



# The Guardrisk Update

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Incorporating Life Update

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**A DRAFT** bill aimed at preventing delinquent directors from being appointed to the boards of companies has been tabled (*Business Report, 10 June*). The bill makes other directors in those companies liable for the losses incurred by delinquent directors.

**EVERY** year, vehicle accident insurance claim settlements in South Africa amount to some R4,2bn (*Business Day, 10 June*). Annually there are about 350000 accidents, 1,2-million breakdowns and roughly 140000 vehicle thefts and hijackings.

**CLOSER** inspection of the shareholding agreements of black economic empowerment companies often show a continuation of the old power relations and there is a need to start “hammering companies for fraud and taking them to court” (*Business Report, 30 June*).

**A NEW** certification system is being launched that could require every company listed on the JSE to undergo an examination as to its integrity and good corporate governance or face the consequences (*Business Day, 24 June*). This is intended to place companies on the “radar screen” of institutional investors who will invest only in entities that meet measurable standards of sustainability.

**A COMBINATION** of factors has led to the improved financial position of local short-term insurance groups, particularly at underwriting profit levels (*Business Report, 14 June*). Shortage of reinsurance capacity and higher reinsurance costs since the 2001 US terror attacks caused local insurers to look at risks much more closely than before.

## People: the unbeatable competitive advantage

**I**n the past employers owned the means of production, but the balance of power has shifted and today it is the employees who own the means of production: the knowledge in their heads. Increasingly, those companies who succeed in hiring and retaining the perfect mix in human capital have a competitive advantage that is hard to beat.

The “job for life” mindset of our parents is long gone, today's workforce is transient, with employees not only changing employers relatively frequently but even taking completely different career paths at different junctions of their working lives. And, it goes without saying, that in such a highly flexible job market the best employees will find the most opportunities.

With turnover costs conservatively estimated at five times an annual salary on average it makes good sense for an organization to retain its best employees instead of spending time and money finding and training new employees.

The old adage “money talks” holds as true as ever in the employment market and competitive reward and benefit packages remain an important retention tool; as does creating a performance-driven culture.

Companies often fall into the “quick fix” trap when implementing retention strategies, effectively doing little more than introducing arbitrary benefits that can easily be found elsewhere. However, the things that matter most to employees, and that will have a more lasting impact, take time and effort to assess, plan implement and continually monitor.

It is important to really listen to what employees are saying both through their words and their actions. Employees who feel informed, included, respected, trusted and valued are less likely to look to greener pastures. Developing well-defined career paths and flexible career options is an effective way of meeting the objectives of both the employees and the company.

Formal performance review structures are essential, allowing the employer to continually monitor and improve performance levels; while providing employees with a forum in which their expectations and ambitions can be managed and realized.



Undoubtedly one of the most valuable and proactive staff retention tools a company can employ is to transform itself into an employer of choice, and then to continually communicate this image to current and prospective employees. Becoming an employer of choice necessitates the development of holistic reward and development structures that cater for the needs of highly motivated and creative individuals.

But, no matter how effective an organization's retention policies are, there will inevitably be staff movement and succession planning remains a key element of managing human capital. Constantly identifying and developing staff with potential means that there will always be a supply of talent available to fill key positions.

## Risk Barometer

**US** executives found guilty of large, economically damaging frauds are likely to serve the sort of long jail sentences reserved until now mainly for murderers, rapists and armed robbers (*Business Times*, 13 June). The bigger the loss that the thief or fraudster causes, the longer the sentence.

**THE** global reinsurance industry has reported a higher than expected average combined ratio in the first quarter of this year, according to rating agency Standard & Poor's (*Insurance Day*, 2 June). The average combined ratio fell to 97% last year and the agency expects it to fall further by the end of this year.

**THE** Association of British Insurers has warned that premiums in the home, motor and health insurance markets are set to rise significantly over the next few decades, as the effects of global warming begin to set in (*Business Report*, 14 June). Claims for storm- and flood-related damage have already doubled to more than £6 billion since 1998, and this figure could triple to almost £20 billion by 2050.

**UK** corporates are waking up to the need for business continuity planning but many are disappointed their efforts are not reflected in their insurance pricing (*Insurance Day*, 15 June). Most companies surveyed feel that they now have at least some in-built resistance to threats posed by business interruption; but supply chain management and dependence on third parties remains a concern and ensures there is still a demand for insurance protection.

**UNWANTED** emails, or spam, surged to an all-time high in May, representing as much as three-quarters of all email traffic (*Business Report*, 8 June). The average cost of spam per year per employee more than doubled from the previous year to \$1 934.

**THE** worldwide insurance industry saw business pick up in 2003, and this recovery is likely to continue in 2004 (*Insurance Day*, 25 June). Worldwide premiums for life and non-life insurance grew by 2% in 2003 to \$2.9trn. Non-life premiums grew by 6% to \$1.268trn in 2003, while life premiums fell by 0.8% to \$1.673trn on a worldwide basis.

# Life Update

## Life Barometer

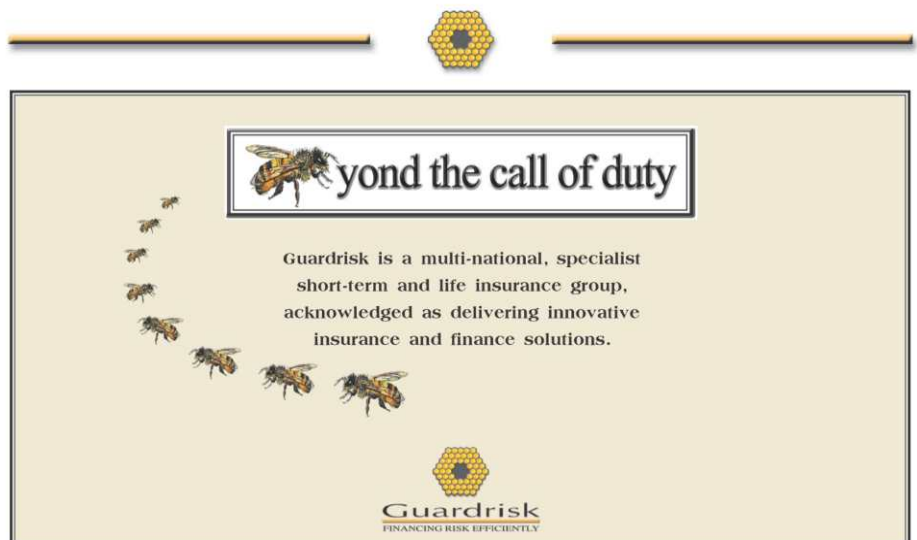
**THE** treasury underestimated the complexities involved in reviewing the proposed tax on the retirement fund industry, but a draft report should be finalized before the end of the financial year (*Business Report*, 2 June). It has been underestimated because this was "not just a tax issue ... it turned out that it had to go along with the entire review of retirement provision" in the country.

**THE** long-term insurance industry is in for a shake-up over the next year to 18 months and is likely to emerge leaner, with some of the small and medium-sized players being swallowed up (*Business Day*, 29 June). Fierce competition, an overcrowded market place, new regulations and a stagnant customer base have led to insurers looking for new ways to increase profits, including mergers and acquisitions. Recent results from the industry show declining single-premium business and stagnant recurring premium business. Little new business is coming on to the market.

**A NATIONAL** register of pension fund trustees is to be established to count how many there are in South Africa, and what training and expertise they have (*Business Day*, 15 June). Trade unions have raised concerns about some training initiatives for trustees, saying they are not independent. But, without knowing how many trustees there are and what they know about pension funds, the industry will not be able to devise training for them.

**VOLATILE** equity markets, uncertainty regarding the apportionment of pension fund surpluses and the low inflation environment have all contributed to low growth in the employee benefits sector (*Business Report*, 11 June). Over the past few years the top life assurers have reported mixed fortunes in employee benefits, but the general trend has been lower net cash inflows.

**TO** guarantee proper and logical comparisons of performance data, the adoption of the global investment performance standard (Gips) is gaining momentum within the local retirement fund industry (*Business Report*, 1 June). Gips is the worldwide standard for the calculation and presentation of investment performance to external parties and its objective is to ensure that the investment managers of all third party assets present the performance of all discretionary managed funds according to the principles of transparency and rigour defined in the standards.



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