COVER

APRIL 2021 ISSUE

SMALL BUSINESS

LIFEBLOOD OF OUR ECONOMY


WHY RENASA, ROGER?


BECAUSE BROKERS TRUST RENASA TO HELP THEM BUILD THEIR CLIENTS' TRUST.

MAIN STORIES

SMMES NEED A UNIQUE APPROACH

The past 12 months have exposed the lack of appropriate insurance products and advice for the SMME market. In this feature we look at the specific needs of the market and some of the approaches from insurers to address their risks.

INNOVATIVE PANDEMIC COVERS

Global reinsurers are leading the charge to develop pandemic risk solutions that will better respond to the growing frequency and severity of infectious disease outbreaks. Belhassen Tonat, General Manager: Non-Life, Munich Re of Africa expands

IRMSA RISK REPORT 2021

What an interesting time to release a risk report. Sean Pyott, MD of thryve describes it as the most focused and assertive report from IRMSA yet. Read more in this story and download the full report if needed.

AFTER THE SHOCK

Stephen Richardson, Market Consultant at SSP produced a fascinating white paper titled After the Shock: Insurance 2021 and Beyond. Here he takes us through some of the findings of his research.

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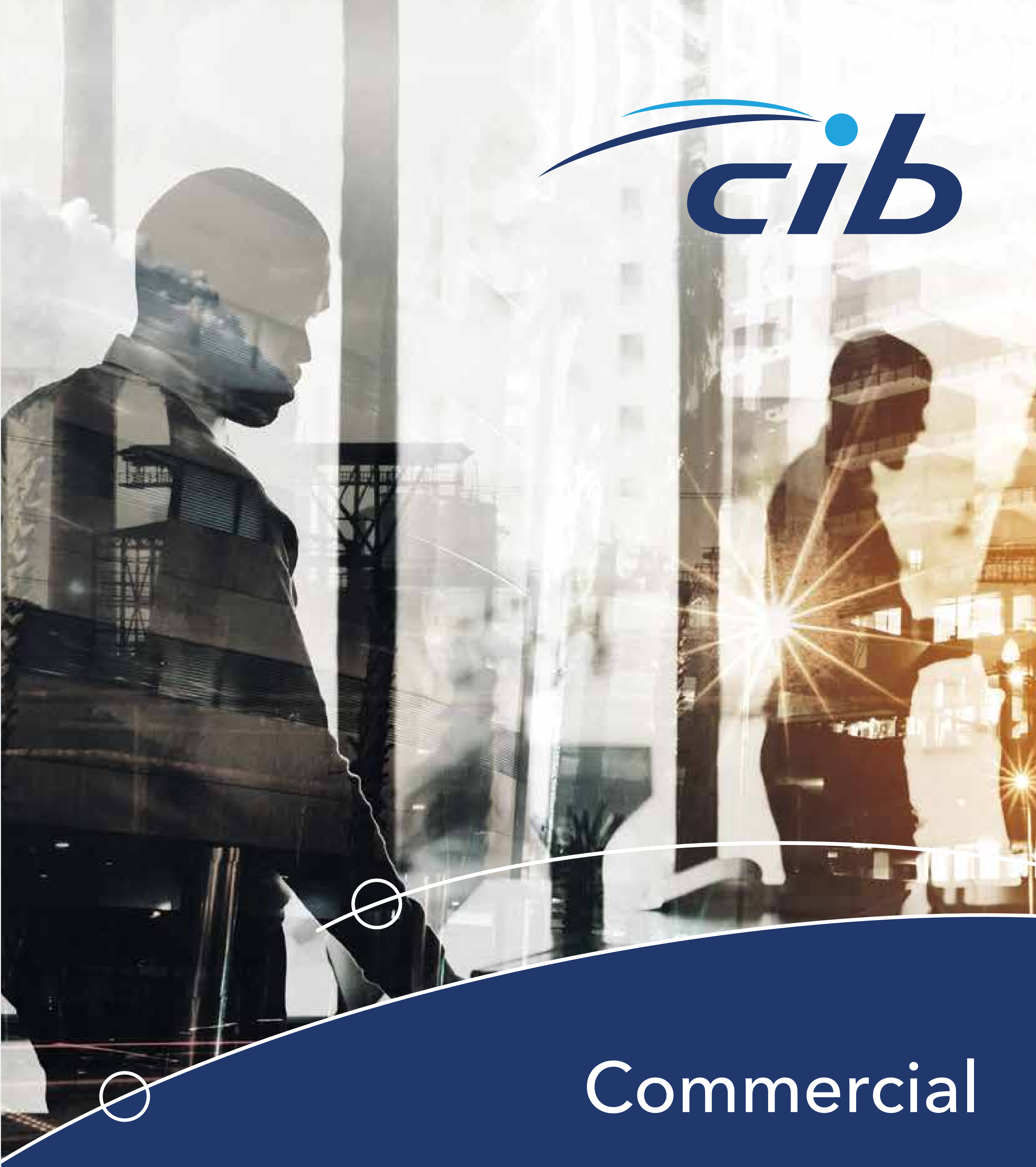

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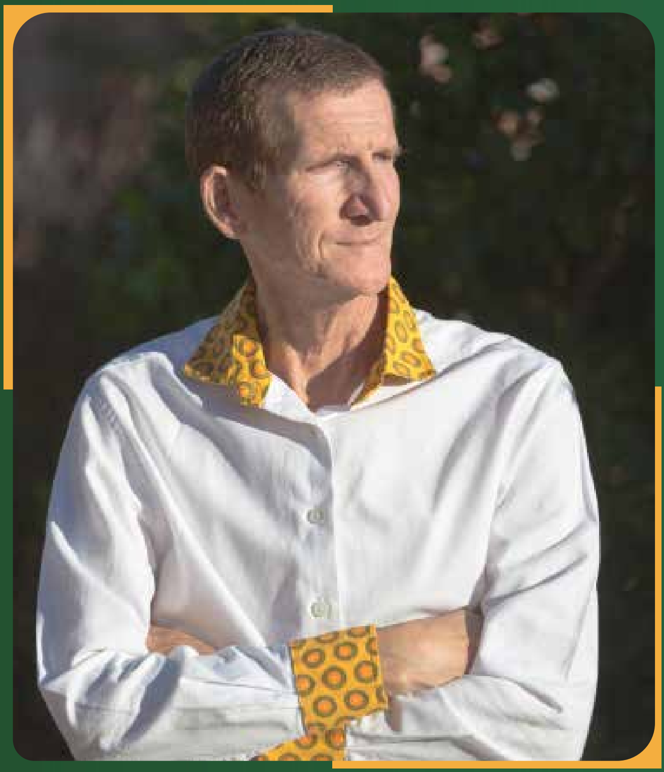


Lifelines to smmes

Tony van Niekerk, Managing Editor, COVER Publications

This is one of the toughest times faced by small and medium enterprises for many decades.

Not only are they facing unprecedented economic pressures, but the volatility and uncertainty on a socio-political front makes longer term planning almost impossible. As entrepreneurs, we are living in “fly by the seat of your pants” times.

2020 has been a major eye opener for many businesses when it comes to their insurance, the products they have, the brands they supported and the advice they received/ or did not receive.

On two fronts did this get exposed. Firstly, on the Business Interruption side. Here we can look at it from various angles. Some direct insurers came out early on with the news that they have paid all BI claims.

However, this actually exposed the limitations of their impact in the SMME market. Most of their clients did not have BI insurance and were therefore left out in the cold as far as insurance coming to their rescue, is concerned.

Then there were those who did have BI, but never included the extension that would include the pandemic and lastly, those who had done as much as they could, but still had to wait for the legal storm to pass. For many, it was too late when the pay day came. Their businesses were already gone.

Then there were the events, travel and entertainment businesses. Most of them, again, never took up insurance to cover cancellations or other unforeseen developments that may impact their income from events not proceeding. (Read the amazing story from KEU, Events and Entertainment Insurance specialist, on page 28. They paid R90m in claims related to the pandemic and the stories from clients are amazing).

On the whole however, the same questions will be: did those without cover not accept advice or did they not receive advice on cancellations? Most people, myself included, have never really bothered with travel insurance, other than adequate health and evacuation cover. The risks seemed just so remote. Not so anymore.

OPPORTUNITIES ABOUND

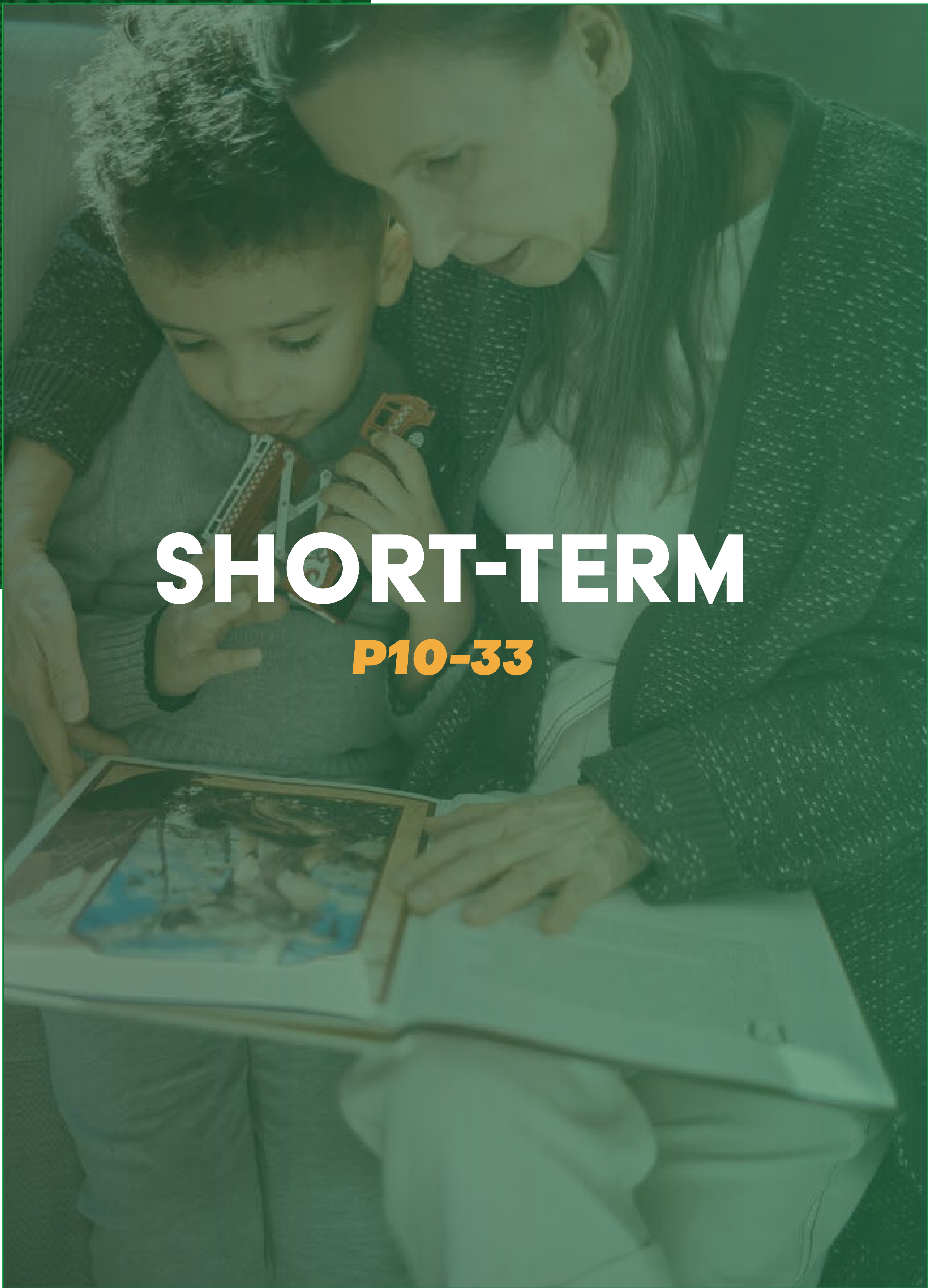
Right now we have an opportunity, as an industry, to ensure we structure products suited to this ever changing environment SMMEs operate in.

Products that are flexible, adaptable and simple enough not to lead to long protracted legal battles when unforeseen events arise. We have the technology and we now know that, when the pressure is on, we can bend our own rules at very short notice.

From a broker perspective if you ever needed an opportunity to revisit client portfolios or knock on new doors, now is the time. Business operators should be willing to listen.

They are looking for solutions that provide some sort of certainty in a turbulent and uncertain world and, at this stage, insurance has the most suited solutions.

Make sure you read the SMME Feature on page 50, where we have a variety of commentators providing thoughts on the insurance needs of this most valuable economic sector of our country.



SHORT-TERM

P10-33

The moving ins and outs

Santam Insurance

The economic downturn over the past year, coupled with the need to reduce expenses, has seen a rise in vacant properties across South Africa and an increase in clients co-habiting.

Taking the decision to move in with a housemate or your partner is a big step. It's wise for you to advise your clients to consider the emotional, financial and insurance implications and have critical conversations upfront. **Marius Steyn, Personal Lines Underwriting Manager at Santam, and Marius Neethling, Manager Personal Lines Underwriting (Systems and Administration) at Santam,** caution that there are a few considerations you need to communicate to your clients when merging households. "In the scenario where your client moves in with their partner, an insurer usually considers them the equivalent of a common-law husband and wife, depending on the seriousness of their relationship. That means they can take out a policy together. If they are moving in with a housemate, both parties will need their own separate insurance policies. In this case, they will have to insure their own belongings and communal living underwriting rules will apply. In both cases there are lots of logistics to tick off – like making sure the household contents are covered."

Here, Steyn and Neethling chat through the checklist that you can run through with your clients to help them make the most informed insurance decisions and protect themselves when co-habiting:

MAKE SURE THAT YOU HAVE CHECKED THAT THEY HAVE ADEQUATELY COVERED THE COMBINED CONTENTS OF THEIR HOME:

Moving in together often results in a staggering amount of 'stuff.' Which means your client and their partner or housemate will probably need to update the household contents insured amount. If your client's relationship is seen as serious (insurers look for things like how long they've been together, if they've co-purchased furniture, etc.), then an insurer will treat them the same as they would a married couple. This means you can advise your client to take out a policy between themselves with one person being the main policyholder and the other, the additional insured.

However, please share the following important considerations with your clients:

- Remember, the main policyholder will be paid out in the event of a claim. It'll then be up to your client to pay the additional insured party. Insurers don't get involved in these politics and are in no way responsible if the policyholder does not pay his/her partner or housemate. So, trust is important.
- If both clients have separate household contents policies with different insurers and are wondering which insurer to go with, advise them not to just pick the lowest premium price: instead encourage them to consider the benefits and excesses – what they pay and what they receive in return.
- Get their household contents evaluated (or they can do this themselves, using an online calculator) so they are certain that they are adequately covered for the replacement value of all their combined items.
- When your household contents are on the move between properties your client should notify their insurer of the new address prior to the day they move.
- It's in your clients interest to tell you about all the security features at their new home. Generally there will be specific security requirements in order to qualify for burglary and theft cover.

If you need to know if your client happen to have a fight and temporarily moves out…It's not commonly known, but, if your client happens to argue and temporarily moves out and takes some of their household contents with them, these items will still be covered in their temporary abode, provided that this is a private building – not a tent or caravan, for example. This only applies to a temporary situation though – if it's a permanent split, then they'll need their own new policy.

VEHICLE INSURANCE IS ALSO IMPORTANT:

Remember to add your partner as a regular driver on your policy if he or she uses your vehicle more frequently than you do.

IF IT REALLY DOESN'T WORK OUT:

If, sadly, the relationship comes to an end, then you should advise your client to get his/her own policy as soon as possible, especially if they have one policy between them, but your client is not the main policyholder. Remember, if they are the additional insured, it's up to the policyholder to pay them in the event of a claim, which

Double triggers and risk pools are central to innovative pandemic covers

Belhassen Tonat, General Manager: Non-Life, Munich Re of Africa

Global reinsurers are leading the charge to develop pandemic risk solutions that will better respond to the growing frequency and severity of infectious disease outbreaks.

Munich Re is working closely with other industry stakeholders to broaden the availability of specialist epidemic risk transfer solutions which the company had already offered before the current pandemic. South Africa's experience with non-physical damage business interruption (BI) claims following the 2020/21 COVID-19 pandemic illustrates the devastating economic impact of this type of risk event. The estimate for loss of profit claims due to non-physical damage BI comes in at ZAR20-30 billion; claims from a single risk event could exceed a third of the gross premiums written by the non-life sector for 2020. By comparison, the claims paid following the 2017 Knysna fires, considered a very large claim event in the local context, totalled around ZAR3,75 billion.

The economic losses caused by the pandemic and subsequent lockdowns are so severe that it is difficult for the industry to offer affordable comprehensive cover against future outbreaks. If all economic losses should be covered, there is no way around involving governments. Issues around affordability derive from the industry's traditional methods of pricing for risk. An insurance premium is based on our expectations around the frequency and severity of the risk event on cover; over the last decade we have seen an increase in the frequency of infectious disease outbreaks to the extent that our next pandemic event could occur less than 10 years from today. There were five or six severe outbreaks between 1900 and 1980 compared to 12 or 13 serious outbreaks between 2003 and 2021.

MASSIVE ECONOMIC LOSSES

To make matters worse, the economic losses associated with these outbreaks are now rivalling the damage caused by severe natural catastrophes. The SARS outbreak in 2003 recorded 8096 cases and 747 fatalities; but led to multi-billion dollar economic losses in Canada and China. In 2015, MERS caused US$2.6 billion damage to the South Korean tourism economy despite only recording 186 cases and 36 deaths. And an Ebola outbreak in 2014 caused economic hardship for many fragile African economies, including Liberia, Sierra Leone and even Tanzania, which suffered from a regional tourism downturn despite not experiencing an outbreak of the virus.

The combination of rising frequency and greater economic cost will result in epidemic risk premiums becoming too pricey. A basic calculation shows that a small business might have to sacrifice not less than 5% of the desired sum insured to obtain cover against loss of profit from future epidemic events – so many might choose not to cover all their revenues but only a certain level e.g. corresponding to their fixed expenses. Another major issue is that pandemic sits outside the construct of a traditional insurable event. Higher frequency risk events with such an enormous global accumulation potential end up contradicting the basic tenets that make insurance possible. Thus call for new innovative ways to increase the insurability of pandemics. It is clear that reinsurers and other insurance industry stakeholders will have to innovate to devise covers that perform against future pandemic risks. If we proceed on the assumption that we cannot insure against this risk, we will fail in our role to allow economies to grow. Our job is to push the boundaries by using innovation and technology to make this risk insurable. Success in this regard will allow the broader insurance industry to contribute towards achieving the economy-centred UN Sustainable Development Goals. We must work together to devise insurance solutions that give investors the confidence that major risks have been mitigated or transferred, thus making both the economy and society more resilient.

GOVERNMENT INVOLVEMENT

While the size of potential economic losses exceeds the size of insurance companies' balance sheets, leaving no choice but to involve governments if all economic losses should be borne, Munich Re is working closely with other industry stakeholders to broaden the availability of specialty epidemic risk covers for individual exposed businesses. While the insurance capacity naturally is very limited, as a global reinsurance company, Munich Re is well positioned to involve other stakeholders such as financial market investors to ultimately bear the risk and thus increase the amount of capacity which can be offered to the market place. This will happen in the background and not be visible to the insured, however, an important first step is to recognise the difference between the economic and epidemical triggers associated with an infectious disease outbreak. Forward modelling of pathogens can then be undertaken with reference to more than 70 inputs, including socio-economic factors, climate zones, animal spread and country preparedness, among others. The reinsurer works closely with bodies such as GIDEON and the WHO and private firms such as Silicon Valley based Metabiota and has access to data covering more than 30,000 disease outbreaks.

This rich data allows the reinsurer's actuaries to more accurately price for epidemic risk. The latest epidemic risk transfer solutions are being built around a double trigger event, which sees insurance contracts respond based on the occurrence of both an epidemic and economic event. We are willing to put this solution to the market; but are faced with severe capacity constraints. One way to address this constraint is to also partner with governments. The reinsurer is already in discussion with various South African insurance bodies to explore risk pools and the onboarding of the government as an insurer of last resort in the pandemic space. Risk pools are a type of reinsurer facility in which governments just as well as private sector investors could stand behind the insurance and reinsurance companies to enable them to offer protection to the market.

Together we can make the world more resilient. Our challenge is to think out of the box and push the boundaries of insurability. A combination of reinsurers' financial capacity, brokers' and insurers' reach into the non-life insurance market place; and innovative ideas will see us home.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Time to change our approach to SMME insurance

Michael Clack, general manager business development

Renasa spoke to COVER about the importance of insuring small and medium enterprises.

COVER: From your perspective, what do you see as the biggest risks these SMEs face?

Michael - About a third of SA's GDP comes from small to medium enterprises and another staggering fact is that about 70% of these businesses fail within three to five years, obviously because of the risks that surround them. Two of the most significant challenges in my view are finance and tough economic conditions that the SMEs will face, and then crime. Add lockdown to that and you find that this segment has been hit hard, because it is such a volatile segment of the economy.

They mostly have limited funding, limited staff complement and lack continuity in their business, because it's a business that they started up and got going. There's a lot of risks that do not always come to the fore in this business segment, for example, take cyber risks and operational IT risks that they will most probably face at some stage. These are just some of the risks that they would face, There are many more risks they will face, but those are probably the highlights.

COVER: If you then look at us as an insurance industry, wanting to underwrite and protect these businesses from those risks, how do you rate our ability, at the moment, to address these risks

Michael: I think the industry is coming around. There is a lot of focus on this type of business and the risks associated with them. The big need in the industry is for a bespoke type of product for these SMME businesses. The general focus needs to be placed on establishing an environment for the small business owners to comprehensively manage their insurance risks that their business might encounter. Now with these non-traditional businesses it changes all the time, they need a product that can grow with this type of business. You know, they also don't generate large premiums, there's not large exposures to begin with, to create a product that is designed all geared up for the startup type SMME. I think that's what we see now.

I know COVID is a thing that we all talk about but it's affected these businesses and unemployment is going up because of that, a lot of people are looking for other avenues to create a business, to create an income. So it's got to be a flexible product, kind of like the banking that is also coming around with their fees. They create special accounts for an SMME type business and I think our industry is doing that, but I think we need to gear it up a bit more because this is a traditional business, and then we need to kind of look outside of the box a little bit to gear ourselves up more to do this maybe quicker.

COVER: Obviously we've got a considerable range of products already that we are targeting them with, similar to what Renasa already has in the market. But how do you make sure that they actually have appropriate insurance because, as you said, these businesses are small and they don't necessarily have capacity, they wouldn't have somebody dedicated to managing risk?

Michael: Good question. I think the big thing is education. Looking from Renasa's perspective, seeing as we only deal through brokers and we don't have a direct arm, we need to educate our brokers that we have a suitable product. Product design is most important to be specific to what the needs are for this type of business. Because an SMME type of business, as I said before, is very different to the old traditional commercial or business type of insurance. You've got to create, firstly, the culture to insure amongst these small SMMEs, especially because they operate in very low margins and insurance might not be a consideration when you're starting up. But not being insured, no matter how big or small your business is, that will definitely ruin your business, if you have any kind of an adverse event.

So where a small business might lose a laptop, and they don't have R15,000 to replace it, the loss would be as big as the losses for a manufacturer that loses his whole factory. I think education is a big thing and the product design, as I said, is important. You'll probably find the type of product that is needed is more geared to ensure mostly electronic equipment, etc.

For that reason, Renasa developed a bespoke SMME commercial product for this exact segment, we call it LiquidSure. The idea behind LiquidSure for the brokers

and the insured is to create a product that is compellingly convenient. It allows the small business owner to manage the financial challenges they might face by not forcing cover upon them which is not relevant to the field of business that they're in and that they can afford. It's a product that is aimed at the startup and small to medium enterprise. For example, the product band is determined by the business's annual turnover. A few of the unique benefits which will help the businesses to grow and not have a big financial contribution from an insurance perspective, is that the policies are on a first loss basis, with no excesses applicable to any section. The average condition has been deleted, so there's no average for all sections of the policy, which makes it compellingly convenient for the brokers as the need for advice is limited. There's no indemnity period on the BI because it's on a first loss basis and SASRIA cover can be added. So all of those things are geared to not financially burden the company. Furthermore, it is geared to focus on the circumstances of the particular business, taking away the irrelevant covers that's not really applicable to their form of business.

It is all driven by the business interruption or the turnover, but they can obviously select additional cover for something else, with an appropriate premium. It is one of those very flexible products that is designed to, for example, when the need was there in the beginning of lockdown, to detune your cover. Now going forward for new startups, they have a flexible insurance product that can grow with the business from the early stages right through until they're this big multinational. LiquidSure is a product that is designed for exactly that.

COVER: You mentioned education earlier, especially around the client, but how do you include the broker in that education process, and what role do they play?

Michael: They definitely need to play a role, especially in our environment, as Renasa. If you look at what's happened in the last year or so, the focus has been strongly on consolidation, on keeping the business that we've got on the books. The same for brokers. And now I think business and the world is opening up again, so we need to put the focus on increasing business and ensuring ongoing advice. We would need to get out there to create that environment where we bring this to front of mind for the brokers. For example, the traditional policies that were out there pre lockdown might not be appropriate now, especially due to many businesses having changed.

So where you had these office blocks full of people, they're not full of people any more. That would definitely have a change on the way the policy is structured in terms of the covers that is required. It might mean restructuring of the policy or maybe detuning the cover to a large extent, because some of the coverage is not required. This is where clients' needs analysis comes very much to the forefront. This is the principle that we need to get out there, ensuring the client understands that a renewal needs to be done, and more thorough than in the past.

COVER: Lastly, anecdotally maybe, based on the COVID experience from last year, have you seen any change in the uptake from small businesses on insurance or trying to manage risk differently?

Michael: Certainly. Small business owners are looking at risk differently from the past. They now realise that the world can throw unexpected risks at them and they need to look differently at their insurance needs. We are seeing requests for differently structured and more flexible products, which we now offer, as explained above. Brokers are picking up on that and we are seeing very positive trends in the insurance of the SMME market.

South Africa's super rich set to grow

Christelle Colman, MD of Elite Risk Acceptances, a wholly-owned subsidiary of Old Mutual Insure

The global pandemic may have changed the world, but for the super-rich, who spend their money on flash properties, fast cars, super yachts, luxury handbags and other goods, COVID-19 only increased their spending power.

According to Statista.com, the world's leading billionaires added over one trillion dollars to their collective wealth during the pandemic. We continue to see that the ultra-high net worth investor, informed by uncertainty, looks for alternative asset classes to diversify portfolios and provide resilient returns throughout different stages of the pandemic. COVID-19 brewed pent-up demand, resulting in a spending spree. This may explain why Hermes handbags were the best performing luxury collectible for price growth in 2020, up 17%, followed by fine wine (up 13%) and ostentatious cars 6%, according to Knight Frank's Luxury Investment Index. Furthermore, according to the Wealth Report 2020, SA is the largest wealth market in Africa and the 32nd largest worldwide in terms of total wealth held. It suggests that the SA luxury sector generates revenue of approximately $2 billion per year, making it the largest luxury market in Africa for cars, yachts, clothing, accessories, watches and luxury hotels and lodges.

Yet, unique challenges plague SA's wealthy when it comes to protecting their wealth against risks. Surprisingly, despite spending mega money, we continually see high levels of underinsurance on high ticket items. In the context of South Africa, in which crime is rife and often sophisticated, this is very risky.

This can be attributed to the complicated risk management needs of the ultra-rich, who often also make the mistake of over-insuring against low risk threats. This can be especially devastating for those with tangible collections of passion investments, whether it be classic cars, jewellery, or art. Investors with sizeable collections often assign a substantial amount of sentimental value to their collections, but do not always realise their financial value.

In South Africa, the wealthiest investors prefer to have collections in art (approximately $480 million worth of fine art is held by SA's HNWIs), classic cars, jewellery, fine wine and watches. Watches under the Patek Philippe name brand, both classic and new, fetch the highest prices by HNWIs, according the SA Wealth Report 2020. Data suggests that many of the super wealthy are clueless as to the value of their collections, and therefore don't insure it. A USA study suggests that of 2,475 investors who can be classified as wealthy, 44% have not had their collections insured. It also found that roughly 40% of wealthy collectors don't know the full value of their collection, while 51% have never had their collection appraised.

Advisors to wealthy investors should carefully consider their unique risks. As the numbers of the super-rich rise, so too may the under-insured and over-insured. Yet, it pays them to look after their collectibles and assets. The world's ultra-wealthy population with a net worth of US$30 million rose 2.4% to 520,000 in 2020, despite the global downturn. The world added eight billionaires a week in 2020, according to Hurun Global Rich List 2021.

Back home, the Knight Frank Wealth Report 2021 suggests that there were 44 605 dollar millionaires living in South Africa as of December 2020. This number is expected to grow to 63 400 by 2025.It also suggests that Africa is expected to see the second biggest regional five-year growth in ultra-high net worth wealth investors (UHNWI), a rate of 33% – led by Zambia and South Africa.

So how can the super-rich take adequate steps to protect their assets against complicated risks? My top hree take-outs.

- **Ownership of assets:** HNWI tend to register ownership of their assets in private entities such as trusts, companies, and closed corporations. Brokers must work closely with their clients to understand the ownership structures of all assets – as they would for ensuring a business with multiple entities – to ensure that insurance cover is properly coordinated and adequate risk protection is being provided.
- **Employee-related risks**: HNWI hire a number of employees to help run their households. Employees bring about risk exposures related to inside job armed robberies and threat of force to the insured families. Wealthy individuals should adopt stringent protocols when hiring as well as terminating employees. Procedures should include background checks, onboarding protocols, regular performance reviews and the like.
- **Security risks:** Security at home and during travel, including the risks of political turmoil and global conflict, remains a top concern for HNWI. For wealthy families with complex risk exposures, particularly considering the environment of violent crime in South Africa, it is highly recommended that a security expert is consulted.

These experts typically provide a full risk assessment that would minimise any security breach, such as home intrusions, a cyber-breach or any other issue that could put the family at risk.

When the supply chain breaks

Allianz Global Corporate & Specialty

Covid-19 has exposed the reliance of companies on their supply chains and weaknesses in business continuity management in unsparing starkness. Now everyone wants to act. However, what is the right strategy to deal with the next crisis? Thusang Mahlangu, CEO of Allianz in South Africa shares his thoughts.

Admittedly, it is not easy to take a positive view of the Covid-19 pandemic. However, the fact that more and more companies are coming to realize that globalization needs to be better managed and more resilient supply chains need to be built is a development that we as business insurers and risk consultants can only welcome - and one that we have been discussing with our brokers and clients through risk dialogs for years. The extent to which supply chains came under pressure during the pandemic is illustrated by the situation faced by automotive manufacturers earlier this year. Due to a lack of semiconductors, many carmakers were threatened with production stoppages, delays in deliveries and measures such as short-time working. There were no short-term supply alternatives. Many manufacturers had to cut production. This was a further blow to the already hard-hit automotive industry.

No wonder that according to the respondents of the Allianz Risk Barometer 2021, improving business continuity management is considered the most important measure to make supply chains more transparent and resilient against incidents. This is followed by developing alternative and additional supplier connections, investing in digital supply chains, intensifying supplier selection, and, where possible, specifically creating inventory and stockpiles for emergency production and delivery.

These findings are also in line with other surveys, for example conducted by FERMA among European risk managers last year: according to the survey, 46% of respondents expect to make changes to their supply chains after a pandemic, with 70% of them planning to find alternative suppliers. In addition, a survey by Allianz company, Euler Hermes, also found that a similar number of U.S. and European companies are considering finding new suppliers (62%), while 30% favor moving their supply chains to countries closer to home.

Therefore, the direction seems clear - and can certainly be described as a paradigm shift in the global economy. As a reminder: for around four decades, a large part of the world's production has been organized in global value chains with a high degree of division of labor. Raw materials and intermediate products from different countries are shipped around the globe for processing and then assembled at another location. The finished products are in turn exported to end users in both industrialized and developing countries.

SUPPLY CHAINS PUT TO THE TEST

Questions about climate protection and compliance with human rights dominated the social discussion about supply chains before the pandemic; with the reputation of companies also receiving heightened focus. The coronavirus has now further increased the existing pressure to rethink supply chains. Already during lockdowns in 2020, companies around the world were affected by restrictions and had to temporarily close their operations. Assembly line in the automotive industry had to shut down. Because of the plant closures, Coronavirus presented global corporations with the major challenge of getting hundreds of supply links back on track. That was probably the most challenging task for production planners in the first half of 2020. Concern about renewed restrictions is still on the forefront of many boards of African companies.

To prepare for these developments, we see two opposing trends in supply chain strategies. One is nearshoring - moving production to a nearby country or closer to the sales market. The other is partial reshoring - i.e., attempting to shift production back to a country and associated suppliers. A small shift could have a big impact considering that South Africa for example imported goods worth as much as R845 billion in 2019. Whichever direction it ultimately takes for African companies, the increased resilience of supply chains is to be welcomed. Not only does it help with insurability of risks, but it also helps to respond quickly to market trends.

RETHINKING THE CONTINGENCY PLANS

Without a doubt, the pandemic has brought more focus not only to supply chains, but also to a company's overall business continuity management. In recent months, many companies have found that their contingency plans were quickly overwhelmed by the rapid pace of the pandemic and changes in public health measures. Allianz Global Corporate & Specialty has a global network of 280 experts who can review a company's basic risk awareness and management, compare risk management systems of different companies and identify approaches to further develop them. Repeatedly, it becomes apparent that contingency plans need to be constantly updated and tested so that they can actually be applied when needed. They must be cross-functional and integrated into a company's risk management and strategic processes. Covid-19 also showed that organizations need to consider a broader range of scenarios to be prepared for future extreme business disruptions. Identifying and understanding potential "black swan" events will be our collective challenge, but the central key to surviving such crises will be the ability of companies to respond quickly.

SCENARIO PLANNING BEFORE THE CRISIS KNOCKS ON THE DOOR

So how can a company protect itself against the next crisis? Of course, not every risk can be insured. Today, overall, medium to large sized African companies' risk management is well positioned when it comes to traditional risks. However, these companies could be better positioned when it comes to protecting increasingly important intangible assets - something Covid-19 has taught us. What is clear is that the insurance industry cannot take away all the challenges companies face, but we can work in partnership with our customers and together try to see, understand, and so also mitigate the risks in the supply chain. In the end, it is transparency above all that makes risks identifiable, controllable, quantifiable and thus insurable – including the supplier-customer relationships. It is crucial to think ahead and consider how the business, the market, the customers and suppliers could change in a given scenario. There is no way around scenario-based business continuity planning which critically examines the company's own set-up and the resilience of supply chains under different scenarios. Potential business impact must be understood, action plans should be in place and tested before the next crisis knocks on the door. This is also, where the consulting services of AGCS come in: In constant dialog with our clients, we need to find ways to quantify the risks for failures. Specifically, this is accomplished by companies focusing even more on quantifying business interruption triggers and their potential impact, rather than relying solely on overarching risk management strategies. Companies need to develop the tools and systems to understand business interruption triggers and make the impact measurable.

More than ever therefore, it is crucial to have an in-depth risk dialog between the insurer and the insured and to be aware of the services provided in the area of loss prevention. From the evaluation of relevant information, using it for failure analyses, to the implementation of a targeted risk management strategy, we are already very successfully engaged with our large production clients to maneuver them out of the crisis.

Pandemic consumer behaviour and insurance

Genric Insurance

The experience of living through COVID-19 has changed consumer behaviour, reshaping our wants and needs and reprioritising what's important and what's peripheral. Some of these behavioural changes are likely to endure after the pandemic ends and includes greater health awareness, digital adoption, value-driven purchasing, remote working and 'nesting' as homes take centre stage in our socially-distanced lives.

These consumer behaviour trends have implications for the traditional as well as new risks faced in a very different world. Carl Moodley, Chief Underwriting & Claims Officer at GENRIC Insurance Company Limited, unpacked some of the key trends in personal risk driven by the pandemic experience and what this means for insurance and personal financial planning going forward.

"The consumer trends we are seeing have strong geographic dependencies and circumstances specific to South Africa's social-economic environment will shape how these consumer behaviours play out and their domino effect on all aspects of daily living. Although the pandemic and its associated responses have highlighted inequalities in South Africa, the long-term effects cannot be assumed at this point. However, the key trend of digital adoption in terms of work, learning, transacting and shopping is here to stay, so it is worth unpacking the knock-on effects and whether traditional risks have changed in terms of prevalence and intensity as a result," explains Carl.

The pandemic has heightened the understanding of the need for risk protection, notably in the life and healthcare space. There is also a clear drive by consumers to avoid any 'hard knocks' of unexpected costs and uninsured losses, and this is seen in the attention being given to insurance policy renewals, but also in the uptake of niche risk solutions that deal with very specific risks.

"There is a clear interdependency between risks and behaviours – as one behaviour changes, another risk area is also directly impacted. For example, as more employees work from home, their mobility risks may decrease, however their cyber and property risks increase due to less robust cyber security measures, especially on

personal devices and infrastructure at home, and greater use of their home property for work functions. Similarly, health exposures other than COVID-19 increase. Concerns around job security and the work from home trend have weighed heavily on many people, with depression and mental health in the spotlight as people struggle with the uncertainty and isolation of the pandemic. The impact of the delay in regular health checks and elective surgeries due to fear of COVID infections also have implications for detecting serious health conditions early, such as cancer, and the subsequent cost of treatment at a more advanced stage, and overall prognosis," explains Carl.

GENRIC UNPACKS SOME OF THE KEY CONSIDERATIONS OF HOW RISK AND INSURANCE NEEDS ARE CHANGING FOR SOUTH AFRICAN CONSUMERS AS A RESULT OF THE PANDEMIC:

- **Increased digital adoption sees increase in cybercrime impacting individuals:** As eCommerce and reliance on digital banking and transactional platforms grows, cyber or online risks have soared. South Africa now has the third-highest number of cybercrime victims worldwide with approximately R2.2 billion a year lost to cyber-attacks. 'Card-not-present' (CNP) fraud on South African-issued credit cards remains the leading contributor to gross fraud losses in the country, accounting for 79.5% of all losses, while the country has seen an increase of more than 100% in mobile banking application fraud, according to an Accenture report.[1] It's one of the key reasons why personal cyber risk insurance is now as important as home, vehicle and life insurance in one's personal financial planning portfolio.

- **Mobility patterns have changed:** remote working and learning which is already becoming an established trend means people are driving their vehicles much less. Less time on the road also means much lower risk for accidents and theft. The integration of vehicle telematics will be increasingly important in insurance solutions that aim to reduce insurance premiums based on reduced mileage and better driving behaviour. You can expect so see a big shift to insurance solutions with a pay-as-you-go component as consumers drive a lot less and thus expect to pay less for their reduced risk.

- **Changes in purchasing behaviour:** a move to value-based purchasing has seen consumers increasingly look at cost versus benefit in much sharper detail. With household budgets under tremendous constraints, consumers are looking at ways to mitigate against financial distress due to unexpected large costs. This is one of the drivers behind the high policy retention rate and new take-up of Mechanical Warranty insurance that GENRIC has seen over the last 12 months. Sales statistics show that new vehicle sales have plummeted while used-vehicle sales are way up, driven by affordability. It also means that for used vehicles that fall outside of the manufacturer warranty period, a mechanical warranty insurance solution provides essential protection against any major parts failures or breakdowns down the line. For a low premium from around R150 per month, a major mechanical breakdown such as an engine, cambelt or turbocharger failure – which can easily top R20k or more in costs – will be taken care of and you're buffered from these large and unplanned expenses. Another important development in the motor space is a recent ruling by the Competition Commission, effective 1 July 2021, which means motorists may service their vehicle at any independent service provider and are not restricted to the original dealerships, without any risk of the factory warranty being voided. It's good news for motorists who now have greater choice in terms of the costs to maintain their vehicles and paves the way for more competitive 'service plan' insurance solutions, independent of the original car manufacturer.

- **Healthcare is top of mind:** the pandemic has amplified the need for healthcare insurance as consumers realise the implications of a health crisis on finances, especially where one has co-morbidities. GENRIC has seen significant pick-up in enquiries related to health insurance such as its Sirago gap cover, as well as affordable alternatives to medical scheme benefits such as its Wesmart health insurance solution. Where consumers are buying down on their existing medical scheme benefits due to financial distress, they are taking up gap cover insurance to protect them against potential medical scheme financial shortfalls on specialist and in-hospital treatment. The steep uptake in gap cover is not unwarranted as recent mega claims paid by Sirago show massive shortfalls between R40 000 to R160 000 not covered by the medical scheme – without gap cover, the consumer would have to pay for this from their own pocket. The pandemic has motivated people to reconsider not only their health insurance covers, but also the likes of critical illness and life cover.

- **Interpersonal behaviour has changed:** While relationships and marriages have taken strain during the various lockdown levels and increased time spent at home, other relationships have thrived. People have spent more time with their pets than ever before, and pet adoptions have gone up too. This has driven new demand for Pet Insurance - pet owners want the reassurance that if things do go wrong and their pet gets sick or injured, they'll never have to decide between their finances and Fido's health and wellbeing.

- **Crime has and will continue to increase:** The increase in crime is of significant concern, notably of car and truck hijackings that have increased by 6% and 32% respectively in Gauteng, according to SAPS crime statistics released at the beginning of March. As the economy falters, and more people find themselves unemployed and desperate, crime rate is likely to increase. Taking extra safety and security measures at home and on the road are essential mitigating measures, as is checking that insurance covers are in place for all potential scenarios. Insurance solutions that add extra layers of protection and private response to emergency situations are increasingly in demand. As one example, GENRIC's SafeHomes insurance solution

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provides for an emergency panic button which dials up the closest, contracted security provider when activated, sending location details based on your phone's position. The call can also be routed to receive emergency medical attention as part of the solution offering. In South Africa where road accidents and crime are a daily occurrence and where public emergency services have proven unreliable and under-resourced, it is also not hard to see why demand for emergency medical assistance and evacuation insurance like the Evac24 solution has increased.

- **Nesting and Home Improvements have soared:** Home improvements and building extensions went into overdrive in the last months as people had more time at home to attend to maintenance and upgrades; working from home triggered a need for home workspaces, especially given that for many the home working trend is likely to become a permanent fixture and security and safety measures were upgraded. Consumers are spending on renovations, DIY projects, gardening and luxury goods to compensate for unrealised holidays and other out-of-home experiences.

- Other areas of investment include solar PV solutions for homes as load shedding and spiralling electricity costs push more consumers to grid autonomy. These renovations and additions add significantly to the value of your building and contents and need to be accounted for in the sums insured on your insurance policy. The tech underpinning a SafeHomes insurance policy provides access to a property valuation with immediate assessment of a property value using spatial and geo-technologies and mapping this back to deed's office information regarding property values in the area. It's essential that these 'lockdown' upgrades are correctly insured to avoid the risks of under-insurance in the event of a catastrophic loss.

- **Political uncertainty and social unrest is increasing:** Given the growing poverty, unemployment and social unrest which has been amplified by the lockdown, service delivery protests and riots are likely to increase in coming months, leaving property and assets vulnerable to losses that are not covered by traditional insurers. Sasria, which provides insurance cover for losses caused by riots and political upheaval, is a specialised cover which policyholders of personal and business insurance need to ensure they have.

"Risk and insurance has changed over the years, but more radically so as a result of the pandemic where there is now a far greater appreciation of just how unpredictable and far-reaching risk can be. It is crucial to understand your evolving risks and how to make the risk solutions available work for your changed circumstances.

There are many new insurance products and technologies available that allow you to become a lot more granular in your approach to risk and get the absolute certainty that you're covered for specific and unique events. As these risks become more complex and interrelated, the guidance and advice of a professional broker will prove invaluable in structuring an insurance and risk management strategy that's fit for your changed circumstances," concludes Carl.

Risk-averse industry due to Covid-19 sees ASP Fire on an upward path

Michael van Niekerk, CEO ASP Fire

CEO ASP Fire Its designation as an essential services provider during the Covid-19 pandemic resulted in ASP Fire attending to requests for assistance countrywide, from Tzaneen in the north to Pinetown in the East and Cape Town in the South.

ASP Fire has always maintained a strong service-based relation with its clients. This has resulted in a number of new referrals by existing clients. These have generally been in regions that we already service, so it has been fairly easy to assist them.

In addition to its existing client base, ASP Fire has established a strong reputation in the agricultural, food processing and packaging sectors. We have grown as a result of the general expansion in these industries and in particular the investment into the agri industry. Another key focus is developing performance-based rational designs accommodating the latest innovations. Our experience in special-risk, high-hazard industries where rational design solutions are essential helps us stay at the forefront of being able to provide modern, risk-appropriate fire-safety designs.

While investment and development in several industries has been adversely affected by the ongoing Covid-19 pandemic, insurers have become more risk-adverse as a result. This has allowed ASP Fire to continue on an upwards trajectory as it assists clients under pressure to conform to critical fire regulations. Our strong relationships will also aid us in maintaining the work that we do in those areas.

Despite the adverse business climate, ASP Fire took on two new fire engineers at the end of 2020, and also awarded a bursary to a black female mechanical engineering student. While the new hires have "both dived in straightaway". I am excited that the sponsored student will "grow and develop into a future fire engineer." ASP Fire continues to leverage its unique ability to convey the requirements and technical details of fire-protection systems to clients in easy-to-understand terms. We provide solutions that manage fire risks as low as reasonably possible, while balancing cash flow with operational constraints.

We always visit our clients to make sure that we understand their businesses and processes. With the national focus increasingly on hospital capacity due to the Covid-19 pandemic, two main risks that contribute to the danger of a fire in a healthcare facility. These are the presence of oxygen and bedridden persons. A small fire will develop rapidly in the presence of a supply of pressurised pure oxygen, putting the lives of people who are already very sick in danger.

While fire prevention is the obvious solution, one also needs to ensure that an automatic fire detection system and suitable means for fire suppression are always available at hand. Connect with ASP Fire on Social Media to receive the company's latest news | LinkedIn: https://www.linkedin.com/company/asp-fire-pty-ltd/

Sports, Recreation and Entertainment Industry

An Opinion by Philip Cronje, Aon South Africa's Strategic Account Manager in its Commercial Risk Solutions Division

THE PANDEMIC'S EFFECT ON THE SRE SECTOR

The Sports, Recreation and Entertainment (SRE) industry has been one of the hardest hit by the pandemic with large parts of the industry still fighting to survive. Aon's global COVID-19 Risk Management and Insurance Survey, conducted at the end of 2020, sheds some light onto the SRE sector's response to the pandemic.

- Prior to COVID-19, 84% of respondents had not identified pandemic or a major health crisis as a top 10 risk in the company's risk register. Additionally, 74% of respondents did not have a formal pandemic plan in place.
- Sixty-seven percent of respondents have seen their business severely impacted and expect it will take significant time to recover — 63% expect the impact to their business to last over a year, and 37% expect it could take longer than 24 months.
- Forty-two percent of respondents reported a demand-led impact on its supply chain, which is consistent with government restrictions during the pandemic.

The focus in this industry has been on managing the immediate impact of the pandemic. The industry remains deeply concerned about the future macroeconomic shocks that are likely to follow the pandemic. Reduction in spending and travel associated with macro conditions creates future volatility for an industry already hit hard financially by the pandemic. Ongoing government regulations that restrict numbers at events in addition to future geopolitical tensions that may deter or restrict travel have the potential to exacerbate this volatility.

EVENT CANCELLATION

COVID-19 has been a seismic shock to the event cancellation market. From the onset of the pandemic, it became very clear that event organisers did everything within their power to mitigate the threat to their events from COVID-19. They invested huge amounts of time, energy and money to do everything possible to ensure their events could continue. However, in most cases, they were met with overwhelming challenges that forced the necessary cancellation of these events. Current market estimates put the total loss estimate of the event cancellation insurance industry at around US$6 billion and I expect at least half of market participants (insurers) to have suffered individual losses that are as great as the total market event cancellation losses of 2019. I do not believe that any event organiser - whether a sports event organiser, business event organiser of trade shows, exhibitions or live music event promotors - will be ready to invest money in staging events until they are sure their event is likely to proceed as planned in a COVID-19 safe environment. It is a huge distance away from where we are right now. It is, however, giving players in the SRE field opportunity to innovatively reinvent themselves in these trying times, with many shifting to online platforms and small-scale productions that are unique and able to circumnavigate COVID-19 risks. Faced with severe adversity, resilience will prevail, and it is encouraging to see these developments.

INSURANCE COVER IN THE SRE MARKET

Most organisers of medium to large scale events understand the benefit of buying event cancellation insurance. Communicable Disease cover was always a policy exclusion which could be bought back on payment of an agreed additional premium. Therefore, all organisers had the option to buy the communicable disease aspect of cover if they deemed the cost to be acceptable. Currently, all event cancellation insurers are excluding communicable disease cover and are extremely unlikely to start offering this cover in any worthwhile way.

Lessons are being learned, and changes will be made. Many aspects of event cancellation policy language are being scrutinised, with clause wording that is likely to be amended to provide clarity. The market will develop new ways to consider aggregate communicable disease risk and in the face of this, it is likely that overall market capacity will reduce while premium rates will increase to reflect the new reality. Innovation in the insurance market will see the development of new solutions to address the need for communicable disease cover. In addition, the need for malicious cyber risk cover is growing in the SRE market as the industry's dependence on digital platforms grows.

A year later, the SRE sector has a better understanding of the 'new normal' in which it now operates. It is also crucial to engage with an expert broker in the SRE sector who understands your need for innovative insurance solutions that offer custom-made coverage and integrated services to guard against the unique and new risks you face in this dynamic and unpredictable sector. **Once the pandemic has passed - and it will pass - we are all looking forward to attending big events such as music concerts, theatre productions, sporting events and exhibitions that have all been noticeably missing from our lives during the last year.**

Insuring Events and Entertainment In Times of a Pandemic

Denise Hattingh, MD of KEU Underwriting Managers

COVER: The events and entertainment industry is one of the industries that's probably been hit hardest, and you probably had to jump into action very, very quickly, because cash flows and all of that sort of stuff doesn't wait. Please tell us a little about your experience when this went down. What was triggered on your side?

Denise: We were informed by our insureds in the week commencing 10 March 2020, and we started receiving phone calls to say that they knew that events had been cancelled internationally. We had already spoken to our reinsurers in Germany, so we already knew that events were going to be cancelled.

What we didn't know at the time was how long it would affect South African insurance, and when it would be implemented. So, come 15 March 2020 when President Ramaphosa declared a state of disaster, we knew immediately that for the following three months, all events were going to be cancelled. On our point of underwriting, our policies specifically add on communicable diseases. So it was never a question between us and the insured whether a policy triggers; we all knew that it was going to be triggered. It was just a question of calculating the financial impact that it was going to have, and the time period in which it was going to happen.

We already pre-empted most of this. We appointed a loss adjuster, starting with the financial side of it, and were happy to start paying our first interim payments to insureds on 4 April. Easter was cancelled, and the events industry had those expenses with zero income from the events that were cancelled. So they sat with an immediate cash flow situation, having to pay their staff, venues, and their other contractual obligations. And, obviously, they wanted to remain in good standing with everyone involved in hosting an event, such as the technical crew, the artists, the subcontractors, and so forth.

We therefore acted immediately and made very quick turnaround times in terms of interim payments. We were able to assist our insureds in that way, with our claims total coming to about R90 million. It was quite a big amount for us. The first state of disaster was called for three months, after which it had to be extended on a monthly basis. Every time this happened we knew that, for some of our insureds, it was going to involve even more events being cancelled. The collaboration we have with our insureds, with their financial directors and CFOs has been absolutely remarkable. It really came together.

Event cancellation is underwritten very specifically and directly to the needs of the event organiser. We were fortunate in that it was that specific, that the trigger was that immediate, and that we could start working to solve problems. That meant our insureds could see the immediate benefit of having insurance, and us holding their hands throughout the process. We could also assist them in terms of contractual enquiries that they had for future events.

Centriq was with us 110% from the very first day. It was a fantastic collaboration of many people. We still feel for the insureds, because obviously communicable diseases are now a worldwide exclusion. Those insureds who had annual policies were fortunate in that their insurance was paid out. But our insureds are still not up and running. And we still don't know when we will be able to host the big events, the stadium live exhibitions, and those type of events. Only time will tell.

Event cancellation is underwritten very specifically and directly to the needs of the event organiser.

The film industry recovered fairly quickly. We had a film cancellation as a result of COVID-19. One of the nominated key crew members contracted the virus. And, as a result, the film had to be closed, sanitised, and so forth. It was all the additional expenses incurred for the period while they couldn't film. But, again, the cover was that specific, and it was immediately acted upon. Our production companies in South Africa are incredibly professional, and know how to handle a situation. So, from their point of view, they've already been unable to film, and for them to have started and then to have to stop in the middle because of the pandemic, was more than just an inconvenience.

It was also not only about money paid from the claim. Our client had very specific deadlines in terms of their broadcasting agreements. So, our insured acted immediately. And, again, it's a good story to tell at the end of the day. We could assist them immediately; we could act immediately. Filming ended in good time, without the insured being out of pocket. For the entire entertainment industry, COVID-19 was a horrible, horrible time to go through, whether they're a film producer, event organiser, or any other party associated with that, our industry came to a halt on 15 March 2020.

We also tried to assist the people who didn't have event cancellation cover, or the guys who didn't have the correct film production cover. But it's still a long road to recovery. They're really all made of steel, and I take my hat off to the industry. And isn't that why we're here in any event? We sell insurance to be of service to our insured. This is our work, this is what we can do to our markets, for our markets, and that's why insurance plays such a critical role to all industries, but the entertainment industry specifically.

COVER: One side is that you could show the value of the industry and increase the trust, not just for yourself, but even for the industry in general. The other side of it is that it will stand you in good stead in the future, not just because of the reputation but also because people will now realise the value of event insurance. Going forward, how do you see that?

Denise: I think, going forward with our type of insurance, it's about continuing to be relevant in the market. Communicable diseases is going to be a complete exclusion and has been since March 2020, with new insureds taking up cover. For us, it's about continuing to be relevant and to make sure that we understand the challenges ahead with things like virtual events. What is the risk of the insured?

You're no longer going to the Sandton Convention Centre, and you no longer have 2 000 people attending an event day, but you're now live streaming. So, you will need to understand what that event is all about. Because, at the end of the day, it's still the production that needs to be around people who need to participate and who are paying for their ticket, and understand where it can go wrong. Then provide cover that is suitable for that.

Yes, the industry is going to take some time to recover, and I don't think all will end well. We know for a fact that not all our event organisers will be able to start up again. We have to be relevant and approachable, and I think we need to do good and show our worth. If there's an issue in the matter, assist your insureds. The events industry is incredibly dynamic; it changes constantly. So, you need to be acting immediately. Understand what you do so that you can act to assist the insured. And that makes it incredibly dynamic. It makes it a fantastic insurance market to be in. Understand the risk and stay relevant.

COVER: On that note, what role have the brokers played in this process?

Denise: They play a critical role in holding the hand of the insured and leading them to the correct cover. Just understanding, from a broker point of view, the impact of an event cancellation, and what the client expects to receive. What does their sponsor expect to receive? Knowledgeable brokers are incredibly important. What we have found through our claims journey is that if you stop the communication gap, you can solve matters very quickly. But if the underwriting was done incorrectly, then the outcome would have been disastrous. So, the broker plays a critical role in understanding what the event is all about. Where is the risk, actually, and what does the insured expect? What is it that they want to get back in their pocket because the event didn't happen? And if that is clarified, and it's very clear to all parties, then the claim is a breeze. It then literally becomes an accounting issue, which is exactly what we had.

A look at nuisance claims

Vanessa Rogers on behalf of Natmed Medical Defence

Where should the checks and balances lie in professional indemnity claims, and how do we stem the tide of claims which would not have arisen had it not been for COVID-19?

Unjustified medical malpractice claims against healthcare practitioners could result in professional indemnity insurance premiums skyrocketing to the extent that medical malpractice insurance will become unaffordable. If healthcare practitioners in the private sphere cannot afford the premiums, we will see more healthcare practitioners moving over to the public healthcare sector – where it is not compulsory for them to take up cover. This already is the case with obstetricians and gynaecologists. Such an occurrence would be unfortunate when considering that these same healthcare practitioners have, since the start of the COVID-19 pandemic, risked their health and lives by working on the frontline under emergency circumstances.

Indeed, many healthcare practitioners and workers have turned their focus to saving the lives of COVID patients as a matter of priority. COVID has resulted in a further crisis – a rise in medical malpractice claims against healthcare practitioners since the beginning of 2021. In many instances, claims that are unfounded and lack any merit are instituted due to litigants being advised that they have good prospects of succeeding with their claims. This then results in a waste of both the litigant's and the court's time, and in the litigants' hopes being dashed in the process.

There are numerous reasons for the rise in medical malpractice claims following a pandemic such as COVID. Other than litigants being incorrectly advised, and in certain instances being misled into believing that there is a likelihood of their claims succeeding, claims of this nature are likely to result in some monetary gain where a settlement offer is made on a purely commercial basis – that is, where the healthcare practitioner makes an offer in settlement with a view to disposing of the claim in order to avoid unnecessary legal costs being incurred. It is also likely that the courts will be sympathetic towards litigants who are allegedly victims of medical malpractice during the COVID-19 pandemic.

Healthcare practitioners have taken strain of late due to a constrained earning capacity. This has resulted in our healthcare practitioners being placed at increased risk of being exposed to claims being instituted against them for medical malpractice, which is further exacerbated by the fact that claims have increased in light of the pandemic.

Each legal case should be assessed according to the circumstances that gave rise to the claim. Various factors should be taken into account.

These include:

- whether there was a valid cause of action and any breach of duty on the part of the healthcare practitioner as a result of a substandard level of treatment and care being provided; and

- whether the standard of care and treatment provided resulted in any harm, injury, death and/or financial loss to the patient.

A proper assessment must be performed and a litigant should be informed of the prospects of succeeding with a claim. Unfortunately, this is not always the case and it is a rather unfortunate state of affairs given the great sacrifices our healthcare fraternity has made on a personal and professional level since the start of the pandemic.

Healthcare professionals pay their premiums and, in return, they are covered in circumstances where a claim is instituted against them and an adverse finding is made, provided that they have met the terms and conditions of their professional indemnity policies. The insurer is there to fit the bill in accordance with the limits of the policy schedule. The position in the public sector differs in that the Department of Health is allocated a fixed amount in terms of the Minister of Finance's national budget. These funds are used for the upkeep of hospitals, the payment of hospital staff salaries, as well as for purposes of settling medico-legal claims and attorney costs.

The legal acts which govern this industry would not see it eroded by a plethora of nuisance claims demanding inappropriate compensation – especially as the courts' approach in general is to afford a plaintiff his/her day in court. **What tends, then, to transpire is that a "nuisance offer" is made as soon as possible to dispose of a claim to avoid unnecessary legal costs being incurred.**

Traditional Healing Catapults into the 21st Century

Ildiko Richardson, Director, Blue Anchor Risks

CANNABIS The word conjures up images of Smokey rooms and blood shot eyes and the mellow sounds of Bob Marley and reggae music.

(but for some, and this maybe it a generational thing, it conjures up Woodstock, free love and the hippy generation, age of Aquarius and all that. Way before Bob Marley the epitome of cannabis was Jimmy Hendrix) Yet it is so much more !

WHY ARE HEMP AND MARIJUANA TREATED IN SUCH DIFFERENT WAYS? IT ALL COMES DOWN TO ONE THING: MARIJUANA CAN GET YOU "HIGH," WHILE HEMP CANNOT.

Today Cannabis and its side kick Hemp are HOT topics. It has been controversial around the world for many decades, but for a significant part of modern history it has had many uses including medicinal, religious, spiritual and even recreational that dates back over 5000 yrs. . (The History of Marijuana: Learn About The Origin of Marijuana (recovery.org) But in the 21st century we are seeing it propelled into agricultural farming and in so doing brings the modern farming technology with it. On 18 September 2018 the South African Constitutional Court decriminalized the use and cultivation of cannabis in a private space but even though private use of cannabis has been decriminalized the buying and selling of cannabis, cannabis oil and cannabis seeds remains illegal. Licenced growers/producers may only sell on Off take agreements.

It is this commercial growing of Cannabis for medicinal purposes that has created an interest for us at Blue Anchor Risk Solutions. This sector has been earmarked by the Government to be an expanding industry in South Africa. Many international companies have shown interest in establishing growing facilities due to our favourable climate in large areas of the country.

This has many of its own challenges: Obtaining a Medicinal Cannabis grower's licence in South Africa is a lengthy and expensive exercise. Only licenses issued by SA Health Products Regulatory Authority (SAPHRA) are deemed legitimate and have to accompanied by a permit. The issuing of these licences requires inspections that need to meet strict quality control measures.

This then leads to a very controlled and regulated industry that needs to be met with an equally specialised understanding of the risks and associated pitfalls of Insuring these risks. This the word "Cannabis" and its earlier connotations as per our introduction makes traditional insurance companies very nervous.

Months of research and collaboration has resulted in a specialised wording that protects the client and the Insurance industry supporters, providing us enough confidence to establish a South African solution for this growing industry.

This potentially fruitful and growing industry is trying to emerge at a very trying time, influenced by struggling economies and geopolitics along with some strange risk factors such as Pandemics and Cyber issues that could affect the insurance markets in untold ways. It is imperative to understand the future potential and pitfalls if you want to enter a new industry.

This is also true for the retailer/ distributors that are selling products to the general public. The law is unambiguous about the allowable levels of CBD and tetra- hydrocannabinol (THC). Here some people are falling foul of the law by brazenly selling high-dose CBD products with questionable levels of THC.

In May 27 2019, the SAPHRA , issued an exclusion notice, stating that the health minister had moved CBD from Schedule 7 classification to Schedule 4 (therapeutic use). This was only for a 12-month period (which was extended by a further 12 months), though, to allow the Health Department and SAPHRA time to consult with stakeholders and decide on scheduling. Schedule 4 medicines and substances are only available on a doctor's prescription, while Schedule 7s are not generally available to the public. The minister also removed low-dose CBD from scheduling, because it was normally well tolerated and had a good safety profile, meaning that products with a maximum daily dose of 20mg of CBD and 0.001% of THC are not currently considered controlled substances.

The SAPHRA notice excluded products with minuscule doses of THC, below 0.001%, and small CBD doses of 20mg for daily use but your local home industry and grower won't be able to determine that. A certificate of analysis to determine levels will be required before distribution can take place, this excludes home growers for personal use.

Anyone distributing uncertified products could be prosecuted. Testing and certification is expensive, so people are taking chances.

It is this point that our industry may be lost in the haze. Many of the retailers/ distributors have more than likely been indemnified on a standard commercial policy which could include an element of Products liability. It is here that the legality of the product will be paramount. Without understanding all the ramifications that pertain to this specialised class of business clients, Insurers and brokers could be found wanting.

If the authorities decide to prosecute, the clients have to fight it out in court. And once a client sells it, it's no longer considered private use. The questions get raised when an Injury or Damage may arise from a client's product that may or may not be deemed "legal". **Drugs and Drug Trafficking Act is still in place therefore Ignorance of the law is not an excuse.**

10 INTERESTING FACTS ABOUT CANNABIS

1)Females respond de differently from males. In fact females have been found to build up a tolerance to the drug (THC)

2) Cannabis seeds date back thousands of years in fact evidence has been found as far back as 10 000 BC in China.

3) Shakespeare smoked cannabis as shown by residual evidence found in clay pipes his home/garden

4) More than 200 slang terms exists for Cannabis

5) Cannabis boosts t mood using the same mechanism as chocolate

6) Cannabis Tourism is a thing in fact many people around the world travel to places like Amsterdam to experience the activities around Cannabis

7) There is an international "Weed Day' yes an actual day 4/20 (or as we would know it 20th April)

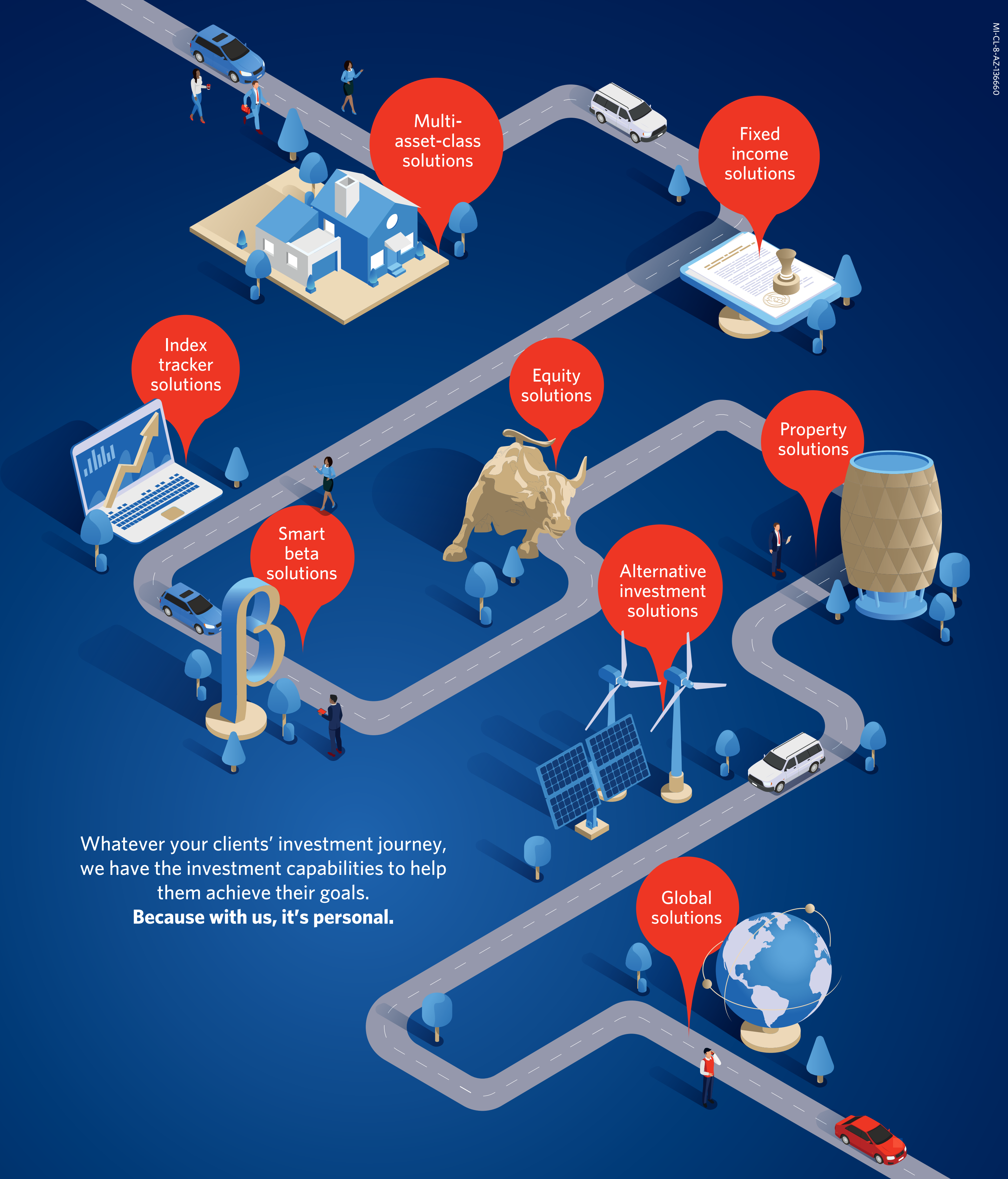
8) Whilst the leaves are the most recognised part of the Cannabis plant it is in fact the flowering part that is used

9) Prohibition started in 1911 in Massachusetts USA

10) The UN officially banned cannabis in 1961 following the United Nations single convention on narcotics and gave member countries 25 yrs to implement the ban.

FINANCIAL PLANNING

P36-49



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Be 'smart' about diversification and returns

Wayne Dennehy, Institutional Distribution at Momentum Investments

Proper diversification is to 'not put all your eggs in one basket'. Smart Beta funds allow financial advisers, fund managers and individual investors to be more diversified in the South African equity fund space.

In 2020 the difference in returns between the best performing SA equity fund and the worst was 43% - a stark reminder of the need to be well diversified. To better understand what Smart Beta funds are in the context of SA equity funds, let's start with what an index fund is. An index fund is the classic 'buy the market'. Buying a Top 40 Index fund allows investors to buy the top 40 shares, with the holding in each share reflecting the size of the company in the market. A Capped SWIX Index fund is buying all SA shares, where no share may be more than 10% of the fund (the cap).

Smart beta equity funds use a rule-based approach to assess what shares to hold in the fund. Different smart beta funds will use different approaches to try and exploit market inefficiencies and capture styles of value, momentum, quality and volatility.

Research shows that the average active equity fund does not always manage to out-perform the market over rolling 12-month periods. Therefore, the first lever we use to get better diversification in is by using more than one fund. The second consideration is to make sure that we have exposure to the key drivers of returns in the SA market, namely value, momentum and quality. Exposure to all of these three styles further achieves better diversification. Smart beta funds give us a third lever and provides an opportunity to diversify away from active managers, while still targeting market-beating returns. These funds allow financial advisers to consider funds that achieve a particular level of diversification for their clients but delivered through a more passive and systematic process.

The **Momentum Trending Equity Fund,** our momentum style smart beta fund, beat the market by 7.3% per year (after fees) since its launch in April 2017 to the end of December 2020. This is very 'active' looking returns but with a smart beta fund under the bonnet. There has been a lot of research over the years on whether you can add value by trying to time your entry and exit from various equity styles.

I have yet to see any evidence of a process or philosophy that consistently adds value to clients through trying to time equity styles in the market. A better long-term strategy is to make sure that you have exposure to the primary styles of value, momentum and quality, and hold them through different market cycles.

THE STRATEGY FOR SA EQUITIES IS SIMPLE:

- If you only have one style, the journey for clients can be volatile
- Blending in different equity styles gives a smoother journey
- Don't try and time entry and exit from different styles
- Combine active, index and smart beta funds for better diversification

Another compelling argument in favour of Smart beta funds is price. These funds are typically far cheaper than actively managed funds without compromising on the benefits that they can bring to the robustness of client portfolios, when blended with other funds. Every financial planner and client is unique and investing is personal, therefore financial advisers can either access individual smart beta funds if they are clear on what styles they would like to add to client portfolios or buy pre-packaged solutions.

The **Momentum Core Equity Fund** is such an example, a blend of the capped Swix index fund and the three momentum smart beta funds (value, momentum and quality). These funds offer competitive pricing and has a commendable track record since its launch in April 2017.

Digitising csi to maximise social return on investment

Nozizwe Vundla, Head of Sanlam Foundation

South African corporates collectively spent R10.7 billion on CSI in 2020. Imagine if all that money achieved its intended outcomes. It could change millions of lives for the long-term.

CSI has the power to be transformative, but only if the spend is commensurate with the social return. Currently, unfortunately, we don't always see CSI funds being used as they should be. However, ramped up digitisation, and monitoring and evaluation may soon mean a different landscape, where businesses take tracking CSI as seriously as they do sales figures. All too often, corporates allocate money to CSI as a tick-box exercise to satisfy spending quotas.

Mind-sets need to move to a more deliberate, collaborative, control-tower approach. B-BBEE Level One targets are of pivotal importance for South Africa's shared progress, so the compliance spend by corporates is substantial. Unfortunately, the net result can be that compliance often outweighs developmental impact.
In the spirit of authentic transformation, corporates should adopt a developmentalist mindset. Through targeted interventions to do the hard slog in communities to maximise impact, the goal should be to disrupt the dysfunctional cycles in South Africa's socio-economic landscape, focusing on maths and language literacy in the education sector, or financial literacy to upskill more women SME owners. But it's not enough to just have the heart for developmental interventions. To optimise impact, we need efficient oversight. That's where monitoring and evaluation come in. To achieve this, it's critical corporates have the requisite technology, digitisation and expertise.
In the last ten years, to bring deliberateness and transparency, monitoring and evaluation have started to be taken seriously as core to corporate foundations. Another major component is regular, rigorous reporting as corporate foundations must be accountable to their board of trustees. By having a digitised operational system, collating information and progress over the preceding quarter can make reporting much easier.

Using digital systems to have oversight over an ecosystem brings increased agility. It takes one click of a button to see what's happening at any given point.

Having all these systems in place is a way for corporates to adopt a developmentalist approach, streamline efficiencies and maximise social return on their CSI.
It's also extremely beneficial for the NGO industry. By setting clear targets and using the monitoring, evaluation and learning approach to track progress, there's an opportunity for corporates to assist NGOs through real-time reporting and skills assistance. Ultimately, this should catalyse an accumulative cycle of mutual benefits. This means more people doing more meaningful things in the communities they serve. Using digital systems to have oversight over an ecosystem brings increased agility. It takes one click of a button to see what's happening at any given point. This empowers corporates and their NGO partners to implement change much quicker, where it is needed most. It also minimises the risk of any financial mismanagement, which brings greater assurance that allocated funds will not only reach beneficiaries – but will do so with maximal impact. In a society with a dearth of trust in how money is spent for social impact, this peace of mind is extremely important.

Having robust technology to ensure watertight delivery of the goals means a far higher success rate. In the business of CSI, that means more lives changed in a measurable and meaningful way. It's about being extremely intentional, which starts with clear goals.

Advice for small financial advisors: scale to rebound in 2021

Roland Gräbe, Head of Old Mutual Wealth Tailored Fund Portfolios

The Covid-19 pandemic has hurt small or owner-led financial advisory practices that are finding it harder to survive.

One of the significant effects of the lockdowns has been the economic impact on clients and the inability of financial advisors to engage in person, limiting their ability to grow their books. To offset the increasing regulatory burden, financial advisors need to scale their businesses up in 2021. Building scale and driving efficiency are critical in growing a successful practice for financial advisors who focus on investment advice. Many smaller clients are serviced by financial advisors at a loss in terms of time cost, and that is only sustainable if the advisor has a fairly large book with a good proportion of high net-worth clients. In March 2020, local equity, bonds, property and global equity all fell simultaneously, causing even well-diversified investment strategies to suffer significant drawdowns. At the time, financial advisors were inundated by anxious clients dissatisfied with performance while simultaneously struggling to keep their own practice afloat.

As the industry navigates its way out of the second wave and into a likely third one, my advice to advisors is clear. Moving in and out of markets exposes the advisor to advice risk and the client to market timing risk. The subsequent market recovery was as swift as the drawdown, but many advisors and clients reduced risk at the worst time and thus failed to participate in the broad market upswing. Rather, outsource your process to a discretional fund manager (DFM) to reduce key-man risk in advance by deepening the overall investment knowledge you're able to offer your clients. This will naturally increase the profitability of the practice by allowing you to focus on what you are paid to do in times of uncertainty; namely: providing financial advice. In addition, I would like to share four ways small practices can mitigate the effects of the current economic reality and find opportunities to scale their business in 2021:

1. FOCUS ON THE NEEDS OF YOUR CLIENTS

It sounds simple but focus on client needs over past performance in recommending investment solutions. If you require additional support in building suitable investment solutions, partnering with a high-quality DFM can add significant value to your client offering whilst managing the overall cost clients incur on investments.

2. PRACTISE GOOD GOVERNANCE

Develop an explicit policy covering issues such as conflict of interest, disclosure, and fiduciary duty. For clients to trust you with their life savings, you must demonstrate adherence to the highest ethical standards. Your investment approach should also be well-documented and available to your clients. That will give them comfort that you have a robust, repeatable process.

3. TECHNOLOGY IS YOUR FRIEND

Even if your clients are mostly retired, the world is fast becoming more digital and embracing this trend will make you much more efficient. Practitioners that have been able to engage with clients digitally are finding it easier to service their clients, social distancing and regulations notwithstanding. This is likely to be the way of the future, so don't expect things to go back to exactly how they were before the pandemic.

4. GROW, GROW, GROW

Focus on growing your practice to absorb the ever-increasing cost of compliance with regulations. Scale is vital in ensuring your business is profitable and the key to ensuring you can give your smaller clients high-quality advice.


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Income funds still have a place in a volatile environment

Glen Copans, Chief Investment Officer at Investec Specialist Investments

Loose monetary policy and fiscal stimulus remain a key component of developed market policies as the world navigates the pandemic, meaning risk assets may remain in demand. Income funds, however, still have a role to play in a portfolio.

All eyes were on Finance Minister Tito Mboweni last month as he tabled the 2021 Budget. South Africans were looking for the easing of tax measures to help boost domestic and foreign investment and stimulate economic growth in a post-pandemic environment.

The impact of the Budget and the dynamic environment are, however, not limited to large institutional investors. They're equally relevant to private clients and retail investors who are struggling to balance risk and income in their investment portfolios.

The Covid-19 pandemic drastically changed the local and global investment landscape. Strict lockdowns collapsed demand and slowed economies to a sluggish pace. A loosening of monetary policy drove short-term rates to all-time lows. Investors may still be earning a real return on their investments through income funds, however, they are not at the absolute level that they were before inflation and rates fell. Loose monetary policy and fiscal stimulus remain a key component of developed market policies, as the world navigates the pandemic. This means that risk assets may remain in demand, at the possible expense of income funds. Any concomitant rise in inflation may also put pressure on the income fund segment of the market, especially with short-term rates expected to remain low for the foreseeable future.

Despite these changing dynamics and the rising appetite for risk assets, income funds and similar funds are still prioritised by investors looking for consistent and enhanced returns with relatively low risk, within a balanced portfolio construction.

INCOME FUNDS OFFER LOW-RISK RETURNS IN VOLATILE MARKETS

Income funds have been a popular investment strategy due to their dependable, low-risk return, especially when compared with general equity funds, which up to last year have had to contend with a sluggish local equity market.

Market dynamics can change quickly however, as we saw last year. This is why investors need to regularly reassess their holdings and the underlying forces that drive their returns , for signs of change. Black Swan events, similar to that which we have experienced in the last 12 months, require a reassessment of the dynamics.

The market dislocations of March and April last year were a novel experience for many income fund investors. With the instantaneous and significant widening of credit spreads, coupled with the simultaneous steepening of the yield curve, fixed income assets fell significantly. Despite income funds having low duration exposure, the allocations resulted in negative returns for the majority of income funds, with many funds delivering their lowest monthly returns to date.

Although losses have subsequently been clawed back with a normalisation of both credit spreads and interest rates, investors have seen that this class of funds is not immune to volatility or negative returns. The majority of income funds do not take large fixed rate exposure, with the expected yields being highly correlated to interest rates, as evidenced by the concurrent reduction in the absolute yield. The relative outperformance of the underlying assets, however, which continues to deliver around 2% above cash, is more pronounced in the current low interest rate environment.

This level of outperformance remains compelling, as it continues to yield real returns above inflation, despite the lower absolute yield. The selective use of credit instruments including banks and corporate credit, drawn from an expanding investable universe is a way for income funds to enhance returns. Another is to increase duration, given the steepness of the current yield curve, specifically through investment in government bonds. This offers an opportunity to earn returns in excess of inflation, despite this being a crowded trade in recent months.

DIVERSIFICATION CAN HELP YOU WEATHER THE STORM

The increasing diversification of investment strategies employed by income fund managers has led to greater dispersion of returns between funds, albeit that the majority have managed to produce real returns despite the volatility and low-yield environment. Different sub-asset classes within the Income space, such as credit, can help a fund manager to achieve these diversification goals. Consequently, investor interest persists, as is shown by the continued growth in the income sector dominated by a few large funds. We've seen a further diversion from cash investment allocations as investors better understand the risk return dynamics of the fixed income asset class under different market conditions.

New generation income-type investments may also fulfil a role in an income fund through so-called yield companies (yieldcos), whose distributions are tied to underlying contract income. Good examples include yieldcos that invest in renewable energy projects or those where income return is derived from preference shares or real estate investments. In addition, the expansion of income assets to include global opportunities, is both providing further diversification and enhancement to the portfolio construction process. Persistence in performance should always be an important consideration for income fund investors. Typically, investors will want the comfort of knowing that funds that have delivered in the past will continue to do so in future. This is of particular relevance for income fund investors, for whom a reliable source of income is paramount. Persistence in the underlying instruments, achieved through a reduction in market risks by the investment manager, leads to greater certainty of the outcomes and less variability in returns. Compare this with, for example, general equity funds, where a degree of volatility can be tolerated in the short term, so long as growth is delivered over the long term.

Investors should therefore pay particular attention to measures such as dispersion of returns around the benchmark and maximum losses experienced through an appreciation of volatility, alpha (fund performance relative to its benchmark) and return drawdowns. In addition, qualitative criteria such as changes to portfolio managers, their investment strategy or philosophy, should also receive attention, given the conservative nature of the asset class.

The key focus, however, remains on managing the risks. If fund managers can control volatility and any potential capital risk, then allocations to a broader range of instruments can help investors to deliver consistent enhanced returns within a diversified portfolio.

Replacing Lost Data for Accelerated Underwriting

Ammon Dixon and Jean-Marc Fix , GenRe North America

One of the hardest challenges Life insurers encounter when adopting accelerated underwriting (AU) is figuring out how to compensate for the loss of information previously derived from blood and urine tests.

It's been the case that insurance exams and fluid specimens reveal important evidence for the risk assessment of life insurance applications. But "fluidless" underwriting gives up this value - and insurance carriers feel the need to offset the loss.

That's what drove us to take a closer look at LabPiQture, a relatively new tool that reports clinical lab results in the extensive data of Quest Diagnostics and LabCorp. We chose to explore how effective LabPiQture is as a substitute for insurance fluid tests.

ANALYSIS

The analysis involved deidentified clinical laboratory tests between 2012 and 2019 of nearly 100,000 life insurance applicants maintained by ExamOne, a Quest Diagnostics company.

We determined that a subset of LabPiQture data includes some standard insurance laboratory tests for nearly 30% of our sample applicants. Of those applicants with insurance tests, we identified adverse information among 15%. This underwriting value varied by age and gender but had a significant mortality impact for all age and gender combinations.

The impact would be affected by your underwriting approach and the tools you used in addition to LabPiQture. It's therefore important to calibrate the impact on a significant sample of your business. Gen Re is happy to provide insights from our work in this area.

ADDITIONAL BENEFITS

Our investigation also showed that LabPiQture reports other information that can help underwriters assess the risk of life insurance applicants. These include:

- Insight from clinical tests that insurers do not typically require
- Analysis of sequential laboratory test values over time
- Ratings based on specialties visited and/or ICD diagnoses codes
- Limited preferred-class assessment with lipid tests

We intend to research some of these other uses in another study at a later date. In the meantime, it's encouraging to see that in an AU environment, LabPiQture really can replace some of the evidence lost by the elimination of fluids tests, even though the substitution is not oneforone.

VALUE OF LABPIQTURE

In light of these preliminary findings, Gen Re recognizes the potential value in the use of LabPiQture in the following areas:

- In underwriting, such as during COVID19, when traditional requirements may not be available
- As an enhancement to existing AU programs to offset some mortality slippage associated with such programs, as well as to improve time service for a larger segment of business
- As a tool in companies' full underwriting requirements

Naturally, LabPiQture's value will vary among insurance carriers. However, a cost-benefit analysis joining our mortality results with the specific age/gender/ face amount distribution of the insurer's portfolio will determine its utility for each company and clarify the threshold to maximize the benefits for that insurer.

PANDEMIC PRESSURE

The global pandemic has only added to Life insurers' need for actionable responses to existing underwriting challenges. We're confident that the typical insurance lab test results contained in LabPiQture provide material mortality value and can replace some of the evidence lost by the elimination of fluid tests.

To learn more about how best to incorporate LabPiQture into your Life underwriting workflow and improve your business results, you can read our white paper - or get in touch with one of us to discuss how it could benefit your company.

Effective decision-making tools

Nimisha Bhawan, head of investment advisory at Alexander Forbes

2020 was a great example of living in a VUCA (volatile, uncertain, complex and ambiguous) world. At times like this it is important for trustees to strike a balance between doing the right thing and doing the thing right.

Trustees are now facing increasing pressure to make good judgements and quick decisions that work even harder and better in the best interests of their members. To maximise the effectiveness of a decision-making process that helps build a resilient investment strategy, trustees will need to balance a number of long-term objectives, including risk and reward, with taking appropriate actions at the right time. Herewith some pointers to help improve trustees' understanding of how resilient strategies are being shaped amidst the developments within the investment space.

GOOD GOVERNANCE

The fund's DNA: It is important that trustees achieve a balance between reacting to current or unexpected environments and remembering the unchangeable "DNA" of their fund.

Constituting the board and sub-committees you need:

- a strong chairperson
- a diverse range of skills and backgrounds
- ongoing training and development
- flexibility for employer and member-elected trustees to perform their fiduciary duties separate from their primary responsibilities of employment

Investment strategy design:

- Formulate the trustees' investment beliefs and philosophy
- Develop clear investment objectives, tying beliefs with investment objectives
- Build in resilience to secure long-term endurance

Decision-making process: To maximise the effectiveness of your decision-making process, think about the minimum number of decisions your committee *needs* to make and which decisions can be delegated.

LINKING PRE-RETIREMENT AND IN-RETIREMENT

Retirement approach: As members approach retirement, the focus shifts to understanding how to translate the accumulated amounts saved into a meaningful amount to survive on during a member's retirement years. This thinking requires members approaching retirement to be invested in a pre-retirement portfolio that has an adequate link to *their* intended choice of income at retirement. When it comes to providing the right pre-retirement portfolio for one's members, a one-size-fits-all approach will often fail. This means that trustees must spend much more time considering what the appropriate pre-retirement strategy should be.

Setting a default annuity strategy:

This requires trustees to understand what their membership do at retirement:

- How much do members take in cash?
- What type of annuity do they typically buy?

The asset allocation that will best match each type of annuity is quite different.

UNDERSTANDING AND TRACKING YOUR POSITION

Projections in today's money: If members could see what their projected monthly retirement income would be in Rands and cents based on their savings position if they were to retire today, they may just have more of an appreciation of whether it will be enough or not. Even better, it may just prompt members to be more engaged around what actions need to be taken to get on track towards achieving their retirement goals.

Reporting and monitoring: Trustees need to monitor the performance of their underlying investments and the performance relative to the objectives of the fund and each specific portfolio. Reporting and monitoring should always be a sense check. If the investment strategy is not delivering the expected results or is not meeting the objectives initially set out, there needs to be a feedback loop where the objectives are reviewed, and the investment strategy tweaked.

Understanding the liquidity of investments, the level of diversification and the risks the chosen asset managers are taking: Are asset managers taking rewarded or unrewarded risks? An additional new element to monitor are the ESG factors in investment portfolios and measuring the impact of the fund's investments in society and on the environment. A resilient and enduring investment strategy requires that trustees have conviction in the philosophy, processes and people they have used to put together the fund's investment strategy. When faced with volatile market periods, especially those classified as "market shocks", it does pay to contemplate why an investment strategy was set the way it was and then understand if changes are necessary. The key elements are to start with knowing your goals and objectives, having a clearly defined investment process and strategy, regardless of how much you delegate or retain in house.

Measure the outcomes and gauge the effectiveness of your chosen strategy and don't forget to reassess and adapt when something is not working – the essential feedback loop.

Getting Through: Not To Retirement

Derek Pillay, Principal Consultant on Retirement Funding at Aon South Africa

The COVID-19 pandemic and resulting economic crises have severely hit the financial wellbeing of many across the globe, the impact of which is likely to be felt for the long-term.

Even before the pandemic, many South Africans were already facing significant constraints in saving enough for their retirement. This trend has been exacerbated by the pandemic as workers face reduced earnings, either due to reduced work hours or retrenchment. This means a widening savings gap of what they will have, versus what they will need to make it through their twenty-odd years in retirement.

Closing this retirement savings gap is crucial amidst changing employee circumstances and new regulations. South Africa has a poor savings culture, with only an estimated 6% of South Africans who can afford to retire comfortably at age 65[1]. The odds are that a significant percentage of SA's retirees will outlive their retirement savings due to reduced savings and longer life expectancies.

We have seen thousands of employees who have had no choice but to pause or reduce their retirement contributions or cashed out their savings (upon retrenchment) to survive the financial devastation caused by the prolonged pandemic. Even once they're able to resume contributions, it is typically at a reduced rate due to reduced income and competing financial priorities.

While the reason for the shift is understandable, it does have significant tax and benefit implications. Firstly, the most obvious outcome is that by reducing or pausing your retirement contributions, you reduce the end sum of your savings so you have less income to live off. Secondly, an overlooked impact is that by pausing or reducing your pension or retirement contributions, your taxable income increases, meaning that you are effectively being taxed more and getting less out than what was expected. These factors have a marked impact on the long-term prospects of your retirement benefit being sufficient to sustain you.

The realities remain however that for many, there simply are no other alternatives right now, and those who face severe financial constraints will have little choice in the trade-off between surviving today versus saving for the future. It is crucial to have the discussion with a specialist broker in the field who can advise you on what the long-term implications are and what action you need to take to get your retirement savings back on track and bridge the inevitable gaps as soon as you are in a position to do so.

CHANGING LEGISLATION

The latest Taxation Laws Amendment Bill is set to come into effect on 1 March 2021. In a nutshell, the amendment bill has the following implications:

Members of all retirement funds will only be able to take one-third of the total value of their retirement fund interest by way of a lump sum with the balance being taken as an annuity.

Restriction will only apply to amounts contributed to funds on or after 1 March 2021 and not to members who are close to retirement (55 years and older as at 1 March 2021); provided they remain in the same fund.

The change in regulation is widely welcomed by the industry. The main purpose of this regulation is to protect people's retirement savings. In the past, you were able to encash 100% of your retirement savings. Individuals often squandered their retirement savings a few years after actual retirement date, leaving them in a dire financial situation in their retirement years. Having access to the lump sum defeated the purpose of granting tax incentives in the first place, as the lump sum is severely taxed; whereas the first R7 000 on monthly annuity payments is tax free with the rest taxed as income.

The change in legislation will bolster efforts to get individuals through – and not only to – retirement. Many people only see the retirement age of 60 or 65 as their end goal, failing to understand that retirement can last 20 to 30 years, during which time they will need to sustain their lifestyles and needs based on what they have saved in their retirement funds. Its highly likely that during retirement, there will be money going out and nothing coming in, so prudent retirement savings and management today cannot be emphasised enough.

RETIREMENT PLANNING FOR LATE STARTERS

In the current job market, there is an increasing trend towards 'Total Cost To Company' (TCTC) when it comes to remuneration. Some employers offer company benefits such as medical and retirement contributions, while others pay the entire salary package to the employee, and the onus is on the employee to make provision for their healthcare and retirement funding of their choice.

Regardless of the model, getting your retirement plan and contributions set up as early as possible is vital. We often find that younger people place less emphasis on retirement contributions, whereas +45year-olds will consider the maximum contribution.

If you have had a late start, there are a few important considerations if you're planning on making up for lost time:

- The maximum tax deduction you may make in a tax year is limited to the greater of 27.5% of taxable income and gross remuneration from your employer, subject to a ceiling of a R350 000 annual contribution.
- You can opt for an Additional Voluntary Contribution (AVC) on top of your set pension deductions from your salary, provided that it complies with the limit above. AVCs are flexible and can be adjusted to suit your financial needs and is a great vehicle for bridging the gap.

It is never too late to start working on your golden nest egg. You can start by making use of the support structures around you, including any employer-provided programmes. Engage with a specialist broker and/or financial adviser in the field on the best options available to you, no matter the stage of retirement planning you are at. **Making sure that there are provisions in place for your retirement to maintain your standard of living 'through and not to' your retirement is essential.**

New rules for emigrants' fund withdrawals are fair

Chris Eddy, Head of Investments at 10X Investments

In keeping with the times, there is now also a conspiracy theory around emigration and retirement funds.

Apparently, the government has imposed a three-year waiting period on emigrants' retirement savings to stop them from leaving or, failing that, to take their money. The reality is far less sinister. Yes, the Government is introducing a waiting period, but it applies only in very specific circumstances. Even then, it can be avoided in some cases. Nor does it intend to make life more difficult for emigrants; it is merely a side-effect of dismantling our existing exchange control regime. In its place, we will have a cash-flow management system that does away with the concept of emigration and introduces a verification process based on tax residency.

As before, such tax residency will be determined by the "ordinarily resident" and "physically present" tests as set out in the Income Tax Act. The change will be fully phased in by 1 March 2021. It does affect those leaving the country because "natural person emigrants" and "natural person residents" will from then on be treated identically. That's a good thing. Under the old emigration rules, people could either just pack up and go, using their annual capital allowance to move assets abroad, or they could go through the formal (and cumbersome) financial emigration process. The former meant leaving behind "restricted" retirement fund savings (see below) and still being considered a resident for tax purposes. Financial emigration resolved these issues but at the cost of a potential capital gains tax liability on assets left behind, and constraints on how they conducted their local financial affairs in future.

These issues disappear with the new system. People can now become non-residents for tax purposes without having to pay capital gains tax on their remaining local assets. They can keep their local bank accounts and conduct their local financial affairs as before, and they don't have to go through the Reserve Bank and Sars to do so. Also, they can still access their "restricted" retirement fund savings, albeit with a three-year delay. To contextualise this statement, different access rules apply to pension and provident funds, preservation funds, and retirement annuity funds. As residents cannot access all their retirement savings before retirement, those same savings are also "restricted" for emigrants. More specifically, residents can withdraw their pension or provident fund savings before retirement, whenever they leave their employer. So can emigrants. On resigning, they can cash out, pay the lump sum withdrawal tax, and take the balance overseas (subject to their annual capital allowances).

Residents are also allowed one full or partial withdrawal from their pension and/or provident preservation fund before retirement, so this option also stays open for prospective emigrants. Importantly, this right of one withdrawal relates to every individual transfer to a preservation fund, and not to the fund as a whole.

What residents cannot do is access their retirement annuity fund (RA) or the balance of their preservation fund(s) until they reach the minimum retirement age of 55. It is these "restricted" savings that are subject to the three-year waiting period.

Even this situation presents a potential loophole: where applicable, members can transfer their pension or provident preservation fund back to their current employer's pension fund, or their provident preservation fund to their current employer's provident fund.

They may do this even after having made their permitted withdrawals. This money then becomes available in the normal way, on resigning from their employer. The retirement industry opposed the three-year waiting period on the grounds that it unfairly targeted retail savers, that many emigrants depend on this money to set up a new life overseas, and that it might disincentivise the use of RA and preservation funds.

Although these are valid points, National Treasury countered that it is not the government's intention to incentivise emigration and that this waiting period is more equitable vis-a-vis residents who can only access these savings at retirement.

Underlying these arguments is a valid concern that the current system can be gamed. Given the more fluid modern living and work arrangements, some opportunists took advantage of the RA tax benefits and then deliberately avoided annuitisation through the financial emigration process, by establishing temporary tax residency elsewhere.

While that is not in the public interest, it is also not in the public interest to violate established savings principles. As it stands, emigrants' savings remain subject to the investment limits of Regulation 28, which means they are over-exposed to local developments and the rand, whereas their retirement expenses will be incurred in another country in a different currency.

But we should not lose sight of the overall objective of the new regime, which is to modernise the capital flow oversight system in a way that balances the benefits and risks of all stakeholders.

Compared to the financial emigration process, the new system will be much more flexible and have a much lower compliance burden for those moving abroad. In that context, the three-year waiting period on very limited "restricted" retirement fund savings seems like a small price to pay.

A simple way for expats to reduce their SA income tax liability

Jonty Sacks, a partner at Jaltech Fund Managers

Recent amendments to South Africa's tax legislation will require taxpayers who are working offshore to pay income tax on that portion of their overseas salary that exceeds the R1.25 million per annum threshold.

The choice facing expat salary earners is clear: You can either pay over your additional dues to the revenue services or you can find a way to reduce your tax liability. One solution is to invest in an approved Section 12J investment. If you invest in an approved Section 12J fund you can deduct the entire amount of the investment from your taxable income in the year in which the investment is made. This deduction is conditional on you remaining invested in the fund for a minimum period of five years and is subject to a R2.5 million annual investment cap for individual taxpayers.

We have a number of investors who are working offshore and have found investing in Section 12J funds to be an optimal tax solution. The difficulty that most expats encounter when considering these solutions is in selecting a fund that will generate meaningful returns in addition to the tax benefit. I have undertaken a comprehensive review of Section 12J funds to identify factors that constrain returns in the sector. We have found that the poor return performances of certain Section 12J funds is directly attributable to three factors, namely cash drag, high performance fees and the poor performance of underlying investments.

There has been some confusion around the performance fees published in the marketing material of section 12J funds. One of the concerns is with the practice of including tax benefits in the overall return calculation. The fee so calculated, commonly referred to as a Net Investment Performance Fee, is considered excessive due to the fund manager being compensated not only on the performance of the investment but also on the tax refund received by the taxpayer. The tax benefit has nothing to do with the fund management function and practices of this nature materially affect the investors' return expectations.

Cash drag is an important concept in the Section 12J investment universe and refers to a failure by the fund to invest historic investors' capital timeously. Investors in these funds end up earning interest on their capital instead of the meaningful growth that should have accrued from the intended underlying investments. You should make sure that the manager of your preferred Section 12J fund is able to invest capital under management within a reasonable time frame.

The returns generated by the underlying investments in a Section 12J fund will vary from one fund type to the next and are subject to the usual vagaries of the economy. Returns can suffer due to poor economic growth or any number of unforeseen events. COVID-19, which afflicted the globe through much of 2020 and the first quarter of 2021, has undoubtedly affected the performance of many Section 12J funds, thereby eroding investors' returns.

Expats who are considering investing in this sector to reduce their income tax liability should conduct due diligence to ensure that the aforementioned factors are not present in their preferred section 12J fund and that their selection is in line with their return and risk objectives Jaltech Fund Managers is optimistic about the return prospects from certain sectors of the economy. Investors who prefer high growth might consider Aurik Capital, which has a pipeline of investible businesses courtesy of Aurik Business Accelerator, a business founded by radio personality and author Pavlo Phitidis.

Those who prefer asset-backed investments could invest in the Infinity Anchor Fund which has topped its class in 2019 and 2020 by investing into a portfolio of asset-backed businesses that earn rental income from the leasing of movable assets. The Infinity Anchor Fund Stable is a second option that offers asset-backed returns with the additional benefit of guaranteed income and guaranteed capital upon exit.

Those who prefer 'old school' brick and mortar investments might choose Zimbali Capital, which generates returns based on high-quality student accommodation and hospitality assets across South Africa.

SMALL TO MEDIUM ENTERPRISES

P51-58

Boosting the resiliency of SMEs through innovative risk solutions

Indwe personal & business insurance brokers

Small to medium enterprises (SMEs) are the lifeblood of South Africa's economy. With up to 91 percent of formalised business in South Africa attributable to SMEs, which also happen to employ the majority of the workforce, it's clear to see how crucial these small businesses are to South Africa's economic future.

Despite SMEs contributing almost 40% to the national GDP, they enjoy the least business support and are most at risk in times of crisis. COVID-19 has exacerbated the financial pressures on these businesses, many of which were already facing bleak futures before the coronavirus crisis hit. Experts predict that as much as 60% of SMEs could shut up shop for good by the time the crisis abates.

The insurance sector can play a vital role in ensuring the survival of SMEs. This is the view of Adele Artman, head of volume business at Indwe, who explores how innovative risk solutions can be a shot in the arm for boosting the resiliency of these businesses.

One of the realities facing many small business leaders right now, **is that the risk solutions available to SMEs simply don't cater to their needs. SME owners** are often left with little choice but to settle for a solution that has been created with larger enterprises in mind.

"Adopting a solution that isn't specifically designed for small businesses, doesn't make sense for a business that has limited resources and operates on a tight budget. SMEs are not fully structured like large corporates, so when certain aspects of the business are left unattended, they can have devastating effects for owners and their families," Artman explains.

One of the ways that Indwe is driving change within the SME sector, and supporting the initiatives of these businesses, is through its Realistic 360 digital platform. This innovative, structured risk identification platform is uniquely geared to the needs of SMEs. "Realistic 360 provides risk advisors with a central repository of relevant information that can be accessed in real-time on any device. By plugging into this risk library, advisors can learn about how SMEs work and gain a better understanding into their risk exposure," says Artman.

As part of its holistic, cradle-to-grave philosophy, Indwe has integrated a feature within the Realistic 360 platform that evaluates the long-term risk of SMEs, should a business find itself in a position where the owners or key individuals die or get disabled. "By assisting these business in analysing risk properly, we can assist them with establishing a business will (buy and sell agreement), thereby protecting the key role players in the business and limiting the financial risk on several other risk areas. This is achieved by meticulously crafting a business risk plan that suites the business and its needs," says Artman.

What further gives Realistic 360 the edge, is that Indwe manages the entire process with each specific client. While there may be universal challenges that SMEs share, each business has unique circumstances and risks that require a more bespoke approach.

"By using the services offered through the Realistic 360 platform, business leaders can place a greater focus on their strategic objectives and address business challenges, and not just on their risk exposure," says Artman.

"With the guidance of an Indwe risk advisor, they can conveniently tap into an online platform for valuable information and advice. These learnings can be customised for their specific challenges and used to improve business operations," concludes Artman.

ABOUT INDWE

Indwe Risk Services (Pty) Ltd is a leading personal, business and specialist risk and insurance advisory business. With the founding company established in 1903, Indwe has a formidable history in insurance and is today one of South Africa's largest brokers, delivering award-winning service to clients across the country. For more information visit www.indwe.co.za or phone 0860 13 13 14.

SMME business resilience takes a collective focus

Andy Given Khoza - Head of Pricing, Analytics and Business Development at Bryte Insurance and
Moroesi Mokhabi - Business Consultant at Bryte Life

Small, Micro and Medium Enterprises (SMMEs) are major contributors to job creation and continue to be a critical driving force for socio-economic growth. In 2019, SMMEs provided employment to just under half[1] of South Africa's workforce and contributed more than 22%[2] to GDP.

These stats signify the crucial role of small businesses in socio-economic growth and clearly highlights the sector's untapped potential. Funding remains the greatest challenge for these businesses; while larger businesses tend to enjoy the benefit of access to credit/investors, etc. SMMEs often have to navigate with little or no funds. To make matters worse, since the onset of the pandemic, the pressure on this sector has been excessively compounded.

RELATIONSHIP BETWEEN NECESSITY AND INNOVATION

The pandemic and government's response to it has meant that SMMEs have had to contend with significantly reduced demand for services and products (also resulting in much lower levels of income), disruption in the supply chain and in some instances – not being able to trade for periods of time. But,Plato may have inspired the proverb, *"Necessity is the mother of invention"*, however, SMMEs live it on a daily basis. Surviving these uncertain times has required tremendous innovation and so many SMMEs have valiantly responded.

SMMES have re-evaluated their business models by incorporating new products, services and adapting existing ones to respond to evolving needs. They have also integrated a range of contactless methods for the delivery of products and services. What has also become apparent is the creative use of technology to develop new offerings in a cost-effective manner. Interestingly, the *SWOP Anything*platform, described as "South Africa's first bartering website", allows for the exchange of goods and services; while *Cloudy Deliveries*, founded by a group of teenagers - is proving to be an affordable delivery option for the Langa community in Cape Town. The level of creativity, innovation and resourcefulness these businesses display, remain inspiring.

However, often these aren't efforts that can secure relevance and growth for the business beyond the short term. SMMEs – like any other business – cannot go at it alone, which is why we're continuing to see more, innovative collaborations that are expanding awareness and access to, or enhancing, the SMME value proposition.

MANAGING RISK TO SECURE REWARDS

As SMME businesses are adapting and evolving, so too are their needs from partners and service providers. What it also means is that their exposures are changing. However, the reality though is that risk management's value in driving business resilience is often overlooked. For SMMEs, particularly insurance is often perceived as an optional rather than a necessary business investment. Creating an appreciation for the importance and value of effective risk mitigation is imperative. What's clear is that from a risk management perspective, there are some fundamentals which - if properly understood and factored into solutions - can tilt the balance in the SMME's favour.

- **SMME businesses are very unique; a standard offering just won't do:** They require partnerships that can comprehensively understand the specific exposures their enterprises face. Solutions must be bespoke, i.e. fit for purpose. These should be designed to respond to the very real challenges they are likely to encounter, often in the immediate and short-term.

- **Easy access to products, advisory and other services is vitally important:** Intermediaries have a vital role to play in facilitating awareness of the value of risk mitigation and its ability to catalyse growth. What's important is ensuring a distribution network that enables seamless access to risk products and services.

- **Often, employees wear many hats:** They sometimes need to make decisions based on a limited understanding of the many facets of risk management – of which insurance is one. Risk management solutions must be uncomplicated, easy to understand and effective in de-risking businesses – especially ones that may not have the financial means to bounce back after an incident.

- **SMMEs resources (funds, skills, etc.) are very limited – both within and outside their business:** For example, access to legal advice is limited and where available, can be very expensive. Bryte's Smart Legal product offering is one that is well-suited for small businesses as it serves as a much-needed safety net. Business owners have easy access to high-quality legal assistance which can be invaluable in managing disputes and securing business resilience.

On the other hand, bolstering employee value propositions to attract talent remains a growing focus. Especially in the context of COVID, the value of funeral cover has become more apparent. Bespoke solutions such as Bryte Life's Group SME Funeral Policy is aimed at empowering businesses by introducing more attractive benefits in a manner that is cost-effective and sustainable. The product is designed to provide some level of financial security for those who play an essential role in the business's growth. This benefit, which gives families the peace of mind that they are able to provide their loved ones with a fitting send-off, is immeasurable in times of great need. The crux of it is that supporting the growth and sustainability of SMMEs requires a meaningful and collaborative approach. It also takes peeling away the layers to understand the nuances of the business, the reality of the constraints it continually faces and the environment in which it continues to sustain itself. For all of this, the role of the insurance industry - from underwriters to brokers - can thus be invaluable in empowering the sector and supporting its resilience as well as growth.

Five Risk Trends Affecting SMMEs

Clayton Ellary, Aon South Africa's Commercial Risk Solutions Division

The world certainly looks very different a year later, and nowhere is it more apparent than in the Small, Medium and Micro Enterprises (SMME) space.

The sector has faced more than its fair share of obstacles during the COVID-19 pandemic amidst a contracting economy and lockdown measures that reduced income streams to a trickle.

The SMME sector is critical to South Africa's economic growth, employing around 80% of the African continent's workforce. It is also the sector that has been hardest hit by the pandemic and the subsequent lockdowns, making it crucial for SMMEs to identify the trends impacting their businesses and finding ways to leverage new opportunities. Aon South Africa, risk advisors and insurance brokers, delves into the top five trends affecting the SMME sector:

1. CHANGING CONSUMER BUYER BEHAVIOUR

The key factor in demographics is not just how the world's population will grow, but how consumer buyer behaviour is changing amidst an upended world. Failure to innovate and meet customer needs was one of the top ten risks, rated at number nine in Aon's 2019 Global Risk Management survey. The pandemic shifted the importance of this risk into top gear. Many companies had to scramble to reimagine their product delivery and consumer purchasing journey in a pronounced shift into a digital world that is likely to remain long after COVID-19 has abated. In fact, 86% of respondents in a PWC Global Consumer Insights Survey 2020, said they are likely to continue to shop online when social distancing measures are removed. Innovation is a necessity, not an option. It also means that disruptive technologies, such as artificial intelligence, blockchain or the Internet of Things may be the key to transforming the current playing field. Start-up companies tend to be more agile in their efforts to meet the changing needs of consumers. The fine line between success and failure is defined by an organisation's ability to reinvent itself in an ever-changing market where disruption is fast becoming the norm.

2. TECHNOLOGICAL RELIANCE

As companies become more reliant on technology, technological developments and increases in data and analytical power create unlimited opportunities for business; But also bring risks around cyber security and data privacy. Cyberattacks on South African organisations show no signs of abating. Whether a large or small business, a cyber breach has the potential to inflict enormous reputational damage, cause major interruption to normal business operations and income potential, and can also have legal ramifications if personal and financial information is compromised in context of the Consumer Protection Act (CPA), the Electronic Communications and Transactions Act (ECT) and the Protection of Personal Information Act (POPI). South Africa will continue to see large-scale ransomware attacks that target administration credentials to gain access to and infect, wider networks – often targeting SMMEs and

contractors to gain access to larger client corporations. With the expected increase in ransomware attacks designed to spread through a network, organisations of all sizes and industry sectors need to take steps to protect their networks and ensure that their risk management and insurance programmes are fit for purpose to protect them in a worst-case scenario.

3. THE RISE OF INTELLECTUAL PROPERTY

A misalignment on the value of data, information and intangible assets, such as IP of a business could have dire consequences. We currently find ourselves in a business environment where a huge shift is taking place from tangible to intangible assets, making it crucial for companies to identify what its value-producing assets are and to re-evaluate its risk and liability in this space.

4.THE RESILIENT WORKFORCE

In a world of work that has been largely affected by the COVID-19 crisis, ensuring that your people strategy enables employees to adapt to change, maintain motivation and face adversity now and in the future is imperative to business success. Wellbeing is critical, the difference between a business surviving and thriving, especially to SMMEs where the skillsets of its people are so intrinsically linked to the success of the business.

According to Aon's Rising Resilient report, businesses will need to recognise the impact the pandemic has had on their employees' physical, emotional and financial wellbeing. For employers that get wellbeing right, the effort can help their teams perform more effectively and productively, and foster resilience — bringing adaptability to change, sense of belonging and ability to reach one's full potential. Recognising the pandemic's various impacts on employees and helping address them should be part of any overall strategy for guiding an SMME through, and beyond the crisis.

5. LIQUIDITY

The COVID-19 pandemic has been a major catalyst to a host of serious business challenges that led to greater levels of insecurity and business failures. SMMEs face greater risks, possibly even closure, if a major debtor defaults as their balance sheets are often not strong enough to pull them through a major and extended financial crisis. The question that trade credit insurance answers is whether you are dealing with a potential bad debtor, which is crucial in a financially strained environment. SMME's would be foolhardy not to have payment protection in place, given the tough trading conditions we find ourselves in at present.

The key premise of credit insurance is to protect your debtor's book, and in turn ensure that cash flow remains in the case of a bad debt. It also allows management to get a deeper understanding of their debtors' book due to the extensive credit vetting done by the insurer.

UNDERSTANDING THE TRENDS TO MAKE THE RIGHT DECISIONS

The trends that will reshape the world — and business — should inform the decisions SMEs are making today about their future. It is a task best undertaken with the assistance of an expert broker by your side.

A comprehensive risk assessment will establish how prominently new trends feature in your business, so that you can make informed decisions that will guide your business strategy beyond the pandemic.

Protecting the heartbeat of South Africa's economy

Elmarie Samuel, Product Marketing Specialist at FMI (a Division of Bidvest Life Ltd)

Collectively, small to medium-sized businesses contribute 20% to South Africa's GDP, account for 66% of all formal jobs and keep 10.8 million South Africans employed.

Small, medium and micro enterprises (SMMEs) are the lifeblood of our economy and business owners are the heart. The definition of a SMME is wide-ranging. It can be a micro enterprise employing less than ten people or an established business with 200 employees; it could be a self-employed individual working from home or a passionate entrepreneur always looking for their next venture.

Whatever the business, it's important for the business owner to not only protect their own income in the event of an injury or illness, but to safeguard the financial future of their business and that of their employees. Even a one-man band has monthly overhead expenses to think about. That's why business overhead insurance should be seen as a mandatory line item in running a business, no matter its size. Since inception, FMI has supported business owners by providing a monthly income to cover their salaries and business overheads when they couldn't work due to injury or illness. Over the years, we've innovated our product to include a combination of income and lump sum benefits that provide a payout for injury, illness and death. As a financial adviser, there are two key considerations when selecting income cover for your business owner clients, namely business overhead income benefits and continuation of income if they pass away.

BUSINESS OVERHEAD INCOME BENEFITS

Loss of income claims criterion: Many insurers assess business overhead claims under a Loss of Income criterion, which can be difficult to prove if the loss of income doesn't coincide with the period of injury or illness. That's why it's important to choose a policy which allows a claimant to choose between loss of income *or* percentage of duties unable to perform, whichever is greater for them.

"Small, medium and micro enterprises (SMMEs) are the lifeblood of our economy and business owners are the heart."

Speed of payments: Speed of claim payment is crucial for business owners who need to pay staff and suppliers. FMI's Fast-Track claims, for example, offer a simplified claims process with payments based on receiving objective medical evidence. This results in faster claim payments because we don't have to wait for medical professionals to complete an occupational disability assessment. Plus, the first 60 days of the guaranteed claim period are paid upfront on acceptance of the claim.

Shorter waiting periods: While it's common for business owners to qualify for a 7-day waiting period on their temporary income protection benefit, this often isn't available for manual occupations. At FMI, the 7-day waiting period is also available to most occupations that perform manual duties, such as self-employed plumbers, electricians and mechanics. And on our Event Based cover, business owners can claim from day one.

LIFE INCOME IF YOU PASS AWAY

Consider a Life Income policy for your business owner clients. They can choose to provide their businesses with up to R150 000 per month for either 6 or 12 months in the event of their death. This can assist with providing a monthly income to pay for the ongoing monthly expenses while a suitable replacement is found or trained to take over their responsibilities, and could mean the difference between business survival or not.

As drivers of economic growth and job creation, all business owners should ensure that they not only protect themselves with personal cover, but to also ensure their business is protected and can continue operating, no matter what happens to them.

Brokers must access, apply digital technology to benefit themselves and their customers

Morné Stoltz, Head of Department: Broker Distribution, MiWay

With South Africa being a nation of small businesses, and insurance an essential service underpinning the resilience of those businesses, brokers must consider digital technology as an integral component of their value proposition.

The reasons are simple: efficiency, accuracy and improved delivery driven by modern technology not only results in a better service to every customer, technology also drives down the cost of providing insurance cover. The broader perspective is that individual customers have come to expect quality and convenience without an associated cost. Companies like Google, Facebook and Netflix have shown people everywhere that with sufficiently advanced technology, an amazing level of personalisation is possible at little extra cost. In Google and Facebook's case, no cost at all to the user.

The principles of digitalisation, while relying to an extent on scale especially where nominally free services are concerned, are broader. What brokers need to understand is that while complex and challenging, digital technology is at the same time eminently accessible. Cloud computing, software (and more) as a service and better connectivity has made available remarkably capable technology at previously unheard-of prices. Essentially, this reality means failure to digitise is more about will than it is about cost. But cost is an excellent place to start, because while it will require a concerted effort, digital technologies often deliver outsized value for the money invested. Take administration and compliance as a case in point; no broker relishes this aspect of the job, yet it is entirely necessary. Maturing technology like robotic process automation (RPA), which incorporates machine learning and artificial intelligence, can automate administrative and compliance tasks.

The cloud doesn't just deliver smart technology either, as cloud organisations demonstrate. You can also access 'pay-as-you-consume' services which reduce other administrative expenses: personal assistance, bookkeeping, invoicing, and other services are readily available. These examples show immediate and easily accessible benefits which are likely to get you thinking. Going into a full-blown digital transformation could include updating back office accounting systems and putting those into the cloud or creating a customer-facing app and website which provides self-service functionality, accelerating both sales and claims. Once again in the cloud, you could even set up a virtual contact centre supporting your customers and offering the kind of service associated with a big corporate.

By saving time and money, your 'cost to serve' goes down. Profitability can go up, either by serving the same customers more efficiently and earning a better margin, or (perhaps ideally, given the pressure under which most South African SMEs are labouring) by reducing your prices and attracting more business. The application of digital technology – again, using the scale versions of Facebook and Google – also delivers an incredibly powerful competitive advantage: customer experience. Customer experience is recognised as a game changer, because for too long in too many industries customers have come to feel like nothing more than a number.

Digital technology changes that, and it goes far beyond never forgetting a customer's birthday – how about automated reviews of their portfolio, reminders for regular contact through instant and targeted communications, and much more. With the cloud, the sky really is the limit.

A final thought for brokers everywhere is that you cannot rest on your laurels. Digital technology today is astoundingly accessible and affordable. It doesn't cost much to test, try, experiment and then implement. If you aren't looking at how your brokerage can take advantage, be assured that your competitor most certainly is. And with SME customers looking for the best deal combined with personal attention, you know what that means.

Cyber security awareness a must for SMEs post COVID-19

Miranda Tshuma, Aris Brokers

COVID-19 has transformed the way the world conducts business and, more specifically, what can be accomplished digitally.

A post-pandemic world is of greater online function and it is unfolding before our eyes. With greater digital dependency and reward, comes greater risk in the form of cyber threats. The way businesses were able to adapt amidst the pandemic, the same applies to Cyber criminals who are constantly probing for weakness and developing their tactics. Any organisation that has online presence is at risk of cyber-attacks.

SMES are actually the ideal targets of cyber criminals because of the weak or assumed weaker security when compared to big enterprises. They can be seen as a "wretch", making them vulnerable to hackers. Cyber criminals typically look for targets that can be hacked with ease.

They often accomplish this by using software that automatically scans the web and identifies businesses with specific security weaknesses such as outdated or unpatched software, poor passwords, open web ports, unencrypted data in transit, lacking endpoint protection etc. While cyber threats are not new, complication and cost of attacks are unmatched. For big companies and large enterprises they usually have multi-layered security systems to safeguard valuable data protecting clients and customers. However for SMEs they do not have access or the supporting budget for sophisticated IT security infrastructure as well as a skilled IT team hence when it comes to IT security they are exposed and an ideal prey.

About 28 million malware attacks and 102 detections of unwanted programs (pornware, adware etc) were found across Africa in the first half of 2020. These numbers show that it is not only malware that attackers use but also "grey zone" programmes which users will not have an idea that they are there states the report. According to a report by (), the move to cloud-based services in response to restrictions brought on by the pandemic, cybercriminals responded with a 630% increase in cloud services attacks between January and April 2020 in Africa. According to the Accenture Report (2020), South Africa was ranked the third most cybercrime victims worldwide losing over R2,2 Billion a year. The report attributed this loss to low investment in cyber security and lack of cyber security awareness. While the KSS report, (2020) found that in the first half of the year there were 415 000 malware attacks in South Africa. In South Africa, since the beginning of the lockdown, there has been an increase in cyber-crime activities. The same report found that ransomware is on the rise and can be a threat to either big/small enterprises.

Potential Unwanted Applications (PUA's) are programmes that when one looks at them and these are becoming more common in South Africa. They are not usually considered to be malicious and that is why they are growing in popularity. These usually go hand in hand with fake apps that one is not aware that they consented to their installation. They are usually exploited and disguised for malware download. An example stated by the iDefense report (2020) is the "CovidLock" that claims to provide real-time coronavirus information including heat maps and statistics while it contains sophisticated dubbed malware. This brings light to an emerged trend where hackers are using coronavirus fears to send you a computer virus. The malware is disguised as legitimate information about coronavirus.

WHAT CAN SMMES DO?

The company can educate employees on phishing emails as employees can easily click on these or take the bait of an impersonator. Organisations will need to enhance their cyber-security awareness training if they are to protect their employees and systems from avoidable threats. According to the Mimecast Report of 2020, employees are five times less likely to click on dangerous links. So investments into effective and regular awareness training can be hugely beneficial to an organisation's

overall security posture. Businesses should embrace the necessary safeguards, together with other measures to mitigate and lessen the risk of cyber-attacks in protecting data. Protecting the workplace laptops with a valid anti-virus like End Point Detection Response (EDR) increases your visibility and in turn allows to have a faster and efficient response in the case of an attack. After getting all IT control measures in place, it is advisable to ensure that you research on purchasing malicious actors like BEC scams, phishing, vishing and smishing especially for small underequipped businesses.

Another avenue that is rather overlooked or underestimated because of the assumption that it will be expensive is Insurance Cover. Having covers on cyber, privacy and reputational risks and liabilities has now become just as vital as insuring against fire or theft. Business owners need to start viewing these types of policies as standard requirements for any venture. Cyber-attacks are after all just another form of theft. iWeb adds that SMEs should make sure that they outsource or look into acquiring insurance tailored for their business. Having a cyber-liability insurance policy, which covers first and third-party liability is vital because the cost of this will always be far less than the cost of shutting down a business in the wake of a cyber-attack. It is evident that the threat of cyber-crime is not going away anytime soon and the cost of a breach can be crippling to a small business.

WHAT CAN INSURANCE COMPANIES DO?

Insurers need to start marketing and advertise showing the SMEs the need for this cover as they are more at risk now that everything is digital. Most SMEs are of the opinion that Cyber Insurance is expensive hence they do not pursue it. This coupled with the idea that “It won’t happen to me,” is the reason why SMEs are not looking for Cyber Insurance. Insurance companies can then take this gap and opportunity to educate small companies on the importance of Cyber Insurance as well

Given the fact that cybercrime is an increasing problem and arguably a threat that will endure into the future; the insurability of cyber risks needs to be emphasised. Businesses need to prioritise this because if this need is overlooked, it acts at its own peril. For instance, an FSP will be exposed to incurring various liability costs and also regulatory fines and penalties due to data breaches. **Most importantly would be the reality of having to recover financially from reputational harm.**

RISK MANAGEMENT

P60-63

Social inflation

Allianz Global Corporate & Specialty

Social inflation is challenging the liability environment for companies and impacting potential claims payments for insurers, driven by a wide variety of factors such as anti-corporate sentiment, the rise of the litigation funding industry and even the growing use of jury psychologists. And it is no longer just a US phenomenon....

- Social inflation trends are challenging to predict, as they're driven by 'soft' social ideas like public perception of corporate behavior, social media and changing demographics
- The increasing sophistication of the plaintiffs' bar and the changing composition of jury pools which can influence how cases are viewed and verdicts awarded
- New collective action options and a growing collective redress trend have resulted in increased liability exposure for companies amid softening of EU regulatory obstacles
- Traditional public and product liability insurance, as well as motor, professional, medical, workers' compensation and D&O insurance claims can all be affected by social inflation

'Social inflation' describes increased insurance losses resulting from the growing phenomena of for-profit litigation funders, higher jury awards, more generous workers' compensation claims, legislated compensation increases and new tort and negligence concepts. It is especially established in the US, but is increasing globally. Driven by a generation-long decay in public trust of corporations, social inflation trends are challenging to predict, largely because they are driven by 'soft' social constructions, such as public perception of corporate behavior and changing demographics, especially with the increasing influence of social media. "Simply put, the US has developed a culture of fault which can be exceedingly dangerous to businesses," says Larry Crotser, Regional Head of Key Case Management, North America, at AGCS. "The acute perception of economic disparity in the US, a deep-seated institutional distrust and the perception of the value of an injury, translates into larger than expected claim values. There's a deep dissatisfaction and resentment – even anger – with the status quo."

One way this plays out is larger jury awards, with a review by VerdictSearch showing a more than 300% increase in the frequency of verdicts of $20 million or more in 2019 when compared to the annual average from 2001 to 2010.

RUNAWAY SOCIAL INFLATION: THE US PICTURE

In the US, there were 79 class action settlements totaling $2.3bn in 2020, up slightly from 74 settlements totaling $2bn in 2019. Securities class action filings, as opposed to settlements, however, decreased by 22% (210) – an average of 17.5 cases filed per month. Despite the decrease, the total was still 13% more than the 10-year average. The 2020 settlements included two in excess of the $1bn mark for the first time since 2016. Most impacted sectors were technology (28% of filings), biotechnology (19%), financial services (15%) and manufacturing (12%). The median settlement amount of the top 50 US verdicts from 2014 to 2018 nearly doubled from $28mn to $54mn.

A significant contributing factor to the social inflation phenomenon in the US is the increasing sophistication of the plaintiffs' bar, which has adopted tactics including the expanded use of jury consultants and psychologists specializing in group dynamics to influence the size of jury awards to plaintiffs.

Another factor is the changing composition of jury pools which can influence how cases are viewed and verdicts awarded. So-called 'millennials' and 'Gen Z' age groups now participate as jurors and their world view may significantly differ from older groups. However, in many cases, they also tend to seek consensus and may agree with the majority of fellow jurors while deliberating a verdict to keep from "making a scene", says Crotser. Jury composition impacts the outcomes of verdicts in a big way.

"In effect, the plaintiff uses psychological tactics to convince the finder-of-fact to more readily accept an inflated value of a case," says Crotser. "This process, known as 'anchoring,' starts at the outset of the case, sometimes before the lawsuit is filed in court, and acts as a leitmotif during the duration of the litigation."

With anchoring, people are influenced by information from their environment when making decisions without realizing they're being influenced, potentially impacting the eventual settlement amount.

AROUND THE WORLD

Although social inflation is primarily a US phenomenon it has already impacted global tort activity due to similar drivers: perceived social inequalities, social justice demands, developments to include higher duties of care, expansions of liability theories, weakening of exclusions and the emergence of litigation funding firms and fewer cost deterrents.

While rare in Canada, since civil personal injury trials seldom proceed to jury there is a cross-over when Canadian companies are hit in US cross-border claims, where a company targeted in the US sees its Canadian affiliate also named in the lawsuit, an increasing activity: 2019 saw 14 cases (four more than 2018) and just one less than the top year of 2011.

At the same time, the litigation funding industry - which first rose to prominence in North America and Australia - has ramped up activity outside of these territories. New collective action options and a growing collective redress trend have resulted in increased liability exposure for companies amid softening of EU regulatory obstacles. There has also been notable litigation funding growth elsewhere around the world – as widespread as in Saudi Arabia and South Africa.

"We see an uptick in the value of product liability claims that can result in payments that are astronomical compared to what they were before litigation funding was widespread, and with recent reports pegging the capital available to fund litigation at $10B in the US alone, that's a lot of financial support for plaintiffs' lawsuits," says Crotser.

Meanwhile, in Germany, liability insurers are also beginning to finding out that the potential impact of social inflation can be expensive, adds Joerg Ahrens, Global Head of Claims Key Case Management, Long Tail Lines, at AGCS. "More court cases, higher settlements and more customer-friendly analyses of contracts have all impacted German corporations. It's not yet a dominant issue, but it's becoming visible, especially among self-insured companies with international programs." In addition, there is a growing number of parties involved. Ahrens cites an example from the logistics industry: "More and more people are ordering goods online, and logistics companies are responding with more drivers, who may be not as well trained as in the past, and more trucks. If a fatigued truck driver causes a car accident, the issue quickly moves beyond the individual's fault and liability. In such cases, lawyers focus not only on the driver's individual liability, but also on the employer's organizational fault," says Ahrens.

Traditional public and product liability insurance, as well as motor, professional, medical, workers' compensation and D&O insurance claims can all be affected by social inflation. "Brokers should install a multi-faceted approach to ensure they're steering companies towards insurance partners who are experienced in the area of social inflation and very proactive on litigation/insurance trends analysis," says Crotser. "Understanding what its impact can looks like, with help from their insurance carrier, and having timely dialogues on expectations as new terms and conditions come out or renewals of insurance policies come around, is key."

COURT CLOSURES AND SETTLEMENT TRENDS

In the wake of the Covid-19 pandemic, court closures and uncertainty around reopening is impacting the legal environment. With attorneys working and conducting depositions remotely, the legal process has become more complex and sluggish. Plaintiffs realize that, even if their case makes it to court, it could be two years or more before it is tried before a jury. Others worry that jury trials won't be feasible as long as social distancing rules apply. While there are some jurisdictions which have recently begun trying cases, it looks like there will be a significant delay before court business is back to normal.

"We saw very limited blockbuster personal injury trials since the beginning of March 2020, with one out of Washington with a verdict of $410M for a Florida highway crash, and one for $125M in New Jersey for a plaintiff severely injured by a falling telephone pole. Many firm trial dates were pushed to 2021, or later, so we don't know if Covid-19 will stem the tide," says Crotser. "Perhaps plaintiffs suspect that when courts reconvene and some jurors are out of work, they won't be as prone to return outlandish awards, as we've seen in earlier economic downturns, but some commentators see no signs of "nuclear verdicts" abating.

And some plaintiffs seem more willing than before to settle outside of court – we have seen that trending to a certain extent in our claims portfolio, driven, in part, by cash- flow issues."

WHAT'S BEHIND SOCIAL INFLATION IN THE US?

- Jurors distrust in big corporations and their lawyers
- Emergence of an industry dedicated to financing plantiffs' lawsuits (litigation funding) – fewer cost deterrents
- Increasing sophistication of the plaintiffs' bar
- New psychological tactics to convince fact finder to accept more readily an inflated value -"anchoring" – emotions versus facts
- Active print and electronic advertising by the plaintiffs' bar

- Changing composition of the jury pool has potential impact on how cases are viewed
- Prospective jurors are more aware of "blockbuster" verdicts due to social media
- Medical expenses have increased year on year

WHAT'S BEHIND SOCIAL INFLATION IN THE REST OF THE WORLD?

- Shifts in perceptions and attitudes - delivering 'social justice' (judicial bench) because of assessment of new public sentiment and social norm
- Influence and proliferation of social media (narrative versus facts)
- New litigation tactics (e.g. exploitation of advanced analytics)
- Shorter claims cycles due to cost pressures and reputational aspects
- Legislative developments:
- Collective redress (opt out – opt in, onus of proof, inhibition of statute of limitations)
- Lower pleading standards
- Developments in tort law – higher duties of care, expansion on (public nuisance) liability theories, weakening of exclusions, reverse burden of proof
- Emergence of an industry dedicated to financing plantiffs' lawsuits (litigation funding) - fewer cost deterrents

SIU multi-billion rand PPE fraud disclosures amplify need for better risk management

Gillian le Cordeur Chief Executive of the Institute of Risk Management South Africa (IRMSA

Alarming disclosures by the Special Investigating Unit (SIU) that over 13-billion Rand's worth of Government Personal Protective Equipment (PPE) is subject to fraud investigation, again raises the crucial issue of heightened risk management in both the public and private sector.

While the Institute welcomes the swift action by the SIU in uncovering this alleged malfeasance, risk professionals are alarmed at the depth of the problem and ask why there was failure in risk management protocols.

The tragedy of this situation is that the optimum delivery of vital PPE has been severely compromised and that in turn has the potential to impact people's lives as the country is still dealing with the second wave of the COVID-19 pandemic and awaits a widespread vaccination rollout.

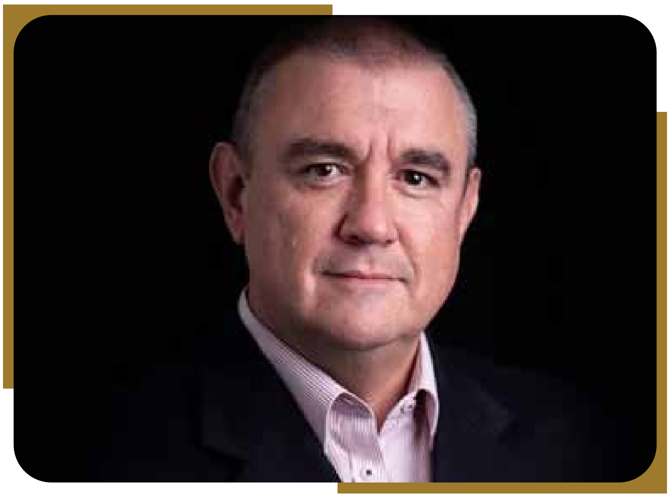
Proper risk management oversight in the entire supply chain management process – both in the public and private- sector space - could have raised red flags early on and preventative measures taken. IRMSA urges government departments involved in PPE procurement and distribution to audit and re-examine their risk management methodology with a view to tightening oversight. IRMSA acknowledges however that this type of undertaking is not done overnight, particularly given that speed and urgency with which PPE acquisition is being handled. To that end, the Institute again makes an offer to sit down with local, provincial and national government leaders and offer any assistance we can.

"IRMSA urges government departments involved in PPE procurement and distribution to audit and re-examine their risk management methodology with a view to tightening oversight."

In May last year IRMSA wrote to the Presidency welcoming the Government's risk adjusted strategy and offered it expertise with any assistance that was needed. In the Institute's 2020 South Africa Risk Report, risks associated with the delivery of mega-projects and pervasive fraud and corruption were highlighted and the SIU disclosures have now confirmed that. IRMSA is confident the SIU report will be acted upon quickly and those responsible for the massive acts of fraud brought to book and punished. IRMSA's 2021 SA Risk Report was launched at the end of February.

Time to step up! IRMSA launches the 2021 Risk Report

Thryve Cloud Based Risk Management And Insurance Tools



"As risk professionals, will you step up and be bold? Step up and be the voice of risk management!"

With these words, the Institute of **Risk Management South Africa (IRMSA) CEO, Thabile Nyaba,** launched the 2021 edition of IRMSA's risk report. Focused on South Africa, the report breaks down the country's opportunities and challenges in granular detail, promoting a view on holistic and broad-based solutions.

The report, available online at https://irmsa-risk-report.web.app/riskreport2021/, sets out a specific theme that many of us can appreciate. South Africa is running out of options to address its structural and endemic problems, and now is the time for pooling resources, cooperating and building a collective focus on tackling our biggest challenges.

Nyaba spoke about this during her opening speech at the launch, reaffirming what she also states in the report: "South Africa faces a myriad of challenges such as low economic growth, poverty and unemployment to mention a few. Lessons learnt from the response to COVID-19 are a great opportunity to build solutions and assist our organisations and the country to move effectively into the future.

My vision is to see a transformed South Africa that promotes growth, creates jobs, and empowers its citizens with resources to support social change." IRMSA's new report takes a very scenario-based view of the country's threats, rating various situations articulated by different experts. It also breaks down South Africa's top risks - such as scarcity of visionary leadership, governance failures, entrenched corruption, consumer behaviour shifts, health system reforms, structural inequality, skills development and several more - weighing their progress against the different scenarios. The report additionally contains essays from some of the country's most significant risk and strategic thinkers, including national hero Mcebisi Jonas, Africa Bank CEO Basani Maluleke, FNB CEO Jacques Celliers, and Suresh Kana, Chairman of the King Committee.

Their views drive a central theme: it's time to stand together, using risk management to chart a course for the country's future. Though some report indicators are improving, the general state of matters has not shifted considerably in recent years.

"Lessons learnt from the response to COVID-19 are a great opportunity to build solutions and assist our organisations and the country to move effectively into the future."

Considering the pandemic's tectonic impact on the economy, people's behaviours, state resources, and business confidence, the time to step up is now. We can achieve results through a combined effort, new ideas and modernising risk practices. Risk managers should use their heightened profile to help drive strategy and cohesion.

"I think this is the most focused and assertive report from IRMSA yet, and the previous reports already didn't beat around the bush," says **Sean Pyott, MD of thryve**, a provider of digital risk management platforms. "During the launch, Thabile Nyaba spoke about not just having hindsight or insight, but foresight as well.

The idea of risk management being proactive, sensing problems and feeding strategy, has finally come into its own, and the new IRMSA report underscores that new reality."

TECHNOLOGY

P65-74

Stimulating innovation with clients

Andrew Batty, Technical Director, Ellipsys Technologies and Ellipsys Systems

Innovation is one of the fundamental pillars of success in the modern business world, if you want to grow your business, you need to innovate.

Unsurprising when it comes to innovation, creativity is key, but a lot of that creativity is not always found in boardrooms or group workshops. For innovation to succeed in a company it needs to be a prioritised and organised effort across all levels, not simply ideas driven by key leaders. However, fostering an innovative culture in a company can be challenging, as there are many things that can adversely affect it. One example is the need to focus on pressing day to day business issues. This, while necessary, tends to push innovation to the side. Innovation also carries with it a measure of risk, and if a company has a culture of punishing failures, employees will quickly learn not to take risks and this will also lead to the stifling of innovation. Resistance to change, especially with regards to internal systems and processes, is also a major factor in slowing innovation.

At Ellipsys, all too often when we ask our clients the question "why do you do it that way", we hear the words "that's how we have always done it", and in most cases, they want to keep doing it that way. When you don't involve everyone, and management attempts to implement new ideas, no matter how innovative they may be, that resistance to change will make even the best ideas or systems difficult to implement.

THE IDEA SHARING PLATFORM

Good communication, as in many aspects of business, is paramount to innovation's success. A starting point for every company should be an idea sharing platform or forum, where any employee can bring forward an idea and those ideas can be discussed by all. Those ideas should range from ways to do their jobs easier or more efficiently, to new products and services that the company could offer. These ideas can be turned into plans, and plans into collaborative experimentation. Some ideas will fail or may simply be ahead of the times, so do small scale experimentation or limited pilot programs first, and based on their success or failure, you can adjust and move forward to larger changes.

If you are unsure of what to focus on, looking at what other businesses are doing and where they are going, especially with regards to interacting with clients, is often a good indicator of where to start looking into innovation. But, be wary of simply following other companies' ideas; your innovation should set you apart from the competition and raise brand awareness. It's the managers' or leaders' role to lead the innovation process, starting by prioritising ideas and pursuing those that will offer the best benefit to the company. The first benefit people tend to look at, is time and cost saving, which for any company is key, but never overlook or discard ideas, that while they may not offer direct cost savings, they do offer improvements in staff happiness or client satisfaction. When it comes to helping our clients innovate, although Ellipsys is a technology focused company, we follow the concept that innovation is never just limited to a technology or platform. True innovation comes from business looking into all aspects, from service offerings or products, to processes and systems, and most importantly, the human factor. Technology is there to support those aspects, not drive them.

Ellipsys always starts with understanding:

- understanding technology,
- understanding our client's business,
- understanding their needs.

But also understanding the limitations that may exist either with technology or within our clients' environments. One of the key areas we focus on first is measuring, **if you have not measured something, how will you know its' true impact? A good starting measurement for example:**

- is how many people are needed?
- how long do they take to perform a task or run a process?
- and how much time, if any, is wasted in doing so?

Once you can quantify something, you will be able to determine if it needs to change and if it does and you implement the change, is it better? After that keep monitoring and improving.

FULL TEAM APPROACH

With the huge number of available technologies out there, looking at everything from cloud to mobile, it is an almost impossible task for only one or two people to keep up with the constant change and evolutions in technology. That's why, at Ellipsys, we rely on our full team to help drive innovation and technology; both with our clients and internally within our own company. Technical team members in any company are naturally drawn to certain technologies, or areas of interest that they are passionate about. At Ellipsys, as part of each team members' work week, we set aside time and actively encourage our staff to investigate and research new technologies or changes, upgrades to existing ones, and how business trends are shaping the usage of those technologies globally.

With a good understanding of technology and our client's needs, the next step for Ellipsys is to ask, is there a better way and how can we use technology to help us. One example of an area we regularly suggest to our clients, that offers great benefit quickly, is automation. Instead of having a team of people recapturing information

from one system to another, and applying a multitude of business rules, automate the rules and the transfer of data between systems, and empower the staff to service clients better and use their time to make business decisions.

Once we find there is a better way and that change is needed, or something completely new is required to support new business, we look at how to implement those requirements and what technology is the best fit and making sure that the technology still resides inside our clients chosen architecture or platform. It is very easy to fall into the trap, when implementing new features or systems, to only focus on the latest and greatest cutting-edge technology, sometimes while discounting existing infrastructure, technologies and systems already in place.

CHANGING EXISTING SYSTEMS

It is always worth considering that some of these systems have had a lot of time and effort put into them, they are well known to staff and may have extensive inhouse support experience already in place. In these cases, if the technology being used is current and supported and the systems stable, extending or adding to these systems may be a better option than implementing an entirely new system.

Sometimes more benefit and cost savings can be achieved by direct changes to an existing system, adding an automation component, or extending a Backoffice system to a new audience by means of a web portal or mobile application.

If, however, our clients are implementing something new, or do not wish to use their existing systems, then focusing on the latest technology is by far the better option, as it will give the most features and longevity to the system.

A true innovative culture in a company needs passion and energy, and will require more time and patience from the company's leaders than you realise. But if you add a second culture of learning, and include all levels of business and supporting partners, you could create something truly brilliant for your company.

Exciting problems to solve in the innovation space

Ian Thompson, CEO of QSure

COVER spoke to Ian Thompson, CEO of QSure, to unpack the premium collections environment and get his take on innovation in the insurance industry in general.

COVER: Premium collection is a crucial part of how we do business in the insurance industry. There are a lot of people involved and a lot of processes involved. Please give us an overview as to what this environment is like at the moment?

Ian: If we think about the last 12 to 15 months, and the broader impact of COVID, it has really sped up the entire process and focus, not just on the collections part of the value chain, but the distribution models as well. And I think that has pretty much moved them downstream where we all need to pay a lot more attention and adapt our businesses to ensure we meet digitization of the broader value chain. Many of our clients, whether they're the insurers or the brokers, have moved swiftly. I mean, this was a trend that started before COVID and definitely picked up during the past 12 months, especially in how insurers, brokers and UMA's have adjusted their business processes to be able to meet the challenge that was digitization and non-face to face sales. As a collections agency in the broader landscape, we had to be adaptable, and quite a lot more flexible, knowing that it was always coming, ensuring that we are able to meet the challenging demands from the insurance and the broker community. We need to be able to support them with the ability to do the collections on behalf of the consumers. So the landscape I think has changed fundamentally. I don't think we will move backwards again and we are definitely going to embrace that change.

It has a whole host of knock on effects, how clients are going to be serviced, particularly in their collections environment. Gone are the days of just a standard one size fits all, sign a debit order mandate, and then collect monthly on a debit order. That environment has become so much more dynamic and flexible around the various permutations. So it's really us, as a collection agency, being able to support that value chain in flexibility, measuring cost versus efficiency, to be able to get the most improved collections from a insurer point of view.

So an exciting environment with us definitely looking forward to the challenge. I would say one thing about COVID; if you had asked me in 2019, whether I would acquire a business and take ownership in the middle of COVID, on the first of May, I might have said I'd pause for a year and reflect on it again. But as always, there is opportunity in adversity and we really came through this very much stronger than we entered the whole COVID exercise.

COVER: COVID also led to acceleration of innovations in the insurance industry itself, in terms of things like on demand insurance, and premium holidays etc. This obviously, mean a lot for QSure in terms of innovation and taking advantage of the time. In terms of this changing landscape that you describe to us now, where does QSure fit in and where does your reach stretch?

Ian: Historically, as a collections agency, you always want to think of us as at the end of the value chain. The sales process has happened, distribution has happened and then it fires off the kind of servicing model, which includes the collections environment. I think what has happened with the whole innovation, and moving the digitization closer to the engagement at point of sale, it has also moved the whole collections environment right up in front of the consumer, as part of the whole value chain process. In that regard, Qsure obviously had to remain quite innovative in our support to be able to support that digitization at point of sale. As I mentioned earlier, it opened up a whole new genre of collections, push payments, Debbi check, multiple iterations of the debit order collection space, and it really gave us an opportunity. In essence, we're a technology company. I mean, we like to solve complex technology problems. And the digitization at point of sale gave us that opportunity to move collections much more front and center with regard to the engagement with the consumer. All the while being able to support the insurers in very creative ways as to how they can embrace that digitization, but also ensure the collections part of that very important value chain, is up to date with the engagement from a client point of view.

In short, it is really been an opportunity for the collections environment holistically, to move ahead much quicker than we would have done had we left it before COVID. And I'm quite excited about the collections landscape. I think QSure is well positioned to be able to embrace that. We've probably been inwardly focused for about 12 months while we digested the acquisition. We are now really excited to move forward and roll out some of the technology innovations that we've had to be able to support the broader market.

COVER: QSure already has a 25 year history. Now you've joined up with QLink, which is quite a dominant, global player in the collection space. This really opens up lots of opportunities for you. Please give us a glimpse of what you would like to see happen in the QSure environment over the next year or two.

Ian: So you are quite right, obviously joining forces with a QLink kind of just builds on the legacy that is that solid platform that QSure has. Our new, invigorated branding brings to the market, both companies being strongly focused on the collections environment, payments landscape. There's definitely some cross pollination between the two entities, where QLink might be further advanced, inside of a debit check environment and there's definitely a sharing of technology across the businesses, which is generally much better for the broader environment.

And then the other part of the landscape that we're all grappling with is the kind of regulatory environment, there's obviously been a whole host of changes in the kind of past two to three years, collection agencies have to respond to that regulatory environment, insurers have become far more of an important player in the collections environment, taking on a whole host of responsibilities that historically they may not have. So as a collections agency, Q Link, QSURE, being able to respond and support that. On the innovation side, as I mentioned, Q Link has been in the collection space for about also 25 years.

And we really feel strongly that that collaborative environment between the two technology houses, to really be able to cross pollinate and move the entire collections conversation forward aggressively. That's what we're really excited about, to solve those complex problems for the broker community, the insurer community, in a way that really adds value and demonstrates what the purpose of a collection agency is in the broader value chain that is the insurance market.

COVER: Over the last couple of years a lot has been happening with innovation in the insurtech space. From your perspective, how do you find clients' openness to innovation that you go to them with?

Ian: In that sense, COVID has obviously assisted in changing the dynamics of the decision making. Prior to that, innovation was always there but definitely, in our experience, there is a lot more openness to embrace the kind of non-face to face innovation related activities that digitization offer. That space has been very active, whether it's the improvement in the call center space online, even in the collections environment, we have seen a significant amount of innovation in the push payments environment where clients are able to now push premiums. In the good old days, it used to be just a plain old debit order.

Now there are multiple opportunities, provided through this innovation, whether it's a push payment, and then moving over to a debit order collections environment. I think it's going to be a hybrid, from a collections environment, that supports all that innovation across the distribution options, that there isn't a one size fits all. I also think that's the exciting thing for us that, now, your engagement with a client is much more multi-dimensional rather than just this is a one size fits all. Now clients have a plethora of innovative choices as to how they want to pay and the premium frequency that the providers have been able to do insurance on demand.

So the innovation on the product set is really driven by the innovation in the collections environment, to support those products that previously were not available. Those are complex and exciting problems for us to solve, definitely

After the Shock: Insurance in 2021 and Beyond

Stephen Richardson, Market Consultant at SSP

COVER spoke to Stephen Richardson, Market Consultant at SSP, to unpack the covid 19 pandemic and get his thoughts on the future on the insurance industry moving forward.

COVER: You recently published a whitepaper titled "After the Shock: Insurance in 2021 and Beyond". It made for very interesting reading. Please tell me a bit about what led to you actually going into all the research for a paper like that?

Stephen: It was a realisation that COVID-19 was going to cause a significant market shock. Whenever there is a major economic or market shock, the successful organisations are those that react to it, and then navigate the changing market in which they find themselves. If you think back, the last major shock we had was in 2008 with the global financial crisis. Insurance reacted by becoming quite insular, focusing on the products and new regulations, reigning in spending. That's a trend that many analysts think led to the rise of the insurtech; they attempted to fill the customer-centric void that was left by the incumbents. So I was interested to know - after another shock ten or so years on - had the industry learned any lessons from 2008? How were they going to react to this specifically?

COVER: Obviously a lot of work went into compiling this. Please give us some insight into your process?

Stephen: The key to any good report is multiple streams of research and multiple sources from which you derive information. There's around 50 references in this - including many analyst reports, speaking to executives at insurance companies, and looking at what major industry players and influencers are speaking about on LinkedIn. As I work for a technology company, I also have the advantage of asking my colleagues in the sales and account management teams what are they seeing in terms of customer demand too.

Using all of those inputs – and bearing in mind that all of these sources have their own agendas, I applied critical thinking and my own evaluations to collate my findings. It was definitely not a regurgitation of existing analysis. The aim was to bring something new to the table, as well as sharing others' insights.

COVER: Personally, I definitely found lots of new insights. What was the most exciting stuff that came out of that for you?

Stephen: The good news is that my findings seem to show that insurance companies have learned from 2008. What we're seeing right now in response to COVID-19 is greatly accelerated digital transformation. I suspect we're going to see about five years' worth of innovation in the next 12-18 months. In my report, I highlight these innovation trends across three key market segments: personal lines; SME insurance and; the commercial lines space.

PERSONAL LINES

These trends are very customer-centric and are largely driven by what-are-called digital ecosystems. Insurers are partnering with a network of complementary products, services, and technologies to deliver improved customer experiences. This might manifest itself in: shorter online journeys; the types of online web journeys; flexible insurance; personalised insurance. Even the most innovative insurers are creating these holistic propositions that extend beyond insurance to include additional services and, sometimes, even moving away from the model of carrying risk to becoming orchestrators of risk-prevention services. There is a real change in the model.

SME INSURANCE

There is a real battle between brokers and direct insurance for distribution. Small business owners basically value two things - advice, and a simple buy-in journey - because they're time-poor. Direct insurance has the simple buy-in journey done well… but they lack the advice. And so what they're doing is infusing the advice into the web journey. Where brokers need to adapt is to improve their web journey to make it easier for these time-poor small business owners to purchase insurance.

COMPLEX COMMERCIAL

Insurers here have a very different focus: it's on improving underwriting profit and profitability by analysing risks at individual and portfolio level, through using internal data insights as well as external data around markets and climates to improve underwriting decision-making and ultimately drive greater profitability. To summarise the three at very high-level and across all of the segments, there are three key technologies that emerge: the use of data; the Internet of Things; and APIs that enable ecosystem integration.

COVER: Did you find that there's a serious commitment now to try to be part of this evolution?

Stephen: Absolutely. I think there are various things around COVID-19 that have forced insurance companies to innovate. Let's consider motor insurance. Previously a twelve-month fixed policy was fit for purpose – when twelve months looked the same. Except now, suddenly people are working from home half the time and cars just sit on their driveway – they're only using it for essential food shopping but are having to pay the same insurance premium that they paid pre-COVID. Back then I was driving all the time – this policy seems unfair to the customer. I think this will act as a real catalyst for insurers to evolve: if you offer a flexible product that can be scaled up or down in terms of the cover, that fully reflects the changing circumstances in people's lives.

Consumers are more likely to purchase that sort of product because it seems much more customer-centric and far more personalised to them. There's already multiple examples of that business model in the market. In the SME space, there's increased risks of cyber-attacks being another catalyst. The commercial lines market is hardening. These aftershocks brought about by COVID-19 are driving real change.

COVER: I suppose people are thinking about risk in a different light - realizing that risk is an important factor to consider in the business. So where to from here, Stephen? What are you doing with the whitepaper and who will benefit from this?

Stephen: We have already distributed this to over 1000 industry professionals that we know and speak with – and by, of course, sharing this through you and the readers of COVER magazine. So this is a direct message to your readers. If you read the whitepaper and find there's something you'd like to chat through then please get in touch. I'll be more than happy to jump on a call to give some free consultancy. I wrote this paper ultimately because I'm passionate about insurance companies thriving – and to do that you must innovate with the right information as your compass.

Every business a technology business

Accenture Technology

As the digital gap widens in wake of pandemic, 'Masters of Change' will define the future, according to Accenture Technology Vision 2021 - Leadership is critical as every business becomes a technology business

According to the Accenture Technology Vision 2021 , technology was a lifeline during the global pandemic – enabling new ways of working and doing business, creating new interactions and experiences, and improving health and safety. Technology forever changed expectations and behaviors and created entirely new realities across every industry. As companies shift from reacting to the crisis, to reinventing what comes next, the boldest, most visionary leaders - those who use technology to master change – will define the future, says the 21st annual report from Accenture (NYSE: ACN) predicting the key technology trends that will shape businesses and industries over the next three years.

The report, "Leaders Wanted: Masters of Change at a Moment of Truth," outlines how leading enterprises are compressing a decade of digital transformation into one or two years. Relying on a strong digital core to adapt and innovate at lighting speed, leaders are growing revenues 5x faster than laggards today, versus only 2x faster between 2015 to 2018, according to Accenture research. The result is a wave of companies racing to reinvent themselves and use technology innovations to shape the new realities they face. "The global pandemic pushed a giant fast forward button to the future. Many organisations stepped up to use technology in extraordinary ways to keep their businesses and communities running – at a pace they thought previously

impossible – while others faced the stark reality of their shortcomings, lacking the digital foundation needed to rapidly pivot," said Paul Daugherty, group chief executive – Technology and chief technology officer at Accenture. "We now have a once-in-a-generation opportunity to turn this moment of truth for technology into a moment of trust – embracing the power of exponential technology change to completely reimagine and rebuild the future of business and human experience."

Accenture surveyed more than 6,200 business and technology leaders for the Technology Vision report, and 96% of South African leaders report that their organisation is innovating with an urgency and call to action this year. And 97% of executives agree capturing tomorrow's market will require their organisation to define it. Shaping the future will require companies to become masters of change by adhering to three key imperatives.

First, leadership demands technology leadership. The era of the fast follower is over—perpetual change is permanent. Tomorrow's leaders will be those that put technology at the forefront of their business strategy. Second, leaders won't wait for a new normal, they'll reinvent, building new realities using radically different mindsets and models. Finally, leaders will embrace a broader responsibility as global citizens, deliberately designing and applying technology to create positive impacts far beyond the enterprise to create a more sustainable and inclusive world.

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"Technology and innovation were bound to change the world," says Willie Schoeman, Managing Director for Accenture Technology in Africa. "The COVID-10 pandemic accelerated the urgency for change and South African business across a variety of industries had to adapt to first survive the storm. Now, true business leadership will come from companies who are willing to embrace radically different mindsets and business models.

They will not only adapt their business to the new reality, while rebuilding the South African economy post the pandemic. Leading businesses will shape the new future by harnessing the power of innovative new technologies," he says. The Technology Vision identifies five key trends that companies will need to address over next three years to accelerate and master change in all parts of the business:

STACK STRATEGICALLY

Architecting a better future

Companies will now be competing on their technology architecture. Enterprises can custom-tailor every layer of it now, but building and wielding the most competitive stack means thinking differently. Business and technology strategies must become indistinguishable. Whoever gains the upper edge on technology stands to emerge as number one.

MIRRORED WORLD

The power of massive, intelligent, digital twins

Growing investments in data, AI and digital twin technologies are giving rise to a new generation of business and intelligence. Call it the mirrored world. More of the physical world is represented in digital space—with models of whole factories, supply chains, product life cycles and more. It's ushering in new opportunities for enterprise leaders to bring data and intelligence together, ask and answer big questions, and reimagine how they operate, collaborate and innovate.

I TECHNOLOGIST

The democratization of technology

Technology is democratizing. Natural language processing, low-code platforms and robotic process automation are adding a grassroots layer to enterprise innovation strategies. With democratized technology, every employee can be an innovator, empowered to create technology-driven solutions on their own.

ANYWHERE EVERYWHERE

Bring your own environment

At the start of the pandemic, enterprises ignited the biggest workforce shift in living memory by sending people home and doubling down on technology solutions to keep them productive. In doing so, they have made work possible not just from home, but from anywhere.

Leaders must now develop "bring your own environment" (BYOE) strategies to address the security ramifications of remote work, necessary cultural shifts and the evolving purpose of physical office space

FROM ME TO WE

A multiparty system's path through the chaos

With multiparty systems, enterprises can gain greater resilience and adaptability, more seamlessly share data, and set new, ecosystem-forward standards for their industries. In the face of the global disruption of COVID-19, they are learning they are stronger together.

The art of partnering & collaboration in insurance technology

Andre Symes, Genays Technologies

The days of all the technology and technology skills sitting inside insurers, are long over. And even the biggest of global insurers are more and more moving to partnerships and collaborating with people that have very specific skills, that have markets, and that can provide them with access to markets.

At our recent Insurance Innovation Journey webinar series Andre' Symes, MD Genasys Technologies UK, and collaboration expert, shared some secrets. Part 2 of this presentation will be published in the next issue.

When it comes to ecosystems and choosing partners we should think about dinosaurs, USB ports, cables, or paint palettes. We need to ask ourselves, why have ecosystems become so important? Dinosaurs have been evolving for hundreds of millions of years at a steady pace, and they would have carried on evolving, unless the asteroid hit. That is very similar to what happened last year, when COVID hit. Effectively, they were not able to adapt fast enough. It is exactly this step change that we need to be able to make to stay relevant and survive.

Changing legacy systems, takes a very, very long time, it really does. So when COVID happened, we didn't have the luxury of spending two years implementing a new system, we had to adapt quickly. Think about how platforms and digital services have rendered bricks and mortar companies irrelevant, and how the digital era is enabling us to change quickly. I mean, business schools at the moment are littered with numerous cases about Toys R Us versus Amazon and Uber versus taxis.

It's this digital ecosystem that they can create that enables them to adapt fast for environmental change. This is why ecosystem are so important. Simply put, technology options give us the ability to adapt and pivot quickly. So again, why is this important? Technology ecosystems give us choice. Choice gives us the ability to adapt to change quickly and this ability to adapt or to evolve faster than the dinosaurs could, or existing dinosaurs can, is really what future proofs our business. Nobody can predict the unforeseen or the future, but we can engineer for the unforeseen, and we can architect for it.

The question now is, what do we do to enable these ecosystems? How many of us have got a pile of cables lying useless in a bottom drawer. To create ecosystems, we all have to be able to interact with each other. 20 years ago we all had a Sony Ericsson or Nokia or Siemens, etc and none of them could talk to each other and each needed its own cable to connect to computers. It was a nightmare to set them up. At one stage we brought in all these adapters, which brought with them their own complexity. It wasn't until we created universal connectors like USB, Bluetooth or Wi Fi that connecting systems or connecting devices became easier.

Right now I've got a USB cable plugged into my laptop, and I can access my Garman and my phone, etc, from there, with one connecting port. That is effectively what it is that we need to have. Now USBs are not perfect, but it's a hell of a lot better than the cables we had before. And that's where we want to go with our ecosystems. The USB is the API in the ecosystem. I cannot over state how important API's are. API stands for application programming interface and is basically just a connector between different systems.

Secondly, we need a clear vision for how we want to interact with the ecosystem. We need to have a roadmap that facilitates opening ecosystems. We need to have an API-first approach. That's super important when looking at how you want to build your roadmap out. However, we also need to be able to iterate and change. I think that's where my good friend Wimpie from Global Choices brought in design thinking the other day, as part of this series. We need to bring this into our conversation when creating this roadmap towards the creation of your ecosystems.

Last, but certainly not least, we need to get internal buy-in from large organisations. It is currently a huge problem where we have large incumbents that don't adopt the future. They don't adopt the change or this open ecosystem mentality. They will know we need to do it but, when it comes time to pull the trigger, things stall. That's when we start struggling with change and we saw, in our COVID asteroid experience from last year that those that were able to change did change, and they leaped from their competition.

So it is massively important to make sure that you get internal change management, even to the point where you create innovation teams that can help the traditional business understand the need for this open API's, ecosystem approach rather than the monolithic approach of building everything yourself and attempting to hoard that IP.

Now we know that we need it because we want to avoid the asteroid. We sort of know how to do it because we understand that we have to have interconnection within the ecosystems, but then Who? And there was a question

earlier about what the insurer tech ecosystem look like? The question really is, how do you choose out of this? What do you choose? How do you choose, and which partners here will actually create a powerful ecosystem. How do you ensure you don't end up with something that your company doesn't want, or that doesn't add value to your business. I would like to propose a couple of points for consideration, to think about when you are looking at partners in your ecosystem.

Firstly, do they improve the customers life, if they aren't going to improve your customers or your customers, customers life, don't bring them on board. Then you are effectively just using tech for the sake of tech. And that is rule number one that you shouldn't do. Don't ever try and use tech for the sake of tech. There's a term "Maslow's hammer" that often comes out in our hypothesis adoption analysis, Take Blockchain as an example.

Four years ago, blockchain was the be all and end all solution to everything in insurance and, whilst there has been use case adoptions, it has gone through a time cycle, and it is no longer here. So, quite often, we hear people just using tech for the sake of it, it has to improve your customer's life. In the end, when it comes to ecosystems, the question is whether they are they going to embrace collaboration?

Now, you would think that mentioning ecosystems off the bat, that there is going to be colaboration, but don't be so sure. In any sort of ecosystem, as well as in the environment and natural ecosystems, there is always a predator. We therefore need to make sure that all ecosystem partners are aligned to the same goal, so that they can all, collectively, add value to the end customer or to the ecosystem as a whole. Andre' discusses this further in our next issue.

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