



The Guardrisk Update

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Incorporating Life Update

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IF the Road Accident Fund Bill is finally passed, motorists who earn more than R160,000 p.a. will be required to take out personal income replacement insurance in case they are injured in an accident (*The Star, 22 Sep*). The bill proposes that the fund will compensate victims for future loss of earning for no more than R160,000 p.a. – for a male earning R300,000 p.a. the premiums could be as high as R800 p.m.

SHORT-TERM insurers are making headway in meeting financial sector charter obligations to shift at least half of procurement spending to black suppliers by 2008 and 70% by 2014 (*Business Day, 15 Sep*). The insurance sector spends more than R20bn a year on vehicle claims, and R10bn of this must be directed to black suppliers by 2008.

92% of corporate IT budgets are being squandered on initiatives that bring little competitive advantage or value to the business (*Business Day, 29 Sep*). Most organisations have no idea whether their IT investments are increasing efficiency, or adding any value and competitive advantage, because they do not measure them properly.

THE US Sarbanes-Oxley Act will change the face of auditing in SA (*Business Day, 7 Sep*). There is bound to be a greater focus on documenting and testing controls in a company and a change in the attitude and approach of audit committees. The expectation on South African companies to comprehend, document and test financial reporting risks within their organisations will become greater than ever.

THE computer keyboard poses one of the greatest health hazards at work (*Sunday Times, 4 Sep*). Its surface contains hundreds of times more bacteria per square centimetre than a toilet seat and it is reckoned to be twice as dirty as a household rubbish bin.

Reputation is a fragile asset – handle with care

In the wake of the Enron debacle, corporate America – and their counterparts around the world – learnt some interesting and harsh lessons about reputation risk and just how fragile one of a company's most valuable assets – its reputation – can be.

Professor Steven Firer of the School of Accounting at the University of the Witwatersrand – speaking at the recent *Guardrisk Update 2005* seminar – examined the intangible maze of reputation risk more closely:

Anderson was the auditing industry's leader for 89 years, during which time the company acquired enormous reputation capital. This once powerful brand is now extinct. This is despite the fact that there is little evidence that Arthur Anderson was any more reckless or less responsible than its peers. In fact, the firm appears to have been responsible for less than its proportionate share of earnings restatements: it audited 21% of the Big Five audit clients yet was responsible for only 15% of earnings restatements between 1997 and 2001.

The cornerstone of reputation risk is that a brand is rooted in the honesty and competence of the company's people; thus a highly reputable brand is not just about image, it's about real people. Reputation begins with the heart and soul of an organisation: the degree to which employees identify and believe in a firm's mandate and vision.

Yet, although Anderson employees showed unprecedented loyalty, the company did not survive. On 14 March 2002 Anderson was indicted on obstruction of justice charges. Clients had already started leaving the firm, but the indictment was the final nail in its coffin and led directly to the brand's extinction.

Prior to the demise of Anderson, the Big Five of the auditing world seemed to have a lock on reputation. But, the unprecedented level of scrutiny that the Enron scandal received from the media, clearly showed that, in a free market, no one has a lock on anything.

Reputation risk management can only be effective if it operates holistically, not as a specialist function to be activated in an emergency. It has to be a major influence on the organisation's actions, each and every day. Many things can have an effect on reputation and well-executed reputation risk management exercises will have spin-off benefits that can, in themselves, massively improve corporate performance and profitability. There are some golden rules for effective reputation risk management:



- Understand the company's reputation
- Align its stakeholders' expectations with corporate strategy
- Deliver on expectations
- Ensure that complaints and criticisms are dealt with
- Learn from complaints and dissatisfaction data
- Institute effective crisis management planning
- Conduct regular raining and rehearsals

On 31 May 2005 the USA Supreme Court unanimously rejected Arthur Anderson's guilty verdict. The company was vindicated. But the once powerful brand is no more, so the court's verdict is virtually irrelevant.

Risk Barometer

IN throwing out a lawsuit brought by Walt Disney shareholders against the directors of the entertainment firm, a US judge has brought a refreshing view to the debate about what directors of companies can and can't be legally held responsible for (*Business Report*, 16 Aug). The judge highlighted the importance of giving executives freedom to take risks as long as they are "untainted by self interest".

INSURERS and reinsurers should reappraise their approach to rating natural catastrophe risks following Hurricane Katrina (*Insurance Day*, 23 Sep). Hurricane Katrina was a "market-changing event" and it revealed premium rates to be wholly inadequate.

COMMERCIAL insurance claims fraud costs businesses in the United Kingdom roughly \$1 billion a year, or about 5% of premiums paid to insurers (*Business Insurance*, 19 Sep). About 15% of claims submitted by businesses to their insurers are exaggerated.

IN the four years since Sep 11, terrorism insurance has evolved enormously (*Insurance Day*, 13 Sep). The fact that insurance and reinsurance industries were almost wiped out by the huge losses sustained has been a major catalyst in ensuring more capacity and more reserves. But worryingly, there remain large shortfalls in coverage and another attack on this scale would still be catastrophic for the insurance industry.

INSURERS face an estimated exposure of \$56bn for US environmental losses, while the US Environmental Protection Agency predicts that 736 highly contaminated sites will be cleaned up under the Superfund programme between 2004 and 2033 at an estimated cost of more than \$32bn (*Insurance Day*, 17 Aug). While insurers' liability for clean-up costs will be less in the UK, it may well still be substantial.

US insurers are increasingly looking to outsource the development, implementation and management of complex technology projects (*Business Insurance*, 19 Sep). 2005 will be the first time the industry's outsourced IT expenditures exceed internal spending.

Life Update

Life Barometer

THE Life Offices' Association (LOA) says that the first-half slump in recurring retirement annuity (RA) sales to just 3% of total new business premium inflows could be attributed to the spate of negative publicity piled on the long-term insurance industry in the first six months of this year (*Business Report*, 30 Sep). Industry results for the six months to June, show that new business premiums collected on recurring RA products declined by 5% to R660 million against the previous six months, and by 21% against the six months to June 2004.


MOST employers are not prepared to spend any more on their employees' healthcare cover and only 29% of employers currently make some contribution to medical scheme costs for retired employees (*Personal Finance*, 17 Sep). Employers surveyed rated controlling the cost of subsidising healthcare cover as their biggest concern.

THE profitability of life reinsurance will decrease over the next two years as competition for the business continues to rise and "low-cost" reinsurers take a bigger share of the market (*Insurance Day*, 14 Sep). Multi-line reinsurance companies will continue to focus on life business at the expense of non-life business as the latter market continues to soften.

HIV/AIDS poses major challenges for retirement fund trustees, yet many of them are failing to tackle the issue head on (*Business Day*, 25 Aug). Trustees are not doing enough to balance the needs of uninfected workers who expect income when they retire, against the rising costs of payouts to the dependents of people who die of AIDS-related causes before retirement age.


ABOUT 80% of small independent financial planning consultancies face closure if LOA proposals to abolish up-front commission on RAs and endowments are accepted (*Business Report*, 2 Aug). The Insurance Brokers' Council and the Association of Black Insurance Brokers have suggested, that instead of simply adopting the LOA's proposals, that the government consider the establishment of a transformation committee and conduct independent research into the costs and low levels of return associated with existing market products.





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Guardrisk is a multi-national, specialist short-term and life insurance group, acknowledged as delivering innovative insurance and finance solutions.



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