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THE HIGH-NET-WORTH SECTOR

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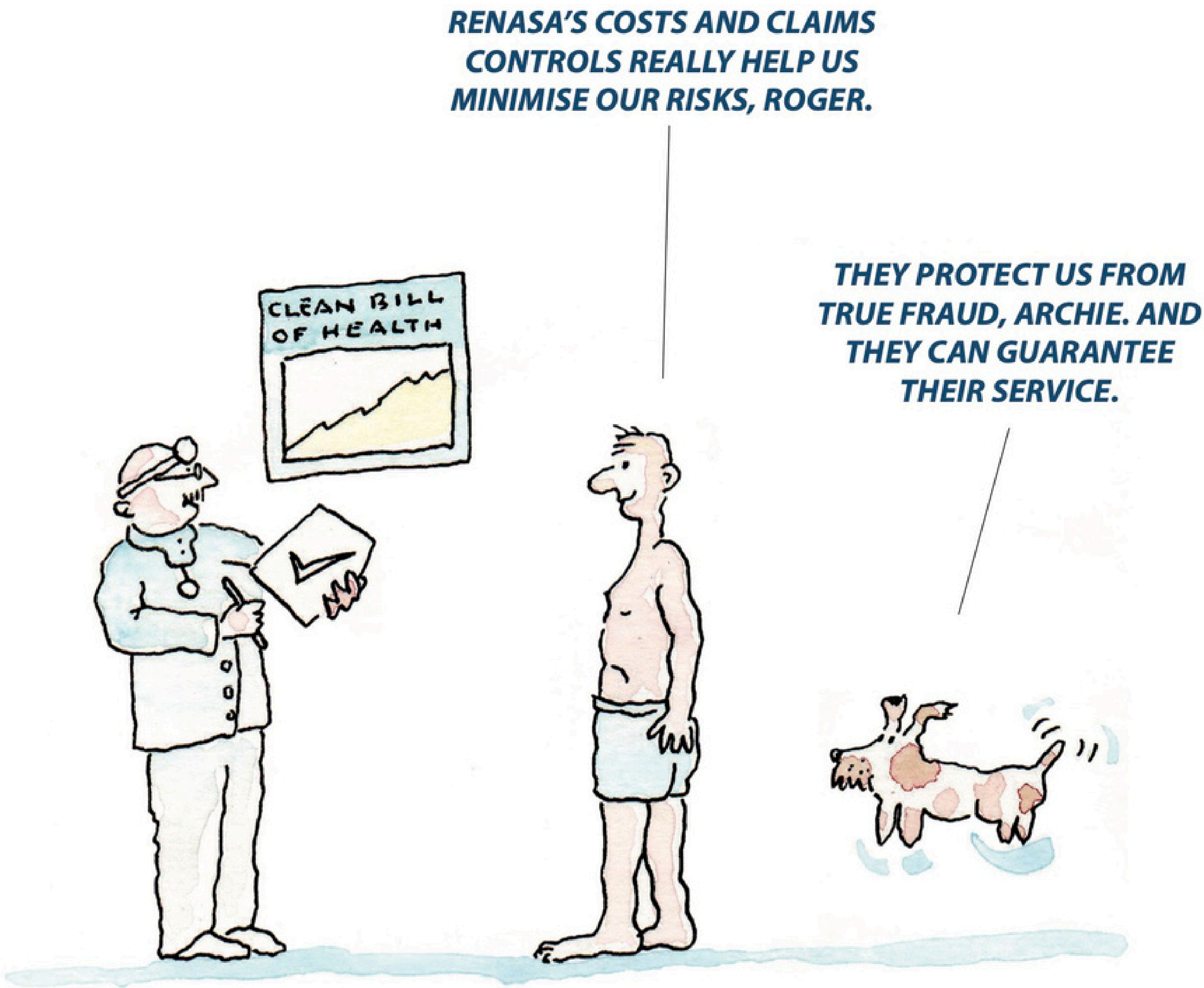

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NAVIGATING NEW HORIZONS IN WEALTH MANAGEMENT

Diving into the June 2024 edition of COVER Magazine, we are in a period of significant transformation and opportunity within the insurance and financial services sectors. The articles presented this month highlight the evolving landscape of wealth management, the increasing demands of high-net-worth individuals (HNWIs), and the critical role of innovative solutions in addressing emerging challenges. The high-net-worth sector in South Africa is under strain, grappling with rising crime rates, economic pressures, and a notable emigration trend.

The question that looms is whether this sector is genuinely shrinking or if we are merely adjusting our benchmarks. The African Wealth Report 2024 by Henley & Partners indicates a 20% decline in South Africa's millionaire population over the past decade, yet it also projects a 65% growth in Africa's millionaire population over the next ten years. This dual narrative underscore the complexities and potential within this market.

In response to these dynamics, financial advisers and investment platforms must differentiate their offerings to meet the unique needs of HNWIs. The shift towards a more inclusive approach to wealth accumulation, including non-traditional investments and entrepreneurial ventures, is crucial. This issue of COVER delves into how investment platforms can customise solutions, leverage technology, and provide global mobility solutions to help clients navigate this complex environment.

Our feature on family offices offers insights into securing generational wealth. The five essential ways family offices can support ultra-high-net-worth (UHNW) families include centralising family wealth, managing the transfer of wealth across generations, handling complex family affairs, ensuring discretion and privacy, and addressing the softer issues such as family constitutions and philanthropic management. These entities are becoming increasingly vital in offering comprehensive support to families with intricate financial and estate management needs.

Additionally, we explore the insurance needs of HNWIs, emphasising the importance of personalised solutions that cater to their distinctive lifestyles and asset collections, where there is significant opportunity for insurers who can offer differentiated and bespoke products. The role of specialist insurance brokers is highlighted, particularly in navigating the unique challenges posed by the South African market, such as load shedding and the demand for sustainable and technologically advanced properties.

Furthermore, the upcoming Two-Pot Retirement System represents a landmark shift in retirement savings in South Africa. Financial advisers are urged to educate themselves and their clients about the system's tax implications and the importance of avoiding premature withdrawals. This new system presents both challenges and opportunities, and advisers must be prepared to guide their clients through these changes effectively.

As always, we aim to provide valuable insights and practical advice to help professionals navigate these new horizons. From innovative insurance solutions to comprehensive wealth management strategies, our goal is to equip you with the knowledge and tools needed to excel in this dynamic environment. Enjoy the read, and may it inspire you to embrace the opportunities and challenges that lie ahead.

Tony van Niekerk Editor-in-Chief,
COVER Magazine

HIGH NET

WORTH ARTICLES

“There's an ongoing debate in our industry about whether the high-net-worth sector is shrinking or if we're just broadening our definition of wealth.”

- CHRISTELLE COLMAN, FOUNDER AND CEO OF AMI UNDERWRITING MANAGERS

NAVIGATING THE COMPLEXITIES OF SOUTH AFRICA'S HIGH-NET-WORTH SECTOR

Hymne Landman, CEO: Wealth Management at Momentum Investments Group

We are firsthand witnessing the increasing challenges facing our economy. Rising crime rates, economic pressures, and a significant emigration trend are reshaping the landscape for high-net-worth individuals (HNWIs) in South Africa.

This sector, once considered stable and lucrative, now faces unprecedented volatility and uncertainty. The pertinent question is whether the sector is shrinking or if we are lowering the bar for what constitutes high net worth. Additionally, it is crucial to consider how investment platforms and financial advisers can differentiate their offerings to meet the evolving needs of HNWIs.

The South African high-net-worth sector is undoubtedly under strain. The economic environment, characterised by slow growth and rising inequality, has made it harder for individuals to achieve and maintain high net worth status. Concurrently, increased crime rates and political instability are prompting many HNWIs to seek safer havens abroad. This trend is not just anecdotal; data supports a significant outflow of wealth and talent, impacting the local economy and investment landscape. According to the African Wealth Report 2024 by Henley & Partners and New World report, South Africa's millionaire population has declined by 20% over the past decade (2013 to 2023). This decline is attributed to two main factors: emigration and the decrease of wealth due to economic circumstances.

Despite these challenges, the report also highlights that South Africa remains home to over twice as many HNWIs as any other African country, with 37 400 millionaires, 102 centi-millionaires, and 5 billionaires. For the purposes of the report, a HNWI is defined as someone with liquid investable wealth of USD 1 million or more. * This suggests that while the number of wealthy individuals has decreased, there is still a significant high-net-worth sector in South Africa. The report also predicts a 65% growth in Africa's millionaire population over the next 10 years, indicating potential for future wealth creation despite the current challenges.

In response to these dynamics, there is a noticeable shift in how high net worth is defined. While traditional benchmarks still hold, there is a broader recognition of the need to adapt to the changing environment. This includes a more inclusive approach that acknowledges the varied forms of wealth accumulation, including entrepreneurial ventures and non-traditional investments. In this challenging climate, investment platforms must go beyond offering standard services. Differentiation lies in a deep understanding of the unique needs and concerns of HNWIs. This involves a multifaceted approach, including the ability to customise investment solutions to align with specific investment needs and goals, leveraging cutting-edge technology to provide real-time reporting so that clients can make informed decisions and global mobility solutions to help clients understand tax implications, investment opportunities and regulatory requirements in multiple jurisdictions.

Financial advisers play a pivotal role in this ecosystem. They are trusted partners who form the bridge between clients and investment platforms. Their role is multifaceted and includes guiding clients through the current economic turbulence with robust financial plans and investment strategies to ensure that they are prepared for a range of possible outcomes. Long-term planning is challenging in an environment where factors impacting financial security can change rapidly. Financial advisers must emphasise the flexibility of the financial plans they create for clients and educate them about the importance of staying the course and not making impulsive decisions based on short-term market movements. Clear, consistent communication is essential to maintain trust and confidence.

Given the current economic climate, a diversified portfolio is more critical than ever, and clients should consider holding various asset classes across geographical boundaries. With an increasing number of HNWIs becoming global citizens, planning for global mobility is essential. A solid understanding of jurisdictional nuances, seamless financial transition and cross-border planning is critical. The high-net-worth sector in South Africa faces significant challenges, but with the right strategies, investment platforms and financial advisers can help clients navigate this complex environment. By focusing on personalised solutions, tax considerations, leveraging technology, and providing holistic wealth management, we can differentiate our services and meet the evolving needs of HNWIs. Together, we can help clients achieve their financial goals, even in the face of economic volatility and global mobility.

Financial advisers and investment platforms must collaborate closely to deliver exceptional value and ensure that HNWIs can confidently pursue their financial objectives, irrespective of the uncertainties that lie ahead.

This partnership is the cornerstone of a resilient and thriving high-net-worth sector in South Africa. Investing is a personal journey.

At Momentum Wealth, we believe that an investment platform should be personal and personalised too, for the client and for our financial adviser partners.

Speak to your Momentum consultant or visit momentum.co.za to learn more.

* Source: The Africa Wealth Report 2024 | Henley & Partners (henleyglobal.com)

Hymne Landman, CEO: Wealth Management at Momentum Investments Group

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FIVE WAYS A FAMILY OFFICE CAN SECURE GENERATIONAL WEALTH

Jodi Suchard , Partner at Citadel Advisory

As more ultra-high-net-worth (UHNW) South African families look to secure their wealth, specialised family offices are coming to the fore to offer financial and related services to families with complex financial and estate management needs.

As we commemorate Family Day, we look at ways in which to secure generational wealth. Not only a South African trend but a global one too, the Global Family Office Market Report and Forecast of 2023 estimates that the global family office market reached a value of USD 87.18 billion in 2022, and with a compound annual growth rate of 7.5% would reach a value of USD 133.60 billion by 2028. These legal entities provide an umbrella of services to support wealthy families, typically in five important ways.

1 - Family offices assist with the centralisation of family wealth

UHNW families often need extensive solutions for the structuring, centralisation, protection and growth of their wealth by way of a sustainable multi-generational wealth strategy. The process typically starts with a conversation with the head of the family to understand the family's structure and unique needs. This is followed by the design of a bespoke management solution for the family's financial and related affairs. The overall financial plan for the family may include offshore structuring and tax implications; philanthropy and donations; jurisdiction-specific investments; liquidity requirements; cash flow analysis and diversified asset allocation.

2 - Family offices secure the transfer of wealth across generations

Centralising the management of family wealth and managing the transfer of wealth across generations are important to consider. Securing next-generation wealth is critical to UHNW families. A family office can assist families create and define a clear family purpose and align their investment strategy to ensure their legacy is sustained across the different generations. A well-run family office can support families with the full or partial exit of their business and manage how this impacts the family's wealth and future generations.

Families can be advised on how to invest in intercorporate ventures to achieve optimal results for current and future generations. Family offices can also advise families on the integration of their wills and trusts in line with the tenets of their family constitution and carry out the wishes of the family patriarch or matriarch, whose will and testament provided the family with their intergenerational wealth.

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3 - Family offices support UHNW families to manage complex family affairs

“There is a definite need amongst South African families with material wealth to have access to a professional family office solution. In most cases these families have very complex requirements around their wealth, business and family; and they need an umbrella of services to support them,” says Citadel New Business Partner, Caren Rennie. Family offices often assist with conflict resolution and communication within families and may even bring in psychologists and mediators to resolve family disputes.

4 - Family offices provide discretion & privacy

“One of the most appealing benefits of an offshore family office structure is that it can assist greatly in the management of issues around family privacy and discretion for families who want to keep their wealth and affairs confidential,” states Rennie. These families need a financial guardian, a trusted advisor who shows up as the family manager and a gatekeeper of their privacy.

5 - The next generation

“Family offices can also provide strategies for softer issues including family constitutions, philanthropic management, next-generation education and financial coaching, emigration services, dispute resolution, protection of the family brand, personal security, and even aspects such as private air travel,” notes Rennie. To govern the family’s affairs, roles and responsibilities holistically, a family constitution sets out the vision and guiding protocols of the family regarding ownership and management of the family wealth, family trusts, and other related entities under the collective ownership of the family.

“The purpose is to bring strength, reassurance, and unity around a shared value system. It also defines the leadership structure, tools for succession management, conflict resolution guidelines, risk tolerance and long-term family business goals,” she explains. Philanthropic endeavours are also important to UHNW families. As the first donor-advised fund of its kind in South Africa, this is what the Citadel Philanthropy Foundation specialises in. It enables families to set up one foundation with many sub-accounts and vetted beneficiaries, without additional costs or an administrative burden.

A family office solution is essential to protect family wealth across generations in accordance with the family’s values.

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INSURANCE TRENDS FOR THE HIGH-NET-WORTH SECTOR

Tarina Vlok, MD of Elite Risk Acceptances

The 2024 Africa Wealth Report, a collaboration between Henley & Partners and New World Wealth, recently published, reveals that Africa's total investable wealth stands at $2.5 trillion.

Key insights from the report include that South Africa remains the wealthiest country on the continent, hosting 37400 millionaires, followed by Egypt, Nigeria, Kenya, Morocco, and others. Looking ahead, Mauritius, Namibia, Morocco, Zambia, Kenya, Uganda, and Rwanda are all projected to see significant growth in their millionaire populations by over 80% by 2033. The report forecasts substantial growth in millionaire populations in cities like Cape Town, the Whale Coast, Kigali, Windhoek, Swakopmund, Nairobi, Tangier, and Marrakech.

The report's findings mirror the trends we are seeing, with semi-gration being significant amongst the affluent. We continue to see an uptick in insurance demand in areas like the Whale Coast, the Cape Winelands, the Garden Route (Plettenberg Bay in particular) and others. The report also discusses South Africa's position in the global luxury real estate market, highlighting its young population and rapid urbanisation as key factors boosting the demand for luxury properties. It adds that ultra-high-net-worth individuals are increasingly building their lives along international wealth corridors, shaped by their lifestyle, geographic preferences, and legal and regulatory frameworks. There are many African millionaires choosing to buy luxury property in areas like the Atlantic Seaboard, as Cape Town is still a location of choice worldwide for the affluent.

This presents good future opportunity for brokers and insurers. However, for those with assets like property and cars across multiple jurisdictions, it is important to work with "specialist insurers in the country where that property is located." Another insight from the report is that Africa's millionaire population is set to rise by 65% in the next decade. There are pockets of opportunity that are revealing themselves on the continent, and this is in turn likely to unlock growth for insurers who have an established African footprint. When we think of growth, areas like Mauritius comes to mind, however, we have also noted demand from Zimbabwe. These gaps are creating an opportunity for insurers who have a reputation for a differentiated and bespoke product offering. Against this climate, brokers that they need to stay close to insurers and remind policyholders that they must choose their insurance provider carefully. Not all high-net worth insurers are created equal.

There are opportunities for brokers within the semigration trend, but it's important to understand how to service clients; services in the affluent areas of Johannesburg are not the same as in small coastal towns like Hermanus or Paternoster, for example. Work with the insurer to tap into their service networks. Now is a good time for brokers to remind policyholders about their responsibilities ahead of winter, especially given that climate change and changing weather patterns are causing significant challenges for insurers and drastically changing the risk landscape. One of the top reasons claims are rejected is because the loss is not unforeseen, but rather because it is a result of poor maintenance. Policyholders must regularly inspect gutters, roofs and exterior walls of their homes for debris, leaks or poor condition and attend to problem areas. Tyres, windscreens and cars must also be checked before the wet, frost and icy weather conditions set in.

The role of the relationship between broker and insurer will continue to be important against the current uncertain landscape. We are transitioning from payer to proactive partner: Relationships with brokers are based on true collaboration and partnership, with the goal of delivering value to our mutual clients. It is the responsibility of the insured to look after their possessions, which will in turn allow the specialist insurer take care of their assets. However, the trick is in finding the right specialist insurer, with relationships and accessibility being cornerstones of the partnership.

Find a specialist insurer that understands the unique needs of the HNWI and that has the backing of an established blue-chip brand, which has the know-how to quickly and elegantly respond when something goes wrong.

INNOVATIVE, SMART SOLUTIONS NEEDED FOR EMIGRATION & OFFSHORE

Kemp Munnik, Head of Structured Solutions: Bravura

Ultra High Net Worth Individuals (UHWNI) and families globally are consistently in the spotlight for various reasons for example lavish life styles, divorces, tax evasion etc.

In South Africa this is certainly similar but the reasons for the spotlight are a bit different. Currently with the uncertain political environment and South African Revenue Authorities putting pressure on the wealthy to collect more tax South African UHWNI are seriously considering formally emigrating or at least obtaining a second passport in a jurisdiction which is more stable or at the very minimum seek to externalize a portion of their wealth.

But maybe before we continue, it is worthwhile to determine who qualify to be called an UHWNI. The latest Knight Frank Wealth Report 2024 defines dollar millionaires as individuals with investable assets of over $1 million (approx.R19 million), centi - millionaires are individuals with more than $100 million (approx.R1,9 billion) in investable assets. The South African Revenue Services has initiated an Ultra High Net Worth Unit to specifically focus on wealthy individuals in South Africa.

Their definition of an UHWNI is someone with assets whose market value equals or exceeds R75 million according to the latest information on their website. Based on the report South Africa was, at the end of 2023, home to around 37 400 US dollar millionaires which includes 102 centi - millionaires and five billionaires. This is a 20 % decline from 2013. The report also shows that South Africa lost 11 UHWNI in the last year while thousands more millionaires have been lost in the last decade.

The loss of the super - wealthy could be through emigration or destruction of local wealth because of the poor performing economy, additionally because of the exchange rate movement. Recently there have been numerous discussions or proposals around implementing a wealth tax to increase tax collections from the wealthy but so far nothing has come to fruition, although in certain constituencies this idea has not died down.

The introduction of the National Health Insurance adds fuel to the fire as this would ultimately result in another form tax to fund the programme. Safety, security and worries about education and healthcare are key considerations for Ultra-High Net Worth Families. Formal emigration has increased of the last few years and the latest New World Health Report supports this fact. As a business we experience more and more clients coming to us to assist with their planning and actual implementation of their plans to either emigrate or externalize some of their wealth.

Whichever decision such individuals take - either to emigrate or externalize some or all their assets - they cannot do it on their own. The rules and or requirements to comply with SARS Regulations is too onerous and complex. In South Africa there are complex tax and exchange control rules to consider and when getting it wrong could be very costly. Additionally, linked to this are the rules and requirements to adhere to in the foreign jurisdiction that is to become their new home.

For example, we recently had a family who was not aware of all the exit tax charges applicable and when finally comprehending this, they had no liquidity to settle the outstanding tax and had to realize certain assets at a huge cost which they did not plan for.

"The current wave of UHWNI leaving South Africa, although not good for South Africa, provides an opportunity for advisors to add value to their clients and ensure they play a role in realizing their client's dreams. "

This is where the role of the advisors become critical be it investment advisors, tax advisors or emigration specialists who understand the environment of moving families to foreign countries. Advisors with international networks are even more important as this usually ensures a smooth process and gives assurance to the individual that all aspects are covered.

For UHWNI it will be worthwhile to engage with the various advisors well in advance in order for the advisors to work together in developing a robust strategy around timing, investment allocation and effective tax planning. Supporting this approach is where a family is currently planning to relocate to the UK and we, together with the investment advisors as well as the advisors in the foreign jurisdiction are drafting a strategy to ensure the assets that are being externalised do not fall within the UK estate net and the minimum exit tax charges applicable in South Africa are paid .

The current wave of UHWNI leaving South Africa, although not good for South Africa, provides an opportunity for advisors to add value to their clients and ensure they play a role in realising their client's dreams.

NAVIGATING SOUTH AFRICA'S EVOLVING HIGH-NET-WORTH INSURANCE LANDSCAPE

Christelle Colman, CEO and founder of Ami Underwriting Managers

The insurance market in South Africa is undergoing significant transformations, particularly in the segment catering to High-Net-Worth Individuals (HNWIs).

These shifts are prompted by a complex mix of economic, demographic, and societal factors, which demand a nuanced and strategic approach. Current trends indicate a considerable projected increase in the continent's millionaire population by 42% over the next decade, emphasising a dynamic growth in the wealth sector. There's an ongoing debate in our industry about whether the high-net-worth sector is shrinking or if we're just broadening our definition of wealth. Despite economic challenges, this sector remains robust, fuelled by a new wave of wealthy individuals who redefine what it means to be 'wealthy.'

When considering the industry's strategic adaptations, many insurance companies and UMA's have now established dedicated teams for HNWI coverage, recognising the unique needs and opportunities within this niche. This strategic focus is crucial as the global economic slowdown has influenced wealth management strategies worldwide, necessitating innovations and customised service offerings in the insurance industry. One prominent trend in the HNWI insurance landscape is the increasing demand for personalised insurance solutions that accommodate the distinctive lifestyles and asset collections of HNWIs. The growing complexity of global wealth movements, especially post-COVID, with an uptick in foreign investments in regions like Western and Southern Cape, further complicates the insurance needs, requiring sophisticated solutions that address cross-border asset protection and risk management.

> The international allure of Cape Town's luxury real estate market is a prime example, drawing global investors to its high-value properties.

The international allure of Cape Town's luxury real estate market is a prime example, drawing global investors to its high-value properties. The role of specialist insurance brokers is crucial in navigating this market, ensuring investments are securely protected. These brokers provide tailored insurance solutions that reflect the true replacement value of luxury properties, safeguarding against the financial devastation of underinsurance. Moreover, with the growing demand for properties that feature sustainability and advanced technology, there is a heightened need for specialised insurance coverage that addresses these modern requirements. Specialist brokers are equipped to handle these new insurance considerations, from eco-friendly features to smart home technologies.

We have specific challenges in the South African market, such as load shedding, which presents risks to security systems, digital assets, and high-end appliances—common features in HNWI homes. The industry's response involves adapting their offerings to mitigate these risks, often revising their policies to cover damages from power fluctuations or failures in security systems. The evolving nature of the South African HNWI insurance sector is not diminishing, it is evolving.

This evolution is driven by shifting demographics, global movements of wealth, and new challenges like load shedding. Navigating this dynamic environment, specialist HNWI underwriters like Ami play a critical role in understanding these unique needs and crafting bespoke solutions.

This comprehensive approach underscores the continued resilience and vibrancy of the high-net-worth insurance sector in South Africa, poised for significant growth and innovation in response to changing global and local dynamics.

WEALTH MANAGEMENT FOR THE HIGH-NET-WORTH SECTOR

Craig Sher, Head of R&D, Discovery Invest

Wealth management for high-net-worth individuals (HNWIs) involves a unique set of challenges and opportunities.

Challenges Faced by High-Net-Worth Individuals

While the amounts involved are significantly larger, HNWIs share common investment goals with the broader population: maximising returns, minimising taxes, and ensuring wealth is efficiently passed on to dependents. However, their investment needs and strategies can be more complex due to varying risk appetites, time horizons, and tax planning requirements. They often seek specialised investment structures and prefer their assets to generate returns in hard currencies.

Discovery Invest's Differentiated Approach

Discovery Invest distinguishes itself in the HNW sector by offering a diverse range of investment products and leveraging global partnerships. Sher explains that the Discovery platform prioritises providing the latest and most effective investment options from around the world. This includes traditional unit trust funds, offshore share portfolio funds, unique structured products, and discretionary fund management solutions. For larger clients, these offerings can be further personalised through Cogence in collaboration with BlackRock, the world's largest asset manager.

One innovative product is the USD Capital 200+, which guarantees a 100% return in US dollars if a share portfolio remains flat or increases by at least 0.01% over five years. Additionally, Discovery facilitates offshore money transfers below the prevailing exchange rate, enhancing clients' investment flexibility. We also introduced a Bitcoin Fund housed in a tax-efficient endowment wrapper, specifically designed for clients with high tax liabilities, demonstrating their commitment to providing cutting-edge solutions.

The Shared Value Model

A unique aspect of Discovery Invest's approach is its shared value model, which incentivises clients to adopt behaviors that lead to better long-term investment outcomes. Research indicates that optimal investment results are achieved by saving longer, saving more, and withdrawing less. These behaviors not only benefit clients by maximising their economic gains but also generate excess profits for Discovery, which are then used to reward clients for their prudent investment behaviors.

For HNWIs, the larger asset sizes mean they generate up to 7.5 times the value of an average client, enabling us to offer even more substantial benefits. This led to the creation of the Purple client offering, a suite of tailored products for HNW clients. Purple clients receive significant capital boosts to their investments, which they retain if they remain with Discovery, as well as discounts of up to 100% on administration fees and reduced asset management fees. Additionally, we enhance the service experience for these clients, ensuring a high level of personalised attention and support.

Preparing Advisers for Success

To thrive in the HNW sector, advisers need access to top-tier products and investment opportunities. Sher emphasises the importance of partnering with providers that offer market-leading propositions. While there is a temptation to offer highly personalised solutions, Sher warns that customisation for its own sake can be a mistake. Often, the best solution for a client might be the one that aligns with the provider's most robust and well-researched offerings, even if it is not entirely bespoke.

Managing wealth for HNWIs involves understanding their unique challenges and providing innovative, effective solutions. Discovery Invest, through its diverse product offerings, global partnerships, and unique shared value model, exemplifies how to successfully cater to this sophisticated market segment.

By focusing on both client benefits and company growth, we create a win-win situation that drives better outcomes for both the firm and its clients.

FINANCIAL

PLANNING ARTICLES

"With the Two-Pot Retirement System on the horizon, there's a loud and clear call for ramping up financial literacy and beefing up adviser education.

- KEITH PETER, OLD MUTUAL ADVICE MANAGER

A TOUGH ECONOMY DOES NOT NECESSARILY EQUAL POOR INVESTMENT RETURNS

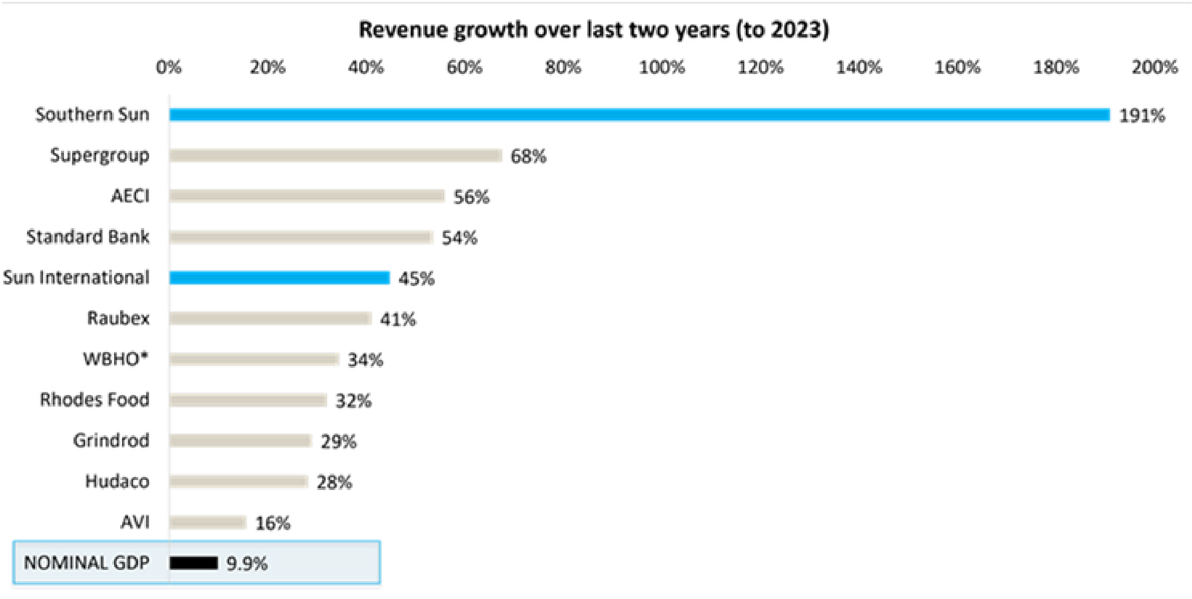
Mikhail Motala, Fund Manager at PSG Asset Management

We find that many investors conflate the issue of the prevailing economic environment with that of stock market returns.

As with many things, however, the reality is often more complex. The broader economic context undoubtedly deserves consideration, but it should, in our view, only be one part of the stock selection process. We believe the opportunity for stock pickers such as PSG Asset Management lies precisely in understanding when the economy becomes a prohibitive factor to investment, and when there are aspects which the market might be overlooking due to its reliance on the popular narrative.

And, while these issues may seem less important during times of buoyant economic growth as the tide 'lifts all boats', we believe that they become very salient in a growth-constrained environment like the current one locally. Below, we unpack some of the often-overlooked factors that we believe can have a material impact on future returns – and which stock pickers, with their intense scrutiny of company specific factors, are well-positioned to exploit. We believe this effect is further amplified where stock picking is coupled with a focus on an appropriate entry price into the investment, as is the case with PSG Asset Management's 3M investment process.

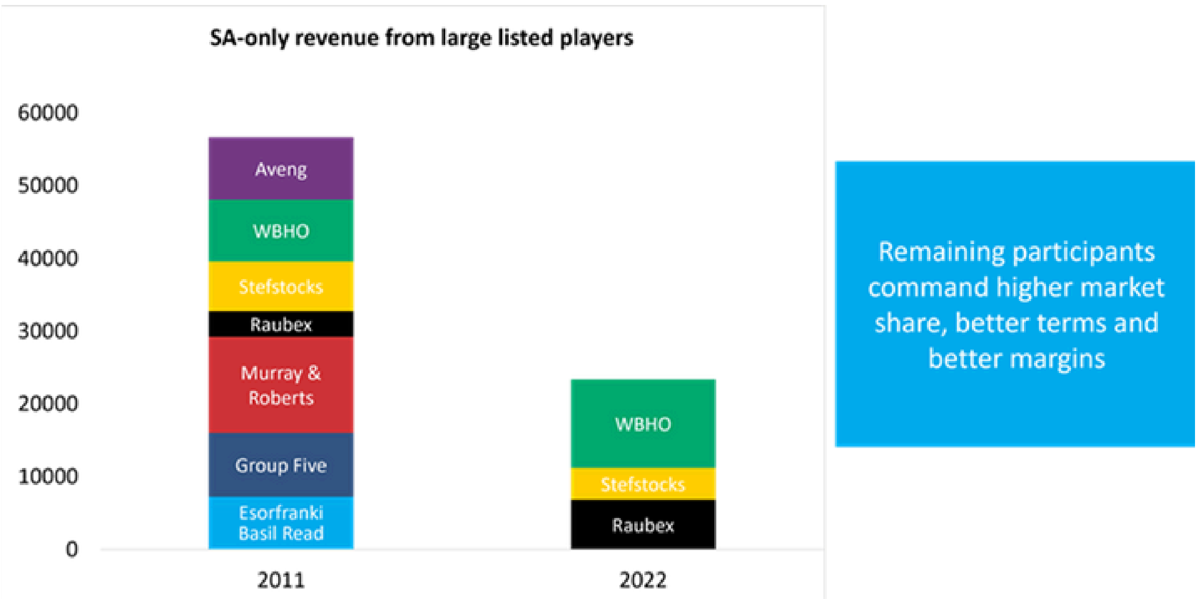
Pockets of growth exist: examples from tourism and leisure



*Source: Bloomberg. *WBHO refers to SA revenue only.*

A tough economic climate undoubtedly presents a challenge to management – and this is precisely what gives stock pickers the edge. Tough economic conditions often lead to the demise of poorly managed companies, creating supply/demand imbalances as the competition falls away. A pertinent example from the local economy is the construction industry. In 2011, there were eight large, listed construction companies sharing the revenue 'pie'. While the size of the pie has shrunk, it is now divided between only two listed companies – WBHO and Raubex.

Construction industry capacity has fallen by 60% over the last decade



Sources: Company reports and PSG Asset Management.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Superior strategies win market share

Investors should never forget that a company's share price is influenced by a whole host of factors including its strategy, target market and management acumen – all of which are at least partially under management's control, even if the broader environment is not. Pertinent samples here include the market share swings we have seen playing out in the food retail environment as Shoprite has become the clear market leader compared with Pick n Pay, Woolworths and Spar.

Management can create value via corporate action

Certain companies are laden with opportunities to unlock value via corporate action irrespective of the prevailing economic environment. A recent example which has benefited our clients is the action taken at Remgro, which is the quintessential investment holding company and a conglomerate with exposure to many sectors of the local economy. Faced with a share price that reflected a wide discount to the value of its underlying net asset value, Remgro created value, especially from 2020 to late 2023, by inter alia unbundling some of its banking and Grindrod holdings, selling and merging assets and buying back shares. Buying back shares can be a smart capital allocation move that leads to increased earnings per share growth even in a tough environment. In fact, the tough environment often creates depressed share prices and hence the opportunity to do buybacks.

Follow the cash flow

Many locally listed companies derive a substantial portion of their revenue from other countries and therefore in currencies other than rand. Thus, while their share prices may suffer from the association with the SA Inc. label, earnings may prove highly robust, despite the tough local economic climate as revenue from sources external to SA are not impacted by the local economic malaise. Examples here include Supergroup, AECI, Discovery, and Standard Bank. Taking a closer look at Supergroup we note that it trades on a PE ratio of six times despite approximately 60% of its market capitalisation comprising its investment in the Australian-listed SG Fleet.

Avoid the value traps

As Warren Buffett says, "Only when the tide goes out do you discover who's been swimming naked." In a challenging environment, avoiding value traps can be as important as selecting the overlooked gems. 2023 saw the high-profile troubles at Transaction Capital. Active stock pickers can add value by avoiding exposure to failures and value-traps.
Looking beyond a constrained local environment, we see scope for stock pickers globally Add to this the current unwinding of imbalances we are seeing in global markets, and we believe stock pickers are likely to enjoy a boon in all areas. Concentration levels in globally significant indices like the S&P in particular have soared to new levels over the past few years, delivering a period of 'easy returns' for index trackers and those who unquestioningly hopped aboard the 'big tech' bandwagon.

However, we believe that these imbalances are in the process of reversing. For more about our thinking on this, watch this video. In the process, the environment may soon become more challenging for passive investors and others who rely on the recent past to inform their investment decision making (momentum investors), while it is likely to benefit fundamental stock pickers.

Thus, looking at both the local and global environment, we believe that stock pickers are well poised to add value to client portfolios going forward.

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NAVIGATING THE TWO-POT RETIREMENT SYSTEM: A CALL TO ACTION FOR FINANCIAL ADVISERS

Keith Peter, Old Mutual Advice Manager

With the launch of the Two-Pot Retirement System less than 100 days away, financial advisers must prepare for this significant shift in retirement savings. This system, set to commence on 1 September 2024, offers more flexible access to retirement funds, but it demands careful consideration, especially for clients aged 55 and over.

Understanding the Two-Pot System

The Two-Pot Retirement System divides retirement contributions into two distinct pots: one-third for savings accessible before retirement and the remaining two-thirds only accessible at retirement (to purchase an annuity). This new approach aims to provide better tax efficiency and income stability. However, it presents unique challenges, particularly for individuals nearing retirement age.

For clients who were 55 years old as of 1 March 2021 and members of the same provident fund, the new system offers a choice: they can remain within their existing structure, their contributions will continue to be allocated to the provident fund vested component, and they will be able to access up to 100% of their benefit in cash at retirement, or switch to the new system. This decision requires careful analysis and tailored advice to ensure it aligns with the client's long-term financial health.

The Risks of Premature Withdrawals

One critical aspect advisers must highlight is the risk associated with premature withdrawals from the savings pot. Withdrawals before retirement can lead to significant tax burdens, as these are taxed at the client's marginal tax rate, compared to the more favorable retirement tax tables. Additionally, early access to funds means missing out on the power of compound growth. Consider a scenario where a 55-year-old client plans to retire at 60 with a current pension fund valued at R1,000,000. The client allocates R24,000 to the savings pot and R48,000 to the retirement pot (with a 6% annual contribution increase and an 8% annual growth rate for the pension fund). By withdrawing from the savings pot annually, the total retirement fund value at age 60 would be R1,765,066. Without withdrawals, the value increases to R1,979,023 – a difference of over R200,000. This excludes the tax payable on the annual withdrawals.

Consistency and Long-Term Planning

Advisers should emphasise the importance of maintaining a consistent financial strategy. Often, the best approach is to adhere to the client's established plan, avoiding premature access to the savings pot whenever possible. This cautious approach helps safeguard the capital accrued over their working lives, ensuring a stable financial future. Regular reviews and adjustments are necessary to address any shortfalls while investing in conservative to moderate funds. Each client's unique circumstances—specific financial needs, aspirations, and retirement goals—should dictate tailored advice, ensuring a personalised and practical approach to navigating the new system.

Bridging the Knowledge Gap

A recent Old Mutual survey revealed that half of the independent financial advisers feel ill-equipped to advise their clients effectively on the Two-Pot Retirement System. This highlights an urgent need for enhanced education and support for advisers, ensuring they are fully prepared for this landmark shift in retirement planning.

Resources and Continuous Learning

Financial institutions are taking proactive steps to bridge this knowledge gap. Workshops, master classes, and regular articles are being rolled out to explain the intricacies of the Two-Pot Retirement System. Business consultants play a pivotal role in supporting independent advisers through this transition. Advisers can also access detailed information from various online platforms, including the National Treasury and SARS, which offer valuable FAQs and documents. Industry bodies like the Financial Planning Institute and ASISA provide further educational opportunities through webinars, ensuring advisers can offer sound advice and navigate these regulatory changes effectively.

Tax Implications and Strategic Planning

Understanding the tax implications of the Two-Pot Retirement System is crucial. Withdrawals from the savings pot are treated as income and taxed at the client's marginal tax rate, while contributions and growth remain untaxed until benefits are withdrawn. Advisers must help clients strategise effectively, optimizing the timing and amount of withdrawals to minimize tax liabilities and maximise retirement income.

Staying Informed and Collaborative Learning

Independent advisers face the challenge of navigating a deluge of information from multiple sources. Establishing a structured plan for professional development, such as attending key industry events, subscribing to essential publications, and conducting regular check-ins with legal advisers, can prevent information overload. Collaboration with colleagues to share insights from different events can further enhance learning and understanding within the professional community.

Conclusion

As we approach the launch of the Two-Pot Retirement System, financial advisers must be well-prepared to guide their clients through this significant change. By emphasising the risks of premature withdrawals, maintaining consistency in financial planning, and leveraging available resources, advisers can help clients make informed decisions that secure their financial future. Together, we can navigate this new era of retirement planning, ensuring that clients achieve the financial stability they deserve.

CAN WE FEED THE WORLD AND MEET CLIMATE TARGETS?

Felix Odey, Global Resource Equities Portfolio Manager at Schroders, discusses the threat that climate change poses to our food sources and what this means from an investor standpoint.

With nearly eight billion people to feed and climate change wreaking havoc across the globe, producing enough food sustainably while meeting climate targets poses a significant challenge. Meeting the challenge will require rethinking how we produce and consume our food and the pressure it places on other utilities, particularly water. In turn, it will redefine where we invest.

A perfect storm for disaster

Food production is currently responsible for a quarter of the world's greenhouse gas emissions and is the largest driver of deforestation, as well as accounting for 70% of global freshwater use.

The United Nations (UN) estimates that the global population will reach 11 billion people by 2050, which would involve an approximately 50% increase in the amount of food produced today. This means that more food production will be required in the next 30 years than we have produced over the entire course of human history.

According to the Worldwide Fund for Nature (WWF), the annual economic value of water and freshwater ecosystems is estimated to be around $58 trillion, or 60% of global GDP. Yet the world's freshwater ecosystems are in a downward spiral due to climate change, posing an ever-growing risk to these economic values. We're also seeing more extreme weather, which is starting to have a very real impact on food production. For example, even in a 1.5 degrees variance scenario, the yield of produce such as corn and wheat is expected to decline by between 12 - 14%. Weather variability is also having an impact on our ability to predict what food production levels are going to be.

Policymakers awaken to the challenge that lies ahead

At its current rate, the world's food system is set to devour the globe's entire 1.5 - 2 degree carbon budget – a threshold target that was established in the 2015 Paris Agreement. The challenge of feeding the world sustainably and meeting climate targets has dawned on policymakers. At last year's COP28, heads of state and governments signed a declaration that recognised the grave threat climate change poses to our ability to produce sufficient food.

What this means for investors

The crux of the investment case for sustainable food and water is that demand will continue to grow, land usage will become more competitive (with sustainable fuels, renewable development, and urbanisation) and food production will become increasingly challenged, by desertification, declining soil quality, and increased weather volatility. This means that food inflation lo-g term is likely to be higher than it has been in the past, and we need to materially change the way we produce, distribute, and consume food and water in the coming decades to keep food inflation at manageable levels. This creates challenges for investors, as it has implications for long-term interest rates.

However, it also creates investment opportunities. We believe there are structural growth opportunities for the companies involved in alternative proteins, sustainable packaging, smarter irrigation and water management solutions, sustainable aquaculture, precision farming equipment, and lower carbon fertilisers. Like any other change in history, the adoption of these technologies will be driven by the relative cost, consumer demand, and supportive policy. Over the last few years companies in this space have been contending with cyclical pressures and macro headwinds. Farmer incomes have fallen from record highs in 2022, consumer spending has been challenged by price inflation outpacing wage inflation, and higher interest rates have resulted in higher costs of capital for companies globally. This exacerbated weakness in consumer exposed subsectors, as companies of all sizes sought to preserve capital by destocking their inventories.

The good news is that valuations have reset materially in the food and water space, and we do not believe they reflect their longer-term growth potential, or the nearer term demand recovery we expect as real wage inflation recovers, and interest rates start to normalise. The sustainable food and water universe has not looked this cheap relative to the wider market for over 10 years. Moreover, the destocking across the agricultural inputs, food and beverage packaging, food technology ingredients and vitamin space, could result in some restocking volume recovery in 2024. Having exposure to this theme allows investors to mitigate some of the risks around food inflation and be positioned for the growth opportunities that will arise from the structural changes the food and water system needs to undergo. This exposure also offers diversification to the wider market given its value characteristics at this point in time.

Where could investors focus?

Historically the widespread adoption of new technologies has created winners and losers. Investors would be well served to look for companies that are adapting their own operations and end products to meet both consumer demands and the growing environmental imperatives. Many of the technologies needed to reduce GHG intensity, water usage, and waste already exist in the market today and are cost competitive. Recently, there have been a couple of key shifts across the food industry. We're seeing the adoption of technologies that make the system more resource-efficient, increasingly plant-based global diets and a rising consciousness around the need to reduce food waste. Consider that the amount of food produced each year should easily be enough to feed the world; however, one-third of food produced for human consumption is lost or wasted globally, according to the World Food Programme data in 2020.

Technology will play a significant role, and regenerative farming and sustainable farming will have a place as well, given that we are beginning to see ecosystems collapse because of monocultures that have developed around the world. However, it is equally critical to consider the potential yield collapse from stopping the use of fertilisers. It may be better to lower the carbon intensity of fertilisers and make sure they're being applied appropriately, through technologies like precision agriculture and equipment, rather than trying to just get rid of all this overnight.

If we're going to bridge the calorie gap that we see emerging out to 2050, we will need these technologies and the investment to fund them.

SEVEN WAYS TO TURN CLIENT DATA INTO OPPORTUNITIES IN YOUR PRACTICE

Rainier van der Nest, Business Development Manager at Glacier

The data in your practice is a gold mine of opportunities that you cannot afford to ignore. In this challenging economy and its consequent shrinking number of investors, you cannot afford to miss the opportunities to optimise the data in your practice.

Why your current client data is important.

When it comes to acquiring new clients and growing your existing clients' assets under management, your current clients' data is one of your greatest assets. Collecting and analysing your data can help you better understand your clients, discover trends that you can leverage in your service offering, and identify opportunities to enhance the value of your advice.

In the current environment advisors will experience lower inflows. However, it is not only advisers who will feel the pinch of a shrinking market. The knock-on effect on other investment professionals, asset managers and linked investment service providers ("LISPs") is inevitable. The market pool doesn't decrease in size for only one segment, it seems. In this industry, we all swim in the same pool. In light of this, your client data presents a portion of the pool over which you preside entirely. But do you understand the data in your business and what to do with it to maximise net flows?

Here's a checklist of actions you can take, as an adviser, that can set you on a path to increased flows without having to leave your desk.

1 - Regularly review client data for insights about your clients and their needs (e.g. draw a book report). You should be able to draw data quickly and easily across multiple criteria and data points. For example, who are the clients in your business who have living annuities with no beneficiaries listed? Being able to draw such information can help you discover important client insights and trends which can in turn help improve your decision-making and advice. If you can't draw this information quickly, you may need to review your data system.

2 - Identify untapped offshore opportunities. Due to the performance of international assets relative to local assets and the current weak currency conditions, offshore investing has increased in popularity. If you are not including offshore investing in your clients' portfolios, someone else might. Some clients may already be investing offshore indirectly via a feeder fund, but another option you can offer to your clients is investing offshore directly on an international platform like Glacier International where recurring options for investment are available.

3 - Use your client data to optimise income streams for post-retirement clients. Given the evolving retirement planning landscape, you may need to assess your clients' income solution options in the context of their specific needs and take a fresh view on combination solutions. Guaranteed solutions should be a key consideration for your post-retirement clients in these current challenging economic circumstances.

4 - Determine whom of your post-retirement clients may need to invest in discretionary investment solutions to help supplement their income needs. For some clients, their compulsory pre-retirement savings may not be sufficient to meet their retirement income needs. In such cases, discretionary solutions such as unit trust investment plans or voluntary life annuities may need to be considered to address the deficit. This segment of investing offers scope, choice and flexibility for retirees and can contribute to their optimised income.

5 - Explore alternative options by turning your default post-retirement solution for your clients on its head. A combination solution that yields post-retirement income can take many forms. Considering term annuities, endowments, and guaranteed income plans combined with offshore options can potentially produce the optimal results desired by the investor.

6 - Establish future leads and future clients from within your current client base. If you build relationships with your clients' children, they could be your future client base. The future transfer of wealth from your clients to their dependants presents a great opportunity for investing and enlisting your services as an adviser. Knowledge of their needs and investment objectives is therefore essential. Initiating them into the world of investing may need to start with financial planning and education. This is the foundation of a life-long, prosperous relationship.

7 - Rethink, reinvent, refocus. In tough economic times, tried-and-tested methods may no longer be relevant or may no longer achieve the best outcomes. An overhaul of your strategy and value proposition may be required, and that often starts with digging through your data. The know-your-client philosophy has never been more important than now. Knowing your client and catering to their specific needs and characteristics means that you can tailor their portfolio to meet their unique circumstances and offer a personalised financial planning experience.

GREATER LONGEVITY & RISING HEALTH COSTS ARE DRIVING TAKE-UP OF GAP COVER

Michael Emery, Marketing Executive at Ambledown Financial Services

More and more South Africans are recognising that gap cover has become an integral part of their planning to ensure financial and physical wellbeing.

Advances in medical science and technology, combined with better sanitation and hygiene, have dramatically increased life expectancy and quality of life. South Africa's life expectancy is currently just over 65 years, somewhat below the global average of 71 years[i] but still double what it was in 1900. While these figures vary slightly depending on which data is used, the trend is clear: we are living longer. At the same time, though, it's important to recognise that longevity must be accompanied by good health or it becomes a burden.

Consequently, people are taking more care to eat more healthily and exercise. In addition, wherever possible, they are enrolling in medical schemes to ensure that they have access to the best quality of medical care they can afford. Good medical schemes typically provide help with preventative care while also making it possible to access top specialists and effective medicines when required. However, fewer people realise that tariff rates in the medical sector vary widely, which means that hospital and specialist costs can be significantly higher than the benefits paid out by any medical scheme, no matter what the level of cover is.

For example,[ii] most medical scheme options typically cover 100% of the scheme's rate, with the higher end schemes rising to 200% or even 300%. This looks sufficient, but the trouble is that doctors and hospitals can and do charge much more – claims in excess of 300% can occur.[iii] Some of these high rates are simply the result of market dynamics – the best can always charge a premium – but also medical inflation is running at a higher rate than consumer price inflation.

The consumer price index of medical products was measured at 112 points[iv] in November 2023, compared to 96.5 in January 2021, an indication of how medical costs are rising all the time. Healthcare costs are said to be running at 3%-5% above consumer inflation,[v] resulting in corresponding increases in medical scheme contributions. Medical inflation is the basic driver of increasing medical costs – Stats SA publishes the medical inflation rate and this is the basic underpinning of the industry's pricing structure, including both medical scheme and gap cover premiums.


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This challenge is not unique to South Africa. In response, medical schemes have introduced a growing number of initiatives designed to reduce the rise they have to pass onto their members. These include co-payments, and restrictions on which doctors and hospitals may be used. Medical schemes may also restrict increases by reducing the amount of annual savings, making comparisons with gap cover difficult. By contrast, because it is an insurance product, gap cover premiums are determined by underwriting rates, with premiums often fluctuating between individuals and groups.

These measures are helpful, but they are only partial solutions. The basic trend is that even those on high-tier medical plans face the prospect of significant shortfalls for certain procedures which need to be paid for out their own pockets; these expenses can be financially crippling. Given our current cost-of-living crisis, unbudgeted expenses can have a highly detrimental impact on finances that are already under pressure.

Gap cover was created to provide some relief and protection to members of medical schemes from these shortfalls. The word "cover" is important; gap cover is essentially short-term insurance cover, as opposed to a medical scheme, which is governed by the particular scheme's rules and ultimately regulated by the Medical Schemes Act. Gap cover supplements, but cannot replace a medical scheme, and is not a substitute for a medical scheme – in fact, gap cover is only available for members of a registered South African medical scheme.

Michael Emery, Marketing Executive at Ambledown Financial Services

Financial Mail reported earlier this year that uptake of gap cover has surged among medical scheme members, as gap cover accounts for as much as half of some members' payouts.[i] The same article noted that as the medical aid industry battled soaring inflation, monthly gap cover claims were averaging some R1 million higher than in previous years. As always in a vibrant marketplace like South Africa, there is a range of gap cover products that can be purchased. It is very important that individuals consult with a reputable broker to identify what gap cover is best suited to their needs – and pocket.

Depending on your Gap provider, gap cover can be purchased for the family plus its dependants for a single amount per month. However, dependants who are over the age of 21 have to get their own gap cover, although if they are financially dependent on the principal member, coverage can be extended to the age of 25 if the rules of the particular company allow for it. Mentally or physically handicapped children are covered irrespective of age if they are financially dependent on their parents. Always make sure that you check with your broker to be sure what your plan covers.

Members of the extended family, even if dependent on the principal member, such as parents, have to get their own gap cover, although, as always, the rules of the various gap cover companies vary. Again, it's worth checking with your broker to be certain.

PSG FINANCIAL SERVICES REIMAGINES SOUTH AFRICA & CELEBRATES TOP ADVISERS

PSG Financial Services' Annual Conference this year was themed 'Reimagine South Africa' and included top financial services industry leaders, journalists and other distinguished speakers who discussed challenges facing the country as well as potential solutions, as broadly languished.

CEO Francois Gouws provided an overview of the group's strong performance and strategic focus areas. He said PSG wants to grow organically and through acquisitions, streamline advice processes, optimise platforms, grow its footprint and drive transformation.

Advisers are integral to PSG's strategy and the firm's success. Dan Hugo, outgoing CE of Distribution, discussed key plans to ensure the ongoing success of PSG's adviser offices by harnessing technological investment so advisers can spend more time on value-enhancing activities, growth and client experience.

The conference's gala dinner celebrated the achievements of the firm's top advisers.

And the winners are..

Wealth Manager of the Year

Left: Francois Gouws, CEO PSG Financial Services did the honours of handing over the trophies to the winners. Heinrich Richter, PSG Wealth Melrose Arch, secured this year's title for the 5th time.

Wealth Adviser of the Year

Nelis Brink, PSG Wealth and Employee Benefits R21, earned the achievement for a fourth time.

Insure Adviser of the Year

Ryno Pretorius, PSG Insure Bloemfontein Pretty Gardens, was a first-time winner in this category.

Office of the Year

PSG Wealth and Employee Benefits R21 garnered the award for the second time.

From left to right - Wayne Stevens, Lizaan Robijn, Chantel Swart, Nerine Brink, Francois Gouws, Neels Brink, Elke Brink, Dan Hugo, Jan Botha, Gerrie Cilliers and Nelis Brink

Employee Benefits Practice of the Year

PSG Wealth R21 Employee Benefits took the honours in this category for the 12th time. Nerine and Neels Brink accepted it on behalf of the office.

Lifetime Achievement Award

Dan Hugo (Chairman: Aquisitions. PSG Financial Services.)

Earlier this year, Dan Hugo decided to step down as CE of Distribution. To recognise his immense contribution for over two decades, Dan was awarded PSG's first Lifetime Achievement Award. Dan continues in his capacity as Chairman of Acquisitions.

External contributors: SA thought leaders share insights on local challenges and reimagining solutions

A range of experts unpacked SA's problems and reimagined solutions.

André De Ruyter, former CEO of ESKOM and current senior fellow at the Yale Jackson School of Global Affairs in the US, discussed our electricity crisis and its impact on the economy. He said ESKOM should shift focus to expansion of transmission infrastructure instead of procuring renewables as these add to government's contingent liabilities, while the private sector is in a better financial position to invest and take on this risk.

Advocate Glynnis Breytenbach, former prosecutor for the National Prosecuting Authority (NPA) of South Africa and a Member of SA Parliament, outlined several challenges the country faces from a justice system perspective and the impact reforms could have on economic growth.

In the run-up to the national election, a panel discussion between political journalists and analysts Qaanitah Hunter, Justice Malala and Stephen Grootes generated interesting debates.

The second panel, led by financial journalist Alishia Seckam, debated whether closer cooperation between the private and public sector is bearing fruit. Panel members included James Mackay – CEO Energy Council of South Africa, Andile Sangqu – Chairperson of the Transnet Board and Jannie Durand – CEO/Executive Director at Remgro.

The line-up also included author and speaker GG Alcock, who shared insights into the opportunity that the informal sector holds – prompting advisers to re-evaluate their perceptions on the SA economy. Futurist John Sanei provided insights about mindset changes needed to rethink how we approach grand challenges we face as a society in the digital age.

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A FRESH PERSPECTIVE
LIFE INSURANCE

Matan Abraham, CEO of Elevate Life

As the CEO of Elevate Life, I have recognized a significant gap in the life insurance industry. Traditional products and distribution methods have remained stagnant for decades, with minimal innovation. At Elevate Life, we're committed to changing this. We believe that a fresh approach to life insurance, including innovative distribution and wellness rewards, can revolutionise the industry.

Current State of the Life Insurance Industry

The life insurance industry, especially in South Africa, presents a unique case study. Despite having a still developing economy, South Africa boasts a deep insurance market with a long history. This dichotomy of having to cater for both high and low income economies in South Africa has led to a broad range of insurance products. However, many of these products are archaic, with some offerings not having seen significant innovation for over fifty years.

While other financial services sectors like banking and short-term insurance have embraced digitisation and innovation, the fully underwritten life insurance space has lagged. Instead of developing new products, many companies have merely added superficial enhancements to outdated offerings. This situation presented us with a golden opportunity at Elevate Life to introduce something truly innovative and bring life insurance into the technological age.

Our Product Strategy

Our strategy focuses on the fully underwritten comprehensive space, targeting middle, upper-middle, and affluent clients. These clients require more comprehensive coverage across multiple perils, including life insurance, disability, severe illness, and income protection. The distribution of these products centers around advisors, who play a crucial role in quantifying the coverage needed by clients. Life insurance is fundamentally different from other types of insurance. Unlike car or home insurance, where the need is clear and straightforward, life insurance requires personalised advice to determine the necessary coverage.

This gap, often referred to as the risk gap, evolves over time based on changing financial circumstances, dependencies, and other factors. Advisors are essential in crystallising this need for clients. When we entered the market, we identified the pain points associated with traditional life insurance products and focused on creating solutions. Our strategy was to build products tailored for advisors, helping them onboard and serve their clients more efficiently through technology and innovation.

Integrating Wellness into Our Products

Over the past two decades, flexibility and adaptability have been key themes in life insurance. However, wellness has emerged as a critical component. At Elevate Life, we've embedded wellness into our product strategy to create a more comprehensive and beneficial offering for our clients. Traditional life insurance products were designed based on needs identified decades ago.

While flexibility is important, we believe it should be a given in today's market. Products should easily adapt to changes. Our focus was on ensuring our products are as comprehensive as possible, offering standard complementary benefits that enhance their value.

"At Elevate Life, we've embedded wellness into our product strategy to create a more comprehensive and beneficial offering for our clients. "

We recognised the significant work done in the financial services industry to promote wellness and lifestyle habits that improve longevity and reduce morbidity. Programs like Vitality, Multiply, and Reality have shown the benefits of positive wellness behaviors. We built on this foundation to create our 'Elevate Me' app, which is available to all our clients at no additional cost.

The 'Elevate Me' app allows clients to share their wellness data, including fitness data from wearables, healthcare information, and financial data. This data is then used to provide a holistic view of their wellness, offer personalised education, set goals, and reward them for positive behaviors.

This approach creates a positive data-sharing relationship, where clients feel their information benefits them rather than penalises them.

Streamlining the Onboarding Process

One of our key strategies involves simplifying the onboarding process for advisors and clients. Traditional underwriting for comprehensive life insurance involves extensive assessments and tests, which can be time-consuming and costly. We've built a fully digital onboarding process that leverages available data from health insurers, medical schemes, and other sources. This approach reduces the need for additional tests and streamlines the process. By codifying underwriting decisions, we can provide immediate decisions for about 75% of our clients, significantly speeding up the journey. This efficiency allows advisors to deliver better service to their clients, reducing the time and costs associated with traditional underwriting. By minimising administrative burdens, advisors can focus on their expertise: fulfilling their clients' needs.

Conclusion

At Elevate Life, we are committed to revolutionising the life insurance industry by integrating technology and wellness into our products and processes. We believe that by simplifying the onboarding process and aligning incentives, we can create a more positive and engaging experience for both clients and advisors.

Our goal is to ensure that life insurance is not just about protection but also about promoting overall wellness and longevity.

SIMPLIFYING INSURANCE IS THE KEY TO RESOLVING THE TRUST PARADOX

Schalk Malan, CEO at BrightRock

Despite paying out more than double the funds to policyholders and beneficiaries than the government spent on social welfare in 2022, life insurers are ranked among the least trusted financial services providers.

A 2022 survey by the Financial Services Conduct Authority (FSCA) revealed that life insurance is one of the least understood financial products, with disclosure particularly lacking in the industry.

Misconceptions abound, exacerbating the challenge of effectively communicating the value and purpose of insurance cover to clients. Yet in 2023, statistics released by ASISA in March of this year show that insurers paid out more than R599 billlion to policyholders and their families. Given the huge contribution the industry makes to consumers' lives, the lack of trust of the industry is a paradox.

But it doesn't have to be this way. The remedy begins with a return to the age-old adage: "Say what we do and do what we say". As brokers and industry leaders, it's imperative that we step into the shoes of those who don't possess our specialised knowledge and ensure clear and consistent communication in a language that resonates with our clients. The remedy lies in simplifying insurance offerings and enhancing transparency.

Clients need clarity

Life insurance inherently involves discussing uncomfortable topics such as mortality and debilitating illnesses, making it challenging for clients to articulate their needs. Furthermore, the myriad of options and payment structures further complicate the decision-making process, leading to suboptimal cover and dissatisfaction among policyholders.

Embrace transparency & simplicity

Insurers need to prioritise transparency and simplicity in their offerings to rebuild trust with clients. This includes simplifying policy documents, clarifying pricing structures, and providing upfront disclosure of commission.

Training and professionalism are essential

Continuous training ensures brokers remain knowledgeable and empathetic, providing clients with professional advice and guidance. By prioritising ongoing education and development, financial advisers can enhance the client experience and build lasting relationships.

Adapting to evolving client needs is also key. In the current dynamic economic landscape, clients seek value, efficiency, and flexibility from their insurance providers. By embracing technology and streamlining services, insurers can meet these evolving demands and deliver greater value to clients. Clear communication and prompt claims processing are essential for maintaining trust and loyalty.

Insurance provides peace of mind

The significance of insurance in providing financial security and peace of mind can't be overstated. As insurers navigate the complexities of the industry, it is imperative to prioritise client satisfaction and trust. By simplifying insurance offerings, enhancing transparency, and investing in professionalism and empathy, insurers can rebuild trust with clients and ensure their long-term satisfaction.

Ultimately, clear communication and compassionate service are essential for fostering lasting relationships and prosperity within the insurance industry.

As we continue to evolve and adapt to meet the changing needs of clients, let us remain steadfast in our commitment to delivering value, efficiency, and peace of mind through our insurance solutions.

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THE INTRICACIES OF POWER OF ATTORNEY IN SOUTH AFRICA

Louis van Vuren, the CEO of the Fiduciary Institute of South Africa (FISA)

In South Africa, the power of attorney is governed by our law of agency, which is rooted in Roman-Dutch common law.

Essentially, this legal framework allows one, as a so-called principal, to grant an agent the authority to act on one's behalf. The power of attorney can either be general or specific. A general power of attorney permits the agent to do anything the principal could do if he or she were present. This is typically why one would appoint an agent—to handle matters one could not attend to oneself. On the other hand, a specific power of attorney is limited to particular circumstances or acts that the principal cannot undertake. This specificity ensures that the agent's powers are clearly defined and restricted to the tasks at hand. For instance, if I am interested in purchasing property in Durban but am in Cape Town, I can issue a specific power of attorney to an agent in Durban to attend an auction and bid on my behalf.

The Challenge of Enduring Power of Attorney

One question that often arises is how the power of attorney operates when a principal can no longer manage his or her affairs. In many countries, there is a provision for a so-called enduring power of attorney, which remains valid even if the principal loses mental capacity. Unfortunately, South African law does not recognise enduring power of attorney. This is because our common law requires that the principal must always be able to withdraw the power of attorney. If the principal loses mental capacity, he or she can no longer withdraw this authority, causing the power of attorney to lapse. This legal gap poses significant challenges, particularly with our aging population, where many individuals eventually lose the capacity to manage their affairs due to conditions like dementia or Alzheimer's disease.

Legal Alternatives to Power of Attorney

Given this limitation, what options do we have? There are two primary routes in South Africa. The first is to apply to the High Court for the appointment of a curator. This process, known as appointing a curator bonis, involves preparing and filing court papers. Even if the application is unopposed, it can be quite costly, running into tens of thousands of rands. If opposed, the costs can be unpredictable and substantially higher. The second option falls under the Mental Health Care Act of 2002. This legislation allows for the appointment of an administrator by the Master of the High Court. However, this process also has its drawbacks. For instance, selling fixed property belonging to the person under administration requires the Master's permission, which can be delayed due to administrative backlogs.

The Need for Legislation

For more than 35 years, there have been efforts to introduce legislation that would allow for enduring powers of attorney in South Africa. This process began in the late 1980s and led to the publication of the Assisted Decision-Making Bill in the early 2000s. This draft legislation, which includes a comprehensive chapter on enduring powers of attorney, proposes controls to prevent abuse and ensure the appointed agent is suitable. However, despite a report published in 2016, there has been no legislative progress.

Proactive Measures for Clients

In the absence of enduring powers of attorney, there are proactive steps that fiduciary experts can recommend to clients. One viable option is to set up a trust to manage finances. If a client is in the early stages of a condition like Alzheimer's disease but still *compos mentis*, he or she can establish a trust and donate property to it. The trust can be structured to benefit only the client during his or her lifetime, with the capital passing to the heirs upon death. From a tax perspective, the South African Revenue Service (SARS) supports this arrangement. Donations to the trust can be made free from donations tax under section 56 of the Income Tax Act.

However, the property will be included in the deceased estate for estate duty purposes, ensuring compliance with tax legislation. The role of a fiduciary expert goes beyond managing finances; it involves foreseeing potential problems and finding legal solutions. For financial advisors and clients alike, understanding the intricacies of power of attorney and exploring alternatives like trusts is essential.

By staying informed and proactive, we can navigate the complexities of South African law and ensure our clients' affairs are managed effectively and ethically.

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PIONEERING MUTUALITY IN SOUTH AFRICA'S FINANCIAL SERVICES

Ayanda Seboni, Group Executive Mutuality Professional Provident Society

In financial services, the Professional Provident Society of South Africa (PPS) stands apart by embracing the ethos of mutuality.

This unique approach shapes every facet of our organisation, driving our commitment to shared success and collective well-being. At the heart of the mutual model is the principle of putting members first, unlike traditional businesses, PPS does not face the inherent conflict between the needs of shareholders and clients because we do not have shareholders; our members share in our profits. As the only diversified financial services company in South Africa exclusively serving graduate professionals, we view mutuality as a powerful mechanism for nurturing community and solidarity among our members.

Membership in a mutual promotes accountability and transparency, as board members are elected by members to ensure decisions are made in their best interests. This structure also facilitates wealth growth, as members share in the business profits, leading to substantial long-term benefits. In recent years, PPS has produced over 10,000 "Profit-Share Millionaires," members who have received more than R1 million in allocations to their notional PPS Profit-Share Accounts™. Additionally, tens of thousands more members have significant balances in these accounts, enhancing their retirement savings.

A frequently asked question is why PPS exclusively serves graduate professionals. This tradition dates to our origin during World War II when our founders established PPS to help medical professionals protect their income. Over time, this definition has expanded to include all graduate professionals—those with at least a four-year degree from a public institution or select private tertiary institutions. PPS proudly supports graduate professionals, who are the backbone of South Africa's economy.

"In 2023, PPS paid R6.12 billion in gross benefits, covering our members in various ways, from sickness benefits to short-term insurance claims."

From a risk management perspective, PPS believes graduate professionals form a good risk pool, given the professional ethics and risk management intrinsic to many professions. This benign risk pool, combined with the sense of ownership that comes with membership, results in PPS having lower-than-industry lapse rates. Mutuality benefits all stakeholders within the ecosystem. Intermediaries, for instance, benefit from accessing the PPS academy for training programs designed to enhance their skills as well as technical assistance from our Specialist Support Services (S3) these interventions empower them to perform better.

In 2023, PPS paid R6.12 billion in gross benefits, covering our members in various ways, from sickness benefits to short-term insurance claims. PPS processed 15,931 claims, averaging 64 claims per day, with an average of R16 million paid out per working day. Specifically, PPS paid R849.1 million in permanent incapacity claims.

PPS's recent annual results highlight its robust performance as a financial services partner:

- Total claims paid: R3.84 billion (down 4% from 2022)
- Sickness benefits: R949.5 million (down 5%)
- Critical illness claims: R556.4 million (up 34%)
- Mental and behavioural diseases: R224 million (across sickness, permanent incapacity, and disability benefits)
- Death claims: R1.394 billion (up 44%)

All this while adding R4,54 bn to the Profit-Share accounts of members securing their financial resilience while giving them leading industry-leading protection. The benefits of Mutuality expand beyond the members to their families too. The Family Network is a solution pioneered by PPS Investments ensures that families that save together can benefit from reduced fees. These returns together with Investment returns on previous Profit-Share can lead to some members getting more in their Profit-Share allocations than risk premiums paid.

Mutuality is by far the most elegant way of maximising value for members, perhaps this is why the mutual model is so prevalent among financial services firms in Western Europe and North America. Our organisational culture is deeply ingrained in our ethos, and it is rapidly emerging as our "secret sauce." Many employees join or return to PPS because of this culture, a sentiment consistently highlighted as a key strength in our engagement surveys.

One of the most remarkable contributions made by PPS and its members is in advancing education in South Africa. We employ various interventions, including providing bursaries for deserving "missing middle" children and employees and supporting initiatives to upskill teachers. This long-term, sustainability-aligned way of thinking sets mutuals apart. It is no wonder PPS is considered young in the mutual community at "only" 83 years old. Good business can be done well and that is the mutual way but at PPS, we believe that success is better shared.

"The Family Network is a solution pioneered by PPS Investments ensures that families that save together can benefit from reduced fees."

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GROUP BENEFITS ARE KEY TO FINANCIAL COMFORT IN RETIREMENT

Sheldon Friedericksen, General Manager of Group Benefits, Fedgroup

One of the main challenges we face in the retirement space is the concept of delayed gratification.

Asking young people, particularly those in their 20s, to save for a distant future they can't yet visualise is difficult. The aftermath of COVID-19 and the global cost-of-living crisis have compounded this issue, especially in Africa. Many individuals are more concerned with meeting their immediate needs, such as putting food on the table, than thinking about retirement. This creates a disconnect between the benefits offered and the immediate needs of the workforce.

Adapting Group Benefits for Today's World

The world has changed significantly in the past decade, yet many group benefits packages have not kept pace. We need to ask ourselves if these traditional packages are still fit for purpose. Providers must innovate to create solutions that are relevant to today's economic realities. A key part of this is ensuring that employees understand the importance of these benefits and how they contribute to their long-term financial security.

Financial literacy in South Africa is alarmingly low, which makes it challenging for individuals to start their savings journey. The national treasury has introduced mechanisms like tax-free savings plans and the upcoming two-pot system to encourage savings. This system allows individuals to save in a group retirement plan while still having access to funds in case of an emergency. However, early access comes with consequences, which need to be clearly communicated.

Building Trust and Simplifying Products: Trust is fundamental in the financial services industry. Over the years, various outcomes have eroded this trust, making it crucial for providers to rebuild it. In South Africa, many individuals rely solely on their employer-provided retirement benefits. Therefore, it is essential to foster a transparent and trusting relationship between employers, employees, and financial advisors. Simplifying financial products is another critical step. Many existing products are complex and difficult to understand, even for some financial advisors. At Fedgroup, our focus is on making products easy to understand, stripping away unnecessary features, and clearly communicating the benefits and costs. This approach helps individuals make informed decisions about their financial future.

The Two-Pot System and Global Mobility: The upcoming two-pot system represents a significant change, balancing the need for retirement savings preservation with the need for accessible funds. However, the broader question remains: Are current benefit packages suitable for everyone? With global mobility on the rise, individuals may not necessarily retire in South Africa. Therefore, it's essential to consider how we can provide benefits that cater to an increasingly mobile workforce. Education and access to information are crucial for empowering individuals to make sound financial decisions. At Fedgroup, we support independent financial advisors to ensure that clients receive unbiased advice tailored to their needs. The rise of digital engagement offers new opportunities to reach and educate a broader audience, making financial information more accessible.

Innovative technologies, such as AI and large language models, can play a significant role in this process. These technologies can simplify complex information, making it more understandable for individuals and helping them make informed decisions about their financial futures. The Future of Group Benefits - The financial services industry must continually challenge the status quo and adapt to changing needs. At Fedgroup, we are committed to taking the first step in this direction. Our goal is to create an ecosystem that supports individuals in achieving their financial outcomes, whether it's saving for retirement, paying off debts, or investing in their children's future. The journey to financial security is unique for everyone, and we must recognise and cater to these differences. By blending personalised financial advice with innovative technologies, we can help people navigate their financial journeys more effectively.

In conclusion, the key to improving financial security in retirement lies in adapting group benefits to meet today's needs, building trust, simplifying products, and leveraging technology and education. At Fedgroup, we are dedicated to leading this charge and helping individuals achieve their financial goals.

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SHORT TERM

ARTICLES

“Not all cover is created equal, so it is important to chat with your insurer.”

- JAMES GODDEN, AVIATION MANAGER AT SANTAM

PIONEERING INNOVATION IN A NOISY WORLD

Zahed Rassool, Technical Director at My Glass

Our company identifies itself as a tech company first, with glass as the chosen medium through which it makes a significant impact. This strategic focus on technology shapes the entire organisation and drives its efforts to continuously improve and innovate. At the heart of My Glass's operations is a commitment to leveraging technology to streamline processes and enhance customer experiences. However, while technology provides immense opportunities, it also creates a noisy environment.

Notifications flood in daily, making it challenging to filter through the noise. This cacophony extends to various industries, including insurance, where communication has become a significant pain point. Recognising this, we developed an innovative approach to address these challenges, understanding that glass replacement is a distressing experience for customers.

The traditional process involves multiple interactions with service providers, repeated sharing of information, and numerous phone calls, all of which add to the stress. To alleviate this, My Glass has adopted what I describe as the "airline methodology." This innovative approach involves integrating the claims process into digital wallets, a concept inspired by how airlines manage boarding passes.

Customers can add the claim process to their digital wallets, providing real-time updates on the status of their claims, details of the fitter coming to their location, and other relevant information. This method offers a seamless, intuitive experience, reducing the need for phone calls and allowing customers to stay informed with a quick glance at their phones.

The journey to this solution was not without challenges. Both Apple and Google initially resisted the idea, as it was not the intended use for their wallet technology. However, I persisted, advocating for the benefits this approach would bring to customers. Our efforts paid off, and the solution is set to go live, marking a first in the industry.

It's about the client

This innovation is not just about technology for technology's sake; it's about enhancing client convenience. Any claim process is inherently inconvenient, and our aim is to make it as seamless as possible. We moved away from traditional methods such as phone calls and SMS updates, which often fail to meet customer expectations. Instead, we sought a solution that provides quick, accessible updates without the need for direct interaction, aligning with modern communication preferences.

Beyond improving the claims process, our company's approach highlights a broader challenge: dealing with legacy systems while continuously innovating. I recall joining My Glass in 2017 and overseeing a complete overhaul of the tech stack. However, by 2024, the pace of technological change had rendered the 2017 stack outdated. This rapid evolution, driven by advancements from companies like Microsoft, Apple, and OpenAI, necessitates constant readiness to pivot and adapt.

The days of writing a tech stack that lasts 20 years are over. The current pace of change requires quick, brave decisions and a willingness to wait for stability before implementing new technologies. This approach ensures that My Glass remains at the cutting edge while delivering stable, valuable solutions to customers.

Ultimately, the key to My Glass's success lies in its ability to balance innovation with practicality. The development of the digital wallet claims process was cost-effective and swift because it leveraged existing technologies that customers are already familiar with. This familiarity ensures a smooth transition and high adoption rates.

I would like to leave you with a powerful mantra: "If you're not leveling up, you're playing the wrong game." This philosophy underpins My Glass's approach to technology and business. Whether you have reached the pinnacle of success or are struggling, the key to continuous improvement is to pivot, change the game, and find new ways to level up.

MARITIME TRANSPORT: A SIGNIFICANT ECONOMIC DRIVER

Kennedy Ntenjwa, Head of Marine at Santam

International shipping channels are widely considered the lifeblood of the global economy with nearly 90% of internationally traded goods currently being transported by sea – and demand is expected to triple by 2050.

Developing nations such as South Africa are particularly reliant on seaborne trade. According to Statista, the shipping industry was responsible for transporting almost 70% of South Africa's total trade in 2022 and is a major contributor to the nation's gross domestic product (GDP). Adequately insuring these mammoth shipping vessels and the cargo they carry is therefore imperative to supporting the continued economic development of South Africa. Marine Insurance policies offer protection against a range of transportation risks which vary according to their role in the transportation value chain. Beyond the benefit of a monetary claim payout to ensure business can continue, Marine insurers provide invaluable risk management advice and support that prevent potentially avoidable incidents from occurring.

Shifting trends

Given the continued growth in international trade, Marine insurers like Santam have seen an increase in import and export policy values. Another contributing factor is the challenges associated with the local energy crisis, which is driving demand for specific products related to the growing solar industry. Demand for cover of food and cell phones is also rising. The sum insured values are also impacted by the Rand/Dollar exchange rate and other foreign currencies. The types of cover that businesses in the marine logistics value chain are seeking have also changed. At Santam, we have noted greater demand for Marine Cargo, Goods-in-Transit, stock Throughput, and Bailee/ Transporter coverage and Freight Forwarding coverage, which covers the cost of repairing or replacing damaged property/goods and may also cover any legal fees if sued.

Escalating risk landscape

There are also larger systemic risks linked to climate change, socio-economic challenges such as poverty, and geo-political risks at play that are impacting this sector and influencing insurance claims. Increasingly severe storms, political violence that often leads to widescale looting, the Russia/Ukraine and Israel/Hamas wars, and piracy all impact shipping cargo either on land or sea. Piracy, driven by extreme poverty and hunger, is a growing concern on multiple ocean-faring trade routes. The recently released International Maritime Bureau annual report, recorded 120 incidents of maritime piracy and armed robbery in 2023 compared to 115 in 2022, with entire ships being hijacked in some instances. The increase may seem marginal, but it is significant if one considers the value of the ships and their cargo.

Kidnappings are also on the rise, highlighting the need for ship owners to consider adding a Kidnap & Ransom (K&R) policy to their arsenal of protection. The risks that are currently driving claims in marine transportation are theft, hijacking and armed robbery, particularly for cell phones, solar panels and related items. Copper and cobalt are also high on the target list. On the transporter side, fidelity/collusion-type losses (where employees are the perpetrators) are on the rise. We are also seeing a lot more catastrophe losses such as the KZN floods which impact goods cover under Stock Throughput policies. Changing weather patterns and rough seas are driving more damage-related claims.

Opportunity to strengthen the sustainability of the sector

The many environmental factors call for Marine insurers to review their policies and adapt their cover requirements to reflect the current heightened risk landscape and ensure this class of insurance can continue to protect the vital maritime transportation sector well into the future. This is where insurers can strengthen their partnership with clients by adding more value through risk management support. The timing might also be right to consider the benefits of developing a local Trade Disruption Insurance (TDI) offering, which will require industry-wide collaboration.

A TDI policy is designed to protect a vessel's earnings against events affecting the entire supply chain and includes business interruption and political rioting – I believe this would be a game-changer.

The maritime transportation sector is vital for the economic growth of South Africa, and relevant insurance solutions are critical to keep these businesses operational while they navigate a myriad of challenges.

UNDERSTANDING THE REAL VALUE IN VALUE-ADDED INSURANCE

Oswald Kuyler, Head of Short-term Insurance at Consult by Momentum

"Is there any better feeling than New Car Day? "

Oswald Kuyler, Head of Short-term Insurance at Consult by Momentum, created this great overview that brokers can share with clients to get a better understanding of the real value of Value added Products.

Your gleaming new wheels are ready for you to whisk them off into the sunset. You've signed all the papers and sorted out the vehicle financing; now there's only one final task standing in the way of you yanking off that giant red bow and leaving the dealership in your dust: motor vehicle insurance. But when you call your financial adviser thinking that taking out a policy will be as smooth as your new ride, you're bombarded with an overwhelming array of extras: Excess reducers?

Credit shortfall? Inception value cover? What are these? And more importantly, are they really necessary?

While these value-added insurance products are always optional, they can – as their name implies – add a great deal of value when taken out in conjunction to your short-term insurance policy. When incidents occur, we often think, 'Phew, at least I have insurance!' Yet, in many cases, we still find ourselves coughing up for unplanned costs such as hefty excesses (a first amount payable by you in the event of a claim), or submitting a claim and then facing higher premiums in the long run.

Value-added insurance products can – for a few rands more – help you to eradicate these smaller risks, which might end up costing you a great deal down the line. Value-added insurance products are everywhere – you've no doubt been offered one at some point in your life, perhaps without even realising it. However, awareness and education around them is still limited, as was the case with gap cover a few years ago.

Here are some of the most common categories of value-added insurance products & what they bring to the table:

Excess reducers: this product pays your first amount payable (excess) on your behalf. It could be limited to a single risk like your vehicle cover, or cover your entire policy, with no excess payable at all. You must have a valid claim on your main insurance product for the excess reducer to kick in.

Scratch & dent cover: these 'mini-policies' mean that should you pick up some minor damage thanks to that old nemesis, the dreaded Parallel Park, you can have these scratches taken care of without shelling out thousands of rand. These policies are taken out over and above your insurance policy, and cover you for the cost of slight cosmetic repairs to the bodywork of your car for a set time. They are generally very affordable, typically costing a few hundred rands.

Credit shortfall: should you purchase your car via vehicle financing and your car be written off or stolen, this insurance covers the gap between what your insurer pays out (the insured value) and the balance of what you owe as per your credit agreement, which is often significantly more as a result of interest or balloon payments.

Inception value cover: the cost of vehicles has been steadily climbing since 2022, which is where a relatively new insurance product called Inception Value Policy (IVP) comes into play. If you bought your car for R500,000 in 2021 but today it is worth R350,000, your insurer would only pay out the current retail value should it be stolen or written off.

An IVP pays out the difference between retail value at inception and retail value at date of loss. This means that you will get out the full R500,000 that you paid for your vehicle in 2021. Consult has recently gone one better with its Original Inception Value (OIV) product, which includes inflation-linked escalation.

This was designed as Consult realises your R500,000 in 2024 will not get you the same car it did in 2021, and this is where a product like this adds immense value."

Chat to your clients about value-added insurance products, as they are often extremely cost-effective and can ultimately save them a great deal of money down the line.

BUSINESSES URGED TO CONSIDER IMPLICATIONS OF USING DRONES

James Godden, Aviation Manager at Santam

In recent years, drones have transformed from military apparatus to infiltrating almost every type of industry under the sun, including agriculture.

According to Industry ARC, South Africa's small drone market is experiencing rapid growth, and is expected to reach $134.5 million by 2025, with a compound annual growth rate of 22.35% from 2020 - 2025. Besides being seen as a fun new novelty, businesses are starting to realise how these remotely piloted aircrafts can help them save costs, boost operational efficiency, and open up new revenue streams. Drone technology is getting more advanced by the day as sophisticated sensors allow drones to gather a wealth of data across various sectors.

For example, in the local agriculture sector, drones are being used for soil and field analysis and crop spraying. Ultrasonic echoing and lasers allow drones to adjust altitude as the topography and geography vary, and thus avoid collisions. Consequently, drones can scan the ground and spray the correct amount of liquid, modulating distance from the ground for even coverage. They're also used for monitoring and irrigation, revealing production inefficiencies through imaging and thus enabling better crop management and irrigation. Businesses are awakening to the benefits of including drones in their operations.

Drones are expected to play a significant role in cargo transport and delivery in the near future, as they will be able to deliver packages to homes. They have also featured in commercial filmmaking, search and rescue, mining and quarrying, conservation, and much more. On a governmental level, the Department of Infrastructure Development has been using drones to monitor various projects since 2018, while the South African National Blood Service launched its first blood delivery drone in 2019. The Western Cape also initiated its Emergency Medical Services drone project in 2020, which has since saved countless lives.

Understanding the commercial use of drones

As with all technologies, while there are immense benefits for local businesses in using drones, there are also risks involved. Drones are complex and have the ability to potentially harm property, and even people. Given their remote nature, they're vulnerable to theft, which also poses a cyber security risk due to the data they carry. Drones are at the mercy of those who operate them, and are thus susceptible to human error, as well as ethical and social risks.

Drones are also pricey, which presents the risk of financial loss should damage or theft occur. While personal drones retail for between R25,000 – R50,000, commercial or professional drones for use in the mining, agriculture or film industry can cost anywhere between R350,000 – R1M.
Finally, it is important to understand the legalities around using drones, with the commercial use of drones governed by law. The South African Civil Aviation Authority (SACAA) defines operational drones as aircraft that have to abide by laws similar to those of manned aircraft. For commercial use, there is strict legislation in place.

These laws include:

- A commercial drone pilot needs to get his or her Remote Pilots Licence as a starting point, followed by an Air Service Licence (from the Department of Transport) and Remote Operators Certificate (from the SACAA)
- A drone may not be flown within a 10km radius of an airport, airstrip or helipad
- Drones must be operated in daylight and in clear weather conditions
- A drone may not be flown by an intoxicated individual
- A drone may not be flown within a 50m radius of any person, property or public road

The drone economy is set to explode, with Goldman Sachs forecasting a $100 billion market opportunity over the next five years. With the drone technology sector being a lucrative market for business and government, applications will continue to evolve, which means that regulation will change continuously. Given the high expense of drones and the various risks attached with their commercial use – from human inexperience to theft to technical failings – it is prudent to consider insurance to safeguard yourself and your business from potential loss.

The cost of the total loss of a drone can be devastating to a business. Not all cover is created equal, so it is important to chat with your insurer. Santam's Aviation Cover, for example, is one of the few comprehensive insurance policies for drones (whether operated or not) and includes third-party cover.

Drone insurance helps to ensure that if your drone is lost, damaged or causes loss, damage or injury to others, you and your business will be protected.

HOW PREMIUM FINANCE UNLOCKS VALUE FOR YOUR HCV CLIENTS

Sachin Govender, Managing Director of Fulcrum Premium Finance

Premium finance offers significant benefits to brokers and their Heavy Commercial Vehicle (HCV) clients amidst the rising challenges in South Africa's fleet and logistics sector.

Heavy Commercial Vehicles (HCV) Nightmare

The risks associated with owning and operating trucks in South Africa and neighbouring nations are formidable, with an alarming increase in truck hijackings and civil unrest-related incidents. These risks have led to skyrocketing insurance premiums, placing additional financial burdens on fleet and logistics enterprises. According to recent crime statistics, 1,996 truck hijackings were reported in 2023, nearly double the number from the previous year. This environment has escalated financial strains on fleet operators, compelling them to seek cost-effective insurance solutions to protect their investments.

From Broker to Strategic Finance Risk Adviser

The evolving role of brokers in today's landscape necessitates highlighting that they integrate premium finance into their service offerings to enhance client retention and attract new businesses transitioning from merely arranging coverage to providing strategic financing solutions that align with their clients' operational and financial goals.

Benefits for HCV and Fleet Owners

Premium finance offers several advantages to HCV and fleet owners. It enables them to safeguard their working capital, spread out insurance premium expenses, preserve credit lines, access input VAT upfront, and streamline the financing process without additional collateral requirements. This financial flexibility is crucial for businesses operating sustainably and maximising growth.

As the industry progresses, premium finance is becoming crucial for fostering long-term, trust-based relationships with clients and driving the overall success of brokers and their business clients.

TECHNOLOGY

AND INNOVATION ARTICLES

“There is a responsibility on insurers, a regulatory responsibility, to have at least daily dumps of data and to have full access at all times to data regarding their clients.”

- SHARON PATERSON, CEO OF INFINITI INSURANCE

AI TRANSFORMATIONS IN THE INSURANCE INDUSTRY

Alex Zukerman, Chief Strategy Officer at Sapiens

Artificial Intelligence (AI) is playing a transformative role in the insurance industry. AI, has become a topic of global interest and rapid evolution, holding significant promise for reshaping various sectors, including insurance.

AI encompasses a broad spectrum of capabilities, but in the context of insurance, it primarily revolves around turning large volumes of structured and unstructured data into meaningful insights. Zukerman categorises AI into two main areas: traditional AI and generative AI.

Traditional AI: This involves algorithmic capabilities to analyse data and make predictions. For example, machine learning models can be trained to predict future risks, identify key performance indicators (KPIs) that influence business processes, and enhance underwriting accuracy. This level of AI has been used in the industry for years to improve risk scoring, underwriting responses, and personalised offers. By analysing vast datasets, these models can recommend tailored products to potential clients, enhancing customer satisfaction and business efficiency.

Generative AI: The advent of generative AI, powered by large language models, marks a significant shift. Unlike traditional AI, generative AI can understand and respond to human interactions more naturally. This reduces the need for extensive training, as the models can process and summarise large volumes of text or documents quickly and accurately. Zukerman describes this as a "co-pilot" activity, enhancing the efficiency and precision of tasks performed by claims handlers, underwriters, and customer service representatives.

Practical Benefits for Customers

To illustrate the practical benefits of AI, Zukerman provides a case study of handling large commercial claims. These claims often involve extensive documentation, including police reports, assessor reports, and accident reports. Traditionally, a claims manager would need to sift through thousands of pages to assess a claim. Generative AI can summarise these documents instantly, allowing claims managers to ask specific questions and receive precise answers without reading the entire document. This process enhances efficiency by 30 to 40 percent, streamlining the claims process and improving accuracy.

Broader Application: The benefits of AI extend beyond claims management. AI can also revolutionise customer service, new business onboarding, and underwriting processes, all of which are document intensive. Furthermore, AI facilitates seamless and automated configuration of insurance platforms. By automating the translation of specification documents into system configurations, AI reduces errors and significantly improves operational efficiency.

AI Collaboration: One of the reasons we chose to go deep with our Microsoft relationship is not only the Azure and the cloud capabilities, but the way Microsoft looks at Gen AI with their involvement and acquisition of open AI. With Microsoft turning generative AI into a critical part of its platform, they have many resources, technical, functional, and architectural, fully embedded in this journey. They are very much together with us in the lab thinking of what the right architecture is to build the Gen AI solutions within the Sapiens platform, how to utilise them, how to connect our needs to the Microsoft roadmap on Gen AI, and make sure that we are getting to a joint approach here.

For us, when we look at it, we call it the power couple. Microsoft is very powerful in the Gen AI technology concept, architecture, and engineering, while Sapiens has deep experience, industry knowledge of insurance technology and knows what our customers are looking for. The combination of these two frictionless forces is very powerful and we see a lot of Progress on this front due to this partnership. Since we see the LLM technology, and the AI in general, as a truly transformative technology, it is critical for us and in the foundation of our approach, to insert it into the platform and our solutions that are delivered to customers, encouraging them to use them and benefit from them.

The Future of AI in Insurance

As AI technology continues to evolve, Zukerman emphasizes the importance of flexibility and adaptability. AI solutions must be dynamic, allowing insurers to innovate and adapt to changing market conditions. The partnership with Microsoft ensures that Sapiens remains at the forefront of AI advancements, providing customers with a platform that is not only current but also a vehicle for future growth.

AI is poised to revolutionise the insurance industry by enhancing efficiency, accuracy, and customer satisfaction. Through strategic partnerships and a commitment to innovation, companies like Sapiens are leading the way in integrating AI into their platforms.

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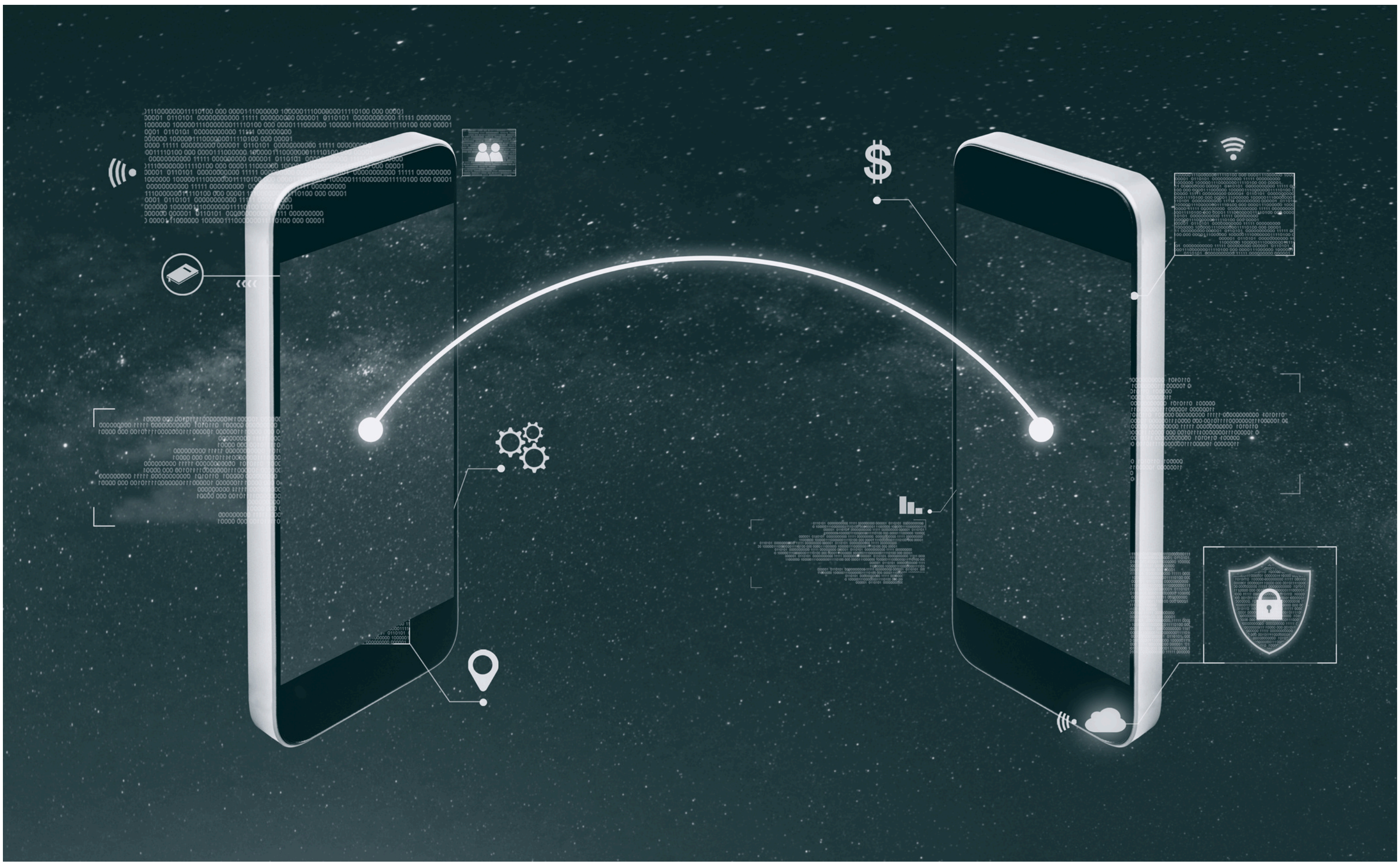
STREAMLINING DATA SHARING IN THE INSURANCE INDUSTRY

Tony Van Niekerk, Editor at COVER Magazine

In a recent conversation with Sharon Paterson, CEO of Infiniti Insurance, and Angus Black, director at BarnOwl Data Solutions, we explored the issue of data sharing between insurers and brokers. This discussion highlighted the importance of efficient data management for regulatory compliance, business operations, and the mutual benefits it offers to both insurers and brokers.

Understanding the Importance of Data Sharing

To kick off our discussion, Sharon provided insight into the regulatory responsibilities of insurers to share and obtain data from brokers. "There is a regulatory responsibility on insurers to have at least daily dumps of data and full immediate access to data regarding their clients," she explained. This data is crucial for meeting regulatory requirements and integral to the daily operations of the business. For instance, during recent heavy rains, Infiniti Insurance utilised daily claims reports to monitor potential catastrophes and advise reinsurers accordingly. The data received from brokers and underwriting management agencies (UMAs) is used to provide feedback to partnerson their own books of business. This feedback helps brokers identify multi-claimant clients and adjust premiums accordingly, ensuring that they charge the right rates based on clients' claims histories.



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Challenges in Data Integration

However, integrating data from various brokers presents some challenges. Sharon highlighted the difficulty of receiving data in different formats from different systems. "To really use your data effectively, you need it in one format on one database," she noted. Without this uniformity, comparing data becomes a very manual exercise. Infiniti Insurance overcame this challenge from its inception by standardisng the data received, which has been crucial for their operations. Angus elaborated on this issue, explaining BarnOwl Data Solutions' role in collecting and cleansing data for insurers "We started our journey with insurance companies, brokers, and underwriting managers in 2008," he said. BarnOwl has built relationships with 34 different insurance management systems to ensure that data is collected, cleansed, and presented in a usable format for reporting and operational purposes.

Benefits of Efficient Data Management

Efficient data management offers numerous benefits for brokers. As Sharon pointed out, a well-structured data process helps in generating reports for both underwriting and reinsurance, and thus protecting insurers against unreinsured claims. Moreover, by utilsing a data warehouse, Infiniti Insurance provides brokers with monthly reports showing changes in rates and sums insured. This allows brokers to adjust their pricing accurately and ensure they are not overcharging or undercharging clients.

One significant benefit is the ability to benchmark rates across different regions. For instance, if a client relocates from Johannesburg to East London, brokers can use the data to understand the appropriate motor rates for the new location. This benchmarking helps brokers avoid charging incorrect rates, which could lead to adverse loss ratios or dissatisfied clients.

Overcoming Data Challenges

The conversation also touched on the common challenges brokers face in managing data. Angus mentioned issues like varying data formats from different systems, data quality, and technical challenges such as those posed by load shedding in South Africa. BarnOwl Data Solutions has implemented extensive validation checks to ensure the accuracy and reliability of the data. They also work closely with brokers' service providers to resolve technical issues and ensure timely data delivery.

Collaboration and Cooperation

In closing, Sharon emphasised the importance of collaboration between insurers and brokers. In her experience our brokers give their full support because they recognise the benefits of accurate data. "The more we can extract from our data, the less we need to ask of our brokers," Sharon said, highlighting how this efficiency allows brokers to focus more on client interactions and less on administrative tasks.

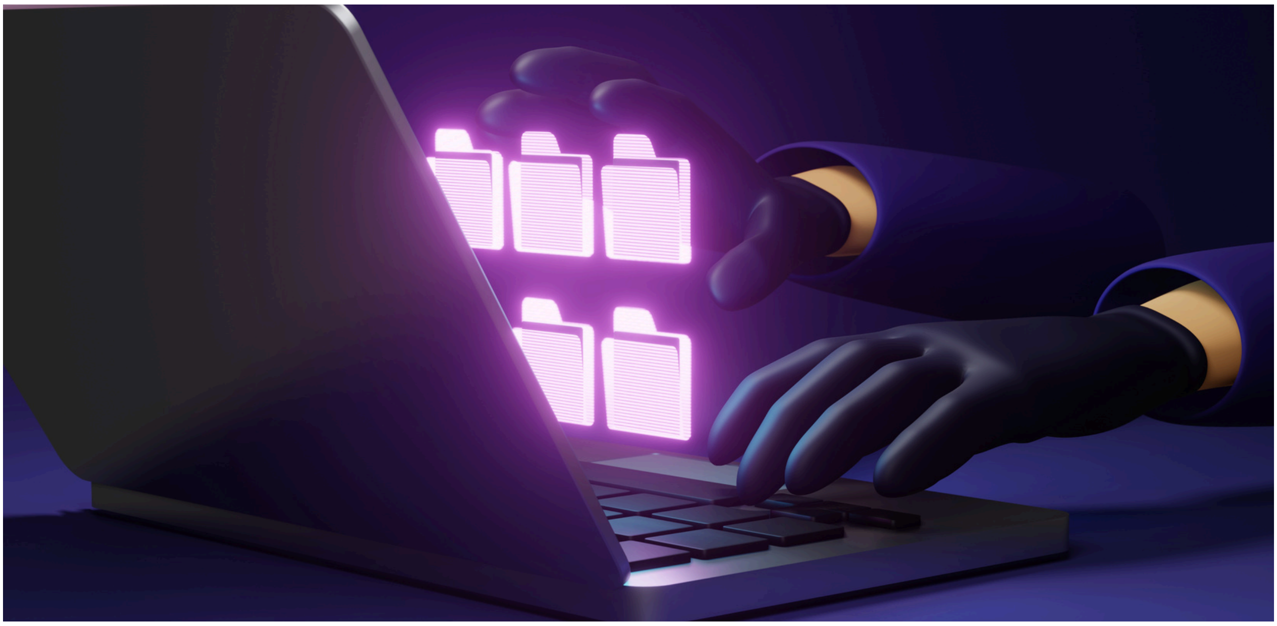
Our discussion underscored the transformative impact of technology on the insurance industry. Efficient data sharing and data management not only meet regulatory requirements but also enhance business operations and foster better relationships between insurers and brokers. As technology evolves, managing these systems should not detract from the core business of insurance. Instead, leveraging the expertise of data solutions providers like BarnOwl can streamline processes and improve service delivery across the industry.

Thank you, Sharon and Angus, for sharing your insights. I am sure this information will be invaluable to brokers seeking to optimise their data processes and enhance their relationships with insurers.

THE ESCALATING CHALLENGE OF DIGITAL FRAUD

Jason Lane-Sellers, director, fraud & identity, EMEA at LexisNexis Risk Solutions

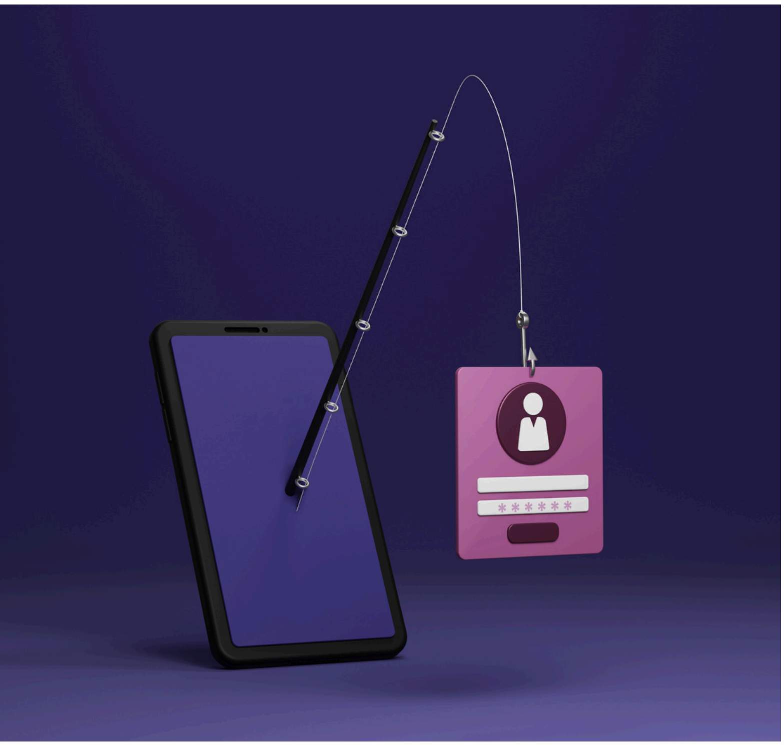
As the Director of Fraud and Identity for EMEA at LexisNexis Risk Solutions, I have witnessed the evolving landscape of fraud and the increasing sophistication of fraudsters.



Recently, I had the opportunity to discuss our latest findings with Tony from Cover magazine, shedding light on the current state of fraud, particularly in the financial and retail e-commerce sectors. Fraud remains a significant challenge, especially within the financial services industry. The complexities of fraud and identity theft can be overwhelming, leaving many unsure where to begin in tackling this pervasive issue. At LexisNexis Risk Solutions, we strive to analyse and assist our customers in the marketplace for fraud and identity solutions. Part of our remit involves an annual survey that examines the true cost and impact of fraud across various organisations.

Our latest report reveals the profound impact of digitisation on organisations. While digitisation brings numerous benefits, it also introduces new vulnerabilities. Traditionally, losses were more prevalent in the physical and operational aspects of businesses. However, our findings indicate that digital channels now account for 52% of actual fraud, marking a significant increase over the past year. This shift highlights the need for organisations to adapt their strategies to address the growing threat from digital fraud.

Digital fraud is not only faster and more comprehensive but also affects a broader range of end-users. The impact extends beyond financial losses, significantly affecting customer experience and satisfaction. Over 70% of fraud incidents negatively impact customer satisfaction and conversion rates. Moreover, managing fraud entails more than just addressing the immediate financial loss. Organisations must also contend with regulatory penalties, liabilities, and the costs associated with managing and investigating fraud events.



> The insurance industry is especially vulnerable to scams and identity manipulation. Fraudsters exploit various channels, including claims processing, to perpetrate fake claims for damages, property, car insurance, and even travel-related claims.

The financial services sector, including insurance, banking, fintech, and investments, faces unique challenges. Regulatory and governmental controls are stricter, resulting in higher costs for managing and mitigating fraud risks. In contrast, retail and e-commerce operations, while also targeted, do not have the same level of regulatory scrutiny. This discrepancy necessitates tailored approaches to fraud prevention and management across different sectors. One notable trend we observed is the rise of scams targeting end consumers rather than corporations directly. Fraudsters are increasingly manipulating consumers to gain access to valuable data, making it difficult for organisations to differentiate between genuine and fraudulent activities. Account takeover and manipulation have become prevalent, with fraudsters leveraging compromised data from various sources to validate their identities and deceive victims.

The insurance industry is especially vulnerable to scams and identity manipulation. Fraudsters exploit various channels, including claims processing, to perpetrate fake claims for damages, property, car insurance, and even travel-related claims. This broad spectrum of fraudulent activities underscores the need for comprehensive fraud prevention measures tailored to the specific vulnerabilities of each sector.
To combat this growing threat, organisations must adopt proactive and innovative approaches. Utilising technologies like behavioural intelligence and digital identity verification can help authenticate users without compromising the customer experience. These tools analyse user behavior, such as typing patterns and screen interactions, to validate identities, reducing reliance on traditional methods like passwords and one-time passwords (OTPs).

Furthermore, collaboration within and across industries is crucial. Sharing data and insights between financial services, insurance, banking, and other sectors can help identify and mitigate fraud patterns more effectively. Fraudsters operate globally, targeting organisations irrespective of their industry, making cross-industry cooperation essential in the fight against fraud. Ultimately, the burden of combating fraud cannot rest solely on consumers or organisations. It requires a collective effort, combining technological advancements, regulatory compliance, and consumer education. As we navigate this digital landscape, it is imperative to protect our customers and their data, recognising that data is the new currency.

By implementing effective fraud controls and fostering industry-wide collaboration, we can stay one step ahead of fraudsters and safeguard the integrity of our digital economy.

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