



The Guardrisk Update

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Incorporating AidsGuard Update

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IF proposed new amendments to the Road Accident Fund are approved, motorists will find themselves open to personal injury claims, while accident victims could end up facing huge bills and receiving little or no compensation (*The Star, 2 Mar*).

ASPECTS of the financial services charter may have to be revisited if the document is to be gazetted as a code of good practice on BEE, which will give it legal effect (*Business Report, 17 Feb*). The industry may have to revisit its definition of broad-based empowerment and black ownership.

EXECUTIVE remuneration packages are likely to come under further scrutiny by shareholders unless companies and remuneration committees can demonstrate a strong link between pay and performance (*Business Report 18 Feb*).

91% of fraud by employees was repeat crimes and in one out of six cases other employees were aware of what was taking place (*Business Report, 22 Feb*). 55% of crimes were committed by junior to middle management level employees, while 22% were committed by the most junior employees.

SA may be one step closer to social health insurance with the trial basis launch of the risk equalisation fund, which aims to standardize premiums and benefits (*Business Times, 20 Feb*). Schemes that have more younger, healthier members will effectively subsidize those with more older, sicker members.

THE melting of polar ice could result in sea levels rising by 1m in the next 100 years (*Business Day, 23 Feb*). Spring tides and rivers in flood could also create catastrophes. SA real estate worth billions of rand would be affected. Public bodies need to work together with the insurance industry to plot a way forward.

The perils of growth for the sake of it

The main motivation for mergers and acquisitions is generally revenue synergies such as access to new distribution channels or geographies or cost synergies; such as more effective utilization of capacity or bargaining power with suppliers. However, if the process is not carefully thought through and expertly managed, companies run the risk of mergers and acquisitions actually destroying rather than creating value.

In the past, when South African companies were not able to take funds offshore they were forced to spend surplus funds locally. This often resulted in successful companies burning their fingers in sectors outside of their core business areas. Now that offshore investment is permissible, many of these companies have divested from these non-core markets, choosing instead to return to their core business in international markets.

According to Gavin Vorwerg, Director of Structured Equity Transactions Group at Deutsche Bank, it is important that companies don't just acquire or merge with other businesses simply for the sake of growth.

Similarly, businesses seeking to move offshore should do so for the right reasons. Wanting simply to diversify away from Rand revenue or satisfy the CEO's desire to ultimately emigrate, are sure fire ways of ending up with an investment that requires a great deal of management's time, often within a market where the business doesn't have the necessary skill or competitive advantage. The result is a loss of focus on the company's core business and the consequent drop in profits.

"First prize is always organic growth; and companies must guard against growth simply for the sake of it," says Vorwerg. Mergers and acquisitions always carry risk; some of the key risks being cultural integration, system integration and the disruption of organic growth.

For any business, its people are one of its most valuable assets and the cultural differences between businesses can create problems from the top to the bottom of the organization. There will always be issues regarding the balance of power in one business compared to the other – there is seldom a merger of equals – and the cultural aspects of merging two entities needs to be managed extremely sensitively so as not to cause irreparable damage.



The introduction of new IT and other systems is stressful and problematic at the best of times but with the added pressures – from an operational and human resources point of view – within a merger it can be disastrous, with far reaching consequences for the business in the long run.

There is always a danger that, within the disruption of the merger, the business takes its eye off the ball. Focusing on managing the cultural/HR issues of the merger and the integration of business systems leaves management little time for the all important customer and core business focus, so necessary for organic growth.

Risk Barometer

THE scandals surrounding the insurance industry, ongoing corporate governance concerns and a continuing move towards enterprise risk management are a boon to captive formations (*Business Insurance*, 21 Mar). As companies seek greater transparency and increased control of their exposures, captive formations will continue apace.

IN today's highly complex world of reinsurance underwriting, the industry is showing a renewed emphasis on reinsurance underwriting audits, thus giving reinsurers an addition to their analytical tool kits with which to gain a better understanding of their books of business (*Business Insurance*, 21 Feb).

GROWING ethnic communities in many areas present market opportunities for the insurance industry, but failure to develop the cultural competency needed to address those communities on their own terms can doom marketing efforts (*Business Insurance*, 21 Feb). To be successful, companies need to develop cultural competency, with each marketing approach fitting the demands and differences of each target market.

CATASTROPHES caused a record \$27.3 billion in insured property damage in the US in 2004 (*Business Insurance*, 21 Feb). The US last year saw 22 catastrophes – defined as events that cause \$25 million or more in insured property losses and affect a significant number of policyholders and insurers. The 2004 total surpassed the \$26.5 billion record set in 2001, which included property losses caused by the Sept. 11 terrorist attacks.

SEISMOLOGISTS say there is a heightened risk that a major earthquake may soon strike western Sumatra as a result of the monster quake that generated the December 26 tsunami last year (*Insurance Day*, 21 Mar). The Indonesian city of Bandar Aceh, which was already badly hit by the killer wave, could be at risk from a quake measuring up to 7.5 on the Richter scale and there is a potential for a tsunami-making 8.5 quake offshore.

AidsGuard Update

Aids Barometer

THE HIV/Aids pandemic could undermine economic growth, political institutions and popular attitudes that sustain democracy (*Business Day*, 16 Mar). Institutions on which a democratic government depends are also vulnerable. Many government officials and administrators – who sustain executives, parliaments, municipalities and provincial bureaucracies – will fall ill and die. HIV infection among teachers, nurses and social workers will create a crisis of service provision, while officials facing impoverishment and death may turn to corruption.

SA is losing an estimated R12 billion a year due to absenteeism and between R1.8 billion and R2.2 billion of that can be attributed to the effects of HIV/Aids (*Business Report*, 9 Feb). Companies are losing as much as a month's work each year for each employee with advanced HIV/Aids.

THE number of people dying of Aids in South Africa is more than three times higher than government figures suggest, according to new research (*The Star*, 2 Feb). Many people who died of HIV/Aids are recorded as dying of related illnesses like pneumonia and tuberculosis.

THE treasury is planning sweeping reforms in the way medical benefits are taxed, with potentially far-reaching implications for members of medical schemes and companies that offer workplace HIV/Aids programmes (*Business Day*, 28 Feb). Treasury officials have also highlighted concern about the fact that under the current tax regime medical treatments provided by companies off their premises are viewed as fringe benefits and therefore taxable. On-site medical benefits are considered part of the job and not fringe benefits, and are therefore not taxed. This has caused problems for companies that want to outsource their HIV/Aids programmes to nongovernmental organizations.

SA's efforts to combat tuberculosis (TB) are being frustrated by the HIV epidemic and weaknesses in the public health-care system, says a report released by two international advocacy groups (*Business Day*, 24 Mar). SA is on the World Health Organization's list of 22 "high-burden countries" for TB. This country also has the world's highest case load of patients with both HIV and TB. TB is the most common opportunistic infection among HIV-positive patients and an estimated 60000 South Africans are infected with both diseases.



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