



The Guardrisk Update

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Incorporating AidsGuard Update

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IN 2003 SA's short-term insurers saw "spectacular earnings increases" (*Business Day*, 27 Feb). Everything went right: favourable weather and economic conditions benefited the industry in what insurers call a "hard" market where premiums rose to more than just cover claims.

ACCORDING to King 2 risk management and business continuity is the personal responsibility of a company's directors (*Business Day*, 17 Feb). As a minimum, companies should disclose a documented and tested process that will safeguard their critical business processes in the event of disasters, and this process should cater for a worst-case scenario.

MEETING employment equity transformation challenges requires a multi-tiered implementation programme with clear, long-term business objectives and a strong emphasis on addressing the important "softer people issues"; which affect both previously disadvantaged people benefitting from the evolving environment and the mainly white males that feel threatened by its entrenchment (*Business Day*, 2 Feb).

SMSs could come back to haunt you – legal experts say the same laws governing slander, libel and crimen injuria apply when communicating via e-mail or SMS, which is stronger proof in court than the spoken word (*Sunday Times*, 15 Feb).

A PROPOSED risk equalisation fund for medical schemes is a step towards social health insurance in SA (*The Star*, 25 Feb). The risk equalisation fund a centralised fund – set up under an act of parliament – would seek to ensure the cover provided in medical schemes for prescribed minimum benefits was the same across the industry

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Accountants and insurers should learn from each other

It appears that new accounting standards – emerging at a breathtaking pace – will impact on the insurance and risk management markets, but no one is really sure to what extent. Few understand the scope and intent of the new standards such as AC133, much less how to apply them in a risk management and insurance context, says Charles Nortje, executive director at Alexander Forbes Risk Finance.

Many companies have come to appreciate that, in order for them to insulate themselves from fluctuations in the insurance market, they have to retain more risk and build a measure of self-sufficiency. Captive insurance facilities have become a popular way of setting aside risk capital to finance retained risk. Insurance premiums paid to captives worldwide are estimated at \$90-billion, yet some auditors "continue to view captive insurance with suspicion".

Nortje cites the hypothetical example of two healthcare providers, both with a conceivable exposure to medical malpractice liability risks. These are long-tail claims, which might take several years to materialise, or may not materialise at all. The first, a well risk-managed organisation, carefully assesses its potential exposure to claims and makes use of a sufficiently funded captive insurance mechanism for the financing of the retained portion of any claim. The second gives little thought to retained risks, taking such losses as a direct hit to the income statement as they arise. In applying the new GAAP standards, captive insurance mechanisms are effectively unwound. The first organisation is portrayed as if no formal capital reserving against retained risks has taken place. The balance sheets of both providers are presented in exactly the same way.

"This lack of differentiation is clearly nonsensical and, in their haste to apply the new accounting standards, some auditors seem to be missing the point", he says.

Nortje believes that the preparedness of an organisation to face a crisis and meet any calls on its retained risk capital is really valuable information to stakeholders. While arguments about the veracity of captive insurance mechanisms "are energy-sapping without providing any true value to the organisation."



In the past, most companies were prepared to rely on their brokers for advice as to how – and to what extent – their insurance programme would respond to a loss. But, from a corporate governance point of view, audit committees of the future – requiring more assurance regarding risk protection – are unlikely to continue to accept this. A greater degree of transparency and disclosure regarding the retained risks of the organisation seems inevitable.

"Accountants and insurers have a great deal to learn from one another. The efficacy of risk transfer can no more be judged by an auditor with limited insurance exposure, than the usefulness and protections offered by new accounting standards can be judged by an insurer," says Nortje.

Risk Barometer

AS the insurance and reinsurance world grows increasingly competitive, more and more companies look to protect their innovations to maintain expertise ahead of competitors (*Insurance Day, 18 Feb*). In July 1998 a historic court ruling in the US dispelled the previously-assumed thinking that improvements to business methods were not patentable.

FINANCIAL scandals that have engulfed many corporations and their financial advisers have created a crisis for financial institutions and their insurers (*Business Insurance, 23 Feb*). Huge settlements or damages payments are likely as sophisticated institutional investors seek compensation for their losses through shareholder litigation.

DESPITE mounting pressure from buyers to soften rates, D&O liability insurers should push for more rate increases (*Business Insurance, 23 Feb*). After several years of substantial hardening, D&O rate increases are now slowing and in some cases rates are falling, yet underwriters need additional premium to deal with increasing claims and exposures.

WALL Street analysts predict 2004 will bring a significant increase in insurers' returns on equity (ROE) (*Insurance Day, 3 Feb*). Feelings are that average ROEs for 2004 would be in double digits for the first time since 1997 on the back of improved underwriting and better investment performances.

UK companies have lost billions of pounds last year through cyber-crime, but few have made any effort to tackle the issue (*Insurance Day, 27 Feb*). More than 80% of UK companies were hit by high-tech crime of some kind in 2003, but less than 5% have insurance cover for this.

THE REINSURANCE industry is at a crossroads following a renewal season with neither the buyer nor the carrier getting what they were hoping for (*Insurance Day, 24 Feb*). Reinsurance buyers show a new appetite for spreading their risk among a growing number of reinsurers, resulting in increased competition but not necessarily translating into the premium reductions that buyers wanted or expected.

AidsGuard Update

Aids Barometer

AIDS is making the retirement investment benefits of many workers look very inadequate (*Business Day, 2 Feb*). Over the past few years, Aids-related death claims paid by life insurance companies have been on the increase. The one group of employees that will be affected are those who are members of a defined contribution fund and where the costs of the group life are part of an all-in exclusive fund, a fund whereby the employer contribution includes all costs, i.e. life cover, disability cover (if any), administration and the actual contribution to the fund.

MORE than 40% of manufacturing companies say HIV/Aids is biting into profits, says a South African Business Coalition on HIV and Aids survey (*Business Day, 4 Feb*). Retail is the least affected sector, with only a quarter of companies reporting a negative effect on the bottom line. Respondents said that labour productivity and increased absenteeism were the greatest HIV/Aids related cost, followed by higher employee benefits and lost experience and skills.

ALL robust HIV/Aids risk management programmes have comprehensive outcomes measurement components that allow for assessment of success and informs future direction (*Business Day, 16 Feb*). No intervention should take place unless an outcome measure has been predetermined and the mechanism for quantifying the outcome is in place.

A SABCOHA survey on the impact of HIV/Aids on business in SA has revealed:

- As few as 25% of respondents have a formal HIV/Aids policy
 - Just over 40% have implemented an HIV/Aids awareness programme
 - Less than a fifth have a voluntary counseling and testing programme or provide care, support and treatment to infected workers
 - 9% said HIV/Aids had already had a considerable adverse impact on their business
 - 40% predicted there would be a significant negative impact on their business in five years' time
 - A third said profits had already been negatively affected
 - More than half expect an adverse impact on profit within five years
 - Less than 15% have conducted research to determine the impact on their labour force, production costs or customer base
- (*Business Times, 8 Feb*)



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Guardrisk is a multi-national, specialist short-term and life insurance group, acknowledged as delivering innovative insurance and risk finance solutions.