller, Partner: Insurance information technology at KPMG.

“The unfolding of cyber insurance developments from a single focus on digital to encompassing other asset classes is a nascent one, with insurers struggling to use traditional methods to model the risks, especially since there is not much data. Those who do so successfully, will be well-positioned to share in this growing market,” continued Miller.

## From protection to prevention

“Cyber insurance is a relatively recent development in the insurance sector, having been around only since the 1990’s. Telecom and professional services companies used this to protect themselves in the event of accidental transfer of malware to clients or the loss of confidential client information. It took the form of a traditional insurance policy with very little specific information on the quantum of payments related to the risk event. The emergence of new cyber risks has created a much more complex landscape and insurers are no longer expected merely to offer cover after the events, but also to assist in the prevention of such risks materializing. It is also expected that insurers will assist post the event to prevent further escalation of the consequences,” added Miller.



"Companies are also increasingly crafting multi-pronged responses towards cyber threats. Previous findings suggested that companies may be complacent about cyber risk prevention in the presence of an insurance policy. However, the nature of the attendant reputational risks (which are difficult to insure against) has elevated the issue towards preparation for the inevitability of cyber risk events. This increased awareness has led to better preparation towards understanding and addressing cyber risks, beyond the tweaking of policy cover elements," continued Miller.

In South Africa, cyber-crime now makes up 55% of losses in the banking industry alone.

### Cyber risk is not just about data breaches

Although cyber risk has been associated with digital assets like data breaches, it extends far deeper across multiple lines of risk. Freda Gray, Senior Manager at KPMG Matchi, part of KPMG's global fintech capability, said the bulk of the damage due to a cyber event may actually be to physical assets, especially if cyber techniques are being used to gain access to these. Potential examples could include:

- Home - hacking an alarm system to gain entry to steal possessions.
- Property - hacking control systems for malicious purposes including sabotage: changing temperatures in competitor warehouses to destroy stock, setting off fire sprinkler systems to evacuate buildings.
- Car - vehicle theft by controlling onboard computers to immobilise cars.
- Aviation/shipping- stealing customers personal information through on-board internet access.

"For these reasons, cyber risk is being recognised as an operational risk and monitored separately from general operational risks," said Gray.

### Risk modelling a key competency

"The greatest challenge for insurers in developing cyber insurance products is the lack of data around cyber security incidents. Historically, the superiority of risk models led directly to profitability and the ability to differentiate customers on the basis of risk levels. The reluctance to report cyber events is understandable, given the potential for further reputational fallout which may exacerbate the loss," said Gray.

"A possible solution would be the establishment of anonymised databases for cyber events, which would allow for more rigorous risk modelling. As reporting and aggregation of cyber risk events improve, so will risk modelling capability," continued Gray.

"Reputational damage is another risk that cannot be modelled. However, insured amounts could be heuristic in nature. In some cases, it could be the actual costs of mitigating fallout, e.g. costs of engaging PR companies, etc," added Gray.

### Cyber insurance trends

Newer technologies and the digitisation of many processes have led to increased vulnerability to cyber threats. Several trends, according to Miller and Gray, are emerging:

- The growing demand for cyber insurance coverage in sectors beyond healthcare, retail, and financial institutions, such as professional services;
- Shifts in the factors driving sales, especially as more third parties becoming involved in distribution channels;
- The importance of first-party coverage is changing as new

causes of loss emerge, such as cyber extortion and funds transfer fraud;

- Growing interest in coverage for bodily injury and/or property damage arising from a cyber event; and
- Even though large organisations remain targets, they accounted for less than 20% of cyber losses in 2016. Smaller organisations, including those with less than \$1m in annual revenue, accounted for larger percentages of the losses.

### The best solution for managing cyber risk

The main component, according to Miller and Gray, in the management of cyber events are:

- Understanding risk: getting access to technical know-how (e.g. via professionals in the field) to gain a deeper understanding of the drivers and symptoms of risk events and quantify risk factors to adequately price.
- Preventing risk: actively seeking out and implementation of solutions that could prevent risks – these range from simple incentives to clients (premium discounts), e.g. downloading anti-virus software all the way to a fully governed programme of risk prevention encompassing : cyber risk assessment, advisory services, security software, hardware solutions, training of personnel and compliance. Encouragingly, Gartner is forecasting the market for spending on global information security to grow to US\$124 billion, from over US\$114 billion in 2018, an increase of 12.4% from the previous year.

### Fight cyber with cyber

"It is clear that cyber risk will dominate the list of emerging risks as companies grapple with understanding and mitigating these. These risks can emanate from one person working alone with a computer in a foreign country or from a sophisticated global network of cyber criminals. Both can cripple an entire organisation's operations worldwide," said Gray.

"Most cyber insurance has been offered by the large traditional insurers. Some insurers are starting to recognise the opportunity and are also starting to focus on niches that they are comfortable with," continued Gray.

"In addition, cyber risk is as applicable to small business as to larger ones – the difference is that the impact on a small business could be devastating yet it is estimated that only 15% of small businesses have cyber insurance," concluded Gray.

In South Africa, the SHA Cyber Security survey found that 42.5% of businesses do not have adequate anti-cyber-attack procedures in place. It found that around 60% of SMEs impacted, suffered a financial loss of between R50 000 and R1 million. It's also been reported that up to 60% of SMEs never recover after a significant cyber breach.

"Companies and insurers alike need to tap into the rapidly increasing insurtech universe which offers an array of highly sophisticated tools exploiting multiple emerging technologies to prevent and mitigate cyber risks," concluded Miller.



Melanie Miller  
Partner: Insurance Information Technology  
KPMG



# How do we un-grudge THE GRUDGE PURCHASE?

**T**he saying that insurance is a grudge purchase is now a cliché and indeed platitudinous. However, most policyholders do not necessarily hold their insurance policies because they choose to do this, or because they necessarily understand the benefits of enjoying insurance cover.

A significant proportion of South African insurance consumers hold policies only because they are obliged to do so, in terms of other contracts like their home loan and car finance agreements.

Sometimes it appears that even the insurance sales agents in their various guises might not necessarily appreciate the benefits provided by the products they sell. This is apparent where agents seem to rely on trickery to make sales, instead of selling products based on their value proposition.

## Do away with negative sentiment

One of the ways to do away with negative sentiment when purchasing insurance products would be to instil a better understanding of insurance products, and to highlight the needs served by such products. It is therefore important that the industry increases its consumer education efforts as this will inspire a deep appreciation for insurance products, and ultimately, grow the industry. Once consumers recognize their need for insurance products, insurance will become less of a grudge purchase.

There are various teachable moments during the life stages of a policy that can be exploited in this regard, namely, the sale, claim, and claim validation stages, when communicating decisions on claims, and in-between those stages during ad hoc interactions with consumers.

## Consumers begrudge the industry

The Treating Customers Fairly (TCF) principles which now form part of the Policyholder Protection Rules (PPRs) and the Conduct of Financial Institutions Bill (COFI) create certain obligations on the industry, which if honoured, will also give credibility to the industry and enhance its image in the eyes consumers.

Another reason why consumers begrudge the industry itself is because of how some of its patrons are treated and the behaviours. The incidence of consumers becoming detractors following bad claims experiences is not negligible. Instead of insurers becoming the proverbial knight in shining armour, the consumer is sent from pillar to

post and frustrated by not-so-user-friendly processes, and sometimes unpleasant attitudes.

One of the most common complaints received by the office of the Ombudsman for Short Term Insurance (OSTI) is that consumers felt they were treated like criminals, when claiming.

Some investigators and assessors involved in claim validations use undesirable methods and tactics which are harmful to the industry. They lose sight of the fact that their role is to ascertain facts in order to distinguish between invalid claims on the one hand, and legitimate claims on the other. Ingrained attitudes stemming from a historically polarised society also do not help. Interactions are sometimes based on pre-conceived ideas, stereotypes and negative attitudes, which may result in poor experiences and a begrudging attitude towards the industry. Some challenges are clearly not limited to the insurance industry. Some of the incentives used by the industry also encourage disagreeable tendencies.

## The industry can render itself indispensable

Therefore, for the industry to improve its image and get consumers to appreciate the value of insurance, apart from consumer education efforts, steps also need to be taken to educate staff employed by the industry, to improve product offerings, processes and be conscious of the sometimes subtle ways in which consumers could be alienated.

It is also important to understand that dispute resolution fora like OSTI and insurers' own internal dispute resolution processes can also be used to restore the image of the industry and its credibility, where shortcomings may have been exposed.

By providing high-quality products, meeting and exceeding customer expectations and using every opportunity to examine and re-examine value propositions, and taking necessary corrective and improvement measures, the insurance industry can render itself indispensable in the eyes of consumers.



**Peter Nkhuna**  
Senior Assistant Ombudsman  
Ombudsman for Short Term Insurance



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To care is to protect.



# The risks of CYBER-SECURITY

When it comes to cyber security insurance, it is said to be one of the few areas of growth and innovation within the insurance market.

It is identified as one of the biggest risks facing the financial system, and demand for insurance against it is growing at an exponential rate.

Cyber cover is a huge opportunity for insurers but could expose the market to sizeable and uncertain losses - how ready are insurers for the new reporting demands?

As pressure is being put on organisations to demonstrate that cyber risk is being managed or mitigated, many protection buyers get cover for the first time and as attacks become malicious and costly, the demand is bound to increase.

Methods to assess this risk are at their infancy, and in consequence, the management of cyber risk is not an easy task.

## Insurers need to be aware

For insurers of any size, your clientele is very likely reliant on Information Technology (IT) infrastructure to some degree.

If so, they can be exposed to the risks of business interruption, income loss, damage management and repair, and possibly reputational damage if IT equipment or systems fail or are interrupted.

While existing insurance policies such as commercial property, business interruption or professional indemnity insurance, may provide some elements of cover against cyber risks, businesses are increasingly buying specialized cyber insurance to supplement their existing insurance policies, particularly if they:

- Rely heavily on IT systems and websites to conduct their business;
- Hold sensitive information such as

customer details (name and address or banking information); and

- Process payment card information as a matter of course.

## Is cyber security risk insurable?

The attitude towards cyber seems to have split the market in half, approximately half of survey respondents already sell cyber policies, or see this as an area of growth.

The other half do not actively pursue cyber, often believing this risk to be borderline insurable. The skepticism is due to limited experience of cyber losses standing in the way of confident underwriting.

On the other hand, even in the group that embraces cyber, insurers still trade carefully and tend to limit the amount of cover offered under each policy, despite the fact that there is appetite for more cover.

Breach costs are constantly rising and the limited protection available does not even come near to what the cost of a truly damaging cyber attack would be to a large business.

## What is silent cyber?

Silent cyber is a frequently discussed topic in the cyber insurance industry, but many organisations may not understand what it is, or how it affects them.

It refers to potential cyber exposures contained within traditional property and liability insurance policies, which may not implicitly include or exclude cyber risk. It is sometimes also called "non-affirmative" cyber.

Unlike standalone cyber insurance, which clearly defines the parameters of cyber

cover, many traditional policies (for example: property and casualty) do not specifically refer to cyber and could theoretically be assumed to pay claims for cyber losses in certain circumstances.

Insurers and regulators are concerned that silent cyber can represent a significant, unexpected risk to insurers' portfolios. While exposure to the so called affirmative cyber (arising from selling cyber policies) is to a certain extent possible to control, all insurers and reinsurers, regardless of their views on the insurability of cyber, will have exposure to silent cyber.

These losses come as a result of a cyber attack, but not under a dedicated cyber policy but rather from other contracts which, while not designed to protect from cyber, do not exclude this type of risk either.

Emerging is how to design a market leading but pragmatic approach to managing cyber risk. The issue is not only due to data available being scarce, but also because any models are at risk of quickly becoming obsolete due to the rapid change of the cyber risk landscape as cyber weaponry progresses.



**Thomas Kieck**  
Business Development Director  
Tial Technologies



# What would it cost to restart your business after a cyber attack?

## What business?

Cyber risk is growing fast. So are the number of companies looking for protection. Since 1998, Chubb has been a global leader in cyber insurance by successfully insuring and managing thousands of cyber incidents. Whether before, during or after an incident, Chubb provides a suite of services to help identify, address and potentially prevent a cyber risk event. Then, if an incident occurs, services ranging from law firms and forensics to call centers and public relations will respond quickly to limit the damage.

If you are concerned about how cyber risk could affect your business, we should talk. Visit [www.chubb.com/za](http://www.chubb.com/za). Or call 011 722 5763

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# ARE 'VANILLA' RISKS becoming more difficult to place?

According to Business Insider<sup>1</sup>, "vanilla prices have climbed so high it is worth more by weight than silver."

**T**his increase in price has to do with a number of factors, including vanilla bean theft, complex pollination, extreme weather, and the rise of the 'all natural' food movement. All of these variables combined to create the perfect recipe for a very expensive spice.

## Extenuating factors and interrelated risks

The culmination of many extenuating factors and interrelated risks in the cultivation of vanilla make this a complex and volatile spice to produce.

Similarly, the same analogy applies to so called 'vanilla risks' which have become more difficult to place and insure. According to Aon South Africa, even seemingly vanilla, straightforward risks will come in for greater risk scrutiny and underwriting requirements in the year ahead.

In certain countries, sectors and lines of business, buyers are experiencing rate increases, capacity shortages, and a more critical attitude from insurers towards risk selection. In financial lines, for example, capacity constraints, insurer withdrawals and consolidation are creating challenges, while the professional indemnity and D&O insurance markets continue to deteriorate and have become severe for some industries.

## Weather-related and uncontrollable losses

Major weather catastrophes and fire losses over the last few years have also played a big role in how the reinsurance market views property and casualty risks, which not only impacts the cost of insurance, but also the level of risk management sophistication required from insured parties to mitigate and manage their exposures.

Storms, floods, tornados and fires increasingly account for the lion's share of local property and business interruption insurance claims, yet businesses remain underinsured for the financial impact of weather-related and uncontrollable losses. The bottom line is that a client that has a more sophisticated risk management programme in place will tend to get better rates from the insurance market because of their proactive approach to risk mitigation. Those with lower levels of risk management will find themselves facing higher rates and deductibles, and in some instances, may not be able to get cover at all in certain categories.

The personal lines market is equally impacted, with many insurers experiencing much higher loss ratios largely due to the extreme weather patterns experienced in South Africa, notably over the last five years. Here too, clients with high claims experiences and who do not exercise appropriate risk mitigation measures will find their rates climbing more steeply. The adage of having insurance for those incidents that simply cannot be avoided, while taking proactive measures to prevent or mitigate avoidable risks has never been more apt.

Both local and international major losses will have a big impact on how the market responds and what this means for risk placement and rates going forward.

## Risks are more inter-connected

Risks and exposures are fundamentally more inter-connected than ever before, and that raises the level of risk management sophistication needed and directly impacts the cost of cover.

Consider that less than 15 years ago,

insurance would be needed for physical damage or loss of computers, networks, IT infrastructure and other equipment in a business. Now that very same infrastructure, connected to the internet, represents a potentially fatal cyber risk that can be used to decimate an organisation – from power plants, mining operations, air traffic control centres, financial institutions, manufacturing operations to logistics providers and even small businesses and non-profit organisations.

I do not believe that a 'vanilla risk' exists anymore, simply due to the interconnectivity and interdependence of our business and personal environments. Consider, for example, the enormous impact of the Coronavirus pandemic – a potentially deadly influenza-like disease – on global markets, industries and health systems.

The 'vanilla risk' no longer exists in a world that is technologically, economically, socially and politically fraught. A new lens is needed on matching specialised insurance solutions to these evolving and evolved risks.

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<sup>1</sup> <https://www.businessinsider.com/vanilla-expensive-stolen-madagascar-2018-9?IR=T> [accessed 3 Feb 2020]



**Alicia Goosen**  
Chief Broking Officer  
Aon South Africa



# RISK TRENDS

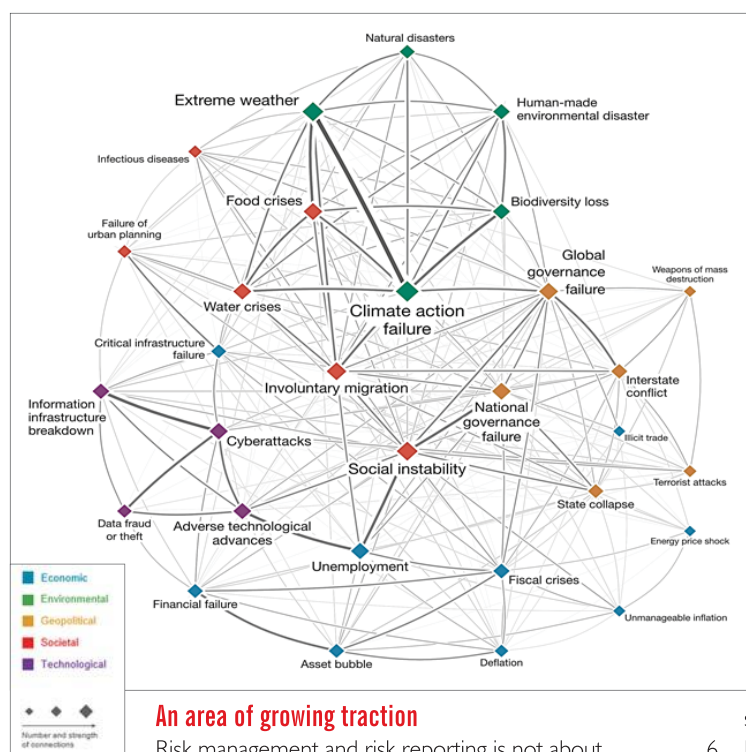
## and their interconnections

**T**he World Economic Forum's Global Risk Report for 2019 shows a map (below) of risk trends and their interconnections; proving the way risks are not only changing but continuously evolving and interlinked. Risk now comes from more than just the traditional sources of risk.

The Institute of Risk Management of South Africa (IRMSA) also published its 2019 Risk report with the Top 10 risks that the country has. Looking at both these reports, one wonders if anything can really be done about the risks themselves because most, if not all, appear to be outside the control and scope of any organization. The field of risk management is actually designed to answer that exact question in various ways.

Some risks are universal, and some are industry specific. In all its forms, risk management works on ensuring that there is a cushion and positive continuity for a company following a risk running (occurring). Risk management now affects all sorts of clients from the primary, secondary, tertiary and the quaternary industries.

The latter is a recent development coming in the last few decades which propagates that there is an economy and industry built around technology and individuals relying on their intellect and minds to contribute to the overall economy. As a result of this, it relies heavily on a highly educated population as well as great advancement and reliable technology. A lot of research and development companies fall under this category.



The area has had a growing traction both in its importance and its representation in the boardroom.

### Risk management and insurance

Managing risks in insurance is as unique as a fingerprint as not all risks are the same. This topic is more relevant today than it has ever been because of the hardening market. Risk management becomes a tool for determining whether or not a risk can be underwritten and accepted by insurers, and if so, to what extent.

### Bespoke risk management

With the latest spell of the hardening of the market, it is primarily bespoke risk management that could make a difference between who will get capacity and who will not for their clients.

1. **Bespoke risk management is both the current and future** – risk management principles do not change but their application is industry and company specific. Tailor-made solutions are what will differentiate between a good and an excellent risk management structure.
2. **Enterprise-wide** – as opposed to silo-based, risk management is becoming more favorable as risks are interlinked.
3. **Business Continuity Planning (BCP)** – is more than just a paper plan, it should be viable.
4. **Risk management brings savings** – A strong and robust programme allows companies to save by not paying premiums where a risk matrix and other tools are effectively used.
5. **It helps in better understanding the intricacies of a business** – one can only effectively manage risk from a system that they truly understand.
6. **In a hard market, it could mean the difference between enough, excess or inadequate capacity** – We are currently experiencing what some consider the hardest market in a very long time where capacity is reducing, premiums are increasing amid a lot of subjectivities and punitive and/or higher deductibles on policies. A good practice in risk management could help in securing the much-needed capacity and more favorable terms in an otherwise hostile market. It does not eliminate the risk, but significantly minimizes it.

**Bukhosi Khumalo, AIISA, B. Com (Hons.)**  
Client Executive, Corporate  
Marsh



# RISK MANAGEMENT

## in the product recall space

There are many benefits of effective risk management for organisations. However, before we deal with these benefits, let us unpack what risk management is all about.

**F**irstly, risk management is about understanding the strategic objectives of the organisation. Secondly, identifying all possible risks to the achievement of these strategic objectives, and lastly, managing these risks by, for example, avoiding the risk, mitigating the risk, sharing the risk, etc.

### Product recall risk

Product recall risk is becoming a greater threat to the achievement of some organisations' strategic objectives than ever before. This is as a result of inter alia:

- Customer's rights being well protected through legislation such as the Consumer Protection Act;
- Customers being more aware and vocal about their rights to quality products as a result of platforms such as social media;
- More stringent product quality requirements for products published as binding regulatory requirements or otherwise enforceable requirements;
- Supply being geographically widespread increasing the costs of a product recall;
- An increase in global regulatory standards and product safety rules; and
- The costs of a recall being excessive as it often includes, amongst others, costs associated with pulling the identified product off shelves and from transit, the cost of customer notification, shipping costs and disposal costs, the costs of products being removed, destroyed, disposed of, and replaced.

Product recalls can be involuntary (required by a regulatory agency or the government) or voluntary (the organisation notices a defect that is unlikely to force an involuntary recall but decides to recall the product).

### Product recall insurance

An organisation can potentially suffer huge financial and reputational losses if they do not manage product recall risk. One method to manage the risk of product recall is to share the risk. The sharing of the risk as a risk management solution is achieved by buying product recall insurance that would cover the product recall risk.

Product recall insurance generally covers an organisation against the expenses associated with recalling a product. Product recall insurance

usually applies to the organisation, but it could be extended to include the cover to the costs incurred by third parties as a result of such product recall.

To make sure that the product recall insurance effectively manages the risk for an organisation around such product recalls, it is important to do a proper needs analysis for the organisation that should take into consideration inter alia:

- Product recall policies and procedures that the organisation adapted voluntarily or as a result of regulatory requirements applicable to the organisation;
- Regulatory requirements applicable to the organisation in the event of a product recall;
- Relevant product quality requirements and product safety rules;
- Geographical spread of the products;
- The type of products provided by the organisation;
- Contractual rights of clients in the event of a product recall;
- Contractual obligations of the organisation in the event of a product recall; and
- Additional steps that the organisation would take to manage reputational risk as a result of the product recall.

### Efficiently deal with the product recall

The benefits for an organisation in managing the risk to the achievement of its strategic objectives as a result of product recall is obvious.

Product recall insurance that is purchased after a proper needs analysis is done will manage the risk of huge financial losses to the organisation.

The fact that the organisation will efficiently deal with the product recall through the enablement of the product recall insurance, will also manage any potential reputational risk exposure that the organisation faces as a result of the product recall.



**Juanita Moolman**  
Executive Head: Governance,  
Risk Management and Compliance  
Holland





# IGNORANCE is no longer an excuse

Fires happen frequently, more often than most people think, as it is only those high-profile incidents that make the news.

**T**hink of the tragedies such as the Old Bank of Lisbon in Johannesburg or Grenfell Tower in the UK. Unfortunately, only when things go radically wrong do fires come into focus and people become incensed about what could have been done to prevent them.

The problem with this is, it is always reactive. Fire standards are by now well established throughout most of the developed world, whether through associations like the NFPA for North America or the BSI for the UK, (the requirements of which have largely been driven by insurers).

## Outdated standards and codes

South Africa sits in a grey area in that, although we have fire standards and codes from a government body, they are hopelessly outdated, and therefore ineffective for the current state of risk management.

SANS 10287, which is the national standard, technically does not exist. It quotes SABS 0287 which is an important distinction, and even then, SABS 0287 is essentially three decades old as it was based on the 1990 British standard. No changes have been made of pertinent information added, yet time and time again we see cases of clients, brokers, insurers inspecting or requesting inspections to be done according to those criteria.

Legally, that is their prerogative to do so - there is a standard, if the standard is accept-

able to the powers that be, then a building should be compliant with that standard.

However, what is the point, actually, of assessing fire risk to a standard that is 30 years old? What other industry makes use of archaic technology, developments, research and best practices from the 1990s? It satisfies the chain of compliance in terms of our National Building Regulations but does little to nothing when ensuring the asset is properly protected.

## Assessing risk

Quoting outdated standards because it is convenient for compliance is not an excuse to the informed - SABS 0287 is old, and until it gets updated (which there are talks of it happening, slowly however), anyone in the fire risk business should take an objective view of what they are trying to accomplish in today's market. You will never be able to stop a fire from occurring, yet you can greatly mitigate the effects it has, so as to ensure it is of such a low key, it will not make the news. No news is good news in this case.

Combined with the above, the next step is to move beyond a purely reactive methodology of assessing risk. Rather than waiting until after an event occurs to then understand what should have been implemented to mitigate the risk, preempt the scenario and be proactive about it. Gather all the data you can about the risk and then consider how to alleviate the situation, what needs to be done and put it in place. Just because

an insurer will give cover, (which, if based on the above approach actually counts for very little) it does not mean you should stop there and not consider the risk any further. Similarly, because a building carries insurance cover for when a devastating fire occurs, it does not mean anyone actually wants it to burn down. First prize would be to never have a fire, yet this is impossible to guarantee; the second would be to address the risks that may result in a fire to the point whereby it barely impacts on the day to day operations.

## Make an informed decision

Fit-for-purpose thinking needs to take precedence over the status quo in industry. Proactive risk management surpasses reactive risk management every single time, yet there are not nearly as many examples of this in the insurance environment today.

Take responsibility for your profession, your clients and your industry, and seek out knowledge so that you have the correct choices and can make an informed decision. Understand that it is not a question of "if" but "when" there is a fire and the implications that it has for your business.

**Natasha Goring**  
Managing Director  
ASIB





# CLAIMS EXPERIENCE IN THE FUTURE

Advances in medical diagnosis and treatment will pose risks and/or opportunities for critical illness insurance.

**A**s a medical scheme we believe the cost of treatment for members diagnosed with cancer, due to new diagnostic capabilities, will increase. Dependent on which diagnostic tools are used, the diagnosis and the developments that are made in this regard, claims and medical scheme expenditure will increase. Some cancers, however, could be diagnosed earlier, which means the member could receive treatment faster. Overall the outcome for the member could be more positive.

## Potential outcome

Early diagnosis and treatment may increase the chances of cure, at a higher initial spend. This may have a cost saving effect on medical scheme expenditure in the long term, provided that the beneficiary is still a member of that scheme.

New technology, however, could lead to additional cancer claims in future. Early diagnosis is increasing, and people are more aware of cancer than in the past. Cancer claims will increase due to new technology.

In giving an example of potential future scenarios where new tests may lead to vastly different evidence requirements for cancer claims than those common today, further development and application of genetic tests, for example, will lead to patient specific treatment. In certain cases, if treatment is available, a future disease might even be prevented if treated timeously.

## Risk and opportunity

New technology is likely to affect pricing and claims handling in insurance, especially critical illness (CI) products. We foresee that pricing will most likely increase, specifically the price of new diagnostic tests that are developed.

With rapid advancements in cancer diagnosis and treatment we predict that it will be more costly for medical schemes since cancer diagnosis and treatment research require substantial investment and the organisations undertaking this research will need to fund it.

As technology improves, new discoveries are made, and new diagnostic tools are developed and marketed. New and improved diagnostic capabilities will result in an increased cost to medical schemes and its beneficiaries. Medical schemes should take the additional spend into consideration during budget planning and when calculating.

## Stay abreast of new developments

By considering the possible incidence(s) related to the types of cancer, methods of treatments and the tests required, actuaries can calculate the risk and most applicable contributions to cover the risk.

Take into consideration current diseases, their prevalence in the South African population and the current costs incurred for diagnosing and treating specific cancers. As advances become available, investigate, influence and consider the new costs that will be incurred. It is important to stay abreast of new developments with regard to diseases covered.

Stay informed of changes in the market with regards to new developments and technologies. Do not over promise and assume the scheme will fund all new technologies.

**Madelein Barkhuizen**  
Executive Manager: Sales, Distribution,  
Marketing and Communication  
Bestmed





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# DIGITAL TRANSFORMATION IN HEALTHCARE

**D**igital transformation, according to **Michael Willie, General Manager of Research and Monitoring at the Council for Medical Schemes (CMS)**, is growing at a slow rate in medical schemes or healthcare compared to other industries such as banking and insurance.



## Still far behind

"The recent Health Professions Council of South Africa (HPCSA) conference, which touched on digital transformation and innovations in the health sector, revealed that the South African health sector is still far behind compared to other countries. A lot of progress is pounded by a slow pace of regulation and other relevant guidelines. There is also a gap, for example, in the adoption of digitally enabled tools for diagnosing, providing treatment, and better management

of chronic and other conditions. Electronic medical records are still not a part of routine care from both the supply and the funders' side, except for a handful of players," continued Willie.

"On the funders' side, you do find several medical schemes that invest in technology, for example, implementing digital application forms for smooth onboarding of new members. This is with the aim of going digital and reducing paper application forms. Similarly, with the submission of claims, of which more than 98% are submitted in electronic form, this has transformed significantly," added Willie.

"Strategies such as digital marketing are typically used to reach the target market and communicate more effectively with members. Several schemes have invested a lot in product development such as mobile apps, developing communication channels through online and social media platforms. However, very few medical schemes optimize these platforms, particularly small to medium schemes. There is still



a need to measure value add of digital transformation to members, chiefly where the quality of care is concerned,” said Willie.

## Healthcare 2020

“Digital disruption has great potential in healthcare; the main areas of investments are certainly Big Data analytics and Artificial Intelligence (AI). Big Data and AI tools are used to profile clients, medical service providers and look at healthcare utilisation patterns and trends. Some of the techniques such as predictive analytics are important in that they can be used not only to profile members, but create a strategy to combat attrition. Insights from the data could be useful for data driven decision-making processes that potentially save huge downstream cost for medical schemes. There is also great potential in investing in digital marketing and the optimal use of mobile apps,” commented Willie.

According to the *CB Insights 2019 Global Healthcare* report, digital health investments continue to grow rapidly across the world, demonstrating a continued uptick in these investments from \$2.7 billion in the last quarter of 2018 to \$3.5 billion in the second quarter of 2019. This, according to the report, has created 38 VC-backed digital health unicorns (digital health startup companies valued at \$1 billion or more).

Notably, **Deputy CEO of Discovery Health, Dr Ryan Noach**, mentions that digital health investments are being made in the following areas:

1. AI driven mental health and wellness applications providing “behavioral health-tech” that aim to address the growing burden of mental illness.
2. Digital therapeutics that create personalized programs for health conditions.
3. Emerging vocal biomarker companies that can diagnose and monitor condition deterioration.



“While investments in digital health are still led by developed nations, digital health applications are making staggering progress in Africa. As an example, an AI-driven consumer health tool is used by 30% of Rwanda’s population to answer general health queries. It is clear that digital health solutions and broader digital transformations are necessary to address the many challenges healthcare systems face, including those of access to affordable care,” said Noach.

## AI in healthcare

“AI, Machine Learning (ML) and Big Data analytics are some of the most talked-about technologies in recent years. The use of AI is already at advanced stages in other industries, the adoption in healthcare is growing at a steady rate, however, there is no doubt that AI is certainly going to change the face of healthcare delivery. AI is being employed in numerous settings, for example, funders, as well as administrators, use it to adjudicate and process claims, while hospital facilities use it for assessing and predicting bed occupancy. AI is also used to analyse unstructured data such as images, videos, physician notes to enable clinical decision making and information sharing,” said Willie.

“AI is being leveraged to help patients understand their symptoms, seek medical attention and/or manage their conditions. This is becoming more prevalent across with world, with companies such as Ada Health boasting over 8 million users engaging with their symptom checker app worldwide,” added Noach.

“Payers are increasingly integrating AI in both their back office and customer facing parts of their business, deploying AI into a range of

both customer servicing and risk management activities to reduce costs and enhance customer service,” continued Noach.

In terms of providers, contrary to some fearful beliefs, Noach said AI is not replacing doctors. “AI is being used to improve healthcare providers’ abilities to make accurate diagnoses, and efficiently administer care. These applications are often referred to as Clinical Decision Support tools. They are commonly used to interpret medical images and aid in early diagnosis of conditions.”

According to the article ‘Artificial Intelligence in the Pharmaceutical Industry – An Overview of Innovations’, published by Emerj Artificial Intelligence Research, life science companies (Pharma and Biotech) are increasingly integrating AI into their business processes. Key use cases being investigated include predictive analytics for clinical trial research, rare disease identification using genomic data, drug discovery, and therapeutic / outcome prediction.

## Applications of AI

Willie said AI has the potential to change the healthcare industry in South Africa for the better; this is subject to optimal use in both the supply and demand side of the health care ecosystem. AI is delivering high value including the following areas:

### Figure 1: Applications of AI- select list

#### Medical Diagnosis

AI systems can analyze far more data far faster than humans, which may make them more adept at identifying medical diagnoses than doctors.

#### Neurology

Neurological healthcare deals with nervous systems disorders such as Parkinson’s disease, Alzheimer’s disease, epilepsy, stroke, and multiple sclerosis. AI can also predict strokes and monitor seizure frequency.

#### Pathology images

Most diagnoses depend on a pathology result, so a pathology report’s accuracy can make the difference between diagnosis and misdiagnosis.

#### Radiology tools

Various forms of radiology, such as CT scans, MRIs and X-rays provide healthcare providers with an inside view of a patient’s body. However, different radiology experts and doctors tend to interpret such images differently.

#### Smart devices

Hospitals are big purchasers of smart devices. The devices, which take the form of tablets and hospital equipment, exist in Intensive Care Units (ICUs), emergency rooms, surgery and regular hospital rooms.

**Source:** Morgan (2019) - <https://www.businessnewsdaily.com/15096-artificial-intelligence-in-healthcare.html>

## The sustainability of the industry

“The healthcare sector needs to embrace digital transformation and adopt and optimize on the use of technology, otherwise, the sector will be left behind,” concluded Willie.

“Data and knowledge created through implementation will be critical for increasing value in the health system, which has an impact not only on patient health but also on the financial sustainability of the industry,” concluded Noach. ●



# Ways to preserve **MEMBER SAVINGS**

In 2017, a Constitutional Court ruling changed the way medical schemes report on members' Personal Medical Savings Accounts (PMSAs).

Instead of being recorded as liabilities in scheme financials, these are now regarded as assets. Nevertheless, members remain in control of how their portion of such funds could be used to cover their healthcare claims — well, in theory at least.

## The savings portion

In practice, however, members of most medical schemes will find that some of their most common healthcare needs are frequently paid from the savings portion of their benefit structure, rather than from their scheme's risk pool.

While allocated benefits are replenished each year and form part of the cumulative risk pool of the scheme, members' PMSAs can accumulate for use in the following year or be saved indefinitely for 'a rainy day'. When schemes opt to pay more benefits out of member savings instead of the common risk pool, member savings are quickly depleted — thereby largely frustrating members' saving efforts.

This approach signifies that such schemes regard members' savings as scheme assets in a broader sense, rather than simply a shift in how these funds are reported on from one side of the balance sheet to the other. Therefore, in such schemes, savings become little more than a mirage, often evaporating entirely before a member reaches a stage where they may really need access to such funds.

While brokers are familiar with this increasingly ubiquitous claims payment structure, many members, particularly those who are new to private healthcare cover and may not read all the fine print, take for granted that many of these types of claims will be paid from risk rather than savings.

## Ways to preserve member savings

Medical schemes should look for ways to preserve member savings through funding important wellness and preventative benefits, as well as oncology and speciality care, from pooled scheme resources rather than tapping into members' PMSAs.

A medical scheme's philosophy should be to support and enhance members' wellness so they can live healthier, active lives. Penalising members for taking responsible care of themselves by taking funds from their savings accounts simply does not make sense, which is why benefit options — including entry-level hospital plans — should pay more benefits from the risk pool instead, yielding substantially more value for members.

## How PMSA funds are utilised

Medical scheme members should be in a position to enjoy more accumulated savings, and choice over how their PMSA funds are utilised, enabling them to save for those healthcare extras they may one day need.

The health of members is their greatest asset, and medical schemes should consider their members to be their greatest assets. Financial reporting aside, medical schemes still very much regard members' savings as their asset, rather than the schemes, and which should be protected and preserved as far as possible.



**Josua Joubert**  
Chief Executive and Principal Officer  
CompCare Medical Scheme



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# Global bond investments GETTING RISKIER

**W**hile South Africans appear to be taking more funds offshore in the current gloomy investment conditions, they should invest with caution as developed market bonds are facing a rising chance of large losses, according to Marc Beckenstrater, Portfolio Manager of the Prudential Global Funds range at M&G Investments.

## Market sentiment toward bonds

In many European markets, as well as the UK and Japan, bonds continue to rally, and yields fall further into negative territory. This, according to Beckenstrater, constitutes a global bond bubble where there is limited potential upside and large potential downside should economic conditions change or the current bullish market sentiment toward bonds start to turn – for whatever reason.

Government bonds from most developed markets around the world are offering negative yields, trading at their most expensive levels in history (where prices are highest and yields lowest). People buying these bonds now are effectively guaranteed to receive negative nominal and after-inflation returns if they hold them to maturity.

The 10-year German government bond, for example, is currently offering a nominal yield of -0.3%, which after 2.1% German inflation translates into a -2.41% real yield, guaranteed for ten years. Based on current yields, as M&G Investments research shows in the table, if real bond yields rally by 1% (in other words bond yields fall by 1%), investors' returns could range between 1.7% for the UK 10-year government bond and 20.5% for the German 30-year government bond. However, if real bond yields sell off to reach a 0% real yield, the same bonds could record losses of 14.9% and a substantial 41.1%, respectively. Or, if the sell-off were to be as severe as that seen during the 2016-2018 Euro currency crisis, losses could range between 11.2% and 40.2% on those same bonds.

Returns of core government bonds if yields were to move to different levels

	Yields fall to -1%	Loss experienced from 2016 lows to Feb 2018	0% real yield
Germany 10-year	+3.0%	-14.1%	-21.2%
Germany 30-year	+20.5%	-40.2%	-41.1%
France 10-year	+5.8%	-12.1%	-13.9%
UK 10-year	+1.7%	-11.2%	-14.9%
Japan 10-year	+4.2%	-3.6%	-7.5%

Source: Bloomberg, 2 September 2019

## Investors need to think twice

"Investors considering putting funds into these government bonds now, should think twice. They are facing a far larger potential

downside than upside given the current levels of yields in negative territory. Also, if they hold to maturity, they will be guaranteed a loss because of the negative yield – to avoid this loss they will need to sell these bonds on to other investors willing to pay even more than they have paid. And those new buyers will face the prospect of even bigger guaranteed losses," said Beckenstrater.

What could trigger a reversal in the long global bond market rally? Beckenstrater believes upside surprises to the inflation or growth outlooks could cause a sell-off. So, could changes in current regulations now force financial institutions to buy bonds even at expensive prices? "If these bonds stop rallying for whatever reason, they could deliver negative returns over rolling two, three, four and five-year periods. For investor portfolios, this could be painful. This is when investors will be reminded that bonds are not always low-risk instruments - they can lose money."

## Compensating for the risk involved

Beckenstrater believes investors should rather consider global equities, which are offering a far superior relative yield – the MSCI ACWI Index earnings yield is around 6.5% compared to global government bonds (with German 10-year bonds featuring real yield of -2% and US 10-year Treasuries at a real yield of 0%).

Prudential South Africa, for example, offers four Irish-domiciled, US dollar-denominated funds, and four corresponding South African-domiciled, rand-based feeder funds. The Global Balanced Fund is very underweight developed market government bonds and very overweight global equities at present. It also has exposure to higher-yielding investment-grade corporate bonds and select emerging market government bonds. For example, Mexican government 10-year bonds are offering a real yield of around 3.8%, attractive on a relative basis and amply compensating for the risk involved.



Pieter Hugo (left)  
MD of Prudential Unit Trusts



Marc Beckenstrater (right)  
Portfolio Manager of the Prudential Global Funds range at M&G Investments



# Time to start balancing RAS WITH 12Js



**Retirement Annuities (RAs) and Section 12J investments (12J investments) are effective annual investment options which allow taxpayers to reduce their income tax or capital gains tax liabilities.**

**G**iven the significant upfront and backend tax benefits associated with RAs, it is no wonder that wealth managers have, for many years, encouraged clients to maximise their RA contributions each year.

## The benefits of combining investments

With a sharp increase in 12J investments, wealth managers have started to combine 12J investments with RA investments, to further reduce their clients' tax liabilities.

Craig Gradidge, Wealth Manager at Gradidge-Mahura Investments, explained that, "Depending on various personal circumstances of each client, I would look to invest R800 000 in a Section 12J investment. This would allow the client to claim a refund of approximately R360 000 from SARS. I would then allocate R350 000 into an RA, which will allow the client to claim a refund of approximately R157 000. By balancing an RA and a 12J investment, the net effect

is that the client's asset of R800 000 would have grown to R1 317 000 just through the refunds paid by SARS."

The combination of investing in both RAs and 12J investments is not limited to the tax benefit. Wealth managers can balance their clients' investments to ensure that funds invested are accessible before the age of 55.

This is as a result of 12J investments only having to be held for five years in order to enjoy the full tax benefit. 12J investments may also provide dividend income streams through the duration of the investment.

## Diversify clients' exposures

In addition, the 12J investments market is extremely diverse with taxpayers having the option of investing in high growth riskier investments, mid-tier conservative investments and low risk capital preservation investments. These options allow wealth managers to balance their clients' risk profiles together with their RA contributions.

Unlike RAs, 12J investments are not vanilla investments and have historically been notorious for charging taxpayer's high-performance fees, and in some cases, have failed to invest investors' capital timeously. The market has since developed, with new alternative 12J investments starting to gain in popularity, allowing wealth managers to diversify their clients' exposures across a number of 12J investments.

## Some investment characteristics

From a tax planning perspective, wealth managers and taxpayers should understand the intricacies of 12J investments to minimise the amount of tax payable by their clients.

Below is a comparison of some investment characteristics, between 12J investments and RAs.

**Jonty Sacks**  
Partner at Jaltech Fund  
Managers



	12J INVESTMENT	RETIREMENT ANNUITY
Term	5 Years	Age 55
Deduction	100% deductible	100% deductible
Underlying Investments	Private equity (hotels, asset rental, tech, education, agriculture etc.)	Limited by regulation 28
Offshore Exposure	Zero - prohibited by law	Max 25% of total funds invested
Dividend/Income Stream	Dependent on the type of underlying 12J investment. Usually dividends for low-med risk investments are expected to be paid within 18 months from the date of investment	No income stream until retirement
Tax Implications During Term	Dividends withholding tax on all distributions	None
Tax Implications On Exit	Dividends withholding tax on all distributions and capital gains tax at a base cost of zero on exit	Retirement withdrawal tax (R500,000 tax free with 18-36% banded thereafter)
Risk	Medium to high (depending on underlying investment)	Low to high (depending on fund choice)
Maximum	Treasury has introduced a cap on deductions of R2.5 million p.a. for individuals/trusts and R5 million p.a. for corporates.	27.5% of remuneration capped at R 350,000 p.a.
Minimum	R100k to R1 million	No minimum
Returns	Target of 15% to 40% p.a., risk profile dependent.	Fund and time horizon dependant. Low risk = CPI +2%. High risk = CPI + 5%
Fees	Typical: 2.5% p.a. and 20% performance fee	1.5% - 2.5% p.a. and a possible performance fee above hurdles
Withdrawal	No legal restriction when funds can be withdrawn	Only after term and only 1/3 can be accessed in cash. 2/3's must be contributed to a compulsory annuity.
Last Date To Invest	30 June 2021 (unless extended)	N/A



# WEIGHING UP GLOBAL PROPERTY OPPORTUNITIES

Negative returns over three years and low single digit returns over five years have moved investors to question holdings in, and allocations to, general real estate or property funds in South Africa.

**O**ver R40 billion is invested in funds in the Association for Savings and Investment South Africa (ASISA) property fund sector; and the lack lustre returns over the last few years has meant that investors are considering alternatives – even diversifying further by looking abroad for opportunities in global real estate and increasing exposure to the broader global property sector.

## A pool of alternatives

A progressively depreciating Rand, a stellar long term performance track record, higher dividend yields over global equity counterparts and a broad diversified pool of property alternatives across different geographic regions, sectors and individual names has drawn investors to consider investments in property opportunities abroad.

Consider the US, which accounts for more than half of the composition of most broad-based global property benchmarks has significant property sector opportunities. Unpacking these sectors in the US alone means a diverse, wide range of property investment opportunities beyond South Africa. US property sectors include residential, industrial, data centres, self-storage, shopping centres, office, malls, lodging and healthcare.

The US is just one country that offers choice from a diverse property portfolio. Europe and the UK may be more familiar with SA-based investors, but present and future investment opportunities reside in growth areas like Singapore, Hong Kong and Japan. These future growth areas comprise roughly a fifth of global property benchmarks but are

positioned to outpace a few of the more established, saturated property markets around the world.

## Three bites of the apple

According to Fairtree's Global Property Fund Portfolio Manager, Rob Hart, "When considering an investment or allocation to global property beyond the borders of South Africa, we use a strategy referred to as 'three bites of the apple' and that is no reference to the giant tech-software company in the US."

The first bite of the apple begins with the evaluation and analysis of the country or geographic region. This includes insights gleaned from a macro-economic or top-down view of the country in question and will include politics, economics and policy, for example.

The second bite of the apple focuses on the thematic trends and supply and demand factors of the various property sectors within a country, with the third bite of the apple a bottom-up approach considering the valuation, quality and company strategy of the property company being researched.

Overall, the combination of a broad, global top-down view across countries and into diverse sectors combined with a meticulous stock-level or bottom-up approach works optimally for a well-balanced portfolio that best captures the global property market investment opportunity.

## Rewarding investment opportunity

A broad, diverse investment opportunity set in global real estate does mean divergence in the returns and performance of countries and sectors within the asset class.

For example, the best performing Real Estate Investment Trusts (REITs) in 2018 included Japan and Hong Kong REITs. While Japanese REITs have maintained their form in 2019, this cannot be said of Hong Kong REITs – which are now of the worst performers in the 2019 calendar year.

Data Centres were of the worst performing US REITs in the 2018 calendar year but best performing REITs YTD in 2019. US Malls and Hotel REITs were 'middle-of-the-road' performers in 2018 but sunk to worst REIT performers in 2019.

Investing in the local property market, in a well-diversified portfolio, is often the known and obvious choice for South African investors. But, the less obvious, and potentially more rewarding investment opportunity lies in the allocation to the global property market, but this is sometimes overlooked.

The gradual on-going depreciation of the Rand over time and a broad diversified pool of property alternatives across different geographic regions, sectors and individual names should draw investors to purposefully consider investments in property abroad.



**Ryan Jamieson**  
Head of Retail: North & KZN  
Fairtree



# HOT OFF THE PRESS



- ▶ **Bryte Insurance recognised as a Top Employer 2020** - Bryte has been recognised by the prestigious Top Employers Institute in the Top Employer 2020 South African category.
- ▶ **Coface launches Broker Portal for brokers** - Coface has launched its new portal for brokers, offering a new experience to its partners in the development of their business around the world. Available in 42 of the countries, the Broker Portal is modern and intuitive, and allows brokers to optimize the management of their activity.
- ▶ **Leading the change as your clients' transition into mid-lifers** - At 54, Patrick falls into the life stage that life insurer FMI, calls the Mid-Lifer stage - mid-50s, married with older children, with relatively little or no debt. Patrick's risk profile has shifted from the adulting stage of life. According to FMI's Risk Stats 2019, at 54 years old, Patrick has a 75% chance of at least one temporary injury or illness, a 32% chance of a critical illness and 13% chance of a permanent disability<sup>1</sup>. The risk of a temporary injury or illness remains Pat's biggest risk - he worries about the impact an injury or illness could have on his business and employees. As a mid-lifer, your clients' priorities have shifted from simply having cover in place for themselves and their families, to consolidating their cover with a view to retirement. Clients who have existing cover in place could consider re-balancing their lump sum benefits with income benefits and invest the premium savings into a retirement fund.
- ▶ **Old Mutual Insure launches Greenhouse Project** - Old Mutual Insure has launched the 'Greenhouse Project', a project funded by The Insurance Sector Education and Training Authority (INSETA). The Greenhouse Project is aimed at increasing the pool of black insurance brokers for the future, through credible education and mentorship, which is in line with the organisation's transformation strategy.
- ▶ **PPS Foundation establishes online donation platform** - The PPS Foundation has made it easier for members of the public who would like to contribute to the development of students and graduates in South Africa by establishing a user-friendly and secure online donation platform that is accessible from the PPS website (<https://ppsfoundation.pps.co.za/>). This platform allows PPS members, staff and the public to offer and provide financial assistance while being able to take advantage of tax benefits through the receipt of a Section 18A certificate.
- ▶ **Constantia Insurance acquired by Trustco Group Holdings** - Trustco Holdings (Trustco) made an offer to purchase the insurance and related business operations of the Constantia Group from Conduit Capital Limited, through its financial services subsidiary Legal Shield Holdings (LSH).
- ▶ **Liability Matters, a new name on the specialised liability block** - A new name has arrived on the short term insurance scene in South Africa. Liability Matters, a specialised liability insurance provider in partnership with Mutual & Federal Risk Finance and Strategic Insurance Services (SIS) has opened its doors. The company competes in the short term insurance, specialised liability space and is headed-up by Ken van Sweeden, who has over 30 years' experience in the field of specialised liability.
- ▶ **Momentum Metropolitan Holdings acquires Alexander Forbes short term insurance business** - Momentum Metropolitan Holdings (previously MMI Holdings) is pleased to announce that it has completed its acquisition of the Alexander Forbes short term insurance business (AFI) from Alexander Forbes Limited following unconditional regulatory approval.
- ▶ **Compass Insure's strategic partnership with Natsure** - Compass Insure announced a strategic partnership with Natsure Underwriting Managers, with effect from 1 April 2020. Tersia Davey, Managing Director of the Natsure Group said: "The new partnership is a strategic fit for both parties with Natsure offering a bouquet of niche short term insurance products and Compass Insure, understanding and creating a platform for the realization of solid business strategies and potential.
- ▶ **Investec launches environmental-themed product** - Investec has launched South Africa's first environmental-themed structured product, the Investec Environmental World Index Autocall. The investment contains the unique features of an Autocall structure, with returns linked to the Euronext CDP Environment World EW Index.
- ▶ **Santam partners with JaSure** - Santam has invested and partnered with insurtech company JaSure. JaSure's offering is app based and provides on-demand insurance for portable possessions like cellphones and laptops, photography, bicycles, other sports gear, eyewear, camping equipment and musical instruments.



# GWII MIX 'N MINGLE

## – wine bottle painting



Starting off the year on a bright and colorful note, Gauteng Women in Insurance (GWII) hosted its first Mix 'n Mingle fun filled evening of wine bottle painting, sponsored by ONE Financial Services, on 29 January. With glassware, fairy lights and paints supplied, color was the order of the day!

While the ladies sipped on their glasses of wine and cocktails, an artist guided them on how to paint their wine bottles. Bringing out their inner artists, the ladies kicked off what was a fun, bright and colorful evening. With all the creative variations, designs and patterns, personality, style, and creativity were reflected.

At the end of the night the ladies got to take home their own unique masterpieces... painted wine bottles with fairy lights.

### A fabulous time of fun, friendship and painting...

A big thank you to ONE Financial Services for their hospitality and support. The venue was great, the food was great, the drinks were great, and most of all, the ONE ladies were so much fun!



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to [admin@gwii.co.za](mailto:admin@gwii.co.za)

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- Develop a peak mindset to thrive despite circumstances and challenging environments.
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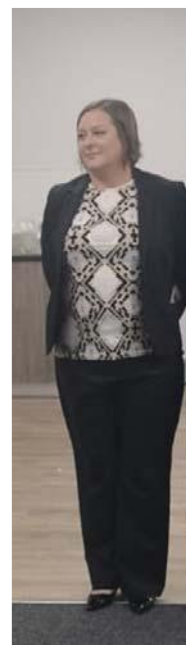
THIS COURSE EARNS YOU 6.5 FAIS CPD HOURS!



The Gauteng Women in Insurance (GWII) 2020 Women in Leadership Development Programme (WILD), presented by Leeann Naidoo from Concordia, kicked off on 23 and 24 January at GIB's offices in Houghton.

Attended by 22 eager ladies from the insurance industry, GWII President, Catherine Pienaar and GIB Managing Director, Tracy McLaughlin welcomed the delegates.

GWII would like to thank GIB for their sponsorship of their conference facilities, Camargue for the delicious catering and Constantia Insurance for surprising the delegates with gifts with a personalized message. We wish the delegates all the very best for the programme. The six-module programme runs over a six-week period.



# THE INSURANCE APPRENTICE 2020

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FINANCIAL ADVISORY NEWS

## #TIA 2020 packed with TWISTS AND TURNS



Season six of The Insurance Apprentice is jam packed with exciting new twists and challenges, and true to form, the apprentices were put through their paces from the very first challenge.

The task sponsors were great in keeping the tasks sufficiently challenging and educational, showcasing the breadth of the industry and some detail of the various aspects of risk mitigation and insurance covers the industry provides.

**1 EPISODE ONE** kicks into high gear with the first task, sponsored by Inseta. The task requires the apprentices to encourage Grade 11 students to excel in every school subject they learn, as each subject has a short term insurance link to economic sectors and covers the industry provides. The vastness of the short term insurance industry touches upon knowledge from every school and university subject.

Inseta extended the task this year to also include a session with teachers, to explain the relevance of their subject in insurance, and to provide them with more practical applications beyond school in the work environment.

The supporting article provides more information on how various subjects link to the industry, and how risk mitigation becomes a life skill from a young age through risk awareness in the classroom.

**3 EPISODE THREE**, sponsored by Innovation Group, challenges the apprentices to provide a marketing strategy for Generation Z and how to reach this market with motor value added products.

Generational trends are interesting to watch as they ebb and flow with varied opinions. Each generation has different drivers which challenge marketers to approach each generation differently and vary their strategy to reach new markets. However, Generation Z is said to be a generation that is focussed more on value and companies who demonstrate a social and environmental impact. They are keen online researchers and will look for information on companies and products and seek opinions from friends and family before they make a decision to purchase.

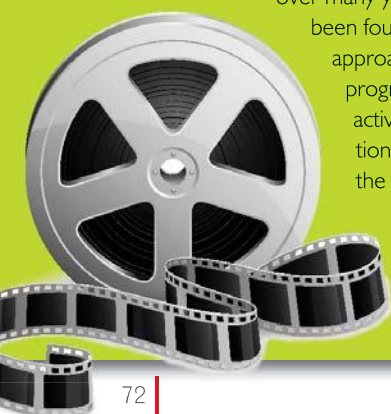
Therefore, marketers need to take a different approach and strategy to reach this generation. Their online content must catch Generation Z's attention within eight seconds and be on the platforms that this generation are most likely to frequent.

**2 EPISODE TWO**, sponsored by Aon South Africa, requires the candidates to debate the retirement age of 65, especially in the age of digitisation.

There have been many debates and views on this issue over many years, and little common ground has been found. Companies have taken various approaches from coaching and mentoring programmes, to commoditisation and automating activities, however none of these (or a combination thereof) have provided a sound solution for the stated dilemma. People are living longer and have so much more to offer, and the pace of change is on the increase. Is there a balance we can achieve in a manner that is innovative and provides meaning and purpose to all concerned?

**4 EPISODE FOUR**, sponsored by Sasria Soc Ltd, looks for a return on investment targeting high risk communities where frequent social unrest takes place, and practically looking for solutions to calm rioting societies.

Sasria's mandate is two-fold, first to offer insurance to all individuals and businesses who suffer loss or damage to assets caused by civil commotion, riots or strikes and similar activities. The second part of this mandate is to research and investigate coverage for any special threat considered to be of national interest. This allows Sasria to take initiative in areas that are at high risk and investigate impactful solutions for these communities that are sustainable over a long term, which can be implemented and maintained by municipalities after launch. By doing so, Sasria then helps reduce and mitigate the claims they pay.





# THE INSURANCE APPRENTICE 2020

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FINANCIAL & ADVISORY NEWS

**5 EPISODE FIVE**, sponsored by Marsh Africa, challenges the apprentices with an environmental crisis and how best to mitigate such risks. Not everything is insurable, but everything is manageable.

Many of the top risks for 2020, as published by the World Economic Forum (WEF) Risk Report 2020 are environmental risks. These are rated as high risks in terms of likelihood and impact. Not covered by most insurance policies, environmental risks are expensive and can be very damaging to a company's reputation. Therefore, a key sector of the insurance industry is to provide risk mitigation strategies for companies who carry these types of risks and try to prevent these risks from happening. Where a risk event still occurs, the critical aspect is then concentrated on how the company responds to the incident. Such responses would be directed to the media, shareholders, staff and affected clients. It is important to have a holistic view of clients and assist them in all matters of risk beyond insurable risks.



**6 EPISODE SIX**, sponsored by Emerald Africa, takes the apprentices on a high energy fiery learning curve with heat on providing risk recommendations to a client.

Fire is one of the most destructive, yet often underestimated perils insured. Therefore, it is critical that risk management strategies to prevent fires are recommended and provided to clients. Fire prevention includes knowing the different types of fires and which extinguishers to use; understanding heat and spontaneous combustion which often occurs and the best strategy to fight a fire. These are the recommendations generally given to clients, to ensure that fires are prevented, and risks are managed.

**7 EPISODE SEVEN** culminates in court room drama, when the Financial Sector Conduct Authority (FSCA) tasks the apprentices with tackling broker fees.

Much work has been done in defining broker activities and the fees that can be charged for such activities. The FSCA has been working with the industry over several years to define different types of agents of insurance, and who pays for which activities they conduct. Despite the work completed with the industry, the FSCA still receives many complaints from the public regarding the insurance premium and fees they are charged. This episode delves into this topic in more detail.

## Get your CPD hours

This year, episodes of The Insurance Apprentice, once again, are coupled with a deeper dive into the technical nature of each task, for Continuing Professional Development (CPD) purposes, sponsored by AC Develop.

This is an ideal opportunity for you to get your team together and watch an episode of The Insurance Apprentice each Friday, starting 7 February 2020. The sixth series is educational, challenging and packed with twists and turns we often encounter in this industry of opportunity.

Earn Continuing Professional Development (CPD) for every episode you watch. Each episode will carry 1 CPD hour. Simply:

1. Visit [www.fanews.co.za](http://www.fanews.co.za)
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3. Register by filling in your personal details;
4. Confirm your log-in details via email once you have registered;
5. Log-in using your email and password;
6. Click on the episode you wish to complete; read the article and
7. Answer the multiple-choice questions related to each episode listed and click submit.



Charmaine Koch  
AC Develop

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# THE INSURANCE APPRENTICE 2020

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**FA**NEWS  
FINANCIAL & ADVISORY NEWS

## The Finalists

Filming of The Insurance Apprentice 2020 officially kicked off on 17 January with exciting new developments at play and many twists and turns. We have nine apprentices, but only one can win the title of The Insurance Apprentice 2020! Who will that be? Here are the cream of the crop...



**Amogelang Kgaladi**  
Head of Corporate Actuarial  
FNB Insure



**Memory Zimba**  
Actuarial Manager  
Centriq



**Siphamandla Dube**  
Business Analyst  
Hollard Insure



**JP Ellis**  
Senior Manager: Legal & Claims  
Constantia Insurance



**Nabeelah Maharaj**  
Team Manager: Commercial  
Processing Centre  
Santam



**Yaseen Essop**  
Commercial Underwriter  
RBS Insurance Brokers



**Kanchaal Mahabeer**  
Key Individual  
Power Brokers and Financial  
Services



**Sebastian Andre Reddy**  
Regional Personal Lines  
Service Consultant  
Old Mutual Insure



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# THE INSURANCE APPRENTICE 2020

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**FANEWS**  
FINANCIAL & ADVISORY NEWS



# EVENTS & happenings



## Old Mutual hosts national recognition gala

Old Mutual recently hosted its national recognition gala event to recognize financial advisers within Old Mutual Personal Financial Advice, who apply best practice principles according to practice management philosophies.

The POTY 2019 National Winner is Henri le Grange.

The POTY 2019 Regional Winners are (from left): Bronwyn Maingard – PFA Strategy Manager; Jaco van der Merwe – PFA Executive General Manager with Executive Financial Advisers Tony Hurlbatt, Willie Horn, Henri le Grange, Len Strauss and Deon Schoeman.



## Old Mutual's Circle of Distinguished Advisers 2019

Old Mutual Personal Financial Advice is proud to congratulate its most professional and forward-looking financial advisers who qualified for the Circle of Distinguished Advisers for 2019. This initiative, which is now in its ninth year, has very high qualifying standards that advisers must adhere to. Membership is awarded following annual audits that include quality of advice, and a focus on client centricity and professionalism.

Front row from left: Krish Sunderlall, Archana Nagasar, Beth Oosthuysen, Steve van Rooyen, Glen Mukheibir.

Second row from left: Deon Schoeman, Hennie van Zyl, Gideon du Plessis, Johan Swart, Henri le Grange.

Third row from left: Len Strauss, Bernhard Visser, Willie Horn, Tony Hurlbatt, Andre Oberholder. Back row from left: Caryl Roccon, Renier de Waal, Marius Nel, Roy Beck, David Horn. (Absent: PB Dippenaar)

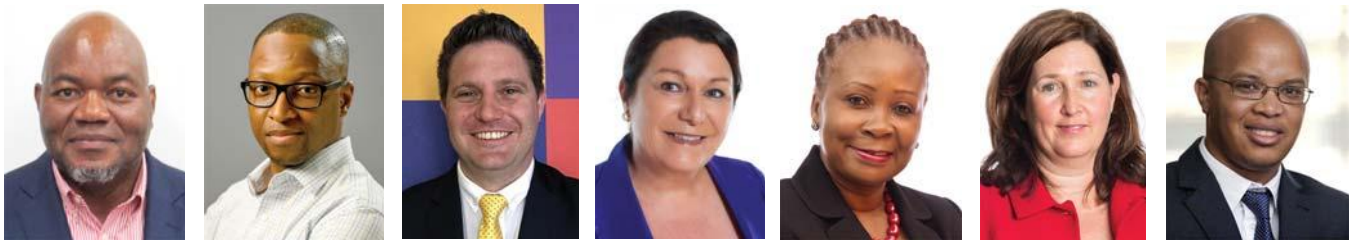


## MiWay donates animal feed to drought-stricken farmers

MiWay Insurance handed out 25 tonnes of animal feed to around 50 farmers in the drought-ravaged Northern Cape. The 48 bales of Lucerne had been salvaged from an accident outside Bethlehem in the Free State. Instead of selling or destroying it, MiWay decided to donate it to farmers in the drought-stricken Northern Cape who have been relying on donations for the past several years to keep afloat.



# EVENTS & happenings



## Appointments in the industry (above from left)

The Office of the Pension Funds Adjudicator announced that **Adv. Matome Thulare** has been appointed as the Deputy Pension Funds Adjudicator for a period of three years; MiWay Insurance appointed **Karabo Kopeka** as Head of Claims; Chubb appointed **Allan Bader** as Accident & Health Underwriter; Medihelp Medical Scheme appointed **Ettie da Silva** as its Principal Officer; Old Mutual announced the appointments of **Maserame Mouyeme** as Corporate Affairs Director and **Kerrin Land** as Managing Director of Old Mutual Personal Finance; and Momentum Investments appointed **Lawrence Koikoi** as portfolio manager and equity analyst in Momentum Investments' listed property team.



## Santam & Sanlam donate R3 million to farming communities

Santam and Sanlam have collectively donated R3 million towards aid relief for farming communities. The donation will assist commercial and emerging farmers currently impacted by a devastating drought that has hit large parts of the country.

Above from left: Lizé Lambrechts (Santam CEO), Omri van Zyl (AgriSA CEO) and Temba Mvusi (board director for Sanlam and CE of Sanlam Group Market Development)



## A Holland tribute to Giorgio Cavalieri

Larger than life. Passionate about family, food and Ferraris (and many other finer things). And never afraid to show his emotions. That was Giorgio Cavalieri, a leading light in the South African insurance industry.

Cavalieri (72), founder of Houghton-based Sela Brokers, passed away recently in Johannesburg. "We say goodbye to, and honour, a legend of a man. A big tree has fallen, and he will always be remembered. The broking and insurance fraternity will truly miss this great ambassador," said Pierre Geyer, Head of Operations for Holland Insure.



## KGA Life hosts glamorous Evening with the Kings

KGA Life brought together the kings of the funeral insurance industry, sport and business for a glamorous cocktail evening at UrbanTREE in Sandton, hosted by Lorna Maseko. The main objective of the event was to provide a networking platform to share ideas, experiences and new thinking in pursuit of tomorrow's financial solutions. On stage, Lorna Maseko interviewed an elite panel of rising stars including Springboks rugby star Sbu Nkosi, 2017 Business Entrepreneur of the Year Nomfundo Mcoyi and entrepreneur Skumbuzo Xulu.

Above: Panel speakers Sbu Nkosi, Lorna Maseko, Clinton Macdonald, Nomfundo Mcoyi and Skumbuzo Xulu celebrate on stage at the Evening with the Kings.



## RAGING BULL AWARDS

The 24th edition of the Raging Bull Awards took place in Cape Town. Here's a list of the winners:

### CERTIFICATES

#### Straight performance over three years

##### Best South African Equity Resources Fund

Investec Commodity Fund

##### Best South African Equity Mid- and Small-cap Fund

Coronation Smaller Companies Fund

##### Best South African Multi-asset Flexible Fund

Long Beach Flexible Prescient Fund

##### Best South African Multi-asset Low Equity Fund

Financial Fitness IP Stable Fund of Funds

##### Best South African Multi-asset Medium Equity Fund

Kagiso Protector Fund

##### Best South African Multi-asset High Equity Fund

Kagiso Balanced Fund

##### Best South African Multi-asset Income Fund

Sasfin BCI Flexible Income Fund

##### Best South African Interest-bearing Short-term Fund

Truffle SCI Income Plus Fund

##### Best South African Interest-bearing Variable-term Fund

Allan Gray Bond Fund

##### Best South African Real Estate Fund

True North IP Enhanced Property Fund

##### Best (SA-domiciled) Global Multi-asset Flexible Fund

Northstar SCI Global Flexible Fund

##### Best (SA-domiciled) Worldwide Multi-asset Flexible Fund

Select BCI Worldwide Flexible Fund

##### Best (FSCA-approved) Offshore Europe Equity General Fund

Templeton Eastern Europe Fund

##### Best (FSCA-approved) Offshore United States Equity General Fund

Franklin US Opportunities Fund

##### Best (FSCA-approved) Offshore Far East Equity General Fund

Templeton China Fund

##### Best (FSCA-approved) Offshore Global Real Estate General Fund

Schroder International Selection Global Cities Real Estate Fund

##### Best (FSCA-approved) Offshore Global Fixed-interest Bond Fund

Allan Gray Africa Ex-SA Bond Fund

#### Risk-adjusted performance over five years

##### Best South African Multi-asset Low Equity Fund on a Risk-adjusted Basis

Kagiso Stable Fund

##### Best South African Multi-asset Medium Equity Fund on a Risk-adjusted Basis

Kagiso Protector Fund

##### Best South African Multi-asset High Equity Fund on a Risk-adjusted Basis

Investec Managed Fund

##### Best South African Multi-asset Income Fund on a Risk-adjusted Basis

BCI Income Plus Fund

##### Best South African Interest-bearing Variable-term Fund on a Risk-adjusted Basis

Allan Gray Bond Fund

##### Best South African Interest-bearing Short-term Fund on a Risk-adjusted Basis

Momentum Enhanced Yield Fund

##### Best South African Real Estate Fund on a Risk-adjusted Basis

Absa Property Equity Fund

##### Best (SA-domiciled) Global Equity General Fund on a Risk-adjusted Basis

Investec Global Franchise Feeder Fund

##### Best (SA-domiciled) Global Real Estate Fund on a Risk-adjusted Basis

Catalyst Global Real Estate Prescient Feeder Fund

##### Best (SA-domiciled) Global Multi-asset Low Equity Fund on a Risk-adjusted Basis

Prudential Global Inflation Plus Feeder Fund

##### Best (SA-domiciled) Global Multi-asset High Equity Fund on a Risk-adjusted Basis

Investec Global Strategic Managed Feeder Fund

##### Best (SA-domiciled) Global Multi-asset Flexible Fund on a Risk-adjusted Basis

MI-PLAN IP Global Macro Fund

##### Best (SA-domiciled) Worldwide Multi-asset Flexible Fund on a Risk-adjusted Basis

Select BCI Worldwide Flexible Fund

### RAGING BULL AWARDS

#### Straight performance over three years

##### Best South African Equity General Fund

Kagiso Equity Alpha Fund

##### Best South African Interest-bearing Fund

Truffle SCI Income Plus Fund

##### Best (SA-domiciled) Global Equity General Fund

BlueAlpha BCI Global Equity Fund

##### Best (FSCA-approved) Offshore Global Equity Fund

Fundsmith Equity Fund

#### Risk-adjusted performance over five years

##### Best South African General Equity Fund on a Risk-adjusted Basis

Fairtree Equity Prescient Fund

##### Best South African Multi-asset Equity Fund on a Risk-adjusted Basis

Kagiso Protector Fund

##### Best South African Multi-asset Flexible Fund on a Risk-adjusted Basis

Long Beach Flexible Prescient Fund

##### Best (FSCA-approved) Offshore Global Asset Allocation Fund on a Risk-adjusted Basis

Platinum Global Managed Fund

### MANAGER OF THE YEAR AWARDS

#### Offshore Manager of the Year

Nedgroup Investments

#### South African Manager of the Year – 3rd Place

Prescient

#### South African Manager of the Year – 2nd Place

Investec Asset Management

#### South African Manager of the Year

MI-PLAN

Note: Managers of the Year receive Raging Bull Awards, the two runners-up to the SA Manager of the Year receive certificates.



# HUBBY LEAVES TOILET SEAT UP, WIFE FILES FOR DIVORCE



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# ONE DOWN, ELEVEN TO GO

IT'S HARD TO BELIEVE THAT JANUARY IS ALREADY GONE, BUT THE YEAR IS STILL YOUNG.

That means lots of opportunities to make those new year's resolutions bear fruit, but unfortunately also for things to go wrong. At Auto & General, we want you to have a year filled with peace of mind.

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