



The Guardrisk Update

Incorporating Life Update

October 2011

MEDICAL aid fraud in SA poses a threat not only to the industry's wellbeing but to smaller schemes' survival (*Business Day, 16 Sep*). Insurers believe 7%-15% of all claims involve fraud and it costs the sector R4bn-R13bn each year.

SCIENTISTS have found a way to prevent HIV from damaging the immune system and this discovery may offer a new approach to developing a vaccine against Aids (*Reuters, 20 Sep*). Researchers found HIV is unable to damage the immune system if cholesterol is removed from the virus' membrane.

THE number of liquidations in SA rose by 24,3%, from 243 to 302, year-on-year in August (*Business Day, 26 Sep*). The biggest increase in the number of voluntary liquidations was recorded in the financing, insurance, real estate and business services industries.

LAWYERS have still to find a legally acceptable consensus on how to interpret the Consumer Protection Act's simple language clause (*Business Day, 22 Sep*). Legal culture often leaves it to the courts to define and "unpack" legislation, but with the CPA the courts will be the last resort, which means the consumer commission or the industry regulators or ombudsmen are more likely to be defining this clause.

A leading SA insurer warns that over-regulation in the financial sector could lead to an unwillingness by banks to invest in the country and cautions against regulators implementing laws that work well in developed countries without them being tested in SA (*Sunday Times, 11 Sep*).

UNDER the King 3 corporate governance framework, IT has been made very much a responsibility of CEOs and boards and most are not taking IT responsibilities seriously enough (*Business Day, 15 Sep*).

Just your typical fraudster

KPMG's newly released Analysis of Global Patterns of Fraud – Who is the typical fraudster? – narrows down the profile of the average fraudster, based on the scrutiny of 348 actual instances of fraud in 69 countries, including South Africa.

According to the report, males between the age of 36 and 45 years old in senior management positions are most likely to commit fraud against their employers. They are also likely to work in a finance function or finance related role, have more than 10 years service and work in collusion with another perpetrator. The finding that men commit more fraud than women seems a reflection on the gender make-up of companies and the fact that women's under-representation in senior management positions permit them fewer opportunities to commit fraud.

One of the most significant findings of this survey is the very large increase in cases involving the exploitation of weak internal controls by fraudsters – up from 49% since the last survey in 2007 to 74% in 2011. And some of the blame is placed on the companies themselves, because "they contribute to fraud when failing to detect or respond to lapses or gaps in controls, or by setting overly onerous targets".

The gaps in control could be due to the fact that some companies have been forced to cut costs in their control environments because of the current economic climate. The report says that "less robust controls, and fewer resources to monitor controls, allow for greater exploitation by fraudsters. Although necessary to preserve profits, such cost cutting should be balanced with effective risk management."

That controls are less effective than they should be, is borne out by the fact that one in seven frauds is now discovered by chance: in 2007, 8% of frauds were discovered by accident, rising to 13 percent in 2011.

Fraud is long also taking longer to detect. The 2007 survey recorded an average 2.9 years from inception to detection, but in the 2011 analysis this rose to 3.4 years.

South Africa, Australia, and New Zealand emerged as the most transparent countries, having disclosed details in 64% of fraud cases in 2011 (compared to the global disclosure rate of 13%). Africa (no separate data for South Africa is listed in this regard) also emerged as the area most likely to take enforcement action, including police and legal action, (65%) and disciplinary action was also high at 51%.

The report concludes that "with increased economic pressures on individuals, failure to identify or address red flags and the lengthening time lapse between fraud inception and detection, the likelihood is that frauds, currently undetected, will emerge in greater numbers in the next two to three years".



Risk Barometer

GROWING sophistication among mid-market executives who want to find a better way to finance the risks their companies face is driving many midsize businesses to turn to captives as an alternative to traditional insurance (*Business Insurance*, 4 Sep). Many also are showing interest in what are known as segregated or protected cell captives, as well as micro captives.

GLOBAL corporations will come seriously unstuck unless their boards fine-tune their "risk radars" (*Captive Review*, 9 Sep). This is because there is a major disconnect between boards, non-exec directors and their risk management teams.

PRIVATE equity is beginning to emerge from a three-year slump and is likely to target insurance and the rest of the financial services industry in the UK for investment and acquisition (*Insurance Day*, 27 Sep).

WEATHER derivatives have evolved to become a multibillion-dollar worldwide business (*Business Insurance*, 4 Sep). Today's weather derivative market serves numerous business sectors and regions, as well as a host of risks. The number of weather derivative contracts written globally last year reached more than 1.4 million, a record for the market.

INSURERS have remained competitive yet cautious during the third quarter of 2011, despite significant losses incurred during the first six months (*Insurance Day*, 30 Sep). Many catastrophe-exposed risks have found the going tough, with market conditions having hardened in response to the losses. But pricing reductions in other lines of business have fostered a fairly stable rating environment.

PROPOSALS to levy a 0.1% tax on financial transactions in the European Union will intensify global insurers' questions about the competitiveness and attractiveness of an EU domicile, even if the controversial plans come to nothing (*Insurance Day*, 29 Sep).

PROVIDED the remainder of 2011 sees only a modest impact on the reinsurance industry, reinsurers "are likely to have sufficient capital to meet the demands of insurers globally" (*Insurance Day*, 12 Sep).

Life Update

Life Barometer

Local

THE retirement fund industry needs to be more mindful of cultural norms when allocating death benefits to dependants (*The Star*, 6 Sep). One of the most common complaints made to the Pension Funds Adjudicator relates to the exclusion of common-law wives and their children in the distribution of death benefits.

THE number of fraudulent life insurance claims detected by South African life insurers increased by 26% to 5 792 cases in 2010 (*Business Report*, 15 Sep). The industry saved itself R638 million in the process. Through legitimate claims, the life insurance industry paid out benefits of more than R190 billion in 2010 to consumers.

THE National Treasury has put on ice its plan to overhaul investment-linked living annuities (illa) and to allow more companies to provide these products (*Personal Finance*, 11 Sep). The treasury wants to open up the illa market to more institutions to reduce the costs of these products. It also hopes to encourage pensioners to consolidate their annuities and to scrap the current minimum drawdown rate and link the value of the annuity to the annual value of the retirement savings they have invested in their illa.

International

MID-MARKET companies are discovering that group captives can make self-funding employee health benefits a bit less daunting (*Business Insurance*, 4 Sep). Captives can provide a primary layer of medical stop-loss coverage that would be tapped before traditional stop-loss insurance. Self-funded employers that use a group captive for primary stop-loss coverage also can avoid "lasering," a practice in which insurers set higher attachment points for certain plan members with costly pre-existing conditions.

AUGUST'S equity markets plunge and declining interest rates have eroded the funding levels of large US corporate pension plans (*Business Insurance*, 6 Sep). The average funding level of pension plans sponsored by companies in the S&P 1500 fell to 79% as of Aug. 31, down from 83% at the end of July. That's a drop of 9 percentage points from this year's peak funded status set in April, when plans had an average funded ratio of 88%.



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