



The Guardrisk Update

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Incorporating Life Update

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INSURERS may be headed for turbulence if a proposed new accounting standard is implemented (*Business Report*, 17 Sep). In a discussion paper circulated to the insurance industry and accounting firms, the International Accounting Standards Board proposes new rules that will require insurers to use credible information in the valuation of insurance contracts. Life, short-term and medical policies will be treated in the same way under the proposed rules.

ACCORDING to the SA Institute of Chartered Accountants, companies use International Financial Reporting Standards "as an excuse to explain why their results have not met expectations, thereby diverting the attention of users of financial information from scrutinising underlying operational issues" (*Business Report*, 19 Sep).

CELLPHONE users who use their phones for longer than an hour a day, for more than four years, find it harder to hear - with words starting with the letters s, f, h, t and z proving particularly difficult, experts say (*The Star*, 24 Sep). The problem is particularly noticeable in the right ear, to which most hold their phone.

THE reinsurance cake is shrinking in SA - insurers have had several years of good results and are retaining more of their business for their own accounts (*Business Times*, 23 Sep). The main treaty renewals for Jan 2008 are due to take place soon and there are signs that there will be a slight softening in the rates negotiated, particularly with regard to catastrophe cover for events such as floods, hail damage and earthquakes.

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Companies legally obliged to protect data

Identify theft - when someone uses your personal information like your name, identity number, or credit card number, without your permission to commit fraud or other crimes - is the fastest growing commercial crime in the world.

Experts believe that fraud related to identity theft is costing the South African economy R40-billion every year. And, as if that's not bad enough, it is estimated that it takes around 500 hours for an identity fraud victim to undo the havoc that this type of fraud wreaks.

Responsibility for protecting personal data lies not only with individuals themselves, but also with the companies that they have provided such data to - be it in the context of being an employee or client of the company.

Currently, the right to privacy resides in both common law and the Constitution, but this right is limited in certain circumstances and does not provide an adequate level of protection of personal information in terms of international standards.

Legislation is currently in the pipeline to regulate all aspects of the collection, use, disclosure, storage of and access to "personal information" (the definition of which is extremely broad).

In terms of the draft bill, businesses will not be allowed to collect or verify information from third parties without the specific consent of the data subject. Companies will also have to notify their clients and employees if their information will be shared with other parties. "Sensitive" information like race, religion and sexual orientation will only be able to be processed if written consent has been given.

According to the draft bill, companies will have to make the data subject aware that the information is being collected. And the data will have to be adequately protected, and correctly and safely stored. Policies will also have to be put in place to regulate the management of third parties' - like clients - personal information, and staff will have to be educated accordingly.



In the context of employees, compliance with the proposed legislation will kick in as early as the recruitment and selection process. Practices like the giving and obtaining of references, application forms and pre-employment vetting will need to be re-visited to ensure that they comply with the legislation.

Enforcement of the legislation will be the preserve of an independent Information Protection Commission, under the guidance of a full-time information commissioner. When conciliation or mediation is not successful, a system of notices will come into effect. Failure to comply with these notices will be a criminal offence.

While this legislation will certainly incur additional costs and add to the already onerous compliance burden that companies face, smart companies will no doubt be able to turn the effective protection of personal data into a significant competitive advantage.

Risk Barometer

UK insurers have been warned that D&O claims costs will increase if the Financial Services Authority continues to flex its muscles in the retail sector (*Insurance Day, 12 Sep*). This after the FSA fined a company £133,000, and its chief executive £49,000, for inadequate systems and controls when recommending re-mortgages and payment protection insurance to customers.

CAPTIVE growth overall does not appear to be slowing and has not reached saturation point (*Captive Review, 25 Sep*). Growth has been steady over the last 20 years and appears not to be influenced by the underwriting cycle. There is considerable room for captive growth, even amongst the top 1500 companies globally, especially from companies in locations such as Asia.

IN the absence of large catastrophes by the end of the year, rates for property catastrophe business worldwide will continue to soften at the Jan 2008 renewals (*Business Insurance, 24 Sep*). Experts say a benign year for losses in 2006, the lack of large catastrophic events so far this year, and strong financial results posted by both insurers and reinsurers means that cedents can expect further rate reductions in January.

THE Association of British Insurers' latest figures put the cost of insurance fraud at £1.7bn, of which around £500m stems from commercial lines business, with the balance relating to personal lines (*Insurance Day, 17 Sep*). Insurers should be expending more effort on investigating high-volume, low-value claims where there is a much higher exposure to fraud - possibly between 35% and 40%.

EUROPE'S reworking of insurance regulations under the Solvency II framework directive has raised the profile of securitization as a risk mitigation tool, but that does not mean insurers will abandon traditional reinsurance to flock to the capital markets (*Business Insurance, 10 Sep*). The Solvency II Directive, set for implementation in 2012, includes securitization products among the expanded menu of techniques that insurers will be able to use to gain capital relief under the proposed risk-based capital regime.

Life Update

Life Barometer

FOCUSING too much on administration costs at the expense of other considerations can prove expensive in the long run for both trustees and fund members (*Business Day, 5 Sep*). Many pension funds focus on finding the lowest-cost administrator, but they often overlook the cost that can be associated when dealing with companies that have invested less in good governance.



DIFFERENCES between the social development department and the national treasury over the design of SA's new social security system came out into the open when the department released four "studies" containing recommendations that diverge in key respects from the framework set out by the Finance Minister earlier this year (*Business Day, 5 Sep*). The social development document proposes an approach that could be more redistributive and could have more radical implications for the retirement fund industry than that favoured by the treasury.

THE social development department has suggested that there be no means test for access to the new state pension system, which aims to draw millions of South Africans into the retirement net (*Business Report, 9 Sep*). The means test was seen to be promoting "unnecessary hardship". The department says tax expenditure subsidies for individuals contributing to private retirement arrangements were "heavily biased" in favour of higher-income individuals, and raised significant equity and efficiency questions.

REGULATORY reform of SA's retirement fund industry will have far-reaching effects for asset managers, says one of SA's largest fund management firms (*Financial Mail, 7 Sep*). Over the next two decades there will be strong growth in retail business and consolidation of retirement funds, with the present number of about 13,500 shrinking to fewer than 100. These will mostly be served by half a dozen or so investment houses. Relationships will become more sophisticated, with the emphasis on long-term performance.


JUST as many US employers in recent years have phased out their defined benefit pension plans, many soon could be in the market for annuities to offer within 401(k) plans as a way to provide guaranteed lifetime income for employees (*Business Insurance, 17 Sep*). Over the past three years, financial services firms have introduced insurance products to help fill the hole left by the winding down of traditional plans in which vested participants are promised a lifetime monthly benefit at retirement and the growth of 401(k) and other defined contribution plans in which employees choose from different options to invest contributions and receive a lump sum benefit when they leave.





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