



The Guardrisk Update

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Incorporating Life Update

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SILICA sand, which is turned into a gel to soak up moisture, is the latest toxic substance worrying insurers (*Sunday Times*, 26 Sep). Individuals extracting silica or working on manufacturing sites might be overexposed to silica, which could lead to silicosis – “a disabling, non-reversible and sometimes fatal lung disease”.

THE deadlock over outstanding finance charter targets has been broken, and banks, life insurers and pension funds are set to commit R122,5bn over five years to funding black empowerment in SA (*Business Day*, 6 Oct).

CHIEF executives' remuneration should be related to the company's profit (*Business Report*, 29 Sep). Profit generated from extraneous factors, such as the exchange rate, and to which the CE had made no intellectual contribution should be stripped out of this calculation.

THE financial services industry and representatives of its various voluntary ombudsman schemes have voiced strong opposition to proposed legislation to create a single, overriding statutory structure for dispute resolution for the industry (*Business Day*, 13 Oct).

SOUTH African companies with diversified business interests also have to comply with the transformation charters of the various sectors they trade in outside of their own, raising the likelihood of a single group being forced to meet the empowerment targets of more than three sector charters (*Business Day*, 29 Sep).

THE proposed new Public Service Medical Aid Scheme will bring 1m new members into the medical scheme industry (*Financial Mail*, 22 Oct). But the plan could have widespread repercussions and take years to implement. Some schemes serving state employees could lose more than two thirds of their members.

Insurance cover you can't tell anyone about

The tragic kidnapping and subsequent murder of Leigh Matthews, the 21-year old daughter of a Johannesburg businessman earlier this year thrust the phenomenon of kidnapping into the local limelight. But this was not an isolated incident – SA has the dubious distinction of having the third-highest kidnapping rate in Africa (after Nigeria and Somalia) and has been placed in the top 10 in the world by the UK's Control Risk Group.

According to the South African Police Service's Crime Information Analysis Centre there have been more than 4000 kidnappings a year since 1994, dropping to 3071 in 2002/3; still an alarming statistic in the context of the global figure of 15000 a year. However, it must be said that the SA figures include domestic abductions and are therefore not a true reflection of actual kidnaps for ransom.

90% of kidnappings are committed for financial gain and, not surprisingly, the kidnap insurance industry is growing, already accounting for premiums of around \$100 million a year worldwide.

Locally, while the kidnap insurance market for individuals is relatively limited compared to other parts of the world, more and more companies are purchasing kidnap insurance for their staff. The average kidnap insurance policy covers ransom costs, medical and psychiatric treatment, travel costs and death or dismemberment.

But kidnap insurance is not merely a funding mechanism; it also pays for the services of security consultants and other experts who have specialized knowledge of the dynamics of kidnapping and who will assist with negotiations both for the ransom and the safe release of the victim. These individuals often have experience in some of the world's most respected security services, including the CIA, Mossad, SAS, Scotland Yard and MI-5. The services of these highly skilled individuals don't come cheap at around \$2000 a day.



Because of the expertise that they bring to the table, security consultants are the most important component of any kidnap insurance policy. The fatality rate on security-consultant handled kidnappings is 2% compared to 9% for those handled without this type of expertise.

Insurers are tight-lipped about the cost of this type of insurance but it is estimated that a family policy for R1 million worth of cover for an individual with assets of R2.5 million would cost in the region of R6000 a year. Naturally, the risk is linked to the individual's net worth and travel patterns, and premiums would be calculated accordingly.

Understandably, kidnap insurance is something to be kept under wraps (it's a requirement of coverage that no one knows it's in place), since openly discussing the existence of such cover would invite the attention of kidnappers.

Risk Barometer

OFFSHORING major business units is not a solution to the skills shortage that has blighted the UK insurance industry, according to 84% of delegates that voted at this year's Chartered Insurance Institute conference (*Insurance Day, 1 Oct*). And 57% argued that tougher regulation should be introduced in specifying more qualifications to workers in the UK insurance industry.

THE UK insurance industry must step up its drive towards improved documentation in the run-up to forthcoming regulation from the Financial Services Authority (*Insurance Day, 4 Oct*). There is often an inappropriate degree of reliance on unwritten or implied terms and arrangements, and the market is slow to change.

THE UK financial services sector has seen business, profitability and confidence fall for the first time in 18 months (*Insurance Day, 5 Oct*). And the insurance industry in particular has suffered, with the life insurance sector experiencing one of the largest falls in business volumes. General insurers and insurance brokers meanwhile saw the largest increase in average costs.

THE U.S. property/casualty reinsurance market is expected to continue its gentle, if inexorable, slide toward soft conditions (*Business Insurance, 25 Oct*). The pricing discipline reinsurers have displayed generally is expected to continue, and even when rates do soften further, they will not go into the free fall that has characterized some previous soft markets.

A rise in reinsurance disputes and a growing number of reinsurers in runoff are creating a more challenging marketplace for ceding companies looking to transfer risks (*Business Insurance, 18 Oct*). Now, with reinsurers in runoff lacking incentives to maintain a viable commercial relationship with their customers, buyers face concerns over whether future claims will be paid on time, fully or, in the worst case, at all.

AS captives struggle with a more difficult fronting environment, obtaining a credit rating could improve their bargaining power with potential fronting companies (*Business Insurance, 18 Oct*).

Life Update

Life Barometer

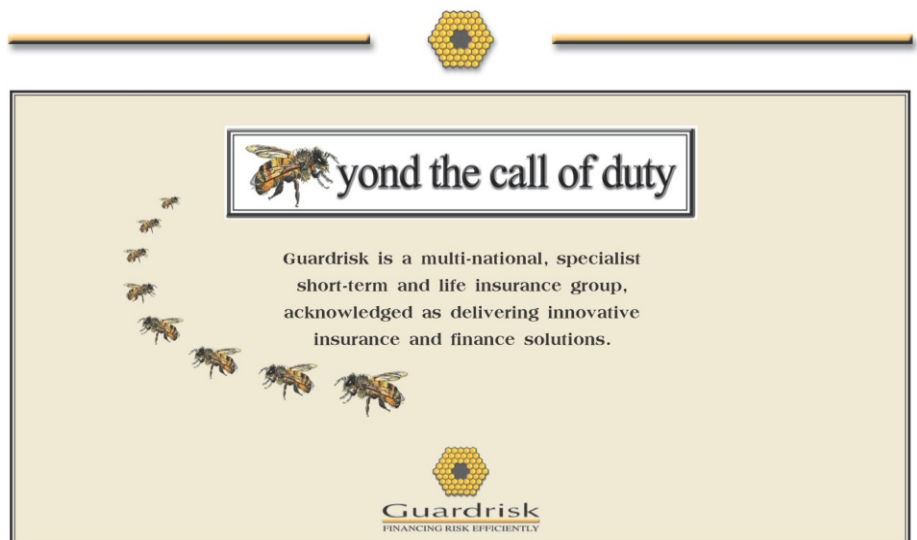
WHILE results recently reported by the four largest insurance companies show mixed levels of new business, as a whole South Africans are spending more on insurance and savings products (*Business Day, 13 Sep*). Figures released by the Financial Services Board for the six months to June show a 7,3% increase in net recurring premium income for life assurers to R26,4bn. Net premiums for nonrecurring or single premium business grew 12,9% to R25,9bn. This resulted in an overall 10% increase in net premiums for the six month period. That compares with a 9% drop in premiums for the six months to June 2003 and a 6% drop for the whole of last year, indicating a turnaround in business levels.

SARS has instructed the life assurance industry to ensure that investment-linked living annuities provide pensions that are sustainable throughout a pensioner's life (*Personal Finance, 25 Sep*). SARS has threatened that life companies that ignore its directive will not be allowed to continue selling living annuities.

SOUTH African pension fund administrators will no longer be allowed to place money in trust for minors in death-benefit distributions unless they have investigated fully whether a guardian is competent to handle such claims (*Business Day, 20 Oct*). This will force the funds to ditch the rigid policy of placing money in a trust arrangement where a death benefit of R20000 or more is payable.

INSURERS are losing hundreds of millions of rands through fraudulent life insurance claims (*The Star, 14 Oct*). A chain of organized-crime syndicates are taking out policies on fictitious people, submitting fake identity documents and unclaimed corpses from mortuaries to make fraudulent insurance claims. The LOA says long-term insurance fraud remains high, with 1582 claims amounting to R72,2m from January to March. Last year there were 4237 claims with a value of R274,4m.

WHILE hedge funds have traditionally been a way for the well-heeled to protect and increase their wealth, pension fund trustees are increasingly seeing the appeal of this asset class (*Business Times, 31 Oct*). The size of assets allocated to hedge funds has continued to rise because of the asset class's superior performance when compared with equities.



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