



# The Guardrisk Update

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Incorporating Life Update

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**THE** financial services sector in general, and the short-term insurance industry in particular, is suffering from an across-the-board shortage of skills (*Business Day*, 25 Apr). The market has grown but the number of skilled people has not increased and there have been losses to emigration. Compounding the situation is the fact that few companies have been engaging in sufficient training and development.

**COMPANIES** seeking new deals will have to comply with rigorous new provisions when the Companies Bill becomes law (*Financial Mail*, 18 Apr). The bill regulates what merger and acquisition transactions companies can undertake and what approval they need before a transaction goes ahead. It places more responsibility on directors to ensure transactions are fair not only to shareholders, but also to creditors. It also broadens the scope for shareholders to challenge deals through the courts.

**THE** volume of disclosure required in today's world is so massive that, in some ways, it acts as a barrier to understanding to the very people it is intended to protect (*Business Day*, 11 Apr). The disclosure requirements, particularly under IFRS are getting increasingly detailed, complex, and technical. This makes annual reports hard for the average shareholder to follow.

**THE** short-term insurance market is seeing claims in all areas rise; personal lines business is being hammered by motor losses, while corporate and commercial business is being hit by a higher incidence of fires (*Business Day*, 25 Apr).

**SUSTAINABILITY** issues and strategy have become inextricably intertwined in the good governance of a company (*Business Day*, 8 Apr). Boards can no longer separate the three aspects of people, planet and profit.

## Strategic challenges increase for global business

In its *Strategic business risk 2008* report, leading professional services supplier Ernst & Young identifies regulatory and compliance risk as the most significant strategic challenge facing leading global businesses this year.

The report – which was produced in collaboration with international consulting firm, Oxford Analytica – identifies the top ten global risks across 12 of the world's most important business sectors, as well as the five fastest-rising threats that could have an important impact over the next three to five years. The insurance sector was one of eight of the 12 sectors surveyed, that highlighted regulatory and compliance risk as the number one business challenge it faces. And, as companies become more and more global, the risk increases with companies forced to manage diverse regulations in different markets.

The top ten risks identified in the report are:

- Regulatory and compliance risk
- Global financial shocks
- Aging consumers and workforce
- The inability to capitalise on emerging markets
- Industry consolidation/transition
- Energy shocks
- Execution of strategic transactions
- Cost inflation
- Radical greening
- Consumer demand shifts

The top three risks faced by the insurance sector were identified as climate change; demographic shifts in core markets and catastrophic events.

Respondents to the survey were also asked to identify those risks outside of the top ten that had the potential to become globally significant within the next three to five years. The five most likely to become serious factors are:

- The war for talent
- The possibility of a disease pandemic
- The rise (and possible fall) of private equity
- Inability to innovate
- China setback – several analysts expressed concern that China might experience volatility as it continues its extraordinary pace of development



While there is no consistent top ten list of risks across all sectors, the survey does bring into sharp focus the critical global issues that can and do impact on all businesses regardless of the sector in which they operate. For companies operating in more than one sector these take on even greater significance.

Jim Holstein, Head of Risk Advisory Services for Ernst & Young says that managers should be “open minded about where risk comes from and look beyond financial and regulatory risk to the wider environment” in which they operate.

“Conduct annual risk assessments and scenario planning, and then evaluate how well you could really handle those risks if something happened. And make sure you have effective monitoring and control processes so that you have early warning of imminent risks. Don't be taken by surprise!”

## Risk Barometer

**CAPTIVE** business remains steady, despite falling insurance rates, but captives could be more profitable for their parents (*Captive Review*, 21 Apr). A new report says that globally almost 60% of captives do not use reinsurance. It suggests that this finding, alongside the healthy reported level of retained profits held by captives, indicates that most captive business continues to be profitable.

**FIVE** security breaches a week have been reported to the UK's privacy watchdog since the loss last year of two government discs containing details of 25 million families (*Telegraph*, 22 Apr). The data was recovered in only three of the 94 cases breaches reported over the past five months. The material included a wide range of personal details, including health records.

**LLOYD'S** of London insurance market CEO has asked underwriters to sell less insurance this year to prevent prices and earnings from dropping as newcomers flock to the insurance market (*Business Day*, 7 Apr).

**UK** Markets have seen a fundamental repricing of risk but "principles assume more importance and relevance in turbulent times when the environment that firms face can change quickly" (*Insurance Day*, 14 Apr). No amount of capital can replace a firm's capacity to understand, measure and manage risk.

**THE** weak US economy will significantly affect the insurance industry and add pressure on underwriters to produce good returns (*Business Insurance*, 14 Apr). With the general credit crunch and subprime problems, both the directors and officers and errors and omissions liability sectors will have additional exposures to subprime losses

**CAPTIVE** usage is continuing to increase at a steady rate but factors beyond the price of insurance are driving the growth (*Insurance Day*, 11 Apr). The main driver for companies setting up captives tends to be their own business growth, which can make paying out millions for insurance cover a less than economical means of managing the risk.

# Life Update

## Life Barometer

**INDIVIDUAL** policy holders put a whopping R103bn into premiums for life and disability insurance and savings policies last year, the most yet recorded by the life sector in SA (*Business Day*, 11 Apr). New statistics for the long-term insurance industry showed that premium income grew 13% from R91,9bn in 2006. The life sector's total premium and investment income rose to R226bn, while new individual premiums rose 14% from R50,2bn in 2006.

**LIFE** insurance confidence remained strong in the first quarter of 2008, despite slowing business fundamentals (*Business Report*, 14 Apr). This strong confidence was measured despite sharply slower investment income growth, and rising growth in policy surrenders. Life insurance confidence is now the strongest of all financial services sectors.

**MOST** SA life insurance companies are concerned about the high rate of surrenders and lapses last year (*Business Report*, 1 Apr). It is difficult to pinpoint a single reason for this but analysts say the increase in surrenders and lapses is due to high interest rates and high costs of food and transport.

**A** total of 44% of cases were resolved in favour of complainants (clients), according to the 2007 annual report of the long-term insurance ombudsman (*Financial Mail*, 18 Apr). There was also the largest-ever settlement of an individual claim by the office last year: R8,2m. Clients won the majority of cases where the complaint was against poor communications or service (58%), or mis-selling (56%).

**WITH** the returns from equities taking a hammering, it is likely that investors will be seeking a safer haven for their money (*The Review*, 18 Apr). This could affect Europe's already saturated life market, which is feeling the impact of property/casualty insurers' and reinsurers' appetite for diversification.

**US INSURERS** are still largely expected to avoid direct exposure to the subprime crisis but are likely to see further indirect impacts (*Insurance Day*, 9 Apr). Carriers that had indulged in credit default swaps were likely to be hit hardest but there could be particular issues for life insurers. In the longer term a problem will be the search for safe assets that will keep yields on government bonds low. That this could pose difficulties for life insurers that need to generate revenues to meet the demands of customers with guaranteed payments.



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