



# The Guardrisk Update

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Incorporating Life Update

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COMPANIES should be implementing wellness programmes to promote employees' health, thereby increasing productivity, decreasing absenteeism and saving money (*Business Report, 25 May*). The average cost of one sick-leave day was R360.

CREDIT and debit card scams are threatening to spiral out of control as fraudsters continue to hit bank accounts countrywide (*The Star, 14 June*). The problem is increasing, despite the introduction of sophisticated detection systems used to detect unusual spending behaviour on cards.

COMPANIES doing business in South Africa are twice as likely to be defrauded as their counterparts in the rest of the world (*The Star, 13 June*). Last year 83% of South African companies reported fraud, while globally only 45% were targeted by white-collar crime.

SOUTH African companies are becoming increasingly willing to change the composition of their boards, but they still have some way to go, (*Business Day, 9 June*). Only 90 black people, equivalent to 4,3% of the total number of directors of the top 200 JSE-listed companies, are executive directors with direct influence on the boards on which they sit.

LAW firms are rapidly claiming territory and people from the accounting and auditing professions (*Business Day, 27 June*). These are experiencing a shakedown in the post-Enron environment, which is marked by strong corporate governance and legislative change. Worldwide, a large number of tax consultants from auditing firms have moved to law firms. This development is mirrored in SA.

IN a groundbreaking ruling, the Financial Services Providers ombudsman has ruled that negligent brokers should be held responsible for putting their clients' investments in jeopardy (*Sunday Times, 25 June*).

## Local insurers take a look inward

The two main factors driving change in the local short-term insurance industry are the Financial Sector Charter (FSC) and the regulatory environment; followed by consumerism and technology. In the life sector the regulatory environment is placed well ahead of the FSC and other drivers of change.

That's according to a recently released PricewaterhouseCoopers' survey, "Emerging Trends and Strategic Issues in South African Insurance 2006". The survey – based on personal interviews with senior executives in twenty-five local short-term and long-term insurers – provides a useful benchmark for insurers.

96% of respondents believe that regulatory pressure on financial institutions will increase over the next three years; half of these think that the increase will be "substantial" while the other half believes that it will be "slight". Ironically, regulatory complexity is considered to be the "greatest barrier in achieving first-rate compliance".

The most pressing issues that the industry faces are retaining existing customers, building a customer base, recruiting and training competent staff, and Black Economic Empowerment and the FSC.

It comes as no surprise that two of the four most pressing issues facing insurers relate directly to customers. Consumers are becoming more sophisticated, demanding more choice, greater flexibility and improved service levels. There is widespread acknowledgement within the industry of changing consumer demands, and the need for greater transparency and new product development, particularly for the previously under-insured market. Respondents also felt that the industry has been "conditioned to a high inflation environment and products and performance levels have not been recalibrated to a low inflation environment".

Change is predicted in distribution channels with tied brokers, independent brokers and underwriting managers expected to "lose ground", while bancassurance looks set to "gain momentum". Direct sales and retailers are also earmarked to enjoy growth; as is the emergence of new distribution channels like affinity groups.



Regulatory restrictions, increasing customer demands and increasing competition are expected to lead to further restructuring over the next three years. 75% of respondents believe that there will be more consolidation in the local insurance market. But this is not predicted at the top end of the market; instead it may be conducive for smaller companies to merge, or be acquired by larger players.

Interestingly, a non-financial indicator – image and reputation – was considered to be the most important measure used to judge insurers' success. This was followed closely by the expected financial indicators: operating profit, return on shareholder investment and return on capital.

Despite the many challenges and pressures facing the industry, respondents were generally bullish on their revenue forecasts for the next three years. The short-term sector predicts growth of nearly 43% by 2009; while long-term insurers envisage 60% growth.

## Risk Barometer

AFTER a "settling-in" period in which it has been issuing warnings, the UK's financial regulator, the Financial Services Authority, has begun to flex its muscle in the insurance sector (*Insurance Day, 29 June*). 12 companies have already had their permission to trade removed, or have been banned from carrying out regulated activity.

THE UK government has dealt a blow to insurers after reversing a House of Lords decision in a move that will mean some insurers are still overexposed to claims from mesothelioma sufferers (*Insurance Day, 21 June*). The shock move came despite the government being in the middle of crunch talks with the Association of British Insurers on an alternative plan that would have reduced the burden on individual insurers.

US property/casualty (p/c) losses for the year to date are edging towards \$4.5bn and are already 45% higher than the same period in 2005 (*Insurance Day, 20 June*). First-half p/c losses had exceeded \$4bn for only the third time since the turn of the century, having compiled loss estimates for two of May's worst storms.

INSURERS must act now to face the risks that climate change could have on their business and must ensure they regularly review and communicate conditions of coverage in the light of potential changes, warns Lloyd's of London (*Business Insurance, 5 June*).

LEGISLATION being crafted by the European Commission will lead to higher capital requirements for insurers writing certain property and liability lines, which ultimately may lead to higher premiums for policyholders (*Insurance Day, 21 June*).

EXTORTION has found a new breeding ground in cyberspace (*Risk Management Magazine, June*). According to the FBI, blackmailers are increasingly attacking corporate websites and networks, crippling their ability to operate and then demanding protection payments to restore service. The FBI and Secret Service receive at least 20 new cases per month, with demands for funds sometimes reaching \$1 million or more.

# Life Update

## Life Barometer

BUOYANT equity markets helped mask the dent that life insurers sustained in the aftermath of last year's rulings by the pension funds adjudicator (PFA), (*Business Report, 26 May*). An industrywide study found that, despite a sizeable 15% decline in recurring retirement annuity new business volumes arising from the public's reaction to the PFA rulings, booming equity markets had managed to boost the fortunes of the life companies.

GOVERNMENT's proposed National Savings Fund could have severe implications for retirement funds and the companies that administer them (*Business Day, 7 June*). If proposals to target workers for the savings fund according to their income bracket are made law, this could result in an exodus from pension funds, affecting remaining members and administrators of those funds.

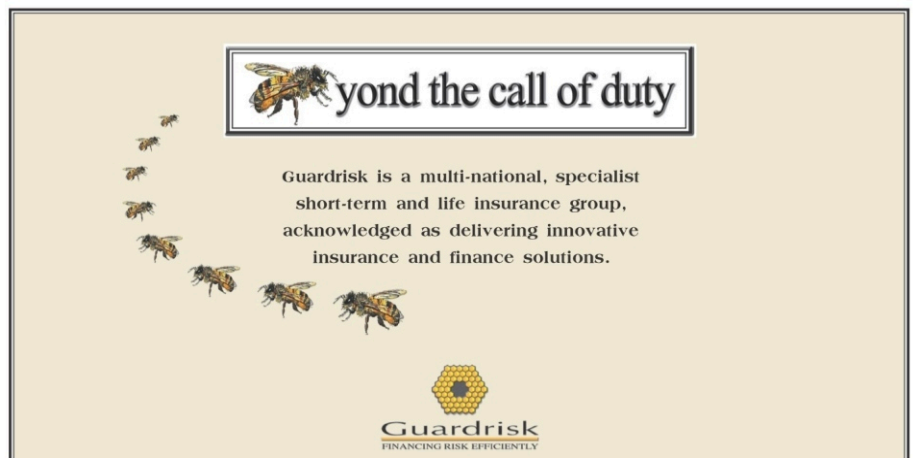
RETIREMENT funds tax has put a serious brake on SA's domestic savings rate, say tax analysts and economists (*Business Day, 20 June*). The tax was introduced in 1996, supposedly as a temporary measure. Since its inception the tax has removed R50bn from the contractual savings of pension fund members. SA has one of the lowest savings rates in the world. The common view seems to be that Finance Minister Trevor Manuel is likely to get rid of retirement funds tax in next year's budget, before it celebrates its 10 years as a "temporary" tax.

IN a landmark ruling, the pension funds adjudicator has held a trustee personally liable for failure to exercise due care and diligence on behalf of a member; in relation to a death benefit (*Business Report, 24 June*).

THE number of the US's largest employers that are terminating or freezing pension plans has increased substantially since 2004, according to a recent analysis of Fortune 1000 companies (*Business Insurance, 27 June*). Of the 627 defined benefit plan sponsors, 113 had at least one frozen or terminated plan or had announced plans to freeze or terminate a plan as of April 2006, compared with 71 in 2004.

SWEEPING U.K. pension reforms will require many employers to contribute the equivalent of 3% of workers' salaries into a new national private pension plan, raising concerns that some employers may reduce existing benefits or drop their defined benefit plans entirely (*Business Insurance, 29 May*). Under the legislation, low-cost private pensions will be introduced in 2012, with employees contributing 4% of income between £5,000 and £33,000 and the employer contribution being phased-in in 1% increments over three years.





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