OCTOBER 2020

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Reframing clients' notions about retirement

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BUSINESS INTERRUPTION LOSSES… THE UNINSURABLE

In search of sustainable drought solutions

From risk to resilience - What the latest mindshift means for insurers

ARE ANNUITIES TAILOR-MADE FOR TODAY'S INVESTORS?

TRANSFORMATION TRENDS

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Website
Get all your insurance news at www.fanews.co.za.

Subscribe to our daily free e-newsletter to stay up to date.

FAnews is published by
Insurance Publications cc
PO Box 2342
Wilropark 1731
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LETTER FROM THE EDITOR

The world has changed and very few things will ever be the same… especially in our industry. The way we work, how we interact, where we stay, what we drive, how much we pay for insurance, how we celebrate and do strategy sessions and team building exercises… it's all changing. In a space of six months, conversations are different, mindsets are changing and the whole work-life balance story is something we've never experienced on this level. I have one question… what is going to happen to company culture? What is going to differentiate one company from another, when working from home is the way forward?

Staying in the industry, but moving more to clients… I recently read an article written by Bruce Hepburn, who is the CEO of Mactavish, where he says 'clients are being let down by policies that are not fit for purpose. In an age of growing complexity, rather than crafting highly targeted wordings designed to meet clients' unique requirements, brokers and insurers are increasingly developing one-size-fits-all approaches. Worse, the basis for those standardised policies is often unnecessarily complex and isn't readily understood by the policyholder.'

A prime example he gives is the example of the average D&O policy, which has one of the shortest contracts, but it is more than 20 pages long and will involve numerous endorsements and exclusions, all written in very insurance-specific legalese. Such additions are often standardised, meaning the client is left to decipher an overlapping and contradictory set of documents. Is this fair? Probably not… but can we really move to a point where policy documents are short… with the possibility of leaving a few gaps for either the client or the insurer to disagree about? Let's find a way to keep it short.

The reality is, insurance is a complicated matter for many, with a massive amount of under-insurance or no insurance at all. Thokozile Mahlangu, CEO of the Insurance Institute of South Africa (IISA), was recently quoted saying that if you look at individual product penetration such as auto insurance, only 35 percent of cars on our roads are covered, then you realise that the market is considerably under-insured.

Yet, looking at the bigger picture, Mahlangu stated that "If you measure insurance penetration in South Africa by the percentage of premiums generated - now exceeding R100 billion annually in the short term insurance sector alone - according to a report by the Oxford Business Group - against the country's gross domestic product, the local industry market penetration is on par with developed economies around the world at more than 20 percent of premiums against GDP."

She goes on to say that new FinTech innovations that have recently come to the market could make it possible for the under-insured, usually those in the low-income brackets, to also enjoy some minimal level of cover. We have to consider this market; but are we taking it seriously enough?

We live in super interesting times with innovation top of mind… our industry has been through a rough patch, with challenging times ahead, but regardless of that, we still have so many things to be thankful for! I am glad that this is my industry…

Enjoy the read!

BUILDING A LEGACY OF TRUST

As we are moving into the digital phase of insurance, transitioning rapidly to an online world with new products and means of services due to the pandemic, it is becoming more apparent than ever that providing transparency and honesty in the insurance industry is vital for establishing and maintaining customer trust.

Leading the way in trust

Due to the nature of insurance and the complex products and pricing models which are involved, it has raised a sense of distrust among many individuals across the world.

From a customer perspective, the underlying reason why many individuals are distrusting of the insurance industry is due to a lack of insurance education. Regardless of what area of the insurance industry you are involved in, be it automotive insurance or property insurance, if a customer does not have a clear understanding of the policies and products that you are offering, the issue of trust will continue to exist.

With such negativity surrounding the industry, building trust may seem impossible. However, insurance providers can change and improve on this, leading the way in trust by becoming more transparent with their customers.

Building trust is the most important factor. Honesty is truly the best policy especially when it comes to providing the full information of the details of products, how products are priced and how claims and premiums are calculated.

There have been instances in the past where customers have stated that insurers denied them valid claims, delayed claims, intentionally confused customers and discriminated against them by credit score. This has caused customers to raise their suspicion and caution when dealing with insurers for so many years.

Although this mindset is slowly turning around, there is still a long way to go until insurers and providers can fully gain back the trust of some of the individuals who need insurance most.

At your self-service

The new generation of customers want to have significant digital engagements with the companies that they interact with, which is available at any time and in the form of communication they prefer. When a consumer is buying an insurance product, they wish to have the same seamless experience that they receive when buying any other kind of product. An insurance provider will have a much higher chance of achieving customer satisfaction if they can actively engage with them and build meaningful relationships providing transparency, honesty, and customer support.

Most individuals now prefer a purchasing process that allows them to complete a transaction or fill out a form easily from their own smart devices, without the need for human interaction.

Providing a user experience that allows customers to purchase an insurance policy in a smooth and accessible way will aid insurers in building trusting relationships.

Insurers should assess documents to make them simpler and more engaging, it will encourage customers to read them. It is no surprise that when individuals are presented with policy documents that contain small print and jargon-heavy language that they are often put off reading them fully.

By making your policy documents easier to read with larger text, shorter sentences, and a more conversational and informative language there is a higher chance that a consumer will read it.

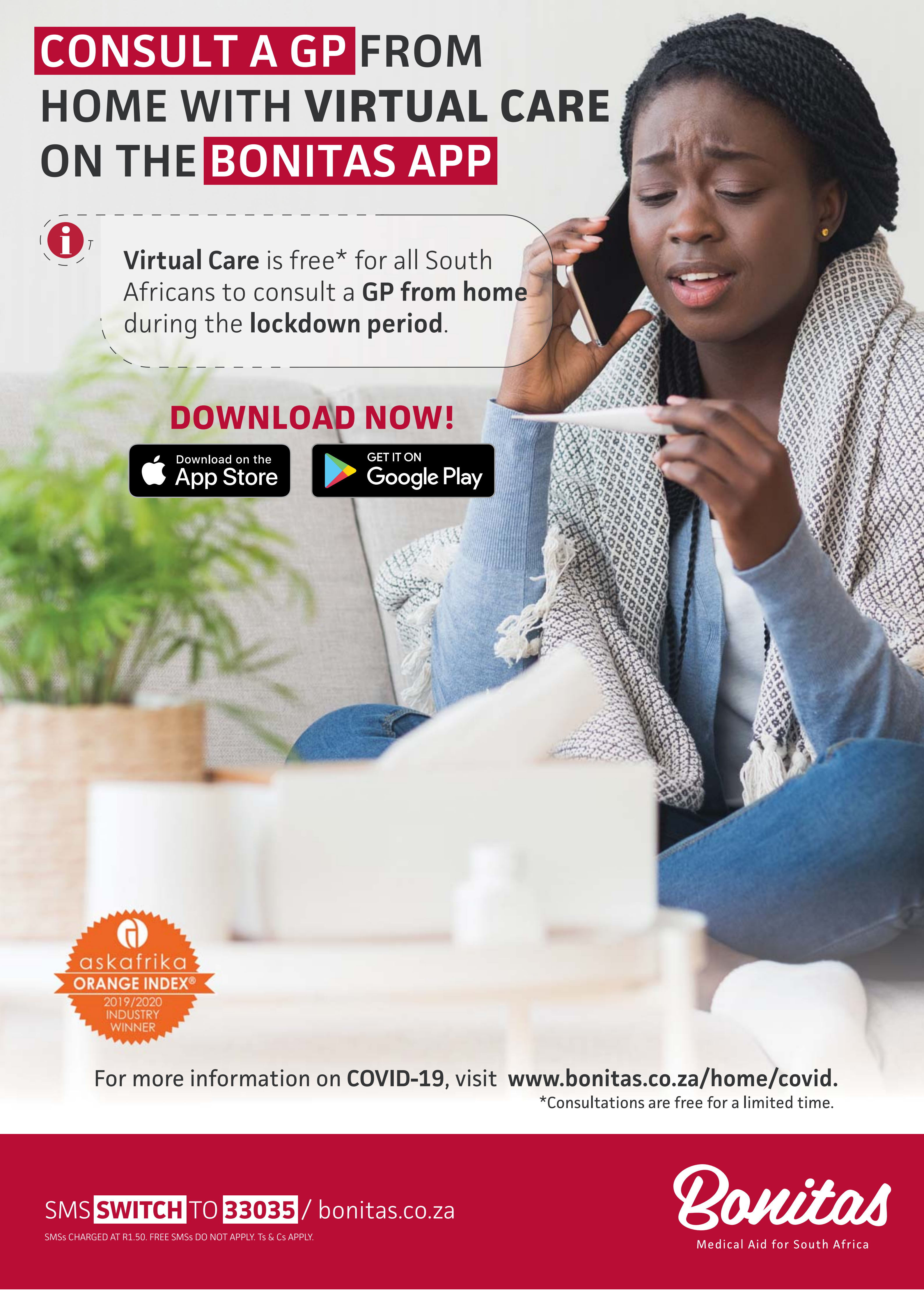
In a digitally obsessed world, it is about time that insurance providers transition documents to be available in a digital and mobile format, so that they can be easily found and read online, or on any smart device.

It's all about customer satisfaction

To provide satisfaction for your customers you need to provide them with an exceptional customer experience. This can be achieved by listening to the needs of customers, simplifying their experiences online and offline, providing them support at any time, along with empathising with them and creating a cohesive journey.

Adopting and ensuring that you are completing all the above, while providing honesty and transparency, will certainly impact the views that individuals have of the insurance industry.

Thomas Kieck
Business Development Director
Tial Technologies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Do you know how to PROTECT YOUR BUSINESS VALUE?

As financial planners, you know about income protection, and other insurances to protect yourself and your loved ones if the worst happens, but do you know how to protect your business? questioned Fiona Ettles, Chartered Accountant at Centurion Market Makers.

"Financial planners leave a gaping hole in their business if they were to suddenly pass away or become incapacitated. There are things you can put in place beforehand that will save significant stress and could lead to much greater financial outcomes," she added.

Start with a plan

"A huge part of running a successful business includes having a plan for a worst-case scenario in place. Financial advisers are quick to get this right for clients, but might forget to cover their own interests. It is essential to ensure the continuation of your business, retaining its value, or that liquidating business assets is arranged in advance, and to the best advantage of any dependants," said **Gerhardt Meyer CFP®, Head of Technical Support, PSG Wealth.**

"If you pass away without any plans in place, your ownership shares in a business will fall into your estate. This is the case even if your business partners would have preferred to buy out your shareholding or your family would have preferred to have the value of your shareholding paid to them. If you don't have a binding buy-and-sell agreement in place, your business and the financial well-being of your family can be at risk. Without a clear succession plan, disputes can arise, leaving the future of your business as well as the financial freedom of your family at risk," added Meyer.

“Preparing for the worst case, as a financial planner, all starts with a plan that starts with a practice or business that has value. The approach should be to think broadly, and not to expect only one outcome impacting business value,” said **Heinrich Punt, General Manager: SPF Distribution Enterprises.**

“Within our enterprise environment, we have a specific intent with our financial planners and their practices, to plan for the future and its potential impact on value. We create purposeful discussions with practice principals and senior advisers. These need to be held in a safe environment where there is a real commitment to delve into events that could disrupt sustainability,” added Punt.

Punt believes that all practices should either have a succession plan or a business will.

A succession plan or a business will

“Succession starts with the question of what follows after you, as the financial adviser, exits the practice. Who will take care of your clients and practice after you? At this point, value needs to be transferred to the exiting adviser or his/her estate. These events are typically planned retirement or unplanned events such as death or disability,” said Punt.

“With succession planning, we enable additional advisers and back-office support staff to be prepared. We, within our practice model, have 80%+ of successors internally in the practice well before any event happens. This is always the best outcome clients have, of being introduced directly or indirectly,” emphasised Punt.

“With succession planning recorded, it is critical that there is an agreed value exit and that this is annually updated for commercial results. A value agreement is then followed by a buy and sell agreement between internal partners for the clients or practice value to be transitioned. Internal partners must also ensure that the financial service provider (FSP) or organisational rules support the buy and sell agreement to enable execution. This ensures effective transfer of client and commercial rights,” continued Punt.

“A buy-and-sell agreement is a legally binding agreement between shareholders that clearly stipulates what happens to shareholders’ interests in the unfortunate event of the death or disability of one of the shareholders. A suitable and relatively inexpensive method of funding the purchase price of a buy-and-sell agreement is through life assurance, where the proceeds of these policies are used to fund the purchase price of a deceased shareholder’s shares. The family of the deceased will then receive the full value of the deceased’s interest in the business as soon as the estate is wound up. This enables the co-owners of the business to continue to trade with ease, avoiding an expensive buy-out or family members interfering. The buy-and-sell agreement may also provide for a sale of shares upon the permanent disability of a shareholder or provide for the purchase of loan accounts that are due by the company to the deceased shareholder,” said Meyer.

Punt said the business will is a more complex matter for businesses that plan to on-sell the going concern.

Transition client relationships

“If the successor is internal, there is usually an immediate handover and communication via the practice’s staff to clients. The clients immediately have to be contacted for ongoing advice and support. The practice can also call on leadership to provide overarching support for continuity of clients and product provider matters,” said Punt.

“When the successor is external, a time-delay can be practically expected. The practice staff or a practice manager plays the main role in temporary client engagement, but advice may have to come from the wider FSP until the new successor is licensed. Proactive discussions and planning of the required communication, and effectively engaging with clients, typically ensures more clients are retained, which supports any transaction value,” added Punt.

“Operations following an unplanned succession event require continued cashflow, and it is important that as part of succession planning, arrangements are made for the eventuality where cashflows are halted due to any estate or bank account related matters,” emphasised Punt.

Important details of the business and structure

“It is critical that succession intent and detailed arrangements are shared more broadly than simply the contracted parties. Preferably with legal representation of the seller and the buyer. Within larger FSP’s, the business models usually provide for arrangements being approved and filed for any future event with management and/or contracting departments. This creates surety of implementation, which is critical for the planner that is succeeded, as well as the practice staff,” said Punt.

“Most business owners sign surety for a business debt at some point, but it’s risky to sign surety without contingent liability insurance. At worst, it can place your personal estate at the mercy of creditors, leaving little, if anything, for your family to inherit. If this is the case and there isn’t enough cash in your estate to repay creditors, your assets (including your family home) may have to be sold by the executor. Having contingent liability cover in place ensures that creditors will be paid from the proceeds of the insurance policy, eliminating the risk to your personal estate. You must also consider the possible loss of key people in your business – this could be you, your business partners or an employee. This risk can be addressed by key person insurance,” emphasised Meyer.

A matter that tends to be overlooked

“A financial planner or legal representative that advises the family or estate of the planner to be succeeded (in case of passing on) needs to be in place. Financial planners overlook the benefit of having an adviser for themselves, and thereby disadvantage their family. The family adviser needs to be 100% aware of the nature of the agreement, the value thereof and the timelines and manner of settlement,” highlighted Punt

“Consistent discussion and planning for difficult events is needed for effective successions. Open notification of relevant parties (FSP, adviser and family) must not be missed to ensure the succession transaction is executed as planned,” concluded Punt.

“Financial advisers need to take their advice to clients who run businesses and apply it to their own businesses too. Your practice is your legacy and it is essential to consider all the risks to avoid unintended consequences for those left behind,” concluded Meyer. ●

MANAGING TALENT REMOTELY

The outbreak of Covid-19 has brought about many changes to the world of work as we once knew it, not only in South Africa but across the globe.

Some of the forced changes have been positive, and yet some have tossed the way of working into great uncertainty and the unknown.

The pros and cons

During lockdown, many organisations were forced to move from office-based work to working from home to ensure the safety of their employees and their families, and to ensure business continuity.

Working remotely has brought about benefits for employees such as savings on travel time and costs, allowing for more family time and other flexibility that comes with working from home.

Remote work is, however, not without its challenges, with some employees struggling to adapt to the new circumstances, such as virtual meetings and the etiquette required, and the lack of team collaboration that comes with being in a workplace. Also, managers now must grapple with managing talent remotely, keeping employees engaged, focused and motivated and ensuring that they maintain a work life balance.

A guideline for managers

Based on various reports and the lack of a vaccine, it appears that Covid-19 will be around for a while and it is unlikely that we will return to the way of working as we knew it, even when the disease is manageable and country restrictions have been lifted. As a result, many employers will need to put some measures in place to ensure an engaged and productive remote workforce.

Here is a guideline for managers to consider:

- Have a work from home policy and agreement to govern employees working from home and the safety of client data, based on the nature of your business.
- Ensure that employees have the right tools and connectivity to work remotely.
- Upskill employees on utilising the various mediums of remote communication and the etiquette required to effectively conduct virtual meetings.
- Shift to output-based performance management and be clear on expectations, for example the hours of work and focus areas or deliverables.
- Keep lines of communication open with individuals and the team.
- Extroverts may be battling with the lack of interaction – acknowledge this and give them the tools to manage working remotely, for example enhanced wellness programmes.
- Consider holding virtual social events to reinforce the company culture and employee engagement.
- Create chat groups to ensure effective communication and a platform for the team to stay connected to work related information.
- Encourage employees to maintain a healthy work life balance and prevent the living at work syndrome. With a lack of commute, it is very easy for employees to start early and work late into the evening. Without distractions, some even miss lunches and breaks.
- Encourage employees to create a working space with limited interruptions, especially during calls. Yet, also recognise that it's okay to have interruptions from family and even pets as we find ourselves working in their space.
- We have the additional challenge of load shedding in South Africa. If a lack of power is going to affect their productivity, allow employees to go into the office during their scheduled load shedding or put in the hours post load shedding depending on the role that they perform.

The new way of work

In some instances, remote working may increase productivity due to better time management brought on by fewer interruptions from colleagues. With lockdown restrictions being reduced, some employees may prefer to return to the office as soon as possible for various reasons ranging from problems with connectivity, lack of adequate workspace or work environment and a need for team collaboration.

As employers, we have a responsibility of being flexible to allow these employees to return to the office, while maintaining a safe work environment for them. I believe that the new way of work will be made up of a blended workforce with some employees working virtually and coming into the office as and when required and using hot desks, and some employees being permanently based in the office.

Grace Dipale
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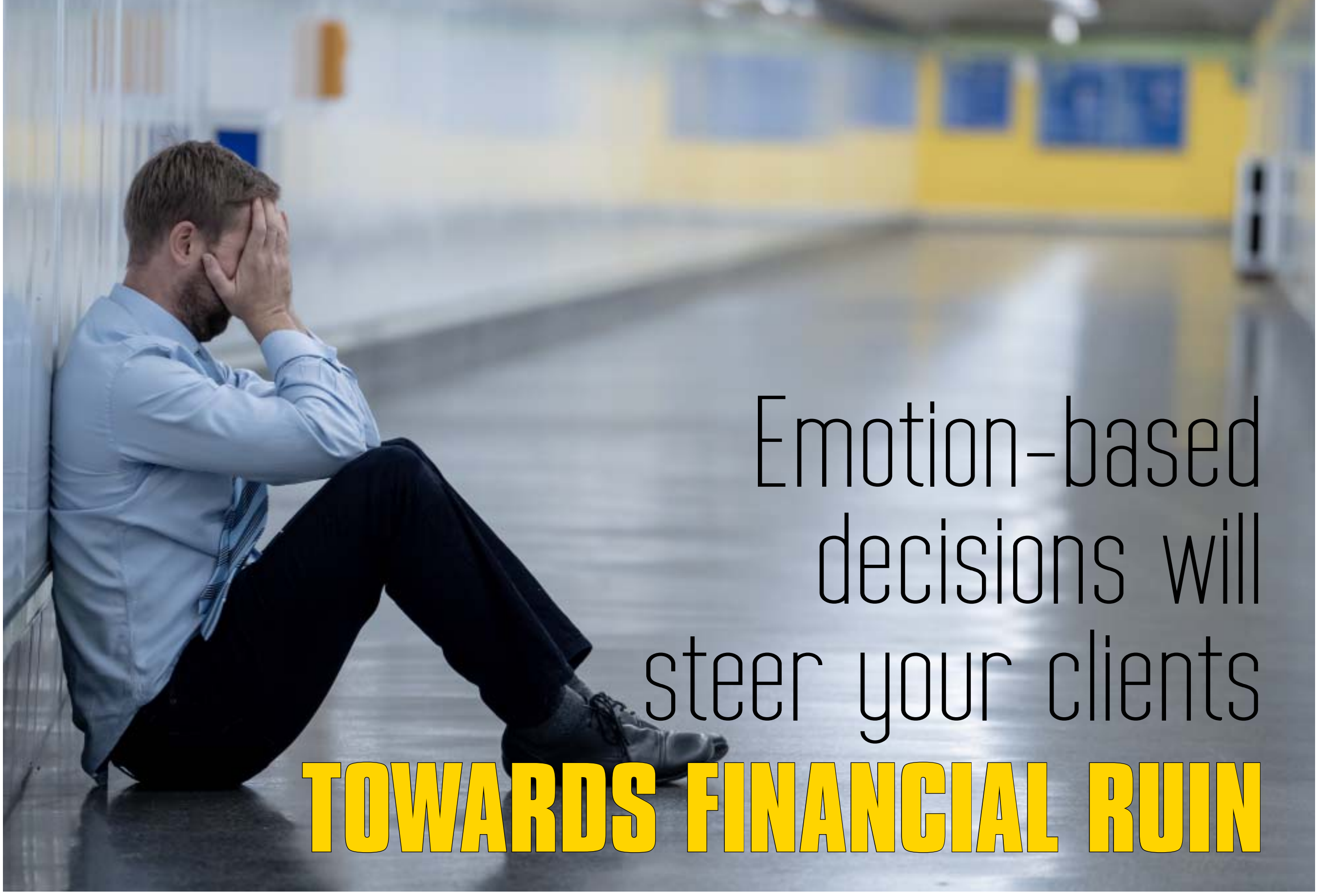


Emotion-based decisions will steer your clients TOWARDS FINANCIAL RUIN

Financial advisers who understand the basics of behavioural finance are better placed than their peers to prevent clients from making damaging ego- or emotion-based financial decisions. If you are familiar with some of the inbuilt psychological biases that drive your clients' financial behaviours, you will be able to identify likely decision triggers and implement strategies to mitigate against them.

A world of interlinked biases

"Your clients make their financial decisions in a complex world of personal biases, that are all interlinked," said Jaco Fouché, professor at North-West University, during a presentation at Sanlam Glacier's 2020 Idea Lab. His lecture focused on three biases, two cognitive and one emotional, that could have serious implications for your client's investment outcomes.

The first cognitive bias, referred to as representativeness, exhibits as an expectation that the future performance of an investment somehow derives from its past performance. A client with this bias believes that an expected outcome will eventually occur, given enough time. "You can tell that your client suffers from this bias if they frequently jump to conclusions or if they pressure you to invest in recently performing asset classes," said Fouché.

Clients with a representativeness bias should be encouraged to focus on longer time horizons. They will do best in portfolios that are diversified across asset classes and fund managers, and you should go to lengths to explain the reasons for this diversification. It also helps to focus on the consistency of fund management and investment returns in their portfolios.

The 'house money' effect

Mental accounting is a cognitive bias that stems from your client's inability to update their financial reference points. Fouché explained the bias using the example of a gambler who finds a R25 chip on the casino floor. After a few hours of playing roulette the gambler is up a few thousand rand; but loses it all on one final spin. When asked how his evening went, he says: "Not too bad; I only lost R25".

This bias, also referred to as 'the house money effect' stems from the gambler's failure to reassess his environment prior each investment decision. "A client who suffers from the mental accounting bias will try and save money on a small purchase; but not blink when committing to a large sum," said Fouché. This client will also obsess over the returns from individual asset classes within his or her portfolio, rather than the overall portfolio performance.

Loss aversion is one of many biases that reside in the emotional spectrum. Study after study has confirmed that investors are more affected by losses than gains; they tend to lock in profits quickly but hold onto a loss position way too long. Discipline is one of the best skills you can impart on clients who exhibit loss aversion in their day-to-day financial decision making. You can help them by setting levels at which to exit investments and showing them the benefits of diversification.

Safeguards against emotion

Your clients give in to a range of emotions when making investment decisions. "Emotions such as fear and greed should never be part of making investment decisions that are meant to build your future or provide a legacy for your loved ones," said John Manyike, Head of Financial Education at Old Mutual. His article titled *'Ego and emotion are the enemies of sound investment decisions',* calls for investors to remain objective when considering investment opportunities.

"You need to consider the lessons from behavioural finance to make better financial decisions in your practices and to guide your clients in making better decisions in their portfolios," said Fouché. From a client perspective one of the crucial safeguards against emotions-based investing is to appoint a financial adviser they can trust. "There is a delicate relationship between emotions and money," concluded Manyike. "Some of the worst financial decisions are made when emotions overrule the mind".

Gareth Stokes
Stokes Media

WHAT IS THE FUTURE OF EMPLOYMENT?

More and more people in South Africa are turning to technology to be able to work away from the office, as the battle against the coronavirus pandemic continues.

South Africa, which has recorded more than half a million confirmed Covid-19 cases, has been under lockdown since the end of March.

With the lockdown regulations eased to level one, more businesses are resuming operations, but questions remain about remote working as the new norm.

The fourth industrial revolution

The future of employment is already here. Forbes recently released a report that identifies several ways jobs will change in the fourth industrial revolution.

The Forbes report says in many respects, the future of work is already here. The Covid-19 pandemic probably accelerated the changes that were only expected in the fourth industrial revolution.

According to the Forbes report, amid the headlines exclaiming the predicted loss of jobs due to automation and other changes brought by Artificial Intelligence (AI), machine learning and autonomous systems, it is clear that the way we work and live is transforming.

Change is inevitable

Such an evolution can be unnerving. However, change is inevitable. Let us examine how work will likely change and exchange ideas as we prepare for the changes.

For example, a McKinsey Global Institute report says in the United States at least 30% of the activities associated with most occupations could be automated, which includes even knowledge tasks that were previously thought to be safe.

This echoes what executives see as well, and prompted Rick Jensen, Chief Talent Officer at Intuit to say, "The workforce is changing massively."

Some of the expected changes will result in fluid gigs within an organisation. Positions will be more fluid, and a strict organisational chart will likely be tossed in favour of more project-based teams. This is especially appealing to young employees interested in having multiple roles in one place of employment.

The "gig" economy will continue to expand where professionals sign on as contractors or freelancers, and then move on to the next task.

Decentralised workforces are another anticipated change. Thanks to mobile technology and readily available internet access, remote workers are already common. Employees won't need to be in the same location.

This will make it easier for the next generation of workers to choose to live anywhere, rather than find a job and then move to a city with that job, according to the Forbes report.

People want to work for an organisation with a mission and purpose they believe in, that provides incentives such as personal development opportunities and the latest tech gadgets to facilitate their work-from-anywhere ambitions.

Ways to prepare

Not only must employees want to learn throughout their careers, but they will also need to learn new skills.

Technology will continue to evolve the role humans play in the workforce, so everyone will be required to adapt their skills throughout their working lives.

AI algorithms and intelligent machines will be co-workers to humans, who will need to develop a level of comfort and acceptance for how man and machine can collaborate.

It is not too late to adapt as there are ways to prepare for the future of work. The Forbes study suggests that even though we cannot predict all the changes that will occur in the future, we do have a fair amount of certainty that there are some things people can do to prepare for it.

Rather than succumb to the doomsday predictions that "robots will take over all the jobs," a more optimistic outlook is one where humans get the opportunity to do work that demands their creativity, imagination, social and emotional intelligence, and passion.

Thokozile Mahlangu
CEO
The Insurance Institute of South Africa

CPD ARTICLE

TRANSFORMATION TRENDS - Tough commission procurement rule could dent insurers' B-BBEE scorecards

Stakeholders in the non-life insurance industry have kept quiet about an important clause that has been dormant in the regulation for three years. Clause 5.14 of the Amended Financial Services Sector Code (AFSSC) sets out that the commissions paid by insurers to an insurance broker or insurance intermediary be included when they measure their total procurement spend. There are two reasons why this is an issue. First, because commission makes up a huge slice of non-life insurers' expenditure. And second, because procurement makes up 25% of an insurer's overall Broad-based Black Economic Empowerment (B-BBEE) scorecard.

The 'Rip Van Winkel' clause

The AFSSC was published by the Minister of Trade and Industry on 1 December 2017 in terms of section 9(1) of the B-BBEE Act, as amended; but clause 5.14 was set aside for three years. The regulation states; "The inclusion [of commissions paid] will only apply after the first three years following the implementation date of the AFSSC". Insurers will have to include commission in their procurement breakdown for all reporting periods that begin after 1 December 2020. The looming change was brought to FAnews' attention by one of our broker readers who felt that financial services providers were uninformed about the change and its potential impact. What, he wonders, is the consequence for brokerages that fail to meet an insurer's evolving procurement needs?

Only one of the five large non-life insurers we approached were prepared to respond to our questions. And Santam, which controls over a quarter of the domestic insurance market measured by gross written premium, approached the topic with restraint. Andrew Coutts, Head of Intermediated Business at Santam, says that the inclusion of gross commissions in an insurer's total measured procurement spend "impacted the current preferential procurement contribution from non-intermediary suppliers, and thus, the transformation component of a general insurer's B-BBEE scorecard". Clause 5.14 coincides with an increase in the minimum spend targets, which further compounds matters.

"Broker commissions and panel-beating expenses make up a significant percentage of a non-life insurer's total procurement expenditure and they could see changes in their B-BBEE scorecards as a consequence," says Ronald King, Director and Chair of the Regulatory Committee at the Financial Intermediaries Association (FIA).

Choice and consequence or compliance

Many stakeholders still view the AFSSC as a matter of choice and consequence rather than compliance; but their stance belies the longer term impact of the regulation. "The B-BBEE code is based on choice and consequence, however, in application, because of its ripple effect on all stakeholders affected in the procurement chain, it becomes compulsory in application," says Coutts. Insurers will begin approaching their intermediary partners for documentary proof of their B-BBEE level to enable them to make the necessary verification of their procurement spend for future reporting periods. Verification is by way of a sworn affidavit or presentation of a B-BBEE certificate, depending on the size of the broker business.

A brokerage that generates less than R10 million per annum in gross fees and commissions, referred to in the legislation as an exempted micro enterprise (EME), can achieve level 4 B-BBEE recognition by completing an affidavit. This level is adequate for the insurer to attain full recognition for that portion of its commission procurement spend.

A qualifying small enterprise (QSE) with turnover of between R10 million and R50 million can submit an affidavit, provided it is more than 51% Black Owned (per clause 5.4 of the FSSC). Clause 5.7 stipulates that all other QSEs that elect to be measured, will be required to obtain a verification certificate. Large intermediaries with more than R50 million in fees and commissions from all insurers will have to obtain a SANAS-approved certificate issued by an accredited verification agency.

King is sympathetic to the insurers' predicament. "An insurer will have to choose between the business that a particular broker is bringing them and the impact that commission procurement will have on their scorecard; that is a balancing act they will have to carry out over time," he says. There are other trade-offs that could be made. "An insurer that realises that a large proportion of its commission-based business comes from non-compliant brokers will have a choice to either shift this business to compliant brokers, challenge those brokers to improve their scorecards, or compensate on its scorecard by spending in other areas," says King. Coutts counters that the commission procurement targets are achievable due to the proportion of broker commission currently paid to EMEs.

The fees or commission debate

Could we expect insurers to lean on brokers to compel them to do better in the transformation stakes? "We encourage all brokers to support and drive the transformation of their businesses, to improve their relevance in the market and to support our industry's transformation objectives," says Coutts. "Our dedicated broker development team has completed multiple roadshows and engagement sessions countrywide, increasing both our black broker count and our business from black brokers by more than 20% per year since 2018".

There are other transformation-focused regulations that demand brokers' collective attention. King says that brokers and insurers that are concerned about the commission procurement amendment are focussing on the lowest impact part of the current regulatory environment. "The Conduct of Financial Institutions Bill (COFI) is going to make Black Economic Empowerment (BEE) part of a broker's licensing requirements, and you will risk losing your license if you do not have a proper transformation plan in place," he said. He notes that while QSEs could fly under the radar for a few more years, companies with higher turnovers and headcounts would require a credible BEE plan.

Serious problems require innovative solutions. King says that the commission procurement dilemma might be solved by insurers footing the wage bill to train up promising black brokers within the existing brokerage infrastructure. They would foot a larger chunk of the bill for developing skills and addressing constraints such as skills retention and the high barrier to entry for new black brokers. It is a win-win that allows the insurer to improve its B-BBEE scorecard outcomes and create a pool of skills that will, over time, address transformation in the broker space.

Radical and aggressive legislation

The Department of Employment and Labour has also upped the ante. The Employment Equity Amendment Bill, which was gazetted on 21 July 2020 and will be implemented as soon as it passes Parliament, will empower the Minister to determine sector-specific numerical targets for equitable representation across all occupational levels. Local human resources firm, LabourNet, describes the proposed bill as "the most radical and aggressively transformative move by the Department to force employers to change their respective employment profiles".

"Transformation represents a great opportunity for growth and penetration by brokers into markets currently dominated by direct insurers, banks and affinity markets, and is strongly supported by the FIA and the large number of intermediaries we have already engaged with," says Coutts. Santam has vested 160 black intermediaries into various broker practices since 2016, is currently engaging with more than 400 black brokers, and has exciting growth targets through to 2025. "We have a strong level 1 B-BBEE accreditation and fully support the transformation of our intermediary base to support development initiatives in our country," he says.

King says it will take time for changes in measurement of procurement spend to filter through the market. He also observed that brokers were unlikely to find their commission business yanked away from them by insurers looking to influence procurement scorecards. "The regulatory focus on transformation will not come as news to FIA member brokers; we have for many years communicated the need to be proactive in this regard," he concludes. "Brokers must ensure that their businesses are correctly positioned for the prevailing macro and socioeconomic conditions".

Gareth Stokes
Stokes Media

BEYOND LINKEDIN

How to harness an effective omni-channel engagement strategy

Earlier this year, Microsoft reported that LinkedIn has seen ongoing growth in both total members and engagement. In terms of users, the platform has now reached 690 million members, increasing from 675 million in January 2020. But the real magic is in the engagement statistics, where the platform reported "record numbers of engagements" during the COVID-19 lockdown.

Four million hours and counting

According to the report, professionals watched nearly four million hours of content on LinkedIn Learning in March 2020, a nearly 50% increase month-over-month. And LinkedIn Live Streams are up 158% since February.

These statistics confirm the immense value of LinkedIn, because despite user numbers being lower than Facebook and other social media platforms, audiences are willing to spend time engaging on content from the brands they perceive as valuable.

Identifying how and where you add value to your customers is critical and needs to be replicated across all of your customer touchpoints. This is one of many tips that will assist you in avoiding the pitfalls associated with a fragmented multi-channel service in a changing world.

Service adds value

Boston Coffee shop in Bellville, Western Cape, is my favourite coffee shop. The personal experience that I enjoy there makes paying the slightly higher price for a specialised cup of coffee more than worth it. It is incredible how even a simple commodity like coffee beans, when combined with an excellent service, becomes worth so much more.

This is an example of the value creating opportunities that exist for any non-tangible service offered as an extension to a business' core offering. For the advice industry specifically, seizing this opportunity will become increasingly important with the onset of the Retail Distribution Review (RDR).

Engaging via digital channels

LinkedIn stands out as a digital platform that has shown positive growth as a valuable channel to extend service components for a brokerage. LinkedIn has not only managed to establish a consistent flow of healthy and reliable thought leadership content; but also attracts an audience willing to engage. But LinkedIn will not be the last new digital platform to emerge as a channel for reaching a target audience.

Unless your business can offer an orchestrated engagement experience to its target audience, any new digital channel employed may result in disconnects. This kind of disconnected or inconsistent service results in a so-called multi-channel service. You will not easily benefit from multi-channel engagements, and it will be difficult to create value from them separately.

An omni-channel experience

Companies utilising an omni-channel approach aim to unify the client engagement experience across different channels, no matter where the target audience engages with them. Imagine a banking client who is attempting to complete a loan application on the bank's app. To clarify something, the client might Direct Message the bank, using Twitter

In an omni-channel environment, the operator engaging with the client will already know about the client's loan application and be equipped to help them. The result is a far higher level of service delivery that adds value for the client.

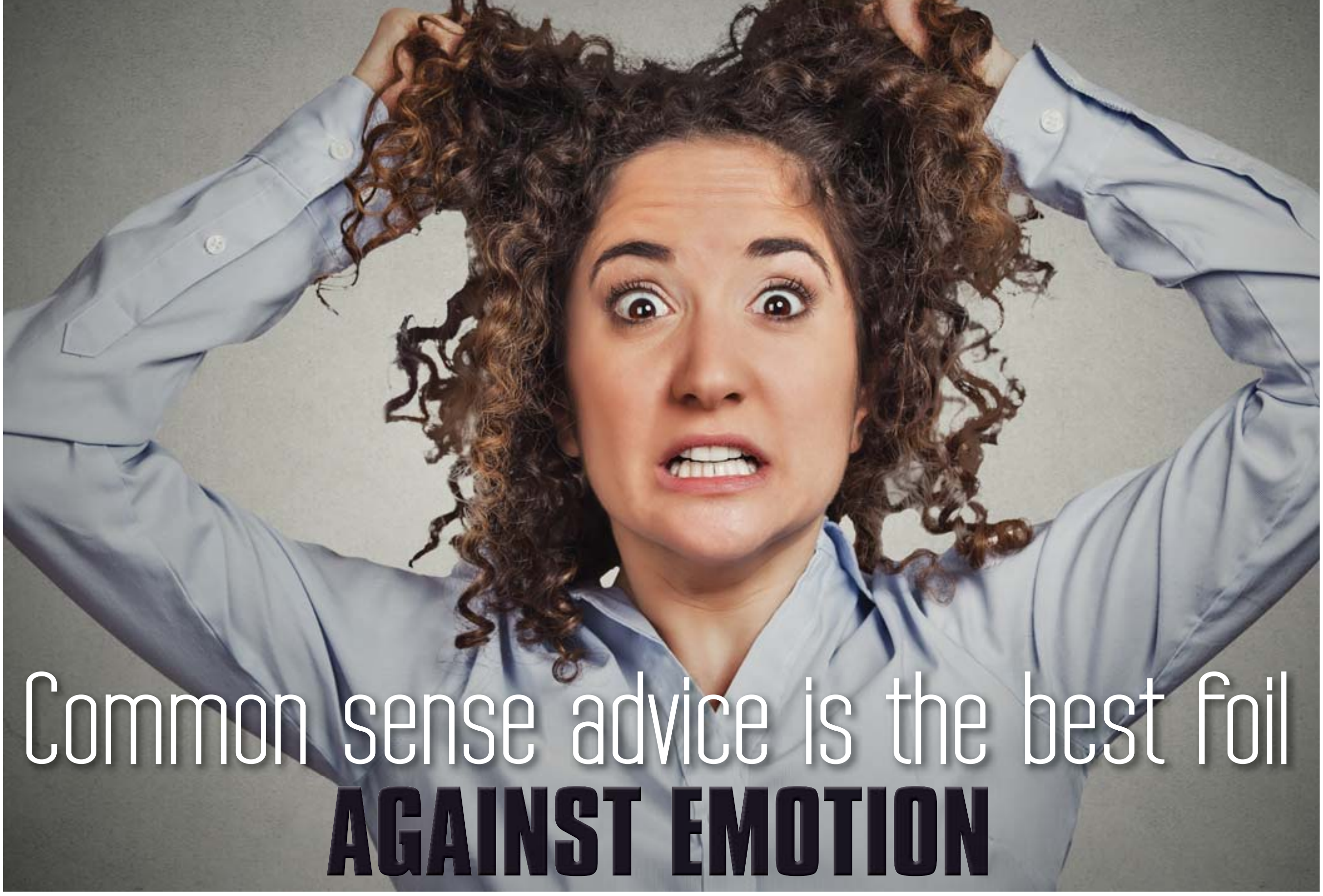
A single view of customers

A single view of the customer is at the heart of every omni-channel ready business, while a centralised data view helps businesses to respond, in practical terms, to the client at each point on their journey.

The next step is to orchestrate these interactions across the various channels. This is where consistency becomes critical in terms of what you offer clients on each touch point, whether you are using LinkedIn, Facebook or any other channel that may emerge. A final point is that no service exists without the human component. You must make sure to define the people element of any process or touchpoint with your customer.

LinkedIn is an exciting place now, but without unifying your message consistently across channels, any brand investment is likely to be a watered down experience.

Derek Gardiner
Chief Executive
Seed Analytics



Common sense advice is the best foil AGAINST EMOTION

Emotion drives decisions. We, as financial advisers, often forget this truth, focusing instead on the technical side of financial planning. The reality is, if we do not understand the 'why' of our clients, if we do not understand what is motivating their major financial decisions, we cannot guide them.

A focus on financial wellbeing

The COVID-19 pandemic has been a difficult time. There have been job losses, reduced salaries and a new reliance on digital platforms, causing a lot of emotional stress. In a crisis, economic or otherwise, we encounter a web of interconnected issues that can lead to poor decisions all around. In my participation in one of the episodes of the Liberty Blue Table Sessions, a series of video conversations on 'womenomics', we discussed the importance of investing in yourself for better financial wellbeing.

We are all aware of the sedentary lifestyle and physical fatigue that accompanied the national lockdown, both of which can contribute to a decline in personal health. Family relationships have been placed under strain due to close-quartered living and financial uncertainty. Financial decisions have been made without the proper forethought, because in a crisis we tend to focus on what affects our lives in the short term.

Irrational decisions through crisis

These issues impact our clients, of course, but they also affect advisers. It is within this context that we need to ensure that we are more aware, and adapt accordingly. When the lockdown struck, I received a number of frantic calls from clients who wanted to sell their homes and cancel their insurance policies, decisions that they would normally recognise as irrational.

I had to remember to be mindful. Active listening is an important tool that allows us to start the discussion by meeting our clients where they are. In that moment, you need to be calm and objective; but you also need to understand why your clients are feeling insecure, why they are concerned about their career, or whether their job is at risk. As they talk through their concerns, they can begin to unpack their feelings and move towards a calmer and more rational thought process.

Your next task is to cocreate the way forward. You must help your clients to see the outcomes rather than getting straight into giving advice. It may not be the best idea to worry about financing a new vehicle if there is something larger and more important to save towards. We must also avoid the short sightedness that accompanies a crisis. As advisers, we must help our clients to dream again, by reminding them that the crisis is temporary.

Dealing with personal anxiety

We have to be mindful of how our attitudes towards our own finances may affect the advice we give our clients. The conservative financial approach that I adopted during lockdown may not be the best approach for every person I advise. It is equally important that we take care of ourselves, and deal with our personal anxieties or fatigue, to ensure that we perform our roles optimally.

When it comes to doing our jobs well, there is always the option of upskilling. The difference between being good and being excellent is maintaining the desire to keep learning. There are so many degrees, certifications and online courses that can help us understand our clients better, understand their finances better, or help us learn new processes as we move towards working in the digital environment.

Holistic financial advice

As financial advisers we must develop our abilities and adopt a more holistic approach to varying client needs, because people come to us when their lives are changing and at different stages of life. We can help our clients in ways that go beyond merely looking at their finances, by, for example, really being in it with them.

Mariette Tappan
Certified Financial Transitionist™
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The importance of holistic planning FOR UNSPECIFIED RISKS

Managing risk should constitute a major part of your financial planning process, regardless of where you live, or at what life stage you find yourself. Recent global developments have brought a new appreciation of the risks connected to your health. They have also ushered in a 'digital everything' era and new ways of working, namely 'work from home'.

The pandemic has not affected other established trends, such as climate change, which introduces a spectrum of risks that never existed before. An IPCC Fifth Assessment Report notes that "impacts from recent climate-related extremes, such as heatwaves, droughts, floods, cyclones and wildfires, reveal the significant vulnerability and exposure of some ecosystems, and many human systems, to current climate variability".

Unseasonal natural catastrophes

We have seen an increase in the number of hurricanes creating havoc in the United States, each growing in severity. There have also been numerous reports of unseasonal snowstorms, floods, fires and other natural disasters taking place globally. The September 2020 wildfires in California and Oregon are a case in point; and we have frequently witnessed the destruction that fire brings to our own Cape Peninsula.

From a South African perspective, our general lack of 'safety nets' at both an individual and national level, has long been an issue. Risks such as continuing governance failures; changes to legislation and regulations; and insufficient electricity supply, are becoming more prevalent. Furthermore, cyberattacks and hacking have become more widespread. These risks impact our personal wellbeing and are detrimental to business sector continuity.

An interesting statistic from the Travelers Business Risk Index, reveals that "only 50% of small business owners have a written business continuity plan". To see the error in their ways we need only consider the heightened business interruption risk that occurs from the combination of higher frequency severe weather events, and our increasing reliance on complex networks of technology and supply chains.

Reassessing health insurance needs

It is only natural for clients to re-evaluate their medical schemes and consider additional gap insurance covers in this time of pandemic. But there are other risks in this space, including greater life expectancy on the back of continuous improvements in medical technology. The average life expectancy for males and females combined is currently 73 years.

By 2100, the worldwide life expectancy at birth is projected to be 81 years. Increased life expectancy introduces challenges to both medical schemes and life insurance providers, who will have to encourage customers to think differently about their futures. These, and other changes, come with countless questions.

Do clients still need the same protection from the same risks? Do service businesses need more professional liability insurance to accommodate emerging governance issues? Does the changing work dynamic make a work-from-home product tenable? And what role can brokers play in mitigating evolving risks?

Holistic financial planning

The answer lies in holistic, practical financial planning. We must engage with clients in order to inform them of the importance of using insurance to protect them from potential crises. We consider this to be the broker's role; but it could be time to make financial planning and risk mitigation part of the school curriculum in order to teach the importance of these disciplines from an early age.

Brokers should engage with their clients on the basis that insurance coverage is the first line of defence against any risk. The biggest causes of financial hardship are events that may be insurable, such as vehicle accidents, theft, fire and illness. It is important to insure according to true value, and you should help your clients determine whether they have enough coverage to rebuild or start again after a total loss.

This is equally important from a commercial perspective, where business owners should make sure their buildings and contents, including shelving, displays, inventory and any new equipment, are properly insured. Properties should be insured to their full replacement value including any recent improvements.

Insurance for unknown unknowns

Insuring against some of the risks mentioned, seems common sense; but what about unknown risks? How does a client plan for unforeseen events? You can assist your client with developing a plan by identifying the risks that are most likely to occur based on historical, geographical, organisational – in the case of a business – and other factors.

Commercial brokers should also carry out a business impact analysis, to identify what is critical to the survival of the client's business from an insurance perspective. Do some research and build your knowledge around potential risks, it will certainly enhance your advice-giving process. A complete assessment of the risk landscape requires that you identify both immediate and potential threats.

You should consider the impact on cash flow, because your client gains a greater appreciation for the potential risk when he or she sees the rand amounts involved. Determine how much of the risk the client can bear themselves, and then accept the risk up to the point where it affects the clients' lifestyle if events go against them. The remainder of the risk needs to be insured.

Bad things happen

You should not ignore potential risks. Bad things happen, and in today's volatile environment it pays to take out as much insurance as you can afford. It is worth a customer's time and effort to select and build relationships with a dream team of advisers, that might include: an attorney, accountant, insurance broker and banker. Each representative has something valuable to contribute to minimising risks efficiently and effectively.

Ricardo Coetzee
Head
Auto & General Insurance

Ian Thompson
Chief Executive Officer
QSURE

A NEW BRAND in the collections arena

Well-known collections and payments company, Q LINK Holdings, announced it has rebranded Insure Group Managers Services (IGMS) to QSURE.

Chief Executive Officer, Ian Thompson said the rebranding follows an intensive process to conceptualise and position the brand to align with its holdings company, Q LINK Holdings (Pty) Ltd.

Largest transactional switch of its kind

Founded in 1998, Q LINK has been a dominant player in the collections and payments space for more than 20 years. The company currently processes almost 30 million deduction instructions per month and has a monthly collection value of over R4 billion, making it the largest transactional switch of its kind in Africa.

QSURE has been operating as a short term insurance premium handling agency for more than 25 years. It currently administers just over R1.1 billion of premium per month and serves over 250 intermediaries in the market, located in almost all the major centers throughout South Africa.

FAnews spoke to Thompson about the rebrand and what the future holds for QSURE.

Q Why did you decide to rebrand?

Q LINK Holdings acquired the business that used to be known as Insure Group Managers Services, commonly referred to as IGMS. Following this acquisition, we deliberated intensely around the question of whether the business should be rebranded or not.

Rebranding provided us with an opportunity to align the branding and corporate identity of QSURE with that of Q LINK, and through doing so, we established a visible and tangible alignment between the two businesses, strengthening the future goal of operating under one umbrella.

We also took cognisance of the fact that some brand and reputational damage did occur during the time that the company was under curatorship – rebranding offers the business the opportunity to regain a position of strength in the market, and with its clients.

Q What does this mean for the brand and the future?

QSURE has more than 25 years of experience in premium collections and payment services. The business has a well-trained, skilled workforce and is well recognized for its high level of client service and client support. We believe the new name and brand will support the business to further develop these qualities.

Q Can you tell us about the new logo, what it represents, etc.

The name QSURE, subconsciously links the company to the core industry it serves, while at the same time the word "sure" strengthens the concepts of confidence and certainty. The word is also used commonly as a synonym for "certainly", emphasising agreement and understanding, supporting the ethics of the business.

The "Q" provides a strong indicator and definite link between the two companies QSURE and Q LINK, and the sharing of corporate colors further strengthens the relationship and future alignment between the two businesses.

Q What will remain the same and what will change?

Clients will continue to follow the same workflow processes, procedures, and systems. The different teams in both companies will continue delivering on this mandate to their different client bases as one of the highest priorities in taking the business forward.

What will change is the enhanced value and opportunity that the alignment of these two businesses will bring to the market. The combination of the depth of experience, skills, knowledge and technology capabilities will create opportunities to evolve current services and innovate new and additional service offerings to enhance the value chain of clients and the industry.

Q Finally, what does the rebrand mean for brokers?

We are not planning on making any significant changes to the system, procedures and workflow clients are used to when dealing with QSURE.

There has been confusion in the market in relation to where IGMS (now QSURE) used to fit in to the broader Insure Group. The new name and brand now brings clarity and comfort to brokers that any steps taken by the curator in Insure Group, has no bearing at all on QSURE.

I am convinced that the rebrand means more value, improved service, more innovation, and an even more enhanced client experience in doing business with QSURE. ●

PROFILE

ICON AIMS TO CHANGE the face of adviser distribution

Richard Bowman, Founder of ICON

Brad Toerien, CEO of ICON

ICON, a truly independent broker consulting force is due to make a very big and positive impact to the insurance landscape in South Africa.

Revolutionising the distribution model

Joining forces with **Richard Bowman, Founder of ICON**, insurance innovator, **Brad Toerien**, **CEO of ICON** hopes to revolutionise broker distribution as he heads up ICON's expansion as CEO. ICON is on a mission to build a tech-enabled distribution model that's more efficient for product providers, more effective for brokers, and far more valuable for customers. FAnews spoke to Brad, about the company and how it plans to revolutionise the broker distribution model.

Q Can you tell us about ICON and how it will make a wave of change in the industry?

ICON turns the traditional Broker Consultant model on its head, servicing advisers through fiercely independent consultants; shifting the conversation from pushing product to partnering in product and advice solutions with the ultimate goal of delivering the highest value to the client.

This, complimented by highly efficient digital engagement and support, will dramatically change the lives of the IFA. The result of the shift means that financial advisers are freed up to focus on their client relationships, growing their business, and serving their clients.

Q How do you plan to revolutionise the broker distribution model?

Currently, there is no truly independent broker consulting or FA distribution model in South Africa. Providers typically employ broker consultants, tied agents, or hold shares in joint outsourced broker-consultant forces. Therefore, we are establishing a completely new solution to an old problem, one that best serves the adviser and client.

We aim to halve the costs of distribution, and ultimately drive the value back to the adviser's client.

Q How will ICON strive to increase value added services to help advisers grow their practice while remaining competitive?

We recognize and empathise with the world in which the independent financial adviser is living today. With ongoing product changes, legislative changes, unintended consequences of RDR, and a plethora of advice risks, it's a brave role to play.

With ICON's smart tech-enabled business flows, product provider due diligence reports, client engagement tools, and best of breed product proposals; we are truly partnering with the entire end-to-end process of the adviser, rather than pushing one specific product. By having one consultant enabled by great tech, we are saving the adviser all the time they would be seeing multiple broker consultants. Ultimately, we are simplifying the complexity of an IFA's world, and helping them remain fiercely independent.

Q A one-stop-shop for risk and investment products… briefly tell us what some of the products on offer are?

We aim to take the risk out of risk advice by representing the best of breed product solutions offered by multiple product providers in the market. Through doing regular product audits and thorough due diligence, we'll give the adviser an objective client proposal based on product providers and investment solutions on our panel. We have a diverse set of partners that cover needs across life risk, estate planning, and investment and retirement planning. Partners currently include Sanlam, FMI, Liberty, Glacier, SEED, and Capital Legacy.

Q Why should brokers' approach or work with ICON?

We want to become the most valuable business partner to advisers, through partnering with the best of breed product providers for risk and investment solutions and putting the best solutions forward for clients. In doing this, we save advisers time, and our service efficiencies promote ease of business. This results in freed up capacity to allow advisers to work on what matters most; client relationships and business growth.

Q Any final words you wish to share with our readers?

Many industries have been disrupted with smarter, customer-centric solutions, and we believe the time is now to disrupt insurance distribution. We will hero independent advice through fiercely independent broker consultants and digitized processes to help the advisers' business model overcome industry and regulation challenges. ●

GENASYS UNVEILS NEW LOOK

Andre Symes, MD, Genasys showing of the new brand.

Genasys Technologies has undergone an external brand refresh as part of its strategy to continue the global expansion of its operations and further cement its place as a leading insurance technology provider in South Africa. FAnews had a chat with the founder and CEO, Steve Symes, about the new look and where the company are headed.

Our roots are deep

Symes started off by saying that the company has deep roots in the South African market but is still in the early phase of its global expansion. He added that "Based on the maturity of our processes and products, we are poised for rapid growth in other parts of the world. Genasys will continue to be an insurance technology provider that leverages the best of established and new entrants through the early adoption of Nocode and an Open API architecture, with the solidity of a proven platform."

The rebrand includes an overall new modern look: a redesign of its logo and the company website, strengthening and simplifying the company name by dropping "Technologies", to just be known as Genasys going forward, and consolidating its product offerings under the Genasys umbrella.

In line with the company moving to become a global role player in the insurance technology sector, Genasys is also merging its South African and UK websites, which now exists under the URL, www.genasystech.com.

Symes was excited to share that he believes "the Genasys refresh comes at a pivotal time for insurance around the world, as the pandemic has accelerated the adoption of insurance technology by the global insurance industry, who are in a rush to streamline their operations and stay relevant. Insurance technology providers are no different. We have to remain nimble, or agile, to stay on top of our game and offer our partners the tools to grow and streamline their processes and enhance their digital sales capabilities."

Customer centricity

South African-born Genasys has undergone various transformations in its 23 years of operations. The name Genasys is a portmanteau, a blend of the words "generating systems", but the company started doing business as Gen-A-Sys CC and the company's first product was called Customer of One, which emphasised the importance of customer centricity.

The company's first three customers were an insurer, a broker, and an Underwriting Management Agency (UMA). Based on the quick uptake by South African insurers, and Symes said that they knew then that Genasys had something different. "As our clients got bigger, our product and services had to keep up and mature rapidly, while we ensured that we did not lose the agility of a start-up," he added.

On being agile

Agile in its truest sense means to be able to move quickly and easily. In recent years, the technology sector has annexed the word to mean the frequent reassessment and adaptation of plans. Symes mentioned that he believes the company was agile before agile was even a thing.

"In the last two decades, we have implemented many changes in the company, some more noticeable than others, to continue delivering value to our partners. This latest move is another step in the evolution of Genasys, in which we aim to expand into new territories, gain market share in existing territories, and further enhance our partner agreements," Symes concluded. ●

Business interruption losses… THE UNINSURABLE EVENT

This article demonstrates, from first principles, that business interruption losses caused by government-ordered national lockdowns are conceptually and factually uninsurable.

IN PERSPECTIVE WITH PROF VIVIAN

On the other hand, the losses incurred through the outworking of a virus (Coronavirus for example), may or may not be insurable, and as things are turning out, are probably insurable.

Question of insurability

The usual approach to an insurance claim is to determine whether or not it falls within the purview of the insurance policy. That then becomes a question of the interpretation of the specific policy involved. This, however, presupposes that the risk itself is indeed insurable. Thus, for example, when an insured car is stolen, the insured submits a claim against a motor policy and the insurer pays out because the event falls within the purview of the policy, which reads that the insurer will indemnify the insured against loss or damage of the vehicle. Loss by theft is accepted to be loss in terms of the policy. For reasons explained below, the risk of this loss is also an insurable risk. So, in practice, little thought is given to the question of insurability.

Despite this, there is an underlying understanding that only insurable risks can be insured.

In the UK, for example, an insurer once undertook to pay a sum of money to the beneficiary of a life policy, if the insured person committed suicide, which is what happened. Despite the clear wording of the policy, the court ruled that the insurer could not pay out since at that time suicide was a crime, and as such, uninsurable. In addition, the court pointed out that where the insured himself brings about the insured event, that would not be insurable because insurance could not work if persons could take out a policy and then bring about the insured event. That risk is uninsurable. Thus, the wording of an insurance policy contract itself may not be conclusive. There is the fundamental question of insurability which must be addressed.

Almost always, the loss presented to an insurer as a claim is in fact insurable, so in practice, the issue of insurability seldom comes up for consideration.

Fundamental operation of insurance

To understand why losses caused by a national lockdown are uninsurable, it is necessary to understand how and why insurance works. It is often pointed out that a great deal of similarity exists between insurance and gambling. It is more correct to say that the mathematics of gambling and the mathematics of insurance are similar.

To understand why losses caused by a national lockdown are uninsurable, let us take a simple gamble, an example of a die which has six faces and equate a 'loss' to a throw of the die returning the face with three on it. In this event, 'the insurer' will pay R6. In order to pay the R6, the insurer charges each 'insured' R1. The insurer does not impose any restrictions; there can be as many threes as will appear. If the three is returned, the insured is entitled to the payout. Fortunately, in the modern age we can use a computer to play games, and thereby get a visual understanding of the outcomes, and thus, an understanding of why and when insurance works.

Table 1, below, indicates what happens if the 'insurer' has six, 60, 600, 6 000, 60 000, 600 000, 6 000 000 insureds on its books. Each 'insured' pays R1 pa and one out of every six insureds will be paid R6 when the 'loss' occurs.

Table 1: Loss ratio and the risks

Insureds	Expected Claims	Actual Claims	Variance	% Variance	Income	Expenditure	Profit/ (Loss)	Profit/Loss % Income	Claims' Ratio	Reserves 15% of Income	Technical Solvency
6	1	0	-1	-100.000	R6	R0	R6	100.000	0.000	R0.90	R6.90
60	10	8	-2	-20.000	R60	R48	R12	20.000	0.800	R9.00	R21.00
600	100	114	14	14.000	R600	R684	(R84)	(14.000)	1.140	R90.00	R6.00
6 000	1 000	1 029	29	2.900	R6 000	R6 174	(R174)	(2.900)	1.029	R900.00	R726.00
60 000	10 000	10 064	64	0.640	R60 000	R60 384	(R384)	(0.640)	1.006	R9 000.00	R8 616.00
600 000	100 000	100 526	526	0.526	R600 000	R603 156	(R3 156)	(0.526)	1.005	R90 000.00	R86 844.00
6 000 000	1 000 000	999 752	-248	-0.025	R6 000 000	R5 998 512	R1 488	0.025	1.000	R900 000.00	R901 488.00

There are five points Table 1 can teach us about insurance. In the usual debate involving insurance, these points, which should be clear, are often not understood.

1 The first point - It should be noted that the actual number of 'claims', despite the absence of restrictions, is very close to the expected number. That is the reason why insurance works. There is a variance which generally increases as the number of 'insureds' increases. In Table 1, the variance increases from -1 'claim' to a maximum of 526, and then unusally drops to -248. It should be noted that the percentage variance decreases from -100% to -0.025% as the number of 'insureds' increases. This is the outworking of the Law of Large Numbers. According to Investopedia, the Law of Large Numbers theorises that the average of a large number of the results closely mirrors the expected value, and that the percentage difference narrows as more results are introduced. In insurance, with a large number of policyholders, the actual loss per event tends to the expected loss per event.

This happens for two reasons. Firstly, the numbers are large, and secondly, for each event the appearance of the three is independent of other events. The appearance of three is uncorrelated. The actual outcome is incredibly close to the mathematically expected value, despite the absence of any restrictions. It is also noted that the variance can be either positive or negative. This is the outworking of the Central Limit Theorem. These two statistical theorems have important practical implications for insurance. As long as the numbers are large and loss events are independent of each other, the Law of Large Numbers operates, and insurers can accept the insurance of risks with confidence.

On the other hand, insurance cannot work with correlated risks. Sometimes losses are locally correlated, as in the case of floods or fires, in a particular area. This is the problem of accumulation. This risk can still be insured via the international reinsurance market. So, although the risk is accumulated locally, the risk tends to be uncorrelated in relation to the rest of the world. In such cases, reinsurance is of great value.

2 The second point - The losses are paid exclusively out of premiums, not out of reserves or capital. The reserves are accumulated over the lifetime of the insurer. The reserves cater for variations in the frequencies and severities of insurable losses.

3 The third point - The profits of risk portfolio are always quite modest. This is because the competition ensures profits are modest close, to zero. Profits or losses are, at the end of the accounting period, transferred to or funded from the reserves.

4 The fourth point - Because of the Law of Large Numbers, insurance can be priced reasonably accurately through the identification of costlessly obtainable risk characteristics. In this way, homogeneous risk pools are formed. These pools would be Perato optimal with little cross-substitution taking place within these pools. So, there is very little scope for some insureds within a pool to subsidize losses of other insureds with different risk characteristics. There is also very little scope for one risk pool to be so profitable it can subsidize unprofitable pools. So, for example, business interruption losses cannot be carried by the motor pool.

5 The fifth point - Insurers manage their risks by monitoring the pools claims' ratios, which are stable when the Law of Large Numbers holds. Insurers do not need to know much about the probability theory, the Law of Large Numbers or the Central Limit Theorem. For them, insurance works because it works. As long as their risks are in fact insurable – that is large numbers and uncorrelated risks, the claims' ratio method works. In the above table, the claims' ratio is one and stable after 6 000 'insureds'. Obviously, insurers need to cover their expenses, including the cost of capital, so their overall claims' ratio must always be less than one. In practice, some risks are rare and not significant to the risk pool. The manifestation of these risks would, however, be significant to the insured. The insurer often 'throws these risks in, free of charge'. They may well occur, but being rare and isolated, their appearance generally will have little impact on the claims' ratio but are of great benefit to the insured.

(Continued on p.26)

Business interruption losses... THE UNINSURABLE EVENT

(Continued from p.25)

Taking the above into consideration, insurers can insure the loss or damage to, for example, motor vehicles, factory fires, household burglaries, and so on, because the loss events are inter alia uncorrelated. The operation of the Law of Large Numbers results in a stable loss ratio and the risks can thus be insured. Losses from a pandemic without government intervention could also probably be insurable because losses, although increased, are not universal, and thus correlated.

Business interruption losses from a lockdown are conceptually uninsurable

The national lockdown caused all business interruption claims to be 100 per cent correlated. For all practical purposes, all businesses were ordered to shut down and all persons ordered to stay at home. Thus, all these businesses experienced business interruption losses at the same time. Business interruption losses became universal and correlated.

Reinsurance will also not help, particularly where the same situation applies around most of the world. Now, unlike table 1, instead of one in six claiming, six out of six will claim. If this is applied to the above example, then there is a 100% probability of claims.

The results are then shown in Table 2 below:

being paid, because of an unrelated business interruption pool which was compelled to run at a loss. It is interesting to note the 1943 Insurance Act allowed insurance business, not insurers, to be wound up. It is also for this reason the long term and short term insurers have to be separated from each other. Combined insurers are no longer permitted.

The ability of an insurer to survive, if lockdown losses are imposed on them, is dependent on the size of the losses compared to their reserves. A large insurer may survive, smaller insurers may not. This is because the losses being imposed are both uninsurable locally and internationally via reinsurance, the losses cannot be diversified through reinsurance.

The consequence of the historically unprecedented shutting down of economies was to cause billions of Rands in business interruption losses. These correlated losses are not insurable. They have no place in conventional insurance markets.

The question now becomes, did insurers inadvertently bind themselves by contract to insure risks which are clearly conceptually uninsurable? To answer this question in detail falls outside the scope of this article. But the courts need to determine what was the true consensus *ad idem* between the insurer and the insured, at the time the contract was entered into. What is clear is that no insurer would

Table 2

Insureds	Expected Claims	Actual Claims	Variance	% Variance	Income statement: Income	Income statement: Expenditure	Profit/ (Loss)	Profit/Loss % Income	Claims' Ratio	Reserves 15% of Income	Technical Solvency
6	1	6	5	500	R6	R36	(R30)	(500)	6	R0.90	(R29.10)
60	10	60	50	500	R60	R360	(R300)	(500)	6	R9.00	(R291.00)
600	100	600	500	500	R600	R3 600	(R3 000)	(500)	6	R90.00	(R2 910.00)
6 000	1 000	6 000	5 000	500	R6 000	R36 000	(R30 000)	(500)	6	R900.00	(R29 100.00)
60 000	10 000	60 000	50 000	500	R60 000	R360 000	(R300 000)	(500)	6	R9 000.00	(R291 000.00)
600 000	100 000	600 000	500 000	500	R600 000	R3 600 000	(R3 000 000)	(500)	6	R90 000.00	(R2 910 000.00)
6 000 000	1 000 000	6 000 000	5 000 000	500	R6 000 000	R36 000 000	(R30 000 000)	(500)	6	R900 000.00	(R29 100 000.00)

Instead of breaking even on the underwriting account, an underwriting loss of 500% of the premium income, is suffered. The claims' ratio, instead of being one, is six. This loss cannot be covered by the premiums but would have to be recovered either from reinsurers or the insurer's reserves. Reinsurers cannot help. The world's now correlated interruption losses cannot be transferred to the reinsurers.

In the table above, the losses far exceed the insurers reserves, and the pool runs at a severe loss. It is unlikely that the losses will be recovered from the reinsurers since the reinsurers now become exposed to all the (now correlated) claims from around the world.

The losses may be sufficient to cause the insolvency of other Perato optimum pools. So, motor losses or fire losses will not be paid. A person who has insured his house may wonder why his claim is not

(or could) agree to insure what is an historically unprecedented man-made event causing correlated losses. That is not how conventional insurance works. If "insurance" is possible, a very special form of insurance would be needed to achieve that.

Professor Robert W Vivian
Finance & Insurance
University of the
Witwatersrand

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SOMETHING'S PHISHY

CPD ARTICLE

SHA CLAIMS CORNER

In July 2019, City Power Johannesburg was hit with a ransomware attack resulting in the utility being left operationally crippled, and millions of South Africans literally left in the dark.

This is just one example of how cyber criminals are able to operate in the borderless and sometimes untraceable environment offered by the Internet.

As society becomes even more connected, computers and digital innovations have expanded opportunities for criminals to target businesses with anything from simple e-mail phishing scams, to total Distributed Denial of Service (DDoS) attacks - as was the case for City Power.

The consequences of cybercrime on businesses can be devastating and can have lasting effects; it can lead to significant financial loss, reputational damage and operational disruption.

Everyone is fair game

According to the 2018 Allianz Risk Barometer, cybercrime is the highest-ranking threat to South African businesses, with an estimated 32% of all companies having fallen victim to some sort of a breach.

The risk of cybercrime has been exacerbated by the increased reliance on the digital environment, with more people working remotely, coupled with the risks associated with conducting business electronically.

Cyber criminals do not discriminate between large corporates and small businesses – everyone is fair game. Those entities that have large databases of personal information, confidential records, and public and financial institutions, usually have a higher propensity of being targeted. If this information is unlawfully appropriated and ends up in the wrong hands, this could result in a business suffering significant damage and even facing possible litigation.

In respect of coverage

From an insurance perspective, traditional policies do not automatically provide the type of coverage needed in an increasingly digital world. There are specific cyber liability policies and addendums available that provide the necessary extensions in respect of coverage. A risk assessment, on a case-by-case basis, considering the nature of the business of the insured and potential exposure, should be conducted. The existing risk management and due diligence processes of the insured must align to industry standards in order to meet the requirement of what would be reasonably expected.

Ordinary anti-virus programmes and firewalls are no longer sufficient on their own in defence of cyber attacks. Ongoing training and awareness initiatives, together with a robust response plan, should be implemented in a business's risk framework to cater for any eventuality. It is also necessary to back-up operating systems and be wary of using unlicensed software programmes.

These measures are imperative in negating possible negligence which may arise in the instance of a claim. During an assessment, information relating to the insured's due diligence processes and proof of dissemination to staff may be requested.

Cyber liability insurance

Cyber liability insurance can protect clients from a number of first-party, third-party and additional costs that can occur following a cyber attack. Many small businesses do not comprehend the impact that cyber threats can have on their organisations, until cyber criminals gain access and it is too late. In many cases, business owners do not know what is covered by their insurance policy until after the claim is made. Financial advisers should be mindful of the aforesaid, in order to avoid complaints based on failure to provide proper coverage advice.

Cyber criminals are working on new techniques to infiltrate the security measures of established organisations, accessing everything from Intellectual Property (IP) to individual customer information — they are doing this so that they can cause damage, disrupt sensitive data and steal IP. Every day, their attacks become more sophisticated and harder to defeat. Because of this ongoing development, it is difficult to determine exactly what kind of threats will emerge. Businesses should, therefore, always be in a state of readiness, this includes ensuring proper insurance is in place as part of a business-wide approach and not just limited to a technology risk.

Sadiyah Mather
Senior Claims Handler
(Professional Indemnity)
SHA

Good people, UNETHICAL BEHAVIOUR...

When we think of unethical behaviour and the elements that contribute to unethical behaviour, we often have an image of criminals or a bad person in mind.

Yet, many can attest to the fact that often the person accused of unethical behaviour is not necessarily a criminal person, but an ordinary citizen pushed to the limits by circumstance and fear. The current pandemic has highlighted the levels of inequality and unemployment figures and poverty, meaning that more people are driven to a state of fear and desperation. Recently published crime stats confirm this in the increase of opportunistic crime, general fraud, and specifically, insurance fraud.

It is also true, however, that most unethical behaviour goes undetected and unreported. So, what can we do about it?

Three key elements

The three key elements that contribute to unethical behaviour are:

- A need for something or pressure to succeed in something;
- Opportunity; and
- Rationalisation.

The element of need is not necessarily driven by greed, but sometimes the social pressure of responsibility and not being able to obtain the means in an ethical way for whatever reason. It is often driven by good intensions, but there is a substantial lack in the ability to obtain the resources required to ethically provide and fulfil the need.

Rationalisation grows over time. The longer the need and resources are not being fulfilled, the more the desperation grows, and we start to rationalise our actions. We downplay the unethical action and make it acceptable with thoughts like - it is not a big deal, no one will notice, people will understand, etc.

It is important to note that a person does not start out with the intention of being unethical.

What can we do about it?

Combatting unethical behaviour, beyond relying on a person's integrity and conscious discipline, can be facilitated by a support system in a social or work environment.

Having a conscious awareness of how people around you are coping is a good starting point, and would include the following:

1 **Recognise warning signs.** Often, when unethical behaviour is exposed, others will comment about the things they saw or heard that hinted toward warning signs. If we are aware, we could possibly assist and prevent the situation from getting worse and avoid unethical behaviour entirely. As organisations, we also need to be aware of the workload and pressure we place on individuals, or the manner in which we manage workflow and our staff, to ensure that we have not created an environment that makes it impossible for people to realistically perform their daily functions. This is also true for team dynamics that need to work well together, to be able to present their views and be heard by others, with matters amicably resolved.

2 **Maintaining a safe environment to speak up.** Our work environment should be a place where we can grow and thrive, which is evident by people being able to speak up and be heard. This includes an environment where the same people who speak up are willing to listen to others.

3 **Keeping people accountable.** Minimising the opportunity for unethical behaviour means having robust systems in place that not only monitor the usage of resources, but also hold people accountable for their time and service delivery, in an environment where service deliverables are realistic and known.

4 **Valuing honesty.** When a person is supported in their work and social environment, they feel valued and are empowered to seek advice if they are really stuck and have someone approachable to speak with.

5 **Leading by example.** Having management systems in place will only be a burden to someone if they have something to hide, or if they are being unduly pressured by an unreasonable workload or management.

A safe environment for people to thrive

We cannot control what decisions people will make, but we can ensure that we provide a safe environment for people to thrive and prevent unethical behaviour.

Charmaine Koch
Independent Consultant

WHERE IS REGULATION HEADED?

With major changes ahead for the regulatory landscape, **FAnews** spoke to **Caroline Da Silva, the Executive for Regulatory Policy at the Financial Sector Conduct Authority (FSCA)** about where regulation is heading in the next few months.

Why insurers need to be proactive

"There are currently significant developments underway in respect of the conduct of business regulatory frameworks. These developments will transform the current conduct of business regulatory framework landscape, and regulatory change invariably has a significant impact on regulated financial institutions," said Da Silva.

"Insurers should, therefore, be aware of these developments and start preparing for change, in order to minimise the disruption that these changes will cause once given effect to," she added.

What to expect

Although there are some insurance regulatory framework developments that will take place during the course of 2020 and 2021, Da Silva said it is important to take a step back and take a holistic look at how the conduct of business regulatory framework will be evolving over the course of the next couple of years.

"Central to this is the Conduct of Financial Institutions (COFI) Bill, which aims to provide a consolidated, comprehensive and consistent regulatory framework for the conduct of financial institutions, and which will replace all of the current laws regulating the conduct of business (including the Short Term and Long Term Insurance Act and Financial Advisory and Intermediary Services (FAIS) Act)," she said.

The COFI Bill, Da Silva said, aims to standardise conduct requirements across the financial sector and will bring about key changes in the approach to regulating the financial sector, such as:

- An activity-based approach to licensing;
- A much greater emphasis on governance and culture;
- A drive towards outcomes-focused and principle-based requirements, which will support a proportional and more effective risk-based approach to supervision; and
- A dedicated focus on transformation and inclusion.

"The COFI Bill is currently under development, but once promulgated, it will have an immediate impact on financial institutions. For example, all financial institutions will have to obtain a licence under the COFI Bill, and this will entail a migration of all currently FSCA licensed institutions into the COFI Bill framework (similar to what happened to insurers when they were migrated from the Long and Short Term Insurance Acts into the Insurance Act framework). Financial institutions will also have to adapt to the outcomes-focused and principle-based approach envisaged in the COFI Bill and can expect the publication of various new pieces of draft legislation (conduct standards) under the COFI Bill," added Da Silva.

Da Silva said there is also a very strong drive within the FSCA to start harmonising regulatory requirements across the industry. This is being done in anticipation of the COFI Bill, and to ensure the regulatory framework drives more consistent and positive outcomes for customers.

"With regards to insurance specific regulatory framework developments, it might be noted that during 2020 further draft amendments to the Regulations and Policyholders Protection Rules (PPRs) under both the Short and Long Term Insurance Acts will be published for comment. These amendments will be aimed at a variety of things, including giving effect to proposals emanating from the Retail Distribution Review (RDR), further refining the regulatory framework governing premium collection, introducing certain requirements relating to outsourcing, and further strengthening the conduct insurance regulatory framework, and closing gaps identified in the Regulations and PPRs," she said.

Where should the immediate focus be?

The COFI Bill, Da Silva said, will place a much greater emphasis on governance and culture. To further illustrate how governance and culture is becoming a key focus point for financial sector regulators, please note that last year the FSCA and Prudential Authority established a Joint Governance Working Group whose aim is to develop a consolidated legal framework for culture and governance that applies across the financial sector (i.e. to all entities regulated by the FSCA and PA).

"Once this framework has been developed, the intention is to issue the framework as a Joint Standard. Corporate culture especially, is a growing focus area and institutions would be well advised to start focusing on developing a tangible, effective and customer driven corporate culture," she concluded. ●

COMPLIANCE... the rules of the game

Compliance is an extremely important aspect of every business. And, although it is often seen as a cost centre, it has such a significant impact on the organisation's growth goals and reputation that compliance should rather be viewed as a revenue protector. All businesses need to comply with legislation. Those are the rules of the game.

I like to use a sports analogy when talking about compliance. When you play any team sport there is a set of rules that perform the same function as legislation does in business.

To play the game, you need to comply with those rules and the coach must have a good understanding of them in order to coach the team. If a player in the match breaks one of those rules, they will get a yellow or red card and get sent off the field. The consequence is that their team potentially loses. That is exactly how it works with compliance in business – you cannot win if you break the rules.

A compliance culture

From the board to the CEO, to the managers and the employees, everyone needs to have a good understanding of that legislation to compete in the industry. This is what we refer to as a compliance culture within an organisation. With that understanding, compliance becomes an easier task.

While you are on the field conducting business and at risk of getting that yellow card, compliance does the necessary checks and balances to ensure that everyone understands what is expected of them and ensuring that no one gets sent off. Compliance protects the team and the company from incurring fines and penalties, and most of all, reputational damage. With this type of culture and attitude, it is not difficult to build the regulatory requirements into business processes that ensure that staff are performing in accordance with that legislation.

The compliance components

Compliance used to be a checkbox exercise. Even the regulator conducted onsite visits using checklists that needed to be completed, and if you checked the box, then you were deemed to be compliant. This process has changed, and the regulator now has a supervisory function. This ensures that an organisation's processes are compliant, and it is performing accordingly based on the size and complexity of the business.

Compliance is, therefore, part of the business and not just a mandatory checkbox exercise. When business processes are designed and implemented, they need to actively incorporate the compliance components. These components need to be automated so that it is not a case of manually checking whether staff or processes are doing the things that they are supposed to do.

Strong governance and compliance

There is a significant need to shift our mindset from "compliance is a cost centre" to "compliance is a revenue protector". Of course, compliance does cost money as you need to employ skilled and experienced staff to ensure your business is compliant.

However, this cost is inadvertently passed on to the customer. By purchasing a financial product, customers buy into the associated compliance costs that make financial products more expensive. But financial institutions are built on trust and from a customer point of view, compliance ensures the customer is protected and allows for greater peace of mind.

Studies have found that companies with strong governance and compliance cultures perform better than their counterparts. This is no different when we look at the financial services industry. An organisation's compliance is highly dependent on the quality of its leadership, its governance and its management teams. And as a result, its risk management and internal control systems give it a competitive edge.

Shareholders and consumers alike, can see compliance as a result of good leadership and a strong belief system.

This type of culture and approach within an organisation means compliance is not considered a burden but something that has a significant and positive impact on the business.

Walter van der Merwe
CEO
Fedgroup Life

KNOWLEDGE AND SKILLS for tomorrow's teams

Many organisations want to operationalise their risk, but they first have to solve the issue of what the role requires. And, what is it that the future generation of risk managers need?

Today's literature on risk and compliance roles highlights three areas: soft skills, regulatory information and technical skills.

The soft skill requirement

Soft skills are self-explanatory, especially if you are following the trends of integrated risk. Such skills include leadership, consensus-building and relationships, because risk management at a strategic and operational level needs to be present and integrated across an organisation.

So, it means that you require people on risk and compliance teams who know how to build bridges. Since many risk-based professions lack clear career paths, such skills tend to reside elsewhere. You should draw different talented individuals into the risk area and seek to train existing risk professionals with soft skills.

Compliance and regulatory adherence

Information demands will grow. Thomson Reuters' Cost of Compliance 2019 report anticipates that the amount of regulatory information published by regulators and exchanges will increase substantially. This glut of new requirements will make compliance and regulatory adherence much tougher - and it's already not a cakewalk. Anyone who has completed a project related to standards or compliance knows it takes an unusual amount of time and resources.

Accessing and managing Governance, Risk and Compliance (GRC) information can be much more efficient, inspiring a range of services dedicated to providing such information in context and various forms, such as legalese and plain language. Using the services of companies, saves an incredible amount of time - not only for compliance teams but anyone interested in how compliance affects what they do.

A grip on modern technology

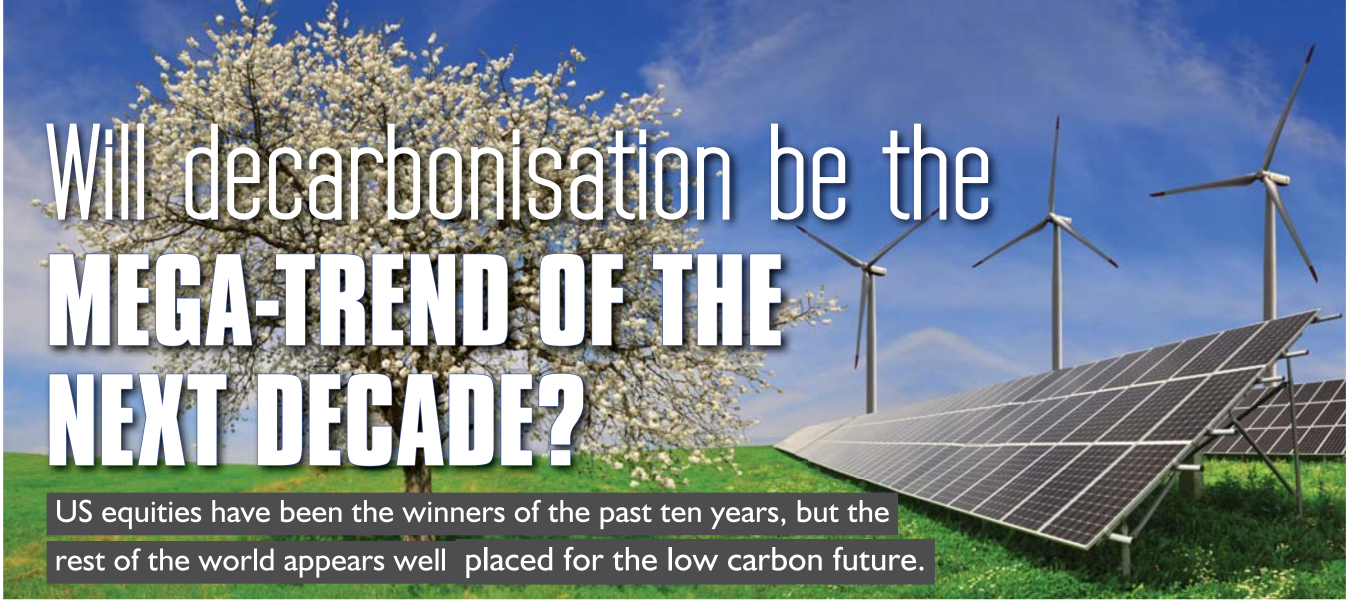
Technology may be last on this list. Yet, outside of global financial turmoil, it has arguably had the most significant effect on how we approach GRC today. Modern compliance and regulations are about integrated practices - bringing the compliance mountain to the business. These activities are not exclusive to risk teams anymore - modern software can extend GRC functions into all parts of the company and make them intuitively part of relevant processes as well.

It is a trend that had begun in the early 2000s with Integrated Risk Management (IRM) solutions and since exploded in access and functionality through cloud platforms. There is even a valid argument that by modernising GRC in an organisation, you build a foundation for systematically digitising all of its processes.

Risk managers thus need some technical chops. They do not need to be coders - there are many low-code and no-code approaches that help them match their vision with a particular technology service. But they need to understand the value and changes that come with modern digital systems, such as how integration would work and why data-driven environments are crucial. To that point, the majority of dynamic risk managers rely on artificial intelligence (PwC State of Compliance). So, risk managers should be trained to understand the fundamentals of modern technology and give guidance to technology leaders such as the CIO.

Soft skills, access to knowledge and a grip on modern technology: these are the crucial skills a modern risk professional needs. It speaks to a role no longer stuck in a corner office: the need for strategic and operational GRC has made strategic risk management a pervasive force behind modern companies (what we call "sense and respond" risk management). This role won't be defined in business schools. It is up to businesses to make risk work best for them, and attractive to talented individuals, by delivering on the three core skills.

Sean Pyott
MD
thryve



Will decarbonisation be the MEGA-TREND OF THE NEXT DECADE?

US equities have been the winners of the past ten years, but the rest of the world appears well placed for the low carbon future.

As climate change moves up the political and social agenda, decarbonisation could be the mega-trend of the next decade.

Who are the major wind and solar players?

The wind energy industry is dominated globally by a handful of companies. Only one of the major manufacturers – GE – is a US firm. The biggest global operators are Denmark's Vestas Wind and the German-Spanish group Siemens Gamesa. Chinese firms tend to have a strong focus on their domestic market.

Meanwhile, the solar industry is heavily dominated by Chinese firms. First Solar, a US company, is one of the only notable non-Chinese firms in the industry.

What about electric vehicles?

When it comes to pure electric vehicles, US-listed Tesla is the brand name everyone knows. It currently leads the way in terms of sales of battery electric vehicles (BEVs), as opposed to hybrids. Germany's Volkswagen has high ambitions as well as the Renault/Nissan/Mitsubishi alliance – producers of the Leaf – and China's Geely.

From a decarbonisation point of view, the important part of a battery electric vehicle is the battery. The battery supply chain is dominated by Asian companies such as South Korea's LG Chem and Samsung SDI, Japan's Panasonic, and CATL in China.

US and European car firms may try to source more batteries locally as they ramp up production of BEVs, but for now the technical know-how resides with these Asian companies.

Is hydrogen the new frontier?

Much of the conversation around decarbonisation focuses on the use of electricity from renewable sources. However, hydrogen could be an alternative energy source for industries that are hard to decarbonise using electricity.

Hydrogen can be produced from fossil fuels with the emissions from the process captured via carbon capture and storage (CCS) technologies. It can also be produced via renewable power, and over the coming five to ten years this renewable (emission free) derived hydrogen is likely to become cheaper than fossil fuel hydrogen.

Hydrogen can be used to store surplus power produced via renewable sources. This power can then be used at a time when wind and solar are not producing electricity, smoothing out the peaks and troughs of renewables production.

Japan and Europe are currently the leaders in developing hydrogen power. Notable companies include Japanese firms Toshiba, Honda and Asahi Kasei, and European companies such as Siemens, Thyssen, NEL and ITM.

Decarbonisation boosted by political will

Europe has often been on the front foot when it comes to recognising the climate challenge on the political agenda. Asian countries are fast catching up in this regard though too.

The same urgency to tackle climate change and switch to renewable power sources has so far been lacking in the US. There have been some ambitious recent decarbonisation policies and ambitions from the likes of Microsoft and Amazon. But in general, European companies are much more focused on decarbonising their own operations and supply chains.

There is also a high proportion of listed companies in developed Asia, Latin America, and Emerging Europe committed to science based climate targets. European companies appear further down the path of optimising their operations for a rapid transition to a low carbon economy, something that could help them competitively as carbon emissions become a more significant liability in future.

As we go into a phase where carbon taxes and carbon prices rise are likely to rise globally to address climate change, this head-start in reducing their own emissions will become a more valuable competitive and cost advantage.

The US stock market dominance of the past decade has largely been thanks to the strong performance of a handful of major stocks in a few key sectors. The FAANGs (Facebook, Amazon, Apple, Netflix, Google) have led the way.

These fantastic companies will likely continue to be leaders in their fields. However, with momentum growing around the need for a low carbon future, we think stock market investors should pay heed to the leadership role that non-US companies are taking in decarbonisation.

Simon Webber
Portfolio Manager
Schroders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CPD ARTICLE

THE RIDER and the elephant

A famous analogy used to illustrate the trumping power of emotion over reason in decision-making goes like this: a rider on an elephant is unable to control or influence the animal if the animal has made up its mind. The rider represents reason, while the elephant represents emotion.

Financial advisers can play a key role in helping their clients tame the elephant when financial decisions need to be made, by using "nudges", or tools, which have their roots in neuroscience.

This was one of the topics discussed by **Simon Russell, Founder and Director of Behavioural Finance Australia**, at the Allan Gray Offshore Exchange.

Sub-conscious decision biases

"You can tell your clients about their investment mistakes by presenting the facts. For example, you can talk about the implications of switching to cash, how time in the market is better than timing the market, or why you should ignore the short-term performance of the investment manager, and so on. However, the evidence shows that this typically does not do much to alter behaviour," said Russell.

"A range of approaches that target sub-conscious decision biases can have a better, long-term impact on their investment decisions and outcomes," he said.

Russell added that loss aversion is a particularly painful process for advice clients, but there are tools that can help advisers deal effectively with this issue. Below are the top takeaways, suggested by Russell, for advisers to help clients make better decisions.

Put the long-term first

"Financial advisers will sometimes remind their clients who are investing for retirement to think long-term, but then struggle to understand why the clients respond to short-term volatility. A simple thing to do in this instance is to share communication around the long-term context, before talking about the short-term implications of events on their portfolio," said Russell.

Russell noted that clients tend to feel the pain of a loss twice as much as the thrill of a gain.

"Disliking loss is not irrational. The problem is that if clients are overly loss averse this may get in the way of them making the right long-term choices. Reference points are a powerful tool in reframing the conversations with clients to focus on the long-term," he explained.

"A painful short-term loss can be turned into a gain if you use a long-term reference point to illustrate this. If it is a loss in absolute terms, perhaps it is a gain against the benchmark used," he added.

Charts should tell the right story

Similarly, Russell discussed research that demonstrated how clients tend to anchor on the first numbers they see in a table read from left to right. Rather than show numbers chronologically, he suggests putting the long-term numbers first. Not only will this highlight the long-term track record, it also places less emphasis on the short-term numbers.

While charts can be helpful, sometimes by changing the time frame, header, colour or other call outs, clients' perspective can change.

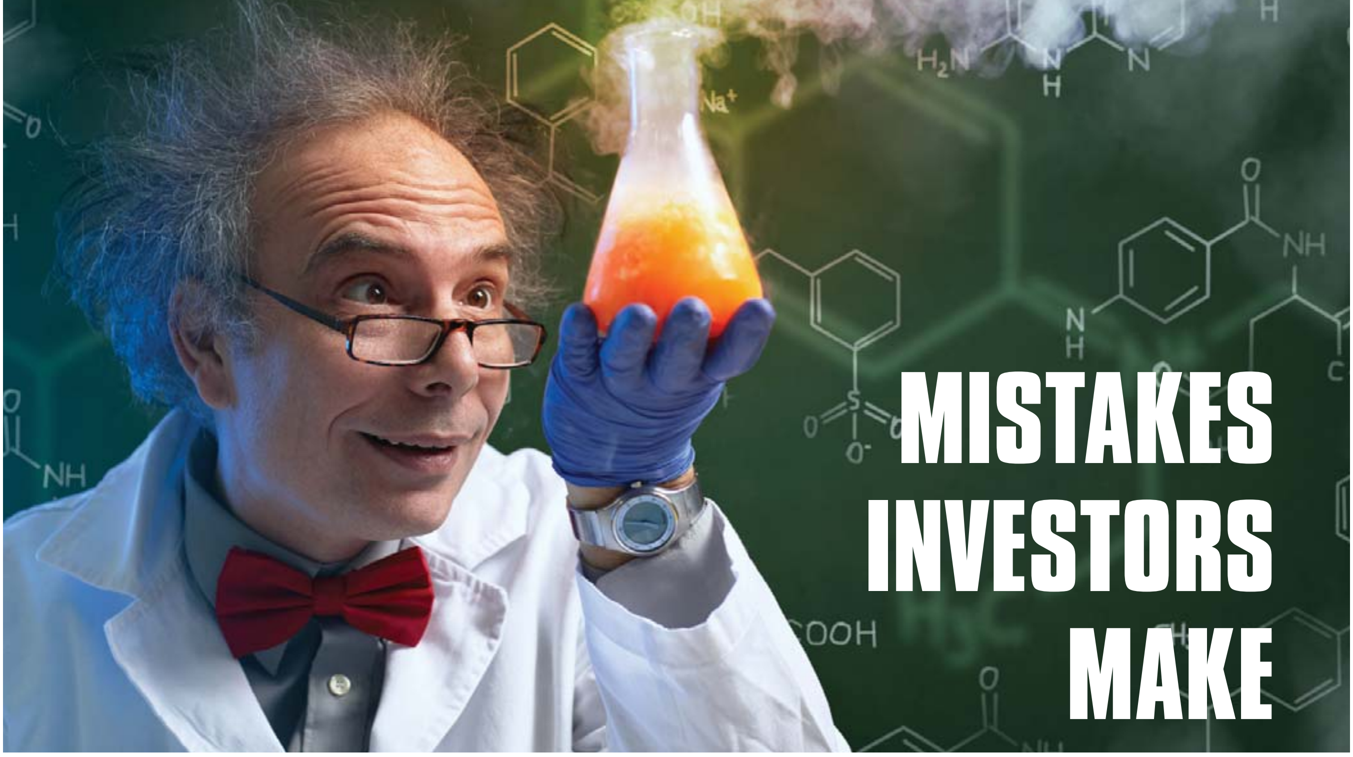
"Clients are cognitively lazy and are always looking for simple, decision-making short-cuts. Make sure that the story you are telling with your charts aligns with their best interests," said Russell.

Use broader client-centric measures

To reduce the pain of losses for a client, consider using a broader frame. "A narrow frame is, for example, a stock's share price movement on a day. A broader frame, such as one that incorporates multiple asset classes, or longer time frames, mitigates clients' subjective experience of losses. The losses are still there, but clients do not focus on them as much," added Russell.

Russell said that these principles can be applied to client conversations, investment reports, records of advice, the information put on advisers' websites and investment policy statements.

"Using any of these tools or strategies must be done with the clients' best interests at heart. Aligning with your clients' inherent behavioural biases will lead to better decisions over the long-term and, ultimately, improve their investment outcomes," concluded Russell.



MISTAKES INVESTORS MAKE

In South Africa, many people do not understand the true value a financial adviser can add. They often complain about the fees they must pay to the adviser, without appreciating the complex and ever-changing environment that the adviser must traverse on a daily basis.

The sustained market volatility and uncertain economic outlook experienced over 2020, in terms of the Covid-19 Pandemic, serves as a stark reminder of the value of working with a financial adviser.

Emotional responses

Understanding our cognitive biases can lead to better decision making, which is fundamental, in my view, to lowering risk and improving investment returns over time.

Interestingly, financial advisers in the European and American markets use behavioural coaching, which is not yet as prevalent in South Africa. In the US, the biggest value that a financial adviser provides is as a behaviour coach.

As humans, we are vulnerable to behavioural biases - those emotional responses to market movements that have the potential to significantly impact our portfolios. Many of us were likely tempted to take our money out of the equity markets when they began to drop, as the news of COVID-19 worsened. But doing so would have meant selling at a potential low point in the market, contrary to the tenet of successful investing: “buy low, sell high”.

As we have often seen, severe market declines are eventually followed by market rallies. A financial adviser can help mitigate emotional responses to the volatility, keeping clients invested and on track with their plans.

Making any investment decision based on emotion is one of the biggest behavioural mistakes. This can be easily avoided with the addition of a financial adviser.

Circle of competence

Other mistakes investors make include, not staying within their circle of competence. A key part of our ‘circle of competence’ is to concentrate our investments in areas that exhibit a high degree of predictability, and to be wary of areas that are highly complex or uncertain. This often indicates that investors do not know enough about specific topics or do not have enough information to make an informed decision.

Having a professional who can act as sounding board can give an investor additional insights that they may have missed. For example, investors are generally hard-wired to avoid losses and gravitate towards the positive side of an investment, rather than analysing both aspects to ensure that they have a full 360-degree view and thorough understanding. The age-old saying always comes to mind “if it’s too good to be true, it probably is.” There are many online and accessible portals available for investors to gain access to information around investment opportunities. While this is favourable, it can also result in an investor becoming overconfident, focusing too much on daily movements rather than taking a long-term position.

Behavioural coaching

Financial advisers can balance investors emotions and guide them through their investment journey while steering away from ill-informed decision making. Behavioural coaching methods can help investors achieve their investment goals.

I believe that behavioural coaching will become an additional offering that financial advisers look to provide. Investors can avoid many of these mistakes with the help of a financial adviser that is equipped with the right experience, knowledge, and expertise which offers better insights into investment strategies, measuring, and distinguishing opportunity costs. While also providing the investor access to many different and varied investment options, even when markets are calm, or steadily rising as they had been doing for several years, financial advisers provide a variety of necessary services.

These days trust is a commodity in South Africa, and so, finding a financial adviser who has a proven track record is a must, as well as ensuring that they are independent, focusing on giving the best advice in the interests of the client at all times. But remember, like any successful relationship, a relationship with a trusted financial adviser requires regular engagement - on both sides.

Robert Taylor
Chief Distribution Officer
Fedgroup

CPD ARTICLE

THE FOUR MOST DANGEROUS WORDS IN INVESTING

The first half of the year was a rollercoaster ride for investors. In March, there was a sea of red on local and global markets as fears over COVID-19 spread.

Investing is, by nature, an optimistic endeavour and as markets fell sharply messages, emails and calls to and from financial advisers were discussing moving of money to safer havens. However, markets recovered, and at the time of writing the Johannesburg Stock Exchange (JSE) is back to similar levels seen last time this year.

Losing sight of the big picture

What does this almost inevitable uncertainty mean for clients who were looking to financial advisers for a more predictable financial outcome? Or, to investors who are saving for retirement, children's education or a rainy day?

The short answer is, absolutely nothing. As investors, we lose sight of the big picture and develop an unhealthy fixation on what is directly in front of us, resulting in flawed decision-making.

Behavioural scientists refer to this phenomenon as 'myopic loss aversion'. The term 'myopic' refers to being short-sighted; we create an illusion of volatility when we constantly evaluate investment performance. Simply put, ten-year volatility and ten-day volatility are vastly different.

Behaviour tax on investments

A Momentum Investments white paper, published in 2019, demonstrated that the largest 'behaviour tax' incurred by investors happens during volatile markets. A behaviour tax is a lower investment return as a result of an investor's behaviour, like switching funds because markets are falling or changing investment strategies without a sound financial plan.

The research showed that some investors cost themselves as much as 2.6% per year simply by making investment decisions to ease the emotional tension of markets. A market shock causes investors to move to safer instruments and more predictable returns. The trick, however, is that these same investors sit on the side-lines for way too long before getting back into markets.

They, therefore, miss the market growth before they are comfortable enough to dip their feet back into investments linked to market returns. As markets grow again, as they inevitably will, these same investors incur a growing behaviour tax as they are invested in the wrong place at the right time. This perpetuates the cycle of selling low and buying high.

Sadly, this time was no different as investors who switched to more conservative funds during the market panic served only once again to lock in losses and a behaviour tax on their investments.

Seeking solace in constants

In times of uncertainty, it is worth taking a deep breath, reflecting and collecting your thoughts – taking a healthy dose of reality and seeking solace in constants – the things we know that have been observed repeatedly. From a financial physics perspective, Siegel's constant is one of these. Over the long-term (1900 – 2009), the real return of stocks is average approximately 6.5% per year, plus costs across 19 developed market economies (including South Africa).

Another constant is 'mean reversion', which are asset prices reverting to their long-term average returns. Asset allocation depends on diversification (investing in various geographies, markets and economies), and creates value through rebalancing, which does not work without mean reversion (selling strong performing assets in anticipation that underperforming assets will return to favour). Having a well-diversified investment portfolio that is geared and managed to achieve your client's investment goals – allowing financial physics to do the rest – remains a sound investment strategy in all markets.

The only action you should be taking is making sure that your clients are invested in a fund or portfolio matched to their investment goals.

So, what are the four most dangerous words in investing? This time it's different.

Paul Nixon
Head of technical Marketing and Behavioural Finance
Momentum Investments

The week ending 18 September 2020 provided plenty of insight into interest rate trends, both domestically and abroad. The South African Reserve Bank left the repo rate unchanged at 3.5%, signalling that it had probably cut rates as far as possible given the current economic backdrop and benign domestic inflation outlook. Economists in the United Sates, meanwhile, are wrestling with how to create price inflation as economic depression looms.

Looming economic depression

"There is enough evidence in the post-pandemic makeup to suggest that we should be paying close attention to a depression scenario," said Dr Adrian Saville, CE at Cannon Asset Managers. He listed growing consumer debt thanks to easy money; a dive in the US Federal funds rate; a surge in unemployment; deepening fiscal deficits; and the risk of a deflationary price spiral as factors in support of his view. He added that tried and tested monetary policy interventions stop working during periods of economic depression. And that means governments may have to inflate their way out of depression.

CPD ARTICLE

ASSET ALLOCATION in an uncertain inflation environment

The US Federal Reserve, which forecasts a slow return to inflation in the US, rising to 2% by 2023, has already shunned conventional responses to fight it. Schroders, a global asset manager, said that the Fed has reached the point of maximum monetary policy stimulus because it will not entertain negative interest rates. And that is bad news for South African investors who need to keep a portion of their offshore investments in fixed income or similar conservative investments. "Offshore investors [already] face nominal interest rates near zero and real interest rates below zero;" observed Dr Saville.

Matching asset allocation and return

Cannon Asset Managers believes in portfolio diversification across asset classes, geographies, currencies and industries as the best strategy to manage risk during difficult times. Their view is echoed by Morningstar Investment Management, who added that allocating capital to different asset classes should be done with consideration for the different return drivers in each class. Eugene Visagie, Client Portfolio Manager at Morningstar South Africa, said that the main aim of diversification was to decrease a portfolio's overall volatility without reducing its potential return.

Diversifying into offshore assets makes sense for local investors; but the current market conditions introduce new risks, especially for income-focused investors. An analyst from Blackrock, commenting during a recent Satrix Fixed Income ETF presentation, said there was a tug of war underway between inflation and deflation in certain developed economies. "In the short-term we are dealing with massive deflationary demand shocks as a result of the pandemic; and we are likely to see some downside in inflation data," he said. But inflationary pressures are building in the US, with the July 2020 CPI number showing the largest month-on-month increase in prices since the early 1990s. Higher inflation is inevitable under the twin forces of rising post-pandemic demand and ongoing financial stimulus from central banks and governments.

Advocating a holistic approach

How should South African investors approach asset allocation in this uncertain environment? The first step, according to Visagie, is to conduct a holistic assessment of your client's financial portfolio. You must determine how much of their pre-retirement portfolios already have offshore exposure. Regulation 28 compliant funds can take as much as 30% offshore; but the locally invested equity component could be heavily weighted offshore too. By way of example, almost 70% of the earnings generated by JSE Top 40 shares are earned offshore.

"Investors should strive for broad diversification and carefully assess the risk and reward characteristics that competing assets introduce to an investment portfolio," conclude Visagie. His sentiment overlaps with that of Saville, who concluded: "Diversification means exposure to gold and growth assets, not gold or growth assets; it means China and the US, not China or the US; and it means healthcare and resource stocks, not healthcare or resource stocks".

Gareth Stokes
Stokes Media

DO FUNDAMENTALS STILL MATTER?

The immediate impact of the COVID-19 pandemic and government responses has been significant. Looking at the US, as an example, the Gross Domestic Product (GDP) was down just under 9.5% in the second quarter - the single-worst contraction in the history of the US; even worse than during the Great Depression. US unemployment has swung from generational lows to generational highs.

Similarly, South Africa's GDP contracted 16.4% in the second quarter. At the end of 2019, our official unemployment rate was 29.1%, and this number is forecast to grow to 35%.

Economic reality and valuations

The global economy is in the doldrums, and we don't know how long the virus is going to be with us, if there will be a second wave and future lockdowns, or how soon a vaccine may be proven effective. Yet, world markets have shaken off the economic reality and these fears. From the bottom in late March, both the MSCI World Index and S&P 500 achieved record highs towards the end of August. There is blood on main street, but the champagne is flowing on Wall Street.

What is driving this disconnect? We believe quantitative easing, or money printing, which is happening at unprecedented rate, is one of the main driving factors.

Returns on average

The printing of money has suppressed interest rates globally, particularly in developed economies, with rates now at generational lows. The US 10-year T-Bill offers a paltry 0.6% return, while in some countries, such as Switzerland, government debt yields have gone negative, with investors taking on return-free risk in government securities. The suppression of interest rates has inflated all asset classes and pushed yield-seeking investors into equities, pushing up prices further.

Although overall indices are achieving record highs, these returns are increasingly concentrated in only a handful of names. Since December 2014, the MSCI World Index is up a cumulative 40%. Strip out the US, however, and prices are up a paltry 8%. In other words, global equity investors not invested in the US would have achieved disappointing returns on average.

If we unpack the US market, we see similar concentration in returns. Over this same period, the S&P Index is up a cumulative 65%, but if we strip out the largest contributors, a different picture emerges.

Just six stocks, Facebook, Amazon, Netflix, Google (Alphabet), Apple, and Microsoft (the so-called FANGAM stocks) account for most of the S&P's returns. Excluding these, the S&P is only up 29% since December 2014. In contrast, the weighted average return of the FANGAM stocks is a stellar 333%. US tech stocks have been just about the only game in town. This has created huge concentration in the S&P, with the five largest companies (FAGAM) now accounting for more than 20% of the index overall.

Make no mistake, these are high quality businesses, but it may become increasingly hard to achieve the growth prospects implied by their current multiples. There is very little margin of safety.

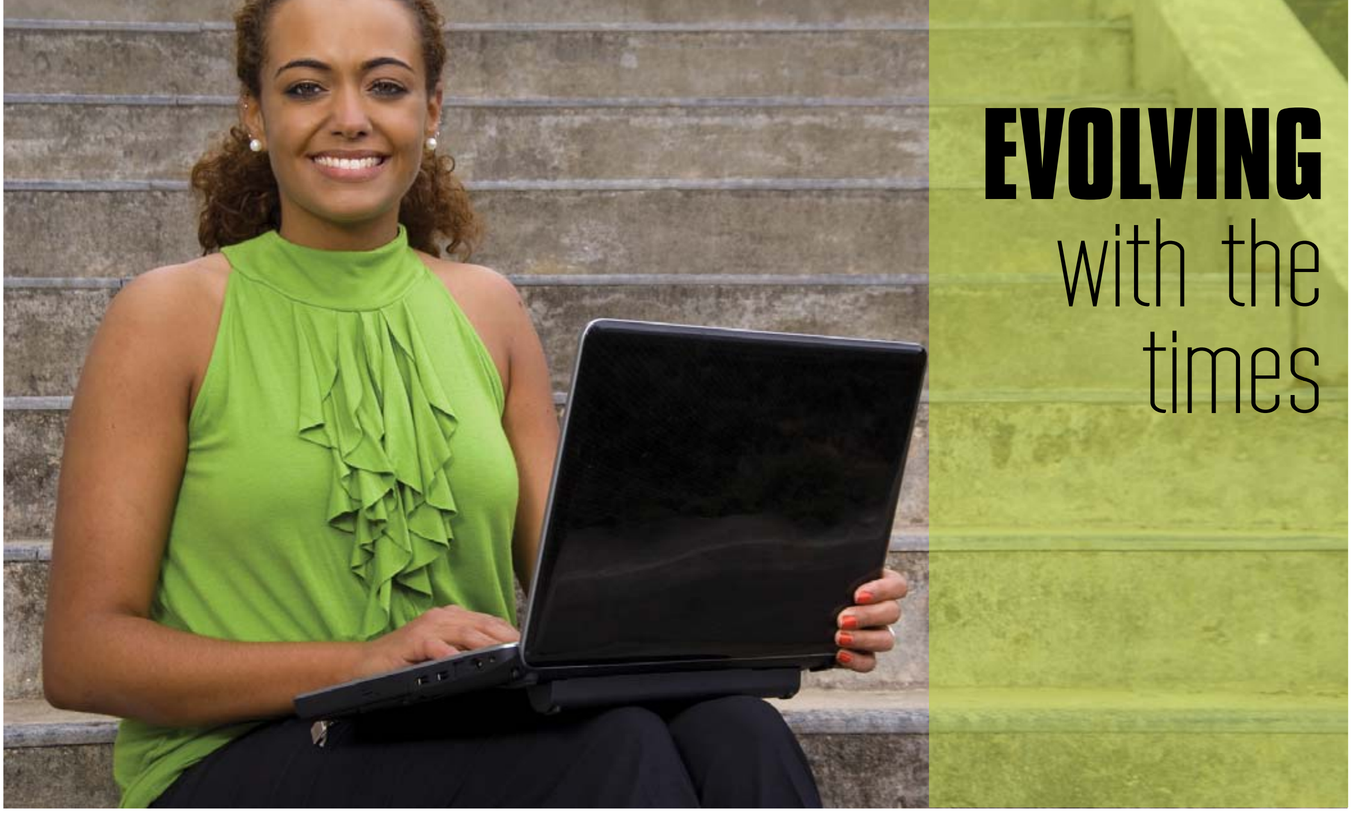
Bringing the conversation back home

South Africa has been an even worse place to invest than the MSCI World Index excluding the US. The FTSE/JSE All Share Index is down 23% in US dollars since December 2014 and, like the US, there is huge concentration. If you didn't own four of our largest stocks, Naspers, Anglo, BHP and Richemont, your returns would have been materially worse.

Does this mean we should be buying SA stocks hand over fist? We think caution is warranted. South Africa came into the pandemic in a precarious position after a decade of growing deficits and slow growth; COVID-19 has exacerbated this. Debt to GDP is growing, many state-owned enterprises are failing; and we had one of the harshest lockdowns globally, severely impacting our economy.

We are yet to see the willingness in government to make the tough decisions needed to take our economy forward. In addition, while select US tech stocks have performed fantastically, there are plenty of other opportunities that are equally attractive offshore.

Rory Kutisker-Jacobson
Portfolio Manager
Allan Gray



EVOLVING with the times

We are living in the Fourth Industrial Revolution. Developments in areas such as genetics, artificial intelligence, robotics, nanotechnology, 3D printing and biotechnology have laid the foundation for ground-breaking change. It has already begun to shift how we do business and the way people live, work and play.

Shaping our workforce

Technological advancement is shaping our workforce in three areas:

■ **Work environments**

According to a WEF Future of Jobs report[1], the biggest current driver of change is changing work environments and flexible working arrangements. New technologies are enabling remote working, co-working spaces and teleconferencing. This has been further accelerated due to Covid-19.

■ **Occupation types**

Most occupations are undergoing a fundamental transformation. We are seeing new occupations that did not exist 10 or even five years ago, and the pace of change is set to accelerate. Forecasters predict that 65% of children entering primary school today will ultimately end up working in a completely new job type that doesn't yet exist[1]. While some jobs are threatened by redundancy, existing jobs are also going through a change in the skill set required to do them.

■ **Occupation statuses**

Occupation status refers to how a person earns their income rather than what a person does for a living. For example, you might be an accountant by occupation, but you could earn an income by working as a full-time employee, as a freelancer or by owning a business.

In the past, most of our applicants were either full time employees or self-employed, but we have seen an increase in applicants who do not fit neatly into either of these two boxes – which we refer to as unorthodox occupation statuses. These include freelancers, independent contractors and those with multiple income streams.

The gig economy

The gig economy[2] is nothing new. Freelancers, consultants and independent workers have been around for years. However, this market is growing at a rapid rate, facilitated by advancing technology. This signals an important shift from the mindset of a previous generation who wanted job security and a guaranteed income, to a new generation who want a greater sense of autonomy, financial freedom and flexibility.

This trend is forecast to accelerate even further as the gig economy provides job opportunities in a Covid-19 world, where we are seeing a rise in formal sector unemployment.

When it comes to income protection, traditional risk assessment models are outdated as they do not sufficiently cater for these sorts of individuals, who are often not working consistently, have no formal contracts in place or are unable to define what their anticipated income will be at any given point.

This changes the way the industry needs to assess risk because these risks do not change the fact that a gig worker has as much of a need to protect their income as everyone else.

The sustainability of our sector

Life insurers need to keep up with the ever-changing employment landscape as it evolves, by exploring alternative ways of assessing risk and innovating in areas which address new ways of working.

This will ensure the sustainability of our sector by being able to provide quality income protection to individuals with these new occupation statuses, and to provide continued support to our advisers to meet the needs of their emerging customer base.

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

Sources:

1 World Economic Forum Future of Jobs report

2 Gig economy - a labour market characterised by the prevalence of short-term contracts or freelance work as opposed to permanent jobs. [Oxford definition]

"My income impacts my family, my parents, and my employees and their families."
– Siphiwe Nyanda
We're for what you do
Insure your clients' income against injury, illness and death.
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CPD ARTICLE

ARE ANNUITIES TAILOR-MADE for today's investors?

With guaranteed or life annuities regaining traction with investors, there is still a misconception that they are a 'one size fits all' solution.

However, the evolution of the annuity market over the last five years has given rise to new-generation annuity solutions that can be tailored to suit an investor's unique circumstances and risk appetite at retirement.

More importantly, given increased longevity and market performance risks faced by investors today, life annuities offer an income that will never reduce.

Types of annuities

Life annuities are available in two forms: with-profit annuities and non-profit annuities. Both are insurance contracts with the difference being that a with-profit annuity has an underlying investment component that determines its increase potential. The annual increase has the potential to be higher than inflation when markets perform well.

Non-profit annuities, such as inflation-linked or fixed escalation annuities, provide a guaranteed increase either equal to inflation, or to the selected fixed escalation rate.

In the case of with-profit annuities, different increase options provide identical value for money over life expectancy e.g. investors can forgo a higher starting income initially in favour of higher increases later in life, or vice versa. The option to provide up to 100% of income to a spouse or dependants in the event of early death may also affect starting income depending on the selection.

What works for who?

With-profit annuities can also be offered as an enhanced annuity, where an underwriting facility is available at purchase. By declaring specific socio economic, health and lifestyle factors, retirees may qualify for a higher income. While starting income may increase, it can never decrease as a result of the assessment.

In an existing Just breast cancer case study, a woman aged 63 qualified for a monthly 'uplift' in income of 14% as a result of her risk assessment. She received a diagnosis of advanced breast cancer two years ago, and although it is currently under control, she remains at high risk of it spreading to other parts of her body due to its advanced status.

Because she runs the risk of the cancer spreading, she opted to include a minimum payment period as an income legacy for her annuity solution. This means that in the event of her death within the first 10 years of the policy, income will continue to be paid to her nominated beneficiaries for the remainder of this period.

The best of both

For investors that value the flexibility that comes with a living annuity but want to access a higher monthly income with higher certainty, a blended annuity offers a combination of a living annuity and a life annuity that can be a more favourable solution than either on its own.

For example, a husband and wife aged 65 and 61 respectively have R1 million in retirement savings. They calculate a need of R55 000 per year in retirement, and ideally would like this amount to increase in line with inflation each year.

This is a drawdown rate of 5.5% per annum, which is higher than the recommended sustainable drawdown rate in a living annuity. In a traditional living annuity, this couple will reach the maximum annual drawdown rate (17.5%) well before they reach their average life joint expectancy, and will need to start drawing down less, in real terms, every year. Their annual income will reduce to R20 500 per annum by the time the main policyholder reaches 87, and to as little as R12 400 by age 90.

By adding guaranteed lifetime income to their living annuity, set to at least cover essential expenses (roughly 65% of the total retirement income requirement), a blended annuity solution allows for a more sustainable income in retirement, for life.

Here's how. If the couple allocate 60% of their savings to a lifetime income portfolio, they could secure an annual income of R40 000 for life from the guaranteed annuity. To meet their initial retirement income requirement of R55 000, they only need to draw 3.75% (R15 000/R400 000) from the remainder of the assets.

In this way, the couple has retained some flexibility, improved the sustainability of their retirement income while also mitigating longevity and investment risk.

Twané Wessels
Product Actuary
Just

Longevity has a LONG LIFE AHEAD OF IT

Widely published research, across the globe, indicates that longevity has become a reality. This was echoed by a recent study from the Institute for Health Metrics and Evaluation (IHME) at the University of Washington's School of Medicine, which was published in The Lancet journal.

A radical global shift

This study sourced data from the 2017 Global Burden of Disease Study to model and predict the state of future global populations. According to their projections, the world population will peak in 2064 with approximately 9.7 billion people, and then reduce to approximately 8.8 billion people by 2100. They also expect a major shift in the global age structure with nearly 2.37 billion people over the age of 65 years and 1.7 billion people that will be less than 20 years old in 2100. This means that the working-age population will be much smaller than the non-working segment of the global population.

IHME Professor Stein Emil Vollset, first author of the research paper, states that, "Our findings suggest that the decline in the number of working-age adults will reduce GDP growth rates which could result in major shifts in global economic power by the century's end". The study further suggests that Africa and the Arab cluster of countries will shape the globe, while European and Asian influence will shrink.

In fact, they predict that the population of Sub-Saharan Africa will triple over the course of the century, from approximately 1.03 billion in 2017 to 3.07 billion by 2100, and that of North Africa and the Middle East are also set to increase dramatically. Their findings further suggest that by the turn of the century, the world will be multipolar with India, Nigeria and the United States of America dominating the planet.

Age does matter

With a decline in fertility and a steady increase in life expectancy, the study estimates that the number of children under the age of five will decline by 41%, from 681 million in 2017 to 401 million in 2100, while the number of people older than 80 years is expected to increase six fold, from 141 million during 2017 to 866 million in 2100. This trend will also continue with the global ratio of people over the age of 80 compared to people aged 15 and younger, is projected to rise from 0.16 in 2017 to 1.50 in 2100. This is applicable to countries with an estimated future population decline of more than 25%.

While a decline in the global population can have many positive outcomes, an increase in the age of this global population can have devastating consequences on countries. With less people employed and a larger segment of older people, countries will struggle to generate funds needed to support an overburdened socio-economic system.

Preparing for an extended lifetime

The trend of aging populations, along with a decrease in fertility rates across the globe, seems to fuel the so called "perfect storm". This is why it has never been more important to take longevity into account during the financial planning process. Surely most of us want to live a life where we can enjoy our golden years in a way that we always dreamt about.

The importance of longevity protection has again been illustrated in Momentum's 2019 claim statistics where they experienced a 51% increase in their longevity protector claim trigger events relative to 2018.

Longevity cover has proven to be just as important as critical illness, income protection and disability cover because the older we get, the more likely we are to contract a critical illness or become disabled. Having the funds to pay for specialised treatments or simply just being able to afford a longer life is now within clients' reach. This is because the industry offers clients true longevity benefits that address all the concerns mentioned, head on… to supplement their extended lifetime even further.

George Kolbe
Head of Marketing for Retail Life Insurance
Momentum


BRAVE/6094/MOM/E
DON'T LET YOUR CLIENTS' HOMES DIE WITH THEM.
As you know, the unforeseen professional and administrative fees that come with settling an estate, can cripple it. However, **Momentum's Estate Provider Benefit** provides a comprehensive solution for your clients. From conveyancing fees to executor fees, this product covers payments associated with wrapping up an estate. What's more, we also include the provision for a will and a commitment from **Momentum Trust** to attend to the administration of your clients' estates, enabling you to broaden your offering as well as further your client relationship.
Momentum. Here for your journey to success.
So ensure your clients' momentum passes on intact.
Contact your consultant today or go to **momentum.co.za**
Terms and conditions apply. Momentum is part of Momentum Metropolitan Life Limited, an authorised financial services and registered credit provider. Reg. No. 1904/002186/06.
momentum
life insurance

Dying is much more expensive than you think

The essence of estate planning is to ensure that the wealth which your clients amass through their lifetime is transferred to their beneficiaries so that they can receive maximum benefit. However, many clients tend to underestimate the death-related costs in their estates which results in an enormous number of deceased estates having liquidity shortfalls.

If there is not enough cash to meet all required obligations, the executor of the estate is obligated to sell assets in your client's estate to meet the required obligations, and this can leave your clients' beneficiaries in a precarious financial position.

Implementing a well-constructed will and having sufficient funds to cover the cost of administering your client's estate, when they pass away, are two important aspects which will ensure that the winding up of their estate is not burdened with unnecessary complexity.

With Myriad's Estate Provider Benefit, your clients are able to combine the preparation and safekeeping of their wills with a number of valuable benefits, that will assist in addressing some of their most pressing financial needs and wishes linked to the legacy they choose to leave behind.

momentum
life insurance

Professional drafting and safekeeping of a will assist in making sure that your client's last wishes are honoured.

Eliminate liquidity shortfalls

Momentum's Estate Provider Benefit is specifically designed to address the need for funds that are required to settle the professional and administrative fees that are incurred during the administration of your client's estate, as well as the settlement of liabilities. The benefit also provides an instant cash payment of up to R50 000 to beneficiaries to assist with immediate expenses such as funeral arrangements.

The balance of the benefit lump sum, after the instant cash pay-out, will be paid to Momentum Trust Limited, as the appointed executor to cover executor and legal fees incurred while administering and wrapping up the estate. These fees typically include:

- Master's fees;
- Conveyancing fees incurred in transferring fixed properties to heirs;
- The cost of transferring vehicles into the name of beneficiaries; and
- Costs associated with the collection, storage and relicensing of firearms in terms of the Firearms Control Act (No. 60 of 2000).

Any residual of the benefit lump sum amount which is available in surplus after the finalisation of the deceased estate will be paid back to the deceased estate account. This allows the executor to distribute these funds to the testamentary heirs.

A unique feature of the Estate Provider Benefit is the fact that the executor fees are waived on the benefit lump sum paid into your client's estate and is thus excluded from the gross estate value for executor fee purposes. This also makes it the most cost-effective way to settle debt in your estate. Another favourable aspect of the Estate Provider Benefit is that the instant cash lump sum, payable to the nominated beneficiary, will not be aggregated with any other instant cash payable from other Myriad death benefits. This means that the total instant cash benefit to a maximum of R100 000 is payable when a client has an Estate Provider Benefit, in addition to a Myriad death benefit.

Let the professionals guide your clients

A will is a vital component of an estate plan. Apart from having to be legally correct, it is equally important to ensure that it can be given effect to, with enough cash in the deceased estate to settle liabilities, including the professional and administrative fees associated with the administration of the estate.

With Myriad's Estate Provider Benefit, your clients automatically gain access to a professionally drafted will from Momentum Trust and safe custody of the original signed will in a secure environment. Professional drafting and safekeeping of a will assist in making sure that your client's last wishes are honoured and not contested, and that the will is safely kept and easily accessible when needed.

Upon being appointed as executor, the team of professionals at Momentum Trust are there to seamlessly advise and support your client's loved ones , whilst keeping you, the financial adviser, abreast of all developments along the way.

A cost effective solution that helps to simplify estate planning

Momentum Trust will draft your client's will and arrange all logistical aspects linked to the collection of the will from your client. They will also hold the original, signed will in safe custody which includes a secure fire-and waterproof environment. Clients will also be allowed to review and update their wills from time to time when their circumstances change. The cost of all these services is included in the Estate Provider Benefit and no additional fees will be charged for the drafting of wills, reviews, collections and safe storage of wills.

The minimum total cover amount offered by the Estate Provider Benefit is R300 000 and the benefit will cover 100% of Momentum Trust's executor's fees on estates up to a maximum gross value of R10 million. On estates which exceed R10 million, Momentum Trust will charge 50% of the regulated tariff for acting as executor.

Making it count when it matters most

Through effective estate planning, your clients are able to appoint heirs and legatees, create liquidity in their estate and make financial provision for their loved ones according to their unique wishes. With the right expertise, your clients can ensure that their estate plan is practical, legal and efficient but most importantly, that costs are minimised. Therefore, Myriad's Estate Provider Benefit provides your clients, and their families, with peace of mind that their estates will be taken care of in a professional manner, and at a cost effective discounted fee.

Reframing clients' notions ABOUT RETIREMENT

The Fourth Industrial Revolution, changing world of work and rising longevity suggest that it is time to rethink career planning and retirement.

It also means that we may need to reconsider the employee benefits advice we give group clients and how we guide individual retirement fund members to think about and plan for retirement.

Global view of retirement

Globally, people are starting to retire later.[1] While the most general retirement age for state-provided retirement systems in EU Member States tends to be 65 years, countries like Spain, Germany and France are planning to raise their retirement age to 67 years, while the target is 68 years in Britain and Ireland.

The results of a global study by Mercer, '*Healthy, Wealthy and Work-Wise: The New Imperatives for Financial Security*', proposes that the traditional view of retirement should be relooked. The study, which covered 7 000 adults and 600 senior leaders across 12 countries, found that 68% of people globally don't expect to retire or expect to keep working past their traditional retirement age, while 86% say that continuing to develop professionally and personally is important[2].

The local landscape

Closer to home, an analysis of FundsAtWork Umbrella Fund[3] members shows that while the average retirement age as determined by members' employers is 64, income replacement ratios paint a concerning picture of the kind of retirement members retiring at this age can expect. While ratios vary across industries, the average income replacement ratio across all FundsAtWork members suggests many South Africans are not saving enough to retire at their stipulated retirement dates.

Stipulating a retirement age and requiring employees to retire at that age made sense in the old era of defined benefit retirement funds. With these funds, one's employer guaranteed a defined pension benefit based on years of service. However, in the current era, where defined contribution is the dominant funding model, how appropriate is it to stick to a pre-determined retirement age?

Careers are also looking different

In the changing world of work, careers have also started to look different. Careers have shifted to include the skills and experiences gathered over time, in various organisations, roles and contexts. Employee contribution is now exchanged for experiences that align to individual values and create meaning.

When we look at the new generations entering into the workforce, they may have additional work they do in addition to their primary jobs and in order to retire comfortably and replace different sources of income, it is important they start saving early towards retirement, preserving when they change jobs as well as consider higher contributions or additional voluntary contributions when they can.

The concept of late career change has also emerged, referring to a career where the individual is typically older than 50 years or has been working for 30 years or more. At this stage, the focus is no longer on mastering skills, but more about doing work that provides meaning and fulfillment. It often occurs independent of organisational context and structure and is associated with high levels of career satisfaction and engagement with work. This stage may or may not include formal retirement.

Reframing retirement and tapping into the contribution of late career stage workers benefits both employer and employee. Individuals who work beyond their retirement date, whether it be on a permanent or contractual basis, are able to defer retirement and optimise the growth of their retirement savings to increase their retirement replacement ratios. Plus, they have the opportunity to unlock personal and professional growth and fulfilment in the late stages of their career.

Financial advisers have a key role to play in helping their clients and their clients' employees reframe the journey to retirement. Changing the way we think about work and retirement allows us to rewire our approach and unlocks a host of new opportunities, for both employee and employer.

Nashalin Portrag
Head of FundsAtWork
Momentum

Sources:

1 https://www.etk.fi/en/work-and-pensions-abroad/international-comparisons/retirement-ages/
2 https://voice-on-growth.mercer.com/en/articles/retire/retirement-is-changing-on-a-global-scale.html
3 FundsAtWork analysis

Give your business new momentum

Your clients wear many hats. One moment they're making personal decisions about their loved ones, and the next, professional decisions for their business and employees.

2020 hasn't been easy – for them or for you.

How can you make a real difference in their lives and businesses, future-proof your own business and move forward on your journey to success?

When you partner with the right employee benefits provider, it's a lot easier than you may think.

Explore new frontiers.

Contact your Momentum Corporate specialist.

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ACCESS TO COVID-19 DATA

turns Jane and Joe Average into specialist epidemiologists overnight

The volume of data generated during the struggle against Covid-19 has turned Jane and Joe Average into specialist epidemiologists overnight. One of the challenges facing healthcare experts, and the politicians they advise, is the tide of public opinion, both for and against their positions. "Citizens, politicians, scientists and the lay-public are not only taking an interest in issues that affect their health; but are also considering the broader impact of the pandemic on their livelihoods," said Prof. Glenda Gray, CEO and President of the South African Medical Research Council (SAMRC). She was participating in a PSG Wealth 'Think Big' webinar.

An inclusive debate

"Seeing people from all walks of life navigating the epidemic, making sense of the statistics, trying to figure out ways to keep themselves safe, and keeping an eye on what is happening globally is encouraging," said Prof. Gray. One of the truths emerging from our battle with COVID-19 is that our basic weapons are similar to those used against the Spanish Flu outbreak a century ago. Despite advances in genetics, medical technology and vaccinology, the frontline of prevention remains in non-pharmaceutical interventions such as basic hygiene, social distancing, and wearing masks.

While medical specialists advise governments on how best to respond to the pandemic, insurers are working to assess the severity of the disease. José Nicolas, Head of Strategy and Planning for Sub-Saharan Africa at Munich Re, considered some of the difficulties facing insurers in estimating mortality and morbidity loss distributions. "It is quite complex to determine the incidence rate of COVID-19," he said, during a virtual lecture to Munich Re of Africa's life insurance clients. Data that makes sense from a public health perspective is not always credible when viewed through an insurance lens.

Imperfect measures

There are two ratios traditionally used to assess the severity of pandemic. The first is the Case Fatality Ratio (CFR), or the percentage of deaths among a population with a positive COVID-19 diagnosis. "This measure is easy to link to the pandemic; but it can somewhat overstate the actual mortality due to people who die with COVID-19, but not because of it," said Nicolas. The second, the Infection Fatality Ratio (IFR), considers the percentage of deaths in a population that are assumed to have been infected by the disease. "An accurate IFR requires credible assumptions for the number of persons infected, as well as certainty that the deaths are due to COVID-19," he said. Insurers need greater certainty than offered by either ratio.

How do we get to grips with the severity of the current pandemic? Nicolas observed that excess mortality data had emerged as the most appropriate statistic to track the behaviour of the pandemic. Excess mortality is the number of deaths, from all causes, that occur during a crisis 'over and above' what would be expected under normal conditions. Discovery Health's estimate that 22% of South Africans had been infected by COVID-19 by early September 2020, is based on the SAMRC's excess death statistics. The SAMRC had reported attributed 37 300 excess deaths to the pandemic by that time.

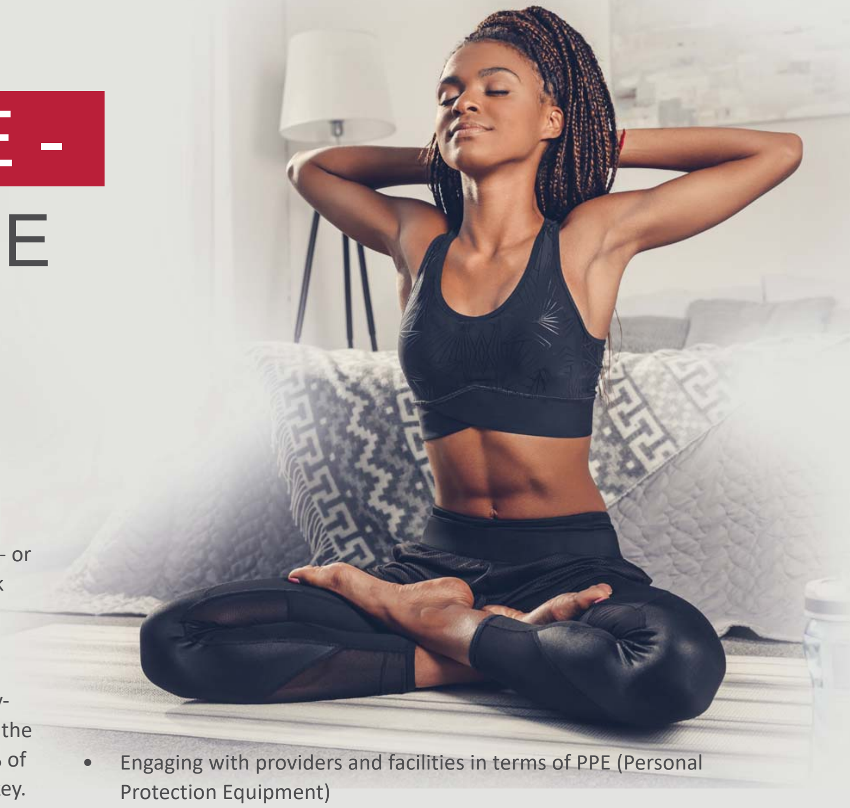
The age and comorbidity paradox

Early data showed that COVID-19 infections were distributed equally across age groups; but that the mortality experience was exponential at higher ages and highly correlated with existing comorbidities. South Africa's decision to enter a hard lockdown must be considered in light of these observations, alongside the high prevalence of HIV/Aids and tuberculosis; our staggering non-communicable disease burden; and our fragile health system.

The teams tasked with navigating the country through the pandemic face a real world Catch-22. "We had to strike a balance between protecting the vulnerable on the one hand, and trying to keep society [and the economy] going on the other," concluded Prof. Gray. She added that non-pharmaceutical interventions would remain crucial until a vaccine was perfected.

Gareth Stokes
Stokes Media

MANAGED CARE - CRITICAL FOR THE FUTURE OF HEALTHCARE



One of the biggest lessons learned during this global pandemic is the impact lifestyle diseases and comorbidities have on Covid-19 patients. These include high blood pressure, diabetes and obesity - or a combination of any of these conditions - which increases the risk significantly of getting seriously ill with Covid-19.

'Even without the pandemic, we need a stronger focus on preventing and managing lifestyle behaviours. Poor diet, smoking and lack of exercise are the three lifestyle factors that contribute to over 80% of chronic conditions. This is why Managed Care is key. It's about encouraging and empowering members to take charge of their health and to support them on their path to wellness,' says **Lee Callakoppen, Principal Officer of Bonitas Medical Fund.**

THE ROLE CHRONIC CONDITIONS PLAY

It is undisputed that comorbidities affect the outcome of patients who contract Covid-19. 'When Covid-19 became a reality, our first step was to identify our high risk members, which is around 30%. We then put interventions and communications in place to ensure they understood the importance of sticking to the protocols, maintaining their medication regime and eliminating as much risk as possible. We also ensured chronic medication was delivered to members' homes,' says Callakoppen.

THE COVID-19 HUB

The hub on the Bonitas website allows members to access the most updated, relevant, reliable information and statistics. This includes a specific call centre with registered nurses ready to respond to any questions or concerns, provide support and give members updated clinical information from credible resources.

WHATSAPP SELF-HELP

A WhatsApp self-help platform was also launched, with a specific Covid-19 option that provides information on everything from symptoms through to treatment, recovery, transmission, costs covered by your medical aid, frequently asked questions, updated statistics on active cases, recoveries, deaths and a self-screening test.

To ensure access to quality healthcare during lockdown, our Managed Care model had to be intensified, such as:

- Reducing Covid-19 out-of-pocket expenditure for members
- Enhancing funding approaches to various services such as pathology testing and negotiating reduced costs for those tests
- Proactively engaging with hospitals to ensure members would be accommodated in private facilities and have access to the best private healthcare when required
- Assisting members in need when they had medical requirements over and above the standard benefits
- Engaging with providers and facilities in terms of PPE (Personal Protection Equipment)
- Ensuring member co-payments/shortfalls were either reduced or eliminated
- Introducing free virtual care to provide uninterrupted healthcare, while safeguarding members

FREE VIRTUAL CONSULTATIONS

'As part of our commitment to serving the whole of society, we offered the virtual consultations to all South Africans, taking the GP into their home – free of charge. Covid-19 is not just about protecting the individual, it is about the collective survival,' explains Callakoppen.

COMORBIDITIES AND PHYSICAL EXAMINATIONS

'Face to face consultations have begun again but providers and patients must be prudent – the risk is still there. But there is a need for people who have not had their necessary annual check-ups, particularly our high risk members, to see their doctors.'

These include: Those patients who feel they are no longer responsive to their medication; are concerned about general matters relating to their health or have received a specialist referral from their GP to obtain the next level of care.'

WHAT DOES THE FUTURE HOLD?

'The changes in healthcare as a result of Covid-19 are likely to revolve around preventative care and sustaining well-being, as opposed to responding to illness. The management of health is critical to containing lifestyle risks and keeping South Africans healthier.

'We have many mechanisms of ensuring affordability, availability, accessibility and quality care. The future will see everyone involved in healthcare being more agile and adapting to ever-changing needs of all role players: Providers, members, local government/the Department of Health, through to the procurement of equipment, medicine supply management, use of day surgeries and acute hospitals as well as alternative reimbursement models.

'Technology will also play an ever increasing role, virtual care will remain a viable option and we hope to see public/private partnerships going forward so that we ensure more equitable care for all,' says Callakoppen.

The quest for true value IN A POST-COVID WORLD

In a post-COVID-19 world the need for quality healthcare cover has shot to prominence, and going forward, decisions made when it comes to buying healthcare cover will be based on an entirely different set of rules.

Selling medical scheme benefits to younger healthcare consumers, particularly if a loyalty programme promising a number of attractive extras were part of the deal, used to be pretty straight forward. Life has, however, changed in the past number of months and so have the values of most South Africans.

Tightening belts

Financial pressures following a worldwide recession, job losses and reduced working hours have seen many people, particularly younger individuals, tightening their belts and focussing on essentials including accommodation, food, healthcare and education, while reducing costs such as entertainment and other leisure activities.

Research has shown that many young individuals are moving back into their parent's homes to reduce their expenses. Not only is everyone looking for better value at a more acceptable price, but better healthcare outcomes are seen as being all important.

Furthermore, research has shown that Millennials, who will make up 75% of the world's workforce by 2025, care more about health and other benefits than previous generations.

They are also technology driven, and where possible, would prefer online consultations with healthcare professionals… a service many schemes are offering.

Affordability challenges

Young people, who still mistakenly assume that it is safe to go without healthcare cover, should note that a National Financial Capability study conducted in the United States has revealed that Millennials collectively have more medical debt than elderly baby boomers. This indicates that Millennials are also vulnerable to health events.

Affordability issues are a growing challenge in the private healthcare sector. Considering the current cost pressures being reported globally, affordability challenges are a fact of life for individuals the world over. People are hard pressed to find lasting value when it comes to the delivery of affordable healthcare, particularly in the current financial climate.

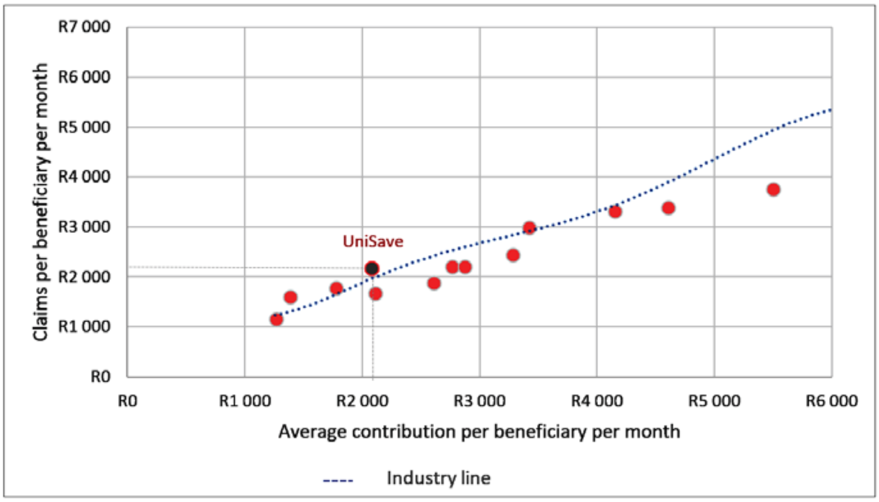
In times of uncertainty, one of the greatest attributes that any medical scheme could offer its members is the ability to innovate to such a degree that value can be created from even the lowest of healthcare budgets. Everyone is looking for a low-cost option that is not only affordable but also sustainable.

Low-cost options

Appealing to young members, these kinds of options include unlimited hospitalisation, and a medical savings account set at the maximum permissible level. Out-of-hospital flexibility has seen growth significantly, while maintaining a positive financial performance. Given these good results, we continually focus on enhancing benefits and securing the lowest contribution increases possible.

According to Carl Yssel of 3ONE Consulting Actuaries, the option provides value in excess of its contribution point based on the benefit richness modelling. Actuarial research has shown that while the industry average richness fluctuates between 80% and 100%, this kind of option is positioned well-above the average at 103.3%. Combined with a low price point, the option is highly competitive.

Graph 1: Benefit value index by plan



The industry is not only conscious of the importance of keeping healthcare affordable and accessible, but seeks to facilitate the delivery of top-quality care. Packaged to adapt to the individual needs of every medical scheme member, and providing service excellence at a price that is right, remains a winning combination.

Josua Joubert
Chief Executive and Principal Officer
CompCare Medical Scheme

PLASTIC...

a popular construction material

Plastic has become a popular construction material for a number of reasons, two of which are performance and durability. However, there are great risks that can lead to financial loss, business continuity loss, and in some cases, closure of a company (even if insurance covers BI and full asset replacement).

Plastic materials are combustible

Plastics can rear their heads in typical applications such as wall and ceiling panels, sandwich panels utilised for roof construction, outdoor storage tanks, and elastomeric insulation.

All plastic materials are combustible and burn with varying heat release rates. While the installation of a properly designed automated sprinkler system (by an accredited and recognised competent team) is always first prize, where building systems are designed with walls, ceilings and roof plastic panelling – this may inhibit the performance of automated sprinkler systems depending on the type of plastic used and it's positioning in relation to the sprinkler heads.

Some plastics turn into liquid fires (thermoplastics) and may burn faster than a sprinkler system can react/operate. Plastics can have a burn rate two to three times than what is classed ordinary combustibles such as wood.

Industries such as semiconductor, food and pharmaceuticals are at greater risk since even minor fires will lead to contamination of their products and the knock-on impact of financial loss, business continuity loss and in some cases closure of a company (even if insurance covers BI and full asset replacement).

Loss prevention tactics

If such plastic products must be used, ensure that they have been tested by an approved and recognised fire laboratory and the testing has been executed in the horizontal and/or vertical plane depending on the physical position in which the product is to be utilised.

- Protect the spaces above suspended ceilings if using plastics – consult your sprinkler system designer and installer to discuss whether the plastic is a thermoset or thermoplastic. In terms of thermal barriers/sheathing, the intent of thermal barriers and sheathing is to provide a mechanism of inhibiting the full decomposition/ignition of the polyurethane/expanded or extruded polystyrene/polyisocyanurate such that the sprinkler system will activate in time to control and extinguish the fire.
- Fire tests should not only focus on life safety, but asset protection as well.
- Disregard the use of non-standard tests. Only use nationally accepted/recognised testing methods.
- Do not use exposed foam plastics panels such as Polyurethane, Polyisocyanurate, Expanded/ Extruded polystyrene wherever possible.
- For new sprinkler designs, engineer the sprinkler system around the roof lights so that the rooflights will not impact the operational activation and performance of sprinklers. Where there is new construction, use wired glass or FRP for the skylights. The recommendations of heat and smoke venting, as well as draft curtains, must be designed in conjunction with the sprinkler system to ensure it does not adversely impact the operation of the sprinkler system.
- Limit the storage of plastic materials in buildings as this severely increases the combustible materials present, as well as the heat of combustion released during a fire.
- Hot work on roofs: try to avoid hot work on roofs with plastic skylights (exterior) or at roof level from the inside of the building (interior). Hot work has been found, according to FM Global, to be the leading cause of fire involving plastic skylights. The hot work occurs predominantly during demolition, construction, and/or alteration.

Non-tested materials will easily ignite and spread fire/burn. Some char (thermoset), others melt and spread the fire within and between different compartments (thermoplastic) due to their liquid pooling tendency. Foam retardant additives can markedly improve the performance of plastics in fire tests; however, large scale testing has shown that these additives make little difference in real-life fires.

Risk mitigation strategies

The factors that enable the impairment of flame/fire spread are automatic sprinklers, the backing of panels, fire retardant treated panels and the thickness of panels. The best mitigation is a properly engineered system with an automatic sprinkler system.

Always base the protection required on the highest hazard classification in the occupancy. Proper compartmentation (passive protection) between different divisions and occupancies is essential to limit fire spread from one area to another.

Renay Sewpersad
Fire Protection Association of Southern Africa

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CPD ARTICLE

The failure points FOR RISK MANAGEMENT

The Covid-19 pandemic has tested the way in which risk managers and organisations perceive risks on their "risk registers". Most have always had pandemics on the list from a health and potential loss of staff perspective, as part of Business Continuity Management. However, no one ever imagined the economic and social impact it could have.

The main objective of a risk management program is to assist both the public and the private sector to manage their risks better, to be more pro-active, to be compliant with certain acts and regulations, and to minimise losses.

The risk management framework sets out the organisation's commitment to risk management, what it aims to achieve, its alignment to the organisation's strategy and the methodologies to apply for risk management processes.

There is no perfect risk management program or a perfect list of risks on our registers, but there are some clear indicators of what the success or failure points in these programs are.

Success factors

A critical success factor is to have leadership-commitment. This is absolutely key. If the board, executive committee or top level managers are not leading by example or they are negative or skeptical about risk management, the program will fail.

Besides having top-level commitment, an organisation needs "champions" and people who will be driving the process and integrating the program into the organisation. If it is not filtering down, the actual "engine room" of the organisation is not going to live the risk management program as part of organisational processes.

The organisation needs a common language. People must understand the methodologies and processes to be able to participate in them. Furthermore, good risk reporting facilitates good communication. A balance between focusing on the negative risks and losses, and a focus on the positive opportunity side, is also important.

A good risk management program is aligned to the strategic objectives in order to ensure greater confidence in achieving them. It ensures that the organisation is better positioned to try to prevent or mitigate any issues that can hamper the organisation from achieving what it sets out to do.

Failure points

A typical pitfall is not having a common language. People are not talking about the same things when they are talking about the risks, their severity and impact on the organisation.

Reporting can't be too simple, nor too complex. In some instances, if reporting is way to laborious, and no one is actually reading the reports, it will not be informing decision-making and some may even see it as a bit of an annoyance.

Risk management programs can look quite impressive, but some can be far too complex, or too simple, or inappropriate to the organisation and are not applied as a result. It must be tailored to the organisation and fit for purpose

Another big failure point can be when an organisation installs a sophisticated software system to automate their risk management and reporting processes, but the risk management process is not in place. This can affect buy in to risk management and the value it can add.

Avoid pitfalls

It is critical to build an understanding of what risk management is. This will allow people to appreciate the value it offers, and the importance of aligning it with the strategic direction of the organisation.

The framework must be in place, but more importantly there has to be constant engagement about the risks and the value for the organisation in managing them.

Risk management must remain on the agenda. People must be made of aware of what the risks are, and they should talk about them when they encounter them.

There are several known risks, but there are often things that catch us completely by surprise. If an organisation has a real awareness of its vulnerabilities it will be better positioned to have the necessary measures in place to mitigate them in any circumstance.

It is an ongoing journey and a process that only matures over time. It must become part of the culture of the organisation. It is easy to write a framework, but it takes time to get engrained in the organisation and to add value.

Vanessa Thurlwell
Senior Risk Consultant for Mondial Consultants and
Vice Chair of the Institute for Risk Management South Africa's (IRMSA) Western Cape Regional Committee

Underwriting...

a new reality with many uncertain risks

Underwriting is a critical component of the insurance ecosystem. What has perhaps received less attention, is just how vital solid underwriting is for all involved.

Underwriters find themselves performing the difficult duty of determining the risk involved in insuring a business, and then calculating a price which works for both the person requiring insurance and the insurer. Faced with a world of ever-evolving risks, is the service becoming much more relevant?

The underwriter role

The underwriter has all the required technical knowledge and experience that is critical in the process of accepting and managing risk. When making their decisions, they are aware of the evolving circumstances and attempt to get as much information as possible, making enquiries, assessing and analysing.

The final step is for them to evaluate the information and create an understanding of the risk and how it can affect an insurer. This understanding is vital to creating certainty in the mind of the customer as to what they are covered (or not covered) for, relative to the specific risk. The underwriter role is critical as the determination of what can or cannot be covered, relative to risk appetite, plays a key role in the growth of an insurer and provides customer satisfaction via solution adaptability.

Risk and uncertainty

What is certain is, if you have insured against the potential loss, you will have an agreed form of protection. Uncertainty, on the other hand, means that an incident or event lacks the certainty of a possible outcome. It therefore becomes problematic from an insurance perspective without the understanding and information to provide for any possible event with inherent uncertainty.

Taking our current circumstances into account, we find that in certain instances, cover may or may not have been provided for an event. However, was there an understanding of the consequences, possible risks or outcomes of this event and could an underwriter have foreseen the potential outcomes of a COVID-19 type uncertain risk? What was the understanding of risk by the insured and the underwriter? More importantly, is the experience gained that leads us to the new reality of dealing with, and facing uncertain risks?

It is vital to have a view of events that need a practical application of forward thinking and realistic underwriting. One of the first that comes to mind is climate change that includes weather severity and the frequency of natural events. One in hundred-year events are now happening on a regular basis. This, therefore, requires an in-depth understanding of how the weather patterns will affect future claims.

Fraud, which includes cyber and identity theft, is becoming more prevalent, yet do we know enough about the outcomes to be able to underwrite with confidence, or are we still learning because of the uncertainty surrounding the intelligence of technology and the masters behind it? Advanced technology in the form of vehicle automation, sharing of vehicles and the liability this carries is not clear, yet even though we have some understanding of the risks, there are some inherent risks to be considered and dealt with to provide customer protection for the future.

We also have the current COVID-19 Pandemic, which comes with many risks and uncertainties. The indirect risks that come with it are still unknown and will emerge in time. A 'new normal' has emerged, which includes working from home and is intensifying the focus on technology and also understanding its impact on society. What liabilities will emerge?

A new era of risk management

The role of the future underwriter in insurance has never been more critical as we traverse a new path, a new normal and a new journey into a world of the unknown, a world with new uncertainties and new risks. Awareness, vision, knowledge, understanding and innovation will usher in a new era in global risk management. ●

Sedick Isaacs
Head of Business
Support Services
Bryte Insurance

"What is certain is, if you have insured against the potential loss, you will have an agreed form of protection.

Taking advantage of **new vulnerabilities**

The COVID-19 pandemic and the lockdown have dramatically changed the cyber risk landscape, with cyber criminals across the globe taking advantage of new vulnerabilities.

FAnews spoke to **Heemesh Narotham, Senior Cyber Security Consultant at Marsh Africa**, about how the threat landscape has changed with COVID-19, as many work remotely online, the tactics being used to carry out cyber attacks and what brokers should be telling their clients in terms of online safety.

> Organisations should consider blending new cyber security investments with enhanced cyber insurance coverage to reduce their retained risk.

The current landscape

"The COVID-19 pandemic has impacted the cyber security landscape with attackers now taking advantage of the crisis and exploiting the situation to prey on remote workers. There has been an increase in malware campaigns employing COVID-19 related attack vectors," said Narotham.

"There is a surge in phishing emails pretending to stem from governments, healthcare institutions, the World Health Organization (WHO) and medical research organisations containing malicious attachments and links directing users to fraudulent websites. Many employees are also now working from home on their own networks and sometimes on their own devices which increases the security risks for businesses and end users. Attackers are now exploiting vulnerabilities on home networks such as weak passwords on home networking devices, unpatched home networking devices and other network misconfigurations," added Narotham.

Tactics used to carry out cyber-attacks

With a significant spike in the number of new threats emerging during the pandemic, Narotham pointed out that there are some tactics being used to carry out cyber attacks.

"We have certainly seen the threat vector widen during the pandemic. With attackers becoming more creative, we are seeing more sophisticated attacks. The biggest category is impersonation – phishing or malware that pretends to be someone from a health-care agency or the government. Hackers are putting more effort into scamming people," he said.

"We have seen a rise in malicious emails directing recipients to educational and health-related websites riddled with malware. Some phishing emails invite recipients to download attachments containing "secret cures" for the virus. The attachments instead contain malware designed to steal the personal and financial information of the victim. Another phishing campaign involves emails designed to mimic the charity organisations, soliciting donations to fight the spread of the virus.

There has been a significant increase in cyber attacks on the healthcare industry with telecommunication companies and financial institutions also bearing the brunt," emphasised Narotham.

What brokers should be telling their clients

"Today's IT and network capabilities have enabled the strategies that have kept many companies afloat during the pandemic. The current crisis, however, has highlighted the need to prepare for serious business disruption. A recent survey found that more than a fifth of organisations have shopped for new security solutions or services to respond to their new reality," said Narotham.

"Organisations should consider blending new cyber security investments with enhanced cyber insurance coverage to reduce their retained risk, optimise spending relative to protection, and conserve resources. The pandemic has illuminated the need for enterprise resilience in stark and compelling terms. The post-pandemic recovery and preparation period presents the opportunity for companies to rebuild to a new normal, with enterprise resilience as a pervasive goal," concluded Narotham. ●

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CPD ARTICLE

A disconnect between **expectations and limitations**

Deanne Wood
Partner
Fasken

Catherine Stark
Associate
Fasken

> As a result of different objectives, insureds and underwriters may have different expectations of cover.

Errors and omissions policies (E&O policies) fulfil an important commercial objective – they constitute a key risk management tool for companies and individuals rendering professional services and/or providing advice.

E&O policies provide much-needed protection against financial loss and reputational harm arising from third-party claims.

In this article, we consider the extent of cover provided in E&O policies and the apparent disconnect between insureds' and underwriters' expectations of coverage.

E&O policies in practice

E&O policies provide insurance cover for claims arising from actual and alleged errors, omissions, mistakes, misrepresentations or negligent acts made by companies or individuals providing services or advice to third-parties. E&O insurance is also known as malpractice insurance or professional indemnity insurance.

E&O policies typically include cover for defence costs arising from civil claims and the return of professional fees, as well as other defined risks. The extent of cover and the premium depends on the exposure of the underwriter, which is usually specific to a profession. Various factors impact the cover of the policy, including the type of business, the experience of the insured and the claims history of the insured.

Great expectations

From an insured's perspective, the purpose of taking out an E&O policy is clear - to protect the company and its employees from the costs associated with negligence, mistakes and oversights, as well as the consequences of these risks. Consequences may include hefty court orders, damage claims and settlement payments. Should the risk materialise, the insured expects comprehensive cover.

On the other hand, underwriters consider their exposure, undertake to indemnify parties against certain losses and customise policies to give effect to the undertakings. Underwriters are prepared to indemnify insureds based on the terms of the policy.

As a result of different objectives, insureds and underwriters may have different expectations of cover. We consider some of these expectations and how these expectations measure up to reality:

1 Scope of cover

Insured: Cover for all errors and omissions.
Underwriter: Specified cover.
Reality: The insured will be indemnified to the extent provided for in the policy and this will be determined through interpretation. Contracts are interpreted "having regard to the language, context and purpose in what is a unitary exercise". More importantly, any clause which limits the underwriter's obligations will be interpreted restrictively by a court as the underwriter should clearly specify the exclusions.

2 Retroactive Cover

Insured: Cover for events which occurred prior to the policy period and became liabilities in the policy period.
Underwriter: Cover for events occurring in the policy period.
Reality: The retroactivity of a policy depends on its wording - the insured may be required to purchase an extension for retroactive cover.

3 General Liability Policies

Insured: General liability policies incorporate E&O insurance.
Underwriter: General liability policies do not cover E&O losses.
Reality: Although dependant on policy wording, general liability policies generally exclude claims arising from errors and omissions.

4 Responsibility for losses

Insured: Complete reliance on E&O indemnification when a claim arises.
Underwriter: Complete compliance with the policy when a claim arises.
Reality: An insured must comply with reporting requirements, mitigate its losses, refrain from making admissions and comply with any other obligations specified in the policy.

A reality check

The potential disconnect between expectations of coverage in E&O policies can cause serious financial and reputational harm. The parties' expectations are linked to consensus, an essential element of a contract. Consensus is reached when parties have expressed an intention to be bound by certain obligations.

Through the thoughtful drafting of E&O policies which are fit for purpose and ensure that real consensus exists between the parties, the insured and underwriter can better align their expectations of cover. ●

Beirut explosion elevates marine risk to catastrophe levels

The global marine insurance sector has struggled with profitability for years, largely because of soft rates and increasingly violent natural catastrophes. But the recent Beirut port explosion has brought another risk sharply into focus, namely unforeseen and underestimated manmade hazards. These risks can be as complex and costly as natural catastrophes.

An age of concentrated risk

The risk and cost implications for marine insurers and reinsurers are growing due to ongoing vessel and port accumulation. We are seeing a greater concentration of assets and goods at busy ports that accommodate more vessels of larger size.

Reinsurers have to factor the growing risk into their costing models, which means that the cost of marine insurance inevitably goes up for everyone, even if they are not directly affected by a disaster such as the Beirut port explosion. The explosion, which occurred on 4 August 2020, is similar to the 2015 catastrophe in Tianjin port, China. Both explosions were discussed in a Holland Marine webinar, held 18 September this year.

A panel of international experts told webinar attendees that there are important and expensive lessons to be learned from these port tragedies. Stephen Hudson, a Global Risk and Reinsurance Specialist at Guy Carpenter, gave an insightful analysis of the Beirut explosion. Early estimates of the cost of the blast, excluding human losses, vary between US$10 and US$15 billion, with marine losses amounting to about US$250 million.

Forecasting future port disasters

Hudson pointed out that ports such as Beirut and Tianjin are not unique, because large ports are often in close proximity to critical national infrastructure, government installations and military sites. Factors such as government regulation, mitigation measures and health and safety measures must be considered when analysing potential risks at ports. Hudson also argued that an engineering analysis should be completed to determine how a potential port explosion might play out.

Simon Wegmann, a Senior Marine Underwriter with reinsurer Swiss Re, unpacked how a chain of incorrect decisions, mishandling of cargo, illegal construction and a failure to heed the law led to the Tianjin disaster, which was only marginally less destructive than the Beirut event. Interestingly, highly explosive ammonium nitrate featured in both instances.

Manmade rivals natural catastrophe

International insurers and reinsurers lost almost US$2 billion in the Tianjin blast, with Chinese insurers picking up around US$1.5 billion. These losses underline the reality, said Wegmann, that the possibility of large manmade catastrophes must be included in reinsurance pricing.

Reinsurers calculate the premiums they charge to insurers using the following three scenarios, alongside calculations of internal and external costs:

- **Basic or attrition losses:** These are the expected annual losses that can be mitigated by meaningful deductibles and excesses.
- **Large losses:** Large single losses involving one policy, where the cost of the risk can be distributed over several years.
- **Clash and natural catastrophe losses:** Beirut and Tianjin fall under this scenario, which represents the most difficult risk to distribute, because the frequency and severity of events is unknown.

Reinsurers consider both the number of containers and the overall tonnage moving through a port. They assess this information under 22 commodity classes and derive a dollar value, before factoring in how long the goods are stored at a port. This calculation reveals the expected daily accumulation in a specific port, including the severity potential of an incident.

Turning to tech innovation

Wegmann said that technological innovation, novel data sources and big data analysis are paving the way for reinsurers to better understand how large events can affect their portfolios; but such initiatives are still in their infancy. The bottom line is that accumulation risk is a big issue for reinsurers, insurers, intermediaries, and customers.

When customers balk at the cost of their marine insurance, we must educate them about the phenomenon of accumulation and the risk it poses to insurers, reinsurers and other parties in the global marine insurance supply chain. ●

Cynthia Nanthalall
Head of Marine
Holland Insure

> "The risk and cost implications for marine insurers and reinsurers are growing due to ongoing vessel and port accumulation.

MSMEs struggle to access affordable insurance

Lana Ross
Chief Operations Officer
Discovery Business Insurance

MSMEs have unique insurance needs, including cover tailored to the size and nature of the business.

MSMEs (micro, small and medium sized enterprises) often find it difficult to access insurance products and services at an affordable price.

However, they need insurance protection the most, as they often do not have enough financial resources to cover unforeseen events such as business interruptions.

They often face financial challenges, including cash flow constraints and lack of access to capital. These challenges make insurance affordability difficult. The global insurance gap for catastrophe losses was estimated to be $86 billion in 2019.[1]

The lifeline of the economy

Despite the challenges, MSMEs remain the lifeline of the global economy. These businesses may be small in size, but their contribution is big. There were over 48 million registered MSMEs in Sub Saharan Africa in 2019.[2]

Micro enterprises provide informal employment for many people and help to sustain their livelihoods in the absence of formal employment, while SMEs (small and medium sized enterprises) contribute as much as 40% to the Gross Domestic Product (GDP) in emerging economies.[3] Data collected in 99 countries, including South Africa, indicates that MSMEs are key drivers of employment, contributing 70% to total employment.[4] It is, therefore, important that MSMEs get the support they need to succeed, continue to create employment and contribute to the economy.

The need for unique insurance solutions

MSMEs have unique insurance needs, including cover tailored to the size and nature of the business. They also need access to resources and unique solutions that can help them better manage their risks and grow their businesses. Newer insurance solutions consider the business holistically. One insurer enables businesses to assess their physical, as well as operational risks, to get complete information about their business risk. After completing an assessment, they get recommendations on which areas to improve and access to service providers at discounted rates to help them improve in those business development areas.[5]

Effective solutions focus on bringing resources to MSMEs at an affordable price. South Africa is among the countries that have high data prices: In 2019, the Competition Commission found that South African data pricing is high, anti poor and lacks transparency.[6] Such high data prices create barriers and make it difficult for MSMEs to do business effectively in this digital age. That is why innovative solutions now include giving clients access to affordable business data and finance solutions.[5]

Cover for emerging risks

There has been an increase in digital network use by MSMEs recently. Endurance International Group conducted a survey of Indian MSMEs to understand their adoption of digital processes during the COVID-19 period. The survey indicated that more than 50% of MSMEs were using digital platforms to remain connected during lockdown.[7]

This increase in digital adoption increases cyber risks. As employees use digital platforms more than before, the risk of reputational damage to the company as well as legal risks may also increase due to employee conduct on these platforms. Many MSMEs do not have the sophisticated cyber protection and reputational risk cover that bigger organisations usually have.

They may also find legal assistance unaffordable. This can put them at higher risk of business interruption if an event that results in cyber losses or damage to their reputation occurs, and may result in business failure. It is, therefore, important for MSMEs to partner with the right insurer who can provide these covers and benefits at an affordable premium.

The insurer can embed cyber cover as well as reputational risk management and legal services in their insurance offering to give clients limited cover at no additional cost.[5] This can help clients to recover quickly following an insured event. It is proactive insurance solutions like these that can make all the difference in the success of MSMEs. ●

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In search of sustainable **drought solutions**

Richard Eales
Managing Executive
Guardrisk Insurance

Planting season is upon us in South Africa and crop insurance is top of mind for farmers and agricultural brokers. South Africa has always been a water-scarce country, receiving on average 450mm of rainfall per annum (compared against a global rainfall annual average of 870 mm). Yet, drought insurance, unlike hail insurance, has struggled to be sustainable in South Africa, which is the world's 30th driest country.

Unpredictable output levels

Drought is a complex (there are over 150 published definitions of drought) phenomenon, which is difficult to define and monitor. Add to that the fact that South Africa is an extremely diverse crop production country where the same crop, for example maize, is grown on a variety of soil-types stretching across a vast area covering approximately 8 million hectares, and where rainfall varies between 370mm to 850mm per annum.

To survive, farmers' production techniques have evolved to suit their particular area's conditions best. However, with large parts of South Africa's grain production regions being rainfed and vulnerable to droughts and grain price volatility, farmers continue to face unpredictable output levels and severe financial pressure.

Key aspects to consider

Why then, despite the sophistication of its insurance industry and penchant for product development, has drought insurance success eluded local insurers? There are a few key aspects required to change the drought insurance industry:

- The crop insurance market, insurers, farmers and financiers alike, must demonstrate the will to change their perspective and relationship with drought insurance solutions. Radical change in lending models and insurance solutions is inevitable to ensure the revival of a sustainable drought insurance industry.

- Drought insurance solutions can only be sustainable and successful if it can clearly define drought as a peril, without contaminating the trigger mechanism of the product with other perils such as farm management practices and third-party agendas.
- Multiple role players in the production value chain are exposed to the same drought and the impact it has on the same crop. Innovative drought insurance solutions must be tailored to mitigate the risk for all role players in the production value chain separately, or on an aggregated basis.

The traditional drought insurance product, Multi-Peril Crop Insurance (MPCI), does not adequately consider the large variety of soil types, climate regions and farm operation sizes, which poses practical challenges and results in high administration costs. Generally, MPCI insurance rates are structured on the historical yield performance of an administrative region, such as a municipal district, province or broad climate regions. It can also be structured on the historical yield performance of an individual farm. This outdated methodology results in serious underwriting failure that threatens the sustainability of the product.

Success in drought insurance may lie in the shift in recent years from MPCI to multi-peril area yield insurance. In essence, area yield insurance calculates insurance rates according to the historical yield performance of a crop in a predefined production area, which considers similar soil and climate in one geographical area.

Contrary to MPCI, where crop performance and claims is assessed on an individual client's farm, area yield insurance claims are based on the weighted average of yield shortfall determined across the pre-defined production area. Simply put: the long-term yield volatility across a production area is similar between different farms in the same production area.

A well-structured product

Area yield insurance creates room for the design of multiple benefits to the farmer and the insurer. The concept of claims being settled based on the weighted average of a pre-defined production region, does incentivize the farmer to apply best farming practices.

At the same time, the concept enables scientific underwriting and fair insurance rates. If the concept is managed properly in a well-structured product, contamination with non-applicable perils is almost impossible and will create sustainability. ●

> Drought insurance solutions can only be sustainable and successful if it can clearly define drought as a peril.

Unique and out of the ordinary construction, community uproar and contracts

Lucia Swartz-Horne
Claims Specialist
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SHA

Many construction companies are, at any given point in time, usually involved in major residential, industrial, commercial, highway or heavy contracting activities in rural or mining communities.

The work normally required to be undertaken involves drilling, crushing, screen work, quarrying and blasting activities, amongst others. These activities afford opportunistic third parties the platform to come forward with complaints alleging damage to their property, as a result of the insured's blasting activities. Quite often, compensation claims for alleged damages run into millions of Rands.

All sorts of unscrupulous means

We are living in a tough economic climate and the COVID-19 pandemic has exacerbated the situation further. Many individuals are now desperate and finding all sorts of unscrupulous means to sustain themselves.

> Insureds are often placed in a precarious position where they are pressured into admitting liability even where no negligence can be attributed.

Normally, the insured would submit these third-party claims to their liability insurer for consideration, under their public liability insurance policy. The circumstances are investigated, structural engineers appointed and their findings in most instances conclude that the property was poorly constructed, material shrinkage had taken place, foundational movements occurred and that the insured's blasting activities did not cause or contribute to the loss.

In order to avoid the exorbitant costs associated with investigating fabricated claims, most construction companies have started photographing the properties around their blasting sites before work commences. This is to immediately refute false damage claims and prevent such claims from being noted against their policies, which could ultimately affect their loss ratios. If they have not yet done so, brokers should advise their clients to adopt a policy of photographing surrounding properties where such construction activities are to take place before commencing with work.

Interpretation and application of policy

But what happens when there is a community uproar, preventing the insured from continuing with their activities and fulfilling their obligations under the contract, threatening to damage the insured's equipment, or causing physical harm to employees unless their properties are restored or repaired? What if the insured caves under pressure and agrees to pay for third-party damages, without the insurer's agreement and before any investigations have taken place? If subsequent investigations reveal that such damages cannot be linked to the quarrying or blasting activities, has the insured now breached their policy obligations and conditions by admitting liability?

On a strict interpretation and application of the policy, the insured has indeed acted in breach and to the insurer's detriment. Under such circumstances, insurers would be well within their rights to reject a claim for indemnity under the policy. An insurance contract is a legal contract, based on good faith between the insured and insurer, and imposes certain conditions on the insured to fulfil those obligations.

Based on good faith

Insureds are often placed in a precarious position where they are pressured into admitting liability even where no negligence can be attributed. Under such circumstances it is vital for the tripod relationship i.e. the insured-broker-insurer to work together in order to reach an amicable solution that would assist the insured to restore peace and calm amongst the community without compromising their insurance cover. Insureds are reminded that their policies would normally respond to defence costs, provided all other policy conditions have been met and no exclusions are applicable.

Insurers cannot dictate to insureds how to conduct their business and insureds are often advised to act prudent under the circumstances and, in doing so, ensure that they do not breach any of their policy conditions. Insureds are at liberty to enter into third-party negotiations for commercial reasons, but these will fall outside of the ambit of their policy cover with insurers. In such circumstances, the insured may well want to consider their options and whether they agree to the repair of perhaps a single dwelling, which would not outweigh having to incur hefty penalty costs for project delays.

In terms of their obligations under the underlying construction contract, they would probably opt for the former approach. ●

From risk to resilience

What the latest mindshift means for insurers

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

> Insurers must help customers understand how to minimise their losses by providing them with practical solutions to reduce their risk exposure.

The insurance industry is facing significant economic and societal challenges in the wake of COVID-19. The pandemic has stretched and redefined our understanding of an 'extreme insurance event'. And as we set out on the road to recovery, it is clear that insurers will have to anticipate, adapt and manage the risks inherent in our new reality, while continuously reassessing their business strategies. Navigating the new reality requires a comprehensive and ambitious response around strategic levers such as: resolve - resilience - reimagination and reform.

RESOLVE:

In the early days of COVID-19, insurers had to focus on mitigating the risks faced by their employees and ensuring digital operational continuity. By expanding work-from-home across most functions, insurers have developed a strategic capability to successfully deal with both the current and future crises.

RESILIENCE:

The pandemic required some industries to carry out a 'hard reset' to survive. For insurers, the immediate impact was not as radical; though it has proven necessary to develop contingencies around the possibility of an extended fallout. It is also a non-negotiable for insurers to consider ways to improve their resource usage and productivity.

Accelerating digital engagement across the customer journey remains a top priority, and insurers with mature digital functionality across areas like sales and distribution, services and retention and claims, will be able to weather any crisis. Those who are behind the digital curve should finetune their digital functionality as follows:

- **Sales and distribution:** Abandon paper and digitise everything, from lead generation to binding agreements. Technology solutions can create a single customer view and facilitate customer authentication and risk assessment, onboarding, live video streaming communication and application completion etc.
- **Services and retention:** Digitising all service channels across the full value chain expands self-service channel adoption.
- **Claims:** Digitising delivers simplified and convenient claims services that drive efficiencies and customer satisfaction.

REIMAGINATION AND REFORM:

As the pandemic crisis passes, insurers should accelerate the redesign of operating models and abolish dependencies on legacy systems. They must enhance their ability to deal with unknown future events through, innovative disaster recovery protocols; operational risk scenario planning; supply chain sustainability; and work flexibility strategies. Our current 'new reality' should not be seen as an endpoint; but rather as an evolving state where organisations continuously respond to uncertainty in preparation for ongoing future challenges.

Adapting to the 'Age of Biology'

We use the phrase 'age of biology' in recognition of the importance of the healthy interaction between staff, customers, products and the economy. Insurers must understand and refine their fundamental business purpose, while remaining respectful of the potential role and impact of scientific realities in an evolving ecosystem.

While adapting the business to be more agile and flexible, it is also wise to remain cognisant of scientific predictions and legacy cycles, to build organisational immunity across company structures. In the words of Charles Darwin: "It is not the strongest of the species that survives, nor the most intelligent that survives. It is the one that is the most adaptable to change."

Focus on loss prevention

Insurers must help customers understand how to minimise their losses by providing them with practical solutions to reduce their risk exposure. Insurers can leverage their research-based data and case studies to offer practical and technological solutions to clients that substantially mitigate their risks.

It is possible to improve business profitability while reducing client trauma, simply by equipping customers to anticipate and avoid risk events and related losses. If your digital transformation is not current, your competitive relevance could be threatened. By paying attention to your clients' loss prevention preparation, you attend to both their and your risk management and cost realities.

Ultimately, a 'risk mitigating partnership' is the cornerstone for building longer term win-win mutually rewarding business resilience. The time to reimagine your organisation's resilience during a crisis, is now-and always! ●

Speed is of the essence when taking a new idea to market in the digital age

Research conducted by the Georgia Institute of Technology Wilfrid Laurier University found that delays in product launches "have a statistically significant negative effect on profitability". Their study considered the financial performance of more than 450 publicly traded companies, across industries, that had experienced product launch delays over a 16 year period.

Focus on speed-to-market

The Georgia Institute found that "the effect of the delay is negative, regardless of when it occurred in the product development process, or the time of year of the announcement". Speed-to-market is increasingly important in the world of insurance product, system or service development. Insurers must develop these solutions with a sense of urgency, while maintaining quality standards and meeting their time-to-market objectives.

Unnecessary delays in taking a product, system or service to market, can erode the total available market that exists to sell your product, service or system into. An example of this could be the urgency around bringing out products that address specific risks that might arise from climate change or cyber security. Sudden changes in the status quo could influence the available market in such cases.

The risk in timing a product launch occurs at both ends of the time spectrum. Consumers may not see the benefit in a product that arrives late; but could be equally dismissive of a product that is launched ahead of its time. Getting the timing right is crucial when launching a new product, service or system, especially in the context of today's competitive market, where new risks are identified almost daily.

The customer experience age

A recent study by Deloitte observed that insurers must "evolve from a product-driven focus to a customer experience-driven focus". In order to do this "carriers may need to minimise or eliminate complexity in products and processes by removing long-standing challenges and expanding distribution options". If insurers are going to adopt this customer experience-driven approach, they need to be more flexible with regards to what the customer wants and be more responsive to environmental nuances. They must also adopt a set planning process that can be rolled out quickly, whenever needed.

By way of example, consider how many people are working from home presently, and therefore not using their cars for home-to-work travel. Why are insurance premiums not reflecting this usage change? Some insurers have responded with limited premium reductions on existing products; but the answer could lie in a longer-term solution, such as a product that incorporates a standard comprehensive car insurance offering with a reduced premium.

Speed-to-market can often be achieved by simple adjustments to existing products rather than creating a new product from scratch. If the environment changes significantly, and people return to office-based work, the appetite for this type of product might reduce; but being agile enough to offer such a product within the current market, could provide an advantage. The trick is being able to identify emerging risks and determine if there is enough appetite to support a product; and then determining if the new product can be tagged onto an existing product.

Non-insurance competitors

Examples of this can be seen in areas like product distribution and product development collaborations with non-insurers. Remember that consumers do not only measure insurers against other insurers; but against other industries. Companies like Amazon, Google and Takealot have changed the game when it comes to speed. Consumers are asking why insurance products and processes cannot be as simple and convenient.

This is why some insurers opt to distribute or develop products in partnership with these tech companies. We foresee more collaboration between insurers and tech firms as the digital world evolves. It will probably take some time for insurers to onboard the mind-shift to consumer experience-driven innovations; but the acceptance that cumbersome processes will need to be restructured will be game changing. ●

Ricardo Coetzee
Head
Auto & General Insurance

"Speed-to-market can often be achieved by simple adjustments to existing products rather than creating a new product from scratch.

CONSTANTIA

Insurance made personal

Heidi Dias | Executive – Marketing & Distribution

Over the past 25 years, Heidi has added significant value to the insurance industry, not only in Senior and Executive roles, but also through her passion for leading and mentoring people to realise their talent and potential. In addition to a busy corporate schedule, Heidi contributes to various industry associations and serves on the Board of the South African Insurance Association (SAIA), the Insurance Institute of South Africa (IISA), and is also a mentor in the IIG's Roots and Wings programme. To Heidi, Partner Enablement is about working closely with our insurance partners to understand their unique challenges, allowing us to then add meaningful value to their businesses.

OUR INLAND & NATIONAL KEY ACCOUNTS TEAM

Gavin Horn | Regional Manager – Inland & Key Accounts

With 37 years of short term insurance experience, and as a member of both the South African and London Insurance Institutes, Gavin is the consummate insurance professional. Gavin has been with Constantia for the past five years, previously looking after our Underwriting Management Agency (UMA) relationships and is now responsible for Constantia's Inland Portfolios and National Key Accounts. To Gavin, Partner Enablement means providing our partners with innovative risk solutions to enable them to meet their client's insurance needs.

Patience Baloyi | Senior Portfolio Manager – National Key Accounts

Patience joined the insurance industry in 2007 after a brief stint in banking, and has been with Constantia for the last two years. With previous positions at Santam, Old Mutual and Centriq, Patience brings a wealth of insurance experience to Constantia. The significant impact that technology is having on the insurance industry, and the opportunities this unlocks, is just one of the reasons Patience is so passionate about our industry.

Bevan Manchest | Business Development Manager – Gauteng

Bevan has moved quickly through the ranks, starting out as an intern at Old Mutual before taking up a Business Development role at Bryte and a Senior Portfolio Manager role at Old Mutual. Bevan has been at Constantia for the past two years and is a passionate advocate of the insurance industry, recognizing not only its importance in providing clients with peace of mind, but also as a key pillar of our economy.

Gert Lubbe | Portfolio Manager – Gauteng North

A talented rugby player turned insurance professional; Gert has been with Constantia for the past three years, having held previous roles at Renasa and King Price. Gert has strong Claims and Binder experience and is passionate about ensuring our partners find it easy to do business with Constantia, and in doing so, providing value to their customers.

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Contractual interpretation... contra proferentem

While the court commenced its judgment by saying that the words of the contract were clear, ascertainable and without ambiguity, the court in conclusion, said that the obligation lies with the insurer as the author of the contract to give certainty to the risks it wishes to exclude.

According to Thomson Reuters Practical Law, the contra proferentem rule states, broadly, that where there is doubt about the meaning of the contract, the words will be construed against the person who put them forward.

Donald Dinnie, Director at Norton Rose Fulbright, recently wrote an article that featured on the Financial Institutions Legal Snapshot on the very same topic.

Insurance policy interpretation

In the case, the Gauteng High Court considered what constitutes armed robbery, theft and hijacking as indemnifiable events under an insurance policy in Anabella Resources CC versus Genric Insurance Company.

"The policy did not contain a definition of armed robbery and the definition of theft and hijacking required 'actual lawful control' by the insured or its employees of the seized property at the time of the seizure," said Dinnie.

"The court had to consider whether the indemnifiable events had to all take place at the premises from which the property was removed, and from a person in actual control of the property at the time of removal of the property from the premises," added Dinnie.

The facts of the matter

The facts comprised the following; Mr Hadife was the plaintiff's Financial Manager and Ms Mathebula, a member and the manager of the plaintiff. The latter's duties included accessing the cash in the safe in order to pay the plaintiff's suppliers of scrap gold jewellery. Ms Mathebula controlled the safe and gained entry to it by way of two keys and the combination to the lock. Ms Mathebula kept the keys in her possession or hidden in a place known only to her and the plaintiff's majority member, Mr Chammas.

Mr Hadife also had access to and control of the safe and the cash stored within it in two ways. He could ask Ms Mathebula for the keys and the combination which Ms Mathebula would give him or he could ask her to open the safe and remove what he required. If he asked her to open the safe and remove cash, he would do so verbally, either by way of an intercom announcement at the plaintiff's premises, or telephonically, or, via WhatsApp voice note. He would, on occasion, use a text message. This practice was regarded as acceptable and was the standard manner in which he obtained access to cash within the safe.

On the day the event occurred, Mr Hadife was driving to work when he was pulled over by a man in a Metro Police vehicle. Whilst the driver of the Metro Police vehicle inspected Mr Hadife's driver's license, three men appeared from another car that had stopped in front of Mr Hadife's vehicle. They approached Mr Hadife, threatened him with a firearm, forcefully removed him from his vehicle, placed him in their vehicle and drove to an unknown destination where they held him captive.

The men were familiar with the plaintiff's business practices. In particular, they knew what Mr Hadife had to do to gain access to the contents of the safe. They threatened to kill Mr Hadife unless he contacted Ms Mathebula via WhatsApp and ascertained how much money was in the safe. Mr Hadife did so. He was told that there was cash amounting to R2 424 700 in the safe.

The men instructed Mr Hadife to inform Ms Mathebula to remove R2 400 000 from the safe, to place it in two boxes and instruct Mr Phakoago, an employee of the plaintiff, to take the two boxes to the parking lot and give them to a man he would find there in a silver BMW 5 Series motor vehicle.

It was acceptable practice for the plaintiff both to receive instructions in this manner as also to take large amounts of cash and hand it over to customers parked in the parking lot. This had occurred previously and neither Ms Mathebula nor Mr Phakoago considered the instructions untoward. The cash was duly removed from the safe, taken to the parking lot and placed in the boot of a silver BMW 5 Series vehicle that was waiting there. The driver of the vehicle informed Mr Phakoago that he had been sent by Mr Hadife. All appeared normal.

Subsequently Mr Hadife was released and he explained what had happened. Only then did it become apparent that the cash had been taken unlawfully.

The acts leading to the loss

"The insured traded gold, cash and diamonds at its business premises. The insured's financial manager was abducted and forced to instruct the insured's general manager to remove valuables from the safe and give them to a person who would arrive in their parking lot. The thieves knew the operating procedure of the insured because this type of instruction from the financial manager to the general manager had happened in similar ways before, for customers. Therefore, the instructions did not seem strange, and were carried out. The theft only became apparent to the insured after the financial manager was released," said Dinnie.

"The force and threats applied to the financial manager were done off the premises. The actions on the premises were carried out under the assumption that they were lawful. The insurer, therefore, argued that the theft had not occurred on the premises," he said.

When interpreting a policy, Dinnie said consideration has to be given to the context and language of the policy including the meaning of all the words used in the contract, and whether the meaning is clear or ambiguous.

Clear policy wording

"The court held that for the purposes of robbery, force may be exercised remotely, away from the place where the goods are removed. The robbery can occur at two places. The place where the violence occurs and the place where the taking of the property occurs. The theft and hijacking definition did not require that the force occur at the premises where the seizing of the goods occurred. Once again, it was sufficient if the force occurred at a location remote from where the taking of the property occurred," said Dinnie.

"That interpretation is also consistent with the common law definitions of robbery. It is sufficient that the insured is in effective or lawful control of the property, even if remotely.

The indemnifiable event in the policy wording did not require that force against an employee occur at the premises where the property was secured or from where it was removed," added Dinnie.

Dinnie mentioned that the decision is unsurprising on the wording of the policy.

"While the court commenced its judgment by saying that the words of the contract were clear, ascertainable and without ambiguity, the court in conclusion, said that the obligation lies with the insurer as the author of the contract to give certainty to the risks it wishes to exclude and absent that certainty, the provisions of the policy will be construed in favour of the insured in accordance with the contra proferentem rule. The court did not say what was ambiguous about the wording or why reference to the rule was necessary to make its findings. It was not. It had also been common cause at the trial that the wording was clear and unambiguous," stated Dinnie.

In a long line of authority, Dinnie concluded by saying, "our courts have made it clear that the rule only applies where there is genuine ambiguity which cannot otherwise be resolved by applying the ordinary principles of construction. The rule should not be relied on to create ambiguity where there is none." ●

> The rule only applies where there is genuine ambiguity which cannot otherwise be resolved by applying the ordinary principles of construction.

COVID-19 brings challenges to **medical malpractice**

Ken Van Sweeden
Director
Liability Matters – a specialised liability UMA.

The term "Good Samaritan" describes laws that provide immunity to healthcare practitioners who provide emergency care and treatment to injured persons.

COVID-19 has presented new challenges to many insurers, as their policies get tested, to see if their policies will respond to losses caused by the COVID-19 crisis. Business interruption policies have enjoyed closer scrutiny in this regard.

Insurers have for some time documented that they have no intention of covering communicable disease exposure and have not granted the cover in their policies, nor charged a premium for the risk.

Good Samaritan coverage provisions

However, a question can arise where there is a pandemic/epidemic exclusion in a Medical Malpractice Policy, and how this applies in moments of a crisis against the backdrop of cover being granted under the Good Samaritan coverage provisions.

The term "Good Samaritan" describes laws that provide immunity to healthcare practitioners who provide emergency care and treatment to injured persons. Its main purpose is to encourage practitioners to come to the aid of others in times of emergency. There is no formal legislation in South Africa granting immunity to healthcare providers who render assistance to patients in an emergency situation.

A duty on healthcare practitioners

Following the declaration of a national state of emergency, some healthcare practitioners were anxious to know whether their policy would respond, should they be requested to provide assistance to COVID-19 patients by the authorities. If insurers maintained the position that no cover was afforded by their policy because of the pandemic/epidemic exclusion, the practitioner may then have decided not to respond to a request for assistance. In South African law, there must be a legal duty to act before failure to take action can be unlawful, so would this "omission" be regarded as unlawful?

The provisions of the Constitution and the National Health Act, together with the HPCSA ethical guidelines, indicate that there is a duty on healthcare practitioners to assist in an emergency situation. It suggests that under a national emergency, there is an ethical duty for professionals to provide medical assistance, and it is almost certain that the legal convictions of society would want the same. What should be done to give healthcare practitioners assurance that they will not face liability for events where they acted in an emergency setting, and it was later established that the treatment they administered was ineffective or complications ensued?

Although South Africa has no formal legislation protecting Good Samaritans, a healthcare practitioner who provided assistance in an emergency may still not incur liability if their treatment falls short of what was required, provided that they rendered medical care to the standard expected of a healthcare professional in their field of practice in the same circumstances.

Other relevant factors such as time pressure, lack of qualified assistance, facilities, equipment or medical instruments etc. will also be taken into account. However, this principle will only be of little comfort to the healthcare practitioner knowing that the courts will apply what is largely an objective test for determining delictual fault at some point in the future.

A moral and ethical obligation

Given that there is a moral and ethical obligation on our insured's to render emergency services, perhaps we should adopt the Good Samaritan principles used in the United States when granting immunity to a healthcare practitioner, until such a time that Good Samaritan legislation is passed in South Africa:

- There can be no expectation of remuneration for the assistance provided;
- The assistance cannot be reasonably objected to by the patient;
- Assistance must be offered in good faith;
- Assistance must be warranted by an emergency circumstance;
- The emergency situation must not be created by the individual rendering assistance;
- The assistance rendered must not be wilfully or wantonly in violation of professional standards of care; and
- The assistance rendered must not be part of a pre-existing duty.

Insurers ought to be able to provide some form of carve back in cover, rather than applying an absolute pandemic/epidemic exclusion. Failing to do so would be a disservice to their clients in their time of need. ●

INTENTION not always the issue as insurers reconsider their policy wordings

A few recent insurance industry events have suggested that insurers need to take a comprehensive look at their policy wordings. The intention of actuaries and underwriters does not always bear out when wordings are scrutinised by lawyers and claims specialists.

I often hear the objection "this is clearly not what was intended by the underwriters" when I share my view on a claim; but my legal opinion has to follow the actual wording. In today's legal world, the courts and Ombudsman will always remind us that we, the insurer, drafted the wording, and if we wanted to make an aspect of the cover clear, we could easily have done so. They will also interpret any ambiguity or doubt in favour of the policyholder.

Intention holds little sway

The intention is not something that will be considered unless all other interpretation remedies have been exhausted. Insurers also have large legal departments and the ability to carefully check a wording before it gets issued, while the policyholder, who usually has no legal background, must trust that the wording delivers on the promise that it commits to or that the broker has advised on.

What courts and regulators do not see, is that many wordings are proposed by brokers and agreed for commercial reasons, or that commercial wordings are reproduced from older, traditional policy covers, even potentially from overseas policies, without considering the ramifications. This is particularly true in the case of commercial wordings for niche cover types. The result is that certain extensions and wordings may have unintended consequences.

A good example of this is the notifiable disease extension with regards to business interruption cover, which has become topical of late. We have witnessed potential unthinkable ramifications arising from these extensions, including the applicability of government lockdowns and the relevance of a disease being 'notifiable' when it has been declared a pandemic by the World Health Organisation (WHO).

Clarity on lockdown and pandemic

It is clear that many policy wordings did not anticipate events like government lockdowns or the complete shutdown of the world's main economies due to a pandemic. The current debates being argued in courts worldwide could have been avoided if policy drafters had inserted a pandemic exclusion into the extension, and specifically excluded government shutdowns from cover. Likewise, if brokers wanted lockdown related losses to be covered, they could easily have requested a clause into the extension covering government shutdown or restricting access.

I am not taking sides in this debate which is currently raging in many countries; but pointing out that these doubts would not have arisen if insurers, with the benefit of hindsight, had been more explicit in their wordings. I am sure we will find more examples if we examine these types of extensions on commercial policies, and potentially even the basic commercial wordings where the main exposures are.

Policy drafters will have to think of ways to accommodate the potential ramifications in these clauses without making the cover less attractive to policyholders and brokers. It is easy to simply remove or limit cover; but more difficult to foresee the unforeseeable and step into a deal with those unintended results.

The plain language conundrum

Another cause for uncertainty that could result in an unpredictable claims experience, is the move to plain language wordings. Plain language creates ambiguity and the potential for insurers to have to pay claims which were not intended. The 'forced entry' and 'safe' clauses for jewellery would be specific examples where an insurer might believe they have underwritten risks on certain specific conditions, only to discover the conditions were not adequately described in plain language.

Expressions such as jewellery "not being in use" instead of the old "not being worn" and the return to "forced entry" instead of "forced and violent entry" come to mind. The plain language requirement is also indicated in Treating Customers Fairly (TCF) principles and Protection of Policyholder Rules. Insurers have learned some expensive lessons after sacrificing legal clarity for understandable wordings.

Such wordings will have to be relooked at to ensure that simple language conveys the intended cover. ●

Danny Joffe
Head: Legal
Hollard Insure

> Insurers have learned some expensive lessons after sacrificing legal clarity for understandable wordings.

Flexible workplace policies... withstand a crisis

James Ison
Head of Property & Energy
Chubb

New technologies are reshaping businesses, and fundamentally, altering how and where their employees work.

In this new landscape, offering flexible working solutions such as telecommuting and other forms of remote access have become critical. This allows businesses to not only operate in a more agile way, but also attract top talent.

In high demand

Recent research from PowWowNow1, a remote working technology provider, found that 35% of people would prefer flexible working opportunities over a pay raise. And, over 80% say flexible working options would make a job more attractive to them.

That makes having flexible working policies a huge advantage for businesses, but they might not realise the full extent of the benefits.

A policy can be a safety net

From the COVID-19 crisis, to the threat of terror attacks or natural catastrophes, it is impossible for businesses to predict what is around the corner. As we have seen with COVID-19, it can be difficult to prepare for these crises, but flexible working policies have already demonstrated their worth as a safety net.

Businesses that already have capacity to continue operating with employees in multiple locations are more likely to weather the storm of a crisis, with minimal disruption. Put simply, flexible working arrangements are a 'dry run' for more serious situations where working remotely is not an innovative benefit, but a necessity.

> For the businesses that can make it work, investing in flexibility makes a lot of sense.

Of course, not every business can operate remotely, and certain sectors like the hospitality and retail sector face particular challenges. However, for the businesses that can make it work, investing in flexibility makes a lot of sense.

With the right processes and technologies in place, businesses can worry less about simply staying operational, and focus more on making sure they remain as efficient and effective as they normally would be.

A successful flexible workplace policy

If flexibility and adaptability in the workplace come with so many potential benefits, the question becomes, how can businesses make it work?

There is no one-size-fits-all answer, and the right flexible workplace policy for a particular business will depend on a range of factors, including geographic location, reliance on technology, number of staff, and much more.

It is worth keeping in mind that with remote work, businesses have less control over the environments their employees are operating in, which can raise all sorts of liabilities. For example, if an employee injures themselves or somebody else in their house while they are on the clock, who is responsible?

Therefore, some essential components to making remote work arrangements successful are clear employee communications and training, investing in cyber security and a risk management program, and having the right insurance. ●

THE INSURANCE APPRENTICE 2021 UNDERWAY

An experience that's worth it

The Insurance Apprentice is set to take heed once again as preparations for its 2021 edition are underway. In case you missed it, FAnews, the creator of The Insurance Apprentice, decided to extend the deadline for applications for the 2021 series to **end December 2020 (FOR NOW).**

Enter, enter, enter

Challenge yourself, grow on a personal and professional level, showcase what you are all about and win the much sought-after prize of a trip to Lloyd's of London. You have nothing to lose… if you are under 35, have been working in the short term insurance industry (any part of it) for four or more years at the time of application, then simply visit www.TheInsuranceApprentice.co.za, fill out your application form and submit it. Thank you to our awesome 2021 sponsors for their support and sponsorship, we hope to add a few more in the next few days.

GWII

LEADERWALK: (HU)MANIFESTO

In collaboration with Business Engage and the 30% Club, GWII hosted our 2020 Finale Leaderwalk on 8 October. The Leaderwalk concept nurtures the advancement of senior management and aspiring leaders by providing a platform to share expertise, master skillsets and cement networks within the Insurance industry.

Our speaker for the event was Andy Golding - a leading Employee Experience specialist, the co-founder of Still Human and was named one of South Africa's "Top 50 Business Women to Watch in 2018" by Entrepreneur Magazine.

The event's theme was chosen in light of the Great Re-think movement of how we organise ourselves, our teams and our businesses. "(Hu) Manifesto" is based on the fundamental human drive that we crave authentic connection, not constant connectivity. With the emergence of mega trends in the employee experience, is it fleeting? Or will it endure into the future? Our attendees had some strong views on the matter!

Both the keynote address and breakaway discussions brought about a robust discussion on how we can and should move into a 'Better Normal'.

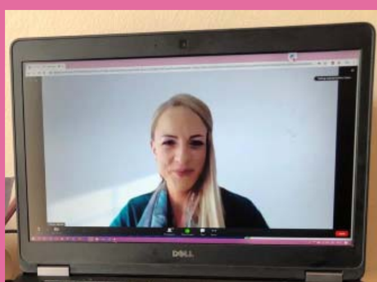
We thank our VIP breakaway facilitators for co-hosting this event with us:

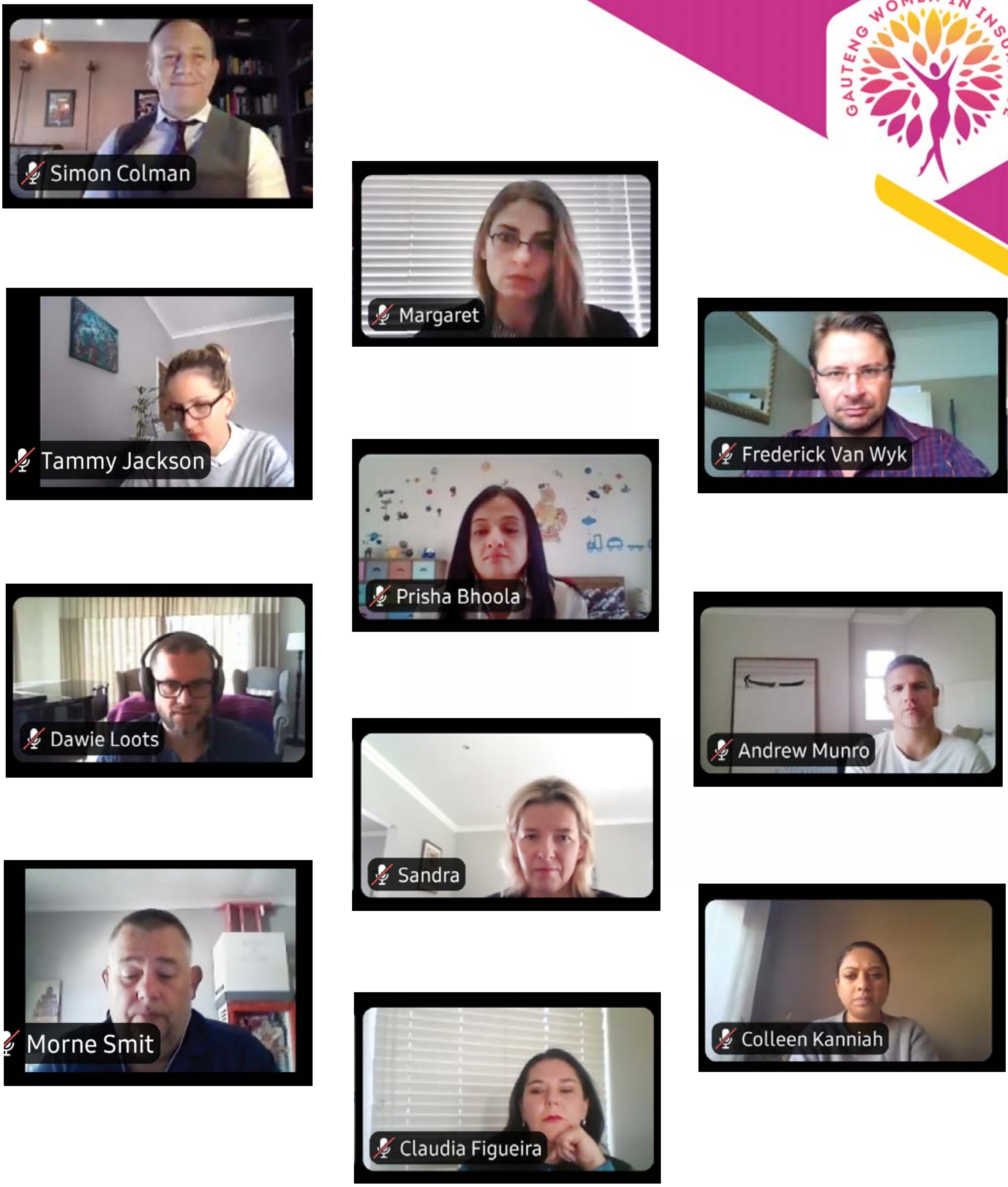
- Christine Rodrigues (Bowmans)
- Claudia Figueira (Camargue)
- Leslie Mitchell (Camargue)
- Nicky Eveleigh (Marsh)
- Peter Links (Marsh)
- Prisha Bhoola (Lireas)
- Sandra Hutchison (Genasys)
- Simon Colman (SHA)
- Simon Smith (Guy Carpenter)
- Sungeetha Sewpersad (Old Mutual Insure)
- Valerie Hayter (Lireas)

This event would not be possible without the continued support of our sponsors - Camargue, Genasys, Lireas, Guy Carpenter, Marsh, Old Mutual Insure and Willis Towers Watson.

The next GWII Leaderwalk is scheduled for March 2021.

Watch this space!





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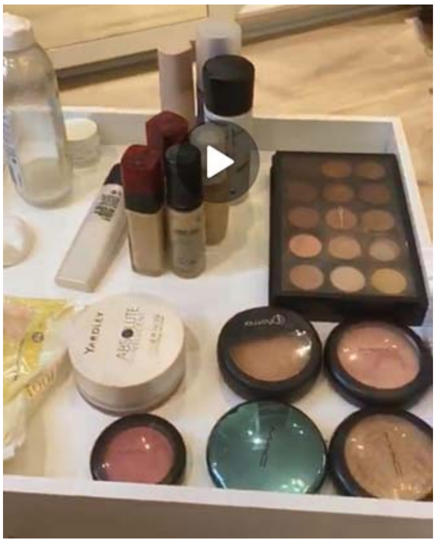
A GWII
glam up session

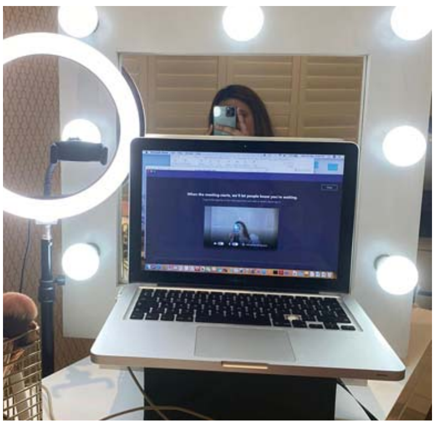
The power of makeup is undeniable. However, when it comes to makeup, skillful application can make all the difference. With that being said, Gauteng Women in Insurance (GWII) hosted an exclusive virtual Makeup Masterclass, sponsored by A McLarens Company, with Raeesah Shah on Wednesday 30 September.

Learning about new things in the realm of beauty, the ladies engaged in an interactive online tutorial that included basic to advanced makeup applications with the latest tips, tricks and trends.



Congratulations to Preashini Naidoo on being the winner of the fabulous Grand Prize.

Chatherine Pienaar (right), President of GWII, with her niece.



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