



The Guardrisk Update

Incorporating Life Update

Jan/Feb 2010

ACCORDING to a new study, the government will have to come up with an extra R165bn-R244bn a year, over and above the money it already spends on public health, for its proposals for national health insurance (*Business Day*, 15 Feb). Not only is there a question about where the money is to come from, but the research has also shown that there are not enough doctors and nurses to provide the level of care the government aspires to.

COMPANIES need to improve their oversight of risk management in the wake of the financial crisis (*Business Day*, 9 Feb). The market has adopted zero-tolerance to lapses in risk management and good management practices regarding risk are essential in reducing risk to shareholder value.

SA banks could be short as much as R600bn in liquid assets to restore ratios to their required levels in terms of the latest Basel 2 consultative documents (*Financial Mail*, 12 Feb). The liquidity proposals could result in weaker asset growth for SA banks and a shift away from longer-dated, lower-margin business such as mortgages.

THE government will increase its oversight of hedge funds, private equity funds and ratings agencies in the wake of the global financial crisis (*Business Report*, 17 Feb). It also plans to strengthen the country's financial regulators and will establish a new body to co-ordinate their work.

A new instrument for measuring and reporting on corporate governance has been introduced by the Institute of Directors in Southern Africa (*Business Day*, 22 Feb). It is set to become a benchmark for measuring how companies perform against the King 3 report.

THE Law Society of SA plans to contest the Road Accident Fund Amendment Act's constitutionality (*The Star*, 26 Feb). The society, joined by 10 other applicants, believes the act is unconstitutional as it removes road accident victims' common-law right to claim for fair compensation from the wrongdoer.

Social networking – making friends or foes?

In the old days, social networking was done in person and mostly after hours, but that was before social networking sites like Facebook and Twitter emerged. Today users are becoming increasingly used to sharing the minutiae of their lives in real time.

Research commissioned by MWeb reveals that a massive 82% of South African Internet users make use of Facebook (which has a global network of 350 million users) and, before you write it off as the preserve of the youth: the average age of local Facebook users is 33. For corporates, the two main issues that need to be addressed regarding social networking sites are: the effect on productivity and risks to the company.

There is no doubt that social networking sites can prove quite addictive. A recent study in India (which a local expert says could equally be applied to South Africa) claims that the use of social networking sites lead to a loss in productivity of nearly 12.5%, with employees spending an average of an hour a day on sites like Facebook.

Social networking sites can also drain company bandwidth and, even worse, can purposely or inadvertently leak confidential company information. These sites have become a primary target for hackers and therefore pose significant data loss and identity theft risks. Quite simply: social networking sites provide a veritable treasure trove for hackers because of the willingness of users to share too much information with too many people.

The knee jerk reaction by most companies has simply been to ban access to these sites. But could they be missing a great marketing opportunity by doing this? According to Sophos, a leading international IT security firm, "the sites present a great way to connect with customers and spread the latest company news or product offerings to the public". Instead of a blanket ban, Sophos says that "more subtle and granular controls are required, such as data loss monitoring to watch for specific types of information passing outside company boundaries via non-approved vectors, and tightly configurable usage policies that can limit illegitimate use of certain sites and technologies while granting access to those who require it".



A recent survey conducted by Sophos confirms that corporates' concerns about the plethora of malware, spam and phishing risks on the social networking sites are well founded. The survey confirmed that 70% of respondents encountered spam and malware attacks via social networks during 2009. The number of businesses that were targets for spam, phishing and malware via social networking sites increased dramatically, with spam showing the sharpest rise from 33.4% in April to 57% in December. What's more, over 72% of firms believe that employees' behaviour on social networking sites could endanger their business' security.

One thing is for sure, on-line social networking is here to stay and corporates will have to scratch their heads to come up with a solution that works for both the company and its employees. Especially since social networking sites are now not only a vital part of many marketing and sales strategies, they are also the de facto communications tool of the day.

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Risk Barometer

FIVE years after being banned from accepting contingent commissions from insurers, the world's three largest brokers have reached agreements with US state authorities allowing them to resume collecting contingents (*Business Insurance*, 22 Feb). As a result, they are no longer limited in the types of compensation they can receive or held to the rigorous disclosure required in their 2005 settlements.

INSURERS have been warned they must routinely review their policy database to identify whether any policyholders or parties to the transaction have been designated as 'Specially Designated Nationals' subject to US sanctions (*Insurance Day*, 24 Feb).

FUTURE inflation may affect reinsurers' profitability across all lines of business, (*Risk Management*, Feb). For reinsurance contracts, where several years often elapse between rates being set and claims being paid out, inflation is a potential threat and can become a real problem. Historically, inflation has caused larger future claims, and, in the current climate, the industry is not likely to be able to factor this into pricing.

DELAWARE is celebrating becoming what it says is the first insurance domicile in the world to licence a serial entity captive (*Insurance Day*, 16 Feb). The serial Limited Liability Corp (LLC) structure, an approach often used in the mutual fund industry, can be used to segregate different lines of coverage. Delaware is one of only seven US states whose business laws allow the formation of serial LLCs.

THE planned 2012 implementation of Solvency II and regulations already in place worldwide "adequately address" and ensure that insurers' and reinsurers' core business does not pose the kind of systemic risk that led to widespread banking problems and global financial woes (*Business Insurance*, 28 Feb).

MERGER and acquisition activity among European insurers should re-emerge as an industry trend this year (*Insurance Day*, 11 Feb). A new report says insurers will explore new quantitative risk-capital requirements under Solvency II, framed by an appropriate risk management infrastructure with the proper internal processes and controls at all levels.

AS 2009 came to a close, an apparent net gain in captive formations in many domiciles had some regulators thinking the interest in captives might signal economic recovery (*Business Insurance*, 3 Feb). While the economic downturn and paralysis in the credit markets stalled many prospective parent companies' interest in forming captives late in 2008, 2009's fourth quarter was closer to the norm in several domiciles.

Life Update

Life Barometer

Local

CONFIDENCE in the life insurance sector continued to rise in the fourth quarter of 2009 from its weakest levels at the end of 2008, after benefiting from better investor sentiment and stronger equity markets (*Business Day*, 21 Jan). According to a recent survey there were sharp contractions in investment product inflows; further weakness in risk contract profitability; contractions in new business premium growth and an improvement in the lapse and termination rate. Surrenders have remained low. A combination of improvements in investment income offset the effect of the contracting premium income trends and deteriorating risk contract profitability, resulting in life insurers experiencing an improvement in the net profit losses in the fourth quarter.

A large local insurer has welcomed the possibility of the continued use of accredited private retirement funds as part of the government's proposed retirement reforms (*Business Report*, 24 Feb). This after the 2010/11 Budget Review reported that government was considering allowing accredited private funds to operate alongside a statutory default arrangement that would grant workers access to affordable and secure savings arrangements, while allowing existing provident and pension funds time to adapt to more stringent minimum standards.

International

EMPLOYERS' inability to control health care costs and uncertainty about the effects of federal health reform have many rethinking their commitment to providing health care benefits (*Business Insurance*, 28 Feb). 43% of employers surveyed say they have lost confidence in their ability to provide affordable health benefits to their employees 10 years from now, up from 38% in 2009 and 27% in 2008.


UNFAIR pricing of prescription drugs is currently doing untold damage to US captive portfolios (*Captive Review*, Feb). The improper pricing of prescription drugs between third party administrators and pharmaceutical benefit managers is drastically pushing up the cost of worker's comp claims. A lack of differentiation between the pharmaceutical component and other types worker's comp claims has exposed captive portfolios to damage that is currently going unmonitored.

THE US city of Philadelphia is heading toward self-insurance for its employee healthcare benefits, finally following what's become a trend with local governments (*Risk and Insurance*, 23 Feb). Over the last 10 years municipalities have been moving toward self-insurance, especially for entities with more than 1,000 covered lives. Smaller municipalities tend toward using risk pools as an alternative risk mechanism for benefits.



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