COVER

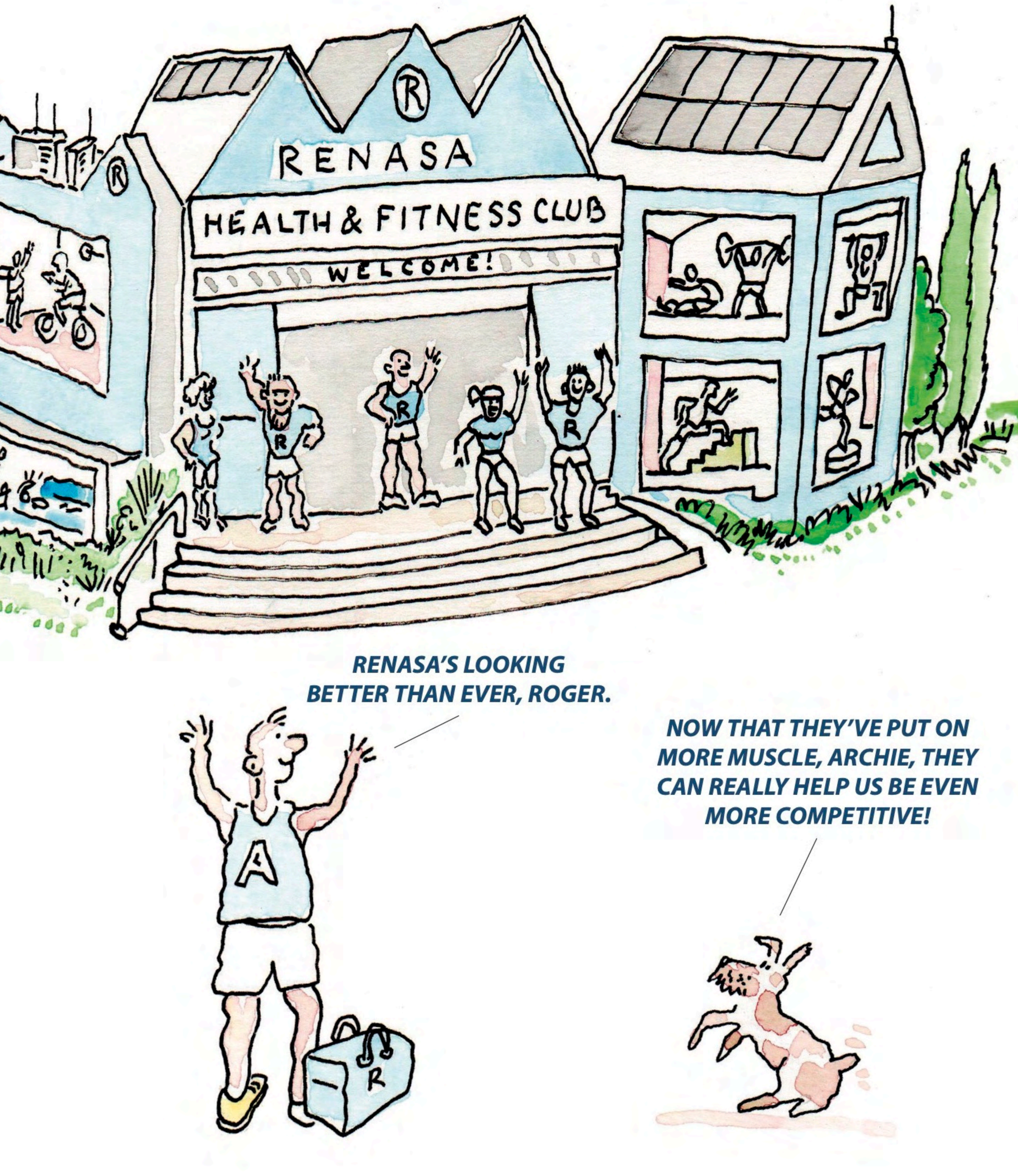
THRIVING IN A BRAVE NEW WORLD OF BROKING

NAVIGATING CHALLENGES & SEIZING OPPORTUNITIES IN THE CONSTRUCTION SECTOR

BUSINESS, RELATIONSHIPS & EXCITEMENT CAN GO HAND IN HAND

THE ROAD TO SUCCESSFUL GLOBAL CITIZENSHIP

CONSTRUCTION & ENGINEERING: THE STAKES ARE HIGH



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we commit to do even more for our brokers.

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THE ROAD TO SUCCESSFUL GLOBAL CITIZENSHIP

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In a time where global citizens are the norm, Ferdi van Heerden, CEO at Momentum Investments says it is essential for financial advisers to understand the intricacies of offshore investments and the best ways to structure financial plans to meet the specific goals and needs of each client.

THRIVING IN A BRAVE NEW WORLD OF BROKING

Rossella Grimaldi, Cindy Butler, regional managers and George Martin, National Business Development Manager at Renasa, discuss brokers' challenges and strategies for adaptation in the dynamic insurance landscape.

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NAVIGATING CHALLENGES & SEIZING OPPORTUNITIES IN THE CONSTRUCTION SECTOR

Dirk Gouws of AC&E Group of Companies says Insurers face heightened risk with challenges like regulation, skills shortage, and corruption. Non-inclusive procurement, "construction mafia," and late payments all hinder progress, but opportunity exists in the C&E space.

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BUSINESS, RELATIONSHIPS & EXCITEMENT CAN GO HAND IN HAND

Fostering relationships is as crucial as the products or services the insurance industry offers. Antonio Iozzo, CEO of IUM, sheds light on how their annual Golf Day shares this philosophy while injecting a dose of excitement into the mix.

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Farming with the sun or the land?
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CONSTRUCTION & ENGINEERING: THE STAKES ARE HIGH

When disaster strikes in the construction and engineering sector, it can be catastrophic, as we have seen in the recent building collapse in George.

The human tragedy that is unfolding there is unimaginable, with a death toll standing at 30 at the time of writing, and scores more seriously injured, the fall out is wide and devastating.

It all starts with risk management, during the planning phase, when preparing the site and employees for the project and managing the project as it proceeds.

Construction and engineering insurance specialists and risk managers should be part of the project right from the word go, ensuring all participants, from the developer and contractors to the employees, financiers and insurers, are protected against the multitude of risks facing these types of projects.

The variety of contributions to our feature this months is an indication of the broadness of the risk landscape, illustrating the need for specialist advice and insurance products, all of which the industry offers.

Tony Van Niekerk, Editor & Chief at COVER Magazine

FINANCIAL

PLANNING ARTICLES

"There are numerous factors to take into account when it comes to financial planning for global citizens. "

- FERDI VAN HEERDEN, CHIEF EXECUTIVE OFFICER AT MOMENTUM INVESTMENTS

Zennials (Millennials and Gen Z) are set to inherit an estimated $100 trillion over the next century – the greatest wealth transfer in history. But it's also expected to be an unusually challenging financial handover from one generation to another, given a more complex wealth creation environment and the younger generations' vastly different financial aspirations.

Why are Baby Boomers such a wealthy generation?

The most recent US Federal Reserve data shows that Baby Boomers hold 50% of the wealth in the US versus the Silent Generation that came before them, comprising a much smaller 11.9% of the wealth in the fourth quarter of 2022. The extent of the wealth accumulated by the Baby Boomers can be attributed to what economists call the Goldilocks era, when economic and financial market conditions are described as not being too cold or too hot. That meant a $100 investment in an S&P 500 Index Fund in 1980 multiplied 120 times to $12 000 today, and US home values increased about 300% over the same period.

What will make this wealth transfer so challenging

While decades of low inflation, low interest rates, soaring house prices and rising stock markets enabled baby boomers to generate more wealth than any previous generation, the next generation faces a more unpredictable investment landscape, likely to be characterized by greater new macroeconomic and geopolitical risks, financial market volatility and uncertainty and potentially higher inflation and interest rates.

It's not only this unpredictable and trickier wealth landscape that will pose challenges for successfully transferring wealth from one generation to another. The vastly different financial aspirations of Zennials compared to the older generation further complicate the smooth handover of this considerable wealth from generation to generation.

Chief among the differences in financial priorities include:

- Younger generations tend to prioritize living life to the fullest, whereas older generations have generally prioritized work to build wealth.
- Younger investors prioritize green investment considerations, while older investors have focused predominantly on investment performance.
- Younger investors tend to prefer passive investment products, while most investors in the previous generation have preferred to invest in actively managed investment products.
- Younger investors are also more tech-oriented than their older generations, making them open to investing in disruptive but less predictable investments like cryptocurrencies.

UNHW families worry most about passing on the money to the next gen

Against this backdrop, it's little wonder that the results of the Stonehage Fleming Four Pillars of Capital survey saw sustaining family wealth and failing to engage the Next Generation foreseen as one of the top three risks for ultra-high-net-worth families. Poor investment outcomes and political risk entered the top three for the first time in a decade, highlighting the financial concerns weighing on the minds of the 300 ultra-high-net-worth family members (20% of which are South African) participating in the survey. This seismic shift in what ultra-high net worth families perceive to be the greatest challenges they face signals how acutely aware they are of the elevated financial risks that lie ahead. However, the lion's share of the respondents in the survey (80%) indicated they have not yet established a formal process for identifying and mitigating these risks.

How they are preparing to sustain their family wealth

On a positive note, the 2023 survey reports that more than two-thirds of the families are already taking proactive steps to give the Next Generation a more prominent role in family decision-making and financial responsibilities, with the trend more advanced in Africa and the Americas than in the UK and Europe.

One respondent's comment captured the importance of adopting a more formal and bespoke approach to succession planning: "Without proper preparation and education, the Next Generation can find themselves out of their depth and, with excess capital, they get into areas they don't properly understand."

Family offices are well-positioned to help ultra-high-net-worth families in this respect. They have the resources to bring together family members with disparate views and the expertise to provide wise counsel on preparing the next generation for the financial responsibilities they will take over in the next 25 years.

Reputational and mental health challenges are growing risks for UHNW families

In addition to the financial considerations, several non-financial challenges threaten to undermine a harmonious wealth transfer between Baby Boomers and Zennials. These include reputational risk arising from the next-gen's active digital footprints and the mental health tsunami fast spreading across the younger generations. Although reputation is everything for most ultra-high net worth families, the survey highlights that 90% of respondents are not tracking the digital risks of the family, notwithstanding the damage a single post by a family member or staff member could do to a family's reputation.

Most worrying is the steep increase in mental health issues being experienced by the younger generations. Almost one in five young people in the US reportedly experienced a major depressive episode in 2021 – double the proportion of young people suffering from depression a decade ago. The UK's NHS reports similarly worrying mental health problems among the young, with a quarter of young people aged between 17 and 19 having experienced major depressive episodes in 2023. Considering these challenges, it's clear that succession planning needs to extend beyond financial education and training to becoming digitally savvy and ensuring the next generation has access to mental health care and resources.

The old adage "shirt sleeves to shirt sleeves in three generations" aptly sums up the historical challenges of transferring wealth to the next generation. As the Great Wealth Transfer unfolds, families' best chance of breaking this cycle is to prepare, educate and empower the next gen to take on the responsibilities of building wealth for generations to come.

NAVIGATING SOUTH AFRICA'S RETIREMENT REALITY

Retirement, a phase of life often envisioned as a time of relaxation and enjoyment after years of hard work.


Tobie van Heerden, CEO of 10X Investments

However, for many South Africans, this dream remains elusive, overshadowed by stark realities highlighted in the Retirement Reality Report by 10X Investments. In a candid conversation with Tobie van Heerden, CEO of 10X Investments, we delve into the sobering truths unveiled by the report and explore potential avenues for addressing the retirement crisis gripping the nation.

The Retirement Reality Report paints a stark picture of the retirement landscape in South Africa, revealing a glaring disparity between expectations and actual outcomes. With only 6% of individuals able to retire comfortably, the report sheds light on the harsh reality faced by the majority as they approach their golden years. "Retiring comfortably" is defined as maintaining the same quality of life and financial stability before and after retirement—a benchmark achieved by a mere fraction of the population.

Van Heerden underscores the persistent challenges plaguing retirement preparedness, citing factors such as inadequate savings and delayed planning. Despite heightened awareness and concern surrounding retirement, a staggering 70% of individuals lament insufficient funds for a comfortable retirement. Furthermore, 37% acknowledge the detrimental impact of procrastination, lamenting their failure to commence retirement planning at an earlier age.

The report unveils intriguing insights into the shifting attitudes towards retirement across different age demographics. While younger generations display a growing awareness of the importance of saving for retirement, this heightened consciousness often fails to translate into tangible actions. Conversely, individuals approaching the age of 50 grapple with a sense of urgency as retirement looms on the horizon yet find themselves ill-equipped to bridge the savings gap in a limited timeframe.

Risk of waiting too long

As retirement draws nearer, anxiety and apprehension intensify, with a notable increase in the proportion of individuals expressing concerns about inadequate savings. Van Heerden highlights the daunting reality facing individuals in their fifties, emphasising the Herculean task of accumulating sufficient retirement savings within a compressed timeframe. Compounded by the exponential impact of compounding interest, the repercussions of delayed retirement planning are acutely felt as individuals confront the harsh realities of financial unpreparedness. The conversation takes a thought-provoking turn as van Heerden challenges conventional notions of retirement, positing that the traditional paradigm may no longer be sustainable considering evolving economic and demographic trends. The notion of "retirement" as a binary transition from work to leisure is called into question, prompting a re-evaluation of societal attitudes towards aging and economic productivity.

The dialogue delves into the intersection of socioeconomics and retirement policy, highlighting the critical role of regulatory intervention in safeguarding retirement savings and promoting financial resilience. Van Heerden advocates for mandatory retirement savings schemes in the formal employment sector, coupled with stringent regulations governing fee structures to protect consumers from exorbitant charges. In addressing the complex web of socioeconomic challenges surrounding retirement, van Heerden emphasises the imperative of collective action, urging stakeholders to collaborate in devising holistic solutions that transcend traditional silos. By fostering a culture of financial literacy, regulatory compliance, and social responsibility, the investment industry can play a pivotal role in shaping a more equitable and sustainable retirement landscape for all South Africans.

In closing, van Heerden reflects on the profound implications of the retirement crisis, cautioning against complacency in the face of mounting socioeconomic challenges. With concerted efforts and strategic interventions, the investment industry can serve as a catalyst for positive change, paving the way towards a future where retirement is not merely a distant aspiration but a tangible reality for all.

ALEXANDER FORBES 2023 MANAGER WATCH™ SURVEY RESULTS

Janina Slawski, Head of Investment Consulting

On 3 April 2024, Alexforbes released its 2023 Manager Watch™ Survey results, providing key insights into South Africa's asset management landscape. Janina Slawski, Head of Investment Consulting, described the survey as invaluable, covering growth trends and the integration of emerging technologies in the industry.

Key themes highlighted in the June 2023 Alexforbes Annual Retirement Fund Survey include:

- Ninety One emerged as the largest single manager, while Alexforbes Investments led as the top multi-manager.
- South African multi-managers exhibited consistent growth compared to their single-manager counterparts, with the Assets under Management (AuM) ratio shifting from 86%:14% in 2016 to 77%:23% in 2023.
- A notable increase was observed in the number of asset managers rated as level 1 contributors, with all top 10 managers and 19 out of the top 20 in the June 2023 AuM survey achieving this status.
- In the Global BIV survey category, a significant portion of managers reflected high offshore allocations, with 34 out of 45 exceeding a 30% allocation, and 11 out of 45 surpassing the 40% mark. The peer group's average exposure to offshore assets in December 2023 stood at 34.2%.
- The adoption of artificial intelligence (AI) among South African asset managers remains modest, with only 31.8% of respondents incorporating AI into their investment strategies. This cautious approach indicates considerable potential for future growth in AI utilisation within the investment sector.
- Collaboration between asset managers and academia plays a pivotal role in enhancing financial literacy among clients and students, providing invaluable insights for improved financial understanding. As clients become more knowledgeable, they are better equipped to appreciate the expertise required by investment professionals to navigate the complexities of the investment landscape.

Survey highlights

The results of the December 2023 Manager Watch™ Survey of Retirement Funds Investment Managers have been published, analysing key statistics and findings from the survey by Alexforbes.

This edition includes 28 surveys: 13 balanced, 14 specialist and one multi-manager. The key findings of the survey results include:

General

In 2023, there was a 3% decrease in the number of asset managers participating in the Alexforbes surveys compared to 2022, along with a 9% increase in new strategies. The most significant increase, 36%, was observed among portfolios in the BEE survey from 2022 to 2023.

AuM Survey Highlights

Ninety One Asset Managers remains the largest asset manager, with a 6% increase in assets, solidifying its position. STANLIB AM retains second place with a 6% asset increase. Coronation moved to third place with an 8% increase in assets, surpassing SIM. Alexforbes Investments ranks as the top multi-manager in South Africa, showcasing a diverse portfolio approach. Multi-manager assets continue to grow, with a shift from single to multi-manager portfolios over the years. In 2023, total AuM increased by 12% over 2022, with the top 10 managers collectively holding 62% of the total assets.

AuM survey universe summarised according to BEE contributor levels

In the latest survey, 51 out of 79 asset managers achieved level 1 contributor status, an increase from 49 out of 70 last year. Notably, all top 10 asset managers from the June 2023 AuM survey, as well as 19 of the top 20, were rated as level 1 contributors in 2023.

Environmental, social and governance (ESG) considerations

In 2023, the uptake of responsible investing principles saw a further increase. Sixty-nine asset managers participated in the AF surveys, endorsing CRISA, compared to 62 in 2022. Additionally, 59 asset managers signed up for PRI, compared to 48 in 2022. This growth underscores a continuing trend towards the integration of ESG factors into investment and business decisions, highlighting an enhanced commitment to sustainability within the investment industry.

SA Equity Manager Watch™ benchmarks

In the SA Equity survey, over half of the 81 participating portfolios use the FTSE/JSE Capped SWIX All Share Index (ALSI) as their benchmark, while just under a quarter of the portfolios have the FTSE/JSE SWIX ALSI as theirs. This will align in the near future due to the JSE Index Harmonisation exercise.

Fee survey

In 2021 and 2022, most asset managers transitioned from reporting separate fees for domestic and international assets within their global balanced funds to providing a single total fee for these portfolios. This trend continued into 2023, complicating fee comparisons across years. Managers were asked to standardise fees using a sliding scale framework based on distinct AuM bands, further enhancing fee transparency and comparability.

> The asset management landscape in South Africa is witnessing a profound shift driven by the integration of artificial intelligence (AI) and machine learning (ML).

SA and Global Balanced Manager Watch™ – Best Investment View

In the Global Best Investment View category of the Manager Watch™ Survey, performance for the year surpassed domestic mandates by 4.5%, with median returns of 12.6% and 8.1% respectively, driven by strong global equities. Out of 45 surveyed managers, 34 exceeded a 30% allocation to international assets, with 11 surpassing 40%. Average exposure to international assets rose to 34.2% in December 2023 from 29.9% in December 2022. Only four managers had international asset exposure below 30% by more than 5%.

The integration of artificial intelligence and machine learning in investment decisions and operations among asset managers in South Africa

The asset management landscape in South Africa is witnessing a profound shift driven by the integration of artificial intelligence (AI) and machine learning (ML). A survey of 24 asset managers sheds light on this transformation, revealing insights into adoption rates, benefits, challenges and industry prospects. Currently, only 32% of asset managers have embraced these technologies, indicating early-stage adoption. However, this cautious approach underscores significant growth potential. As the industry evolves, strategic investments, skill development, ethical considerations and fostering collaboration, will be vital for maximising the potential of AI and ML.

Building financial wisdom: The converging paths of asset management and academia in South Africa

Improving investment knowledge helps investors and asset managers. Collaboration between academia and asset managers is important. The goal is not to make investors experts, but to help them understand investments better. This understanding helps them appreciate the skills needed by investment professionals. Together, asset managers and academia work to build financial wisdom, creating a stronger investment environment in South Africa.

You can view the full survey here.

LIFE INSURERS PAID R599 BILLION IN CLAIMS & BENEFITS IN 2023

Gareth Friedlander, a member of the ASISA Life & Risk Board Committee

Policyholders and beneficiaries received R599 billion in 2023 from life insurers that are members of the Association for Savings and Investment South Africa (ASISA) following tragic life events like death and disability or significant life stage changes like retirement. Payments made to policyholders and beneficiaries included retirement annuity and endowment policy benefits, as well as claims against life, disability, critical illness and income protection policies.

The long-term insurance statistics released today by ASISA also show that members managed 43.8 million risk and savings policies on behalf of policyholders at the end of December 2023. In-force policies increased marginally from 43.2 million at the end of December 2022. Strong capital buffers ensure that life insurers are in a position to pay claims and policy benefits, even in times of extreme market turmoil and unusually high claims.

The life insurance industry managed assets of R4.08 trillion at the end of December 2023, while liabilities amounted to R3.72 trillion. This left the industry with excess assets of R366 billion, while the SCR was R176.7 billion. The industry had managed to shore up capital in 2023 to levels last seen in the years before the COVID pandemic. South African life insurers have shown remarkable resilience in a period marked by unprecedented claims due to the COVID pandemic with only a slight dip in solvency levels in 2021 and 2022.

This is also the first time the long-term insurance industry has reported assets above R4 trillion. The 10.2% growth in assets from R3.7 trillion at the end of 2022 to R4.1 trillion at the end of 2023 was largely due to market performance. The JSE All Share Index delivered a return of 9.3% over the 12 months to the end of December 2023. The long-term insurance operating environment can be described as slow-growing, with individual life insurers achieving growth by dipping into the market share of competitors by offering better value and product innovation. This has created a highly competitive market, which is good news for consumers.

We have the picture-perfect competitive industry with an enormous amount of innovation and a lot of digitisation. We have also seen an increasing number of industry participants with smaller players joining and banks coming in, which is representative of a competitive and innovative industry. Despite the competitive pressures, the South African life industry remains a responsibly managed industry, delivering value without undermining the ability to pay claims and benefits, especially during tough times.

The life industry in numbers

	2019	2020	2021	2022	2023
Assets held	R3 tn	R3.2 tn	R3.7 tn	R3.7 tn	R4.1 tn
Liabilities	R2.7 tn	R2.9 tn	R3.4 tn	R3.4 tn	R3.7 tn
Free assets	R360 bn	R334 bn	R351 bn	R347 bn	R366 bn
Solvency Capital Requirements (SCR) ratio	2.14	2.11	1.96	1.96	2.07
Claims & benefits paid	R491 bn	R523 bn	R608 bn	R578 bn	R599 bn

Risk policies

In 2023, consumers bought 9.97 million new individual recurring premium risk policies, of which 5.59 million were funeral policies. In 2022, some 9.19 million risk policies were sold, of which 4.39 million were funeral policies. 8.25 million risk policies lapsed last year, a slight reduction from the 8.33 million policies lapsed in 2022. A lapse occurs when the policyholder stops paying premiums for a risk policy with no fund value. While even a slight reduction in the lapse rate is good news, policy lapses are concerning.

With every risk policy lapsed, South Africa's sizeable insurance gap widens even further, leaving more families financially vulnerable should their breadwinner die or become disabled. The 2022 ASISA Life and Disability Insurance Gap Study, conducted every three years, showed that the average South African income earner had a combined life and disability cover shortfall of at least R2.4 million at the end of 2021. According to the study, South Africa's 14.3 million income earners had only enough life and disability insurance to cover 45% of the total insurance needs of their households.

Savings policies

In 2023, 536 784 individual recurring premium savings policies (endowments and retirement annuities) were taken out, compared to 529 930 in 2022. Policyholders also surrendered 563 326 recurring premium savings policies in 2023, compared to 585 265 in 2022. A surrender occurs when the policyholder stops paying premiums and withdraws the fund value before maturity. The increase in new savings policies against a decrease in surrenders was an unexpected positive development, given the economic hardships that faced the majority of consumers in 2023. However, it is encouraging that consumers recognise the importance of disciplined savings, even under difficult circumstances.

Message to consumers

The increase in recurring premium risk and savings policies bought in 2023 is encouraging. The COVID pandemic years highlighted the importance of protecting your family financially by having sufficient life cover in place, as well as savings that can be accessed in an emergency. Hopefully, this motivates consumers to ensure they have enough cover and savings to protect them and their families when life happens.

The cost of living driven by high interest rates and fuel prices combined with the realities of a stagnant economy will likely drive some policyholders to give up their policies and cash in their savings. But I must caution that this should always be a last resort and I encourage policyholders struggling to make ends meet to discuss options with their financial advisers before letting go of their policies. A financial adviser can help you by taking a holistic view of your financial situation and helping you find sustainable solutions that are not driven by emotions.

PFA DISMISSES WOMAN'S CLAIM TO R21M DEATH BENEFIT

Pension Funds Adjudicator Muvhango Lukhaimane

A woman who spent 17 years as a businessman's life partner has failed in her bid to lay claim to a share in the death benefit totalling R21,3 million. The woman complained to the Pension Funds Adjudicator that Old Mutual Superfund Provident Fund should not have paid the full death benefit only to the deceased's two biological daughters.

The complainant was aggrieved she had been excluded as a beneficiary of the death benefit, notwithstanding the fact that she had received R7 000 000 from a life policy due to the deceased's death; was bequeathed immovable property estimated at R1 700 000; and received R35 000 each month in terms of the deceased's Will.

Upon the deceased's death, a total death benefit of R21 308 051. 38 became available for allocation to his beneficiaries. The board allocated 50% of the death benefit to each of the deceased's two daughters. The complainant submitted that she had been in a romantic relationship with the deceased since 2007. She had resigned from her employment at a bank to attend to the needs of the deceased and her then minor child at home. She said the deceased financially assisted her by giving her an allowance equal to the salary she had received for the duration of their relationship. She said the deceased was financially responsible for supporting her and her child from a former spouse throughout their 17-year relationship. The complainant also averred that she had property that she obtained from her former spouse through a divorce. The deceased assisted her in paying off her mortgage bond by providing her with R700 000. She sold her property for R967 592.72 to reside with the deceased, who in turn, would provide for her.

She submitted that shortly after selling her property, she and the deceased entered into a cohabitation agreement. She submitted that at the time, she had just sold her residential property and felt compelled to agree with the terms of the agreement in fear that she would be left without a home for herself and her son. She submitted that since signing the agreement and residing with the deceased, there had been instances of financial manipulation against her by the deceased as he would request large sums of money, which she would pay him. She submitted that her only source of income during her relationship with the deceased was the maintenance payments made by her former spouse, credit overdraft facilities, and the sporadic but sufficient payments in cash/deposits from the deceased. The complainant submitted that the fund allocated the death benefit to the deceased's two biological daughters who were fully independent and employed businesswomen who were not financially dependent on the deceased. She said the two daughters had also inherited significant business interests from the deceased.

The complainant claimed that when she signed a cohabitation agreement with the deceased in February 2014, there were no witnesses and some of the terms of the agreement were not explained to her. Although clause 5 of the agreement waived her right to share in the pension, provident fund, investments, profit sharing or other retirement interests of the partner; and the agreement terminated upon the death of either party; the complainant submitted that she is no longer bound by the cohabitation agreement after the deceased's passing, and as a result, she is entitled to any benefit that may arise from the deceased's death. The complainant submitted that she was informed by the executor of the deceased's estate that his estate was insolvent and incapable of providing the necessary finance anticipated for the establishment of a trust that she was the beneficiary of. She submitted that the executor advised her that due to the estate's financial position, she may have to forfeit her special bequests, such as a car and the house, in order to give effect to the remainder of the Will.

She submitted that the dispute between herself and the executor was on-going and it was not certain whether the Will's provisions would be implemented as intended. She submitted that she could not rely on the R35 000 per month as envisioned in the Will as a safety net. The complainant submitted that she received a life insurance policy payout (R7 million) following the deceased's passing. She indicated that though it is a substantial amount, it does not cover all living expenses and potential unforeseen costs. She submitted that her former spouse had been financially responsible for her son since the deceased passed away. She submitted that her son was in the final year of his studies and moved out, leaving her without a maintenance contribution from her former spouse. She submitted that she has not worked for 15 years and struggled to obtain employment at her age. She submitted that her policy payment may not last throughout her lifetime. The complainant further submitted that the fund had failed to recognise her as a dependant. She stressed that she was financially dependent on the deceased and, therefore, should be considered as a factual dependant.

The complainant provided a non-registered marriage certificate between her and the deceased dated 24 June 2019 as proof that they wanted their relationship to be seen as legitimate as a normal marriage. The complainant submitted that the waiver clause in the cohabitation agreement was intended for the possibility of a divorce between her and the deceased. She said the agreement did not exclude a discretionary award of a portion of the pension benefit. The complainant said she and the deceased lived in separate homes for four to five years before he passed away. She submitted that the deceased regularly travelled between the two homes and was in charge of the general home tasks associated with both houses. She submitted that at all times, she lived and acted as the deceased's wife. The complainant submitted that the executor of the deceased's estate paid her an estimated amount of R35 000 per month as she was aware of the extent of her dependency on the deceased. She submitted that she is uncertain whether the payments came directly from the deceased's daughter or if it came from the deceased's estate.

The complainant claimed that she suffers from a clinically diagnosed auto-immune disease, Lupus, which influences her daily functioning. She had applied for various jobs of different skill levels, with no success. She submitted that she is close to retirement age which limits her ability to earn income, which indicates that she may not be able to earn an income in the future. In its response, the fund submitted that in terms of the deceased's Will, the deceased made provisions for the complainant to receive a monthly amount of R35 000.

Thus, it can be argued that the complainant no longer needs financial support. The fund submitted that the complainant was also bequeathed immovable property estimated at R1 700 000. The fund submitted that according to the cohabitation agreement is a clear indication that the deceased did not wish for the complainant to have any share in the proceeds of his death benefit. The fund also submitted that it was confirmed that the complainant and the deceased lived apart for a few years before his death.

It investigated the complainant's dependency on the deceased and found that she was receiving R35 000 from the estate until she received R7 000 000 from various policies payable to her as a result of the deceased's death. It stated that the complainant also confirmed that she receives R12 000 month from her eldest son and R10 000 per month in child support from her younger son's biological father. The fund submitted that even though the complainant is 52 years old, she has prior work experience and a tertiary-level education. It submitted that although she has not worked for a long time, she still has an income-earning potential.

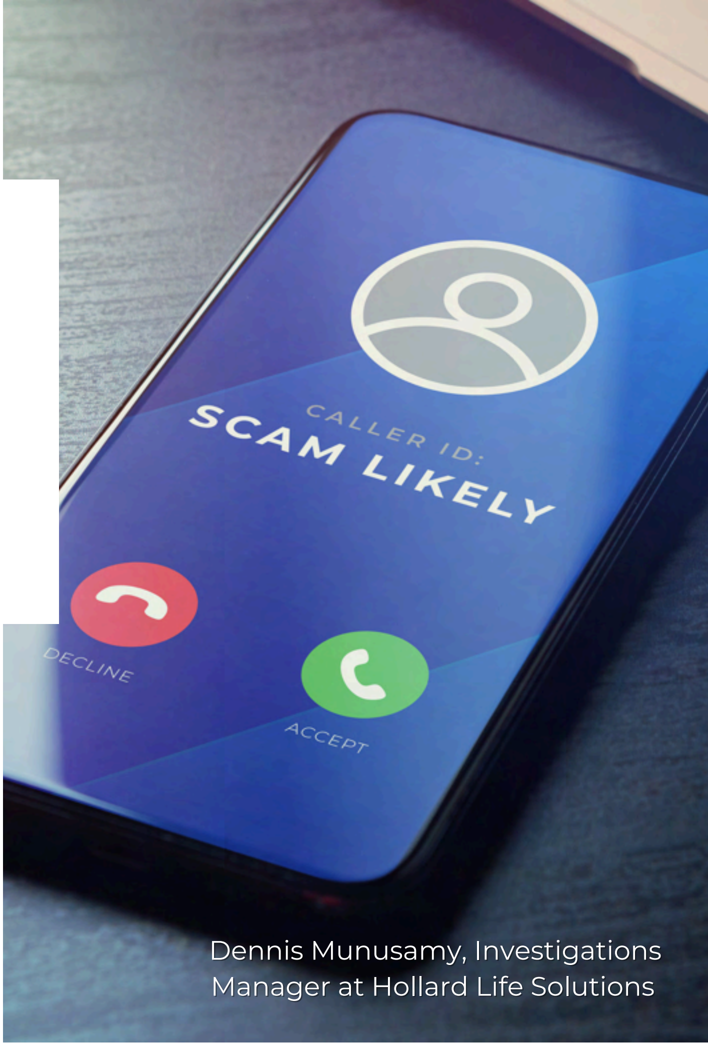
The fund declared that the complainant received sufficient capital payments from third-party payments and with the consideration of the cohabitation agreement together with the content of the deceased's Will, it concluded that the complainant had received enough financial support. The fund submitted that even if the complainant suffers from Lupus, she is not completely precluded from finding employment that suits her conditions. It submitted that it deemed it equitable and reasonable to allocate the death benefit to the deceased's two children. The fund concluded that it took all the relevant factors into account when allocating the death benefit and made an equitable and reasonable allocation.

In her determination, the Pension Funds Adjudicator Muvhango Lukhaimane said it is the board's responsibility when dealing with the payment of death benefits to conduct a thorough investigation to determine the beneficiaries, to thereafter decide on an equitable distribution and finally to decide on the most appropriate mode of payment of the benefit payable. She said the fund was correct in identifying the deceased's biological daughters as dependants of the deceased. She said permanent life partners are included in the definition of dependant. Therefore, the complainant qualifies as a legal dependant of the deceased. However, the fact that a person qualifies as a legal or factual dependant does not automatically give them the right to receive a portion of a death benefit.

"The submissions indicate that the complainant received R7 000 000 from a life policy due to the deceased's death and R35 000 per month from either the deceased's estate or its executor. "It is further unconfirmed whether or not the deceased's estate is insolvent. "However, if the estate is not insolvent, the complainant was also bequeathed immovable property estimated at R1 700 000. "The complainant was placed in a better position due to the third-party payment she received. Furthermore, the complainant can still find employment. The facts indicate that even though she is 52 years old, she has prior work experience and a tertiary-level education.

She still has an income-earning potential and can find employment. Therefore, the fund was correct in not allocating a portion of the death benefit to the complainant," said Ms Lukhaimane. With regard to the cohabitation agreement, Ms Lukhaimane said the complainant should have been aware of what she was signing and cannot claim that the terms of the agreement were not explained to her. The terms of the cohabitation agreement clearly show that the parties agreed that there would be no sharing of pension benefits. "In light of the above, I am satisfied that the board of the fund took into account relevant factors and did not abuse its discretion in the allocation of the deceased's death benefit. "The death benefit was properly allocated to the dependants of the deceased and there is no reason to set aside the board's decision. Thus, the complaint cannot succeed and is, therefore, dismissed," said Ms Lukhaimane.

LIFE COVER FRAUD A REALITY IN SOUTH AFRICA



Dennis Munusamy, Investigations Manager at Hollard Life Solutions

Life cover fraud has been in the spotlight following the harrowing case of former policewoman Rosemary Ndlovu, who was sentenced to life in prison for orchestrating the murders of six family members between 2012 and 2018 to reap insurance payouts. While not all instances of life cover fraud are as extreme, it has left a profound impact on South Africa's long-term insurance industry. Fraudulent activities in life insurance include a range of deceptive practices, including false death claims, beneficiary fraud, and fabricated policies. With technology advancing rapidly, fraudsters are also on the lookout for increasingly sophisticated schemes, necessitating insurers to constantly update their fraud detection methods.

According to the Forensic Standing Committee of the Association for Savings and Investment South Africa (ASISA) in 2022, life insurers and investment companies identified 8,931 cases of fraud and dishonesty, resulting in losses of approximately R77 million. Fortunately, these companies were able to prevent losses amounting to R1.1 billion. Hollard Life Solutions, for instance, prevents losses of around R20 million annually from fraudulent claims, particularly on direct funeral and life policies. Such fraudulent activities are often driven by financial desperation, with individuals resorting to deceit to maintain their standard of living.

Recent trends in life insurance fraud show newer ways of fraudulent activities, including individuals impersonating others when acquiring a policy, brokers altering beneficiaries' details, and the manipulation of death circumstances and police reports during the claims process. Criminals are also targeting vulnerable individuals, taking out life and funeral assurance policies, with the proceeds channelled back into illicit activities in cases of unnatural deaths, such as gang-related violence, and this is costing the burial and life insurance industries billions of rands.

One common tactic used in fraudulent claims involves funeral policies, which may impose waiting periods of up to six months for deaths due to natural causes. This measure is designed to deter individuals from taking out a policy once they are already sick and aware of their impending death. However, there are typically no waiting periods for claims related to unnatural causes.

We have seen several horrendous trends emerging in fraudulent insurance claims related to unnatural deaths, including what is called hit-and-run schemes, where some families stage unnatural deaths after their loved ones pass away naturally during the waiting period. The body is removed from the mortuary and placed in a road where it could be struck by a vehicle. The family then files a claim after reporting a false 'culpable homicide.

Other schemes include the sale of unidentified bodies, where mortuary employees have been implicated in selling unidentified bodies to syndicates in the funeral insurance industry. These bodies are then used to file claims against policies obtained fraudulently, sometimes days or months earlier.

The purchase or rental of unclaimed bodies is another scheme, where employees of funeral parlours and mortuaries purchase deceased corpses in the funeral insurance market and sell or rent them to syndicates. These bodies are then used as collateral for policies that were falsely obtained several months prior. Paper children syndicates are also a growing insurance fraud trend. This scheme involves claims for children who have reached the maximum age for SASSA benefits.

The child is covered by the policy, and a claim is submitted for the child's death outside the waiting period. There is often no proof of the existence of such a child, and it is usually the uncle or aunt who lodges the claim, not the biological parents. Late registration of death for the assured life is another one of these schemes. However, in this instance, syndicates often operate in rural areas, identifying deceased individuals who have not yet been officially recorded as deceased with the Department of Home Affairs.

These syndicates then take out funeral covers on these individuals, wait for some time, register them as deceased, and submit claims just as the waiting period ends. We have seen murder for money, which is a type of insurance fraud that’s currently on the rise, particularly in the Eastern Cape, with policies being taken out between one day to three months ahead of the murder. Once the individual has been murdered, they claim against them. To combat fraud, insurance companies are proactively implementing measures to deter fraudulent activities, including working in close collaboration with law enforcement and regulatory agencies.

Companies, both members and non-members, receive regular information from the Insurance Crime Bureau (ICB), which enables insurance companies to take decisive action against fraudsters. The ICB was established to address the surge in organised fraudsters exploiting insurance for financial gain. In cases of actual loss, insurers work closely with the ICB, the Financial Intelligence Centre, and the South African Police Service to recover costs.

Through these concerted efforts, the insurance industry aims to stem the tide of life cover fraud and protect the integrity of insurance schemes for all stakeholders. Insurance companies are increasingly turning to artificial intelligence to combat insurance fraud, utilising predictive modelling and data analytics to identify and prevent fraudulent activities. Both insurance companies and consumers play crucial roles in curbing fraudulent activities in the insurance industry. On the one hand, insurance companies are responsible for implementing robust fraud detection measures and collaborating with law enforcement agencies, and regulatory bodies among others to effectively combat fraud. On the other hand, consumers have a responsibility to act ethically and honestly when interacting with insurance products.

This includes providing accurate information when applying for insurance, reporting any changes in circumstances that may affect their policy, and submitting legitimate claims only. Consumers should also be vigilant and report any suspicious activities or attempts at fraud. Always protect your personal information, to prevent identity theft and fraudulent activities against your name. By working together, insurance companies and consumers can help reduce the prevalence of insurance fraud.

Here are some ways in which consumers can start being vigilant:

- ✔ Check credit bureau profiles: Regularly check profiles with major credit bureaus and set alerts with the Insurance Crime Bureau (ICB) for industry checks.
- ✔ Broker checks: You can also run checks against your name to see if any new policies have been taken out against your name without your consent. To do this, you can ask an insurance broker to run checks against all insurers to see if new policies have been taken out in your name.
- ✔ If policyholders suspect any fraudulent activities, report these to your insurer. Policyholders can also report fraudulent activities to the insurance fraud hotline, or the Insurance Crime Bureau, or the South African Police Service.

WHY THE DEFINITION OF RISK MATTERS FOR FIXED INCOME INVESTORS

Lyle Sankar, Head of Income at PSG Asset Management

The definition of risk significantly influences both the outcome investors are most likely to experience and the probability of whether that outcome is aligned to the objectives they set out to achieve, over a given time period. For investors, the burning question at the heart of their dilemma as they seek to balance risk and return is whether their hard-earned savings are safe.
The only question that matters is: "Am I going to be okay?"

Simply, fixed income investors seek:

1. Capital protection
2. Attractive yields that outpace inflation or cash
3. Low volatility of returns

At PSG Asset Management, we define true risk as the permanent loss of capital, and place substantial weight on ensuring that capital is preserved relative to any additional yield we could achieve for clients. We believe all three of the objectives above are easily attainable in a market with an abundance of yield opportunities, but caution that a skew towards one specific objective can result in significant unintended consequences for investors. In recent years, we have increasingly seen a drive for higher yields (Objective #2) at lower volatility (Objective #3).

When it comes to evaluating income funds, the focus has been on risk-adjusted measures such as the Sharpe ratio, which measures a fund's excess historical returns versus a benchmark (e.g. cash) relative to the variability of such returns (volatility). Conventional wisdom concludes that the higher the Sharpe ratio, the higher the historical return per unit of risk, and the better the fund. However, we believe that focusing too much on these historical measures that use volatility as a proxy for risk has inadvertently created greater unseen risks which deserve attention, particularly in the context of protecting client capital.

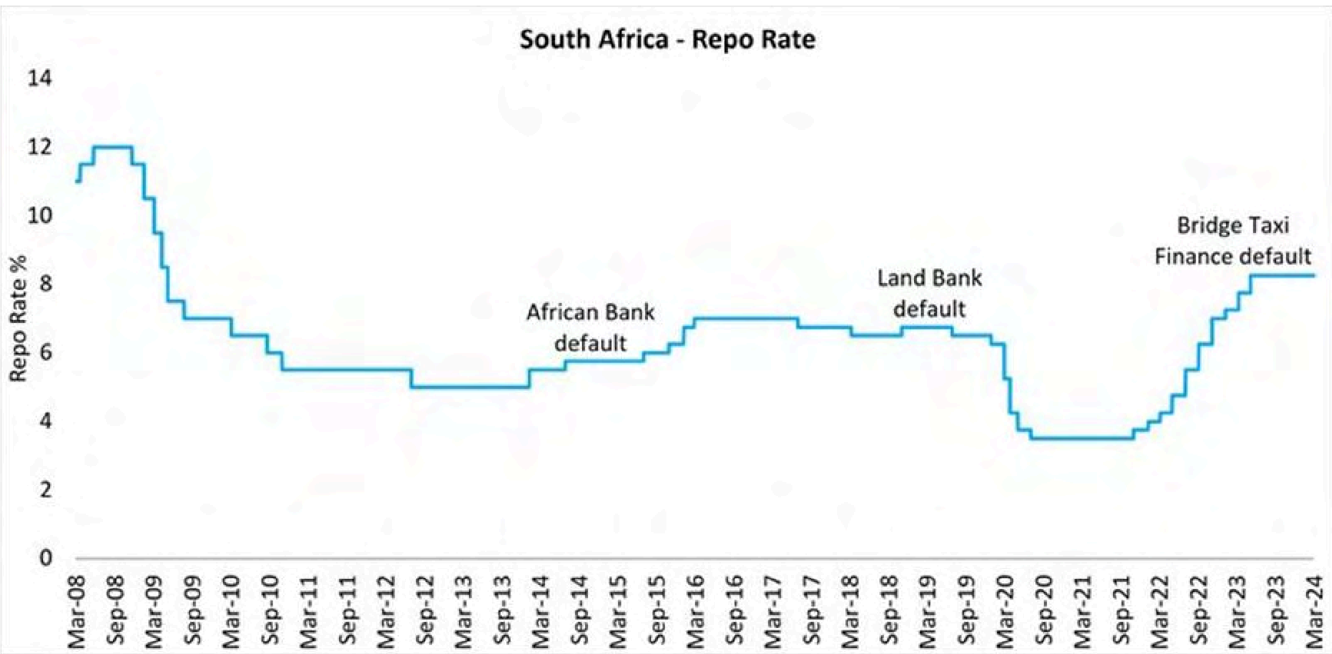
The use of Sharpe ratios in the local fixed income market is flawed

Fixed income portfolios are often viewed as interchangeable, with each one comprising similar assets in different ratios, resulting in slightly different yields and volatilities. We believe the funds can be materially different, and have for some time advocated for a closer look at the underlying securities in the portfolios, as this will ultimately drive risk and return outcomes. In our view, excessive use of illiquid instruments such as corporate bonds (including structured notes and unlisted instruments) can both increase yields and suppress volatility, resulting in a high Sharpe ratio. When considering the risks in corporate bonds, given our bottom-up valuation-driven approach, we continue to believe these securities are not providing sufficient compensation for the underlying risks. In fact, spreads (compensation above cash rates) for investing in these securities are at the lowest point in a decade. Investors are at risk of spreads moving wider (resulting in capital losses on these instruments), especially given the current phase of the economic cycle, where the embedded risks are particularly high. This environment (low spreads, high fundamental risk) is particularly poorly suited to investors in search of the highest yield at the lowest volatility.

Thinking about the economic cycle

A Sharpe ratio can never forecast a permanent capital loss event. Today, the repo rate is at the highest level since the Global Financial Crisis (GFC). The South Africa Reserve Bank (SARB) has increased the repo rate by 4.25% since late 2021. With the majority of corporate bonds issued on a floating rate basis, these securities have offered increasing yields, leading to improving Sharpe ratios at a fund level as we progressed through the hiking cycle. However, higher yields are associated with increased risk, and investors always have to consider whether the risks are worth taking. As rates rise, economic activity slows, and corporates and consumers come under immense pressure through higher funding costs. This is particularly difficult for cyclical and highly geared corporates, or those directly facing the consumer in SA. We believe the market has been incentivised to focus on investing based on the highest yields at the lowest possible volatility at precisely the wrong time, inadvertently driving clients to greater exposure to these types of entities at the wrong point in the cycle. While all defaults are different, a simple look back at the repo rate cycle since the GFC illustrates the risks to fixed income investors associated with higher rates or a weaker economic environment.

Repo rate over the past 15 years and defaults in South African fixed income



Sources: PSG Asset Management and SARB

> Higher yields are associated with increased risk, and investors always have to consider whether the risks are worth taking.

Constructing portfolios to ensure all three client objectives are met

The consensus is that interest rates in South Africa are likely to come down in the near term. However, consumers and corporates in SA will likely remain under pressure given the significant interest rate increases over the past year. As we have demonstrated over the long term, a philosophy and process that focuses on protecting clients' capital as a primary objective increases the odds of successful outcomes. We aim to get less wrong, rather than pushing for higher yields. Considering where true risk may lie, we are increasingly focused on where the next pitfall will be as the consequences of skewed incentives play out.

Over the long term, our clients have been able to meet all three objectives through our approach to managing fixed income risk and return objectives. While we may not get every investment decision right, by placing capital protection at the forefront while managing volatility in a responsible manner, we have helped to ensure that our clients have been more than 'okay' through difficult markets. The PSG Diversified Income Fund won the trophy for Best South African Interest-Bearing Fund and certificate for Best South African Multi-Asset Income Fund (over varying periods) in both 2022 and 2023 and was nominated for the Best Risk-adjusted Multi-Asset Income Fund to the end of 2023 at the Raging Bull Awards. The PSG Income Fund won the award for Best Interest-Bearing Short-Term Fund on a risk-adjusted basis over five years in 2021 and 2022.

Importantly, from a risk perspective, the funds have delivered on their return objectives without excessive exposure to securities that we believe create an artificial sense of comfort. In the context of the current market, we offer attractive inflation-beating yields that are likely to be enhanced by a positive outlook for securities that will benefit in a rate-cutting cycle. We do not aim to offer the highest yields in the market. Rather, we would caution that high yields at low volatility do not come without risk, and require deeper consideration as to whether all three client objectives are being met consistently and reliably.

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- Home/Office Assistance
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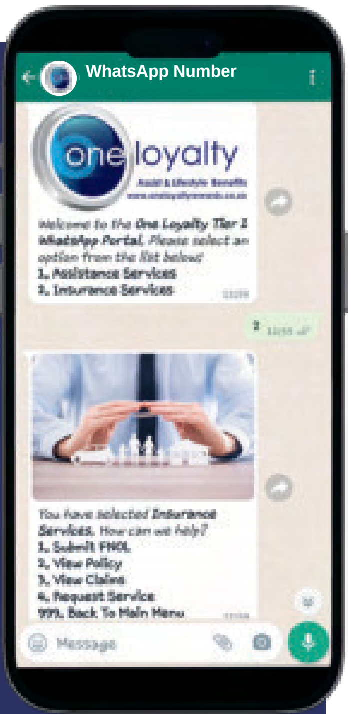

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- Request **Border Letter**
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THE ROAD TO SUCCESSFUL GLOBAL CITIZENSHIP

Ferdi van Heerden, chief executive officer at Momentum Investments

Living abroad has become increasingly feasible with the rise in new technologies, which has made it possible to work from any location. From young professionals to retirees, being a global citizen is no longer an exclusive privilege.

In a time where global citizens are the norm, it is essential for financial advisers to understand the intricacies of offshore investments and the best ways to structure financial plans to meet the specific goals and needs of each client. While thinking about offshore investment options, a well-rounded investment strategy is necessary.

For South African investors, comprehensive and effective diversification is more important than ever. However, with so many products, platforms, and channels, never mind the technical and legal challenges, the need for professional advice is essential.

Building on the success of our Global Citizen masterclass series held in April and September last year, in March we hosted our latest edition of this insightful conversation. During this session, we shifted our focus to the important aspect of international succession and estate planning and how this plays a role in determining the appropriate structure for clients. We live in extraordinary times, but we often fail to make sufficient plans for when we die. What happens to our debts and assets? If they are domiciled in different countries, estate taxes and requirements could be very different.

Who should your beneficiaries or dependents get in touch with to help them settle global financial and tax issues? As an example it can take several years for a tax status to be cleared in particular jurisdictions. The global citizen should make sufficient plans to address all of this. There are numerous factors to take into account when it comes to financial planning for global citizens. Firstly, you need to think about inheritance laws and the tax implications in different legal systems. Secondly, there are investment complexities relating to globally diverse portfolios. Thirdly, it would be necessary to work out the overall process that your executor and family should follow. Fourthly, the wealth distribution among beneficiaries residing in different countries has to be fair. Lastly, and most importantly, having a trusted adviser who can advise and support you and your dependents on all of these aspects, is key.

As it frequently takes years to ensure that financial affairs are set up appropriately and robustly, such planning should start as soon as possible. Because of the different double tax treaties and the complexities of local tax legislation, global citizens require the assistance of more than one adviser. It is important to make sure that global affairs are structured by reliable, specialised advisers in solid, mature jurisdictions who are supported by established product providers and solutions. As an expat, I have learned the importance of having a trusted financial adviser with global expertise, who helped clarify how I need to think about my global affairs.

This helped me plan better and reduced my anxiety. While I still receive assistance from my South African adviser, I also have relevant specialists in other countries to support me in my retirement goals. At times, they need to engage with each other and review my global affairs to make sure everything is in order in each jurisdiction. With a globally-minded adviser, I sincerely believe that South African clients can globalise their financial world.

It is imperative that financial advisers comprehend the significance of global estate planning and ensure that their clients who are global citizens receive appropriate advice. Momentum Wealth International, our offshore investment platform, is your gateway to global investments. With more than 20 years of delivering excellence and the latest technology at your fingertips, we make it a personalised journey for you. For more information please visit momentum.co.gg.

Momentum Investments is part of Momentum Metropolitan Life Limited, an authorised financial services (FSP 6406) and registered credit (NCRCP173) provider.

UNDERSTANDING THE IMPACT OF FUNDING PATTERNS ON THE SUSTAINABILITY OF YOUR CLIENTS' COVER

The residual impact of the COVID-19 pandemic, ongoing geopolitical conflicts and a series of climate shocks have led to a worldwide increase in the cost of living. According to the IMF's 2023 Annual Report, countries in sub-Saharan Africa saw an average increase in food prices of 24% in 2020–22, the largest since the 2008 global financial crisis. This has had a knock-on effect on the life insurance industry in South Africa, with affordability becoming a primary concern to clients when discussing their risk portfolio with their financial adviser. Long-term insurance statistics recently released by ASISA show that in-force policies increased only marginally in 2023, while there was a slight reduction in lapse rates. Together, these factors are driving a highly competitive and commoditised space, where both clients and advisers are actively comparing premiums between different providers.

One of the levers that financial advisers have at their disposal to address the affordability of cover is premium funding patterns. However, clients and financial advisers need to weigh up both the short-term affordability as well as long-term sustainability of premiums, as there is essentially a trade-off between initial premium affordability and the long-term affordability of cover and premium increases. In principle, the most cost-efficient funding pattern over time is the least aggressive option, as it's also the most sustainable funding pattern. However, clients often opt to 'buy now, pay later' through a lower initial premium – and a lower initial level of cover – which then increases aggressively with age. These age-rated funding pattern are among the most prevalent funding patterns in the market, despite the fact that they are, for the most part, neither efficient nor sustainable.

A study published by BrightRock and True South Actuaries in 2012 showed that most people with an age-rated funding pattern would end up with unsustainable premium increases or insufficient cover, or both. This is because, as premiums increase and become increasingly more expensive, clients are likely to buy down or lapse their cover owing to affordability constraints. Compounding this problem is the complexity and confusing terminology that surrounds premium patterns in the industry. For example, a "level" funding pattern may, in fact, be age-rated. A financial adviser who has quoted their client on a yearly cover increase of 5% and a 5% compulsory premium increase, may be forgiven for expecting their premium will increase by 5% every year to pay for the 5% increase in cover.

At worst, they might expect a 10% increase to fund the cover increase plus the compulsory premium increase. In most instances, however, if cover is added with a scheduled annual cover increase, it will actually be priced for the client's age at the time of the increase (and with many providers, this component of the premium increase isn't guaranteed, despite the contract containing a premium guarantee).

In other words, age rating applies even though most insurers would not call this an age-rated premium pattern. What's more, this age-based rate will typically increase every year as the client gets older and be added to the 5% compulsory increase. So instead of the 5% or 10% premium increase implied by the 5/5 funding pattern, the client's actual yearly increase could be anything between 11% and 13%, with their premiums becoming unsustainable in just a few years.

Ashley Laatz, independent financial adviser at Consult by Momentum, concurs: "In our practice, we have identified funding patterns as a major concern in terms of the long-term sustainability of clients' cover and it's something we actively highlight to our clients. Especially because the industry terminology may create a gap between a client's expectations and the actual increases they experience. To bridge this gap, we have developed a tool in our practice that enables us to illustrate the impact of different premium pattern choices to our clients.

Clyde Parsons, Chief Innovation Officer at BrightRock

We find that, equipped with this information, clients are easily able to grasp the impact of an age-rated premium increase on the long-term sustainability of cover. As a result, we have been able to shift the discussion with our clients, especially thanks to newer technology available in the market that promotes transparency and offers clients greater flexibility and choice in terms of selecting their premium and cover increases. In fact, in our business, 90% of the business we sell has a 0% premium increase with a 4% cover increase – this is only possible through the new generation, needs-based options now available in the market".

When BrightRock entered the market, we identified premium funding patterns as an area where insurers have too often failed to treat clients and advisers fairly. To address these shortcomings, our product design aims to offer clients predictable, consistent premium increased that are clearly disclosed through detailed premium projections that show both the rand amount and percentage increase. The full premium increase is guaranteed for 10 years, irrespective of cover increases, and we have opted not to brand our premium patterns, as we believe in names that tell clients what to expect. For example, if a client has a 5% cover increase and a 5% premium increase, both their cover and their premiums will increase by 5% each, every year. This approach helps to demystify premium patterns for clients and advisers alike, supporting informed decisionmaking.

As Laatz concludes: "In our practice, we believe that highlighting premium patterns and their downstream impacts on the sustainability of cover is good business. It supports and enables the sales process, helps us retain clients on our books, and above all, it promotes the long-term financial wellbeing of our clients."

OFFSHORE

INVESTMENT ARTICLES

For many, global investing feels like going to the moon! It's a venture into unknown unknowns in a vast universe where one can disappear without a trace.

- PATRICE RASSOU IS CHIEF INVESTMENT OFFICER AT ASHBURTON INVESTMENTS

Transfer pricing and its effect on connected-party cross-border transactions in Africa

Ralph Wichtmann, MD at Sovereign Trust SA

Expanding your business from South Africa into Africa can be fraught with legal and tax obstacles – not least of which are the transfer pricing provisions which are to be considered as part of the expansion and day-to-day operations of the business. The crux of these provisions is that all connected-party cross-border transactions have to be entered into on arm's length terms and, most simply, this means that the parties must transact as if they were doing so with unconnected parties.

In this article, the first of a two-part series, we look at transfer pricing in the context of a South African company expanding into Africa to facilitate the provision of services and sales into Africa:

- A South African company (SACo) provides engineering services and sells imported engineering equipment to clients in South Africa.
- SACo is approached by a number of clients in Africa and other jurisdictions to provide similar services and goods.
- The offshore clients are hesitant to pay a South African company, and would prefer a jurisdiction that trades in USD and does not have exchange control requirements.
- SACo would prefer to avoid bringing funds into the SA exchange control net.
- The ultimate beneficial owners (UBOs) of SACo are keen to establish offshore asset bases for estate planning purposes.
- The UBOs set up a company in Mauritius (MCo) in order to provide the services and goods to the African clients.
- MCo also acts as the holding company for African subsidiaries, which are created to ease the local business requirements in the African clients' jurisdictions.

In this example, some of the most important factors that come into play include:

Structure

The UBOs should consider setting up an offshore trust to hold the MCo shares which offshore trust can, in turn, incorporate companies in African countries as needed. Chief among the benefits of an offshore trust structure are keeping the offshore proceeds outside of the SA exchange control net; protection against creditors; protection against the exit tax that would otherwise be applicable if the beneficiaries emigrate from SA; and continuity of ownership in the case of the death of a shareholder.

Funding

The UBOs must comply with SA exchange control allowances when funding MCo and/or the offshore trust. The funds being transferred to MCo or the offshore trust can only be classified as a loan or a donation and, depending on the funding mechanism, different tax consequences and anti-avoidance provisions may be triggered.

Substance

Mauritius has specific substance requirements, especially for global business licence companies, which are companies that earn the most of their income from outside of Mauritius. To be compliant, MCo must have enough employees to provide the services for which it is charging. And, to ensure that MCo retains its Mauritian tax residency status, effective management of MCo must reside with the Mauritian employees.

Permanent establishment

Creating a permanent establishment means that the income and gain made by MCo, as a result of any of its employees or agents in another jurisdiction, or as a result of contracts being entered into on behalf of MCo in other jurisdictions, will result in a taxable presence in these other jurisdictions. Essentially, the tax authorities in these jurisdictions could tax this income and gains. It is thus imperative that the operations of the company take place in its jurisdiction of formation or incorporation, to ensure that it does not create a taxable presence in another jurisdiction.

Tax

Depending on where MCo's African subsidiaries are located, corporate tax could be levied on their income. When dividends are distributed to MCo, dividends withholding taxes should be taken into consideration. In addition, if MCo's subsidiaries are funded by way of debt, withholding taxes could apply to the interest. And, to add complexity, the interest rate must comply with the arm's length transfer pricing principles.

Further, on receipt of the dividends and interest by MCo, Mauritian corporate tax is levied on the income, subject to tax breaks like the partial exemption on certain streams of income (provided that the interest is part of MCo's core income generating activity), and possible foreign tax credits. If MCo imports from outside of Mauritius and exports into Africa, there are also some fiscal benefits pertaining to this trade.

However, permanent establishments could have an effect here, and customs requirements must be considered. The flow of dividends from MCo to its Mauritian shareholding trust is beneficial from a tax perspective, but the distribution from the trust to its SA beneficiaries is subject to complex tax rules that depend on how the trust was initially funded, as well as the source of the distribution.


Imra Lategan, Head of Private Clients at Regan van Rooy

Controlled foreign company

If the SA shareholders decide not to use a foreign trust to hold their MCo shares, the controlled foreign company (CFC) rules could potentially attribute all income and gains made by MCo to its SA shareholders in relation to their percentage shares held, and the shareholders would be taxed on their income and gains as SA taxpayers – although there are a few ways to mitigate these risks. Mauritius also has CFC rules that could apply to the subsidiaries that MCo owns in Africa, depending on the percentage shareholding.

Exchange control

The SA shareholders have individual exchange control allowances that they may use to exit funds from SA. However, all funds that exit SA must be authorised in terms of exchange control provisions, and non-compliance is a criminal offence. These exchange control allowances could be used to fund MCo or the foreign trust. SACo may also avail itself of the foreign direct investment rules, but this would mean that MCo would be effectively owned by SACo, and CFC attribution rules could be applied.

If MCo owns SACo, authorisation must be obtained for the resulting loop structure – in which SA residents have an interest in an offshore structure that owns assets in SA. If the loop is correctly placed on record, strict reporting obligations will apply. The shareholders should also be aware of the capital gains tax that will become payable on the sale of SACo to MCo. Capital gains tax might become payable as well as securities transfer tax on the sale and transfer of the share of SACo to MCo. In addition, the market value of the SACo must flow into SA.

Further, if SACo owns any intellectual property (IP), exchange control will not easily allow this IP to be moved offshore. Tax will come into play if the subsidiaries want to use this IP, and transfer pricing provisions will apply. In conclusion, the above risk areas could be mitigated by finalising a transfer pricing policy before planning and implementing any offshore expansion. It is always advisable to consult with a transfer pricing specialist before making any offshore expansion decisions as transfer pricing is an infinitely complex area of tax.

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NAVIGATING OFFSHORE INVESTMENTS: A BALANCED STRATEGY FOR SOUTH AFRICAN INVESTORS

Bastian Teichgreeber, Chief Investment Officer at Prescient Investment Management

In the ever-evolving landscape of investments, South African investors are increasingly looking beyond their borders, eyeing the global market for opportunities that promise growth and stability. This trend underscores a critical strategy in today's financial planning: a balanced approach to investment, emphasising effective and holistic diversification. As the investment arena expands, navigating through the plethora of products, platforms, and channels, compounded by the technical and legal intricacies, underscores the indispensable role of professional advisory services.

The Imperative for Offshore Investments

The allure of offshore investments for South Africans cannot be overstated, particularly against the backdrop of the country's unique economic and political milieu. The Johannesburg Stock Exchange (JSE), while a cornerstone of the local investment community, represents less than 1% of the global market capitalisation. In contrast, offshore investments grant access to global markets, industries, and companies otherwise inaccessible through the JSE. This access is not merely about variety; it's about exposure to sectors showing more robust growth potential, such as leading technology firms and pharmaceuticals, which are pivotal in driving future economic trends. Moreover, the geopolitical and economic stability offered by diversified offshore investments can mitigate the risks tied to the volatility and political uncertainties inherent in the South African economy. It's a strategic move to counter the pronounced home bias that could potentially hamper investment success. By broadening their investment horizon, South African investors can significantly reduce local market risks, thereby safeguarding their portfolios against domestic economic fluctuations.

Beyond Negativity: A Proactive Approach to Diversification

It's crucial to clarify that the advocacy for a substantial offshore investment allocation is not borne out of negativity towards South Africa. On the contrary, multiple asset classes within the country are seen as undervalued and ripe with potential. However, the essence of a balanced investment strategy lies in the capacity for high-degree diversification, which is more readily achievable on a global scale. This approach helps avoid concentrated positions that can lead to disproportionate risks. In this context, Investment managers, like Prescient emerge as pivotal partners for South African investors aiming to navigate the complexities of offshore investment. With a successful track record in managing balanced and income portfolios, Prescient's investment philosophy is deeply ingrained in risk awareness. Asset allocation, especially in the offshore domain, is paramount. The myriad of investment options available globally necessitates a meticulous selection process, one that Prescient excels in through its systematic, data-driven investment approach.

Leveraging Data for Informed Decision-Making

A good investment strategy is a strategy built on a foundation of facts and empirical evidence, a strategy that can stand testament to the power of a data-driven methodology in investment decision-making. Asset managers equipped with this skill have access to a distinct advantage, particularly in the global investment arena. Expertise in the field of data science enables professional investors to sift through global market data, identifying trends and opportunities that could elude less equipped investors. Adding to this, the emphasis on diversification should form a cornerstone of any comprehensive investment approach, rightly touted as the "only free lunch" in investing. By spreading investments across various asset classes and geographies, investors can achieve a balance between risk and reward, optimising their portfolio's potential for growth while minimising exposure to any single point of failure.

The Path Forward

As South African investors venture into the global market, the importance of a balanced and diversified investment strategy becomes ever more apparent. Offshore investments offer a pathway to mitigating domestic risks while capitalising on global growth opportunities. However, the complexity of the global investment landscape necessitates a seasoned guide.

Prescient stands out as a partner for those navigating these waters, offering a blend of risk-aware strategies, empirical analysis, and data-driven insights. With a systematic investment strategy, investors can embark on a journey towards a diversified and balanced portfolio, one that not only withstands the test of time but also leverages global opportunities for sustainable growth. In the quest for financial success, a balanced view of investment, coupled with strategic offshore allocations, is not just advisable; it is essential.

FIVE KEY CONSIDERATIONS FOR YOUR OFFSHORE INVESTMENT STRATEGY

Citadel Chief Economist and Advisory Partner, Maarten Ackerman unpacks five key considerations for offshore investment strategies.

South African investors who are serious about long-term wealth creation need to pay special attention to their offshore allocation. To be successful, this goes beyond picking the next Nvidia or Amazon, but rather the adoption of a structured and holistic investment philosophy. As a wealth management specialist, we have centred our investment approach around some core principles which would be applicable irrespective of where you invest. Our departure point is always that the future is uncertain, and you need to diversify. When you do diversify, you need to do so at a time when valuations make sense, and you need to ensure you have the right asset allocation.

The first key consideration for offshore investment is the investment instrument that you will be using. Is it a technology share in the United States (US)? Perhaps it is an exchange-traded fund (ETF), unit trust or structured product? Are you looking to bolster the income portion of your portfolio through global property or a combination of emerging market and developed market bonds? If one considers the structure of the South African market, investors have a primary bourse with around 400 companies listed. The number of actual investment vehicles, whether exchange-traded funds or unit trust funds are multiples of these.

This might sound significant, but when you consider that South Africa makes up less than 1% of global assets, you realise the diversity of the global investment universe. While the last few years have been characterised by outperformance in US technology shares, we are increasingly seeing opportunities in markets like Europe, the United Kingdom and Japan. This brings us to our second consideration which is understanding the objective of the investment. A key driver of offshore investment activity is protecting your wealth against rand depreciation, but we would argue that the currency is simply a tool in your investment toolbox.

Instead, we believe that investors should view themselves as global citizens. If you are earning your salary in rand but buying your car, mobile phone, or television from overseas then you need to utilise your investment portfolio to preserve your hard currency buying power. Since all of these are priced in USD. Your third consideration will be around governance and compliance which can be highlighted through two examples. The first is Russia which was part of the “BRICs” grouping – characterised by well-capitalised banks and valuable commodity assets –investors here have been frozen out and lost money due to sanctions applied by the Western economic powers in the form of the US and Europe.

Closer to home, South Africa’s greylisting has seen the cost of compliance rise as international regulators demand additional information from South Africans moving money offshore. This additional cost of compliance and administrative burden has discouraged many people from enhancing their offshore asset allocation, something which could negatively impact their long-term risk-adjusted returns. Understanding the investment jurisdictions and compliance requirements should not be a reason not to invest offshore.

> "Investors who are serious about long-term wealth creation will recognise that they cannot limit their investment universe to South Africa. "

Our fourth consideration is around the platform that you will be utilising to make your investments offshore. There are two primary ways in which you can facilitate offshore investments. The first is the direct route where you move money offshore and make investments and the second is where you make use of an asset swap arrangement. While the direct route has become far more popular as exchange control regulations have eased, investors in companies or trusts may need specialist advice when making use of asset swap arrangements.

This leads us to the fifth consideration which is around advice and the associated fees. New platforms have made it easier for investors to go the direct or do-it-yourself route, but this should never discount the value of expert wealth management advice. Whether it is assisting with the compliance costs of the greylisting, more specific tax structuring advice, or providing you with an independent set of eyes and ears, a high-quality advisor can be an asset when deciding to go offshore.

Investors who are serious about long-term wealth creation will recognise that they cannot limit their investment universe to South Africa. By incorporating these key considerations, you can tackle an uncertain future from an informed perspective. Investors can also pair this informed perspective with a wealth management specialist who can assist them with their offshore needs, an example of this is Citadel, where the people and solutions are in place to guide you on your wealth journey.

INVESTING OFFSHORE WHERE TO START?

Francis Marais, Head of Product at Morningstar South Africa

From a broader set of investment opportunities to currency diversification, offshore investing can be a key strategy to help preserve and grow clients' wealth over the long term.

Offshore investing could feel overwhelming and as an increasing number of investors inquire about investing offshore, the following article aims to provide an overview to assist both advisers and their clients in these conversations. The first and most important question is "Why do you want to invest offshore?".

This question should be thought of from a long-term strategic asset allocation perspective. Investing offshore should not be done in reaction to negative news headlines and/or short-term market volatility, but rather form part of your holistic financial plan and wealth creation strategy.

A few reasons to invest offshore can include (but is not limited to):

- **Diversification in different regions globally:** South Africa makes up less than 1% of the global economy. Additionally, S.A. is facing a struggling fiscus, high unemployment rates and poor GDP growth. Investing offshore and diversifying one's investment to include assets outside of South Africa, can offer protection against local market volatility and uncertainty.
- **Broader opportunity set:** Global markets offer a wide range of investment opportunities, especially developed markets. Investors can access more countries, asset classes and sectors that are often not available locally.
- **Access to different currencies:** Investing offshore offers investors the opportunity to grow their investments in foreign currency and payout in that currency upon withdrawal.
- **Expenses that might need to be paid in a foreign currency in future:** Some investors, for example, would like their children to study abroad, or buy a property overseas. For these investors, an offshore investment will make sense and provide a valuable vehicle to cover these expenses when it becomes due.

1 - Currency and exchange rate considerations

Theoretically, exchange rates are determined by fundamentals, such as economic growth, inflation, and interest rates. Purchasing power parity, or PPP, is one of the most popular theories. It states that countries with higher inflation should see their currencies depreciate over time. But because not all currency participants are profit-seekers, exchange rates can deviate from their theoretical fair values. In the following article "Managing currency risk in turbulent markets" we unpack this topic in more detail. Paying attention to currency valuation and the exchange rate is not unreasonable, as you naturally want more bang for your buck, but care should be taken to only focus on this. It may be useful to think about the currency as the hypothetical share price of the country.

With the above being said, the inherent currency risk when investing outside of South Africa is an important consideration when constructing portfolios with a wider global opportunity set. Currency can add volatility in the short term and some currencies can often trade at levels which differ meaningfully from fundamental fair value. The rand has historically traded well outside its estimated PPP fair value with a relatively wide standard deviation of approximately 20%. The rand is shown to rarely trade in line with its fundamental fair value. This would suggest that it is nearly impossible to time the currency, as mean reversions to fundamental fair values occur relatively infrequently and over extended periods of time

Furthermore, asset allocation explains around 90% of the variance in fund performance over time. So, choosing the right mix of assets to invest in and understanding their valuations are very important - alongside your tolerance for risk, and investment horizon.

2 - Direct offshore investing versus using an asset swap/feeder fund

Let's start by addressing the difference between investing directly offshore versus an asset swap:

- A direct offshore investment is an investment in foreign currency made within an investor's offshore allowance (as set by the South African Revenue Service – SARS). This can be done by investing in an offshore discretionary or endowment/sinking fund investment vehicle (such as a unit trust fund, a fund of funds and/or a model portfolio).

- An asset swap investment invests in an offshore fund in Rands. In an asset swap investment, you use a third party's offshore allowance. Your investment is essentially placed into a local fund (also known as a feeder fund) and converted by the management company (Manco) into foreign currency. They then use this foreign currency to buy into a global hard currency fund. This can be used in most products.

Below we consider the pros and cons of using either strategy:

Direct Offshore Investment - Benefits

- Your money is invested offshore in hard currency so you will benefit from a depreciating Rand.
- Investors typically have two product options - discretionary funds and endowments or sinking funds. Most offshore endowment/sinking funds are domiciled offshore.
- If domiciled offshore and in an endowment/sinking fund product, when passing away the funds invested will be held and remain offshore and will not form part of an investor's South African assets. This product has great estate planning benefits if set up correctly.
- Your proceeds, when you decide to withdraw, will pay out in foreign currency.
- If the total investment value is R1 million or less no tax clearance is required.
- These investment vehicles often offer more investment opportunities as the investment universe offshore is much larger than what is available in the S.A. investment market through the local investment platforms.

Direct Offshore Investment - Disadvantages

- You get an annual allowance of R10 million plus your single discretionary allowance of R1 million. If you want to invest more than R11 million in a single year, you will have to go through an additional tax clearance process.
- Higher minimum investment lump sums are required than local investments. Generally, offshore endowment/sinking fund products require an initial investment minimum of $25 000 (these minimums will be platform dependent).
- No debit order functionality is available on offshore endowments/sinking funds. (Some offshore providers/Linked-Investment Service Providers offer this on discretionary products.)
- If you use an offshore endowment/sinking fund and you have no nominated beneficiaries when passing away, the product will attract probate which means you would need an offshore will/estate plan to deal with the asset as a South African citizen. This is a lengthy and costly exercise.
- Offshore life wrappers are only effective while you are a South African tax resident. As soon as you emigrate and become a tax resident of another country the wrappers can be quite costly in terms of tax and in certain instances, you could be taxed quite severely.

Asset Swap - Benefits

- The R1 million and R10 million individual offshore allowances are not applicable and any amount (Manco dependent) may be invested.
- You use the investment platform’s offshore allowance and not yours, so no tax clearance is required.
- You get the return of the underlying managers and the benefit of the Rand depreciation during the investment.
- The minimums are much lower with most platforms allowing you to invest with a R50 000 initial lump sum investment or R1 000 per month.

Asset Swap - Disadvantages

- The money must always come back to South Africa. It doesn’t necessarily have to form part of your South African estate if accessed via a local endowment. When you access your portfolio, the proceeds will pay out in Rands and not in foreign currency.
- Your fund choices are limited and depend on fund availability on the local platforms.
- You pay capital gains tax (CGT) on Rand depreciation.
- When using asset swap or feeder funds you also add additional layers of fees, as you pay for the local Manco and other fund charges such as trustee and audit fees.
- The extent of offshore investment for a fund is dictated by regulation. Certain funds have the flexibility to invest all their assets offshore, whereas others are subject to specific limitations.

We strongly urge investors to consult their financial adviser at the outset of this journey, as your adviser would be best placed to assist with creating a suitable risk profile as well as recommend the different options that are available and best suited to your unique needs.

The world of investments is complex, with each of the different products on offer, having a different set of rules, fees and tax implications. In the following article “The danger of letting investment vehicles drive your investment journey” we highlight key factors to consider as to why you are investing and what to keep in mind when looking for a suitable product.

3 - The importance of investing with a trusted global Investment Manager

As mentioned above, the correct asset allocation mix is of great importance when investing offshore. Therefore, the next consideration should be which investment manager to choose to invest with. Investors should seek a trusted investment manager with a proven track record, that provides a well-diversified and well-researched asset allocation underpinned by a solid investment process and, ideally, low fees.

In closing

In today's uncertain global landscape, investors often experience apprehension when assessing their offshore exposure within their investment portfolios.

Amidst this uncertainty, the four factors within your control include:

- Understanding why you want to invest offshore.
- Selecting the right investment manager with a fundamental, long-term investment approach. This approach prioritizes the development of resilient, comprehensive portfolios that align seamlessly with investor objectives.
- Making informed decisions about the strategy used to gain offshore exposure - whether through direct offshore investments or via an asset swap.
- Lastly, when opting for direct offshore investment, careful consideration of which product to use is crucial to attaining your offshore investment goals.

UNLOCKING GLOBAL OPPORTUNITIES

Cogence fund manager

"Investment markets are growing complex due to geopolitical risks, legislative demands, and the emergence of alternative asset classes."

In a nutshell, a discretionary fund manager (DFM) is an established asset manager with the license and mandate to buy and sell investments on behalf of clients. What this means in practice is that a DFM becomes the investment arm of an adviser's business, taking on the role of constructing and managing a range of investment solutions on behalf of the adviser's clients, thus freeing up their time to focus on client relationship management, financial coaching, reviews, and other critical financial planning services.

Why is this important?

Investment markets are growing complex due to geopolitical risks, legislative demands, and the emergence of alternative asset classes. Technology is becoming crucial for multi-dimensional financial planning. The local DFM market has expanded, aiding advisers in creating investment solutions and streamlining reporting. However, it struggles to navigate the sophisticated global investment landscape. The shift to defined-contribution retirement schemes places investment and associated risks on individuals, revealing gaps in the local DFM market.

This complexity necessitates a partnership with a globally connected DFM for unmatched international diversification and comprehensive retirement planning. This changing landscape and complexity highlights the need to partner with a globally connected DFM that has unmatched international diversification and comprehensive retirement planning.

What would be the measure of a successful DFM?

A valuable DFM, also known as a retail multi-manager, complements local advisers with world-class investment management to achieve clients' financial goals. DFMs, licensed to bulk trade and manage solutions, conduct manager research, for optimal portfolio construction across a global investment universe, including unit trusts, ETFs and other active and passive asset and investment classes. Cogence achieves this through critical partnerships with BlackRock and RisCura. Blackrock provides strategic asset allocation and global manager selection, with RisCura providing research and manager selection on the local component.

Advisors also benefit from BlackRock's Aladdin Wealth™ portfolio construction technology and Discovery's Vitality data, which spans over 60 million life years'. Cogence currently manages more than R16 billion in assets, including R3.4 billion in the Cogence Global Cautious, Balanced and Growth portfolios, all delivering returns in the first quartile of their peer ranking. The growing global investment universe and regulatory complexity have increased DFMs' relevance. They manage this complexity, allowing financial advisers to focus on client relationships.

However, in South Africa, DFMs do not replace the personal services offered by financial advisers. The growing global investment universe, and regulatory complexity have increased the relevance of DFMs in recent years. DFMs manage this complexity, allowing financial advisers to focus on client relationships. By outsourcing the compliance and investment management function to a DFM, the adviser can focus on growing their practice. However, in South Africa, DFMs do not replace the personal services offered by financial advisers.

David Thomson, Senior Legal Adviser, Sanlam Trust

HOW TO BUILD A LEGACY?

Investing offshore as a way to diversify and grow one's wealth is even more relevant today, as investors seek strategies that will safeguard their wealth in an uncertain world for generations to come. Offshore endowments can be a powerful tool to build this legacy. An offshore endowment is an investment-linked, long-term product that is suitable for investors who want to diversify their portfolio across economies and regions outside South Africa, have a marginal tax rate of higher than 30% and require a product that offers tax efficiency and estate-planning benefits.

What are the key features of an offshore endowment?

Tax efficiency

The effective capital gains tax (CGT) rate for an individual investing in an endowment (the "planholder") is fixed at 12% (capital gains inclusion rate of 40%, which is taxed at a fixed rate of 30%) compared to a maximum effective tax rate of 18% for a marginal taxpayer on gains in a basic unit trust investment (capital gains inclusion rate of 40%, which is taxed at 45%). The product therefore becomes tax efficient when an individual investor's marginal tax rate is higher than 30%. Different tax rates apply to companies and trusts. The calculation, deduction and payment of tax are taken care of by the life company that offers the product – which relieves the planholder from any reporting responsibility or liability for taxes on the investment.

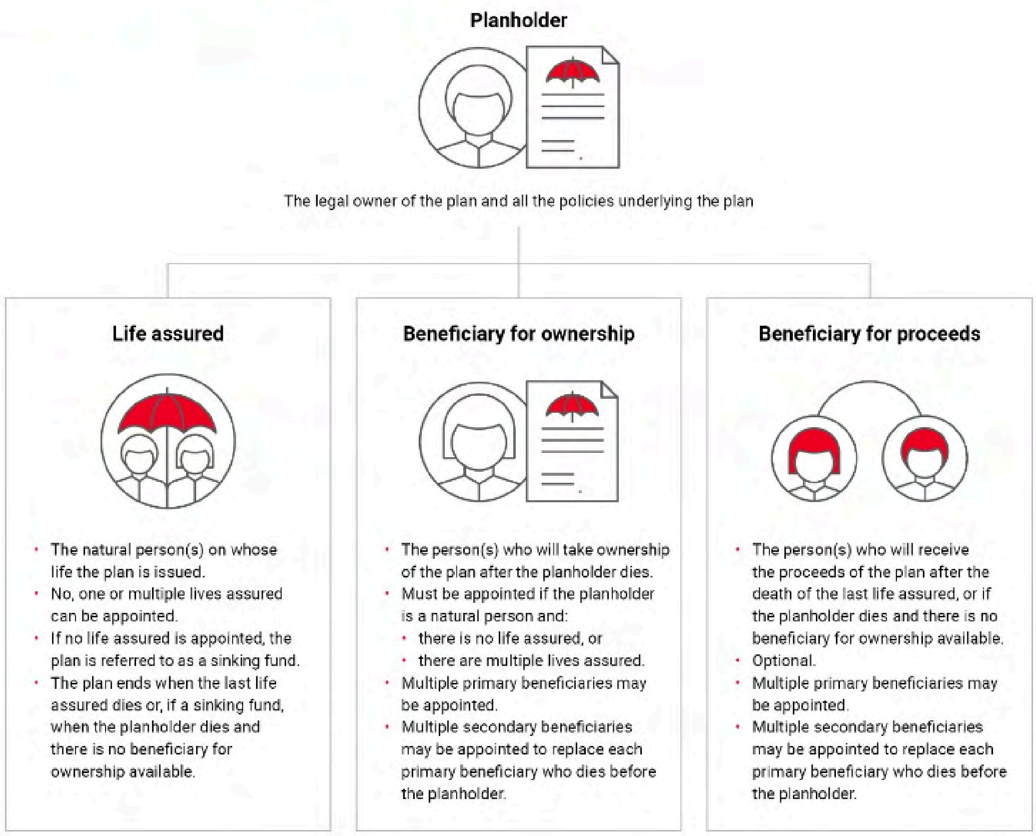
Julie Campbell, senior manager, and Guané Coetzer, offshore specialist at Allan Gray

Estate-planning benefits

The product also offers estate-planning benefits, allowing for continuity and transfer of wealth on the death of the planholder. No offshore will is needed and, if beneficiaries are appointed, there will be no delay while the estate is being wound up as the investment can be paid out or transferred immediately. In addition, when a beneficiary becomes the new owner of the investment, they can make unrestricted withdrawals, provided the 120% rule is not triggered (the 120% rule is discussed in the "Liquidity" section).

Where beneficiaries are appointed, there are no executor fees on the value of the investment, although the investment will still form part of the deceased estate (subject to certain exemptions). Meanwhile, CGT will only be triggered when the investment is paid out, not when an appointed beneficiary takes ownership of the investment, provided that the beneficiary is classified in the same way as the original planholder was for tax purposes.

Graphic 1: Understanding the role players



Creditor protection

If the planholder is a natural person and appoints a life assured, the total value of the investment will be protected against creditors during their lifetime, provided the endowment is issued on the life of the planholder or their spouse and has been in force for at least three years. To qualify for creditor protection on the death of the planholder, the surviving spouse, children, stepchildren or parent must benefit from the endowment on the planholder's death.

Introducing the Allan Gray Offshore Endowment

In recognition of the growing need for tax-efficient offshore investment products, Allan Gray launched the Offshore Endowment, which is structured with maximum flexibility in mind, aiming to empower investors to access global markets and take advantage of international opportunities, while offering competitive pricing and familiar client service through its local team. It offers South African resident investors a way to diversify their portfolios and ensure efficient wealth transfer for future generations. Residents of other countries can also invest but should obtain independent advice regarding the legal and tax implications beforehand. The minimum new investment amount is US$25 000 (or the equivalent in EUR or GBP) or R400 000.

It has been designed to provide more flexibility than traditional endowment products – in addition to providing tax efficiencies and estate-planning benefits.

Wealth Advisers can explore the following benefits with their clients:

- Liquidity
- A range of offshore funds to choose from
- Policyholder protection
- Easily transact in foreign currency
- Various options available for continuity of the plan

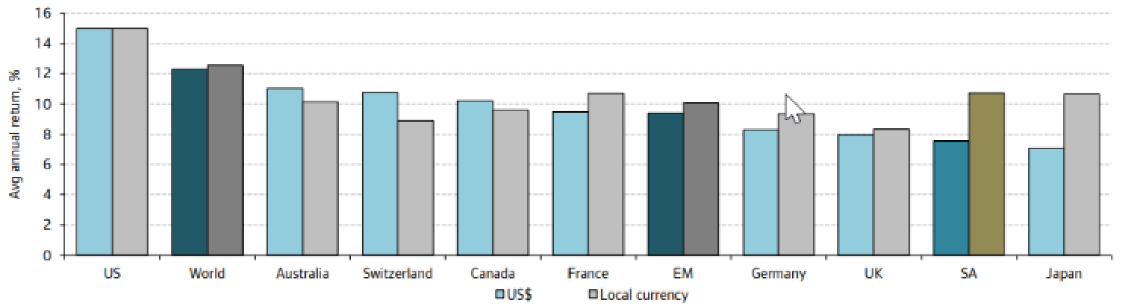
OFFSHORE INVESTING IN SPACE ...NO ONE CAN HEAR YOU SCREAM

Patrice Rassou is Chief Investment Officer at Ashburton Investments

In 1962, President John F. Kennedy announced America's interplanetary intentions in a rousing speech at Rice University, forever remembered for his famous words: "We choose to go to the Moon and do the other things, not because they are easy, but because they are hard, because that goal will serve to organise and measure the best of our energies and skills, because that challenge is one that we are willing to accept, one we are unwilling to postpone, and one we intend to win, and the others, too." For many, global investing feels like going to the moon! It's a venture into unknown unknowns in a vast universe where one can disappear without a trace.

Things Fall Apart

If we measure real equity returns globally since the 1900s, South Africa leads the pack followed by Australia and the United States, according to a 2023 Credit Suisse Study. The picture changes as we look at the more recent experience. Over the past four decades, the JSE has continued to deliver strong annual average returns of 17% per annum in Rands but due to our currency depreciating some 6% per annum against the US dollar, the local equity return in US dollars reduces to 11% per annum. This is still very decent and only marginally behind what developed market equities delivered over the same period. However, over the past 15 years, a study by SBG Securities shows that equity returns on the JSE delivered 7% p.a. in dollars, lower than the average emerging market at over 9% and lagging developed markets which delivered over 12% p.a. in dollars as seen in the chart below.



Source: MSCI, FactSet, SBG Securities analysis

Over the same period, it is the US which has taken leadership, delivering whopping 15% p.a. in hard currency, while Australia remains in second place.

Paradox Of Choice

Changes to Regulation 28 of the Pension Funds Act at the beginning of 2023 allow institutional investors to invest up to 45% of assets offshore. Given the lackluster performance of the JSE, the lure of investing offshore is understandable. Investing offshore opens a Pandora's box of choices. For those wanting to go it alone, there are over 58 000 listed securities to choose from. This means that perhaps it would be wise to enlist some professional help and invest in an offshore unit trust.

In this case, instead of narrowing down our options, it actually makes things even more complex as there are some 138 000 mutual funds globally, requiring knowledge of the investment philosophy and investment processes of the managers under consideration. Even if you were to focus only on exchange traded funds, you would have over 9 000 different options globally. So there is an obvious paradox of choice in the world of global investing, which means that sound financial advice is required in order for end clients to get the solution that best satisfies their need.

From TINA to TARA

Post the Global Financial Crisis in 2008, the major global central banks targeted a Zero-Interest Rate Policy (ZIRP) to stimulate their economies. Post Covid in 2020, central banks doubled down and engaged in an onslaught of monetary loosening. This led to the expression, There Is No Alternative (TINA), as investors were forced to take more risk by moving out of low yielding assets into equities. With inflation rearing its head post the eruption of the Russia-Ukraine conflict and the Federal Reserve and other developed markets central banks tightening interest rates. Both short-term and long-term term interest rates in the US moved up sharply, as seen in the chart below.

In fact, the Bank of Japan was the last central bank to end its negative interest rate policy earlier this year. We have moved from TINA to There Are Reasonable Alternatives (TARA). Cash in the US is now yielding close to 5% and the 10-year government bonds are yielding 4.5%.

Rise of the Machines

The Performance of Global Stocks has also been dominated by the so-called Magnificent Seven stocks (Amazon, Alphabet (parent of Google), Apple, Meta (owner of Facebook), Microsoft, Nvidia and Tesla). The Magnificent Seven has gone up over 160% since the beginning of 2023 while the broader US index of 2000 smaller companies has only gone up 30% over the same period. The poster child of the Artificial Intelligence (AI) revolution has been chipmaker Nvidia – which gained 80% in the first quarter of 2024. It is also our top holding in the Ashburton Global Growth Equity Fund and one of our top ten holdings in our flagship Ashburton Global Leaders Fund.

While diversifying offshore makes a lot of sense, those who avoided the Mega-caps would have missed out on this windfall. Offshore investing requires proper financial and tax planning and the selection of an investment manager with the requisite offshore know-how to deliver growth. So rather do your homework before making a decision based on the past few years of exceptional returns. And be careful, as per the iconic horror movie alien, “in space, no one can hear you scream”.

THE CASE FOR INVESTING DIRECTLY IN THE WORLD'S LARGEST MARKETS

Coronation Fund Managers

South African investors don't need much convincing on the merits of including global assets in their investment portfolios. Simply put, it's about diversifying your asset base by not putting all your eggs into a single (and notably small) basket. The same diversification principle that applies to asset classes (equities, bonds, etc.) also applies to spreading your investment risk and return opportunities across geographies and, importantly, jurisdictions.

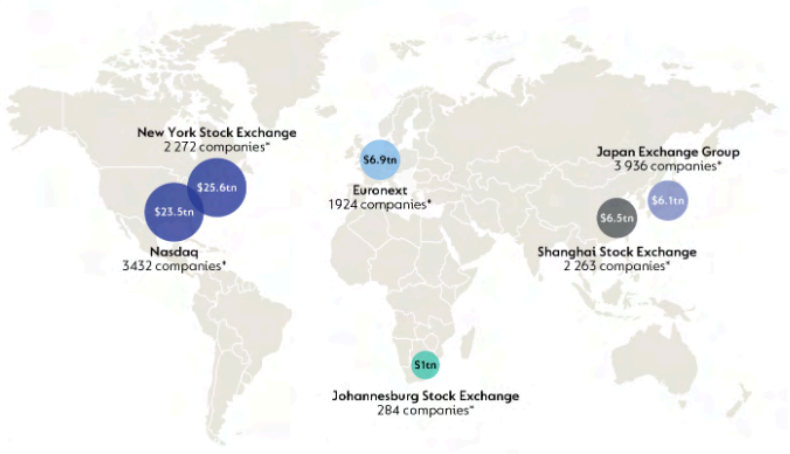
Access Investment Opportunities Across The Globe

The sheer magnitude of investment opportunities outside our home market is evident in the combined market capitalisation of the world's top five exchanges (see Figure 1), which exceeded $83 trillion (and comprising close to 14 000 listed companies) compared to the JSE's ~$1 trillion as at the end of March 2024. When you widen your investment universe, you gain access to engines of innovation and growth, as well as deeper industries that may not be present in our home market, with the likely outcome of improving your overall investment outcomes.

Figure 1

BROADEN YOUR INVESTMENT RETURN OPPORTUNITIES

The world's largest exchanges by market cap



*number of domestic and foreign companies listed
Source: World Federation of Exchanges, 31 December 2023

Diversify Across Asset Classes, Sectors & Geographies

Another benefit of broadening your investment horizon is that of diversification across sectors and asset classes. When you add another asset class or sector to your overall portfolio that behaves differently to your local asset class mix, you reduce your portfolio's overall investment risk.

Invest In Hard Currency from Only $500

Over and above the benefits of access to more opportunities and diversification across asset classes and geographies, investing in hard currency (i.e. in an offshore fund that requires you to convert your rands into another currency) offers your investment portfolio a hedge against sovereign risk (for example the imposition of tougher exchange control regulations) and may be more tax efficient (currency gains and losses are not subject to capital gains tax in offshore funds). And to help investors achieve these benefits, Coronation has made their offshore funds more accessible by reducing the minimum initial investment required to only $500 (or €500/£500).

A Demonstrable Track Record in Global Markets

Coronation has spent the last 25 years steadily rolling out a considered global fund range to meet every offshore investment need. Today, this range has a demonstrable track record and it is one of the few local investment firms with:

- proven and established global capabilities across both emerging and developed markets;
- a single, valuation-driven investment philosophy and approach that has been tested through many market crises; and
- having successfully replicated its skills in building multi-asset class portfolios offshore.

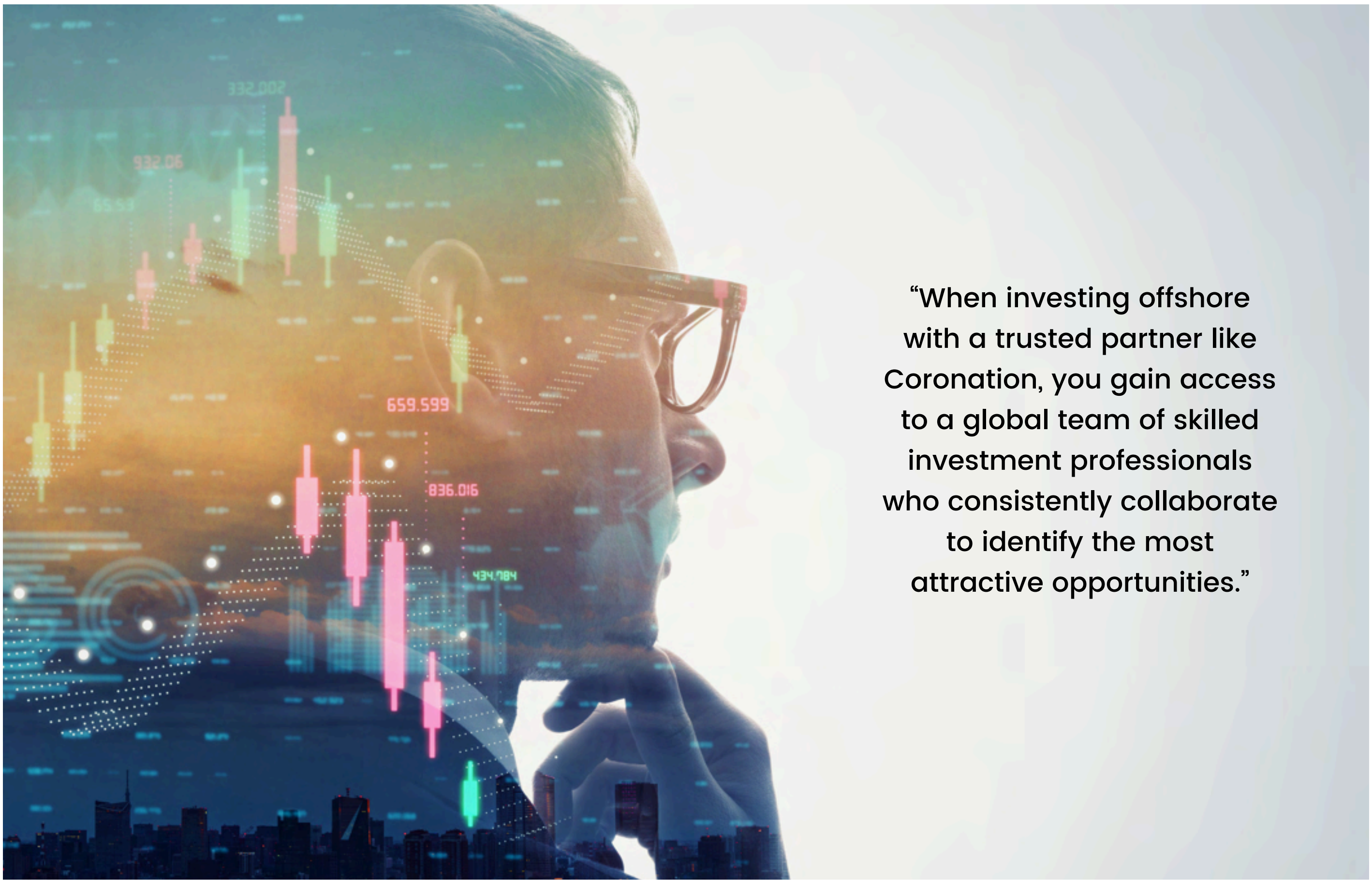
When investing offshore with a trusted partner like Coronation, you gain access to a global team of skilled investment professionals (the large global investment team includes 15 members with more than 10 years' experience) who consistently collaborate to identify the most attractive opportunities (regardless of asset class or geography) for inclusion in each of its global funds.

All Roads Lead to Multi-asset Funds, Even Offshore

When investing directly offshore, it makes sense to simplify your fund choice by considering a multi-asset fund. These funds allow you as the investor to leave the difficult decision-making, such as asset allocation and instrument selection to the experts. Choosing the fund that best matches your needs will depend on the level of risk that you are willing and able to take.

Below are three global funds that have been designed to meet the majority of investor needs:

What offshore need are you trying to meet?	What fund may be suitable?	What level of risk exposure can you expect?
I want to preserve my capital, but ideally, I want to do better than a US-dollar bank account.	Coronation Global Strategic USD Income	Up to 25% of the Fund may be invested in listed property, preference shares, and other forms of hybrid debt or equity instruments.
I want to preserve my capital and achieve a real return in US dollars.	Coronation Global Capital Plus	Exposure to growth assets (shares and listed property), which pose more risk than income assets, will typically not exceed 50%.
I want long-term real returns and am comfortable with moderate risk exposure.	Coronation Global Managed	The fund will have a sizeable exposure to equities, which typically offer the best returns over the long run but balances long-term real returns with the risk of loss.



Ensuring that our asset base is appropriately diversified (including across geographies and jurisdictions) and selecting an offshore multi-asset fund as your vehicle with which to achieve that are two of the best gifts you can give yourself as a South African investor.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SHORT TERM

ARTICLES

"A well-constructed insurance policy according to each business' needs; risk profile & risk appetite can go a long way to providing protection for a major event. "

- BY: JUAN FOURIE, HEAD: SANTAM HOSPITALITY

CYBERCRIME REMAINS RAMPANT IN SOUTH AFRICA, AS RANSOMWARE RISES AGAIN

Cybercrime in South Africa has increased exponentially over the past few years, with a recent study showing that the country now ranks fifth in the world in terms of cybercrime density, which has increased by 8% from 2021 to 2022.

Cybercrime density refers to the percentage of cybercrime victims among a specific number of internet users. According to research by Surfshark, in South Africa 56 out of one million internet users were reported to have fallen victim to cyberattacks between 2021 and 2022. This puts us behind the UK, the US, Canada and Australia.

Cybercrime remains rampant in South Africa, and global trends confirm that we face and suffer the same risks and threats as other countries around the world. Unfortunately, cybercrime is a global phenomenon, and we are by no means immune to it.

Over the past 12 months, there has been a further evolution of threat actor tactics in the form of "data theft only" extortion events, such has been the success of these cyber extortion attacks that in an increasing number of instances the hackers do not bother deploying encryption malware before leaving the network.

This change in tactics and effectiveness in getting companies to pay the ransom under threat of publishing the data, highlights the reputational risks and potential impact to affected parties in having their sensitive data up for sale. It could also be that once a system is encrypted, it results in operational disruption that requires the target organisation to communicate the incident at least to its staff and often also to external stakeholders.


Ryan van de Coolwijk, Product Head at Cyber, at iTOO Special Risks

Cybercriminals may well be counting on the fact that victims will be more likely to pay a ransom on the basis that the event can be managed quietly. At the same time, ransomware attacks are on the increase again in South Africa, in line with global trends. Between July 2022 and June 2023, ransomware accounted for the majority – 31.2% – of all incidents reported to the European Union Agency for Cyber Security (ENISA).

This is also the most expensive claim type we see in the South Africa context, with regularly reported ransom demands exceeding R10 million and demands are particularly high when data has been stolen from an organisation. In some circumstances this could lead the targeted organisation to become less willing to pay on the basis that the event is already in the public domain.

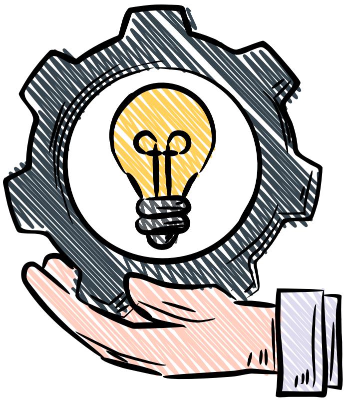
We have also noted that ransomware incidents are becoming more damaging and difficult to recover from – with organisations now running the increased risks of a greater amount of people being impacted by the data that has been lost or stolen. Attackers are becoming increasingly innovative, and the ransomware business model continues to evolve. Typically, when threat actors identify a potential obstacle to their usual attack flow, such as when organisations become more cyber resilient, they simply pivot their strategies to remain effective.

The rise in data-theft-only extortion events and decline in encryption is a perfect example. However, encryption events remain prevalent. I must caution that before making any ransom payment, it is crucial for organisations to thoroughly assess the risk of violating applicable sanctions and criminal laws. This necessitates taking reasonable precautions and ensuring that appropriate checks and due diligence screenings are carried out prior to making a payment.

From iTOO's experience, the top reasons why organisations pay ransoms include:

- If backups are not available and the decryption key is essential to unlock encrypted data and systems to mitigate business disruption,
- To confirm the scope of compromised data ahead of a data publication event and support targeted notifications to affected individuals,
- To prevent the publication and wider misuse of personal information about individuals,
- To avoid adverse publicity associated with incident details in the public domain and limit undue alarm and concern to stakeholders,
- To protect the dissemination of otherwise commercially sensitive or other protected information; and
- To stop hackers from engaging in escalated activities including secondary extortion tactics against other businesses and individuals.

South Africa has become a target of cybercrime scuppering the ability for companies to focus on growth and seizing the ability to leverage the opportunities more digital environments can bring, hackers know that many organisations are still not fully protected against increasingly sophisticated attacks.



THRIVING IN A BRAVE NEW WORLD OF BROKING

Based on a recent discussion with Rossella Grimaldi, Cindy Butler, regional managers and George Martin, National Business Development Manager at Renasa

In the dynamic world of insurance brokerage, adaptation is the name of the game.

As the industry grapples with evolving market landscapes, legislative shifts, and unprecedented challenges, brokers find themselves at a crossroads, seeking innovative ways to navigate the complexities of their trade. I gained some interesting insights into the current state of the broker market and the strategies employed to address its myriad challenges. Their collective expertise shed light on the pressing concerns facing brokers today and the pivotal role played by insurers in supporting their endeavours.

Adapting to a Shifting Landscape

Cindy Butler, Renasa's regional manager for KwaZulu-Natal (KZN), highlighted the multifaceted nature of the challenges confronting brokers. She emphasised the need for brokers to reinvent their business models amidst the rise of hybrid work environments, shifting legislative frameworks, and regional variations in market dynamics. Brokers, she noted, are striving to carve out niches in a competitive landscape while streamlining their operations to enhance efficiency and cost-effectiveness.

Rossella Grimaldi, Renasa's regional manager for Johannesburg, echoed Cindy's sentiments, emphasising the demand for innovative partnerships between brokers and insurers. She underscored the importance of insurers adopting a flexible approach to risk management and embracing non-traditional solutions tailored to the evolving needs of clients.

George Martin, the National Business Development Manager, provided a broader perspective, highlighting the economic and geopolitical factors exerting pressure on brokers. Economic uncertainties and the escalating frequency of weather-related disasters have intensified the challenges faced by brokers in generating new business and securing suitable carriers for their clients.

Skills Development and Support

In response to the evolving demands of the broker market, Renasa has prioritised skills development and tailored support initiatives to empower brokers in navigating complex risk landscapes. Cindy emphasised the importance of comprehensive product training, particularly in environments where brokers represent multiple insurers. Brokers, she noted, are keenly aware of their responsibility to clients and seek in-depth knowledge to deliver optimal solutions.

Rossella highlighted the critical need for enhanced risk assessment and management capabilities within the broker community. With a growing gap in industry expertise due to retirements and lack of succession planning, brokers are increasingly reliant on external resources such as fire engineers to evaluate risks effectively.

George underscored the value of risk management practices in mitigating underwriting challenges and enhancing broker-insurer collaborations. Renasa actively encourages brokers to leverage risk management expertise to navigate complex commercial risks and optimise placement strategies.

Renasa's decentralised approach to operations, characterised by regional branches staffed with knowledgeable personnel, has emerged as a strategic advantage in fostering strong broker relationships and market visibility. Cindy emphasised the importance of local presence in understanding regional nuances and challenges, enabling Renasa to provide tailored support to brokers.

George reiterated the significance of regional representation in building trust and rapport with brokers and clients alike, saying that being present and available in key markets has solidified its reputation as a trusted partner within the broker community.

In times of crisis, such as the recent storms in Margate, Renasa has demonstrated its unwavering commitment to supporting brokers and their clients. Cindy highlighted the proactive measures taken by Renasa to engage with brokers through various channels, including WhatsApp groups, to assess needs and provide timely assistance. We are keenly aware that we need to deliver in times of crisis and are fortunate that we can call on group resources in respect of digital and physical assessors and a wide array of service providers who are dedicated to expedite service delivery to those clients affected.

Looking Ahead, said George, they stay committed to innovation and partnership, empowering brokers to navigate challenges and seize opportunities, by fostering a culture of collaboration, skills development, and regional engagement. ***In the face of uncertainty, adaptation is not merely a strategy—it's a necessity.***

PROTECTION AGAINST POTENTIAL LIABILITY CLAIMS FOR HOSPITALITY BUSINESS OWNERS

Juan Fourie, Head: Santam Hospitality

South Africa's tourism sector is finally starting to approach pre-pandemic levels. With the surge in bookings and visitors, there are some things that hospitality business owners need to ensure that their property and staff follow best practices to be properly indemnified against potential liability claims. Even if there is no negligence on the part of the establishment, from a common law perspective, the business may still have an approach from a third party and their policy could then also be called upon for defence of this litigation. Disclaimers, (also known as indemnities, exemptions and exclusionary clauses) help mitigate this risk as they are agreements in which one party (the guest) holds harmless another party (the host) from liability that may result from a future event. However, the Consumer Protection Act (CPA) outlines strict regulations around the use and enforceability of indemnity clauses. These need to be clearly drafted in plain unambiguous language and very obviously displayed.

For an owner in the hospitality industry, it is recommended that guests sign a disclaimer. A disclaimer signage that can be clearly seen upon arrival should be present. Here are some requirements for this signage:

- The sign should be bright with large bold print and be clearly visible and legible during the day and night.
- The disclaimer should be located where one would ordinarily expect to find a notice containing the terms governing the contract between the parties involved.
- The disclaimer should be in a position where it would be unlikely for a reasonable person to overlook it.
- The disclaimer should not be placed near or next to other notices or busy pictures or adverts.

Staff must do all that could be considered necessary to advise or give notice of the disclaimer to other parties with whom the establishment deals. Disclaimers need to be fair, just and reasonable, and should be drafted by an attorney who has special insight into the specific business activities. It's important to know that the enforceability of disclaimers cannot be backdated. Once a party is proven to have read a disclaimer, he or she is legally bound by its terms.

What about Section 49?

Section 49 of the CPA identifies certain activities and services that are especially risky and potentially dangerous (with the possible result of injuries or death). In these cases, patrons must be informed of the 'fact nature and potential effect' of the activity and service. The patron must understand the disclaimer and appreciate it, and then should sign against it to show their agreement.

What about insurance and major-loss events?

A well-constructed insurance policy according to each business' needs; risk profile; and risk appetite can go a long way to providing protection for a major event.

What other precautions should those in hospitality take?

Having a disclaimer does not relinquish the business owner from the duty of care to the public. Other precautions that can be taken to protect the establishment; property; and the property of guests; is with some well-placed surveillance equipment. These should be pointed out to guests and must comply with privacy regulations. The whole team, from the front of house to groundskeepers, must be comfortable to handle various situations that occur. Clear procedures on how to handle any issues can noticeably reduce the probability of legal action. It is critical that liability insurance carries sufficient limits; all material facts have been disclosed to insurers; and the premiums are up to date. Should an incident arise, the business owner must submit a claim and all supporting information as soon as possible. This will ensure insurers have not been prejudiced and they can actively defend the policyholder's rights.

Indemnity is not enough

Hospitality providers, need to protect guests and businesses from risk. The existence of a disclaimer is insufficient to avoid third party claims. Compliance with the CPA is required as so is ensuring that guests are aware of any disclaimers and understand these. This is as much for their safety as it is for the business owner. **To find out more about our hospitality insurance, speak to your Relationship Manager or visit www.santam.co.za.**

10 IMPORTANT POINTS OF THE COST OF UNDERINSURANCE

George Jennings & Kobus van Niekerk

1. Introduction to underinsurance

It is a prerequisite of certain classes of insurance that the insurance values are adequate to match the exposure. In the event of deliberate or inadvertent failure to choose a Sum Insured that at least matches or exceeds the value of the property at risk, Average will apply due to the underinsurance.

2. Basic Average clause

If the property covered hereby shall, at the commencement of any destruction of / or damage to such property by any peril insured against, be collectively of greater value than the Sum Insured thereon, then the Insured shall be considered as being his own insurer for the difference and shall bear a ratable share of the loss accordingly. Every item, if more than one item, shall be separately subject to this condition.

3. Where did underinsurance & Average originate from?

The history of Average emanates back to the days of marine cargo insurance. Since that time, the Average clause has been modified but when it comes to marine insurance, it is commonly referred to as “general average”.

4. How often do claims present a challenge when it comes to the settlement and the quantum?

As much as 30% to 50% of claims under various policies are impacted by the application of Average.

5. What are the main causes of underinsurance?

The main causes of underinsurance can be attributed to the inadequacy to undertake a thorough review of the Sum Insured of the Property Insured. This review should be conducted at the inception or renewal of the particular insurance policy, if not, at intervals of the currency of the policy.

Policy wordings vary from Insurer to Insurer but it is always important to understand what makes up the Sum Insured of the Property Insured. For example, customs duties, transport costs, professional fees, installation costs and the like may form part of the Insurer's requirement in the Sum Insured.

6. How can you prevent underinsurance?

The Insured is required to present to the Broker / Insurer a comprehensive up to date inventory of all the Property Insured at inception or at review (renewal) of the policy. An important consideration is to make sure that the Insured declares all the Property Insured which makes up the total Sum Insured.

It is also possible for the Insured to employ the services of a professional valuator who is competent and qualified to prepare an accurate assessment of the Property Insured.

7. Why is there a Condition of Average applied to a policy?

The Condition of Average applies to virtually all material damage policies and is a means of making sure that the Insurer is not compromised when it comes to receiving premiums for the Property Insured. A prime example is having a first loss limitation which in some instances is allowed for in the policy wording. If a policy excludes the Condition of Average, the Insured will then only tend to be insured for a pre-determined maximum limit for any one loss or occurrence. To obtain a commensurate premium in the event of a loss limit policy, the premium must still be calculated on the full value at risk.

Consider the following scenario - your Electronic Equipment total Sum Insured is R50 million but the likelihood of losing all at any one time is so remote (including the spread of the equipment at various premises / locations), that you pick the highest maximum possible loss at R15 million. The Insurer would then only receive premium for R15 million worth of equipment whilst they are entitled to receive premium on the full total Sum of R50 million.

8. How is Average calculated?

There are a few versions of how Average is calculated and applied, but the most common version is:

Loss Amount x Insured Value / Total Sum Insured.

For example: R50,000 (Loss Amount) x R150,000 (Insured Value) / R250,000 (Insured Value)
= R30,000 (Claim Settlement) before deduction of deductible.

It must be noted that Average can only be applied by an Insurer in respect of underinsurance should they decide to settle the claim on a cash basis.

If the Insurer exercises his / her right to reinstate or replace the lost or damaged property, then Average cannot be applied.

9. Talk to your Broker

When it comes to setting the correct Sum Insured, talk to your Broker to obtain sound advice. Your Broker will assist you to avoid the application of Average when it comes to certain classes of risks which are subject to the Condition of Average.

10. Consort has the expertise

At Consort we have a panel of experienced Underwriters who will be able to assist with queries about Average and underinsurance. Please contact your Broker directly, who will then approach Consort to assist with your requirements.

“When it comes to setting the correct Sum Insured, talk to your Broker to obtain sound advice. Your Broker will assist you to avoid the application of Average when it comes to certain classes of risks which are subject to the Condition of Average. “

TOP 10 RISKS FACING THE TRANSPORTATION & LOGISTICS SECTOR


Russell Davis, property manager – Aon broking centre at Aon South Africa.

The transportation and logistics industry has been battling the operational and commercial fallout of multiple global crises, including the COVID-19 pandemic and geopolitical conflicts. Because of the industry's significance for the global economy, risks and challenges facing the industry will continue to receive scrutiny.

Aon's latest Global Risk Management Survey highlights the top risks that transportation and logistics industry respondents ranked, with cyber-attack or data breach and economic slowdown or slow recovery as their two most critical risks.

The transportation and logistics industry has been battling the operational and commercial fallout of multiple global crises, including the COVID-19 pandemic and geopolitical conflicts. Because of the industry's significance for the global economy, risks and challenges facing the industry will continue to receive scrutiny. Aon's latest Global Risk Management Survey highlights the top risks that transportation and logistics industry respondents ranked, with cyber-attack or data breach and economic slowdown or slow recovery as their two most critical risks.

The top 10 risks facing the global Transportation and Logistics are ranked as follows:

1. Cyber Attack or Data Breach
2. Economic Slowdown or Slow Recovery
3. Business Interruption
4. Increasing Competition
5. Workforce Shortage
6. Supply Chain or Distribution Failure
7. Regulatory or Legislative Changes
8. Failure to Attract or Retain Top Talent
9. Property Damage
10. Failure to Innovate or Meet Customer Needs

The variations in the risks in the top rankings are driven by more immediate and pressing concerns of other risk factors within the region. For example, both Business Interruption and Supply Chain and Distribution Failure rank higher for South Africa, very likely driven by the Transnet crisis and the state of our ports, railway and roads infrastructure, and the dramatic impact this is having on supply chains. Infrastructure that supports trucking and logistics is rapidly deteriorating in many places. Political Risk also ranks at #9 whereas it does not currently feature in the global Top 10 – driven by the fact that it is an election year in South Africa with an increasingly uncertain and volatile environment. Each of these top 10 risks has tremendous significance for the transport and logistics industry, particularly given the ripple effect they have in a market environment where risks are increasingly interconnected and complex.

Unpacking the top five risks for South Africa's Transport & Logistics Industry:

#1 Business interruption: is intrinsically linked to many other top 10 risks and is now more systemic, partially because of global business operations' companies shifting from event-based to impact-based risk assessment. Business interruption can affect multiple industries, regions, trade paths and companies simultaneously as they phase in and out of periods of recovery.

#2 Economic slowdown/Slow Recovery: While higher commodity prices are good for exporting countries such as South Africa, Transnet's underperformance has impacted commodity exports and other sectors such as manufacturing and retail, weakening Africa's most advanced economy. The country is also faced with rapid inflation in the form of rising food and energy prices in addition to natural disasters such as record-breaking rainfall, drought and increased fire risk.

Some of the side effects of an economic slowdown include a slowing or disruption of revenue streams, supply chain disruptions and financing issues, which could potentially lead to labour retrenchments in a bid to manage costs, further hampering the efficiency of the transportation and logistics sector. The industry also finds itself in a globalised environment where international competitors can step in and reduce the size of the pie even further.

#3 Exchange rate fluctuations: the weakened Rand lends itself more towards an export-driven market than an import market, which effectively turns an industry that is governed by imports and exports as a business principle into a volatile rollercoaster ride.

#4 Supply chain or distribution failure: the definition of supply chain risk is broadening and becoming more complex, extending well beyond keeping shipping vessels moving or suppliers' manufacturing facilities intact. Today it involves the availability of talent, the ongoing solvency of critical suppliers, the ESG performance of a company's supply chain, and the increased IP and cyber exposure triggered by shared supplier systems and processes.

By its nature, the sector participates in complex, extended supply chains, which means there are many possible points of failure. Consider the rise in cargo theft, which is at a 10-year high. Social media and advanced technologies have made it easier for bad actors to spot and seize opportunities, including impersonating drivers, hijacking, and conducting fraudulent cargo pickups.

#5 Commodity Price Risk/Scarcity of Materials: in the context of the transport and logistics industry, markets and supply chains have increasingly become global in nature, but disruptions in specific regions can have a pronounced effect on prices and supply. For example, In September 2023 global oil prices hit a 10-month high, spurred by falling shale oil production in the U.S. and a decrease in production by Saudi Arabia and Russia. The impact of rising oil prices reverberates across nearly every industry due to the commodity's many uses. Oil is a critical component in many parts of the modern economy, notably transportation, and despite the focus on the energy transition, oil and its attendant price fluctuations will continue to be a factor in strategic planning for decades to come.

The industry will need to continue to develop new strategies to address the fast-evolving risks that are on its doorstep as well as any new risks that are approaching. Resilience and significant value are at stake. Having to pivot and constantly make high-impact decisions around protecting the company's people and assets, its balance sheet, revenue, costs and business strategy is no small feat.

In doing so, leaders are learning, three vital lessons:

- Decision-making must be driven by continually refreshing a business' understanding of what is known today and then using that knowledge to recalibrate its understanding of how tomorrow is being reshaped.
- Leaders must have the right mindset, the most relevant data and information at their fingertips and a robust decision-making framework in place to manage a great deal of uncertainty.
- While no one can predict the future, making the best decision hinges heavily on having the right information available to inform the decision-making process to navigate towards a better future with clarity and purpose.

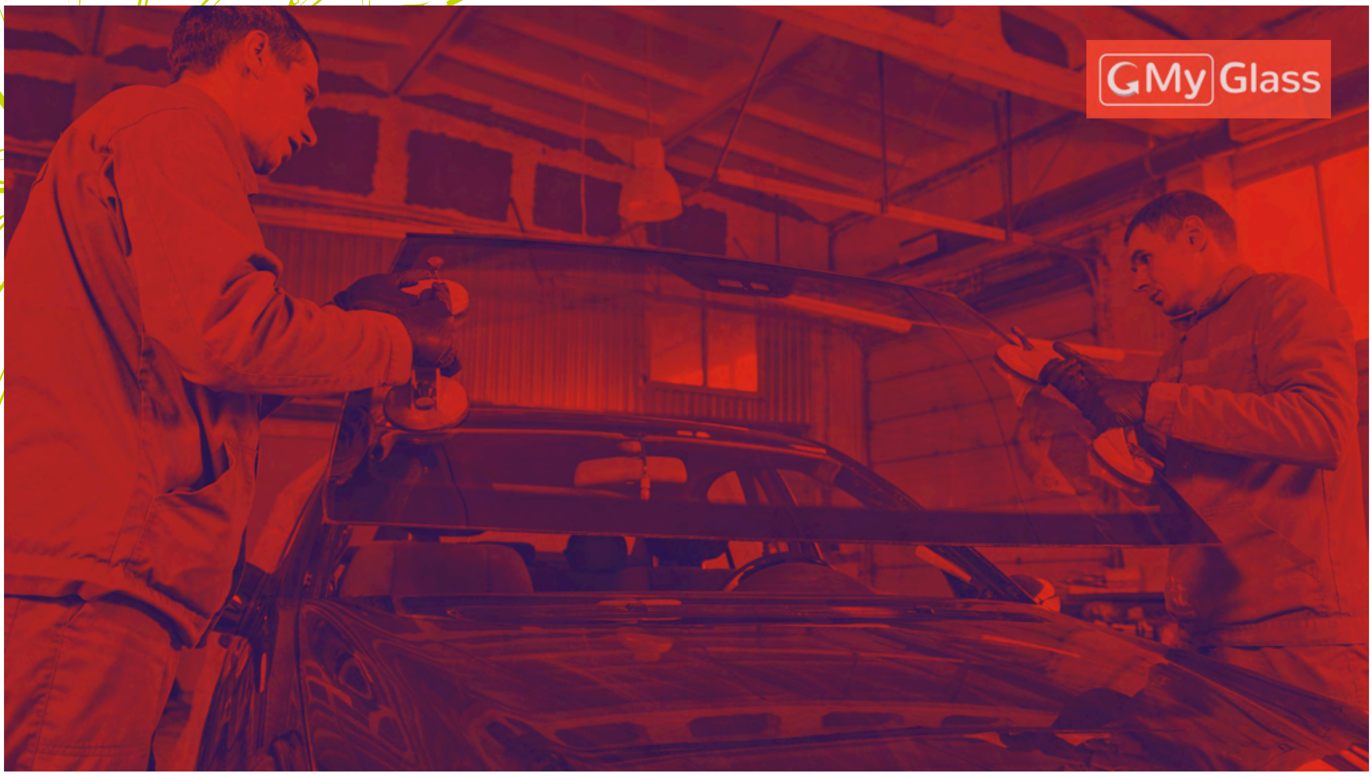
Embracing a problem-solving approach in decision-making will help organisations find solutions for the risks and crises it is faced with as these risks unfold. While many of these events cannot be insured directly, the value of having an expert risk advisor in your corner who can provide data and analytical insights from a global and local perspective will create a clearer picture of emerging technologies, trends and risk management approaches to help organisations make better risk decisions.

A HOLISTIC APPROACH TO CUSTOMER EXPERIENCE IN THE GLASS BUSINESS

Damien Goodrum, Business Analyst at My Glass

In the interconnected world of business operations, certain roles remain mystifying to many, yet they serve as the backbone of organisational success. One such role is that of a business analyst. In a recent discussion with Tony from COVER Magazine, I shed light on the multifaceted responsibilities that define my role as a Business Analyst at My Glass. Tony's curiosity about the expansive nature of the title "business analyst" resonates with many who often overlook the significance of this position. At My Glass, my responsibilities encompass a wide array of tasks aimed at ensuring operational efficiency, client satisfaction, and maintaining competitiveness in the market. The essence of my role lies in understanding and adapting to the ever-evolving needs of both our business and our clients.

Each client presents unique requirements and service level agreements (SLAs), necessitating a tailored approach to meet their expectations. Yet, amidst this diversity, our overarching goal remains consistent: to deliver unparalleled service while maximising profitability. Operational efficiency serves as the cornerstone of our endeavors. From managing supply agreements and stock distribution to overseeing fitment centers and facilitating technical training, every facet of our operation is meticulously scrutinised to optimise performance. Our extensive industry experience, coupled with strategic partnerships, enables us to provide comprehensive training and support to our fitment centers, ensuring adherence to industry standards.



While glass replacement forms the core of our business, our focus extends beyond mere product installation. We prioritise service excellence, recognising that customer satisfaction hinges on factors such as timely delivery, precision fitment, and product quality. Moreover, as technology advances, so do the complexities associated with modern vehicles, necessitating specialised knowledge and skills to ensure accurate fitment. Collaboration with auto manufacturers is paramount in this regard, as it provides insights into the latest vehicle technologies and fitment requirements. By leveraging industry connections and partnering with experts, we ensure that our fitment centers are equipped to handle the diverse needs of modern vehicles.

Central to our operations is a commitment to safety and quality. The importance of using genuine, properly fitted glass cannot be overstated, particularly in ensuring the safety of vehicle occupants. Through stringent vetting processes and ongoing performance monitoring, we uphold the highest standards across our network of fitment centers, earning the trust of both clients and insurers alike. At the heart of our success lies a data-driven approach, facilitated by robust analytical tools and systems. By meticulously tracking key performance indicators, we identify areas for improvement and implement strategic interventions to enhance efficiency and service quality. This proactive approach not only minimises complaints but also strengthens our position as a market leader.

In essence, the role of a business analyst extends far beyond data analysis and reporting; it encompasses a holistic approach to business optimization and client satisfaction. We are quite selective. We get approached from companies around the country, existing businesses that want to join our team. We have a good vetting system which includes various admin, technical and service evaluations. We are stringent in who we onboard as we ensure they have the necessary technical experience and competency. We also want to ensure the applicant shares our core values and shares our commitment towards exceeding clients' expectations. Coming back to the business analyst function, over the years we've implemented various systems and processes which allows us the ability to measure and manage every aspect of the claims process, resulting in an excellent CSI score. Continuous improvement also forms a key aspect of my role, we are always looking into innovative ways of improving our business offering.

At My Glass, we embrace this ethos, striving to redefine industry standards in every aspect of our operations, committed to innovation and service excellence.

CONSTRUCTION & ENGINEERING

ARTICLES

"While South Africa's construction industry embarks on a path to revival, the journey remains fraught with challenges and opportunities. "

- GEORGE PARROTT, ENGINEERING DIVISION PARTNER AT KING PRICE INSURANCE

THE RISE OF INSURANCE SPECIALISTS IN SA AND THEIR ROLE IN NAVIGATING NEW AND EMERGING RISKS

Koketso Shabalala, Underwriting Head: Construction and Single Projects, SHA Risk Specialists

Several fundamental shifts have changed the risk dynamics for insurers. This evolving landscape has prompted a heightened level of customer awareness as well as a growing demand for financial safeguards against new and emerging risks. Add to this the effects of the prolonged economic downturn, and the general lack of capacity in the insurance market has called on specialist carriers to bridge the gap.
The hard market in insurance, which has persisted since late 2017/early 2018, has been characterised by the rising cost of premiums and more stringent terms and conditions. Alongside these developments, the industry has also seen a notable rise in the volume of boutique insurers.

Renewed focus on sector-specific risks

This growth has been more evident in certain sectors than in others. For example, persistent and worsening power supply challenges throughout the country has intensified the demand for innovative power generation solutions resulting in the need for new risk products related to renewable energy. With more businesses investing in sources of renewable energy to establish a more reliable power supply, lenders have taken a more hands-on approach to project risk management, which has resulted in the emergence or increase in demand for the services of lenders insurance advisors to safeguard the interest of financiers.

This has in turn compelled business owners to seek greater assurances for longer periods of time in order to protect their investments. Niche-market insurers have responded to this demand across a range of sectors, including construction, where composite insurance products have been developed to serve the needs of the sector.

A changing risk climate with higher exposures

Certain exposures have also seen a sharp upturn, propelled by recent events. A good example of this is the need for businesses to protect their operations from growing cyber security risks. This has been particularly prevalent in South Africa, which has been identified as one of the continent's most notorious cyber crime hotspots.
Businesses' exposure to the risks associated with climate change have also been on the radar of specialist insurers. The flooding in KwaZulu-Natal in 2022 – the most disastrous natural disaster yet recorded in Durban, was a wake-up call for insurers. This catastrophe was followed closely by the floods that have broken out more recently in other parts of the country, such as the Western Cape.

Climate-related risks such as these are predicted to grow in severity. For insurers and brokers, this imminent threat has required special attention on building tailored products and packages to help protect clients from flooding exposure. Some insurers have even considered flooding as a risk that will become uninsurable.

For specialist risk experts, this represents an opportunity to step in and develop alternative solutions that can provide clients with an essential safety net against a destabilising environment. These kinds of conundrums are after all, what the insurance industry is charged with solving – all eyes will be on key role-players to develop solutions for an ever more uncertain future.

Litigation risks in the spotlight

The increasingly litigious environment in South Africa has added to these specific, escalating exposures. This has been more pronounced in certain fields, such as construction – an industry faced with multiple risks in areas such as design and supervision.

Tailored risk products have been a game-changer in industries like construction, where large workforces are employed on a seasonal basis and where construction sites are fraught with many serious health and safety hazards.

Specialist products such as SHA's Employee Injury Assist policy have played an instrumental role in providing contractors and businesses in the construction field to manage the risk of employees being injured or contracting debilitating occupational illnesses.

These kinds of environments also present many opportunities for insures and their brokers to cross-sell products and assist their clients in covering a wide range of exposures in the most efficient and cost-effective way possible.

The growing demand for specialised service

In addition to the renewed call for more innovative product development, the evolving risk landscape also necessitates a greater focus on customer service. For insurers across the board, now is the time to focus on claims capabilities and the competence and expertise of service team members, many of whom are experts on the risks that pertain to specific industries.

Consider a scenario in which a motorist accidently drives into a ditch on a road construction project. Due to the litigation risks involved with such an incident, contractors and site managers need to be equipped and ready with the right information and processes to prevent and/or deal with unforeseen incidents such as these, as and when they arise.

In this regard, brokers with specialised skillsets can play a pivotal role in bridging knowledge gaps and providing clients with advice and guidance on how to employ the right kind of risk mitigation processes – a factor that can help businesses avoid unnecessary financial losses.

For aspiring brokers and insurance experts, now is an ideal time to carve out a niche within the industry; specialising in fields such as marine transit, aviation, and renewable energy, as the country – and the world at large – recalibrates itself to the evolving risk landscape.

The future will likely also see the emergence of more coinsurance solutions, as industry leaders look to meet the demand for higher limits while simultaneously addressing the deficit in capacity for larger liability placements and the like. This, in tandem with the emergence of new, fresh players on the risk landscape, will provide the industry with the buoyancy it needs to thrive amidst the uncertainty of the times.

ENGINEERING INSURANCE IN THE SME SECTOR

I have always found engineering insurance to be a very interesting segment, mainly because it is a complicated sector, yet the industry is seeing good growth. Fergus Mc Namara, Managing Director at FDM Engineering Underwriting Managers, agreed to discuss the topic with me.

We looked at the growth opportunities within the realm of engineering insurance, particularly within the SME (Small and Medium Enterprises) sector. With over 30 years of experience in the insurance industry, Fergus sheds light on the history of FDM, the intricacies of engineering insurance, and the indispensable role of brokers in navigating this landscape.

FDM Engineering Underwriting Managers was born out of an opportunity spotted by Fergus when Renasa was seeking an engineering underwriter. Founded in September 2004, FDM has since grown to be a reputable name in the industry, boasting a diverse portfolio covering various aspects of engineering risks. Fergus attributes their success to a dedicated team of 25 staff and a commitment to profitability, a feat achieved consistently over their 20-year journey.

In the conversation, Fergus emphasises the broad spectrum of engineering policies offered by FDM, ranging from contractors' all-risk policies to plant electronics and works damage coverages. The company's ability to adapt and tailor policies to meet the specific needs of clients sets them apart in the market, with a focus on providing comprehensive coverage and exceptional service.

One of the key takeaways from the conversation is the immense potential for growth within the SME sector. Fergus highlights the influx of new entrants, particularly in the solar business, as well as the government's efforts to stimulate growth through initiatives like public-private partnerships (PPP). This presents a significant opportunity for brokers willing to tap into this market, with FDM witnessing notable growth driven by smaller brokers serving SME clients.

However, amidst the optimism, Fergus raises concerns about the future availability of skilled engineers. Despite the presence of reputable universities, there remains a shortage of engineers entering the workforce. This shortage could potentially hinder the sector's ability to capitalise on the opportunities presented by infrastructure development and technological advancements.

In navigating the complexities of engineering insurance, Fergus underscores the importance of technical expertise and industry knowledge. Underwriters must possess a keen understanding of construction processes, contractual obligations, and risk assessment methodologies. Moreover, they must possess strong negotiation skills and a service-oriented mindset to effectively engage with clients and brokers.

For brokers eyeing growth in this segment, Fergus emphasises the need for a strong partnership with underwriters who offer comprehensive training and support. Brokers must equip themselves with the necessary knowledge and skills to effectively assess client needs and provide tailored solutions. Moreover, they should seek underwriters who prioritise service excellence and offer innovative products that meet the evolving needs of clients.

Fergus suggested that, by fostering strong partnerships, embracing innovation, and addressing skill shortages, brokers can unlock the full potential of this dynamic market and drive sustainable growth for years to come.

NAVIGATING CHALLENGES & SEIZING OPPORTUNITIES IN THE CONSTRUCTION SECTOR

Dirk Gouws, National Group Manager, AC & E Group of Companies

The government is promising funds for infrastructure projects to stimulate the construction industry.

Great news for the country; infrastructure projects not only create jobs but also stimulate economic activity and contribute to long-term growth. The question government should be asking is how to make growth sustainable; dealing with underlying issues such as regulatory hurdles, skills shortages and corruption are crucial for sustained growth in the sector. The construction industry was hard hit by the 2020 lockdown and whilst there has been growth since then it was hard earned considering the number of contractors which were liquidated; the projected growth will likely be sustained as construction is seen as a business which is accessible and financially viable for almost everyone, even if at a cost.

Many new contractors will have next to no industry knowledge or experience, nor access to finance and will have some trouble surviving in a sector where the contractor is often forced to take responsibility for everyone else's mistakes. The non-inclusive procurement practices are decidedly negative and not good for the sector as a whole, but institutions such as the CIDB have created structures to develop contractors and to stabilise the industry. The construction sector is facing some real challenges, which do not all need any further publicity, but some have to be addressed before the country descends into the abyss. One such challenge is the expanding threat of the "business forums" (construction mafia) phenomena which is negatively affecting growth. The construction sector is also affected by poor governance in government institutions which results in contractors not being paid on time; ultimately this increases the cost of the contract and delays completion. Finally, awarding contracts to foreign contractors, who are often subsidised by their governments, doesn't benefit the local construction sector or the economy in general. All things considered, for the foreseeable future contractors will continue to face serious challenges but there is always hope and reasons not to give up. There is increased risk for insurers, because of the challenges the construction sector faces, and irresponsible underwriting could affect the stability of the engineering insurance market.

The construction insurance underwriters may be guided by the basic underwriting rules, that is:

- know your client and consider the nature of employer and professional team;
- consider the complexity and location of the contract works to be insured;
- prepare to be on being on risk for longer than in the expected contract period;
- expect the final contract value to increase;
- ensure that the terms match the risk.
- and to the construction sector, seize the opportunities and promote sustainable growth.

Krush Moodley, Head of Construction and Engineering at Hollard Insure

BUILDING BETTER FUTURES BY MARRYING INSURANCE AND TECHNOLOGY

Infrastructure is a powerful economic booster that generates lasting benefits for an economy long after the buildings, roads and bridges have been built. It's a key driver of economic growth and development, particularly in South Africa. However, the local construction and engineering industry has been struggling in recent years, with companies in this sector facing myriad challenges ranging from a lack of investment to increased competition and financial pressure – and as a result, they have been forced to take on more risk in order to stay competitive.

To mitigate these risks, insurance providers like Hollard Construction and Engineering are incorporating new technologies and innovations into their risk management strategies. By marrying insurance and technology, we are able to help contractors mitigate financial losses and complete projects on time. We offer products such as Contractors' All Risk (CAR) Policy and Erection All Risks (EAR) Policy, providing comprehensive coverage against various risks associated with construction projects.

One such example of innovation is the use of drones to conduct inspections and surveys of construction sites. They provide a bird's-eye view of the site and capture high-resolution images and video footage, which can be analysed to identify potential hazards or issues, and monitor the progress of the construction project. We also use drones for loss adjustment in areas that are inaccessible due to flooding. The next step, we believe, is to use them as a preventative measure to minimise losses. Drones can produce survey information, analyse electrical hotspots and even identify structural issues, which is a win-win-win for the companies, the insurer and the members of the public ultimately using the infrastructure.

Another technological tool that has the potential to revolutionise the construction industry is offered by our new Hollard Construction and Engineering Solar Plant and Erection All Risks (SPEAR) product. This virtual reality tool gives customers and brokers a glimpse of the physical world through the virtual world. Through this technology, we are able to simulate how solar panels are installed to help construction companies better understand the risks and make informed decisions to protect their projects.

Finally, the use of sensors and internet of things (IoT) devices also has the power to help mitigate risks in the construction industry. These devices monitor the safety and health of workers, track equipment and materials, and provide real-time data on the progress of the project. This data can be used to identify potential hazards and risks, and help prevent accidents and injuries on the job site.

The value of technology cannot be understated. The construction industry is constantly evolving, and new technologies are being developed to increase the efficiency of projects. Therefore, we, as insurers, prioritise being up to date on these developments and incorporating them into our risk management strategies.

We are constantly looking at how new technologies can help us improve our services and provide effective risk management solutions to our customers. By doing so, we ensure that construction projects are completed on time, within budget and with minimal risks.
We are proud to be at the forefront of innovation in the construction insurance industry, and we believe that our commitment to technology and risk management will help to drive the growth and development of South Africa's economy for years to come.

BALANCING ACT: PROMISE AND PERIL IN THE CONSTRUCTION SECTOR

George Parrott, engineering division partner at King Price Insurance

In his keynote address at the 2024 Sustainable Infrastructure Development Symposium, President Cyril Ramaphosa underscored a pivotal commitment to bolstering South Africa's construction sector. With over R230 billion-worth of projects currently under construction and an additional R170 billion in procurement, the nation's infrastructure agenda appears promising. Moreover, the government's 2023 allocation of R903 billion to infrastructure until 2026 signals a clear intention to drive economic growth and address critical needs in, especially, transportation, energy, and water and sanitation.

However, despite these commendable efforts, challenges persist, raising questions about the construction industry's resilience and the integrity of projects amid economic pressures.

A resurgence in construction activity in 2023, as reported by the Construction Industry Development Board (cidb) and the FNB/BER Civil Confidence Index, offered a glimmer of hope for an industry grappling with prolonged stagnation. However, confidence levels, which last year reached a six-year high, have dropped significantly this year. According to the latest FNB/BER Building Confidence Index, confidence plummeted to 27 in the first quarter of 2024, down from 43 in the previous quarter. This sharp decline, reaching its lowest level since mid-2020, signifies a stark dissatisfaction with current conditions among industry stakeholders. Concerns linger regarding the potential compromise of standards and increased risk exposure due to economic strain.

As an example, let's look at the cheap cement imports that have recently become available to the South African construction industry. Their importance cannot be overstated: They alleviate cost pressures, bolster the number of infrastructure and building projects underway, facilitate greater affordability and accessibility, drive momentum in the construction sector, and stimulate economic activity. With increased availability of cement at competitive prices, projects that were previously delayed or deemed financially unfeasible can now proceed, contributing to job creation and infrastructure development across the nation.

However, amidst these benefits, it's essential to acknowledge the negative impact caused by substituting local cement production with imports. A report commissioned by cement manufacturer PPC and conducted independently by the Centre for African Management and Markets (CAMM) notes that more than 2,200 jobs are potentially at risk, primarily in marginalised communities where the cement industry serves as a vital source of employment. Furthermore, there's a potential loss of R2.6 billion per year in economic value, and PPC's significant contribution to GDP of around R8.8 billion across its value chain is at risk. The report's findings highlight the intricate interplay between domestic production and imported products, revealing the complex balance between cost savings and socio-economic consequences.

In essence, while cheaper cement imports offer immediate benefits in terms of cost reduction and project feasibility, the displacement of domestic production carries substantial long-term implications. As policymakers and industry stakeholders navigate this delicate balance, it's imperative to prioritise strategies that promote both economic efficiency and social welfare. Finding sustainable solutions that mitigate the negative impacts while capitalising on the opportunities presented by global markets will be crucial in fostering a resilient and inclusive construction industry.

While increased cement imports may alleviate some cost pressures, the volatility in prices underscores the need for prudent risk management strategies. Herein lies the critical role of insurance in mitigating the impact of market uncertainties and safeguarding construction projects against unforeseen disruptions.
The importance of industry best practices in maintaining quality standards amidst evolving market dynamics must be emphasised. Structural engineers, in particular, play a pivotal role in ensuring the integrity and safety of construction projects. From design and planning to material selection and analysis, their expertise underpins the successful execution of infrastructure projects while adhering to regulatory requirements and industry standards.

Furthermore, as the construction industry gears up to take on the long-term large-scale infrastructure projects that government is commissioning, the insurance industry King Price is recalibrating its offerings to meet the immediate risk mitigation needs of smaller contractors and project owners. Recognising the challenges posed by rising interest rates and macro-economic factors that are challenging on all fronts, as well as heightened competition, King Price advocates for a 'back to basics' approach, empowering businesses to tailor insurance policies that address their unique risk profiles. By streamlining our engineering products and providing comprehensive coverage options for risks at all stages of construction projects, King Price aims to bolster confidence and resilience across the construction ecosystem.

While South Africa's construction industry embarks on a path to revival, the journey remains fraught with challenges and opportunities. As stakeholders rally behind infrastructure projects, both large and small, ensuring adherence to quality standards and effective risk management practices will be paramount. Through a steadfast commitment to excellence, the construction sector can realise its full potential as a catalyst for economic growth and social development, while the insurance industry works in the background to support and protect both the people and the projects, to build a better South Africa for all.

POSSIBLE GREEN SHOOTS?

South African Infrastructure Development has been a talking point dating back to 2012, with the first real plan in the shape of the National Development Plan (NDP) being publish. This was then followed up in 2022 by the publishing of the National Infrastructure Plan (NIP). Combined, the plans made clear the need for sustained infrastructure development in South Africa.

In theory, sustained infrastructure development driven by Government has the potential to kickstart the economy by providing a much needed stimulus to the economy via the multiplier effect, which basically means each rand spent on infrastructure is multiplied as it ripples through the economy. With stubbornly high unemployment and stagnant GDP growth, it's not difficult to see the dire need for investment in infrastructure.

Chris Charlton, MD, Consort

At a recent Symposium for Sustainable Infrastructure Development, held in Cape Town, President Cyril Ramaphosa set out some of the progress made in achieving some of the goals set out in the NDP and NIP. Some of the highlights were:

- The Division of Revenue Act has been amended to allow local municipalities to utilise their infrastructure budgets and grants along with private sector investment for large social infrastructure projects. These projects focus mainly on Health and Education.
- The Public Private Partnership regulations have been amended and published for comment. The amended guidelines aim at pooling public and private resources for infrastructure projects.
- AStrategic Intergrated Projects (which is the Government's massive infrastructure investment and build programme aimed at improving the lives of South Africans) has grown in value to R540 billion. These projects are primarily made up of water and sanitation, transport and logistics as well as energy.
- Eighteen projects have been completed to the value of R 10 billion.
- Current projects under construction amount to R 230 billion.
- Projects worth R 170 billion are in the procurement stage.
- Infrastructure South Africa has unblocked R 25 billion worth of Renewable Energy Projects via the Infrastructure Development Act's fast tracking of Government authorisations.
- Infrastructure South Africa has published the first edition of the Construction South Africa book which showcases 153 projects across 5 state owned entities. The projects showcased are positioned to promote economic growth and provide much needed public services.

A key takeaway from the Presidents speech is that it seems that there is some activity in the construction sector, which is a welcome change. It must be noted however that in order to reach the goals set out in the NDP and NIP, the public sector would need to invest a further R 1.6 trillion and the private sector would need to invest a further R 3.2 trillion. The projects currently underway are therefore just the start of the ambitious programme. The momentum will need to ramp up quite a bit if the 2030 target is to be met. A caution must be noted however that sustained, healthy growth would be better than an absolute boom. Another key point to note is the Government’s willingness and intention to partner with the private sector.

Numerous amendments to procurement requirements for public sector projects have been made to better pool resources via Public Private Partnerships (PPP), for infrastructure projects. Most notably is the Renewable Energy Independent Power Producers Public Private Partnership Programme. This example of Public Private Partnership wasn’t without its challenges but it was the start of the Government’s realization that the private sector can contribute quite effectively in major infrastructure projects. The engineering insurance sector can see this as an opportunity to take hold of as the private sector is a profile that is familiar to the insurance market. Whilst there is activity and a looming deadline, we have to keep in mind the current state of the South African Construction industry. Since the construction boom in 2010, the industry has been in constant decline, falling off a cliff in 2021. Only a fraction of the original construction companies exist and with much reduced capacity to fulfill the requirements of the NDP and NIP.

The construction industry has the potential to provide millions of much needed jobs and therefore needs to be rebuilt if we are to realise the targets set for infrastructure development. President Ramaphosa did state that they are working on the rebuilding of the industry but didn’t provide details on how this was going to be achieved. The South African Construction industry needs to guard against relying too heavily on foreign resources during its vunerable period as this would nullify the stimulus to the economy and not achieve the sustainability that is desired. The reliance on foreign resources is also a threat to the insurance sector as premiums could more easily flow offshore again not contributing to the overall South African economy.

The South African Engineering and Construction Insurance industry has weathered the suppressed period well and is positioned to contribute to the sustainability of the current and planned infrastructure development. Product enhancement and development, especially in the Renewable Energy space, has taken place during the reduced economic activity period and the industry is made itself ready to respond to the uptick in activity.

Insurers and Reinsurers in the engineering space have displayed resilience and maintained a healthy market that has sufficient capacity to account for the targets set by the NDP and NIP, without too much reliance on foreign capacity. The market should educate itself on the priority projects targeted by the NDP and NIP and contribute to the narrative, particularly in the PPP space, to ensure the momentum of infrastructure development is maintained and timeously rolled out so that the effectiveness can be maximized and the potential of the South African economy can be realized.

REVITALISING THE CONSTRUCTION INDUSTRY: CHALLENGES AND SOLUTIONS

Helgaard Müller, Executive Manager, Lombard Guarantee

Government's recent promises to boost infrastructure spending are seen as a positive step forward. However, there are several hurdles that could slow down the much-needed recovery of the construction and engineering sector. Doubts linger about the government's ability to fulfil its commitments, given past experiences of unmet promises. This uncertainty undermines confidence in the government's capability to effectively execute infrastructure projects. Financial constraints and a lack of technical expertise within government may hinder the efficient rollout of infrastructure projects. Limited budgets and insufficient know-how within Government and local authorities could impede the successful completion of construction projects. Economic downturns also pose significant challenges for the construction sector, resulting in reduced investment, decreased consumer spending on real estate, and difficulties in securing financing for large-scale projects.

However, merely increasing spending may not be enough to resurrect the sector. Addressing the activities of construction mafias is crucial for rebuilding trust and integrity. There has however been a lack of political will to tackle this issue effectively, further undermining recovery efforts. Power outages, which affect suppliers to the construction industry, add another layer of complexity to the sector's challenges. Interruptions in power supply can disrupt construction schedules and inflate costs. Since 2019, the South African construction sector has been severely impacted, with only a few players remaining. Rebuilding the sector's capacity will require time and concerted effort, even with increased spending. Additionally, the sector faces shortages in skilled labor, which need to be addressed for long-term viability and growth.

Despite these challenges, increased spending and more construction projects could benefit contractors by improving margins and cash flow. However, the broader sector's success depends on effective policy implementation and overcoming the challenges mentioned.While economic pressures can create challenges, they do not necessarily lead to lower construction standards and increased risk. Reputable contractors with adequate resources are likely to prioritize quality and adhere to standards, looking to maintain high standards to protect their reputations.

How is the insurance industry supporting the construction sector?

The insurance sector actively combats corruption by only guaranteeing contractors who adhere to ethical practices and contribute positively to the communities they work in. It also aids skill enhancement by supporting emerging contractors and enabling their growth within the market. Additionally, the insurance sector provides guarantees that offer sufficient protection to contractors, balancing the dynamic of contract guarantees favouring clients.

ENGINEERING AND CONSTRUCTION INSURANCE: CHALLENGES AMID ECONOMIC PRESSURES

In 2019, a road construction project in Gauteng, aimed at alleviating traffic congestion, was abruptly halted. Armed gangs stormed the site, demanding a slice of the project's profits. Faced with the looming threat of violence and disruption, the construction company suspended operations. This plunged the project into uncertainty, and left stakeholders reeling from the repercussions.

As the construction and engineering sector braces itself for a potential revival amidst commitments from the Minister of Finance and President Ramaphosa towards bolstering infrastructure spending, stakeholders are pondering the extent to which this financial injection will resuscitate an ailing industry.

The underlying question remains: can increased budget allocations alone rejuvenate the construction and engineering sector, or are there deeper, multifaceted challenges at play?

The “Construction Mafia” and “Illegal Mining”

The real-life example mentioned above, now commonly referred to as the “construction mafia”, presents one such challenge. Another significant challenge is the pervasive presence of "zama zamas" or illegal miners in South Africa. These illegal miners, operating outside regulatory frameworks and often resorting to violent and dangerous methods, pose a myriad of risks to construction projects. Encroachment onto construction sites by these illegal miners not only disrupts project operations but also introduces a litany of hazards such as increased theft exposures, labours’ heightened anxiety around their work-safety, and an increased potential for uncontrolled subsidence and underground collapses.

The surge in incidents of theft of yellow metal by “zama zamas” exacerbates the risk landscape for insurers. With illegal miners targeting construction sites for valuable machinery and equipment (especially TLB’s, generators, etc), insurers are confronted with heightened exposures to theft-related losses. The brazen nature of these thefts, often executed under cover of darkness and with little regard for safety protocols or injury to persons, underscores the urgency of fortifying risk management strategies within the industry. Many new contractors will have next to no industry knowledge or experience, nor access to finance and will have some trouble surviving in a sector where the contractor is often forced to take responsibility for everyone else’s mistakes.

Quality Standards

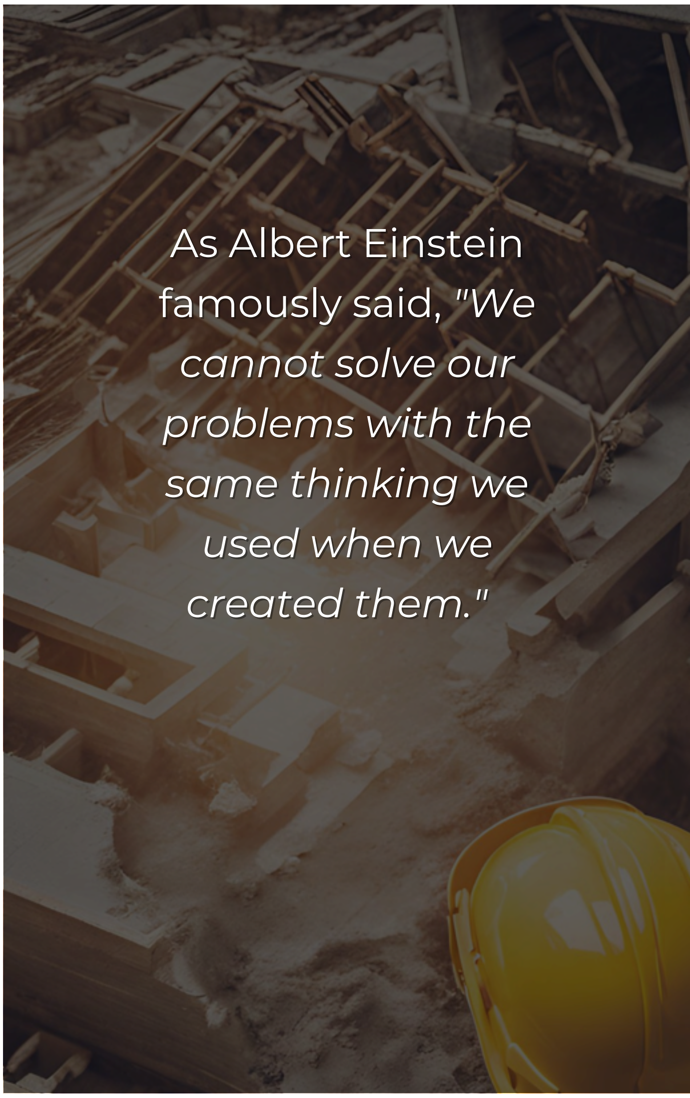
Another concern is the potential compromise on quality standards in the face of economic pressure. Historically, economic downturns have led to cost-cutting measures within the construction industry, often resulting in lower standards and increased risks. Reduced budgets tempt stakeholders to opt for cheaper materials, shortcuts in safety and health protocols, a compromise on workforce expertise or overworking existing project management and staff. This jeopardises the integrity of projects and exposes insurers to elevated risk liability.

Climate Change

Climate change also poses significant risks to our industry. The increasing frequency and severity of extreme weather events results in infrastructure and building projects facing heightened vulnerabilities. These events disrupt construction timelines, cause works material damage, and escalate insurance claims. Moreover, climate change compounds existing weaknesses, necessitating remedial actions and increased capital budgets for the more resilient infrastructure solutions.

Maintaining Profitability and Sustainability

In this landscape, the insurance industry finds itself at a pivotal juncture. Insurers must navigate a precarious terrain where traditional institutional and governance safeguards may prove inadequate in the current ever-changing landscape. The insurance industry is also grappling with the imperative of maintaining profitability and sustainability. Rising claims frequency and severity on the one hand, coupled with heightened market competition exerting downward pressure on premiums on the other hand, serve to challenge insurers to strike a delicate balance between risk-based pricing and commercial affordability. In response, insurers must explore innovative risk transfer mechanisms, leveraging technology for streamlined operations, and diversifying their product portfolios to mitigate concentration risks.



A Time for Unconventional Collaboration

In the face of evolving challenges, traditional approaches are no longer sufficient to safeguard the industry's future. Now is the time for bold and innovative thinking, for daring to explore unconventional solutions that transcend the constraints of conventional wisdom. It's time to embrace new perspectives, forge synergies, and chart a course towards a more resilient and sustainable future for engineering insurance. I truly believe that all stakeholders must come together to address our challenges, and this will include us working with relevant government institutions in some form. It is time for us to collaborate better to establish an improved and more normalised economic working environment. This will allow all stakeholders in the value chain (from the insured to the reinsurer) sustainable profitable growth.

SOLAR FIRE RISKS
SIX PRESSURE POINTS TO CONSIDER WHEN IT COMES TO FIRE RISKS

Andy Mizen, a senior risk consultant at Aon South Africa

South Africa has seen a surge in the adoption of residential and commercial solar power generation, much of which can be attributed to the escalating challenges posed by increased load shedding as power utility, Eskom, struggles to meet the country's demand for reliable electricity generation. South Africa added 2 965 MW of installed solar in 2023 alone, out of the continent's 3 745 MW added. South Africa has at least 7 781 MW of solar installed, representing almost 47% of all installed capacity on the African continent.

At the heart of this solar revolution lies photovoltaic (PV) technology, where semiconducting materials harness light to release electrons, generating a crucial current for power generation. Encased in a transparent bonding material such as Ethylene Vinyl Acetate (EVA) and fortified with a sheet of glass and aluminium framing, PV panels stand as the vanguard of sustainable energy solutions. However, as the solar industry expands, so do the challenges and risks.

"Fire hazards are a considerable threat to solar power generation and battery energy storage," says Andy Mizen, a senior risk consultant at Aon South Africa. "Environmental conditions, ranging from hail and wind to flooding, can wreak havoc on the infrastructure while the allure of PV panels to thieves, coupled with rising manufacturing costs, contributes to the upswing in insurance expenses. The complexity intensifies when solar installations are located on rooftops due to the concentration of electrical sources of ignition such as roof insulation and cabling, making timely intervention, maintenance and emergency responses crucial," Andy explains.

Aon delves into the six most prolific challenges that solar plants are faced with:

1 - Construction risks

PV panels must be installed by a qualified engineer according to a recognised standard and according to the manufacturer's instructions. To reduce the associated fire risk, the panels must be mounted on a non-combustible base such as concrete, with the framing designed to reduce the risk of wind, hail or lightning damage. The best approach is a secure steel structure, which also allows for the possibility of including a tilting mechanism in the design not only to track the movement of the sun for optimal production, but also to counteract the potential for hail risk.

2 - Documentation

- It is important to insist on electrical, earthing and cabling schematics In the lead-up to the installation.
- Mounting designs, as-built drawings, mechanical drawings and a commissioning manual are also important.
- Once the project is complete, it will need an electrical Certificate of Compliance (CoC) and engineering sign-off, which is critical from an insurance perspective to prove that the work was completed according to the required electrical and structural standards.

3 - Fire risk

Any solar installation poses a potential fire risk which is why it is important to ensure that there is sufficient spacing from any combustible storage and roof underlay material, which must be confirmed as non-combustible. Cabling should also be fire-resistant and located away from critical components where possible. The location of your installation is paramount to allow the fire brigade access to the panels, quickly and safely, and to also check that hydrant water pressure can reach the panels, especially when mounted on structures such as a roof.

Always have suitable fire extinguishers onsite as your first line of defence and implement a strict no-smoking policy across the board. This is especially important where lithium-ion battery storage is installed - Aqueous Vermiculite Dispersion (AVD) is an extinguishing agent for use on Lithium-ion battery fires which cannot rely on cooling alone, but also need to contain and encapsulate the battery to limit the reaction, contain the gases and prevent access to external oxygen, so the risk of the fire spreading is reduced.

4 - Security

The energy generation site needs to be protected from the risk of arson and theft or any unauthorised access, by means of robust perimeter control and diligent security. It is also pertinent to have security staff aware of NFPA601 (standard for security services in fire loss prevention) patrol requirements specific to fire loss prevention, while including machinery spaces and isolated areas into their patrol regime.

5 - Power supply

To ensure optimal safety measures, it is imperative to establish a clearly designated electrical isolation point for emergency use by the fire brigade. This point should facilitate an immediate and controlled disconnection from the electrical grid. Additionally, a robust system is required to generate an alarm signal to a 24/7 manned control centre, serving as an early warning mechanism in worst-case scenarios. Emphasising a proactive approach, solar farm substations and transformers must be situated within an environment equipped with a gaseous fire suppression system, monitored fire detection and sufficient separation from panels. Given the potential heat accumulation in a PV array system and inverter, installation in a well-ventilated area is crucial. The incorporation of drip trays or bunds, capable of containing 110% of the liquid utilised in solar power generation, is essential to prevent the spread of oil onto hot components. Regular inspections for any damage are necessary to mitigate risks. Adhering to industry standards, the replacement of batteries used for electricity storage every three years is considered a fundamental practice in preventing potential issues. Prioritising prevention over cure remains paramount in maintaining the safety and reliability of solar power systems.

6 - Maintenance

Good housekeeping of a solar solution Includes:

- Cleaning dust from the panels, to control any surrounding vegetation to reduce wildfire risk and ensure storm water channels are cleared of debris and vegetation.
- Conduct annual thermography surveys for fault finding purposes.
- It is important to comply with the manufacturers recommendations and to follow instructions meticulously.
- Regularly inspect concrete bases, panel connections, cables and structural steel supports, especially after high winds or other climactic conditions.
- All construction and maintenance work must be subject to strict permit conditions, including work at height, electrical lock out tag out and hot work.
- Ensure staff are provided with suitable training by requiring a permit to work, perform any maintenance or manage sources of ignition.

The establishment and operation of solar plants are undeniably transformative for our energy landscape, yet they are not without their formidable challenges. By implementing comprehensive risk mitigation measures that address these challenges, stakeholders can not only enhance the resilience of solar farms but also safeguard their long-term sustainability.

USING BIG DATA TO MITIGATE THE RISK OF CLIMATE CHANGE IN CONSTRUCTION INSURANCE

Jim Connolly, Head of Construction & Engineering at Infiniti Insurance Limited

Jim Connolly

The future of construction insurance globally is being significantly influenced by weather-related risks, necessitating a shift away from conventional building practices to meet and adapt to the evolving weather conditions so as to continue to meet market demands. The rising frequency and severity of extreme weather events globally have exposed construction projects to unprecedented weather-related risks, leading to a substantial increase in insurance claims. These risks disrupt the entire supply chain often resulting in interruptions, delays, or work damage.

Therefore, project owners, contractors and developers incur significant financial losses, resulting from additional expenses of mitigating risks. We are beginning to see increases in premiums and exclusions in regions highly exposed to weather-related risks. For example, natural-catastrophe-related coverage exclusions were applied in some locations in the KwaZulu-Natal province following the persistent widespread floodings. Insurers and reinsurers are already grappling with changing risk profiles influenced by extreme weather events.

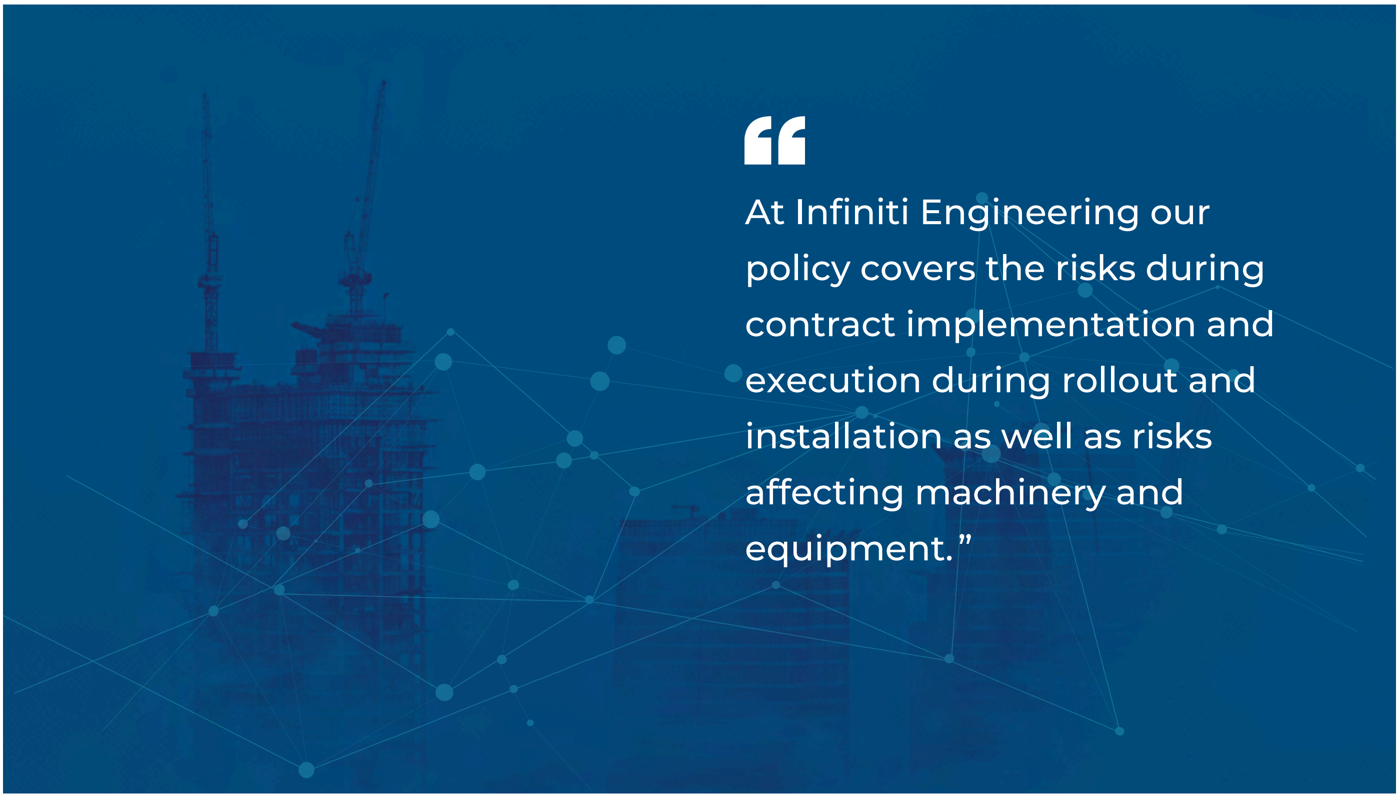
In 2023, only 43% of global weather-related losses were insured, resulting in a $132 billion protection gap, according to the Building a Climate Resilient Future report launched at COP28. As clients become more aware of the need to insure against weather related loses, insurers must build resilience to increase their capacity to handle an increase in the number of losses covered when a natural disaster occurs. The United Nations Economic Commission for Africa's African Climate Policy Centre estimates that the loss and damage costs in Africa due to climate change are projected to be between US$ 290 billion and US$ 440 billion, depending on the degree of climate warming.

Focusing on risk management & mitigation

As construction projects become more intense in scale and geography, and the number of climate-related disasters increases, there is a need for more understanding of climate risk and how it can be managed. Underwriters must examine the potential impact of climate change on the validity of their risk assessment and risk modelling tools. To manage risks of the extreme weather events, insurers need accurate weather insights and granular information such as geo-co-ordinates.

These insights will help underwriters understand the weather risks associated with countries, regions and properties of interest. By providing this information, insurers can help property owners and developers understand the threats their properties face and how to mitigate them. Project managers and developers should also seek the advice of an insurance broker who has experience in construction and expertise around the physical risk associated with natural catastrophes.

During the design process, the project manager must undertake a detailed climate risk assessment of a site and implement appropriate resilience measures to mitigate the risk of natural catastrophes. Climate mitigation and adaptation should be an integral component of the design process in all construction and building projects. Understanding the risk of climate change and adverse weather conditions is essential to developing effective risk management strategies.



> "At Infiniti Engineering our policy covers the risks during contract implementation and execution during rollout and installation as well as risks affecting machinery and equipment."

Tailored insurance solution

Under these circumstances, insurance becomes critical to protect the industry against these fast-emerging risks. Contractors need to understand the risks involved in their projects and to put the necessary measures in place to mitigate any potential liability that may be incurred. At Infiniti Engineering our policy covers the risks during contract implementation and execution during rollout and installation as well as risks affecting machinery and equipment.

The policy also provides cover for the employer's property in the care, custody and control of the contractor up to a limit agreed upon and stated in the policy as well as cover for liability that might accrue to the contractor directly as a result of the building activities subject clearly to the terms and conditions of the policy contract. Through our Guarantee Division we are also able to provide our clients with a Construction Guarantee should they require one.

We believe that a strong partnership between our trusted brokers and our focused Engineering underwriters, specialising in project and engineering insurance, is fundamental to the success of construction projects undertaken by our mutual clients.

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EVENTS

AND NETWORKING

"A really important part of networking is actually about what you bring to the table-not just what you want to get out of it. Contribution is a big part of networking success."

– GINA ROMERO

BUSINESS, RELATIONSHIPS & EXCITEMENT CAN GO HAND IN HAND

Fostering relationships is as crucial as the products or services the insurance industry offers.

In the insurance industry, this principle holds particularly true. In my conversation with Antonio Iozzo, IUM CEO, he shed light on how their annual Golf Day shares this philosophy while injecting a dose of excitement into the mix. At IUM, the Golf Day isn't just another corporate event; it's a meticulously planned extravaganza that showcases the company's commitment to both fostering relationships and offering a unique experience. Antonio emphasises the event's in-house planning and execution, highlighting the dedication of their events team. What sets the IUM Golf Day apart is its thrilling hole-in-one challenge. While most golf tournaments offer a single luxury car as a prize, IUM ups the ante with three hole-in-one supercar competitions.

""Ultimately, IUM's approach to business revolves around protecting their clients' interests while fostering long-term relationships" "

This year a Ferrari Novitec 296, Lamborghini Novitec Huracan, a Porsche Techart 992 Carrera were up for grabs. A dream for any car enthusiast. But how does IUM ensure the integrity of such high-stakes contests? Antonio reveals that each hole-in-one attempt is meticulously documented and verified, ensuring fairness and transparency. Despite the allure of these coveted prizes, no winner has emerged in the past three years, adding an extra layer of suspense to the event. Beyond the adrenaline-pumping challenges, IUM's Golf Day serves as a platform for relationship-building within the insurance industry.With an exclusive, invitation only, guest list comprising 140 golfers and 180 evening dinner attendees, the event attracts a who's who of brokers and industry professionals. Antonio explains that the event's exclusivity ensures a high level of engagement and networking opportunities. However, IUM's commitment to relationships extends far beyond their annual Golf Day. Antonio highlights their active participation in various industry expos and sponsorship of insurance institute dinners throughout the year. These initiatives not only showcase IUM's products and services but also reinforce their dedication to supporting the industry as a whole.

When it comes to managing broker relationships, IUM takes a boutique approach, prioritising quality over quantity. By maintaining a select group of around 100 brokers, IUM can provide personalised support and foster mutually beneficial partnerships. This hands-on approach stands in contrast to the industry trend of remote interactions and emphasises the value of face-to-face engagement. Technology plays a pivotal role in IUM's operations, enhancing efficiency and risk management capabilities. Antonio discusses their investment in insurance management software and Salesforce-based solutions, underscoring their commitment to innovation. By leveraging technology, IUM aims to streamline processes and provide brokers with valuable insights into risk management. Through events like the IUM Annual Golf Day and strategic industry engagements, they not only showcase their offerings but also demonstrate their commitment to supporting brokers and clients alike.

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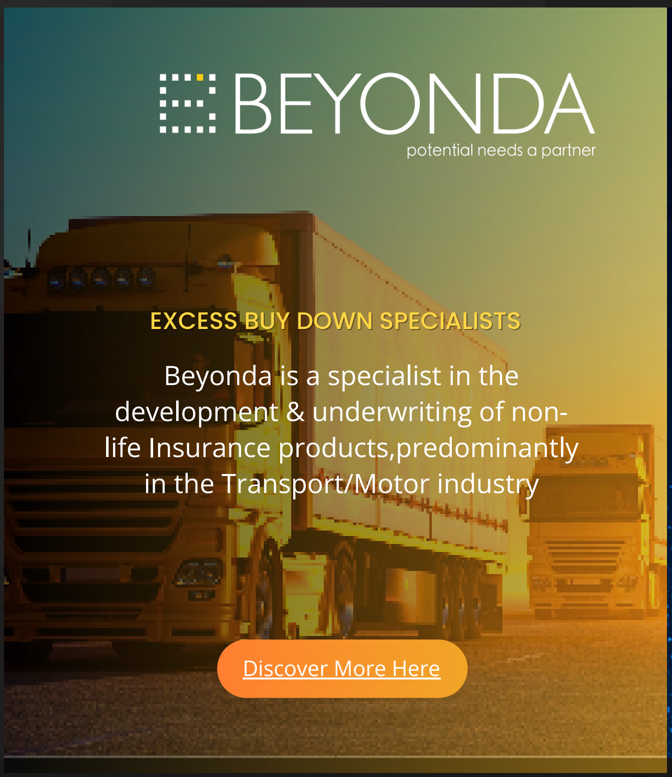

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