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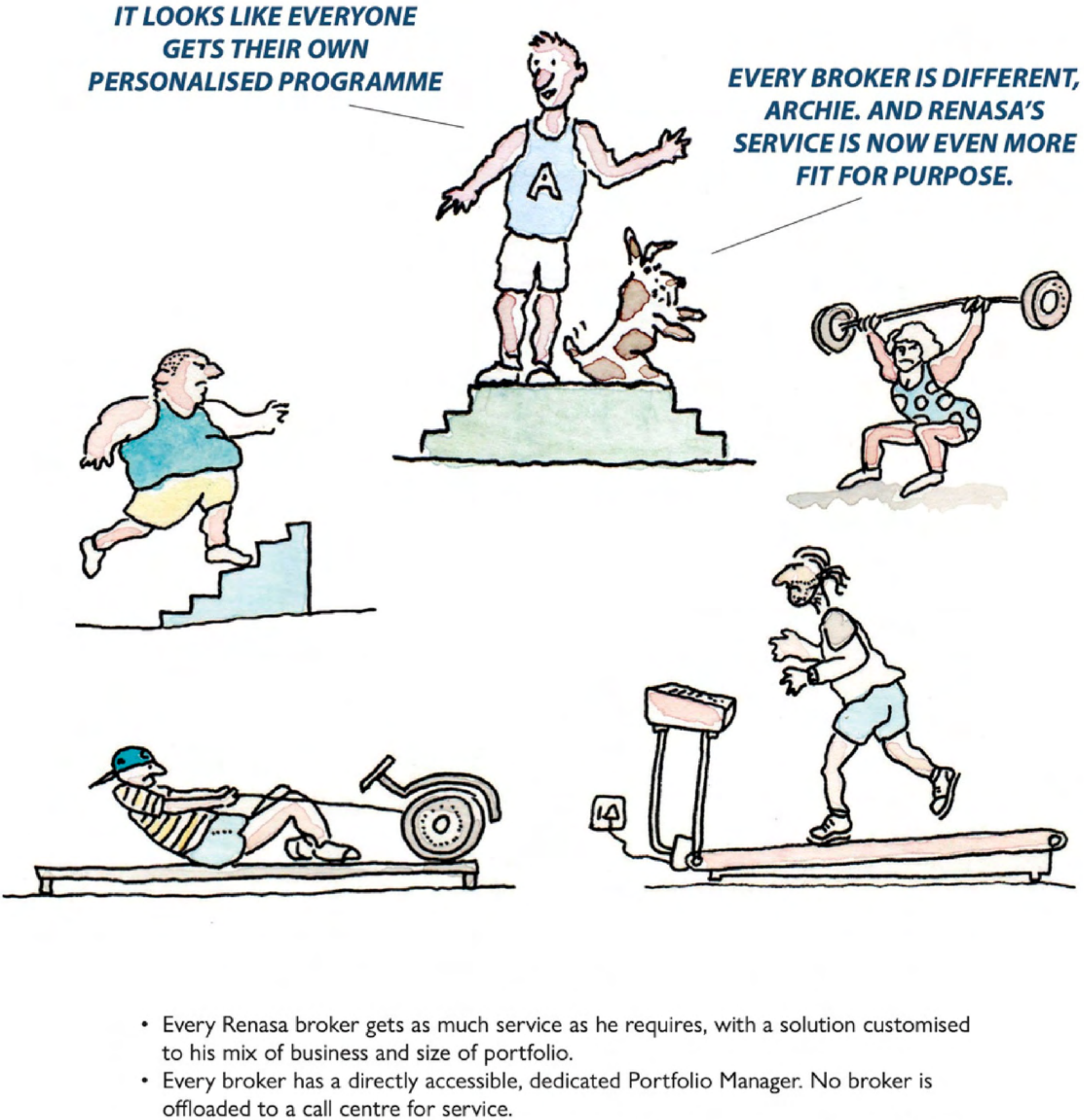

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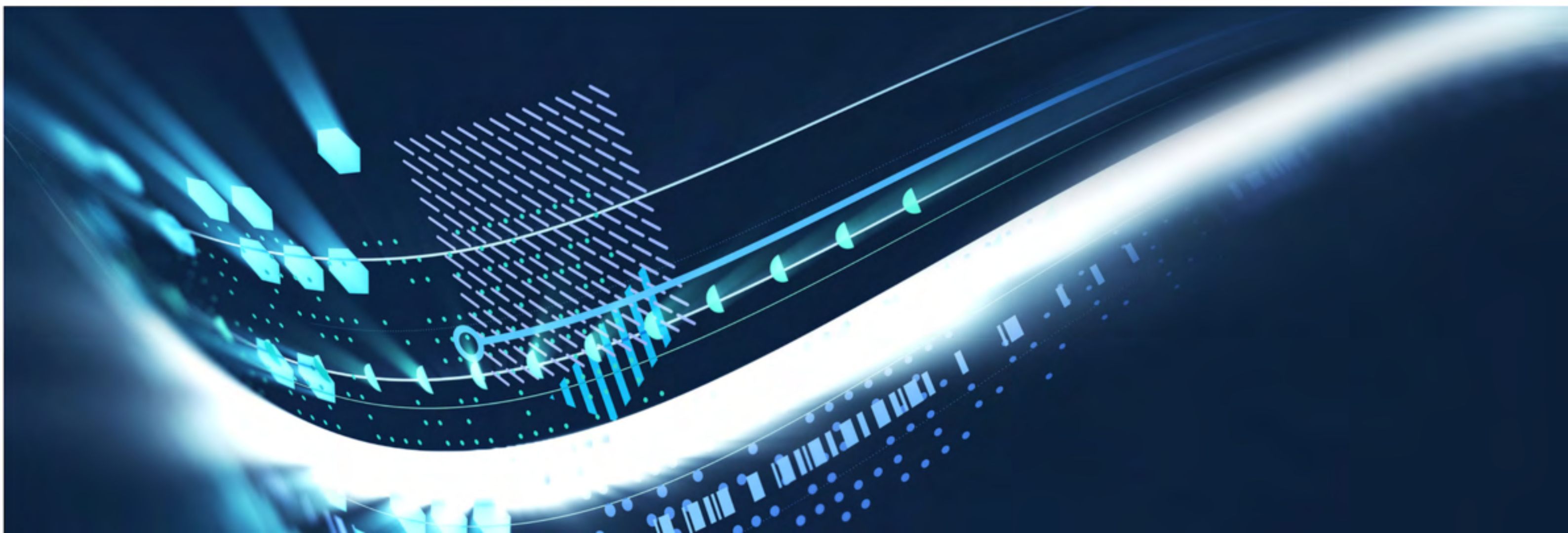


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Tony Van Niekerk, Editor & Chief at COVER Magazine

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PLANNING ARTICLES

"A financial adviser plays a key role, providing holistic advice in the context of your long-term goals"

- WENDY MYERS – HEAD OF SECURITIES AT PSG WEALTH

Gruelling Greylisting What progress has been made?

Francis Marais, Head of Product at Morningstar South Africa

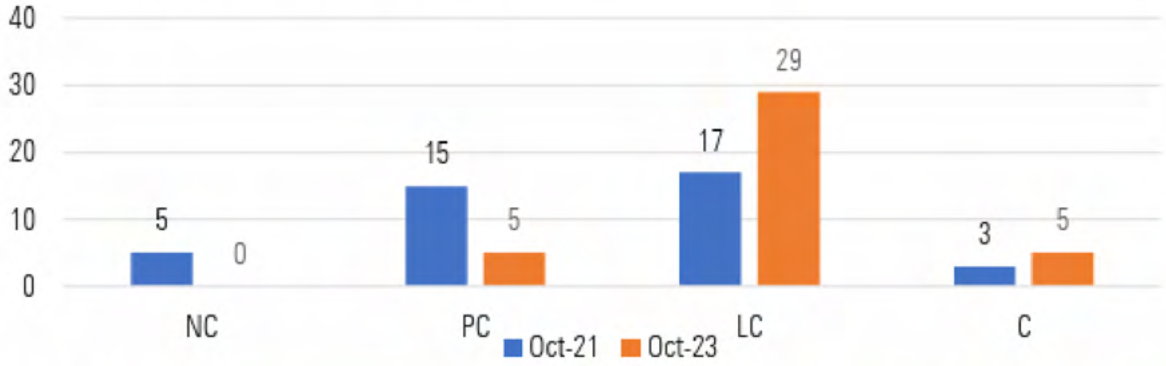
On 24 February 2023, South Africa was placed on the Financial Action Task Force (FATF) list of "jurisdictions under increased monitoring" (more commonly known as its 'Greylist'). This was based on the October 2021 County report that identified certain areas of non-compliance (NC) and partial compliance (PC). As a reminder, the FATF has a list of 40 recommendations1, where members are expected to achieve satisfactory levels of compliance. The other levels of compliance are largely compliant (LC) and compliant (C).

As per the October 2021 report, South Africa had five areas (out of 40) of non-compliance, 15 areas of partial compliance, 17 areas of being largely compliant and three areas of being fully compliant. South Africa was then given time to address these concerns, however, we couldn't do so adequately in the time given and were subsequently added to the Greylist on 24 February 2023. For those looking for a more detailed refresher, please refer to our March 2023 article.

Update and progress

During October 2023, the FAFT conducted an exercise to determine the progress we have made since being added to the Greylist. These findings2 were subsequently published in November 2023. Based on this report, South Africa seems to have made significant progress in addressing most of the concerns. Most notably, no areas of non-compliance were identified, and the areas of partial compliance decreased from 15 in our previous report to only five in the latest progress report. The below graph provides a visual representation of the overall progress made. As can be seen in Exhibit 1 below, South Africa's entire "distribution" has shifted to the right, which is where we want it to be. This is very positive, however on two of the recommendations (R) - R.2 and R.32 - we have not made sufficient progress. Let's delve a bit deeper into what still needs to happen.

Exhibit 1 | Progress made by South Africa



Source: FATF. "Anti-money laundering and counter-terrorist financing measures – South Africa, 2nd Enhanced Follow-up Report". Data as at November 2023. For illustrative purposes only.

Recommendation 32 (R.32) currently rated partially compliant (PC)

This recommendation is all about Bearer Negotiable Instruments (BNI) or "paper documents which have monetary value to the individual possessing them and are in a form where ownership or title passes upon delivery"3. Before we delve into recommendation 32, it's worth defining BNI's a bit more simply. Those of you who might recall Bruce Willis running around barefoot in the Nakatomi building trying to save the day all by himself in the movie Die Hard might also remember that the bad guys were after negotiable bearer bonds.

Negotiable bearer bonds are basically untraceable paper bonds and whoever holds them in their hands becomes the owner. This is also one of the obvious reasons why they are so popular among criminals. Of course, the most popular BNI is simply cash. R.32 deals with how we manage, monitor and restrict BNI (cash) coming into and out of South Africa. South Africa will therefore have to implement additional measures to effectively manage how cash enters and exits our country's borders and address the notion that South Africa has become a very convenient hub for criminals and their various networks and syndicates to funnel their proceeds through.

While we have made some significant progress across the board, we need to urgently address these two recommendations along with those recommendations still classified as only partly compliant. The hope is that we address this during 2024, however, it's going to be a very busy year ahead. Legislators are nearing the end of their term in office, campaigning for reelection and will have to wait and see who will eventually end up in our new 28th Parliament.

In his State of the Nation address on 8 February, President Cyril Ramaphosa stated that steps have been taken "including through new legislation, to strengthen our ability to prevent money laundering and fraud and secure our removal from the "grey list" of the Financial Action Task Force. According to the President, a digital forensic capability has been set up to support the NPA Investigating Directorate, which in due course will be expanded to support law enforcement more broadly. He further added that "legislation is currently before Parliament to establish the Investigating Directorate as a permanent entity with full investigating powers."4

Thus far, it appears that Greylisting has had a limited impact on our financial markets. Bond yields are trading at similar levels to where they were before the announcement. Although the current levels of the JSE ALSI are slightly off, when compared to the levels at the end of 2022, these are acceptable. One could argue that should we not address the outstanding concerns timeously and therefore stay on the greylist longer than expected, capital markets might be inclined to demand a further increase in our risk premium. We have most certainly seen additional administration and operational difficulties when it comes to enhanced due diligence procedures which has led to increased overall time spent and transaction costs.

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RETAIL INVESTORS DRIVE NET INFLOWS INTO HEDGE FUNDS IN 2023

Hayden Reinders, convenor of the ASISA Hedge Funds Standing Committee

The South African hedge fund industry attracted record net inflows of R6.24 billion in 2023 and grew its assets under management to R137.9 billion (excluding fund of funds). These assets are invested in 213 hedge funds, which are managed by 11 hedge fund management companies. The annual hedge fund statistics, released by the Association for Savings and Investment South Africa (ASISA), show that the industry recorded healthy net inflows for the second consecutive year. Net inflows in 2022 amounted to R4.54 billion.

Hayden Reinders, convenor of the ASISA Hedge Funds Standing Committee, welcomes the stronger uptake of hedge funds, especially by retail investors. “This hopefully indicates that hedge funds in South Africa are increasingly being accepted as an important investment tool in mitigating market volatility,” comments Reinders.

Driving the flows in 2023

In 2015, South Africa became the first country in the world to implement comprehensive regulation for hedge fund products. The regulations provide for two categories of hedge funds, namely Retail Hedge Funds* and Qualified Investor Hedge Funds**. Hedge funds fall under the Collective Investment Schemes Control Act (CISCA) and are deemed regulated collective investment schemes, just like unit trust portfolios. According to Reinder, 32% of assets under management were held by Retail Hedge Funds at the end of December 2023, while Qualified Investor Hedge Funds held 68% of assets. Yet, the net inflows in 2023 were driven predominantly by South African Retail Hedge Funds, which attracted net inflows of R5.1 billion. South African Qualified Investor Hedge Funds, on the other hand, recorded net outflows of R1.1 billion.

Reinders explains that there is a growing awareness among retail investors that hedge funds are not high-risk alternatives to unit trust funds. “Hedge funds are one of the building blocks of a well-diversified investment portfolio to reduce market volatility.” According to Reinders, Retail Hedge Funds have also become more accessible to retail investors in recent years as investment platforms are increasingly willing to offer retail hedge funds. In addition to increased marketing initiatives by some of the bigger hedge fund managers, solid performance has also resulted in greater interest from retail investors.

Most popular with investors

Hedge funds in South Africa are classified according to their investment strategies: Long Short Equity, Multi-Strategy, Fixed Income, and Other.

	SA Retail Hedge Funds (as at 31 Dec 2023)		SA Qualified Investor Hedge Funds (as at 31 Dec 2023)	
	% of assets	Net flows	% of assets	Net flows
SA Long Short Equity	57.2%	R2.13 billion	28.7%	-R652.63 million
SA Fixed Income	25.5%	R790.35 million	3%	-R299.43 million
SA Multi-Strategy	17.2%	R2.27 billion	34.8%	R551.12 million
SA Other	0.2%	-R100.77 million	33.5%	-R676.84 million

Reinders says judging from the net inflows, SA Multi-Strategy hedge funds were most popular with retail and qualified investors in 2023. Multi-Strategy hedge funds are portfolios that do not rely on a single asset class to generate investment opportunities but instead blend various strategies and asset classes with no single asset class dominating over time.

He comments that this is the first time in at least five years that SA Retail Multi-Strategy hedge funds outdid SA Retail Long Short Equity hedge funds in popularity. SA Retail Multi-Strategy funds attracted R2.27 billion in net inflows in 2023, while SA Retail Long Short Equity funds recorded R2.13 billion.

Long Short Equity funds are portfolios that predominantly generate their returns by pairing long positions on equities with short-selling to benefit from both rises and drops in market prices. Reinders notes that in the qualified investor space, only SA Multi-Strategy hedge funds attracted net inflows (R551.12 million). All other categories reported net outflows for the year.

SA Retail Fixed Income hedge funds attracted net inflows of R790.35 million. These portfolios invest in instruments and derivatives sensitive to movements in the interest rate market. Hedge funds in the "SA Other" category reported net outflows of R100.77 million. These portfolios apply strategies that do not fit into the other classification groupings.

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SIX WAYS INTERMEDIARIES CAN THRIVE IN 2024'S FINANCIAL LANDSCAPE

Heinrich Punt, General Manager of Intermediaries at Sanlam

Intermediaries today face the challenge to thrive amid a complex economic landscape and the reality of constant change, but therein lies the opportunity. He examines their prospects as critical contributors to the financial stability and success of individuals and families. Intermediaries must continue to progress their positioning as trusted guides. The most recent nuance is personalisation, underscored by integrating financial coaching into the planning process. By delivering on personalisation, intermediaries can positively influence client behaviour and leverage relationship equity.

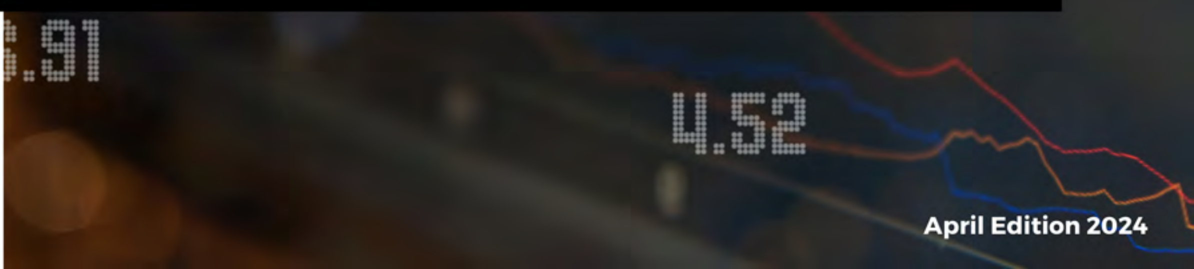
Realities we're dealing with in 2024

The 2024 economic landscape continues to be marked by uncertainty, with potential volatility stemming from geopolitical conflicts, fast-tracked deglobalisation strategies, rising inflation, and sanctions. These factors necessitate intermediaries to remain vigilant and adapt their strategies to safeguard client portfolios and investment decisions. Intermediaries must also navigate the increasingly complex regulatory environment, ensuring compliance with new regulations. This year it comes in the significant shape of the two-pot retirement system implementation.

The big opportunities of 2024: Intermediaries can play a significant role in helping clients double down on their plans by focusing on these critical components to reach their financial goals with confidence.

The two-pot system: The proposed two-pot system, which allows clients to access their retirement fund for emergencies, presents an opportunity for intermediaries to emphasise the importance of the retirement plan, encouraging clients to stay on track and understand the consequences of withdrawal decisions. The more clients access their retirement funds, the more they need to replenish, potentially derailing their retirement plans.

Therefore, intermediaries should view the two-pot system as an opportunity to keep clients focused on their retirement planning, ensuring the best possible outcomes. This doesn't negate the reality that some clients may have genuine needs to access their retirement funds. However, the goal should always be to maintain the integrity of the retirement plan as much as possible. There's a real opportunity to reach out to and grow closer to clients through this process.



Connect with new generations: The rise of Millennials and Gen Z presents a significant opportunity for intermediaries to connect with new generations of clients seeking financial guidance in 2024, expanding their reach. There's a clear need in the market, with Forbes finding that 79% of polled Gen Z and Millennials cited seek financial advice from social media. These younger demographics are more receptive to digital communication channels, making it crucial for intermediaries to establish a strong social media presence, create engaging video content, and utilise non-traditional communication techniques to cultivate connections.

Tap into underserved segments: Sub-segmenting presents immense opportunities for intermediaries. Breaking down a significantly larger market into smaller, more specific groups based on certain characteristics or behaviours allows intermediaries to focus on underserved segments. An example of this is tapping into younger graduate demographics that are not currently accessing financial planning services but starting to earn.

Personalised AI-driven digital experiences: The crucial skill of personalising digital experiences and how it distinguishes successful intermediaries in this digital age. Artificial Intelligence (AI) has the potential to enhance marketing approaches, campaign emails, and operational processes, leading to substantial improvements in productivity and efficiency. Implementing this technology as incremental enhancements over time and integrating it in various roles among support staff can add value to intermediaries' practices.

Financial coaching and client relationships: Financial coaching also emerges as a valuable approach to connecting with clients and fostering enduring relationships. By integrating financial coaching into the planning process, intermediaries can provide personalised – but non-emotional – guidance that addresses their client's specific needs and behaviours. This approach can help clients make informed decisions and achieve their financial goals. For intermediaries, it can result in more rewarding client relationships, better client retention and optimised commercial outcomes.

Guide clients towards smarter financial decisions: Intermediaries have even more opportunities to guide clients towards making smarter financial decisions this year. For example, with Gen Z's inclination towards high job mobility and 'soft saving'—prioritising immediate gratification and lifestyle over long-term financial security—and their notable job mobility, intermediaries can provide strategic guidance. They can help these clients understand the importance of maintaining financial discipline and the consequences of their saving choices. Offering tailored advice and creating a clear financial roadmap is crucial for intermediaries to assist clients in preserving their savings and investments as they navigate between jobs, ensuring personal and professional choices don't compromise their financial stability.

Create moments to work on your business, not just in it

In the dynamic landscape of financial intermediation, the importance of intermediaries creating moments to work on their business, not just in it, cannot be emphasised enough. This involves stepping back from the immediacy of daily tasks to engage in real planning and soliciting stakeholder input. By doing so, intermediaries can better discern between challenges and opportunities, ensuring more adaptive decisions. I cannot advocate enough for a deliberate focus on development. A strategic reflection is essential for intermediaries to remain competitive and to capitalise on the evolving opportunities within the financial landscape. The 2024 landscape presents a complex mix of challenges and opportunities for intermediaries. By staying informed, being proactive, and fostering resilience, intermediaries can navigate these challenges and seize the opportunities that lies between them. Sanlam is committed to empowering our intermediary partners at every step in the journey.

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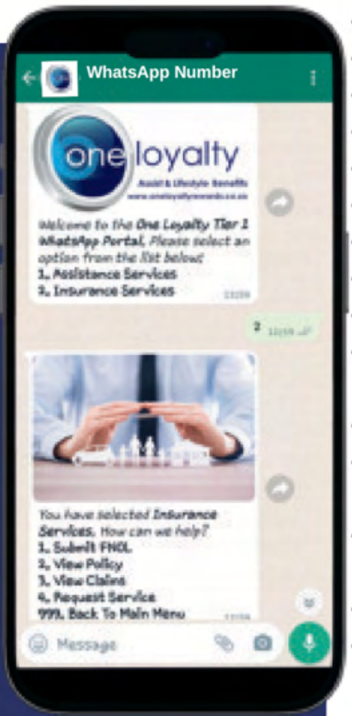

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WHY DO YOU INVEST OFFSHORE?

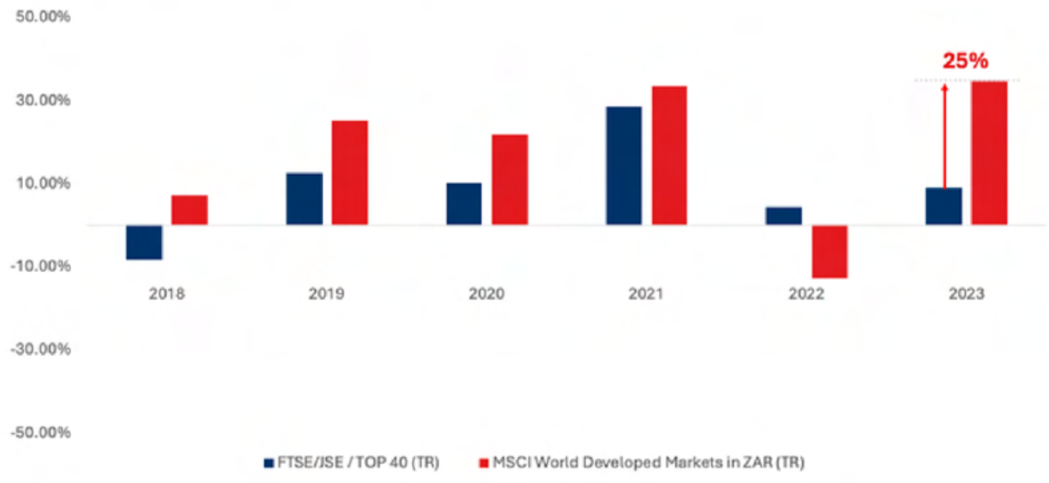
Martiens Barnard, Marketing Actuary at Momentum Investments

The perception that offshore equity markets will consistently outperform our local equity market drives many individuals to invest offshore. Others might want to invest offshore as they believe that the rand will weaken (ie depreciate). This belief that the rand will depreciate against currencies in developed markets, aligns with the theory of purchasing power parity (PPP). Developed markets generally experience lower inflation rates, and PPP suggest that exchange rates adjust to equalise the prices of goods and services between countries over time.

Analysing the first claim: Do offshore markets truly outperform?

Last year, the MSCI World Index provided a return of 34.54% in rand terms compared to the 8.98% return from the JSE Top 40.

This is an outperformance of more than 25%.



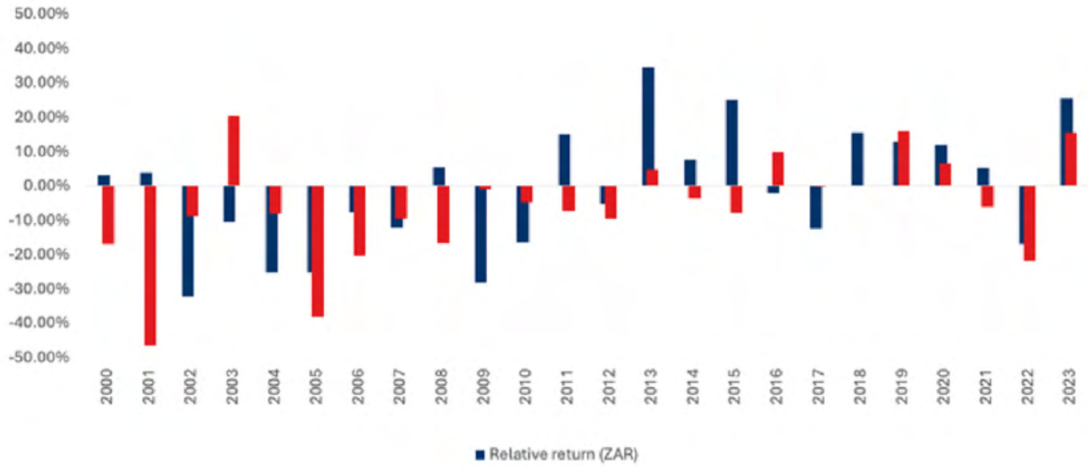
Source: IRESS, MSCI and APEX, December 2023

Looking at recent years, there has been a trend of offshore markets outperforming (except for 2022), but this has not always been the case. Since 2000, the number of times where one has outperformed the other in rand terms is split equally at 12 each – although the local market outperformed on a cumulative basis over this time.

The long-term relative returns

Source: IRESS, MSCI and APEX, December 2023

A further analysis gives more insight into the cause of the relative performance, to see whether it was pure market outperformance or due to exchange rate movements. The chart below shows the same relative performance (in blue) and alongside it, the difference between the performance of the JSE Top 40 in rand terms and the MSCI World Index in US dollar (USD) terms.

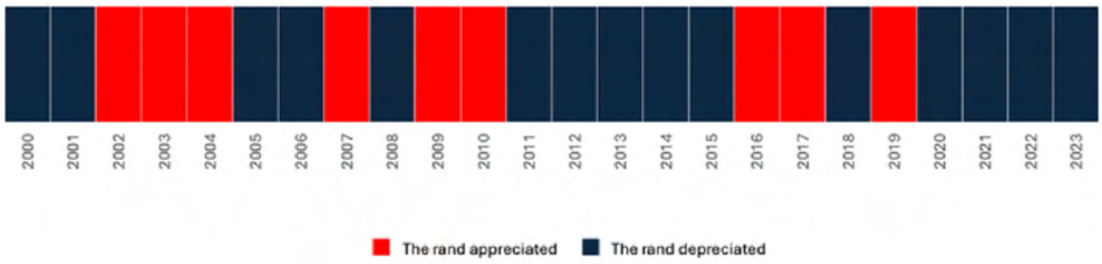


Source: IRESS, MSCI and APEX, December 2023

When viewed like this, we see that about 10% of the outperformance in 2023 was due to the rand weakening. We also see that the MSCI World Index, when viewed in USD terms, offered meaningful outperformance in only six of the last 24 years (2003, 2013, 2016, 2019, 2020 and 2023). This means that most of the outperformance of the MSCI World Index in rand terms was due to the exchange rate and not the performance of offshore markets. This was also true in the recent past. In the last few years, the rand's depreciation has also increased the performance of the offshore markets (when viewed in rand terms) as it has depreciated five out of the six years.

If your reason to invest offshore is based on your belief that "international equity markets will consistently outperform our local equity market", consider how much your judgment has been influenced by the weakening of the rand. Then again, some people invest offshore to benefit from rand depreciation. This is a risky approach as currency movements are difficult to predict and their movements can be substantial. Since 2000, in seven of the nine years where the rand strengthened (appreciated), it was by more than 10%.
Looking at the below chart of how the rand compared to the USD, the direction of the movements is fairly difficult to predict, especially in the short term.

Year of rand appreciation/depreciation



Source: APEX, December 2023

Today, the valuation of the rand in PPP terms suggest it is oversold, but there are many fundamental reasons why it could weaken. With all this being said, the question remains: Why should you invest offshore when offshore markets don't necessarily outperform (without the help of a depreciating rand), and if the movement of the rand is so difficult to predict?

Reasons to invest offshore

In general, investors should invest offshore as a means of diversification: international markets offer a much larger opportunity set and exposure to asset classes, industries, companies and geographies that are less accessible in the local equity market. This can lead to a better diversified investment portfolio, leading to a smoother overall return profile. For example, let's examine an investment portfolio that is split evenly between the JSE Top 40 and the MSCI World Index.

Diversifying a portfolio

Source: IRESS, MSCI and APEX, December 2023

In 2018, the diversified portfolio would have softened the fall of a pure local equity investment from -8.31% to a mere -0.59% and in 2022, the fall of an offshore investment from -12.74% to only -4.27%. Investing offshore is also a good idea to maintain your offshore currency spending power. If you are planning to live abroad for a while or permanently, or for your children to study there, it might be sensible to have your money there already.

How to invest offshore

You can invest offshore by using either of our investment platforms, Momentum Wealth or Momentum Wealth International. Investing directly offshore through Momentum Wealth International offers you a yearly allowance to exchange rand for foreign currency. Alternatively, with Momentum Wealth locally, you can invest offshore without using your yearly offshore allowance.

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STRATEGIES TO BUILD WEALTH DESPITE VOLATILE & UNPREDICTABLE MARKETS

Wendy Myers – Head of Securities at PSG Wealth

Amid escalating volatility in global equity markets due to numerous factors, an understanding of the concept of volatility and how it can play to your advantage is important for investors. The stock market is constantly in motion, with market indices and shares fluctuating daily. During more stable periods the JSE All Share Index and the S&P500 Index, for example, gain and lose less than 1% per day. From time to time however, the market experiences dramatic price changes, a phenomenon that is known as "volatility". While heightened volatility can be a sign of trouble, it's all but inevitable in long-term investing and it may actually be one of the keys to investing success.

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From time to time however, the market experiences dramatic price changes, a phenomenon that is known as "volatility". While heightened volatility can be a sign of trouble, it's all but inevitable in long-term investing and it may actually be one of the keys to investing success. Investors should therefore anticipate an average annual volatility of around 15%. However, approximately once every five years, there's an expectation for the market to decline by as much as about 30%.

A recent case in point is the extreme volatility triggered by the Covid-19 pandemic. It can be distressing seeing large or even small losses in your portfolio. So, if this type of volatility is a concern, you should carefully consider whether a pure equity investment suits your risk tolerance. However, it's important to remember that market volatility is a normal aspect of investing. As long as you're invested in quality companies, your portfolio should rebound in the medium term.

In fact, over the long run, equities have proven to be the preferred asset class for generating inflation-beating returns. Hence, they remain a vital component of investor portfolios, particularly for those aiming to build long-term wealth. Therefore, if you are able to stomach some volatility, the key is not to panic-sell after a big market correction. In fact, market sell-offs can present attractive investment opportunities. If you have cash available, you can increase your exposure when everyone is selling and acquire quality stocks at attractive prices.

But deciding "when the bottom is" and when to enter the market in times of volatility can be very difficult, and risky. Rather, talk to your financial adviser about your overall risk exposure and profile on an ongoing basis, and rebalance your portfolio where required. This ensures that you are comfortable with the levels of exposure to risk and volatility. It is particularly important as one nears retirement age.

For those who are uncomfortable with high levels of volatility, there are ways to minimise your exposure. Multi-asset funds or a fixed income component, as part of an overall balanced portfolio, can bring peace of mind. You should also ensure that your portfolio is well diversified, for example having an equal weighting across sectors and industries. Exposure should also include high dividend yielding stocks and stocks that are less volatile. In the South African context, think of investing in solid banking stocks as opposed to volatile commodity stocks for example.

You could also consider certain ETFs that provide balanced returns as opposed to single stock investments for your portfolio. Ultimately, remembering to keep emotions out of investing and staying the course is critical. This is where a financial adviser plays a key role, providing holistic advice in the context of your long-term goals. They start with defining your risk profile upfront, allowing for a portfolio design that aligns with your tolerance for volatility. They will guide you on the mix of stocks to invest in, considering market capitalisation, liquidity, the mix of value and growth and allocations to local and offshore counters.

Your financial adviser will also be able to provide invaluable guidance on the asset class allocations within your portfolio. This includes the amount of cash one should hold, given the current volatility, as well as the preferred currencies. They will also help you build an emergency fund of cash to help ensure that you don't have to sell your shares at the bottom to fund your cash flow requirements.

Lastly and perhaps most importantly, your financial adviser will ensure that you continue investing and they will review your portfolio regularly to ensure you remain on track to achieve your investment outcomes.

EMPOWERING FINANCIAL ADVISORS

In conversation with Jonel Matthee-Ferreira, CEO of Cogence.

Financial advisers are confronted by intricate challenges and Cogence is offering transformative solutions to navigate this evolving landscape. Advisers face formidable administrative and research burdens in today's financial ecosystem, weighing them down. The shifting paradigm demands a departure from traditional sales-centric approaches towards holistic advisory services. It is against this backdrop that Cogence was established, offering collaboration intelligence through strategic partnerships with industry titans such as BlackRock and RisCura.

Jonel explains that their role as a discretionary fund manager is to seamlessly integrate into advisors' practices to assume the mantle of investment management. By leveraging the expertise of the Cogence executive team, in tandem with cutting-edge technologies, we empower advisors to confidently assure their clients of expertly managed portfolios.

According to her, Cogence is committed to technological innovation, particularly with our transition to paperless client onboarding. This transformative shift not only streamlines operational processes but also underscores our dedication to enhancing client experiences through seamless interactions.

Jonel explains that, because it is never easy for any adviser to move a client from a platform, Cogence offers a diverse array of investment solutions on its platform, from local model portfolios to fund of funds and restorative solutions. They cater to a spectrum of client needs, underpinned by our platform-agnostic approach that ensures accessibility across various platforms.

She said Cogence's holistic approach encompasses factors beyond traditional investment considerations, leveraging collaborations with Vitality and Aladdin Wealth technologies. “Cogence empowers advisors to factor in client behaviour and health outcomes, thereby delivering personalised recommendations aimed at optimising clients' retirement experiences.”

She said that it is very exciting for them at Cogence because not only do they look at supporting the advisor and assisting him with his client's needs and doing the risk profiling. Advisers used to look at the date at which you think the client will retire and the risk profile, but with Cogence’s additional collaborations with Vitality, and the Aladdin Wealth technologies, they can help in developing a plan where the client can spend more healthy years in retirement.

That, according to Jonel is the additional benefit Cogence, as coaches, bring to the advisor. By not only looking at the client's risk profile a better retirement future is ensured. Jonel emphasised that Cogence is committed to empowering financial advisors across all levels of expertise and practice sizes. From independent financial advisors with category one licenses to sophisticated wealth managers, they offer tailored solutions to meet diverse needs, thus democratising access to professional investment management.

Jonel extended an invitation to advisors, urging them to embrace the opportunities presented by Cogence's collaborative model. Through fostering relationships and partnerships grounded in trust and innovation, they endeavour to alleviate the burdens faced by advisors, enabling them to focus wholeheartedly on serving their clients' best interests.

In essence, by offering collaboration intelligence, technological innovation, and personalised solutions, Cogence aims to redefine the standards of excellence in the financial advice industry.

THE TWO-POT RETIREMENT SYSTEM: WHAT'S REALLY COOKING?

Sheldon Friedericksen, GM of Group Benefits at Fedgroup

The much-anticipated two-pot retirement system is set to debut on 1 September and seeks to tackle the notorious lackadaisical approach to savings. A noble endeavour indeed, given that a mere six out of every 100 South Africans currently have hopes of retiring with any semblance of comfort, as per the sombre statistics laid out by the National Treasury.

The envisioned two-pot system might however fall short of its lofty ambitions of promoting a savings culture. Instead of turbocharging savings habits, it could inadvertently grease the wheels for more frequent dips into retirement funds. It's a bit like trying to fill a leaky bucket with more water – commendable in intention but perhaps less effective in practice, but he acknowledges the imperative for change.

The current system, where retirement funds resemble a mythical treasure chest accessible only upon the retirement, termination, or resignation from a job, fosters a culture of desperation. People find themselves contemplating drastic measures, like tendering resignations, solely to tap into their hard-earned nest eggs; a scenario which is not conducive to sound financial planning. In essence, the two-pot retirement system tries to provide a safety net for both emergency funding and retirement. Yet, it appears to stumble on the crucial task of instilling a robust savings culture - almost offering a lifeline while inadvertently loosening the anchor.

Financial literacy is a must

We have to remember that many South Africans live either very close to the breadline or beyond their means. This is why it is vital to set-up financial buckets linked to specific goals where people can save for emergencies, short-term aspirations and the distant horizon of retirement. But, this raises a pertinent point amidst the buzz of the new two-pot system: without a dedicated focus on a holistic financial journey spanning an entire lifetime, are we merely rearranging the deck chairs on the Titanic of financial planning? It's like having a shining new car without having a roadmap – impressive, but without direction.

People generally don't know how much money they need for retirement, and this is where authorised financial service providers (FSPs) have a definitive role to play by providing financial literacy. At Fedgroup, it's not just about profit margins, it's about putting people first. Our responsibility as a FSP is to assist people on their financial journeys by offering products that are as easy to understand as they are effective, all within tax efficient structures. After all, in the grand tapestry of financial planning, simplicity is often the thread that weaves success.

Tax to the max

People must take note of the tax implications linked to withdrawals from the two-pot retirement system. Government already expects to raise about R5 billion in the 2025 tax year from retirement savings withdrawals. This is because lump sum withdrawals will be taxed according to standard tax brackets. So, think twice before you withdraw money from your retirement savings since there'll be tax implications and you'll have a smaller pot for retirement, which has to last for many years.

A shrinking pot of retirement savings

In the ongoing saga of nudging South Africans towards a savings culture, National Treasury has played its hand, aiming to steer clear of the dreaded welfare state label. Yet, the million-rand question still stands: what does your retirement plan look like when you've got less in the pot? All while people are defying the odds and living longer, and medical expenses are skyrocketing with no end in sight. This is where financial advisors have a crucial role to play by illuminating the consequences of financial decisions and advising clients on asset choices and allocations. But, one of the main aspects that asset managers, financial advisors and pension fund trustees might be grappling with very soon is: how much liquidity must be held in these portfolios to accommodate early withdrawals? And, as we all know, liquid assets tend to generate lower returns compared to other asset classes.

Back to basics

One has to remember that National Treasury has a more general, holistic approach to the proposed two-pot retirement system, which is one of the reasons why I believe this system will achieve the objective of instilling a stronger savings culture. There is more value in offering clients uncomplicated, bespoke products because, for many years, the financial services landscape has allowed unnecessary complexities to creep into financial product designs. We have to remember that people interact differently with money and have unique needs when it comes to savings; something that has to be top-of-mind when savings products are designed.

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SMALL & MEDIUM

ENTERPRISE ARTICLES

"In South Africa's fragile and unpredictable business environment, having adequate insurance coverage is paramount for small and medium businesses to succeed."

- SHARON PATERSON, CEO OF INFINITI INSURANCE LIMITED

PROTECTING SMES FOR SUCCESS AND GROWTH IN 2024 AND BEYOND

Sharon Paterson, CEO of Infiniti Insurance Limited

Small and medium-sized enterprises (SMEs) are the backbone of the South African economy, accounting for over 2 million companies and representing over 98% of formal businesses, according to the report from the United Nations' National Entrepreneurship Strategy. How do small and medium business owners navigate the dynamic and often challenging landscape and a number of risks such as property damage, liability claims and business interruption and liability claim against them.

In South Africa's fragile and unpredictable business environment, having adequate insurance coverage is paramount for small and medium businesses to succeed. The benefits of business insurance extend beyond financial protection, but it contributes to the business' stability, credibility, and resilience. In its 2023 annual review report, the South African Insurance Association notes that a vast proportion of South Africans are underinsured, leaving them vulnerable to risks and unable to recover from losses.

In the event of a disaster or loss, a business may have to pay for repairs or replacements out of pocket. The cost of not having an adequate business insurance coverage can be significant and can leave the business vulnerable to financial ruin or even lead to its closure. The persistent protection gap continues to vex the non-life insurance sector. Last year the Insurance Development Forum (IDF), estimated that staggering 90% of economic costs stemming from disasters in developing countries remain uninsured.

This unfortunate reality has severe consequences. When disasters hit, it can put a strain on the business's finances and may even force it to close its doors leaving millions of people are at risk of losing their livelihoods and homes without financial compensation or the means to rebuild their lives.

Evaluating business risks and assessing insurance needs

When choosing small business insurance coverage, is critical to look at the size of the business. The more complex the business, the greater the exposure to risks. The broker must sit with the client to assess the risks and assist the client to choose an insurance policy that provides adequate coverage for their business' assets and liabilities.

The broker should assist the client to determine what insurance coverage the business needs. If a business doesn't have the right insurance cover, catastrophic events or even theft can cause devastating and potentially irrecoverable losses. Additionally, personal injury lawsuits can strain businesses financially, making it difficult to cover legal fees alone.

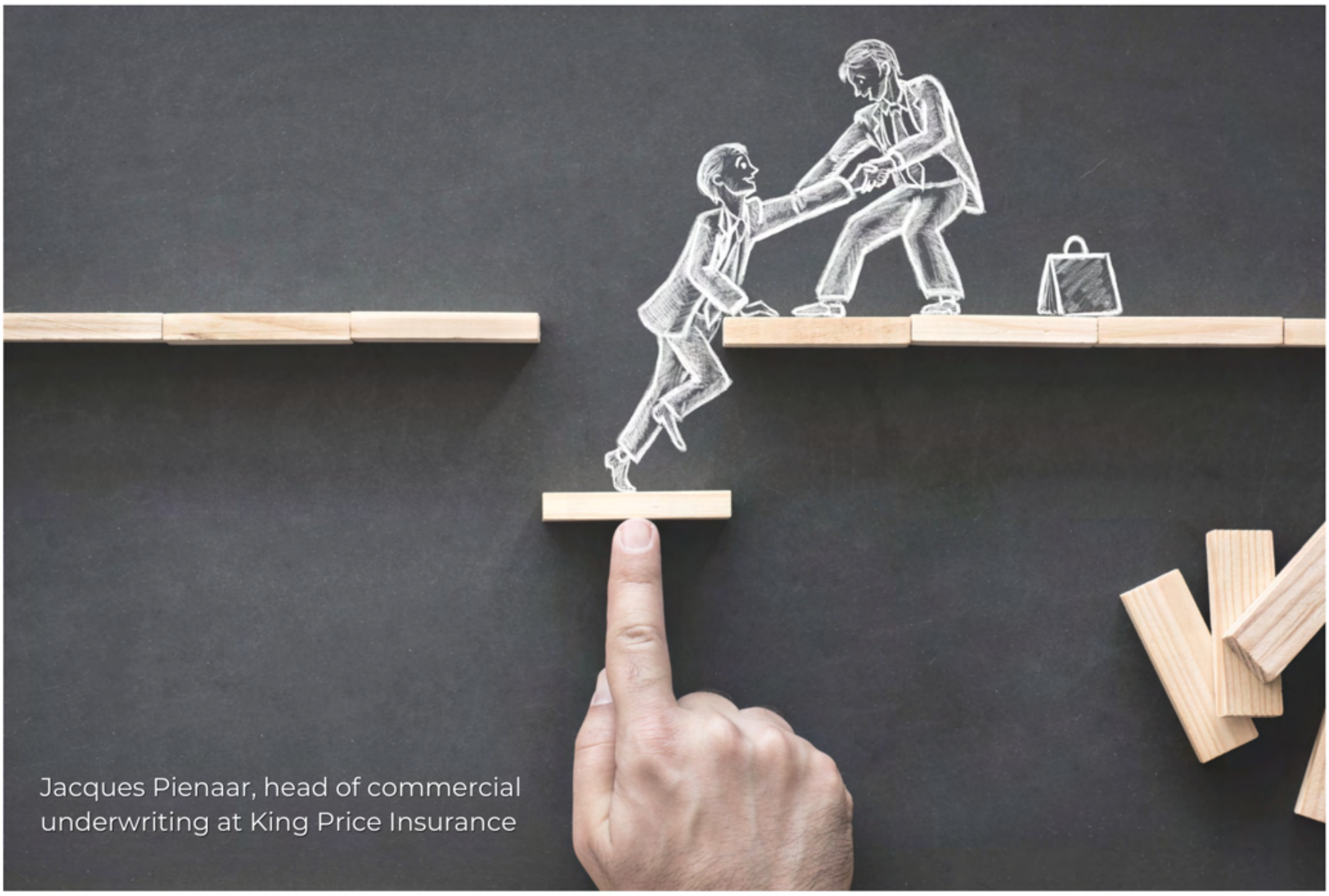
When evaluating the business risks, first, brokers acquaint themselves with the operations of the business as some industries are riskier than others. For example, businesses that manage hazardous materials or work with the public may need higher levels of insurance coverage than businesses that operate in less risky industries.

Secondly, the client must look at their specific insurance needs. Every business is different, so the client must choose an insurance policy that meets their specific needs. The broker must visit the business premises, conduct a thorough inspection, and gain a firsthand understanding of the specific requirements. This comprehensive analysis will enable the broker to provide the appropriate cover for the client.

After conducting a risk assessment, brokers can tailor coverage to address specific risks associated with the nature of the business or industry. It's crucial for SMEs to assess their needs and obtain appropriate coverage. Knowing that the business is adequately protected against various risks and uncertainties provides peace of mind to business owners, associates, and their families.

This allows them to focus on growth and strategic decision-making rather than worrying about potential financial setbacks. By investing in appropriate insurance policies, SMEs can mitigate risks and position themselves for success and growth in 2024 and beyond.

At Infiniti Insurance Limited, we are committed to empower our brokers to help SMEs understand their own risks so that they can improve their risk management and reduce the cost of insurance.



Jacques Pienaar, head of commercial underwriting at King Price Insurance

SMALL BUSINESS OWNERS FACE NUMEROUS CHALLENGES

Finding the right insurance shouldn't be one of them, & brokers play an invaluable role in ensuring that SMME risks are properly covered

According to data from the UN, micro, small, and medium enterprises account for over two million companies in South Africa and represent more than 98% of formal business. The Brenthurst Foundation reports that these enterprises are responsible for employing 50-60% of our labour force and contribute 34% towards GDP. And yet, South Africa has a higher failure rate of SMMEs than elsewhere in the world, with about 70-80% of our small businesses failing within five years.

While the bigger-picture risk factors – like the impact of loadshedding, the devalued Rand, increasing fuel prices, interest and inflation rate hikes, high unemployment, the fallout from extreme weather events, and cybercrime – are largely out of our control, brokers play a critical role in ensuring that business owners get the right cover to future-proof their businesses as far as possible. Globally, we see that the most business insurance claims are for fire and explosion, natural catastrophes, and faulty workmanship. However, in South Africa, we have different risks, and so business owners need more specific insurance products.

The top reasons for the business insurance claims that King Price sees are:

- Theft.
- Power surge.
- Storm damage and lightning strike.
- Faulty geysers and water damage.
- Fire.
- Accidental damage.

Added to this, brokers should ensure that their SMME clients consider the following risks:

Working from or at home

If your clients or their staff members have equipment at home that's owned by the company, and which is used to do business on the company's behalf, then it's up to the company to insure that equipment. However, some companies may hold their staff liable for loss or damage under certain circumstances, and advising your clients that such information must be clearly communicated in the company's employment contract or IT policy is great added value from you. In the case of a business that's entirely run at a client's home, the equipment and stock should be covered under a business insurance policy, and not included in a personal insurance policy.

Public and employer's liability

Business owners need to protect themselves and their businesses against liability for injury to third parties, as well as for loss of, and damage to, their possessions. They also need cover for any legal liability following injury to an employee that happens in the course of, or in connection with, their service.

Buildings and equipment

At the very least, small business owners should insure their physical buildings as well as their essential assets and equipment against fire, theft, accidental damage and breakdown, and losses due to business interruption.

Vehicles and goods in transit

Commercial motor insurance protects company-owned cars, vans, and trucks in the event of accidents and theft. If your clients' employees use their own cars for business purposes, then these vehicles need to be covered for business use as personal insurance won't necessarily cover them if an incident occurs while they're on the clock. And, if a business transports materials or products, then goods in transit cover is essential.

Cyber insurance

Cybercrime has become one of the biggest risks to business survival for South Africa's SMME sector. The IBM annual Cost of a Data Breach Report shows that breaches have cost local companies an average of over R49 million each, yet many businesses still ignore the threat. A good cybersure policy works alongside with IT security protocols and practices, to limit the damage and get businesses back on their feet in the event of a cybercrime incident.

Public disorder and riots

Sasria is the only short-term insurer that provides cover against extraordinary risks such as civil commotion, public disorder, strikes, riots, and terrorism, which are not covered by ordinary insurers. Sasria cover can usually be bought through an insurer as part of a business insurance policy, but it can also be procured directly from Sasria.

There's no doubt that South Africa's current economic climate is challenging, with unique risk factors that combine to create an (im)perfect storm for SMME business owners who haven't dotted all the Is and crossed the Ts. At King Price we know that no two businesses have the same insurance needs and that's why we only insure commercial risks through our broker partners.

We truly value our relationships with our broker partners, and we rely on your specialised expertise to lead your business, engineering, agri, and community clients – both large and small – to make informed insurance decisions.

SMES NEED TO MASTER SCIENCE AND ART OF STRATEGIC PRICING

Palesa Mabasa, Business Development Head: SME Funding at FNB

When it comes to running a small or medium-sized business, setting the right price tag for your goods or services isn't just a case of slapping on a markup and calling it a day. Pricing is a highly strategic undertaking that involves a very careful balancing act between making a profit and staying attractive to customers, both of which are essential for a sustainable business.

SMEs need to recognise the strategic significance of pricing. For many SME owners, setting the right price might seem like a straightforward calculation, but in reality, it requires a good understanding of factors, including cost of goods and trading, market dynamics, and consumer perceptions.

Here are some guidelines for SMEs that are serious about getting their pricing strategies right:

Know what your product really costs you **-** To nail your pricing, you've got to dig deep into what it really costs you to get your product or service out the door. That means everything from what you pay for goods or materials to the less obvious input costs like how much you're shelling out for transport, storage, staff, and electricity. You can't just wing it with a set markup, you need to have a very clear picture of every single cost involved in getting your product or service to a customer, and then set a price that covers those costs and makes you some profit.

Price with tomorrow in mind **–** Input costs tend to go up and down over time, but that doesn't mean your prices should too. Constant price changes can be a source of frustration for your customers, so you need to aim for a price tag that can weather the ups and downs of market dynamics.

Keep an eye on the competition - Knowing what your competitors are charging for similar products or services is key to pricing your offering correctly. Price yourself too high or too low, and you might send the wrong message to your customers. Too cheap, and they'll think there's a quality issue; too expensive and they'll look elsewhere. It's about finding that sweet spot where your price feels just right to your customers.

Quality is king - Skimping on quality to cut costs will almost always backfire and put your business at risk. Your customers will immediately notice if the quality of your goods or services drops, and once they lose trust, they're probably not coming back. If your prices are a bit high when compared to your competitors, don't start looking for cheaper goods to sell that are lower quality, rather find other ways to trim your input costs and pass those savings on to your customers.

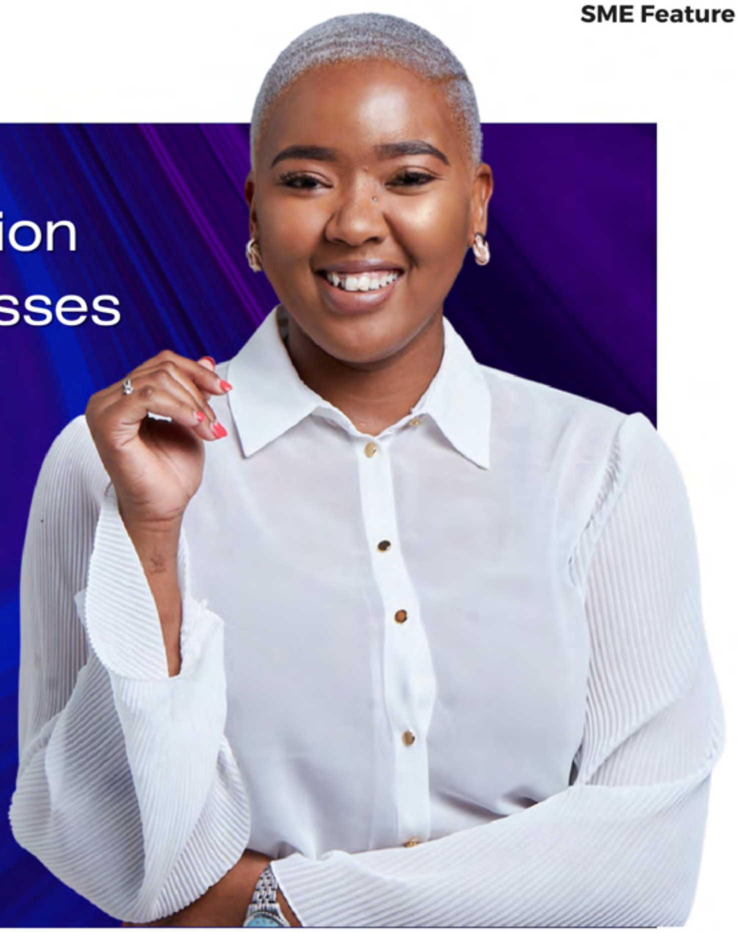
Always find ways to add value - Sometimes, it's okay to ask for a bit more money, especially if you're offering something extra that your customers will love. Whether it's top-notch service, free delivery, or a little freebie, it's all about making your customers feel like they're getting their money's worth.

Build a brand that people love - If you can get customers to love your brand, they're less likely to quibble over prices. Build a brand that speaks to your customers, and they'll stick with you, even if prices go up, and if you must raise your prices, just be honest about why. People appreciate transparency.

Choose turnover over margins - Obsessing over big profit margins can lead to big problems, especially if your customers think you're being greedy. It's better to make a smaller profit but keep your customers coming back, rather than making big once-off profits on each sale but losing any chance of repeat business or customer referrals. In the end, a steady stream of sales over time is what will keep you in business.

In many ways pricing is as much an art as it is a science, and it requires a deep understanding of both the internal and external business environment, a commitment to quality, and a focus on delivering value to your customers. Get it wrong, and your business could quickly find itself in trouble; but get it right and you'll not just be making a steady profit, you'll also be building a business that lasts.

How the Right ERP Solution Empowers Small Businesses to Scale



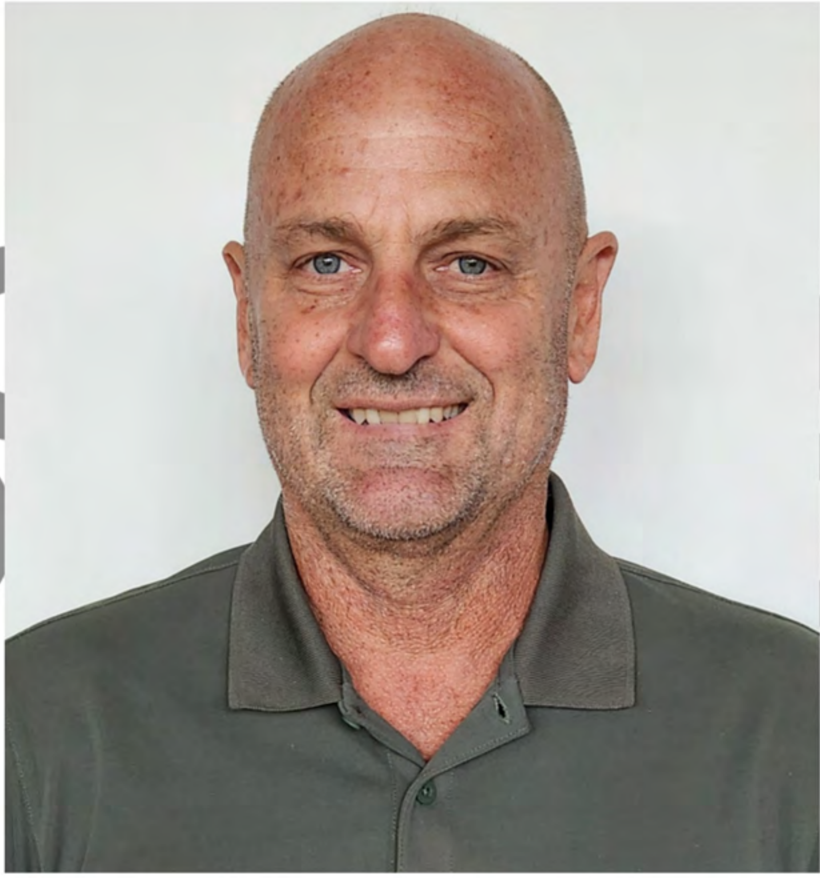
Lihle Bikitsha, Senior Sales Executive, Enterprise Applications at iOCO

A key operational principle reminds us that if there's a gap in operational efficiency that gap will only grow as the business does, leading to more significant losses in the long run. That means businesses should focus on streamlining, perfecting, and automating their processes, closing any gaps before scaling. It makes sense then that many businesses are moving to enterprise resource planning (ERP) systems before scaling. That's because the right ERP system will allow the business to reduce manual processes and drive more efficient operations, reducing wasted time and money. Streamlining and automating accounting and financial operations also reduces the risk of manual errors and frees up time for staff to focus on more value-driving tasks. "The result? Those operational gaps are filled, and the business is put in a better position to scale.

A recent Oracle report confirms the validity of this approach, stating that – despite the misguided and perceived high cost of ERP implementations – astute small businesses are realising that many of today's cloud-based ERP systems are within reach for smaller organisations. What's becoming evident in the market is that both affordability and a faster, phased approach to implementation are driving ERP adoption across the globe. Most small businesses still grapple with two questions: are we ready to scale, and when is the right time to invest in a tool to facilitate that? Of course, as the report confirms, many also deliberate on acquiring a powerful ERP system before the business has grown sufficiently to help pay for such a system.

The reality is that ERP solutions purpose-built for small business use have been tailored to offer maximum bang for their buck – packaged in a wholly comprehensive solution that goes beyond the financial department, encapsulating elements of ERP, accounting, CRM, eCommerce, and Professional Services Automation (PSA) in one package. With the right ERP solution in place, costs are reduced, data is automated and more secure, efficiencies are driven up, productivity gains soar, and true insights into performance, processes, and finances are easily accessible.

What makes ERP so powerful is its ability to integrate business functions and processes across the board from finance to inventory, supply chain management, customer service, and sales. Now, with reliable processes geared for growth, and perfected according to real insights, those operational holes are filled, and the business is ready to expand its operations. The goal of any ambitious company is to prepare operations for consistent innovation, total efficiency, and long-term growth. To achieve this, businesses that don't lean on cost-effective, easy to use, agile business solutions are missing a trick. Why not utilise what's available to your business to scale rapidly and sustainably?



UNLOCKING ECONOMIC POTENTIAL: DIGITAL INSURANCE INNOVATION FOR TOWNSHIP ENTERPRISES

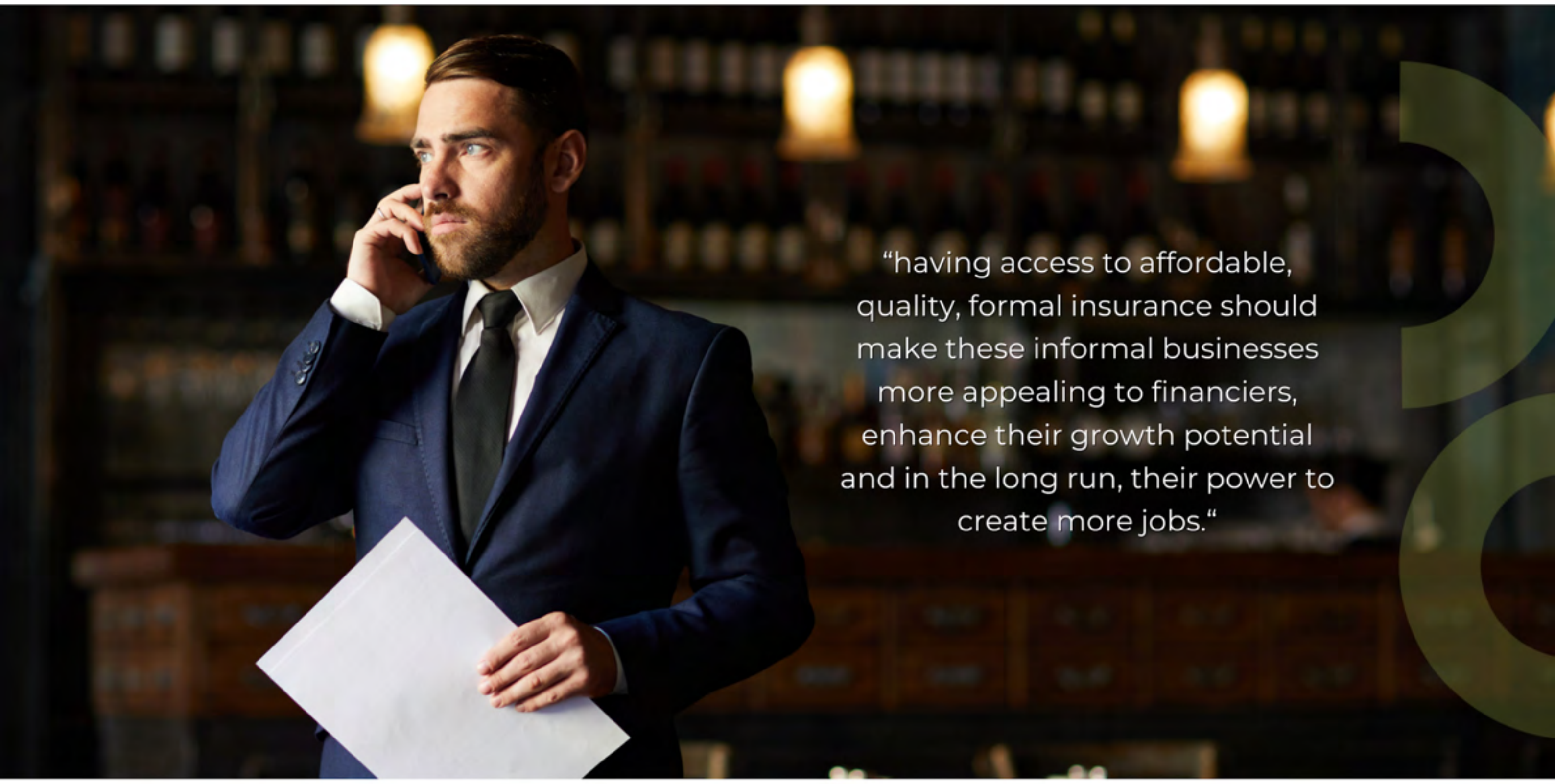
David Gould, CEO at VUM

The Small- Micro- and Medium-sized Enterprise (SMME) sector is an important growth engine for the South African economy. Yet recent statistics from a comprehensive study by the University of the Western Cape revealed that 70%-80% of local small businesses fail within the first five years.

In 2023, Santam – South Africa's largest short-term insurer – launched the country's first ever digital insurance solution tailored specifically for micro township enterprises, priced between R75 and R195 a month, providing these businesses with financial security and recovery in the event of a loss.

Currently, most township businesses do not have the financial means to withstand a loss as they cannot access funding. Financiers have no guarantee that debts will continue to be repaid if something goes wrong (such as a fire or theft occurring), forcing many of these businesses to shut down if a loss occurs.

Santam's innovative entry-level digital insurance solution will provide a safety net for these businesses, which in turn allows them to sustain themselves and their families, in the event of any unforeseen risks or interruptions.



"having access to affordable, quality, formal insurance should make these informal businesses more appealing to financiers, enhance their growth potential and in the long run, their power to create more jobs."

In addition, having access to affordable, quality, formal insurance should make these informal businesses more appealing to financiers, enhance their growth potential and in the long run, their power to create more jobs. The Santam Emerging Business Insurance product offers three cover options at different price points.

The Starter solution is available at a monthly premium of just R75, the Standard option costs R125 per month and the Premium solution is available at R195. All options offer protection for stock and contents (due to fire, explosion, acts of nature, malicious damage and impact of objects), personal accident (the enterprise is compensated in the event of the owner's death or permanent disability) and political riot (F4 SASRIA cover), with the value of cover for each risk increasing relative to the package.

The Standard and Premium cover options also offer cell phone insurance for the business owner's smartphone, which is an essential tool to ensure business continuity for township entrepreneurs who often run their entire operation from their phone. However, the SASRIA cover is perhaps the most important feature of the Santam Emerging Insurance solution. Each package provides up to R500 000 of cover for special risks such as civil commotion, public disorder, strikes, riots and terrorism.

Due to many emerging businesses being in rural or informal residential settings with no formal location – which insurers usually need to provide cover – the MoyaApp has a functionality which is able to pinpoint a person with no fixed or accurate address through an identifiable geo-mapped location finder.

The past year of our partnership with MoyaApp has ensured seamless, data-free access to insurance products, transcending geographical barriers and empowering entrepreneurs in remote or informal settings. This approach not only enhances accessibility but also fosters a culture of financial inclusion, ensuring that no entrepreneur is left behind.

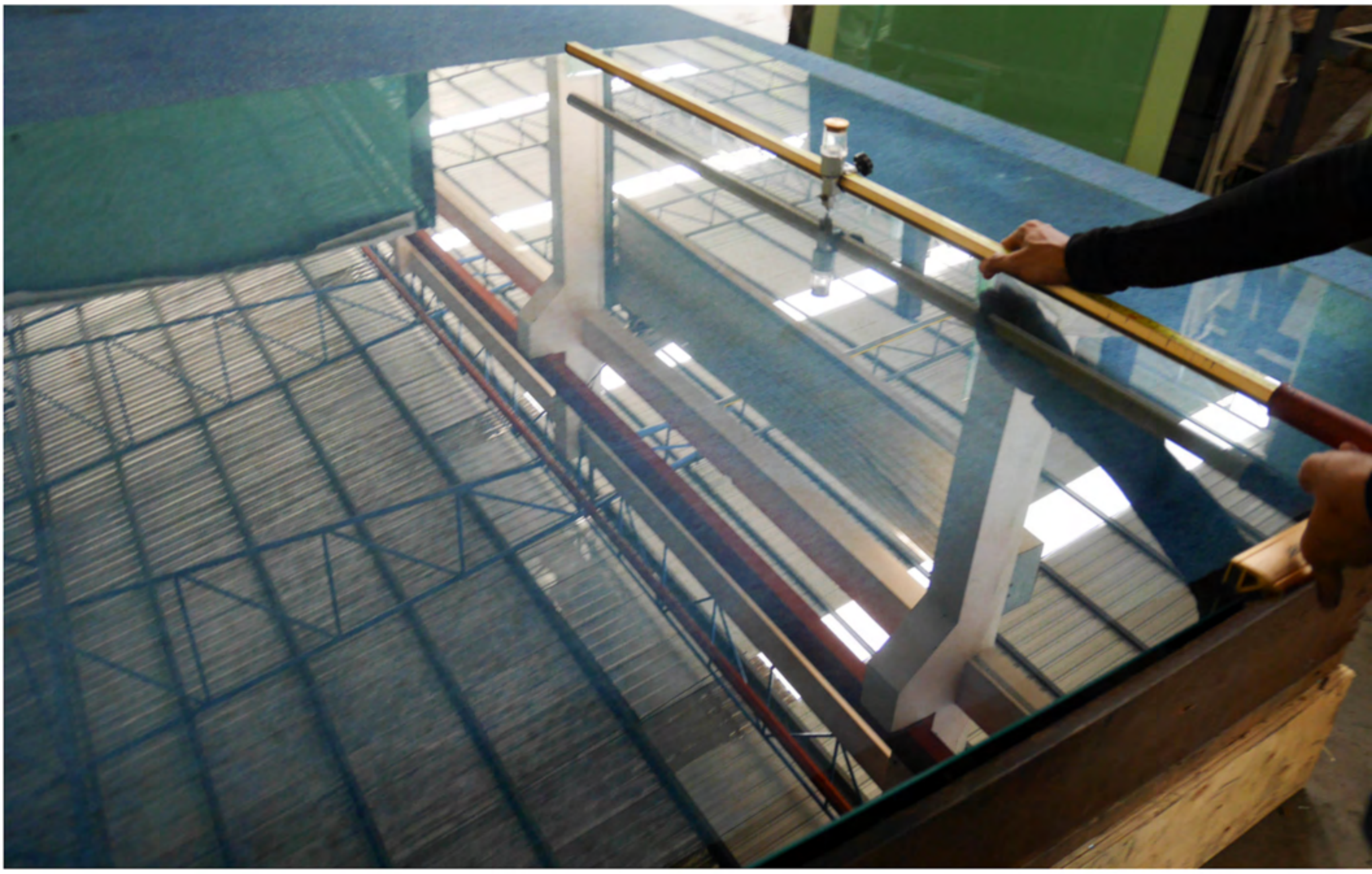
EMPOWERING ENTREPRENEURS THE MY GLASS WAY

In a country grappling with soaring unemployment rates and an urgent need for small business development, initiatives fostering entrepreneurship and job creation are essential.

I had the opportunity to delve into the operational dynamics of 3 My Glass Licensees with Muhammed Moosa, Raulisa Kutuma, and Pieter Lindeque, entrepreneurs who are contributing to the growth of small business and employment. Muhammed, hailing from Lenasia, South Africa, shares his journey into the glass business, dating back to 2012. After gaining valuable experience in the motor trade industry, Muhammed embarked on a quest to establish his entrepreneurial footprint. His vision materialised with the inception of a car care venture, which eventually evolved into a multifaceted enterprise encompassing valeting and smash-and-grab services.

Muhammed's Story

Muhammed set his sights on establishing a glass business, a dream that culminated in the birth of his business venture in 2012. Today, Muhammed's business boasts three teams servicing Johannesburg, South Lenasia, Soweto, and Alberton, with a dedicated staff complement of ten individuals.



Raulisa's Story

Raulisa, with roots in a family-run glass business, inherited a legacy steeped in craftsmanship and entrepreneurial spirit. Drawing from his father's teachings, Raulisa embarked on a mission to revive the family's erstwhile enterprise. His journey led him to My Glass, where he found a nurturing environment conducive to business growth and development. Equipped with invaluable training and support from My Glass, Raulisa's established a successful glass business, driven by a commitment to excellence and customer satisfaction.

Pieter's Story

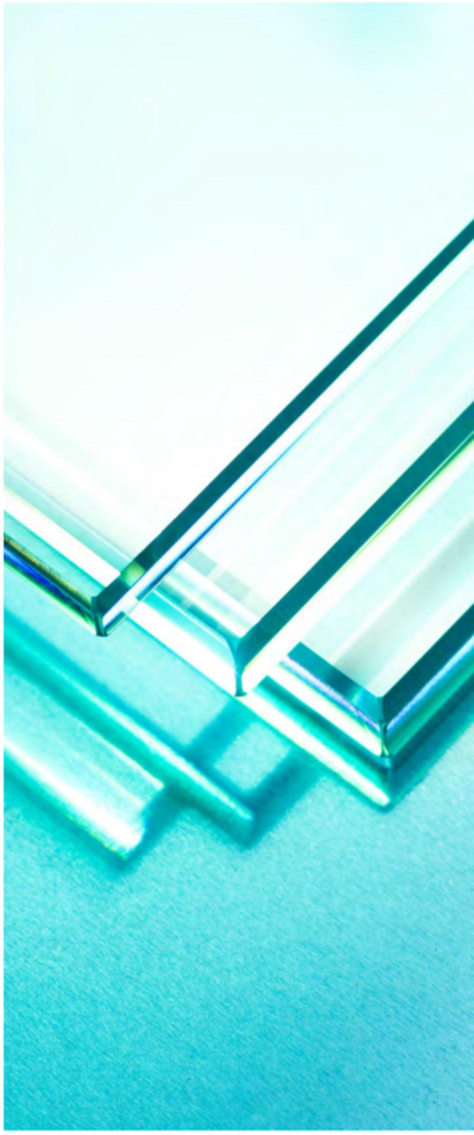
Pieter, a CA by training based in Pretoria, epitomises the quintessential entrepreneur, having honed his skills through years of hands-on experience in the glass industry. His journey commenced with humble beginnings, as he immersed himself in the intricacies of the trade from a young age. With a familial background in the glass business, Pieter's transition from employee to entrepreneur was a natural progression fuelled by a burning passion for the craft. Today, at the helm of his My Glass business, Pieter oversees a team of twenty-two dedicated individuals, leveraging their collective expertise to deliver unparalleled service excellence.

The success stories of Muhammed, Raulisa, and Pieter underscore the transformative impact of My Glass's decentralised business model. Empowered by a sense of ownership and autonomy, these entrepreneurs embody the spirit of innovation and resilience, driving economic growth and employment opportunities within their communities. Central to the success of My Glass teams is the seamless integration of cutting-edge technology and streamlined processes.

Leveraging My Glass's proprietary app-based system, technicians can efficiently manage claims and communicate with clients, thereby enhancing operational efficiency and customer satisfaction. This technological prowess not only facilitates day-to-day operations but also positions My Glass as industry leaders poised for sustained growth and through ongoing innovations. Furthermore, My Glass's commitment to skills development and training underscores its dedication to empowering individuals for long-term career advancement.

Through ongoing training sessions and mentorship programs, employees receive invaluable insights and technical expertise, paving the way for professional growth and upward mobility within the organisation. In the face of economic uncertainties, My Glass strives towards resilience and prosperity, driving economic empowerment and employment growth within their local communities. As Muhammed, Raulisa, and Pieter continue to their enterprises in the automotive glass industry, their entrepreneurial spirit is an example to aspiring entrepreneurs nationwide.

The success of the My Glass teams is an example of the transformative power of entrepreneurship in fostering economic growth and employment opportunities. As these entrepreneurs continue to thrive and expand their businesses, they fuel the spirit of innovation and resilience driving South Africa's economic growth.



EMPOWERING SMMES: THE ROLE OF INSURANCE & ADVICE IN SUSTAINABLE BUSINESS GROWTH

Dr Bongani Mageba, CEO: TIH Advisory

Financial advice is crucial for Small, Medium, and Micro Enterprises (SMMEs), given their contribution to the economy.

Research done by the University of the Western Cape, suggests that around 70% - 80% of SMMEs fail within five years, highlighting the need for resilience and preparedness. But, while entrepreneurs grapple with day-to-day demands, the spectre of unexpected events like accidents, third-party claims, or natural disasters can disrupt progress.

Insurers and advisers must collaborate with SMMEs to provide adequate coverage for commercial and liability risks, including tailored options for sector-specific challenges.

The Changing Insurance Landscape

The business environment constantly evolves, bringing new and intricate risks and changes in insurance products. While innovations like cyber insurance offer benefits to an insured, reductions in coverage like Contingent Business Interruption (CBI) cover and communicable diseases exclusions can negatively impact insured parties. Advisers need a comprehensive understanding and appreciation of SMMEs and the exposures they face, along with an understanding of the risk management products and extensions available.

Familiarity with clients' business activities is essential for advisers to identify exposures and recommend appropriate risk transfer solutions.

Knowing the client

Understanding clients involves thorough assessments of their operations, including site visits to identify exposures firsthand. Assessments should be conducted regularly as businesses evolve. Advisers must stay informed about new activities introduced by the business and anticipate potential risks.

During tough economic times, business owners often weigh the probability of an event against the cost of insurance. Advisers should provide hypothetical claim scenarios tailored to the specific business type. Additionally, advisers should help SMMEs assess their exposure by quantifying factors like daily foot traffic, production volume, and service interactions. Finally, advisers should discuss the financial implications of potential claims and the business's ability to defend against them.

Business Descriptions

When declaring a client's business description advisers need to ensure that it is as comprehensive as possible. Discontinued activities and new ventures must be updated regularly, to prevent delays in claims processing.

Product Knowledge

Larger broking houses have specialist divisions that place specialist cover. But for smaller practices, having an individual adviser who is an expert on all lines of business is extremely rare. To mitigate this, advisers should take advantage of Continuing Professional Development (CPD) training on products and topics provided by the insurance ecosystem as well as consultations with specialists at Insurers. The risk of not having a full appreciation of the cover available usually results in either inadequate cover or being overinsured, which is detrimental to the client.

Products available

Commercial insurance covers the most common risks such as business interruption, public liability and machinery breakdown. However, certain industries might need tailored cover, such as motor-only policies for ride-share businesses; specialised hospitality products aimed at those in the tourism industry, and tailored cover for residential body corporates which includes cover for gate motors and public and trustee's liability.

Specialist Liability cover is an important part of any business's insurance portfolio as liability claims have the potential to cripple a business, even if liability would simply need to be legally defended. Liability products can be tailored to specific industries, such as events liability which is required by law when staging an event.

Additional value

Due to the unique features of SMMEs, it is also important to support them outside of the insurance parameter. Additional value in the form of access to other services is included by some insurers, such as digital marketing-, IT support- and ride-sharing services.

In conclusion

Understanding the unique needs of SMMEs allows advisers and insurers to provide targeted solutions, from risk assessments to crafting bespoke insurance portfolios. By supporting SMMEs, advisers contribute to their sustainability and become trusted partners in their journey.

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SHORT TERM

ARTICLES

“As societies & economies face a rapidly evolving risk, regulatory & economic landscape, the insurance sector is seeing a significant shift in the demand for niche insurance solutions.”

- CORNEL SCHOEMAN, CHIEF OPERATING OFFICER OF GENRIC

Herman Scheepers, CEO of Renasa

A NEW ERA FOR INSURANCE BROKERS OUTLOOK 2024

As we step into 2024, the insurance industry finds itself at a crossroads, grappling with the challenges posed by inflation, economic stagnation, and the ever-increasing pressure on claims costs. In a recent conversation with Herman Scheepers, CEO of Renasa, I gained valuable insights into the company's journey through 2023 and the transformative impact of joining the TIH family.

Reflecting on the past year, Herman Scheepers acknowledged the industry-wide challenges, emphasising the struggle to increase premium volume amidst rising costs. However, Renasa's integration into the TIH family stands out as a pivotal moment that has laid the groundwork for operating in a different league.

Herman highlighted the internal changes within Renasa and their commitment to solidifying relationships with brokers, ensuring that business processes and product offerings are not only maintained but improved. A catalyst for change, the merger with TIH has already borne fruit in the form of several initiatives aimed at positively impacting brokers in the market.

Herman shed light on the procurement front, detailing the benefits of leveraging TIH group initiatives. However, beyond technical abilities, Renasa has prioritized reinforcing trust relationships with brokers, focusing on providing accessible, efficient, and empowered individuals for day-to-day interactions. The conversation delved into the strengths Renasa gains from being part of the TIH group, particularly the upgraded A rating from GCR (Global Credit Rating) and the financial stability provided by the larger entity. This stability translates into peace of mind for brokers, assuring them of a consistent and stable environment, free from the capital constraints that so often hamper growth in the industry.

With increased financial strength, Renasa can offer larger capacities to broker partners, venture into wider product offerings, and position itself for growth. Herman emphasised the company's readiness to assist portfolios in the market, backed by robust capital support. The dialogue then shifted towards the evolving landscape of technology in the insurance industry. While Herman underscored Renasa's commitment to high-touch personal service, he also acknowledged the significance of technology. Renasa has invested heavily in technology over the years, aiming to provide brokers with tools to outcompete their rivals.

Herman revealed ongoing work on enhancing the web-based claims systems, with a focus on speeding up the claims process and improving efficiency in 2024. Addressing day-to-day business focus areas, he disclosed Renasa's plans for a greater geographical presence. In contrast to the industry trend of centralisation, Renasa seeks to establish local presence and understanding, acknowledging the value of a personal touch. Initiatives are underway to staff up in geographical areas where Renasa traditionally lacked a physical presence, reinforcing their commitment to personal service.

As the interview concluded, Herman painted a positive outlook for Renasa in 2024. The company stands at its strongest position ever, poised for significant growth. With a focus on cementing existing relationships and building new ones, Renasa aims to be the broker's even better best friend in the coming year. In the dynamic landscape of the insurance industry, Renasa's strategic initiatives, technological advancements, and commitment to personal service position it as a force to be reckoned with in 2024.

Brokers can anticipate a year of stability, growth, and enhanced collaboration with Renasa as the company continues to evolve and adapt to the ever-changing demands of the market.

TOP TRENDS SHAPING THE NICHE INSURANCE SECTOR IN 2024

Cornel Schoeman, COO of GENRIC Insurance Company Limited (GENRIC)

As societies and economies face a rapidly evolving risk, regulatory and economic landscape, the insurance sector is seeing a significant shift in the demand for niche insurance solutions, as well as how end-users are approaching risk management. Gig-economy workforces, hybrid work models, tougher economic conditions, higher interest rates and inflation, and pressured household budgets are having a profound impact in terms of how consumers approach their risk management, with their changing needs and financial circumstances demanding greater innovation and flexibility in insurance solutions. GENRIC Insurance Company unpacks what the key trends and drivers are, and how niche insurance solutions are increasingly in demand as consumers become far more granular in their demands, and want the certainty that what they value most is protected.

Consider the following drivers behind the take-up and demand for niche insurance solutions:

- **Technology is opening new underserved insurance markets -** Spatial mapping technology and IoT devices are enabling the creation of new insurance solutions for customers whose property and assets were previously 'uninsurable' – notably informal housing and businesses built outside of traditional building frameworks.

- **Usage-based Insurance (UBI) -** With the help of telematics and IoT devices, insurers are implementing usage-based insurance models to meet changing consumer behaviour. This approach involves determining premiums based on the actual usage or behaviour of the insured, leading to more personalised and potentially lower-cost insurance – for example, mileage-based motor insurance. Innovation in this space gives customers greater control and transparency of their insurance cover, when they need it.

- **Cyber Insurance:** With the increasing frequency and severity of cyber threats, there is growing demand for cyber insurance coverage in the individual space. As eCommerce and reliance on digital and mobile banking and transactional platforms grows, cyber or online risks have soared. Personal cyber risk insurance is now as important as home, vehicle and life insurance in your personal financial planning portfolio.

- **Gap insurance becomes indispensable as healthcare costs rocket -** The steep uptake in gap cover is not unwarranted as recent mega claims paid by Sirago Underwriting Managers show massive shortfalls upwards of R40k for in-hospital treatment not covered by medical schemes. In many instances gap cover is paying more than what the medical schemes are paying to doctors for in-hospital treatment, with specialist doctor and hospital fees now running levels many times more than the rate at which medical schemes reimburse. Even if you're on a medical scheme benefit option that pays at 200% of tariff, it may very well not be enough. There is marked growth in take-up of gap cover by medical scheme members looking to protect themselves against the risk of onerous financial shortfalls on in-hospital treatment and procedures - notably as the buy-down on medical scheme options to core benefits continues as consumers face mounting affordability challenges.

- **Focus shifts to primary health insurance coverage -** As medical scheme membership and private healthcare remains unaffordable for a huge swathe of the population, insurance companies have stepped in to offer more flexible and affordable coverage options, especially in the primary healthcare space. Customisable primary health insurance plans with add-on benefits such as maternity and accident and emergency cover benefits, and family-specific benefits that offer unlimited GP visits especially those with younger children, are in high demand.

- **Growth in emergency medical support as an insured solution -** GENRIC is seeing significant demand for emergency medical support and evacuation insurance from the likes of cycling, hiking and running clubs where participants are at high risk of being involved in road accidents and even falling victim to crime. Similarly, employer groups in heavy industry, trucking, transport, logistics and so on are using this solution to protect employees who are at higher risk for accidents, hijackings and armed robberies. A medical evacuation insurance product is one of the solutions in providing a safe working environment for employees in high risk sectors, especially where an employee may not have underlying health insurance coverage to pick up these costs.

- **Mechanical Warranty and Service and Maintenance Insurance in demand as cars are driven for longer –** South Africans are driving their vehicles for longer and delaying new vehicle purchases, which increases the risk of 'out of manufacturer warranty' breakdowns as well as the expiry of manufacturer service plans. Savvy vehicle owners are taking up Mechanical Warranty Insurance which covers the repair of an insured vehicle due to mechanical failures or breakdown once it falls outside of its factory warranty period. Similarly, demand for Service and Maintenance Insurance is also on the up - instead of having to pay for the vehicle service in one large lump sum, especially in the case of a major service. As affordability pressures mount, vehicle owners are looking to spread their servicing costs versus paying a large lump sum of a few thousand Rand which they may not have.

- **Rental Insurance -** Owning and managing rental properties comes with risks, and one of the most significant is the potential for tenants to default on their rent payments. To safeguard their financial well-being and protect their property income, landlords and managing agents are turning to rental insurance designed to mitigate the risks associated with defaulting tenants. Rental insurance protects the landlord for loss of rental income due to non-payment by the tenant (up to three months), as well as for the costs (up to a specified limit) for eviction costs and legal support, should this become necessary.

- **Pet Insurance -** An analysis of pet insurance claims by GENRIC shows that the average claims costs for veterinary treatment is on the rise, with mega claims for bills upwards of R15k increasingly common – putting the cost of veterinary care in the realm of private healthcare for people. Pet owners are taking up insurance solutions that take care of their pet's healthcare needs - in much the same way as people rely on medical insurance in a health crisis. The uptake of pet insurance has seen sharp growth, notably where people have multiple pets and where veterinary expenses, even for routine care, can quickly ratchet up to very substantial amounts.

Another key driver of insurance product and distribution development is the entrance of tech-savvy Gen-Z consumers entering the insurance market, which is having a profound influence on the type of insurance products in demand, as well as how they purchase them. While older generations preferred broker and advice-led insurance, millennial and Gen Z consumers want instant information and gratification that comes from digital fulfilment, which in turn demands simpler insurance product design.

This is driving opportunities for Insurtech companies to help fill the gap. However, while Insurtech companies may have the tech covered, many have limited experience in meeting the onerous compliance and regulatory requirements, nor the financial muscle to manage the solvency requirements of operating an insurance licence. This has seen a move whereby established insurance companies are working closely with tech partners to help bridge the divide between insurance, advice and distribution.

We expect to see more innovation in how insurance products are designed, underwritten and brought to market, and more simplified insurance product design, including event-specific insurance solutions that can be purchased and fulfilled online without onerous underwriting.

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New initiative to overlay climate-data with claims-data

Ronald Richman, Chief Actuary at Old Mutual Insure

It's getting harder to insure your home against climate risk. A new project hopes to change this. An innovative new approach to capturing climate change data with the insurance policy experience is helping insurers to close the gap between the prediction and pricing of weather-related risks. The new project, spearheaded by Old Mutual Insure, is the result of multi-disciplinary work with meteorologists, actuaries, and data scientists.

The work we are doing allows us to join massive climate datasets with claims data in the South African context. This means we can make better forecasts of insurance experiences, which will ultimately benefit the policyholder as we will be able to charge for weather-related risks at the right premium, as well as help policyholders better understand and manage their risks.

The rapid change in the risk environment around climate change and catastrophic events means that insurers have been struggling with several challenges when it comes to physical risk modelling around flood, wildfire, hail, and rising sea levels, amongst others. This has been especially difficult in South Africa, which has traditionally been a low or "no" catastrophe zone, leading to an underdevelopment of models and analytics for the SA market. This has been compounded by changes in the environment due to climate change.

Traditionally, these risks have been handled with catastrophe modelling where macro simulation models are run to find out the impact of these events on insurance portfolios. However, there is no set of standardised models for some of the most important weather-related risks in South Africa, presenting challenges. Another complexity is how to reconcile the outlook on climate change, which is expected to manifest over the long-term of 10 or 15 years or more, with the traditional one-year period that insurers use when pricing risk or calculating regulatory capital needs.

There are also many differences when it comes to regions, so changes are not happening in a homogenous way. This makes it even more complex. Reinsurers are also not particularly happy with South Africa, after mounting industry losses in the past few years. This together, with the increased cost of footing the bill for catastrophic events, is presenting a significant challenge to the ability of the insurance industry to provide the relatively cheap insurance products consumers are used to.

According to Old Mutual Insure data, the frequency of severe weather events has increased from 6 to 36 per decade since 2012. Across the world we are seeing the trend of insurers leaving areas that are presenting too many risks, and the price has become too expensive, for example in California and Florida.

We are only a few catastrophic events away from insurers declaring some areas in South Africa uninsurable. This is why the need for data projects with innovative solutions is critically important. To move beyond traditional modelling solutions, actuaries from Old Mutual Insure have recently presented on a micro approach to managing catastrophe risks at the Actuarial Society of South Africa's 2023 annual convention.

The micro approach to managing risk is concerned with a much more granular view of how weather-related risk factors impact insurance experiences, which is the primary concern of the project Old Mutual Insure is spearheading. The aim of the project is to link climate data directly to the insurer's pricing to quantify the effect of climate change.

It does this by incorporating highly granular precipitation data, curated by meteorologists, into traditional short-term insurance pricing datasets. It then fits statistical and machine learning models to observe the predictive value of this addition and then quantifies the potential impact of using future predicted precipitation levels in rating processes.

The project aims to quantify the impact of increased precipitation (driven by climate change and the La Niña weather phenomenon) on insurance risk. The company has partnered with researchers from the University of the Witwatersrand, University of Pretoria and ETH Zürich on this groundbreaking piece of work.

The project shows that new micro level datasets can enhance the accuracy of actual predictive modelling and that partnerships are essential in tackling these complex challenges in an innovative way. By more accurately being able to price risks arising from weather events, insurers can establish actuarially fair rates that can ensure the stability and longer-term health of insurance markets.

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PIONEERING FLEET INSURANCE THROUGH COLLABORATION AND INNOVATION

I recently asked Grant Cross, Director at Motor Acceptances to share insights into the company's remarkable journey spanning over two decades.

Founded in April 2000, Motor Acceptances carved its niche in the competitive landscape of the motor fleet insurance industry. In an insightful interview, Grant delves into the origins of the company, its enduring partnerships, and the evolving challenges faced by the sector. Grant's foray into the insurance industry was shaped by the mentorship of industry stalwarts Nash Omar and Abdul Ebrahim. Drawing inspiration from their expertise, Grant embarked on a journey that would culminate in the establishment of Motor Acceptances. With steadfast support from corporate brokers, the company flourished, evolving into a trusted name synonymous with reliability and integrity.

Reflecting on the early days, Grant talks about the modest beginnings of Motor Acceptances, with a lean team comprising himself and Linda Rossouw. Despite the initial challenges, their unwavering commitment to excellence laid the groundwork for the company's enduring success. Today, with a dedicated staff complement of 13 individuals, Motor Acceptances continues to uphold its legacy of exceptional service delivery. Central to Motor Acceptances' ethos is its unwavering focus on fleet insurance—a domain in which the company has garnered widespread acclaim.

Grant sheds light on the dynamic nature of the industry, characterized by ever-evolving challenges and shifting market trends. One such challenge, he notes, is the perennial issue of road safety, exacerbated by the deteriorating condition of infrastructure and escalating incidents of reckless driving. However, the most pressing concern confronting fleet insurers is the alarming rise in vehicle thefts and hijackings—a trend that has profound implications for insurance premiums and client satisfaction. Grant expands on the proactive measures adopted by Motor Acceptances to mitigate this risk, including the recommendation of multiple tracking devices for high-value vehicles. By leveraging technology and strategic partnerships, the company aims to enhance recovery rates and minimise financial losses for its clients.

Grant Cross, Director at Motor Acceptances

In navigating these challenges, collaboration emerges as a cornerstone of Motor Acceptances' approach. Grant emphasises the importance of open dialogue with brokers and clients, fostering a culture of mutual trust and cooperation. By aligning interests and sharing insights, all stakeholders can work together to identify innovative solutions that strike a balance between cost-effectiveness and comprehensive coverage.

The conversation delves deeper into the intricacies of risk management and client engagement within the fleet insurance landscape. Grant underscores the role of brokers as trusted advisors, instrumental in guiding clients through the complexities of insurance procurement and claims management. Through proactive communication and tailored solutions, Motor Acceptances endeavours to empower brokers and clients alike, ensuring their long-term success and peace of mind.

As the interview draws to a close, Grant extends his heartfelt gratitude to the brokers who have been instrumental in Motor Acceptances' journey. Their unwavering support and collaborative spirit have been pivotal in shaping the company's trajectory and cementing its position as a leader in the field of fleet insurance. Looking ahead, Grant remains optimistic about the future, buoyed by the resilience and adaptability of Motor Acceptances in the face of evolving challenges. With a steadfast commitment to innovation, collaboration, and client-centricity, the company is poised to continue its legacy of excellence for years to come.

However, the most pressing issue confronting fleet insurance providers is the surge in vehicle thefts and hijackings. Grant highlights the alarming rise in such incidents and the impact they have on insurance premiums. To mitigate this risk, insurers are now recommending multiple tracking devices for high-value vehicles, aiming to improve recovery rates and minimise losses. Motor Acceptances adopts a collaborative approach in addressing these challenges. Grant emphasises the importance of open communication with brokers and clients, ensuring that all parties are aligned in their efforts to manage risks effectively. By working together, they strive to find practical solutions that balance cost-effectiveness with comprehensive coverage.

The interview underscores the crucial role of collaboration in the insurance industry's response to emerging threats and he acknowledges the efforts of brokers who have supported Motor Acceptances throughout its journey, emphasising the collective responsibility in safeguarding against losses due to theft and accidents. Looking ahead, Grant remains optimistic about the future, despite the challenges posed by escalating crime rates and shifting market dynamics. With a focus on innovation and collaboration, Motor Acceptances is well-positioned to navigate the evolving landscape of fleet insurance, delivering value-driven solutions to its clients.

AN IN-DEPTH LOOK AT THE BALTIMORE BRIDGE COLLAPSE

Examining the Safety of Commercial Shipping and Implications for Supply Chains

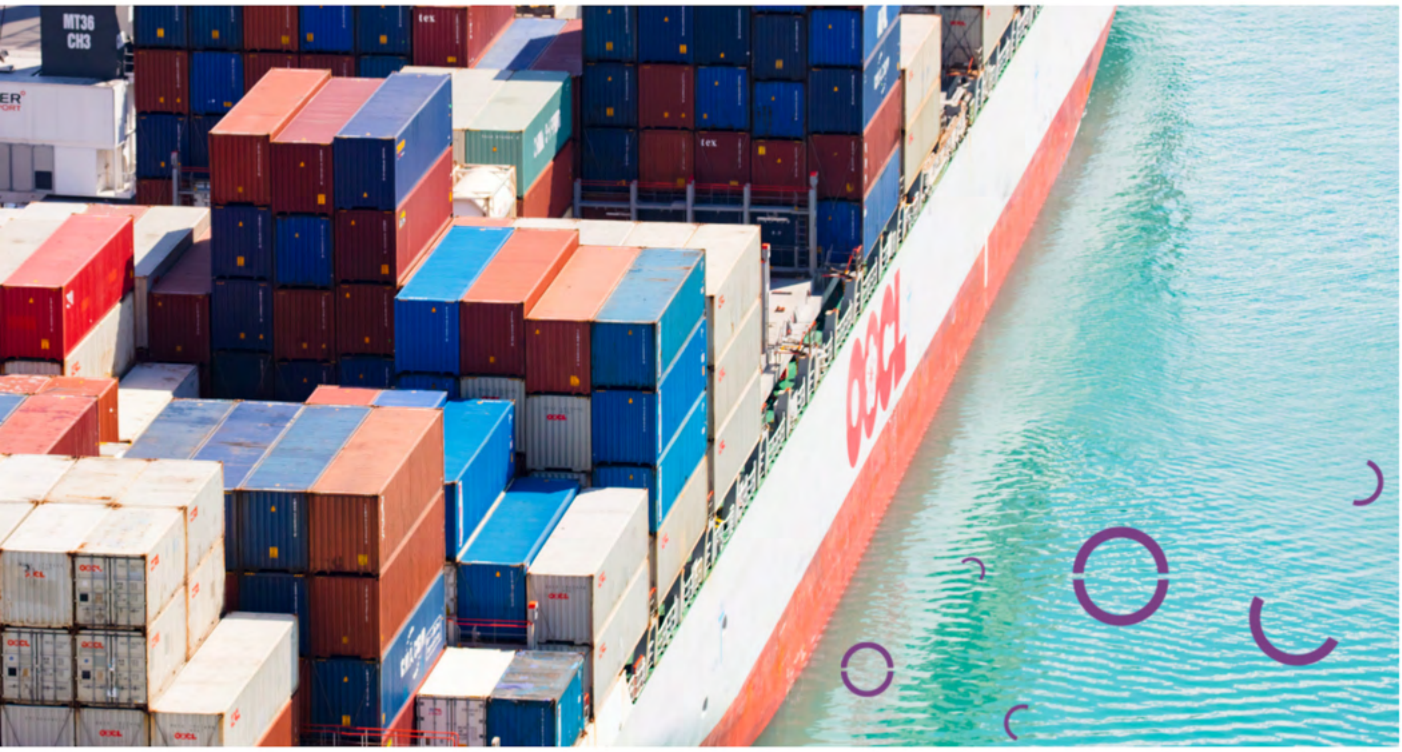
The tragic collapse of Baltimore's Francis Scott Key Bridge in the US after it was hit by a container ship, the Dali, has made headlines around the world. In this Q&A, Allianz Commercial Global Head of Marine Risk Consulting, Captain Rahul Khanna, who sailed on oil tankers and bulk carriers for 14 years, explains that while such incidents are thankfully rare, the fact that ships are getting bigger can make a number of different events more complicated when they do occur.

How often do events such as ships hitting bridges and other port infrastructure occur?

First and foremost, this event is obviously a human tragedy, and our sympathies are with those who lost their lives or have been impacted by it. Thankfully, such incidents of this magnitude are rare. One study shows that between 1960 and 2015, there were just 35 major bridge collapses worldwide involving incidents with ships or barges with a total loss of life of 342 people. It is important to note that the majority of accidents involving vessels and bridges cause damage that varies from minor to significant but does not necessarily result in collapse of the structure or loss of life. Our annual Safety & Shipping Review, which highlights the latest trends impacting maritime safety, shows there were close to 2,000 reported incidents of vessels hitting port infrastructure (also including harbor walls, piers, quays, locks etc.) over the past decade around the world (1,980 between 2013 and 2022[1]), making it the fourth most frequent cause of more than 27,000 shipping incidents reported during this period (but accounting for just 7% of all incidents). Only around 200 of these (203) involved container ships.

After this tragedy, how safe would you say commercial shipping is?

The shipping industry has made significant improvements when it comes to maritime safety over the past decade. Thirty years ago, the global fleet was losing 200+ vessels a year. At the end of 2022 fewer than 40 losses were reported. Annual shipping losses have declined by 65% over the past decade, reflecting the positive effect of an increased focus on safety measures over time. Total losses of vessels following collision incidents with other vessels and contact with port infrastructure are thankfully rare. Over the past decade (across all vessel types) there have been just 30 total losses from collision incidents (with other vessels) and just four from contact incidents (with port infrastructure). Collectively these account for just 4% of the total number of vessels lost overall (807 reported between 2013 and end of 2022). Nevertheless, while total losses have declined, the number of shipping incidents reported around the world overall every year has remained consistent. There were 3,032 during 2022 compared to 3,000 a year earlier.



Container ships in particular have grown significantly in recent decades as owners have looked to reduce costs, lower emissions, and maximize capacity. What impact is this having on safety?

Container ship capacity has grown in size by around 1,500% in the last 50 years (see infographic) but it is important to note that the Dali isn't anywhere near as large as the biggest vessels now hauling goods around the world. For example, the Ever Given, which blocked the Suez Canal for a week in March 2021, can carry more than 20,000 containers if full. The Dali can carry around 10,000 (although it was carrying less than half this amount when it hit the bridge). Nevertheless, it is still almost 1,000 feet long, the length of three football fields.

Ships of the Dali's size require careful consideration when navigating in restricted waters, especially when it comes to stopping distance. Back in the 1970s when the Francis Scott Key Bridge was built, container ships would have been less than half its size, probably even a lot less. Ultimately, larger ships are not resulting in a higher frequency of accidents but when something does go wrong, the scale of the damage is likely to be much more severe because of their size and the fact that surrounding civil infrastructure did not anticipate such behemoths.

What are some of the typical risks associated with larger vessels?

While the number of serious shipping accidents worldwide has declined over the long-term, incidents involving large vessels – namely container ships and roll-on roll-off (Ro-ro) car carriers – are resulting in disproportionately high losses from events such as fires, container and carrier losses, hazardous cargo, more complex salvage operations and expensive repair costs, and issues with ports of refuge. Recent events include fires on board the car carriers Fremantle Highway, Felicity Ace, and container ship X-Press Pearl.

In 2022, the large container ship Ever Forward ran aground in Chesapeake Bay on the US Eastern Seaboard, and was stuck for over a month, almost a year to the day after its sister vessel the Ever Given ran aground and blocked the Suez Canal. Across the industry, there are ongoing discussions about whether infrastructure and regulation have kept pace with increasing vessel sizes.

What are some of the potential implications of this incident for supply chains and the insurance industry?

At this stage it is still too early to tell with any certainty. The collapse of the bridge led to the suspension of vessel traffic at the Port of Baltimore, which is one of the largest US ports but is smaller than the nation's largest container terminals. However, it is a major component of the supply chain for vehicles, serving as the key discharge port for cars and trucks arriving from factories in Europe and Asia. It is also a significant embarkation point for exports of American coal. Many of those goods could be delayed in reaching their ultimate destinations, forcing shippers to make alternative plans, and limiting inventory.

More broadly, the bridge collapse highlights the growing challenges for businesses involved in global supply chains and their interconnectivity. Many are already contending with the loss of access to the Suez Canal in the Red Sea due to the Houthi attacks on merchant shipping that have followed the war in Gaza, and longer waiting times at the Panama Canal as a result of a prolonged drought that have impeded operations. About 90% of international trade is transported across oceans, so in an age of interconnection problems in one spot can quickly be felt more widely.

Assessing the impact and final cost of such a complex loss event in its immediate aftermath would just be speculation. Outside of the implications from any tragic loss of life, however, insured losses could include a wide range of claims such as property damage, business interruption from the port closure, debris removal, cargo loss and clean-up, and damage to the vessel. Initially, it is expected that most claims will be directed towards the marine insurance market, particularly Protection & Indemnity (P&I) insurance, which covers third-party property damage and liability, as well as hull insurance for physical damage to the vessel, and cargo insurance claims.

[1] Reported incidents involving vessels over 100 gross tonnage only (GT)

RISK

MANAGEMENT ARTICLES

"In the intricate practice of risk management, a perplexing paradox unfolds where organisations engage in risk management practices that replicate their previous risk strategies, and still expect a different or improved outcome."

- CRAIG KENT, HEAD OF RISK CONSULTING AT AON SOUTH AFRICA

BETTER RISK MANAGEMENT PROFILING THROUGH STORYTELLING

Craig Kent, head of risk consulting at Aon South Africa.

In the intricate practice of risk management, a perplexing paradox unfolds where organisations engage in risk management practices that replicate their previous risk strategies, and still expect a different or improved outcome.Sometimes the cost of consequences is left to chance, perpetuating an 'ostrich effect' where it's hoped that somehow cutting costs on essential risk management principles will yield viable savings. The perennial truth is that cutting costs on risk management will inevitably prove more costly in the long run, sometimes devastatingly so.

In risk transfer or insurance, insurance premiums contribute towards a large portion of the overall risk management costs, making it essential for organisations to manage their premium pay-aways efficiently. Unfortunately sacrificing good risk management practices, compromises the desired results due to the risk taker's lowered perception of the organisation's risk maturity. Instead of cutting back, the emphasis should move towards crafting a positive narrative, and better articulating and demonstrating your efficient risk management story to the insurer, to achieve the desired risk transfer results.

To script a different outcome, a better story must be told, requiring a novel approach and inputs that demonstrate how, rather than by simply paying higher premiums, organisations can apply their risk spending more efficiently across their Total Cost of Risk (TCoR).

Back to Basics: The basis on which insurance premiums are determined

In essence, insurers find efficiencies based on the law of large numbers with diminishing returns. In other words, the greater the pool of a class of risk, the greater the event data and the greater the chances of the particular risk being underwritten correctly. As a result, terms and rates are driven by risk and data profiling. Insurers have access to a great deal of data ranging from the average cost of buildings through to the average value of contents, the building and contents age, average claims per class and average loss limits, providing the underwriter with the means to write certain classes of business according to predicted rates and capacity limits. But it also means that your risks are getting rated based on everyone else's data which means that you end up with an average policy, with average rates and average terms, if average cover is available.

None of this is based on your unique risk profile and accompanying risk management story and practices. Effective risk management allows the organisation to adopt and follow a resilient and resourceful risk management program that is continual in nature, and flexible in practice. It optimises the organisation's response to changing market conditions to achieve business risk management objectives efficiently, and to remain resilient in the face of evolving risks. The result is that your business – with the aid of your insurance broker and risk advisor - can provide accurate chapters of your business story to influence positive risk profiling outcomes – both internally on your retentions, and externally with your risk transfer model.

The difference that a risk manager can make

Your broker supports your business in telling your risk profile story to the insurer. However, they are limited to the information that is provided and function more effectively when the specialist risk manager of your broker is given the tools, funds and mandate through an integrated risk program to assist in shaping a different positive narrative of your business risks and its mitigation. It allows your business exco and the board to make better informed decisions that can be worked into your business risk program before going to market.

This enables your broker and risk manager to put a strategy and actions in place that tell a story of resilient and flexible risk planning that delivers improved and efficient risk management results. It is this risk management storytelling that is imperative for considered results, specifically in the insurance market where rather uniquely, the buyer (your business) has to sell itself to the seller (the insurer). The buyer's profile (your risk story) determines the price and principles that the sellers (the insurer) is prepared to entertain.

A practical application of risk management storytelling

Much like estate agents and marketing gurus who have been practicing and preaching staging their wares for centuries, presenting business risks to the markets should arguably follow the same concept, save that, clear and full disclosure of the risks that threaten their business be presented based on facts, applying the risk mitigation strategies to paint the positive picture, to achieve the best results.

Some examples:

- One could declare having sprinkler systems in all high-value and high-fire load facilities, in addition to adding records of six-monthly independent sprinkler inspections supporting the declaration and any corrective actions effected.
- A business could declare they have Business Continuity Plans (BCP) and support the suitability of it by providing a recent report of a gap analysis by an independent specialist, plus any supporting corrective actions taken.
- The operational and strategic risk measures that a board have in place, makes it more palatable for the business to voluntary take on more risk through increased deductibles and finding alternate risk transfer mechanisms to protect the higher deductibles, resulting in a reduced total premium pay away.

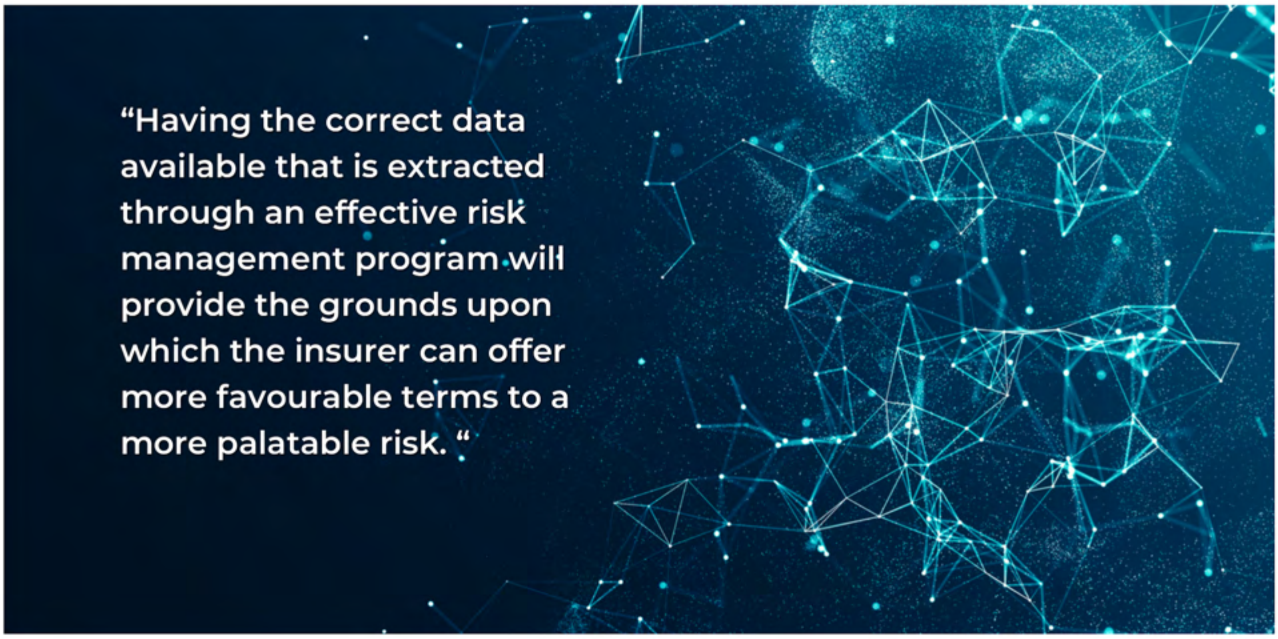
The same concept applies to how your business shapes its risk management process, the decisions the board makes as well as how your broker presents the risks you choose to transfer, which ultimately determines how that risk profile is interpreted by the insurance market. The value of having comprehensive BCPs would be determined during this process, as would the value of having sprinkler protection and the need to allocate funds to pay for these interventions, in order to tell a better story.

Placement playbook example:

- A client secures property insurance at a premium of R25m per annum including broker's commission at R5m to provide insurers with all relevant details to ensure a good placement (approved by the FSCA).
- The client negotiates a fixed fee with their broker at R1.5m, such that the balance of the R5m broker's commission is rebated to the client, effectively saving the client R3.5m.
- Let's add: Rate increase trends in the last five years at 10% per annum with a claims trend above 60% of the Nett premium into the mix, but the client's declarations stay flat for five years.
- Mid-term into the five years, the client experiences a serious event that results in a R40m claim, which pushes the claims ratios across the five years to 120%.
- At renewal, the insurer applies a 20% rate adjustment and imposes a deductible of R5m for each claim (up from R1m in the previous period), wiping out the initial R3.5m saving and adding new exposure to the company's balance sheet due to the higher deductible.

Basic insurance principles apply. If the business is asking the insurer to accept R1 for a R1k risk exposure relief, they will need significant data as well as a significant book for that class of risk to accept R1 (as explained previously on the basis on which insurance premiums are determined). Now what if we wanted that to be R1 for R5k of our risk exposure, or even R1 for R15k of our risk exposure? Is it possible?

The answer is: Absolutely anything is possible, subject to being able to tell a better story to the underwriters, to prove the risk of R15k is worth a risk premium of just R1, based on evidence of the risk being better managed than the average. This then goes beyond what general data and the claims trend may suggest. The buyer needs to be more attractive to the seller if the buyer hopes to negotiate the seller's offer. Having the correct data available that is extracted through an effective risk management program will provide the grounds upon which the insurer can offer more favourable terms to a more palatable risk.



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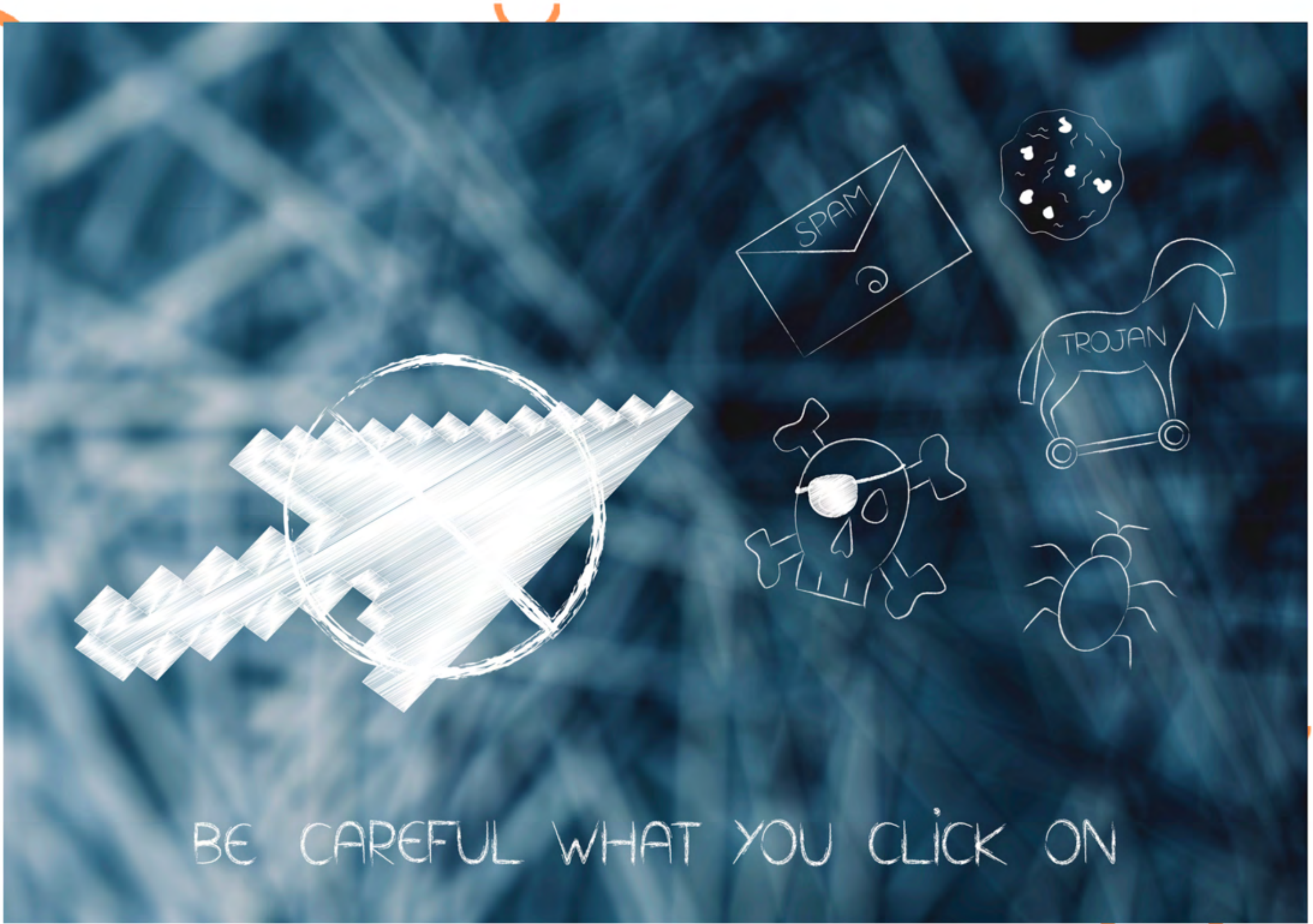
BUSINESS INTERRUPTION AND CYBER CONCERNS TOP RISKS FOR AUTOMOTIVE MANUFACTURING SECTOR IN 2024

Business interruption and cyber incidents are the primary concerns for the manufacturing sector within the automotive industry in 2024, according to the Allianz Risk Barometer. The report, based on insights from over 3,000 risk management professionals and business leaders, highlights the growing importance of addressing these risks to ensure business continuity and safeguard against potential disruptions.

Despite a slight easing of post-pandemic supply chain disruption in 2023, Business interruption continues to hold its position as the number one threat for automotive manufacturing, with 42% of respondents expressing concern

Cyber incidents and natural catastrophes are the top two causes of business interruption feared most by companies, followed by fire and machinery/equipment breakdown or failure. These results underscore the interconnectedness and volatility of the global business environment, as well as the reliance on supply chains for critical products or services. Consequently, improving business continuity management, identifying supply chain bottlenecks, and developing alternative suppliers remain key risk management priorities for companies in 2024. The COVID-19 pandemic and its subsequent disruption to supply chains have served as a wake-up call for companies. Compared to pre-pandemic times, businesses are now better prepared for business interruption or supply chain events. According to the Allianz Risk Barometer, the most common actions taken to de-risk supply chains include developing alternative suppliers (60% of responses), improving business continuity management (42%), and identifying and remediating supply chain bottlenecks (37%).

According to the Allianz Trade's Automotive sector risk report, the automotive market is expected to normalize this year as demand loses momentum following a strong rebound in 2023. The growth of new auto registrations is expected to slow down to +1.9%. New auto registrations saw a significant recovery in 2023 as Covid-induced supply-chain disruptions eased, and pent-up demand released. Additionally, resilient economic growth and strong, albeit slowing, growth in EVs fuelled car sales - total global auto registrations increased by +11.3% to nearly 88mn, though is still below pre-pandemic levels. For the second consecutive year, Cyber incidents rank as the second most important risk in automotive manufacturing, with 38% of respondents expressing concern. The recent surge in ransomware attacks saw insurance claims activity increase by over 50% compared to 2022. Hackers are increasingly targeting IT and physical supply chains, launching mass cyber-attacks, and finding new ways to extort money from businesses.



As a result, early detection and response capabilities and tools are becoming increasingly crucial. Investment in detection backed by artificial intelligence is expected to enhance incident identification. Without effective early detection tools, companies may experience longer unplanned downtime, increased costs, and a greater impact on customers, revenue, and reputation.

“Cyber criminals are exploring ways to use new technologies such as generative artificial intelligence (AI) to automate and accelerate attacks, creating more effective malware and phishing. The growing number of incidents caused by poor cyber security, in mobile devices in particular, a shortage of millions of cyber security professionals, and the threat facing smaller companies because of their reliance on IT outsourcing are also expected to drive cyber activity in 2024, “explains Santho Mohapeloa, Cyber Insurance Expert, Allianz Commercial.

Product recall, quality management, and serial defects emerge as a new risk at #3 with 32% of respondents identifying it as a concern. The automotive sector bears the brunt of product recall losses, accounting for over 70% of the value of all losses. The increasing complexity of supply chains and stricter regulations contribute to the rising impact of product recalls on companies' financials and reputations. With recalls affecting a higher number of units, driven by factors such as faster speed-to-market and outsourcing of research and development, the automotive sector remains a frequent driver of claims.

As the automotive manufacturing sector faces these risks head-on, companies must prioritize risk management strategies and enhance their resilience. By proactively addressing Business interruption, Cyber incidents, and Product recall risks, companies can safeguard their operations, reputation, and bottom line.

[View the Allianz Risk Barometer methodology and full global and country risk rankings]

INNOVATING OUT OF JOHANNESBURG'S WATER CRISIS


Riskonet Africa's Risk Principal, Volker Von Widdern

Amid the deepening water crisis plaguing Johannesburg, risk consultancy Riskonet Africa's Risk Principal, Volker Von Widdern, says unless there is immediate and innovative action in water management the problem will escalate exponentially.

Recognising the crisis as an opportunity for systemic change, Von Widdern is urging local authorities, risk managers, and stakeholders to adopt forward-thinking strategies that bridge the gap between current challenges and sustainable water management practices. He says the disruption of water supply to a major metropolitan area can have profound social impacts, touching every facet of daily life for its inhabitants. “Access to clean water is fundamental to public health, hygiene, and overall quality of life. Without a reliable water source, the risk of waterborne diseases escalates, putting immense pressure on healthcare systems already burdened by various challenges. The social fabric of communities begins to strain as residents grapple with the stress and uncertainty of securing water for basic needs, leading to heightened tensions and conflicts over resources.”

Education systems he says may also suffer, as schools struggle to maintain hygienic facilities and ensure the safety and well-being of students, potentially disrupting the educational process and prospects of the younger generation. Furthermore, says Von Widdern, the economic consequences of a disrupted water supply are equally dire. Industries that depend heavily on water, such as agriculture, manufacturing, and tourism, face significant operational challenges, potentially leading to production halts, job losses, and financial instability. Inadequate water pressure disables fire fighting systems, creating conditions for catastrophic losses, fatalities and injuries.

This downturn in economic activity can ripple through the economy, reducing income levels and exacerbating poverty. Moreover, the cost of emergency water supply measures, such as trucking in water and repairing infrastructure, places a heavy financial burden on local governments, diverting resources from other critical services and development projects. The cumulative effect of these challenges can stifle economic growth, deter investment, and compromise the metro's ability to compete on a national and global stage, underscoring the integral role that a stable water supply plays in the socio-economic health of a city.

"The water crises we face today are the result of long-standing issues that require us to think creatively and act decisively. It is not merely about crisis management but about transforming the crisis into a catalyst for sustainable development,"

Right now, the deterioration of infrastructure is leading to significant water loss in Johannesburg's supply system, with over forty percent of water being wasted through leaks and illegal connections. Additionally, critical water augmentation projects like the Lesotho Highlands Scheme, aimed at bolstering water supply to Johannesburg and the broader Gauteng area, is severely delayed. Originally projected to help alleviate the region's water scarcity, these projects are now not expected to be completed until 2028, This delay notes Von Widdern compounds the challenges faced in securing a stable and sufficient water supply for one of South Africa's most populous regions.

"The water crises we face today are the result of long-standing issues that require us to think creatively and act decisively. It is not merely about crisis management but about transforming the crisis into a catalyst for sustainable development," he says. "Innovation in water management, driven by advanced technology and strategic planning, is not just a choice but a necessity for our survival and prosperity."

Highlighting the role of technology, Von Widdern is advocating for the rapid adoption of state-of-the-art solutions in detecting and reducing water loss, enhancing the integrity of aging infrastructure, and ensuring the efficient allocation of resources.

"Technological interventions, from sophisticated leak detection systems to the rehabilitation of pipelines with protective linings, are essential components in our toolkit against water wastage. These measures can lead to significant improvements in the reliability of water distribution and are instrumental in achieving cost savings and increasing local authorities' revenue." Von Widdern also underscores the importance of implementing a rigorous gap analysis as a standard practice in water management. "A detailed assessment of the discrepancies in water supply and demand, coupled with an understanding of the infrastructure's current state, will enable targeted investments and strategic decisions. This approach ensures that we are not only addressing immediate needs but also laying the groundwork for long-term sustainability."

In advocating for public-private partnerships (PPPs), Von Widdern envisions a collaborative framework where the strengths of both sectors are harnessed to optimize water distribution and management. "PPPs represent a promising avenue for enhancing our water infrastructure, offering a model of efficiency, accountability, and innovation. Through such partnerships, we can leverage private sector expertise and resources to meet public water supply needs, ensuring that every community has access to reliable and clean water." He says while the challenges are daunting, they are not insurmountable. With collective effort, innovation, and a commitment to sustainability, we can turn the tide on the water crisis and ensure a secure future for Johannesburg, Gauteng, and beyond. The moment to act is now.

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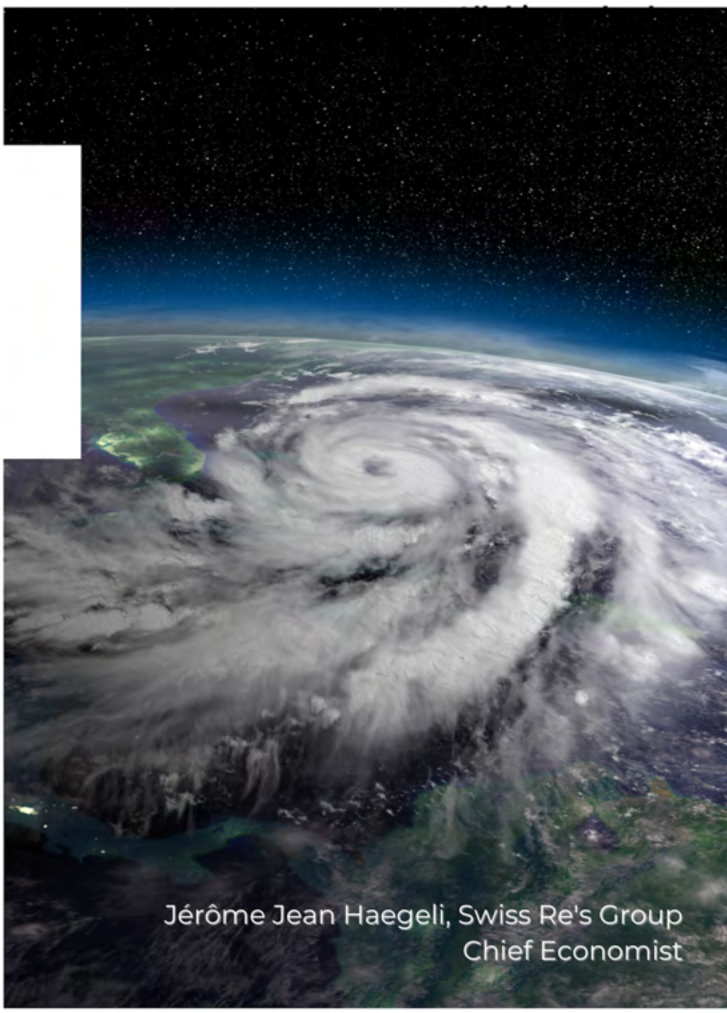
NEW RECORD OF 142 NATURAL CATASTROPHES ACCUMULATES TO USD 108 BILLION INSURED LOSSES IN 2023

A devastating earthquake in Turkey and Syria, severe convective storms (SCS) and large-scale urban floods were the main events driving insured natural catastrophe losses to USD 108 billion in 2023, reaffirming the 5–7% annual growth trend in global insured natural catastrophe losses since 1994.



Jérôme Jean Haegeli, Swiss Re's Group Chief Economist

Swiss Re Institute estimates that insured losses could double within the next ten years as temperatures rise and extreme weather events become more frequent and intense. Therefore, mitigation and adaptation measures are key to reduce natural catastrophe risk.
Global insured losses from natural catastrophes outpaced global economic growth over the past 30 years: From 1994 to 2023, inflation-adjusted insured losses from natural catastrophes averaged 5.9% per year, while global GDP grew by 2.7%. In other words, over the last 30 years, the relative loss burden compared to GDP has doubled.

Jérôme Jean Haegeli, Swiss Re's Group Chief Economist, says: "Even without a historic storm on the scale of Hurricane Ian, which hit Florida the year before, global natural catastrophe losses in 2023 were severe. This reconfirms the 30-year loss trend that's been driven by the accumulation of assets in regions vulnerable to natural catastrophes. In the future, however, we must consider something more: climate-related hazard intensification. Fiercer storms and bigger floods fuelled by a warming planet are due to contribute more to losses. This demonstrates how urgent the need for action is, especially when taking into account structurally higher inflation that has caused post-disaster costs to soar."

Moses Ojeisekhoba, Swiss Re's CEO Global Clients & Solutions, says: "As weather hazards intensify due to climate change, risk assessment and insurance premiums need to keep up with the fast-evolving risk landscape. Looking ahead, we must focus on reducing the loss potential. 2023 was the hottest year on record, and the start to 2024 is following suit. Keeping property insurance sustainable and affordable requires a concerted effort by the private industry, the public sector and broader society – not just to mitigate climate risks, but to adapt to a world of more intense weather."

Earthquake costliest disaster, SCS main loss driver in 2023

The most destructive natural catastrophe of the year was the earthquake in Turkey and Syria in February with estimated insured losses of USD 6.2 billion. 2023 was also marked by a high frequency of events as 142 insured natural catastrophes set a new record. Most were of medium severity, resulting in losses of USD 1–5 billion. There were at least 30 such events in 2023, many more than the previous ten-year average (17). Of those events, 21 were SCS, a new high. The number of these medium-severity events has grown by 7.5% since 1994, almost double the 3.9% increase in catastrophes generally.

After tropical cyclones, severe thunderstorms have become established as the second-largest loss-making peril due to exposures caused by urbanisation and economic and population growth. Hailstorms are by far the main contributor to insured losses from SCS, responsible for 50–80% of all SCS-driven insured losses. SCS is the umbrella term for a range of hazards including tornadic and straight-line winds, and large hailstones.

SCS are frequently observed weather events that develop when warm humid air rises from the surface of the earth into upper layers of the troposphere, leading to the formation of towering clouds, lightning, and thunder. Meanwhile parcels of cool air rush to the earth's surface, bringing powerful wind gusts, rain, or even hail.

Global insured losses from SCS accumulated to a new record of USD 64 billion globally in 2023, 85% originating in the US. SCS-related insured losses were fastest-growing in Europe, exceeding USD 5 billion in each of the last three years. Hail risk in particular is increasing, mainly in Germany, Italy and France.

Setting premiums as incentives for adaptation measures

Increased exposures due to economic and population growth, urbanisation and wealth accumulation remain the main force behind rising SCS-related losses, and climate change-effects are likely to exacerbate the trend. Another factor is changes in exposure vulnerabilities, such as a rapid growth of solar power system installations on roof tops.

The first step to cutting losses is to reduce the loss potential through adaptation measures like enforcing building codes, building flood protection barriers, and discouraging settlement in areas prone to natural perils. Additionally, a collaboration with primary insurers, insurance associations and the public sector enables a data exchange which is key for shared risk mitigation.

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Download the sigma study & join the Swiss Re Media Dialogue

We will discuss the key findings of the report and how collaboration is required to maintain insurability in a press event on 26 March, 11:00 to 12:00 CET. Please join us in person in Zurich or online and register via this link: Swiss Re Media Dialogue.

The English version of the sigma 1/2024, "Natural catastrophes in 2023: gearing up for today's and tomorrow's weather risks", is available in electronic format. You can download it here.

Total economic and insured losses in 2023 and 2022

USD billion in 2023 prices	2023	2022	Previous 10-y average
Economic losses (total)	**291**	**295**	**235**
Natural catastrophes	280	286	223
Man-made catastrophes	11	9	12
Insured losses (total)	**117**	**141**	**99**
Natural catastrophes	108	133	89
Man-made catastrophes	9	8	10

Note: Due to rounding, some totals may not correspond with the sum of the separate figures.
Source: Swiss Re Institute

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TECHNOLOGY

AND INNOVATIONS ARTICLES

"IT in the Financial Services sector has rapidly come out of the back room to occupy the forefront of operations at banks, asset managers & insurers as they escalate digital transformations to meet customer expectations."

- GUY KRIGE, EXECUTIVE RISK CONSULTANT AT ESCROWSURE

NEW IT RISK REGULATIONS FOR SA FINANCIAL SECTOR IN 2024

South Africa's financial services companies, including insurers, have until 15 November 2024 to comply with the requirements of the new Joint Standard for IT Governance and Risk Management, issued by the Financial Sector Conduct Authority and the Prudential Authority. This latest amendment to the Financial Sector Regulation Act, 2017 aims to update the minimum requirements for IT governance and risk management that financial institutions must meet. The Joint Standard puts the onus on the governing bodies of financial institutions to ensure compliance.

While South African financial services companies may not all be ready to meet the upcoming requirements, the amendments to the regulations will not be coming as much of a surprise. From banking to investments and insurance, every aspect of a modern consumer's financial affairs is powered by technology and primarily conducted in the digital realm. IT in the Financial Services sector has rapidly come out of the back room to occupy the forefront of operations at banks, asset managers and insurers as they escalate digital transformations to meet customer expectations. What's come along for the ride with customer-pleasing digital innovations, is a wild west of new and amplified IT risks.

Across the world regulatory bodies are responding to this ever-evolving risk environment. It's not just about reducing opportunities for bad actors to loot and hold to ransom. Financial Services companies, including insurers have become deeply dependent on third-party software to conduct day-to-day business, creating new vulnerabilities and real threats to business continuity.

Guy Krige, Executive Risk Consultant at ESCROWSURE

We have been serving the Financial Services market for over 20 years, and what we have seen lately is a sudden wave of new global regulations that have been ushered in to shore up business continuity and update vital IT risk management protocols. Typically, South Africa follows the lead of developed nations when it comes to regulations. What is notable is that this regulation includes mitigating the business continuity risks associated with dependence on third-party software vendors who can fail to deliver on the agreed services, suddenly go out of business or get bought out by your competition.

Software escrow is a customised legal agreement between the software provider, the user, and the software escrow agent that safeguards the software source code and makes it available to the user in the case of clearly defined trigger events that threaten business continuity. Over the last few years, the European Union has introduced the Digital Operational Resilience Act (DORA) which enforces new cyber security and resilience requirements on European financial institutions and their critical suppliers.

In the USA, the Office of the Controller of the Currency (OCC), Federal Deposit Insurance Corporation (FDIC), and Federal Reserve Board (FRB) issued a joint statement with revised guidance for Financial Services companies that includes new requirements for outsourcing and third-party risk management for banking institutions and highlights software escrow as an important consideration. The UK has promulgated the Prudential Regulation Authority (PRA) SS2/21 which requires review of third-party arrangements and evaluation of the need for software escrow. What we are seeing is these types of regulations becoming more detailed and more prescriptive when it comes to an internationally recognised best practice such as software escrow. It's important to keep in mind that all regulatory roads are leading to the same destination.

In markets such as Singapore and India, there are already regulations that explicitly prescribe software escrow as an essential part of business continuity and IT risk management and governance. The new South African regulations coming into force on 15 November 2024 urge compliance with global best practices. So, South African banks and insurers can clearly see the road ahead. What the regulators want to see are more comprehensive business continuity plans which include stressed exit plans when it comes to mission-critical software agreements. Rigard de Wet, CIO at Guardrisk says, "Ultimately, the upcoming IT Joint Standard is not something new. It is a progressive journey working with the regulators in ensuring that we protect ourselves and our customers. This will be a continuous process and we require the mindset and ability to implement while we do business.

The success in implementing changes like this lies in the ability of a company to accept the change and work together with all parties, including the regulator, while fostering strong positive relationships, built on trust and open communications. What we need to manage well is the financial impact, the ability to deliver business solutions, internal and customer-facing, while we ensure adherence to the joint standard." The advantage to South African Financial Services companies striving to meet the new regulation from 15 November 2024 is that software escrow is both a cost-effective and fast-acting solution to shore up business continuity plans and boost IT disaster recovery.

A particular benefit is the inclusion of thorough software testing services which ensures that in the case of an unexpected stress exit, the source code your escrow provider safeguards is exactly what you currently use in your organisation. Compliance with the new joint standard shows that the South African Financial Sector is keeping pace with the global resilience movement. Adopting international best practices means reaching important compliance milestones and making sure that business is not set back by penalties from the regulators.

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REVOLUTIONISING INSURANCE DOCUMENTATION

In the world of insurance, where paperwork has long been an unavoidable headache, innovation is on the rise.

Christelle Colman, CEO and founder of Ami Underwriting Managers

Christelle Colman, CEO and founder of Ami Underwriting Managers (Pty) Ltd (Ami), and Nic Esterhuysen, co-founder of insdi, share insights into their proactive approach to revolutionising application and claims documentation processes, shedding light on the challenges brokers face and the transformative power of digital solutions. In a recent interview, Colman and Esterhuysen discussed the origin of their collaborative efforts and the impact it has on the insurance landscape.

Colman initiated the conversation by highlighting the challenges brokers encounter in the traditional documentation process. Through extensive market research and engagement with brokers, Ami identified a critical need for streamlining documentation processes. This insight birthed the concept of digital prepopulated forms, aimed at enhancing client experience and operational efficiency.

Esterhuysen, drawing from his experience in the insurance industry, echoed Colman's sentiments, emphasising the longstanding frustration with outdated forms and cumbersome procedures. Recognising the industry's reluctance to embrace change, Esterhuysen and his co-founder embarked on a mission to disrupt the status quo with insdi, an instant digital platform designed to facilitate seamless information exchange and adaptability.

From a practical implementation perspective Colman elaborated how Ami's digital suite of forms operates as a personalised portal for clients, simplifying the data collection process and eliminating the need for archaic paperwork. Esterhuysen emphasised insdi's agility in enabling rapid deployment and adoption, thereby addressing evolving market needs and product requirements.

The dialogue underscored the transformative potential of digitalisation in insurance operations. By replacing manual processes with intuitive digital interfaces, both Ami and insdi have significantly enhanced the ease of doing business for brokers and clients alike. The ability to prepopulate forms, capture accurate data, and integrate multimedia elements represents a paradigm shift in client engagement and risk management.

Moreover, the conversation highlighted the broader implications of their innovations. By democratising access to affordable digital solutions, Colman and Esterhuysen aim to empower businesses of all sizes to embrace digital transformation. This accessibility ensures that the benefits of streamlined documentation processes are not confined to industry giants but are accessible to all stakeholders, fostering a more inclusive and efficient insurance ecosystem.

Left to - Right: Nic Esterhuysen & Joel Rothman, Co-founders insdi

Looking ahead, Colman and Esterhuysen envision further advancements in digital integration, leveraging APIs to seamlessly integrate client data into backend systems. This vision aligns with regulatory mandates to reduce administrative redundancies and enhance data accuracy, positioning their solutions as catalysts for industry-wide modernisation.

A clear example of innovation and collaboration in the insurance industry this initiative prioritises user experience and operational efficiency, setting a precedent for digital transformation that transcends organisational boundaries.

SOUTH AFRICA LEADS THE FINTECH SECTOR IN THE REGION

The country is responsible for approximately 40% of all sector revenue in Africa.


Digital Platform Quotes Advisor

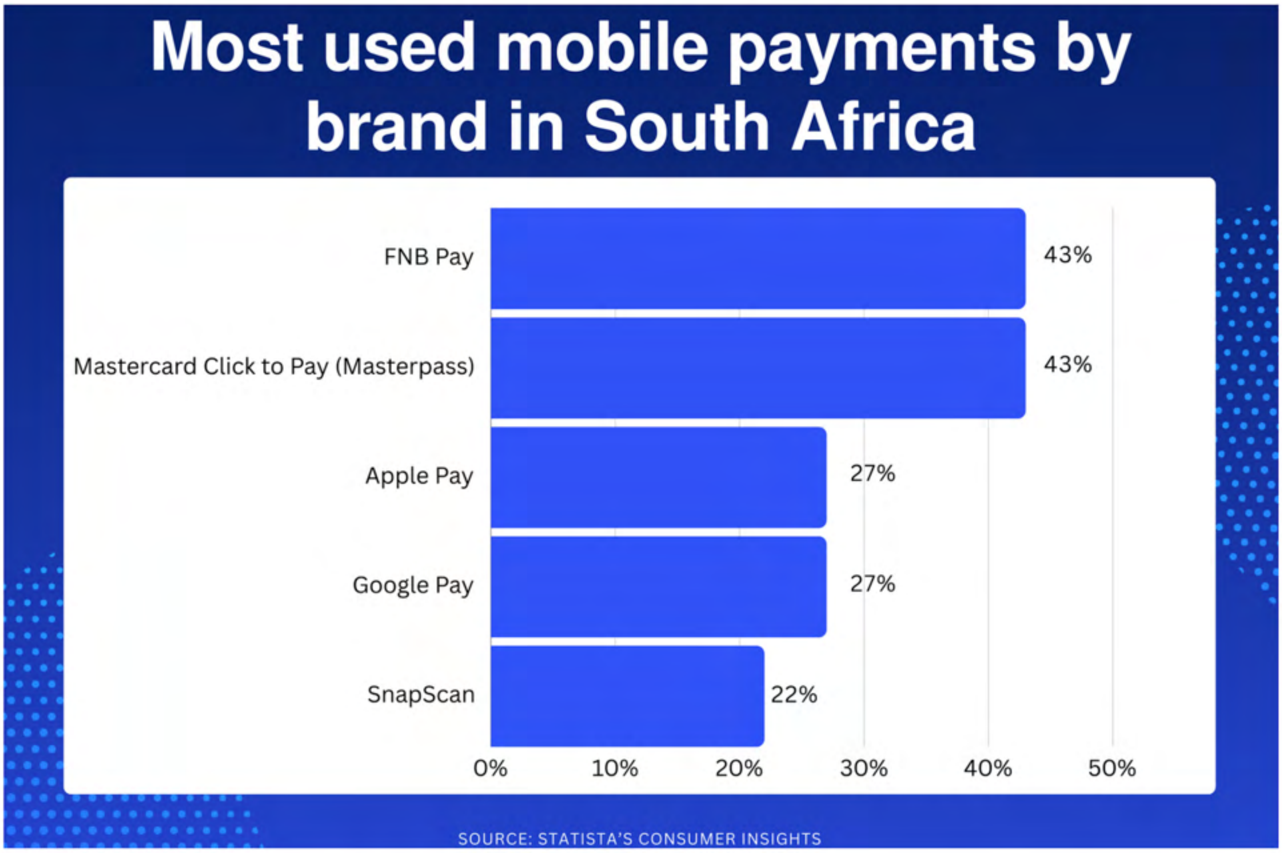
The rise of digital wallets has revolutionised the way we conduct financial transactions, offering a range of significant benefits as a payment method. Convenience, security, and accessibility are just some of the advantages these platforms offer users, allowing them to make transfers quickly and in an efficient way. As highlighted by the World Bank, financial inclusion is a key factor for countries' economic development and stability, as well as for achieving the United Nations Sustainable Development Goals. These innovative technologies are not only democratising access to financial services but also strengthening the economic infrastructure, as seen in South Africa, where it is rapidly gaining ground. In fact, South Africa's fintech landscape is constantly evolving, and significant changes are expected in 2024 driven by regulatory changes, technological improvements, and increasing competition.

Fintech encompasses a wide range of products and services, from online banking to mobile payments, peer-to-peer lending, digital wallets, and financial management tools. According to a report published by Research and Markets, the country has been internationally recognised for having one of the most sophisticated financial sectors, generating approximately 40% of all fintech revenue in Africa. Over the past decade, this recognition has been reinforced by a growing sector which, although small, is experiencing rapid development and transforming the financial sphere through digitisation, streamlining, and in some cases, disruption. In this context, Dawid de Villiers, Gabi Richards-Smith, and Lerato Lamola, fintech experts from Webber Wentzel, have anticipated that 2024 will bring significant advances in South Africa's fintech industry.

Among the five key predictions are guidelines for generative artificial intelligence and machine learning, payment laws modification, changes in cryptocurrencies and blockchain, an open finance framework, and an increase of participants in mobile banking and financial services. Specifically, specialists expect for the implementation of the planned amendments to the National Payment System Act, which covers the management, administration, operation, regulation, and supervision of payment, clearing, and settlement systems. "We expect to see amendments that encourage greater participation of non-bank actors in the payment system", stated the expert sources.

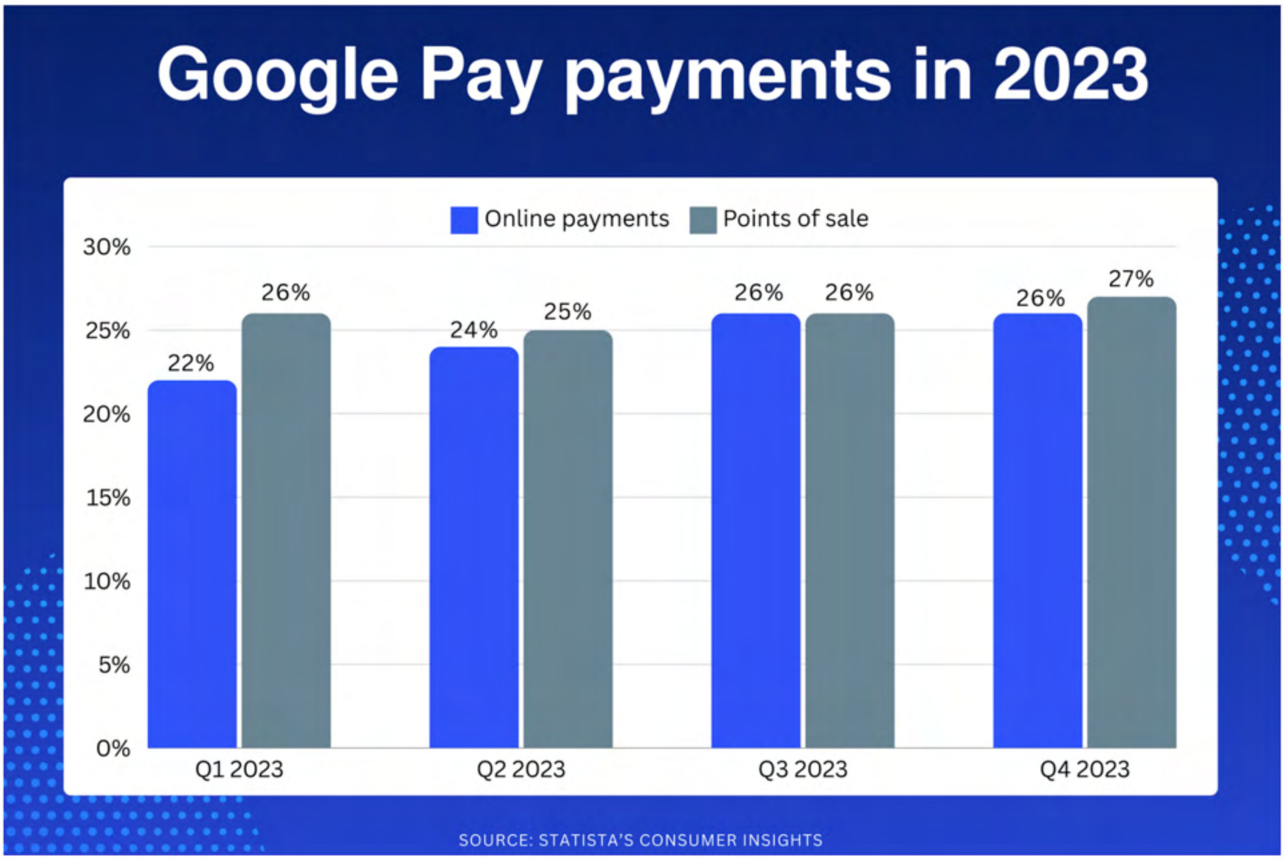
Likewise, the conclusion of the Conduct of Financial Institutions Bill is anticipated, which could include provisions related to activities linked to payment systems. These initiatives reflect an effort to promote inclusion and efficiency in the South African financial landscape. In the same line, an increase in the number of financial service providers using mobile telecommunications services is also expected in the sector. To this end, it is expected that more foreign investments will enter the South African market, both in local companies and participants from other regions. In 2023, the use of digital payments in South Africa experienced rapid growth, surpassing even the expansion of e-commerce. Digital wallets and contactless payment systems, such as Apple Pay, Samsung Pay, and Google Pay, gained significant momentum among consumers.

A recent study by Stitch, a payments infrastructure company, revealed that over 50% of surveyed South Africans choose to use digital wallets and contactless payment systems when making purchases in commercial establishments. It is noteworthy that the survey, conducted in collaboration with the research firm Yazi, collected data from over 350 people in December of last year, providing insight into emerging trends in the country's digital operations environment. According to the findings, South Africans allocate approximately 10% of their income to online purchases. The increase in online spending has favored the use of cards, which remain the predominant method in e-commerce. However, market growth and demand for more efficient payment options have led to the emergence of new alternatives, such as bank transfers and, increasingly, digital wallets and contactless systems, which compete with cards in both online transactions and physical stores.



"Compared to a similar study conducted in December 2022, this year's survey found a very different picture (...) even if card and bank payment remain the top preferences, chosen by 71.8% and 43.9% of respondents, respectively, as at least one of their preferred options, additional touch payment methods such as Capitec Pay and even mobile money have gained ground," the report indicates. The case of Capitec Pay, mentioned by 25.9% of respondents despite its launch just last year, demonstrated that South Africans are willing to adopt new options that fit their constantly evolving needs.

"This creates an opportunity for attractive options to enter the market and better address customer needs. For companies, one way to manage and optimize new and multiple payment providers and methods is through payment orchestration platforms, which allow them to easily view and reconcile all transactions between methods in one place and optimise based on which one performs the best," the study adds. Meanwhile, a survey conducted by Statista's Consumer Insights showed the most used mobile payments by brand last year, with FNB Pay and Mastercard Click to Pay taking the top spot with 43%, followed by Apple Pay (27%), Google Pay (27%), and SnapScan (22%) closing the top 5.



Another Statista research on the adoption of Google Pay for online transactions in South Africa showed a decrease in 2023 compared to early 2020, although usage among consumers remained relatively constant. The figures presented reflect the percentage of respondents who reported having used the application in the last 12 months, either for point-of-sale transactions with a mobile device in stores and restaurants, or for online purchases. I also showed that, during the period from April 2022 to March 2023, 2 out of every 10 respondents indicated having used Google Pay at a point of sale, while another 2 out of 10 said they used it for online payments during the same period.

Contactless Payment Scams

Contactless payment methods, including the use of cards, smartphones, or smartwatches, have experienced a notable increase in popularity. However, this technological convenience has also been used by scammers. According to the Ombudsman for Banking Services, Reana Steyn, fraud through digital wallets is on the rise, and criminals are linking stolen card information with their smart devices. In this regard, the representative warned about a new modality that involves the use of Near Field Communication (NFC) technology. In this practice, scammers use stolen card data to make fraudulent purchases through digital wallets.

Moreover, in most cases, digital purchases do not require a unique PIN (OTP) to complete a transaction, facilitating the crime. "Unlike normal fraudulent card-not-present (CNP) transactions we are used to, where scammers would use stolen card information to make online purchases, and which would cause OTPs to be sent to the legitimate cardholder's registered cellphone number for each transaction made, NFC payments/digital wallet do not require this additional OTP mitigation tool for each and every transaction," said Steyn. In line with the above, the spokesperson indicated that, in a short period, they received 120 complaints related to NFC frauds, which are currently under investigation.

Losses linked to these incidents represent millions of rands, especially in fraudulent purchases made in nations such as the United Arab Emirates, France, and Spain. "This clearly demonstrates the presence of an international criminal syndicate operating in this area and targeting South African consumers," Steyn affirmed. Additionally, he confirmed that one of the country's major banks recorded over 6,000 complaints between January 2022 and June 1, 2023. He expressed concern in this regard, as the considerable losses incurred have the potential to create serious financial difficulties for bank customers, some of which could be insurmountable in certain cases.

> Thus, while the use of contactless payment methods has brought numerous advantages, facilitating quick and secure transactions in various situations, it is crucial to recognise that this convenience carries risks, as criminals can exploit these technologies to commit fraud and generate significant losses for both individuals and financial institutions.

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DATA INSIGHTS HELP TO ENSURE GROWTH FOR INSURERS AS CONSUMERS CUT SPENDING

Schalk Fischer, Insurance Vertical Sales Leader at TransUnion South Africa

South Africa's latest cost-of-living crisis, marked by surges in the prices of essential goods and rising debt-servicing responsibilities in relation to wage growth, has resulted in a 14-year low in disposable income. TransUnion's Consumer Credit Index (CCI) fell to its lowest level since 2011, from a high of 60 in Q3 2021 to a reading of 47 in Q4 2023. High interest rates are impacting the financial health of consumers across the spectrum, forcing them to cut discretionary spending in order to focus on essential items.

The challenge, for insurers, is that insurance is seen as a discretionary cost

As far back as 2020/21, 24.5% of consumers surveyed by TransUnion indicated that they would not be able to pay their insurance premiums.1 Now, we are seeing that younger policyholders (aged 18-35; 30% of the insured market) are showing a higher tendency to cancel their household insurance.2 In addition, TransUnion's Q4 2023 Consumer Pulse Study shows that 47% of consumers plan to cut down on non-essential spending, while 38% say they will decrease spending on large items – including new cars, which adds more strain for insurers.

Short-term insurers are seeing a year-on-year decline in enquiries of -9.1%, according to TransUnion data. Already, just three out of 10 vehicles on the road are insured.3 South Africa's insurance market is highly competitive, thus enabling consumers to easily move their policies in order to save a few Rands every month. TransUnion data also shows that to help ensure their financial stability and offset increases in claims costs, short-term insurers are increasing premiums on new policies by 9.9% on average. Increasing premiums to protect financial stability, which enables claim payments, is a delicate balancing act versus the potential to lose customers. Insurers are facing challenging times and need to be asking themselves: How best to retain existing clients during this period of financial distress; how to responsibly access the untapped insurable market; and how to curb fraud, which will ultimately make insurance more expensive for everyone.

New data insights drive new retention tactics

Reliable data can enable detailed, actionable insights into a customer base, in turn informing positive, pre-emptive customer management and the ability to respond rapidly with the right marketing, sales, retention and pre-delinquency solutions. For example, understanding consumers with financial constraints, such as defaults on their credit reports, means that insurers can proactively support consumers with appropriate action based on potential payment behaviours, and risks associated with the client profile, to remain insured.

At the same time, having access to affordability information, and generational spending priorities enables proactive prioritisation of collections as well as potential receptivity to value-adding up-and-cross-selling communications. Data-driven insights that enable individual consumers to cover their risks and manage their insurance portfolios more effectively also help to build trust – and therefore loyalty – in a world where consumers don't understand the depth of insurance products and have concerns about their claims actually being paid out.3

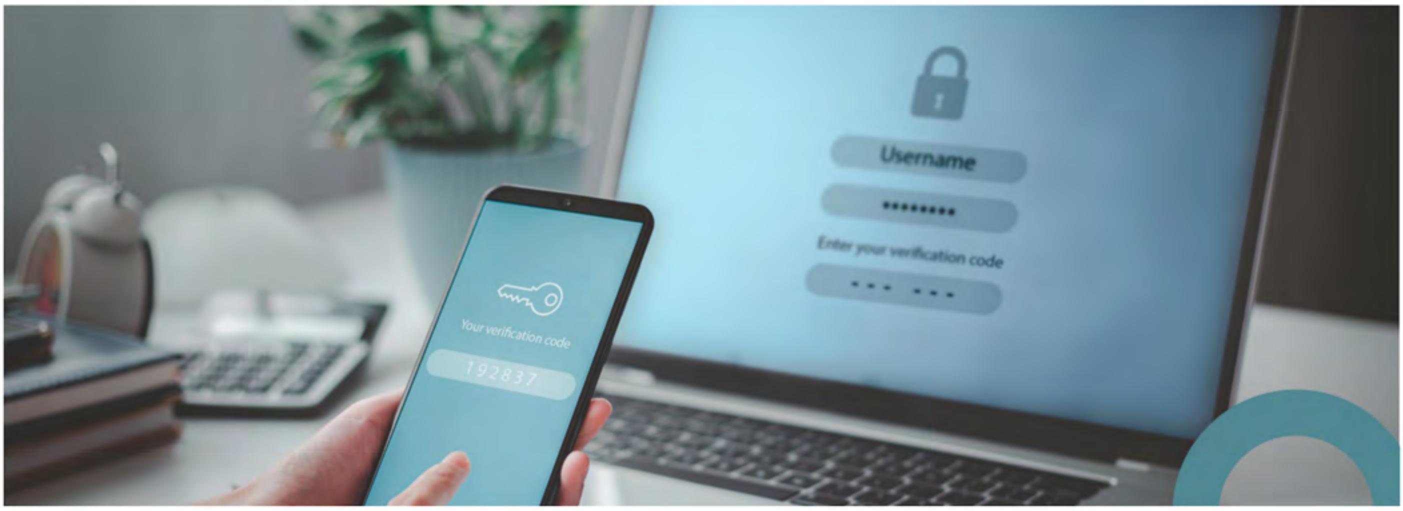
Geo-location unlocks smarter book growth

The race is on to find and onboard the "good risks" within the current insured and insurable market. POPIA-compliant, data-based geo-location is enabling strategic insights into growth opportunities that in turn enable laser-focused marketing, product development to address specific needs, and the optimisation of broker networks to fill consumer demand – and more. Geo-location is increasingly being used to overlay information on both credit-active and non-credit-active populations and demographics, with spatial location data. The financial and spending patterns of households in specific areas, including their income, credit risk profiles and credit utilisation, as well as age and gender, can now be combined with information on their wealth segmentation, property values and mobility patterns, as well as localised risks like the potential for fires and flooding, daily traffic flow and the crime rate, to help insurers refine their underwriting criteria and processes, price their products correctly, and enhance the customer experience from quote to claim.

Digital anti-fraud solutions reduce expenses

Two factors are influencing an increase in insurance fraud that, if left unaddressed, will lead to increased pricing across the spectrum. Firstly, as the macroeconomic landscape impacts consumers' ability to meet their financial and debt responsibilities, more debt judgments are being issued, with a tracked tendency among consumers with recent debt judgments issued against them to submit fraudulent insurance claims. Secondly, as consumers seek increased digital interaction as they buy and manage their policies, insurers are under pressure to provide client-centric digital solutions that mitigate potential fraud in the background. Insurers are looking at ways to authenticate their clients, verify documents and data, detect stolen or synthetic identities, and pinpoint warning signals before fraud happens.

Device authentication – a process of linking device intelligence and user behaviour to instantaneously modulate protocols and create friction-right individual-level experiences – can help to stop fraud in real time. This process means that manual reviews can be minimised, false positives reduced, social engineering detected, and other types of fraud mitigated. As insurers fight for market share, in a world where consumers are fighting to prioritise spending on necessities rather than niceties, the ever-increasing cost of living and potential for fraud will continue to pose significant challenges. Consumer education remains critical if insurers are to persuade their policyholders that insurance is a necessity not discretionary, and data-driven insights are key for both stability and expansion.



EVENTS

AND NETWORKING

"Networking is the heartbeat of professional growth, and events are its pulsating rhythm. Within this dynamic ecosystem, connections spark, collaborations ignite, and possibilities unfold. Attendees navigate the landscape, weaving threads of opportunity and forging bonds that transcend the confines of any single gathering.

THE INAUGURAL AFRICA COVERED ADVENTURE

A Pioneering Journey Begins

In March 2024, COVER, together with the Insurance Institute of Western Cape (IIWC), embarked on the first-ever Africa COVERed journey. This pivotal venture brought together nine insurance professionals who traversed over 3,745 kilometers across Africa in eight days. Their mission? To delve deep into the realms of regulation, distribution, innovation, and industry intelligence, all while fortifying vital insurance relationships across the African continent.

Bridging Borders, Building Knowledge

This annual expedition is designed to foster connections and collaboration across borders, promoting the synchronous exchange of insights that are crucial for the growth of the financial services industry throughout Africa. Given the economic landscape where the majority of South Africans are low-income earners, there is much to learn from the insurance practices and innovations found throughout the continent.

The Journey Commences

The adventure kicked off at OR Tambo International Airport, with the team buzzing with excitement for their first destination: Nairobi, Kenya. After a stopover in Kigali for some Rwandan coffee, the team experienced the scenic beauty of the region from the air, setting the stage for a week of rich cultural and professional exchange.

Engaging Insights in Kenya

Upon arrival in Kenya, the team's first engagement was with Africa Re's Kenyan office, which offered a thorough analysis of the local insurance market's challenges and opportunities. This was followed by a visit to the Kenyan Insurance Institute (IIK), where the focus was on elevating professional standards and ethics within the industry through comprehensive continuing professional development (CPD) programs and events. A memorable visit to the College of Insurance showcased their commitment to education and training in the financial services sector, emphasizing their impressive 75% graduate employability rate.

Africa COVERed 2024

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Experiencing Rwanda

The journey continued in Rwanda, where the team explored the local insurance landscape. Meetings with the Rwanda Insurance Broker Association (RIBA) and MUA Rwanda provided insights into the broker market and the broader insurance environment. Discussions with the Association of Insurers in Rwanda (ASSAR) further enriched the team's understanding of regional practices, such as mandatory third-party motor cover.

Concluding with a Conference

The trip concluded with the African Insurance Forum hosted by Fexton at the Marriot Hotel in Rwanda. This conference was a critical platform for networking and further information gathering, offering a comprehensive overview of the insurance sector in Rwanda.

Looking Ahead

As we prepare to release a detailed research paper in June, which will include extensive analysis from our meetings and visits, we are also planning the next Africa COVERed journey to Ghana in 2025. This ongoing series of trips is instrumental in expanding our understanding and fostering sustainable growth within the insurance industry across Africa.

Acknowledgments

A heartfelt thank you goes to our trip sponsors—Price Forbes, Lombard, Discovery, and Munich Re. Special thanks to Lombard Human Capital for ensuring travel insurance for all delegates and to Africa Re for providing transportation, making this insightful journey possible.

Stay Tuned

For those interested in the future of insurance in Africa and looking to contribute to or participate in our next adventures, keep an eye on upcoming announcements for the 2025 trip to Ghana. This initiative is more than just a series of trips—it's a progressive movement towards a more interconnected and robust African insurance market.

IIWC AGM 2024

Adam Rabie, Executive Head, Vodacom Business alongside IIWC President, Robyn Carter

COVER attended the Insurance Institute of the Western Cape's annual general meeting, in February 2024. The IIWC president, Robyn Carter, shared a retrospective look at the year that has passed, highlighting the many achievements that had been reached by the council over the last year, and thanked the collective effort of the council, members, and generous industry support, which combined to make 2023 a special year.

2023 Highlights

The IIWC hosted 10 successful webinars and continued to drive collaboration with the launch of the coastal collaboration session, which was a standout. Other new initiatives include Insurance Nerd Day, which was well received. Speaking of new initiatives, the Brand and Media stream launched a successful micro podcast series and continued to help inform members with their monthly newsletter. Additionally, the Under 35's once again saw success in 2023, and the RISE mentorship program continued to gain momentum pairing 20 mentees with industry mentors.. The charities that the IIWC support continued to thrive in 2023, with the charity stream keeping their ear to the ground to ensure that, outside of the traditional fundraising and commitments, assistance was given when needed. A highlight for the Percy Bartley house of young men, was a Table Mountain guided hike and cable car experience - a first for most of the young men.

The value of personal brand

AGM attendees enjoyed good coffee and snacks, whilst listening to a motivational talk on personal branding, given by guest speaker Adam Rabie of Vodacom. Mr Rabie presented the value of personal brand in the digital age, whilst reinforcing the interplay and valuable role that relationships and personal connection play in building and maintaining a personal brand. When digital communication channels are leveraged, individuals and businesses alike can leverage the brand that they have built to gain credibility, trust, and recognition in a location agnostic manner. **"Your personal brand is a direct reflection of your experiences and the journey that you've been through, which culminate in your story" - Adam Rabie, Vodacom**

Mr Rabie showcased a great example of how he was able to leverage the personal brand that he had taken time to build in Johannesburg, when faced with a new business challenge in a different city with no recognition and network. By strategically leveraging thought leadership contributions in a magazine, Mr Rabie was able to gain credibility and recognition in a different city, by having copies sent to key contacts in Cape Town.

2024 IIWC Council member announcements

The morning AGM session ended with thanks given to council members that are stepping down, and announcements of new council members, and co-opt members. 2024 looks bright for the IIWC with some talented additions to further strengthen the council, and its ability to execute its mission for the year ahead.
COVER looks forward to seeing the continued value that the Insurance Institute of the Western Cape adds to the industry. Happy networking!

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IIWC GOLF DAY

The IIWC swung into action with their annual Golf Day at the lush greens of Durbanville Golf Club in early April, marking a highlight on the insurance industry's social calendar. This wasn't just any golf day; it was the rendezvous for insurance pros and golf aficionados alike to tee off, network, and share a laugh or two. Amidst the friendly competition, participants had their eyes on the prize with several prizes up for grabs. Thanks to the generous sponsors, no one went thirsty or snack-less! A hearty round of applause to the IIWC for orchestrating yet another hole-in-one event and a massive thank you to everyone who pitched in and made the day a resounding success. See you all next year for another swing at it!

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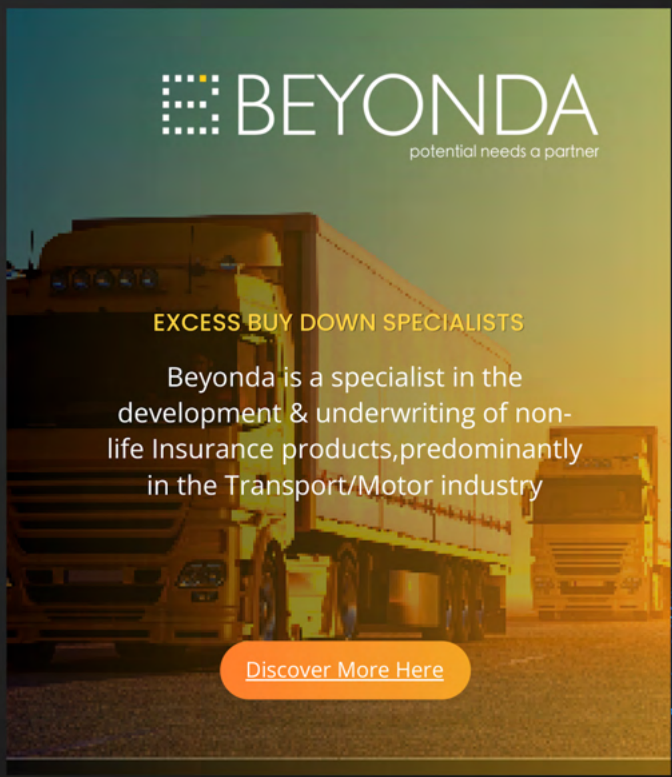

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