



# The Guardrisk Update

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Incorporating AidsGuard Update

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**HEALTH** products from life insurers are being squeezed out of the market because the legislation governing them is unclear (*Business Times*, 5 Sep). Health insurance companies are no longer developing health care products because they are not certain what they can and can't do under the law.

**SA'S** whistle-blowers report being "harassed, sidelined and financially ruined" for exposing corruption, fraud and other crimes – despite laws that are supposed to protect them (*Sunday Times*, 8 Aug).

**THE** short-term insurance industry could battle to meet procurement targets set out in the financial sector charter unless empowerment charters are drawn up for the vehicle industry (*Business Day*, 2 Sep). Insurers' expenditure on vehicle repairs – accounting for almost a third of all claims – carried out by black empowered companies is way below target.

**THE** lean days for reinsurance giants operating in SA may be over, according to recent financial results which suggest improvements in their South African and African business for three multinational reinsurers (*Business Day*, Aug 11). Local insurers' healthy profits and the fact that there were no major catastrophes in SA last year gave reinsurers a boost.

**SHAREHOLDER** activism has gained credence in SA after a number of recent successes, most involving institutional investors putting pressure on management to change course (*Business Day*, 24 Aug). But this has prompted concern about the potential for conflicts of interest when dominant shareholders take an active role in management, and particularly where they interfere with the composition of company boards.

## Preparing for when fair weather turns foul

**A**merica's "sunshine state", Florida, may have to consider changing its name after no less than four hurricanes battered its coast in just six weeks – never before have that many hurricanes hit Florida in a year, let alone in less than two months. Last year a heat wave engulfed continental Europe; for weeks France sweltered close to the 40°C mark, with the mercury hitting the highest temperatures in recorded history. Scientists' warnings about the effect of global warming are becoming alarmingly real, as weather patterns around the world continue to change.

Closer to home, the lighthouse keeper at Kommetjie has recorded weather readings for the past 20 years. He reports that both summer temperatures and humidity have "definitely got higher". Indications are that in the next 50 years minimum and maximum temperatures will rise dramatically.

Professor Tim Partridge of the University of the Witwatersrand warns that carbon dioxide levels are at their highest in 420,000 years, and that the amount of energy in the system will surely result in more frequent and extreme weather conditions in future. As global warming continues to account for greater evaporation of water vapour, rainfall will intensify in some areas while drought will ravage other areas.

Weather derivatives are regarded by international banks as a diversified new revenue stream insulated from stock market cycles and the market – worth more than \$4.2 billion by 2003 – is growing. Traditionally, local insurers have offered products like crop insurance to protect against hail damage, but the SA market may soon see the growth of this new type of protection against the financial impact of weather on revenue streams.

In terms of weather, South African companies face a number of risks: the effects of prolonged heat, drought and intense precipitation are increasing rapidly. But local companies, lulled into a false sense of security by a history of relatively mild weather conditions, spend little time thinking about the effect that weather could have on their revenue streams; and few have taken precautions against the extreme weather conditions that the experts predict are not far off.



One of the challenges of using weather derivatives in SA is the need to access independent, reliable weather data. In the absence of long-term reliable rainfall figures for many areas in the country, a proxy for rainfall has been developed, which avoids the need for monitoring individual weather stations. Maize is grown all over the country and the annual declared maize yield in tons per hectare correlates closely to weather conditions, particularly rainfall. Thus a weather hedge can be determined using the SA maize yield as a trigger.

Some of the industries that can benefit from weather derivatives are clothing retailers; agriculture; hotels and leisure industry; engineering and construction; energy producers and distributors; and, transport and distribution companies.

## Risk Barometer

**US** life reinsurers have benefited from higher prices as a result of recent consolidation but the integration of recent and expected mergers and acquisitions poses a significant challenge to the remaining giants (*Insurance Day, 24 Aug*).

**AMONG** 450 US organizations surveyed last year 75% reported being victim to incidents of fraud within their organization in the previous year, up from 62% in a 1998 survey (*Business Insurance, 13 Sep*). Employee fraud is the most prevalent form; the greatest growth was seen in theft of assets and expense account abuse.

**THE** British government has dealt another blow to corporate UK, with the revelation that it is opposed to any move to limit the liability of company directors (*Insurance Day, 13 Aug*). It is feared the threat of unlimited liability is deterring much of the country's business talent from taking up roles at major firms.

**PAYROLL** records, client files and employment applications, residential addresses and birthdates are becoming increasingly tempting resources for identity theft in the workplace (*Business Insurance, 6 Sep*). The main ways to commit identity theft are no longer stealing purses, retrieving mail or engaging in computer hacking but employee theft of personal information.

**CHANGES** in the public perception of the use of software may well open the floodgates for companies to be sued for product defects (*Insurance Day, 10 Sep*). While suing software manufacturers for product defects has been almost impossible, changes could be in the offing that would open firms to a flood of litigation.

**INSURERS** are outsourcing a wide array of their operations, says a recent survey (*Business Insurance, 23 Aug*). 90% of respondents outsource employee benefits administration; 87% outsource property/casualty litigation defence duties; 86% outsource automobile glass claims handling; 73% outsource after-hours property/casualty loss reporting; and 61% outsource investment portfolio management.

# AidsGuard Update

## Aids Barometer

**DEATHS** among the 25 to 40-year olds now exceed deaths among those aged over 55, suggesting South Africa is in the "graveyard shift" in the battle against HIV/Aids (*Business Times, 1 Aug*). Meanwhile, research shows that businesses have been "virtually oblivious" to the impact of the Aids pandemic.

**THE** Health Department's 2003 HIV/AIDS prevalence report shows that although the annual prevalence rates are not increasing as rapidly as they were in the early 1990s, the epidemic has still not yet levelled off (*Business Day, 23 Sep*). About 27.9% of pregnant women attending government clinics are infected with HIV, up slightly from the 26.5% recorded in 2002. 5.6-million South Africans are estimated to be infected with the disease: 3,1-million women and 2,4-million men aged between 15 and 49.

**LOCAL** and international interest is growing in the possibility of making South Africa the first African country to build a synchrotron (*Business Report, 26 Sep*). A synchrotron is a third-generation electron accelerator that could revolutionise the development of new industrial products and medicines, including a possible HIV vaccine. Countries such as the US and France have backed the possibility of building a plant in South Africa and a feasibility study will be commissioned soon. However, this would be a "very long-term project, costing many hundreds of millions of rands, that could only become a reality in about 10 to 15 years' time".

**SUB-SAHARAN** Africa has just over 10% of the world's population, but is home to two-thirds of all people living with HIV (*Business Report, 26 Sep*). Priority given to HIV/Aids programmes in health budgets vary significantly: Mozambique spent just 1.6% of state funds; Kenya invested 11% in 2002; and South Africa's HIV/Aids budget climbed steadily from 0.67% in 2000/01 to 3.86% in 2004/05. All African countries are falling below the 15% target on health spending – agreed upon by governments at an Organisation of African unity summit in Nigeria in 2001.

**GOVERNMENT** will develop a national database of Aids patients as it extends its antiretroviral (ARV) treatment programme to more than 1,5m people with Aids over the next three years (*Financial Mail, 10 Sep*). The system will collect data about patients on the ARV programme, including their personal particulars and detailed clinical information including lab results and reaction to medication.



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