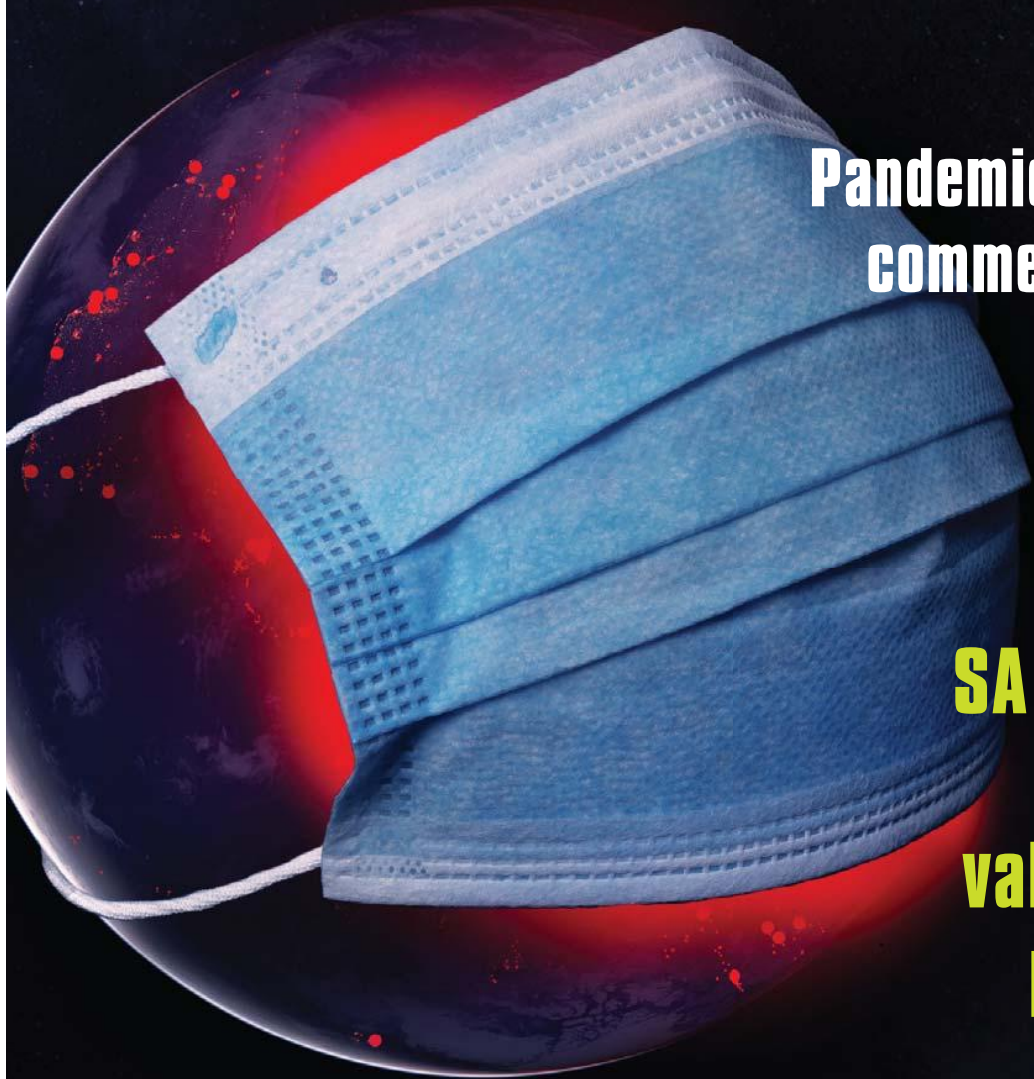


Ethics of lockdown - What value is attached to a human life?

JUNE 2020

FANEWS
FINANCIAL & ADVISORY NEWS

THE CRISIS IS NOT OVER

A blue surgical mask is positioned over a globe. The globe is dark with a glowing red band around its equator and is surrounded by small red dots, suggesting a global health crisis or pandemic. The mask is slightly tilted, showing its pleated texture.

**Pandemic redefines the
commercial and legal
risk landscape**

**SA fixed income:
searching for
value in a sea of
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Oh what a time to be alive...

LETTER FROM THE EDITOR



Rianet Whitehead
Editor

So many things have changed in the last three months. When I wrote the April edition's editorial, we had just entered Lockdown level 5... an uncertain time, and I am actually not sure that much has changed on that front. Working from home has been an interesting experience and working in an industry that had the ability to carry on regardless is something I am really thankful for...

It's clear that the majority of people in our industry are still mainly working from home, while socialising is still not permitted... this definitely has an impact on people and especially if you stick to the rules it's becoming really hard. Hollard's 'Hello' campaign is a fantastic reminder that we need to say "Hello, how are YOU today" to our colleagues, friends and family on a regular basis. Hello, has never been so important to me, and I am sure I am not the only one...

Congratulations to Old Mutual on celebrating 175 years as one of South Africa's, and Africa's, most iconic brands. Old Mutual has been an important part of our journey and we can clearly learn a lot from the business.

Another hearty congratulations goes to Hollard on celebrating 40 vibrant years! One thing I have always loved about Hollard is the Hollard culture and it comes out once again in the #StartsWithHello campaign... brilliant, quirky and warm.

And then a bit of a sad story... well for me in any case, just because it comes with some history. We recently decided to stop publishing the FAnuus magazine – which was not really the Afrikaans version of FAnews, it was more some additional reading material for our Afrikaans brokers, intermediaries and advisers.

These Afrikaans readers truly valued the reading material and we had some loyal support from an advertising perspective, specifically from Bryte and Momentum. Other advertisers came in every now and then, but not enough to keep this little gem going. I started FAnuus after my dad's passing, so making the decision to finally stop publishing it was actually a sad day... and I really want to thank those loyal subscribers and advertisers who walked the journey with us. It's a sad day, but now we can place even more focus on FAnews, The Insurance Apprentice and all the other ventures we have up our sleeve.

In this edition, we carry a feature on investments. I thought we were going to have a depressing June edition, but it's beautiful to see that people are optimistic, hopeful and that there is after all a silver lining in the dark clouds overshadowing us.

There's always hope... *"Once you choose hope, anything's possible."* - Christopher Reeve

Enjoy the read! Until next time.



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THE CRISIS IS NOT OVER

The Corona virus has been with the world for several months now, spreading its tentacles to all corners of the globe. South Africa has been under lockdown for almost eight weeks with a massive negative impact on the overall economy and companies in particular. Building resilience into businesses is now more important than ever. FAnews asked five business leaders to share the most important lessons that they have learned in this time we call #lockdown...



Sean Pyott
MD
thryve

Digital technology a game changer in pandemic

Many important lessons and insights came to me as we adjusted to the lockdown period. And there will be many more, since this is only the beginning. Though we often hear that we are headed into a new reality, it will take time for that message to really sink in.

“Don’t underestimate the worth of digital technologies in the lockdown”

With that in mind, I do not wish to raise a negative lesson. There have been many of those, and many more will come. Psychologists refer to “delusion of reprieve”, the phenomenon where we fool ourselves into thinking something is not as bad as it appears. But this situation is pretty bad and bound

to become worse before it improves. In such a case, it is essential to take stock of what can help us recover.

Flexibility

This brings me to my lesson: the incredible flexibil-

ity with which many organisations and individuals could change how they work. The steps taken to modernise our world are now paying dividends, at levels that even surprise me. I should not be, since we promote those virtues through our business, and I have had enough exposure to what digital technology does and how it can deliver on its promises.

Yet those services and concepts have never been put to the test as they are now. A lot of the views around digital modernisation were a mix of fact and dogma, practical realities, and pie-in-the-sky hopes. A major positive lesson is to see that many of those claims could be fully realised. The potential it offers for the future is genuine and should be pursued aggressively.

Digital challenge

But herein is a cautionary lesson as well. Not only are we underestimating the worth of digital technologies, but we are not doing nearly enough to bring those capabilities to the people whose lives would be transformed by them. That is one of the challenged dogmas: technology is not a natural trickle-down force. It takes will and energy to manifest somewhere, and when it does not, it will leave people behind.

So I am elated at how well investments in digital technology have delivered real advantages and agility. But the digital divide has never been more exposed than it is now. If we take these two lessons to heart, the future is bursting with potential.

THE CRISIS IS NOT OVER



Michael Davies
CEO
ContinuitySA

Alternate site strategy vital

The most important lesson of the COVID-19 crisis is to have an alternate site strategy. The crisis is not over; thus building resilience into your business is now more important than ever.

While some companies have benefited from already implementing digital transformation strategies, thereby enabling remote working and being able to digitally connect and transact with clients, there is another important lesson to be learnt during this time: having alternate offices available to relocate the work force in order to continue operations.

“The most resilient companies are those that have employed a strategy of combining work from home, normal office usage and alternate office work strategies.”

Impacting employees

There are severe consequences to an organisation if an employee contracts the COVID-19 infection. A COVID-19 infection results in the immediate evacuation of staff and deep-cleaning of the site. This effectively closes the office until the premises are sanitised. The employee or employees infected, and those staff exposed to the infected parties are either immediately hospitalised or quarantined, thereby further impacting the business. In addition, the social/physical distancing required during the lockdown period also means that a business may have as few as 30% of the usual workforce at the normal place of business.

Combining workplaces

A common earlier response to the corona virus crisis was to get as many staff as possible to work from home. However, this strategy is not infallible. Some business functions simply cannot be performed from home because of the need for supervision, shortage of security at home or specialised technology; for example, business process outsourcing and call centres. A solution is to implement a distributed business model using alternate sites to cater for the reduced capacity, for social/physical distancing and reducing the impact of an COVID-19 infection outbreak at a single office.

The most resilient companies are those that have employed a strategy of combining work from home, normal office usage and alternate office work strategies. A robust alternative site will have generators and an uninterruptable power supply to cater for power outages and will be far enough away from the normal office premises not to be affected by disruptions there.

Companies need to ensure that their IT and communications infrastructure can cope with an increased number of people logging into the corporate systems, from different locations, simultaneously. Remote or distributed working can be less secure, so a renewed focus on cybersecurity is also required.

THE CRISIS IS NOT OVER



Ricardo Coetzee,
Head
Auto & General Insurance

Putting existing customers and partners first

By now, we all know that the Covid-19 pandemic and subsequent lockdown measures have completely disrupted both our personal and work lives.

At Auto & General we realised early on that the disruption is not only physical but also psychological.

Our normal work patterns and the way we communicate had to change radically. This was not only reflected in procedural and operational changes, but each one of us had to undergo a mind shift.

Dramatic changes

As insurers, brokers and service providers we

had to quickly buy into virtual offices, online meetings and adjusting our supply chains in order to continue servicing our customers at the level they are accustomed to. However, it is important to look at both sides of the coin and realise that we were not the only ones affected. Just as business had to cope and adjust to the new normal, so did our customers and partners. In the blink of an eye their home and work life changed dramatically and all of us moved through waves of uncertainty and successive change. We went from it being a crisis, to responding to that crisis, to trying to maintain momentum in every area of our lives and establishing what they call "the new normal".

Trust and confidence

The most valuable lesson learnt during the time we call #lockdown was to put our existing customers and partners first. We did this by servicing them according to the way they are accustomed to, putting their minds at ease. This was the only way we could keep their

trust and confidence – something that we constantly try to instil in and around our service delivery.

The lessons we learnt resulted in a strategy that rests on four pillars: The first two focused on price and product. We realised that we needed to provide monetary relief for our customers and rather than follow a blanket approach, we reviewed and considered each customer's unique circumstances to find individual solutions.

Customer experience

It involved getting creative. We collaborated across teams within our organisation and as a result, we were able to make available up to R35 million in premium relief to our customers. We also revisited our product experience, which is an all-important driver of our customer-experience.

The third pillar focusses on customer service and we identified the following table stakes:

1. Consistent communication with all partners and customers, which becomes even more important during a crisis. Besides keeping them up to date on any procedural- or operational changes, due to the crisis, it is important to stay top of mind and show your customers that you are there for them. Listen to them and respond with empathy;
2. We needed to be solution-focused, unpack and listen to what our customers and partners needed and apply creative problem-solving skills in order to get the job done; and
3. One of the most important aspects of customer service during a crisis is to figure out what your customer touch points are, when they take place and to ensure that the experience at each of these touch points speak to your values and goals as a business.

Our fourth pillar focuses on social cohesion and collaboration. It is important that one displays good citizenship. It is reflected in how we assist our neighbours, family and communities in need. We are proud of our holding company pledging R320m in support of the community in the fight against the Covid-19 pandemic.

Not only are we extending a helping hand to the community, but we are also collaborating with our partners and even outside of the industry, where necessary. Experience has taught us that in extraordinary times one cannot go it alone.

"The most valuable lesson learnt during the time we call #lockdown was to put our existing customers and partners first."

THE CRISIS IS NOT OVER



Cleo Ehlers
Marketing Strategy Manager
Butterfly Effect Intelligence

Flexibility and being online saves the day

A recent Consulta survey for Nedbank showed that only about 30% of small businesses in South Africa managed to stay open during the initial five-week lockdown and that of those, most managed less than 75% of their usual turnover. Many people still expect a large number of small businesses to fold during this crisis. We have been extremely fortunate to have remained open - working from home - and keeping most of our regular business going. How did we do this and what have we learned that we can pass on?

Fully online

Our managing director has been almost fanatical about making us fully digital, to the point that we could continue working during load-shedding or from home, with access to our servers, archives and each other, in a secure fashion. We have continued to work from home almost seamlessly, basing our lives around digital apps, services and platforms. We 'meet' at least twice a week as a group and daily with each other.

Several lessons

We perhaps have a couple of lessons to share, rather than one. Our managing director would say that numero uno is that we are diversified enough in what we can and do offer; to be able to rapidly change tack and create solutions for our clients as required, superior topical and value-adding, without throwing us off-balance. We have

diverse talent and experience and we draw on that.

I would add that agility is another winning ability. Being small, we can chop and change where required, quickly. The fact that we are so highly digital also helps, because we can safely draw on our work to date remotely, using

that knowledge and our critical thinking, to shape our offerings to suit the times.

The bottom-line: always be willing to assist your clients by being able to quickly switch gear where needed, and do not wait to be asked. Also, do not get stuck on one thing or one way of doing things. Be proactive and care deeply about what your clients care about.



Rudi van Rooyen
Head of Specialised Pricing in
Group Insurance
Momentum Corporate

Offer clients certainty and maintain service levels

The COVID-19 pandemic has disrupted life as we knew it and brought us to what we now know as the "new normal". Organisations have had to transform to maintain business continuity. Given the fluidity of the situation, it is

imperative for businesses to adapt to the changes as they happen. Also, key is to be able to offer their clients the products, solutions and services that they have come to expect, with negligible disruption if any.

The financial services industry will be more critical than ever going forward as many people - in search of greater certainty in uncertain

times - start looking at their business and personal insurance needs and seek advice on their investments.

Keeping a 'human' face

It is also crucial that insurers play a meaningful role in the lives of financial advisers and clients, beyond their core business, by remaining 'human' in how they address the different challenges, to alleviate the pressure for financial advisers and clients. For example, by changing the rules of a corporate rewards programme to support business continuity; help staff to continue to work remotely, or support business reintegration initiatives into a safe and healthy workplace.

It is heartening to see how the entire industry, insurers, the regulator and financial advisers are working together to safeguard the benefits of clients and their employees at this critical time.

"A key lesson is to be able to offer clients the products, solutions and services that they have come to expect, with negligible disruption, if any"

"Diversify skills and talents, be agile and flexible in serving customers"

PREPARATION

beats
prevention
anytime



People often think 'being proactive' means doing everything possible to prevent undesirable things from happening. However, being proactive also means including plans and skills that make it possible to seize opportunities, arising from unpredictable circumstances.

While it is impossible to predict the future with absolute accuracy, it is quite easy these days to get information on what the world might look like over the next few decades. However, one thing is certain: it will not just be a repeat of the past three decades.

Challenging questions

Financial planners and advisers will most probably rely on more than their current roles and skills to turn future opportunities into success stories for themselves and their clients. In the new game of business, it will not be enough to just tick the boxes of current legislation, regulation and client expectations.

It is imperative to create a culture where we ask ourselves:

- What else do my clients want?
- What technological changes are predicted for my profession or role?
- What will society look like in the short, medium and long term?
- How do my activities fit into this larger, interlinked environment?
- What skills should my team and I develop now to use those changes to our best advantage later?
- How can we practise our new skills right now, even though it might not be needed immediately?
- How will we share the successes of practising our new skills with clients so that they are aware of how we can help them prepare?

Being agile

These questions are usually reserved for those once-a-year strategy sessions. However, posing and answering them at least once a month, provide planners and businesses with opportunities to make small tweaks, and the agility required to turn unpredicted changes into profitable opportunities.

The answers to these questions are available in a combination of paying attention to what clients say – or do not say – during a consultation, and what peers share during networking sessions or via online forums. Furthermore, videos and articles about the future of

the profession and society can add context or new angles to technical articles.

Future focused

In answering these questions, it is important not to fall into the habit of preventing change. The answers must strike a fine balance between serving current client needs and developing abilities to serve future clients and their business needs.

Future focused abilities should be different to existing abilities. For example, data science might become a differentiating skill in a future where Artificial Intelligence is predicted to play a bigger role. Similarly, digital marketing might just become the skill that keeps your client list growing, as younger generations trust online recommendations to help them make decisions.

Find new ways of working

It is easy falling into the trap of only paying attention to current business pressures. While those pressures will take care of current income, it is worth investing at least 10% of the time and effort in discovering or creating new ways of working that will take care of future income.

The Covid-19 pandemic has proven that change is inevitable. Despite efforts over several years preventing paperless processes, online shopping and working from home to becoming the norm, many organisations made the switch in a matter of days. Those who made pre-pandemic preparations to adapt to a more digital working environment were, however, in a much better position to seize the opportunities presented by the pandemic.

The pace and scope of change does not allow for reactive adaptation; it demands being prepared to see opportunities arising from change and the skills to turn them into workable solutions.



Juanita Vorster
Independent Business Adviser

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Scenario planning and THE COVID-19 CRISIS

In this time of incredible uncertainty, **Nadia Starr**, Chief Executive Officer of Inseta

shares tips on how scenario planning has helped her steer and continue to steer the Inseta and she provides some key insights, and lessons learnt.



In times of uncertainty, scenario analysis and planning are critical tools. COVID-19 presents an extraordinary level of uncertainty. SETAs are often tasked with estimating the impact on our organisations and taking action in response to the pandemic. Whether evaluating and projecting financial

earnings, estimating cash flow and liquidity, or developing a range of mitigating actions, scenario analysis is not simply a financial planning tool; it is an integrated approach that can assist enterprise-wide efforts in dealing with uncertainty.

That is especially important now. COVID-19 and its impact on organisations of all types is sure to be significant. However, because of its very novelty, the following questions, which will resonate with organisations for years, cannot be answered with high confidence:

- How fast will the virus spread?
- How severe is the virus, including hospitalisation and mortality rates?
- How long will the pandemic last?
- How successful will mitigating strategies be in limiting and containing the impact of the virus?

Scenario analysis provides a structured way to identify a range of potential outcomes and estimated impacts and then identify and evaluate potential actions. It reinforces the presence of uncertainty and increases readiness to deal with a variety of potential outcomes. It also creates a sense of confidence by having a structured way to work through the challenge as it evolves.

Scenario planning encourages us to react to the important factors we have identified and to not overreact to extraneous reports or data points.

Why is scenario analysis so critical now?

In general, most operational plans and financial projections are based on a single course or scenario, often not explicitly identified. Single point projections and scenarios have serious shortcomings.

First, they ignore the presence of uncertainty and limit consideration of contrarian points of view. Second, they contain dozens of assumptions, and many of these are critical and implicit — buried in the mechanics of our models. As such, some of these assumptions have not even risen to conscious consideration. They also provide a false sense of security, implying that we have a clear view of future events, and ignore a key truth: the future will be even more different than we anticipate.

Utilising scenario analysis addresses those shortcomings and has several important benefits. It reinforces an organisation's awareness of uncertainty and provides a range of possible outcomes (scenarios). It also encourages developing deeper insight into critical drivers and assumptions and increases our readiness for a range of potential outcomes. This insight will be increasingly important moving forward.

Key elements of scenario analysis

A scenario is a possible future narrative (a story). A "story" will typically impact several variables/drivers; for example, a recession scenario would likely impact several performance drivers including learners and training, loss of income, loss of jobs, human capital turnover, and compensation. Scenario analysis will estimate the total impact of the "story" on a firm and encourage the development of a response.

Scenario analysis utilises several tools and concepts that are relevant to COVID-19. These include identifying potential scenarios, critical assumptions, leading indicators and potential mitigating actions. The following examples highlight ways that finance professionals can look at COVID-19.

Identify potential scenarios

Given the level of uncertainty, we need to identify and contemplate a variety of potential outcomes. In areas where the virus is in early phases (eg, in many regions of the country), there are several possible scenarios:

1 The initial actions taken by local, provincial, and national government and related behavioural changes (social distancing and sanitation) result in curtailment in the near term, allowing a return to staggered working hours.

2 Precision measures scenario: The initial actions taken by local, provincial, and national government and related behavioural changes (social distancing and sanitation) result in significant curtailment in the near term, allowing a modified approach to target specific activities, regions, population segments, etc.

3 The initial actions taken by local, provincial, and national government and related behavioural changes (social distancing and sanitation) result in midterm curtailment, allowing a return to near normal within the levels identified by government.

4 Other variations: Medical testing and treatments (including pharmaceuticals) significantly mitigate the virus's impact.

5 Worst-case scenarios: The pandemic cannot be controlled over the next several months.

Identify critical assumptions

Each scenario requires dozens of assumptions, including health and economy/business. Nearly all these assumptions are based on experience with similar contagious diseases or crises, but each has a high degree of uncertainty since this is a new and unique virus.

A few examples:

Economic and business assumptions

- What effect will this have on employment?
- How will this impact our customers and our revenues and collection periods?
- How will this impact our supply chain?

After identifying scenarios and assumptions, we can create a script of how each scenario would play out. We can then model various scenarios, identifying leading indicators, critical decision points, and potential responses.

Create a robust model

Whether we are projecting the impact on revenues, earnings, GDP, or cash flow, scenario planning requires a robust model to estimate the outcomes under different scenarios. Infectious disease specialists employ models to estimate the spread of the virus, required hospitalisations, and mortality.

Finance professionals need a robust model to estimate the outcome on revenues, earnings, cash flow, and liquidity.

- Assumptions must be explicitly identified so they can be evaluated and flexed.
- The model must be robust, facilitating

sensitivity and scenario analyses.

- Outcomes on key measures (eg, cash flow) must be auto generated by the model to facilitate impact analysis and presentation.

Track assumptions and leading indicators

How are events and trends tracking our assumptions? Do the trends increase the probability of one scenario occurring over another? As more information becomes available (e.g., rate of spread), the scenario model can be updated to refine existing scenarios or generate additional possible outcomes.

Identify indicated actions under each scenario

The purpose of scenario planning goes well beyond simply estimating the impact of each potential scenario. The real benefit is realised when leaders identify and evaluate potential actions indicated in each case. In some cases, the actions are indicated under all scenarios.

For example, the decision to encourage social distancing and hygiene practices has little downside or cost and will help under any scenario. These actions, called "no-brainer" or "no regrets" by scenario planners, have little downside. Another example would be to facilitate employees' ability to work remotely from home.

Prepare to pivot to normalcy

In dealing with a crisis like COVID-19, our thinking and planning become dominated by "recency bias". We are so focused on the current news cycle and our response to the crisis that we are not thinking about the inevitable return to a state of normal activity. What event(s) will trigger the restart? How will we reopen? What measures must be taken to sanitise facilities? How will our customers restart? When and how will we bring back employees? What critical supplies do we need to reopen? What cash is required to accomplish this?

While it may be difficult to focus on this future event now, doing so will allow us to identify critical issues and actions that facilitate the restart.

Even before the outbreak of COVID-19, we were living in a period of rapid change and great uncertainty, including economic cycles, election outcomes, trade wars, and disruptive technologies. Our sectors should identify lessons learned from this crisis, including the adoption of scenario planning as part of ongoing efforts in developing plans and projections. •

COMPLIANCE AND RESILIENCE:

More compatible than you might think...



“Opportunity is missed by most people because it is dressed in overalls and looks like work.” - Thomas Edison

In many aspects of life, the difference between obstacle and opportunity is often simply a matter of perspective. One of the core lenses through which we view the business of financial services is that of risk management and mitigation. And this is only right when we are dealing with the assets, life savings and financial legacy of millions of people and organisations.

Look beyond the surface

However, this orientation runs the risk of blinding us to the inherent opportunities lying just below the surface. We all know that the growing complexity of the regulatory environment in our industry and the often onerous focus on compliance means that we begin to view these responsibilities as an expense layer rather than an opportunity to increase our resilience.

I would argue that by refocusing executive attention beyond the regulations themselves to their actual intent, we can use this insight to build competitive advantage within our organisations.

Use compliance as a toolkit

Rather than viewing the outcomes-based approach of Treating Customers Fairly (TCF) as a box-ticking exercise, we could interrogate the intent behind the regulatory approach to improve the experience our customers receive, along with our competitive advantage. Practically, the regulatory framework provides us with a useful toolkit by which to examine our own business and perhaps highlight blind spots that were missing from our initial thinking at a purely commercial level of planning.

Looking at compliance as an obligation, we could, for example, view regulatory

implementation projects as swallowing large parts of IT budgets, time and resources. This mindset runs the risk of simply adding layers to an already muddled legacy systems environment.

Alternatively, we could use the opportunity to enhance the system, the functionality, efficiencies and the customer experience.

Clean up dirty data

A FAIS requirement for more robust record keeping processes could be seen as an opportunity to clean up obsolete and dirty data, standardise content and establish clearer, more accessible records. The resultant internal efficiencies and improved customer experience could make us more resilient as a progressive commercial enterprise, rather than simply a compliant business.

It would be remiss to talk about resilience without referring to the unique and intense pressures placed on all businesses through the COVID-19 crisis and ensuing national lockdown.

As with all businesses, Fedgroup has had to navigate through the challenges of ensuring ongoing operational capability, while looking for new areas of opportunity.

Our strength in people, processes and robust systems ensured that we were well-poised to maintain operations and high levels of customer service throughout the lockdown. However, we have now reached a new phase where many businesses will be re-entering the marketplace and returning to physical premises.

The challenge of adhering to stringent workplace restrictions and precautions as we

enter Level 3 lockdown is not unique to our business. However, rather than viewing the workplace regulations as simply an issue of compliance, we looked to their intent and to our own capabilities.

Intelligent monitoring

We realised that effective measurement, monitoring and consolidated reporting on people and buildings was critical to mitigating the risk of operational shutdown, due to poor employee health or lack of compliance with COVID-19 regulations. We had the expertise in combining systems, emerging technology platforms and administration processes in new-age products like those found in our Impact Farming app, to do it more than capably ourselves. We therefore rapidly developed an intelligent and predictive monitoring and reporting solution that could be used not only by ourselves but could also be offered to other businesses to help them keep their employees and customers safe. And thus, the SmartPlexus.io solution was born.

We had looked past regulatory compliance as a burden, to seeing within it an opportunity for a new product solution, and one that extends beyond the realm of financial services at that.



Grant Field
CEO
Fedgroup

Access to right data leads innovation

IN ERA OF COVID-19

Innovation in the fourth industrial revolution is far broader than technology. Data is evolving a whole new culture of service much more aligned to customer behaviour and risk.

Making it easier for the customer to do business is every industry's objective. COVID-19 and the challenges of lockdown has only brought home, much more quickly, the imperative for the insurance industry to use technology and data to support customers navigate challenges remotely. While COVID-19 upped the game, the question remains, how do we deploy technology and data to make advice, cover, policy updates and claims not only possible but also easier and faster for our intermediaries and customers?

Data has changed the rules of engagement

Data is to the fourth industrial revolution what oil was to the second industrial revolution. One only needs to look at the global response to the COVID-19 pandemic to understand that this is as much a social media, information and data issue as it is a health issue. Access to the right data has been key in guiding collective responses to the crisis to date. As more and more data emerges, it is instantly shared around the planet, enabling governments, businesses and individuals to coordinate responses.

Similarly, in today's insurance industry, those able to access and deploy the right data, most effectively will be better able to meet their customers' and stakeholders' needs, regardless of where they sit in the ecosystem.

Data meets culture

The big learning from COVID-19 is that, to operate seamlessly in an interconnected world powered by data, organisations need to be structurally and culturally prepared. In short, the fourth industrial revolution presents a huge cultural opportunity, especially from a collaborative service ecosystem perspective.

When combined with technology, data allows us to gain much deeper customer insights which enable insurers, intermediaries and other stakeholders in the insurance value chain to better meet the needs of the customer.

Data has also dramatically improved routine decision making, speeding up the accuracy and effectiveness of the underwriting and claims process – delivering improvements in customer experience.

Managing risks remains key

The need to be operating 'in' and 'with' data all the time does, however, present new risks. Cybercrime, for example, is no longer an event, it is the new normal. Apart from data integrity being essential for basic services, the Protection of Private Information (POPI) Act also sets a legislative imperative on secure data management and use. Since data and its integrity is, effectively, the currency of the fourth industrial revolution, cybercrime should be managed consistently in real time as part of daily operations.

COVID-19 lockdown is a catalyst

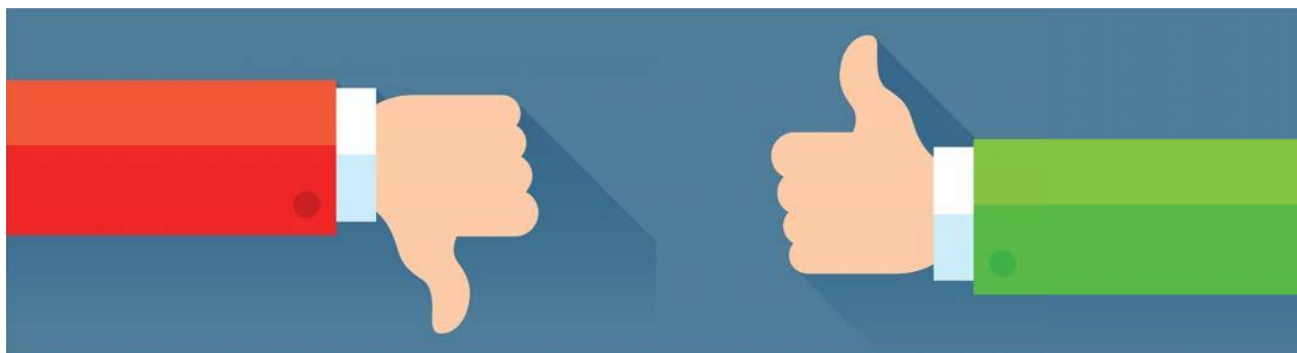
The speed and effectiveness with which some companies have adapted to the remote delivery of services during lockdown, as well as their quick development of new customer-support packages, products and services, demonstrates the progress that the industry has already made towards building and enabling this new culture.

Building on the valuable experience gained during COVID-19, we recognise that in the fourth industrial revolution, the role of risk managers is to deploy data and technology as effectively and efficiently as possible to manage risk.



Soul Abraham
Chief Executive for Retail
Old Mutual Insure

Business as usual for **THE OMBUDSMAN?**



The enemy arrived stealthily and wreaked havoc. Amidst all the changes that we were going through in relation to buzzwords and concepts like AI, Robotics, 4IR, and “business unusual”, to name a few, COVID-19 spared no one in its chaos. No one knew then, and no one knows now, what the future holds. We can only speculate.

OSTI well-positioned

The Ombudsman for Short Term Insurance (OSTI) has for a number of years been gearing itself up to stay relevant in the South African financial services landscape. It did this by, amongst others, adopting new cloud-based technologies, moving onto a paperless system and ensuring that staff can work remotely. This placed OSTI in the enviable position, like other organizations to continue to work even during the lockdown. It also made it possible to migrate onto platforms where remote work was possible, for all the staff not already able to work remotely.

In interactions with other ombudsman offices via the Ombudsman Liaison Committee*, to which most financial services ombudsman schemes subscribe, and the National Consumer Financial Education Committee (NCFEC) operating under the auspices of National Treasury and the Financial Sector Conduct Authority (FSCA), OSTI was able to confirm that not all of the offices were operating during the lockdown. Some were better able to operate remotely than others.

Complaints during lockdown

OSTI was able to confirm that most ombudsman offices experienced significant drops in the volumes of complaints received. The one exception related to banking services and it is easy to understand why. Most aspects of the lives of people and companies do centre around some sort of banking-related service. Consequently, the uptick in cases there was not surprising.

However, while other ombudsmen experienced downswings in complaint numbers, they anticipate eventual influxes to be higher. For OSTI, for example, it was understood that due to the lockdown, the processing of claims by insurers would be adversely affected. Assessments and investigations could not be completed, repair and replacement quotations would not be obtainable, and repairs could not be

carried out. In addition, consumers would be more understanding where there were delays.

A lag first and upswing later

With claims being the bulk source of OSTI's complaints, it was not unexpected that the lockdown would result in fewer complaints during that period. Many consumers also rely on their work resources and equipment like scanners, printers and e-mail to process their private affairs.

Also, the very nature of the complaints business means that there will be a lag between events and processes that give rise to complaints, and the eventual lodgement of complaints with the various ombudsman offices. It is therefore anticipated that as we progressively exit the lockdown, and more activities are permitted to continue, more complaints will find their way to the various ombudsmen. This is also their own prediction.

Some of the after-effects of COVID-19 are retrenchments; early retirements, loss of profit and business interruption claims; funeral and life policy claims; earlier termination of investments; credit life insurance claims, temporary disability and sickness claims, and of course, the accumulated short term insurance claims that could not be processed. This all means busy times for ombudsmen. OSTI is therefore gearing itself up for significant increases in complaints and, so are the other ombudsmen, it is hoped.



Peter Nkhuna
Senior Assistant Ombudsman
Ombudsman for Short Term Insurance

** The Ombudsman Liaison Committee comprises OSTI, OLTi, FAIS Ombud, OBSSA, Credit Ombud, CGSO and MIOA, and serves as an informal platform for the schemes to facilitate smooth interactions and referral of complaints, and to ensure cooperation amongst the various member offices.*



CLIENT CARE

in the time of Corona

As the COVID-19 pandemic unfolded and lockdown was introduced, South African banks were very quick to come out and offer COVID-19 related assistance to clients, quicker than insurers. It obviously occurred to us that insurers may have been expecting a deluge of business interruption claims, so perhaps waiting to see how to respond, before offering payment 'holidays' and the like.

Adding to the debt burden

While the public seemed happy that most banks were offering payment 'holidays', it was pointed out fairly quickly by some financial journalists that much of this help would only add to people's debt. Journalists began telling people about their credit-life insurance, a form of insurance barely discussed until now. Most people do not even know they have it. Subsequently, many pieces have been written giving people advice around building emergency funds, making use of existing e-wallets to save bits and pieces and also plan better.

Most insurers seemed to start reacting to COVID-19 by the end of March, initially assuring clients they were covered for a range of related events, especially in the health space. The bigger insurers started putting large sums into the Solidarity Fund or creating funds of their own, talking about that and showing great largesse. What we found interesting is that some of the better-known insurers said very little at all, other than quite generic "we're in it together", "share your messages" and similar remarks.

How FSP's talk to customers in the time of Corona

Now, almost in the middle of June 2020, we have a clearer view of what has been happening on the financial service provider scene in South Africa. We have noticed a few things out of all this communication activity:

- A lot of brands pay what appears to be "lip-service" to being concerned about customers during this time, with little follow-through. A bit like celebrities saying, "We're all in this together", while they're obviously much better off in a different boat;
- Several brands have been trying to persuade uptake through various offers and discounts that essentially still say, "buy me", just

phrased differently. In other words, the 'care' is a thinly veiled sale pitch;

- A handful of brands show deep thought around their consumers' plight and speak to them often, offering practical advice, planning ideas, personal support for and from their own staff and the like. What is notable about these brands, is that they turn up the volume on what they are saying, not so much who they are; and
- Arguably, some will be remembered for the poignant messages and visuals they have spent proper money to make and share; messages that resonate shared feelings that we believe.

Quite a bit has been written about these last points and how to market "genuinely" in this time, so let me get to the point of this piece: I was asked to share something with advisers, planners, intermediaries and brokers, specifically.

On a personal note

I wish one of my financial advisers/planners had personally reached out to me during this time, to ask me how I am doing in this scary time. Am I worried about my finances? Is there anything we can chat about? Would I like to just share a financially astute shoulder?

I would have given almost anything to know one of them genuinely cared about me right now. They know me... that I face retirement in a few years and that my RA's and savings have all gone to Hades and not come back. I do not have the luxury to stand the test of time. They know I am the breadwinner and even more so now. Yes, I read things up. Yes, I can reach out, but how much nicer if they would bother to look me up and call. I will remember you for not remembering me.



Cleo Ehlers
Marketing Strategy Manager
Butterfly Effect Intelligence



Dan Hugo, CE of Distribution at PSG.



Nelis Brink, from the PSG Wealth R21 Employee Benefits office won Wealth Adviser of the Year.



Willem Theron, from PSG Wealth Tygervally, won Wealth Manager of the Year .



Deon Labuschagne, from the PSG Insure Centurion Short-Term office, won Insure Adviser of the Year.



PSG Wealth Melrose Arch won Office of the Year. Heinrich Richter and Don Richter from the office are pictured.



Schalk Roelofse, from PSG Wealth Lowveld Stockbroking and Financial Planning, won Wealth Manager; Securities of the Year.



PSG Wealth R21 Employee Benefits won Employee Benefits Office of the Year. Neels Brink and Nerine Brink from the office are pictured.



PSG honours its top advisers and offices

PSG Konsult has announced its top advisers and offices for the 2019/2020 year. The winners are:

- **Wealth Adviser of the Year**
Nelis Brink, PSG Wealth R21 Employee Benefits
- **Wealth Manager of the Year**
Willem Theron, PSG Wealth Tygervally
- **Wealth Manager: Securities of the Year**
Schalk Roelofse, PSG Wealth Lowveld Stockbroking and Financial Planning
- **Insure Adviser of the Year**
Deon Labuschagne, PSG Insure Centurion Short-Term
- **Office of the Year**
PSG Wealth Melrose Arch
- **Employee Benefits Office of the Year**
PSG Wealth R21 Employee Benefits

Adapting digitally

PSG's annual awards were held by virtual ceremony (a first for the company) in May this year due to the COVID-19 pandemic. These annual awards seek to recognise top talent in the company for their professionalism and embracing the PSG strategy.

PSG has the largest network of independent financial advisers in South Africa and Namibia, with 559 wealth advisers and 376 insure advisers as at 29 February 2020.

"Our annual awards encourage healthy competition among our network. While profitability plays a role in the award selection, the extent to which advisers embrace our trusted PSG processes and live our values are also key considerations. These awards are also integral to encouraging PSG's culture of client-centricity and excellence that has earned us the reputation we have built over the last 22 years," says Dan Hugo, CE of Distribution at PSG.

"Providing excellent service to our clients and building a great business is a team effort," Hugo adds. "These awards are also in celebration of our clients' success. These achievements would not be possible without their continued support and loyalty."

Advisers are facing a challenging environment in light of Covid-19

PSG prides itself on being good at adapting to change. Hugo points out that PSG has taken to the virtual environment imposed by the recent lockdown with ease. Beyond keeping the awards on the calendar, the firm has long relied on its myPractice system to digitise its business, and this has made the transition to work-from-home virtually seamless over the past few months.

During the lockdown period until mid-May, PSG Konsult logged 32 client and adviser webinars, issued 10 weekly client communications to just over 135 000 clients, and produced a series of 18-advice focused communications for advisers. Through Microsoft Teams (the firm's preferred platform) 64 000 one-on-one calls were conducted, 40 000 meetings took place, and 343 000 chat messages were exchanged between personnel. This underscores the firm's commitment to keeping clients informed and building long-term relationships with clients.

PSG's connected infrastructure enabled a number of business successes, even in the midst of the unprecedented lockdown. Advisers succeeded in concluding transactions digitally from the first meeting to the business implementation phase, and have been able to assist clients as though it is business as usual.

Looking forward to another successful year

PSG wants to continue expanding its adviser network through both organic growth and selected adviser acquisitions. Growing its footprint will enable the firm to better serve its clients throughout the country, and is thus integral to the group's client-centric approach. PSG's commitment to delivering client excellence also means competition between advisers in the firm remains fierce. "The recent lockdown experience simply shows that PSG is positioned for the challenges of the future and is ready to continue growing its business."

"We look forward to next year's awards, where we expect to see how our adviser offices have continued to flourish despite difficult market conditions," Hugo concludes.

Advisers interested in being part of the PSG Konsult Group can contact Chris Liebenberg at acquisitionsteam@psg.co.za

PSG Wealth Financial Planning is an authorised Financial Services Provider – 728

Managing diverse exposures...

CRITICAL FOR BUSINESS

Undoubtedly, the COVID-19 pandemic is among the most devastating global crises humankind has been challenged with in recent history. We have all been forced to rediscover multiple layers of agility, resilience, and perseverance. While mitigating against the risk of COVID-19 is the most pressing focus, it is also imperative that businesses maintain focus on other challenges that could further harm financial and economic stability. **Bryte experts share some insights into the critical areas where they have seen possible areas of exposure.**

1 Cyber security

In an age of widespread connectivity, cyber risks are fast increasing and coupled with remote working, more individuals and businesses are becoming predisposed.

a) What is the modus operandi of cyber criminals?

Unsecure Wi-Fi connections, phishing scams, fake sites, and the use of unidentified links, is leading to emails/passwords and other confidential data being intercepted, malware infecting PCs, unauthorised funds transfer and cyber extortion scams such as ransomware.

b) What cyber protection product can help shield businesses against financial losses?

- Any person/business that transacts online and holds a bank account is a potential victim. Through its partnership with Phishield – a UMA specialising in loss of funds and cybercrime insurance products – Bryte's business and personal policy customers enjoy access to loss of funds insurance. Funds Protect covers against the loss of funds from bank accounts due to the fraudulent conduct of third parties;
- Businesses: Online/Mobile Banking Fraud, Vendor Scams, e-mail interceptions, Fraudulent Invoices/EFTs, a diversity of Phishing Scams, etc.
- Individuals: Online/Mobile Banking Fraud, Rental/Holiday Scams, Phishing Scams, Loss of funds due to stolen ID, etc.

2 Crop Cover

Already strained by climate change, the agriculture sector is also confronted by further disruptions within its value chains. Food security remains a concern. The financial losses from COVID-19 alone have been estimated at R36 billion by The Agricultural Business Chamber.

a) Crop losses are inevitable. How can the sector buffer against the impact?

The iMPAC Crop Revenue Product, underwritten by Bryte, is specifically designed to offer crop cover, specific to maize, soybeans, and sunflower crops. The policy insures a predetermined revenue in rand value and offers the following benefits:

- Cover against financial losses arising from a myriad of risks such as excessive rainfall, high temperatures, frost, uncontrollable pests and diseases, and transit;
- Hail cover benefit;
- Up to 80% of insurance cover;
- Insurance based on a predetermined revenue, which provides crucial financial security to financial institutions considering input finance for farmers;
- Helps hedge the business against movement in commodity prices. This is a first to market product which, over successive years, could result in a reduction of up to 30% of the crop insurance premiums, further decreasing input costs; and
- Contributes towards reducing variance in terms of revenue and buffers farmers against the effects of natural disasters

3 Mortgage Guarantee and Loan Protection Products

Securing 100% mortgage loans in a depressed economic environment will become even more challenging. Expanding the services available to consumers, Bryte recently partnered with Residential Mortgage Credit (RMC) – a UMA specialising in Mortgage Deposit Guarantees – to underwrite deposit requirement that enhances the prospects of purchasing a home and offers some respite to homeowners in challenging times.

• How does RMC help realise the ambition of aspirant property owners?

The Residential Deposit Guarantee Policy assists credit worthy applicants who have been successfully vetted by banks/reputable home loan providers, but do not have the cash funds available for a deposit and the guarantee essentially partially/fully serves as a substitute for the required cash deposit

• How can homeowners, who may be financially compromised in the short-term, continue to meet their mortgage repayments?

RMC provides six months cover which is a mortgage repayment protection policy designed to assist homeowners in avoiding possible default that could arise from unforeseen financial constraints

Efficient risk management takes a cohesive, forward-looking, and multi-layered approach which also involves engaging with like-minded partners. Bryte is proud to continue partnering with UMAs who are pioneers and maintain their fingers on the pulse of evolving consumer, as well as business exposures. As we continue to traverse these uncharted territories, it is important to continue approaching risk with purpose.

Fluid thinking. Concrete results.

Approach risk with purpose.

At Bryte we believe in combining innovative thinking and unique sector insights with a practical approach. It's this distinctive combination that enables us to effectively manage risk, guide you in making enduring decisions for your business and ultimately deliver solid, successful outcomes.

Contact your Bryte representative for more information or visit our website.

brytesa.com  

Bryte Insurance is an Authorised Financial Services Provider No. 17703





CHUBB INSURANCE SOUTH AFRICA

expands Contractors All Risk to the SME segment

Chubb Insurance South Africa has upped the ante in the competitive Contractors All Risk (CAR) insurance segment by introducing a specialist annual CAR product that is targeted at small and medium enterprises (SMEs). The insurer's local team, which previously focused on large contract works projects, is reaching out to a broader potential customer base.

Solutions for post-crisis recovery

FAnews was encouraged by Chubb's decision to launch a new insurance product against the backdrop of pandemic-related uncertainty. "The launch of this product was always part of our plan and we did not want to delay it," Chubb said. "We want to be able to help the domestic construction industry as it gets back to work".

The introduction of an SME-appropriate annual CAR product means that Chubb can cover contract works projects of all sizes. "Large contract works projects, which are typically placed on a co-insurance basis, remain the most challenging and will require careful consideration with regards deploying capacity. But there are challenges in the SME segment too", says **Tirelo Tsheoga, Head of Tech Lines & Distribution, Sun-Saharan Africa.**



Successful risk management and mitigation hinges on close collaboration between the insurer, the insured, and the insurance broker. Depending on the nature of work, Chubb's dedicated construction loss control resources can assist with pre-cover visits, risk advice, and ongoing risk management support to the insured, in collaboration with their broker. Chubb expects brokers to explain contract works wordings to clients, who are advised to study their policy documents to gain a clear understanding of the perils that are on cover.

Getting to grips with CAR risk

CAR cover is a complex world. Chubb notes that the risk environment is further complicated due to the diverse and unique nature of the projects that are undertaken. In general, damage to the property

during construction, and third-party claims for injury or damage are considered risks.

CAR covers the work that a contractor undertakes on a building site and can pay for the cost of repairing or redoing anything that is damaged or destroyed, including the cost of labour, materials, and tools. The cost of unforeseen losses or damage to any building works can also run into millions. CAR offers protection following fire, flood, storm, and theft events, among others.

According to Chubb the perils on cover on their annual CAR product are clearly defined, as are any losses that are excluded. Examples of losses that are not covered include the cost of replacing, repairing, or rectifying parts of the insured property rendered necessary by wear and tear or deterioration due to lack of use or to normal atmospheric conditions.

Drone technology

Technology is already starting to impact the CAR market segment in a number of ways. Chubb observes that loss adjusters and risk engineers are already using drones and accompanying computer software to assess properties during underwriting and at claims stage, especially where it is too costly or unsafe to do a physical inspection.

Chubb has a global reputation for service excellence and a history of exemplary conduct in the South African insurance market. The insurer explains: "When you buy an insurance policy from Chubb, you buy a promise – that we will be there to support you when you need us most". This support is underpinned by a team of experienced claims professionals that work towards paying all covered claims "fairly and promptly".

Local presence, international clout

Chubb is the world's largest publicly traded property and casualty insurer with operations in 54 countries and territories. It offers a local presence, connected by an international network and supported by people with a wide range of skills and knowledge. ●

Simon Colman (aka Judge Dread, aka The Liability Guy) fulfils many roles in South Africa's dynamic non-life insurance sector. He is a Managing Executive at Santam subsidiary, SHA Risk Specialists and has served as a judge on the popular *The Insurance Apprentice* (TIA) series. He is also an early adopter of social media and is certainly among the influencers in his insurance niche. **FAnews** spoke to Simon to find out what makes him tick.

FAnews: The first thing our readers would like to know is which of your many roles you most enjoy, and why?

Simon: It is true that I have a number of roles. First and foremost, I have the privilege of leading a team of great professionals at SHA Risk Specialists. I also drive digital transformation in the business and from time to time, find myself in front of a television camera, either on TIA or on one of our TV news channels. But my passion, and something that underpins most activities I am involved in, is centred around helping young professionals reach their potential.

FAnews: Tell us a bit about your Judge Dread persona. For those who have not watched TIA, Simon earned the nom de plume for his no-nonsense approach to judging contestants on the show.

Simon: The Judge Dread 'stage name' is something I am not entirely comfortable with and it takes some effort for me to get into character for the show. Judge Dread is really the worst person you will meet in business, a combination of the toughest bosses, colleagues, and brokers I have ever worked with. He is, however, a necessary evil who serves as a mechanism to increase the pressure on contestants. We only have a few days to create a pressure-cooker environment.

FAnews: Tell us more about your new role and evolving responsibilities at SHA.

Simon: My new role is as Managing Executive of Digital and Financial Lines, nationally. I also look after the team in the Western Cape, with overall responsibility for SHA's brand and PR. It sounds like a lot, but I have a great team of executives and colleagues that do most of the heavy lifting. The move was a logical 'next step' in a career dominated by project-focused roles. I am always building something new or reinventing something that already exists. This started with SHA's digital transformation initiative and now extends to improving efficiencies and introducing 'fresh ideas' in larger, more established parts of the business.

FAnews: It seems that technology is central to everything in insurance these days. Could you comment on your relationship with technology?

Simon: I have been involved with complex liability insurance covers my whole career. The range of insurance products under this category strikes fear in the hearts of many brokers. My personal mission is to try and simplify covers like cyber, D&O, and liability so that all brokers can be comfortable discussing them with clients. Over the past decade it became clear that technology was the most effective way to impart this knowledge. The need to share information drives my passion for technology.

FAnews: How important is social media in business and in the insurance industry?

Simon: I swear by personal branding. Any individual who is not using the myriad of free platforms to build their social networks is missing a trick. I have many business relationships that were established via social media before ever meeting face-to-face. These are powerful tools that allow us to engage and collaborate.

FAnews: What keeps you occupied when you are not immersed in insurance and specialised risks?

Simon: I am an avid collector of memorabilia used by famous magicians from around the globe and have been performing magic and mentalism for fun since I was a child. I once ran a magic shop where I designed and built props for American performers. True story.



**JUDGING
JUDGE DREAD**

An intimate one-on-one
with SHA executive and
TIA head-judge

Utility and POLITICAL ECONOMY

This article follows on from the article published in the previous issue: **Utility, economics, risk and insurance**

► IN PERSPECTIVE WITH PROF VIVIAN ►►►

Utility plays a central role, if not the central role, in economics. It has done so since Adam Smith wrote his famous book, *The Wealth of Nations*, in 1776. Utility, as an economic concept is not as well-known as other economic concepts such as GDP, inflation, and money supply. And we would argue the concept is not well understood even by economists themselves.

Students studying insurance are increasingly encountering the utility concept. It is primarily for this reason we decided to write this short series on the concept. In the previous article, the first of four, we suggested one reason for the confusion surrounding utility is that it has at least three different usages. This article looks at the second usage.

Contributing to contracts

The great contribution utility makes to the field of contract is that it explains why individuals enter into contracts, including insurance contracts. So, we can pose and answer a simple question, which you should remember, as it will come up again. Why does a consumer purchase insurance? The answer is that the utility, in other words the happiness or satisfaction, that the consumer gains from acquiring insurance is greater than the utility of retaining the premium, at the moment the contract is concluded.

Simply put, the contract of insurance produces more satisfaction than retaining the premium. And the preceding statement is true of any contract. One could ask, for example, "Why did Jane purchase the blue dress?" and the answer would be the same. Many would argue that consumers purchase insurance because of risk aversion. That may be true; but it does not explain why Jane bought the blue dress. Risk aversion is not the generalized explanation; utility is. Utility correctly understood is a beautifully simple concept.

One word, many uses

The problem now becomes that the same word is used in a completely different setting; that of the political economy. Usage of the word utility, in this setting was made famous by Jeremy Bentham (1748-1832) and later John Stuart Mill (1806-1873). Both Bentham and Mill made contributions to economics. Utility in the political economy sense is a much broader concept, involving society, or more pointedly the happiness or well-being or welfare of society. This duality from the individual to society can be seen in the formation of the United States (US).

The central issue in the Declaration of Independence was the duty of the state to protect the inalienable rights of individuals, namely the rights to life, liberty, and the pursuit of happiness. Later, when the

Constitution of the United States was formed, it declared the purpose of the Union in the preamble. This purpose included to provide for the common defense and promote the general welfare. The preamble was added as an afterthought and was not debated.

There is a view that the economics discipline, where utility finds detailed application, is primarily concerned with the broader political world and not the narrow technical world of say, explaining why people purchase insurance. So, the textbook of the classical economist David Ricardo was called *Political Economy and Taxation*. John Stuart Mill revised Adam Smith's *Wealth of Nations* and republished it as *Principles of Political Economics*. So, Adam Smith can be classified as a political economist.

Yet another difficult question

We move on now, to another simple question: What is economics? It is not an easy question to answer and if answered the answer is likely to be contested; but many would see the discipline and utility existing in the broader context.

In a rather strange way utility found itself moving from the individual to society and applied to provide policy-based solutions to important insurance questions. That story goes as follows. Individuals enter contracts because the contract benefit produces greater utility, or happiness, than retaining the premium. So, insurance contracts create increased happiness to society. The aggregate happiness of society is greater because insurance contracts exist.

At the turn of the previous century, Alfred Marshall, England's most famous economist, pointed out that because of utility, consumers are willing to pay amounts exceeding the competitive market price to enter a contract. Competitive markets thus produce a considerable benefit for society. Marshall's protégé Pigou, used utility to extend Marshall's argument. Competitive markets produce for society the maximum utility, or satisfaction. He called this the Maximum Total Economic Welfare and introduced the concept of welfare economics.

When one starts talking about the total happiness of a society you enter the realm of the American Constitution, because government is formed for the general welfare of society. We have moved from the contract of the individual to that of society.

The insurance utility debate

This is where the insurance problem comes in. In the 1950s and 1960s medical science and with it modern medical care evolving significantly. How was that to be funded? The US did not opt for the United Kingdom's National Health Service. At the time, the US and

South Africa functioned similarly developing Medical Insurance or Schemes, which could pay for the health care costs. This insurance was largely funded by working persons with employers contributing to the costs.

But something strange happened. Insurers started to decline applications for medical insurance for persons over 65. So, persons who needed medical insurance the most could not get the cover. No clear explanation was forthcoming as to why this was the case. Nobel Prize laureate, George Akerlof, tried to explain it in an interesting paper titled "The Market for Lemons". He ascribed the development to an asymmetry of information. The patient he argued had more information than the insurer.

The most influential economist in this field of the time, Kenneth Arrow another Nobel laureate, was intrigued by this. It seemed incomprehensible. There were consumers who wanted a product, had the money to pay for the product, but inexplicably there were no suppliers. This was labelled as the problem of incomplete markets. He then approached the problem from the point of utility, or welfare economics.

Achieving maximum economic welfare

Society would be better off, he argued, if these contracts existed. A competitive market produces the maximum economic welfare; but the medical insurance market had not done that. So, the competitive market had failed. And thus, another famous economic concept emerged, namely that of market failure. With this concept came another concept, being that where there is market failure, govern-

ment intervention is justified. The government should intervene in the health insurance market. The US government did so when Medicare was born.

But our main question is still left unanswered. Why did medical health insurers refuse to provide cover to over-65s? Incidentally, there is evidence the same trend had exhibited in South Africa before the introduction of community rating. In the end he put it down to moral hazard. We will never really know since over-65s in the US now obtain cover via Medicare. That problem, in that economy, disappeared in the 1960s.



Professor Robert W Vivian
Finance & Insurance
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Richard J Vivian
Computer Solutions
Consultant

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D&O insurance likely to be tested during TOUGH ECONOMIC TIMES



►► SHA CLAIMS CORNER ►►

A significant number of Directors and Officers (D&O) claims result from liquidations, companies being in financial distress, or companies being placed in business rescue. The economic fallout following the COVID-19 pandemic, combined with the impact on business operations due to lockdown, could foster financial hardship and expose directors to consequent claims.

Conflict of interest risk

Any decisions made during times of financial crisis will be subjected to increased scrutiny, as they often involve a trade-off between competing interests. It is possible that such decisions negatively impact one or more of the involved parties, who may feel strongly enough to litigate. A director may be held liable by the company if they breach their duties. Some guidance on a directors' duties can be found in the Companies Act 71 of 2008, and may be summarised broadly as:

- o A director should act in good faith and in the best interest of the company and not take personal advantage of the information gained by virtue of the position occupied;
- o A director should communicate relevant information that may affect the company to the board;
- o A director should act with care, skill, and diligence, in regard to their skills, experience, and to the position occupied; and
- o Directors also have a duty to ensure that the company they serve does not trade recklessly.

Directors can discharge the above duties, by:

- o Taking reasonably diligent steps to become informed about the matter;
- o Having no material personal financial interest in the subject matter of the decision, or disclose the interest and abstain from partaking in the decision making in terms of the Act; and
- o Making decisions with a rational basis for believing, and actually believing, that the decision is in the best interest of the company.

Section 77(9) of the Act requires directors to act in the best interest of the company and affords leniency to directors if they act honestly, reasonably, and on the reasonable belief that they are acting in the company's best interest. Per section 76(5), directors may depend on reliable and competent employees of the company, legal counsel, accountants, and other professional persons and committees of the board on matters that are within the respective persons' competencies.

Claims during financial distress

Claims that arise from a breach of a director's duties are usually specific to an industry or the circumstances of the company

concerned. One example is that directors may be asked to appear before inquiries held by liquidators under insolvency laws, in which case they may require legal representation.

It is also possible for liquidators, creditors acting through the company, or other stakeholders to allege that the conduct of a director is in breach of his or her duties. They may claim damages that result from such breaches from the director. Employees of financially distressed companies may also seek recourse for actions taken by directors. And finally, in times of financial distress, there may be a need for loans to related parties. Directors must stay within the parameters of regulatory requirements, such as the 'solvency and liquidity' test or risk a personal liability claim.

It cannot be stressed enough, that every director should consult with their broker to understand the coverage and exclusions on their D&O policy. Apropos, Covid-19 related losses may be excluded by some insurers which will warrant more integrated risk management and mitigation strategies.

Responding to D&O claims

There are steps to follow should a director be subject to one of the above actions. You should first inform your insurance broker and D&O insurer. Best practice is not to admit or acknowledge any wrongdoing and avoid discussing the matter with external parties wherever possible. It is also advisable to thoroughly document all decisions made, as this will be useful in presenting a defence to any claim.

It is important for directors and company boards of directors to work jointly with their insurers to deal with the personal legal challenges arising from their directorship positions to ensure the best possible outcome, particularly during uncertain times.



Pierre Lombard
Claims Specialist: Financial Lines
SHA Risk Specialists

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ETHICS OF LOCKDOWN -

What value is attached to a human life?

We live in extraordinary times. Ethical dilemmas caused by the likes of the COVID-19 pandemic do not occur often, nor are they as clear-cut. You can tell whether ethics plays any part in decision making by assessing how decisions are justified. The absence of ethics quickly manifests as eclectic decision making and a consequent loss of trust in the decision maker.

The initial direction in mitigation of the pandemic enjoyed widespread support. This changed as reality set in and the focus shifted from saving lives at any cost towards a measured approach considering life alongside quality of life. Those who argued that human life cannot have a price were contradicted by reality, where such trade-offs happen daily. This uncomfortable truth can only be accepted if decisions are based on both reason and appropriate ethics.

The right to life

Lockdown was premised on the ethical principle of right, namely the right to life. This intent was never stated and was soon relegated to compete with herd instinct and political rhetoric for relevance, which rendered the decision weaker. Rights-based decisions are weakened further due to there being no hierarchy of rights. Any attempt to elevate one right over another without rational, contextual arguments introduces ethical ambiguity and relativism, resulting in a position vulnerable to challenge.

The supremacy of the right to life as justification for lockdown was always going to be

challenged and was always going to have to give way. Decision makers failed to give it the structural support it needed. But it was doomed for other reasons too. On what basis do we choose between saving one life today and saving many lives later by sacrificing that one life today? There is a second principle that comes into play, namely the principle of utility, which holds that we should always act to increase happiness and / or reduce suffering. This principle comes into play whenever we consider reopening the economy. It is argued that exit from lockdown will serve some greater good even at the cost of human lives now.

Not an easy measurement

It is incredibly difficult to quantify utility. We must consider how much each increase in happiness or reduction of suffering weighs and determine at which point this weight is sufficient to outweigh the loss of a human life. Once again, without the publication of reasons within context, the application of utility has become weak. It has fallen prey to rhetoric and political expediency. Decision making, whether by governments or corporations, is immeasurably enriched and assisted by having clear apposite ethical direction and justifying decisions in that ethical context, using reason.

There are many well-established methods to overcome the contradictions and tensions inherent in ethics principles. A fundamental requirement is that public and corporate decision makers espouse at least four basic ethical values: transparency, responsibility, fairness, and accountability. These factors are often missing, not only in the present

lockdown debate, but in many corporate decisions as well. We are already dealing with the consequences of straying from ethics principles in that government's lockdown decisions seem arbitrary and erratic. The dissent that is now creeping in is totally expected. Companies that formulate "return-to-work" rules should take heed of the trap.

Sharing the narrative

There seems to be a lack of ethical awareness and an almost total absence of ethical vocabulary in the justification of certain lockdown-related decisions. We would ordinarily expect ethical language to make its way into the narrative; but this is not the case at present. A clear communication of the ethical position accompanied by the challenges such a position introduces are non-negotiable in cases where government relies on the goodwill of its citizens to adhere to stringent rights-diminishing circumstances. Anything less will come across as eclectic and partisan, which traits are unbecoming at a time when all of humanity needs to unite.



Chris van der Walt
Ethics Africa

TCF: COMMUNICATION is key during pandemic turmoil



For the last couple of years, the concept of Treating Customers Fairly (TCF) has become ingrained in organisations' cultures as well as in the process of developing and selling financial products to customers. Insurers are required to provide confidence to customers that they will deliver on what they have promised in a way that is seen as fair. There is nothing like a period of turmoil to place the spotlight firmly on TCF practices.

Meanwhile in Wuhan City, China

Who would have thought that something invisible to the naked eye, originating from a distant city in China, would five months after being reported by Chinese authorities to the World Health Organisation, impact not one country but the globe? A single virus is highlighting discrepancies between rich and poor economies; large and small businesses; young and old citizens; democracy and communist and socialist systems; and the first world and third world. It has shown up the limited financial and human resources available to tackle pandemic in every country and economy worldwide.

The insurance industry has invested plenty of time, effort, and money to implement TCF. The question is whether COVID-19 will erode the goodwill created by these initiatives to date? What is clear and what has been highlighted in communications published by both the Financial Sector Conduct Authority (FSCA) and the Prudential Authority (PA) is that insurers should be communicating explicitly with their customers and also engaging with intermediaries.

The fact that insurance may not cover a consumer's risk is not a reason to keep quiet. This is because that customer's expectation is not being managed and the person is operating under a false sense of security.

Quick turnaround on claims

In Communication 12 of 2020 the FSCA highlighted the need for insurers to assist customers with empathy, flexibility, and understanding during these difficult times; and not profiteer off vulnerable consumers. The regulator reminded insurers of the need for clear and continuous communication to all internal and external stakeholders, including customers.

They further stated that any changes to the cover on a policy should follow the prescribed processes in terms of the Policyholder

Protection Rules (PPRs) issued under the Long-term Insurance and Short-term Insurance Acts. Valid claims must be assessed and paid out timeously.

In a separate communication, titled Joint Communication 5 of 2020, the FSCA and PA recognised that the lockdown imposed under South Africa's Disaster Management Act, due to COVID-19, will predominately impact on business interruption policies. The authorities have made it clear that where there is no cover or if there is withdrawal of infectious or contagious disease cover mid-term, these facts must be communicated to both customers and intermediaries.

While insurers may not necessarily be able to cover all the liability resulting from COVID-19, they can create stability by letting consumers know what the position is. Insurers and intermediaries need to maintain their reputations and the trust they have developed by communicating constantly, consistently, simply, and speedily.

Covering unforeseeable risks

Nobody could have foreseen the extent or reach of the coronavirus pandemic, nor predicted the national lockdowns that occurred in fighting the outbreak. What this pandemic has highlighted is that insurance is not intended to cover all unforeseeable risks. But there is still significant value in having insurance cover. The insurance industry is vital in building and stabilising economies. Insurers play an important role as infrastructure enablers because lending arrangements and projects are often reliant on insurance cover.

Insurance also plays a critical function in the broader economy. It performs for perils that are on cover by restoring customers to their pre-loss financial positions. Insurers create an environment that can sustain economic interdependence among businesses by insuring supply chains and alleviating the need for businesses to set aside large capital amounts to cover potential risks.



Christine Rodrigues
Partner
Bowmans

What the Baby Boomer exodus means for **OUR SKILLS SHORTAGE**

When we think of the brain drain, we think of skills leaving the country to the benefit of another economy, and to our detriment. While this is a sad reality, there is another type of brain drain that is arguably even worse, namely losing expertise due to retirement. Retirement is inevitable; but the loss of world class knowledge and expertise when a skilled employee ends his or her career need not be.

Calling all Baby Boomers

Baby Boomers refers to the generation born between 1946 and 1964, which means the youngest in the group will turn 56 in 2020. Many South Africans nearing their 60s are either considering taking early retirement or seriously winding down their careers. We should not miss out on the opportunity to gather as much knowledge and skill from this grouping as possible.

It is no secret that the insurance industry has been battling with a lack of skills and knowledge transfer in recent years. According to the Insurance Sector Education and Training Authority's 2019-20 Scarce Skills List, the sector has a shortage of actuarial, insurance agent, software development, compliance, and loss adjustment skills, among many others. It also lists the need for other soft skills for the sector, such as critical thinking, decisiveness, problem solving, digital literacy, emotional intelligence, and more.

Countering the exodus

The evidence supports that the sector is in

dire need of both hard and soft skills. Baby Boomers who have excelled in this sector have often learned how to master both. Industry would be making a huge mistake in failing to make plans for the exodus of this aging workforce. We must put in place contingency measures to 'mine' the expertise in this group and transfer these critical skills to young professionals.

These measures could include equipping entry level professionals with the skills and knowledge necessary for them to prosper in the industry. We should also consider calling experts out of retirement to hold a few workshops each year, focussing on their areas of expertise, and ensuring that their know-how gets passed on, even though they are no longer practicing.

One solution would be to immediately implement a mentorship system that pairs young employees with those nearing retirement. Both age groups can learn from one another and apply their respective experiences in the next stage of their life or work.

A hunger for knowledge

Progress in mitigating the brain drain caused by an ageing workforce heading into retirement hinges on junior and mid-level professionals being encouraged to upskill. The insurance professional, on an individual level, should hunger for knowledge and find avenues through which to satiate that hunger. Though systems have been put in place to acquire knowledge and skills within the industry, the onus remains on individuals to pursue their own career development.

Imagine an industry where incumbents venture outside their comfort zones to ensure personal growth. And imagine if they arrange to share their newly acquired knowledge among their peers. As journalist Margaret Fuller once said, "If you have knowledge, let others light their candles in it". Knowledge is for sharing. We cannot be comfortable being the only people who know what we know, this is why information sharing is a booming business.

Changing the narrative

The departure of Baby Boomers from the workforce will be felt most in industries that have not planned for this exit and where no consideration was given to ongoing skills development. Our challenge, as professionals in the insurance sector, is to create an environment where those starting out in our industry can continuously 'light their candles' in the knowledge built by preceding generations of industry professionals. It is never too late to change the narrative.



Thokozile Mahlangu
Chief Executive Officer
Insurance Institute of South Africa (IISA)

COVID-19 RESPONSE:

Government has bigger fish to fry



President Cyril Ramaphosa recently announced that the government will take a risk-adjusted approach to easing the current national lockdown. But certain key risks must first be addressed if we want to restart the South African economy successfully.

Key risks in COVID-19 response

While serving to minimise the spread of the virus and reduce the death toll, the current restrictions also create undesired but unavoidable consequences. The two biggest risks, that have now already materialised, are starvation among people unable to afford food and the rise of crime, such as looting, theft and domestic violence.

Two greater risks highlights the government's response to these issues

Firstly, the government struggles to deliver on mega projects. Responding to the pandemic and, as an example, the distribution of food and financial aid is no different to delivering successfully on mega projects.

In the IRMSA South Africa Risk Report 2020, this risk has been highlighted in the context of land distribution and the National Health Insurance initiative.

Looking at the public sector track record, it is indicative of government's lack of sufficient leadership, capacity, skills and experience to deal effectively with large-scale initiatives. Make no mistake, combatting the pandemic and distributing aid in this time are mega-projects.

Secondly, and linked to the above, corruption and fraud are still prevalent in the public sector as it has not been resolved systematically. The questions must be asked: how much of the R500 billion in relief funding raised by the government will reach a population in dire need? Who are the people involved and what will stop that money again from being lost to corruption?

Under present conditions, ideology must give way to credibility, integrity, competence, and the capacity to get the job done. Government must engage those who can administer these funds impartially and execute these mega-projects efficiently. Non-governmental organisations (NGO's), whose operations are typically structured around accountability and transparency, are exemplary candidates.

Risks after the pandemic

Another risk is that both private and public sector organisations do not adapt their strategies and business models to the post-COVID-19 economy.

Their existing strategies are no longer applicable in a world that has changed beyond recognition. Strategy reviews, risk management and developing organisational resilience are key and must be integrated into strategy setting and execution.

We should not wait until the crisis is over to carry out this review; it should start now, because we may not be around by then. When revising their strategy, organisations should ask three questions: What about our strategy still works and can be retained? What will not work and must be changed? And what don't we know yet that we must plan for?

From this new perspective, they should, like the government, employ a risk-based decision-making model that will inform their initiatives now and into the future.

Risk of regression

The biggest risk is that we as a nation do not appreciate the new normal and revert to our old ways of thinking and working when the pandemic subsides. The crisis has revealed a plethora of opportunities that should not be wasted. For example, logistics, retail, and certain spheres of work have actually increased their effectiveness, efficiency and productivity. This is all happening while we are travelling less, meeting less or at least more efficiently and, by the way, contribute to a greener environment.

We have been forced to sprint down the road to the Fourth Industrial Revolution. Let us take advantage of and build on this foundation in the hope that South Africa may regain its standing as a competitive member on the global stage, or at least as part of BRICS.



Christopher Palm
Chief Risk Advisor
Institute of Risk Management South Africa
(IRMSA)

PANDEMIC REDEFINES THE

commercial and legal risk landscape

We are more than 60 days into the national lockdown and the number of infections in South Africa now exceed 24 000. We have only just transitioned from a situation where only essential service providers were permitted to operate, to a slightly softer lockdown under level 3 of the country's coronavirus alert system. Businesses operating during these dynamic and uncertain times face serious commercial and legal risks.

One must wind the clocks back to World War II to find a time when businesses faced more disruption than we are presently. Business owners face macro risks related to the long-term sustainability of their businesses, and legal risks associated with their ability to perform in terms of the various contracts and obligations they have. We are hard at work finding ways to mitigate the issues we have identified, learning valuable lessons on how to adjust to them; but there are many issues we may not have thought of.

An unimaginable crisis

When government imposed a general lockdown, we entered a situation that almost no one would have thought possible. The decision caught us completely off guard.

There is almost no insurance for this type of event, given that it is not caused by normal damage events such as a fire or a flood. Lockdown is not something that is mentioned in any of the usual extensions. This event is so unusual and rare that we never imagined it could happen.

A company with a strong business disaster management plan is better able to respond to a crisis such as this. It is usually too late to consider how you can provide ongoing services to clients after you enter the crisis, because you face the risk of panic setting in and indecision and negativity taking over.

The difficulty of foreseeing this type of event is evidenced by the reaction of local companies to goings on in China, pre-lockdown. We watched with morbid fascination as the Chinese government tackled the coronavirus by restricting business activity; but few local companies sought solutions for when they might suffer a similar fate.

Fiddling while lockdown loomed

Laptops were not being urgently stockpiled. Meetings were not being hastily arranged to allow staff to consider the appropriate protocols. Questions about how staff would work from home and how they would keep productivity and morale high were not asked. Nor did businesses consider how they could assist clients with digital and electronic solutions to soften the pending blow. Even fewer considered plans that would allow their business to function when staff were unable to travel between provinces, or even within major cities.

The way to manage unforeseen risks is to have plans in place before a full scale disaster strikes. You must make sure that the right insurance, if available, is taken out, even if slightly more expensive, to make sure there is sufficient cash flow within the business. And businesses should design products and services that can be used in crisis situations, and even benefit from them.

Look at Zoom and Microsoft Teams and the myriad cloud-capable providers that have not only survived lockdown; but thrived in this environment. Businesses that are not prepared for crisis risk entering a period when the sustainability of that business is suddenly under threat.

Questions about force majeure

Legally one needs to have agreements in place that can at least mitigate some of the challenges that the current environment presents. Critical clauses which allow for non-performance in the case of force majeure would be a must, that when failing the party that you contracted with would be able to claim against you for not honouring the contract.

Force majeure means that an act of nature has made the performance under the contract either difficult, or expensive, or impossible, depending on the wording of the clause. It would have the effect of suspending obligations under the contract until such time as it is again possible to perform. Without such a clause, South African contract law would oblige contracting parties to perform unless two criteria were met:

1. It is physically impossible to perform in terms of the contract; and
2. Impossibility must be unavoidable by a reasonable person.

This means that it must be impossible to perform, not just difficult or expensive, and that the facts that created impossibility were

not brought about by one's own conduct, but by an actual external act that one had no control of.

In the case of a government lockdown in response to the virus, the second point would be satisfied, but not necessarily the first. That is why it is critical that any business inserts proper force majeure clauses into their contracts and agreements so that the issue of impossibility is not something the courts will decide. The contract should be worded in such a way to allow the business to regulate the issues within its own risk parameters.

Facing catastrophic losses

Without the protection of a force majeure clause, your suppliers may demand performance even though your finances are tight. If it is possible for you to make a payment, the court would find that performance is possible. The risk of having to make payments in the face of the current lockdown would be catastrophic for many businesses, especially if they are not able to sell supplies, or if they face collection issues themselves.

Other risks would include labour risks and not complying with the labour law when dealing with staff in these difficult times. A business considering retrenchment proceedings or offering unpaid leave until the situation improves must make sure that they comply with labour law, failing which further expense may be incurred in committing unfair labour practices.

Finally, there is a legal risk in not complying with the many regulations that have been gazetted since the beginning of the lockdown, which became effective on 27 March 2020. If performing essential services, businesses would need to obtain both the essential services certificate and issue the correct permits to their staff, to operate.

Laws under lockdown levels

Firms must understand what constitutes essential services and comply fully with all the regulations applicable to workspaces being open etc. Regulations are being eased as the lockdown eases further, introducing new obligations and reintroducing the risk of not dealing with staff, clients, and suppliers in terms of the current regulations and common law.

Where there is crisis, there are opportunities. If businesses plan for and mitigate their risks properly, they will have little competition in their respective markets. And if they innovate within the strict regulations, they will be able to get to the other end of the coronavirus journey relatively unscathed.

This has been a historic event, and although it is difficult to predict when, it will almost certainly come to an end. The last risk is met by having an exit strategy to implement once we emerge from this crisis, so as not to be left behind by the competition.



Danny Joffe
Head: Legal
Holland Insure

Remote working and cyber threats... **BE CAUTIOUS!**



Cyber threats cannot be left out of the equation with organisations weighing up benefits for employees to work from home.

With the COVID-19 pandemic, more people are working remotely and relying on online platforms. This, according to Charl Ueckermann, CEO at AVeS Cyber Security, means new cyber threats are emerging, therefore organisations should get strategies in place.



FAnews spoke to Heemesh Naroatham, Senior Cyber Security Consultant at Marsh Africa and Simon Colman, Executive Head of Digital at SHA Specialist Underwriters about

the cyber risks remote working presents.



Opportunistic cyber criminals

“With the COVID-19 pandemic, cyber security risks may still be at an all-time high. Many companies have implemented work-from-home (WFH) policies, which may put a company at risk of a cyber-attack if their systems are not adequately being managed,” said Colman.

Colman mentioned that while companies are looking out for the best interest of their employees by setting up WFH systems and procedures, opportunistic cyber criminals will undoubtedly take advantage of this. “From a systems perspective, employees usually do not have robust safeguards in place that can foil hacking attempts. Larger companies attempt to regulate access to sensitive systems with Virtual Private Networks (VPNs) but the inability to handle high volumes of traffic may lead some companies to ease up on these requirements, exposing the network to external threats. The fact that employees are also being isolated from one another by this situation also means that they are at greater risk of phishing scams, as well as having their emails intercepted.”

"Remote work presents a unique challenge for information security because remote work environments do not usually have the same safeguards as in the office. When an employee is at the office, they are working behind layers of preventive security controls. It is harder to be negligent around information security controls while at the office.

However, when computers leave the perimeter and employees work remotely, new risks arise for the organisation, and additional policies are essential. Organisations need to uphold the confidentiality, integrity, and availability of information assets, whether in storage, processing, or transmission, via the application of policy, education, training and awareness," said Naroatham.

The biggest cyber risks

According to Naroatham these are the biggest cyber risks of remote working:

- Data leakage - While cyber security in the office may seem challenging, it is essential to understand that security extends well beyond the office these days. Employees working from home may take shortcuts, such as downloading or saving sensitive company materials to their personal devices, desktops, thumb drives, hard drives and file hosting services in the cloud (e.g. Dropbox). Employees working from home may be accessing or transmitting company trade secrets as well as personal information of individuals. Inappropriate exposure of either type of data can lead to significant consequences for a company. Exposure of trade secrets or confidential business information can potentially cause significant business damage or loss. Exposure of personal information can potentially result in significant liabilities for a company as well as expanded identity theft issues for individuals.
- Increased cyber-attacks - As organisations are rushing to shift their businesses online, cybercriminals are ramping up their tactics to take advantage of those who may have inadequate or naive security postures. Given the challenges in securing work-from-home environments, the attack surface represents an attractive opportunity for threat actors. Attackers have already been leveraging coronavirus-themed cyber-attacks as panic around the global pandemic continues – including various malware attacks. A large, immediate migration of people from enterprise networks that are closely monitored and secured, to largely unmonitored and often unsecure home Wi-Fi networks, creates a very large target of opportunity for cybercriminals. These users are outside the reach of perimeter-based security tools, and will likely have higher exposure to phishing and network attacks.

Cyber security measures

According to Naroatham these are the cyber security measures to have in place:

- Using secure connections - Provide remote workers with secure access to the corporate network. Use VPN software that allows you to access company data securely.
- Use strong passwords - Ensure that all accounts are protected with strong passwords. Unfortunately, many people still use the same password across multiple accounts. Passwords should be unique for every account and should comprise a long string of upper and lower case letters, numbers, and special characters.
- Set up two-factor authentication - Two-factor authentication (2FA) and two-step verification (2SV) involve an additional step to add an extra layer of protection to your accounts. The extra step could be an email or text message confirmation.
- Install updates regularly - Updates to device software, applications and operating systems must be installed regularly. Updates often

include patches for security vulnerabilities that have been uncovered since the last iteration of the software was released.

- Look out for phishing emails and sites - Phishing emails, as well as voicemails (vishing) and text messages are used by cybercriminals to "phish" for information.

This information is usually used in further schemes such as spear phishing campaigns (targeted phishing attacks), credit card fraud, and account takeover fraud. With the rise in the number of people working from home due to the coronavirus outbreak, there will be plenty of cybercriminals looking to cash in on the trend. It's highly likely that phishing emails will target remote workers in a bid to steal their personal information or gain access to company accounts.

"When working in isolation employees should know, understand and adhere to company IT security policies. Training and awareness regarding information security is essential. Employees should also collaborate with their colleagues using company approved collaboration tools," said Naroatham.

Employees, according to Naroatham, should follow best practice guidelines to protect themselves from cyber-attacks. These include:

- Using strong passwords
- Setting up two-factor authentication
- Using a VPN
- Using antivirus software
- Securing home routers
- Installing updates regularly
- Backing up data
- Looking out for phishing emails and sites
- Watching out for scams
- Using encrypted communications
- Locking devices

Ensuring that any eventuality is covered

Colman added that businesses already suffered financial setbacks because of the lockdown, which is why it is more important than ever to minimise any more possible losses resulting from cyber-attacks, as well as ensuring that they are in the best position possible to recover.

"Business owners should prioritise cyber awareness among their employees by arranging online information sessions and regular updates and check-ins. It is also paramount to ensure that employees follow the right procedures to limit their exposure and that their work devices (such as laptops and tablets) have the correct cybersecurity software installed," said Colman.

In addition, having the right insurance cover in place is crucial.

"Commercial crime or professional indemnity with computer crime or cyber extensions only covers a portion of the cost of a potential loss. Businesses need a dedicated cyber policy, which indemnifies a business against both first and third party losses. It is of course tempting to cut back on coverage during a crisis and this one is unprecedented but now is actually the time to review all business insurance policies with one's broker to ensure that any eventuality is covered," added Colman.

He added that cyber is already a high-risk landscape, which has now been exacerbated by the global COVID-19 pandemic. "Comprehensive cyber cover is the best solution to manage this risk, and it should now be regarded as an essential risk transfer tool for businesses of all sizes, across all industries," concluded Colman. ●

CYBER CRIMINALS, —they just love remote working

In late April 2020, users of online video conferencing tools soared to unprecedented numbers because of the COVID-19 pandemic. This rise in activity also saw a series of cybersecurity incidents, highlighting the fragility of certain platforms and the current working environment in general. In some reported cases, hackers gained access to online calls and disrupted meetings by posting offensive content. More worryingly, if hackers can get into these meetings, they are also able to access to the information shared in them.

Encryption measures for video conferencing help to limit access for hackers but this is one of many entry points to a system. An unsecured internet connection and malicious emails can also leave companies exposed to cyber risks.

Exploiting COVID-19 news

Cybersecurity firm Forcepoint found in their research that malicious COVID-19-themed e-mails from cybercriminals peaked at 1.5 million e-mails per day between January and April this year. They know people are constantly looking for the latest news and updates on the pandemic. Criminals are exploiting this to execute online scams, phishing, and malware attacks. An e-mail with a downloadable link purporting to be an official communication or the latest news on COVID-19 may contain malware. Employees must stay vigilant and companies must continue to ensure there is adequate awareness of these threats among users.

Duping employees

Other forms of social engineering which have been successful in the past continue to be used; such as scams which involve crimi-

nals manipulating and duping employees into believing that they are dealing with a legitimate company representative, persuading them to make a payment or alter payment details. Fraudsters have even been known to mimic a prominent executive or e-mail instructions to get the person on the other end to share potentially sensitive information or change details to enable transfer of payments, among other actions.

Employees should be encouraged to be cautious and alert to the threat of cyber-crime, especially now. They must ask questions and query instructions, even if it appears to be from a senior company executive. This means creating a culture of awareness and trust, where asking questions is encouraged not stifled, and implementing proper risk management procedures.

Social engineers, and other cybercriminals, are adept at building a sense of trust with their victims or, alternatively, applying false pressure to convince someone to breach internal protocols. Providing employees with educational material on how to identify suspicious transactions, tips on what activity should raise red flags, and the hallmarks of social engineering fraud, is essential.

Mitigation measures

It is imperative that your clients understand their potential data security and privacy exposures at present. They must recognise the importance of mitigation measures, as well as protection against these risks, should a cyber breach occur. For example, a cyber breach may also trigger a Directors and Officers insurance policy, if it was found that the data was not secured according to regulation.

Even with all these measures, the rapidly evolving sophistication of cyber-crime means that a comprehensive cyber insurance product is essential to provide managers and directors with a level of confidence that their firm is properly protected. Cyber insurance covers more than just the liability arising from these incidents. Business interruption, incident response, and data recovery costs make up a significant portion of claims payments, even without liability claims. However, liability claims are set to increase when the Protection of Personal Information Act (POPI) comes into effect.

Research done for the Chubb Cyber Index shows the majority of cyber insurance claim triggers can be attributed to human error (21%), hacking (19%), and social engineering factors (17%). Since 2009, incident activity from human error has increased by 268%, and there has been a staggering 2000% increase in social engineering criminal activity. Unfortunately, these numbers may increase as it is likely that criminals will continue to exploit any weaknesses they can find to make the most of the unique conditions created by the pandemic lockdown.



Jenny Jooste
Professional Indemnity and
Cyber Underwriter
Chubb Insurance



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Does your client's insurance cover potential losses DUE TO THE COVID-19 PANDEMIC?



In the wake of the Covid-19 pandemic, business owners may be re-assessing business risks they should insure themselves against and financial advisors are, similarly, re-assessing these risks to advise their clients. Up to this point, the more common insured perils have included fire, theft, and damage to property. However, the impact of the Covid-19 outbreak has reminded business owners that infectious and contagious diseases are not a benign peril, but a real risk to their businesses.

Impact of previous pandemics

Covid-19 has disrupted global supply chains and financial markets. Surprisingly, history has shown that outbreaks are not novel occurrences. In the 20th century the world faced the Spanish flu, Asian flu, Swine flu, Ebola epidemic, SARS pandemic and the Zika virus. These outbreaks have resulted in devastating economic losses. Businesses were affected by a loss of workforce due to death and illness of employees, increased employee absenteeism and lower productivity - often due to family care obligations.

Reputational damage can result where an organisation's response to an outbreak appears ineffective, or where the communication with internal and external stakeholders appears incomplete or misleading. These concerns create anxiety for business owners. A potential 'vaccine' to avoid future losses and relieve some of the anxiety is to procure airtight Business Interruption (BI) insurance.

BI insurance: What are the common exclusions and extensions?

BI insurance covers financial loss arising out of disruptions to a business. Whether or not a business may continue operating after the disruption, is determined by how it plans for, and responds to, occurrences impacting its operations. Business owners with BI insurance, should check the terms of their policies.

Most BI policies require physical damage to property and a causative link between the physical damage and the loss. Covid-19 does not meet the physical damage requirement as it does not cause physical damage to property.

In many instances, BI policies exclude cover for outbreaks of infectious and contagious diseases. Business owners may request that their cover be extended to include these events.

Some extensions provide cover for interruption of the business, as a consequence of an outbreak of infectious disease within a specified radius, for example, 25 kilometres of the premises. Of course, such occurrences should take place during the period of insurance. This means that a business owner may lodge a claim if they can show that the business suffered financial loss due to an occurrence of an outbreak within the specified radius.

Some policies contain extensions such as cover for infections which cause a competent authority, i.e. a governing entity, to restrict access to any place, and impose quarantine regulations. This means that the declaration by a competent authority results in cover.

The Covid-19 pandemic has exposed commercial vulnerabilities for businesses. However, now that business owners are aware of the effect of a global outbreak, it enables them to consider their responses; assess their commercial risks and take adequate steps to mitigate against these risks. In doing so, business owners should procure BI insurance. If already in place, they should review their policies to ensure adequate protection for future uncertain events.



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Candidate Attorney
Webber Wentzel

Tried-and-tested does not pass muster... **IT IS TIME FOR CHANGE...**



Persisting with a business process because it has been profitable or 'good enough' is an antiquated approach for a future that is being disrupted, not by competitors, but by the silent and invisible threats posed by technology. The COVID-19 pandemic could be viewed as an influential catalyst for change, compelling insurers to revisit the world of virtual services. This is long overdue for an industry that is accused of being behind the curve in terms of digital innovation.

Solutions for new-age customer

A business must walk in the proverbial shoes of its customers to understand their concerns, needs, wants, and constraints. You must have an in-depth understanding of the market in which it operates and determine the demand for proposed products and services. New-age customers will prioritise affordability with due consideration for the value and relevance of the product or service. Future-fit insurers will have to rethink their pricing methodologies and strike a balance between price and value to attract and retain customers.

A brand's reputational and financial health depends on customer experience. This experience is achieved through compassion, individual attention, and delivering a product or service that both offers value and improves processes. Your competitors can easily offer the same product or service as you, so you must adopt the most cohesive and appropriate customer experience approach to remain competitive.

Resurgence of digital brokers

The critical debate about product distribution is informed by two key considerations,

namely customer needs and the ever-changing environment. Our risk environment is unpredictable, as evidenced by the recent pandemic and global concerns over cybercrime and climate change. Dealing with intricate risks that are often specific to a business, industry, or sector requires multi-layered risk solutions that are structured by diverse experts, from risk engineers, to niche underwriters, to brokers.

Under these conditions digital brokers should rise to the fore. They stand to benefit as the world migrates to digital platforms that enable online transactions and remote customer engagements. Digital brokers are also acutely aware of what digitally-focused advice entails and will be able to meet customers' changing expectations in a virtual environment. Brokers who reinvent themselves, provide access to integrated systems, to include quoting, sales, and claims settlement, and partner with the right experts, will have a much-needed advantage.

The rise of a future-fit insurer

Insurers need to follow the example set by brokers, who often lead the market in adopting technologies that are aligned to current and anticipated customer needs. A future-fit insurer is one that:

- Is innovative in addressing the needs of diverse customers;
- Understands dynamic business environments;
- Responds to evolving risk landscapes; and
- Chooses partners who are the most capable of navigating both charted and uncharted territories.

The insurance industry must remove complex and dated business processes and become adept at:

- o Supporting customers across multiple access channels;
- o Remaining agile and responding without delay;
- o Adopting technology to ensure that they are digitally 'charged';
- o Maintaining a strict focus on cost efficiencies to offer value and pricing options that will appeal to customers;
- o Managing customer expectations and delivering the best quality of service possible; and
- o Collating and extracting value from data to drive strategic decisions around growth, product, and talent, among others.

The evolution of product development Future-fit products and services must strike a balance between the optimal solution to risk management versus customer choice. Achieving this balance is increasingly difficult in an environment where usage-based options are more acceptable. The sensible business approach is to tailor solutions rather than attempting to 'box' customers based on archaic algorithms. Those who persist with irrelevant operating models, insisting that they have been tried-and-tested over years, stand to lose much in the future.



Sedick Isaacs
Head Business Support Services
Bryte Insurance



As South Africa enters the third month of a national lockdown, implemented to 'flatten the curve' of COVID-19 infections, analysts are scrambling to predict how the disease will change our lives. They are trying to identify which business practices, products, and services will become part of our new normal and which will be relegated to the history books.

Motor insurers were among the first to respond to the financial hardships faced by local consumers due to lockdown. Many offered discounts on motor premiums or allowed policyholders to 'pause' their cover for the period of the lockdown.

These concessions were made possible by the significant reduction in the number of vehicles on the country's roads, which in turn eliminated much of the risk on cover due to accidents, hi-jackings, and theft. Insurers need to pay close attention to changing consumer behaviours under the so-called new normal, to identify emerging risks and determine how best to underwrite them.

Rethinking motor underwriting

The first challenge facing short term insurers as we enter the new normal, is that the COVID-19 pandemic will significantly worsen our economic outlook. Insurers will have to contend with declining gross premiums as well as an increase in consumers defaulting on their insurance premiums due to financial hardship. This could mean more vehicles being added to the already substantial estimate of two thirds of the country's motor pool that is presently uninsured.

Against this backdrop, insurers will have to pay close attention to the affordability of their product.

The use of technology in assessing motor risks is familiar to local insurers. Some already sell 'pay as you travel' policies, where risk is underwritten based on kilometres travelled per month. Other insurers are using telematics to underwrite the risk based on driver behaviour.

We anticipate that the increased reliance on digitalisation combined with fewer vehicles on the roads, post pandemic, will prompt insurers to introduce new, flexible, and more affordable products.

Changes in motor vehicle use

The pandemic has triggered both an increase in online shopping and greater demand for home delivery. These changes in consumer behaviour, which exhibit across a wide range of retail sectors, could in turn lead to an increase in the number of private motor vehicles being used for delivery purposes. Insurers will have to consider the risks associated with such changes in motor vehicle use when underwriting their policies.

The economic downturn will derail vehicle sales and result in fewer motor insurance policies being sold. Statistics from the National Association of Automobile Manufacturers show only 574 sales for April 2020 versus 36 787 vehicles in the same month, 2019. This slowdown could be an opportunity for insurers to upsell value added products cover (VAPS) to its existing client base. VAPS cover such as service plans and mechanical warranties will become

more relevant as vehicle usage decreases and consumers seek out cheaper insurance products.

Keep your distance

Social distancing will continue long after the lockdown has been lifted. This poses challenges to insurers in assessing damaged vehicles and validating claims. Some insurers will turn to technologies such as telematics and drones to assist in addressing some of these challenges. Insurers have already been using photographs, taken by their policyholders, to assess vehicle damage. This method is likely to become increasingly popular for assessing minor damage, despite its limitations.

The closure of service providers during the lockdown could mean that service-related complaints increase. It is thus vital that insurers manage their policyholders' expectations in this regard. The silver lining on the COVID-19 cloud is that the lack of adequate public transport in South Africa will continue to drive ownership of private motor vehicles. Short term motor insurance will therefore remain relevant, both during and after pandemic.



Darpana Harkison
Senior Assistant Ombudsman
Ombudsman for Short Term Insurance

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POST-PANDEMIC THINKING redefines motor insurance sector

The COVID-19 lockdown restrictions have had substantial effects on South African households. Consumer behaviour has changed overnight, as has the way that homeowners interact with the items around them. In many homes the computer, television, fridge, and washing machines are seeing more action than previously. While the family's motor vehicles are left wondering if they did something to offend someone.

The emergence of new trends, or occurrence of an unprecedented event such as the Coronavirus pandemic, will contribute to ongoing shifts in consumers behaviour. You can expect step-changes in the types of assets that consumers purchase and the usage patterns of such assets. This means that consumer-facing businesses will have to adapt their product and service offerings to accommodate changes in behaviour, or risk becoming irrelevant.

There will be implications for South Africa's short term insurance industry, as consumers start to question the need to keep their current motor insurance policies in place, while their cars stand idle in the garage. They will most certainly be reviewing any 'extras' or 'nice-to-haves' in their monthly outgoings as they seek low cost alternatives to 'fit' tightening budgets. They may even consider cancelling non-essential cover.

A short-term solution

In response to the reduction in travel and the negative economic impact of lockdown, many short term insurers offered their customers a universal premium rebate, which was likely well received. But these

insurers might have set a precedent under which policyholders demand more frequent matching of their premiums to suit their actual risk exposures.

Insurers should consider offering bespoke products and services that more effectively address consumer requirements, rather than offering widespread discounts. Those who prosper following COVID-19 will be more focused on the individual than on risk pools. They will benefit from repurposing their product offering towards the personalisation and exceptional service that today's discerning customers expect.

Focusing on personal usage

Insurers that are keen to meet the demand for personalised, usage-based products and services will find valuable pointers in the objective data insights gathered via smartphones and telematics devices. These insights can be used to inform alternative insurance solutions as mobility habits change. For example, a two car household where one car stood idle during lockdown while the other was used infrequently, could have benefited from a greater premium rebate had a bespoke usage-based policy been in place.

Bespoke services could also be extended to people that normally make use of public transport; but now want to buy an entry-level car to achieve social distancing. Many of these people will not be able to afford comprehensive insurance and would prefer a pay-per-drive insurance policy, for example. A general move to smaller cars will enhance the need for personalised behaviour and usage-based products across the motor insurance sector.

Other insurance alternatives could extend to offers where policyholders select and pay only for the cover they require, when they require it. Insurers will have to reassess their product offering when self-driving cars and so-called commuter cars eventually enter the mainstream market. Policies could be extended to insuring per trip or even insuring the person, based on the data collected on their driving behaviour.

Adapting to the new normal

We live in a world where Millennials and subsequent consumer generations expect real-time access to affordable and customisable solutions. They want their insurance policy to be personalised to their specific needs. It is inevitable that the insurance industry will be affected by the new normal that emerges post-pandemic.

Policyholder's freedoms and mobility have been severely restricted through lockdown and are likely to remain constrained in coming years, perhaps by choice. It is time for insurers to shift focus to accommodate this step-change.



Michael du Preez
Executive: Product and Marketing
Tracker South Africa

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INSURANCE 2020 AND BEYOND

According to Deloitte's research, 'A demanding future: the four trends that define insurance in 2020', the insurance industry stands on the precipice of profound change. And this disruption is not just digital.

Demanding customers, new competitors and a changing set of challenges are transforming the insurance industry.

FAnews spoke to Kwena Moabelo, Head of Customer and Analytics at Hollard Insure, and Gerald van Wyk, Head of Business Development at Santam, about how insurers can adapt to disruptive customers, how they can use technologies such as blockchain and cloud to their advantage and the steps they can take, if they are to change with their customers.

Specific expectations of insurers

"In order for insurers and intermediaries to adapt to disruption driven by consumers we need to



focus on solutions that will improve customer engagement and customer value. I believe the answer lies in the use of data, analytics and digital tools to develop more sophisticated products, service models and proactive risk prevention models on the one hand. And to use Artificial Intelligence, Automation and the Internet of Things on the other hand to deliver these cutting edge solutions in an integrated and seamless way at every touchpoint that the consumer has across claims, distribution, servicing and underwriting," said van Wyk.

"Such an approach would bring about new opportunities to make insurance relevant in the consumer's world by not only meeting their needs with flexible products and service solutions (customer engagement), but also using technology as a risk management tool that has the potential to remove the need to claim by focusing on predicting and preventing losses (customer value)," continued van Wyk.

"Nowadays, customers are much more knowledgeable about what is available to them in the market, and therefore have high and specific expectations of all insurers. They do not differentiate between companies across different industries, because their daily lives are centred on social media and other digital platforms. It is expected of every company to embrace the digital revolution and offer solutions that allow customers to engage and transact on the same digital platforms, whether they are insurers, retailers or IT companies," said Moabelo.

"Because we are dealing with a more informed customer, we are way past the age of creating solutions for customers. Now it is about listening to them and co-creating solutions with them," added Moabelo.

Service-based strategies and innovative products

"We are already experiencing how rapid advancement in new technologies are shaping consumers' expectations of how they want to interact with their insurance providers. The more consumers experience new value propositions in other sectors - such as banking and online retail - the more they will demand of insurers to rethink their business models including products, sales processes, underwriting, claims, servicing propositions and value adding services. To adapt to this, insurers need to gain a good grasp of the changing behaviour of these disruptive customers which are often characterised by a need to interact through seamless and integrated experiences that are channel-agnostic and which they can access whenever they want," said van Wyk.

"Insurers and intermediaries would need to focus on collaborative innovation in order to meet this changing consumer need that would allow consumers to interact with insurance solutions through a digital experience that is more convenient for them, and to seek out their intermediary around purchasing decisions, advice, claims assistance, renewals and risk management that remains integrated into their channel-agnostic preferences. And we know from the Risk Barometer that consumers still value the role of their intermediary in making their insurance decision with 82% of commercial businesses and 71% of consumers saying that they rely on intermediaries for advice, based on their knowledge and experience," added van Wyk.

"Many of the products in the industry have so much complexity, that human interaction is required to not only explain the intricacies, but to inject trust in the exchange that is about to happen. In the future, although many of the simple products will be easily disseminated through a digital platform, those that are a little bit more complex will still need a human being to deliver them," said Moabelo.

"The trick will be in the support that this human has, in delivering the

best possible experience for the customer. Having the most innovative and disruptive tools at hand, while being backed by mechanisms that study and understand individual customer behaviour (e.g. connected devices), will move our industry towards a truly bespoke landscape, where customers are truly satisfied with the solutions offered to them.

Once the solution is in place, a service-based strategy will ensure that the customer is surrounded by technology that not only enables the day-to-day transactional needs of the customer, but continues to study the customer, forming a constantly evolving profile that allows the company to offer the right solutions at the right time to the customer. There will also always be a fine balance maintained between humans and machines in delivering great service to customers," continued Moabelo.

Technology to their advantage

"Many companies are starting to incorporate the usage of advanced analytics in their decision-making, especially in claims where critical decisions need to be made to enable more efficiencies in the business, and thus reduce costs. Predictive models that help with the efficient allocation of resources to a particular problem or that help to intelligently decide on the best route to take in terms of repairing or writing of assets; are some examples of how some companies have used analytics to their advantage," said Moabelo.

"There are certain companies, for example, offering tools that would allow customers to conduct a self-assessment of the damage experienced to an asset and get an estimate of the predictive repair cost, using image recognition. Some offer analytics tools that assist with more effective fraud detection," added Moabelo.

"There is no doubt that cloud will provide insurers with an option to protect and harness its data better, as it is always accessible. However, cloud comes with its own risk, such as data security, viruses and hacking. As long as insurers mitigate against these new risks, while using cloud as an alternative (not the main IT solution or platform), they should be well placed to take full advantage of the benefits of cloud," continued Moabelo.

"In terms of the steps insurers can start taking, if they are to evolve with their customers, Moabelo said they should start actively listening to customers. They should have a customer first culture, start automation and go digital as fast as possible. They should see automation as an opportunity to empower employees, upskilling them to focus on more value-adding tasks, such as problem-solving and relationship building with brokers and customers, update core systems, to enable digital channels, and lastly, stop focusing on products and services, but more on the customer experience expected by customers," concluded Moabelo.

"To remain relevant and continue to grow profitability, insurers need to acknowledge that traditional principles no longer apply as they used to. Digital disruption is driving the next wave of innovation needed in our industry to effectively meet customer expectations that are driving the pace of change. Insurance alone is no longer the solution, and broadening your business ecosystems to deliver more than insurance while improving your core capabilities is the new entry into the game. And focusing on partnerships such as your intermediaries will be key to delivering a sustained value-adding proposition to consumers. Working with the intermediary in a collaborative innovation approach that helps them re-engineer their business models and monetise their value in a world where the consumer has a different expectation of services, and interaction will be key to a thriving evolution around client expectation," concluded van Wyk. ●



Short term insurance claims handling was evolving at an unprecedented rate before the COVID-19 pandemic. The national lockdowns implemented by governments worldwide saw millions of people working from home and led to an acceleration of digitalisation. Insurers will have to fine-tune their processes and systems to adapt to a remote working future, where almost everything is done digitally.

Adapt or die

Automation and big data will underpin future-fit insurers' claims handling capabilities. Big data not only provides the information needed to fast track large volumes of claims; but also allows insurers to measure claims processing performance, while automation adds a dash of speed.

Traditional channels such as email and telephone remain relevant to support the two-way interaction between clients and claims handlers; but support functions such as assessing, loss adjusting, and claims investigations are changing forever. Hollard Insure, which started processing claims digitally pre-lockdown, has since seen an increase from 40% to 90% using this method.

COVID-19 has been a catalyst to speed up straight through processing. Insurers now strive for a seamless and smooth progression from digital claims submission, through artificial intelligence (AI) and robotics decision engines, to virtually immediate claims validation. If nothing untoward is flagged during this process the claim can be expedited. It will be approved, the client advised, and the relevant suppliers notified.

The digital claims process works best for high frequency, low value claims such as windscreen claims. Insurers, driven by demand from clients who transact on digital platforms, are under pressure to expand automation to claim categories such as all risks, theft, building, and storm damage, to name a few.

AI in motor vehicle claims

It is almost impossible to assess all motor vehicle claims digitally. A small number of vehicles will have to be physically inspected, for example, where there is hidden damage inside the body that does not easily show up on photos. Early indications are that almost 100% of damaged cars that are still drivable post-accident will be suitable for digital assessment. This will revolutionise the claims handling discipline.

Hollard Insure is well on its way to achieving the Holy Grail of using technology platforms that rely on AI to both determine the extent of visible damage sustained by a vehicle and to analyse potential issues with crumple zones and indentation. AI tools already allow for a large number of non-driveable cars to be assessed digitally, using photos. As these technologies are perfected there will be less need for the physical inspection of vehicles.

Ultimately only a small portion of claims will require site visits. Examples include where the origin of a fire needs to be established through chemical testing or where physical damage to the interior needs further qualification. There are already systems in place to facilitate digital loss adjustment too. Complete automation of motor vehicle claims is closer than we ever imagined.

The human touch

Advancements in AI mean that insurers will soon be capable of determining damage, estimating repair costs, and identifying parts that need to be replaced without the need for human oversight. But there will always be a place for expert loss adjusters for complex and large value claims.

Any loss event is traumatic from the client's perspective. As claims handling becomes more automated the client 'touch point' moves from insurer and insurance broker to the supplier. Suppliers will become the 'front end' of the insurer and client relationship. They will be the face the client turns to for empathy and will focus on resolving claims in a professional manner, with minimum disruption to clients.

As insurers work towards our goal of 'around the clock' services for our clients we must continue focusing on what we are good at, even if the new claims world means working from home.



Arie de Ridder
Head of Claims
Hollard Insure

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there’s smoke,
you better hope
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New partnerships needed to create an EPIDEMIC AND PANDEMIC RISK PROGRAMME

The world is currently struggling to control a global pandemic that is spreading fast, with diverse levels of infection and fatalities in different regions and countries. Given fear of contagion, daily infection statistics are dominating the media. And words and phrases like lockdown, reopening of economies, quarantine, social distancing, and sanitising are now part of our daily vocabulary.

The COVID-19 pandemic is changing our lifestyles and both humanity and corporate cultures will have to adjust to a new normal post-pandemic. The insurance industry must position itself to assist people and economies in handling emerging risks. A well-designed epidemic and pandemic risk insurance programme will serve to minimise economic havoc, provide certainty to stakeholders, and lay strong foundations for recovery.

Cholera, smallpox, and Spanish flu

The history of pandemics is well documented. Global populations have endured the bubonic outbreak in 1347; the 1500s smallpox plague; the 1881 Fifth Cholera outbreak; the 1918 Spanish flu; the 1957 Asian flu; the 1968 Hong Kong flu; and now, the 2019 COVID-19, to highlight a few.

COVID-19 is resetting our economies, with implications to enterprises as a new normal is already replacing 'business as usual'. The birth of new industries and decline or fundamental reshaping of existing ones is inevitable. Several businesses are facing financial distress, and some have already gone into liquidation or filed for business rescue. The Treasury has indicated that about seven

million South African jobs are at risk as a direct consequence of COVID-19 and a prolonged lockdown could see unemployment rise to more than 50%.

The Unemployment Insurance Fund has paid out more than R11 billion to two million workers employed by more than 160 000 companies that are in distress. The government has also assisted more than 27 000 companies through the initiatives of the Department of Small Business Development, the Department of Tourism, the Industrial Development Corporation, and the South African Future Trust.

Lloyd's estimates that the global insurance industry's overall losses will be about US\$203 billion, this includes underwriting losses from COVID-19 of approximately US\$107 billion and decreases in investment portfolios of an estimated US\$96 billion.

Industry faces catastrophic losses

The impact on lives and livelihoods is significant and the quantum of the projected losses will be catastrophic to the insurance industry. Effective risk management strategies and implementation to meet future epidemic and pandemic events with greater resilience are required. There is an urgent need to create epidemic and pandemic risk insurance programmes that can accelerate economic recovery by mitigating and reducing economic loss due to business failures following a pandemic.

Private and public partnerships and solidarity are essential and ought to play a critical role in alleviating economic shocks that lead to human suffering. Such an approach will also facilitate access to capital from lenders and

equity markets, while establishing a viable insurance market with adequate, affordable capacity. Furthermore, it will help create certainty for businesses and organisations of all sizes across the country, ensuring that we can meet future pandemic events with greater resilience.

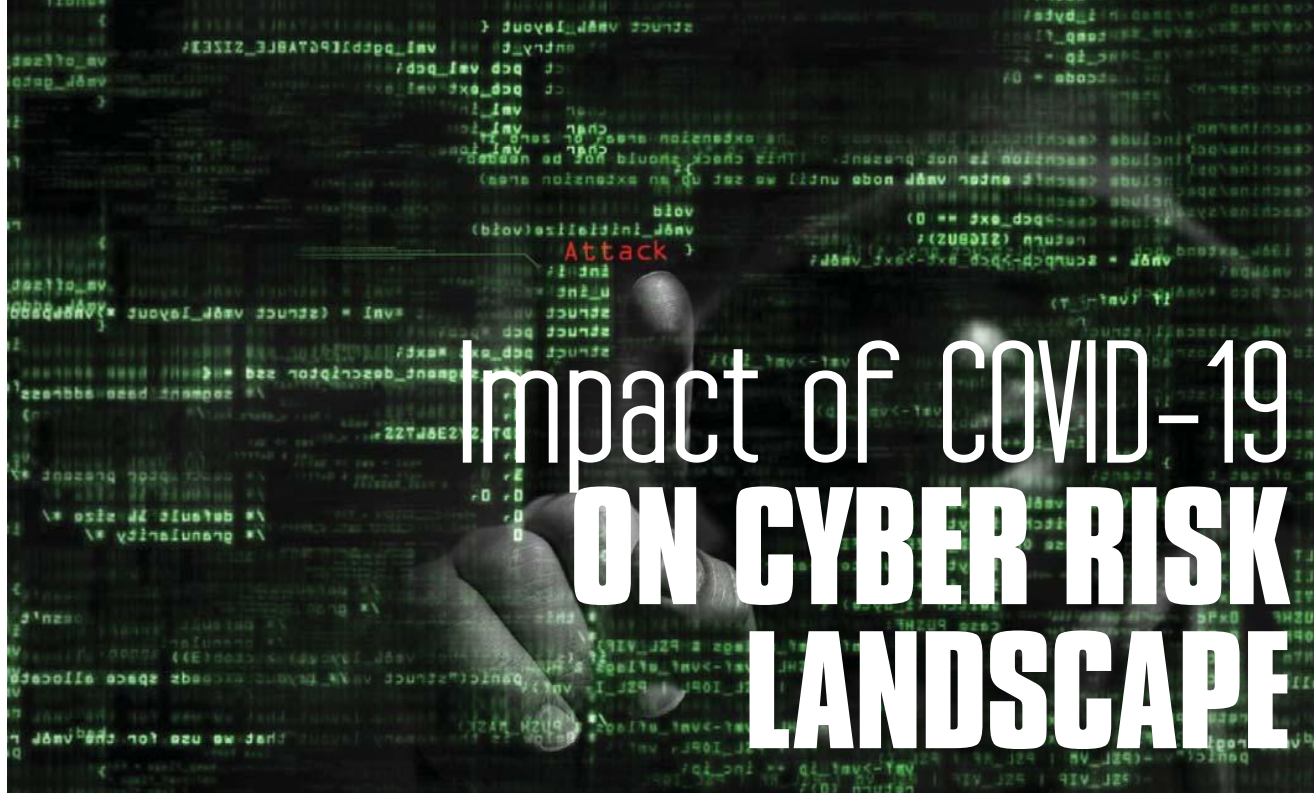
Sharing risk among stakeholders

The epidemic and pandemic risk insurance programme could operate as a risk sharing mechanism between the insurance industry, policyholders, and government. We already have a working and successful 50-year Sasria SOC Limited blueprint to follow, so establishing a programme to cover specific consequential losses following a risk event should not be unachievable.

An ability to mitigate the initial financial shock of a pandemic will reduce the compounding effects of uncertainty on businesses and the economy at large. An epidemic and pandemic risk insurance programme will help rebuild confidence and security for businesses, which is a critical first step to post-pandemic recovery. This is not a 'nice to have', but a necessity.



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A recent report published by Mimecast, estimates the volume of malicious and opportunistic cybercrime has increased worldwide by as much as 33% between January and March of this year. A cloud security company in the US, Zscaler, reported an increase of over 30,000% in COVID-19 themed attacks. There is an urgent need for organisations to step up their employee cybersecurity training but also to ensure their businesses are covered against any possible claims resulting from a cyber-breach.

Risky behaviour

With more employees now working remotely, there are two major internal factors that have significantly increased cyber-crime risks since the start of the COVID-19 pandemic. Firstly, there is a marked lack of education. The freedom of working from home means staff often do not regulate risky behaviour. If employers do not provide additional training around cyber security when working remotely, it will lead to an increase in successful malicious attacks.

Secondly, the IT infrastructure of most businesses was not designed to have 100% of the workforce off-site. Virtual private networks became overloaded in the initial phases of lockdown. Sluggish online response time and unstable connections tempted many businesses to relax their cyber security protocols, leading to an upsurge in attacks.

Cybercrime surges

Mimecast's international report reveals that in the first three months of 2020,

detected instances of spam and opportunistic cybercrime increased by 26.3%; impersonation fraud increased by 30.3%; malware by 35.16% and blocking of URL clicks by 55.8%. This drives more individuals to click on unsafe links. While South Africa's lockdown procedures only started in the latter part of March, there is every reason to believe that local cybercrime statistics will follow suit.

One new tactic is in the proliferation of malware infected COVID-19 websites and apps. In the early stages of the pandemic many people were scrambling to get up to date information on the spread of the virus. At the same time, hackers were creating online tools that purported to be providing updates when in fact they were simply infecting users with ransomware and other malware.

Financial services targeted

While the spike in cybercrime affects most industries, the risks may be disproportionately larger in the professional and financial services sectors. This is due to the nature of these businesses and the ease with which staff could be enabled remotely. In some instances, some staff were not equipped with company-issued laptops or other mobile devices. To avoid operational downtime, these businesses quickly implemented a Bring-Your-Own-Device policy, meaning that unsecured devices were now connecting to the networks. Machines that had been infected prior to lockdown obviously present a significant risk. Moreover, the professional and financial services sectors often trade in highly confidential information, making them extremely attractive as targets.

Online payments

In response to this growing risk, professionals operating from home should improve their due diligence around payment instructions from clients. E-mail scams, where mail is purported to come from a customer, initiating a fraudulent transfer instruction, have increased significantly. Customers are more difficult to reach if their offices are closed. Particularly in the legal, real estate and financial services sectors, an extra duty of care is needed to confirm bank account details and authenticity of the instruction.

From an insurance standpoint, companies may see some changes in how their risks are assessed. Underwriters base their willingness to accept a risk around the cyber security measures. In a sudden lockdown or surge in work-from-home scenarios, the security landscape changes rapidly, and the insured may no longer have the required preventative measures in place. This might not change policy structures, but it would have an impact on the up-front risk assessment. Underwriters will start asking more questions about remote working and brokers should prepare their clients for this.



Simon Colman
SHA Managing Executive,
Digital and Financial lines

COVID-19 AND EVENT CANCELLATION

From music concerts to sporting events and conferences, all organisations are facing the cancellation or postponement of events for the foreseeable future as a result of the COVID-19 pandemic and hard lockdowns across the globe.

Even if the lockdown is lifted, it will not be business as usual for events for some time. The COVID-19 pandemic clearly illustrates the need for event cancellation insurance for when the truly unexpected happens, and life and events simply cannot go on as usual.

Understanding what type of event cancellation cover is available, and how it will respond in different scenarios, is key to mitigating even the most unusual risks to the success of an event. It is here where the advice and experience of a specialist broker, versed in the unique and interrelated risks facing the entertainment and hospitality industries, proves invaluable.

Global events postponed

Due to the COVID-19 outbreak, many major events across the globe such as the Olympic Games Tokyo 2020 was postponed to July 2021 for the first time in its history, along with events such as Wimbledon, various Grand Prix races, the Football Premier League and music events. Major events will have insurance cover in place for abandonment and postponement, with the industry placing a tentative estimate of US\$3 billion in claims as a direct result of postponement.

However, many smaller events are not necessarily insured for event cancellation.

Event cancellation insurance

From a South African perspective, the Safety at Sports and Recreational Events Act (SASREA) firmly places the responsibility on all parties involved in an event to ensure safety at events. This means that every event held in South Africa should have events liability insurance in place, as a bare minimum in addition to practising health and safety duties. However, this would only cover the organisers and sponsors of an event for legal liability relating to safety at the event, while event cancellation and postponement would not be covered unless it is taken as an additional cover.

It is often found that some events organisers take the bare minimum of liability cover purely as a tick-box exercise to cover them in terms of an industry standard and regulation where it exists, rather than looking holistically at every potential risk to their event going ahead at all. While the COVID-19 pandemic may be a black swan event, realistically there are many more common risks that could result in the cancellation or postponement of an event, and requires that organisers take a closer look at the scope of their event insurance cover.

Venue owners, event organisers and sponsors will typically take event cancellation cover to protect their investment for non-recoverable costs and expenses related to organising and staging an event, such as promotional material, staff costs, merchandising, advertising, supplier bookings and so on. The cover can also be geared to cover the loss of income if an event is cancelled or interrupted and would cover ticket cancellation costs, for example.

Communicable disease cover

In a report "COVID-19, An Initial Insurance Market Impact Assessment of the Pandemic", released by Aon's Reinsurance Solutions Team, it is stated that a typical event cancellation and abandonment policy is an All Risks policy with several standard exclusions of which 'Communicable Disease' (CD) is one. For a claim to be valid, the cancellation needs to be 'necessary' and beyond the control of the insured. CD is dealt with generally in three different ways:

1. On smaller policies and most binders, it is excluded entirely.
2. For medium-size risks, CD is sometimes offered as a buyback. When this happens, the exclusion is typically left in and a 'notwithstanding the CD exclusion' endorsement is added to the policy – which means that it will provide cover for an actual event relating to CD occurring, but not for 'fear or threat' of it potentially occurring. In other words, if an event is cancelled by an organiser due to concerns of a potential threat, they would not be covered. But if an event is cancelled as a result of a regulated lockdown, they would be covered.
3. For large global events and comprehensive policies, the CD exclusion is completely removed, providing cover for actual

confirmed CD perils, as well as for fear and threat of a CD. Many events have not been cancelled outright, but rather postponed. This will produce a lesser claim amount when, and more importantly, if the events are staged. On average, approximately 10-20% of an insurer's portfolio of event cancellation business will have CD coverage.

Substantial claims expected

Many loss notifications received prior to the South African lockdown being implemented, were not covered as they were not deemed as 'unavoidable or necessary', but rather responding to the fear or threat of the Coronavirus. Since the lockdown has been implemented, the position regarding fear and threat has changed as our government ordered the cancellation of all events and gatherings. This will now produce claims as this is an ordered lockdown, and we expect these claims to be substantial.

Larger, more established reinsurance writers of event cancellation will be hit hardest as they have the most exposure. Currently, the primary reinsurance market is looking to exclude all CD, not just COVID-19, from its policy wording. Going forward, this may well mean that primary CD cover will need to be placed separately as an extension to the primary cover. It is, however, too early to tell how the insurance market will evolve as the impact of the pandemic continues to unfold over the coming months.

Where to from here?

While the signs were certainly there, no one could have accurately predicted the timing or consequences of a global pandemic. Those that have taken event cancellation and postponement cover will certainly benefit under their current insurance policy benefits. Event cancellation cover for communicable diseases will be very hard to find in future, however, it will most likely be at a dramatically increased rate, if offered, while policy renewals are also likely to come under intense scrutiny. Cover for the current COVID-19 will not be possible, at all.

While event cancellation insurance is often considered a grudge purchase, its importance and relevance have been thrown into sharp focus following the COVID-19 pandemic.

The reality is that even with the best planning and risk management measures in place, there will always be the potential for something that is entirely unexpected and beyond human control that could go wrong at an event – and in this case it is happening on an unprecedented global scale. Considering that the events and hospitality industries employ an enormous number of SME's, the need for sound, expert insurance advice and guidance to protect businesses from catastrophic losses, has never been more crucial in weighing up the risks to your balance sheet, reputation and business sustainability in times of crisis.



Jonathan Lindeque
Senior Client Manager: Sports, Recreation
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Aon South Africa



The major challenge to executive teams immediately prior to the COVID-19 lockdown was how to implement remote working procedures with limited time. There was never any doubt that employees could work from home; but questions remained about whether they would function optimally outside a dedicated office environment.

The 'work from home' concept did not magically appear as the world entered lockdown. It was something that firms had been wrestling with for quite some time, with many organisations already offering some form of remote working capability. In truth, workplaces have been truly global for some time thanks to the introduction of increasingly sophisticated technologies that facilitate conversations and collaboration, both in the boardroom and between employees and teams.

Benefits to working from home

Companies that introduce flexible work arrangements to allow staff to work from home have seen countless benefits. These include cost savings due to reduced floor space, improved productivity, and increased engagement between employees. The main arguments against the decentralisation of workforces centre on loss of control and the resilience of management structures.

And the biggest obstacle to rolling out remote working on a large scale centres on how organisations' manage people. We have frequently heard managers say: "I need to have eyes on my team to know that they

are working". COVID-19 and the ensuing national lockdown has forced organisations to give remote working a try. They have since learned that staff can be trusted to work from home and that, instead of declining, productivity improves.

Genasys faced a baptism of fire in formalising its remote working procedures for 80 odd staff, across three locations, and two continents; but we had to get it done to prove that it could be done. We have since disproved the widely held myth that management teams must scrutinise their employees' every move to enforce productivity.

Connectivity tech performs seamlessly

In the two months since lockdown Genasys has confirmed that the technology underpinning remote work is up to the task. Aside from some initial security concerns, we have successfully held conferencing sessions involving 70 or more employees, with no quality issues at all. Teams work, data calls work, and the systems work.

Genasys runs all of its SLA and project work from daily 'scrums' using Kanban boards, where we can view the progress on each of our projects. This functionality was automated using JIRA technology. And our daily 'stand ups' are managed using Zoom or Microsoft Teams. If anything, the processes and outcomes have been more effective than before.

Now that we have the people and technology in place, we can concentrate on refining these processes to a level that will make remote working the new normal. There are

some tasks that are inherently not suited to remote interaction. Hiring new people and onboarding them is one example. It is also difficult, but not impossible, to integrate with a team working remotely.

Not suitable for everyone

Is this new remote working environment better than the one we had before? The answer will vary from person to person and from firm to firm. Is it better that employees spend less time in traffic, show reduced stress levels, and save on petrol cost? Absolutely. But does everyone prefer to work in this way? Clearly not.

Extroverts battle being by themselves at home, as do people living alone. Parents with young children at home are also struggling to cope with balancing both work and parenting duties. In this context employers will have to find new and innovative ways to manage and motivate staff.

Remote working will change corporate culture forever. The evidence supports that it will lead to better ways of working with benefits for all stakeholders, including the detractors.



Sandra Hutchison
Head of Operations – International
Genasys Technologies



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biggest, the brightest
or the best that will
survive, but
those who adapt
the quickest.

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Iress Xplan Client Portal

– digital delivery for the COVID-19 age

As a financial adviser, you understand the importance of the personal touch in your interactions with your clients. They entrust you with their financial future and their legacy to their families. It gives your clients reassurance to shake your hand and to be able to look you in the eye as you talk to them about their portfolios and financial plan.

Traditional financial advice practices rely on building strong relationships through face to face contact – until now. The global COVID-19 pandemic has brought a host of social distancing measures that presents both a challenge and opportunity for advisers to re-evaluate their approach to digital ways of working.

In times of economic uncertainty, your clients need advice and reassurance more than ever. In order to adapt, financial advisers around the world are embracing technology as an enabler for building strong client relationships at scale.

■ Client engagement goes digital

For several years, **Iress** has forecasted that digital channels would become increasingly important for financial advisers to continue servicing their clients. Now we are seeing COVID-19 accelerate the adoption of online engagement tools by our clients, just as it has in so many other sectors.

To continue to provide the rich personalised client experience that people want from their financial adviser, we offer a range of technology-enabled client engagement tools.

■ Client portals - a better way to connect with clients

There's an expectation that working remotely or from home means being available 24/7. A client portal is your way of realistically managing and delivering on those expectations.

Client portals enable users to quickly access information about their financial position on their device of choice, including portfolio view, transaction history and insurance coverage. Demonstrate the value of your advice by giving users a complete perspective on their financial life.

To reinforce the value of your service, create a personalised digital experience by customising a client portal that is configured to your requirements.

Visit Iress' **Client Portal** to find out more about delivering a better digital experience, which is free for **Xplan** clients, on iress.com/client-portal.

■ Making client communication simple and easy

Client portals enable advisers to meet the increased need for client communication in an efficient, cost-effective way.

Advisers can stay in touch with clients directly through direct instant messaging as well as broadcasting news and updates to their entire client base. This could be handy as the COVID-19 situation develops, by guiding clients through important updates relating to Government announcements or keeping them informed and on-track throughout market volatility.

■ Digital signatures

With many people, now staying at home as much as possible, getting clients to sign documents can be difficult. Digital or e-signatures allow clients to sign any paperwork you want to share with them using any device. Integrated into the Client Portal and Xplan, they are a practical and essential part of your remote working toolkit.

■ Secure storage and transfer of documents

Encourage clients to submit documents into the secure storage feature within a client portal, advisers can provide comfort to clients that their personal information is being securely protected.

■ Creating a successful digital advice model

While many of us are feeling overwhelmed right now, setting up a digital advice operating model needn't be daunting. The lockdown restrictions present a valuable opportunity to reconnect with your clients and to offer your assistance to them and their families, especially those that are more vulnerable. Getting set up with a client portal may only take a matter of minutes – leaving you to focus on your business and supporting your clients through this time.

Iress can offer advice and support to help you set up your virtual office, be productive, and communicate securely. It doesn't matter if you've never spoken to us before – we've made available **resources and information** covering practical ways you can stay connected to your clients, your people and your business while working from home.





Built for better communication.

Meet the increased need for client communication with a secure, online Client Portal, available now through Xplan.

[**iress.com/client-portal**](https://iress.com/client-portal)

Is mental health our next fight **IN THE BATTLE WITH COVID-19?**

Lockdown, pandemic, and social distancing are words and phrases which have become part of our daily vocabulary in the last few months.

Around the world, populations under lockdown provide a captive audience for news reports filled with scenes of frantic caregivers fighting an invisible enemy, and constant updates on the number of infections and deaths. Meanwhile, massive coronavirus-related job losses are leading to increased debt and poverty. The health consequences that accompany these social ills are well known.

These combined stresses are having a massive impact on our collective mental health. Now, as cities begin to reopen, we face new uncertainties about life in a post-lockdown world. The fear associated with being infected or infecting our loved ones are added to the emotional distress caused by the extended period of isolation, the loss of loved ones, and financial woes.

Mental health post-lockdown

Studies of previous epidemics show that the incidence of anxiety and depression severe enough to require treatment, return to normal after an epidemic. In the meantime, there are things we can do to manage stress. Peter White, professor emeritus at Queen Mary University of London, suggests staying active, exercising, getting plenty of sleep, and maintaining a healthy diet.

Human interaction is also fundamental. It is made easier by technology that helps us to connect with family, friends, and co-workers virtually. White warns against becoming addicted to your phone and recommends that you moderate your daily consumption of 'bad news' and social media, which studies show can increase anxiety.

Assessing the impact

What about the long-term effects of pandemic-related mental health issues? Studies of the SARS (Severe Acute Respiratory Syndrome) and Ebola epidemics indicate that feelings of anxiety or depression, and even signs of post-traumatic stress disorder (PTSD), can be expected.

White observes that people who were sick enough to require hospitalization and may be coping with continuing interventions, as well as social care and healthcare workers who witnessed the devastating effects of the pandemic up close, are at particular risk of coronavirus-related PTSD.

Consequences for insurers

An influx of new patients testing positive for Covid-19, especially those with pre-existing mental health conditions that are aggravated at this time, may result in increased claim numbers, potentially over a long period.

Claims managers can help by staying in touch with the claimants, asking about their treatment plans, and perhaps offering rehabilitation, provide this is supported by the claimant's healthcare team. It will also be important to ascertain whether claimants have any contingency plans in place. Given the current pressure on healthcare providers, it may become harder to get updates on claimants' treatments, making assessing and managing claims more difficult.

'Teletherapy', described as treatment rendered by phone or video, has gained popularity in recent years, especially in the field of psychology. This technology could be used to facilitate claims management too. "If the doctor and claimant are willing, [it] is better than not having an independent opinion and has the added advantage of not requiring travel by either," says White.

Early intervention is indicated

In responding to COVID-19, Swiss Re is taking steps to engage more with clients and championing early intervention before symptoms become chronic. In addition to improving policyholders' health and wellbeing and reducing claims, this approach allows us to increase our research base in the field of mental health and help insurers make more accurate and fair risk assessments.

People grow and businesses expand based on their determination to move forward during times of uncertainty. In an industry undergoing transformation, the key will be how we collectively respond and prepare for effectively dealing with the expected influx of, especially, mental health claims.

Katherine Barker
Head: Life & Health Southern Africa
Swiss Re





Security of income IN TIMES OF ILLNESS

For the year ended 2019 and pre-COVID-19, about R600 million in claims for sickness benefits were paid out to its members, PPS reported. The cause of these claims included injury, diseases of the musculoskeletal system and connective tissue, diseases of the respiratory system, psychological illnesses, and cancer. Interestingly, 39% of claims were from members between the age of 31 and 50, while 56% of claims were from members between the age of 51 and 70.

This shows that no individual is immune from falling ill. What used to be referred to as “an older person’s disease” such as diabetes, high cholesterol and cancer are now affecting people of all ages. Our lifestyles also make us susceptible to diseases.

Wide-ranging effects

The coronavirus is on a path of destruction, affecting the lives of citizens from all walks of life and in particular healthcare professionals. It also impacts global and local financial and economic health. The pandemic is a watershed moment in the insurance and health industry. It tells us that there could be other unknown diseases out there that anyone of us can get at any time. It also shows that professionals may suffer an illness at a crucial time in their careers when they are most likely at their highest earning potential.

Financial advisers can help professionals to take stock of their current policies, assess what options are available and best suited to their needs.

Income security

The biggest asset of any professional is their ability to earn an income based on their area of specialisation. However, this income can be impacted in a variety of ways and one way could be because of sickness, injury or disability. Therefore, professionals should consider preparing themselves for unforeseen events by having the right cover (such as income protection or sickness cover) in place, especially since many run their own practices and businesses.

An income protection policy requires an underlying medical condition, illness, injury or disability to exist, for it to be a claimable event. Over and above being ill, one will also need to have experienced a loss of income, to qualify for such a claim and it will not be payable from the first day of illness.

Cover in times of need

Sickness cover is designed to replace or supplement a professional’s monthly income for up to two years when they become totally or partially unable to work at any time during their career due to sickness or injury. This provides professionals with sufficient time to recover, ensure that they are not financially strained, adjust their normal professional duties and change their work methods.

Therefore, professionals need to look beyond income protection cover, and ask their financial advisers about Sickness and Permanent Incapacity cover.

Doing what’s right

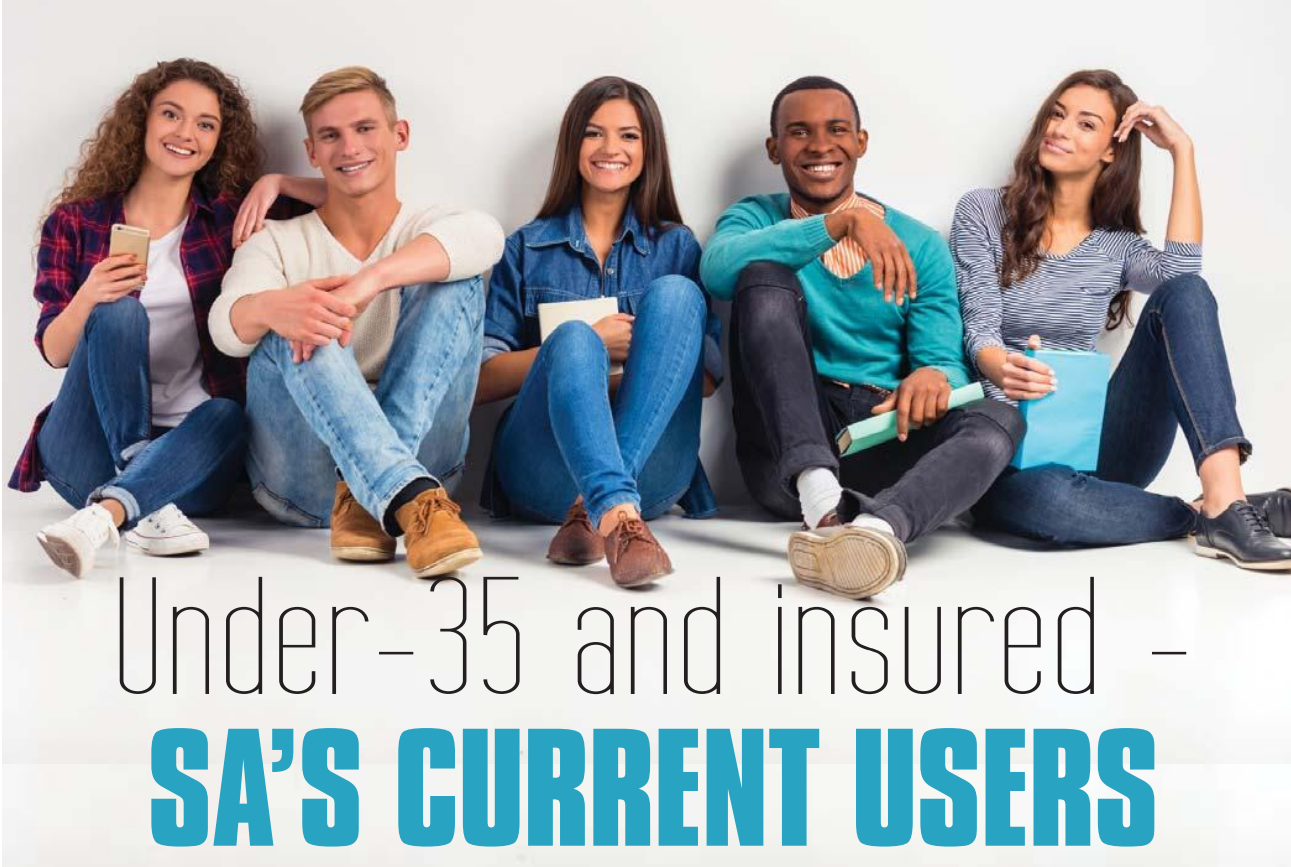
The COVID-19 pandemic forced people to start working in virtual environments. Companies need to accommodate the needs of financial advisers and their clients by making editable PDF forms for claims, application forms and service forms available and also by agreeing to accept digital signatures.

Members should also be able to apply for cover and the insurer should underwrite them based on the medical disclosures made on the application form and where possible issue the cover, without receipt of medical requirements. Members should then be given up to three months to obtain the medical requirements.

Going forward, financial advisers should be able to answer the following questions from their clients: Have you made enough provision for when your ability to earn is impacted? Have you protected your future insurability by buying the right type of cover, while you still enjoy good health? What money lessons have you learned from the coronavirus and how do you plan to implement that in future?



Motshabi Nomvethé
Head of Technical Marketing
PPS



Under-35 and insured – SA'S CURRENT USERS

In part two of this editorial series, Scenius Sweeps, we unpack the second under 35 market segment, uncovered in the research study we conducted with leading consulting firm, Eighty20.

Responsibility ready with young families and full-time, salaried jobs, SA's Current Users reflect the more conventional segment of the market: with full-time employment comes sick leave and Group employee benefits that include life and disability cover, and in some cases, income protection. They believe they have ticked the boxes to secure their families' futures, but the truth is, they have little understanding of where their real risks lie, and how their cover will protect them should the time come when they need to claim.

The risk of overconfidence

Human nature means we are all capable of underestimating the risks we face on a daily basis. But such overconfidence has never been more risky. A 27-year-old, for example, has a 96% chance of experiencing a temporary injury or illness during their working career that will prevent them from working for two weeks or more¹. Group staff benefits are a great start, but for those that include an income protection benefit, many do not realise this benefit usually has a three-month waiting period, and typically only pays an income for a few months.

It is important for income earners to understand what they are covered for under their Group scheme. Do they know that Life and Disability Lump Sum cover will only pay out if they are permanently disabled or pass away? FMI's 2018 #RealityCheck Consumer Survey found that 48% of respondents defined life cover as 'death' cover only. Many South Africans have not even heard of important benefits such as income protection and critical illness income cover.

Windows of opportunity

Because Current Users believe their Group benefits will get them through any tough times, the conversation is somewhat different to someone with no cover at all. At FMI, we view this as an opportunity for you, as an adviser, to identify the gap in cover and provide the additional insurance they need, such as income protection with shorter waiting periods, and critical illness cover.

The mammoth barrier, however, is affordability. One that has never been more deeply felt as we emerge from the Stage 5 lockdown into a fragile economy. Savings and retirement annuities already fight for what little wallet share this market segment has left. With 16% of credit active customers (between the ages of 22 and 35) dealing with a monthly debt instalment to income ratio of 50% or more², it's no surprise most young South Africans face affordability issues when it comes to life insurance. But if they are needing to keep a careful eye on their budgets when they are earning an income, what would happen if their income was interrupted?

The good news is that this market segment cited long-term financial security and education as their top priorities. By helping your clients understand not only what insurance products they already have in place, but discussing what's available to protect them against the risk realities they face, you can cement your value as an adviser and potentially secure a client for life.

Look out for the next issue of FAnews where we will be looking at SA's Potential Prospects, the market beats and sales opportunities for advisers.



Jessica Beattie
Brand Strategist
FMI (a Division of Bidvest Life Ltd)

¹ FMI Risk Stats – 27-year-old female, non-smoker retiring at age 70.

² FMI Eighty/20 Research Report 2020

³ FMI Future Income Calculator. 6.5% nominal growth, retirement age 70.



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HOW DEEP IS THE MUD?

The novel coronavirus of 2019 has caused multiple challenges worldwide. Every news article seems to be about its rising global numbers, its impact on businesses and global economies, and how social distancing can be a preventative measure. Many are isolating at home to limit their exposure, which is bound to have an impact on their psychological well-being. The future of the pandemic is certainly muddy at the moment, with no clearing in sight.

Mental health effects

Intense emotional reactions will be common during any pandemic, from fear of contagion to feelings of stigmatisation, loneliness, boredom, anger, anxiety, and a sense of uncertainty. COVID-19 has been repeatedly described as a killer virus, which has perpetuated a sense of danger and uncertainty amongst everyone. Experts warn that the mental health impacts of this pandemic will be one of its second waves.

In the early phase of the SARS outbreak of 2003, a range of psychiatric morbidities, including persistent depression, anxiety, panic attacks, psychotic symptoms, and even suicides, were reported. Health professionals who worked in SARS units and hospitals reported similar symptoms and had substantially more post-traumatic stress disorder symptoms than those without such experiences.

We are seeing similar reports from healthcare professionals working in the front lines of the COVID-19 crisis. A recent study of healthcare workers in Wuhan, China, found that 50.4% of them experienced depression, 44.6% experienced anxiety, 34.0% had insomnia, and 71.5% had symptoms of distress¹. At present, in the U.S. alone, anti-anxiety medication prescriptions have increased by 34% since the COVID-19 outbreak².

Doing things differently

No one knows yet when the waters will clear. What we do know is that mental health professionals and insurers need to be prepared to do things differently. The development of mental healthcare capacity and timely and effective treatments are an urgent need. Multi-disciplinary mental health teams, composed of psychiatrists, psychiatric nurses, clinical psychologists, and other mental health workers, should be available to deliver mental health support to patients and health workers. It is also imperative that secure ways are established to provide psychological counselling, using safe communication channels, for patients, their families, and members of the public.

Impacts on claims and claimants

From a claims perspective, insurers cannot necessarily expect claimants to have face-to-face appointments with their specialists or to attend in-person rehabilitation sessions in an effort to return to work. Many claimants are understandably anxious about any form of close

contact, particularly with healthcare professionals located in hospitals where there may be a greater risk of exposure.

Public transport to and from these appointments is also a consideration. As an industry, we need to find different ways of obtaining the information we need for proper assessment of claims while keeping the claimant informed during the process to reduce any further anxiety.

Disability income claims

Insurers need to be prepared for potential longer-duration disability income claims. Retrenchments and even the closure of many businesses are also anticipated, which may affect job availability. This does not mean extending claim payments indefinitely; rather, insurers need to review the facts of each claim holistically and determine the best way forward. All factors, such as claimant social support systems, access to care and treatment, telemedicine offerings, family circumstances, job duties, and coping skills, need to be considered.

People with existing mental health issues are vulnerable and may need additional support. Others may experience the effects of the pandemic differently. The combination of financial consequences, limited access to healthcare providers, and social isolation could have a significant effect on disability income portfolios. However, with the right approach and support from insurers, the mental health impact could be minimised.

We don't know how deep this mud is going to get. Fear and anxiety due to COVID-19 will be with us for quite some time. A proactive and coordinated mental health response to this crisis, supported by the life insurance industry, will generate the most effective outcomes.



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Adela Osman, M.D.
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Possible increase in COVID-19 RELATED COMPLAINTS



At the time of writing, at the end of the first week of the national level 4 lockdown, the Office of the Ombudsman for Long-term Insurance has received very few complaints related to COVID-19, although there have been a number of enquiries.

The types of complaints we could probably expect relate to the following broad categories:

- Premiums;
- Claims; and
- Investment Performance.

Premium-related complaints

With many businesses' and people's incomes being affected by the lockdown and contracted economy, it is likely that defaults on premiums, and lapses, will increase. This may bring reinstatement conditions into question. For example, some policy terms allow for premium holidays with cover interruption during that time, while other policy terms require arrear premiums to be paid in order for the policy to be reinstated. Insurers may also be offering special premium-relief options during this period, albeit on different terms, which can give rise to complaints.

While policy terms and conditions prevail, advisers and policyholders are encouraged to contact the insurer to establish whether the insurer has put in place premium-relief options or whether special arrangements could be made during this period.

Rise in claims, complaints anticipated

It is common knowledge that during adverse economic conditions, insurers see a rise in disability claims, in both the retail and group life assurance spheres. We therefore

expect that there will be a rise in complaints relating to disability claims as a result of the economic crisis that has been exacerbated by the COVID-19 pandemic and the government's response.

Judging from enquiries and complaints received, some policyholders seem to have an expectation that the inability to work as a result of the national lockdown entitles them to temporary income benefits, even where these cover temporary illness or disability only. This is likely to give rise to complaints to this office.

We also envisage an increase in complaints relating to claims for retrenchment benefits as the unemployment rate increases, due to people being laid off from work, temporarily or permanently, and because of the economic impact of the pandemic. Complaints relating to credit life insurance in general, will probably be affected.

In the event that we see the COVID-19 related death toll rise dramatically - hopefully unrealised - as in other parts of the world, a surge in complaints relating to death and funeral claim-related complaints can be expected.

Pre-existing conditions

An issue that is likely to give rise to contention with COVID-19 related complaints is that of pre-existing conditions. It is well-documented that COVID-19 fatalities and morbidity increase with the existence of co-morbidities such as diabetes, high blood pressure, and asthma.

Where one or more of these conditions is pre-existing and excluded for an insured, and a COVID-19 related claim is declined

on the grounds of the exclusion, the vexed question of causation is likely to arise, i.e. is there a sufficient causal connection between the pre-existing condition and the event in respect of which the claim is brought to entitle the insurer to decline the claim? The policy terms and the facts of each case will have to be analysed.

Investment Performance

Although the office has limited jurisdiction with regard to complaints that are predominantly about investment performance, it does not prevent policyholders complaining to us about poor performing policies. The sharp fall in investment returns as a result of the COVID-19 pandemic and the resultant imposition of market-value adjustments by insurers are likely to give rise to increased complaints, especially as the impact on living annuity incomes materialise.

The proposed adjustment of the withdrawal rates by National Treasury may offer temporary relief, but will exacerbate the problem of already over-stretched annuitants in the future, and is likely to cast the spotlight on the advice given at the purchase of the living annuity.

We are surmising; time will tell.



Denise Gabriels
Assistant Ombudsman
Ombudsman for Long-Term Insurance

CREDIBLE STATISTICS

create much
needed certainty

We are facing a global health crisis unlike any seen in recent years. As the COVID-19 virus spreads across the globe it leaves a trail of human, economic, and social destruction. One way to understand the impact of the virus is to contextualise it through statistics. Statistics are the life blood of any insurer, and although it is still early days, we are already using statistics gathered to both manage our response to the pandemic and inform our forward planning.

Statistics tell a story

People trust and value credible statistics. The peace of mind that ordinary consumers get from transparent COVID-19 statistics is akin to the business insights that insurers gain from credible life insurance claim statistics. An analysis of Momentum's initial claims experience during the COVID-19 lockdown period reveals some interesting facts.

The first is that death claims due to murder, suicide, and motor vehicle accidents have dropped during level 5 and level 4 of South Africa's Coronavirus alert levels. This is most likely due to the rigorous restriction of movement during the lockdown period, applicable to both law-abiding citizens and criminals. The insurer paid out approximately five death claims per working day during lockdown, compared to the six death claims paid out per working day during the whole of 2019. The insurer expects death claims to increase in line with the softening of lockdown restrictions.

It is slightly more complicated to interpret critical illness claims during this period, because it takes longer to verify and obtain medical information and therefore finalise claims. The insurer's initial analysis, based on claims submitted during the lockdown period, confirms that claims for the cancer (52% of approved claims), cardiovascular diseases (30%), and nervous system (8%) categories remain the main claim causes.

In the comparative period in 2019 the percentage contributions to total critical illness claims, under the cancer and cardiovascular categories, stood at 45% and 26% respectively. The experience is counterintuitive in that relatively more claims were paid during lockdown; but it could indicate that clients did not have as much access to certain procedures and medical specialists as they would have enjoyed under normal circumstances, resulting in fewer diseases being diagnosed or treated.

Restricted access to medical practitioners for elective procedures and treatments could also explain why fewer claims were received for claim events such as knee or other joint replacements and connective tissue diseases like Rheumatoid Arthritis. In 2019 the insurer paid more than 100 critical illness claims under these headings, for an average of eight claims per month. No such claims were received during the most restrictive periods of the lockdown. It could be argued that it is easier to verify medical information to meet claim criteria for cancer and heart attacks than it is for a disease like Rheumatoid Arthritis, for which you need to see a Rheumatologist, which explains why claims in the former categories were received and processed as normal through lockdown.

For disability benefits which pay a lump sum in the event of a permanent disability, the insurer observed similar trends. Fewer disability claims were received due to serious accidents or surgeries; and similar levels of disability claims were received, before and during the lockdown period, for serious events like strokes, cancer, and heart attacks.

The 2019 claims story

The insurer paid out more than R19 billion in claims during 2019, its highest to date. Individual insurance claims accounted for R4,6 billion of the total, including R3,3 billion in death claims, R695 million in critical illness claims, R499 million in disability claims, and R98 million in income protection claims.

A closer inspection of the claims experience gives credible evidence that cancer is set to become the biggest killer within a few decades, if current trends persist. During 2019, cancer was the leading cause for death claims (32%) followed by cardiovascular diseases (30%). Terminal illness claims echo this trend, with 90% of terminal illness claims related to cancer.

When the overall death claims for 2019 were broken down in terms of gender, cancer dominated as the leading cause of death claims for women, with 42% compared to only 27% of cancer related death claims for men. The gender ratio for cardiovascular related death claims, the second highest cause of deaths, were much closer, with 28% for women and 31% for men.

Backing decisions with facts

Credible statistics remain a trustworthy source of information. We use these statistics to navigate human decisions and behaviours. This insurer will continue to analyse its data over the months to come to ensure that they respond quickly to changing dynamics and needs. If the COVID-19 virus has taught us anything, it is that life can change in a heartbeat. Being financially prepared for sudden and unexpected change goes a long way towards helping the healing process. This should serve as ample motivation to ensure that your clients have comprehensive critical illness, disability, income protection, and life cover in place.



Jenny Ingram
Head of Product Development
Momentum Myriad



A trusted partner in uncertain times

No one can predict the future, part of the reason why one needs to partner with a trusted life insurance partner. At Momentum we do not make empty promises. We believe in paying valid claims.

As a result, over the last five years, our claim pay-outs have exceeded R19 billion.

During 2019, we paid R4.6 billion over a total of 12 839 claim pay-outs. On average, this amounts to more than R18 million linked to 51 claims, every working day; or more than R2 million per working hour.

Thank you for trusting us to keep your journey going.

momentum
life insurance

momentum.co.za

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Reg. No. 1904/002186/06



Actions speak louder than words

“This is especially relevant in the long-term insurance industry when it comes to paying claims”, remarks George Kolbe, head of marketing for Momentum Retail Life Insurance.

He adds that “We live in unprecedented times with little to no certainty of what the short- and long term impact of COVID-19 might be. It is therefore important to partner with a life insurer that has a proven track record in paying valid claims and treating customers fairly. Our 2019 claims statistics reaffirm and demonstrate our commitment towards our clients - helping them and their families to secure their journey to success.

We also realise that our claim statistics for 2020 and 2021 might look very different from our experience over the last couple of years. To a certain extent, our 2019 experience will become the benchmark against which we judge the impact of COVID-19.

In terms of our expectations of the impact of COVID-19 on future claims, we currently expect the following:

- An increase in death claims over the next few months as more people are infected.
- We also expect more claims on income protection benefits, especially those with the shorter waiting periods.
- We expect more retrenchment related claims in the months to come.
- The impact of COVID-19 on critical illness claims is still uncertain, but we have identified a number of events where we could expect future claims from.



Even though the virus is likely to create an increase in claims during the next year, we are well capitalised and exceed the solvency requirements with a comfortable margin; so we are confident in our ability to pay claims despite the (un)expected increase in claims as a result of the pandemic.

Paying all valid claims and treating clients fairly will always remain a priority. This is why we make every effort to ensure that our internal claim processes, including that of our independent claims committee, complies with rigorous industry standards to safeguard a fair claim assessment process and fair outcomes for our clients.”

Momentum Retail Insurance individual risk claims paid from January 2019 to December 2019:

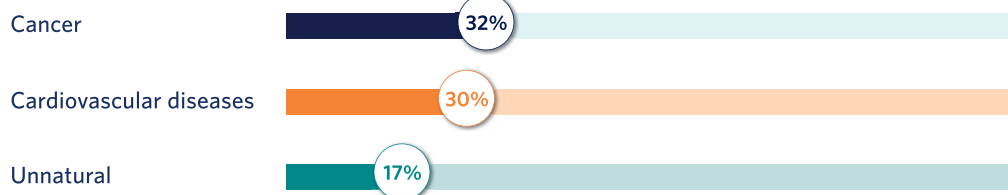
Momentum Retail Insurance paid individual insurance claims to the value of **R4.6 billion**



Having paid out claims in excess of **R19 billion, over the past five years**, the 2019 claim pay-outs were the highest to date.

Death claims

The major causes for death claims during 2019:



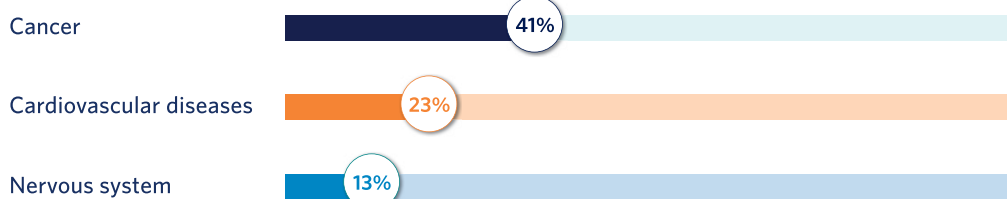
With the top three causes of death claims remaining relatively stable, the most significant change was noticed from suicides within the unnatural death category. With an alarming increase of 65% in the number of suicide claims, we again noticed male suicides as the largest contributor (88%) to suicide claims.

Terminal Illness claims

'Terminal illness' refers to an advanced stage of a disease with an unfavourable prognosis, no known cure and life expectancy of less than one year. Pay-outs for terminal illness claims are made while the clients are still alive. This provides them the unique opportunity, during a very difficult time of their life, to finalise their arrangements and settle their affairs before the inevitable happens. For 2019, we paid 80 terminal illness claims, 53% more than in 2018, to the amount of R187 million. Cancer was the primary cause for most of these claims, with cancers of the gastro-intestinal tract occurring with the highest frequency, especially colon and rectal cancer.

Critical illness claims

The major causes for critical illness claims during 2019:



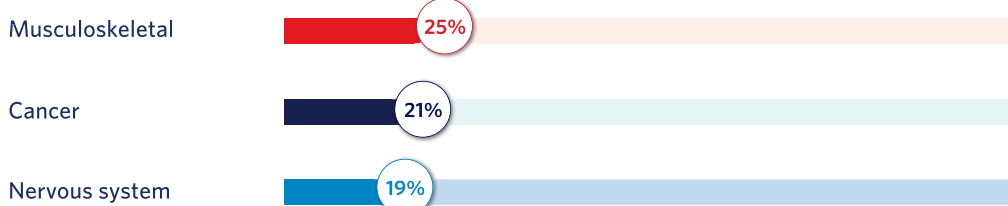
The number of critical illness payouts made in 2019, were 29% up from the previous year. One of the big contributors to this increase was nervous system related claims which almost doubled from the previous year. Cancer, however, is still the biggest contributor to our critical illness claims, by far. As a notable concern, based on credible long-term research from the Massachusetts General Hospital in Boston, this number can be expected to increase even further over time. This research indicates that individuals who develop heart diseases have a significant increased risk of also developing cancer in future.

Child critical illness claims

Critical illness cover for children is automatically included in the parents' critical illness cover on Myriad policies. In 2019, we paid a total of 41 child critical illness claims for 27 children. For 14 of the children, we paid claims from both parents' policies because both parents had critical illness cover on their Myriad policies. The ages of the children ranged from three months old to 16 years old. Cancer was the primary claims cause, with Leukemia as the most common cancer being claimed for in children.

Lump sum disability claims

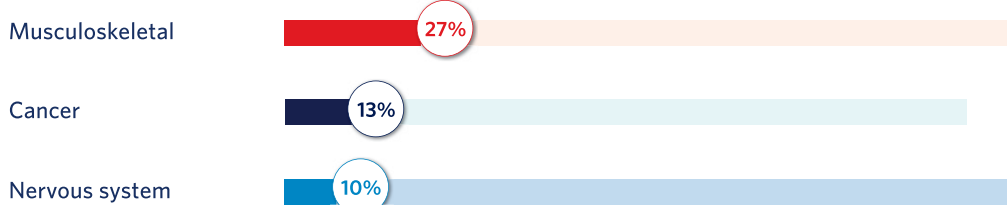
The major causes for lump sum disability claims during 2019:



When comparing Momentum's 2019 lump sum disability claims to the previous year, the biggest noticeable difference is the jump in our musculoskeletal claims which increased by almost 70%. Although the highest disability claim volumes were experienced for clients aged 40 and older, the youngest person to whom a disability claim was paid was a male client, aged 25, who was paid under the nervous system category for epilepsy, and a female client, aged 26, who was paid under the musculoskeletal category for an injury resulting from a motor vehicle accident.

Income disability claims

The major causes for income disability claims during 2019:



It does not surprise us that the most claims paid under income disability benefits were for musculoskeletal injuries. This is because these claims can arise from everyday occurrences, for example a fall or accident resulting in a broken hand or leg. Most of these claims are paid for a short duration, while the person is recovering. Other, more serious, events like a stroke or cancer will most likely result in a longer pay-out, in severe instances – until the pre-selected benefit expiry age.

Our statistics indicate that the age band where the most claims for income protection occurred for women is between the ages of 40 and 49. The main claim cause for women in this age band related to mental illnesses such as major depression and anxiety. This could be due to elevated levels of stress due to working, raising children and the pressure associated with motherhood and being primary caregivers for their families.

The youngest persons to benefit from claim pay-outs on income protection were a 23 year old male client who qualified for 12 months of pay-outs while recovering after a motor vehicle accident and a 24 year old female client who qualified for pay-outs under her Temporary Income Protector Benefit, Income Protector Benefit and Income Enhancer Benefit, providing her with an income while recovering from a surgery.

Longevity

As proven again by our 2019 claim statistics, longevity is a reality of our time as improvements in medical technology helps us to live longer. 2019 was the ninth consecutive year during which we made claim pay-outs for centenarians, with a total of 8 death claims paid for clients above the age of 100 years. The oldest client for whom a death claim pay-out was made was a male client, aged 104.

Longevity Protector Benefit claims

Improved longevity, in combination with the higher likelihood of suffering from diseases associated with old age, can have a devastating effect on the quality of people's lives. This is because the burden is not only to provide for more years in retirement, but also to cater for increased medical expenses, many of which are not fully covered by a medical aid. Risk benefits, like Momentum's Longevity Protector Benefits are ideal to help protect clients against the financial consequences of living a long life while suffering from a disease or a disability.



61% increase in Longevity Protector trigger events

During 2019, 50 new Longevity Protector claim pay-outs were triggered from disability and critical illness claim causes, starting the countdown to clients' future longevity protector pay-outs. These clients will receive additional pay-outs, every five years until the benefit expiry date, based on the severity of the conditions they claimed for, and the expected long-term impact that these claim events will have on their lives.

Putting our promises to the test

As in the past, our actions speak louder than words and during 2019 we paid a total of 12 839 claims. On average, this amounts to more than R18 million linked to 51 claims, every working day; or more than R2 million per working hour.

If there is one concept that we are all familiar with, it is the concept of change. No matter how much we want the status quo to remain the same, it always seems to shift. This is especially evident with the COVID-19 pandemic that managed to turn the globe on its head. During times like these, it is vitally important to know that there are aspects that remain the same and one of these is that you can rely on our promise to always pay valid claims.

We want to reassure you and our clients that there are no exclusions on any of our Myriad life insurance benefits (life-, critical illness- and disability cover) with regards to the coronavirus which means that clients' cover remains intact, regardless of the virus and where they have travelled or intend to travel. We are paying, and will continue to pay, all valid claims.



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PERSONALISATION

to give life insurers an edge

Customisation is the name of the game these days. If you turn on Netflix, you will see a list of series and movies, hand-picked for your taste. If you open your favourite music app, you will see a playlist based on your previous downloads. And if you are craving a takeaway, your food delivery app will present a list of restaurants based on your previous orders.

Why is the life insurance industry lagging other sectors in recognising the value of personalisation when engaging customers?

Those of you who have been in the insurance business for years will remember the 'hard copy' rate tables that were updated annually and served as our bible for the year ahead. There were very few factors to consider. Is the potential client a smoker or non-smoker? Male or female? Age? And any history of family illness? Not much has changed since.

The origin of rate tables

Our 'nod' to modernisation has been to computerise the rate table; but its content remains largely unchanged. You might be interested to know the origins of the old rate table. In London, in the 17th Century, maritime trade was at an all-time high and goods were frequently transported on ships travelling between England and the New World. The only drawback was the uncertainty. Seas were rough, ships were primitive, and pirating of vessels was common.

Ship owners would meet with venture

capitalists in coffeehouses to secure funding for these perilous voyages. In exchange, these funders would get a share of the profit from the venture. To seal the deal, these venture capitalists would sign their names under the amount they were investing in the voyage. This is where the term 'underwriting' originated.

Each voyage would most likely have many underwriters, so that the risk could be spread, and the funders diversify their investments. This crude table of numbers was the very first version of the insurance rate table we know today.

Beware pigeonholing customers

It is a mark against our industry that we still think in terms of rate tables. While the rest of the world is on the path to personalisation, insurance seems to be stuck in a rut of pigeonholing people.

The ongoing battle against COVID-19 has taught us that change is possible. At BrightRock, for example, we have been able to initiate policies for hundreds of new clients, digitally. Even claims handling has become less labour intensive, as we are forced to reconsider the old ways of doing things. It is important that our clients get paid out when they are most in need.

Technology has come to our aid in numerous ways, from WhatsApp for client communication and digital signatures for counter-offer letters, to video conferencing for client consultations and tele-underwriting. It is long overdue the life insurance industry

adopts these technologies to progress along the path to full customer personalisation.

People-centric product design

Life insurers can kickstart their customisation drives with a renewed focus on product design. We must change our mindset from a ratings book approach, that forces customers to 'fit' to our product, to one where we first consider what our customers need and then design a product that meets those needs. This customisation is already part of BrightRock culture.

By way of example, we can already offer 56 600 alternate options for cover. There are 56 600 possible policy permeations to offer your clients, compared to an industry standard of around 30. It is in offering this choice that we achieve the goal of revolutionising life insurance.

The only way for us to make our product more meaningful and relevant to today's customer is to offer wider choice and acknowledge that each customer has different needs at different stages in their lives.



Sean Hanlon
Executive Director: Sales and Distribution
BrightRock

Re-assessing risk in times OF CRISES



In our globalised community, an infectious disease outbreak can move from one city to another on the other side of the world in a matter of days. The Coronavirus, which first emerged in a Chinese food market in Wuhan late last year and took its first casualty early in January, has since spread to 212 countries and territories. According to worldometers.info, as of mid-May, there have been just over 4.2 million reported COVID-19 cases and nearly 290 000 deaths.

To say we are living in a time of flux is an understatement. But, “out of crises comes opportunity.” An opportunity to do better. To be better prepared next time. A crisis is a tipping point that forces people to pivot. To rethink and reimagine – it’s a chance to take what we’ve learnt and use this to shape how we emerge on the other side.

‘It won’t happen to me’

It is in times of crises that we are forced to relook at our behaviour and in this case, how we manage risk. Often, something bad has to happen before we take action. “It will never happen to me,” is a sentiment of the past and we are realising it can very well happen to us.

This pandemic has also made us realise what is really important in our lives – our families, our health and our livelihoods. While we have very little control over this pandemic and the potential impact on our health, we do have control over our actions. Ensuring we take the necessary precautions to secure our family’s futures and our future income

stream, is now more important than ever before.

The value of life insurance and income protection is only truly realised when crises strike. For advisers, now is the moment to have a conversation with your clients about their risk insurance. In fact, according to recent NMG research, 81% of advisers interviewed said they believe customers are more likely to view life insurance as important as a direct result of COVID-19.

Questions to ask your clients

It is an opportune time to make sure your clients understand their current insurance policies, and assist them in identifying any potential gaps in their cover. COVID-19 could have potentially disastrous consequences for clients with only lump sum cover in place, should they fall ill, as they would only be protected against permanent disabilities. Are your clients covered if they get sick? Are their families sufficiently covered if they pass away? Are their beneficiary details up to date?

Affordability is an obvious barrier right now, but the COVID-19 pandemic has certainly made us all realise the value of our monthly income – it should be easy for your clients to understand the importance of protecting it and the risks they face if they do not. As an adviser, there are various ways that you can help your clients manage their financial challenges – and opting for more cost-effective income benefits over the lump sum equivalent might make all the difference in your clients’ lives. In the short term this will

help you build trust with your clients; in the long term, it may even generate priceless client referrals.

Review current cover

For those clients with income protection already in place, it’s an opportunity to go through the fine print to make sure they understand their cover and, most importantly, what their waiting period is.

As global mobility rises, so will the incidence of global epidemics and experts believe this is only the start of our new normal. According to The World Economic Forum, “Coronavirus is part of a pattern of increasingly frequent epidemics that have coincided with globalisation.” Infectious diseases have been identified as one of the top 10 risks in terms of major impact in the next 10 years (according to the Global Risks Report). That’s why it’s important for people to start re-evaluating how they view risk. Let’s not wait until the next crisis to plan and take action.

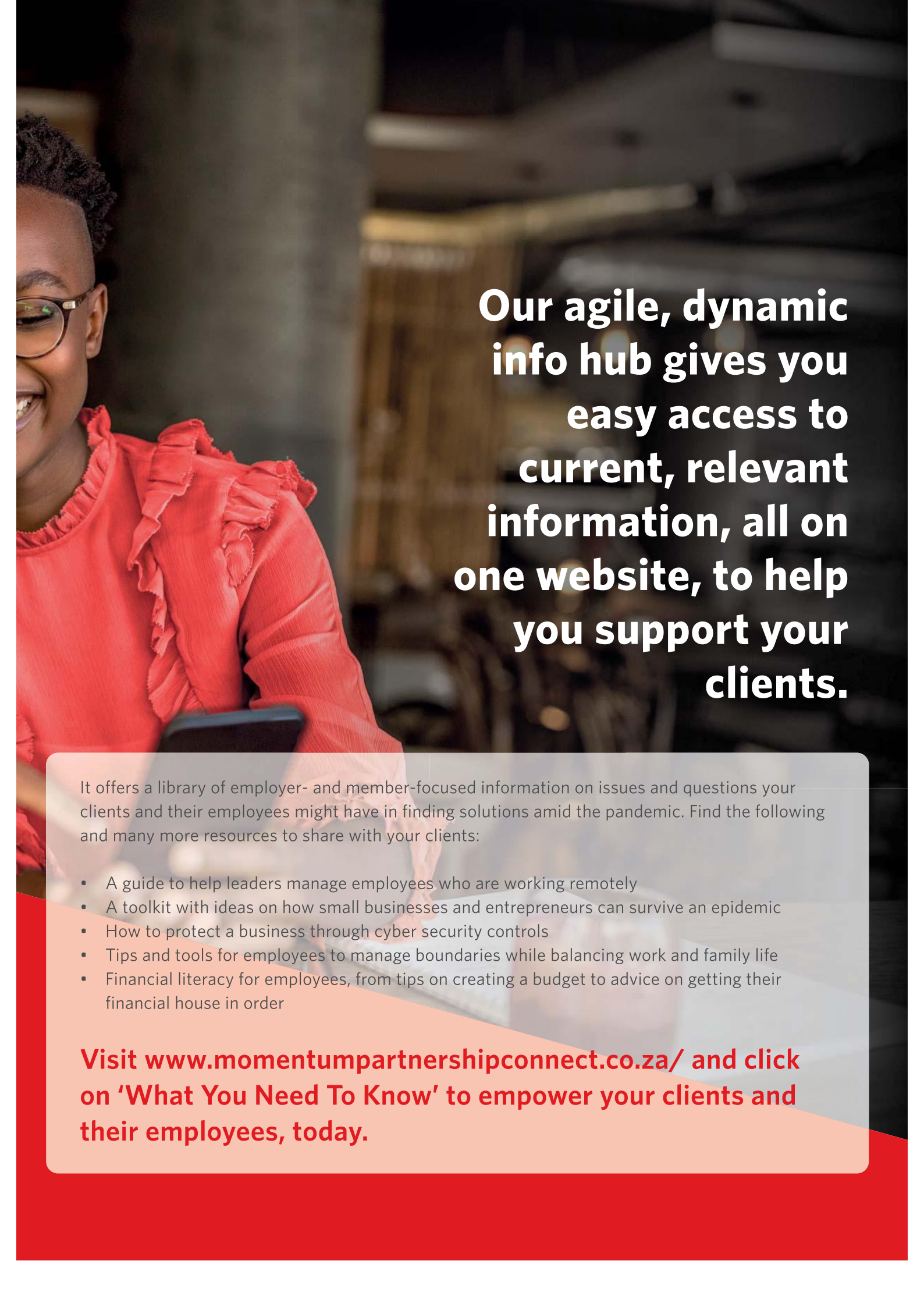


Steve Piper
Chief Distribution Officer
FMI (a Division of Bidvest Life Ltd)

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Help your clients steer their businesses
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The lockdown is affecting our lives, health, work and finances, and for many employers, the path ahead is unclear at the moment. We're positive that better times will come, but for now, reliable information is vital.



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- A toolkit with ideas on how small businesses and entrepreneurs can survive an epidemic
- How to protect a business through cyber security controls
- Tips and tools for employees to manage boundaries while balancing work and family life
- Financial literacy for employees, from tips on creating a budget to advice on getting their financial house in order

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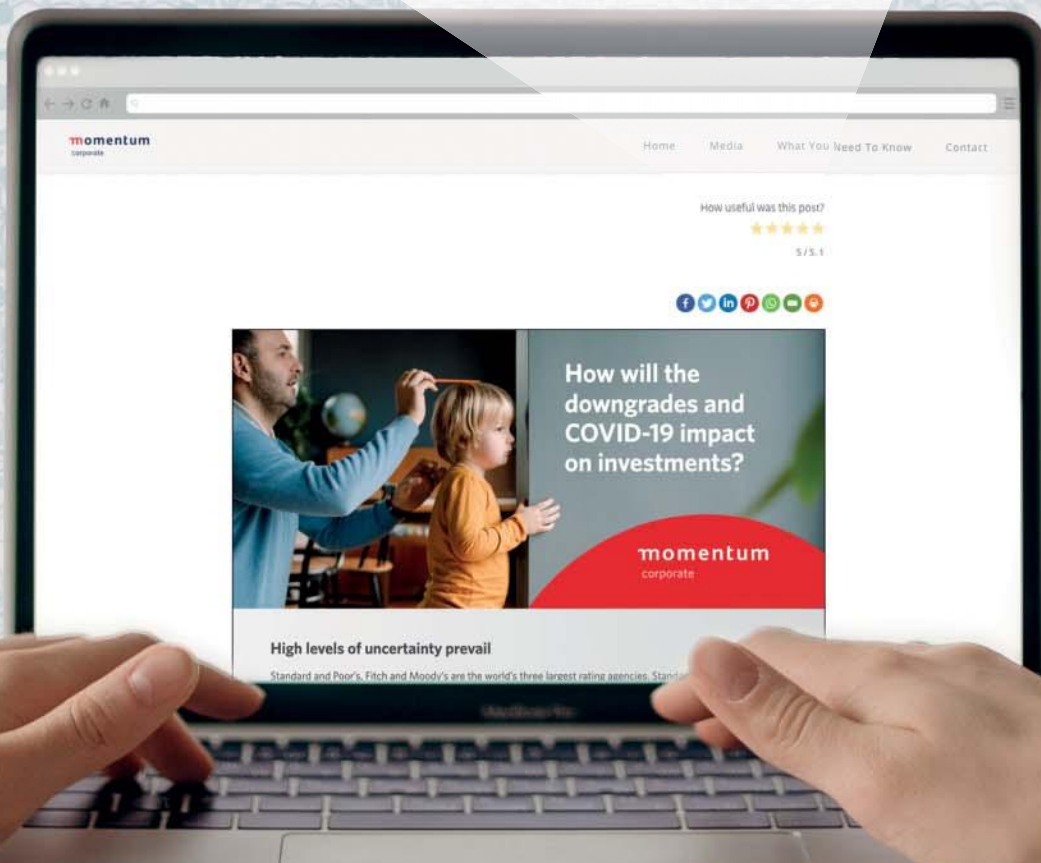
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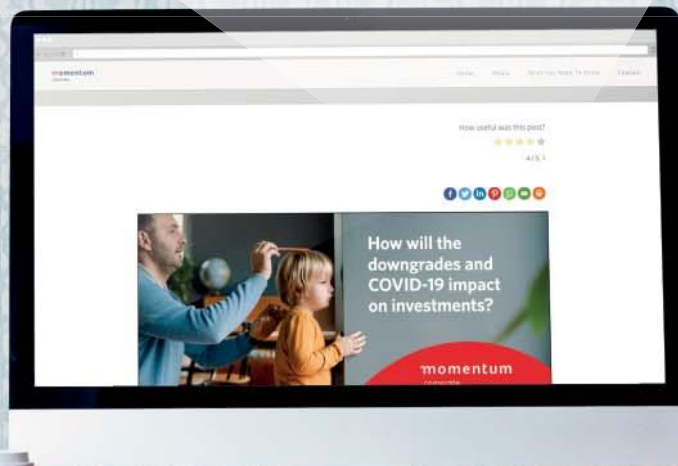
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COVID-19 treatments to cost medical schemes **BETWEEN R7,3 AND R31 BILLION**

The COVID-19 pandemic has created a perfect storm of economic, healthcare, and social costs that will constrain world economies for many years. Midway through 2020 South Africa's large medical schemes were caught between offering financial assistance to struggling scheme members and ensuring that they had enough in reserves to pay for projected coronavirus claims. "The full financial impact of COVID-19 on medical schemes over the next couple of years is still uncertain – various factors will play a role," said Discovery Health CEO, Dr Ryan Noach, during a media briefing on the likely impact of the disease.

37 deaths from 1 733 positives

By 18 May 2020 Discovery Health Medical Scheme (DHMS) had tested 48 851 scheme members for COVID-19. These tests yielded 1 733 positive results which converted into 412 hospital admissions, 79 cases in ICU, 39 on ventilators, and, regrettably, 37 deaths. "We are studying each of these deaths to determine what additional measures we might implement to protect high risk members," said Noach. Discovery Health, an administrator and managed care provider to 19 medical schemes with 3,5 million lives under administration, is well-positioned to offer unique insights into the pandemic.

DHMS had incurred an average cost, including in-hospital and all related costs, of R84

708 per admission for all its COVID-19 cases to date, 18 May. The average cost per admission for an ICU admission stood at R169 525 and admissions for ventilated patients averaged R340 000. These expenses are similar those incurred by Medscheme which had processed and paid claims amounting to R14,5 million on 97 admissions, at an average cost of R150 000, at the time of writing.

A R31 billion price tag

DHMS estimated the likely cost of the disease to local medical schemes by integrating its early cost experience into pandemic infection models developed by the Actuarial Society of South Africa. On this basis the scheme projected that the industry would incur additional pandemic-related costs totaling between R7,3 and R31 billion.

The scheme believes that these costs will filter through the industry over the next 18 months and have a significant impact on both 2020 and 2021 results. They expect medical schemes to pay out between R816 and R3 561 per beneficiary to treat all scheme members affected by the pandemic. The impact will vary from one scheme to the next based on its demographic profile.

"The COVID-19 cost per beneficiary is dependent on the average age and pensioner ratio of each scheme," said Noach. "We use this information to calculate a factor of the fixed COVID-19 cost per beneficiary relative to the scheme's reserves

per beneficiary to determine scheme resilience". He added that DHMS was comfortable that its R20 billion reserve was adequate to withstand the high scenario of pandemic-related and other healthcare claims. Schemes could benefit from a reduction in their 2020 in-hospital claims costs due to the lower number of elective procedures taking place during the first half of 2020; but these 'savings' will either filter through in coming months as hospitals play catch-up, or be redirected to pay for COVID-19 claims

Age and comorbidity risks


An analysis of DHMS data suggests broad correlation between the South African an overseas experience of COVID-19. "The most important contributing factor for [COVID-19] admission is age, followed by patient complexity, and the extent to which you effectively exercise," said Emile Stipp, chief actuary at Discovery Health. "These factors are consistent with international statistics and the numbers from our UK book".


Patient complexity relates to co-morbidities and chronic illnesses such as diabetes, hypercholesterolemia, and hypertension. Discovery Vitality has provided a useful window into the benefits of wellness on combating the disease. Their conclusion is that fit people have a lower risk of admission for COVID-19, all else being equal. ●


Gareth Stokes - Stokes Media

Put the value proposition of the medical schemes you market to the test.

What are the three most important questions your clients should be asking about their corporate medical scheme?

Are wellness and preventative benefits paid from risk? 

Is the corporate health and wellness offering fully integrated into the medical scheme's product line-up? 

How safe are the savings of the medical scheme's members? 

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Reducing health risks **AT COMPANY LEVEL**

The COVID-19 pandemic has introduced many new challenges – not to mention headaches – for those responsible for managing risk within companies. One particular area of concern is that of health risk.

Right now, it is more critical than ever to keep employees, who are at the heart of any business, as healthy and productive as possible, to ensure that the wheels of industry can continue turning.

Apart from the risk of staff members contracting COVID-19, which can lay some individuals low for several weeks, employers currently face several other, perhaps less obvious healthcare risks. Many employees have, for example, neglected to monitor chronic health conditions regularly during lockdown. In addition, screening for diseases such as breast and prostate cancers, type-2 diabetes, high blood pressure and high cholesterol has all but fallen by the wayside.

Group healthcare cover a priority

After several weeks in lockdown, during which productivity have in many respects suffered a considerable blow, risk managers are calculating the risk to the business if a number of employees, or even just a few key employees, should get sick. The added, potential loss in productivity and revenue that this could imply is certainly cause for deep concern, particularly in the current economy.

Those companies that do not provide their employees with group health cover may face the added problem of financially stressed employees quietly ditching their private medical cover, which could leave those employees – and ultimately the bottom line of the business – dangerously exposed should they become ill.

Evaluate medical benefits

Research suggests that employees who have access to quality healthcare are healthier and are absent from work less often with the added advantage of increased productivity. In addition, an employee who feels looked after and cared for, is going to have higher morale and is likely to perform better over this difficult time. Now is the time to evaluate the medical benefits your company currently offers employees.

If the company already contributes to employee medical scheme cover, they could consider bumping up the company contribution to help struggling employees. Those businesses that do not currently contribute to their employees' medical aids should consider the benefits of doing so now in order to relieve some of the financial burden faced by employees to ensure that they are covered at this time.

Health and wellness partners

The best way for any business to manage its health risk is to adopt a comprehensive corporate health and wellness programme partner that can identify and monitor their health risks on an ongoing basis.

Having a standardised, group-wide medical scheme can also assist you to maintain some form of control when it comes to the health and wellness of employees.

South African companies across the board can unlock considerable value and higher levels of productivity within their operations if they paid greater heed to the health and wellness strategies that they have in place and integrate these under a single, holistic umbrella.

This is where healthcare advisers can do their corporate clients a great service by encouraging businesses to implement a healthcare strategy that encompasses the full spectrum of services from a single provider, in order to achieve maximum value for money and efficiency. Companies, on the other hand, should ask probing questions of their medical scheme partner.

Unlock vital health, wellness knowledge

Many companies do not realise that achieving a more coordinated health and wellness solution within their businesses not only enables a more harmonised approach to the wellbeing of their employees, but can also unlock critical knowledge about their health and wellbeing. Within this context, knowledge has immense value that can be used to good effect in facilitating a healthier, more productive workforce.

A customised and integrated corporate healthcare solution also supports the human capital initiatives of the business. Employee welfare and affordable access to health cover for all employees are important objectives and goals for employers, particularly in times such as these.

A disparate, fragmented approach to health and wellness on the other hand, prevents an organisation from being able to mine information that can meaningfully be used to inform a workable, cost-effective healthcare strategy that can serve employees from the lowest to the highest levels of the organisation.

Customised healthcare plans recommended

Given our distinctive South African workplace environment each business should have an individualised, fully integrated approach to health and wellness.

Employee ill-health can be associated with considerable financial risk and many companies make the mistake of underestimating the true impact of employee health and wellness on the sustainability of their business.

Companies that are serious about the health and wellness of their workforce, and how this translates to improved productivity, can benefit richly from a working partnership with a medical scheme that can implement a fully integrated healthcare solution that delivers tangible results. Every business can benefit from bespoke, customised health utilisation and trend reports that are aligned with its specific requirements and expectations.

In South Africa, which has a relatively high proportion of sick and unhealthy workers, strict laws against discriminating against the sick, and a strong tradition of trade unionism, the provision of healthcare services in the workplace becomes an even more pressing business imperative.



Josua Joubert
Chief Executive and Principal Officer
CompCare Medical Scheme

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The COVID-19 pandemic has disrupted your client's workplace and is impacting on their employee benefits cover. Group disability income insurance is no exception. Encouraging the right behaviour during a pandemic will be essential for your clients as they seek to reignite employee productivity and unlock the full value of their group disability income insurance programmes.

A lull in disability claims

Momentum Corporate has seen a 60% drop in disability claims notifications since lockdown. This is partly due to fewer work-related injuries and motor vehicle accidents; and partly because human resources staff are out of office and therefore unaware of new disability cases. Claims levels are likely to increase dramatically as more employees return to the workplace.

The pandemic and lockdown measures are having a debilitating effect on an already weak economy. Our claims experience traditionally shows a correlation between a weak economy and high income disability claims, as financial pressures on employers translate to salary cuts or reductions in working hours for employees. These pressures may affect employees' health and lead to an increase in disability claims. Fewer job opportunities for claimants seeking to return to work is also likely to extend the duration of claims.

Pandemic contributes to stress

Mental health is already one of the top causes of disability claims across our client base. The many stressors associated with the pandemic and lockdown, from the blurring

of work and life boundaries in the 'work from home' setting to coping with uncertainty and financial pressures, are likely to drive a surge in claims in this category. These and other developments call for employee benefits consultants and financial advisers to step up. You need to assist your clients to reignite their workplace performance and adapt to the new normal, without putting their mental health at risk.

Many employees who would normally be able to cope may struggle within the new normal of a COVID-19 workplace, whether virtual or otherwise. There will, therefore, be a need for support interventions that minimise the risk of disabilities related to mental health. A traditional way to achieve this would be via an Employee Assistance Programme, though such solutions could prove unaffordable at this time. The good news is that some large insurers offer telephonic counselling as a value added benefit within their service offering.

Certain leading umbrella retirement funds also offer basic financial literacy as part of their benefit counselling services. This support may be essential for employees dealing with financial pressures due to pandemic-related job losses. You can assist your clients by finding out what value added services their service providers offer and encourage usage.

Healthy lifestyles of great benefit

It is more essential than ever to make sure your client's disability claimants have access to professional rehabilitation and wellness services through their insurer. These services minimise business disruption and facilitate

a speedy, efficient return to productive employment. Also make sure that your clients tap into the heightened appreciation for the value of good health and healthy behaviour as we emerge from the grip of the pandemic.

Top group insurance service providers offer engagement programmes which incentivise employees to follow healthy lifestyles as part of their value proposition. Certain leading employee benefits service providers also reward companies to encourage employer behaviours that drive employee engagement and productivity. Employers can spend their rewards on employee wellness initiatives or, in the COVID-19 context, on safety measures for workplace integration or to support staff working remotely.

Encourage your clients with access to these programmes to use them to reduce the risk of lifestyle-related disabilities and build a resilient, productive workforce. COVID-19 is creating a new normal. Help your clients to rise, stronger than before, by unlocking the right employee behaviours.



Elna van Wyk
Head of Group Disability
and Underwriting
Momentum Corporate

Boxing and **body blows**

Balanced funds in a battle to create wealth and protect capital

As an avid sports lover and couch supporter, I have been battling the withdrawal symptoms associated with not having any live sporting events to follow. The COVID-19 pandemic forced the suspension of just about every sporting event worldwide.

As I resorted to reading about or watching the 'old classics' I was reminded about the great boxing matches, each with their own headline billing, such as the 'Rumble in the Jungle' featuring George Foreman and Muhammad Ali or the 'Thrilla in Manila' between Ali and Joe Frazier. These heavyweight bouts reminded me about the ongoing tussle for supremacy between balanced funds and their often-conflicting objectives to either create wealth or protect capital, while at the least outpacing the rate of inflation.

Strategy with 'punch'

The secret to a title winning or title defending match lies as much in the strategic planning, which begins months before the fight, as in the ability to tactically combine a series of jabs, hooks, and the occasional uppercut to overpower the opponent. In a similar fashion, the traditional balanced fund leverages off a strategic platform that is captured in the portfolio manager's philosophy, process, and the way he or she maximises the use of differentiated and diversified asset classes to strategically and tactically build up to a win on points, rather than finishing in grand style with a hard-hitting cross or hook.

It must, however, be noted that the balanced fund managers have delivered a less than glamorous performance over the last number of years. The history and pedigree of balanced funds are there for all to see; but there have been some difficult events in the last decade, resulting in them not delivering on their objectives. Key to this has been the disappointing returns generated by local growth asset classes, including local equity and property.

Too soon to throw in the towel

While local cash and bonds and global asset classes have managed to deliver inflation-beating returns in the last five years, local growth assets not only fell short of outperforming inflation but delivered negative absolute returns in the process. Investment managers in aggressively managed funds that target higher rates of return place significant emphasis on growth asset classes to generate their above-inflation returns. This focus has resulted in many balanced funds taking a

few body-blows of late. It has also forced once faithful supporters to consider throwing in the proverbial towel, stopping the match before we reach the final round.

While the short-term experience has disappointed, the Association for Savings and Investment South Africa (ASISA) category returns, measured from July 2000 to March 2020, reveal the true benefit of having a longer term investment horizon. These returns also support staying true to your investment plan. The true value of a balanced fund and having a diversified asset class mix is on display in the table below. It confirms that balanced funds have delivered a credible inflation-beating return over various rolling return periods.



Jako de Jager
Head: Retail Portfolio
Solutions
Momentum Investments

	Annual- ised since inception	Average three- year rolling	Average four-year rolling	Average five-year rolling	Average six-year rolling	Average seven- year rolling
(ASISA) South African MA High Equity	10.2%	11.8%	12.0%	12.1%	12.0%	13.8%
(ASISA) South African MA Medium Equity	9.9%	11.0%	11.2%	11.2%	11.1%	12.9%
(ASISA) South African MA Low Equity	9.2%	9.4%	9.4%	9.4%	9.3%	10.8%
CPI +6%	11.6%	11.6%	10.6%	10.7%	10.7%	12.7%
CPI +4%	9.6%	9.6%	8.6%	8.6%	8.7%	10.3%
CPI +2%	7.6%	7.6%	6.6%	6.6%	6.7%	8.0%
FTSE/JSE All-Share Index (ALSI) (total return)	12.6%	15.3%	12.6%	12.7%	12.7%	15.1%

Source: Morningstar

Good advice through tough times

Balanced funds have survived previous periods of market turmoil and there is no reason that this time should be any different. Yes, some opportunities have not delivered the results that managers and investors expected; but there are plenty of good investment prospects for the future. Fund managers are adapting and evolving to include prudent and growth enhancing opportunities into their balanced and multi-asset-class funds, to deliver on their mandates over the long term.

As Ali once said: "It isn't the mountains ahead to climb that wear you out, it's the pebble in your shoe". Challenging times should be met by keeping our eye on the big picture, staying focused on our long term objectives, and staying invested. ●



It must be noted that the balanced fund managers have delivered a less than glamorous performance over the last number of years.

Faster, simpler, and more reliable - The pain-relieving perks of smart verification



Cobus Kruger
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Discovery



Not only does digital verification cut many steps from the process, it is far more reliable, as providers receive information straight from 'golden sources'.

Author Darynda Jones once remarked, "Paperwork would not be so bad if it were not for all the paper. And the work."

Unfortunately, it is a sentiment we have all experienced when needing to supply supporting documents. A single task - like locating a specific financial statement or making time with a Commissioner of Oaths, can prove incredibly frustrating. Often, the time and effort required to get all the paperwork in place can greatly hamper your willingness to start a process at all - and that is how many clients feel when it comes to investing.

The industry standard: lengthy and laborious

The financial services industry is more accustomed - if not more enthusiastic - to the sheer amount of administration that is required to get things done. But the effort of learning their options, getting quotes, signing up for a product, and updating an investment can keep clients from making smart financial decisions in time - and we all know that when it comes to investing, time can be your biggest friend - or your greatest foe.

In a world that is increasingly dependent on instant answers and speedy delivery, saving yourself and your clients time and effort, can add real value. Take for example the inconvenience of manual verification when starting an investment.

The industry standard entails that every client submit an application form detailing the source of their wealth, along with proof of their ID, residence and banking details - all of which must be certified copies. Brokers then need to pre-screen this stack, deciphering illegible writing and comparing long figures as they assess the verity and accuracy of each document. When it comes to investing abroad, the client still has to courier physical certified copies to the investment provider. On average, this process can take three to four weeks.

Smart verification is faster - and safer

Enter smart verification - a process that eases this experience by allowing an institution to verify essential

personal information autonomously. The company, for example, can independently verify a client's ID, residence, and banking details. Simply removing the need to authenticate, pre-screen and courier these three documents hugely reduces the time lag and labour-intensity of the process - alleviating frustration for both financial advisers and clients.

Not only does digital verification cut many steps from the process, it is far more reliable, as providers receive information straight from 'golden sources'. This mitigates the risk of fraud, impersonation, inaccuracy due to writing errors, and the chance that original documents will get intercepted or lost en route.

Easing the complexity of investing abroad

Smart verification is not new. There is a 97% success rate in all cases where smart verification has been used. It is now being refined - a move likely to delight financial advisers, who need to navigate both local and international compliance requirements when helping clients to invest.

It allows for all additional supporting documents, including trust deeds, to be certified and supplied digitally - eliminating the need to courier paperwork. This eliminates the inconvenience of travelling to clients, the costs and time associated with the courier and the inherent delays created.

A catalyst for future innovations?

Developing a simple, modern interface and putting strict standards in place to ensure the secure and lawful transmission of data, can go a long way to decrease risk and increase efficiency. Particularly within the arena of investing abroad, we wanted to eliminate as much of the administrative burden as possible for both clients and financial advisers, so everyone is enabled to accomplish their goals faster and easier.

By making this functionality available to individual investors, technological innovations like digital verification are set to add real value to investors keen to diversify globally. For the traditional financial services industry - known more often than not for its red tape and rigidity - let us hope this smart innovation is a herald of things to come! ●

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This functionality is currently available to individual investors who are South African citizens. While international companies and trusts must still provide the entity's supporting documents, such as trust deeds and founding documents, directors and trustees who are SA citizens no longer need to supply their identity documents or proof of residence. If we are unable to verify your details, you may still need to submit these documents to us. Product rules, terms and conditions apply. This document is meant only as information and should not be taken as financial advice. For tailored financial advice, please contact your financial adviser. Discovery Life is a registered long-term insurer registered under the South African Long-term Insurance Act of 1998 and an authorised financial services provider (registration number 1966/003901/06). Discovery Invest is an authorised financial services provider (registration number 2007/005969/07).

Fixed income: can the party continue?



Ian Scott
Head: Fixed Income
Momentum Investments



I believe that fixed income may be the only domestic asset class producing an income over the next year or two.

In times of crises we see the emotion of fear overtake market participants and all assets on financial markets are sold irrespective of value or quality. In most cases, investors behave like speculators and that is why some of the best opportunities arise in times of fear. The events of March this year were no different.

Dividend income severely curtailed

What will be different this time is the lack of income generated by most risk assets like equities and listed property. Due to most of the globe finding themselves in lockdown, the ability of companies and property owners to generate an income has been severely curtailed. Now, most companies are withholding dividend payments to investors and property companies are not paying any distributions. The dividend yields may be high, but the income distribution will remain close to zero over the next year or more.

I believe that fixed income may be the only domestic asset class producing an income over the next year or two. As much as companies can withhold dividend payments to owners, it is not possible to withhold interest payments to debt holders. Debt holders have to be paid their coupons and capital in full on time, or else they will call default on a company with disastrous consequences. There is no way around this; even taxes can be postponed or scrapped, but not interest payments.

Investment assets vs cash investments

Income is a crucial component in any investment portfolio and much more so if the underlying investors are retired and dependent on the income generated by investment assets. It does not make sense – especially in times of stress – to have a portfolio full of growth assets that generate no income. The investor will be forced to liquidate assets at low prices just to generate cash for income, and that is not a great investment strategy. A portfolio always needs a level of income that is in line with the investors age and life stage requirements.

Luckily here in South Africa we can generate high levels of income at low risk to meet the requirements of various investors and portfolios. Imagine trying to generate income from fixed income assets in Europe where yields are negative. The investor has to pay the bank to hold his money.

SA offers high real yields

One reason many offshore investors do come to South Africa to invest is for our attractive yields in relation to other parts of the globe. It is possible to beat inflation with high real yields that our fixed income assets are producing. We forecast that inflation will be around 3% this year and 4% next year. Currently if you invest in a money market fund it is possible to earn a yield of around 7%, that is nearly beating inflation by 3% with a low level of risk. There are very few places in the world currently that will give an investor nearly that high level of real yield on cash investments, yet we have it here available in our own country.

Bond market looking up

When we look further up the yield curve (term structure of interest rates) we see that the bond market is showing very good value and opportunity to generate an income. The ten-year government bond yield is trading around 11%, that means inflation plus 8% at a sovereign risk level with a high level of liquidity. There is a lot of bad news already priced in the bond yield, such as Eskom, sovereign downgrade, and poor government finances. If bond yields remain unchanged, an income of around 8% can be achieved from the coupons.

We believe fixed income should have a higher weighting in investment portfolios now, due to the income generating ability of the asset class, given that most other asset classes will not generate any income over the next year or more.

So to answer the question: “Can the party continue?” I think the party is already in full swing and it is up to you to join in or stand on the sideline and wonder... ●



SA fixed income:

Searching for value in a sea of pandemic risk

Not even the Global Financial Crisis dished up the market turmoil we faced in the first quarter of 2020. The impact of the coronavirus pandemic on the global economy and financial markets has been unprecedented.

We saw a scramble for liquidity as a result of this exogenous shock; there was nowhere to hide, with massive price impacts across all markets. In the first quarter, our bond market suffered one of its worst ever performances, down 8,7%, with foreign investors selling more than R50 billion worth of bonds. Moody's also finally downgraded South Africa's credit rating to below investment grade, which means that South Africa no longer forms part of the FTSE World Government Bond Index.

Positive news for bonds

Amid all the bad news and uncertainty, there are still solid reasons for liking bonds. Inflation and interest rates are the two key factors that drive bond markets. Both are declining in South Africa, which is supportive. With inflation being under control for some time already, and now threatening the lower end of the South African Reserve Bank's (SARB) target band, the bank has had plenty of room to ease the monetary policy.

The repo rate was 6,5% coming into the year, but after a series of cuts is down to 3,75%. We believe that the SARB still has leeway to drive rates even lower, potentially cutting the repo rate by an additional 50 basis points. When you take a step back and think about that quantum of easing, for those individuals and businesses who are paying interest on debt, their monthly payments will have decreased by more than a third. That is a significant boost to an economy struggling in intensive care.

Rand woes not inflationary, yet

It seems strange to think that the SARB has had so much room to cut rates, considering the depreciation in the rand this year. However, given the halt to economic activity and the resulting lack of demand, on top of the spectacular collapse in the oil price, upside inflation is not a worry. Of course, the rand is always an important determinant of inflation, and its recent weakness remains a concern.

However, we believe the rand scenarios that result in high inflationary outcomes are a long way off. As South Africa is an oil importer, the extent of the oil price decline has helped to contain inflation. Inflation would only start to threaten the upper limit of the SARB's

target band if our currency weakened to R21,00 against the dollar and the oil price moved closer to \$60,00 per barrel.

The economic fallout from COVID-19 and the necessary lockdown measures, has been immense. South Africa had already entered a recession before the virus crisis hit. We estimate that just less than half of the economy was able to operate under level five lockdown. As these measures are gradually relaxed, we expect 85% to 90% of the economy to be back on stream by September. We estimate that economic growth will contract by a staggering 13% over the second quarter, not annualised, with some bounce back in activity towards the end of the year.

Help for a faltering economy

So, how will the ailing economy and the stimulus package impact the fiscus? Prior to the COVID-19 crisis, the government's deficit for this year was budgeted to be 6,8% of GDP. But GDP is now expected to contract sharply, with tax collections suffering. On top of that, government faces additional spending pressures under the fiscal package. So, we expect the budget deficit to increase to approximately 13% of GDP, considering the stimulus measures. The good news is that government has been smart about financing the R500 billion stimulus package:

- A large portion will be funded by using banks' balance sheets via a R200 billion loan guarantee scheme. It will only be a contingent liability to the state and will therefore not require extra bond issuance.
- A further R130 billion will come from reprioritising spending in the existing budget.
- The Unemployment Insurance Fund, which has a surplus of R150 billion, will be another source of funding.
- The government has access to R100 billion in funding from multilateral agencies such as the IMF and the World Bank, so it could easily fund the balance of the stimulus package.

Given the way it has been funded, the additional expenditure does not present a cash-flow problem for National Treasury and therefore is less of a near term concern for the bond market. However, government's ballooning debt, with an economy unable to grow, presents a solvency problem. With debt to GDP now climbing to an estimated 80%, implementing structural reform to unshackle growth and confidence is crucial. The bond market's fate, along with that of South Africa, will ebb and flow with the perceived 'political willingness to reform', a somewhat tedious game that is all too familiar.

(Continued on p.83)



Peter Kent
Co-Head of SA & Africa
Fixed Income
Ninety One



We estimate that economic growth will contract by a staggering 13% over the second quarter, not annualised, with some bounce back in activity towards the end of the year.

Key section 12J considerations for financial advisers

Gareth Stokes
Stokes Media



It is difficult to compare fund managers and individual funds due to the paucity of published results; diverse fund mandates; and the timings of underlying investments into SMEs.

Your high income clients have until 30 June 2021 to avail of the tax incentives on offer in section 12J compliant funds. This is a complex investment field that requires a thorough understanding of your client's tax affairs, existing investment portfolio, and risk tolerance before getting involved. Investments in this structure are most suited to clients in the top marginal tax bracket. What is a section 12J fund? And what are the main considerations before investing?

Encouraging new investment in SMEs

The legislative environment for section 12J funds is set out in section 12J of the Income Tax Act (ITA), as amended. This legislation was introduced by SARS to stimulate the economy and create jobs by incentivising individuals, trusts, and companies to invest in small and emerging enterprises (SMEs). It allows taxpayers who invest into qualifying venture capital companies (VCCs) to deduct 100% of that investment from their income tax. SARS will recoup the tax benefit if the taxpayer withdraws from the structure within the first five years. The 2019 Taxation Laws Amendment Bill, effective 21 June 2019, capped annual investments into section 12J funds to R2,5 million for natural individuals and trusts, and R5 million for companies.

The section 12J investment universe comprises more than 150 funds and over R10 billion in total assets under management (AUM). Financial advisers can view a partial register of VCCs at invest12j.co.za or download a full listing from SARS. Some of the larger players include Westbrooke (approximately R2,7 billion AUM); Jaltech Fund Management (R1,1 billion); and Lucid Ventures (R750 million).

It is difficult to compare fund managers and individual funds due to the paucity of published results; diverse fund mandates; and the timings of underlying investments into SMEs. Assuming you obtain returns data you must make sure to compare apples with apples. "There are a handful of section 12J funds that disclose their returns; but in order to perform a fair comparison, one would need to consider net returns," said Jonty Sacks, a director at fund administration firm, Jaltech. A net return is the return after taxes (including dividends withholding tax) and fees.

Comforting regulatory oversight

Your clients will benefit from comprehensive regulatory oversight. Each VCC must be licensed by the Financial Sector Conduct Authority (FSCA) to give advice on category 1(8) Securities and Instruments:

Shares. "There is excellent oversight by both the FSCA and SARS," said Neill Hobbs, a director at financial services firm, Hobbs Sinclair. "A section 12J fund is a regulated fund and subject to the same regulatory oversight as a unit trust fund". It is also helpful if the fund is administered by a service provider with section 12J experience, especially insofar navigating the nuanced tax legislation.

A financial adviser's due diligence process would mirror the approach for other discretionary investments, with due consideration for investment risk. You should determine for how long the company has been in business; its historic returns; and the strategy of the individual section 12J fund. "You could also consider the personalities involved by, for example, speaking to the fund's CEO," said Hobbs.

Sacks said there were three important considerations when choosing a fund. The first is to determine how much of the section 12J fund is invested in SMEs. "A growing number of fund managers have continued with fresh capital raises despite not having a pipeline of suitable SME investments," said Sacks. Investors in these funds will see lower returns due to their capital sitting in cash rather than being put to work in a high return business. Delays in committing capital to the underlying investment could also mean that the investor must remain invested for a longer period than initially considered.

Getting clarity on fees

The second is to obtain a clear picture of the fee structures in your preferred fund. "Charging in this space is complex and fraught with difficulties," said Sacks, before expanding on the common fee structures.

- o **Gross performance fee:** A fee charged on the return exceeding the original investment amount i.e. if your R100 investment grows to R120, the fee (say 20%) is charged on the R20 growth.
- o **Net investment performance fee:** A fee is charged on the return exceeding the net investment amount, calculated as your R100 investment less the assumed 45% tax incentive. The fee (for example 20%) is charged on the return exceeding R55. This fee may include a hurdle (such as CPI or other benchmark) in which case the fund manager charges fees on the return on the net investment that exceeds the agreed hurdle.
- o **Free carry performance fee:** The fund manager, in lieu of a performance fee payment, receives

shares in the investment (for example 20% equity in the underlying investment) which equates to 20% of all returns, capital and profits!

moveable assets, such as asset rental companies; renewable energy; hospitality; or technology.

	Gross performance fee	Net performance fee	Net performance fee + hurdle	Free carry
Gross investment	R100 000	R100 000	R100 000	R100 000
Net investment, top marginal tax rate assumed	N/A	R55 000	R55 000	N/A
Value after five years	R120 000	R120 000	R120 000	R120 000
Profit	R20 000	R20 000	R20 000	R20 000
Performance fee [20%]	R4 000	R13 000 [R65 000 x 20%]	R8 600 [R43 000* x 20%]	R24 000
Performance fee as % of profits Profit	20%	65%	43%	100%+

"It is unfortunate that many section 12J funds charge net investment or free carry performance fees," says Sacks. "Many of these investments will never be able to generate significant returns due to the investor's profits being eroded". A third and final question should be to ask for investment performance and fund fact sheets.

Understanding the underlying investment

Section 12J funds identify their qualifying SME investments based on their fund mandates. "There are a number of Section 12J funds which have a general mandate and would consider investing in many types of opportunities," says Sacks. Some examples include

Anuva offers a range of equity investments under the heading High Income / Low risk; Pure Equity; and Property-backed Hospitality. Risk and return expectations vary widely from one fund to the next. You should take the time to familiarise yourself with the type of SMEs the fund management team intends investing in, to ensure a fit with your client's investment preferences. This is important, because your client will have to commit to this investment for at least five years.

Investors have some 'say' in how their investments are managed.

"We do not make investments without the approval of our investment committee which is voted for each year by the shareholders – we are committed to open and transparent communication with our investors," said Hobbs. But be warned: your client is unlikely to have any more 'say' than an ordinary shareholder in a listed entity. At the end of the day, the fund manager will have full discretion, in line with the tax legislation and the fund's mandate.

There is a sunset clause on section 12J of the ITA. At present investors will only be able to make new investments until 30 June 2021. But there is a good chance that SARS will extend the scheme. ●



But be warned: your client is unlikely to have any more 'say' than an ordinary shareholder in a listed entity.

SA fixed income: Searching for value in a sea of pandemic risk

(Continued from p.81)

Valuations remain attractive

The COVID-19 crisis sparked a wave of global market risk reduction, with investors seeking refuge in 'safe-haven' and liquid assets such as developed market (DM) government bonds. While bond yields are low to negative in DMs, yields in emerging markets (EMs) have generally risen to compensate investors for the higher levels of risk. In other words, bond prices fall when yields rise.

South African government bonds, which were already trading at a discount to EM peers, are now substantially cheaper in price. Pre-2015, the yield spread of nine-year SA government bonds over their comparable EM peers was approximately 1% to 1,5%. This spread has steadily widened and by late March, had surged to 6,17%. It has since stabilised back to 4,1%. The discount in price, while arguably excessive is to an extent justified, given

the deterioration in our country's debt metrics mentioned earlier. But it is important to understand what this discount could mean for us as a country when the South African government competes for capital globally.

SA's attractive bond yields

The borrowing needs of governments across the world are increasing at unprecedented rates due to fiscal stimulus measures to bolster their economies. So, there will be stiff competition for capital over the next few years. DMs will be at the front of the queue, given their central banks' ability to monetise those borrowings in a non-inflationary way. But South Africa's higher yields, and deeper discount, mean it is further up the queue to attract foreign capital than a lot of its EM peers. SA bonds look cheap not only versus inflation, but also relative to EM peers. ●



South African government bonds are now substantially cheaper in price.

The investment landscape in 2020 and beyond



Kondi Nkosi
Head of Institutional
Schroders South Africa



Herman van Papendorp
Head of Investment
Research & Asset
Allocation
Momentum Investments



The SA bond market, in particular, already offers the best real yields in the investable emerging world.

The impact of Covid-19 and the downgrade on South Africa pose a significant challenge to South African investors and place even more importance on effective diversification within and across asset classes as well as across geographies, said Kondi Nkosi, Head of Institutional at Schroders South Africa.

Business forces disrupting the industry

According to Nkosi, the below relates to the UK experience, which Schroders believes will likely be similar to what currently faces and will face the South African advisory market.

- Independent adviser numbers are down by 25% from 2012. There has been sizeable growth in adviser networks;
- Regulatory compliance, whilst wholly important, has implications on the cost of running an advisory practice;
- Portfolio Management trends are moving towards Discretionary Wealth Management and Model Portfolio Solutions, hosted by investment platforms;
- Star Asset Manager culture remains a key decision factor in fund selection;
- Average size of clients for an IFA to take them on is higher (average of £150,000 net investable assets);
- Smaller clients are struggling to get access to good quality advice;
- Net fees paid by clients have not really changed, the balance of fees between advice, platforms and asset management has; and
- Passive Investing has grown in share of the market.

The future outlook

Herman van Papendorp, Head of Investment Research & Asset Allocation at Momentum Investments said, once the virus effect has played out, global supply chains become unblocked again and isolation measures cease, there will be a significant rebound in global economic growth and company profits on the

back of a normalisation in economic activity and the lagged effect of massive policy stimulus undertaken during the crisis.

"This economic rebound will ignite renewed risk appetite by global investors and will be discounted by rising risky asset prices ahead of the time. During the risk-on period post COVID-19, the returns of risky asset classes (like equities, credit, emerging market debt and emerging market currencies) are likely to trump those of defensive asset classes (such as developed market bonds, the US dollar and gold) – this return divergence will be enhanced by the current cheap valuations of these risky assets in contrast to the expensive valuations of the defensive assets. Concomitantly, the volatility in financial markets should subside from the extremely high levels experienced during the crisis," said Van Papendorp.

"In line with the global sell off in risk asset classes in recent months related to COVID-19, SA investments already experienced significant downside pressure. The Rand fell by some 25% so far this year against the Dollar, SA 10-year bond yields rose by about 275 basis points in the last month and the SA equity market is around 25% lower since the middle of February 2020. The reality is that a lot of negative news is already discounted in local investments – this is likely to be supportive of the returns of these asset classes in the post COVID-19 period once risk appetites return in global markets," added Van Papendorp.

Attractiveness for investors

"The SA bond market, in particular, already offers the best real yields in the investable emerging world (about 7% on prospective inflation at the 10-year point) and already had significant foreign sales in the run up to the Moody's and Fitch downgrades and in recent years (R51 billion in 2020 so far and R140 billion from 2018 to 2020). Compare this with the R129 billion of foreign bond inflows around SA's WGBI inclusion in 2012. So, any further sell off in the interim from WGBI rebalancing that could be exaggerated by a lack of liquidity in the local bond market will further enhance the attractiveness for investors, once global risk appetite returns in the aftermath of the COVID-19 crisis," concluded Van Papendorp. ●



Change makes us adapt

 **Ninety
One**

Investing for a
world of change

Ninety One SA (Pty) Ltd is an authorised financial services provider.

Previously Investec
Asset Management

Partner with your clients to maintain wealth-creating portfolios during crisis



Sheldon Friedericksen
CFO
Fedgroup



Investors must also understand that a buyer's market does not guarantee that a stock's value will increase immediately after buying it.

The tried and tested wisdom when constructing an investment portfolio is to understand your needs and goals and then to invest accordingly. You should resist the temptation to make knee-jerk, emotional changes to your portfolio. Even with these rules in place, financial planners are frequently pressured by their clients to reconsider investment choices during times of crisis.

A review of a client's investment portfolio is not necessarily a bad idea, because a crisis may expose weaknesses in stocks and sectors that seemed great when they were initially considered. It would be unwise to make rash decisions based on the market fallout triggered by the COVID-19 pandemic; but adopting an 'ostrich' approach of doing nothing could be equally damaging to your client's long term financial outcomes.

Choosing to hold or sell

A portfolio examination should be approached from two angles. Firstly, you should consider what stocks and sectors to invest in, from today on. Secondly, you should consider whether to disinvest from any stocks that you currently own. These decisions will be affected by your core fundamentals, which are made up of your investment timeline and your risk appetite.

Accommodating your risk appetite does not mean trying to time the market. Investors who attempt this will inevitably buy when stocks are near their highest levels and then realise losses by selling when they are near their lowest. Investing during a crisis is an especially daunting task for investors who have just started on their savings journey. It is difficult for them to align their core fundamentals with short term market volatility, especially if that volatility means that their investment value has dropped below the sum of their contributions.

The current market volatility reinforces the need for financial planners to educate their clients and manage client expectations on each step of the wealth creation journey. Clients should not be questioning

their investment strategies or considering switching to overly conservative strategies just because of short term losses. Instead, market corrections should be viewed as opportunities to buy.

Understanding a buyer's market

It is not true that every share is a 'buy' just because the market has fallen. Some companies have been so affected by the global pandemic that they may never recover or take a long time to do so. Investors must also understand that a buyer's market does not guarantee that a stock's value will increase immediately after buying it. Prices may fall further, especially if global markets remain under pressure.

A carefully chosen stock has the prospect of recovering and growing beyond its current purchase price, over the investment horizon, because the fundamentals of the company remain solid. Investors will have their favourite stocks and will probably focus on areas where recovery from a crisis are most likely. Under this scenario it is important to protect your portfolio diversification, as it is never a good idea to deploy all your money into a single stock, market, or sector.

You may, however, identify sectors that you do not want any exposure to and adjust accordingly. Another aspect to anticipate is how the investor is changing. Increasingly, we see investors looking for more advice and not necessarily investing in the same thing every month, even in their retirement annuities. To do this effectively, you need to be in contact with your clients more often. Your guiding advice could prove invaluable.

Good news for financial advisers

Investors are increasingly concerned with impact investing and making positive contributions to communities and the environment, while generating sustainable returns. These investments often run counter cyclical, offering stable inflation-beating returns when other sectors are struggling. All of this is good news for financial advisers, who can add more value by partnering with their clients to generate a wealth-creating investment portfolio. ●

Weathering the sustainability storm

The pandemic will have a lasting impact on ESG investing

The global economy has suffered a dramatic external shock due to the national lockdowns implemented by governments in response to the COVID-19 pandemic. Fund managers who focus on sustainable investing seem to have weathered the ensuing financial market storm better than many of their investment fund peers.

Data from Morningstar confirms that environmental, social, and governance (ESG) funds have outperformed the wider global stock index through Q1 2020. The outperformance of ESG funds during bear markets has been widely debated since interest in this strategy first emerged some five or six years ago. Funds that incorporate ESG principles have certain characteristics that insulate them from external shocks to the economy. This capability will resonate with investors who need defensive alternatives during these trying times.

The world after pandemic

It is impossible to know how the COVID-19 pandemic will change ESG investing; but there are two trends that could emerge. The first is that the pandemic will increase the adoption of ESG practices, with a resulting increase in support for opportunities focused on combatting climate change and similar risks. A second possibility is that businesses will decrease their focus on ESG outcomes in favour of addressing the economic challenges caused by the pandemic, most notably by boosting their financial bottom line.

Some firms will undoubtedly reduce their ESG programmes; but there is enough evidence to support that the majority of corporates are entering an age of greater levels of ESG-orientated decision making. CEO of BlackRock, Larry Fink, affirmed this sentiment in his latest newsletter, where he wrote: "Companies and investors with a strong sense of purpose and a long term approach will be better able to navigate this crisis and its aftermath".

Businesses are increasingly adopting a dynamic and informed approach to ESG. They conduct regular assessments of the ecosystem within which they

operate to determine which component of this strategy to focus on. More recently they have prioritised social aspects such as employee engagement, health and well-being, labour practices, supply chain management, and competitive behaviour. This will ensure that issues like modern slavery and human rights are dealt with expediently, across the supply chain.

Climate action on the back seat?

Many short term initiatives aimed at tackling climate change have been delayed due to a renewed focus on governance issues. But increased awareness of the impact and significance of climate change will direct more funding to that area over the medium and long term. Companies will also address many previously ignored requirements, as they realise that neglecting ESG impinges on their bottom line.

Firms will include comprehensive information in relation to their corporate behaviour, climate impact, and quality of supply chains for their shareholders. There will also be more opportunities for firms to create robust, sustainable business models while generating positive outcomes for both the environment and communities in which they operate.

Surviving external shocks

Many African businesses and investors have been, and will continue to be, hard hit by the global pandemic. Some of these businesses are already in survival mode and will have to take tough decisions to ride out the economic shock. They should take care to avoid a total reversal of their ESG programmes, as such steps will reduce their ability to withstand future external shocks.

We are already seeing evidence that businesses that embrace sustainability are better placed to weather the financial market storm. These firms will stand the test of time by creating long term value for their shareholders and broader stakeholders. A continued focus on good ESG practices is critical to ward off both future disruptions and material ESG risks. Businesses should look beyond economic efficiency to achieve resilience grounded in their approaches to the environment, society, and governance. ●



Dean Alborough
Head of ESG
African Infrastructure
Investment Managers
(AIIM)



Businesses are increasingly adopting a dynamic and informed approach to ESG.

Will COVID-19 lead to a private equity investment boom?



Jonty Sacks
Partner at Jaltech



What led to a business's success pre-COVID does not mean success going forward. The corona economy has fundamentally changed customer behaviour.

Private equity fund managers who are able to brush off the anxiety from the current market unpredictability, and the unprecedented way in which COVID-19 has changed the way we will do business, are well-positioned to realise a wealth of opportunities that are presenting themselves.

The performers at the end of this black swan event will either have invested - at a discount - in otherwise healthy, established businesses who simply did not have the cashflow to see out the next twelve to eighteen months, or in entrepreneurs who have discovered new high-margin markets, which simply don't have competitors yet or are undersupplied.

Businesses bouncing back

Prior to 5 March 2020, there were many highly profitable businesses across many sectors, which simply would never have considered outside investment. Take the hotel, entertainment, conferencing and wellness sectors - there are many exceptional businesses in these sectors which, if able to see out the next twelve to eighteen months, can bounce back to profitability.

Due to an event entirely out of their control, many entrepreneurs with successful and scalable businesses, need to start searching for quality, long term equity funding partners, such as private equity funders and do everything to avoid taking on more debt. In delaying this, entrepreneurs risk liquidation or potentially selling equity at fire sale prices.

Wanted: equity funding

Pavlo Phitidis, co-founder of Aurik Capital, states: "What led to a business's success pre-COVID does not mean success going forward. The corona economy has fundamentally changed customer behaviour. Businesses who rest and rebuild their propositions, engagement and fulfilment capabilities to meet and lead these changes in customer behaviour, will find themselves six months ahead in an environment where half their competitors have fallen away. Of the remaining half, those that adapted early, will find themselves accelerating growth by outcompeting those competitors who did not make the necessary changes. Because of the uncertainty for the next 12 to 24 months, equity funding will be needed. Debt

funding in such an environment can sink a business if things go wrong."

But there is an enormous opportunity for private equity funds to invest in entrepreneurs who pivoted their businesses or developed new businesses; who either temporarily cater to the new norm or have found increased levels of adoption, due to COVID-19. A few examples are:

- A perfume manufacturer in Europe who re-engineered its production line to produce hand sanitisers;
- Clothing manufactures designing high-end face masks; and
- Vehicle manufactures who are producing ventilators.

Attractive margins

Not only is there huge current global demand for these products, but in many cases very little, or no competition. Given that such markets are underdeveloped, margins could be very attractive.

Pavlo further states: "We are already seeing a shake-up in the small to mid-sized business sector. Growth suited to a well built, responsive business will lie in a number of areas: new customer acquisition from competitors who did not adapt and have lost relevance; acquisitions, be it of stock or plant and equipment at 20c or 40c in the rand; acquisitions of suppliers and customers through vertical integration, consolidating price and service to customers seeking more value; and experts on those businesses that digitised sufficiently and formed niched areas of speciality. All of these need equity funding - since I am yet to see a smart business owner taking on debt in the midst of uncertainty, and a smart funder keen on investing in marketing, technology and people."

COVID-19 created a once in a lifetime opportunity for private equity funds to invest in exceptional, but soon to be - if not already - struggling businesses or fund innovation, stemming from new increased local and global demand.

For local individuals and corporates who are fortunate enough to be sitting on capital, now is the time to consider investing in a traditional private equity fund, a Section 12J fund or even consider forming their own private equity funds. •

Consider capital preservation when structuring portfolios for Covid-19

The speed of the global economic slowdown is unlike anything seen in recent history. More than 30 million people have claimed unemployment benefits in the United States, while in France, where the private sector workforce is 20 million people, 10.2 million of those are currently being paid by the government. The informal nature of South Africa's economy means that job and income losses will probably be greater than in developed markets.

The fiscal and monetary response to the current crisis is unheard of. Over the last few months US\$13 trillion in stimulus packages have been announced. This compares with a total of US\$2 trillion for the whole of 2009 global financial crisis. There is much debate as to the long-term effect of this stimulus - some argue it will be inflation, while others say the debt load will lead to deflation. Investors should consider investing in a range of assets that will do well across these different scenarios.

The South African government has announced a R500bn stimulus package and the South African Revenue Service (SARS) has noted it expects tax collections to fall by about R250bn in FY2021. Just these two factors will add 15% of GDP to the country's debt load.

Sentiment was negative towards South Africa prior to the COVID-19 crisis; the lockdown and economic collapse have caused foreign investors to flee. As a result, the rand is currently one of the worst performing currencies.

What to remind clients of

The stability of cash is very appealing, but future returns could disappoint: As we continue to move deeper into a low interest rate environment, it is worthwhile to remember that cash is not a good hedge against inflation.

The sharp fall in bond and equity prices means the return outlook is much improved. Yes, the economic

situation has deteriorated sharply, and the risks are high, but these risks are discounted in asset prices. For example, real returns of 4% are achievable for inflation-linked bonds – a very low risk asset.

Where to go for value

On a purchasing power parity basis, the rand looks weak. South African bonds offer good value, particularly when compared to cash. The 15-year government bond trades at an 11.5% yield to maturity after peaking at 13%, while three-month deposit notes yield 4.5%. There is no doubt that the outlook for fiscal management and government debt issuance is not good; but the 7% spread over cash offers a good margin of safety. The spread over cash means the yield on the 2035 bond can sell off by nearly 100 basis points over the year and still outperform cash. Inflation-linked bonds are one of our most preferred asset classes. The 10-year inflation linker yields 4% real to maturity: a great return with low risk. We are focusing our research efforts on South African companies that are robust enough to survive the extended downturn and are currently trading at distressed valuations. We expect that, on a balance of probabilities, these low valuations may discount higher levels of risk.

The depressed companies include South African banks. Banks are leveraged financial institutions, are sensitive to economic activity, well-managed, and have healthy capital ratios. The medium term will be tough; but they should come through this crisis and, in time, generate excellent returns for long term shareholders.

Risk versus opportunity

Risks are extremely high and correlated. Rather than company-specific risks, almost all businesses are facing the same risk of a revenue collapse. However, where there is risk and fear, good value can emerge. Above all, capital preservation is paramount. This does not mean rushing to cash, which can lose its value in an inflationary environment, but rather owning undervalued real assets that will grow in value in many different scenarios. ●



Andrew Lapping
CIO
Allan Gray



As we continue to move deeper into a low interest rate environment, it is worthwhile to remember that cash is not a good hedge against inflation.

Wealth management

— moving from head to heart



Paul Nixon
Head of Technical
Marketing
and Behavioural Finance
Momentum Investments



When analysing the data, more attention should be paid to how the client got to his or her financial state.

Wealth managers need new skills to help their clients reach financial goals – the only objective measure of success for the wealth manager concerned.

Financial Planners should be talking “hopes and fears” instead of “risk and return” when engaging with their clients.

As part of the planner’s toolbox is the six-step financial planning process, introduced in the mid-nineties as a standardised framework in the provision of financial advice. Wealth managers are usually very skilled with this process and at assessing a particular client’s financial state. This step includes tallying up assets and liabilities, income and expenses and calculating a number of scenarios under which a surplus or shortfall may exist while keeping an eye on the tax regime and the optimal structure for the proposed plan. This part of the financial planning process is critical.

Unfortunately, technical ability too often completely ignores the psychological and behavioural dimensions of financial planning, which is key in the successful implementation of such plan.

Financial ‘therapy’

Financial psychology adds to our understanding of cognitive and emotional biases and allows us to link behavioural finance to other areas of psychology under the banner of “financial health”. Financial therapy is a lot broader and investigates the more holistic concept of financial “wellbeing” and overall quality of life by adding relational aspects to the cognitive, emotional and behavioural dimensions.

These key elements should be weaved into the six-step financial planning process to give the desired weight to key behavioural components of the plan. For example, motivational interviewing techniques should be employed early on in the process of gathering data to ensure that the adviser really understands what the client is articulating. This is far more challenging than it sounds. It is usually a conversation about change, partnership and exploring client motives for such change.

Quantitative vs qualitative analysis

When analysing the data, more attention should be paid to how the client got to his or her financial state. Often, far too much emphasis is placed on the quanti-

tative evaluation of a client’s financial position. Here we can borrow significantly from financial psychology and the work around so called “money scripts” that could flag psychological obstacles to the implementation of the financial plan and also explain resistance to what seem like fairly logical financial planning recommendations.

If the wealth manager’s recommendations are accepted in the latter stages of the process, the client needs to accept their role in the change process. In this regard, “homework” or cognitive exercise is an important component of cognitive behavioural therapy and should be administered and monitored by the wealth manager.

During the review process, wealth managers should guard against uncertainty-related cognitive biases like loss aversion, the disposition effect and avoiding herd mentality, particularly in market downturns. These often result in abandoning the investment component of the plan where long-term investment growth is traded off for short term emotional comfort.

Family matters and personal goals

A growing trend in wealth management and family office propositions globally is to consider far more than just traditional financial planning aspects.

According to Jean Brunel, CFA of the Genspring Family Office in Florida, wealth management processes are not necessarily responsive to individual client priorities and thinking. Brunel reinforces that for most clients, the effect of wealth on family matters is powerful. He provides the example of visiting a prospective client, a 67-year old CEO of a NYSE-listed firm owning a third of its stock. When asking the client, “Five years from now, what would indicate failure for you?” Brunel paints the picture of this powerful figure welling up with tears as he replied, “If I ruined my grandchildren by giving them too much money too easily.”

This example effectively demonstrates how talking in “planning speak” of risk and return can completely miss how the client defines success or failure in terms of his or her own personal goals.

This new paradigm is where the advice fee charged, balances the quantitative aspects of the financial plan, with what it means in a psychological sense to be financially well, healthy and successful. ●

Investment markets - weathering the storm

Staying calm amid market volatility is not easy, given the constant stream and access to news headlines and market updates.

When investing during this period of economic and health crisis, it is important to keep in mind that stock markets will experience periods of sustained growth and decline. History shows that periods of growth tends to outweigh the periods of decline. However, your first instinct, when experiencing these periods of decline, may be to seek relatively safer options, which may have an adverse effect on reaching your long term financial goals.

So what has the impact of volatility on markets been through time, and how have emotions led to making rash, short term decisions?

Trying to miss the worst days in the market can lead to missing the best

During times of uncertainty, you may look to time the market – trying to minimise losses and realise gains. This is a tricky, and almost impossible task to achieve. We looked at the returns of the JSE All Share Index, which is a proxy for South African (SA) equities, over the past 20 years - up to 31 March 2020 - to identify the best and worst performing days. When looking at the best performing days, it shows that 50 trading days generated 93.21% of all market gains during this 20-year period. If you, as an investor, missed the 10 best days over the last 20 years, your portfolio value would have been 28.25% lower than if you had stayed invested.

However, looking at the 10 best days of market performance is only one side of the story. During the past two decades, you would also have had exposure to the worst days in the market. The table below illustrates how different investment choices would have impacted the growth of R100 over 20 years¹ when trying to time the market:

Possible investment choices	End value	Annualised return
If you remained fully invested	R1047	12.46%
If you were in Cash during the 10 best days	R572	9.11%
If you were in Cash during the 10 worst days	R2190	16.69%
If you were in Cash during the 10 best 10 worst days	R1196	13.21%
If you had invested in Cash*	R472	8.06%

* STeFI Composite was used as a proxy for Cash

Source: Morningstar

From the above it is clear to see that remaining fully invested realises a return (12.46%) greater than if you had tried to time the market, and potentially lost out on investing during the 10 best days (9.11%).

Trying to time a recovery

During periods of significant market volatility, you may look to keep your assets in so-called safe havens, such as cash. A key consideration if you move into cash to ride out volatility, is trying to time when you should get back into the equity market again. Timing the market can be tricky, and as seen during the 2008 Global Financial Crisis (GFC), where the JSE All Share bottomed at 17,814.4 on November 20, 2008, after declining 46.42%. From that point, five months passed before the market showed a significant recovery, gaining 59.81% in the following 12 months.

Stay diversified, stay the course

While nobody can predict the future, market declines are a natural, inevitable part of investing. These declines are often unpredictable and difficult - or impossible - to forecast. A diversified portfolio presents you with an opportunity to create a smoother return profile over the long run, as it is better able to withstand these fluctuating market conditions. ●

¹ As at 31 March 2020



Hayley Brown
Executive of Business
Development
PPS Investments



A diversified portfolio presents you with an opportunity to create a smoother return profile over the long run...

Key trends reshaping money management – **how advice firms should respond**



Michael Summerton
Head of Proposition and
Marketing
INN8



Advice firms should shop around for high quality and cost effective investment alternatives for their clients.

A strong brand and an excellent performance track record have long been recognised as the main drivers of an investment manager's success. But this does not mean that established investment management firms, earning outsized profits on large books of assets, are insulated from competitive threats.

Investment managers that were previously considered as small or boutique outfits have been knocking on the door of their larger peers for some time. They have built their brands steadily, over many years, gathering assets, and establishing strong performance track records to emerge as credible threats to the existing large manager hegemony. They are increasingly 'showing up' the incumbents in an evolving world.

The age of AI balanced funds?

The incumbents are also under threat from non-traditional competitors, as large technology firms extend their services into the financial services and money management disciplines. US-based Facebook and Alphabet will have to overcome significant legal and regulatory complexities before they can offer financial advice and fund management services; but Chinese companies like Tencent and Ant Financial operate in a different ecosystem. It is a matter of time before your 'Traditional Fund Manager Balanced Fund' competes head-to-head with an 'Alipay Artificial Intelligence (AI) Balanced Fund'.

Your clients could emerge as unexpected winners in this battle, as the combination of competitive forces and technology results in downward pressure on active management costs and other related fees. Clients will additionally benefit from the decade-long trend of declining fees for investment management, which means they can get excellent risk-adjusted returns at a much lower cost.

Enhanced buying power

Advice firms should shop around for high quality and cost effective investment alternatives for their clients. As downward fee pressure continues, you might consider using the services of a discretionary fund manager (DFM) to further enhance your

clients' collective buying power. DFMs are independent investment experts that are proficient in making investment decisions on behalf of financial advisers. These advisers give the DFM a mandate to act on behalf of their clients.

An often repeated adage, that remains as relevant today as ever, is that 'turnover is vanity, profit is sanity, but cash is reality'. Financial advice firms must ensure that their cash flow management is under control during these challenging times, before addressing other operational issues. Once cash flow is stabilised you can turn your attention to the two main drivers of profit, namely increasing revenues and reducing expenses, using the following strategies:

Four steps to grow revenue

- o Clearly articulate both your value proposition and target market and then make sure that these aspects are addressed in all your communication.
- o Focus on acquiring new clients through referrals from your existing base; do not be shy to ask.
- o Consider which clients you are targeting and where they might spend their time, then grow both your brand and online presence using digital tools such as LinkedIn and Google Ads.
- o Use the time savings introduced by remote working to spend more time with existing clients and see more clients during your work week.

Four steps to control expenses

- o You should conduct frequent reviews of your fixed cost base. These costs are frequently not as 'fixed' as you think they are and there may be meaningful savings gained by renegotiating contracts with existing suppliers. A seemingly small reduction in your communication, licensing, office rental, or printing contract can make a big difference to your bottom line.
- o You must revisit the tasks and duties that your staff are performing and determine where these might be automated. All activities of daily work should come under the microscope, including booking appointments, scheduling diaries, sending out statements, and manual compliance checks, to name a few. Your objective is to free up staff to focus on adding value by, for example, solving complex client queries.

(Continued on p.95)

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Is the COVID-19 financial market collapse going on record **as the G.O.A.T?**

Gareth Stokes
Stokes Media



The first thing to observe about the 2020 COVID-19 crisis is that the full effect of the pandemic on global markets is not yet known.

If you follow a long term graph of any of the world's major stock market indices you will notice periods of steep decline. The steepest of these declines, which have a significant impact on the investors who derive returns from the shares making up an index – are given names, so that market analysts can reflect on their duration and impact. Over the last century investors have endured the 1929 Great Depression, 1987 Black Monday, and 2008 Global Financial Crisis (GFC) to name a few. Midway through 2020 we are at the cusp of another game changer – the 2020 COVID-19 Collapse – which may yet be recognised as the G.O.A.T (Greatest of All Time).

Over the 227 years since the first official London stock market was established there have been countless share price corrections. Some of these corrections are limited to a single country; but as the world becomes more connected, any hiccups in large Western markets soon transmit to countries around the globe. A clearer picture of the impact of market corrections emerges when we compare the 'big three' pre-pandemic events to the current pandemic-linked fallout.

Three pre-pandemic collapses

The Great Depression stands out as the most significant bear market of all time. It started as a single-day correction of the US Dow Jones Industrial Index on 29 October 1929 and evolved into an 86% decline in market values over the ensuing 34 months. What should send shivers down investors' spines is that the index only returned to its pre-crash levels in 1954.

The same index suffered a 33,5% decline between August and December 1987. Few investors remember the four-month-long bear market because the bulk of these losses occurred on a single trading day, since named "Black Monday". The Dow Jones fell a staggering 22% on 19 October 1987 due to a combination of recently-introduced computerised trading and concerns over dollar devaluation. Local investors remember the day clearly, as the JSE, which was closed when the US markets plummeted, dropped 11,7% on the Tuesday.

Between October 2007 and March 2009, the US S&P 500 fell 56,4% in a bear market that lasted 17 months. This market collapse coincided with the GFC

that was triggered by a sub-prime mortgage crisis in the US. The rest of the world followed the US into crisis as major financial institutions such as Lehman Brothers and Bear Stearns went 'bust'. A chilling statistic that demonstrates the impact of large market corrections is that by March 2009, US shares had plummeted to their lowest levels since 1997. It is a bit like travelling a decade back in time!

Comparing COVID-19 to previous collapses

The first thing to observe about the 2020 COVID-19 crisis is that the full effect of the pandemic on global markets is not yet known. By 20 May 2020 investors were trading as if the pandemic was fully discounted in share prices, despite there being more than 2,7 million active infections and many economies 'trapped' in one or other form of national lockdown.

The COVID-19 Collapse, which started 24 February 2020, is the fastest ever bear market sell-off from a previous high to trough; a scenario that played out in just 16 days. All major US indices hit their lows on 23 March. The JSE All Share Index, meanwhile, recorded its pre-collapse peak on 17 January and its bottom on 19 March. But direct comparison between the South African and US markets are meaningless. Our markets were in the doldrums entering COVID-19, having traded sideways for almost six years, whereas the US markets were pushing record highs.

Hendrick du Toit, CEO of Ninety One, acknowledged the market turmoil that global investors had endured in the first half of 2020. In his weekly update to investors, dated 3 May, he reflected on the extreme volatility exhibited by the S&P 500, UK FTSE 100, and JSE All Share indices. "The S&P 500 initially retreated by 34% from its 2020 peak to the trough on 23 March; but by the end of April it had recovered 33% from its low, ending only 14% down from its high," he said. The JSE fell 36% peak-to-trough; but had recovered 32% from its low point by end-April. How should investors navigate these trying times?

Lessons from previous collapses

Asset managers and financial advisers have gone to lengths to prevent their clients from making costly investment mistakes. Their advice is underpinned by the lessons learned during the GFC collapse.

"Investors destroyed value by either fully divesting or rebalancing to cash – they tried to time their market entrance back to equities – but missed the perfect time," said Jeanette Marais, deputy CEO at MMI Holdings, in a recent Momentum Investments presentation to advisers and clients.

Attempts to 'protect' an equity-heavy investment by moving into cash or near cash investments are misguided, especially if equity returns are important to the investor's long term objectives. By selling 'low' investors lock in their losses – and then typically miss out on the accelerated gains when equity markets recover. Marais warned investors that attempts to time their entrance to / exit from equity markets would severely restrict their portfolio returns. "We believe in avoiding emotional decisions and sticking to long term investment strategies [as the best method] to reach investment goals," she said.

Du Toit, her counterpart at Ninety One, echoed these sentiments by congratulating his investment teams "for boldly telling [their] clients that the last week of March was not the time to panic". He warned that difficult decisions lay in wait for asset managers and investors in the second half of 2020 and beyond. There is growing consensus among market analysts that further COVID-19 market fallout is in

store. It is possible that the share price movements witnessed in April and May conform with the requirements for a 'Dead Cat Bounce', described by Investopedia.com as "a temporary recovery of asset prices from a prolonged decline or a bear market that is followed by the continuation of the downtrend".

A fundamental economic impact

COVID-19 will have a massive impact on the domestic economy. Ninety One estimates a contraction in GDP of between 6,2% and 10,5% for 2020, depending on how fast the country exits lockdown. And National Treasury, in their 'Briefing on financial implications of COVID-19 on both the economy and budget' spelled out a worst case of a 16,1% contraction in GDP accompanied by 1,7 million full-time-equivalent job losses. In addition, the SA Reserve Bank of 1 600 business liquidations and SARS estimates of a one third decline in tax revenues.

"We do know one thing – markets will recover, as they have always done in the past," concluded Marais. "Our investment philosophy, of outcomes-based investing, has no better value than when shared and coupled with the advice process". The economic fundamentals are more difficult to unpack and will probably take 18 to 24 months to fully unfold. •

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There is growing consensus among market analysts that further COVID-19 market fallout is in store.

Key trends reshaping money management – how advice firms should respond

(Continued from p.92)

- o You should identify and adopt digital tools that improve your efficiency and revolutionise customer service. One example is the smart chatbots deployed by banks. These AI-backed tools are contextually aware, available 24/7, and never take unplanned leave.
- o And finally, invest in technology that assists with regulatory change. Time and money spent on adapting to regulatory change used to be considered wasteful. Nowadays, thanks to the advent of technology, innovative companies are showing how coping with regulatory change can be a competitive advantage. Tech solutions in this space promise to significantly lower your compliance costs and may even bring about a sea of change in risk management and compliance for your business.

Facing the challenges head on

The world is evolving into a new, yet-to-be established, normal. You should use this period of transition to focus on what sets your firm apart from the rest.

Do whatever necessary to adopt and leverage the digital tools that make it possible to streamline existing business processes, freeing up time for your team to focus on client-centric strategies and relationship building. The relationships that you establish and nurture with your clients is what really matters.

You must adopt a simple Customer Relationship Management (CRM) tool to keep track of your existing clients. You should then investigate the wide range of digital tools available to enhance your marketing offering and attract new clients. Speaking to new clients becomes organic and effortless once you understand your target market, the central message of your brand, and the purpose of your proposition.

And remember, you are already more tech-savvy than you think. Go on, give it a try. Very few businesses can control the environment they operate in; but every business has the choice as to how they respond to change. What will your first move be? •

“

Advice firms should shop around for high quality and cost effective investment alternatives for their clients.

Silver linings amongst SA's rating downgrade clouds



**Ashveena
Teeluckdharry-Khusial**
Chief Investment
Officer
Hollard Investments

In the months leading up to March 2020, among the biggest issues on the minds of SA investors was the threat of ratings agency Moody's following the lead taken by Standard & Poor's (S&P) and Fitch, and downgrading our sovereign country rating from Investment Grade to Non-Investment Grade (i.e. junk status).

As we now know, 'junking' our sovereign rating was a decision they eventually felt compelled to make, for a range of reasons including a deteriorating fiscus, rising levels of government debt, electricity supply constraints, ailing SOEs and persistently weak economic growth. Yet, inconceivably, this preoccupying development has been overshadowed by the global Covid-19 pandemic, compounding the volatility of local and global markets, and giving South African investors an even bigger headache. But every cloud has a silver lining ... doesn't it?

SA rating assessed

The function of credit agencies, such as Moody's, Fitch and S&P, is to assess the creditworthiness of sovereign countries around the world and ascribe ratings that reflect their level of confidence in each country's ability to honour its debt obligations. The lower the rating, the higher the perceived risk and hence a higher compensation or yield is required by investors. For South Africa, this higher required yield was fairly reflected in pricing prior to the downgrade.

Beyond the psychological implication of being demoted to Junk, the downgrade has triggered South Africa's exclusion from World Government Bond Indices. The timing was unfortunate as it coincided with the Covid-19 pandemic unfolding globally and emerging markets in general (including South Africa) experienced extreme capital outflows as foreign investors took refuge in safe haven assets.

These are unprecedented times - at least as far as the pandemic is concerned - but it is worth remembering that South Africa has been on the downgrade road before... and recovered.

Peaking in 2008

It was only after the end of apartheid that South Africa received its first credit rating and, for five years, our sovereign country rating was deemed Non-Investment Grade, until all three major credit agencies upgraded SA to Investment Grade in February 2002. After that - as the result of a period of good economic growth, government's strong commitment to fiscal

consolidation, good governance and policies that promoted the ease of doing business - our sovereign country rating was consistently upgraded until the pinnacle was reached, in 2008, with an A+ rating from Moody's.

Since then, SA has gradually tip-toed back down the ratings, taking two decades to make the transition back to Non-Investment Grade status. The claw-back to Investment Grade will require significant and sustained improvement. It took Indonesia 19 long years but South Korea, in contrast, managed it in just less than 2 years and, while South Africa's efforts will no doubt be constrained by the impact of Covid-19, we can be hopeful that it is doable.

Junk status repercussions

Inevitably, there are serious long-term consequences to being 'junked'. The most obvious is that the SA government will be faced with higher borrowing costs which will crowd-out budget allocations set aside to fund other pressing needs.

Another negative consequence relates to the pool and type of capital that SA can access. Globally, the size of the Investment Grade market is much larger than the Non-Investment Grade market, hence shrinking the pool of capital that SA can access. Also, the type of capital invested in Investment Grade assets is much more stable and long term in nature than that invested in Non-Investment Grade, which tends to be volatile and more susceptible to changing investor sentiment.

Unfortunately, there's also likely to be a fallout for SA corporates who - despite their underlying fundamentals - might face their own downgrades because of the major ratings agencies' policies that limit a corporate issuer's ability to be rated above its sovereign country rating.

Reasons to believe in silver lining

So, where is the silver lining? Clearly, the picture is far from pretty, but SA is not about to become an investment wasteland and there are several reasons for believing that.

■ **Foreign currency denominated debt:** Among the key reasons countries in emerging markets find themselves downgraded to 'junk' is their inability to pay foreign currency debt but there is widespread understanding that South Africa is not at risk of defaulting. About 90% of our total government debt



Inevitably, there are serious long-term consequences to being 'junked'.

is rand-denominated which should buffer us from higher debt cost and the effects of a highly volatile local currency, although we do acknowledge that the R500bn stimulus package will add strain (as it will for every other country taking similar action).

■ **Institutional strength:** South Africa has a well-functioning, stable financial sector and deep liquid capital markets; the Reserve Bank is well regarded for its sound monetary policy framework and focus on preserving financial stability; and our fully-funded state pension fund and asset management industry (with AUM of close to R2.5 trillion) gives us a potential source of funding in local currency. (NB We are not alluding to 'prescribed assets' here which is another, highly contentious matter.)

■ **The resurgence of strong leadership:** While 'Ramaphoria' may have proved transient, the impressive response of President Cyril Ramaphosa and his team to the Covid-19 crisis has attracted praise around the world. Then there is the unprecedented cross-party cohesion and widespread support from business, labour and citizens, and the emphatic way in which the private sector is stepping up to play its part via the newly created Solidarity Fund. Of course, rebuilding our country will require us to sustain and strengthen this new-found unity but, right now, it is good to see that perceptions of SA are (justifiably) on the rise again.

■ **Long overdue structural reforms could become a reality:** As the saying goes, no crisis should be wasted. Catastrophic circumstances really can be the breeding ground for great reform and perhaps, without the pressure to 'protect' our Investment

Grade, the SA government may now take the opportunity to make some of the extraordinary decisions needed to kick-start our economy. With the deep scars the Covid-19 pandemic is expected to leave, structural reform is more imperative than ever and, finally, South Africans have reason to be hopeful that our leaders will take the bold action that's so urgently needed.

So, with all that has transpired recently, we would like to sound a note of caution against making dramatic portfolio changes due to panic.

Looking after your nest eggs

With the unfolding economic fall-out, the rand has devalued to levels considered highly over-sold but, as one of the more liquid and volatile emerging market currencies, it does tend to over-react. But, once the crisis du jour passes, it typically returns to fair value, leaving investors who rushed their portfolios offshore with gains substantially eroded.

Currently, our fixed income market offers attractive real yields that can help savers to maintain their purchasing power. And, while growth assets have generally failed to generate inflation-beating returns, the significant declines across our local equity and property markets, mean valuations have become attractive too. So, we would caution investors that, while cash may be "king" at the start of a crisis, hoarding it could come at the risk of missing out on significant opportunities.

In this time of uncertainty, that's all we've got: the sliver of a silver lining and a fighting spirit. Now is not the time to take our gloves off. ●



We would like to sound a note of caution against making dramatic portfolio changes due to panic.



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COVID-19 and sustainable investment practices



Tanya van Lill
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Association (SAVCA)



The COVID-19 crisis is arguably the first global ESG issue that has resulted in a swift and coordinated response from every global stakeholder.

Global trends have been shifting towards sustainable investment practices for some time now, with international socially responsible investments experiencing growth of 34%, to \$30.7 trillion, from January 2016 to January 2018. Nothing, however, has illustrated the value and importance of taking environmental, social and governance (ESG) factors into consideration for investment decisions, more than the current COVID-19 crisis.

This is because an infectious disease like COVID-19 is, at its core, an ESG issue. In addition to shining a spotlight on social matters such as employment relations and workforce policies, major contributing factors to the global pandemic include biodiversity loss, rapid urbanisation, and rising population levels – all of which touch on a broad range of interrelated ESG issues.

Global response to COVID-19

While the concept of ESG issues is nothing new – scientists have been trying to alert the world to the impending risks of global warming for years – the COVID-19 crisis is arguably the first global ESG issue that has resulted in a swift and coordinated response from every global stakeholder. This co-ordinated global response has essentially highlighted what and how an acute shock may result in a rapid shift in economic value – similar to what the world could potentially see happening with other ESG issues, such as global warming, over time.

It is unsurprising then that ESG-compliant investments have fared better in weathering the COVID-19 storm, as they would have anticipated a series of risks that could potentially impact businesses and may have already planned for mitigation. Globally, MSCI fact sheets show that the MSCI World, USA, Emerging Markets and Europe ESG leaders have all outperformed their non-ESG equivalents during the first quarter of 2020.

ESG due diligence

The crisis taught investors that ESG-compliant companies look at themselves from different perspectives and not only measure, but also plan for potential impacts and risks that could affect ESG elements.

From an ESG investment perspective, as part of the due diligence process, investors are also conducting an ESG due diligence which not only impacts their investment decisions, but are also built into the deal and agreements, as areas of risks and opportunities for improvement are identified, worked on, and continuously measured and reported on.

Fortunately, ESG factors have long been incorporated in the local private equity (PE) space, given the important role that Development Finance Institutions (DFIs) have played in the history and establishment of the asset class in South Africa.

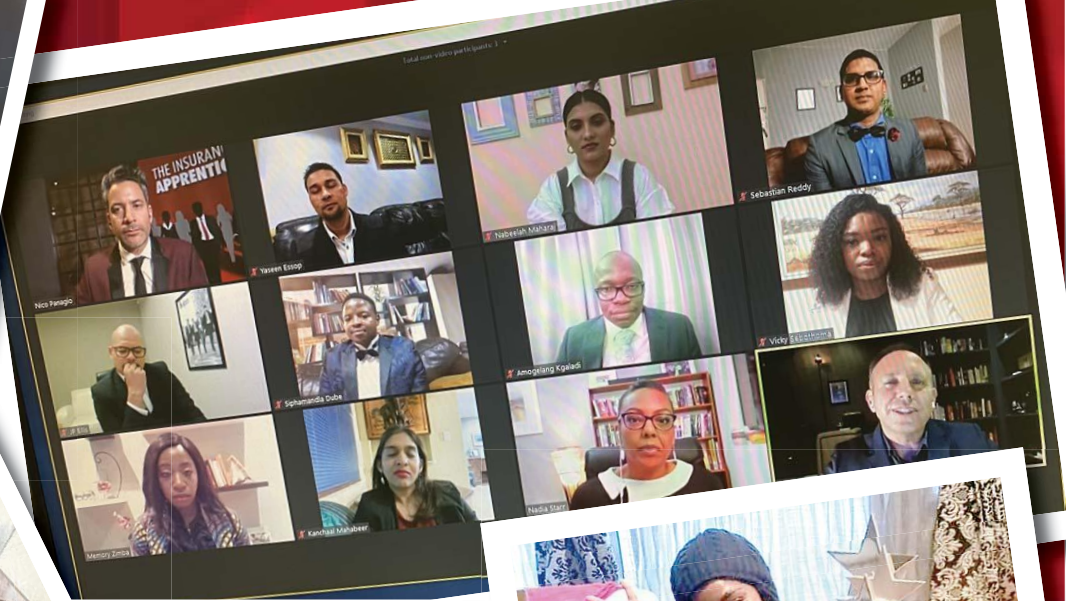
The PE market in Africa has also experienced heightened interest over the past two decades, with African Impact Funds, in particular, on the up. This is due to the growing demand to pursue the sustainable development goals (SDGs) within the continent. PE fund managers, like pension funds, are also particularly well-suited for ESG investing due to their longer average investment duration, which allows for further and measured social enterprise to take place. So, while the PE asset class has long been committed to ESG investing, what the crisis might do, is elevate ESG factors for more mainstream investors – regardless of asset class – in terms of risk management.

ESG assessments becoming commonplace

To this end, COVID-19 will likely result in the heightened visibility and perceived importance of sustainable business practices, as increasingly more investors realise that ESG issues pose clear financial risks. This is already happening on an international level, with multinational investment bank, Barclays having recently announced the addition of an ESG assessment and indicators to its Fundamental Research arm. ●

THE INSURANCE APPRENTICE 2020

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Series six of The Insurance Apprentice (TIA) ended on a high note as Amogelang Kgaladi (Corporate Actuarial at FNB Short-term) was announced as the winner at an Online Live event streamed on Facebook and YouTube.

FAnews spoke to Kgaladi about the competition, how he feels about winning the title of The Insurance Apprentice 2020.

You've won! Congratulations!

Thank you. I am excited and emotionally overwhelmed. Seeing so much support from friends, family, colleagues past and present was just an immense feeling. It made me realise how fortunate I am to be surrounded by so many amazing people.

Q What is the biggest lesson you take away from the competition?

The ability to interact and learn from such an amazing group of individuals, each one being so unique in their own right. The diversity in thought and approach will be something I take with me for a long time because we need to realise that there is no one approach to solving problems and hence putting our heads together will hopefully deliver a much better solution to the challenges in society and the industry as a whole.

Q Filming week... is at as tough as it looks?

It was extremely tough, a rollercoaster of a ride with so many ups and downs, laughs, tears and uncertainty about what the next task would be or who was going home. However, in hindsight the relationships and bonds formed, make it all so worth it.

Q What kept you going?

The ability to reflect and understand that the feedback obtained is only to make one better and not a reflection of who I am as an individual. I therefore used any source of difficulty as motivation to come back stronger and prove to myself that I can actually do it. I compete against myself and if I have become a better version of who I was when coming into anything, I am then happy and it is that self-actualisation that allowed me to keep calm and take each day as it arose.

Q Why did you apply?

I had recently started my MBA studies and hence a keen interest to test and apply the studies to date. I am also passionate about self-development and the development of others and I therefore felt that this platform would provide me with an opportunity to stretch and grow myself especially around having to put myself out there while also serving as a source of motivation and inspiration to many other students to show them that the sky is the limit and they can really achieve whatever they set their mind to. Lastly, I firmly believe that actuaries can apply themselves in any situation and I wanted to be an ambassador for the South African Actuaries Development Programme and profession in general to highlight that we can apply ourselves even in commercial roles and are not merely number crunchers, thus emphasising that we and in fact no one should limit their scope.

Q You have lived the experience... say you could give yourself advice going into the competition based on what you now know?

Do not try to solve every problem thrown your way, use the Pareto principle which states that roughly 80% of the effects come from 20%



#TIA2020... WHAT A JOURNEY!

of the causes. Therefore, identify what the high impact elements of the task are and master those in the allocated time to thus have an impactful pitch to the judges.

Q Why is this competition good for the industry?

Various industries are where they are because they have an ability to lure candidates because of the way they position themselves as top of mind with respect to career prospects and TIA serves as that competitive advantage for the industry. Unearthing sometimes hidden talent within the industry itself also bodes well for the leadership succession of the industry and lastly, there are some truly workable ideas emerging from this competition which will only serve to improve our industry.

Q Any advice to those who are considering applying?

Just be the best and most genuine version of yourself, be able to distil large amounts of information in a short space of time while delivering the outputs in a concise and impactful manner and most importantly have fun! As this may be the one and only chance of being in a reality show. ●

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