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Insight

SA'S PREMIER **INTERMEDIARY MAGAZINE**

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A HARD MARKET
It comes and goes.

GREY RHINOS
Numbers on the rise.

SKEWED INFECTION RATES
The silver lining.

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Lizelle van der Merwe, FIA CEO

THOUGHTS **FROM OUR CEO**

BACK TO THE SOURCE

Does the idea of going back to basics mean that we've made mistakes and need to re-evaluate where we are expending our time and energy? The basics were good enough to get us started but are they good enough to get us to where we need to be, now that the rules of the game have changed? This theme is prevalent throughout this issue of *Insight*.

People and businesses have grasped at the opportunity to re-evaluate personal and business strategies to remain relevant in a world where pandemics are now a part of our story, climate and environmental risks are on the insurance agenda, and cybersecurity threats affected 155.8 million individuals as a result of data exposures.

Given the economic climate and an imminent third wave, there is an opportunity (if not taken up already) to re-introduce much-needed work-life balance to our hurried daily lives, which was non-existent for many people, including executives, business owners, and parents. Given that we are not required to travel long hours to and from meetings, we have more time to exercise, meditate and plan for tomorrow. Basic key elements which we may have neglected over time.

Resilient businesses, such as members of the FIA, incorporate basic key elements, which include a healthy corporate culture built on trust and care for their stakeholders; they communicate effectively; they invest in improving their collective knowledge and expertise; they under-promise and over-deliver and they never neglect a good party. Knowledge and expertise are trademarks of any successful intermediary. Let's keep working on improving our product and technical knowledge.

People bring a business, friends and family to life. What is often missed is the pursuit of happiness – the interplay between home, family, friends and work. Do we work to live or do we live to work? If the one suffers, they all suffer in some way or another.

People and relationships are at the centre of intermediary culture. We look after people's wealth, connect with them every day, we help people make difficult decisions that will have a profound impact on their lives. And this is also part of the back to basics idea. Why did we get into financial advice? To help people.

At the FIA we will continue to pursue every avenue to help our people, our members, which ultimately benefits your clients as well. Thank you for your continued support.

We value our relationships with our members a great deal. Our door is always open and you are welcome to contact us at any time to share whatever is on your mind. We'd love to hear from you.

Lizelle
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DEALING WITH HARD MARKETS

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All signals point to the fact that insurance is currently experiencing a hard market, the question is how long it will last.

Generally, a hard market is when things go bad for the insurance industry. "A hard market is typically characterised by stricter underwriting standards, a reduced willingness to expand, restricted coverage terms, and higher premiums," explains Sujeeth Bishoon, Chief Underwriting Officer at Constantia Insurance.

In recent history, the industry experienced hard markets in 1991 and 1992, then in 2001, 2005, and over 2017 and 2018, says Belhassen Tonat, general manager of non-life at Munich Re. In 1991, the difficult market lasted until about 1997. The market then typically softens for roughly five years until the next catastrophe. Tonat notes that generally, the duration of hard markets has been decreasing over time, with the current one expected to last until roughly 2023.

"It's back to basics," says Daryl de Vos, former president of the Insurance Institute of South Africa, and head of commercial at Lombard Insurance. In hard times, all market participants work together to not be destructive in the market, he says. At least, that would be the case in an ideal world.

Insurance, like any business, is based on supply and demand. There's the one side that wants to transfer risks to the insurance and reinsurance markets, and there's the other side that is willing to take on this risk based on a certain price transfer, Tonat explains. One of the first signs that markets have hardened is when demand outstrips supply.

Another characteristic of a hard market is the availability of institutional investors, such as pension funds, and their willingness to invest. Certain lines of business also tend to underperform, which is met by insurers generally pulling capacity from these markets.

Various insurers in South Africa, for instance, no longer cover credit or agriculture risks due to these sectors underperforming. There's not enough margin to subsidise these lines, which is why insurers are calling it a day on these lines of business and focussing on the ones that are showing profits. Epidemic insurance against the local spread of certain diseases is another line of insurance that insurers have stepped away from following the pandemic. Abroad, in the US, for example, Tonat says the recent strikes and riots, which have become commonplace, have called into question insurance for these events.

Other risks, such as the surge in cyberattacks have added to an already volatile environment. "All of these together, if they coexist at more or less the same time, create a hard market defined by an increase in prices, shrinking capacity, and a shrinking of scope of cover," says Tonat.

The longer time it takes for brokers to place a risk today as opposed to a year ago should be an indication that the insurance industry is going through a tough time. "Brokers used to have automatic placement facilities," Tonat explains, a blank cheque of sorts to place risks, within certain parameters. "When companies reduce their risk appetite or simply stop writing certain businesses, it has repercussions," he notes.

These hard markets, driven by reinsurers, are cyclical, says De Vos. In the commercial and corporate spaces, reinsurers haven't seen the profits of previous years for the last six or seven years due to a combination of single-risk losses and past event losses, he explains.

"Depending on the nature of forces driving hard and soft markets, reinsurers may change their terms and conditions regarding risk appetite," says Bishoon. "Sometimes, the reinsurance market is the cause for markets hardening, such as business interruption coverage reductions due to Covid-19, and it is the insurers that have to →

factor in this hardening, which has a knock-on effect for clients."

Are we in one?

In certain lines, yes, says Bishoon, such as the commercial and specialist insurance areas, whereas personal lines experience less of these cyclical issues. "There are, however, many other dynamics in personal lines at the moment, such as affordability issues, reduced motor accident exposures due to Covid-related lockdowns, and a change in customer behaviours, due to lower economic activity and growth," he explains.

De Vos says the current hardening of the market goes back years to when insurers were hit hard by hailstorms in Gauteng and Kwazulu-Natal and never adjusted the pricing sufficiently to cater to these events, which he attributes to the competitive nature of the industry. "Once you've missed that cycle, it's difficult to claw back later," he says. "Nobody saw the fires in Knysna coming and nobody modelled for it, and it hit reinsurers between the eyes."

The competition and capacity in the international reinsurance market makes it difficult for local reinsurers to come back from these large event losses, says De Vos. "Insurers may have complained about the adjustment in pricing then, but I don't think it was enough if you consider the losses that reinsurers have picked up over a three- or four-year period."

Intermediary impact

Heidi Dias, Executive Distribution and Marketing at Constantia Insurance, explains that hard markets impact intermediaries in the pocket as they struggle to grow new business and maintain existing client bases during these times. This reduction in income may, in turn, lead to mergers between intermediaries attempting to scale and so reduce costs and efficiencies.

The current market intensifies the need for more detailed analysis and advice to the client, she notes. "Insurers and their intermediary partners need to collaborate and engage more than ever to identify insurance solutions in a world characterised by an increased fragmentation of risk," says Dias. "They need to ensure they have competitive solutions that meet customer needs to achieve more sustainable insurance market prices, even during these hardening times."

Is there an active solution to a seemingly inevitable cycle? The optimum solution would be to have a risk-commiserate price for risk, so insurers are happy to take on risks at a certain premium that satisfies their return on equity expectations, says Tonat. "You can't wrap a bad risk in an insurance policy and turn it into a good risk." Insurers first need to ensure that risk management practices are in place, after which they can introduce insurance solutions.

In developing a risk programme beneficial to the insurer and insured, De Vos says the industry should look to data. "The better the quality of data, the better the information, the easier it is to place the risk," he says. "If the intermediary and client are open to committing to a long-term relationship, then you can start developing a risk management programme that can be implemented over three or four years. But you need that commitment that works for both the insurer, the intermediary, and the client."

› **Watch the full interview** with Belhassen Tonat of Munich Re.

› **Watch the full interview** with Darryl de Vos of Lombard Insurance.

2020 LESSONS FROM LAST YEAR

CEO of Renasa Insurance Jonathan Rosenberg talks about the fundamental shifts happening in the insurance industry, and problem-solving remotely.

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Last year was tough on everyone and required companies to adapt fast. Do you think the fundamentals of our industry have stayed the same after this experience, or has there been a shift?

Jonathan Rosenberg: I think we're in the process of a fundamental shift. How extensive that will be is to be seen. Some insurers benefited from the lockdown as their books were suited to low levels of activity, but others are reeling. Particularly following the court case decisions that put insurers on the line for the consequences of government action, which is a first, to my knowledge. From that point of view, you could almost classify the pandemic as a Black Swan event. So, for some, it turned out well, and for others, it was tough, which will require some significant change.

Generally, in terms of operations, I think that a remote operation is less productive. A lot of people believe that being committed to fixed meeting times, having defined diary periods to address specific problems, and avoiding time-wasting in traffic is more effective, but for me, the challenge of 2021 was the many impromptu issues that arose. Many of these issues were associated with uncertainty regarding the impact in the short, medium, and long term, which resulted in materially intensified regulatory involvement. Remote working can be efficient for safe and regular activities, but when faced with the issues of the past year, you can't just walk down the passage to a colleague's office and have a brief word. Rather, one has to pre-arrange every discussion; spontaneous interactions are a challenge.

People are often either engaged in digital meetings or busy on the phone. So, for me, who likes to operate on short reaction times, remote working was immensely frustrating and unconstructive, and I found it challenging and a huge strain. Give me the time in traffic any day.

We didn't have difficulties from a technology perspective. Our entire base operates in the cloud, making it easy for us to switch to a remote operation. In a matter of days, we were all operating remotely and have continued to do so. During lockdown, we've settled more than 50 000 claims and made more than 60 000 payments, totaling upwards of one and a half billion rands, and in that time I received less than a handful of complaints. So, the issue is not whether we can operate remotely. For me, it's the issue of personal contact, and that applies both internally in terms of management, and externally in terms of market interaction.

Our management style and how we operate rely very much on personal relationships, which carries over to our intermediaries, where one of the prime differentiators is the personal service we render, and our avoidance of contact centres.

I have my doubts whether business is going to return to the basis of operation we enjoyed in the past. Whether or not that is tantamount to a fundamental and permanent change is probably too early to say, but while we endure the current circumstances, a change of attitude is necessary.

Based on these challenges, are there any specific opportunities for brokers?

I wouldn't say there are many new opportunities, besides those associated with lines of business that are gaining prominence, such as cyber insurance. In terms of new products and variation of products, limited mileage cover, and interesting ways of protecting the insured public cost-effectively, there are opportunities for brokers to work closely with insurers in developing opportunities.

I think the biggest change, and opportunity, for intermediaries will be to help in exploring new products and new forms of cover, which I think is going to continue evolving.

The intermediary market continues to be your chosen market. Based on where we are now and drawing from experiences of the last year, does this approach still hold?

Our strategy has always been to distribute through the intermediated market, to the exclusion of all other channels. We believe in the value of independent advice, which, to us, is crucial. This has been reinforced by what happened last year. All these challenges are unusual and are very difficult for an insured client to navigate without professional guidance. Our belief in the value of independent advice is reinforced by circumstances like this. As the markets develop, with issues like a cyber Black Swan, professional advice will become even more important. When it comes to a whole new arena there's no substitute for independent advice. I'm not criticizing the performance or offering of the direct market, but I think when it comes to newer and more complex products, and when it comes to commercial business, independent professional advice is essential.

There is no way that we will deviate from this course and for us to make way as the minnow among the whales we needed to perform. Our mission was to put our intermediaries in a position to outcompete their competitors. In other words, to put them in a position to bind swiftly and settle claims efficiently, and, above all, to do so with direct access to our senior management.

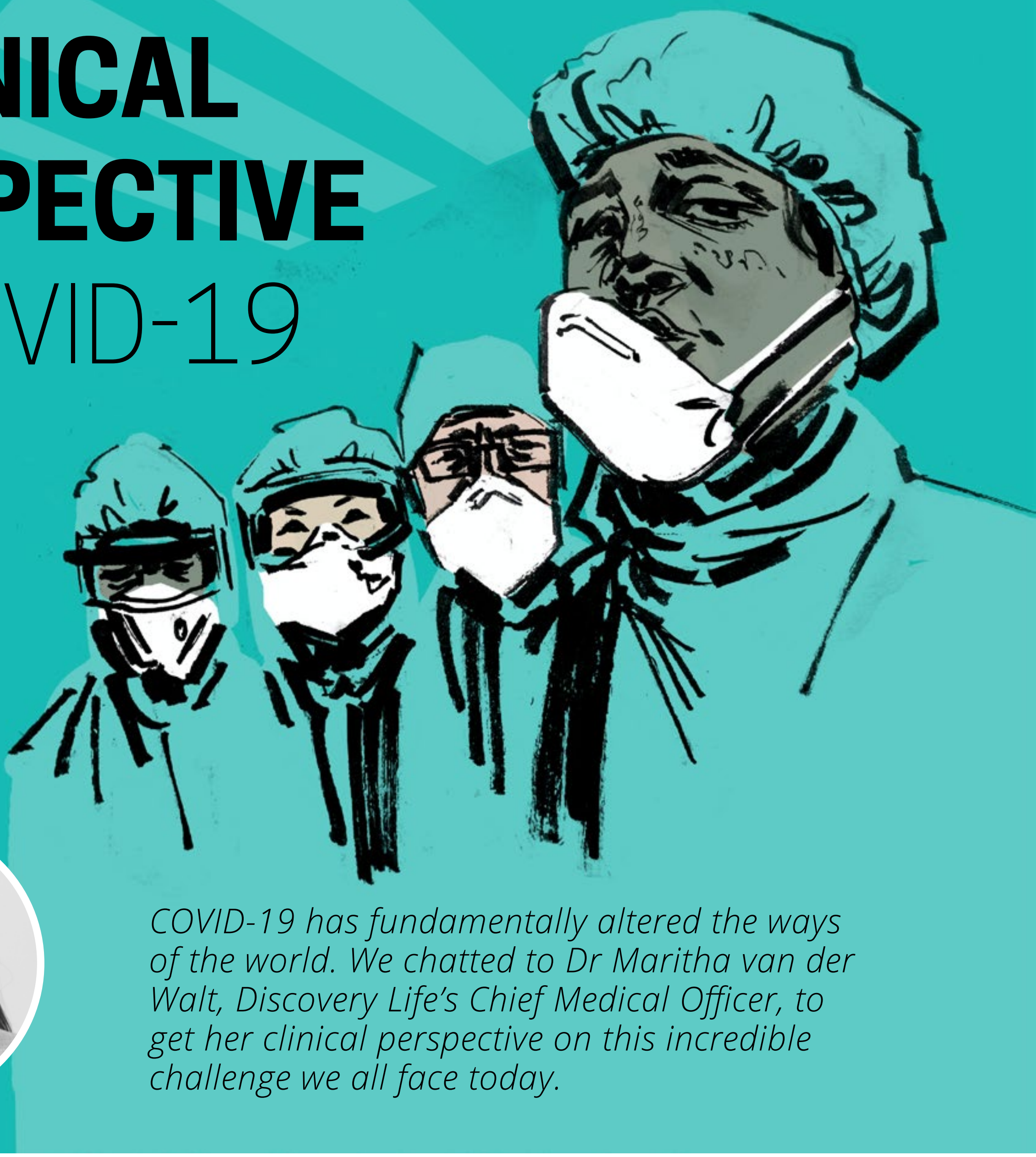
I don't receive the calls so much myself anymore, but I've always said that I'm available 24/7, 365 days a year. I've had calls at 02:30 in the morning from brokers that have tested this promise as part of a joke but I answered the phone. The point is that if we are needed, we are there for you.

This means no contact centres. We have personal insurers and underwriting portfolio managers who are authorised to bind on-site, and, today, this means also binding digitally.

"When it comes to a whole new arena there's no substitute for independent advice."

This interview was originally published in *Cover* magazine and this edited version is republished here with the permission of the author.

A CLINICAL PERSPECTIVE ON COVID-19



COVID-19 has fundamentally altered the ways of the world. We chatted to Dr Maritha van der Walt, Discovery Life's Chief Medical Officer, to get her clinical perspective on this incredible challenge we all face today.

The COVID-19 pandemic is an active global health concern, currently impacting more than 220 countries and territories. With more than 107 million known global infections since the outbreak began, SARS-CoV-2, the 2019 coronavirus, is touching more and more lives - and at an increasing scale.

Since this is a health challenge of considerable proportions, how we as a global population go about reducing infection and mortality rates in the future will be key. Together with protective measures, such as those offered by life insurance plans, methods to weather the challenges that come with it can be put in place.

As an insurance group, Discovery is well-positioned to understand the impact that a crisis such as Covid-19 can have on its members and policyholders, especially within the areas of health and life insurance.

What do we know? How can we better protect our current and foreseeable quality of life? Dr Van der Walt shares a few insights and thoughts with us.

What clinically-related research has Discovery done since the start of the pandemic in South Africa?

Discovery Health and Discovery Life have worked together closely to identify who our high-risk clients and members may be. Using this information on our databases, we then sent out communication to individually inform them about Covid-19 and how to go about practicing effective prevention measures.

We've also seen that a healthy lifestyle and engagement in the Vitality programme reduces the risk of Covid-19 complications, even in high-risk groups of people.

Through Discovery's developed model, using factors such as age, sex, member complexity profile (in other words; any relevant high-risk health conditions or comorbidities that a person may be under treatment for), and a Vitality engagement measure, we can determine a possible risk profile on our members' behalf. Using this, the Discovery Health and Discovery Life businesses can better guide members and policyholders through this period as a way to help lower potential risk of severe illness if they contract Covid-19.

Collectively, what the model has been able to show is that if a person falls ill, their risk of needing hospitalisation may increase considerably depending on the risk factors they have. These risk factors are now well known and many include male sex, older age, chronic heart problems, lung problems, chronic kidney disease, hypertension (high blood pressure), diabetes and obesity. However, risk levels can also decrease considerably with healthy doses of physical activity. This is where the Vitality programme can be used to encourage members and policyholders to maintain a healthy lifestyle with good nutrition and exercise.

Unfortunately, we have also seen that there are young, healthy people experiencing severe Covid-19 infections. This means that everybody, regardless of age or comorbidities, must follow all of the precautionary and preventative guidelines to stay safe.

What has Discovery Life done differently from a clinical perspective to ensure that clients are protected?

With general clinical information at hand, paired with our own knowledge of how our members and policyholders can best protect themselves, Discovery Life has been able to better assess the current needs of its clients and respond appropriately. This assessment has in turn helped to inform how products can be adapted and even created to provide protective buffers for clients.

During lockdown, we created 'safe zones' or 'mini labs' at our various franchises. Here, the

"Everybody must follow all of the precautionary and preventative guidelines to stay safe."

highest standards of hygiene were maintained to mitigate risk to our clients or employees. With the easing of lockdown regulations, our nurses on the road can once again provide excellent service to our clients at their places of work or at their homes, whilst maintaining the highest standards of hygiene.

What are some of the trends you've noticed in South Africa and the globe after the outbreak?

South Africa's mortality rate is currently around 3.2%. With recent case numbers now over 1 484 9001 (as at 11 February 2021), the country's recovery rate of approximately 92% is more or less in line with the global average.

Fortunately, our case fatality and recovery rates in South Africa are in line with the international statistics, but that does not mean that we can be complacent.

The second wave is thankfully subsiding, but further waves can be expected. This means that we all have to continue to play our part with the recommended non-pharmaceutical interventions, such as wearing your mask, sanitising and maintaining a safe social distance.

Have these trends informed any specific decisions to better protect clients?

When it comes to protection, little can do what well-practiced prevention measures can. Prevention through social distancing, wearing of masks, hand washing and sanitising remains the best way to prevent this disease from spreading.

Strict hygiene protocols are in place wherever our clients are in contact with Discovery Life employees.

Discovery Life has also assessed its current product range and identified other ways clients can be better protected through their plans. This is where the newly developed Multi-organ Benefit came into being. Within the Severe Illness Benefit, this market-first product protects against acute multi-organ failure due to an illness like Covid-19. Such a benefit provides additional financial protection where needed, over and above what a medical aid plan can provide through clinical care support.

In your view, will there be regular outbreaks of Covid-19 in the future?

We will most probably have to live with this virus for the foreseeable future. Covid-19 vaccines are currently being tested and have been administered to millions of people in the world. The rollout plan in South Africa is commencing very soon by vaccinating our frontline healthcare workers first. This will take some time to complete, so the non-pharmacological measures remain our biggest weapon against this unpredictable and changing disease.

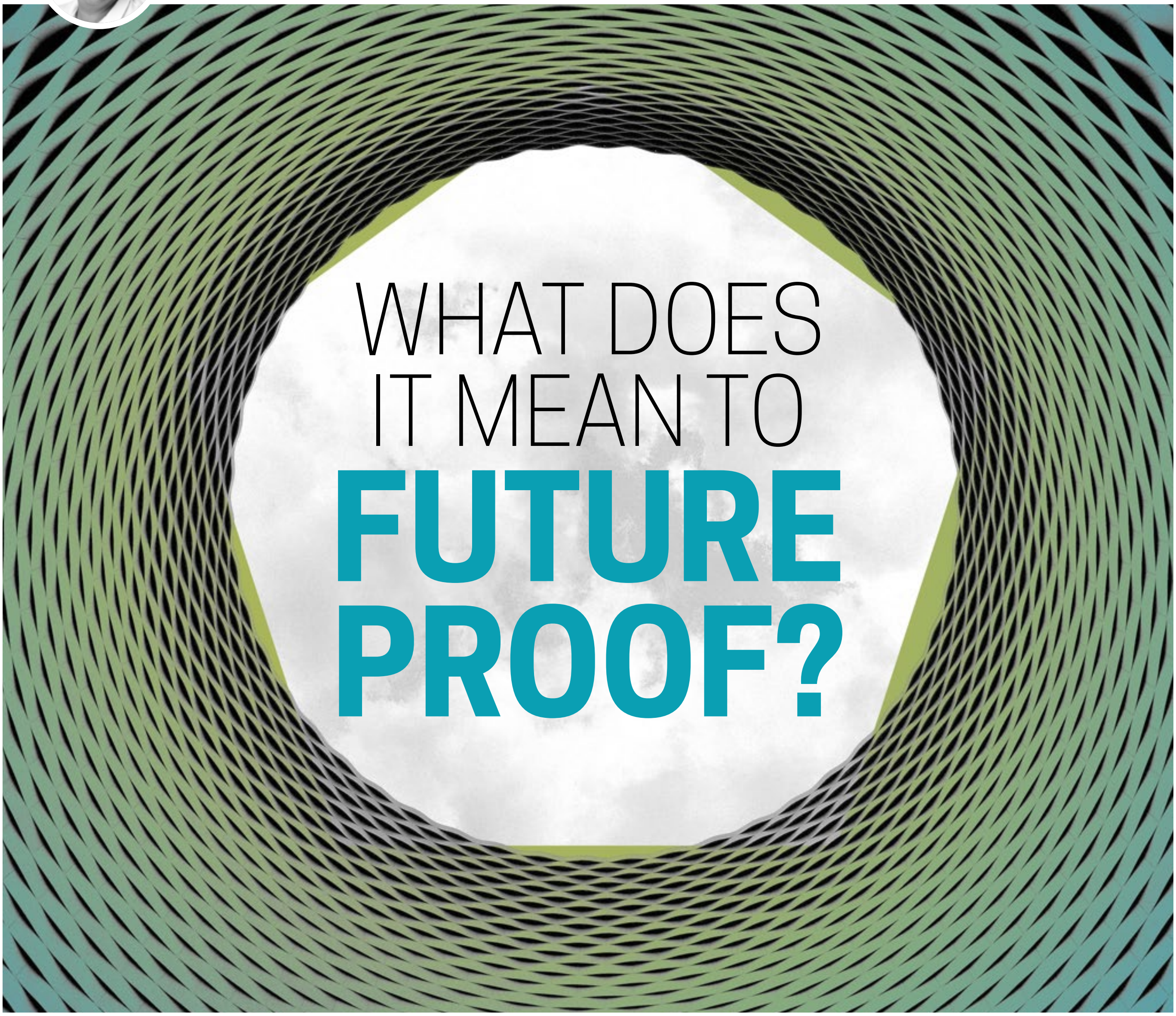
In the meantime, it is up to every one of us to try and prevent contracting Covid-19 and continue to play our part in preventing transmission of the virus. This way we can prevent the hospitals and health services from getting overwhelmed."

What are some of the key learnings we can use in the future?

One of the biggest things we've learned is that we are all in this together. We all have to play our part on an individual level. All role players - government, private and public sector, organised labour and so on - have to work together to overcome this pandemic.

We have seen heart-warming outreach projects, as well as much more sharing and caring than ever before. It is now a time that's more focused on 'us' and less 'I'. We also have world renowned medical scientists and medical people in this country, all working together to find solutions for problems that we never thought were possible. We should take these learnings and build on them.

Wimpie van der Merwe, CEO, Global Choices



WHAT DOES IT MEAN TO FUTURE PROOF?

Future-proofing is the conscious act of anticipating what could happen in the future and developing processes to minimise the negative impact of these predicted events. How do we in insurance achieve this?

To start, insurance companies need to optimise their agility and efficiency. This means being equipped to face anticipated, and unanticipated, competitive moves using innovative technologies. This will most probably call for a total re-evaluation of existing business models.

Insurers need to understand their customers better – independently and holistically – and always have a single view of their interactions and risk journeys.

There's no doubt that insurers are committed to becoming more agile and quicker to react. Sadly, however, they often fall short because they tend to implement once-off initiatives in siloed units and ignoring the bigger picture. Gains from siloed efforts are generally disappointing and unsustainable.

Agility optimisation requires focus in the following areas:

- **Organisational agility –** empowering frontline staff with multi-disciplinary skills for robust performance
- **Product agility –** delivering new customised products efficiently and in a flexible manner
- **Process agility –** responding rapidly with the conceptualisation, design and deployment of new products and services
- **Technological agility –** responding quickly to business needs by using modern and modular digital and technical architecture
- **Data agility –** accessing data whenever and wherever it is needed

Next-generation operational models require design thinking across the business to improve client experiences, delivered cost-effectively.

Reshaping the customer experience

Insurtech is creating new pathways that challenge the traditional insurance customer experience. In this digital world, consumers expect simple and efficient, 24/7 access to online information on insurance products, including comparative pricing and options. Most insurance companies fall short of these expectations.

It's important to remember that risk events do not keep office hours. Although technology is always on, people – who remain a key component of the value chain – need daily downtime. This presents a challenge for insurers, who now need to be available at any time of the day or night.

Digital insurance solutions must be seamless, from policy underwriting through onboarding and into the claim stage. To attract customers and keep them loyal, your insurance business needs to deliver flawless, mobile-friendly, automated digital interactions.

In a seamlessly connected economy, continuous business success requires digital optimisation. Silo optimisation alone is slow suicide.

There are several ways insurance companies can ensure they stay on top of the frenetic pace of change in this new era of risk:

- Adapt business and operating models to simultaneously support both cost-efficient, standard risk management and a knowledge-intensive, consultative interaction with clients.
- Expand information and data-gathering networks to better anticipate and understand the new and emerging risks facing clients.
- Get better at digitally collecting, integrating, analysing, and communicating data to create actionable or proactive insights.

Reimagining and accommodating new expectations

Today's insurance customer demands efficient and intuitive digital experiences and mobile journeys. Forms, for example, are everywhere in insurance. The time has come to reimagine traditional forms by introducing interactive and mobile-friendly experiences, such as on-demand confirmation and other communications.
This requires multi-channel support that, for example, enables customers to initiate and pause enrolment processes across all their digital devices, among other conveniences.

Consider the surging wave of millennial customers. Their expectations for social media, mobile devices, and cloud channels from insurers will only grow as they transition from being a student to single adult, to dual income and no children, to new parents, and so on. They will be among the fiercest critics of those insurance companies that do not adopt new models incorporating social media and mobile access to their insurance information. These models would allow them to connect, interact, buy and switch at will.

Risk mitigation wins

The common objective of all parties involved in insurance is the management and pricing of risk. No legitimate stakeholders in the insurance mix want claims against policies. To differentiate an offering in the industry, the ability and experience to advise clients on how to reduce risk are vital. Better prepared clients naturally mitigate a good portion of their own risk and enjoy enhanced peace of mind, which translates into brand loyalty.

Live visual engagement

Implementing a live-stream video solution that enables visual insurance claims has also emerged as a solution that can revolutionise the way insurance claims are processed and resolved. Customers can now transmit images and videos of their claims to contact centre agents for immediate incident assessment and case management.

Visuals have always been an important component of processing a claim. In most cases, a representative from the insurance company, such as an agent, assessor or adjuster, has to visit a site to collect visual evidence to solidify the company's decisions. Digital visual claim support is revolutionising this process by enabling agents to access the full visual picture in real-time without requiring them to leave their desks.

This results in a significantly shorter and more straightforward claims process. Shorter, because visual claims eliminate the requirement for a site visit and the lengthy back-and-forth email communication with the customer. More straightforward, because the adjuster has immediate access to real-time and objective visual information that, while perhaps temporary, may be critical to the case.

This information includes road conditions, the position of the vehicle, damage to third-party objects, and other telling pieces of relevant information. Any captured data can then be used at a later date to expedite and resolve disagreements when necessary. All this data is recorded and stored with date and time stamps and, critically, geolocation data records. All data is retained for a minimum of seven years or downloadable to legacy systems into the claim file if necessary.

The visual claim process itself is quick and easy. The adjustor simply establishes a live video connection with the customer (no app download required) to easily review and visually communicate through augmented reality tools.

For example, a customer whose car has been damaged in a road accident can show an insurance agent the location, cause, and extent of the damage during a live call. Alternatively, in situations that are not time-sensitive, a customer can choose the time-flexible option of uploading images and videos of the damage for rapid, accurate assessment without the need for costly fieldwork.

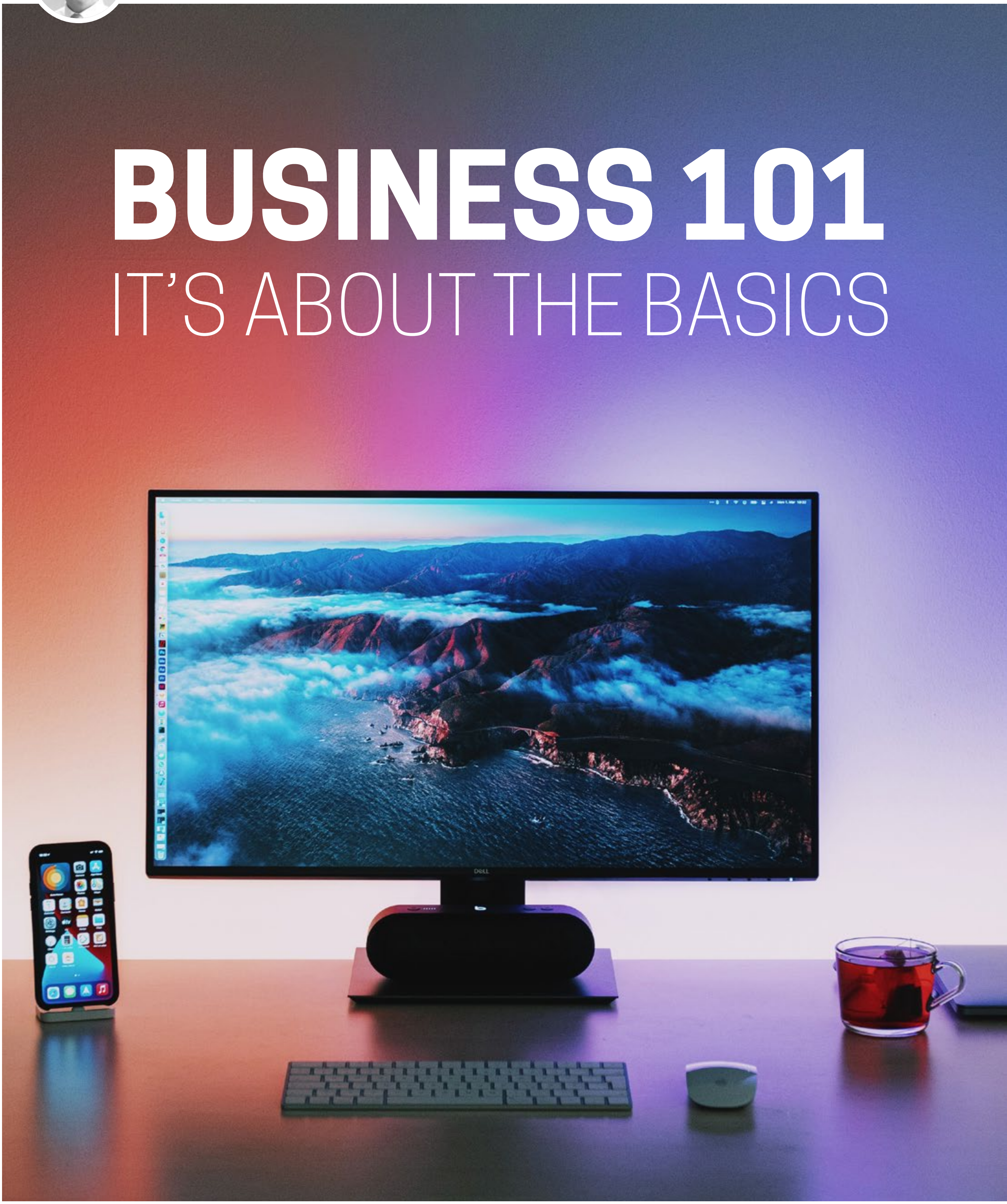
The advantages of visual insurance claims include:

- Real-time validation and more accurate appraisals
- Expedited claim settlements
- Increased levels of customer satisfaction
- Greater adjustor efficiency – reduced time in the field lowers overhead
- Reduced fraud with secure, live video

The need to go digital is as vital as ever. Companies that cling to the traditional will soon be left behind. Differentiation will be tied to knowing your customers and how to facilitate their risk. Insurance companies must balance today's operational cost with the investments they need to innovate differently in the future.

Kobus Wentzel, Executive head, 1Life Distribution

BUSINESS 101
IT'S ABOUT THE BASICS



"It's imperative that clients' needs are placed front and centre when considering any change to or innovation of processes, products or systems."

We saw many brokerages struggle this past year as they didn't have these basics in place before the Covid-19 pandemic hit unexpectedly. And, very importantly, many of these companies weren't agile enough to adapt to these changes quickly enough.

Building agility into your business plan is difficult and costly. It means creating a culture of innovation and flexibility within and around your people, and in your company's DNA. It means choosing the right candidates for the right jobs, and, above all, creating the right technology platforms to enable the change. If you aren't able to do this, partnering with others who already have this capability makes sense.

However, agility alone won't future-proof your brokerage against risk. As risk specialists, realising the importance of adopting a forward-thinking approach, and modelling this thinking on top of the basics, will ensure that those basics are in place. How is this done? By monitoring changes in consumer patterns and needs, and adapting for those, with technology as the enabler.

The importance of client needs

This past year has seen significant changes in consumer behaviour, with a surge in online shopping. Thanks to the pandemic, consumers are now more tech savvy than ever. They want value for money and they want it to be simple, easy, fast, and even in real-time, if possible.

It's imperative that clients' needs are placed front and centre when considering any change to or innovation of processes, products or systems. If this isn't done the change will inevitably not be accepted easily.

In the insurance industry, and specifically with reference to the financial adviser, we see technology not only enabling the financial adviser to fast-track policy sales, but it also frees up time, enabling them to concentrate on the advice-giving process.

How can technology support the fast-track of policy sales and freeing up of the financial adviser's time? By adopting simpler underwriting into the digital process. At 1Life, through our 1Life Vantage solution, we have used this methodology very successfully with 97% of policies now being accepted in under 35 minutes.

Remote acceptance through electronic signature and two-factor verification, via a one-time pin, can enable both the financial adviser and client to conclude business safely and securely. We believe that especially during this time of social distancing, this is true future-proofing.

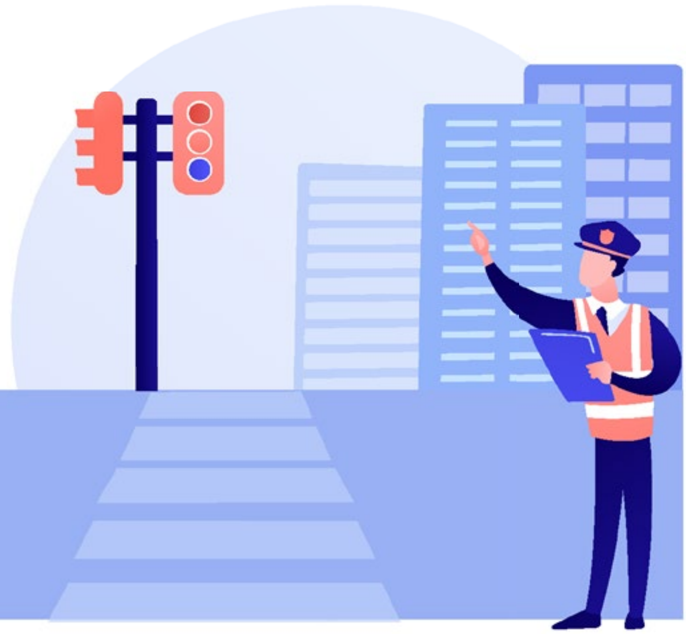
If we now consider the simple financial-needs analysis, a framework provided to the industry to determine the risk needs of a client, and we introduce Big Data into this equation, we can immediately envision how this support can play out in the advice process.

A digital solution with built-in financial needs capability, that not only utilises life stage modelling but also brings the client's unique circumstances around affordability into the mix, is set to go a long way in answering client needs. It also provides the financial adviser with a unique value proposition to future clients.

We are all in this business to change our client's lives for the better. If it means that having to bring technology into the mix to achieve this, is that not the ultimate future-proofing of the basics?

Michael Salant, Head of insurance division, TANSA Insurance Claims and Dispute Resolution

BARGAINING ON BEHALF OF **THE BROKER**



Several factors challenge and hinder the sustainability of broker business, which is why it helps to have an extra hand in your corner.

The environment in which the intermediary currently operates has, over time, become peppered with onerous regulatory requirements. To comply with the burdensome provisions of the layers of legislation, the broker requires comprehensive knowledge of his regulatory obligations. He must then introduce appropriate operational controls, increase resources to manage compliance, obtain the necessary qualifications to continue to operate, adhere to the Continuing Professional Development programme, and constantly upskill on his existing competencies.

Furthermore, the independent broker faces the relentless onslaught of powerful marketing campaigns conducted by direct insurers and global corporate brokers. Against these threats and seemingly attractive alternatives, he is constantly called upon to demonstrate his independent value. Such value is painstakingly earned through perseverance, personalised attention, and tireless dedication. It is then measured and monitored by consumers in terms of a number of service delivery factors.

But these intangible towers of value may equally be eroded or destroyed following one poor claims experience. And the cutback of this intrinsic value reduces proportionately to the magnitude and gravity of the adverse impact encountered by the luckless claimant.

The profile of the independent broker typically suggests a driven entrepreneur focused on trusted advisory relationships and extraordinary service delivery. But it would be unrealistic to expect that they and their team are equipped with all the demanding capabilities to adequately facilitate the formulation, presentation and submission of large, complex, and contentious claims across the spectrum of covers arranged and industries serviced.

While at all times respecting the integrity, role, and competency of all the players involved, it is commonly understood that the larger and more challenging claims are adjusted by technically qualified loss adjusters, and finally determined by insurers who are often heavily persuaded by the recommendations expressed in these reports. Bargaining power in challenging or influencing outcomes by the broker may accordingly be compromised in the absence of legal, accounting, and forensic expertise and support. And so, smaller industry competitors are often rendered vulnerable within our unforgiving environment. This deficit may further limit their ability to optimally expand their operations with confidence.

It is against this backdrop that TANSA Insurance Claims and Dispute Resolution, a professional team of Attorneys, Forensic Accountants and Insurance Specialists, was founded. TANSA serves both brokers and their clients with whom they stand side-by-side in investigating, formulating, and presenting insurance claims. It also manages insurance disputes and conflicts. It is based on the premise of legal rights and reasons to achieve the right resolution for brokers and their clients. All matters are handled with uncompromised respect for sensitivities and confidentiality.

SERVICES OF TANSA INCLUDE:

Claim preparation
Investigating, preparing, and submitting valid and solid claims on behalf of brokers and their clients. The cost of this service may well be covered by the insurer depending on the policy wording and limit.

Claim rejection and disputes
Represent clients, through their brokers, on wrongfully rejected claims or on proposed settlements that are deemed unfair. These matters are addressed in a non-adversarial manner to ensure that representations preserve the symbiotic relationships between the broker and insurer.

Insurance law advisory
With a strong insurance law advisory team, it provides advice on all insurance aspects, policies, claims and disputes. Also, it analyses and appraises policy wordings for brokers and their clients.

Insurance claim advocacy for brokers and clients
Advice and assistance are provided on all complexities and risks involved in the different types of insurance cover including commercial, general and professional liability claims.

If you believe that you and your clients may benefit from TANSA services you can contact them on 011 883 6000 or email info@tansa.co.za or visit their website **tansa.co.za**.

Spiros Fatouros, CEO, Marsh Africa

Click here for more

CYBERCRIME WE'LL SAY IT AGAIN

The latest Global Risk Report 2021, published by the World Economic Forum and with support from Marsh, highlights cybersecurity as among the risks most likely to increase and change the risk landscape during the next decade.

The pandemic has resulted in a huge increase in the number of cyberattacks attributable to remote working. The most recent attacks in South Africa is evidence of this, and were mostly in the form of data breaches using ransomware, which has become more frequent and severe in terms of disruption and cost.

In a 2020 report released by Accenture, South Africa was found to have the third most cybercrime victims worldwide, losing R2.2 billion a year. The report recorded 577 malware attacks per hour, an increase of 22% from the previous year. Many South African companies are easy targets for cybercriminals as investment into cybersecurity continues to be insufficient, and due to immature cybercrime legislation in the country.

The Global Risk Report applies as much to local companies as it does globally. It is necessary to translate cyber risk into business risk with cyber risk quantification, and define the value of cybersecurity for your client's organisation.

This means that cyber risk must be identified, measured through scenario quantification, and managed, to make the appropriate risk transfer and insurance decisions. The scenarios and analyses can also identify opportunities for improvement in cyber risk management and resiliency, such as business continuity planning, incident response, and stress testing.

Cyber risks are here to stay, and with attack methods advancing rapidly, the cyber landscape will become increasingly complex to navigate.


WHY RENASA, ROGER?


BECAUSE BROKERS TRUST RENASA TO HELP THEM BUILD THEIR CLIENTS' TRUST.

Nashalin Portrag, Head of FundsAtWork, Momentum Corporate

BENEFITS OF THE **BIGGER PICTURE**

Intermediaries can add immense value by optimising client businesses through an integrated approach to employee benefits.

Your clients wear many hats. Some require them to make personal decisions about their loved ones and others require professional decisions about their employees and business.

Has your doctor ever spoken to you about the benefits of an integrative approach to health – a view that looks at all the different aspects of good health? The same thinking is relevant to the health of a business.

South African employers are recognising the benefits of investing in the financial, mental, emotional, and physical wellness of their employees. Their employee benefits mix helps them win the battle for talent acquisition and retention, but also makes employees feel appreciated, protected, and invested in the success of the business. But the employee benefits mix is often delivered on a somewhat fragmented basis, with little, if any, integration between the different elements.

This is changing with leading service providers now rewarding employers for providing a comprehensive package of employee benefits and removing obstacles that prevent financial advisers from delivering a more holistic solution.

Progressive employee benefits providers reward employers for providing employee benefits, and provide incentives for engaging regularly with their employees and ensuring that the workplace is safe and employees are healthy. Some employers earn financial rewards of up to R600 per employee per year on such programmes.

Participating employers benefit from improved employee engagement, and can invest their rewards in initiatives that further boost engagement levels and help sustain business continuity in challenging times.

Specific programmes are now also available to support and reward financial advisers who want to unlock the benefits of a holistic approach for their clients.

However, if the financial adviser participates in a service provider's programme, which gives them access to a dedicated team of experts licensed in the product solutions, they can leverage the value of a more holistic approach.

This team works alongside the financial adviser, sharing valuable insights to help inform the implementation of tailored interventions that positively influence employees' financial outcomes and strengthen their client relationship. Participation in such a programme helps the financial adviser optimise their earnings and secure recurring income.

A great example of the benefits of an integrative, holistic approach is the positive impact that an Employee Assistance Programme (EAP) can have on absenteeism and disability benefits.

Historically, EAPs operated outside the employee benefits mix, focussing on employees' emotional and mental health. However, the expansion of these programmes to address work-life issues such as legal and financial support, family relationships and physical health means EAPs are now perfectly positioned to help reduce some of the stressors that can result in absenteeism and disability.

When an employee returns to work after a disability, the EAP can also help facilitate a speedier, less stressful, more successful return. Plus, data analytics generated by an EAP can help identify high-risk areas and drive appropriate preventative interventions.

In these challenging economic times, financial advisers should carefully consider how their clients can extract greater value from their employee benefits, as well as ways to optimise their earning potential and strengthen the sustainability of their brokerage.

"Financial advisers without the necessary accreditations are limited in what they can sell."

Highly-regulated environment

The employee benefits industry is highly-regulated and financial advisers have to meet specific licencing and accreditation requirements to sell different employee benefits. For example, a financial adviser may be licensed to sell group retirement benefits but not other group benefits like health solutions. This means financial advisers without the necessary accreditations are limited in what they can sell and can miss out on the benefits of offering their clients a holistic solution.

Louis Kahts, Head of underwriting, CIB

FIRST ORDER OF BUSINESS

Communication should be something that you do throughout the three stages of insurance, do this right and you'll have a client for life.

Whenever we ask our customers what they want, the answer is always the same: I want to do insurance. Plain and simple. The old-school philosophies of doing business hold. Customers simply want to insure something in case of an incident. All the client wants is for the insurer to charge a reasonable premium and pay claims without any issues. As insurers, we need to make sure we have the basics in place before we start offering bells and whistles.

An insurance policy progresses through three stages: inception, amendment, and claims.

Although it normally occurs last in the entire process, the claim stage is by far the most important. This is where policyholders get the chance to test an insurance company and a broker. If settling a claim doesn't go smoothly, you risk losing the client, which, in turn, could lead to reputational issues.

Also, a poorly handled claim increases your internal administrative requirement because of all the to and fro involved in trying to get it resolved. Effectively, if you don't do it properly the first time, it's going to cost you more in terms of human capital, reputation, and loss of business.

The easiest stage in which to please a client is the amendment stage, where the only action required is simply a deletion or an addition. Normally, that's a basic thing, for example, deleting one vehicle and adding another. But if it takes two or three days to process, it's just not good enough. A client wants to see any changes being effected quickly, efficiently, and correctly the first time around. They don't want to speak to you three times to get a vehicle onto a policy. You need to note the right registration numbers, the right drivers, and ask the right questions from the outset. There's no need for frills or magic tricks. Just basic underwriting.

The inception or sales stage should also be a relatively easy process for the insurer, but be sure to do it right. It is easier than you think to alienate a new client at the outset if you present them with an incorrect policy.

When it comes to underwriting, you want to know as much about a client as possible to apply the appropriate risk management. If you ask the right questions at the sales stage and underwrite the policy correctly – and if you tell your client 100% what is expected of them for the policy to respond – you're unlikely to have an issue at the claims stage.

We should never assume that we know everything about the client and their risk. Every risk is unique. Risk management forms an integral part of the sales process. Yes, you can delve further into the client's risk profile after the policy has been instated, but 95% of any risk management happens at the sales stage because that's where you get to know and understand the client. That's where it's easy to ask a couple of additional questions to get the information you need without making the process much more laborious.

When you sell a policy, you should always do so with a possible claim in mind. This is how you underwrite correctly. And if you sell with claims in mind, the risk management that you apply to the underwriting process is far more likely to be appropriate.

In capitalist markets, growth is said to be vital for survival. But sometimes, too much focus on growth and expansion can be counter-productive. If a company, for example, spends a disproportionate amount of resources on signing up new clients without concentrating enough on the existing customer base, they're shooting themselves in the foot. They will lose existing clients as quickly as they can onboard new ones.

Constant communication

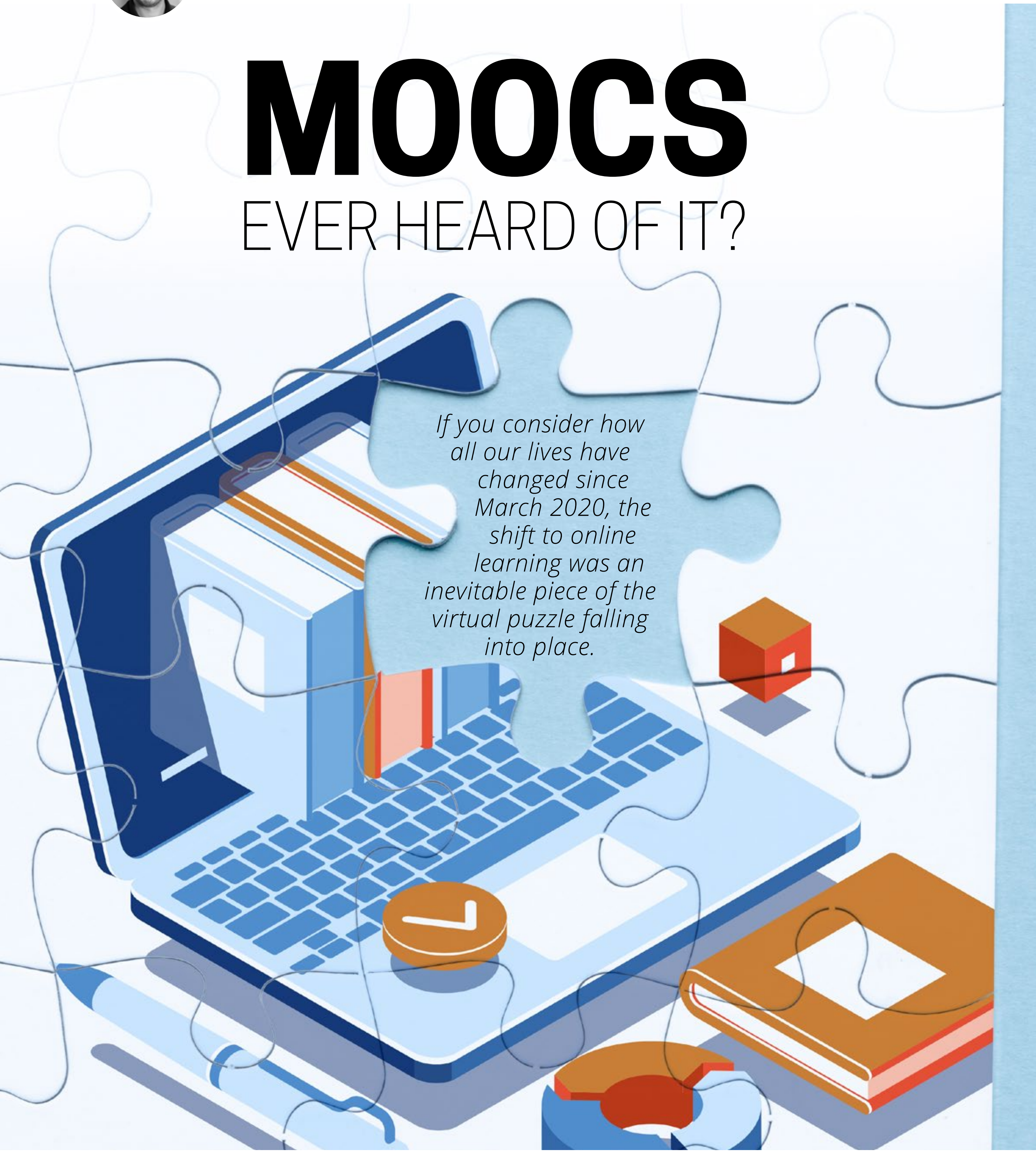
Customer service involves constant communication. We have to accept that there will be problems that occur from time to time, but if the client is updated constantly by the insurer, the broker, and any third party, such as a panel beater, it will make bad news much easier to digest. Even if a client does have a bad experience, if the service is good, chances are they will stay with the insurer/broker.

Communication should be something that you do throughout the three stages of insurance. Use the renewal process. Use the amendment process. Whenever anything changes, take the opportunity to talk to your clients. Let them know what's happening in your world. Keep the conversation going and you'll have a client for life.

"Online learning skillfully tackles the challenge with interactive virtual learning spaces, discussion forums, and digital spaces, providing strength and connectivity for communities."

Dr Kershen Pillay, CEO, Graduate Institute of Financial Sciences

MOOCS
EVER HEARD OF IT?



If you consider how all our lives have changed since March 2020, the shift to online learning was an inevitable piece of the virtual puzzle falling into place.

Click here for more

> **"Online learning skillfully tackles the challenge with interactive virtual learning spaces, discussion forums, and digital spaces, providing strength and connectivity for communities."**

As we drift further away from 2020, it is abundantly clear that the transition from traditional classroom learning to agile online learning, or E-learning, is here to stay. In the financial services space, this calls for a humanised, multi-disciplinary experience – a combination of technology, smart education and personalised engagement. Below are five key factors that have catalysed this change in mindset and practice.

The global health crisis

Covid-19, with its lockdowns and social distancing, accelerated the world into a remote-first reality. This has, on many levels, given rise to a social recession, meaning that there is a growing number of people who feel isolated and disconnected due to a lack of authentic human interaction. Online learning skillfully tackles the challenge with interactive virtual learning spaces, discussion forums, and digital spaces, providing strength and connectivity for communities.

Cost-saving

Online learning slashes the costs of traditional learning, making knowledge-exchange affordable for individuals and corporates alike. IBM famously saved $200 million after switching to tech-based learning platforms, which accounted for 30% of its previous year's training budget, because of reduced costs related to travel, hotel rentals, equipment, and instructors. IBM managers learned five times more content at just a third of the price of traditional contact learning! As a result, IBM streamlined its workplace education process and focused more employee time on day-to-day tasks, leading to long-term financial gains.

Time-saving

Echoing a recent KPMG report that highlighted lack of time as the foremost challenge hindering talent development today, industry analyst and HR maverick Josh Bersin, in his 2020 report, revealed that on average, employees only have 24 minutes a week to spend on learning.

Factoring in traditional classroom learning methodology, it is easy to see why, with only 24 minutes a week, in-class learning is rendered redundant. In contrast, online learning, with its flexible schedules and on-hand resources, has proven to take up to 60% less time than traditional learning.

Learning is evolving

The proliferation of interactive digital spaces and the increase in fake news and misinformation have produced an attention economy where, at any given time, information-consumers need to sift through huge volumes of information to create meaning. This has drastically changed how we consume information. Today, we absorb info faster and in short, snackable quantities. Lengthy lecture hall and in-class sessions have given way to quick, dynamic online learning environments where content has been sifted for relevancy and presented with an attention economy in mind.

Enhanced accessibility

Analysts believe this decade will usher in a steady decline in traditional college enrolment, primarily due to the rising costs of traditional education, and because higher education degrees are increasingly being viewed as less impactful.

As a result, we have seen a significant increase in Massive Open Online Courses (MOOCs) that offer affordability and global accessibility. No longer geographically constrained, learners can sign up with any educational institution, anywhere in the world. As a result, online learning is changing lives worldwide, although, sadly, 73% of the global student population are unaware of MOOCS.

There is a significant amount of work to be done to achieve a state of digital education nirvana. Accessibility remains a primary concern here in Africa, with just 39% of our continent's people having access to the internet, compared to 62% worldwide. Data costs and patchy networks contribute to the challenge.

Education providers must consistently invest in the latest technology to ensure on-trend, interactive learning practices, and understand the intrinsic need to customise learning experiences for corporates and individuals alike. Online offerings must be agile enough to meet the changing demands of employers. Learners need tuition in time management to make the most of online learning experiences, while employers need to commit to transformation through digital education.

SAFE AND EASY

At 1Life we believe in empowering the independent financial adviser to thrive. With 1Life Vantage, our digital solution for financial advisers and our comprehensive risk and investment solutions, we are geared towards meeting the demands of the client of the future.

Remote acceptance solutions accelerated through 1Life Vantage, enabling policy onboarding during times of social distancing.

Elana van den Berg, Member of FIA EB Exco, and Legal and technical manager at Momentum Consultants and Actuaries

T-DAY ANOMALIES

AND UNINTENDED CONSEQUENCES IN THE TAXATION LAWS AMENDMENT ACT OF 2020

Unfortunately, as is the case with most new pieces of legislation, the devil is in the detail, and it was only when administrators of funds started to implement IT systems changes to cater for the new annuitisation requirements, that some anomalies and unintended consequences in the current wording of the TLAA was picked up.

With the enactment of the Taxation Laws Amendment Act of 2020 (TLAA) on 20 January 2021, the much anticipated annuitisation legislation will finally become a reality for provident fund members in that with effect from 1 March 2021 they will now also be required to annuitise at least 2/3rd of their benefits on retirement.

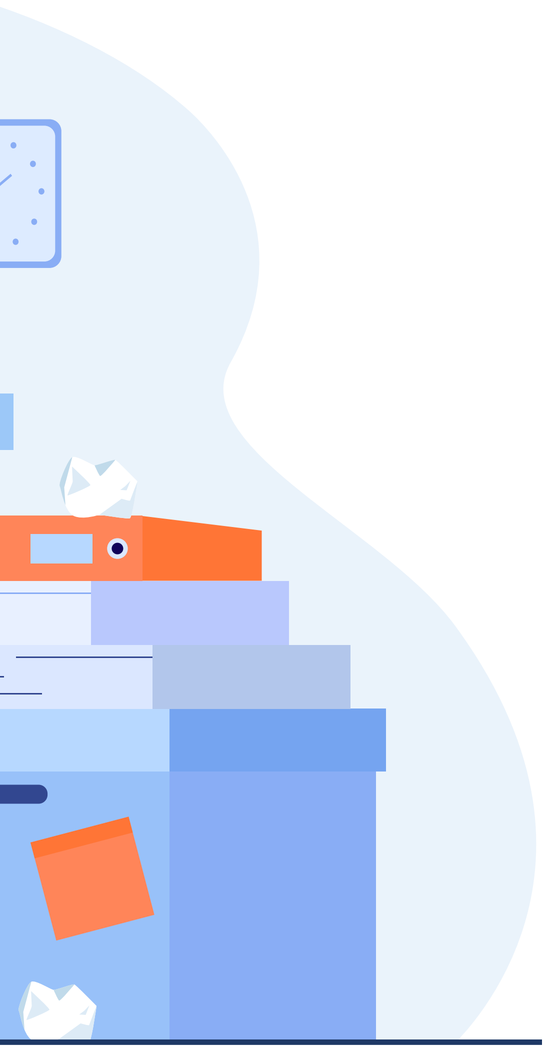
Below are some of the noteworthy anomalies and unintended consequences in the current wording of the TLAA.

February 2021 contributions and arrear contributions

In terms of the TLAA, all provident fund members younger than 55 on 1 March 2021 will have two pots on their retirement, namely a vested pot (an amount they can take as a lump-sum cash benefit on retirement) comprising their accumulated retirement savings as at 28 February 2021, plus growth on that portion; and a non-vested pot (an amount they must use to buy an annuity of at least 2/3 on their retirement) comprising their contributions made to the provident fund after 28 February 2021, plus growth on these new contributions.

For purposes of determining what will comprise the vested pot, it is therefore important to determine how the February 2021 contribution, and any arrear contributions due and payable on behalf of such member to a fund, but not yet paid into the fund's bank account by 1 March 2021, should be treated.

The TLAA provides that (only) amounts (already) contributed to a provident fund before 1 March 2021 will be allowed to be allocated to a member's vested benefit. A literal/strict interpretation of this



wording would mean that if the February 2021 contribution and/or any arrear contributions have not yet been paid into the bank account of the fund by 28 February 2021, these contributions will have to be allocated to the member's non-vested pot. However, section 13A of the Pension Funds Act allows fund administrators to collect contributions in arrears, up to seven days after the end of the month for which that contribution is payable. Employers are therefore legally allowed to only make payment of the February 2021 contribution by 7 March 2021.

This means that if a member should have withdrawn from the provident fund on 28 February 2021, contributions that were due and payable for the month of February 2021 (as well as any other arrear contributions not yet paid) would form part of such member's withdrawal benefit despite those contributions only being paid after 1 March 2021. Based on this, one could argue that the February 2021 contributions as well as any arrear contributions should form part of a provident fund member's vested benefits.

Fortunately, SARS provided clarity on this issue by advising in a non-binding private opinion dated 18 February 2021 that all arrear contributions payable for periods up to the end of February 2021 should be credited to the provident fund member's vested benefits even though it might only have been paid after 1 March 2021.

Approved lump-sum disability benefit payable to members under the age of 55

The lump-sum disability benefit payable by a fund to a member who stops being employed because they are permanently disabled, is made up of a member's accumulated retirement savings as at the date of disability plus an approved insurance benefit. The lump-sum disability benefit can, in terms of the Income Tax Act, be processed as either a retirement benefit or it can be processed as a withdrawal benefit (member can take it as a cash lump sum) if the policy wording of the lump-sum disability benefit, and the fund's rules allow for it, and the member will pay higher tax as it is a withdrawal benefit.

If it is processed as a retirement benefit, it means that for members who are younger than 55 on 1 March 2021, the retirement savings component of the disability benefit will be split between the member's vested benefit (that is the retirement savings in the Fund on 28 February 2021) and their non-vested benefit (that is new contributions made to any fund from 1 March 2021). The full amount of the approved risk-benefit component of the disability benefit will, however, form part of the member's non-vested benefit. This means that the disabled member will only be allowed to take a third of the approved risk-benefit as a cash lump sum, except if the amount is less than R247 500, in which case the disabled member will be able to take the full amount as a cash lump sum.

The main reason for funds providing for, and employers participating in such funds opting for an approved lump sum disability benefit, is to allow disabled members access to a cash lump sum on becoming disabled. To address this concern, the industry is considering submitting to the government their concerns and requesting that the Income Tax Act be changed to allow for the risk-benefit component of the lump sum permanent disability benefit to also be allocated to the vested benefit of provident fund members who are under the age of 55 (as at 1 March 2021).

Partial pre-retirement withdrawals from the provident fund and provident preservation fund

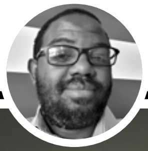
The Income Tax Act provides for the following two types of pre-retirement withdrawals:

- The partial (once-off) withdrawal permitted to members of preservation funds before retirement
- Partial pre-retirement withdrawals from a pension or provident fund on termination of service, i.e. when a member elects to take a portion of his withdrawal benefit as cash and transfer the remainder to his new employer fund or a preservation fund or a retirement annuity fund.

Unfortunately, the TLAA does not specify the method to be used to deduct this pre-retirement withdrawal. The only deductions being dealt with within the TLAA is the permissible deductions under section 37D of the Pension Funds Act (amounts due for housing loans, pension interest allocations when the member gets divorced, maintenance claims, compensation for damages to an employer) and it is prescribed that these deductions must be applied to proportionally reduce a member's vested and non-vested benefits.

National Treasury confirmed that the proportional split between the vested and non-vested benefits is limited to deductions permitted under section 37D of the Pension Funds Act and does not apply to any pre-retirement withdrawal benefit. As there is no legislative requirement on how to deal with this type of deduction each administrator will have to decide which approach to follow, namely:

- deduct it from the vested benefit, or
- deduct it from the non-vested benefit and only once depleted, from the member's vested benefit (this approach is probably most beneficial to members and should be the recommended approach) or
- deduct it proportionally from both the vested and non-vested benefits.



Thabiso Rulashe, Strategic and Market Intelligence Manager, Santam

CLIMATE CHANGE

AND THE THE GUIDING ROLE OF INSURANCE

Insurers have a better understanding of managing and carrying risk than other industry sectors, and are in a unique position to advise and engage the government and public on risk management and resilience efforts.

Financial institutions, including those in the insurance industry, have had to develop and adapt their products and services over the years to suit our ever-changing lifestyles. In the current reality of Covid-19, this included a heightened awareness of life risks and how insurers could keep their clients' finances resilient. Yet, amid this global crisis, another one continues to threaten our very existence.

Many important initiatives around climate change have had to take a backseat as governments, financial institutions and businesses scrambled to address the repercussions of the pandemic, but we can no longer afford to delay action against climate change.

According to the World Economic Forum (WEF) Global Risks Report, climate change is one of the top five risks we face, and climate change also impacts the other top four risks, which include economic stability and social cohesion; pressures on health systems; digital fragmentation; and an unsettled geopolitical landscape.

The pandemic has shown that action must be prioritised to speed up mitigation and adaptation efforts, and, as with a pandemic, climate change will require effort and urgency to ensure a sustainable future and long-term resilience.

Insurers to carry the torch

Insurance requires a strategic approach to current and hypothetical circumstances or events – including pandemics and natural disasters. Climate change poses a major risk to the global economy. Considering that the insurance industry actively insures against unpredictable events and has a history of helping society understand and adapt to emerging risks, they are best placed to play a leading role in addressing the impacts of climate change.

Using the unique tools and technology at our disposal, the industry has the opportunity to evaluate the potential of climate-related risks. Insurance could further use catastrophe models to evaluate future potential weather-related losses.

How do we in insurance do this? The industry is continuously exposed to claims due to natural disasters and must ensure it adopts Task Force on Climate-Related Financial Disclosures (TCFD) recommendations by raising the profile of climate risks.

We must describe and disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's business, strategy and financial planning. And we must work with all stakeholders to manage climate risk exposure, including the management of assets, scrutiny, and adaptation of existing business policies. Finally, we must set targets and metrics to assess and manage climate-related risks and opportunities.

Regulatory bodies have already started asking questions about insurers' action plans in addressing our changing environment. Large insurers, such as Santam, have incorporated holistic policies into their core offerings, such as third-party liability contracts that include professional indemnity (PI) or officer's insurance. We ensure that our business clients adequately manage transition risks, and have aligned with the TCFD, designed by the Financial Stability Board. Santam is also working with stakeholders to engage in research and development aimed at identifying risk and resilience measures; explore innovative and sustainable finance and insurance solutions; and embrace the environmental, social and corporate governance (ESG) factors to better determine future financial returns and the risks to our clients and the economy.

By working to align with all of the TCFD recommendations, financial institutions can develop consistent climate-related financial risk disclosures, strengthen the stability of the financial sector, and contribute to a better understanding of climate risks and its impact on the economy.

Organisations' climate-related disclosures, including Santam's, can be accessed via the CDP (formerly the Climate Disclosure Project) website, which helps financial institutions and other bodies remain committed to climate change action and support the transition to a low-carbon economy by addressing and disclosing their greenhouse gas (GHG) emissions.

If the financial sector is to lead climate change, they must start with their operations. Encouraging and supporting clients, partners and investment portfolios will be a natural transition, which will prove positive for the economy and the world.

For more on Santam's climate change efforts, view their Climate Change Position statement here and their ClimateWise disclosure here.

Prince Sarpong, Senior Lecturer, School for Financial Planning Law, University of the Free State

GREY RHINOS AT RISK

While climate change will have a significant impact on financial planning, financial planning can also be an effective tool in climate change mitigation.

Behind every Black Swan event is a crash of Grey Rhinos. American policy analyst Michele Wucker came up with the Grey Rhino term to describe highly-probable and high-impact threats that we have the power to influence.

Many of our major crises started as obvious but ignored threats. In most cases, the problem was not weak signals but weak responses to these signals, a reluctance to act decisively when the warning signs showed up. Black Swan events occur when all the obvious dangers finally interact.

The term Black Swan, coined by former options trader and author Nassim Taleb, describes highly-improbable events with destructive repercussions, such as the global financial crisis, and the recent Covid-19 pandemic. But the devastations from climate change are projected to be more severe than the systemic crises experienced in the history of financial markets, as climate catastrophes pose an existential threat to humanity.

In a 2008 article published in arXiv.org, a group of scientists warned that if humanity wishes to preserve a planet similar to that on which civilisation developed, and to which life on Earth is adapted, carbon dioxide must be reduced to at least 350 parts per million, a threshold was crossed in 1988. In 2019 we reached 410.5±2 ppm, according to the World Meteorological Organisation. The prime mechanisms creating climate change were identified in the late 1890s, which means that climate change is not a Black Swan event, even if the environmental effects and societal reaction to climate change remain unclear.

Consider the Covid-19 pandemic. Despite considerable warnings of a looming threat of a pandemic, preparations were largely ignored and ultimately culminated in the large-scale economic and social catastrophe we are seeing today. Some reports suggest that financial institutions appear to be unmoved by risks related to climate change and the energy sector is not ready, and not preparing, for climate change. With Grey Rhinos, the issue is more of when a crisis will happen, and not if. Once all the grey rhinos crash, we have a Black Swan event on our hands.

A structural reshaping of finance

Climate risk is an investment risk that will spawn a structural reshaping of finance. This was Larry Fink's message in his annual January letter to CEOs. Fink is the CEO of BlackRock, the largest asset management firm in the world.

Climate change will impact many aspects of financial planning. It is an investment risk. However, it is not the usual type of risk that investors usually encounter. William Bernstein describes two categories of risks, namely Shallow Risk and Deep Risk.

Shallow Risk is the loss of real capital that can be recovered relatively quickly. This could take anywhere from a few days to a couple of years, and can be avoided or mitigated through deep liquidity, in other words, holding enough liquid assets in your portfolio. Clients who hold properly diversified portfolios with adequate liquidity may be able to stay invested long enough for depressed markets to recover. Deep Risk, on the other hand, is the permanent loss of capital and poses a greater challenge to financial goals than Shallow Risk. Climate change is considered a Deep Risk.

Some experts warn that the impacts of climate change will be more severe than the other systemic risks that have occurred, and will be mostly irreversible. This irreversibility poses Deep Risk to individuals and their financial plans.

The impact of climate change on the insurance sector is projected to be severe, as heavy climate-related insurance losses can be crippling for many insurance companies. In response to increasing climate risks, insurance companies may reduce coverage, which consequently can reduce the value of collateral and create constraints on credit for firms and households.

Given the considerable diverse range of exposures to climate-related risks, the risk profiles of many individuals will likely deteriorate on several fronts, from health and mortality risks, to decreasing insurance coverage, as well as declining net worth, as portfolio exposure to affected industries and companies lead to significant negative returns.

Financial planning to mitigate climate change

Financial planning has a profound direct, and indirect, influence on society though the law of unintended consequences. Jarrod Wilcox, President of Wilcox Investment, and Frank Fabozzi, Professor of Finance at EDHEC Business School, argue that had lenders and borrowers received better financial advice it could have helped in averting the 2008 global financial crisis. Bad credit choices on mortgage lending ultimately culminated in interference with the credit flow for business expansion, especially for small businesses, which are very crucial for economic growth and employment.

While many industries and companies will be negatively affected by climate change, there are others that are projected to prosper. The proliferation of decarbonised indices and portfolios will lead to a massive shift of capital towards companies that are working towards addressing climate change. In a 2016 article in the Financla Analyst Journal, Mats Andersson, Patrick Bolton, and Frédéric Samama conclude that investing in a decarbonised index implicitly comes with a "free option on carbon". As long as the imposition of significant limits on the emission of CO_2 is deferred, decarbonised indices can achieve the same returns as on a benchmark index. However, once the market begins to meaningfully price in CO_2 emissions, a decarbonised index should outperform the benchmark. So far, decarbonised indexes have matched, or even outperformed the benchmark index. It means that investors are now able to significantly reduce their carbon footprint exposure without sacrificing financial returns.

Advisers and their clients need to develop the habit of scanning for Deep Risk, favouring investments that consider climate change, and avoiding climate risk where possible. Long-term change, due to climate risk is inevitable, and, at some point, the market will begin to react.

It is important that advisers talk to their clients about the impact of climate change on their financial goals, and look for ways to position client investments against climate-related risks. In not doing so, advisers will leave potential Grey Rhinos unchecked, exposing their client portfolios and financial plans to Deep Risk.

In his letter, Larry Fink argues that although climate risk is an investment risk, we are also presented with a historic investment opportunity. Advisers must have some understanding of the current climate discussions and how these relate to companies and investment portfolios. Based on this, they must look for ways to position client investments against climate-related risks. This will enhance their value proposition as they assist clients in navigating an evolving investment landscape.

Click here for more

B-BBEE AND YOUR BUSINESS

Why should your business adopt a broad-based black economic empowerment (B-BBEE) strategy and a B-BBEE scorecard? Is it critical for you as a broker to secure B-BBEE credentials? How do you set a B-BBEE level for your scorecard, and what are the priority areas you need to consider?

These and many other questions are more pertinent than ever in light of the recent amendments to the Financial Sector Code (FSC), in terms of which intermediaries are now regarded as suppliers to insurance companies, directly affecting insurers' B-BBEE procurement scores.

The Hollard Purpose of enabling more people to create and secure a better future is a key driver behind the partnership with the BEE Chamber. In working with the Chamber, we created a series of eight informative videos on the Amended FSC to help brokers better understand the requirements and amendments related to their business.

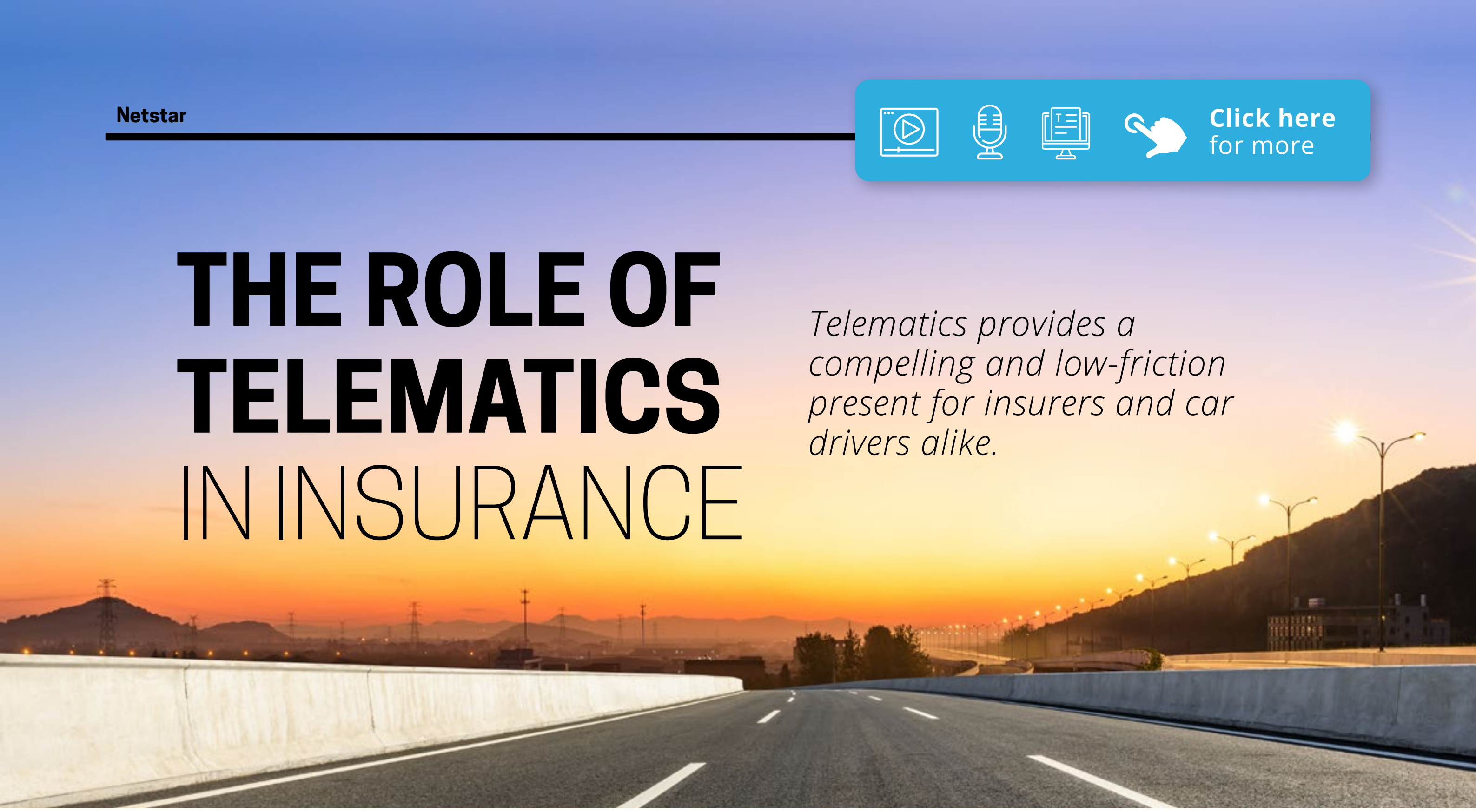
This initiative not only underpins Hollard's support for economic transformation through compliance and fulfilling the requirements of the Amended FSC and the B-BBEE Act, but it also highlights the importance of all South African organisations, as good corporate citizens, contributing to the socio-economic development of our country.

The videos provide an overview of the key elements you need to know about the Amended FSC, aspects of ownership; human capital, including management control and skills development; preferential procurement, enterprise and supplier development; socio-economic development, and consumer education.

Watch the videos to learn how the different elements of the B-BBEE scorecard work, how they contribute to your overall B-BBEE level, what your role and responsibilities are in managing the activities that contribute to your B-BBEE scorecard, and highlights pertinent issues such as fronting practices and how these may affect you and your business.

Watch all the videos here. As a bonus, you can earn 1.5 CPD hours simply by watching the videos and completing a few short assessment questions.

For further information on B-BBEE, how to become B-BBEE compliant, and related topics, visit the Department of Trade, Industry and Competition or contact the BEE Chamber.



THE ROLE OF TELEMATICS IN INSURANCE

Telematics provides a compelling and low-friction present for insurers and car drivers alike.

There are two rivers flowing through insurance today: the need for personalisation and the demand for a simple user experience.

Telematics is the merging of these rivers. "Telematics-based insurance will be the way of pricing vehicle insurance in the future and this is the beginning of an era in which insurance companies will make use of new technologies to improve their product and service offerings," says Belinda Felix, General Manager for Insurance Markets at Netstar, a telematics and vehicle tracking and recovery company.

The Head of Dial Direct, Anneli Retief, says telematics is the beginning of creating a "loss-free world".

Vehicle telematics was originally widely used from a specialised fleet need to track heavy load vehicles and delivery drivers, to something increasingly used by the vehicle insurance sector today. Though some drivers are wary of giving their insurance provider detailed access to their driving habits, many are happy to trade off their concerns for the increased benefits and ease of use the technology offers.

There are essentially five broad benefits to using telematics for insurance:

1. More accurate premiums
2. Ability to reward (and retain) low-risk drivers
3. Accident prevention
4. Quick, seamless claims
5. Rapid accident response

More accurate premiums

For insurers, the benefits are substantial. It is a revolution in the making for an industry that has historically had to rely on educated guesses to rate risk. As Deloitte explains in a recent paper, Auto insurance telematics, The three-minute guide, "Telematics is a potential game-changer for auto insurers, allowing them to decrease reliance on proxy-based measures—such as demographics and credit scores—and incorporate real-time driving behaviors to more accurately measure driver risk."

Telematics takes traditional insurance a step further. Felix says, "Traditionally, insurance premium calculations were based on where the vehicle sleeps, the make and model of the vehicle, and the age and gender of the insured driver. Insurance telematics measures 'how you drive' in addition to the above factors, and a consumer's premium is based on their individual risk behaviour."

Retaining drivers

Data is the new gold and telematics is the motherload. With accurate data based on behaviour, policyholders gain some control back over their insurance premiums. As Phumulani Mazvabo, Business Development Executive at Khanyisa Risk Services, explains, "Telematics helps us reward the effort and not the result."

Telematics also allows insurers to offer adaptive insurance. Insurance that adapts to real life situations with minimal input from the policyholder. Take the rapid escalation of events over the past few months: "Working from home during the Covid-19 pandemic has made more people review their insurance policies and their premiums, thus you will see more insurance product offerings like 'Pay as you drive' and 'Pay how you drive'," says Felix, as people working remotely are proactively paying lower premiums by keeping their cars safely at home in their garages.

Among the benefits for an insurer is attracting ideal clients by merely having these types of policies on offer. "These policies generally attract lower risk drivers. Usage-based insurance (UBI) has changed the landscape of the motor insurance market and insurers slow to take up the opportunity are at risk of losing clientele to competitors that offer UBI products with premiums aligned to 'good drivers'," explains Felix.

The full, CPD-accredited version of this abbreviated article is available on the Netstar CPD Hub. It also forms part of Netstar's sponsorship of 750 seats to its Telematics CPD programme, worth six CPD hours. Apply now! The CPD deadline is around the corner.

Thokozile Mahlangu, CEO, Insurance Institute of South Africa (IISA)

UP

Following the struggles and challenges of last year, now is the time for the insurance industry to boost its knowledge and expertise, reinforced by the need to upskill in the industry.

The Insurance Sector Education and Training Authority's (INSETA) Sector Skills Plan (SSP) for 2020-2021 identified the top 10 priority skills that are needed in the local insurance sector, ranging from compliance officers to insurance brokers, insurance claims administrators, actuaries and insurance agents, to name a few. Due to a lack of skills in the industry, employers are finding it difficult to fill vacancies in these occupations. High-level positions in the industry also require incumbents to upskill to meet the needs of the industry.

The outbreak of Covid-19 accelerated digital transformation, forcing businesses and organisations to rapidly adapt to new ways of work to ensure business continuity. The emphasis on digitisation has also highlighted the technological shortcomings in the South African insurance industry.

Insurers with the required digital capabilities in place, and those who are looking at other technological enhancements and transformations, can continue operating with minimal disruption and seamlessly stay connected with customers and employees. On the other hand, insurers slow to embrace continuous innovation and the adoption of new technologies will struggle to remain competitive and relevant, adding that since the insurance industry is so competitive, players must embrace digitisation so that they can serve their customers' needs, easily and efficiently. The implementation of digital transformation will also enable companies to expand their customer base to achieve economies of scale in an environment of increasing costs.

Insurers must maintain their solvency, capital and liquidity above the minimum required levels, but this may be difficult in light of the already weak and further deteriorating economy.

It is crucial that the industry embraces change and adapts to an ever-evolving new normal in which businesses are having to operate. For this, companies will need to embrace creative thinking and also acquire the type of skills and talent that can turn ideas into tangible results.

Companies across all industry sectors are seeking to appoint employees with a wide range of skills, especially candidates with a solid foundation of quality education and technical proficiencies.

Insurers must stay transparent and well-connected to their customers, employees, distribution channels, external stakeholders and society to ensure continued trust and support in such unprecedented times.

These challenges facing the industry necessitated a need to reposition the Institute. Management, together with the board of directors, reviewed the strategic direction of the Institute and reviewed its purpose to elevate the credibility of the insurance profession, and reviewed its vision. To be the leading professional body in insurance, bringing prestige to the profession.

The reviewed purpose and vision are underpinned by a compelling service offering to certify insurance professionals and provide programmes for skills development in the insurance industry. The IISA strategy aims to help mitigate the risks in the industry, concerning developing relevant and required skills to take the industry to another level.

To this end, the IISA has introduced webinars in which carefully selected topics are presented and discussed by both local and international industry experts. These webinars are recorded and made available on the IISA e-learning platform on the website.

A FUTURE **IN RISK**

When Ntando Bali left his Eastern Cape hometown of Cala for Johannesburg in 2010, he dreamed of becoming an economist. But life has a habit of throwing curveballs.

Ntando, now 27, successfully enrolled at the University of Johannesburg for an economics degree, eventually graduating in 2015, having negotiated a few unexpected twists and turns along the way there, too.

Starting a career in his chosen professional field, however, proved impossible and Ntando, like the two-thirds of young South Africans who have been unable to find gainful employment, began to look around for something else to do.

It was through the Harambee Youth Employment Accelerator that Ntando first encountered the RiskMen initiative in 2017. And he set off down a professional path he had never thought he would: risk surveying for the insurance industry.

"I think it's a really cool job to have. It's an opportunity to climb the professional ladder," he says. "I think the job is quite interesting, and I like it. I can grow into this whole profession."

What is RiskMen?

It's an initiative by Hollard Insure, the short-term insurance division of Hollard, to lower the cost of surveying the risk of business and property customers with a sum insured of R20-million or less.

Marcel Wood, the Head of Risk Management for Hollard Insure, who came up with the RiskMen concept, explains that for many insurers the cost of assessing the risk of policyholders with smaller sums insured is not feasible.

"Quite simply, it does not make financial sense to get a qualified risk consultant to carry out a survey for the smaller-sum insured properties and businesses. If the premium cannot really cover the cost of the survey as well as the related admin costs of the policy, then carrying out the survey generally won't be done," he says.

But this means that insurers don't really know how hazardous or benign those customers' properties or businesses are, or what their propensity to submit insurance claims will be. Customers, too, will not necessarily be charged a premium that is commensurate with their risk profiles.

The solution for Wood was to lower the cost of surveying customer risk. At the same time, the opportunity to create employment opportunities presented itself, in keeping with Hollard's Better Futures business philosophy: that everything the insurer does, and how it does it, should create and secure better futures for more people.

Whereas until now a risk survey entailed a qualified risk consultant visiting a customer's premises in a car, carrying equipment, such as a laptop computer, a GPS device, and a camera, RiskMen takes a completely new approach.

A RiskMen representative will visit a customer on a scooter, which is far more fuel efficient than a car and much better suited to negotiating traffic. His equipment consists merely of a smartphone, on which there is a smart risk-surveying app developed by Hollard Insure.

The phone effectively replaces all the equipment carried by the qualified risk consultant, and the smart app installed, assists a semi-skilled operator to carry out a full, accurate risk survey and generate a comprehensive report.

For Ntando, the beauty of RiskMen is that it gives young people a chance in a sector difficult to enter for unemployed youth.

"I think that's the great thing," he says. "It brings in young people so that they can skill up and grow."

And professional growth is certainly happening for him. With Hollard's support, he is currently in his second year of study towards a diploma in safety management, a prerequisite for him in becoming a qualified risk consultant.

While his economics degree assists him in his new career in insurance, Ntando is optimistic about the unexpected way in which things have turned out for him professionally.

"Steve Jobs said, 'You can't connect the dots looking forward; you can only connect them looking backwards. So, you have to trust that the dots will somehow connect in your future.' Eventually this thing will make sense," he quips.

Garth de Klerk, CEO, Insurance Crime Bureau

FRAUD, **THE FIGHT IS ON**

Intermediaries are strategically important in the detection and combating of fraud, as they represent the industry in numerous processes where fraud indicators could be discovered.

We were all hoping that 2021 would be miraculously different from 2020, however that dream has been shattered by reality.

Globally, socioeconomic pressures are at an all-time high after experiencing a 4.2% decline in global GDP in 2020. Now economists are projecting a recovery of approximately 4.6% in 2021. The SARB's most recent 2020 Bulletin shows an expectation of a recovery in "personal disposable income and consumer spending" in quarter two of 2021. This will hopefully underpin an economic revival during the year, however, these are still early days, with several factors at play, so we will have to be patient, persistent, and purposeful in our actions. It is, however, hopeful that in 2021, the focus of investors and policymakers will shift from Covid-19 back to the environment.

The Insurance Crime Bureau, established in 2008 to combat fraud within the non-life insurance industry, has over the last 13 years morphed into an organisation fighting fraud and related physical crimes, in both the non-life as well as the life and funeral industry. Through this journey, it has become clear how imperative it is that we act as a common-cause community with a focus on improving the environment in which we work and live.

Fraud is often associated with physical crime in South Africa, where vehicles are hijacked, homes are invaded, businesses are robbed, and murders are committed, all for some form of financial gain. And these crimes are often related to syndicates intent on financially benefiting from an insurance policy payout. Intelligent actions to combat these syndicates are crucial.

One of the most effective ways to combat crime is to create central repositories of actionable data, accessible by all relevant stakeholders, which allows for meaningful and timeous decisions. The only way to create these databases is if law enforcement, legislators, corporate entities, and the invested public work together. This data would allow for educated decisions when entering into contracts; reviewing and assessing risk; paying claims; investigating fraud, etc.

Crime is a community challenge and no individual or organisation can honestly state that combating crime is not their responsibility. The financial intermediary environment is strategically important in the detection and combating of fraud, as intermediaries represent the industry in numerous processes where fraud indicators could be discovered, intermediaries form a buffer between the consumer and the industry, playing an integral role in fighting fraud.

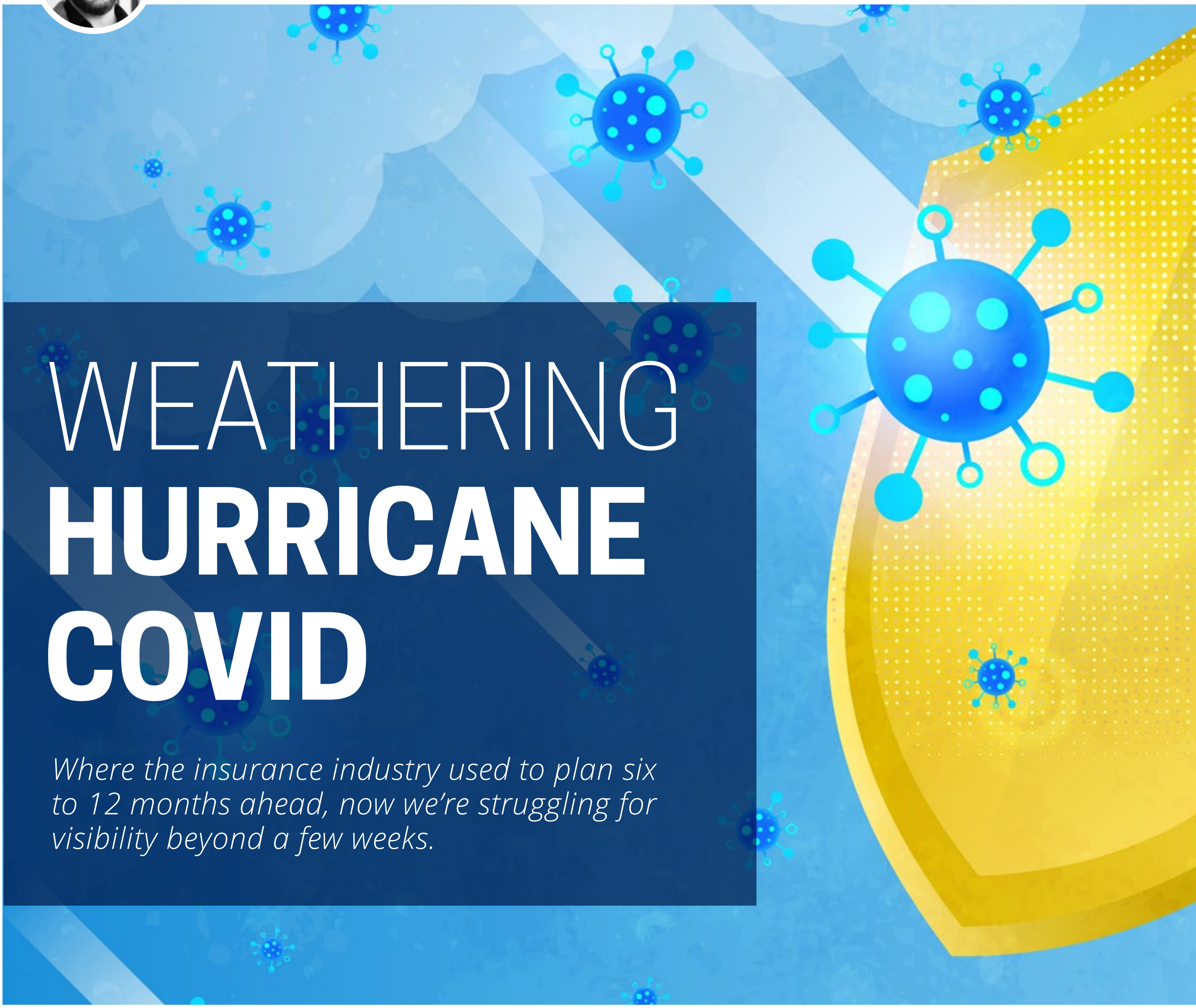
We must invest more time in networking to ensure that we share experiences and encourage attitudes of "if you see it, report it".

Considering existing consumer pressure, with consumer behaviour and spend shifting dramatically, the financial services industry will be faced with a challenging future, looking for rapid innovation to retain customers and likely producing some disruptive products. Innovation unfortunately also creates an opportunity for syndicates to test our controls, systems and people, and we will have to be responsive to these increased fraud threats.

Over the next 12 months, the Insurance Crime Bureau will be focusing on the deployment of physical technology backed by digital intelligence, internally and in the broader industry, to underpin our ability as a community to detect, communicate, and combat crime. The objective is to ensure that the information gleaned from this project is intelligently interrogated and made available to all stakeholders in a manner in which we can all make a difference.

We are looking forward to a future filled with growth and opportunity. Leadership in today's environment is not for the faint of heart, and it will take people working together, and supporting stable and sensible innovation to be truly successful.

Gideon Galloway, CEO, King Price Insurance



WEATHERING **HURRICANE COVID**

Where the insurance industry used to plan six to 12 months ahead, now we're struggling for visibility beyond a few weeks.

If the pandemic has shown us anything, it's that forecasting in times like these is difficult. We have no idea what the ultimate impact of this pandemic will be on our businesses, our industries and our economy.

Claims patterns have been disrupted. The way people view insurance has changed – probably forever. For insurers to weather the storm, we're going to have to get smarter about how we respond to the changing needs of our clients, and how we use data and technology to build resilience and efficiency into our operations.

It's not quite back to basics, but it is all about simplicity, and making sure the foundations under our feet are firm enough to ride out the Covid hurricane.

Everybody wants to protect themselves

The pandemic has made many question how prepared they really are for a crisis, and has given many consumers a new perspective on the importance of insurance in their lives.

In insurance terms, risk is the chance that something unexpected can happen and cause loss of or damage to valuable property and belongings, or injury to someone.

Impacted by Covid, consumers are trying to understand exactly what their risks are, how they can reduce the likelihood of these risks occurring, and how they can reduce the impact if they do occur.

What they need right now is to find the right insurance partner. An insurer that makes sense, is affordable, one they can trust, and speaks to their personal needs. The challenge for insurers in 2021 is to create products and services that are relevant and affordable for clients, who have been battered by the financial fallout of this disaster. We have to focus on what consumers need, what's affordable, and how quickly we can take a feasible product to market.

> **"The challenge for insurers in 2021 is to create products and services that are relevant and affordable for clients."**

Usage-based insurance is taking off

Usage-based insurance is probably the hottest trend in the global insurance industry right now. In the US, companies like the San Francisco-based Metromile offer pay-per-mile insurance and a driving app, while Slice is growing market share in the US and Canada for a range of pay-as-you-use short-term insurance products.

'Pay per k' insurance in South Africa is nothing new, but during lockdown it suddenly became more relevant than ever. With car usage in South Africa down 30% since the pandemic struck, clients simply don't want to pay full insurance premiums for assets that are standing idle for most of the time.

We have seen a growing number of insurers bringing usage-based products to market, including King Price's Chilli, which bases premiums on the number of kilometres that clients drive per month. This year, as insurers look to stay relevant, we can expect more products designed specifically for our time.

Customers drive disruption

There's no doubt that the traditional insurance industry is ripe for serious disruption, and data-driven tech is providing the perfect conditions. For insurers, the ability to analyse data better enables us to determine risk to a point of near-perfection. This essentially results in more accurate and fair premiums for our clients, which in turn means that lower-risk clients will pay less to cover their risks. This is something every insurance client in the world wants.

What they also want, though, is simple products tailored to their needs, a slick customer experience, and digital distribution channels. Probably the single biggest trend that tech has unlocked in the insurance industry is the fact that insurers can now compete on the basis of a differentiated customer experience. Technologies like AI, user-friendly apps, and chatbots are driving a range of digital-first, human-friendly services that are tailored to the exact needs of clients. We're going to see more focus on this in the coming year.

Organic growth will only take you so far

To call the local short-term insurance market highly competitive is an understatement. While tech is making it easier for more South Africans to access insurance, the market remains cut-throat, with the same clients chopping and changing to save a few rands every month. There are certainly ways to stand out in this market, but it's important to be open to acquisitions and alliances that can take the business forward.

In a nutshell

Consumers are more aware of their risks, but insurers need to understand consumers' needs better, and use technology to offer them the service they're demanding. If they do that, chances are they'll weather 2021. If not, a long and dark road awaits.

Mike Settas, MD, Cinagi (underwritten by Infiniti Insurance Limited)

SILVER LININGS IN THE NUMBERS

The stricter lockdown rules imposed on the eve of 2021 was certainly not what our collective psyche desired during the holidays and it did not bode all that well for the start of the new year, but here we are.

We are on the other side of the second peak of the pandemic, and the government has subsequently relaxed the lockdown rules. There appears to be almost a sense of revival and enthusiasm, despite the impending challenges we are facing as a nation.

All of us are hoping that this will be the last wave of Covid-19 we have to endure, but hope has never quite been a strategy and, with the media debate surrounding the acquisition of vaccines, the experts are warning that we are not out of the woods.

But there are some positive factors as to where we are now, and these generally do not grab headlines or enter the narrative of public debate.

I chatted recently with a healthcare actuary who has done extensive modelling around the pandemic. His models indicate that significantly more citizens have been infected with Covid-19 than the official stated figure of 1.45 million (as of 1 February 2021), and that our strategy of achieving herd immunity needs to factor this in.

An article in GroundUp, written by Prof Alex van den Heever of Wits University, strongly corroborates this view. His analysis, using excess death figures from the SA Medical Research Council and National Institute for Communicable Diseases, suggests that between 7.5 million and 9 million citizens may already have been infected – and more alarming, he believes that more than 100 000 deaths in SA can be attributed to Covid-19.

So, where's the good news?

It is quite plausible that these excess Covid-19 deaths replaced a reasonable proportion of the 2020 winter influenza deaths that would have occurred if the pandemic had not materialised.

Secondly, if Prof Van den Heever's figures are correct, then it means that the infection fatality rate (IFR) of Covid-19 is a lot lower than the official fatality figure. The official figures as of 1 February 2021, show that 1.456 million people have been infected and that 44 399 have succumbed to Covid-19, which gives an official IFR of 3%. Using his analysis, the IFR is around 1.6%, or roughly half the official figure, meaning that Covid-19 is not as fatal as the official figures indicate. NB. It is fair to the Professor to emphasise here that he cautions on some degree of uncertainty of his estimates, but we view them as being encouraging.

This also means that millions of South Africans have unknowingly been infected and have recovered from Covid-19, which is a significant step towards us achieving herd immunity as a nation.

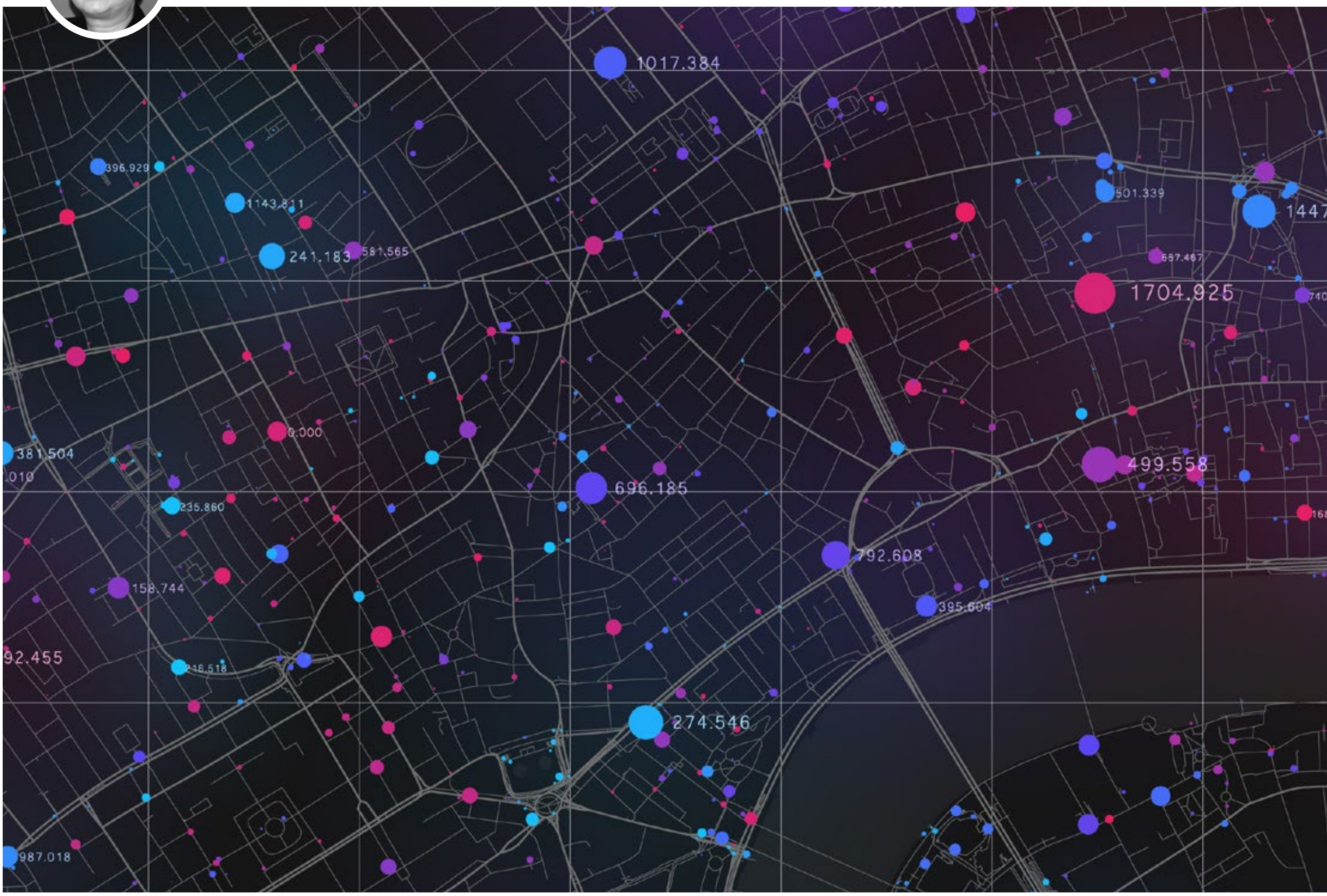
Furthermore, we may need a lot fewer vaccine doses than initially estimated. It is clear from the difference between the number of tests performed (±1.45 million) and the modelled infection figures above (±7.5-9 million) that many millions were infected but did not get tested. If someone has unknowingly carried the disease asymptomatically and then recovered, they should already have a degree of immunity, which would indicate that they may not need to use up a vaccine dose, or, at the very least, should not be prioritised for an early vaccine.

Given the supply challenges the country is facing, this could alleviate pressure on dosage numbers required and would require a revision in the vaccination roll-out strategy by testing people for Covid-19 antibodies before they get immunised. A quick finger-prick blood test is done to test for antibodies and results are available in 10 minutes.

If this sort of testing is accurate, given the important factors outlined above about substantially higher infection rates, it certainly would be interesting to hear from the government if these sorts of variable issues are being considered in the rollout planning of vaccinations.

While we still have a way to go in getting back to normal, I take these all as encouraging signs. In the meanwhile, I urge you to continue staying safe and invite you to join us in doing our collective best to get the most out of 2021.

Vivienne Pearson, CEO, South African Insurance Association (SAIA)



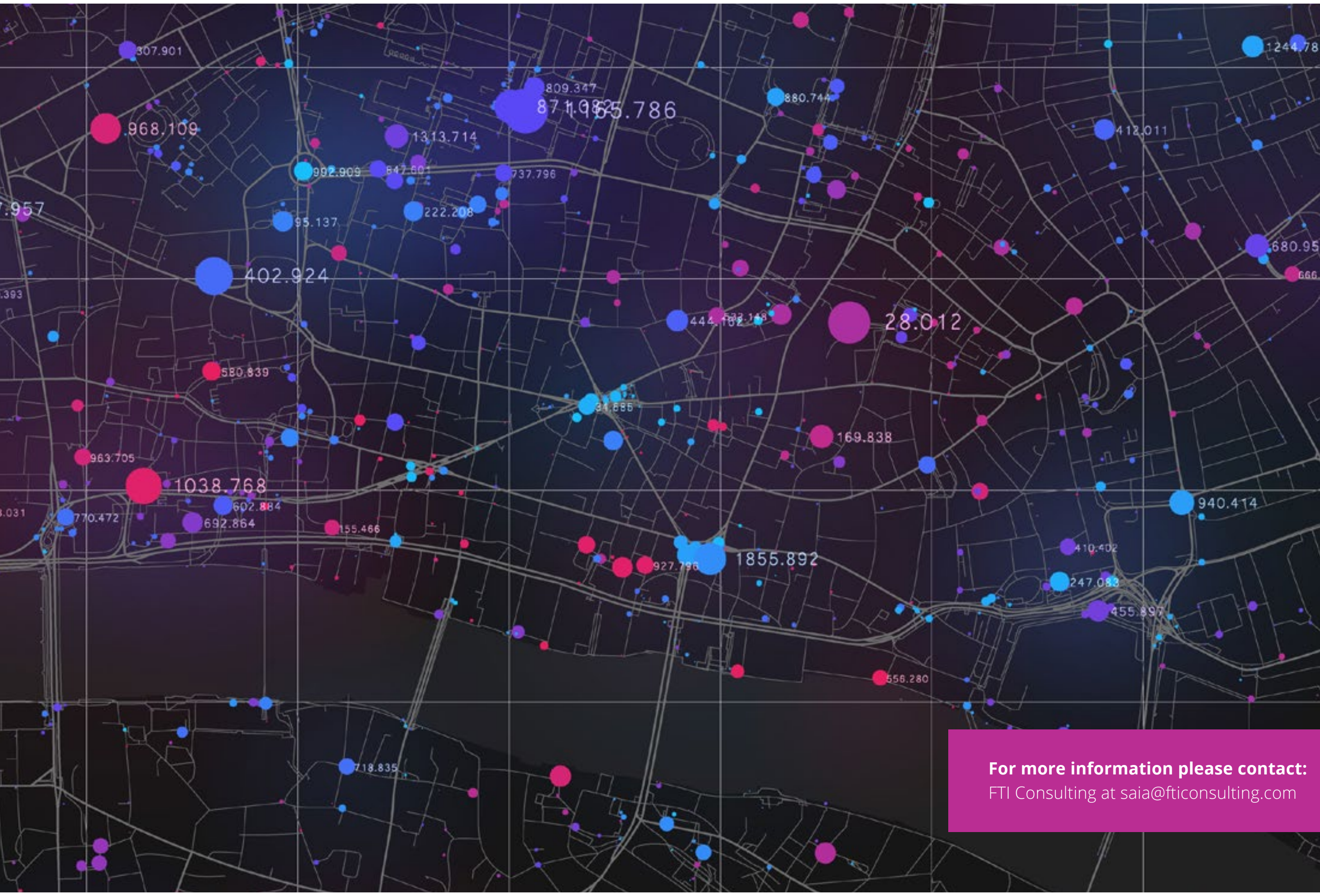
BIG DATA, A MAP FOR INSURANCE

Coined in a 1997 academic paper and appearing in media a year later, Big Data continues to map new frontiers in the rapidly unfolding digital landscape.

The basic premise of Big Data was best outlined by analyst Doug Laney, who spoke of the "3V" of big data: volume (the amount of data), variety (types of data), and velocity (the speed at which we can process data). Most of the corporate world – including the insurance industry – was already sitting on large complex pools of information, which traditional or legacy technologies could not process.

The evolution from merely knowing about Big Data to understanding how it could be effectively, and efficiently, deployed for the benefit of the organisation and consumer has required a paradigm shift in how we do business. The simple and most immediate impact was the sudden shift from product-centred to customer-centred strategies. Companies were now asking how this data could be better used to predict customer needs.

The financial sector, the insurance industry, in particular, has been very actively amassing data and deploying it through carefully considered and developed models to achieve greater customer satisfaction in the digital ecosystem. Additionally, in this new norm of technology-powered economies, the ability to ensure that these data-gathering capabilities are secure has become central to every business model, especially in this sector.



For more information please contact:
FTI Consulting at saia@fticonsulting.com

Fighting fraud

Fraud prevention is top of the agenda for the South African Insurance Association (SAIA). The Insurance Crime Bureau (ICB), which has been at the centre of fraud prevention initiatives on behalf of the insurance sector, estimated that fraud accounted for 20% of total claims paid in 2019, amounting to roughly R7 billion in fraudulent claims.

Insurance technology executives were under considerable pressure to deliver cutting-edge digital capabilities to improve turnover and profits while cutting costs. For many, big data utilisation has been integrated into their technology environments and future business platform strategies. The scalability of the cloud has made it an ideal option for most businesses to gather data and deploy it at high speeds. Today, more than 80% of carriers now use cloud computing.

The development of applications on the cloud has been a much quicker alternative than on-premises deployments, such as trying to plug add-ons into legacy systems. Through the rapid adoption of these platform strategies, insurers have developed massive storage capabilities in creating models that accurately predict digital consumer journeys, and thereby improving their customer offerings.

Evolving technologies require newer capabilities that can use advanced analytics, telematics monitoring via the Internet of Things (IoT), and cognitive applications, such as machine learning and artificial intelligence (AI). These capabilities must be agile, scalable and flexible, given the amount of data being generated and the processing power needed to leverage the data.

Today's consumers are technologically adept and predisposed to choices that enable them to quickly compare policy features and prices in mere seconds. This greater price and value transparency, which is available in an accessible digital format, has put pressure on insurance providers to continually refine their digital business and pricing models, but also improve their product development and offerings to protect profit margins.

It is now common knowledge that Big Data is not centred on how much information you have, but how you use it. The massive data gathering and segmenting capabilities enable back-office decision-makers to analyse claims and policy data in real-time; identify characteristics of successful service providers, such as intermediaries; and help them with product management and design. This data collection, driven by insurtech platforms, has given actuaries the ability to conduct detailed data analysis to create more customised processes based on underwriting needs.

For some, the use of Big Data has evoked fears of a Big Brother environment, meaning privacy concerns and the threat of cybercrime fraud, but the insurance industry is well aware of this. The industry uses big data to combat fraud by identifying possible risk areas before criminals can exploit them.

The industry continues to be a significant player in fraud prevention through its externally managed databases. The major benefits, which include targeted customer interactions, greater efficiencies, and reduced costs, are now accepted and applauded by the insurance industry and its clients.

Henry van Deventer, Chief Specialist, Liberty Group

TRACKING **BLACK SWANS**

How should financial services providers manage client funds in a time when volatility and unprecedented Black Swan events are becoming expected occurrences?

We need strategies that provide a reasonable level of income for a client throughout their post-work life while keeping up with inflation. Especially the underlying portfolios of those people who have already retired and have opted for living annuities from which they are drawing an income in these volatile times.

Living annuities remain the firm favourite in the South African market. Statistics from the Association for Savings and Investments (ASISA) for the period January to June 2020 show that only 8 856 life or guaranteed annuities were purchased, compared to 22 000 living annuities, a 29% to 71% split. With global trends in DIY-investing, and clients demanding more control over their financial journeys, it has been shown that guaranteed annuities continue to be pipped at the post by living annuities.

Whether the choice of living annuity over guaranteed annuity is purely driven by a retiree's urge for more control, going it alone is never ideal and is likely terrifying for most clients. Lifecycle-specific, goal-based advice is vital to support investors in making decisions on drawdown rates or investment direction.

Volatility's bad rep

Volatility, the extent to which your investment rises and falls due to economic changes, is necessary but understandably scary. We love it when our investments suddenly rise in value but abhor a sudden drop. But both the up and the down constitutes volatility, and the ups are necessary if you want to see real returns.

Would it therefore not be ideal to participate in the rollercoaster's climbs, but have some sort of protection against those frightening downward sections? Especially when you are drawing down for an income while in one of those slumps.

The risk decision

What we need to understand is that risk comes in all shapes and sizes and when making investment decisions, risk should always be weighed against financial goals.

When faced with volatility and wanting to temper it, a client could choose to adjust his or her risk appetite and the risk profile of all underlying investments to such an extent that the rollercoaster turns into a locomotive on level ground – chugging steadily towards its destination.

This will take care of volatility (that train won't necessarily derail) but could cause a different type of risk where the client never reaches the planned financial destination.

It is, however, possible to achieve the correct balance to still obtain inflation-beating, or inflation matching returns, to achieve the original goals in your financial plan, but at a lower risk and volatility level.

Liberty's multi-strategy investment portfolios, for example, are actively managed and reviewed by top professionals whose specific mandate it is to deliver performance during any market cycle. The five different approaches range from conservative (target of CPI+ 1-2% over 0 to 2 years), to aggressive (CPI +6% over 5+ years), and includes the client in a co-creation exercise to find the solution that matches their particular needs.

"Risk should always be weighed against financial goals."

Added protection

For those invested in more aggressive portfolios pre- or post-retirement, either through a retirement annuity or through a living annuity, Liberty's High-Water Mark Guarantee, as an optional extra, provides a unique tool to protect against market slumps.

For an upfront fee of 1% of your investment lump sum, it protects 80% of the highest value that your investment reaches at each quarter-end, over a five-year period. It also protects your income drawdown, because if you are below the guaranteed level, part of your income will be paid for by that guarantee throughout the five-year period in effect. There is an element of growth sharing in years when markets perform well. If at the end of five years your investment is below the guaranteed level, it will get topped up to that level. It creates a rollercoaster with many more ups than downs.

Partnering with clients

Ongoing goal-based advice is key, which is why we actively support our adviser base so they can empower clients. This has become more important than ever in a world where people are living longer and attitudes toward retirement is changing. It is no longer a switch that is flipped, but rather a transition into a new phase of life that may realistically include a centenary birthday.

Actively managing volatility in clients' investments to support growth for this post-work phase is a key priority for us. The multi-strategy model fits an approach where clients are provided with integrated lifecycle, goals-based planning, and combining it with our High-Water Mark guarantee, brings peace of mind so that we are prepared as best possible for when those Black Swans appear. Because they will.

Leanne van Wyk, Director of Legal Servics, ICTS

MAKING SENSE OF **COMPULSORY ANNUITISATION**

Compulsory annuitisation of the retirement benefits of provident funds came into effect at the beginning of March 2021. Here's what the new legislation means for your clients.

The relevant amendment to the Income Tax Act was promulgated on 20 January 2021. Pension and provident funds will be aligned as regards how much a member may take in cash on retirement.

Varying interpretations of the legislation remain and we hope to see further clarity going forward.

Retirement benefit from a provident fund

The amendment to the legislation affects how much cash a member can take on retirement. It does not affect how much cash a member can take when they withdraw from a provident fund.

Going forward, provident funds will pay out retirement benefits with only one-third of the retirement benefit being able to be taken as cash.

Members can also take additional amounts as cash when they retire, which is referred to as "vested benefits". So, in addition to the usual one-third in cash, other amounts can be taken in cash on retirement. A percentage of savings in provident funds, along with a percentage of future savings will also be allowed to be taken as a cash lump sum on retirement. These amounts differ for different age categories of members.

These additional amounts that may still be taken as cash on retirement (i.e. in addition to the one-third already allowed), and will not have to be taken as an annuity, have been called vested benefits or vested rights by the industry. This term is not used in the Income Tax Act.

What are vested benefits?

Different rules apply for older and younger members.

For all members of a provident fund

- Contributions to provident fund before 1 March 2021
- Plus all fund return on this

+

For all members of a provident fund who are 55 or older on 1 March 2021

- Contributions from 1 March 2021 and after - as long as you were a member of the provident fund on 1 March 2021
- Plus all fund return on this

The amounts that a provident fund member may take in cash on retirement

1. All vested benefits, plus
2. one–third of the non-vested benefits (all of the retirement benefits minus the vested benefit is the non-vested benefit).

If the value of the member's non-vested benefit is R247 500 or less, then the member can take the whole retirement benefit as cash.

Amounts credited

It is worth mentioning that the above explanation of vested benefits has been simplified and the legislation is more complicated. The legislation also refers to certain "amounts credited" to fund reserves/credits as being added to vested benefits. In certain circumstances, this may include surplus amounts credited to members and other amounts.

Deductions

For example, deductions from benefits on divorce, for maintenance orders, or housing loans, as well as other deductions permitted by law, will reduce the vested and non-vested part of a fund credit proportionately.

Once-off withdrawals from preservation funds

It is still unclear whether a once-off withdrawal from a preservation fund reduces the vested or non-vested part of the fund credit, or whether the intention is that the vested and non-vested part of the fund credit should be reduced proportionately. Some fund administrators appear to have decided to deduct this proportionately until they hear otherwise.

February 2021 contributions are vested benefits

As stated above, contributions paid to the fund before 1 March 2021, and all fund returns on these, fall under vested benefits.

The South African Revenue Service has confirmed that a contribution to a fund in respect of February 2021, which the employer claims as a deduction for February, but that is paid to the fund on 1 March or after, is a vested benefit, along with all fund return on that contribution going forward.

What happens to vested benefits on transfer between funds?

The basic principle is that vested benefits will continue to be vested upon transfer to another fund, and subsequent funds. This has been confirmed by Treasury, albeit only verbally at this stage.

When considering the effects of annuitisation on transfers it is useful to keep a distinction between the following amounts in mind:

- the benefit transferred, and
- ongoing contributions, and ongoing fund return on these, in the new fund.

Provident fund A to provident fund B transfer

For all members

Transfer amount: vested benefit transferred from Provident Fund A to Provident Fund B will remain vested in Provident Fund B.

Members younger than 55 on 1 March 2021

Ongoing contributions to Provident Fund B: only contributions made before 1 March 2021 will be vested (plus fund return on these). From an annuitisation point of view, there is no real difference for these members as to when the transfer takes place.

Members 55 and older on 1 March 2021

Ongoing contributions to Provident Fund B: contributions at any time, and fund return on these contributions will be vested, as long as the member was a member of Provident Fund B on 1 March 2021. For transfers in the future, contributions to Provident Fund B will not be vested.

Pension fund to provident fund transfer

For all members

Transfer amount: there are more than likely no vested amounts to transfer (unless there was a previous transfer into the pension fund from a provident fund).

Members younger than 55 on 1 March 2021

Ongoing contributions to provident fund: only contributions made before 1 March 2021 will be vested (plus fund return on these).

Members 55 and older on 1 March 2021

Ongoing contributions to provident fund: contributions at any time and fund return on these contributions will be vested, as long as the member was a member of a provident fund on 1 March 2021.

Provident fund to pension fund transfers are a bit more complex, from an interpretation of the Income Tax Act point of view, and advice should be sought for these transfers.

Advice should be sought, where required, as regards compulsory annuitisation of provident funds. For example, concerning a transfer between funds or communication to members.

Jannie de Beer and David Vines, Risk engineers, Indwe

JUST ADD **VALUE**

It is widely believed that risk management is a tool of insurance, but, on the contrary, insurance is a tool of risk management. This is where risk consultants add value.

Risk management specialists focus on the entire risk universe, ranging from operational to strategic risks, and they can be independent (employed by consulting firms, risk advisers [brokers] or insurance companies), or employed by the business. Acting on behalf of insurance companies, they serve as the eyes and ears of the insurance underwriter. Ultimately, with the support of a risk specialist, clients should receive adequate insurance cover at the best possible terms.

The purpose of obtaining risk consulting advice will assist clients with identifying their risks. This is beneficial for insurance purposes, but it is also part of the risk management process.

Steps of risk management include understanding the scope, context, and risk assessment through identification, analysis, evaluation, treatment, and monitoring and communication.

Risk treatment includes removal, transfer, acceptance, or the mitigation of risks. Along with specific risk identification, risk advice also ensures that clients meet all relevant regulations and legislation, such as Building Regulations (SANS 10400), the Occupational Health and Safety Act, to name a few.

The focus from the risk control and engineering aspect is generally concentrated on asset protection and business interruption, with the ultimate goal of preventing losses or reducing liabilities. These not only potentially threaten the future existence of the business, but will also influence future insurance costs and acceptability. This would form part of the "cost of risk" principle.

Aspects of risk management

From the insurers' perspective, risk assessments generally take into account the following aspects from which advice is given.

Construction
This entails reviewing all aspects of building construction and identifying combustible features within the structure, such as partitioning, ceilings, and roof supports among others. For example, in older buildings, and processing risks, there can be extensive timber flooring or mezzanines, and addressing these risks can be complicated.

Combustible ceilings or partitions can be replaced with non-combustible material or treated with fire retardant products, whereas it isn't so simple to replace extensive timber flooring and fire protection measures would be critical to cater for this.

Occupation
This is an important part of the assessment, as various processes and occupancies have different risk profiles. These can be due to hazardous materials and general combustible fire loading in the buildings. Advice on risk improvements, such as upgrading of protection measures relating to process and storage risk on-site, is paramount in the assessment.

Protection
This involves assessing the fire and security measures in place and where these can be improved. These features mainly relate to the installation of passive and/or active protection. Passive protection generally comprises the presence of fire compartments, separation and walls, and burglar bars, among other measures. Active protection includes the installation of automatic sprinklers and fire extinguishing equipment, fire detection installations, electric fencing, burglar alarms, CCTV monitoring, among other measures.

Exposure
Reviewing existing external exposures from natural disasters, such as storms, flooding, lightning and hail, and ensuring that appropriate protections are in place. Further examples include establishing exposure to neighbouring properties and their occupancies, as well as possible risks from exposed gas and fuel tanks.

The above is a high-level guide to risk assessment and what it comprises. In reality, far more detail is included in these assessments, and experienced risk consultants have an extensive understanding of the majority of processes and manufacturing risks, supported with knowledge of internationally accepted codes of practice and standards, as well as best practice solutions.

Historically, employee assistance programmes (EAPs) operated outside the employee benefits (EB) mix. But Momentum Corporate has changed this.

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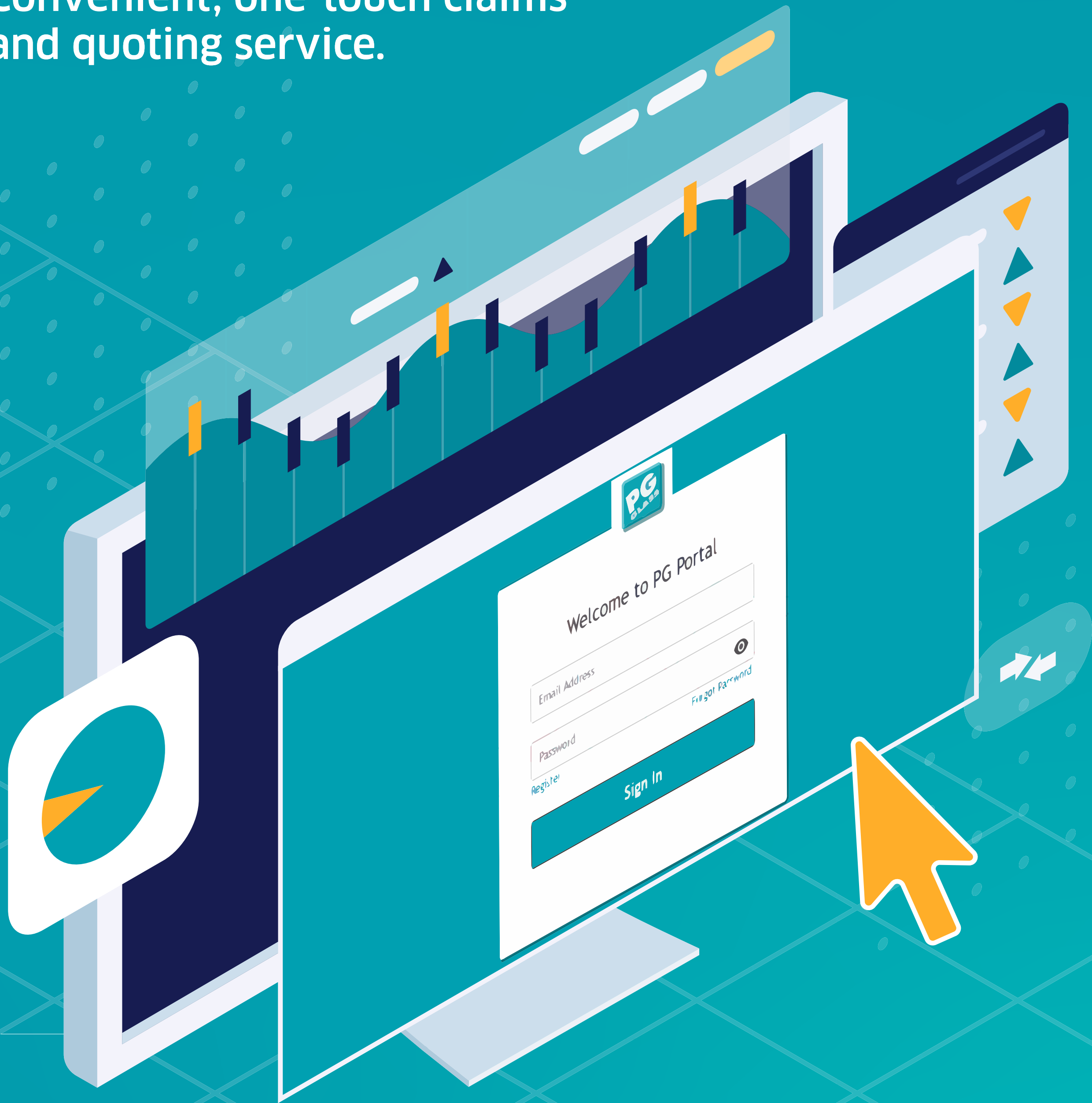

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INSURTECH, BEYOND THE HYPE

When it comes to technology, we can be like cats running after a laser pointer, says MD of Genasys Andre Symes. We press him on how insurers and brokers can keep their eyes on the technological prize.

FIA: What comes to mind when talking about enabling technologies in the broker and insurance spaces?

Andre: Enabler technologies simply allow you to do more. It enables you to change your business and enables you to adapt. Technology shouldn't inhibit or stifle change, it should encourage and enable the changes you want to make in your business.

For example, if you want to pivot into a new line of business, technology should enable you to do that. If you want to change your payment methodologies and your payment structures, technology should enable it, not inhibit it.

There's been much talk about the remote working implications of adopting the technology. What else might we be missing when it comes to technology adoption and implementation?

We have made the necessary hardware changes and put systems in place, but, to a large degree, people in business still struggle to shake the legacy way of thinking. Ultimately, we're still people at the other end of these technologies, and it can be a challenge to keep up with the progression of technology. As Moore's Law infers, technology is evolving much faster than what we are.

You've spoken previously about the prevalence of hype distraction in the tech field. How do companies avoid being led astray by this?

When it comes to tech, we can be like cats running after a laser pointer as we chase the shiny object of the hour. A while ago it was blockchain, then it became AI. it doesn't stop and it's too easy to lose sight of the business problems you should be solving.

If your business problem is clearly defined it makes navigating the endless sea of solutions easier. Unfortunately, what tends to happen is Maslow's hammer approach where technologists or CTOs want to jam the technology of the hour into every single business problem they can find. This is where an independent consultant with a deep understanding of available technologies can be valuable. But it still comes down to understanding what it is you're trying to solve, and then finding the right tech to solve that problem.

What are the crucial technology platforms that insurers should have in their repertoire?

There's hundreds of platforms but generally speaking it's important to look at technology platforms that enable insurers to lower operating costs and the cost of insurance. Right now, we're going through a nice cycle of understanding and looking at more data, but it's crucial that data can be fed to, and extracted from the platform quickly. Ultimately, the most important technology capability for any insurer or broker to have right now is the ability to frictionlessly plug into and plug out of different services.

How does company culture impact the adoption, and non-adoption, of technology?

Insurers are naturally risk-averse. They manage risk for a living and, from what I've seen in the

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corporate space, failure isn't taken to kindly so people tend to make less risky decisions. When this is transposed onto technology roadmaps people are reluctant to take a chance on new platforms or to experiment and fail fast due to the potential consequences for the organisation.

We need to start looking at ways of changing company culture where experimentation or fast failure is not necessarily rewarded but managed better. Once you have platforms that can launch a product quickly, you're reducing the risk. Eventually, we need to be more comfortable with experimentation, and if it doesn't work, we pivot and try something else. That's the only way we are going to speed up developmental changes in the industry.

How does this relate to the banking sector in financial services? What are they doing differently to insurers?

The banking sector is about ten years ahead of the insurance space when it comes to tech consumption. Make no mistake, the same technology is available to insurance; it's just about how we consume it and the budget available.

Open banking is something we should be looking at. How can we accommodate more open insurance, more sharing of information among each other? We should all be looking to the banking sector to find out how they achieved that and try to emulate it.

A lot of consolidation has taken place, what opportunities and challenges does this pose to decision-makers in a company?

With consolidation, there is always opportunity and risk. Traditionally, the two companies will share operational costs and share the platforms they operate on. Management must ensure the two companies can operate on the same IT stack. We've seen this in the broker space with these mega deals (AON for example) but we've also seen a slightly different disaggregation of the insurer space, with more UMAs spinning out of large carriers. All of these companies need a mature tech stack to run on.

They were used to running on a big, powerful tech stack within their mothership. When they jump out, they can't risk their reputation or their customer experience. There are always opportunities for the CTO to find a solution that can service these carrier-attached start-ups, where they can still scale and talk back to the mothership when they send data.

Where do CTOs find API-enabled technologies that link them back to the mothership?

One of the main challenges CTOs face is how to couple back to the mothership. Many of the monolithic or legacy platforms struggle to push data in and out, so a decision must be made between building middleware or coupling it back into a data warehouse from the periphery platforms. Historically, company legacy systems can be a huge problem, which is why a lot of platforms look for scalable platforms outside of their core. For example, if you have a core platform that is running many millions of policies and now you want to test greenfields products, like the banks did, and it hits scale, the question becomes, "do I move this back to the core?", or "can the platform it resides on currently handling the volumes?". If the answer is yes, there is no need to move.

How does the insurance ecosystem function, and can you give an example of how this looks in the South African insurance and broker context?

From a technology point of view, the ecosystems we refer to are additional functionalities that can be added or disconnected at various stages of the policy lifecycle.

Autotrader makes a good hypothetical use case: picture picking a car that you want to buy, and then right there and then being able to embed insurance and understand the value of that vehicle, along with the risk, and being able to offer a price on the insurance policy immediately.

That's the front-end part of insurance – embedded insurance – and it's a really hot topic at the moment. Using data sourced from other service providers in the ecosystem, you already know who the buyer (potential client) is. Using this information, you can pre-populate questions, or not even ask them questions, thereby driving down the quote-buying journey, which translates to a great customer experience, eventually resulting in more sales.

You can plug into various other ecosystems like payment gateways. For example, we work with Imburse, and they plug into more than thirty other payment gateways. You can choose the gateways you want to use be it Stripe, WorldPay, HSBC… and that's a separate ecosystem.

When you run through the policy lifecycle you can add ecosystem elements all over the place. Come claim time, if you have a telematics device or an IoT device, which is also part of the ecosystem, talking into the call to notify your first notification of loss if there's an incident, you can call out to these third parties and check the validity of that particular dataset.

Was the telematics device impacted in such a way that it is a claim? Where was it happening and at what time? You can pull all of this together to drive down claims costs and premiums, and offer your customer a better experience.

There are hundreds of partners that you can pick and choose from. It's about arranging them in such a way in the ecosystem that they can offer something unique.

What is your advice for insurers exploring enabler technologies?

Make sure you plan for the future and don't set yourself up for becoming a legacy five years from now. Always be cognisant of unseen risks and know while that we can't predict the next pandemic, we can architect in a modular manner to make it easier to pivot. The main takeaway is future proof yourself while ensuring that you can couple and decouple technologies. And ensure you are API-enabled!

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SA'S NEW CORPORATE DANGER

The biggest risk now facing the country is a lack of visionary and ethical leadership, according to the 2021 Institute of Risk Management South Africa (IRMSA) Risk Report.

The survey examines key risks facing the country and is a vital planning blueprint for both the public and the private sector as South Africa faces another year of contracted economic growth and accelerating unemployment numbers.

IRMSA's chief risk adviser, Christopher Palm says, "Any organisation that has a clear grasp of its own internal risks and those facing the country is in a far better position to manage itself through a crisis. This report, the result of extensive consultation among key business and government players, makes for salutary but necessary reading and provides an honest assessment of where the country is regarding our big risk issues and challenges." The report, compiled during the unprecedented academic year, is a stark reminder of how important clear and decisive leadership is.

Notes Palm, "While there are many risks facing this country, including growing inequality, a bruised economy, the ongoing scourge of fraud and corruption, unemployment and a health system that is over-stretched, all are tied together by the importance of strong leadership. And by that our respondents mean, people who are dedicated, tireless, focussed, and incorruptible. The pandemic has in some respects brought out the best in many leaders, but we continue to face significant challenges and while there are no quick fixes, more attention needs to be paid to good governance, clear guidance, ethical management and paramount is addressing systemic fraud and corruption."

The 2021 IRMSA Risk Report also highlights an increase in geo-political and socio-economic risks and the increasingly difficult challenge in finding the most effective risk responses to deal with a low growth environment and the ongoing need to address inequality.

The report says there is growing evidence of real change in the corporate and social fabric, with the world moving from shareholder primacy, towards more stakeholder-led inclusivity driven in part by the democratisation of social networks and increased stakeholder advocacy. But the report also notes the current pandemic crisis has also served to deepen levels of inequality and the digital divide, with many households merely focussing on survival.

On a positive note, the past year has significantly increased the momentum of disruptive technologies and organisations have recognised that the future is fully digital. Palm says, "There has been a marked increase in the use of digital sales channels and services, as well as innovations in the areas of education, but the level of market penetration and access to the internet still present obvious risks and challenges.

The 2021 IRMSA Risk Report also highlights the importance of risk management and how the role of the Chief Risk Officer has been reinforced over the past year with many organisations recognising the need for more real time risk intelligence and the need to embed risk management activities into business and decision making.