Running on outdated systems... there are risks

JUNE 2021

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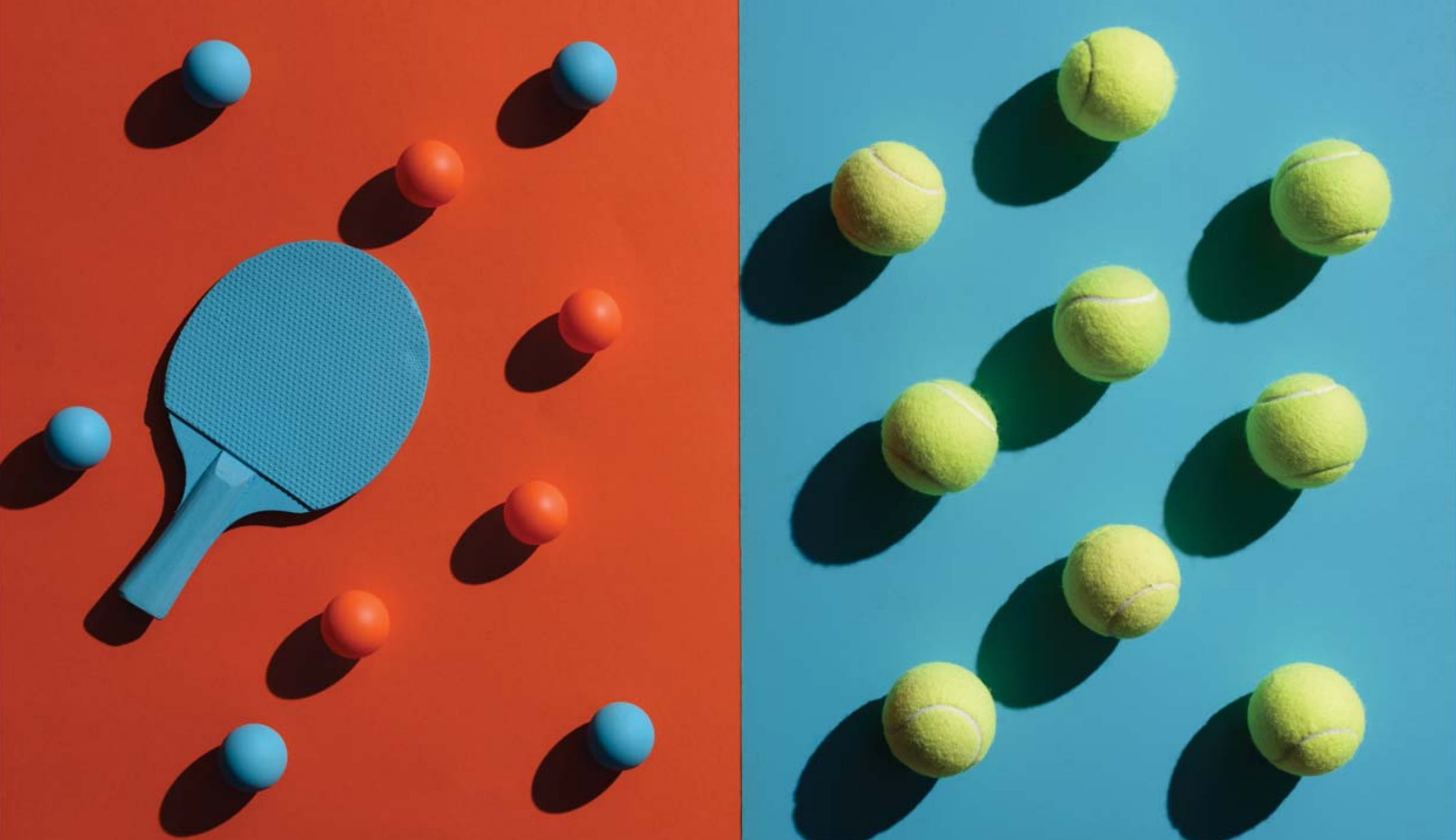

ETHICAL INVESTING... PRINCIPLES AND MORAL CODES

Broker and insurer collaboration should not be a one-way street

We're celebrating 10 years of #LoveChange

Thank you for choosing BrightRock

When we started BrightRock a decade ago, we saw an opportunity to better meet people's needs and help them navigate change in their lives. Our needs-matched life insurance allows you and your clients to co-create a financial solution that precisely meets their needs today, and changes with them as their lives change.

Ten years on, and with more than R 2.4 billion in claims paid, we're proud to say that we're doing just that. And we wouldn't have been able to do it without YOU.

Thank you for your support! Here's to the next 10 years of loving change and meeting clients' needs together.

Here are just 10 of the many memorable milestones we've reached over the past 10 years.

1. **Launching the world's first-ever needs-matched life insurance in 2012** – After starting the business in 2011, in April 2012, BrightRock launched its needs-matched life insurance product to Independent Financial Advisers. Schalk Malan received the Cover Excellence Award for product innovation in 2013 as the main architect of BrightRock's needs-matched product design. BrightRock has featured at industry conferences in Germany, Australia, Singapore, and the USA.

2. **Helping people navigate change in their lives** – In February 2014, we launched The Change Exchange, a digital platform that aims to support consumers in making important life decisions. Consumers can use it to share their thoughts and get information and support as they navigate through life's major 'Change Moments': Starting a family, Tying the knot, Making a home, Landing *that* job.

3. **Diversifying our product offering into funeral parlours** – In 2015, we expanded our offering by providing funeral parlours with a comprehensive solution for their insurance needs.

4. **Exceeding the R100 billion cover mark** – BrightRock's cover in force exceeded R100 billion mark in late 2015. This came at a time when the South African insurance industry had remained stagnant, while BrightRock was seeing an 89% increase in year-on-year gross premiums billed.

5. **Playing the bounce** – In 2016, BrightRock announced its sponsorship of the DHL Stormers and DHL Western Province. December 2017 marked the inaugural BrightRock Players Choice Awards – the only South African rugby awards for professional rugby players by professional rugby players. And in 2021, we announced our associate sponsorship of the Vodacom Bulls.

6. **Expanding horizons with Sanlam** – In September 2017, Sanlam acquired a majority stake in BrightRock, which provided a stronger platform for growth and expansion.

7. **Changing the group risk market** – In May 2018, BrightRock introduced a group risk product that provides schemes with up to 40% more cover for the same premium.

8. **Paying out R1 billion in claims** – In July 2019, BrightRock announced that it had reached the R1 billion mark in claims paid, covering more than two million lives, this number has since increased to R2,4 billion.

9. **Enhancing temporary expenses cover** – In October 2019, BrightRock added some enhancements to its temporary expenses cover products. These included the addition of new conditions to its list of clinical conditions, increased claims certainty for clients in specific occupations, and claim-stage choice between a lump-sum or a recurring pay-out – a market first.

10. **Achieving 14.3% market share during COVID-19** – BrightRock's new business market share increased to 14.3% in 2020 from 10.8% in 2019 – whereas the market declined by 16.5% on average.

Now covering more than 2.8 million lives, with more than 5 000 contracted independent financial advisers and more than R 350 billion total cover in force, BrightRock has grown into a financial services institution of scale over the past decade through our needs-matched approach to insurance. With your support, BrightRock is poised to continue growing and innovating, to find better ways to meet your clients' financial needs throughout their lives, and to change our industry for good. Love Change!

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... JUNE 2021

Don't worry, be happy…

LETTER FROM THE EDITOR

During the past few weeks most of the life insurers shared their claim stats and it was fascinating because, for the first time in many years, one thing really threw the applecart over… COVID-19. One of the interesting observations made by an adviser was that one specific insurer would have paid out less on death claims in 2020, than what they would have paid out in 2019, if COVID-19 was not part of the picture. It is obviously a clinical look at it because there are many factors at play, but the reality is that there has not been a single event like COVID-19 in many years, that has created havoc like it did in the past year.

The claims stats are always a good reminder for me about our purpose and reason for existence… as an industry we have been there for people in their time of need. We have shared all the stats on FAnews.co.za, so if you have not seen it all, go and delve a little into that.

Question time

Is the debate around work from home and a hybrid office life settled? It seems like many companies have made decisions around this, and I think most employees could not be happier about the fact that flexibility is the way forward… in my mind there will be dramatic changes over the next few years in terms of company culture, and like many things in life, change might not necessarily be a bad thing… the most important thing is to never forget the emotional wellbeing of employees and the power of teamwork and collaboration.
So, how do we ensure that we do not create a group of employees who eventually shy away from getting together because they have become so comfortable in their own little bubble? And do leadership styles have to change to adapt to this type of environment?

Research

GCI recently shared some research results they came across, and it boils down to the fact that the largest and most educated generation are the poorest generation. It was a US study, but GCI commented that they believe the picture is similar on local shores. The study shows the following: the Silent Generation has reduced over the past 20 years, from controlling 50% of wealth to 14% now, Baby Boomers control half of all the wealth, and have remained fairly steady at this level for close to 20 years, Gen X are steadily increasing their control of wealth, and have increased it from 8% to 28% over 20 years, and the Millennials, currently between the ages of 25 and 39, control 7.3% of the wealth. To put this share of control into context, at a similar age the Baby Boomers controlled 21% of the wealth.

The most worrying statistic, according to Alex Cook from GCI, is that the largest, most educated and highest earning workforce that the world has ever seen is accumulating wealth at a frighteningly slow pace. So, let us keep on doing what we are doing to bring about positive change in terms of creating and sustaining wealth.

It's June… we're halfway through the year. Stay safe, work hard, and remember the importance of getting a good work-life balance.

BROKER AND INSURER COLLABORATION should not be a one-way street

Better collaboration, between brokers and insurers, has the potential to make the insurance industry much more effective. Risk management and mitigation have always been a priority for financial organisations and are addressed in Principle 11, of the King IV Report.

For consumers, too, a more sophisticated awareness of risk has been growing, particularly in the wake of the COVID-19 pandemic.

Understand, prioritise and mitigate

It is wise to stay abreast of the latest thinking on what risks are emerging and how best to mitigate them. Would a guesthouse or a small manufacturer, for example, have even thought about the effects of a pandemic on their businesses a few years ago or, if they had, that it would be the efforts to halt the pandemic, such as curfew, travel and capacity restrictions, rather than the pandemic itself that would have such a financial impact on their businesses?

We live in a VUCA (volatile, uncertain, complex and ambiguous) world, and thus understanding what the risks actually are, and then how to prioritise them and mitigate them, is extremely difficult.

Opening up to new opportunities

I believe that this opens up new opportunities for brokers, the traditional interface between customers and insurers.

A decade or more ago, there was a lot of discussion about disintermediation. Many believed that the days of the broker were over. Fast forward, and it is now clear that a good case for the indirect channel can still be made – but with the caveat that brokers need to have the right skills and attitude to prosper.

To state the obvious, the bar is set higher, with regards to the quality of advice that customers receive. Regulators have been giving this matter serious attention, and the Treating Customers Fairly (TCF) principles have changed the industry for the better. Of late, we have seen many financial service providers reprimanded for the quality of the advice they have given, or not given, to customers. To meet today's high standards, brokers need to conduct in-depth risk and needs analyses on their customers, and then partner with a range of insurers to come up with the right product to mitigate the customer's risk.

As risk experts, and having detailed knowledge about the products out there, brokers are uniquely well placed to help customers navigate these treacherous waters.

Of course, customers can choose not to take their broker's advice, but I always advise brokers to get customers to sign an opt-out document to make their decision to waive specific cover. Brokers can then ensure that they did make the client aware of the risk and did offer a solution.

Innovation and collaboration

To close the circle and create a virtuous cycle of improvement, it surely makes sense for brokers to collaborate more closely with insurers. Brokers are really the insurer's eyes and ears on the ground and can offer valuable feedback on what customers need: how existing products could be tweaked or what new products could be developed.

This collaboration would put customer-driven innovation at the centre of the industry, ensuring that customers really get what they want and need. It should not be a one-way street, insurers need to focus on involving brokers much more in the upfront assessment of complicated risks instead of relying purely on in-house risk-assessment processes. Brokers and insurers should also be collaborating more on new technologies and how they can be exploited to benefit customers.

While finding ways to take innovation and collaboration into how business gets done is always going to be tricky, being intentional is important. Innovation and collaboration do not just happen - they need to be nurtured and processes put in place.

By working together more closely, brokers and insurers can improve their own businesses, while also taking customer service to new heights.

Morné Stoltz
Head of Department:
Broker Distribution
MiWay

RE-INVENT THE WAY you acquire and service clients

We are living in strange times, and it is likely that we will not be returning to business as we knew it, in 2019. However, with change comes opportunity. You can now re-invent the way in which you acquire and service clients and the way in which you deliver advice.

Partnership through innovation

The first step is to identify an insurer that can walk this road with you. By now, we realise that the way in which consumers engage with, and purchase form us, has changed dramatically. There has been a definitive shift towards more digital interaction.

This is likely the case with your target market as well. Why not consider partnering with an insurer that has a track-record in digital solutions, which especially enables the financial adviser market? When we speak about digital technology in this context, it is important to highlight the importance of relevance. It is more about solutions that are geared toward simplifying the sales and servicing process, rather than tech gadgets.

It is definitely about solutions that are relevant to both the financial adviser and the client. Utilisation of these solutions needs to result in a smoother introduction into the client journey and a smoother service experience with your brokerage throughout. It needs to support your advice process and enable you to focus on the advice process, outside of all the daily administration.

Partnerships with like-minded insurers

To find the best partner fit for your business, you need to do some industry research. Be open to explore relationships with insurers who are willing to push the boundaries of innovation. Imagine, for instance how convenient it will be, if your insurance partner can track and supply you with a record of advice that is securely stored in the cloud and accessible at all times.

Ultimately, these innovations should provide you with a wider value proposition and it should attract more clients, simply because it is easier to do business with you.

The FNA, underwriting and claims space

The way in which underwriting and claims are managed becomes a real differentiator. Many alternative options are opening in this space, and most are focused on fast-tracking and simplification.

Firstly, we will take a look at the financial needs analysis (FNA) process. It has historically taken weeks to complete, but now FNA's can be fully incorporated into the digital onboarding process, ensuring rapid processing and appropriate product selection.

There is no need for full medicals anymore. In fact, it's possible on life, dread disease and disability cover to fully underwrite with no medicals, only limited medical questions and an HIV test (simplified through either a saliva test at the nearest Clicks store, or a visit by a nurse) is needed. The result is straight-through processing and an underwriting process that accepts high numbers of policies on both limited and comprehensive underwriting within 35 minutes.

From a claims perspective you need to look for an insurer that fulfils their claims fast, consistently and with the least amount of effort.

Concluding business remotely and securely

Finally, in this day and age you need to be able to conclude business securely and remotely. This can be a real differentiator when it comes to engaging and on-boarding clients.

Imagine interacting with your client, whilst completing all the necessary documentation online. The client is then able to accept the policy via an electronic signature and by means of two-factor verification technology, the business can be concluded successfully. This can all happen without you physically meeting the client. It truly offers end-to-end simplicity and convenience and opens up the playing field.

In the past year we have seen some great innovations in our industry, and we foresee that there are many more to come. Not all of these will suit your clients or your business. However, be open to what is out there, keep your ear on the ground and ensure that you adopt innovations that truly create value for your clients and your business.

Kobus Wentzel
Executive Head of Sales and Distribution
1Life


Imbi Evenhuis 22 years with PPS
PR and Communications Manager
80
YEARS
OF SHARING
SUCCESS
R27.7BN TOTAL CUMULATIVE PROFIT-SHARE ALLOCATION TO MEMBERS WITH QUALIFYING PRODUCTS OVER THE LAST 10 YEARS.
In a year as challenging as 2020, we are pleased to say that our unwavering commitment to our members and our operating model has resulted in a considerably positive financial year. This feat has enabled us to allocate R2.2bn in Profit-Share to those who matter most to us — our members. Here's to 80 more years of life-long relationships and shared success.
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Create an outstanding CUSTOMER EXPERIENCE

One of the most important elements when it comes to creating an outstanding customer experience, is to keep the spark alive throughout the customer journey.

This means using insights from the industry, your own experience and, more importantly, experiences and preferences from your existing customers to map out a preferred customer journey.

This journey should span not only your sales process, but also incorporate the customer's entire retention journey with your brokerage.

Mapping the journey

When mapping this journey, it is vital to create multiple communication touch points that keep the customer engaged throughout the journey. Some of these will include the table stakes; meaning any servicing that is needed in order to conclude the business transaction.

However, you are also measured on the service quality you provide, and the additional effort you put into your servicing. After mapping the journey, you need to ensure that you communicate regularly, and with a clear idea of specific messages that you want your customer to take note of.

These communication touch points do not all need to be in the form of written communication. The central idea here is to mix it up. Remember, one person might prefer face-to-face contact (social distance permitting), while another prefers digital or telephonic check-ins and yet another prefers written communication, such as in the form of a regular newsletter.

That is why it is so important for you to know your customers and their preferences. You need to thoroughly understand your market segment, the journey they have with you and design your strategy to meet their needs.

Creating additional content

What is important is to create both operational content (things your customer must know in order to conduct business) and educational content (to help the customer make more informed choices). It has been proven that keeping regular contact and creating attractive content, that people want to read or know, creates greater customer satisfaction and perceived value, which leads to higher trust levels.

Higher levels of trust normally ensure better retention and lead to word-of-mouth referrals. This is what you should aim for. Word-of-mouth referrals have proved their stickability, from a retention perspective, and will ultimately contribute to the sustainability and growth of your business.

We need to remind ourselves that when a customer purchases insurance they are not buying something concrete that you can touch, taste or smell. They are buying a promise. This leads to insurance being seen as a grudge purchase and also translates into consumers that are increasingly unpredictable.

Relationship marketing

In order to counteract this unpredictability amongst consumers, you need to live up to your competitive advantage and deliver to your market via a number of streams. These include price points, service experience, claims payment expectancy, cash back bonus fulfilment and digital experiences, such as online policy acceptance and claim inspections via a mobile device.

It also means partnering with the correct insurer. An insurer that caters to your market and can help you to increase your client's perception of the value of your service.

It boils down to connectedness

Connectedness has always been one of the key elements of strategy. From having a product that creates value for a customer, to the presumed service and advice that goes with it to create a certain reputation, to the ability of a business to build relationships and interdependencies in an agile manner - all of this is tied together into creating greater value for the end customer.

It also becomes central to the business's value and that is why you cannot afford to not focus on the way in which you service your customers.

Ricardo Coetzee
Head:
Auto & General
Insurance

Advice in a digitally driven, COVID INHIBITED WORLD

What has really changed during the pandemic? A lot, says the media. Yet, in terms of advising clients on finances, not much has changed. That statement may seem misaligned with reality, but consider how client relationships were conducted previously.

Remote advisory dominates

Many financial service providers were moving towards digitalisation anyway. COVID-19 simply accelerated the pace of transformation.

Individual clients mainly dealt with their advisers remotely, engaging with them in-person less frequently. Any eventual meetings were preceded by various phone calls, emails, and other forms of information sharing.

A 2020 study by Accenture, Financial Advice Reimagined, reports that most advisers met with a client in person around once or twice per year. Of course, for some, like professional accountants, these touchpoints happen more regularly.

Even advisers marketing their services start at a distance and close the gap with prospects through remote interactions. Whether they are at home or in a corporate office at the time of those exchanges is largely opaque to the client.

Is face-to-face as important?

The glaring difference during COVID-19 is the loss of critical face-to-face meetings, that build trust and lead to enduring client-adviser relationships. This could impact advisers more than their clients.

Business enthusiasm for digitalisation embraces the recent discovery that some services can be automated because adviser involvement is neither needed nor desired. Many can be handed off to artificial intelligence (AI).

A 2020 survey by KPMG Australia found that 80% of participants preferred digital financial engagements. Conversely, Accenture's report showed that 56% of advisers favour meeting clients in person.

This may indicate that financial advisers need to catch up to a market whose digital readiness, along with COVID-19, is fomenting an advisory revolution.

Future-ready financial adviser

This in no way means that human financial advisers are obsolete. Digitalisation of minor advisory services is, in fact, a boon to them and augments their capabilities.

The role of advisers is evolving beyond merely guiding their clients through the technicalities of financial management and wealth building. Both Accenture's study and a 2020 global survey of financial professionals by Natixis Investment Managers agree on this.

Apart from managing their clients' affairs, advisers report playing the extended roles of financial coach, therapist, consultant and mediator. Further, professional accountants, as strategic business advisers, are focusing more on assuring the accuracy of data and extracting meaningful information from it, by which clients can make better business decisions.

In spite of the constraints on in-person meetings, financial advisers say their communication with clients has increased during the pandemic. Inevitably, they have, like everyone else, turned to digital tools, especially video chat, to keep up with the demand.

However, it is not enough to just use technology. Advisers must be willing to take the lead in its adoption if they want to remain future proof.

Quality advice in the new normal

Individual self-preparation only goes so far. Eventually, coordinated effort is needed to elevate the level of digital advice delivery across the industry. This initiative must be driven by firms and professional bodies.

Firms and professional bodies should ensure that members and non-members who offer business advisory services operate within a best technology practices framework. Technology should also be a core competency requirement for Continuous Professional Development (CPD).

Businesses need to facilitate digital engagements across their organisations. Accenture identifies three emerging trends in how clients want advice to be delivered, that is, it must be holistic, on-demand and integrated.

This means corporates must focus more on sophisticated digital customer journeys that switch seamlessly and congruently between automated services and live advisers.

At the same time, it certainly helps to educate advisers on lighting, audio and video quality so that their professional presentation during video chats remains consistent with that of a formal business setting.

Faith Ngwenya
Technical and Standards Executive
South African Institute of Professional Accountants (SAIPA)

A compelling career in financial planning with MOMENTUM FINANCIAL PLANNING

No one saw the COVID-19 pandemic coming. Its effects were felt globally, and by people from all walks of life. If there was ever a time where the value of financial advice was important, this was it.

How does an individual navigate through uncertainty, unplanned expenses, restricted cash flow and still manage to maintain a pre-pandemic standard of living? It takes help from a trusted financial adviser to evaluate current and future expectations.

Momentum Financial Planning

We, Momentum Financial Planning (MFP), are a purpose-driven organisation, centering our behaviour and choices around our conviction in showing up to positively impact people's journeys, because we care.

Partnering with a financial adviser is no longer a luxury – it is a requirement for success. The MFP cluster is responsible for face-to-face financial planning, within the South African context and within the legislative and regulatory environment.

Through establishing long-term relationships, Momentum financial advisers provide clients across different market segments (middle-income, affluent, professional market and business) with holistic financial planning, and a comprehensive range of appropriate and competitive solutions. These include traditional life insurance, risk and savings products, investment, retirement, health and fiduciary services as well as short term insurance.

We believe in the value of advice and partnering with clients on their journey to success. Being a financial adviser means making a positive difference to people's lives by guiding them to financial security, with advice on how to manage their money throughout their lifetime. MFP is a well-established business and is built on solid client relationships spanning various generations. Our financial advisers provide expert advice that clients can trust to help them make informed decisions about their money - so they can achieve their life-long dreams and goals.

Growing our footprint

As we continue to strive towards becoming the most competitive, accountable, and professional in-house financial planning advice business in South Africa, we are looking at establishing an expansive and high-performing community of professional financial advisers.

By growing our adviser footprint, we will be positioned to create a successful, sustainable and rewarding future for all our stakeholders.

We are looking for experienced and new-to-industry financial advisers (with and without work experience). Our recruitment campaign, which was launched in December 2020 on our social media platforms, has gained immense traction and is a strategic enabler in our pursuit of growth.

Although experience and existing financial planning skills are an added advantage, new-to-industry financial advisers or advisers with no work experience can rest assured that they will receive dedicated support from management. This will be accompanied by opportunities for Continuous Professional Development (CPD), and they will be provided with adequate tools and resources to grow their skill set.

The most suitable candidates are those with relevant post-matric qualifications and who are willing to learn, build confidence in their abilities, and are coachable with the intention to succeed.

Our non-traditional recruitment process gives candidates the opportunity to demonstrate their characteristics and attributes through an online screening process that is made up of online activities, digital interviews, and assessments, which all lead up to shortlisting and finalisation of an appointment.

Next generation of financial advisers

By consciously growing our footprint, we will be able to diversify and transform our adviser community and reach untapped or under-serviced regions.

Our advisers will be responsible for new client acquisition and engagement with the aim of building strong relationships, trust and retention. Through an entrepreneurial spirit and by taking ownership, advisers can adapt to a new way of work. The most rewarding though, is that we are committed to helping individuals establish long and successful careers with us.

For any new candidate joining MFP, we naturally have high expectations. For this reason, all new advisers will be set up for success by receiving relevant training at the recently established Momentum Institute of Financial Planning (MIFP) which provides a structured curriculum.

Within a set timeframe, candidates will complete the appropriate modules and master the skills needed to become successful financial advisers.

Differentiator between a job and a successful career

The financial adviser profession provides career satisfaction, greater earning potential and flexibility.

By joining the MFP team of high performing professionals, new hires will need to show commitment to both the growth of the organisation and their career by utilising their skills, knowledge and abilities to add value to our clients' lives and to Momentum.

The true differentiator between a job and a successful career at MFP will be the additional effort put in by candidates who are willing to rise above any challenges.

Join the team

For exceptional candidates who have a strong conviction that a career in financial planning is what they would like to pursue, we encourage them to apply today and make their journey to success a reality.

Join the most competitive, accountable, and professional in-house financial planning advice business in South Africa and make a positive difference in people's lives by guiding them to financial security and impacting their future with advice on how to manage their money throughout their lifetime.

If you are an experienced Financial Adviser, new-to-industry, with or without work experience APPLY NOW - scan the QR code below.

https://bit.ly/3cz1de9

Aubrey Faba
Channel Director -
Red Channel
Momentum Financial
Planning

FAIRBAIRN CONSULT - Committed to providing unbiased financial advice

Fairbairn Consult is a firm of financial advisers that is committed to providing the best unbiased financial advice and solutions for clients. It is a new business that is a licensed financial services provider (FSP) and a member of the Old Mutual Group.

FAnews spoke to Guy Holwill, CEO of Fairbairn Consult, about the business and what it offers, and why advisers should join the firm.

Q Tell us about Fairbairn Consult and the business model?

Fairbairn Consult was developed to support independent financial advisers meet the restrictions of a progressively more onerous compliance environment, without taking the focus off the core of their business, which is financial advice. The business started operating in March 2020.

Q What is the adviser value proposition?

Businesses such as Airbnb and Uber have showed us that you do not need to own the entire value chain to run a highly successful business. Fairbairn Consult has used this principle to enable advisers to run their own practices, without the hassle of managing their own FSP. We have a flexible business model that caters for practices of any size. Our advisers and planners get to make their own decisions around their practices, and they retain control of their overheads. We have no in-house product push, and we allow our advisers and planners flexibility in terms of the lines of business and product providers.

We have created a brokerage where advisers and planners can thrive in a post-Retail Distribution Review (RDR) world.

We help our advisers and planners to run successful advice led businesses by enabling and supporting them.

Q You have built the business to accommodate anticipated legislation. Briefly, please tell us more about this?

RDR is really about advisers and planners running professional practices, where they transparently charge their clients for services rendered. RDR also creates business model problems because of adviser classification. Because of this, we have built our economics to work without rebates, overriders, and other hidden sources of income. We have also enabled our advisers and planners to charge fees that are disconnected from product when they are ready to do this. At the same time, we have built the systems and processes that the Conduct of Financial Institutions (CoFI) Bill will demand of all brokerages.

Q Why should advisers join Fairbairn Consult?

Advisers and planners who join Fairbairn Consult get access to market-leading tools and systems and a broad range of solutions. We look after all the compliance requirements. We take succession planning seriously and create real retirement options when the adviser chooses to exit.

Our advisers and planners have the freedom of running their practice and giving unbiased advice. We have no lock-ins or restraints of trade if people want to leave. We have also kept our head office costs to a minimum, so that we can offer highly competitive remuneration without the rebates and overriders mentioned before. There are internal referral options where advisers and planners can choose to refer clients for specialist advice on other matters.

We are completely transparent.

Q Briefly tell us what the contracting and payment options are?

For individual advisers and small practices, we can either contract directly or through a company. Where there are four or more advisers, we would advise you to form a franchise where you will be paid through your company. Our remuneration model works on the principle of economies of scale, where our fees reduce as your practices grows.

Q Any final words for advisers (our audience)?

Owning an FSP is onerous, and Fairbairn Consult offers you the opportunity to "plug into" an FSP that is part of a trusted group of companies in a similar way that a guest-house can plug into Airbnb. When you join us, you retain complete control of your business, which means that you will make all the decisions around staff, premises, clients, lines of business and product suppliers.

Send an email info@fairbairnconsult.co.za and we'll call you for a confidential, no obligation discussion around what we offer. ●

SANLAM ENTRENCHED as an African champion

Sanlam recently announced that it would reboot its business to become a purpose-led organisation and brand, focused on giving millions of Africans the chance to live with financial confidence.

In the next two to three years, Sanlam plans to catalyse this purpose through an expanded product offering, data and digital transformation, empowerment, building a future-fit culture, innovation, and partnerships.

Inclusion in the economy

Paul Hanratty, CEO of Sanlam said, "The pandemic has placed such a harrowing spotlight on how vulnerable the impoverished are, both in our country and across the continent. Everyone deserves an equal chance at living a better life, at inclusion in the mainstream economy. At the intersection of financial inclusion and financial security, people find financial confidence. That is where we will continue to build capacity, across Africa and beyond."

The World Bank's Global Financial inclusion report found the financial systems of many African countries remain underdeveloped compared to other developing economies, despite focused reforms in the last two decades. Progress is often halted due to the digital divide, social and political instability, unemployment, and unequal opportunities for women.

Hanratty said true inclusion goes beyond access to banks and credit. "It's about ensuring the previously marginalised have access to well-functioning financial infrastructure. It also means equipping individuals with the financial confidence to manage their money. The IMF ranks Africa's growth prospects between 2018 and 2023 as one of the highest in the world. The continent is also home to the world's fastest growing middle class. The potential is immense, but only if it can be unlocked."

A range of initiatives

"The new pay off-line 'live with confidence' will be brought to life through a range of initiatives, such as a Confidence Coach chatbot to upskill financial literacy, an Annual Financial Confidence Index to pinpoint regions where capacity building is imperative, and a financial education TV game show, Sanlam MoolaMoney," said Sydney Mbhele, Chief Executive of Brand at Sanlam.

Within the intermediary space Jaco Coetzee, Chief Executive of SanlamConnect said, "We believe that this campaign will also aid intermediaries in their conversations with clients. It reminds clients that our intermediaries are well-supported, have a powerhouse backing them, and that, together, we are serious about their financial wellbeing and confidence. In fact, we are so passionate about enabling intermediaries and our direct business to connect with clients to give them financial confidence, that we recently changed our business unit name to SanlamConnect."

"By imprinting the 'live with confidence' business reboot in the DNA of every aspect of our business, from the financial adviser's meeting with a client to the development of new offerings, we will empower generations to be financially confident, secure and prosperous," added Hanratty.

Financial confidence and empowerment

Mbhele added that the rebrand is an enabler for the business. "Sanlam has always had this notion of empowerment at its heart – from its founding mission in 1918 to empower poor Afrikaners to pioneering South Africa's first BEE transaction in 1993. We are going back to our roots of empowerment and articulating this in a more purposeful way."

Mbhele said that to live with confidence is a feeling of empowerment that comes from knowing a person is in control of his or her life. "Financial confidence gives a person a better chance of reaching the goals that matter to him or her. It is accessible to everyone, whether the person has a lot or a little, irrespective of age and stage. It is a mindset of abundance, rather than scarcity. We believe the way an individual feels about his or her finances drives how the individual acts. And those actions can have a profound impact on how securely and prosperously an individual lives his or her life." ●

Momentum Financial Planning recruitment initiative

A career in financial planning is about wanting to help others succeed

We are looking for experienced and aspiring Financial Advisers!

As we strive to become the most competitive, accountable, and professional in-house financial planning advice business in South Africa, Momentum Financial Planning (MFP) is looking at establishing an expansive and high-performing community of professional Financial Advisers to help build a successful, sustainable and rewarding future for MFP.

Make a positive difference in people's lives by guiding them to financial security and impacting their future with advice on how to manage their money throughout their lifetime.

Propel your career by joining the MFP team in one of the roles listed below:

- **Experienced Financial Advisers** with Date of First Admission (DOFA)
- **New-to-Industry Financial Advisers** with work experience, no DOFA
- **New-to-Industry Financial Advisers** with no work experience and no DOFA

APPLY below for the role that is right for you.

BUSINESSES NEED PREMIUM FINANCE NOW, MORE THAN EVER

In the aftermath of COVID-19, the insurance market has hardened drastically. Supply has dropped, yet demand has remained constant, which means businesses have had to absorb the cost of increased insurance premiums.

Since most businesses have experienced declining cash flow and turnover, they need premium finance now more than ever, with the guidance of specialists in the field.

FAnews spoke to **Delarey van Dyk, Managing Director of Fulcrum Premium Finance**, about premium financing.

Experience and knowledge

With more than 20 years of experience, Van Dyk has held managerial and leadership roles for more than 12 consecutive years. However, his approach to leadership buck's tradition.

He believes that the strength of a leader depends solely on the team the leader works with, and that a business rises by lifting others. His experience in the South African insurance industry has shaped this consultative management style, and he believes that taking a servant leadership approach has helped him get to where he is today.

Van Dyk is headstrong in his belief that the team should be involved in most business decisions. Every individual knows where they always stand with him, and he is determined to leverage each member's strong point, while never taking the credit for anyone else's input. In his 10 years with Fulcrum, his team has remained unchanged.

Q What is premium financing?

Premium financing is a funding mechanism that allows corporate and commercial businesses to finance their annual short term insurance premiums, by paying them off monthly. The funding mechanism means clients can enjoy the benefits of annual insurance policies, while ensuring that the upfront payment requirement does not impact their cash flow or turnover.

Q Why do businesses need Fulcrum premium finance?

Although the Fulcrum group of companies was always the leading provider of premium finance before the pandemic hit, the pandemic brought to light how effective this solution really is. It is a financing solution for businesses during tough times.

With businesses having to pay higher insurance premiums, all while their cash flow and turnover has decreased, it means that they are going to require premium finance now, more than ever, and need specialist assistance with this. So, we put together solutions which are tailored to each of our client's needs. They do not forget this, and it goes a very long way in continuing to build trust and loyalty with them.

Now that the immediate crisis has passed, we have placed our focus on building a staffing and operating model that addresses the current business environment and can adapt to future crises.

Q What benefits does premium finance offer to clients?

Firstly, instead of paying for their annual premiums upfront, clients can rather inject this 'saved' cash into their businesses. This allows them to realise a higher rate of return than the cost of borrowing associated with the premium finance product.

Secondly, for clients who are currently on monthly policies with insurers, the discount obtained when changing to an annual policy is usually higher than the premium finance charges. Going the premium finance route will, therefore, result in an additional saving for the client.

Thirdly, this source of finance is available at aggressive rates and won't affect the client's existing banking facilities. To add to that, no security is required to affect the transaction, so the client also benefits at an operational level. Fulcrum's premium financing offering allows for multiple lines of cover to be incorporated into one policy and one monthly debit order.

Q What benefits does it offer to brokers?

Premium financing offers three main benefits to brokers. Firstly, there is the obvious financial benefit: brokers receive their full annual fees and commissions upfront, giving a welcome cash injection into their businesses.

Secondly, there is the benefit of increased client retention: annual policies ensure that clients are less likely to move to another brokerage during the term of the policy.

And lastly, their administration is reduced: because Fulcrum administers the debit orders and credit control, which results in less admin for the broker.

Q How do brokers decide whether insurance premium financing is right for their clients?

Instead of asking: "Why should my client take out premium financing?", brokers should rather be asking: "Why shouldn't they?" Premium financing is an option that should be considered by all businesses, regardless of the size or sector. The more sizable or complex the policy, the more benefits the client stands to gain. The best course of action for brokers would be to discuss their book with a Fulcrum Premium Finance Portfolio Manager, to help decide which clients would benefit the most from a premium financing service.

Q How onerous is the process of setting up insurance premium finance – and how much paperwork does the process involve?

As part of annual renewal or new policy discussions, the broker quotes the client an annual insurance premium and discusses the benefits of premium financing as an option. If the client is interested, the broker – or the insured – contacts a Fulcrum Premium Finance Portfolio Manager for a quote.

To provide a premium financing quotation, the following information would typically be required:

- The client information sheet;
- Audited financial statements. (At Fulcrum we only require these statements if annual premiums total more than R1 million. We are also happy to quote without audited financial statements, but our quotation would then be subject to credit approval);
- A detailed breakdown of the premium; and
- If the client is happy with the quotation, we would then draw up the documentation, which is simple and easy to understand, and send it through for signature. All in all, this process will take no longer than 24 hours.

Once activated, we would collect the instalments due, and pay the premium to the insurer and/or broker, in line with the policy requirements. At the end of the day, premium financing is an option that benefits brokers, insurers, and policyholders alike. The set-up process is quick and simple, with minimal admin and paperwork required.

Fulcrum premium finance has a track record of excellent credit assessment, which has allowed us to remain the leader in the premium finance space. ●

PSG CELEBRATES ADVISERS

PSG held its annual conference in May. This year's event was entirely virtual, and although the special atmosphere at Sun City, where the event is usually hosted, is difficult to replicate online, there can be little doubt that a digital conference also brings some unique advantages. PSG used the opportunity to include more staff attendees and had greater access to high profile international speakers due to the reduced travel (and time) demand.

Theme for the year

The 2021 theme was Unity in Opportunity, highlighting what is possible when we work hard together. Some key highlights of this year's conference included US economist at the Brookings Institution and former Chairman of the Board of Governors of the Federal Reserve, Dr Ben Bernanke, who shared his insights on global economics.

Other speakers included Irish economist David McWilliams, futurist Graeme Codrington, Caroline da Silva (formerly from the FSCA), and agri-preneur Mbali Nwoko who shared how to properly manage a growing farm. The session also featured a panel discussion by international fund managers hosted by broadcasting personality Bronwyn Nielsen.

The digital format allowed for more product provider participation, sharing thoughts, trends and triumphs with both Wealth and Insure adviser networks. The conference marked a great year for PSG overall.

Surviving and thriving

"It has always amazed me what we can achieve – against all the odds - when we work together, and this year has been no different. Had I told you last year that PSG would be stronger, better and smarter in a year's time, you would have thought we were being naively optimistic. However, a year on, that is exactly what we have seen," remarked Francois Gouws, PSG Konsult CEO who opened the conference this year.

PSG is immensely proud of its top advisers and offices, and all that has been possible despite the constraints of living during a pandemic.

PSG's annual awards recognise advisers' successes

PSG typically awards its winners at the annual conference gala evening in the Superbowl at Sun City, but this has not been possible for the last two years due to the pandemic. However, the firm invested great effort in ensuring this year's digital event was memorable to nominees, award recipients and other invitees.

PSG is pleased to announce that 420 financial advisers are part of their Millionaires club as they have each generated over R1 million gross revenue in the past financial year. Their Gold club qualifiers are the financial advisers with more than R5 million in gross revenue over the past financial year, which has grown to 74 advisers.

There are 58 advisers who have qualified in their Platinum club, who have achieved over R10 million in gross revenue over the past financial year.

They are immensely proud of their achievements despite the challenging business conditions over the past year.

PSG's top offices and advisers for the

PSG's annual awards encourage healthy competition among its network and this year sees several winners receiving an award for the first time, along with some repeat nominees and winners, proving PSG's strength and resilience. While profitability plays a role in the award selection, the extent to which advisers embrace the trusted PSG processes and live PSG's values are also key considerations.

Office of the year

PSG Wealth Silver Lakes & George Central take the title. *Marius Kruger* (pictured) accepted this first time win for the office.

Employee Benefits office of the year

Route21 Employee Benefits secures another win. *Nerine Brink* from the office is pictured.

Wealth Manager of the year

Johan Borcherds from PSG Wealth Pretoria East (pictured) wins this highly competitive award.

Wealth Adviser Securities of the year

Struan Campbell (pictured) from PSG Wealth Umhlanga Stockbroking wins this award after several nominations in previous years.

UNITY, TOP AND OFFICES

New website, advertising campaign and corporate identity (CI) to match

PSG has launched a new website with better functionality and a bright new look, along with a bold new CI more suited to the increasingly digital world. The bold cyan and black colour palette sets the tone for the next chapter for PSG, and shows the firm's intent to continue boldly growing into the future. While PSG has not revised its CI over the last five years, the next five years are likely to look quite different, so a fresh and modern new look is a fitting way to signal readiness for the new challenges that lie ahead.

Unity is what it's all about

PSG is always looking to increase the adviser network with the aim of serving clients better wherever they reside. Thus, PSG has not let the pandemic set client engagement efforts back: rather it has invested in sharing bigger picture ideas even more broadly in the digitally enabled environment.

The *Think Big* webinar series continues to offer thought-leading subject matter, tackling all topics close to South African hearts from Covid-19 vaccines to education, to rugby and all things in between. PSG encourage viewers not to miss any of the upcoming sessions. Recordings to all previous webinars are available on PSG's Youtube channel.

Looking ahead positively

PSG has always been optimistic. However, rather than sitting back and waiting for the future to arrive, it opts to actively work on creating the future it wants. It's no wonder then, that they believe the future looks bright.

PSG comprises three divisions, namely PSG Wealth, PSG Asset Management and PSG Insure. It also has one of the largest networks of financial advisers in South Africa and Namibia, within its PSG Wealth and PSG Insure offering. The firm had 563 wealth advisers and 369 insure advisers, and 263 offices, as at 28 February 2021.

2020/2021 year

The awards are given to top performing offices and individual advisers in various categories. A virtual wine tasting was arranged for the winning advisers and offices after the awards. Congratulations to all our 2021 winners.

Wealth Adviser of the year

Emile Janse Van Rensburg (pictured), from PSG Wealth Paarl Cecilia Street wins for the first time.

Insure Adviser of the year

Markus Fourie (pictured) from the PSG Insure Olympus Midas Avenue Short-Term office wins this award for the first time.

The world has changed but we're making the most of it

Dan Hugo, Chief Executive of Distribution at PSG

Working has changed since the pandemic started, and rather than being temporary, these changes may prove permanent. Holistic advice and hyper personalisation are the cornerstones to building lasting relationships of trust, as every client has unique needs and goals. We believe that a hybrid of technology and advice as we know it, will be key to success, and there are many opportunities available.

PSG aims to be a highly-respected, advice-led, financial firm. Being prepared for a digital future before the pandemic hit, stood us in good stead to weather all that has followed since March 2020 and South Africa's lockdown.

Client service and engaging with our clients is our core focus, along with finding new ways to do this, given how the world has changed. Futurist Graeme Codrington, in his talk at the event, quite rightly suggested that the trend of the future will not so much be work from home as work from anywhere. The world is certainly changing and reaching clients through technology allows us to keep up, wherever they may be.

PSG has been fortunate to operate seamlessly remotely and it's all thanks to technology. We collaborated with our advisers to get their input on what was needed digitally to best service clients, and this is something we continue to improve.

CLC More than just value added services

CLC was founded 23 years ago, by Karla Hunt, to provide consulting services on customer loyalty programmes for many diverse market segments including the medical scheme, motor and insurance sectors.

In working closely with these diverse industries, Karla identified a need to provide assistance services with unparalleled service.

Simply offering the standard roadside or household value added product would not create a competitive advantage. The service delivery that is attached to this is of paramount importance. Therefore, CLC created systems to drive and manage these processes efficiently.

FAnews spoke to **Karla Hunt, Chief Executive Officer of CLC**, about CLC's core insurance offerings and why it is considered to be one of the most reputable financial service providers in the industry.

Commitment to service excellence

CLC has flourished since its establishment in 1998 and is considered to be a leader in service delivery and innovative product development. In 2006, CLC established its own 24/7 contact centre to achieve and maintain excellent service levels by providing greater flexibility to clients.

"Our commitment is to provide products and services that not only enhance the core insurance product, but also assist to retain clients through an exceptional service experience. We fully believe that it is our job to make our brokers look good. Our 24-hour contact centre is equipped with the latest technology and is manned by well trained, dedicated and professional personnel," said Hunt.

"The company now also addresses other areas of business, such as claims capturing, third party claims/recoveries for brokers, underwriting management agencies (UMA), insurers, corporate and government institutions. We have developed several successful software systems for our clients, that decrease overheads, whilst increasing efficiencies," she added.

"We strongly believe in custom solutions, as each business's requirements are different. This empowers CLC's clients to ensure specific solution needs are met and developed where necessary. Our IT team is responsible for an in-house developed mobile application, as well as ensuring our systems are fit for purpose and deployed swiftly," she continued.

CLC has proven themselves as a leader in this industry, and today, CLC services over 600 000 clients and is considered to be one of the most reputable financial service providers.

"Going the extra mile is standard operation for many, but it is so important to us because every single customer deserves the best service possible. It is our promise to our clients that we will go the extra mile and our word means everything," said Hunt.

"Customers cancel policies because of poor claims experience, this is the reason why the claims process is so important. With the client being able to easily interact with us, and constantly being provided with feedback, we are able to manage and complete the claims process quickly and efficiently," emphasised Hunt.

"What makes CLC different to its competition is that we are a one stop provider for all of your value-added product needs. Our ability to create new products and solutions based on our client's needs, and our quick to market mind set, backed by our cell captive and close relationship with Guardrisk, gives us the competitive edge and makes us a leader," she said.

Addressing other areas of business

CLC is more than just value-added services… Hunt said the company also handles claims for various big brokers and insurers.

"The primary focus is on great client service, reducing claim costs and successful recoveries. Our technology and infrastructure assist us in this process. The integration between the accident management (where applicable) to the claims fulfilment, as well as the ability for our clients to access our claims systems and dashboards in real time, makes our solution a world class operation," she said.

"Under this area of business, we offer a 24-hour customer experience centre, which has the ability for the client to engage via technology, with advanced

dashboards that allow the brokers to access their data in a meaningful manner. Information is critical and we provide that in a way that is transparent and relevant," added Hunt.

Exciting initiatives in the pipeline

When asked if there are any exciting plans or developments lined up for/in the next five years Hunt said, "CLC has plans to introduce more solutions into the market and become the supplier of choice to the financial service industry. We are technology driven and have some exciting initiatives in the pipeline. Watch this space."

In her final words to brokers, on why they should do business with CLC Hunt said, "With a hands-on approach, if you are looking for a professional business that offers solutions to your specific needs and that takes you and your business seriously, we are the company for you… a one stop provider for all of your business needs."

"Our slogan says it all – 'exceptional service and advanced technology is what gives us the edge'- so, connect with us to increase revenue potential and decrease your operational expenses and burden. We would love to make a positive difference to your business," she concluded. ●

The core insurance offering

The benefits that CLC offers includes:

- Assistance Services
  - Roadside assistance for all vehicles including heavy commercial vehicles, home assist, office assist, medical, safe and sound (designated driver) assistance, legal, HIV and trip monitor assistance; and
  - Protect Me – assistance in the form of an armed guard at the push of a button.
- Value Added Products
  - Excess waivers, excess buy downs, car hire, scratch and dent, tyre and rim and a range of other value added products.
- Managed Services
  - Case Management linked to the internet of things, or IoT devices, or business processes outsourcing.
- Claims Administration
  - Both damage and legal claims management for various brokers, UMA's, insurers and aggregate clients.

INSURER'S EXCEPTION TO disclose involvement in litigation

IN PERSPECTIVE WITH PROF VIVIAN

Subrogation has been undergoing change in the courts. Until recently, for example, it was accepted that once an insurer had indemnified the insured, the insurer can sue the third party, through subrogation, but only in the name of the insured.

The Supreme Court of Appeal (SCA) case of *Rand Mutual versus the Road Accident Fund*, in 2008, changed this by deciding, for the first time, that an insurer can sue a third party, through subrogation, in its own name.

Exception to the law

Subrogation was under consideration, again, in the case of *Smith versus Banjo - 2011(2) SA 518 (KZP)* - where the parties were involved in a motor vehicle collision. Smith was the owner of one vehicle, but he was not the insured. Thus, Smith could not be indemnified and thus the insurer did not acquire the right of subrogation. The insured was the Des Smith Family Trust.

Smith then sued Banjo for the damages sustained to his motor vehicle. However, it was only revealed during the proceedings that the litigation was being conducted at the behest of an unnamed insurer. The involvement of the insurer was not disclosed at the pleadings stage. The insurer had agreed with Smith that it will pay the legal costs. In essence, it was an insurer litigating in the name of Smith, which is what happens with subrogation, but in this case, without disclosing this fact to the defendant. The usual position in law is the actual parties have to be disclosed. Subrogation is the exception to his rule. This case provides an opportunity to re-examine the advisability of this exception.

The advisability of this exception

The position of one person suing in the name of another was considered by Justice Selikowitz, in the *Goodwin Stable Trust versus Douhex* case, in 1998, who expressed the position as follows:

"It is in my judgement, generally, not permissible for a person to litigate in the name of another, without disclosing that fact and the legal basis. Therefore, such conduct – unless explicitly disclosed and justified – undermines the integrity of the administration of justice. Where such action lacks transparency, it can be misleading. The doctrine of subrogation which permits the insurer to proceed in the name of the insured is a special case which is, to the best of my knowledge, only applied in the field of insurance. Because of its specialised application, persons involved in insurance litigation will be aware of the doctrine of subrogation and ought not to be misled nor taken by surprise."

The *Smith versus Banjo* case demonstrates the confidence of the court that the exception may be justified is misplaced. The case clearly indicates that the exception should be abolished, and insurers should come in line with the general position where one person sues in the name of another. The law should be of general application, including binding on insurers. The insurer should disclose its involvement and justify its right to sue in the name of the insured. In the Smith case, serious doubts exist if the insurer had any right to sue in the name of Smith.

Indemnity and subrogation

Indemnity is the fundamental principle of insurance whereby the insurer agrees to place the insured, after the loss, in the same position he occupied immediately before the loss. There is no evidence that the insured (Des Smith Family Trust) suffered any loss at all, and consequently, the insured had nothing to be indemnified against. The loss was suffered by Smith, not the family trust.

A similar situation arose in the case of *Manderson t/a Hillcrest Electrical versus Standard General Insurance Co Ltd 1996 (3) SA 434 (D)*, where the principal, Hillcrest Electrical, had insured the car of its independent contractor. The independent contractor was the owner of the vehicle but not the insured. The car was subsequently stolen. The court held that the insured (Hillcrest Electrical) had not suffered any loss as a result of the theft of the car, and therefore, the insurer was not obligated to pay anything to Hillcrest Electrical.

From this case, it is clear doubts must exist that the family trust suffered a loss due to the damage done to Smith's motor vehicle. If this is correct, then the insurer had no obligation to pay either the family trust or Smith. Nevertheless, it decided to do so. Prima facie, therefore, the insurer made a payment for which it had no legal obligation to make. It made a voluntary payment.

This leads to the question of subrogation. Subrogation is the right of one person, having indemnified the other, at law, to stand in the place of the other person, and thereby, to avail him of all rights and remedies of that other person.

Once the insurer indemnified the insured, the insurer, through subrogation, acquires the right of the insured to sue the third party. In this case, the family trust would not have suffered a loss, and thus, had nothing to be indemnified. Consequently, it could not be indemnified by the insurer. The insurer thus did not acquire the right subrogation against Banjo.

This position was made clear by an old American case, that of *Hartford Fire Insurance Co Ltd versus Payne 1922 11 SE 736*, when it was pointed out the insurer - which makes a voluntary payment - does not acquire any right of subrogation. On the face of it, the insurer's case against Banjo was non-suited.

Res inter alios acta

Mr Banjo raised this point once he discovered the undisclosed involvement of the insurer, but the Court was not very sympa-

CPD ARTICLE

> Subrogation is the right of one person, having indemnified the other, at law, to stand in the place of the other person, and thereby, to avail him of all rights and remedies of that other person.

thetic. The Court's dealing of the issue was problematic. The court decided that the *"question of subrogation is res inter alios acta",* that is, it is a private matter between the insured and the insurer had nothing to do with the insured.

Problematic approach

There are several problems with this approach. Firstly, as indicated above, it is highly unlikely that the insurer acquired any right of subrogation. The court gave no clear indication where this so-called right of subrogation came from. Secondly no-one has previously suggested that subrogation is *res inter alios acta*. Since the third party is being sued by the insurer, it is difficult to see how this can be so.

So, for example, in the *Ackerman versus Loubser 1918 OPD 31* case, a third party argued that since the insured had been indemnified, it could no longer be liable to the insured because the insured no longer suffered a loss. The court ruled correctly the fact that the insured had been indemnified was *res inter alios acta*. Indemnification and subrogation are two different things and do not lead to the conclusion that subrogation is *res inter alios acta*. Clearly, indemnification of the insured cannot have bearing on the third party's delictual obligation to the insured. That issue is vastly different from subrogation.

On the face of it, it appears that Banjo had a clear defence against the insurer. It should be clear that the exception to the rule that insurers do not have to disclose their involvement in litigation or justify that involvement should not exist. Parties to litigation should be fully informed so they can prepare a proper defence.

This leads to a more fundamental question, should the right of subrogation, in insurance, exist, at all? Why, for example, not abolish subrogation in insurance and leave the matter to other legal doctrines such as cession?

Professor Robert W Vivian
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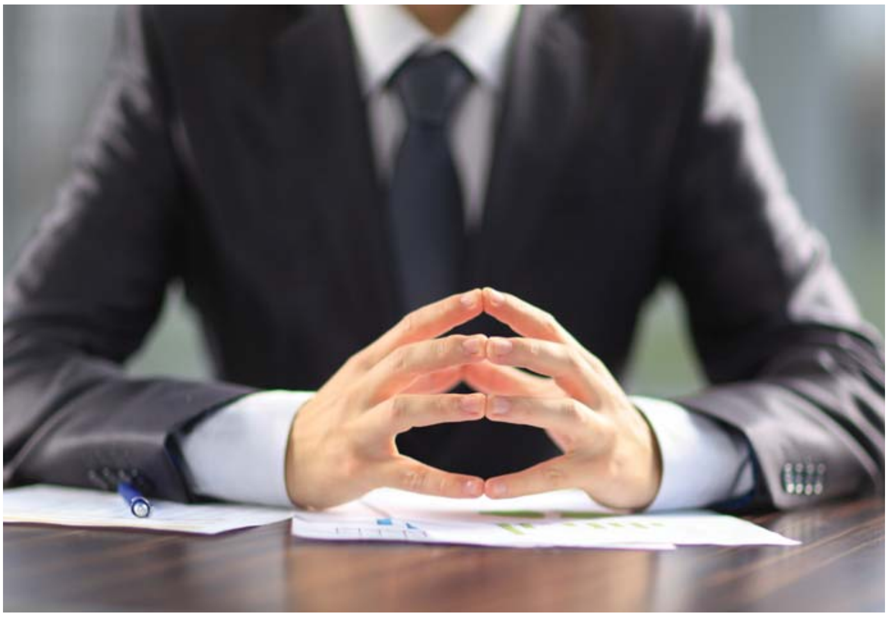
CPD ARTICLE

DIRECTORS... IN THE HEAT OF DISPUTES

SHA CLAIMS CORNER



The major risk factors that may expose directors to liability have been widely discussed in the industry, and include increased stakeholder activism, increased awareness of directors' duties, the rise of digital risks (and the Protection of Personal Information – POPI Act), and the fall-out of the COVID-19 pandemic.

Notwithstanding the increased risk exposures flowing from the COVID-19 pandemic, the results from our *2020 Annual Specialist Risk Review* were encouraging.

The results revealed that 86% of company directors ensured that their shareholders were aware of the impact of the pandemic on their businesses, while another 73% now have contingency plans for dealing with pandemics and future lockdowns. This article looks at what directors need to do, when a claim is made against them, and when to notify their insurer.

The trigger for a D&O policy

Directors & Officers (D&O) policies generally provide cover for damages claimed from directors and for costs incurred by directors in defending against such claims. The policy is called into action when the claim alleges a wrongful act against a director while the director was acting in a capacity as a director.

A wrongful act is defined widely, and includes allegations of a breach of duty, error, omission or misstatement made by a director acting in such capacity. For the purpose of defence costs, this includes allegations of criminal and willful actions.

The cost of legal representation for a director, during an investigation by a regulatory authority into the affairs of the company, are included in many D&O policies. The trigger in such instances is when the director receives notice to attend such an investigation, whether allegations of a wrongful act are made or not.

Notifying the insurer

Policies usually require the director to notify the insurer as soon as possible after:

- A written demand is made against the director, in which ever form, alleging a wrongful act (or becoming aware of the intention of any person to take such action);
- Receiving notice of criminal prosecution against a director;
- Receiving notice of an official/regulatory investigation; or
- Any fact, circumstance, or event that a director reasonably believes may give rise to such demand or action at any future time.

There is a difference between the director's duty of disclosure during the underwriting process, and the director's obligation to notify a claim. In the latter instance, it is only when there is a reasonable belief that certain facts may give rise to a claim, whereas the former includes disclosing relevant risk factors and particular circumstances of that director or board of directors.

Objective decisions

In many instances, a director of a company may feel that the chaos of war has descended upon them, when allegations of wrongful acts are made. The heightened emotions involved in such scenarios may lead a director to make decisions that could prejudice the director's defence and coverage under the policy. It is, therefore, critical for the director to partner with their insurer to ensure compliance with the policy conditions, and to ensure that the director's interests are protected.

Insurers have dealt with many similar matters and have access to the most appropriate legal resources to assist the director with the circumstances, and often bring an objective perspective to the table. It is useful to remind directors that the insurer's interests are aligned with the director's interests- to minimise the risk of or extent of a damages award.

When a claim is made against a director, it is best to call the broker, who will ensure that the necessary notification is made, so that the D&O policy may be accessed to assist them.

Pierre Lombard
Senior Claims Specialist
(Financial Lines)
SHA Risk Specialists,
a division of Santam
Limited

CPD ARTICLE

WHAT POPIA MEANS FOR SA'S UMBRELLA FUNDS

▶▶ SANLAM CORNER ▶▶

By 30 June 2021, all retirement funds must be POPIA (Protection of Personal Information Act) compliant.

While the goal is noble – the deliberate and documented act of ensuring protection of personal and sensitive information of all stakeholders – the requirements for compliance are onerous. Many umbrella funds and standalone/private funds may struggle to meet the looming deadline.

POPIA will benefit the industry

While compliance with the legislation could be achieved through a tick-box approach, ideally a culture of protection of any personal information should be embedded within businesses, to ensure that businesses are doing what is necessary to meet the spirit of this legislation.

When in place, POPIA will benefit the industry by:

- Ensuring that all personal information is processed in a responsible manner that does not unjustifiably infringe the privacy of any data subjects;
- Securing the integrity and confidentiality of personal information in providers possession or under providers control; and
- Complying with the obligations of current and/or future legislation, including but not limited to data protection laws.

While many of the principles of POPIA have been built into product providers' systems and services, the measures taken to address the requirements of POPIA must now be formally documented. This means additional work for the industry – and participating employers as well.

Files or documents that are sent to stakeholders will, as a rule, be depersonalised where appropriate, and anything containing personal information will be encrypted/password protected.

This is a practice that should have been in place previously, and we view it as good practice, but many stakeholders consider this a hindrance.

Bolstering existing measures

Some insurers have been bolstering their existing measures to ensure compliance, by ensuring administrators have led the necessary system adjustments and developed viable solutions in consultation with the fund. A POPIA specialist also advises on adjusting forms, processes and procedures where appropriate and other players should consider this service.

Others have cemented a culture of transparency and accountability by protecting information based on the following key principles:

- Processing limitation: personal information is processed only where a legitimate basis exists, in a fair, lawful, and non-excessive manner.
- Purpose specification: personal information is only processed for specific and legitimate reasons.
- Further processing limitation: personal information is not processed for a secondary purpose unless that secondary purpose is compatible with the original purpose or authorised by data protection laws.
- Information quality: personal information collected and processed must be complete, accurate, up to date and not misleading.
- Openness: ensure that data subjects are aware of the processing of their personal information, including where it is collected from and how it is used.
- Security safeguards: the integrity and confidentiality of personal information is protected.
- Data subject participation: ensure data subjects have access to their personal information (and where justified, can request the deletion or correction of their personal information).

Privacy is a priority

With POPIA round the corner, we believe it is wise to warn clients that they may see subtle differences going forward, which might include addendums to agreements and changes to forms where unnecessary information is removed, or a disclaimer explaining why information is required.

This will further empower clients through additional transparency and peace of mind that their privacy is a priority.

Avishal Seeth
Head: Sanlam Umbrella Solutions

DOES 100% TRANSPARENT MEAN 100% ETHICAL?

Ethical leadership, according to the Western Governors University, is defined as leadership demonstrating and promoting normatively appropriate conduct through personal actions and interpersonal relations.

Leadership that is ethical is important for customers, investors, employees, and the company as a whole.

Transparency and ethics

The ongoing debate around transparency and ethics, within the insurance and financial services industry, has seen recent regulatory shifts being enacted and guidelines published in an attempt to protect the rights of consumers.

The push for more transparency in the insurance sector has gained some traction within the South African landscape in recent times. For example, the Competition Commission published new guidelines in December 2020, aimed at promoting more competition in the automotive aftermarket, including insurance. These guidelines are positioned to make pricing practices more transparent, and give consumers more choice, if they are widely supported by the automotive industry.

So, would achieving 100% transparency within the insurance industry equate to 100% ethical practices – at least in the eyes of consumers?

Consumer education

Gaining consumer trust is not a simple exercise. However, with time and investment in consumer education, transparency will be a part of the DNA of insurance practice.

The said consumer education needs to focus on the nature of the insurance cover and variables that are taken into account in computing the insurance premium. This level of transparency requires taking the journey with the customers from the time that a product is conceptualised, through to the research of customer needs, solution design as well as taking the product to the market. In this way, not only would relevant products be made available to customers, but it will be an explicit display of ethical leadership.

If consumers do not have a clear understanding of the insurance products they are buying, trust will continue to be an issue. It is for this reason that consumer education is paramount. Technology and digital solutions are allowing insurers to be more transparent, as policy and product information are becoming more easily accessible in digital format.

The King Code

A UNISA paper titled, "Exploring ethical culture: a case study in the South African insurance industry", states that an ethical culture prevents ethical lapses that might threaten the reputation and even the continued existence of organisations.

The paper notes, "Recurring ethical lapses in business and the industry highlight the importance of regulation, supervision, consumer protection, corporate governance and ethics in business and the economy. For this reason, South Africa's King Code on Corporate Governance includes guidelines on ethical management practices."

Because the King Code is seen as a guideline, it is not enforceable. However, companies listed on the JSE are required to adhere to the King Code as this is a listing requirement of the bourse. At the same time, the majority of the leading South African financial and insurance institutions (or their holding companies) are listed on the JSE.

One of the main reasons that people mistrust organisations is that they find it hard to understand how these organisations generate value and derive profits. Thus, a good way to put clients in the insurance environment at ease, is to clearly explain how insurers make money – through risk assessments, premiums and investments. Furthermore, awareness of the role that insurance fulfils in the economy will contribute towards making customers understand insurance better.

In short, while transparency is crucially important to strengthen the relationship between insurers and consumers, 100% transparency in and of itself does not necessarily translate into 100% ethical conduct. Ensuring that consumers have a full understanding of pricing, products and the dynamics of the insurance industry will bring us a step closer to establishing trust and ensuring ethical business practices.

Thokozile Mahlangu
Chief Executive Officer
The Insurance Institute
of South Africa

POPIA requires a new look at INSURANCE AGREEMENTS

Personal information provided for one purpose, such as obtaining insurance, is often shared within the insurance world for other data-gathering purposes. This typically requires specific consent, if those collecting the information do not find themselves in breach of the Protection of Personal Information Act (POPIA) from 1 July 2021.

When POPIA comes into full force on 1 July this year, a range of previously uncontemplated obligations may open for everyone in the insurance-sharing network.

Confidential information

Information is the foundation of every aspect of insurance, from personal and commercial policies to medical schemes, incentivisation and risk mapping.

Companies that provide vehicle tracking systems, for example, supply their client's details and the data collected to insurers. Doctors provide details of patients' medical conditions to medical schemes to settle claims, or to the insurers for the purpose of assessing the risks to be insured.

Contractors applying for insurance on their sites need to provide their insurers with the security or health and safety arrangements of the companies on whose premises they are operating.

Often, the information shared is confidential and sometimes it may be information that belongs to a third party. Generally, these disclosures work in the interests of the patient, client or insured party. They enable individuals to benefit from no-claims bonuses or age-related premiums. However, this information can also be contrary to their interests, for example in risk-weighting monthly premiums. Sometimes this disclosure is in the interest of the third parties, e.g., the contractors and their insurers, but not in the interests of the data subject.

The information obtained enables the insurer or medical scheme to assess the risk that it is being asked to insure. The information is used for that purpose but, once it has been obtained and held, it could be shared for other purposes, for example when claims are made. That means that information personal to the data subject is being used for a purpose that is neither known nor intended by the data subject, and it involves information relating to or involving third parties who have no idea that their information is being shared.

Consent to process information

In most cases, there must be consent not only to the collection of the information, but to the purpose for which it was collected. Insurers normally provide for blanket clauses allowing the company to collect and share the policyholder's personal information. Under POPIA, that blanket clause is no longer enough, because the policyholder does not know what information is being collected and for what further purposes it will be used for.

An insurer cannot assume it is entitled to share that information. Many insurers and healthcare providers assume they are entitled to share their clients' personal information and will use it for various purposes. They also never inform the data subject of the right to withdraw consent to process that information.

Insurers should consider obtaining legal advice in drafting appropriate consent forms for processing third party information for underwriting purposes, or to assess a claim. They should be aware of the processes they need to follow to avoid breaches of POPIA and to carefully consider all the other parties in the network of information sharing.

In breach of POPIA

The penalties of not complying with POPIA include a 10-year prison sentence. While this may seem a remote possibility, a more real consequence could be claims for damages, or severe reputational damage.

It may also be that the duty of protecting this personal information – and liability under POPIA – extends throughout the chain, from the individual or client, to the service provider and through to insurers. An insurer that accepts an insured's personal information without having the required consent in place would also be in breach of POPIA.

Currently, many insurers are reviewing their policy terms and conditions as a result of the unexpected claims that arose from the pandemic. At the same time, they should be considering those terms with POPIA in mind.


Peter Grealy
Partner
Webber Wentzel


Maria Philippides
Partner
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Karl Blom
Senior Associate
Webber Wentzel

THE EIGHT COMMANDMENTS OF POPIA

There are eight principles defined within the Protection of Personal Information Act (POPIA), which must be addressed to be compliant.

I call them the POPIA 'Commandments', as failure to obey them results in:

- Administrative penalties;
- Fines of up to R10 million and/or 10 years in jail;
- Enforcement notices;
- Civil action - which may be brought on by data subjects for 'distress' - this results in a pay out of millions in damages; and
- Reputational damage or loss of reputation and the subsequent loss of customers.

Thou shall

I have provided a summary below, which I hope you will find useful as you attempt to walk the straight and narrow path.

Commandment one: Accountability

The organisation will be responsible for ensuring that the information protection principles within POPIA, and the controls that are in place to enforce them, are complied with. Appoint an Information Officer who will be tasked with implementing the correct policies and procedures to ensure compliance with POPIA, within the organisation, and who will be accountable to deal with the Information Regulator where there are complaints or a breach in terms of POPIA.

Commandment two: Processing limitation

The second commandment deals with the lawfulness of processing information, the minimality of information collected, consent, justification and objection. In terms of the collection of personal information, this must come directly from the data subject and where this personal information comes from a third party, the question arises as to whether the data subject is aware and has consented to this personal information being shared and used by you.

Commandment three: Purpose specification

The third commandment provides that personal information must be collected for a specific purpose, and the data subject from whom the personal information is collected, must be made aware of the purpose for which the personal information was collected. Personal information may only be processed for specific, explicitly defined, and legitimate reasons.

Commandment four: Further processing limitation

The fourth commandment regulates the further processing of personal information. If a responsible party further processes personal information, such processing must be compatible with the purpose for which the information was collected in commandment three. Should you want to use existing personal information for any other purpose other than what the information was gathered for, confirmation will be required from the data subject, again. When gathering information, you have to advise the data subject what the information will be used for, and for what period you will hold that information.

Commandment five: Information quality

The fifth commandment provides that the responsible party must take reasonable steps to ensure that the personal information that has been collected is complete, accurate, not misleading, and up to date. In so doing, the responsible party must take into consideration the purpose for which the personal information was collected.

Commandment six: Openness

The sixth commandment provides that the responsible party must be open about the collection of personal information. The responsible party must take reasonably practicable steps to ensure that the data subject has been made aware that his or her personal information is going to be collected.

Commandment seven: Security safeguards

The seventh commandment provides that the responsible party must ensure that the integrity of the personal information in its control is secured, through technical and organisational measures.

Commandment eight: Data subject participation

The eighth commandment provides that data subjects have the right to request that a responsible party confirm (free of charge) whether it holds personal information about the data subject, and he or she may also request a description of such information.

Thou shall comply

Whilst the main characters are the responsible party, the data subject and the operator, the relationship is very one sided, with the data subject having all the rights and the responsible party and the operator sharing the obligation to perform in terms of the Act.

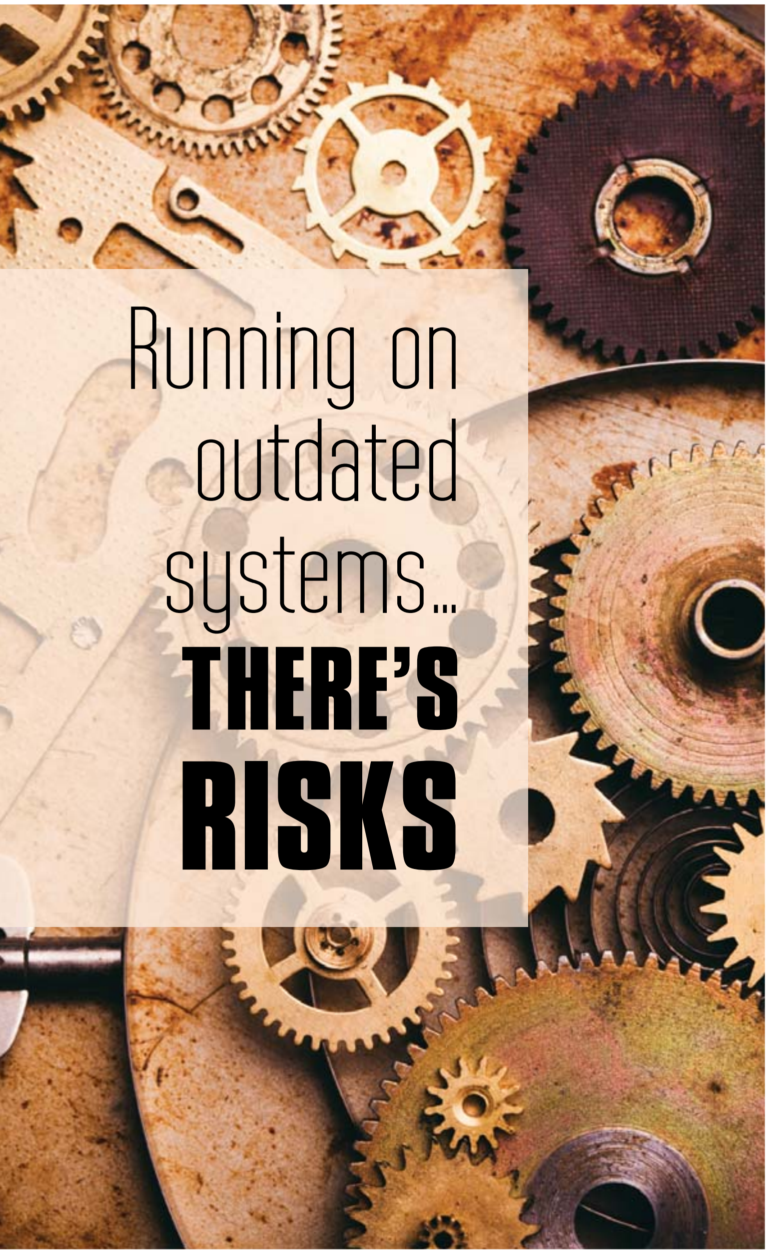
Though the scales are not balanced, the Information Regulator is armed and ready to enforce this, come 01 July 2021, and… thou shall comply!

Shannon Budhram
Compliance Officer
Garlicke & Bousfield

CPD ARTICLE

A legacy system is not defined by age; there are older systems that are kept up to date and that are stable and able to integrate into newer technologies. The age of the system, therefore, should not be a driving factor of replacing a system.

According to Gartner a legacy system is, “an information system that may be based on outdated technologies but is critical to day-to-day operations”.



Running on outdated systems... THERE’S RISKS

Outdated technology and threats

Within this definition, we already pick up points where a legacy system could become a threat to your business. The main point being outdated technology and the security threats associated with it. Of these two threats, security is the biggest threat to your business.

If the software your system is built in, or the operating system that your system needs to run on is not supported anymore, it could have security holes where entry could be gained, and information could be extracted by cyber criminals. A single unpatched vulnerability can give an attacker access to the system, or the hardware the system is running on.

Even if the data is encrypted in the legacy system, the technology used when the system was designed and built could be obsolete and offer no resistance against today’s technologies. A view for an unsupported system should be that the security in it gets weaker by the day.

With the Protection of Personal Information Act (POPIA), and other compliance standards, a breach could cost a business expensive fees and penalties.

Problems with legacy systems

Moving on to the point from the Gartner definition about outdated technologies, there are a couple of items a business needs to consider.

The older the technology, the more expensive it becomes to support it. One of the reasons that it is more expensive, is because the talent pool available to support the technology is smaller and shrinking every month, as developers either retire or move onto newer technologies. Therefore, getting someone to look after your legacy system would become more costly as time goes by.

Another problem with outdated technologies is that they hamper innovation in a business. In a world where innovation is key to allow companies to gain a competitive advantage, legacy technology often stops this from happening. This could hamper the business from introducing newer products or concepts on existing business. Legacy systems struggle to integrate into newer technologies and concepts. If the integration is even possible, it is normally more costly than it would have been using newer technology.

Legacy systems and the hardware they need to run on have an increased failure rate. If a system goes down, it costs a business not only money and resources to get it back up and running but also lost sales, lost employee productivity and dissatisfied customers. These costs might be hidden but need to be factored in, when comparing the pros and cons of replacing a system.

A problem that a lot of legacy systems struggle with is performance. They might not be able to utilise performance gains made in newer technologies. This also has a cost implication, as staff cannot do as much work as they would have been able to do on a system that was not hampered by performance problems.

Is it time to replace the system?

If you have a system that is stable, secure and the technology that it is running on is not outdated, you do not have to replace your system. A better approach would be to keep up the maintenance on the system, to make sure it stays up to date.

If, however, your system’s technology is not supported anymore and you are struggling to maintain it, or your business activities are constrained by the legacy system, it is time to start the process of replacing the system with a newer one.

Gustav Klingenberg
Operational Director
Ellipsys Systems

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SERVICE INNOVATION... how can technology make us more human?

The time has come to combine the power of human and machine, to become future proof and intelligent insurance providers.

In this ever-changing digital world, it is necessary for insurance providers to rethink their competitive advantage. This requires digital strategies that work in the new world of technology.

Human ingenuity with intelligence

We are entering a digital phase of automation that will change the roles of insurance underwriters, brokers, marketing and sales, customer service and claims professionals for ever. Some may argue the rise of artificial intelligence, algorithms, data analytics, chatbots and self-service puts the role of the human being at risk, but this is an under estimation of the value we place on the human touch and empathy. Technology can help insurers to double-down on being more human, if used correctly.

Insurance providers need to drive innovation, grow their businesses, and create better experiences for their policyholders and staff. They need intelligent operations that are agile, resilient and create value. Technology and process experts can assist them to transform their businesses to create the impact they want. With seamless integration between services, insurance providers can combine human ingenuity with applied intelligence and digital technologies to create measurable value.

The rise of the bionic insurer

We have arrived at crossing the chasm of a whole new era of insurance, where data is driving dialogue between humans and machines. New technology is enabling insurers to scale the existing operating models around and move from a deterministic approach (no randomness involved) to a probabilistic approach (incorporating randomness) for their policyholders.

As insurers become more digital and data driven, the corporate culture needs to change and be encouraged to bring humans and machines together. This will create a bionic insurer that combines the best of what machines can tell us and what humans can do.

Creating a bionic insurer requires technological changes, new operating processes, and the adoption of risk for all industries. This will create new and many opportunities for insurers, as they adopt new operating models- that are initiated by their clients- that are data enabled, with automated processes and focus on risk prevention.

The success of bionic insurers of the future will blend human and technological capabilities to power growth, innovation, efficiency, resilience and advantage.

This bionic framework will support these competitive capabilities through:

- Innovation - deployment of new products and services;
- Operations - more efficient and effective protocols that lead to saving in operating margins;
- Personalisation - new and improved customer experiences and relationships are key to exponential growth;
- Data - algorithms and data are essential weapons;
- Competition - the company does not compete - the ecosystem does; and
- A social engine - that drives innovation and execution of personalised products and services.

Following this new bionic framework requires digital leaders that continuously learn, imagine, and break through obstacles to create the change that their competition must contend with, to build a new ecosystem that continually evolves.

A digital future

With forms, documents, and signatures more intuitive, automated, and streamlined than ever, insurance providers can leave those tasks to the digital realm and, instead, focus on cultivating more positive and productive relationships with their policyholders and move onto serving the next policyholders more quickly.

Correctly implemented, a digital future can also mean a more human future where insurance providers deliver better service to customers than ever before — in a shorter timeframe and at a lower cost. The more technology enhances us, the more it creates the opportunity for a human touch.

Human beings create change with new sources of competitive advantage and the competitive landscape shifts. This drives human progress. A digital future can be more human than ever, but it will never replace empathy.

Wimpie van der Merwe
CEO - Global Choices
& Director of Claim
Central Africa

WITH CLAIMS BEING THE NEW BATTLEFIELD FOR INSURERS, WE HAVE THE ULTIMATE GAMECHANGER.

We have had great success in South Africa with the launch of Claim Central Africa into the geyser and motor claims markets. Our LiveLogik product allows desktop assessors to visually inspect claims severity as well as proactively manage further potential loss and damage all via the consumers mobile device without the need for an app download. Geysers are only replaced once the warranty status and faults have been captured and assessed via our live video footage from the scene. All this data is recorded and stored with date and time stamps as well as critical geolocation information. The data is stored for a minimum of 7 years or downloaded to the policy admin system if needed. Claim Central Africa is a services and technology business meaning we can takecontrol of the entire claim of deploy our technology into claims departments to work alongside the core systems.

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In partnership with:

TACKLE TECHNOLOGY... one bit at a time

Over the years, the business of financial planning has become overwhelmingly complex. Regulatory changes, the focus on best business principles and advancements in technology make it extremely difficult to keep up with all facets of the industry.

Advisers and financial planners are technical specialists by trade and managing and/ or running a business can be a challenging task, especially if you are new to it and there is a lack of available resources.

Teaching old dogs new tricks

Technology has brought new efficiencies to many aspects of our world… but it has been a slow journey for some advisers. When learning any new behaviour, it is essential to invest as much time, knowledge and resources as are required for the new behaviour to become automatic. Only then will less energy be required to perform the task. During the learning period, technology can be a source of serious frustration.

One of the biggest challenges smaller and/or newly established practices face is having insufficient resources to implement technology optimally. This, combined with poor planning, can be detrimental to a business's survival – case in point - the COVID-19 pandemic, which really exposed the gap between that haves and the have-nots. Businesses which were able to invest in purchasing laptops and other electronic equipment to enable remote working were not as hard hit by the pandemic.

High staff turnover is another frustration for many business owners. We invest significant time and energy in training staff to use niche financial planning technology. Financial planning tools, systems and processes are highly technical in nature and the slightest human error can result in a loss for the client and pose a reputational risk for the business. When someone you have invested heavily in leaves their job, it can leave a very bitter taste.

How do you eat an elephant?

Of course, technology is not all doom and gloom. And as with most new challenges, tackling it one bit at a time can make it less daunting. The only way to eat an elephant is one piece at a time, right? We know technology is here to stay and we must embrace it, one mouthful at a time. The myriad new systems, tools and concepts can seem overwhelming. But they generally end up adding value to your clients and your business.

Technology offers many benefits for advisers, business owners, support staff and clients. Automating processes reduces the potential for human error, improves speed and efficiency, and frees up time for you and your team to focus on other things. This enhances your business offering and adds value to your clients.

So, how do you tackle this gigantic monster known as technology? One option is to ask your staff and clients to identify problem areas that are time-consuming for the business and frustrating for clients.

Once you have narrowed down the problems you can look for tools or systems to improve these areas of the business.

To give but one example of how this could work, you might want to look at your online client engagement process (an important aspect of any business in the current climate). Small changes to your client experience go a long way.

A great first step is to provide editable online application forms that make life easier for clients who don't have access to a printer. Educating clients about how to digitally sign documents is also a good idea. As is providing a high-level overview of how they can expect to continue working with you virtually.

The bottom line

In a world where we are overwhelmed with various forms of technology and complexity, clients want simplicity. That is why they have outsourced their financial planning and advice to you.

Jean Archary CFP®
Financial Wellness Coach and Ambassador for the Financial Planning Institute

CLAIMS HANDLING in the new normal

Lately some brokers have expressed feeling somewhat frustrated with the manner and the speed with which some insurers have processed claims.

Claims satisfaction ought to be a vital component of any insurer's overall consumer relationship objective. However, the need to pay claims in a timely and efficient manner must be counter-balanced by the need to establish the veracity of any claim and policy response. Illegitimate claims need to be sorted from legitimate claims. Sidestepping unnecessary hassles and delays will go a long way to fostering goodwill between insurers, brokers and insureds. It is a delicate balancing act between the insureds need for immediate relief and the insurer's obligation to investigate, verify and assess.

A bad taste in the mouth

"Claims professionals have a delicate balancing act. They need to pay legitimate claims in a timely manner, but they also have to hold the line if their investigations justify lower reimbursements than requested or result in outright rejection. If adjusters are too strict or overly suspicious, they may drag out or deny valid claims unnecessarily. In such cases, even if they eventually pay up, any delays or unnecessary hassle may still leave policyholders with a bad taste in their mouths," said Sam Friedman, Insurance Research Leader, at Deloitte Services LP.

"How to reconcile these conflicting missions — to protect insurers from invalid claims while keeping customers happy during the moment that matters — is a major point of discussion," added Friedman.

And while COVID-19 has exposed weaknesses, as well as opportunities, many brokers have questioned whether insurers are really geared for service delivery in the new normal.

FAnews spoke to a few insurers about claims handling and the challenges and opportunities they have faced in the past year.

Service delivery and high standards

The insured client is usually upfront about what they need or require an explanation on, and they require honest and professional feedback as soon as reasonably possible. The disconnect usually arises when clients are not informed about the turnaround time to investigate a claim, alternatively, if they have unrealistic expectations in that respect. One must also consider that insurers are there to investigate whether legal liability will attach, and clients may just want insurers to settle the claim (without a full investigation) – since they feel that there are reputational concerns at play. These competing values may often lead to disgruntled clients and these aspects need to be proactively managed.

The world is constantly evolving, and claims handling becomes more intricate, especially in the liability/PI space. However, we can adapt to any challenge or environment.

Service delivery has never 'dipped' during lockdown, in fact, with SHA working remotely, there has been more time to spend assessing claims. The quality of work has remained at a high standard, if not higher than pre-COVID. The work from home scenario has also led to a more focused approach to claims assessment.

The claims team has always worked well independently, and where required, the necessary leadership has been provided, with supervision and a 'virtual' open-door policy.

Apart from the assistance of new technology (introduced due to lockdown), claims handling at home is no different to being at work. If anything, lockdown has proven that responsible employees are capable of the same, if not better output when working remotely.

In closing, we remain committed to efficient claims handling. The key to success is frank and open communication between all relevant stakeholders. Co-operation is a two-way street with both parties having to play their part.


Jonathan Kaiser (right)
and Dasran Padayachee (left)
Senior Claims Specialists for PI and Liability
SHA Risk Specialists

The drive to digitise claims

The Santam claims department has been on a drive to digitise its claims operations for the past number of years. We adopted a risk profiling and segmentation model over a decade ago, and since then, the model has gone through several evolutions.

We use modern artificial intelligence and predictive modelling tools to profile and segment claims into several different processing channels.

A significant number of our claims are already dealt with in an online self-help and automated process, enabled through client and broker apps that are supported through back-end risk modeling and automation. The bulk of both our motor and non-motor claims are dealt with by desk-

Some teething problems

I recall 26 March 2020 being the last day for staff to collect the required electronic equipment that Hollard made available to work offsite, now referred to as work from anywhere. The usual buzz at Hollard was somewhat subdued, as we all in haste wondered how this pandemic and the lockdown would play out.

As we started working from home, we did experience some teething problems in the transition stages, mainly around learning and using new technology, connectivity, and data. However, these were minor issues that were soon resolved.

Fortunately, we boast some great digital claims platforms, which we had in place before the COVID-19 pandemic arrived, but then subsequently ramped up. These platforms made the physical to digital claims handling process seamless.

Through employing digital technologies, we managed to service our customers well – and in some instances, even better than before. Our digital claims validation process is working well, and we are recording quicker end-to-end claims turnaround times. Our digital claims process is therefore here to stay, and our customers like it (measured through our continuous client satisfaction surveys). But that is how we had designed it – to be more efficient. There are still a few issues to fully resolve, for example, not all motor damage is picked up digitally, but we follow these up with physical assessments where necessary and our artificial intelligence tools are learning from such claims.

We also have a comprehensive set of key performance indicators, which help us to quickly pick up and manage any claims service slippages. It's vital that we constantly upskill and support our staff, so that we can quickly identify and address things they might be struggling with. Product and claims training are done virtually; then we have daily virtual stand-up meetings with all staff sharing learnings and experiences.

The new way of working has become the norm for us, and it's aligned with our strategic aim of putting customers and brokers at the heart of what we do.

Arie de Ridder
Head of Claims
Hollard Insure

Finding opportunities in challenges

We had already initiated COVID-19 business response planning prior to the first case of COVID-19 being reported. This helped us get a head start, so our teams could continue supporting customers and partners, with minimal disruptions. We accelerated arrangements to equip our claims teams with the hardware and other resources needed for effective remote working.

While there were teething challenges, such as access to data and adapting to new software etc., the teams did very well to navigate these and maintain communication with customers/partners, as well as deliver high levels of customer service. Beyond this, we experienced an increased volume of claims. We roped in extra resources to facilitate timeous responses, while ensuring due process was followed, and all claims continued to be robustly assessed.

We were also pleasantly surprised by the level to which productivity increased when remote working began. What is also interesting is the increased confidence in the relationship between team leaders and their teams. The increase in productivity since remote working has certainly helped foster greater trust.

Through an open-door policy and regular catch-up sessions, with employees, we have managed to overcome a significant number of the perceived remote working barriers.

We believe that every day brings with it new learnings and are focused on ensuring dexterity, so we can in turn find opportunities in challenges. Future-fit, customer-centric businesses have a responsibility to embrace technology in a way that also leverages the strengths across its talent base and provides opportunities for individual, as well as business growth. Technology is undeniably one of the most crucial differentiators for progressive businesses.

For Bryte, particularly, we have continued to successfully use technology to ensure regular interactions with our various stakeholders since the lockdown. Moreover, we have managed to find ways to maintain and grow our partnerships with brokers and customers through such technologies.

Cloud Saungweme
Head of Claims
Bryte Insurance

based assessors, who make use of digital images and sophisticated damage estimation tools to assess and quantify claims.

There is a very small number of our claims that still require the skills and physical presence of a field assessor or loss adjuster to assess loss or damage at the risk address. For field assessments of building damage, for example, we have now also started using additional modern technology such as drones to remotely capture accurate and high-definition footage.

Through this process it was, and still is, easy to maintain social distance and not expose clients or staff to any undue risk. Our staff, therefore, merely had to collect their computers from the office and were able to work remotely immediately… it was business as usual.

Fanus Coetzee
Head of Claims
Santam

DECODING
insurance contracts

While there are numerous jokes about the fine print of an insurance contract, the reality is that a lack of awareness and understanding of important terms and conditions continues to leave several customers disappointed at claims stage.

Let us consider the objective of a typical insurance contract and what it intends to address.

Outlining responsibilities

Essentially, an insurance contract aims to capture the intent and responsibility of two or more parties in the following ways:

1. **Establish good faith** - trust between the insurer and customer, by clarifying what has been advised and agreed to, accurately and transparently;
2. **Focus on indemnity** - which determines the basis for compensation for the insured and which incidents qualify;
3. **Determine proximate cause** - this clarifies the circumstances that the incident originates from and the covers that are applicable in this scenario;
4. **Remove ambiguity** - this comes with clearly defining circumstances that may trigger cover and to what extent;
5. **Promote mitigation of loss** - which places an obligation on the insured to minimise risk. Here, there are guidelines on the necessary actions to help prevent and/or reduce loss or damage;
6. **Subrogation** - this gives the insurer the right to step into the shoes of the insured to recover any losses or to defend the insured in respect of any claim where a third party is involved; and
7. **Reason for contracting** - determining the reason for the customer taking out an insurance policy, and that they do have an insurable interest in the asset being covered; i.e. the customer must stand to lose financially in the event of damage or loss.

Now, when we consider the above elements, it is clear to see why policies are complex, but this doesn't mean that they need to be confusing. What is also important to remember is that no policy can cover everything. There must - first and foremost - be general terms and conditions as well as specific exclusions and limitations - as per the customer's selections, aligned to premiums paid.

We also cannot overlook the legal requirements for a contract to be valid and enforceable. Additionally, legal precedence is essential. This translates to policies being guided by historic occurrences, relative to the type of cover and incident envisaged.

Plain language

Then, we have the call for plain language policies, which makes use of simpler language to assist customers in better understanding what they are purchasing or contracting to. Insurers have an obligation to ensure policy wording is clear and in a simple format to facilitate easy understanding - aligned to the principles of Treating Customers Fairly (TCF).

Some key elements of plain language policies include:

- Organising the information in a manner that is easy to read and clearly outlines the important aspects of the policy, including what is and isn't covered; and
- Policy information divided into understandable, structured formats.

Onus on customer

We now turn our attention to the customer. The reality is that most people do not read their insurance policies. Many leave it up to the intermediary to review, understand and ensure that they have the correct covers, as well as limits of cover, in place. There are even suggestions that no one reads insurance policies in full.

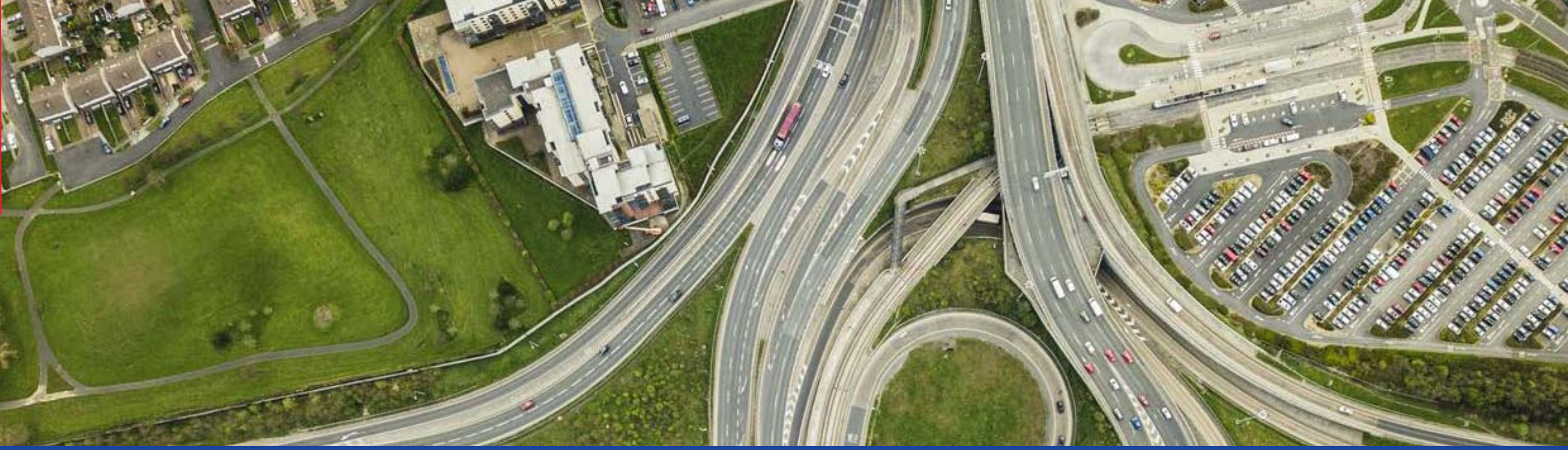
Courts are often called upon in claims circumstances and key is whether the contract is clear and unambiguous.

Intermediaries must encourage their clients to take the time to review contracts and ask the pertinent questions to avoid any disappointment at claims stage. With their assistance, customers need to:

- Be aware of what they are buying (covers, limits, events that trigger cover, etc.);
- Be mindful of their responsibility to de-risk;
- Ensure disclosure/transparency;
- Understand the terms and conditions applicable; and
- Understand specific exclusions.

An insurance contract should be written in plain, simple language that is easy for the policyholder to understand, so that they are aware of what will and what will not be covered at claims stage.

Sedick Isaacs
Head of Business Support Services
Bryte Insurance



Investigation to ensure successful THIRD-PARTY RECOVERIES

Proper underwriting goes a long way to establish and maintain a healthy insurance portfolio. Thereafter, claims must be entertained and influence the loss ratio on an insurance book. The only way to curb and manage claim expenses is through the proper investigation of those claims, to eliminate fraudulent claims, assess the damages and source parts. After this has been done, an effective salvage contract and efficient recovery process is needed to recover additional funds in the insured's claims account.

An effective recovery process

An effective recovery process should amount to a 45% success ratio on all recoverable claims (combined against insured, as well as uninsured drivers). At least 75% of the insured recoverable portfolio should be maintained. Keep in mind that not all claims can be recovered 100%, due to apportionment being applied on some merit. This can have a huge impact on the loss ratio.

To succeed with a recovery process the following five principles need to be present, to determine negligence and liability:

1. There must have been an act or omission.
2. There must have been damages.
3. The act must have been negligent.
4. The act must have been wrongful. If it happened due to a sudden emergency, it cannot be seen as wrongful.
5. There must be a link or nexus between the damage and the act or omission.

It is, therefore, important to determine whether all these principles are present. If one element is not there, the delict cannot be proven, and liability cannot follow.

In a normal course, a party wishing to recover from another party bears the onus of proving the elements of the delict as set out above. You cannot, for example, allege that the other driver changed lanes in front of you, therefore, you rear-ended him. The one who alleges must prove.

Investigation and negotiation

The success of any recovery can be allotted to two aspects: the investigation (75%) and the negotiation (25%).

It is of vital importance to initiate the recovery process as soon after the incident, as possible. This improves the possibility of obtaining accurate eye-witness statements, CCTV footage, or presents the opportunity to get information through the investigation of the scene or property involved, substantially. If this opportunity is lost, it can have a huge impact on the successful finalisation of the matter.

The person dealing with the negotiation of the settlement must be familiar with Motor Law, apportionments, various applications of merit, as well as the latest case law and precedent set due to matters settled in court.

A legal motor vehicle recovery or asset recovery would fall within the sphere of Private Law in South Africa. And, more particular, the Law of Obligations. The Law of Obligations is split into two main fields, namely the Law of Contract and the Law of Delict (or the Law of Tort, as it is known in English Law).

We deal with the Law of Delict. Therefore, a delict is a civil wrong-doing aimed at claiming damages and falls under Private Law.

In the short term insurance industry, recoveries are mostly dealt with by:

- The risk carrier/insurer, internally;
- Legal counsel; and/or
- Niche recovery agents.

The actual investigation

The person dealing with a recovery (usually after the damage claim has been finalised), needs to build the puzzle to establish how the incident occurred.

This is done by collecting various components as proof. The best individual/s to provide most of the information will be any person who was involved in the incident and on the scene. This is the best scenario, although it is not always possible due to death, injuries or shock.

Claims technicians can be of great assistance in obtaining as much information possible, on receipt of the claim.

Information that is vital

The following information is of vital importance, and the more information obtained as quickly as possible, the more successful the outcome:

Basic information:

- The names and telephone numbers of all parties involved;
- The make, model and colour of the vehicles involved in the accident;
- The names and contact details of any eyewitnesses at the scene. This can be other drivers also involved in the accident, or innocent bystanders or pedestrians who witnessed the accident;
- A comprehensive statement from both (the insured and the other party) drivers with a sketch, if possible, of how the accident occurred; and
- Mention of any adverse weather conditions. Heavy rain or fog can have a significant influence on the occurrence of an accident.

Scene information:

- Take as many photographs as possible… of the vehicles' positions after the accident, specific damage to the vehicles – this can assist with apportionment of damages during negotiation or eliminate claims for non-accident-related damage, any road marks to indicate what happened, for example, skid or brake marks, photos to identify the scene at a later stage, for example, road signs or trees obscuring the view of the driver and photos of the road surface, which might have had an impact on the accident (a pothole could have been the reason for swerving into oncoming traffic);
- Take photos of signage on vehicles, which could assist with identifying the other party; and
- Take all the information from the CCTV cameras covering the intersection or drive cam footage in one of the vehicles.

The person dealing with the investigation must be able to form a comprehensive "image" of the accident scene and how the accident occurred. This is like building a puzzle, putting all the pieces together to get the full picture.

Other supporting documents:

- **Obtain all quantum documentation**;
  - A loss adjuster report
  - Final tax invoice
  - Agreement of loss (in case of a total loss or cash settlement)
  - Salvage invoice
  - Towing invoice
  - Hire vehicle invoice
  - Proof of any additional losses, for example, items that are not covered by insurance but are damaged. A canopy, for example, that is not specified or insured.
- **Obtain the accident report** from South African Police Service (SAPS), or docket, in case of serious injury or death; and
- **Any additional expert reports**. An accident reconstruction report or fire expert report, for example.

The negotiation part of the process

During the negotiation part of the recovery process, the following needs to be addressed or considered:

- **Apportionment**: This refers to the level of negligence allocated to each party (if applicable) considering the specific merit.
- **Sudden emergency**: This is seen as an act that was both sudden and unexpected. Once again, the one who alleges must prove.
- **Proximate cause**: The cause having the most significant impact in bringing about the loss, when two or more independent perils operate at the same time (i.e., concurrently) to produce a loss.
- **One percent cases**: Where only one percent negligence needs to be proved to hold a party liable.

The bottom-line

The recovery process can be extremely time-consuming and arduous. Regular follow-ups and being part of the "network" is of utmost importance.

The result of getting a regular flow of income due to an efficient process is often the difference between a profit or loss in an insurance book. The bottom-line is to ensure an efficient recovery process to ensure a constant flow of money into the claims account.

Alma Darlington
CEO
Excel Recovery Services

POLICY WORDINGS WITH RESPECT TO COVID-19

When COVID-19 arrived on South Africa's shores, in March 2020, it impacted the entire South African economy, and was completely unforeseen by Government and the Private Sector, and the financial services industry was no different.

As the potential impact of COVID-19 became clearer, the Government had no choice but to impose a lockdown of non-essential businesses in South Africa.

The knock-on effect

The knock-on effect of the lockdown was monumental, and insurance was not excluded. Once companies began to suffer severe business interruption losses, attention was drawn to potential insurance claims.

There were policies in the market, which had extensions providing business interruption cover, caused by contagious disease. No one had foreseen a national lockdown of the country's entire economy, as a result of a pandemic, and so when such extension began to appear in certain wordings, little attention was paid to it.

Policies under the microscope

The extension deemed contagious disease within a specified radius of the property to be damage as defined, and with so few claims being made on this extension, the wordings did not deal with pandemics, government responses or how far the causation aspect would be followed.

Certain policies contained pandemic exclusions, but many did not. Certain policies limited cover to specific sub-limits, and others simply provided the full business interruption limit, never considering the potential impact of a major pandemic such as that of the Spanish flu - at the end of the First World War. Because the policy did not deal with government quarantines and lockdowns, and because there was no legal precedent for such cases, intention became important, as all insurers giving the cover made it clear there was never an intention to provide cover for a pandemic and economic lockdown.

The potential result would be subsidising much of the economy. Likewise, policyholders contended it was not specifically excluded, and the losses were caused by contagious diseases.

Cover revisited and redesigned

In the end, the courts made the final decisions and external legal firms made a lot of fees, but this could all have been avoided, had policy wording been carefully looked at with the potential consequences in mind. Because underwriters (and brokers) never foresaw this type of scenario panning out, those insurers that were asked to provide the extension did so, at high limits.

Both insurers and reinsurers will now carefully examine their commercial policies and treaties to make sure this kind of ambiguity does not occur again, and the courts are not left to decide this kind of doubt which has large consequences for all parties. Intentions will be made clear now, in the wording. It is likely all extensions and limits will be carefully examined, and requests to allow wordings and clauses that are not part of an insurer's standard wording will become harder to get signed off.

Changing scenarios

It is not just business interruption contagious disease extensions that we can expect a tightening up of wordings. Insurers will be performing scenario planning to foresee what may be the next COVID-19 unexpected event, to tighten up wordings to make sure they are clear, and where there may be risks that cannot be underwritten given the potential interpretation of the clause.

There are also changing current affair scenarios, which make the revaluation of commercial wordings critical, as they are not necessarily designed to limit losses in what may be new loss occurrences, such as what we had now with COVID-19. Examples would be the changing climatic conditions and stress and failure of aging infrastructure leading to water, power and potentially road and bridge losses.

Cover that was extended to provide business interruption losses outside of the conventional damage perils will have to be revisited, and liability covers, and weather-related covers should be designed taking into account the new predictions dealing with climate change.

The days of underwriters agreeing to unconventional extensions may be coming to an end.

Danny Joffe
Head: Legal
Hollard Insure

THE DIFFICULTIES OF 2020 LEFT

When 2021 started, we had a different 'feel' than any other year... with this in mind FAnews spoke to a few intermediaries about their biggest concerns for the future and how we can demonstrate value in a time where it is all about the premium.

Sales and loss of current business

The year 2020 was a year that could either have made you, or broke you, but you had to take control of the situation and make things happen. It also carried a lagging effect into 2021. Our profession will feel more pressure until the end of 2021, with economic recovery only expected in 2022 and 2023.

Some insurers' financial results are already showing either negative or depressed profits. The COVID-19 so-called premium relief will only be felt over the next six months, and we can expect an extraordinary lapse rate.

The financial hardship and income lag effect would mean advisers would have a prolonged concern on new sales, and further loss of current business, which will seriously impact on cash flow to sustain their practices and lifestyle.

The major positive is that we all should have pivoted our practices into hybrid virtual practices. This silver lining on its own would be positive for our clients and profession… virtual technology should have made us more effective and responsive and added to our client value-propositions. It allowed us to focus in much more detail on clients' financial planning and associated products, with regards to premiums and cost and the FSP's, and we could combine to ensure more cost-effective products and lower investment cost on products from all stakeholders. In this manner, advisers who have pivoted will find sustainability much easier through 2021, and certainly from 2022 and beyond.

It is up to us as advisers to use our online communication tools to imprint on our client's minds that we have entered a new world of investment principles. It is about customer engagement and the customer experience we create and offer. Our value proposition must make it clear that we are the custodians of our customer's long term financial plans, to achieve their long term lifestyle dreams. We must be willing to take the short term pain with our clients, as we had to do in 2020/2021, but with advice-support rather than a sales support focus.

Kobus Kleyn,
CFP ®
Kainos Wealth

Value in a post-pandemic economy

The new year started full of promise, and one got the sense that this was based on the assumption that somehow, with the advent of 2021, all of the difficulties of 2020 would be left in the rear-view mirror. The realist was so far removed, and there has been a very familiar feel in 2021, to that of last year. The prevailing sense is the collective anxiety for the year ahead, with glimmers of optimism. The overriding concern for our industry is that the recovery is slower than we envisaged, and that there is a harsher economic fall-out than what experts predicted.

The opportunities remain. These are vested in our industry's ability to innovate and produce products and services that remain in demand, relative to their cost, which speaks to real and perceived value. And, also, to identify and unearth previously ignored or underdeveloped markets to continue to retain and grow the industry.

Another opportunity is the extent to which the industry, collectively, is viewed as an ally of the consumer – particularly from a claims perspective. This has been a litany of negative publicity around the largest insurers in contingent Business Interruption claims, occasioned by COVID-19. The legal wrangling has run the risk of embedding the commonly held belief that insurers look for ways not to pay claims. The spillover of this also, is the risk that is run by insurers tightening their belts in their claims philosophy overall, as result of the dramatic impacts on their bottom-line, as result of having to make these BI payments. This poses a risk to the industry, and we can only hope that insurers remain committed to the Treating Customers Fairly (TCF) principles, and the good-faith commitments underpinning the insurance contract.

Demonstrating value in a post-pandemic economy boils down to empathy and a willingness to genuinely assist clients at all levels. I believe that if the market senses that the insurance industry is genuinely on their side, it will create a sense of confidence in insurers and brokers alike.

The better the quality of advice given to a client, the clearer the differentiation between product and advice will be, and the more value the client will see in the advice that is being rendered.

Businesses who focus continually on innovating their products and services to meet, and more so, to pre-empt, customers' needs, are generally the businesses who will outperform their peers in the long term. And the more augmented those innovations are, the more lasting the competitive advantage those business will have over their competition.

Kurt Stanley (FIISA)
Director
District Seven Risk Services (Pty) Ltd, in partnership with SFP

IN THE REAR-VIEW MIRROR

The heart of good advice

We remain concerned about market cycles on investor behaviour. On the one hand, we are concerned that investors may be more likely to fall prey to get-rich-quick type schemes and investing in unregulated assets. On the other, where they are investing in regulated assets, they may favour investing in assets that have performed well over the past five years, even though these are trading on very high valuations, and shy away from investing in assets that have not performed over the past five. Sound portfolio construction that supports client goals, thus remains critical.

We expect that the environment will start to normalise slowly. Advisers can use this opportunity to encourage clients to rebuild and grow their wealth. The pandemic heightened awareness of the necessity of sound financial planning. COVID-19 also highlighted clients' vulnerabilities, and in many cases that resulted in them relooking and reviewing their wills and levels of life cover, as an example. This opportunity will remain for as long as the pandemic is top of mind.

Advisers should continue communicating openly and honestly with their clients, building trust, and providing guidance in these challenging times. They should focus on ensuring that clients understand their needs and goals and advise clients on how to remain on course to achieve these goals.

The adviser's role should go far beyond simply recommending a product. By following the internationally recognised six-step advice process to determine clients' needs and goals, and providing ongoing guidance to achieve these, advisers also help to professionalise the industry and educate consumers.

When it becomes clear to clients that holistic advice is about determining needs and goals, and building long term relationships with clients through all life stages, the need to focus on products becomes secondary to advice.

Dan Hugo
CE of Distribution
PSG Konsult

Trying to do things differently

The lessons I am taking from 2020 into 2021 is how to do business differently, and to push during tough and different times.

My biggest concern for the road ahead is client financial survival during these unprecedented times. Unfortunately, some clients do not understand the cost implication of reducing their cover, until the loss happens. Some clients say that they will accept the difference when the claim occurs, but from our experience, that has not been the case in payouts, due to being underinsured or whatever the reason.

The reality is that today's consumers have high expectations. To demonstrate value in a time where it is all about premium, we need to make sure that policies are priced correctly, and that they cater for the new needs of customers. By giving the client the best product to cost, and understanding what their needs and costs are, we can separate product from advice… it's all about trying to do things differently.

Greg Brits
CEO
Jurgens Insurance
Brokers

2020… a year that could've made you, or broke you…

CPD ARTICLE

Event-driven litigation AGAINST DIRECTORS

The development of Directors & Officers Liability (D&O) insurance has its roots in the United States of America (USA), and with good reason.

Boards of Directors faced litigation in the USA long before it became a reality in other parts of the world.

One could observe developing trends in the USA and make some prophecies on future trends elsewhere in the world, with a high degree of confidence, because the trends that happened in the USA eventually filtered down into the rest of the world.

Securities litigation

The era of corporate greed ushered in a sharp increase in securities litigation, following corporate scandals such as WorldCom, Inc., Enron Corporation and many others. The cases focused on schemes to inflate earnings or creating fictitious companies and hiding debt using special purpose vehicles.

The accounting fraud for both companies was eventually discovered by internal audits, or Securities Exchange Commission (SEC) probes, and are examples of the more traditional route leading to a securities class action being brought against any company.

For many decades, the nature of securities class actions has rested on traditional accounting-based allegations related to revenue recognition, improper allowance for losses, delayed asset impairment, or other contraventions of generally accepted accounting principles.

The more recent case of Steinhoff shows that these practices are still very much part of some corporations' behaviour.

Event-driven litigation

On the other hand, from 2016 onwards, we have seen an ever-increasing trend in event-driven litigation.

Event-driven litigation comes about as a result of a major event taking place, which impacts on the results of a company, that triggers litigation where shareholders try to recoup losses from the directors.

It may seem a bit harsh to hold directors accountable for events taking place, which are outside of their control. After all, no one can foresee a catastrophic event occurring. The litigation comes from the interrogation of the director's behaviour after the event.

We cannot observe what goes on behind the closed doors of a publicly traded company, or know that a data breach is occurring, until after the event has occurred and has been disclosed to the public.

Closer scrutiny of what the directors did, as the event unfolded, sometimes shows that the damage was not caused by the event itself, but rather as a result of negligence or fraud, which then often leads to a sharp decline in the share price. As such, this impacts the investors in the company negatively.

This is why the new trend of event-driven securities class action litigation is on the rise and resulting in more and more recoveries for shareholders.

The allegations being made

In order to understand what comprises an 'event', one only needs to think of social and environmental disasters, such as the *#MeToo* movement, the Deepwater Horizon oil spill, the opioid crisis, numerous data privacy breaches such as Yahoo! Inc., Equifax, Inc. and Facebook. These events impact peoples' lives and many perceive a correlation between these events and civil litigation on the part of the injured or affected parties. More recently, new lawsuits are occurring based on the fallout from the Coronavirus and its impact on certain industry sectors, such as cruise lines, tourism and pharmaceutical companies.

Unlike accounting fraud securities class actions, the main hypothesis in event-driven cases is that the occurrence or event upon which the case is based was an under-disclosed or downplayed risk on the part of the directors. The allegations being made are that shareholders have been impacted negatively because of the director's conduct or failure to act.

Therefore, event-driven litigation hinges on allegations around misleading or fraudulent statements, or the omission of significantly relevant information, that had the investor known the true or undisclosed information, the investor would have possibly made different investment decisions.

Because an ever-increasing number of these lawsuits are reaching successful settlements in the courts, it is certain that these trends will continue to rise in the years to come and these critical developments should not be ignored by directors.

Ken van Sweeden
Director
Liability Matters

A modern day approach to MODERN DAY DEVELOPMENTS

COVID-19 is forcing remarkable innovation across different industries, including the medical industry.

Life is speeding ahead

Longevity is already a reality, with life expectancy in developed and developing countries increasing steadily. In fact, according to the 2019 World Population Prospects, published by the UN, they estimate that by 2050, one in six people in the world will be over the age of 65, up from one in 11 in 2019.

They further predict that the number of centenarians, worldwide, will rise to 573 000 this year. In addition, the medical industry is pushing ahead with several innovations that could increase the average life expectancy. This is according to an interesting article, which states that scientists are experimenting with the COVID-19 vaccine technology to treat terminal illnesses such as cancer and HIV; diseases that cause millions of deaths across the globe every year.

Scientists managed to create a first-of-its-kind vaccine by using mRNA, which teaches the cells in our bodies how to produce a protein that can trigger an immune response against disease.

Researchers at the University of Texas Cancer Centre believe that mRNA technology could play a powerful role in preventing cancer from reoccurring. Reoccurrence happens when small amounts of cancer cells remain in the body after treatments and can spread to other areas of the body.

The likelihood of cancer reoccurring depends on the type of cancer in the body and is often associated with ovarian cancer, bladder cancer and glioblastoma (a fast-growing and aggressive brain tumour). The article states that the current trial, which consists of treating cancer patients who had tumours removed and went through chemotherapy, is in its second phase and scientists hope by using personalised mRNA-vaccines that patients' immune systems will automatically target and destroy residual tumour cells in their bodies. This could cure patients and extend their lives.

Plan today for tomorrow's living

Even if a cure for cancer and many other critical illnesses is not quite a reality yet, one can realistically expect that the phenomenal medical advances happening around the world will very likely lead to a noticeable global shift from people dying from previously incurable diseases to people being cured or living with a critical illness for an extended period.

Living an extended life with a critical illness could add severe strain on people's ability to save for retirement. This is because the burden is not only to provide for more years in retirement, but to also cater for increased medical expenses, many of which are not fully covered by a medical scheme. One way of addressing this future financial risk is to include longevity cover when you and your clients plan the best path for them on their journey to financial success. Having the funds to pay for specialised treatments and "smart" drugs or simply just being able to afford a longer life is within your clients' reach with critical illness cover and innovative, one-of-a-kind longevity benefits that address the concern of living a longer life, even with a critical illness, head-on.

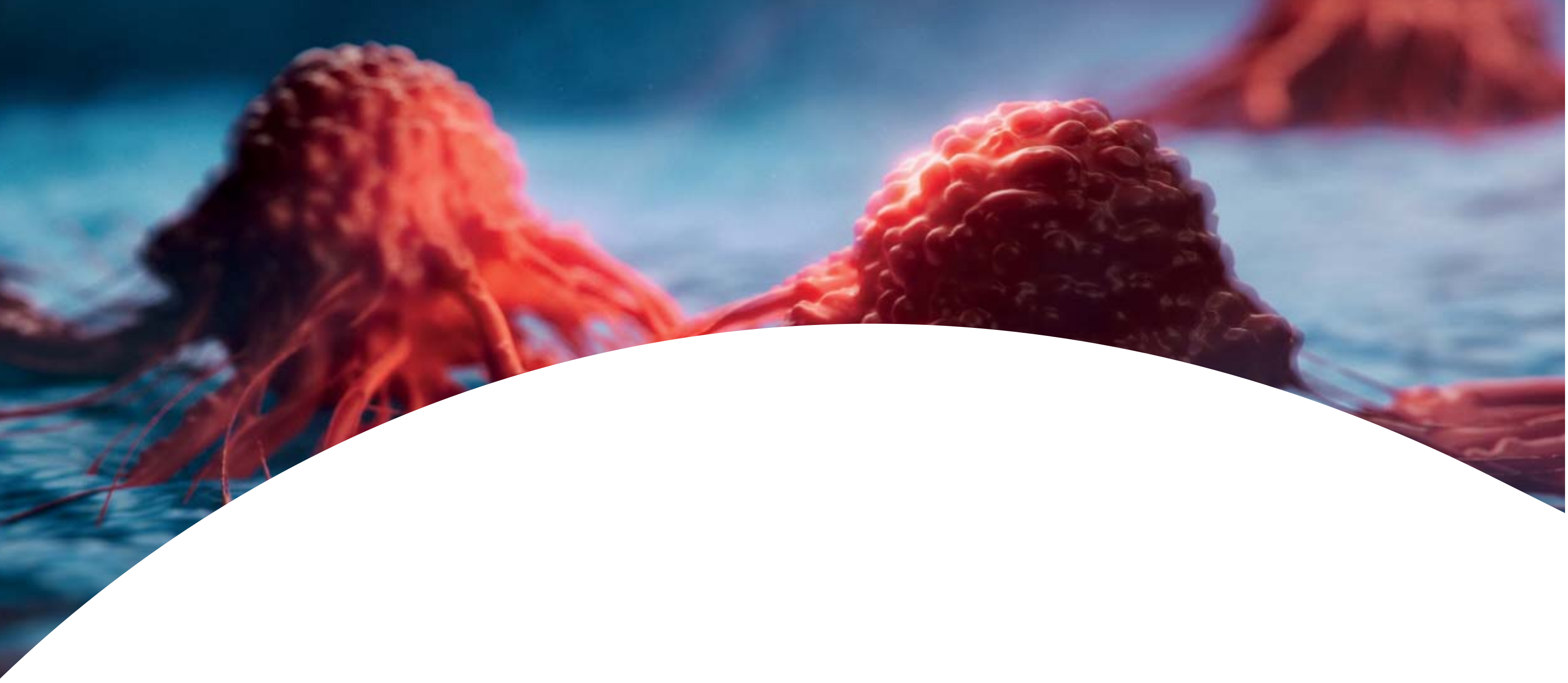
A longevity solution is designed to assist with future critical illness related expenses, for example, by providing five-yearly pay-out on qualifying claims, in addition to the initial claim pay out, for as long as a client lives. Having these additional pay-outs over time will enable clients to explore further medical advancements and treatments as they become available, improving their quality of life if they live a long life with a critical illness.

Peace of mind, now and in the future

Longevity does not have to be all doom and gloom. Responsible financial planning and unique longevity-linked risk products are the key that could ensure that your clients' cover provides them with an opportunity to enjoy a lifetime of quality living in a financially carefree way.

Therefore, having a modern-day approach to life insurance benefits provides reliable and innovative solutions, which offer your clients peace of mind, now and in the future.

George Kolbe
Head of Marketing for Life Insurance
Momentum



Beating cancer and celebrating life

During the month of June cancer survivors across the globe celebrate International Cancer Survivors Day. Although the feeling of relief associated with a clear scan is definitely worth celebrating, a large group of cancer survivors has mixed emotions on this day. For most, it serves as a reminder of their darkest moments and biggest scare and the worry about staying "clean" remains a constant mental battle.

The harsh realities

George Kolbe, Head of Marketing for Life Insurance at Momentum states that, "Cancer is responsible for the death of millions of people every year across the globe." This tragic statement is emphasised by the International Agency for Research on Cancer (IARC) which estimates that, on a global scale, one in five people develop cancer during their lifetime, and one in eight men and one in 11 women will die from this disease. Estimations also suggest that more than 50 million people worldwide, are living within five years of a past cancer diagnosis.

On an international scale, breast cancer represents one in four cancers diagnosed among women and prostate cancer and lung cancer are the most common cancers diagnosed among men, together accounting for nearly one-third of all male cancers. On the local front, the picture seems just as grim with a conservative estimate of 115 000 South Africans that are diagnosed with cancer annually, based on the last available information from the National Cancer Registry. The high prevalence of cancer is very much in line with Momentum's 2020 claim experience where cancer was responsible for 45% of all critical illness claims.

However, some good news is that the Cancer Association of South Africa estimates that the survival rate for cancer stands at an estimated six out of 10, which is a beacon of hope for people living with the disease.

momentum
life insurance

Positive choices

Although genetic factors can contribute to a cancer diagnosis, most cancer diagnoses are related to diet and lifestyle choices and can be attributed to risk factors such as obesity, low fruit and vegetable intake, lack of physical activity and also tobacco and alcohol use. According to the World Health Organisation (WHO), between 30% and 50% of cancers can be prevented by avoiding risk factors and implementing existing evidence-based prevention strategies.

"Another fundamental factor that contributes to the development of cancer is age," George adds. The occurrence of cancer rise dramatically with age, simply because as we get older we have more potential exposure and develop more unhealthy habits. In fact, credible data sources indicate that more than 50% of the world population who have cancer are 65 years and older.

A lot to be celebrated

While cancer is a leading cause of deaths across the world, there is a lot of evidence and testimonials that tell stories of hope and living long and happy lives as a result of cancer awareness, positive lifestyle choices and early detection. Thanks to advances in the medical field with regard to early cancer detection and treatment, along with responsible lifestyle choices, cancer does not have to be a death sentence. In fact, according to the American Cancer Society, when breast cancer is detected early on, and is in the localised stage, the 5-year relative survival rate is 99%.

Staging refers to the process of finding out how much cancer is in a person's body and where it is located and is a helpful tool for physicians in advising their patients about their options for treatment. Cancer is typically labeled in stages from I to IV, with IV being the most serious.

Kolbe remarks that, "Momentum's 2020 claim statistics also shows that although breast cancer diagnoses account for 51% of all critical illness claims from women, the majority of these diagnoses occurred in early stages of the disease which increases the success rate of treatment dramatically. Our 2020 claim statistics also indicate that most of the prostate cancer diagnoses also happened in the earlier stages of the disease."

Combining comprehensiveness and affordability

George emphasises that "In our experience, there are two things that clients are looking for when it comes to critical illness cover and they are access to the most comprehensive cover and an affordable price tag. Momentum Myriad places great emphasis on comprehensive critical illness cover. Our complete critical illness benefit range provide both a tiered payout option and an option that pays 100% earlier on with both options covering the same events.

Selecting the Complete Critical Illness benefit with the tiered payouts ensures that higher cover amounts are more affordable, while ensuring that the financial needs of clients are met as they arise; paying out a smaller percentage on lower severity events, for example early stages of cancer, and more if-and-when the event progresses.

Selecting the Complete Enhanced Critical Illness benefit ensures that the maximum available payouts are made earlier on for conditions that would only have qualified for 50% or 75% payouts on the Complete Critical Illness benefit. This may be especially helpful to provide funds to clients who do not have a medical aid, or to help offset expenses that go beyond medical aid coverage. It is also useful to make up for reduced income because of lifestyle changes or to access the best possible medical expertise and technology available."

The best possible outcome

"As with many other diseases, rapid advances on the medical and technological front make it possible to treat and cure previously 'life-threatening' diseases and cancer is no exception," states George.

He adds, "We have seen the treatments for cancer evolve from a 'one-size-fits-all' approach to a highly sophisticated and personalised approach that aims to target the characteristics of each type of cancer and get the best possible outcome for each individual. However, this can only happen if clients have access to cutting-edge treatments. Affordable, comprehensive critical illness cover should therefore be a non-negotiable for clients."

Broker consultants must
ENABLERS OF

Experts at South Africa's leading life insurers say that the Broker Consultant (BC) role is as important today as ever. FAnews quizzed a handful of product providers to find out how their BCs assist brokers and independent financial advisers (IFAs) to resolve the myriad of challenges in the distribution discipline. We began by asking whether insurers were on the same page as advisers insofar as the BC function?

"BCs historically focused on a combination of value proposition marketing, to both the broker and client, as well as supporting the product sales and onboarding processes," said Jacques Coetzer, General Manager: Strategy and Transformation at Sanlam Connect. But the role is changing to accommodate evolving client demands, driven by the rapid adoption of digital technology. "Clients want holistic financial planning and product fulfilment; digital enablement and engagement; and a deeper value-based relationship with their brokers; BCs must therefore play a pivotal role in guiding and enabling broker practices," he said.

An adviser for advisers...

BrightRock observed that BCs used to be responsible for marketing a product provider's products to advisers, building relationships with advisers and offering administrative support.

"Nowadays, BCs represent an employer, while their livelihoods depend on selling that employer's product … they must assist advisers with challenges in administration, claims, underwriting, product comparisons and general service support," said Sean Hanlon, Executive Director at BrightRock. He added that the life product environment was undergoing a trend shift from a commoditised, price-orientated sales focus to one of client-centric sales that require products to meet specific, individual needs through personalised, bespoke solutions.

Old Mutual Personal Finance and Discovery Retail refer to BCs as business consultants; but we have used the acronym BC throughout. According to Marwan Abrahams, Head of Broker Distribution for Old Mutual Personal Finance, BCs are tasked with understanding IFAs and assisting them to navigate the complexity of the organisation. "We expect future-fit BCs to act as business coaches and partners within an advice practice," said Abrahams. He agreed with Brightrock that much of the traditional BC function would fall way over time, due to process automation and other technology-backed innovations.

Discovery pointed out that BCs served as an important link between product houses and advisers. "With the changing nature of insurance products and the variety of products available, advisers need strong support from product house representatives," said Callie Nel, Head of Retail Distribution at Discovery Group. "This ensures they are always aware of changes, new products, processes and ultimately, that they have the assurance of providing the most recent information to their clients".

Addressing the new business obsession

There are brokers who complain that BCs are not hands-on enough when it comes to resolving administrative issues. The gripe usually goes: "We get great assistance with new business; but struggle when we run into snags with a claim- or product-related issue with existing clients". We asked insurers whether BCs enjoyed enough support from product providers to perform optimally?

reposition as ADVICE

"Our BCs have immediate access to an IFA Service Centre for all admin-related queries as well as access to underwriters," said Abrahams. Service levels are ensured by closely monitoring support response times and offering a regional escalation process if required. In addition to this, the insurer is constantly investing in processes to enhance the support experience, such as introducing artificial intelligence (AI) robots to expedite value requests, disinvestments and claims.

Sanlam Connect responded similarly. According to Coetzer the insurer's BCs enjoy direct access to both management and specialists in various policy administration areas, with a focus on driving support requests to an appropriate conclusion. "The claim or benefit payment is the primary test of whether we are doing what we promised to do, in conjunction with our brokers, for the clients benefit," he said. "Removing obstacles to new business is a competitive reality; delivering when it really matters is what our reputation is based on".

Open and transparent communication between the product provider and IFAs is crucial in today's advice-led sales environment; but insurers must also maintain cohesion between internal business units.

"We hold weekly service meetings between senior executives of our sales management and client operations areas to address process breakdowns or service failures and identify emerging concerns," said Hanlon. Broker surveys and countrywide 'field visits' are other oft-mentioned broker support mechanisms employed by product providers.

Distribution support through pandemic

The COVID-19 pandemic introduced unexpected obstacles to insurers' servicing of distribution channels, on the one hand, and policyholders on the other. "Pandemic impacted all traditional business models as employees needed to be enabled to work from home [while dealing with] a massive spike in claims," said Abrahams. "These changes had an impact on service levels initially… but we are now comfortable that service levels are back to the pre-pandemic levels".

The insurer's priority remains to create a seamless service experience for both adviser and client, by tracking digital enablement; building strong relationships; and remaining relevant to the IFA practices.

Product and product distribution in the life insurance sector is evolving as both consumers and product providers adopt new technology to meet their unique requirements. Those who ply their trade in the advice-led distribution space will therefore demand that the roles performed by product providers' BCs evolve at the same pace. "We envision a future where technology will take care of most of the current service and submission requests, allowing BCs to spend more time on relationships, practice management and assisting IFA practices to make their businesses future-fit," concluded Abrahams.

There is some irony in the observation that BCs are in the same boat as financial advisers insofar as the impact of technology. Some argued that the age of AI, chatbots, cyber advisers, online apps and other tech-enabled tools could render BCs obsolete. "Rapid technological advancements and the fundamental changes in consumers' needs creates opportunities for both financial advisers and the BCs who support them," concluded Hanlon. "Our industry must move away from a commoditised approach to a client-centric approach… and transition from a paradigm where our industry sells products to a paradigm where we sell advice".

Embracing change to add value

Discovery sees significant opportunities both for financial advisers and BCs. "The world of advice is changing; but research shows that while clients are becoming more knowledgeable, they still want the guidance and assistance of an excellent financial adviser," said Nel.

The insurer believes that technological advancements will make advisers and financial advice stronger. As for BCs... "BCs worth their salt, in any industry, will embrace the changes in that industry and use change as a catalyst to offer a more compelling value proposition… brokers will always need the link to the product house, but now they will also need to understand how to change their business and survive in an evolving industry," concluded Nel.

Sanlam Connect acknowledged that the ongoing trend towards digitalisation would change both the business- and commercial- models of brokers and IFAs. "BCs must be enabled to support and assist in driving the transformation in how brokers deliver value to clients and how they generate an income for their practices, grow them and ultimately succeed out of them," concluded Coetzer.

The value of financial advice

Our parting observation is that both product providers and BCs must heed the changing landscape and understand the demands that rising consumerism, new technologies, rampant regulation and an increasingly complex operating environment will place on them.

BCs must see themselves as enablers of advice, not as service consultants and relationship builders. If they can do this they will live up to the time-honoured tradition of placing expert financial advice front-and-centre across the insurance distribution landscape.

Gareth Stokes
Stokes Media

WHY MILLENNIALS are not buying life insurance

Older Millennials turn 40 this year. This generation makes up the largest segment of today's workforce. Yet, they represent the biggest insurance gap with only 25% life cover and 44% disability cover requirements. To understand why, it is important to understand this market.

Changing consumer landscape

As consumer mindsets shift, so should the industry's approach to life insurance. What worked yesterday, will not work today. The changing consumer mindset affects two key areas in the life insurance industry: the products we offer, and our service delivery processes.

Millennials are getting married, having children, and buying property later in life[2], which has implications on the types of risk insurance they need. Typically, most life insurers go straight to insuring against death and permanent disability with lump sum benefits. In fact, lump sum life cover makes up nearly three-quarters of all business written by the industry, compared to income protection currently only making up 8%[3].

However, when one considers that this generation does not necessarily have dependants and that they relate life insurance to death cover[4], their aversion to traditional insurance models becomes understandable. They simply do not see the need for lump sum disability and life cover.

Shifting the conversation

So, how do we as an industry evolve in tandem with this changing consumer landscape? Quite simply, by first giving customers what they need most – income protection cover. Protecting one's income is something anyone can relate to. Income benefits are easier to understand because they mimic the income stream your clients would need to replace in the event of an illness or injury. Moreover, your clients are covered for probability because the most likely risk any individual will face during their working career, no matter their age, is a temporary injury or illness.

The average 35-year-old, for example, has a 90% chance of experiencing a temporary injury or illness that could stop them from earning their income for at least two weeks during their working career compared to a 15% chance of a permanent disability and only a 14% chance of death[5].

Millennials offer the greatest opportunity for growth. It is a matter of shifting the conversation from death cover to living insurance, and from lump sum benefits to income benefits.

When it comes to service delivery, Millennials expect a seamless and instantaneous experience. Born using technology, they see digital platforms as a way of life. Technology is inextricable from the qualities that define them and how they live their lives, and as such, they are unforgiving of any business or service provider unable to deliver on this expectation. That is why embracing evolving technology in service delivery processes is so vital.

Better customer experience

If we want to stay relevant as an industry, we must deliver the instant, effortless experiences our customers are demanding.

Digital platforms facilitate operations and service delivery. Digital forms, electronic signatures, intuitive and reflexive application questionnaires, automated data entry, and reminder notifications all have a massive impact on the speed and efficiency of the application process – which translates into a better customer experience. These processes add significant value for advisers by helping them stay competitive and relevant in a marketplace that is increasingly demanding faster, smarter and easier processes.

Embracing digital processes reduces administrative processes and allows advisers to spend more time with their clients.

Financial advisers play such an important role in informing and guiding clients to make smart financial decisions. They have the power to help close the insurance gap by shifting the conversation from life insurance to living insurance and to put income protection on their clients' radar.

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1. True South Asisa gap study 2019 – 30-39 age group.
2. Picchi, Aimee. Young Adults Living With Their Parents Hits a 75-year High. CBSNews.com, December 21, 2016 (accessed June 7, 2019).
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4. According to FMI's 2018 #RealityCheck Consumer Survey, 48% of South Africans think that life insurance is death cover only.
5. FMI Risk Stats 2019. Risk stats calculated on probability for 35-year old male before retirement age of 70.

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

Future technology in the digital age FOR INSURANCE UNDERWRITING

We have seen incredible reinventions within the industry over the last few years, where technological enhancements and transformations have been explored.

However, 2020 was certainly the year, in my mind, that accelerated digital transformation within the insurance industry.

The underwriting journey

There is now a paradigm shift in insurance underwriting, where technology tools that might have been deemed as disruptive in the past, are now being embraced. To ensure that insurers can deliver an accurate and personalised customer policy in record time, you only have to look at how tools that not only provide bespoke information, but can actually seamlessly consolidate data, and assess personalised risk accurately, are being used.

While the insurance sector had always examined ways in which to innovate and deliver on customer expectations, change was often too slow. However, given the impact of the pandemic in 2020 – and the need to remain relevant becoming far more crucial – the need for 'new' predictive models has increased and has required insurers to rethink the underwriting journey.

The insurance-underwriting journey, which we know typically includes the client application quality check, medical examination, to the final application authorisation and generating a premium, has historically been quite onerous, somewhat confusing and often a time consuming and tedious process for customers. As a result, digitising the underwriting journey not only means becoming more customer centric and more time sensitive - but enables the sector to grow its customer base, far quicker, in an environment of already increasing costs.

The future of underwriting

Insurers are aware they must change their underwriting processes and management, especially as customer expectations have rapidly changed in the digital age. With the advent of new technologies, this cannot be ignored any longer either – technological advances must be embraced and used to determine a new way of interacting with customers.

Future technology that is likely to keep disrupting how this sector underwrites, includes:

1. The use of Big Data and AI to build personalised underwriting. As a result of these, we are now able to (with the client's consent) at the click of a button, obtain data from various sources. For example, in the life insurance space, you can now easily access health data and credit data, and in future, even data from your social media profile and your personal disposition to certain illnesses via your genetic DNA profile is likely to be included.

2. Technology that can ascertain a person's blood pressure, BMI, and certain illnesses - just from a photograph of their face.

3. Technology that can scan your entire body via an APP on your mobile - where it ascertains body fat percentage that is a much more accurate way of indicating mortality risk due to possible metabolic illnesses, for instance, diabetes.

4. Voice technology that can ascertain from a cough whether a person is suffering from certain lung diseases.

5. Wearables that can accurately detect and track the state of a person's health and can issue a warning when their vitality signs suddenly differ from their normal profile. For instance, the early warning of a heart attack, or even COVID-19 symptoms, before a person is even physically aware of the symptoms.

A road worth embracing

There is no time like the present, and the future is already here. The good news is that life insurers are very focused on assisting clients in this digital age – and know that by managing their health, far more proactively – and with the use of technology –they lead healthier lives.

This, coupled with the digital shift of the insurance sector and the approach taken by financial advisers will ensure that the journey of 'new' underwriting is a road worth embracing.

Anton Keet
Head of Risk Services
1Life

CARING FOR SPECIAL NEEDS CHILDREN

Life insurance policies help policyowners financially prepare for the unexpected. But what about when something happens to the child of the person who has taken out the policy, such as severe illness or mental or physical disability?

In this article, I will be discussing three of the elements that come into play on the topic of cover for children.

Three of the elements

1 The health of the child at birth.
Life insurance policies start from the moment of the child's birth, providing that the parent has had the policy for at least nine months before this event. Should something happen to the child at birth that requires medical intervention, and meets one of the clinical definitions under critical illness cover, including child-specific claim definitions, then there will be cover for the child, for example, for surgery for cleft palate repair or club feet. One example of a child-specific condition would be a short-term NICU admission, with mechanical intervention for at least 48 hours after the child's birth, which often occurs with premature babies. In this case, an insurer would pay out 75% of the child's cover amount.

2 The health of the child later in life.
The second aspect of this topic is where the child doesn't present any conditions at birth that could impact their lives, but these occur later. Any parent's worst nightmare is something happening to their child, and for a few hundred illness and injury events, some insurers can make a pay-out for a child, as well as a parent. For example, in the specific case of a child contracting bacterially confirmed meningococcal meningitis, which is an inflammation of the brain lining, some insurers cover up to 100% under critical illness if there is permanent neurological damage. In addition, the insurers cover any neurological condition that results in a permanent neurological deficit, which would pay out for both the parent, as well as their children, under critical illness.

3 The health of the parent.
When considering the care of special needs children, it is not just the health of the child that needs to be considered – the health of the parent must also be taken into account. For example, in the case of a child who does not present physical or mental disabilities, the costs associated with that child would only need to be covered by their parents' life insurance policies until he or she was financially independent, i.e. anywhere between 18 to 24 years old, depending on the selections made on the policy. In the case of a child with special needs, however, he or she may require care beyond adulthood, therefore he or she should be covered for the entire period that the parent is earning an active income.

On the death, or permanent or temporary disability of the parent, the childcare costs of the special needs child would be covered under household expenses, for example, on a policy, as the associated expenses would need to be catered for until the parent retires. The parent is also able to lock in claim payments as monthly pay-outs, rather than a lump sum under death cover. Neither the beneficiary nor the guardian of the child, should the parent pass away, can change this, which can give great peace of mind to the parent of a child with special needs that a lump-sum insurance payment won't be used for its intended purpose.

Each client's unique needs

Another useful feature of some life insurance policies is that you can grow cover for the costs of different needs, at different rates. While a cost like groceries under household needs may grow at an inflation rate, costs incurred for special needs children like medical costs can grow at a rate higher than general consumer inflation.

A policy should be crafted to suit each client's unique needs. This should be a guiding principle when it comes to policies.

Clyde Parsons
Acturial Executive
BrightRock

DEATH OR DIVORCE... how best to split assets

There are common issues faced by clients, upon death or divorce, which opens the door to having proactive conversations on how best to split assets.

In advising clients on these critical financial decisions, FAnews hosted a live webinar, sponsored by Fairheads Benefit Services and Momentum Corporate, on beneficiary funds, trusts and divorce.

Divorce… a hot topic

A hot topic discussed was that of divorce and retirement funds… considering the divorce rate has increased dramatically since lockdown started.

Shameer Chothia, Employee Benefits and Legal Consultant at Momentum Corporate said during the turmoil of negotiating the splitting of assets, maintenance and the custody of children enjoy priority, but an area which is often neglected is the negotiation to claim a portion of the former spouse's retirement savings.

In 2019, there where 129 000 marriages and 23 000 divorces. According to an article on Capetownetc, there has been a 20 percent increase in divorce applications since level 4 lockdown. So, how are assets and liabilities split during divorce and how will the split impact the client's journey to a successful retirement?

Benefits, divorce and maintenance

"In terms of the Divorce Act, retirement benefits generally form part of the assets, depending on the marriage contract and must be considered when dividing marital assets. However, when couples are living together as 'husband and wife' without getting married under a legal Act of Parliament, there cannot be a pension interest transfer as there is no marriage capable of dissolution in terms of the Divorce Act, which enables the transfer of a pension interest benefit," said Chothia.

"The legal terms of a marriage will determine the guidelines for financially exiting the union. In terms of the law, if people are married in community of property or out of community of property, with the accrual system, they may be entitled to a portion of their former spouse's pension interest. In a pension or provident fund, 'Pension interest' is the amount of money that a spouse would have received if the member had

theoretically resigned on the date of the divorce. The pension interest claim is not limited to 50%, as in terms of the law, the parties can claim anything from 0.1% to 100% of the pension interest benefit of the former spouse. The benefit allocated to the non-member spouse is payable from the date of divorce," added Chothia.

"Pension interest in respect of retail retirement funds such as being a member of a retirement annuity fund or a preservation fund – for a retirement annuity it is the total amount of the member's contributions to the fund up to the date of the divorce, together with a total amount of annual simple interest on those contributions up to that date, calculated at the same rate as the rate prescribed as per Prescribed Rate of Interest Act. For a preservation fund it is the benefit that the member would have received if their membership of the fund would have come to an end on the date of divorce" continued Chothia.

"Section 37D(4)(c) of the Pension Funds Act clearly states that the non-member spouse is not a member or beneficiary in relation to the fund. The non-member spouse is only entitled to fund return (interest) on their benefit from the date of the deduction, which is the date on which an election is made or, if no election is made within the 120-day period, the date on which that 120-day period expires. The non-member spouse is not entitled to any other interest or growth. The Pension Funds Adjudicator's has confirmed that the non-member spouse is not entitled to any investment returns or growth on their portion of the pension interest after the date of the divorce," said Chothia.

"Non-member spouses can immediately claim the benefit on date of divorce. With the introduction of the "clean-break" principle in 2007 which applies to pension, provident, retirement annuity and preservation funds, the non-member spouse may immediately claim the portion of the member's pension interest and can elect to receive a cash benefit or transfer the benefit to another retirement fund," added Chothia.

Key requirements

There are five key requirements, according to Chothia, which must be included in a divorce order, in order to facilitate a speedy payout and resolution: the divorce order must have been granted under section 7(8) of the Divorce Act. Secondly, a client must still be a member of their retirement fund on the date of the divorce order.

Thirdly, the name of the fund must be in the divorce order or the fund must be identifiable from the order. Fourthly, the divorce order must specify the amount of pension interest that the non-member spouse should get. And lastly, the divorce order must specifically order the fund, and not for instance the member, to pay a part of the pension interest to the non-member spouse.

What can go wrong? "Divorce orders are often poorly drafted, often meaning that the requirements are not met: division of pension interest, identification of fund and fund ordered to pay," said Chothia.

How can you assist clients?

"As a financial adviser you can assist your clients by going through a divorce and beyond. Continue to work with them as a couple or only with one. Work with other professionals e.g., divorce lawyers and remain open and impartial in discussing financial planning matters. A holistic financial plan is vital in incorporating multiple financial strategies to allow clients to live their best lives while knowing that future uncertainties are taken care of," concluded Chothia.

Shameer Chothia
Employee Benefits and Legal Consultant
Momentum Corporate

CPD ARTICLE

BENEFICIARY FUNDS AND TRUSTS - Advising clients on critical financial decisions

There are common issues faced by clients, when it comes to death and divorce, which opens the door to having proactive conversations on how best to split assets.

In advising clients on these critical financial decisions, FAnews hosted a live webinar, sponsored by Fairheads Benefit Services and Momentum Corporate, on beneficiary funds, trusts and divorce.

Beneficiary funds

David Hurford, CEO at Fairheads Benefit Services, talked about beneficiary fund products, what they are, who can use them and the benefits they offer.

Beneficiary funds were introduced in 2009, as a sound means of managing death benefits stemming from retirement funds and other employment related benefits under the Pension Funds Act.

"Beneficiary trusts basically replaced umbrella trusts as the default vehicle into which section 37C death benefits should be paid, if the trustees of a retirement fund in their discretion choose not to pay directly to the deceased's dependant, or their guardian or caregiver. Umbrella trusts – which are regulated by the Trust Property Control Act – were formed in the 1980s but fell prey to the Fidentia Living Hands scandal in 2006, leading to the then Finance Minister Trevor Manuel exploring the formation of beneficiary funds which have been brought under the Pensions Funds Act by being classified as a pension fund organisation with member recourse to the Pension Funds Adjudicator," said Hurford.

"A beneficiary fund is not a preservation fund, nor does it fall within your estate upon your death. Beneficiary funds are most commonly used to protect minors' benefits if the retirement fund trustees have done the necessary due diligence to assess whether payment to the guardian directly or to the beneficiary fund is preferable. Retirement fund members can stipulate their preference for the use of a beneficiary fund on their nomination form," he added.

"Planners would be well advised to acquaint themselves with the product as an investment into a beneficiary fund is entirely tax free – one of the best-kept secrets in South Africa. The money is untaxed upon entry into the beneficiary fund (if the lump sum is R500 000 or less), no tax is paid on any income or capital paid out of the beneficiary fund and no tax is paid on termination of the fund when the child turns 18 and is entitled to receive the remaining proceeds. Income projections can be provided to transfer funds to assist in reaching a death benefit distribution decision," concluded Hurford.

Trusts versus beneficiary funds

Jeffrey Wiseman, CEO of Momentum Trust, went on to discuss trusts and how they can be used as an alternative to beneficiary funds when it comes to protecting retirement funds and other benefits on death.

"With the pandemic came a sense of urgency amongst people to have their affairs in order. When an employee dies, they may leave behind employment-related benefits such as retirement benefits or lump sum death benefits. The legal guardian of a child may not know how best to manage the benefit and make it last until the child turns 18. Employment-related benefits for minor beneficiaries will generally be paid into a beneficiary fund unless the member nominates a trust to receive the benefits," said Wiseman.

"A trust is a legal arrangement where a person (the trustee) holds or administers property separately from their own for the benefit of another (the beneficiary). Trusts may be structured as vesting trusts, where beneficiaries are legally entitled to benefits from the trust, or discretionary trusts, where the allocation of benefits to beneficiaries falls within the discretion of the trustees," added Wiseman.

"Umbrella trusts are a type of trust where a single trust, intended to receive a number of smaller settlements from individual beneficiaries, is registered with the Master. Umbrella trusts are a useful alternative to beneficiary funds and potentially offer additional flexibility regarding the administration of the settlement. Most umbrella trusts are structured as vesting trusts and the benefits are not subject to tax in the trust. Income and gains that vest in beneficiaries may be taxable in their hands," continued Wiseman.

"The main advantages of umbrella trusts are that they can receive money from sources other than employment-related benefits and potentially offer more flexibility than beneficiary funds, such as selecting the date on which the beneficiary becomes entitled to the capital. The main disadvantages are that the income and gains that vest in beneficiaries may be subject to tax in their hands, and trusts are not subject to the same regulatory framework as beneficiary funds. However, many umbrella trusts require an annual audit and are subject to a strict governance framework contained in the trust deed, concluded Wiseman. ●

THE COID ACT...
payment of compensation

In terms of the Compensation for Occupational Injuries and Diseases Act (COIDA), of 1993, all companies in South Africa who employ one or more employees must be registered with the Department of Employment and Labour's Compensation Fund. This is to cover employees and working directors against work accidents.

Insurance payable by companies

Annually companies must declare the salaries paid (Return of Earnings) to employees and working directors, so that the Compensation Fund can calculate the insurance payable by companies. This amount must be declared up to a capped amount per employee and director(s), and this amount for the period 1 March 2021 to 28 February 2022 is R506 473 per annum. Many employers do not take this amount in consideration and will be overcharged. In addition to the salaries, an assessment rate (cents paid for every R100 in salaries) will be used for the calculation.

The finance sub-class category

This rate is based on the risk of getting injured and is associated with the sub-class the company is categorised in. Currently there is 13 classes and finance falls under class A and consists of the following businesses:

- Banking;
- Insurance;
- Financial investment or a trust employer;
- Funeral insurance society;
- Stock and share brokers;
- Estate and financial agents;
- Building societies;
- Control boards;
- Medical scheme funds; and
- The business of loss adjusters and loss assessors.

The Minister of Employment and Labour recently announced the change of the rates over the next five years. The rates for the finance sub-class will be as follows:

2021 Rate	2022 Rate	2023 Rate	2024 Rate	2025 Rate
0.10	0.12	0.14	0.16	0.18

Therefore, the calculation of insurance is - annual salaries paid x the rate / 100.

It is important to submit the annual Return of Earnings before the due date, as the late submission will attract a 10% penalty based on the insurance amount. The due date for 2021 was 31 May 2021. In addition to the penalty, a Department of Employment and Labour's Inspector may issue a compliance order in terms of the COID Act and Basic Condition of Employment Act.

Once the invoice is issued by the Compensation Fund, this will be payable within 30 days, and failure to pay it in this time will attract an additional penalty of 10% for the payment.

During 2018/2019 the Fund-raised insurance of more than R9.3 billion and this includes penalties of almost R1 million. The Return of Earnings must be summitted annually, and once a company is no longer operating, it must apply for the de-registration at the Fund.

Benefits in terms of the COID Act

The following benefits are payable if an employee is injured at work, and the claim was accepted for the payment of compensation and reasonable medical expenses:

- Temporary total disablement (days off) - This is a temporary income replacement for the period the employee was off duty, as a result of the injury, and the employer is compelled to pay the employee and claim a refund from the Compensation Fund. This will be calculated as follows: injured employee's salary at the time of accident X 75% / 100.
- Permanent disablement - If an employee suffered a permanent loss of function as a result of the injury sustained, permanent disablement can be approved, and this employee will receive either a lump sum if the percentage calculation is between 1 to 30%, or a monthly pension if the percentage calculation is between 31 to 100%.
- Death benefits – If an employee died at work while performing his/her duties, the beneficiaries can qualify for the following benefits:
  - Once-off lump sum to the spouse;
  - A monthly pension to the spouse;
  - A monthly pension to the children until the age of 18 years; and
  - A funeral benefit.
- Medical expenses - the Compensation Fund also acts like a medical scheme and will pay all reasonable medical expenses related to the injury on duty up to two years.

Benefits amounting to R3.9 billion was paid by the Compensation Fund and these benefits do not form part of a deceased's estate.

Stephan Pietersen
Founder
Work Accident Support

Member engagement… THE OUTCOME MATTERS

Member engagement should be instrumental in empowering retirement fund members and creating better financial outcomes. However, bombarding members with masses of complex information simply adds to member confusion and apathy.

Retirement funds and their service providers need communication platforms that help members understand and engage with their benefits. Financial advisers are instrumental in encouraging members to use the platforms available and support the process.

As members connect more with their benefits, they become more financially empowered and more likely to engage with a financial adviser at key decision-making stages. The result is better informed choices and improved financial outcomes.

Effective engagement

Effective engagement with employees on their benefits also unlocks significant benefits for employers. Greater engagement around benefits leads to improved understanding and heightened appreciation. Employees feel protected and cared for, which neutralises distracting worries, boosts productivity and results in stronger, more loyal employer relationships.

Unfortunately, there is still a lot of member communication that tends to be overly technical and complex, intimidating and alienating members, rather than encouraging engagement and facilitating empowerment. This results in employees who feel disconnected from their benefits - unaware and unappreciative of their real value.

Effective engagement involves:

- Communication that is free of jargon and complexity;
- Easy access to up-to-date and relevant information when it's needed;
- Communication which educates and empowers while informing; and
- Access through the member's preferred medium or platform.

The acid test is how any communication or engagement makes a member feel. Does the member feel relaxed, empowered and better informed to make a decision that works for them; or is the member confused, frustrated and bewildered as they drown in information-overload and industry-speak?

A case study in communication

The benefit statement is one of the most important ways retirement funds communicate with members. Research by Momentum Corporate in 2018 showed that, in general, members have a basic level of financial literacy and there is a high level of discomfort around industry terminology, regardless of age or income. The result was that members often did not understand their benefit information, which left them feeling anxious and disconnected.

Based on this research, the acceleration of the digital landscape, and the digital preferences of younger generations, Momentum Corporate set about creating a new kind of member benefit statement, giving members real-time information on their retirement and group benefits through any digital device – cellphone, computer, or tablet. The experience is highly empowering, providing members with relevant educational material and allowing them to demystify terminology or concepts with the tap of a finger or click of a mouse.

Nearly half of the FundsAtWork Umbrella funds members received a digital benefit statement in 2020 and over a quarter read it, giving the new statement a very favourable client experience rating of 4.64 out of 5 stars. Further, research in March 2021 found that 75% of participants found the language in the new digital benefit statement far simpler and easier to understand than previous terminology.

Human interaction remains key

The pandemic and lockdown restrictions accelerated the pace of digital adoption. Seamless access to up-to-date, real-time information in a digital format is becoming a shared expectation across all generations. However, the need for human interaction, particularly in times of uncertainty, remains paramount.

Last year the demand for benefit counselling and financial coaching - services that help members understand their retirement and insurance benefits - increased significantly, particularly during high volatility and rising retrenchments. Digital engagement complements rather than replaces the need for human interaction.

As members' understanding and financial literacy increases, they become empowered to know when to turn to financial advisers and what to ask them at different stages in their journey to retirement. This results in better planning, more informed decision-making and ultimately, better financial outcomes.

Nashalin Portrag
Head of FundsAtWork
Momentum Corporate

The mind shift around the ROLE OF BENEFICIARIES

Historically, a primary consideration of retirement planning has been the ability to leave capital to dependants. However, new research shows that this is becoming gradually less important.

Of concern to retirees is that their retirement money should last (at least) as long as they do and cover their monthly expenses.

A much longer planning horizon

This growing trend may be attributed, in part, to an increase in longevity. The simple truth is that many retirees are living longer than they anticipated and thought to save for. For example, most recent longevity figures in South Africa suggest that a female aged 65 will live to 87. What this really means is that 50% of women will die by this age, but the remaining 50% will live on. And with 10% likely to live to 100, it makes sense for advisers to work off a much longer planning horizon.

Key findings from *Just Retirement Insights 2020* offer another telling sign of the mind shift around the role of beneficiaries. The findings indicate that two thirds of the pre-retirees and retirees surveyed have been financially affected by the effects of the pandemic. Of these, half have had to source alternative means of income or make special arrangements to meet payments. But when asked who they would turn to for financial assistance should they run out of money in future, they say that children and grandchildren remain the first port of call.

This presents an opportune time for advisers to shift the conversation about the role of beneficiaries in retirement planning. Instead of putting the thought of leaving money to beneficiaries as a key focus, advisers could rather propose involving those would-be beneficiaries in the decision-making stages of retirement planning. This should help to mitigate any unforeseen changes in their role as a beneficiary to that of a provider.

A trade-off is inevitable

As in life, there will always be certain trade-offs in retirement. For retirees, it exists in the compromise between running out of money and having to rely on heirs or having a guaranteed income to cover essential expenses for life.

What is critical is that beneficiaries also understand the risks in retirement for their parents, so that they are able to manage their own risks accordingly, should things not work out as planned for the retiree.

Open communication is key

The findings demonstrate the importance of creating an open communication flow between retirees and their beneficiaries, usually their children. If the next generation are the ones expected to help, it makes more sense for them to play a proactive role in the retirement planning process from the start, rather than being caught on the back foot later.

Their views on financial planning may also be more up to date, which could assist in dissolving any distrust or uncertainty surrounding new-generation annuity products. This would in turn help advisers propose better retirement choices for their clients, enabling them to reduce their risk of running out of money too soon.

An income legacy

Many people still want to be able to leave a legacy for their children or grandchildren, which is why historically many retirees opted for a living annuity over a life annuity. But it is worth noting that life annuities have evolved. Retirees are now able to provide for dependants on death with optional benefit add-ons, which provide an ongoing income to the surviving spouse, or to dependants for a period of up to 20 years.

For those who want added comfort, a blended annuity offers the best of both. A portion within a living annuity serves as an insurance-based guaranteed life annuity to provide a secure income for life, while the remainder provides the potential for higher future income, which could serve as a financial legacy.

Twané Wessels
Product Actuary
Just SA

Medical schemes... GETTING IT RIGHT

The medical scheme environment is dynamic and had to be even more flexible and innovative over the past year.

The unpredictability of the extent and impact of COVID-19, the changing healthcare needs of members and economic instability have made it a turbulent time for all businesses, including medial schemes.

This can affect medical scheme membership growth and, for that matter, retention. The good news, however, is that some medical scheme's membership is seeing active growth.

Last year, for example, Deloitte estimated that medical scheme membership in South Africa would fall by 8.6%. However, at the end of 2020, membership loss was 1.6% - significantly lower than anticipated for the industry.

Over the last few years, medical schemes have taken a more assertive stance in making quality healthcare more affordable and accessible to all South Africans. It is a balance between giving members access to quality healthcare, while ensuring the sustainability of schemes.

Let us take a look at some of the statistics.

Membership numbers

There was minimal impact on our membership numbers for 2020, with a 2.2% increase in terminations, compared to 2019.

We believe this was partly due to the support offered during the initial COVID-19 lockdown, such as, for example, virtual care, online and WhatsApp self-service channels and the delivery of chronic medication.

Over the past year, we facilitated over 5 000 virtual consultations. We believe this uptake is because of the quick adaptation to telemedicine and virtual care as we find ourselves in unprecedented times. Virtual care, a necessity during the worst of the global pandemic, has found favour with medical scheme members generally.

Proactive outbound communication was also a crucial component, to ensure members understood the importance of sticking to the COVID-19 protocols.

Member movement

Of our total members, 10 019 changed their options in 2020 – of these members 38.1% upgraded their plans, while 61.9% downgraded. The movement between plans is mainly between offering comprehensive cover to covering mid-levels of cover. Downgrades from mid-level plans were to similar network-based options. This is consistent across the board including hospital plans.

In Q1 of 2021, we welcomed 28 500 new members, 60% of these are under the age of 35.

Where members use network healthcare providers and pay around 15% less for the same benefits, these options continue to grow. Options driven by technology and aimed at younger members, with a focus on virtual care, have attracted members. We have taken great care to re-evaluate our customer servicing model.

The continued focus on managed care is to empower members to take charge of their health and support them along the way. We are seeing a shift in member behaviour, in terms of members becoming more proactive and involved in their health.

The future

To retain and grow membership we need to look for new and innovative ways to evolve the healthcare offering. The strategy should continue to focus on affordability and quality healthcare, but also address primary healthcare and preventative care, as opposed to responding to illness. Technology enables us to connect with members. The goal should be to improve integration of care, enable more access to out-of-hospital services, clinical information and benefits via various solutions.

To remain relevant and sustainable we need to listen to our members' needs and give them the healthcare solutions they need. We need to take a proactive and strategic approach to product development each year. This includes extensive research, analysis of the macro-economic environment, evaluation of member satisfaction levels and actuarial modelling, to ensure that we continue to put the needs and concerns of our members first.

Medical schemes, supported by agile strategies, can navigate the changing medical scheme landscape. Members have remained loyal during these difficult times and medical schemes remain committed to providing quality healthcare, connecting with them and driving innovation.

Lee Callakoppen
Principal Officer
Bonitas Medical Fund

EMPLOYEE WELLNESS
the backbone of functional teams

Agile businesses are seizing the opportunity to increase efficiencies and reduce expenses by working from home – along with the added benefit of boosting employee wellness in many cases, it would seem.

What started out as a temporary solution to a dramatically changed world has fast-tracked multiple industries into a more technologically advanced and flexible work environment. And while this may not sit well with everyone affected, it certainly seems to be an improvement for many, as indicated in the Robert Walters 2021 Salary Survey, conducted amongst 2000 professionals in South Africa.

Reintroducing balance for wellness

The survey found that almost one third of employees (29%) working from home have enjoyed the more flexible hours afforded to them, and a further 29% feel the experience allows for an increased focus on wellbeing.

While competition and financial security continue to be of major concern for most, the reduction in time spent travelling to and from work is opening significant space for employees to include healthy daily routines.

The reduced spend on daily coffee, meals and snacks – not to mention rising fuel costs – may have a further positive impact on the financial wellness of employees, many of whom are feeling the pinch without the usual salary increase or, in some cases, with a salary reduction.

Most importantly for employers, 66% of professionals in the survey reported an increase in their productivity. This would reinforce the idea that improved lifestyle balance means greater work focus and better outcomes.

Making the most of benefits

Supporting and strengthening employee wellness is more easily achieved with medical scheme benefits that provide reliable cover, as well as delivering personalised attention to the needs of each individual.

A scientific fitness assessment and exercise prescription programme at no extra cost, for example, will ensure that each employee can benefit from regular interaction and monitoring with a registered biokineticist and an accredited exercise facility.

Furthermore, an exercise-from-home benefit with guidance from a biokineticist will entitle employees to an individualised programme. This would be particularly helpful for those who do not necessarily go to gym but who take part in outdoor activities, such as running and cycling.

Now, more than ever, it is important to offer meaningful support to employees. A nutritional assessment and healthy eating plan in consultation with a registered dietitian, for example, will go a long way to supporting employees wherever they may be on their wellness journey.

It is interesting to note that over one third (35%) of the survey respondents found that touching base regularly with their managers and teams resulted in a positive change to work style. This may indicate that some employees perform better with fewer workplace distractions while maintaining contact with colleagues, though not in person.

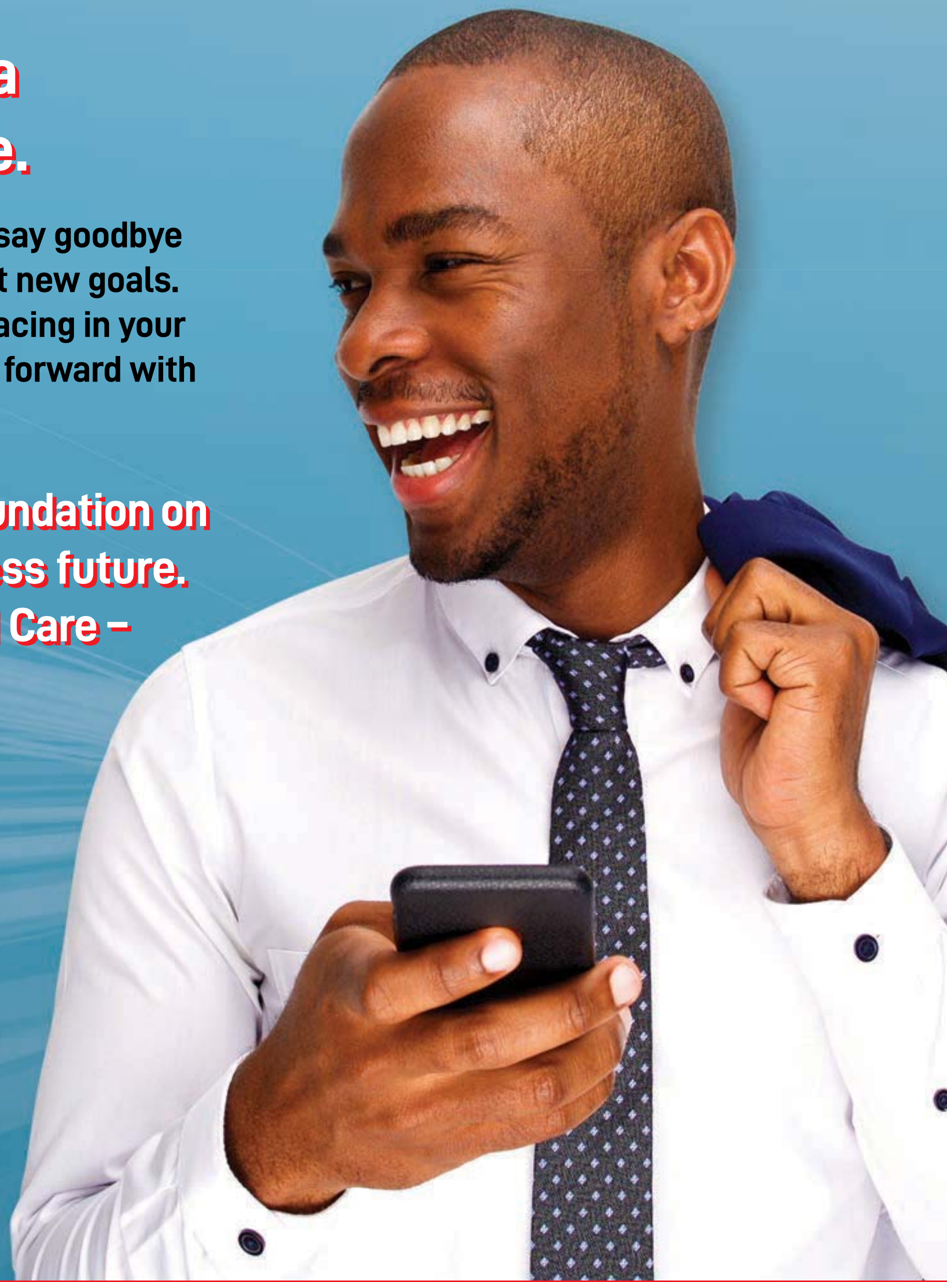
Those remote-work employees who live alone or who struggle with their home situation will need access to mental health support. Providing medical scheme cover that includes an unlimited psychosocial counselling helpline 24 hours a day, seven days a week, 365 days per year as well as a number of face-to-face sessions when needed, and reminding all employees that this service is available, will go a long way to bolstering a staff base in their times of need.

Coping with change

For many employers, the idea of remote work is a worrying one – 24% of employers taking part in the survey reported feeling concerned about the effects on productivity with working from home long-term. Others appreciate the difference remote work makes to overhead expenses, as well as the possibilities it opens up for hiring new talent, who may not be locally based.

Working from home may not be the ideal solution for all and it is now a time for striking the balance between addressing employee expectations and what makes actual business sense. Whatever the case, providing access to excellent medical scheme wellness benefits for employees should not be overlooked.

Josua Joubert
Chief Executive and Principal Officer
CompCare Medical Scheme



INSIGHTS ON
Coming to grips

More than 40 million South Africans are targeted to receive the COVID-19 vaccine by the end of the year.

According to SAnews.gov.za, in January 2021, Dr Zweli Mkhize said while the fiscus will carry the burden of procuring the COVID-19 vaccine, government would reach out to medical schemes to make a contribution. Mkhize said they would also consider asking medical schemes to co-subsidise some members of the public, as government makes a push to raise funds to procure vaccine doses.

So, where does this leave medical schemes?

The funding obligation

Patrick Masobe, Chief Executive Officer (CEO) of Agility Health and Founding Registrar of the Council for Medical Schemes (CMS) said, "this year's national budget made available some R9 billion for the procurement of COVID-19 vaccines. We understand also that an additional R19 billion has been set aside in the government contingency fund to top up this amount, should this be required during this financial year. This represents substantial new funding for vaccines; therefore, we anticipate that medical schemes' funding obligations will be confined to covering their members' Prescribed Minimum Benefits (PMB) requirements."

"As a matter of principle, however, decisions of this nature should rest with the trustees of medical schemes, as we have entrusted them with the fiduciary responsibilities to govern medical schemes on behalf of their members. Taking any such decisions out of their hands would be like pulling the rug from under their feet, and could set a concerning precedent," added Masobe.

"Medical schemes are not-for-profit, and reserves belong to members. It is for this reason we are legally not allowed to pay benefits to persons not covered by the Scheme," said Lee Callakoppen, Principal Officer of Bonitas Medical Fund.

"Our scheme is well positioned to fund the vaccine for our members in line with regulation and scheme rules. We now know that the state has budgeted towards the vaccines, which provides a newfound comfort in their ability to provide these to the nation as required," continued Callakoppen.

Procurement and distribution

"Globally, the manufacturers of these COVID-19 vaccines have elected to deal only with governments and their agencies, therefore, the procurement practices in South Africa are not unique in this regard. Detail on the dates for the distribution of these vaccines unfortunately remains limited at the moment, however, vaccines have been ordered," said Masobe.

"It should also be noted that the registration of vaccines falls under the Medicines and Related Substances Act (101), which includes specific regulations regarding registration of and access to unregistered products. As of 1 March, no vaccine in the USA has been given full registration yet, as they do not meet the criteria. Instead, they are available under an emergency registration in the USA. This further illustrates that South Africa is not alone in these challenges, and regulators are only now coming to grips with this vaccine crisis," continued Masobe.

"Although the latest news articles state that the Government has not prevented the private sector from procuring vaccines, it is important to note that the Pharma Companies (J&J, Astra Zeneca, Pfizer, etc) producing the product, are not supplying directly to any private institution, worldwide," said Callakoppen.

"It is necessary for registration and pricing of all pharmaceutical products in South Africa, for private and state, so the government cannot be circumvented. All products have to be approved by SAHPRA. It is common cause that Pharma companies have indicated that they will be willing to enter into supply agreements with various countries for the allotted vaccines. Due to this, the private sectors have agreed to work with the public sectors for the procurement of adequate vaccines," continued Callakoppen.

VACCINE DEVELOPMENT - with this crisis

Long COVID-19 and third wave concerns

"The virus has mutated many times and the so called British, Brazilian and South African strains have been found *de novo* in Oregon without links to travel, demonstrating that mutations are common and will occur, even imitating other strains where there was no contact – this is the nature of RNA viruses. This suggests that future waves are possible, and the severity of these remain to be seen. The issues at hand include the extent of protection the population has with prior immunity from community acquired infection or through vaccination. In either case, different types of immune responses could provide varying degrees of protection, if any at all, against emerging new strains," said Masobe.

"Vaccination aims to provide as much protection as possible within the limitations of what can be achieved with vaccination. Reality dictates that a once-off campaign may not be adequate, and as vaccines are updated to offer better or different immunity in future, it is probable that repeated global vaccination campaigns will be required," emphasised Masobe.

"Matters are constantly changing with the advent of new virus mutations; the impact of lockdown levels being reduced and the greater movement and opportunities for 'superspreader' events etc. This depends on the success and progress of the phased vaccination rollout strategy, the behaviour of South Africans in terms of continued COVID-19 precautionary measures such as wearing of masks, social distancing, and hand sanitising, avoiding of unnecessary crowds and so on. Time will tell and we are preparing for all scenarios," said Callakoppen.

"We are monitoring international trends in terms of how and when similarly sized countries experience their waves. We are also closely monitoring our member and provider claiming patterns to pick up trends on increased utilisation and addressing those risks as best we can. For example, reviewing the network access for those areas and reducing the administrative burden on our providers during those periods, from an authorisation and update perspective, etc. We adjust our approach, supported by our partners in the value chain, accordingly," continued Callakoppen.

In a race against time

"Whether you choose to vaccinate or not remains a personal preference. At this stage, the COVID-19 vaccination is not compulsory, and we will take our lead from the DoH on this. Their approach may change when it comes to travelling but, at this stage, it is not clear yet," concluded Callakoppen.

"When we have reached a stage where herd immunity is sufficiently large and depending on the strain or strains in circulation in a population of people, even those who choose not to be vaccinated would have some measure of protection," said Masobe.

"It is perhaps naïve to assume that a once-off vaccine campaign is going to rid the world of the virus. Instead, we should prepare for continuous vaccination processes with different vaccine regimens globally, to address local needs, while preventing international spread of different strains. The world has changed, and it would be misguided to think it is going to be the same as before. We, therefore, have to get accustomed to the new norm of rapid change," concluded Masobe. ●

KEY THEMES TO WATCH IN 2021

FAnews spoke to a few experts about the investment landscape in 2021, the challenges and opportunities for the year ahead and what investors should be paying attention to.

A future that is unknowable in the present

Is it unrealistic to think the challenges of 2020 are mostly behind us? Here are five key possible reversals (in descending order of likelihood), and their implications for investing in 2021.

1 **Pandemic to be controlled** - The announcements late last year of multiple effective vaccines has undoubtedly increased the likelihood of a return to normalcy at some point this year, notwithstanding the more virulent strains and delays in rolling out vaccines. Financial markets are increasingly looking past the current health crisis and positively re-rating companies.

2 **Global growth to come back strongly in 2021** - The prospect of unleashing pent up consumer demand as confidence returns, accompanied by low interest rates and further investment spend, could give global growth a significant boost this year. There have been early signs of a reversal of the significant underperformance of value shares relative to growth shares and emerging economies relative to the US, and this trend could accelerate.

3 **Confidence in SA to surprise on the upside** - Given the low expectation of future economic growth for South Africa now, if global growth exceeds expectations, it is possible that South African economic growth may finally surprise on the upside.

4 **Global inflation to come back** - The stimulus is magnitudes higher, and financial markets are now tentatively starting to price in the possibility of higher inflation. What is important, of course, is whether the uptick in inflation is just due to base effects (i.e., temporary), or far more disruptive. If inflation does gain traction (and it is still a big "if") the extent it can be tolerated without a significant increase in short-term interest rates will determine how disruptive it will be.

5 **Climate mitigating measures to be decisive** - The global economy has been unable to come close to meeting its climate change objectives, even with much of the global economy under lockdown for part of 2020. The concern is that 2021 will be no different in meeting these objectives, as countries ramp up their production to recover lost output, however, this could misconstrue the momentum to move more decisively away from the 'brown' economy.

Even if the future turns out differently from what we have stated, just thinking about these trends forces one to assess the resilience of one's investment strategy to a reversal (or continuation) of existing trends, and whether one is sufficiently diversified in the face of a future that is unknowable in the present.

David Crosoer
Chief Investment Officer
PPS Investments

Challenges likely to characterise the year ahead

I think there are four main challenges that are likely to characterise the year ahead.

1. **The low yield environment** - Interest rates will stay at or move below zero in many parts of the developed world, in 2021, as authorities the world over continue to act to support economic growth. This means it is going to be even more difficult than it has been in the last few years for investors to find yield. Our economics team forecasts that the next 10 years are likely to see returns from bonds and equities at far lower levels than we saw in the previous decade.

2. **Continued price erosion** - Clients are demanding higher value at lower cost and increased fee transparency. This will continue to put pressure on asset managers to evolve their pricing models and come up with alternative fee structures.

3. **Ongoing rise of passive investing** - PWC predicts by 2025, a quarter of all global assets under management will be invested in passive strategies. This means active managers like us will have to continue to differentiate product offerings and demonstrate ways in which we can genuinely add value.

4. **Greater regulatory scrutiny** - Regulators are going to be paying closer attention to the industry and raising the bar on data quality and integrity. As the industry continues to develop into unchartered territory, we anticipate that regulators are going to expect higher and higher levels of accountability and transparency.

Picking the right investment partners that have a wide range of robust investment offerings and capabilities that can contribute towards the development of resilient solutions that meet client needs is crucial.

The year 2021 is going to be another year in which sustainability dominates. Last year we saw investors become increasingly concerned with social factors – honing in on how companies were supporting their employees, suppliers, and customers during the pandemic. I think we will see more of the same in 2021, as investors seek to ensure their investments have a positive impact on society. This presents an opportunity for asset managers, who genuinely believe in managing assets this way, to shine.

We are also seeing other thematic investing strategies pique investors' interest such as smart manufacturing, technology-led disruption, and clean energy strategies.

I think there is also going to be opportunity for managers who are able to offer outcomes-oriented product solutions. In a world in which passive investing is so popular, it is going to become even more important that managers add value through allocating to asset classes that make sense at a particular point in the economic cycle. As active managers we can create solutions off multiple building blocks to meet clients' very specific needs.

Kondi Nkosi
Country Head
Schroders South Africa

What is the outlook?

The lower interest rates globally, stimulus and relief packages in the US and other countries like Europe, the rollout of COVID-19 vaccines, positive sentiment around the outcome of the US elections and Brexit, an improvement in global growth and company earnings will support equity valuations locally and globally. As a result, the returns of local and global equities and property should rise. Investors with exposure to well managed and diversified balanced portfolios with relatively large allocations to these growth asset classes should be rewarded with inflation-beating investment returns over the longer term.

Managers can use these opportunities as they present and position portfolios to perform well in the next market cycle.

However, diversification and share selection is of utmost importance to manage the single share exposures in portfolios. Liquidity and credit risk have certainly increased, and it is essential to ensure that investors are exposed to quality companies, with solid long-term track records, that are capable of withstanding further lockdown measures if implemented. Forecast risk also increased dramatically and trying to predict the future with a high degree of accuracy is increasingly more difficult. Much care is required when selecting service providers and portfolios.

Investors should carefully consider the targeted outcomes of portfolios and the probabilities of the portfolios achieving their objectives. Given that risks locally and globally have increased, it is important that investors invest in well-constructed portfolios that invest in both local and global asset classes, and that include investment styles and manager diversification.

While there is optimism about the expected returns of growth asset classes, the risks should not be underestimated. The challenging local economic environment, characterised by increasing liquidations, lower growth expectations, material fiscal constraints, continued electricity supply constraints and a record-high unemployment rate, means it is important to also invest in companies that generate most of their earnings offshore.

Ultimately, success in investments is driven to a large extent by the time an investor remains invested. Financial advisers play a critical role in helping members to make smart and informed financial choices. Members with financial advisers often target higher inflation plus objectives, are more comfortable to invest over long periods, assess investment returns over the longer term, and are more likely to invest through the various market cycles.

Nashalin Portrag
Head: FundsAtWork
Momentum Corporate

CPD ARTICLE

Ethical investing...
principles and moral codes

Gontse Tsatsi
Head: Retail Client Management
Old Mutual Investment Group

"Increasingly it seems for investors it is no longer about profit at any cost, but investing in funds that consider the environment, improve social conditions, and promote good governance."

Ethical investing is about using one's ethical principles and moral codes as the primary filter for the selection of investments. The earliest recorded instance of ethical investing in America was by the 18th Century Quakers, who restricted members from spending their time and money in the slave trade. In addition, Methodism preached the importance of not investing in industries that harm one's neighbour.

Why the increased interest?

Recently, the growing global threat of climate change, resource depletion, rising pollution and unethical practices in the private and public sector, has led to an escalation in the demand for more ethical practices and products from companies and governments alike.

In addition, COVID-19 has exposed the shortcomings of economies and societal systems - and this has led to huge inflows into ethical funds and will hopefully lead to sustained change for the better.

Increasingly it seems for investors it is no longer about profit at any cost, but investing in funds that consider the environment, improve social conditions, and promote good governance. As investors become more conscious about the sustainability of everything that they do, the next logical step is for our investments to follow suit.

Ethical investing can be divided into Environmental Social Governance (ESG) and Faith Based Investing.

- ESG investing - is an investment approach that considers Environmental, Social and Governance (ESG) factors, together with financial returns, to achieve sustainable long-term returns. Across the world, ESG investing/funds recorded double digit growth rates in 2020 led by Asia-Pacific, Europe and then North America. According to TrackInsight, ESG Index funds in North America grew by over 200% to reach USD189 billion in assets, with USD97 billion net inflows and over 200 new ESG funds in 2020 alone. In South Africa, the retail ethical, mostly named ESG, funds market is still young and there are currently very few funds on offer.
- Faith based investing - refers to investment solutions that are consistent with faith-based principles such as Christianity, Judaism, Islam and Hinduism etc. as part of the investment process. The popularity of Shari'ah investments among non-Muslim investors is nothing new, with almost 30% of our Shari'ah funds held by non-Muslim investors. In South Africa, there are currently over 20 Shari'ah Funds with assets of R23 billion under management in March 2021, according to Alexander Forbes Shari'ah Manager Watch.

Investment performance

Long-term returns from funds with higher ESG scores are proving that they can outperform their benchmarks, as they are more resilient and resistant to short-term shocks. In 2020, US mutual and index sustainable equity funds outperformed traditional peer funds by a median total return of 4.3% and proved less risky with a median standard deviation 3.1% below that of traditional funds.

In a report developed in 2019 from a total of 10 723 funds, there were two key findings:

1. There is no financial trade-off in the returns of sustainable funds versus traditional funds; and
2. Sustainable funds consistently experienced 20% less standard downside deviation, meaning lower risk.

The future of ethical investments

According to Refinitiv, the COVID-19 crisis will serve to highlight the need for ethical investing even more. The pandemic has shown deficiencies in economies and societies across the world. It is also encouraging that over the next few decades we will see the largest generational wealth transfer estimated at about USD30 trillion, from baby boomers to Millennials.

With this growth, customers supported by regulators, are demanding more transparency on the underlying holdings, to avoid companies promoting themselves as green and not meeting this in their actions, also known as greenwashing.

The 'S' in ESG will move to the forefront. COVID-19 has highlighted structural problems such as unequal access to healthcare among other things. Not only developed countries, but also pharmaceutical companies are being asked to take a 'humane' approach to vaccines, by finding ways to increase access to vaccines for poorer or less developed nations. And with the younger and future investor, equality and fairness is something at the top of their agendas. ●

Asset managers find new opportunities in THEMATIC INVESTING

Gareth Stokes
Stokes Media

A growing number of asset managers are structuring portfolios around 'big picture' trends that are playing out in the world economy. This technique, known as thematic investing, is nicely described by Wikipedia.org as "a form of investment which aims to identify macro-level trends and the underlying investments that stand to benefit from the materialisation of those trends". The widespread adoption of technology as humanity surges into the Fourth Industrial Revolution (4IR) is a great example of such a trend in action.

Showing their FAANGS!

Asset managers that get thematic investing right have rewarded clients with market-beating returns. Sygnia Asset Management recently boasted an 88.3% 12-month return from its 4IR Global Equity Fund and an equally impressive 72.3% from its FAANG Plus Equity Fund. The FAANG fund benefitted from the dominant technology super-trend by exposing investors to US-listed Facebook, Amazon, Apple, Alphabet (previously Google) and Netflix.

"There are a number of themes at play that are shaping our future and will shape the future of investing; these themes are underpinned by disruptive innovations that are turning traditional industries into value traps," said Magda Wierzycka, currently joint-CEO at Sygnia Asset Management, during a 2021 Meet the Managers webinar. Thematic investing also featured during the Glacier International 2021 Webinar. Sophie Thurner, an ESG product specialist at BlackRock observed that thematic investing enabled asset managers to "capitalise on transformative industry or societal trends" such as clean energy.

Mixing up the investment styles

Many fund managers operate styles within styles. So, for example, you can invest your clients funds in an ESG fund that additionally selects shares that fit a value theme. Likewise, you might choose a fund that applies value investing to a sub-set of equities that meet a thematic requirement. Andrew Lyddon, fund manager at Schroders, offered a word of caution insofar as style: "A lot of styles that have been in favour of late, whether based on growth or thematic or ESG methodologies, tend to be invested in similar stocks, thus creating closely correlated portfolios. This can be especially challenging in small or restricted investment universes.

Value fund managers are usually dyed-in-the-wool value investors; but a value lens can be useful when considering whether a thematic trend is overblown or not. Schroders used the Meet the Managers event to pose questions about the sustainability of the then-ongoing bull market in US equities, which could be seen as a proxy for the popular technology theme due to the relative weighting of the FAANGs on the S&P 500. "Many market commentators would have you believe we are in the foothills of a bull market; we are not so sure," said Liam Nunn, a fund manager at the firm. The suggestion is that you carefully consider whether the trend you favour still has legs before investing.

The big money lies in micro-trends

Although the technology trend is likely to play out over many years, it is increasingly difficult to remain beneficially invested at such high market valuations. This explains why US-based ARK Invest, headed by maverick investor Cathie Wood, shortlisted no fewer than 14 technology micro-trends in its *Big Ideas 2021: Innovation Research* report. Thematic investors with a tech focus may therefore have to further specialise in sub-trends such as automation, deep learning, data centres, orbital aerospace or cell and gene therapy, to name a few. Failing to do so could leave them 'high and dry' while others make a mint.

Global equity performances subsequent to the March 2020 pandemic correction suggest that thematic investing is the future of equity fund performance. "The challenge facing South African financial advisers, retail investors and institutional investors, is to take a much closer look at what thematic investing is and to understand why thematic investing is the future," concluded Wierzycka. ●

"There are a number of themes at play that are shaping our future and will shape the future of investing; these themes are underpinned by disruptive innovations that are turning traditional industries into value traps."

Gareth Bern
Head of Fixed Income
Prudential Investment
Managers

The looming fiscal debt trap

The two largest risks facing investors in South African government debt are default (you don't get paid) and inflation (the value of what you are paid is eroded in real terms).

In the context of the fiscal challenges the country faces, the risk of default has clearly increased – simply consider the downgrades of the country's credit rating in recent years, resulting in an increase in the cost of borrowing. Low growth, poor fiscal management and governance are to blame for some of South Africa's challenges.

> Given that bank debt forms a core exposure of local fixed income funds, one has to ask whether the risks presented by the long-dated government bonds, in the context of the fiscal backdrop, are so different to the risks of other debt instruments in the portfolios.

Defaulting and inflation

However, making the case for South Africa defaulting on its debt is not a straight-forward exercise. In an emerging market context, South Africa is somewhat of an anomaly in that we have relatively little foreign currency debt, and a large local savings pool which can fund the local government bond issuances – both unusual for emerging market countries which have historically defaulted on their debt. This makes our chances of defaulting potentially lower in a historical context.

The other risk to debt investors is inflation. An alternative to the government defaulting on its debt might be that it seeks to 'inflate' the problem away – that is, to allow inflation to erode the cost of the debt it has issued. Countering this argument is South Africa's independent central bank, which has built a credible inflation targeting reputation over the last 20 years. Also counting somewhat against this argument is that South Africa does have a fairly sizeable amount of inflation-linked bonds outstanding, where the costs clearly can't be inflated away.

Risks and rewards

However, it is not simply a case of considering the increased risks which are in plain sight, but also the potential rewards for investors who assume these risks. In this context, we would argue that investors in long-dated bonds are currently being offered a large risk premium to compensate for these increased risks. This risk premium is reflected in both the steepness of the yield curve, and the elevated real yields on long-dated bonds versus what we would deem as being fair value. This is the first line of defence in protecting investors against the risks – ensuring one is being appropriately rewarded for assuming them. The South African government has to pay an interest rate of about 9.5% for a 10-year loan, and assuming inflation is 5%, an investor will earn a real return of 4.5%, which is an attractive return relative to some of our peer countries.

Investment managers build diversified portfolios that seek to address specific instrument risks, such as those highlighted above, by investing across various ideas, opportunities, issuers and instruments in order to lower overall portfolio risk and diversify returns. That said, it is worth reflecting on the fact that were the government to default, it is quite likely that banks might also default, given their large holdings of government bonds, which would in turn presumably create further knock-on effects. Given that bank debt forms a core exposure of local fixed income funds, one has to ask whether the risks presented by the long-dated government bonds, in the context of the fiscal backdrop, are so different to the risks of other debt instruments in the portfolios.

Good returns to be made

In multi-asset class funds, some investment managers are constructive on long-dated South African government bonds that are, for example, yielding about 10.5% to 11%, offering investors an after-inflation yield of almost 6%.

In the year prior to COVID-19, these bonds were yielding about 8.5% to 9%, and hence we argue that much of the risk has been priced into the bonds.

For investors prepared to look through the short-term volatility, we think there are good returns to be made, well above the market's longer-term average and much better than typical money market-type funds. ●

Ryan de Kock
Senior Analyst
Stonehage Fleming Equity
Management South Africa

> A common pitfall of investing in highly cyclical businesses is the failure to fully appreciate the impact of cyclicality in the business on fundamentals like sales growth, cash flow generation, balance sheet strength and returns on capital.

Understanding cyclical stocks

Ongoing vaccination efforts and economic re-opening have seen the global economy well-positioned for a substantial pickup in growth for the remainder of 2021, and the year ahead. This resurgence in economic prospects has seen the share prices of cyclical stocks improve materially, since the lows of 2020.

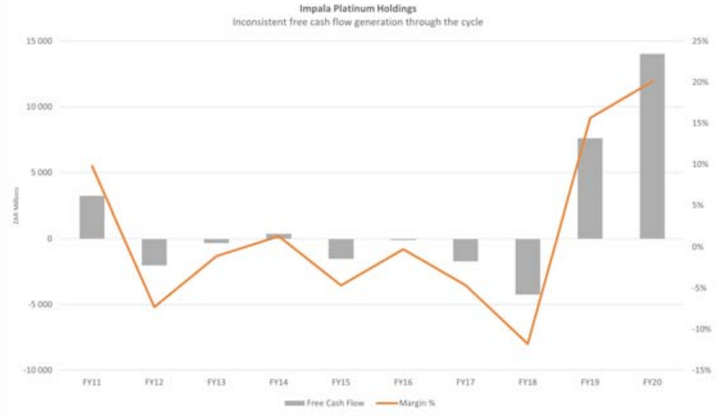
Being sensitive to fluctuations in the business cycle, cyclical companies tend to outperform during periods of economic expansion and underperform during periods of economic contraction.

Cyclical sectors

Cyclical businesses are commonly found in sectors such as energy, mining, construction, autos, airlines and hotel and leisure. Airlines and companies in the hotel and leisure sector, for example, benefit materially as spending on holidays increases during periods of prosperity. These same businesses are usually hit hard during periods of economic contraction, as holidaymakers switch to staycations or delay travel plans in response to declining disposable incomes.

These businesses typically lack pricing power and have limited sources of recurring revenue, making it particularly difficult to sustain financial performance during a downturn in economic activity. As such, it is rare to find a cyclical company capable of delivering consistent, positive free cash flows through the cycle. This is especially true for cyclicals in capital intensive sectors such as energy and mining.

Figure 1 below illustrates the free cash flow generated at Impala Platinum Holdings over the ten years to June 2020.



Source: Factset, Stonehage Fleming, May 2021. Note Impala Platinum Holdings results are shown for the financial years ended June. Margin shown as free cash flow as a percentage of revenue.

Investing in cyclicals is about timing. Investors should also understand that the stock market discounts what it expects to happen, not what is happening now.

Successful investments in cyclicals typically occur at (or around) the point of maximum pessimism when signs of an improvement in the underlying economic cycle are emergent but not yet reflected in share prices. Similarly, the successful sale of a cyclical stock tends to occur at (or around) the point of maximum optimism or euphoria. While there appears to be an opportunity in cyclical companies, the reality is that much of the good news may already be priced into those shares.

A common pitfall of investing in highly cyclical businesses is the failure to fully appreciate the impact of cyclicality in the business on fundamentals like sales growth, cash flow generation, balance sheet strength and returns on capital. This can lead investors to simply extrapolate current trends into the future.

Given that cyclical dynamics can change rapidly, material errors of over- or under-valuation can arise that ultimately drive a misallocation of capital and poor returns to the investor.

Long-term compounders

In our view, successful investing is not about identifying and timing cyclical factors. Rather, it is about strategically identifying businesses with healthy fundamental attributes that are exposed to sustainable long-term trends. In other words, businesses that are able to compound shareholder value through-the-cycle.

Such companies typically exhibit an enviable combination of a number of the following attributes: competent management with appropriately aligned incentives; pricing power; a high proportion of recurring revenue with sustainable growth prospects; superior operating efficiency and cash flow generating ability; limited financial leverage and finally; high and relatively stable returns on capital. Unlike cyclicals, businesses with these attributes tend to be largely unaffected by the constant ebb and flow of the business cycle.

As mentioned above, investing in cyclicals is inherently about timing the market. In order to be successful, investors need to be able to consistently call the peaks and troughs of the market, which is notoriously challenging even for the greatest of investors. ●

The revival of Value

Fazila Manjoo
Portfolio Manager
Mergence Investment Managers

Following a protracted period of relatively weak performance, Value indices outperformed by a considerable margin at the tail end of 2020, and in the first quarter of this year. This recent outperformance of expensive stocks by cheap Value stocks was captured across both developed and emerging markets. The reversal of trends is not surprising, given that Value is a procyclical strategy and typically outperforms in post-recessionary environments.

We expect the current macro environment to continue to support the recovery of Value. With economic growth rebounding, driven by the reopening of global economies following the roll-out of Covid-19 vaccines and an overstimulated US consumer, we remain overweight Value within our global asset allocation.

The role of cyclicality in the performance of Value

Over the last 15 years, Value has experienced a protracted period of underperformance relative to the global equity market. While research has shown that risk factors go through periods of cyclicality, which can last several years, Value's challenging run has puzzled many academics and practitioners. Many speculate that the Value factor is "broken", and that the macroeconomic environment, post the 2008-global-financial-crisis, does not favour Value.

The Value factor can be defined as long exposure to cheap assets, and a short exposure to expensive assets, using various fundamental measures.

Investors can perceive Value as an opportunity, where the intuition for the existence of a reward is that exposure to it is undesirable for the average investor, because it leads to losses in bad times. This is because of the psychological tendency of investors to extrapolate recent events into the future, while ignoring evidence to the contrary. While Value has lagged for a long time, it is still a valid investment strategy as this behavioural investor bias during bad times persists.

In 2020, the global economy saw the biggest contraction since the Great Depression. Stocks that performed well over 2020 benefited from the work-from-home economy, Amazon and Zoom being the most prominent examples.

The news of Pfizer's vaccine in November last year was the catalyst for Value. Performance shifted to cheaper cyclical sectors like financials and industrials, and beaten-down sectors like energy that had underperformed during 2020 have bounced back with the potential for reopening the global economy.

What do macroeconomic factors tell us about Value returns?

We can learn more by examining the behaviour of Value from a historical perspective. The characteristics of Value from our research findings are:

1. Value typically outperforms during periods of market recovery and early-stage expansion.
2. Value has seen significant performance during a rising growth and rising inflation regime.
3. Value has seen improvements in performance in developed markets over periods of rising US real yields.

Currently, the macroeconomic environment has aligned favorably for Value assets. Economic indicators have rebounded since the drop last year. US inflation expectations and 10 year US Treasury yields have risen, and the Mergence Growth Cycle Indicator is currently suggesting that we are in a period of rising growth and early-stage expansion.

We have searched for Value in various regions, and in COVID-19 recovery sectors, and have tilted our global tactical style positioning to reflect a change in market sentiment. Regionally, we favor the UK and Japan, which have lower valuations relative to others.

In sum, Value, globally, has gone through a lengthy period of being at a large discount to other factors, potentially offering a tailwind going forward. We believe there is room for the performance of Value to persist in the current macro environment.

Risks however remain, and include the tapering of stimulus that can dent global growth, and slower-than-expected containment of the COVID-19 virus. While we have taken tactical tilts to Value, we are closely monitoring the pandemic's ongoing impact and remain diversified in the core strategic asset allocation of multi-asset funds. ●

> Investors can perceive Value as an opportunity, where the intuition for the existence of a reward is that exposure to it is undesirable for the average investor, because it leads to losses in bad times.

Steven Amey
Head of Sales and Distribution
Discovery Invest

Deliberate and rational **investment goals**

All too often, clients approach investment professionals with one burning question: "How do I maximise my returns?"

This question should not be answered lightly – that is, without a deep understanding of the psyche of the client, his or her tolerance for risk, his or her aspirations and needs, and without a suitable investment strategy.

> Investment professionals are spending more and more time understanding what drives decision-making.

A realistic investment plan

Over the course of my 24 years in the financial services industry, I have learned that the happiest clients are those whose expectations are aligned with an appropriate and realistic investment plan.

Those who rely on unlikely past investment returns or the ones with plans that fail to incorporate the investment objectives they are designed to achieve, are often left frustrated and in tears.

Six factors to consider

Here are my top six considerations for advisers investing clients' money.

1 Longevity: Medical innovation has resulted in rising life expectancy across the globe. Many investors continue to retire at the same age as they did 20 years ago. To ensure their savings can support them for potentially another 30 to 40 years, this means they need to save more, and save differently in the years leading up to retirement – especially if they cannot extend their retirement date.

2 Compound interest: Thanks to the incredible power of compound interest, the more time a client has to invest, the greater their benefits in retirement. Advisers need to explain this concept to clients and encourage them to save more and as early as possible.

3 The impact of inflation: When investing for the future, it is critical that the investment grows at the same or at a higher rate than inflation. But one of the factors often overlooked when considering a real return (one over and above inflation) is tax. If a client is invested in a bank deposit generating around 4.5% per annum, using their interest exemption and paying tax at a marginal rate of 40%, their after-tax return is only 2.7%. If inflation is above this, although they are making a positive return on paper, their purchasing power is negative.

4 The unpredictable nature of markets: If your client has a short-term investment horizon of one to three years, you need to limit volatility in the short-term, as a market downturn may result in them losing money. When they have a longer investment term, they can afford the time it takes to recover from the short-term losses of fluctuating markets and can enjoy the growth that comes with investing in riskier asset classes like equities.

5 Diversification: This comes in many shapes and forms. Advisers, for example, can diversify a client's funds across investment products, asset managers, local and offshore investments, currencies, and alternate asset classes, to name a few. Spreading investments across different asset classes is prudent, and generally reduces a portfolio's risk, because if one asset class performs poorly, the overall return of the investment can still be positive.

6 Behavioural biases: Investment professionals are spending more and more time understanding what drives decision-making. Everyone has behavioural biases – few conscious and many unconscious – that profoundly impacts the way they think and save. A client's thoughts lead to actions (or inaction) that ultimately shape their financial outcomes. By partnering with investment companies and professionals who deeply understand these behavioural biases, you can learn how to guide a client so that their inherent biases manifest positively and in ways that lead to successful investment outcomes.

Desired investment goals

Considering these factors pragmatically can help advisers and clients take the emotion out of investing.

A solid investment strategy needs to be deliberate, rational, and continuously managed to achieve the desired investment goals. ●

Malcolm Fair
Managing Director
RisCu

Paradigm shift in the way we think, save and invest

The issues among those that fall under the Environmental, Social, and Corporate Governance (ESG) ambit are everyone's concern, and this cannot be ignored, especially if we are to work towards building a better South Africa for all who live in it.

After all, there is no point in retiring with a decent pension if the society and environment that retirees live in, is unhealthy and unsustainable.

The COVID-19 pandemic has outstripped the previous global economic crises in its impact on the global economy, and on the livelihoods of millions of people worldwide. South Africa has its own set of fiscal and monetary issues which have confounded the impact of the crisis.

A paradigm shift in the way we think, save and invest is needed if we are going to recover and build a sustainable and inclusive economy. If we do not act, then what we see today, or worse, might be a snapshot of our future and the environment we retire to.

> Impact investing has transformed from a mere concept a decade ago, to a formalised investment strategy and mandate throughout the investment industry...

Alternative thinking required

For long-term investors, of which pension funds are the quintessential example, sustainability is an important concern. Without a thriving, sustainable and inclusive economy, investors and asset owners will be hard-pressed to achieve their required returns over the long-term.

Investing for impact is investing in the areas of our real economy that desperately need capital to enable economic growth and drive change at a grassroots level. In South Africa, we have reached a point that if we do not act now to allocate assets to making a difference locally, we are unlikely to change the story for the better.

It is time to think out of the box and to consider alternative investment strategies. Investing for developmental impact can drive sustainable returns and can help tackle the imbalances that characterise South Africa and threaten to destabilise our country.

Part of re-writing history

In past decades, simply by investing in traditional South African asset classes, there was no compelling reason for pension funds to look further afield, however, these asset classes are no longer yielding as attractive real (above inflation) returns.

In recent years, investors have bucked the trend of solely focusing on risk and return with little concern for the sustainability or impact of their investments and are now increasingly interested in the effects on people and the planet.

Impact investing has transformed from a mere concept a decade ago, to a formalised investment strategy and mandate throughout the investment industry, and according to the Global Impact Investing Network (GIIN), has a current estimated market size of USD 715 billion. Impact investments are made with the intention to generate positive, measurable social and environmental impact alongside financial return.

Potential to re-ignite the economy

This does not mean forfeiting attractive returns. This is a myth that has been comprehensively dispelled by sound research. An impact investing strategy offers a potentially powerful lever for retirement funds to diversify, spread their risk, and enhance returns all in a way that positively contributes to our struggling South African economy. It allows us to utilise the full mandate of Regulation 28, which allows up to 15% of assets under management to be allocated to unlisted alternative vehicles.

Not only will mobilising just a small portion of institutional capital in South Africa have a ground-breaking effect on driving the UN's Sustainable Development Goals (SDGs) and South Africa's National Development Plan (NDP), but it will catalyse the impact investment industry in South Africa.

Despite South Africa's economic hardship, inequality issues and very real unemployment and debt statistics, investing in the right assets can make a difference in the real economy and provide upliftment for all South Africans, both in the short and the long term. ●

Amendments to Regulation 28

Mike Adsetts
Deputy Chief Investment Officer
Momentum Investments

It is no secret that South Africa has underinvested in physical infrastructure for decades, and this needs to be addressed to have the robust infrastructure that is a key enabler for economic growth.

What is also well known is that the South African government does not have the necessary resources to tackle the huge task of addressing the infrastructure backlog.

Underinvestment in infrastructure

It is no surprise that you are hearing more and more reference to underinvestment in infrastructure. This has also been seen recently with President Biden, in the US, driving and advocating for a multi-trillion US dollar infrastructure programme.

While the US President's drive for infrastructure is generally seen as positive, how to pay for the programme is contested. The current approach advocated in the US is to raise taxes, which creates another strong divide between the Democrats and Republicans and diminishes the space for bipartisanship in an area that should, in theory, benefit everyone.

One area of funding

In South Africa, the need for infrastructure development is even more urgent. However, the ability to afford this development is significantly more constrained than in the US. It is generally and widely accepted that there is no room to increase the level of taxation in South Africa, without more substantive avoidance of taxes taking place. It is even predicted that increasing taxes will result in lower tax collection, as the disincentive to earn profit and avoidance schemes are increased.

The one area of potential funding is the well-developed and regulated South African savings pool, with a significant concentration of the savings within the retirement fund sector. So, it is no surprise that National Treasury has advocated for the deployment of retirement savings to fund infrastructure development. The mechanism to enable this would be through Regulation 28 of the Pensions Fund Act, which creates the overarching framework for how retirement funds can invest.

Revised Regulation 28 was released for comment on 26 February 2021, shortly after the budget speech earlier this year.

This draft was released after taking broad engagement and input from multiple stakeholders, including the savings industry represented by ASISA (the Association for Savings and Investments South Africa). The legislation is drafted in an enabling rather than prescriptive form, with the infrastructure investments themselves being accommodated within the existing investment types, and then an additional reporting category and limit applied at an aggregate level. The limits applied are broad, 45% local and an additional 10% for Africa. The broadness of the category reflects both government's desire to crowd in private capital. There is some debate about the broadness of the category, with some role players arguing that it would be better to separate infrastructure as another asset class.

A pool of potential capital

There is an expectation that a lot of the investments will be through private equity structures, as well as debt. The basis for this is the separation of private equity, as a separate asset category, and a significant increase in the permitted exposure level (15%). This also aligns with the Public Private Partnership (PPP) model that government is advocating. One of the issues that the savings industry is advocating, is that infrastructure also includes private sector projects.

The main issues that investors will need to grapple with is the quality of investment opportunities, the quality of government as a partner and equity partner (where there is a trust deficit that needs to be addressed), as well as the illiquidity of infrastructure investments. The illiquidity of infrastructure is likely to be the main driver that will result in the actual exposure levels being low and nowhere near to the limits proposed. This is also a function of the structure of the retirement savings industry where there is a prevalence of defined contribution funds (in the private sector), as well as a move to member choice, which means that funds need to have significantly more liquidity than their long-term nature would indicate.

Nonetheless, the size of the industry is such that even relatively low exposure levels will open a significant pool of potential capital. ●

"The one area of potential funding is the well-developed and regulated South African savings pool, with a significant concentration of the savings within the retirement fund sector."

Clyde Rossouw
Head of Quality
Ninety One

Has the value horse bolted?

Over the course of the last 18 months, we have witnessed a very style-driven market. Initially, there was a growth-led market recovery in the second and third quarter of last year. We then saw the value trade emerging in October last year.

So, there has been a leadership battle between value and growth amid a risk-on environment. But over the last few months, value has outperformed growth.

Market movements

We are at an important junction where global economic recovery has largely been priced into markets. Investors are already anticipating inflation going up and Treasury yields rising further. So, the shift to value and to the more cyclical parts of the market – resources, energy and banks – has arguably played out to some degree.

Mid-January is an interesting inflection point, as in many ways this period represents the peak of good news – the uncertainty of the US election was removed; Biden was inaugurated; there were more positive developments on the vaccination front; and there was widespread optimism about economies re-opening. So, market movements already reflect the anticipated recovery to a large extent.

We believe there is a lot of value in quality stocks. Conversely, there is not much quality, and less value now, in value stocks. Interestingly, the global quality stocks in our portfolios are now the cheapest they have been in the last 10 years – whether you consider free cash-flow yields or even PE multiples.

Value investment strategies typically do very well in a short space of time, when expectations of an economic recovery gain a foothold. We clearly saw that happening late last year. Going into value now, could mean moving once the horse has bolted.

> “Value investment strategies typically do very well in a short space of time, when expectations of an economic recovery gain a foothold.”

Quality stocks

Over the last few months, markets have been pricing in a more inflationary environment. The conventional wisdom is to own commodity stocks and energy stocks as these will do better in an inflationary environment. But what is not well understood is that quality stocks are well placed in an inflationary environment. This can be attributed to their:

- **Pricing power.** Because of quality companies' enduring competitive advantages, for example, strong brands, licensing agreements, copyright and intellectual property, they have pricing power. This benefits them in an inflationary environment as they are able to pass on price increases to customers/clients.
- **Capital-light nature.** Quality companies also benefit from capital-light business models. The nominal value of their intangible assets should rise with inflation, and they should be less impacted by inflation's effects on required capital expenditure, given their low capital intensity. In an inflationary environment, low-quality businesses that are capital intensive, are forced to increase their capital expenditure, which negatively impacts their cash flows and their businesses.
- **Strong balance sheets.** Rising yields should see mortgage and debt-financing costs increase, which will put pressure on households and low-quality companies. Because quality companies tend to be cash flush and have strong balance sheets, they typically do not have to finance debt at higher rates. Therefore, they are more resilient in a rising yield environment.

Quality to outperform

We are not in the business of timing markets. Some funds are well diversified by sector and geography, and well balanced to include exposure to select quality cyclical companies, as well as more defensive businesses and structural-growth compounders (such as high-quality capital-light financials like savings platforms and wealth managers).

In addition to valuation discipline (quality at a reasonable price), this helps to mitigate the impact of any style rotation in the short-term.

We still expect quality to outperform over the longer term. Importantly, we think the market has already priced in a lot, in terms of reflation and rotation towards value/cyclical stocks. ●

Treasury invokes the S12J sunset clause

Sheldon Friedericksen
CFO
Fedgroup

Paul Counihan
Chief Wealth Officer
Fedgroup

The National Treasury has decided to invoke the sunset clause and not extend the Section 12J tax incentive scheme.

The industry's disappointment has been palpable, with various surveys yielding 100% response rates of the opinion that the scheme should be extended. But the industry's opinion on whether it has met its objectives is not so decided.

Alternative investment options

This clause will mean that investments in approved Venture Capital Companies (VCC), before the end of June, will be 100% deductible from the investor's taxable income, but not thereafter. The returns and potential for attractive returns, as the funds mature, will determine whether investors will stay put in VCCs or seek alternative investment options. This will no doubt put pressure on fund managers to keep costs in check and offer value against the backdrop of the investment landscape.

The maturity of the underlying positions will prop up these comparatives, with many section 12J funds having worked through the "hockey stick" hook and now yielding an attractive internal rate of return. There is also a significant base of investors that chose to invest not only for the tax break, but also for the Environmental, Social, and Corporate Governance (ESG) benefits. Investors now want their money to not only work for them, but have a further positive impact, and this incentive has helped bolster the benefits of impact investments.

> Come July, investors will still have the option to invest in these underlying VCC assets, albeit outside of the beneficial tax ambit...

Snowball effect on job creation

But has it been effective in its primary goal of mobilising funding for new ventures and thereby ensuring job creation?

Statistics show over 5 000 permanent jobs having been created and over 5 000 additional temporary positions. The number of permanent jobs created almost matches the number of participating investors 1:1. More importantly, the benchmark data from the Industrial Development Corporation indicates that the cost to create a job through other incentives was almost twice as much as the actual cost to create a job through this mechanism.

The R10 billion raised to date could be seen as an indication of success, but some question the productivity, as well as the sustainability of this mechanism. One of the main reasons why the sunset clause was invoked is that even though these 12J structures are compliant, the capital raised is not always going towards new ventures and rather towards the refinancing of existing models or asset-based finance for things like office equipment.

However, with many of these businesses now having received their required funding, the hope is that the snowball effect on job creation will accelerate and create a positive delayed result. Not to mention, it has given investors an avenue to receive the allowed tax break, while being more purposeful in their investment decisions and looks to contribute to SME upliftment.

A handy tax incentive

Come July, investors will still have the option to invest in these underlying VCC assets, albeit outside of the beneficial tax ambit, and if tax efficiency is still a high priority, then other more traditional endowment structures still exist. Perhaps keeping with the conscious investment approach, a less mainstream but equally compelling option exists with the section 12B tax allowance, which is targeted at specific assets such as farms, business premises and small manufacturing. This act allows for an accelerated capital allowance of the assets used in the generation of electricity from wind power, solar power, and hydropower. As of 1 January 2016, section 12B of the tax act was amended to accommodate a 100% depreciation allowance in year one. This not only encourages investment in renewable energy but acts as a handy tax incentive.

So, even though there may be some unanswered questions concerning the effectiveness of Section 12J and its outcomes, it would have hopefully highlighted the benefits of conscious investing. Investors will now be looking at the options available to increase their returns and make a greater positive impact. ●

A real estate fund that will outperform the market

Lawrence Koikoi
Senior Portfolio Manager
Momentum Investments

The COVID-19 pandemic has upended the world economies in 2020, and commercial property has been at the forefront of the impact of the crisis. The response by most governments around the world, to curb the spread of the virus through restrictions or lockdowns, have continued into 2021.

Commercial property

Lockdown measures have a direct negative impact on commercial property in various ways, including the inability of retail tenants to trade at shopping centers, and the inability of people to work at offices.

The risk of working-from-home and online shopping is increasingly taking market share from shopping centers. Accordingly, a negative sentiment towards commercial property has persisted during COVID-19.

This is reflected by the SA listed property index (SAPY) still falling short of the pre-COVID levels, despite recent vaccine fueled recovery.

Underlying business performance

Recovery in valuation of the SAPY, to pre-COVID levels, will be driven by recovery of earnings to pre-COVID levels. The fluidity of the COVID-19 economic environment has withdrawn confidence from management teams to issue earnings guidance, historically reliable to some extent, by most South African Real Estate Investment Trusts (SA REIT).

Analysts and investors have had to forecast earnings in an environment where waves of COVID-19 are not dissipating, until herd immunity is achieved, and consumer habits towards shopping and working undergo a structural change. This has resulted in divergent views on recovery of SA REITS share prices to pre-COVID levels. Incidentally, the pandemic has also exposed divergent underlying business performance amongst SA REITS.

At the onset of the pandemic, SA REITS management teams were proactive in pre-empting the unknown consequences of the pandemic on their businesses. Credit lines were drawn down, dividends deferred, banking covenants relaxed, and assistance was given to struggling tenants afflicted by the pandemic.

Despite the uniform response to the pandemic, SA REITS are dealing with the pandemic crisis with a different position of strength amongst themselves. Some of the REITS went into the pandemic crisis with strong balance sheets while it is not the case for others. Accordingly, the share prices of companies with stronger balance sheets have weakened less than companies with weaker balance sheets during the pandemic, and even over the long-term pre-COVID. But we have also seen companies with weaker balance sheets outperforming strong balance sheet companies, since the last quarter of 2020, upon the positive vaccine news. This emphasises the point that in the short-term, news headlines can drive share price performance more than fundamentals. However, over the long-term, the performance of the underlying business drives the performance of share prices.

Robust investment process

Therefore, investors that are looking to protect and grow capital over the long-term should look to invest in a fund that takes a long-term view. The fund that takes a long-term view should also take a view on long-term underlying business performances, to identify good businesses that create value overtime. Valuation should also be an important part of the investment process, because over-paying for good business can limit total returns to investors. The fund that adopts the strategy of buying good businesses and not over-paying for them should be consistent in applying that strategy over time.

The fund that adopts the strategy of buying good businesses and not over-paying for them should be consistent in applying that strategy over time.

The success of this strategy is premised on holding investments for a long period of time, for as long as they create value, through high return on capital, growth revenue and earnings, and are supported by a strong balance sheet. The share price tracks this value creation over time, but in an irregular manner. Investors may miss out on the success of this strategy, by dabbling in and out funds that apply this strategy, due to erratic share price performances in the short-term.

As investment managers, we seek to demonstrate to our investors that we implement in our funds what we profess to do, by setting out a clear investment philosophy which is aligned to a transparent and robust investment process. ●

Scott Cooper
Investment Professional
Marriott

Portfolio positioning will serve investors well

The beginning of 2021 was all about reflation - a belief that massive fiscal stimulus, historically low interest rates and the reopening of economies, on the back of COVID-19 vaccinations, would drive an economic boom - placing upward pressure on inflation.

Although we expect a strong recovery in Gross Domestic Product (GDP) growth, and higher inflation in the short-term, we do not believe these inflationary pressures will be sustained.

This belief is driven by four core considerations:

1. Base effects, caused by the disinflation which occurred in many economies in March and April last year, temporarily distorting the reported inflation upwards;
2. Upward inflation pressure caused by supply chain bottlenecks will reduce over time;
3. An uneven global recovery will act to curtail global inflation; and
4. The global debt burden will likely prove deflationary in the years to come.

Portfolio positioning

Looking ahead, Marriott believe investors should consider their portfolio positioning for the longer term, as the market comes to realise that the economic road ahead will be a challenging one.
We continue to believe a portfolio of high-quality, diversified, multinational companies with robust balance sheets and track records of delivering increasing dividend streams will serve investors well.

Companies of this nature tend to be less volatile and more resilient, making them more predictable and less likely to come under pressure in the months and years ahead, if growth and inflation do not live up to the elevated expectations currently being priced into the market.

> The companies that make it through the filter process tend to be market leaders with strong brands and pricing power, boast robust balance sheets and cash flows, and produce goods or services that are integral to the lives of their customers.

A stringent filter process

Our investment process (see diagram below) applies a stringent filter process when selecting companies for our portfolios. This ensures that only top-quality companies that can reliably grow their dividends through all stages of interest rate, inflation, business and economic cycles are held, for a successful long-term investment outcome.

The companies that make it through the filter process tend to be market leaders with strong brands and pricing power, boast robust balance sheets and cash flows, and produce goods or services that are integral to the lives of their customers. These qualities enable them to perform well in an inflationary environment and when times are tough.

The table below outlines some of the companies held in our international portfolios which have announced meaningful growth in dividends despite the economic uncertainty brought about by COVID-19:

Company	Dividend	How they are successfully navigating the COVID-19 crisis
Procter & Gamble	Up 10%	Procter & Gamble has delivered strong revenue and earnings growth throughout the pandemic, by continuing to sell a diversified range of consumer goods around the world. Its recent dividend increase was its 65th consecutive increase in annual dividends. In addition, it expects to return a further $10bn to shareholders in the form of share buybacks during the fiscal year.
Microsoft	Up 10%	It is clear that COVID-19 has accelerated digital transformation, whether it be remote teamwork and learning, or critical cloud infrastructure and security. This plays to another of our holdings' strengths – Microsoft which, along with Amazon Web Services, is leading the cloud revolution. These trends have allowed Microsoft to flourish over the past year, with revenue for the three months ending 31 March 19% above the same quarter last year.
Texas Instruments	Up 13%	The ability to maintain robust profit margins, even in difficult times, is a key characteristic of Texas Instruments, another quality company we invest in. Although the semi-conductor industry came under pressure early in 2020 during the Chinese lockdown, it was still able to produce a free cash flow margin of 38% in the financial year. Moving through 2021, Texas Instruments is ideally positioned to benefit from the global chip shortage, with Q1 revenues along increasing by 29% year-on-year.

The long road ahead

As mentioned above, investors should consider their portfolio positioning for the longer term. A portfolio of high-quality, diversified, multinational companies with robust balance sheets and track records of delivering increasing dividend streams will serve investors well. ●

"A portfolio of high-quality, diversified, multinational companies with robust balance sheets and track records of delivering increasing dividend streams will serve investors well."

Obakeng Pitse
Head of Sales and Structuring
Investec

The impact of higher US inflation

US inflation is currently accelerating, and the question on every investor's mind is whether this will result in the US Federal Reserve Bank increasing rates earlier than expected, and what impact higher US inflation and higher US interest rates might have on South African asset classes.

There are also growing concerns that record amounts of fiscal stimulus in the US and other developed markets could lead to sharper spikes in global inflation later in 2021, and early 2022, and consequently, on interest rates.

> The Fed has announced that it is comfortable with this higher rate of inflation, and currently is only projecting to raise interest rates by the year 2023 – two years away.

Spike in inflation

During April, US core consumer price inflation, which excludes volatile food and energy prices, came in higher than expected, with a 3% year-on-year increase. Economists polled by Bloomberg had been expecting a number of 2.3%.

For the present, this should not be a great concern for South African investors or financial advisers, in terms of the various asset classes within their portfolios. Our view is that this spike in US inflation is transitory. There are no signs of overheating: certain sectors of the US economy are currently hamstrung, as evidenced by this month's announcement that non-farm payrolls undershot expectations significantly.

The explanation for this spike in inflation is the emergence from the COVID-19 pandemic. On the demand side, as the US economy emerges from lockdown, there is evidence of pent-up demand by US consumers making up for lost time, buoyed by US$2 trillion in increased savings, according to US authorities.

Among other restrictions on movement, borders were closed, and this has also led to shocks on the supply side. Both these factors are post-lockdown blips, and consequently in our opinion are transitory in nature. For the Fed to be forced to hike interest rates both these inflationary factors would need to remain at elevated levels over a consistent period, and above the Fed's inflation target rate of 2%. We do not think that this will be the case in the current scenario.

Interest rates

The Fed has announced that it is comfortable with this higher rate of inflation, and currently is only projecting to raise interest rates by the year 2023 – two years away. While our view is that the spike in inflation is short-term in nature, there are some caveats. In the unlikely event that it should prove to be more enduring, then the Fed may very well bring forward that target date in order to cool off the economy and maintain price levels. Should that occur, then in South Africa the Reserve Bank's MPC may find that it has to follow suit and raise local rates.

One of the primary drivers of investment from offshore is South Africa and its fellow emerging market peers' higher yields. Once that yield differential is narrowed by rising US interest rates, it reduces the attractiveness of lower-rated emerging market assets. For South Africa to retain those capital flows, it needs to maintain an attractive interest rate, differential between it and the US.

Opportunities to take advantage of

In fact, among our emerging market peers we have already seen some central bank movements in the form of interest rate increases by Turkey and Brazil, and a handful of African countries. However, this has been specific to their economies and does not automatically mean the other emerging markets will follow suit. Since the start of the pandemic, local rates have been cut by 300bps, and we remain in an accommodating environment.

However, there is already a call to 'normalise' rates, something that will eventually happen, whether in two years' time or sooner. Consequently, the South African investment community would be wise to identify and quantify risks to their clients' portfolios from that normalisation process and develop potential solutions for when rate increases finally occur.

In every storm there is a silver lining – so there may well be opportunities to take advantage of, whether in the form of yield enhancement or hedging solutions. ●

Luigi Marinus
Portfolio Manager
PPS Investments

Making sense of an unsettled world

To say that last year was unsettling is probably an understatement. Who would have imagined empty sports stadiums, no international travel, or the whipsaw in markets?

The unsettled world has, however, provided opportunities for certain sectors to thrive and has changed the investment landscape in others. So, what has changed and how does this influence investment prospects going forward?

From a South African investor perspective, the two main considerations to be discussed are cash and equities; and from a global perspective, US inflation is top of the list.

> The unsettled world has, however, provided opportunities for certain sectors to thrive and has changed the investment landscape in others.

Is cash an attractive asset class?

From 2016, until the first quarter of 2020, the repo rate hovered between 6.25% and 7%. The last breach of the top end of the inflation target band was in the first quarter of 2017, and inflation has moderated since then. This meant that for three years, cash delivered an annual return greater than 7%, around 2% to 3% above inflation which, on a risk-adjusted basis, made a compelling case for a high allocation to cash during this period.

When the lockdown was introduced, the South African Reserve Bank implemented a cutting cycle, reducing the repo rate from 6.25% to 3.5% in five months, which resulted in cash yields declining and the inflation differential reducing. At current yields, the case for cash is less compelling and the allocation to asset classes has been reduced across funds.

What are the alternatives for fixed interest investors, particularly those who have relied on the above inflation returns of cash to generate an income?

The most suitable alternative would be domestic bonds, although this comes with some risk. On the plus side, the 10-year government bond yield is currently at 9.5%, which is more than 6% above inflation, and the steepness of the government yield curve highlights the additional yield above cash across maturities. Bond duration does make the asset class sensitive to interest rate changes and bond yields react to adjustments in economic expectations.

An appropriate allocation between cash and bonds may provide a yield similar to what cash previously offered, but the potential volatility could increase. Cash is significantly less attractive as a stand-alone asset class, but by including an allocation to bonds aligned to investment or needs and risk profiles, a suitable risk-return compromise can be attained.

Too late to get in or too early to get out?

There are many ways to assess the relative attractiveness of equities as an asset class, by focusing on three factors: the valuation, macroeconomic framework and momentum, with the ranking of importance of these factors varying as market conditions change.

In the local context, the macroeconomic framework contributes most to informing the neutral domestic equity allocation across funds. Uncertainties regarding the roll-out of vaccines, and the impact a possible third wave may have on the economy, tempers the more aggressive allocation, should valuation and momentum only be considered. In addition, GDP growth has disappointed when compared to global GDP growth and emerging market GDP growth expectations.

From a global context, the macroeconomic framework appears more favourable to equities, resulting in the maximum overweight allocation to global equities. Cash yields have remained close to zero in developed markets, while quantitative easing and stimulus packages in the US, as well as Europe, have had a positive effect on equity prices. GDP growth expectations have been upwardly adjusted as vaccine roll-outs have consistently improved in developed markets. Valuations have become more expensive in the sectors that have benefitted from lockdowns, but there are areas of the market that remain better priced.

Trying to time entry and exit points with equities should not be a question of whether an investor should have high exposure or no exposure. In the same way, asking whether it is too late to get into equities or too early to sell out of equities assumes a significant change to the allocation. The recent performance of equities is only one aspect that is considered when deciding on the allocation to the asset class.

Being too late or exiting too early is not the important consideration, as the assessment of current conditions and what that implies going forward provides the framework of whether or not to adjust the exposure to equities.

Concern about US inflation

The last time US inflation was above 3% was in the last quarter of 2011, but that does not mean it can be ignored. To a large extent low interest rates in the US have been a catalyst to increasing asset prices, and inflation has remained low, even as quantitative easing has provided liquidity. Increasing inflation is moderated by increasing interest rates; but increasing interest rates have a negative effect on equity returns. This has always been the case, so why is there inflation concerns?

Quantitative easing has provided market liquidity since the financial recession, but this has largely remained within the formal financial economy. The recent stimulus packages announced by the US government put cheques directly in the hands of people, with the expectation that this will be spent on goods and services, and not on investment products. The US Federal Reserve has commented that, should this be inflationary, they are unlikely to increase interest rates in the next 18 months, however, assuming that the rate of the inflation increase is stable.

Making sense of this

Even in an unsettled world, two things are clear: all investment decisions are relative and maintaining an investment process makes investing through difficult periods manageable. A decision to reduce cash exposure cannot be done in isolation, in the same way the trajectory of US inflation needs to be considered before an equity allocation can be decided.

Following a process reduces the effect of emotion and bias, and inevitably leads to a more thorough and considered outcome. Therefore, making sense of an unsettled world is possible, by constructing sensibly diversified portfolios where components are poised to perform well through different market cycles. ●

> There are many ways to assess the relative attractiveness of equities as an asset class, by focusing on three factors: the valuation, macroeconomic framework and momentum.

Sheldon Friedericksen
CFO
Fedgroup

Paul Counihan
Chief Wealth Officer
Fedgroup

Fixed income or bust

As the investment landscape systematically regains some sense of normalcy, investors across the globe are trying to find their footing again.

By leveraging the opportunities presented by the recovery curve, fund managers and financial advisers alike, will be looking at the building blocks at their disposal to add value, structure income funds and bring balance to their clients' portfolios, be it traditional, alternative, equities or fixed income.

Asset allocation and cash flow

Although the current crisis disrupted this landscape, equities and fixed-income investments have mostly worked counter-cyclical and, as equities rally, bond yields generally fall. Every investor's needs are unique, and every investment must be analysed in the context of the broader asset allocation and cash flow requirements of that investor.

From a risk-mitigation perspective, fixed-income instruments continue to offer a level of certainty so, although there is no denying the volatility of the last year, the principles are the same and the adage that diversification is key remains true.

The pandemic impacted every asset class. Even equities with low volatility and dividend yields were affected as companies were forced to withhold dividends. However, it is important to remember that this was an anomaly and, internationally, many of these investments have started stabilising again. This is where building a portfolio consisting of diversified local and offshore assets, that allow investors to weather the storm in the short term, becomes even more important in the long term.

Bonds yield a positive return

Over the past decade bonds have more often been ranked in the top half of asset class performers than not. The absolute nature of bond returns has also seen bonds yielding a positive return in eight of the past 10 years with the second-lowest volatility ranking. With their delinked correlation to the stock market, they have played a crucial role in investors' asset allocation strategies. While some question whether their past track record will translate into the future, bonds tend to be stronger performers in the low-growth environment of South Africa, where capital appreciation on equities has been low. The right question to ask is has the market performed to its expectation over the last decade and how will it perform in the next?

Certain fixed income failures of the past leave a longer-lasting mark in our memory and influence market sentiment. Loss aversion is an endemic, but not always a rational one. The fundamentals of bond instruments are leveraged in the interest rate outlook and cycles, and the price of a bond is inversely correlated to the level of interest rates. If you hold a bond and interest rates rise, the price of that bond can reduce in value.

Globally, over the past decade, however, annualised losses in the bond market have not exceeded more than 3% or 4% so, the downside risk is far less volatile than the equity market. An overreaction to market volatility could result in investors making rash decisions and trading out before the value can stabilise, rather than taking comfort from the certainty of a fixed-interest income. A long-term view is imperative, and it is important for not only financial advisers to understand how these instruments work, but for investors to understand how this volatility stabilises over the full investment term.

Sound financial advice

The average investor has become more familiarised with the mechanics of the equity market. The ability to walk into a company's office or read their financials helps investors understand their investment in more real terms.

Fixed income is less tangible, so there is a need for financial advisers to educate investors, help them understand the asset class and assist them in making educated decisions.

Fixed income bonds remain a popular solution for many investors and movements over the COVID-19 period saw these products experience a significant influx. So, even though the events of 2020 had a far-reaching impact on the financial landscape, the recovery curve is here, and the fundamentals and importance of sound financial advice have not changed. ●

"Fixed income is less tangible, so there is a need for financial advisers to educate investors, help them understand the asset class and assist them in making educated decisions."

The name of the game is bond

Londa Nxumalo
Portfolio Manager
Allan Gray

Traditionally, bonds offer a safe haven for investors from volatile markets, given that they offer lower risk, but they also do not offer investors a free ride. So, what opportunities do bonds offer currently?

South African bonds had a tumultuous time in 2020: starting off with pre-budget jitters, escalating into a complete meltdown due to COVID-19 and the Moody's downgrade, getting rescued by the South African Reserve Bank (SARB), and finally, screeching into green territory at the end of the year as the Biden victory in the US and vaccine approvals breathed some optimism back into the markets.

This enormous amount of volatility presented opportunities for those who could hold their nerve.

Reflation versus inflation

What is the current context for the South African bond market and does the climate present further opportunity for bond investors this year?

Looking at the last quarter, a great reflation versus inflation debate dominated discourse in global fixed income markets. Reflation refers to economic growth driven by government stimulus, be it fiscal or monetary (or both).

Reflation is good. On the other hand, inflation refers to an increase in the general price level, which can spiral out of control when too much money chases too few goods. The proverbial "Pac Man" so to say, who eats away investors' savings. Too much inflation is bad.

The US government continues to embark on massive fiscal policy supported by central bank money printing. The Biden administration has passed a US$1.9 trillion spending package that will be enabled by a benevolent Federal Reserve, which continues to buy US treasuries and intends to keep interest rates at rock-bottom lows until 2024, higher inflation notwithstanding.

The question is: how does this all end? The market simply does not know. During the first half of the quarter, it appeared that the reflation trade was winning the argument, with risk assets – including commodities and emerging markets – benefiting from bullish flows. However, inflation concerns got the upper hand in the second half of the quarter, with US bonds selling off as investors fretted about rising inflation. The unfortunate reality is that, as the US is the world's largest economy, most outcomes which are bad for the US are also bad for small emerging economies like South Africa.

Market expectations

Turning to South Africa, Finance Minister, Tito Mboweni, presented a bullish Budget in February, with higher revenues, lower projected expenditure, and a lower debt trajectory. Key risks to the marginally more positive fiscal outlook, however, are the execution of lower spending on public sector wages and social grants.

South African bonds initially benefited from a combination of the reflation narrative and market expectations of a positive budget. This reversed mid-February as US yields began to rise and bonds sold off across the curve, with the short end underperforming due to market expectations that central banks will eventually be forced to raise interest rates.

The local credit market was rather subdued, with issuance year to date significantly lower than last year. There were public auctions held by Momentum Metropolitan Life, Barloworld, and three of the big five banks. Stronger credits have been well-supported, with auctions often clearing below price guidance.

Clearly there is still strong demand for credit assets in the market, as is also evidenced by tightening credit spread indices.

Balance between the bond curve

Going forward it is likely that we are going to see pent up demand being unleashed for goods and services, as well as rising electricity and petrol prices, due to an uptick in oil prices. The economy is still quite slow, coming off the back of a difficult period of COVID-19, however, so inflation is likely to remain well-behaved.

We are currently balanced between the short end and the long end of the bond curve, which will enable us to switch between different parts of the curve should attractive opportunities arise. ●

> "The unfortunate reality is that, as the US is the world's largest economy, most outcomes which are bad for the US are also bad for small emerging economies like South Africa."

GWII Mix & Mingle Quiz Night

Gauteng Women in Insurance (GWII) hosted its popular online lockdown quiz night, on Thursday 15 April, with main sponsor, Discovery.

With family and friends in tow, teams (consisting of friends and family members quarantined in one house or spread over the world) were in for laughter… with the fun quirky quiz session.

It was a great way to spend an evening with family and friends, in person or online.

The way of the game

In the form of a live broadcast, all the teams needed to do was join the quiz, with a paper and pencil in hand, ready to answer the questions posed by the quizmaster, Shaun Tucker (Quiz Master Productions).

At the end of each round, team scores were loaded. The final scores for the night revealed Wonder Women were the winners of the night.

Well done and congratulations to team Wonder Women who won a R2 500 Takealot voucher, sponsored by Camargue Underwriting Managers.

Congratulations to the Smooth Criminals who came in 2nd place, Constantia Chick-ies who came in 3rd place, and the spot prize winner, the Bumpers... who won picnic basket hampers valued at R800 each, sponsored by Discovery.

Thank you

GWII would like to thank main sponsor Discovery for their sponsorship and support for this event.

Thank you to all the members that took part in the quiz night. Getting together was a great way to mix fun, laughter and some friendly competition.

We hope that you and yours had a ton of fun!

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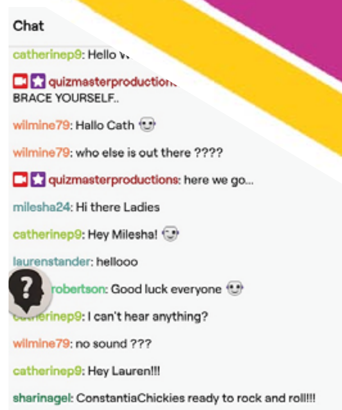
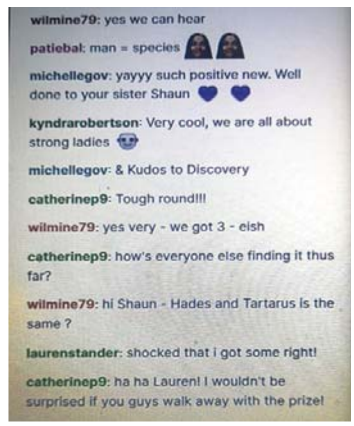
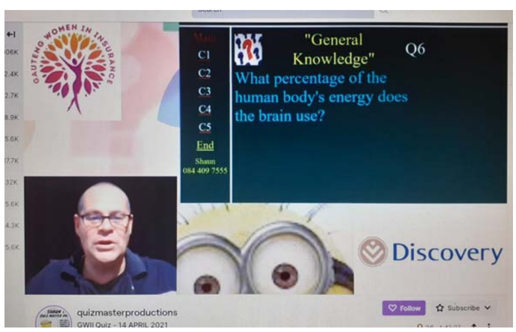
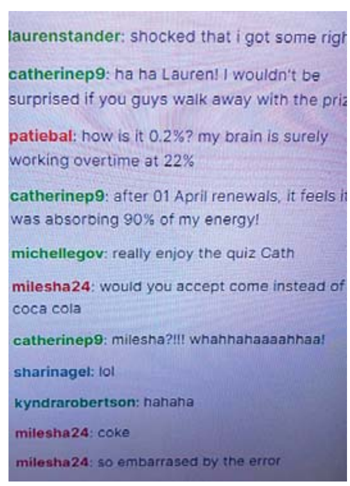








Current Scores supplied by: Dragon Consulting

Team Name	General Knowledge	Sports & Leisure	Sci, Hist & Geo	Music	Movies, TV & Celeb	Score
WonderWomen	7	8	8	10		43
The smooth criminals	10	7	5	10		42
ConstantiaChickies	9	7	6	9		40
Bumpers	8	8	6	8,5		39
The Sassy Smarties	6	7	8	9		39
Queens #2	4	6	6	10		36
Divalicious Duo	6	4	7	9		35
Power puffy gals	3	5	7	10		35
Quiz Quiz Hooray	5	7	4	9		34
BerryPie	4	4	8	9		34
Oxymorons	5	8	7			28

MINDFUL RESILIENCE

Gauteng Women in Insurance (GWII) hosted a motivational event, on Thursday 20 May, with main sponsor Guy Carpenter.

Themed Mindful Resilience, guest speaker Helen Nicholson, from The Networking Company, spoke to the ladies about mindful resilience in the new normal.

The importance of resilience

"The demands of 2021 are going to be even more intense than 2020 and there is a certain level of resilience required because there is still so much that is unknown," said Nicholson.

"Now, more than ever, as people are realising COVID is a long-haul journey, people need to utilise mindful resilience to become fit emotionally, mentally and physically for this journey. The environment that we are in is changing at a rate in which it has never done before. For people to perform at their peak, they need to be given the practical toolkit of mindfulness practices to be agile and adaptive to face new opportunities and challenges in the "new normal"," added Nicholson.

Establish a resilience mindset

In setting out to establish a resilient mindset, Nicholson said that individuals need to:

- Identify that stress is not the bad guy, absence of recovery is the problem.
- Embrace uncertainty through "state management" techniques.
- As a top performer, learn how to integrate intentional recovery in your day, week, month and year.
- Understand that sleep, movement and mindfulness are key strategies for advanced brain function.
- Learn practical techniques on how to be mindful in your busy lives.
- Develop your "Old Story" vs. "New Story" to gain insight into what's holding you back.
- Establish rituals and action planning to ensure sustainable behaviour change.

"Stop multitasking, have barriers around technology, practice breathing exercises and mediation and practice gratitude. Be grateful for the big and little things, do not focus on what you do not have," she concluded.

Lucky draws

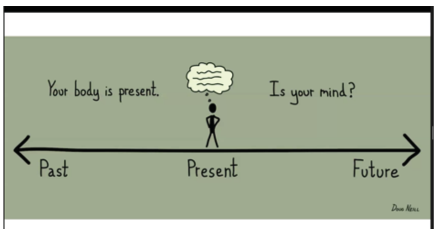
A few lucky ladies walked away with prizes. Congratulations to all our lucky draw prize winners who walked away with amazing prizes:

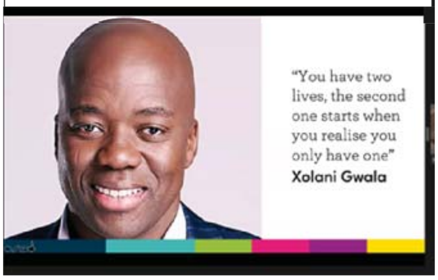
- Two 400ml Tulip Inspired Aromatherapy Essential Oil Diffusers and a set of 6 essential aromatherapy oils to use in the diffuser to the value of R1 779, sponsored by CIA; and
- Two Takealot Vouchers to the valued of R1000 each, sponsored by GWII.

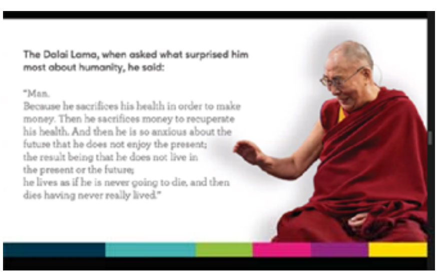
Thank you

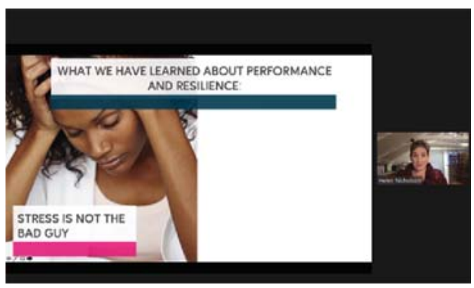
GWII would like to thank main sponsor Guy Carpenter for their sponsorship and support for this event. Without our sponsors this would not be possible.

Thank you, Helen, for guiding the ladies on how to establish a resilient mindset, and to all GWII members, thank you for attending this event. We hope that the toolkit of mindfulness practices will help you to become more agile and adaptive to face new opportunities and challenges.









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TIA2021 VIRTUAL SERIES COMING SOON

In a virtual world like never before… The Insurance Apprentice 2021 series is set to make its debut on 17 June.

Keep up with the leaderboard, because this time around rankings matter… no substitutes or alternatives exist, apart from the fact that a whole game can change, based on the random knowledge of one person.

This year's format

The first four episodes of The Insurance Apprentice are in the form of a quiz – with right and wrong answers. Contestants from each of these groups will be chosen, giving us a Top 10 who will then go onto the next round.

Episode five to eight will see the Top 10 complete the harder and more complicated tasks that will ultimately give us the winner of The Insurance Apprentice 2021.

Episode dates

1. Episode 1: AON – Thursday 17 June
2. Episode 2: Sasria – Thursday 24 June
3. Episode 3: Inseta – Thursday 1 July
4. Episode 4: Chubb – Thursday 8 July
5. Episode 5: FSCA – Thursday 15 July
6. Episode 6: Hollard – Thursday 22 July
7. Episode 7: Discovery – Thursday 29 July
8. Episode 8: Marsh – Thursday 5 August

All episodes start at **10:30.**

Watch it

Keep an eye out on our social media platforms so you don't miss out on episodes going live from 17 June at 10:30.

The WINNER wins:

- 1 year access to the Lloyd's virtual mentorship platform; Introduction to Lloyd's virtual seminar (value R2000); Sponsorship of a unit module of the winner's choice at the Chartered Institute of Insurance (CII) in the UK (value R3000) or R3000 paid directly to CII if the course exceeds R3000; Sponsorship of a Gordon Institute of Business Science (GIBS) short course of the winner's choice (value R50 000) or R50 000 paid directly to GIBS if the course exceeds R50 000; and cash prize of R20 000, sponsored by Lloyd's of London;
- A bursary worth R75 000 at any public university, sponsored by Inseta;
- R10 000 CASH from Tracker;
- R30 000 CASH from Auto & General;
- A Garmin watch from Genasys;
- The winner attends the African Insurance Exchange (AIE) conference; and
- A one year coaching and mentoring package to the value of (R30 000) sponsored by Ultraverse Consulting.

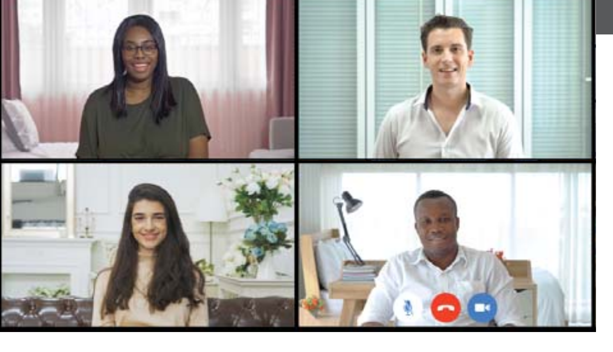
The TOP 3 win:

- A hospitality prize package, sponsored by Bryte Insurance; and
- A 6-month coaching package to the value of (R18 000), sponsored by Ultraverse Consulting.

The TOP 10 win:

- AIG is sponsoring a professional photoshoot for the TOP 10;
- Each of the 10 contestants will receive a gift bag filled with goodies, from Santam.
- Simply Financial Services is sponsoring vouchers to the value of R1000 for Bathu; and
- A coaching package to the value of (R8 000), sponsored by Ultraverse Consulting.

What's not to like? So many giveaways for the winner, Top 3 and Top 10, plus a whopping R60 000 in CASH!



EPISODES GOING LIVE FROM 17 JUNE

The CPD factor

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

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

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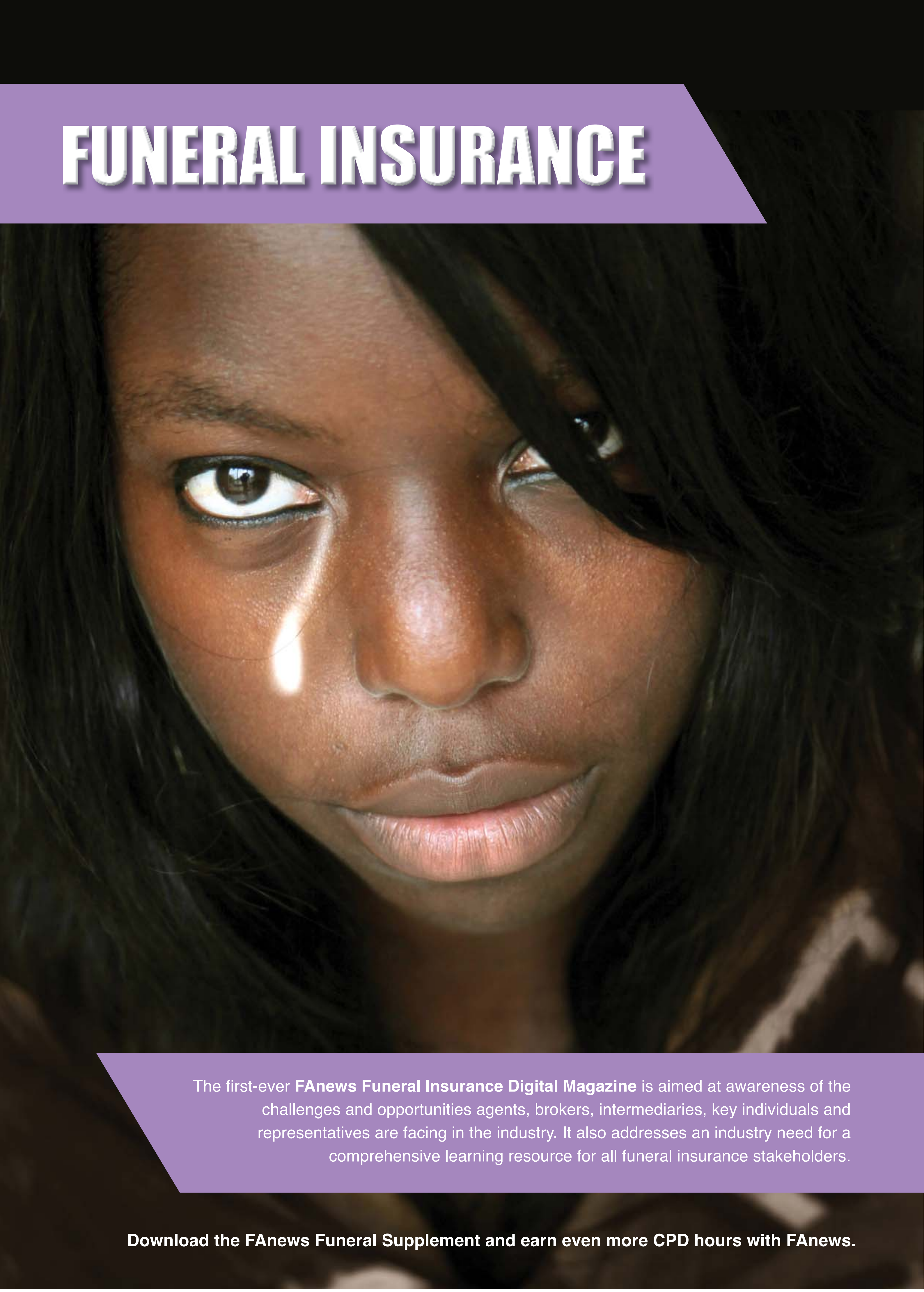
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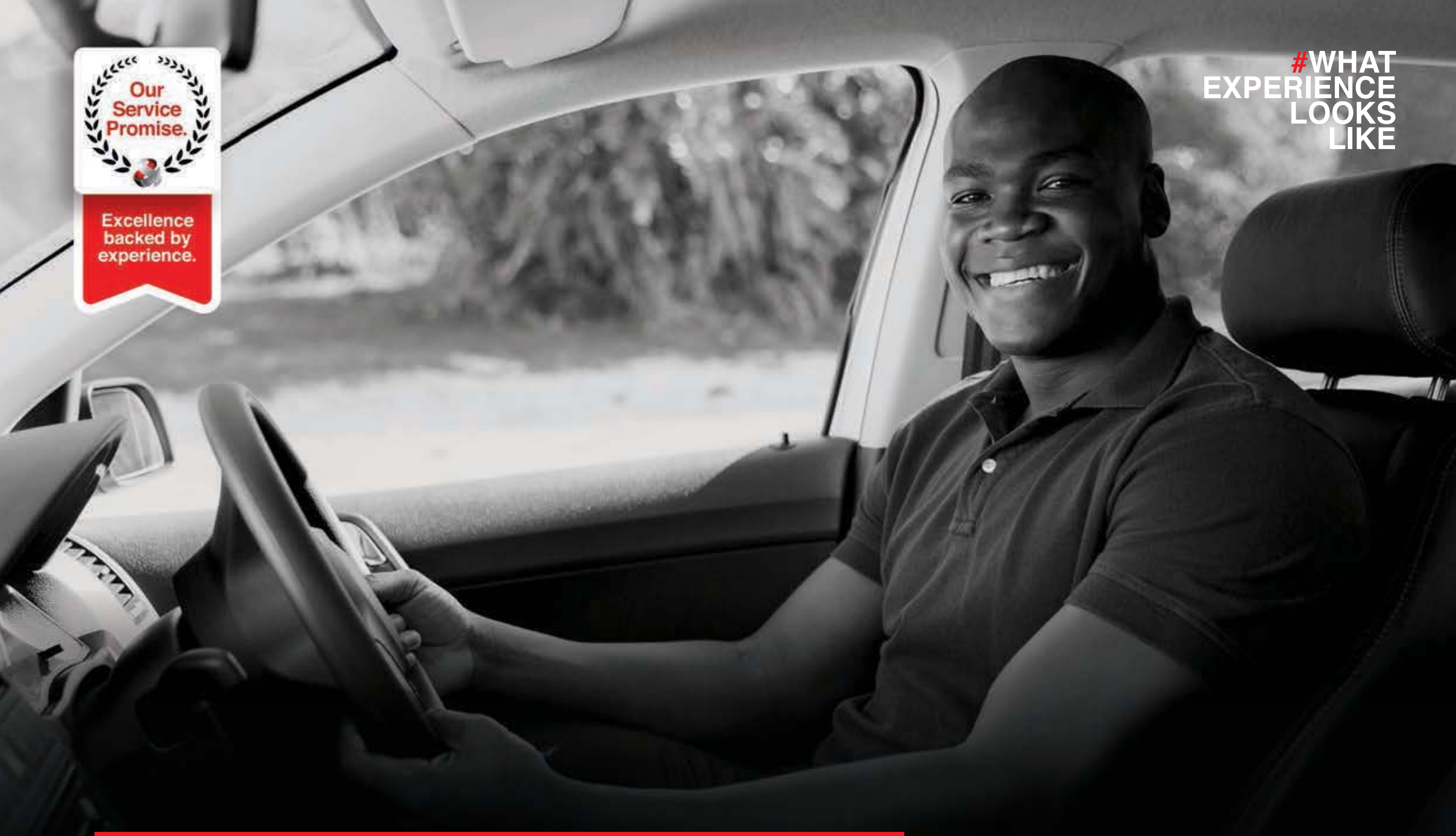
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