



The Guardrisk Update

Volume 15 Issue 2

Incorporating Life Update

April 2009

SA must prepare for 2010 personal injury claims from visitors to the country (*Business Report, 28 Apr*). In the US, the average cost for 'slip and trip' accidents range from \$7000 to \$25000 in direct costs. Indirect costs typically increase this amount three to five times. Recent personal injury settlements in SA included R600,000 for a fractured foot and R380,000 for torn knee ligaments, indicating that damages arising from claims locally are just as costly as abroad.

INSURERS are being hit by weather conditions in their corporate, commercial and domestic property accounts (*Business Day, 30 Apr*). While there has not been too much in the way of floods in SA during the first quarter of 2009, continual rains have increased the frequency of property damage claims.

COMPANY directors and officers could face a heightened threat of litigation once the new Companies Bill is passed into law next year (*Business Day, 1 Apr*). Provisions contained in the bill will raise directors' accountability to shareholders and allow shareholders to participate beyond meetings.

THE problem with the draft 3 King codes is that their recommendations can't be enforced (*Business Report, 16 Apr*). Companies have a convenient loophole to explain away any aspects of non-adherence to the codes. And so it remains up to shareholders to act as compliance officers.

THE Competition Amendment Bill contains a number of amendments, including personal fines and criminal liability for directors of firms who cause those firms, or knowingly acquiesce, to firms engaging in cartel conduct (*Business Day, 3 Apr*). Where a director knowingly acquiesced in cartel conduct, and harmed a third party, the company could proceed against the director with a derivative action.

SOUTH Africa is facing a medical catastrophe with the rapid increase in HIV and TB co-infection (*Business Report, 1 Apr*). Research conducted in a community in Cape Town, which recorded a 23% HIV prevalence, found that over the past 10 years, there had been a dramatic increase in TB.

A whole new set of 'banana skins' for insurers to deal with

The Centre for the Study of Financial Innovation (CSFI) – a non-profit think tank which aims to identify new areas of business, flag areas of danger and provoke a debate about key financial issues – recently released its 'Insurance Banana Skins 2009' report.

In the first report, released in 2007, the top two issues were the danger of over-regulation strangling the industry and natural catastrophes. But that was before the global credit crunch hit markets and the 2009 report (based on 403 responses from 39 countries) highlights a completely different range of risks and shows just how much the world has changed in 18 months. This year investment performance (11th in 2007) comes in at the number one spot, followed by equity markets (13th in 2007) and capital availability (26th in 2007).

While too much regulation may have fallen from the top position it occupied in the last survey, it has not disappeared and is still ranked fifth. In fact, there is now 'widespread concern that the crisis will trigger a regulatory crackdown on the financial sector which will put pressure on the insurance industry to increase capital and take on more compliance costs at a time when resources are very stretched. The insurance sector feels that it may be unjustly penalised for the sins of the banking sector'.

In the wake of the financial crisis, insurers face a very different landscape today; one that is characterised by:

- low or negative investment returns;
- an acute shortage of capital;
- a dreadful macro-economic outlook;
- a backlash against financial complexity;
- increasing political involvement, even in mature markets; and
- the inevitability of much tougher regulation at all levels.

"Obviously, all of these affect the individual pillars of the insurance industry in different ways and to different degrees. But what makes everything worse this year is a pervasive sense that the insurance industry isn't as well prepared as it should be. Compared to 2007, the percentage of respondents who said the industry was 'well prepared' to meet the challenges was down from 21% to a paltry (and terrifying) 4%," says Andrew Hilton, CSFI director.



The report also highlighted growing concern about the potential damage to the insurance industry's reputation caused by insurers' attempts to push up premiums and take a tougher line on insurance claims, as well as disappointing returns on savings products.

Other rising risks identified in the 2009 report were:

- Risk management techniques: weaknesses exposed by the crisis.
- Reinsurance security: rising risk of counterparty failure.
- Complex instruments: seen as the heart of the problem.
- Interest rates: low rates will hurt industry revenues and reduce returns on savings products.

Concerns that decreased from 2007 included:

- Management quality: a longer term problem.
- Managing technology: a secondary risk in the current financial climate.
- Natural catastrophes: fewer big incidents.
- Climate change: losing its urgency as an insurance risk.

Risk Barometer

THE International Monetary Fund has raised its estimate of losses from the global financial and economic crisis to more than four trillion dollars due to writedowns on soured credit (*Business Report*, 22 Apr). The total estimated cost of \$4.054 trillion includes \$2.712 trillion in losses in US-originated assets. Losses on European-originated assets were estimated at \$1.193 trillion and those of Japanese-originated assets at \$149 billion.

EUROPEAN insurance buyers remain concerned about how Solvency II may affect their captives (*Business Insurance*, 27 Apr). They are keen that the implementation measures uphold the "proportionality principle" that, among other things, will ensure that the new rules treat captive insurers in accordance with their size and complexity. They hope proportionality also will be applied to corporate governance and transparency rules as part of the implementation measures.

UNCERTAINTY over counterparties in the traditional insurance system is making captives more attractive as the global economic strife continues (*Insurance Day*, 27 Apr). Using a captive gives a business much more control over the marketing of its risk.

WHILE industries such as financial institutions, health care and retail make greater use of captives than others, virtually every industry group and organisations of various sizes use captives (*Business Insurance*, 13 Apr). The trend toward captives being used across industry groups is true around the world with the exception of health care captives, which are formed almost exclusively by U.S.-based organisations.

NEWS that the first European industry loss estimate will soon be published should be welcomed by the sector (*Insurance Day*, 20 Apr). The lack of understanding of the cost of major events at industry level has become increasingly prominent in recent years. Industry figures have relied on feedback from catastrophe modelling firms in the days that followed each event, and these have often under- or over-estimated the cost of the loss.

THE U.K. financial services regulator has formally endorsed insurance industry-developed guidance to address conflicts of interest, transparency and disclosure in the commercial insurance market (*Business Insurance*, 6 Apr). The endorsement means the FSA now will take into account the guidance in regulating insurance brokers.

Life Update

Life Barometer

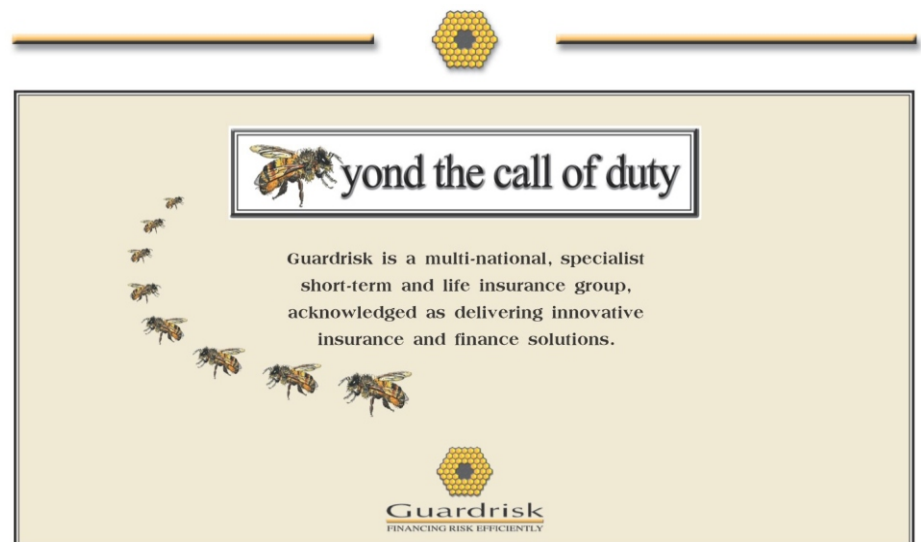
SOUTH Africans are not financially well prepared for retirement (*Business Report*, 8 Apr). In a new survey among financial advisers active in the areas of personal financial planning, investment and long-term insurance cover, only 13% of respondents indicated that 50% or more of their clients were well prepared for retirement. The main reasons mentioned by advisers for clients not saving enough for their retirement were a poor savings culture; not preserving retirement benefits when switching employers; and relying solely on employers' funds for retirement benefits.

THE value of lapsed life insurance policies shot up by 40% last year to R4.6 billion as low-income earners cut costs by halting premium payments (*Business Report*, 31 Mar). While such a high lapse rate is worrying, it needs to be seen in the context of the rise in new recurring premium business written over the same period. New recurring premiums for last year amounted to R12.9 billion. Not all policies that lapsed last year were bought in 2008. The value of surrendered individual policies rose by 21% to R38 billion this year due to tough economic conditions.

POOR health among U.S. workers costs employers much more than many realise in reduced productivity, according to a multiyear study of 10 employers and more than 150,000 workers (*Business Insurance*, 27 Apr). The study found that presenteeism – when employees are present at their jobs but unable to perform at full capacity – creates a greater drain on company productivity than employee absence, a finding that may come as a surprise to many employers, researchers say.

INCREASING deficits in defined benefit pension plans may force some U.K. employers to reconsider their occupational pension provision such as closing defined benefit plans to all participants, but should not endanger companies' survival, experts say (*Business Insurance*, 20 Apr). The U.K. Pension Protection Fund, which was set up in 2005 to safeguard the pensions of participants whose employers become insolvent, has published statistics that showed occupational defined benefit pension plans in the United Kingdom that were underfunded had a combined deficit of £253.1 billion at the end of March, compared with £218 billion at the end of February and £81.5 billion in March 2008.

MAJOR U.S. health insurers and managed care companies earned sharply lower profits in 2008, some nearly half of 2007 results, as poor stock market performance and lower interest rates chiseled away at their investment portfolios (*Business Insurance*, 13 Apr). The downturn in results may lead some insurers to try and increase premiums, though they will likely meet stiff resistance from employers, some analysts say.



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