COVER

JULY 2021 ISSUE

INSURING THE WEALTHY

WHY THE FOCUS?


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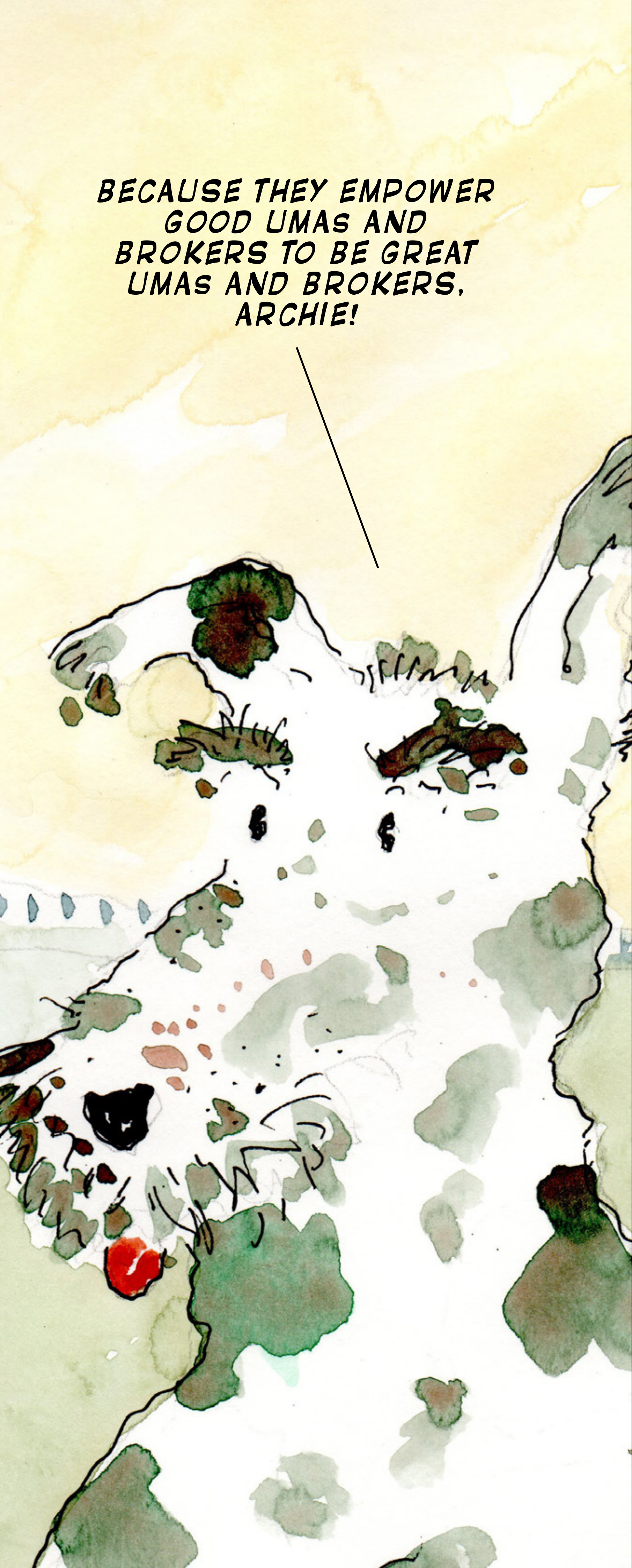
ROGER?



INTERESTED?

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MAIN STORIES

INSURING THE WEALTHY

We take a look at the broader insurance needs of the wealthy, the opportunities and challenges and our contributors comment on the specific needs of this segment and the best way to harvest the opportunities.

INVESTING IN A POST-COVID WORLD

In a conversation with Dave Foord, Chief Investment Officer for Foord Asset Management he takes us through various issues that influences investment strategies and decisions in a post-COVID world.

TOUGH ROAD AHEAD WITH IFRS17

During a Moody's Analytics webinar, 'IFRS 17 in Africa' with Britam, OUTsurance and Zamara, the panellists discussed some of the real-life challenges involved in meeting the IFRS 17 requirements, especially those related to insurers and reinsurers.

HOW NOT TO BUILD A DIGITAL INSURANCE PLATFORM IN 4 EASY STEPS

Guidewire Technologies discusses consumer digital adoption trends and disruptive service models shuffled the deck for P&C insurers in 2020.

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JULY 2021

GENERAL

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TECHNOLOGY

Small business left in the cold

Tony van Niekerk, Managing Editor, COVER Publications

As you read this, the country is busy mopping up after the most devastating looting incident in our history. Political, criminal and social factors all played a role in the chaos that ensued over a period of seven days.

As you read this, the country is busy mopping up after the most devastating looting incident in our history. Political, criminal and social factors all played a role in the chaos that ensued over a period of seven days. We have already heard from SASRIA that they expect to be capitalized well enough, with the needed reinsurance backup, to cover the cost of claims. It is too early to speculate on the total economic loss expected but in conversation with insurers and reinsurers it seems like the insurance loos would be in the region of 15 to 20 billion rand, with economic losses potentially reaching R50 billion.

I have also seen figures from various business councils in Kwazulu-Natal and Gauteng that most small businesses affected (70% of which are black owned) were uninsured. This also means that a large percentage of them will not open again, resulting in big job losses and losing multiple entrepreneurs from the production and employment cycle. While the larger businesses and chain stores will have the most of the needed insurance covers in place and the resources to recover, the same does not hold for their smaller counterparts.

Some of the blame for the large number of uninsured businesses should fall on the shoulders of the insurance industry. There is clearly a lack of urgency with small businesses across the country to take up insurance. This could be a result of them being reckless, not understanding the risks or the solutions to the risk, not having received appropriate advice or our products seemingly being unaffordable.

The fall out will not just be those businesses directly involved in the looting and destruction. The upstream and downstream effect, most of which will not fall within the insurance field, will add to the economic losses suffered. Closed businesses were part of the supply chain to others that might, as a result, experience business interruption. Suppliers to those destroyed businesses have suddenly lost distribution for their products, spreading the impact further and further.

As an industry, there seems to be a great opportunity in front of us. An opportunity that many have been trying to exploit but that we, as an industry, clearly need to rethink. How do we ensure that most small businesses are insured, even if just to some extent. Brokers are the main drivers in this quest to get, especially small businesses, insured, but I have also lately seen direct insurers launching products aimed at this segment of the market.

Now is definitely the time for the insurance and risk management industries to up their game. The following are a few main opportunities or responsibilities that we should be focussing on:

- Ensuring we have appropriate and affordable insurance products
- Providing effective, convincing risk assessment and mitigation advice
- Ensuring these products and advice reaches small businesses
- Holding to account the various arms of Government for their failure in providing what is needed to avoid or manage these risks (eg effective policing and efficient fire protection services)

It is time for us to step up and take our rightful place in solving the problems of our country. That's the place where we are the experts and where we have influence. Now, more than ever.


IT TAKES 78
SPECIALISTS
TO CHANGE
A SKYLINE

SHORT TERM

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Using hart to navigate ‘hard’

Daphne Peter, Head of Alternate Risk Transfer at Hollard Insure

Leaders in risk management are encouraging South Africa’s large corporations to consider alternative risk transfer mechanisms to better manage their risks in the post-pandemic world.

They argue that firms that are struggling to get adequate insurance coverage due to cost and lack of capacity will find significant benefits in cell captive insurance solutions. The combined impact of hardening insurance rates and global capacity constraints following pandemic has made it difficult for large firms to address all of their risk requirements in the traditional insurance market. The insurer believes cell captive insurance solutions may be the answer for firms that are keen to improve their access to global insurance markets and share in the profits emanating from disciplined risk management and underwriting practices, over time.

Cell captives have been around for a long time but are back in favour following multiple years of poor loss experiences among leading insurers and reinsurers. As traditional insurers adjust their books for pandemic-related losses and reprice for sharp rises in the frequency and severity of certain insurance lines, firms are often left wondering how to afford 40-50% surges in the premiums payable for sections of insurance cover. Firms in certain industries such as mining and manufacturing are struggling to secure competitive rates for assets or liability cover despite having no claims in the prior year and agreeing to much larger deductibles. These firms end up shouldering a greater share of their risk without any pricing benefit. The shortage of insurance and reinsurance capacity is of even greater concern. Many local insurers are reluctant to provide ongoing cover for commercial fire risks due to poor claims experience in the period from 2017 to 2020...

Limited capacity and the risk management requirements for certified sprinklers are leaving risk managers and executive teams at large firms little choice but to go the uninsured route, or to find other ways of meeting their corporate governance requirements insofar risk goes. Company boards are turning to cell captive insurance solutions because it offers them greater flexibility in risk retention (self-insurance) versus risk transfer to insurance and reinsurance carriers and makes them less exposed to the fortunes of the global insurance and reinsurance markets.

Cell captive insurance solutions involve a firm entering into an agreement with a cell captive insurer to run their insurance activities within a cell structure. Firms must fund their risk transfer activities within the cell structure through a combination of capital and reinsurance arrangements. The cell structure allows firms to access global reinsurance markets to equalise insurance costs across the organisation’s operational footprint; participate alongside their insurance partner in underwriting profits and build up capital reserves for future risk events.

Cell captive insurance solutions are also useful in industries where traditional insurers do not have enough data or experience to accurately price / underwrite risk. A firm that is pushing the innovation and technology boundary is often at a distinct disadvantage when it comes to insurance, because insurers may refuse cover or charge high premiums based on poor or little information. Such firms use a cell structure to provide cover for uninsurable or expensive-to-cover risks.

Cell captive insurance solutions present opportunities for insurance brokers to expand their businesses into the fee-based risk advice segment. We rely on our corporate insurance brokers to introduce businesses to us; they then take an active and ongoing role in advising their clients on the establishment and utilisation of the cell captive insurance solution in transferring risk. This is not a quick fix solution. Firms need a strong balance sheet to fund the solution and need to commit to the solution for several years.

If you have good risk management processes in place, and you truly understand your risk, then the cell captive structure offers an ideal way to influence your future pay-away premium and build retention and capacity. **This may protect you from future loss events as well as significant increases in premium driven by general market losses. Hollard Insure offers a focused and regulatory-compliant cell captive insurance solution on its Hollard Specialist Risk Insurance license.**

Major Shift in D&O Claims

Angela Jack, Business Unit Head of Aon South Africa's Financial Services Group

Historically, Directors and Officers liability insurance (D&O) catered for low frequency/high severity risks.

The D&O market has, however, experienced a fundamental shift to high frequency/high severity claims for damages and judgements, in addition to an increase in high frequency/low severity claims for defence costs, regulatory investigations and enquiries.

Current D&O claims trends are not dominated by any one industry sector, plaintiff or nature of claim. We have seen everything from local regulatory investigations to international shareholder class actions. A definitive increase in insolvency-related claims has been noted, where plaintiffs allege internal mismanagement all the way through to external audit failure.

Event-driven litigation has become common with both single plaintiff and class action claims. "MeToo, Black Lives Matter and Covid-19 are all examples of general macro events that have led to specific claims against companies. We initially anticipated that there may be Covid-19 claims relating to health and safety protocols and provision of Personal Protective Equipment (PPE), but instead claims for misrepresentation, anti-competitive behaviour and insolvency materialised. The cover that a D&O liability insurance policy provides is an absolute necessity when it comes to the protection of the personal assets of directors, officers and other employees that are charged with supervisory and managerial responsibilities, who can be held liable for wrongful acts which may occur in their day-to-day management activities of the business or entity. The main purpose of a D&O policy is to offer financial protection for investigation and defence costs together with awards for a valid claim.

FOUR TRENDS DOMINATING THE D&O SPACE

Cyber Risk: It has been a recurring theme over the past few years that remains top of mind for both our clients and insurers. The D&O markets previously had a 'wait-and-see' attitude toward cyber-related D&O claims, where now the scenario has evolved to them actively taking an affirmative or exclusionary cover stance. Insurers are also looking to restrict instances where cyber and D&O policies are simultaneously triggered for data breach losses and a lack of protocol in force to prevent the breach, respectively. To prevent a loss from being dual insured, insurers are looking to introduce tie in of limits clauses to restrict cover to the maximum of the highest policy limit.

Employment Practices Liability (EPL): Exposures catered for under D&O policies are falling under increased scrutiny, such as sexual harassment that came into focus following the 'MeToo' movement, whereas the 'Black Lives Matter' campaign cast a spotlight on board composition and diversity.

Pandemic/Infectious Disease: Exclusions are being considered on pandemic and infectious disease aspects relating to D&O cover. The current Covid-19 pandemic is being assessed, and how it relates to similar events in future. Companies will need to demonstrate their ability to deal with the risks, physically and financially. It is a mixed bag at present with some insurers that are willing to underwrite the risk (assess the information and rate accordingly) and others applying blanket exclusionary provisions.

Social Media: Allegations can be made against a company on a public forum without substance or justification. Unlike a formal legal process where an aggrieved party would need to prove his/her loss, social media makes immediate judgements and reputations can be destroyed overnight. On the opposite end of the spectrum, companies run the social medial risk gauntlet when an individual damages their own or their company reputation by not being cautious about what they themselves post. Inappropriate sexual and racial comments have led to a number of D&O claims over the years.

HOW D&O AFFECTS SMES

It is a misnomer that D&O claims are only from shareholders and cover is only required for listed companies. "In reality, any stakeholder in any business - private or public - can bring an action, including but not limited to regulators, community groups, employees,

"The cover that a D&O liability insurance policy provides is an absolute necessity when it comes to the protection of the personal assets of directors, officers and other employees that are charged with supervisory and managerial responsibilities, who can be held liable for wrongful acts which may occur in their day-to-day management activities of the business or entity."

police, customers, suppliers and competitors. In an increasingly challenging economy, many Small and Medium Enterprises (SME's) are faced with difficult business choices that in the moment may be considered to be in the best interests of their companies but may ultimately prove to have been erroneous or negligent.

In these instances, D&O insurance is vital in assisting the directors of these businesses in defending against wrongful allegations or settling claims where genuine errors were made. D&O is probably even more significant in SME businesses where access to funds and expert legal advice is not as readily available as it would be in a large corporate.

ADDRESSING THE RISK

The implementation of a solid risk management programme will provide opportunity to reflect on possible risks that may arise; looking beyond corporate governance and sustainable and integrated reporting statements within annual reports to achieve a holistic view. The implementation of processes and protocols need to reflect board governance, but also address systemic exposures within a business, including - amongst others - data protection, employee welfare and safety, financial security, legal and regulatory compliance and operational ability.

D&O Insurers are showing a greater interest in information provided across multiple lines. For example, evidence of a solid maintenance plan in a manufacturing company or investment into increased water suppression systems in an industrial enterprise. These are seen as evidence of communication between risk and governance and are favourably viewed.

Speak to a professional broker with a deep specialisation in the D&O liability environment, to protect your business, reputation, personal assets, colleagues and financial sustainability. D&O is in a challenging stage of the market cycle at present with many of the impacts such as increased premiums and specific exclusions possibly being more akin to a correction than a hardening. **Clients should be cautioned that attempts to offset the rising cost of the insurance by reducing limits should be considered carefully and avoided, if at all possible.**

The end of an era: goodbye risk management?

Junita Van Der Colff, Managing Director at Protean

Risk management has evolved over time. As a field that was first developed by the insurance industry, it has gone through various transformations, and today most companies speak of risk management in the same breath as Governance and Compliance. Since 'GRC' is what good corporate citizens do best – have oversight of governance, comply with regulations, and manage their risks.

But risk management doesn't really belong under this banner – it needs to move away from a compliance function as it is really more a strategic enabler than anything else.

During the pandemic, the focus shifted to the risk management profession, with some risk managers proving to be the heroes businesses need. We have seen the trend of more organisations having executives dedicated to risk management. But how effective are these risk management activities? This is a difficult question for me to ask, as I have dedicated my entire career to risk management and I am very passionate about it.

But my passion is really how to get people to think differently about the way they do business. Should we aim to use risk management to just protect what we have, making 'survival' our primary objective? Or should we focus on building value for the communities and customers we serve? If the latter, why do we not encourage risk taking? We should focus on building sustainable businesses that not only survive but thrive, even in uncertain times.

In order to move from risk management to building more resilient organisations, we need to think differently about risk and view it as an opportunity. There is a perception that risk management or business continuity management already make a business resilient – but that they are just a small part of what is required. A more holistic view is important, as viewing these issues within silos removes them from the strategic focus of the organisation. Above all, we need to move away from the perception that they are merely compliance requirements.

CREATING A RESILIENT ORGANISATION

Of course, resilience doesn't just happen – it requires intention, action, decisiveness. This doesn't happen by just updating risk registers on a quarterly basis or exercising a Business Continuity plan every year. We need to enable businesses to take the right risks, focusing more on what they can do than on what they cannot do.

To respond to this fast-changing, uncertain world, organisations should adopt an integrated strategic resilience framework. Resilience in this context refers to the ability of an organisation to adapt, change and grow in response to uncertainty and change, and consists of the following key components, among others:

STRATEGY

We need to build resilient strategies, driven by leaders that can direct organisations and have them pivot if necessary, in response to the fast-changing environment in which they operate.

We need to stress-test our strategies by using scenario planning exercises and prepare for 'different futures', as well as integrate risk management into our decision-making processes. For example, we should understand the risks involved in appointing third parties who will render their services to the business. We need to understand the opportunities while carefully evaluating viability, impact and risk.

FORESIGHT

Risk should be viewed as a strategic enabler. Understand your operating environment by monitoring mega-trends from a global, local, industry and interdependent point of

view. Track these trends, along with your organisation's response to them, and think ahead – being able to anticipate what may happen tomorrow is a vital part of effective risk management.

PEOPLE

As Peter Drucker has pointed out, "Culture eats strategy for breakfast." We need to build a culture of ownership, accountability and transparency in our organisations. If our leaders inspire fear in our staff, rather than simply inspiring them, there will be no trust, innovation, or collaboration. The bedrock of any resilient organisation is its ability to create an environment that is highly conducive to learning. It is a truism that the leaders of such organisations foster on-the-job learning and have a 'fail hard and fail fast' mindset, encouraging experimentation and fearless risk-taking.

Such companies tend to attract and retain talent, put people's wellbeing first, and create a work environment in which leaders have secured employees' buy-in. A sense of shared purpose and vision prevails. In fact, the best companies to work for routinely put people first and help them to find and pursue their passions.

DIVERSITY

We can't be resilient without building and cultivating strong support networks. These are the people, groups, communities and connections that you can lean on, and which can lean on you. To be most effective, networks should be diverse – more points of view provide different approaches and unique strategies. The more variety there is in the workplace, the more colourful, compassionate, self-reliant, flexible and innovative its employees.

AN ECOSYSTEMIC APPROACH:

Understanding the value chain, the interdependencies and symbiosis is key to building resilience. We need to break down silos and encourage collaboration.

THE FUTURE OF THE RISK MANAGEMENT TEAM

Risk management is not the responsibility of the risk management team – it is that of any person making a decision or engaging in a process. There is far too much reliance on having risk teams define what the business risks are. I believe that risk teams should be spending 90% of their time supporting and empowering the business to create a more resilient culture and only 10% on admin and reporting.

At the moment, the reverse is true in most risk management teams, who are buried in meetings, reporting (mostly updating Excel spreadsheets), and taking care of admin. Risk management teams are not asking the right questions or spending their time understanding and supporting the business. If this continues, I don't think there will be much of a future for risk management teams.

I always use the analogy of F1 when explaining the role of risk management. At the start of a race, the driver will face various uncertainties as he sets about trying to win, but he will also have many opportunities. His pit crew will update him with valuable information on track and tyre conditions, changes in the weather, competitors' behaviour, and more. This is useful as he makes quick decisions on the track.

This is the role of the risk management team in business – to provide value-adding information to support business decisions and build resilience within organisations.
A resilient company is not built through the risk management function alone, or even integrated activities, but through a culture that knows which risks to take and how to create opportunities.

It is one thing to manage risk to survive – but to create resilient organisations that can thrive in uncertainty, risk management must become part of the organisational culture. Ownership needs to shift from the risk management team to the core business team which drives strategy. **The role of the risk management team is to facilitate (the word 'facilitate' comes from the Latin 'facilis', which means 'easy'). If we think about risk in this way, we will foster a culture that enables organisational resilience.**

Buildings insurance: Don't get caught short when disaster strikes

Wynand van Vuuren, King Price Insurance client experience partner

Owners need to stay on top of their home's maintenance and only use accredited builders and engineers to do any work on a house. And, most of all, make sure they are insured correctly: They should not just rely blindly on the buildings insurance policy that's offered by the bank when they take out a home loan.

These are the key takeaways from the Ombudsman for Short Term Insurance's (OSTI's) latest report, which shows the primary source (47%) of buildings insurance (also sometimes referred to as homeowners insurance) complaints in 2020 was the rejection of claims based on policy exclusions for damage caused by defective design, construction or workmanship; wear and tear; and lack of building maintenance.

The Ombudsman specifically highlighted the issue of buildings insurance policies issued under a home loan. Many homeowners assume that because the bank has issued the policy, that they're automatically covered for anything that goes wrong. Nothing could be further from the truth. When the bank evaluates a house before you purchase it, all it's doing is establishing whether the property is of sufficient value to act as security for the loan. It doesn't inspect the property for insurance purposes, and the assessment doesn't declare the property free from underlying structural defects, wear and tear, or other maintenance-related issues. It's the home owner's responsibility to ensure that the building is properly maintained and structurally sound. **So what can a homeowner do to avoid frustration at claim time? Here are four top tips.**

MAKE SURE THE HOUSE IS INSURED FOR REPLACEMENT VALUE, NOT MARKET VALUE

Homeowners are responsible for insuring their home for the correct value. Buildings insurance should cover what it would cost to rebuild your property from the foundations up, including your boundary walls, solar panels, swimming pool, taps and tiles. It should even include what you'd need to pay in a worst case scenario, like demolition charges and waste removal, and the professional and municipal fees that are part of the building process. If you under-insure, you're going to run into problems at claim time. If you insure a R1 million property for R500 000, you're 50% under-insured. This means your insurer will only settle 50% of any claim, even if it's less than the total insured value.

KEEP YOUR HOME IN GOOD CONDITION

Your buildings insurance only covers you for unforeseen future events. Therefore, any damage that's due to wear and tear, or a lack of maintenance, will be excluded by your insurer. The onus is on you to maintain your buildings to avoid wear and tear that might later cause or contribute to damage, like worn waterproofing or blocked gutters. Damage due to defective design or construction is also excluded. That's why you should always make use of accredited builders and engineers. And if possible, have a home inspected by a professional before purchase to point out any latent defects that could cause problems down the line.

HOME OWNERS SHOULD TAKE CONTROL OF THEIR OWN INSURANCE

If you've got a bond, it's compulsory to have buildings insurance. This is often taken care of by your bank, and the premium is 'hidden' in your monthly bond repayment. But you're not obliged to accept your bank's quote, and it's possible you'll get a cheaper premium from the insurer that covers the rest of your valuables. It's always your right to choose the insurer you want to work with.

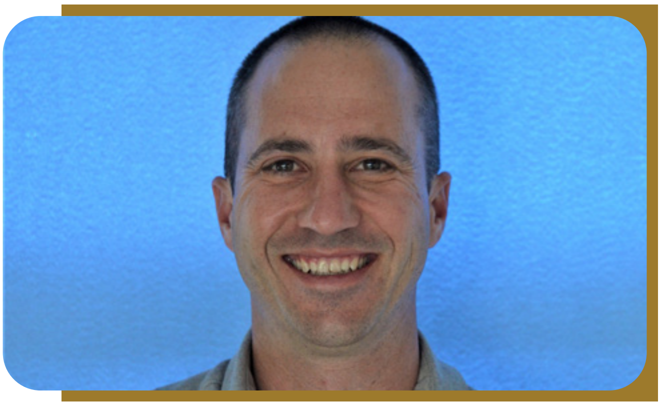
REVIEW HOME CONTENTS COVER REGULARLY

They should review home contents insurance at least once a year. As with buildings insurance, the key is to make sure that you cover your home contents for their current replacement value – don't guess. And remember, insurers can only protect what they know about. It helps to keep the original receipts for items like big screen TVs, so that you can prove their value if you need to claim.

The rise of insurtech: the future of short-term insurance is here

Jonathan Lewarne, Head of Short-Term Insurance, Momentum Consult

In an age of exponential tech evolution, there is one sector that has been more than a little hesitant to adopt new unproven technologies than any other – short-term insurance.



The insurance sector has always been conservative by nature when it comes to adopting new ways of doing things, which is somewhat understandable when the line between fraud and a person's livelihood is a thin one. Yet there are a few technologies that are soon to creep into the short-term insurance market faster than consumers may think. When it comes to insurance, especially short-term insurance, this tends to involve moments fraught with human emotion. Accidents, robberies, and general mistakes are emotional issues that require a human touch. But that doesn't mean new technologies aren't on the horizon, which wield the potential to change the landscape forever. Even though technology has yet to win the hearts and minds of insurance clients, especially in South Africa, we need to brace ourselves for some incoming and inevitable technological changes.

Some examples of the next generation of Insurtech that are just around the corner.

IMAGE RECOGNITION FOR VEHICLE CLAIMS

As one of the most used, and abused, forms of short-term insurance, vehicle accidents are by no means an easy process to deal with. Insurance companies are bombarded with a mountain of claims on a daily basis and need the skill and expertise to not only process these claims, but accurately assess the payout based on the assessed damage. Naturally, this process takes time to fulfil as a qualified assessor needs to inspect the damage of all relevant vehicles involved and determine the expenses required to fix it.

To shorten this process, Insurtech companies are using technology for automated damage analysis. They only thing that car owners will need to do is take photographs of the vehicle damage at the scene of the accident and send them to the claims department. From there, using image recognition technology, the claims pay-out for the damages can be determined. The tech will have your details, will know what car you drive, will understand the extent of the damage, and will have all the information it needs regarding repair costs and logistics involved – which it can provide to the insurer and the owner in a single action. This will shorten claims processes from a week to less than a day. From a South African perspective, several major local insurers are in the advanced stages of evaluating these solutions and he expects they will be implemented within the next 12 months. It's now a race to see who gets their first.

DRONES AND AI-POWERED DAMAGE ASSESSMENTS

From vehicles to buildings, the sudden and terrible fury of unanticipated events can strike out of nowhere. Your office building is no exception. Natural disasters are the cause of many insurance claims... and insurance fraud. But how can the technology not only shorten a lengthy claims process but also provide more surety for insurers? How about instead of having two to six insurance adjusters appraising, investigating, and creating an assessment of the claim, you simply launch a drone into the sky, record the damage, analyse it based on previous pictures of the building and let an AI-driven algorithm do it for you in record time and with accuracy.

According to PwC report entitled "Clarity from Above", it estimated that drone and AI technology will result in an anticipated savings of up to US$6.8bn per year, and that's just in the United States. We can't argue that technology is soon going to surpass our ability to intuit cumbersome activities like damage assessments. In fact, it will be quicker and will more easily be able to compare levels of damage, analyse data and immediately compile assessments. Although the South African short-term insurance industry is slightly behind in adopting these technologies, the local industry should start taking inspiration from insurers finding success with these technologies in more developed markets like the United States. **The tech is coming, whether insurers or their customers like it or not. Greater efficiencies and money saved on both ends will make sure of that. However, people are still going to need a human touch, especially as they seek to navigate these unchartered technological terrain.**

Cyber insurance: a growing demand for all companies

Santho Mohapeloa, Senior Financial Lines Underwriter at Allianz

The advancement of connectivity in light of the digital revolution has radically transformed our lives and brought unprecedented benefits to companies in the way they operate and do business.

However, digitalization is a double-edge sword and comes with risks as well, among them cyber exposures. Companies are facing a number of challenges such as the prospect of more disruptive and expensive business interruptions, the increase in the frequency and cost of ransomware incidents, the consequences from larger data breaches and more robust regulation – both at home and overseas – as well as the prospect of litigation if something does go wrong. In 2021, cyber incidents ranked among top business risks – in South Africa, Africa and globally - in the Allianz Risk Barometer Report 2021.

The AGCS' Managing The Impact Of Increasing Interconnectivity - Trends in Cyber Risk report global survey conducted by Allianz Global Corporate & Specialty (AGCS) shows that there has been a significant increase in cyber claims in recent years. If we measure losses by number of claims, 57% are due to technical and IT failures or incidents due to human error, 40% to external manipulation of systems and 3% to malicious internal actions, e.g. malfeasance by an employee. The acceleration towards greater digitalization and remote working driven by the pandemic is also further intensifying IT vulnerabilities. A survey by McKinsey found that companies may have accelerated the digitalization of supply chains and operations by three to four years, while the importance of digital products has accelerated by seven years. At the peak of the first wave of lockdowns in April 2020, the FBI reported a 300% increase in incidents alone, while cyber crime is now estimated to cost the global economy over $1trn, up 50% from two years ago.

Security around access and authentication has become a critical issue. Employee awareness and training can significantly reduce the consequences of a cyber-event, especially when it comes to identifying phishing schemes and malware in business emails. Companies should also continuously invest in technical IT security and have access to incident response services in case of an incident. Having a good business continuity plan in place, including the scenario of cyber incidents, is also key to minimizing the financial impact.

CYBER INCIDENTS CAN LEAD TO SEVERE CONSEQUENCES

Companies with online business models and a large share of proprietary customer data are particularly exposed targets. Supporting companies in case of a cyber-incident is the premise of cyber insurance, as it transfers some of the financial risks to insurers and reinsurers. It can provide a holistic approach to help prevent and minimize first and third party losses, through preventive risk consulting as well as response services and forensics in case of an incident through a network of partner companies.

In this environment, companies increasingly consider cyber insurance as a key element of a comprehensive cyber resilience strategy. These companies know what their precious data and assets are and are committed to established IT security standards – and they continue upgrading – and very aware of the most important aspects of a possible cyber incident. On one hand, there is the concern for mitigating a potential business interruption resulting from a system outage or encryption, and, on the other hand, in the event of a data breach, compliance with a series of obligations imposed by regulations, including informing affected customers as well as reporting obligations to the local data protection agency.

Cyber incidents are also increasingly likely to spark litigation, including shareholder and consumer class actions. It is therefore essential for companies to be aware of the obligations above all the costs of data

"Security around access and authentication has become a critical issue. Employee awareness and training can significantly reduce the consequences of a cyber-event, especially when it comes to identifying phishing schemes and malware in business emails."

recovery, communication and sometimes loss of profit that an unauthorized attack on their digital systems can cause.

RISK AWARENESS AND INCREASING DEMAND

According to market research, the global cyber market is expected to reach 20 to 25 billion euros by 2025. Today, the market volume is estimated at 7 billion euros. AGCS South Africa has been offering cyber insurance since 2015 and, has followed this growth trend. While the market needed education about this new product in the first years after the launch, cyber policy issuance has grown strongly. Globally, AGCS generates more than 100 million euros in gross written premium with cyber insurance.

Cyber insurance is no replacement for weak defense mechanisms – rather the opposite. We, therefore, welcome that the growth of cyber insurance in South Africa goes hand in hand with significant upgrading of cybersecurity as well as management awareness.

A global IT company conducted a survey among its customers indicating that 77% of them had started to invest in cybersecurity projects and 91% stated that their senior executives supported cybersecurity investments.

As a result, it is estimated that these investments will increase by at least 10% worldwide by the end of this year.

HIGH NET WORTH

PG24-36

How can advice firms successfully cater to high net worth individuals?

Francois Lombard, Head of Strategic relationships and Deal making at Momentum Wealth

Just more than a year on from the start of the COVID-19 pandemic and worldwide lockdowns, where fear gripped investors which led to an unprecedented fall in global markets, vaccines are beginning to make their way to millions of people around the globe, with many stock indices nipping at all-time highs.

While the outlook remains more optimistic than last year, many individuals are still concerned about their well-being, income and cash flow. Even very wealthy individuals are feeling uncertain about what their finances will look like in future. In fact, one of the top things that high net worth individuals (HNWIs) state as a result of the pandemic, is to discuss their financial situation with a professional financial adviser. While there appears to be a partial consensus among financial advice professionals as to who, exactly, HNWIs are, I will define a HNWI as an investor with more than US$1m (R15 million) in liquid financial (or net-investable) assets, excluding their primary residence, collectibles and consumables.

But how does a financial adviser successfully cater to the needs of these individuals?

The relationship game: One of the largest ever studies done on HNWIs found that 85% rated trustworthiness and honesty as the most important factors for productive relationships with a financial adviser. As with most client relationships, communication is critical to obtaining and retaining HNWIs. They need to know that you are regularly monitoring their finances and are ready to act when necessary. Showing you care on a personal level, by contacting them on birthdays and other special occasions, matters. It's all about taking a holistic approach and offering a higher level of service than your competitors.

Customise and personalise services: We live in an age of hyper-personalisation and nowhere is this more prevalent than in the HNW space. The result of this trend is hyper-personalised wealth management, or hyper-personalised services, where advisers provide services tailored to their clients' high expectations.

Investment management that includes non-traditional asset classes: As volatility continues in global markets, many HNWIs are looking to reduce their exposure to traditional asset classes to generate absolute returns. Some sophisticated HNWI's are turning to alternative investments such as private equity, collectables, wine, antique cars, infrastructure and hedge funds to diversify their portfolios.

Another noteworthy trend is the increase of capital into environmental, social and governance (ESG) investments. Raising the subject of philanthropy with HNWIs and supporting them in the implementation of strategies that can help them build a meaningful legacy, can contribute to improving the quality and depth of the relationship.

Focus on generational wealth: Most HNWIs are conscious of the need to maintain and grow their wealth, and eventually pass their wealth onto the next generation. Financial advisers, therefore, have an opportunity to support them through the inheritance planning process.

Adopt next-generation digital capabilities: Financial advisers need to deliver seamless, high-value, cross-device and fully integrated digital interactions that either keep HNWIs informed or enable end-to-end execution of transactions. Forward thinking advice practises will recognise that having advanced digital capability is not optional and represents a disruptive force in the financial advice industry.

One of the most important ways to build trust in the HNW market is to strategically partner with an established and trusted business. Having a brand name such as Momentum Investments behind you helps to increase confidence and trust, something that is vitally important when it comes to attracting and retaining HNWIs.

It is this need that has led to the creation of the Momentum Deal Forum. The Deal Forum was set up to specifically cater for the needs of your HNWIs and provides bespoke product structuring; and tax, estate and succession planning.

Ideal time for SA households to consider Offshore Wealth creation

Chris Potgieter, Managing Director at Old Mutual Wealth: Private Client Securities, Treasury Advisory, Fiduciary Services

The surge in household net wealth recorded during the COVID-19 pandemic has created an ideal opportunity for South African households to take control of their financial affairs by developing comprehensive strategies focused on their individual goals.

The Bureau for Market Research at UNISA found that South African households' real net wealth increased by an estimated R1 trillion from the onset of the second quarter of 2020 to the end of the year. This happened despite COVID-19, the lockdown, job losses and an economic contraction.

This recovery follows an estimated decline of R772.8 billion during the first quarter of 2020 that resulted from the introduction of lockdowns in many countries. The increase in household net wealth was even more spectacular when measured in nominal terms (current prices). It is estimated that household net wealth increased by almost R2 trillion from the end of Q1 2020 to the end of Q4 2020.

WHAT CONTRIBUTED TO THIS NET WEALTH INCREASE?

According to the researchers, all asset classes performed well during 2020, but households with financial assets benefitted most. Huge fiscal support, lower interest rates, the injection of liquidity into financial markets, news of a possible vaccine and a recovery in employment contributed to higher share prices and lower bond yields over the course of the year. This rally caused the real value of pension funds and financial assets to recover and increase beyond the levels registered before the pandemic.

The 2020 South Africa Wealth Report found that equities are currently the largest asset class (29%) for high-net-worth individuals (HNWIs), followed by real estate (25%), business interests (20%), cash and bonds (16%), alternatives (8%) and collectables (2%). Furthermore, households that experienced a surge in positive net wealth have their wealth in retirement funds; financial assets such as share portfolios, unit trusts and savings, and non-financial assets such as homes.

THE OPPORTUNITY OF OFFSHORE INVESTMENT

Based on the dramatic increase in household net wealth, households can further enhance this gain by increasing their exposure to offshore investments. Although South Africa constitutes less than 0.5% of the global economy and less than 1% of investable opportunities, wealthy South Africans have between 66% - 80% of their wealth tied locally. The average South African HNWI currently holds around 20% of their wealth offshore, up from 14% a decade ago – a 43 % increase over that period.

As HNWIs increasingly look offshore for growth opportunities, households wanting to protect their wealth and to grow with the rest of the world must also invest with a global perspective. For those households that have emerged stronger since the pandemic, there should be consideration to diversify more globally and work with suitably equipped advisers.

CLEARING UP THE MISPERCEPTIONS

Yet despite the clear advantages of offshore investment, a few misperceptions exist which have led to investors not fully exploiting this opportunity. These include:

It's too complex: The perception of complexity and high costs often prevents clients from executing on their plan for offshore diversification. But offshore investing is as accessible and affordable as local investing and can be tailored to individual needs.

Attempting to time the currency or market: Currency movements are impossible to predict over the short term – even 12 months is short term. However, the long-term trend of depreciation of the rand versus the US dollar and other developed market currencies is firmly

"As HNWIs increasingly look offshore for growth opportunities, households wanting to protect their wealth and to grow with the rest of the world must also invest with a global perspective."

in place. Prior to the rand's recent bout of strength, the currency has steadily depreciated against the dollar at an average rate of over 6% per annum since 1994. It's also important to consider that if the rand strengthens in the short term, you're typically buying more expensive global investments. Conversely, when the rand weakens, you may be paying more for hard currencies, but you're more likely buying less expensive assets.

Short-term thinking: Panic selling when markets decline leads to permanent capital loss. Investors who want to earn a return greater than cash must accept volatility and maintain a long-term perspective during periods of market corrections or crashes.

This was again made clear in 2020, when equity markets fell over 30% in March and then quickly recovered to deliver a strong return for the year. It is highly probable that exiting the market during periods of heightened volatility will result in investors missing the upside that inevitably materialises.

In conclusion, offshore investing is not a luxury reserved for a few but rather a key financial planning priority for households seeking to protect and grow their wealth. Investors must, therefore, work with partners who have the skills and experience to provide them with the support and expertise to navigate the world of offshore investing successfully.

Can money buy you happiness

Linda Sherlock, Executive Head: Wealth Advisory at PPS

The age-old question, "can money buy you happiness?" gets debated every so often and got me thinking about the notion of happiness.

I came across a book title Happiness – unlocking the mysteries of psychological wealth, by Ed Diener, the editor of Perspectives on Psychological Science. He identifies five factors that contribute to happiness, namely: social relationships, adaptation society and culture, positive thinking styles and money. Working in financial services and specifically servicing the wealth market, it was interesting to observe that money (or wealth) is correlated with happiness, but it has declining marginal utility, according to Diener.

Those first few rands that move someone out of poverty, contribute much more to a person's happiness than a billionaire earning his/her next million. In fact, money can be toxic to happiness. When participants in a study were asked if money was more important than love, those who answered "yes" were less likely to be happy and seemed destined never to catch up to happiness no matter how much money they make. Managing money, especially in the wealth segment, is shifting. According to McKinsey, advisers or wealth managers will require a different set of skills tailored to client needs in the next decade. Advisers will gradually shed their role as investment managers and become integrated life/wealth coaches who advise clients on investments, banking, healthcare, protection, taxes, estate and financial wellness needs more broadly. So, does it mean that the role of a wealth manager will change to that of being an agent of happiness? At PPS, I believe they already are. When you meet with a wealth manager, your conversation should unpack in detail the factors of:

RELATIONSHIPS

There are many questions one can ask about relationships. These are just some examples: Do you currently have a spouse or partner, and if you are married, is it in or out of community of property? Are you divorced and paying or receiving alimony? Do you have children or even grandchildren? Will you be covering their tuition fees? Where will they go to school/study? What about other relationships that you might have, such as with business partners? Do you have buy-and-sell agreements in place?

ADAPTATION

How prepared are you for the big-ticket life events that can and will take place? Have you thought about the risks that your lifestyle choices, business arrangements, investment or economic fall-outs may play out? And, do you think you are prepared in the event of mental health, physical injury or critical illness? The big questions to ask yourself are am I prepared for the uneventful risk and am I able to leave a legacy for my loved ones.

SOCIETY & CULTURE

South Africa's "Happiness Index" ranking according to the World Happiness Report was 4.81 last year. The scale starts at 0 (unhappy) to 10 (happy). While this is low, we also need to consider the impact of the pandemic on our psyches. However, according to research, political concerns are the biggest concern amongst wealthy individuals in South Africa and this filters into discussions, thoughts and actioning whether emigration is a consideration.

The statistics show that for every professional person coming to South Africa, eight are leaving. Where are you on this spectrum? Are you thinking of leaving or staying?? And, if you plan to leave have you thought through all the aspects of whether the grass is greener on the other side?? What would you specifically need to consider? Are you involved in any philanthropy work that you contribute to financially as well as give of your time? Or, do you have a full perspective on what emigration could mean and whether you retain your assets in South Africa or pursue full financial emigration? And, if you stay, what is your horizon and what will shift your mindset?

According to Socrates, "The secret of happiness, you see, is not found in seeking more, but in developing the capacity to enjoy less." The past 12 months have brought this into stark reality where the way we consider happiness is more closely aligned to relationships and health as the purpose to life and that less is more.

THINKING STYLES

According to Socrates, "The secret of happiness, you see, is not found in seeking more, but in developing the capacity to enjoy less." The past 12 months have brought this into stark reality where the way we consider happiness is more closely aligned to relationships and health as the purpose to life and that less is more. What is your view and style towards money and wealth? How does this factor into your mindset and approach to creating, protecting and accelerating your wealth?

MONEY

Money, although a vital part of the discussion, is not the only path to happiness, although it can provide a level of comfort to protect you from the hard knocks that life can deal you. It certainly provides a buffer in tough times and with an optimal strategy in place, can ensure that your wealth is not eroded. According to the African Wealth Report 2020, the use of investment assets to accumulate or preserve wealth is by far the most popular asset class.

Tangible assets like property, bonds, cash or alternative investments are comparatively far less important. Your wealth strategy must take into account income streams and net asset value as well as all of the above factors to achieve peace of mind and true happiness.

PPS Wealth Advisory aims to be a financial coach with insight and expertise to match our members' hopes and dreams with wealth strategies to ensure that all aspects of wealth protection, wealth creation, and wealth acceleration are addressed.

Three key emigration destinations for South Africans

Ralph Wichtmann, consultant at Sovereign Trust (SA) Limited

Many wealthy South Africans are seeking opportunities outside South Africa.

According to Knight Frank's Wealth Report 2021, published in February, South Africa's population of high-net-worth individuals (HNWIs – assets over US$1 million) declined by 12% from 50,823 to 44,605 between 2015 and 2020, while the population of ultra-high-net-worth individuals (UHNWIs – assets over US$30 million) declined by 18% from 910 to 742 over the same period.

THERE ARE ANY NUMBER OF POSSIBLE REASONS FOR THIS INCREASE IN EMIGRATION

political instability, safety and security, education, volatile currency or the lack of job opportunities in South Africa. There are also the pull factors of other countries. A safer living environment for families, free or affordable education and / or medical care, career progression, better ease of doing business and the chance to give children passports or citizenship of the countries of their ancestry and better future opportunities.

TAX HAS ALSO BEEN A PRIME FACTOR, PARTICULARLY SINCE THE 2017 AMENDMENT TO THE INCOME TAX ACT

the so-called "expat tax". As of March 2020, South African residents who are 'employed' outside South Africa and are out of the country for periods exceeding 183 days, 60 days of which are consecutive, in any 12-month period, now to pay South African tax of up to 45% of their foreign employment income where it exceeds the threshold of ZAR1.25 million. This might seem generous, but employment income includes allowances and fringe benefits paid to expatriates that cannot be considered as 'earnings'.

Most south African taxpayers working abroad are already paying some form of local income tax, which should be deductible against South African income tax payable providing that a double tax agreement is in force between South Africa and the country in question. However, the 'expat tax' has led many South Africans who had already left the country, but not formally, to seek to formalise their emigrant status.

Deciding to emigrate is one thing; deciding where to move to is quite another and there are many issues that need to be considered. I looked at three destinations that South Africans should consider if they are thinking of emigrating.

THE UK

The UK remains the preferred destination for South Africans looking for excellent employment opportunities, a high standard of education and a good quality of life. Choosing the right visa can make the process of applying much simpler and can lead to a more successful application.

- A UK Ancestry Visa allows Commonwealth citizens who are the immediate descendants of UK nationals permission to live and work in the UK. To apply, you must be a Commonwealth citizen, aged 17 years or older with a grandparent born in the UK, Channel Islands, the Isle of Man, or in the Republic of Ireland before 31 March 1922 and you must be able to support yourself and any dependants without having to rely on public funds.The UK Ancestry Visa is granted for five years and offers a good route to obtain Indefinite Leave to Remain and ultimately British Citizenship. You can work and live in the UK without restriction and there is no requirement to make a financial investment in the UK. Your spouse, civil or unmarried partner and your dependent children can all benefit by joining you in the UK.

- Under the UK's new post-Brexit immigration system, the Tier 2 (General) visa category has been replaced by the Skilled Worker Visa route. This visa allows you to live and work in the UK for up to five years at which time you can apply for Indefinite Leave to Remain. To apply, you need to have a job offer from and be sponsored by a UK-based employer. There is no age cap on this visa and there is currently no cap on the number of visas granted in this category. The Skilled Worker visa is points-based. Points are awarded for meeting certain requirements and you need a total of 70 points to be eligible. If you have a job offer for a role that meets the minimum skill level, you only need to have 50 points. You are allowed to trade characteristics, such as qualifications, against a lower salary to get the required number of points. The Skilled Worker visa allows you to change jobs, provided that the employer can sponsor foreign workers, and to bring your family to the UK and can lead to citizenship.

AUSTRALIA

Australia's high quality of life, prosperous economy, diverse population, excellent healthcare and education systems continue to make it one of the most popular countries for South Africans looking to settle abroad. At the end of June 2018, 189,230 South African-born people were living in Australia, 36.9% more than the number on 30 June 2008. This makes the South African-born population the seventh largest migrant community in Australia.

Australian migrants are permanent residents of Australia that hold migrant or permanent resident visas and may live and work in Australia indefinitely. While migrants are not citizens, they do have the option to become citizens after meeting the residency requirement. Australia's permanent Migration Programme incorporates economic and family migration and is the main pathway to permanent residence. It includes the Skill stream, Family stream and Special Eligibility visas.

The Skill Stream Visa is designed for workers with the skills, qualifications and entrepreneurship most needed in the Australian economy. The Skill stream comprises four components, namely: Points Tested Skilled Migration; Employer Sponsored; Business Innovation and Investment; and Distinguished Talent. The most popular visas are:

- **Skilled Independent Visa (Subclass 189):** A permanent resident visa for points-tested skilled workers under the age of 50. It does not require employer or family sponsorship, or nomination from a state or territory government. You must have obtained a suitable skills assessment and you may require an invitation to apply.

- **Skilled Regional (Provisional) Visa (subclass 489):** A four-year visa that allows skilled workers to live and work in specific regions of Australia. There are different requires depending on whether you are applying under the invited pathway or the extended stay pathway.

- **Business Talent (Permanent) Visa (subclass 132):** An entrepreneur visa that allows you to establish a new or develop an existing business in Australia. To get this visa, you have must have a nomination from a state or territory government agency and be invited to apply by the minister. You also must have either:

Net business and personal assets of at least AUD1.5 million and an annual business turnover of at least AUD3 million if you intend to apply for the visa in the Significant Business History stream; or

Have obtained at least AUD1 million in venture capital funding to start the commercialisation and development of a high-value business idea in Australia if you intend to apply for the visa in the Venture Capital Entrepreneur stream.

- **Business Innovation and Investment (Provisional) visa (subclass 188):** An entrepreneur visa for people who wish to own and manage a new or existing business in Australia or to invest in Australia. Requirements include a nomination by a state or territory government or Australian agency, as well as an invitation to apply by the Minister for Immigration and Border Protection.

PORTUGAL

Portugal is a leading country for individuals and families seeking residence in the European Union and has become a popular destination for South Africans. Portugal provides a stable political and social environment, clear and transparent tax rules, good infrastructure, a favourable climate and an excellent quality of life.

Portugal's **Golden Visa Residence Permit (GVRP)** is a residency-by-investment programme that provides qualifying individuals and their family with full rights to live, work and study in Portugal. The minimum stay in Portugal under a GVRP is seven days a year, which will qualify you to apply for permanent residency and citizenship after five years. This visa also grants the right to work in Portugal and provides a visa-free travel within the Schengen area.

Applicants for the GVRP can choose from several investment options, which include the purchase of real estate, investing in funds or establishing a business in Portugal that provides employment opportunities. Minimum investment requirements begin from €250,000.

The most popular investment options are generally the purchase of a €500,000 property or an investment of €350,000 into a private equity fund. Both of these options are set to change in January 2022. The private equity option will go up to €500,000, while the €500,000 property investment is to be limited to Portugal's interior and less-populated regions. South Africans interested in the GVRP should therefore act as soon as possible before these changes come into effect.

TAX IMPLICATIONS

It's critical that any South Africans who are considering emigration should take a close look at the tax implications before they move. Citizens who do not also 'tax emigrate' may find themselves being tax resident both in South Africa and in their new country of residence, and therefore subject to tax on the same income twice.

Even though you're living in another country, you may still be viewed as a tax resident of South African at the same time. To ensure you remain compliant and don't get an unpleasant surprise in the form of an unexpected tax bill, it's vital that you understand the tax residency rules and look at any double taxation treaties that are in place.

South African tax residency can be determined by either one of two tests. One is the 'ordinary residence' test, which looks at 'the country to which a person would naturally and as a matter of course return to from their wanderings'. So if your assets, family and permanent home are in South Africa, you'll be considered a South African tax resident. The second test is the 'physical presence' test, which takes into account the number of days you spend in South Africa over a fixed period of time. Most tax treaties contain a 'tie-breaker' clause that give the sole taxing rights to the country where a taxpayer has a permanent home. If a taxpayer has a permanent home in both countries, the country where their 'centre of vital interests' (personal/economic ties) are strongest is given taxing rights. Where there is permanent home or the centre of vital interest cannot be determined, you'll be taxed where you have a 'habitual abode', or failing that, by the country of which you are a citizen.

THERE ARE A FEW FACTORS THAT TAX RESIDENTS NEED TO BEAR IN MIND WHEN THEY EMIGRATE:

- **Exit charges:** upon becoming tax non-resident in South Africa, there is a deemed sale of all your worldwide assets at market value on which capital gains tax is payable.

- **Capital taxes:** it is also important to take note of the tax regime in the country to which you are moving to, and specifically whether it levies any wealth or capital taxes, or inheritance tax and estate duties. In Spain and France, for example, you are charged an annual tax that is based on the capital value of your worldwide estate.

There are many points to consider before making the decision to emigrate – and it's always advisable to seek professional assistance before heading abroad.

In the market for a mansion?

Christelle Colman, MD at Elite Risk Acceptances

A surge in the number of high net worth individuals (HNWIs) living in Africa is set to inflate demand for prime properties in sought-after South African destinations.

South Africa is perfectly positioned to benefit from the rise in Africa-domiciled HNWIs thanks to our relatively stable economic and financial environment as well as magnificent residential properties on offer. The Wealth Report 2021, published by global real estate firm Knight Frank, forecasts a 139% growth in African households earning more than US$100 000 per year between 2020 and 2025, by which time there will be more than 63 400 HNWIs living in South Africa alone.

Another global survey by Luxury Portfolio International reveals that as many as half of HNWIs are planning to buy at least one extra luxury property in the coming 12 months, compared to just one-in-five at the start of 2020. Many of these buyers are choosing South Africa to invest in. But the rise in demand for prime properties is already being seen in the latest property data. Seeff Property Group, which recorded its highest-ever South African sales in March 2021, says that one-in-three high value properties are being snapped up by foreign buyers. Seeff reported a 36% jump in sales to such buyers across Cape Town's Atlantic Seaboard and City Bowl areas in Q1 2021.

Transactions included a R45 million penthouse at the Waterfront, a R36 million property in Fresnaye and a R20 million house in Upper Constantia. Similarly, Frankie Bells real estate also says luxury homes are back in demand in South Africa. The property group is seeing an increased demand in the northern suburbs of Gauteng, southern suburbs of Cape Town and eastern and southern coastal regions. Furthermore, New World Wealth estimates that over 45% of SA HNWIs either live or have homes on estates. An additional 30% have homes in luxury apartment blocks (which have been the fastest growing residential segment in SA over the past 20 years in terms of price growth). As the demand for ultra-luxury SA homes skyrockets, buyers who are in the market for high value properties should not underestimate the importance of insurance when signing on the dotted line.

Assets with high price tags present unique risks to their owners. There are a number of insurance missteps that the wealthy make, which can cause huge problems at claims stage. Properties with expensive price tags should be insured by specialist insurance brokers and underwriters with extensive local knowledge and strong financial backing. Selecting an experienced risk partner is seen as the first step that HNWIs should take to avoid the many insurance pitfalls in the ultra-luxury home segment.

The most important aspect of buildings insurance is to value the asset at its correct replacement cost, because failure to do so can result in the asset being severely underinsured and the insurer applying 'average' at claims stage. A 20% underinsurance on a R20 million home could leave the insured R4 million out-of-pocket in the event of a total loss. Insuring the property at too high a value has consequences too, as the insured will end up paying higher insurance premiums, but only be paid the correct actual replacement value in the event of a loss.

Luxury homes must be insured at their replacement cost, not the market value. The insured value must include the cost of rebuilding the primary building and outbuildings; restoring any landscaping features; and to provide for costs such as professional fees and site clearing, to name a few. A common error made by international investors when insuring local property is to assume that rebuilding and replacement costs will be similar to those experienced in their home countries. Foreign buyers may also be unaware of the challenges that their properties present insofar rebuilding, due to location.

Expert local knowledge such as the ability to source and cost specialist construction contractors and high-end materials are essential when placing luxury homes on cover," says Colman. She observes that a large portion of the purchase price of luxury homes is linked to location and that it is not uncommon for prime properties to change hands for amounts far in excess of their replacement cost. **Approaching an ill-equipped insurer to place a luxury home on cover can be as devastating as making errors on the sum insured. A specialist insurer who understands the luxury property segment is best-placed to assess your asset values and offer you a competitive, risk-appropriate premium, with no unfortunate surprises at claims stage.**

Imbi Evenhuis 22 years with PPS
PR and Communications Manager

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Dealing with high net worth clients

Jessica Dos Santos Morelli, CIB Corporate Account Manager

Dealing with high net worth clients at a time when down-scaling has become a reality.

If you are involved in any segment of the financial services industry, the term "high net worth client" is not unknown to you. In fact, it is somewhat self-explanatory – high net worth clients are clients who hold financial assets and wealth exceeding a certain amount. Individuals who fall within this valuable client segment tend to have a much wider range of concerns than your regular client since their taxes are higher, their investment portfolios are larger, and many have multiple properties or other unique assets.

Most insurance products often set a client profile criterion for an individual to qualify as a high net worth client, such as meeting a minimum householders and houseowners sum insured for the policy and the insured being no younger than a certain age. They view the world through different eyes and their unique position requires an individual approach. It is essential to think about how to cater properly for their needs, which often differ from other clients'. Identifying high net worth clients helps companies to categorise them separately to provide exclusive services, cater for their special needs and offer a variety of tailor-made features and benefits. High net worth insurance policies are designed to protect people with higher valued homes and higher valued possessions such as jewellery, fine arts, antiques, collectibles, and silverware. A standard insurance product would not necessarily be adequate for a high net worth individual to safeguard their assets.

An insurance product for a high net worth individual will therefore offer higher cover limits on an assets-based wording, which provides cover for all items removed from the insured address, as opposed to perils-based wording. Extended basic cover is a very common feature found in a high net worth insurance product, providing cover for loss or damage by any event not specifically excluded or limited under the policy. This offers the likes of entrepreneurs, business leaders and travelers the peace of mind knowing that they are covered, irrespective of whether they have specified items on their policy or not.

Clients of this nature expect a higher level of service, especially at claims stage, and often insurance products designed for these clients offer a dedicated home and motor assist line for streamlined processing of claims. Right now, however, in the grip of the COVID-19 pandemic, a financial safety net has never been more important as individuals and companies come under unprecedented financial pressure.

The weakening economy has serious consequences for individuals reconsidering their budgets, which often leaves clients looking for ways to cut back on unnecessary expenditure. Unfortunately, cancelling or reducing insurance covers is seemingly the easiest and often the first decision made by clients – even high net worth clients. Clients are re-assessing their insurance portfolios and are, in most cases, dialing their insurance cover back. We've seen examples such as requests for reducing coverage on older vehicles, adjusting retail values on motor vehicles, downgrading from comprehensive cover to third-party, fire and theft cover, or even only third-party cover. We have also seen a rise in requests for higher excesses and reduced premiums and cancellations on parts of their insurance portfolios, such as home contents.

Risk are not scheduled, however, and cutting back insurance could be more financially wounding in the long run. **Remember, insurance is not a luxury purchase and should not be viewed an unnecessary expenditure. Rather, it should be viewed as a financial tool to assist the insured in the protection of their assets, providing a level of certainty – especially in today's economically challenging times.**

More time to look at finances

Craig Turton, Head of Wealth at Emperor Asset Management

A recent study showed that household net wealth increased to R7 797.4 billion by the end of Q4 2020. This is R236.3 billion higher than a year before. The increase in household net wealth was even more spectacular when measured in nominal terms (current prices). **We asked Craig Turton, Head of Wealth, Emperor Asset Management, for his thoughts around this, especially in light of a difficult year economically.**

HOW WAS THIS VALUE CREATED?

Covid sent our world and economies into a spin. During this time there was so much uncertainty around where we were headed. Some businesses suffered in varying degrees, while others thrived during this time. The same thing happened with people and their wealth. So many factors could have played a role in how your wealth either declined or increased in value.

SO HOW DID PEOPLE MANAGE TO INCREASE THEIR WEALTH DURING THIS TIME?

EasyEquities was one of the businesses that benefited from the pandemic, our investors grew exponentially as well as the investments placed on our platform. We put this growth down to people having spare cash as they could not spend it on luxury items as well as time. People had time to look at their finances, they could not use a person to invest for them during this time, so they went digital. There were opportunities created in the markets around the world that the investor would want to take advantage of.

And they did. The wealth created in Q4 came from people that had money to invest or who already had investments in place. For example, the Alsi index from the end of March 2020 to April this year returned over 50%. If you were brave enough to remain invested, you would have enjoyed these returns. Even if your investments were held in Pension or Provident funds, the growth would have come from these structures too.

WHERE DOES THIS WEALTH LIE?

The survey referenced in this article talks about the wealthy in South Africa. There is a difference between high earners and wealthy individuals. High earners may not be wealthy in terms of their asset to debt value. This wealth lies with the population that is invested in Pension or Provident funds, share portfolios, unit trusts, ETF's, etc. A lot of this wealth could also sit in offshore structures as this is a popular investment choice.

WHAT ARE THE TRENDS IN FINANCIAL ADVICE FOR HNW INDIVIDUALS?

HNW individuals are seeking diversification from traditional-based investment structures to more alternative structures. Eg. Hedge Funds, Private Equity portfolios, share portfolios (both local and offshore) as well as crypto. There also seems to be a move in this low return environment for HNW individuals to re-evaluate the fees they are paying in some of their investment structures. Forever in search of value. We have also seen an increase in demand for sustainable investment options. Investments made in protecting our environment and our futures. Technology has evolved at a rapid rate recently and more investors are looking to invest in the tech industry. Think Tesla and Zoom.

A massive trend is for South Africans to diversity away from South Africa and gains access to other markets around the world. They are also diversifying away from the Rand and investing in more stable currencies, like the USD, Pound, Euro, and Australian dollar. The world has become a lot smaller for an investor and the ease of investing offshore now is attracting more and more HNW clients to invest overseas.

HAS THE REQUIREMENT FOR THIS TYPE OF INVESTOR CHANGED?

Yes, it has, the move to more complex investment structures, ones that are potentially higher risk but with more reward long term. They have become more cost-sensitive and with technology around, they can do their own research and make investment choices for themselves. These investors are learning more every day about investing, they can build their own portfolios now, with ease and flexibility. We are seeing more bulky investments coming through on EasyEquities which shows us that the HNW individual is trusting technology and using resources available to them to make choices.

These types of investors also want information at their fingertips. They know how to use apps; this is the new world we are living in.


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FINANCIAL PLANNING

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Generics and biosimilars: champion cost savers in the healthcare industry

Dr Morgan Mkhatshwa, Head of Operations at Bonitas Medical Fund

It is common knowledge that healthcare costs rise exponentially and medical schemes have to find ways to reduce costs both for the medical scheme and its members. Kathy Malherbe spoke to Dr Morgan Mkhatshwa, Head of Operations at Bonitas Medical Fund, about generics and biosimilars and how they contribute towards reducing healthcare costs.

One of the cost drivers is medication which is why The Pharmacy Act of 1997 and the Medicines Control Amendment Act, among other things, have made it mandatory for dispensers of medicine, be they doctors or pharmacists, to offer a patient a generic substitute if one is available. However, generics are not the only cost savers.

The patent expiry on many biological medicines is opening the door to more affordable, life-saving 'biosimilars' to be produced – another 'champion' in the pharmaceutical industry. Increased consolidation in the healthcare industry is also having a positive impact on medicine prices and availability. Medical aids are trying to create more competition, even among medicines that are still under patent. They are also tightening up their formularies, in part to encourage pharmaceutical manufacturers to provide better pricing.

WHAT IS A GENERIC DRUG?

A generic is a pharmaceutical drug that contains the same chemical substance as a drug that was originally protected by chemical patents. It is an exact copy of brand-name drugs that has the same dosage, intended use, effects, risks, safety and strength as the original. In other words, their pharmacological effects are identical to those of their brand-name counterparts. But at a much more affordable price… Generic medicines cost, on average, between 30 and 80% less than the original.

WHAT GUARANTEE IS THERE THAT GENERICS ARE TRUE REPLICAS?

In South Africa, the Medicines Control Council (MCC) carries the responsibility of making sure that generic drugs are safe and effective. Generic drug manufacturers have to prove their medicine is bioequivalent to the original brand before a product is approved into the local market.

WHAT IS A BIOSIMILAR?

Biological drugs are large, complex proteins made from living cells through highly complex manufacturing processes. Biosimilars are a close equivalent but not exact copies of biologicals. and are manufactured after the patent for the biological/reference drug ends. To be called a biosimilar drug, it must be shown to be safe, work as well as, and work in the same way as its reference drug – the biological. It must also be used in the same way, at the same dose, and for the same condition as the reference drug. The cost of manufacturing biological medicines is more expensive than conventional chemically produced medicines and, because biosimilars are close copies, they remain expensive but are still more cost effective that the original.

WHAT ARE THEY USED TO TREAT?

The most important biological medicines are used to treat conditions such as rheumatoid arthritis, Crohn's disease, multiple sclerosis, diabetes and cancers.

HOW ARE THEY DIFFERENT FROM GENERICS?

The reason biological copies are called biosimilars is that, unlike generic medicines, the active ingredients are not exactly the same as the original but 'similar.' It is impossible to make identical copies when 'translating'

"The cost-efficiencies, which generic and biosimilar medicines provide, are assuming greater importance for state and private health funders as populations age and the prevalence of cancers and other non-communicable diseases increase.

biological molecules from living cells in the laboratory. Very importantly to note though, is that even though biosimilars are not a direct copy, the therapeutic effect is the same as the original biological product.

WHY ARE GENERICS AND BIOSIMILARS LESS EXPENSIVE?

Generics: Pharmaceutical companies are researching and testing new active ingredients and medicines all the time. The patent is valid for about 20 years which means that only the approved company may research, create a new formulation (the 'recipe' and process for creating the actual medicine) and register the medicine. This takes years and carries a huge financial burden. After about 8 to 10 years on the market the patent usually expires and other drug companies can make an exact copy of the drug without the initial clinical research costs.

Biosimilars: While these medicines have revolutionised treatments for many diseases, the research and development expenses, including the costs of highly skilled scientists, clinical trials and the specialised equipment needed, are the main cost drivers. Companies are required to fund these costs, often in excess of 10 years, before registration for use by patients.

BIOSIMILARS SAVE COSTS BECAUSE:

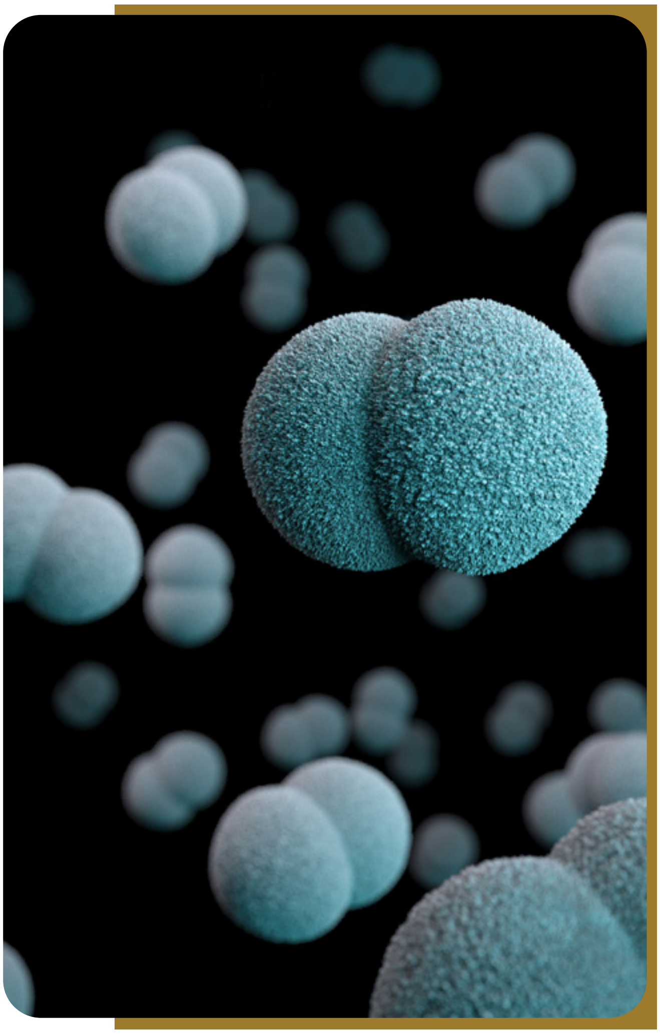
- The molecule and effects have already been discovered and identified by the originator
- The number of patients required in the clinical trials is reduced
- The original biological medicine would have been 'manufactured' at least 20 years ago. New manufacturing methods are more efficient.

The cost-efficiencies, which generic and biosimilar medicines provide, are assuming greater importance for state and private health funders as populations age and the prevalence of cancers and other non-communicable diseases increase. SA's already stretched healthcare budget is coming under increasing pressure to fund the high cost of pharmaceuticals, especially biological medicines. While generics and biosimilars may not be a panacea for high healthcare costs, they will go a long way towards offering a cost-effective, quality treatment for a large range of diseases. **In addition, these breakthrough treatments can halt progression and sometimes even prevent recurrence by acting on proteins that affect the genome/immune system.**

The link between the big 4 illnesses and the pandemic

Jay Naidoo, Executive General Manager for Agency Franchise Distribution at Old Mutual

Severe illness pay-outs increased over the last year and are likely to continue to reflect increased pay-outs over the next year as a direct consequence of reduced services and increased fears around the Covid-19 pandemic.



The claims stats Old Mutual released recently reflect a 95% pay-out ratio for severe illness and physical impairment cover adding up to a total of R871 million. The illness pay-out amount increased 18% from the previous year. Cancer and tumours accounted for the largest proportion of illness claims at 45%, followed by cardiovascular disorders at 27% and central nervous system disorders at 14%.

This increase in severe illness pay-outs corroborates a study by the World Health Organisation (WHO) last year which found that people with severe illnesses such as cancer and cardiovascular disease were not receiving the health treatment they needed since the Covid-19 pandemic began. Reasons included disruption of health services and a reluctance to enter the medical environment for fear of the increased risk of contracting Covid-19.

The survey, which covered 155 countries found that the postponement of public screening programmes such as mammograms (breast cancer) and pap smears (cervical cancer) was also widespread, reported by more than 50% of countries. This was consistent with initial WHO recommendations to minimize non-urgent facility-based care whilst tackling the pandemic.

The most common reasons for discontinuing or reducing services were cancellations of planned treatments and a lack of staff because health workers had been reassigned to support Covid-19 services. Bente Mikkelsen, Director of the Department of Noncommunicable Diseases (Severe Illnesses) at WHO said it would be some time before the full extent of the impact of the healthcare disruptions could be determined, with specific reference to patients with severe illnesses.

While exposure to Covid-19 could be devastating for someone with a severe illness, not addressing their medical needs could be just as fatal. Old Mutual found that the Big Four illnesses (cancer, heart attacks, strokes, and coronary artery bypass grafts) contributed to 70% of the illness claims paid in 2020. Old Mutual's severe illness cover offers true customisation, total flexibility and immediate cover.

We paid a total of R147 million in terminal illness claims to customers while they were still alive so they could make the most of their last moments with their loved ones. When you contract a severe illness, there are numerous financial costs that you will have to address, including reduced income. Old Mutual's severe illness cover ensures that those needs are addressed so that you can make the most of your last moments with your loved ones.

The role of the financial adviser becomes vital when a customer contracts a severe illness in terms of helping them set aside their emotions and start revising their financial plan to ensure that their health needs are addressed and their families are financially provided for.

How offshore life wrappers can reduce foreign inheritance tax

Colin Archibald, Regional Manager at Glacier International

If you own assets outside of South Africa, your estate may have foreign tax liability upon your death.

These foreign estate taxes, also known as inheritance tax, can be avoided by holding certain investible assets (e.g. ETFs and shares) in an offshore life wrapper or policy. The potential reduction in costs and taxes is significant . Here I unpack foreign inheritance tax and the advantages of offshore life wrappers in mitigating these costs.

ABOUT SITUS ASSETS AND HOW THEY ARE TAXED

'Situs' is Latin for 'position' or 'site' and generally the place where an asset (such as fixed property, collective investments, shares and ETFs, among others) is located. For the purpose of this article, the focus is on owning investment assets in the US or the UK. The situs rules for inheritance/estate tax purposes vary from country to country and can be, for example, the physical location of immovable property or the place where, for example, a share register is kept and maintained. Under US and UK situs laws, as a non-resident, your foreign assets (those worth over $60 000 in the US and £325 000 in the UK), could result in inheritance tax in the UK or federal estate tax in the US as high as 40% when you die. Moreover, the assets will still be included in your South African estate for estate duty purposes. Estate duty in South Africa is currently 20% for dutiable estates under R30 million and 25% for estates over R30 million.

Important to note that South Africa has double estate duty agreements with very few countries, namely the US, UK, Botswana, Lesotho, Swaziland and Zimbabwe which means that, in the case of the UK and the US, inheritance tax payable in South Africa can typically be reduced by the estate duty due in those countries. Depending on the value of the assets in the US and UK, the rates can be as high as 40%, which is much higher than the SA estate duty rate, even after a credit has been provided in SA against the SA estate duty liability.

WHAT YOU SHOULD KNOW ABOUT INVESTING IN AN OFFSHORE LIFE WRAPPER

You can nominate beneficiaries in an offshore wrapper issued by a South African insurer. As a result, the wrapper will not be subject to the normal administration processes of the deceased estate. This means you don't need an offshore will or testament, nor are you required to obtain foreign probate, to deal with the offshore wrapper, as is normally the case with assets you hold personally. In most instances, these processes are both costly and time-consuming. Holding the investments inside the offshore wrapper also avoids any potential foreign inheritance tax being levied on those assets.

Furthermore, the investments in the wrapper can continue in those beneficiaries' names or, they can elect to receive the investment proceeds from the wrapper on your death.

WHY DOES AN OFFSHORE LIFE WRAPPER MAKE SENSE?

- It mitigates probate and foreign inheritance tax. Broadly speaking, probate is the legal process when a will is "proved" in a court of law and accepted as a valid Will in order for the estate assets to be administered in that particular jurisdiction. As mentioned previously, the situs of an asset refers to where the asset is located for inheritance/estate tax purposes. This may be important when determining which laws apply to the asset. Investing in a wrapper therefore avoids both the probate process and the associated costs, as well as foreign inheritance/ estate taxes.
- No executor's fees. Although the wrapper forms part of your South African estate for estate duty purposes, when nominating a beneficiary, the wrapper will not be subject to executor's fees.
- It offers tax efficiency. The income tax rate

in the wrapper (for individuals) is 30% and capital gains tax (CGT) is currently at 12%, which represents a considerable tax saving for individuals with high marginal tax rates. All tax inside the wrapper is calculated and settled annually with SARS as part of the insurer's tax liability.

- Access to the investment or proceeds is immediate. Offshore estates can take months or years to be wound up. In the case of an offshore life wrapper, your beneficiary will have immediate access to the investment upon your death.
- It offers protection from creditors. If the life wrapper is an endowment policy, such as the Glacier International Global Life Plan, and has been in force for at least three years, benefits (or received returns) of the Plan may not be attached, or be subject to execution under a judgement of court, or form part of the owner's insolvent estate. Upon the death of the owner, if the owner is survived by a spouse, child, stepchild or parent, the benefits of the Plan cannot be made available for the payment of the owner's debts. The protection continues for a period of five years from the date that the benefits are provided. Wrappers issued as sinking fund policies, however, do not qualify for insolvency protection.
- Access to global investment opportunities. A comprehensive range of collective investment schemes, managed by leading global asset managers, provides exposure to various asset classes, regions and sectors globally.

Investors can also hold global securities directly through a number of stockbroking service providers inside the Glacier International Global Life Plan.

Before you decide to invest in an offshore life wrapper, start by determining the appropriate offshore portfolio to meet your investment objectives. It's a good idea to choose an investment administration platform where access to research and a range of offshore investment solutions are available.

Your financial adviser is well-placed to determine the best solutions based on your tax and estate planning requirements.

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Crises and recoveries

Old Mutual Wealth Investment Strategists Izak Odendaal and Dave Mohr

After several decades of calm, the global economy was hit by two massive crises in the space of 12 years: the 2008 Global Financial Crisis (GFC), and Covid-19.

As the world now exits the pandemic (unevenly), it is worth comparing this recovery phase with the early post-financial crisis period. One could of course write a whole book about it, so in the interest of brevity the focus is on four areas: economics, policy, investor behaviour and a few thoughts on South Africa's specific experience.

RECOVERIES, FAST AND SLOW

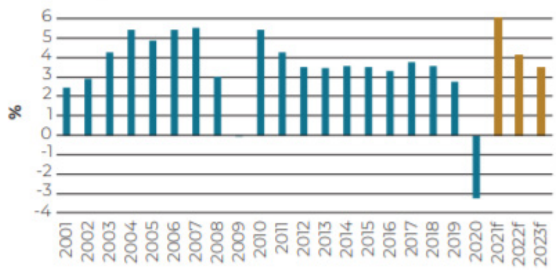
Starting with the economics, it is important to highlight that the two crises had very different origins. The financial crisis followed years of strong growth that resulted in the build-up of major imbalances, notably household debt tied to property. While the GFC is often blamed on the collapse of Lehman Brothers in September 2008, in reality the entire global financial system and global economy were dangerously unbalanced, and any number of events could have set off a collapse.

The global recovery was unexpectedly strong in 2010, with IMF data showing a 5.3% bounce following the 0.1% contraction in 2009. But the scars of the financial crisis meant the subsequent years saw disappointingly tepid global economic growth. Though interest rates fell to unimaginably low levels, households across the rich world did not want to borrow more. They were still paying off debts related to properties whose values had declined. At any rate, banks did not want to lend much either.

They were also busy repairing balance sheets after the near-death experience of the crisis, with regulators also pushing for much tougher capital buffers. The pandemic, in contrast, was an exogenous (external) shock, like a natural disaster. It stands to reason that the recovery should be quicker. Once people are no longer scared of getting the virus, they will want life to return to normal. That is, for those who are financially able to do so.

Though unemployment has declined, it remains elevated. Nonetheless, though the 2020 recession was much deeper than 2008 for most countries, it was shorter with the recovery phase coming much sooner. The latest round of purchasing managers' indices for June are at very robust levels. The composite PMI (services and manufacturing) for the US was at 63.7, with levels above 50 indicating expansion. The Eurozone PMI hit a 15-year high of 59.2. This suggests the global economy can achieve the IMF's forecasts for 6% growth this year, following the record 3.2% decline in 2020.

CHART 1: REAL GLOBAL ECONOMIC GROWTH WITH FORECAST, %



REAL GLOBAL ECONOMIC GROWTH WITH FORECAST
Source: International Monetary Fund

New normal? Having said that, the definition of 'normal' has changed for many. Remote working has proven to be a workable alternative, and this has contributed to a housing boom in many countries. This clearly contrasts to the post-2008 period, where property markets spent many years in the doldrums, weighted down by oversupply. Indeed, the last decade saw housing supply grow very slowly. Now that demand has shot up, many buyers are struggling to find what they are looking for in the suburbs.

Apart from remote working, the pace of technological adoption seems to have sped up more broadly. This may give a positive boost to productivity and counter the impact of slowing population growth in many developed countries. If not, we should not expect the current boomy growth rates to last (long-term economic growth is basically the combination of growth in the workforce and productivity growth).

Policy predicaments: The financial crisis forced policymakers to reach for unorthodox tools. Central banks slashed rates to zero, hitting the so-called lower bound, and thereafter turned to quantitative easing (buying bonds) to improve liquidity and ease financial conditions. This worked to end the acute phase of the crisis, but did not help the recovery much. Again, low interest rates are less effective if no one wants to borrow. The fiscal policy response was largely aimed at bailing out banks. Nonetheless, government debt levels shot up, particularly in developed countries. In China, an epic credit boom was unleashed at the government's direction (but not through direct government funding).

This world of ultra-loose monetary policy and high government debt levels soon gave rise to cries from certain corners of 'currency debasement' that would lead to hyperinflation. The emphasis soon turned to ways of reducing government debt. In 2010, the UK's coalition government announced its intentions to balance the books by cutting spending. By 2011, several southern European countries faced a full-blown fiscal crisis, with Greece eventually needing bailouts but also having deep budget cuts imposed. The US also took a sharp turn to austerity in 2013. Much was said about the 'bond vigilantes' who would punish governments for not tackling debt, but in reality the bond markets of the major economies (Germany, UK, US but not Italy or Spain) were practically begging the major economies to borrow more. There was overwhelming demand for their bonds as indicated by low bond yields.

Much like today, there was an inflation scare, largely due to commodity prices recovering quickly. While some central banks, notably the US Federal Reserve and the Bank of England, correctly looked through the temporary spike in inflation, others panicked. The European Central Bank hiked rates in 2011 even as the region was about to be engulfed by the debt crisis. It must rank as one of the worst policy errors on record. It was eventually forced to cut rates into negative territory (unthinkable a decade ago), and they have remained submerged ever since.

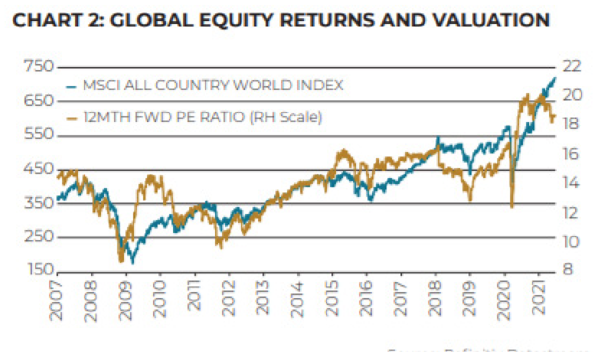
Policymakers have taken some of these lessons on board. On the fiscal side, the advice from the IMF, traditionally the high priests of fiscal discipline, has been to focus on economic recovery, not debt levels. The US in particular opened up the spending taps. The Trump and Biden administrations borrowed trillions (with a t) to prop up the economy in the wake of Covid-19. More is in the pipeline, with agreement on an $1 trillion infrastructure deal seemingly reached last week. In terms of monetary policy, the focus over the past two weeks has been on the slight shift in the Fed's outlook for interest rates in its recent meeting. But broadly speaking, the Fed still maintains that rates will remain very low (and negative in real terms) for several years. And while it will eventually start to slow or taper its monthly bond buying programme, maybe later this year even, it's likely to still be active in the bond market well into 2022. Selling the bonds back into the market, quantitative tightening, is a very distant prospect.

For the Fed in particular, the lessons came not only from looking through the inevitable distortions of the early post-GFC days, but also from the last days of the pre-pandemic era. In 2019, unemployment had fallen to near-record lows, wage growth was finally accelerating, and thousands of marginalised workers were being pulled into the labour markets without any sign of inflation. This seems to have convinced Powell and company of the benefits of letting the economy run and to not try to attack inflation pre-emptively.

Market behaviour: Global equity markets suffered horrific losses throughout 2008 and into early 2009. Peak to trough, the MSCI All Country World Index lost 58%. It bottomed out on 9 March 2009, and then staged an impressive rally even though the global economy was still in bad shape as described above. The US, Eurozone and Japanese economies were still contracting, but investors realised the worst was over (particularly after the stress tests showed that banks were in better shape). The rally was rapid, and the global equities doubled in the space of 18 months.

Many commentators thought it was too much too soon. Over the subsequent years, it became known as the most unloved bull market. Investors were continuously looking over their shoulders, worried that a repeat of 2008 loomed. There were three serious pull-backs in 2011, 2015 and 2018, but over the period from 2009 to 2019, global equities delivered 14% annualised or 334% in total. Not bad.

With hindsight, one reason for this performance is that equities were cheap by historic standards when the rally started in 2009. The forward PE ratio was 10. The other is that bond yields steadily declined over the decade, making equities more attractive by comparison. Thirdly, much of the gains can be attributed to a handful of superstar technology companies.



GLOBAL EQUITY RETURNS AND VALUATION
Source: Refinitiv Datastream

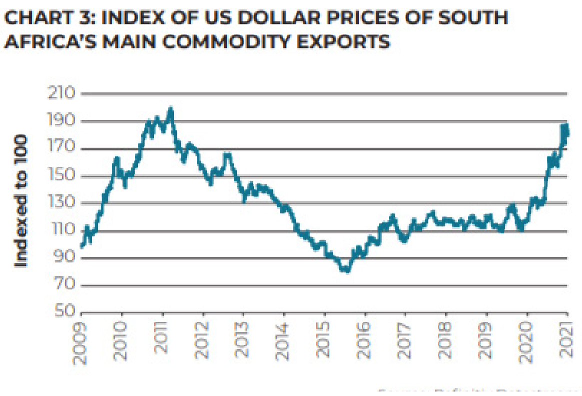
Looking ahead, bond yields have limited room to fall further, and while another company can emerge to post Amazon or Apple-like growth rates, it is not a given. But the biggest worry for global investors today is valuations. As investors realised that worst-case scenarios would not come to pass, the equity market bottomed out in March 2020 and rallied at a blistering pace (even faster than in 2009). While company profits are rebounding, the forward price earnings ratio remains elevated at 18. Global equities can still deliver positive real returns in the coming years, and the asset class is definitely more attractive than developed market cash or bonds.

But we will probably have to settle for lower returns than over the previous decade. In 2008 and 2020, the rand fell sharply as equity markets crashed and investors fled to the safety of the US dollar. In both cases, the rand retraced most of its losses over the next year once the panic had subsided. Despite it being a familiar pattern, it still caught many by surprise.

"The next decade is not going to follow the same path as the previous one, but there is a lot we can learn."

South Africa's cycles: The early post-GFC era was a time of optimism in South Africa. We had a mild recession by global standards, our banks survived unscathed, commodity prices quickly rebounded, and the 2010 FIFA World Cup was a successful showcase of the country's beauty and brains. It wasn't to last.

Commodity prices peaked in 2011 and would collapse over the next four years. Though demand from China slowed somewhat, the big reason was a surge in supply as new mines that were commissioned during the boom years started coming on stream.



INDEX OF US DOLLAR PRICES OF SOUTH AFRICA'S MAIN COMMODITY EXPORTS

Source: Refinitiv Datastream

A large current account deficit earned us a spot in the Fragile Five and would leave us dependent on volatile capital flows. This in turn contributed to the Reserve Bank hiking interest rates in early 2014 even as domestic growth was slowing down. And a country once known for stable and sensible policies introduced the terms 'Nenegate', 'Nkandla' and 'State Capture' to its lexicon, along with the slightly older 'load-shedding'. The government's fiscal deficits ballooned. Unlike in developed countries, the government borrows at high real interest rates. The unambiguous signal from the market is to stabilise debt.

In other words, South Africa came into the pandemic in bad shape. It is hard to imagine being hit by a worse crisis, and while a third wave is still raging (and rising), it is important to note that the economy did not collapse and society did not disintegrate. The economic recovery seems to be going better than expected. The announced move back to Level 4 restrictions for two weeks will hit the hospitality sector hard, but depending on how long it lasts, the damage is likely to be contained. We are helped by elevated commodity prices, and while the post-GFC experience suggests we shouldn't bank on the good times lasting forever, so far there is there is little indication of a notable supply increase that could sink prices.

Inflation is under control. Though last week's CPI data shows a jump in headline inflation to 5.2% year-on-year in May, this largely reflects the rebound in oil prices from a year ago in a pattern very similar to 2010. Core inflation, which excludes volatile food and fuel prices, was only 3.1%. A muted inflation outlook means the Reserve Bank can keep interest rates close to current levels for some time, given the economy the support it needs.

Importantly, we seemed to have turned the corner on the policy side. The government has reiterated its commitment to fiscal consolidation, though the market will only believe this fully once a wage deal is inked with public sector unions. The last few weeks have seen a number of structural economic reforms announced, most recently an adjustment in how the country's underperforming ports are run, which among other things will allow for private sector investment. President Ramaphosa's consensus-driven approach has been heavily criticised for being slow, but the reforms are more likely to stick and outlive his tenure if there is broad buy-in.

Learning the lessons: The next decade is not going to follow the same path as the previous one, but there is a lot we can learn. There are four points to highlight in closing. Firstly, such a disruptive experience will leave a lasting psychological imprint on many people, particularly those who entered adulthood (and hence financial responsibility) for the first time. An entire generation could end up with very different attitudes to work, money and risk. How exactly, only time will tell.

Secondly, policymakers have learned lessons too, but they cannot control everything. There will be surprises and there will be market wobbles. However, life goes on and investors should avoid panicking. Even the political earthquakes of 2016, the Brexit vote and Trump's surprise win, ended up doing less portfolio damage than feared.

Thirdly, the pandemic was an exogenous shock, a true black swan event. But for the most part, markets and economies are cyclical. Things that go up (relatively speaking), eventually go down and vice versa. Be careful of confusing a cyclical change with a permanent shift. South Africa went through a bad cycle, and now it seems that the cycle has turned.

Finally, the bull market of 2009 to 2019 was born in doubt and raised in fear. Talk of a 'low return environment' abounded. And yet the best course of action was just to hold your nose and invest, without trying to be clever about timing. Those who waited for clarity and certainty – or the next pull-back – missed out.

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Conversation with Dave Foord: Investing in a post Covid world

We chatted to Dave Foord about his views on investing in a post-Covid world and where the opportunities will be as well as what he thinks about the prospects for global inflation. This is a summarised transcript of the discussion.

What's your current view on inflation?

Inflation is the enemy of long-term investing and savers. If we look at the big picture, governments are in debt and they need inflation to lesson the burden of that debt, unfortunately. The Fed is talking about 2% as an inflation target. This was the target when inflation was 4-5% and at 2% the dollar depreciates and halves twice in a person's life time.

So it's surprising that we have not had inflation up to now given the amount of free money in the world. We study it intensely and our take is that governments have avoided deflation. Deflation was actually quite good but the governments avoided it because it is damaging for the heavily indebted. This was possible due to some deflationary forces in the global markets. Firstly, China being more efficient at creating goods cheaper and distributing them around the world. The second was the efficiency in food production partly due to the advance of science. The other, less mentioned area is the technological advancements through computerisation has only recently started to pervade around the world creating efficiency and disruption. These forces have subdued inflation. Demographics have also played a key role. Demographics is destiny and the rate of the growth of the population has also slowed somewhat, which has helped.

A fifth item is that the rich/poor divide meant that the demand from middle sector has not grown as much as it used to. The balance between demand and supply has been in favour of supply, and we have had a pretty benign inflation environment for a while. This has panicked the Fed. As we move forward what is happening with all those factors? The fed has made it clear they won't increase rate, so from our side it's clear that the Fed and governments generally will err on the side of letting inflation come through. However, the other deflationary forces are still there. There is still a lot of cheap money around which will not necessarily go away. There is a lot of disruption around and there is a lot of base effect going on now – with growth, earnings and inflation numbers. We expect inflation above 2% for a while and it will be interesting to see what happens in a few years – will we come back and neutralise at 2%? In SA, the market is forecasting about 5.2 %. We think that is too high due to the base effects. We think we will get a return to about 4% inflation in SA. So this is not a runaway inflation or scare story but it is something we need to deal with so we must avoid assets that don't do well in inflation. Equities that have pricing power are the place to be at the moment.

How do you think central banks handled the Covid pandemic?

The central banks coordinated efforts to stem the collapse by pumping money in at different levels. While this could have been done more efficiently, if they hadn't done it the effects would have been far worse. We can see from the short duration of the market collapse that things recovered quickly. However, the consequences of some of the actions have favoured the large and hurt the small. The mom and pop shops and small businesses have been gutted and they have not managed to recover. If we look at the effect of the interest rates that are below inflation, I think it has been detrimental. With interest rates below inflation you get a misallocation of capital. In China, interest rates have been positive and low and things have remained stable. The countries who have been doing well are the countries that have been able to give money away with strong balance sheets. They have been able to hold up their economies, but it has not been good for third world economies at all.

Disruption is opportunity

I'm excited about the world at the moment. There is so much disruption. Any disruption is opportunity – to either make or lose money. There is disruption in the cost of money, in Work-From-Home and lifestyle. In jobs and tech across all sorts of industries. It's a very exciting time and there is lots of opportunity. The pricing in the market is also something worth looking at. Work-From-Home is disruption property. DNA and genome developments is disruption pharmaceuticals. Utilities are being disrupted. The ESG world is disruption the oil industry. The markets are reflecting this, but we don't buy markets – we buy companies, so we need to look for the growing industries and the growing companies within those sectors.

There is a large exposure to the Chinese tech giants in the portfolio. The G7 are now looking to come after the earnings of some of the biggest tech companies, bringing these organisations under increasing pressure, what is different about the Chinese tech companies?

The difference we see in Chinese tech companies is that they are serving the Chinese consumer – so it's a play on the Chinese consumer. China is moving from infrastructure-driven GDP to consumer-driven GDP and benefiting from that. China is actually doing what the rest of the world should have been doing – passing on the benefits from growth to the wider population. They are unlikely to be too affected by this headwind. Having said that, this headwind for western companies is a big one. There will be huge implications from a tax perspective, but the devil will be in the detail. It's not clear yet who will benefit from those taxes. I think this is an important move that needs to happen. The issue of big global corporates not paying their taxes needs to be addressed and it will be addressed, but I have a concern that it might not be done the right way.

Global fixed-income investments: If there is progression in terms of rates around the world, when does that section become attractive again?

In my view you are going to need a serious bear market in corporate bonds, government bonds and high-yield bonds before you want to buy that area. It really is a no-go area. If you can find an anomaly like we did with the Cambodian bond – we have the 9.25% USD for three years, which we got paid out two weeks ago – it's great. But generally, in terms of sovereigns and US bonds you don't want to be long duration. There is a greater risk of interest rates going up. I don't think we are going to see over 3% in the US tenure for a long time. As long as the tenure stays below 3% then equities by comparison are much cheaper, particularly those equities that have pricing power and are growing their earnings.

You mention that the most important thing about investing in a bond is when you will be paid. What is your view on South African Governement bonds – will investors get paid back?

In SA you will be paid back. You are lending the government Rands and you will get Rands back. The question is what the Rands will be to buy you. We have been at the short end in the R186 and we saw the opportunity there a few years ago. We benefitted from eth yield curve steepening and the waterfall effect there. We have achieved 10.6% per annum over the last 3 years. It's given 11.1% over the last 2 years and even over the last year it's given us 9.2%. Now it is sitting at 7.3% and we believe we will likely get around 8 plus% over the next few years as we expect a pull towards the call rate. With inflation likely to average 4% we are achieving our mandate, so we have 25% of the fund there. We are attracted by going out a little further by those higher yields that were available at one stage for a little bit of the fund, but in time we will probably want to go for the 2030 as it gets shorter duration and take advantage of the waterfall effect there as long as the yield curve maintains the same shape that it has now. However, we are an open economy and if interest rates go up around the world, they will go up here. SA hasn't caught up with the very low interest rates around the world. Our core rates have only recently gone down - and they are likely to stay that way. Furthermore, with the rand strengthening the way it is they have an opportunity to cut rates further – in which case we will do even better with those bonds. This is why we have gone out a little bit with the R186's – but we are not going out very far.

What is your view on the commodities super cycle? Do you think South Africa is likely to benefit further from that?

We are definitely going to benefitting from that. One of the things we have benefitted from and the reasons for the strength of the Rand 14 months of trade surpluses. That's been mainly driven by the fact that imports collapsed but export continued. So mining volumes and mining efficiency has held up surprisingly well which has been great for South Africa. This will continue until the imports start to come through. This will be the big moment for the currency.

Your views on Property? What are you seeing in Singapore?

There is a lot of banking here so like many cities in the world we are seeing a huge reduction in the number of people going in to the office, which means that the companies don't need the space anymore. This is as a result of reduction in head count, efficient technology and the work-from-home benefits to people's quality of life.Cities have been overtraded and congestion is a problem. I think downtown real estate, particularly commercial has seen its best days. Property needs to be reinvigorated. An A0grade building in 1990 is no longer A-grade. It's probably c grade whether its New York, London or Singapore. That's a life expectancy of only 20-25 years and people are trading them at 3-4% yields so the payback is longer than the life of the building. This is a problem and you see it in REITs.

Do you see any opportunities in property?

For us the growth area is logistics. Logistics has been the place to be for the last 10 years, and we have been there for the past 4 or 5. Getting goods to shops and people more efficiently all involves logistics and special warehousing, so this plus storage is where the growth has been, and we have benefitted from that.

How can you check for your fund's readiness to invest in infrastructure?

Investment infrastructure is discussed broadly in the pension fund industry. But how can you check for your fund's readiness to invest in infrastructure? Is this form of investment suitable for your fund?

Malizole Mdlekeza, Pensions & Investments Actuary, Managing Director of MDM Actuaries and Chairman of the Actuarial Society of South Africa's Alternative Investments Forum, walks us through a high-level decision-making process.

Infrastructure investment for pension funds is widely spoken about these days, but given the uniqueness of South Africa's pension fund industry, how, realistically, can pension funds invest? Is investing in infrastructure suitable for your fund at all? Currently, South Africa has just under 5 000 FSCA registered retirement funds, and a total pension industry size sitting upwards of R4.6-trillion.

South Africa has various categories of funds, such as defined benefit funds (where the pensions paid depend on the number of years a member has contributed to a fund, as well as their level of earnings or salary near retirement); and defined contribution funds, where the benefits or pensions paid at retirement vary, and depend heavily on variable factors such as investment returns over time.

Defined contribution funds can be further subdivided into the pension vs. provident fund sub-categories, and one can further sub-categorize funds into standalone vs umbrella funds, for example. While each pension fund is unique, and proper actuarial and investment advisory and modelling is needed before making suitable and appropriate investment decisions, there are (at least) five high-level criteria that trustees need to consider before investing in infrastructure:

1. APPETITE TO INVEST

Trustees need to assess, independently, whether they want to or are ready to more directly and consciously invest in infrastructure before anything else. We do not operate in a prescribed assets environment currently, so the choice to invest ultimately remains with the trustees. Returns on well-structured and operational unlisted infrastructure assets, for example, tend to be more stable over time than investment into listed equities (the stock market) – in part because such infrastructure investments are less affected by market fluctuations and sentiment, among other things. Unlisted infrastructure investments may be more attractive if a fund is concerned about diversification and volatility for example. So, the first thing funds need to do is decide whether this is something that they are interested in exploring or not.

2. PENSION FUND STRUCTURE

Each pension fund is unique, so pension funds need to assess whether their type, total fund size, size relative to liabilities, cash flow patterns and liquidity requirements (among other things) are suitable for each type of infrastructure investment opportunity or vehicle. There is no one size fits all infrastructure investment for pension funds. Many South African funds are in fact already likely to be invested in infrastructure in some way, shape or form (e.g, through JSE listed bonds such as SANRAL bonds), but broader forms of investment should also be considered.

Typically, defined contribution funds have a greater need for day-to-day availability of underlying asset prices (price discovery) as well as liquidity, for example. This tends to mean that, all else being equal, listed infrastructure investment forms or vehicles may be more relevant for defined contribution funds. It is not to say unlisted infrastructure investments are not suitable for such funds however - funds can still invest after proper investment advisory and structuring.

3. FINANCIAL RETURNS

Pension funds should provide good financial returns for their members - and this is a central consideration. While returns do vary over different time periods, the JSE SWIX 40 Index (a common South African equity index/benchmark) has had yearly returns ranging from CPI -2% to CPI + 3% per annum over the past few years (depending on the specific time period). There are examples of infrastructure focused investment funds in South Africa that target returns ranging from CPI + 4% all the way to CPI + 10%, for example.

Return targets or benchmarks can be higher or lower than this still (depending on a specific fund's mandate, risk profile and the underlying mix of investments), but one would generally expect the returns on well-structured infrastructure investments, before fees, to be consistently above CPI inflation. In other words, infrastructure investments in the long run, can be expected to outperform CPI inflation. Returns are also generally more stable over time (compared to investing in listed equities), as the unlisted versions of infrastructure investment are not subject to the day-to-day fluctuations of listed stock markets. Typically, infrastructure is a long-term asset class, not a short-term venture, but there (as always) are caveats.

4. RISK

How risky is investing in infrastructure?

Generally, investment into the early stages of infrastructure (greenfield investment) is relatively risky for the average pension fund, and it is typically better for pension funds to invest in infrastructure once it is in its operational phase (brownfield investment). Investing in infrastructure also typically carries unique and perhaps additional risks.

These may include construction risk, interest rate risk and funding risk, for example. These need to be assessed and managed/mitigated appropriately. Proper investment structuring (for example, the inclusion of government guarantees) can help to mitigate some of these risks.

5. SOCIAL IMPACT

In today's environment, social impact and social responsibility are important factors for pension funds to consider in their investment decisions, as we move into a society where the impact of investments is more consciously monitored and measured. Investing in infrastructure can help a fund better meet its social investment objectives in ways that other "non-infrastructure" assets may or may not be able to. Certain types of infrastructure may be more suitable to certain types of impact related goals. The UN, for example, has come up with a set of 17 sustainable development goals, called the UN SDGs. Investment into renewable energy projects, for example, may help meet SDG 7 (affordable and clean energy), and investment into hospitals and schools may help meet SDGs 3 and 4 respectively (good health & well-being, and quality education), among others.

With so much talk around investing in infrastructure these days, it can be difficult to know how to proceed. This high-level list, backed up by thorough specialised actuarial & investment modelling and ongoing due diligence, will ensure that pension funds are better prepared when it comes to making this decision.

Get Real About Retirement: The Changing Role of Beneficiaries

Twané Wessels, Product Actuary at Just Retirement Life

Historically, the ability to leave capital to dependents was a primary consideration of retirement planning. However, new research shows that this is becoming gradually less important. Of foremost concern to retirees is that their retirement money should last (at least) as long as they do and cover their monthly expenses.

This growing trend may be attributed in part to an increased longevity awareness. The simple truth is that many retirees are living longer than they anticipated and thought to save for. For example, most recent longevity figures in South Africa suggest that a female aged 65 will live to 87. What this really means is that 50% of women will die by this age, but the remaining 50% will live on. And with 10% likely to live to 100, it makes sense for advisers to work off a much longer planning horizon. Key findings from Just Retirement Insights 2020 offer another telling sign of the mind shift around the role of beneficiaries. Findings indicate that two thirds of the pre-retirees and retirees surveyed have been financially affected by the effects of the pandemic. Of these, half have had to source alternative means of income or make special arrangements to meet payments. But when asked who they would turn to for financial assistance should they run out of money in future, they say that children and grandchildren remain the first port of call. This presents an opportune time for advisers to shift the conversation about the role of beneficiaries in retirement planning.

Instead of putting the thought of leaving money to beneficiaries as a key focus, advisers could rather propose involving those would-be beneficiaries in the decision-making stages of retirement planning. This should help to mitigate any unforeseen changes in their role as a beneficiary to that of a provider.

A TRADE-OFF IS INEVITABLE

As in life, there will always be certain trade-offs in retirement. In the case of beneficiaries, it exists in the compromise between running out of money and having to rely on heirs or having a guaranteed income to cover a retiree for life. What is critical is that beneficiaries also understand the risks in retirement for their parents, so that they are able to manage their own risks accordingly, should things not work out as planned for the retiree.

AN OPEN COMMUNICATION FLOW IS KEY

The findings demonstrate the importance of creating an open communication flow between retirees and their beneficiaries, usually their children. If the next generation are the ones expected to help, it makes more sense for them to play a proactive role in the retirement planning process from the start, rather than being caught on the back foot later. Their views on financial planning may also be more up to date, which could assist in dissolving any distrust or uncertainty surrounding new-generation annuity products. This would in turn help advisers propose better retirement choices for their clients, enabling them to reduce their risk of running out of money too soon.

AN INCOME LEGACY

Many people still want to be able to leave a legacy for their children or grandchildren, which is why historically many retirees opted for a living annuity over a life annuity. But it is worth noting that life annuities have evolved. Retirees are now able to provide for dependents on death with optional benefit add-ons, which provide an ongoing income to the surviving spouse, or to dependents for a period of up to 20 years. For those who want added comfort, a blended annuity offers the best of both worlds. A portion within a living annuity serves as an insurance-based guaranteed life annuity to provide a secure income for life, while the remainder provides the potential for higher future income, which could serve as a financial legacy.

GENERAL

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Econorisk: we have a lot to talk about...

Matthew van den Heuvel & Andrew Lilley, Joint Group CEOs at Econorisk

20 years of insurance broking to be exact! Econorisk was founded in 2001, initially as a strategic partnership with economic market analyst leaders, Econometrix. Since then, we have evolved into a leading risk and short-term insurance advisory business, and we've never looked back.

At Econorisk, we have assembled a diverse team of over 110 experienced specialists and business partners capable of meeting all the risk-related needs of our clients. Our impressive growth over a relatively short period of existence can be attributed purely to our amazing people. We believe we put the old grey-suited stereotype to bed with our forward-thinking and dynamic approach. (We were even able to switch our business completely online during lockdown without so much as a glitch!)

We are known for our wealth of collective insight and our expertise which enables us to understand our clients and their businesses better and to minimise their exposure to risk. After all, **isn't advice from the wrong person, risk in itself?** Our relationships with our product providers are as critical to our success as those we have with our clients. These supportive, quality engagements, span almost all local insurers and underwriting managers. We also have access to leading global insurers. Our clients get the very best solutions – this guarantees the best fit, under the auspices of a single risk partner.

EXTENSIVE RANGE OF COVERS

At Econorisk, we are able to offer our clients extensive choice when it comes to their insurance. We offer a broad scope of insurance covers, including personal, commercial, specialist and niche sectors including engineering, marine, construction, cyber, environmental liabilities and HCV to name a few. We also offer tailored products specifically for the courier and logistics industry. We have the expertise to assist with a conventional personal lines policy to highly complex risks that require technical insight and expertise. We therefore enjoy a range of clients, from personal lines to listed corporates.

> *"we put the old grey-suited stereotype to bed with our forward-thinking and dynamic approach."*

What further sets us apart is our ability to work with our clients and stakeholders, to protect the things that really matter to them and their businesses. When we're insuring assets and liabilities, we're thinking about what we're truly protecting. Tangible losses are only part of what we see. We see our clients time, and that it needs to be focused on what's truly important to them. We see that if their risky venture folds, they'll have the peace of mind to know that their business will survive to explore other opportunities. We see a reputation that they should have the means to protect, and we see the sustainability they can promise to their employees, families, and clients.

WE SEE OUR CLIENTS MOVING FORWARD

The true value of an insurance policy is tested at claims stage. At Econorisk, we have an internally mandated claims team, ensuring our clients' claims are not just seen as a number, but rather as an important cog in our relationship with them. Clients speak to a trusted claims service consultant, who assists along the entire claims journey.

Econorisk combines technology, process, and deep industry knowledge to ensure fast, efficient processing. No delays. No corporate bureaucracy. Just service. Our revolutionary Broker Partner Model is also a core focus at Econorisk. This model is especially designed to accommodate short-term brokers who are looking for a future-proof partnership, to save costs, better manage compliance and increase efficiency. We see continuing legislative pressure leading to broker casualties and industry consolidation as regulatory rigour increases the cost of doing business. At Econorisk, we assist with compliance, financial reporting, collections, CPD, training and technical advice, and partnering brokers get to enjoy protection under Econorisk's PI Cover.

Brokers get to spend more time focusing on client retention and acquisition, whilst we facilitate all back-end support and admin services.

"Econorisk combines technology, process, and deep industry knowledge to ensure fast, efficient processing. No delays. No corporate bureaucracy. Just service."

The model also offers full access to our IT policy admin platform. There are growing underwriter expectations that some brokers may find tough to meet. At Econorisk, we have binder agreements with SA's leading insurers. We issue policies, endorsements, and renewals directly from our office, and work closely with our insurer partners to ensure a positive claims outcome.

We believe the Broker Partner Model offers several attractive benefits for brokers looking for an alternative operating model. We look forward to the new client and broker partner relationships we will build over the next 20 years, new product developments to meet the changes in risk and demand and being a part of the insurance journey as it grows and shapes itself to the rising pressures and demands of our economy.

Together with our strong relationships and extensive network of local and international insurers and underwriters, we will continue to provide flexible solutions and bespoke policies to protect our clients' businesses and assets against risk. Taking a calculated risk might mean challenging the status quo, but it doesn't mean leaving everything to chance. Econorisk: Nothing Left to Chance

Positive mood across the continent

PwC South Africa

Most African business leaders are more optimistic about the strength of the global economy and their organisations' ability to grow revenues in the next 12 months than they were a year ago.

Although CEOs' confidence in their own company's revenue prospects has rebounded, they are anxious, too: policy uncertainty, tax policy, cyber threats and over-regulation are keeping them awake at night. These are some of the key findings from the **8th edition of PwC's Africa Business Agenda 2021** report launched today. Sixty-eight percent of CEOs in Africa say they believe the global economy will improve during the next 12 months. This marks a significant rebound from our annual global CEO survey in 2020, when only 20% of CEOs in Africa expected improved growth.

CEOs' optimism about a rebound in the global economy, however, does not translate into improved expectations about the short-term prospects of their own businesses. So, while CEOs in many countries contemplate vaccine rollouts and look forward to the resumption of some form of 'business as usual', those in Africa are a lot more guarded. This is reflected in our survey findings where 30% of Africa CEOs are very confident about their company's growth prospects in the next 12 months, compared to 36% of global CEOs. There is, however, a notable improvement in optimism over the medium term with 42% of CEOs in Africa saying they are very confident about their revenue growth prospects over the next three years.

Commenting on the survey findings, Dion Shango, CEO for PwC Africa, says: "In Africa, economic and policy uncertainty, among other issues, have cast some doubt upon business leaders' hopes for their own companies' immediate growth prospects. Although there is a drop in optimism over the short-term, African business leaders do see some opportunities on the continent – but overall, they are playing it safe. "The reasons for this gap in confidence vary from African countries still being at an earlier stage of the pandemic life cycle to uncertainty about governments' COVID-19 response and policy direction in its aftermath.

"Despite the current uncertainty, many African business leaders have found that the COVID-19 pandemic has also unleashed extraordinary energy, creativity and resourcefulness within their organisations. We can expect to see a continuation of accelerated digitalisation brought to the fore by the pandemic, which promises productivity, data-driven insights and other business benefits, but at the same time increases the threat of cyberattacks and the spread of misinformation." The Africa Business Agenda draws on the results of PwC's 24th Annual Global CEO Survey of 1,779 interviews in 100 countries, including 50 CEOs from 14 African countries.

As business leaders adapt to the current circumstances and prepare for the anticipated rebound, a critical question will be: which management approaches should businesses retain from the rapid response mode most of them embraced during 2020? Fast, high-quality decision-making — a hallmark of many companies' pandemic responses — will be on the top of most leaders' 'keep' lists. Priorities include ensuring top management is focused on the big issues that matter most, engaging with people up and down the organisation, revisiting critical decisions frequently, and pushing to understand unintended consequences.

MAIN RISKS TO DOING BUSINESS IN AFRICA

Despite their confidence, CEOs are acutely aware of threats in the external environment. But unlike their global peers — 52% of whom recognise pandemics and other health crises as the number one threat this year — CEOs in Africa are more concerned about the perennial challenges of policy uncertainty (Africa: 60%; Global: 38%) and tax uncertainty (Africa: 56%; Global: 31%) , over-regulation (Africa: 48%; Global: 42%) and the fast-evolving reality of cyber threats (Africa: 54%; Global: 47%) . In fact, pandemics and other health crises are the only threat African CEOs are less worried about than their global peers (Africa: 48%; Global: 52%).

Shirley Machaba, CEO for PwC Southern Africa, comments: "Overall, the sheer magnitude of concern about most threats has increased since our 2020 survey, despite CEOs' rise in confidence. Among CEOs in Africa, navigating these perils is a permanent state of being, which conflicts with their inherent optimism. Navigating this tension is a perennial leadership challenge that currently seems to be particularly acute".

DRIVING BUSINESS GROWTH

CEOs in Africa are taking a cautious approach by focusing on things they have more control over to drive profitability: pursuing organic growth (Africa: 64%; Global: 73%), seeking operational efficiencies (Africa: 78%; Global: 77%) and forming a new strategic alliance or joint venture (Africa: 38%; Global: 35%).

INVESTMENT PRIORITIES

The COVID-19 pandemic has accelerated changes that many businesses were already starting to make in areas such as digital transformation and talent management. Just over half of CEOs in Africa (52% compared to 49% of global CEOs) plan to significantly increase (≥10%) their long-term investments in digital transformation. This is followed by initiatives to realise cost efficiencies (Africa: 48%; Global: 32%), leadership and talent development (Africa: 46%; Global: 24%), and cybersecurity and data privacy (Africa: 32%; Global: 31%).

INTERNATIONAL MARKETS

Africa's CEOs have to contend with the current issues of moving goods across the continent and getting funds out of the African countries in which they have invested. It's therefore no surprise that three-quarters (74%) of CEOs in Africa are either somewhat concerned or extremely concerned (Global: 62%) about supply chain disruption. It is also notable that many CEOs in Africa are not looking beyond their borders for growth. While 26% of CEOs cited the US and 16% cited China as important for their companies' growth prospects in the next year, almost a quarter (22%) of African CEOs either don't know or don't believe any other country will be important to their growth prospects.

DANGERS OF ONLINE AND DIGITAL ENVIRONMENT

As much as it offers unprecedented opportunities to transform businesses and create value, the digital and online environment has fast become a major source of anxiety among business leaders across the world. Now among the top three concerns in Africa, 54% of CEOs on the continent (Global: 47%) say they are extremely concerned about cybersecurity, up significantly from 38% last year. This response is likely influenced by the increase in high-visibility cyberattacks during 2020 and the normalisation of remote working in response to the COVID-19 pandemic, which has exposed many systems to attack.

WORKFORCE STRATEGY

The pandemic has highlighted the importance of people to organisational success. In this year's survey, 42% of CEOs in Africa (Global: 34%) say they plan to increase headcount, up from 30% in the previous survey and a return to the long-term average. Over the next three years, 60% expect to increase headcount and 56% have explicitly factored the availability of key skills into their strategic risk management activities. In contrast, those planning to reduce headcount in the next 12 months have increased to 34%, the largest percentage seen in the past eight years. This follows on the heels of the 46% of African CEOs who report that they have already reduced headcount in the past year.

BUSINESS' ROLE IN SOCIETY

When asked to prioritise the societal outcomes that business should help deliver, 68% of CEOs in Africa put the creation of a skilled, educated and adaptable workforce at the top of the list (Global: 61%). This was followed by workforce health and well-being and the provision of adequate physical and digital infrastructure. African CEOs (72%) continue to be concerned about the availability of key skills, and a third of these express extreme concern.

A growing number of CEOs are seeking to boost their organisation's competitiveness through digital investments in the workforce. In Africa, 24% aim to focus on productivity through technology and automation (Global: 36%), a third more CEOs than said the same in 2016. But productivity through automation threatens to leave some behind. One-in-five CEOs globally is extremely concerned about economic inequality as a threat to their growth prospects and that proportion climbs to 36% among African CEOs.

TAXING TIMES

Tax policy uncertainty has made a notable rise on the list of threats (Africa: 32%; Global 56%). African CEOs also believe tax policy changes could have a far-reaching

impact on their business, with 44% (Global: 38%) saying it could lead to them reconsidering their current cost structures. In addition, 38% of African CEOs (Global: 36%) say that changes to tax policy could increase their companies' total tax obligations.

THE CLIMATE CHANGE CHALLENGE

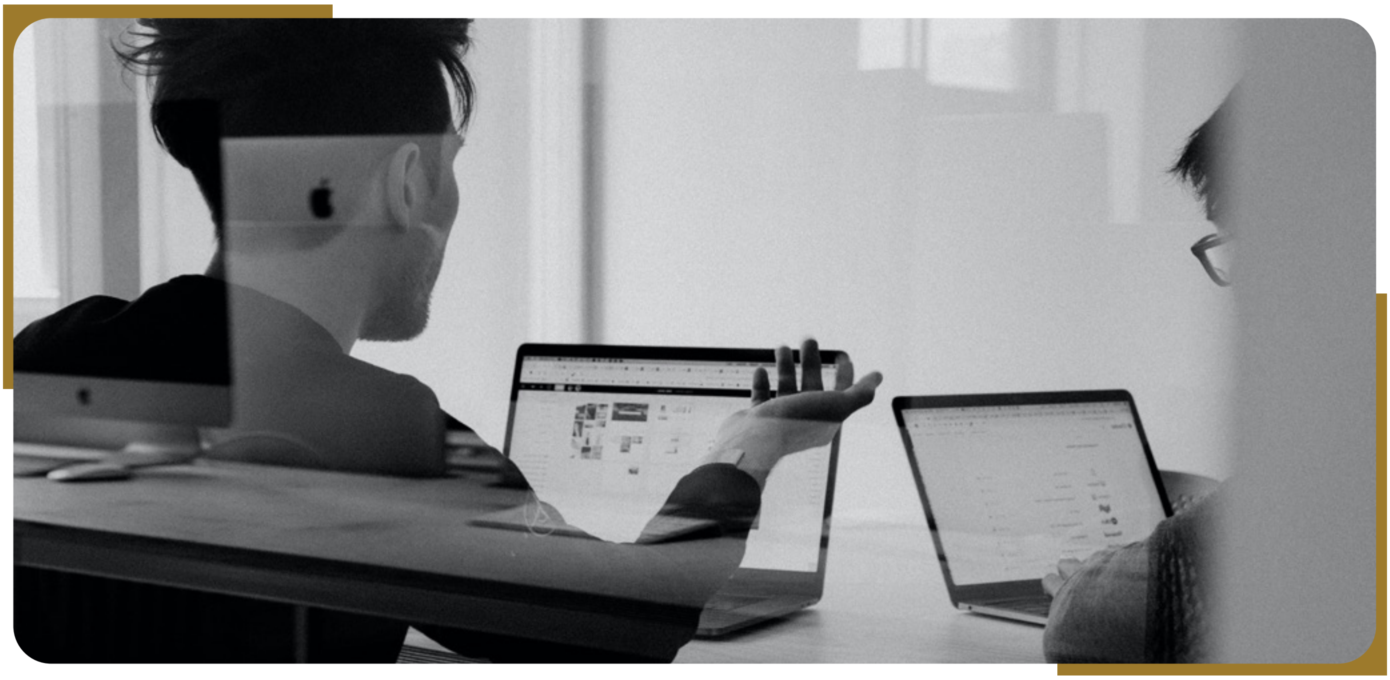
More surprising than the unexpected rise of pandemics on the threat lists of CEOs was the decline of climate change as a priority among CEOs globally and in Africa specifically. Last year, 30% of CEOs in Africa recognised climate change as an extreme concern. This year, this was down to 22% with African CEOs ranking climate change 22nd on a list of 31 potential threats about which they were extremely concerned. Furthermore, only 32% think reducing climate change and environmental damage should be priorities for businesses to help deliver in their home country and just 20% believe it should be a priority for their government. It is also concerning that 64% of African CEOs have not yet factored climate change into their strategic risk management activities.

Shango concludes: "For CEOs running businesses in Africa, having the conviction that they can overcome the challenges they face and believing that things will get better, has sustained them through past and present difficulties, and will no doubt give them strength in the future.

Caution and optimism have gotten them this far, and despite the uncertainties, we believe now is the time for business leaders in Africa to drive growth from new possibilities, to take action, transform and move forward by adopting a leadership agenda to take on tomorrow."

IFRS 17: real life feedback on the road to implementation

Irfan Begg of Moody's Analytics



During a Moody's Analytics webinar, 'IFRS 17 in Africa' with Britam, OUTsurance and Zamara, the panellists discussed some of the real-life challenges involved in meeting the IFRS 17 requirements, especially those related to insurers and reinsurers as they embark on their IFRS 17 journeys.

Many insurers have decided to use the 12-month extension of the deadline to get going and are some way along the route to compliance. The event started with a 30 minute discussion wherein Harshan Vallabh, former Actuarial IFRS 17 Lead at OUTsurance and David Limo, Actuarial Manager-Life at Britam, hosted by Irfan Begg of Moody's Analytics , spoke about their implementation journey so far. They also shared some of the most valuable lessons they learnt.

Harshan explained that they kicked off their project in July 2019 with a full team. The first thing they found is that the standard is not very prescriptive with a lot of room for interpretation in key areas, requiring a lot of internal and external debate. Based on this, they wish they had started even earlier than they did. However, he mentioned, they were progressing well and their financial statement frameworks and cash flow models were beginning to take shape. He emphasized that IFRS 17 is an iterative process with auditors, consultants and solutions providers. On the question as to where Britam is on their journey, David said they started in 2018 when they did a gap analysis and later started consulting with auditors and solutions providers leading to the project fully kicking off only in August 2019. The first step for the team was to build an impact model for the business and senior management and they were happy that the business understands what is needed.

With regards to guidance from auditors, Harshan indicated that the auditors have been quite useful assisting them with starting from the ground with their unit of account based on the different businesses' risks and products that fall in the scope of IFRS 17. Also, as far as risk adjustment goes, he said, their feedback has been very valuable. According to David, the training by auditors, at Board and senior management level, was very helpful, especially as far as the key requirements, which helped bringing the project alive. Moody's Analytics and Zamara confirmed that, in their experience, as an accounting standard, you want the auditors involved from an early stage as they will be signing off. Therefore, anything that is not clear, has to be discussed early on.

David mentioned that their biggest challenge has been on the life side. As most of their short-term business are 12 month term based, they could rely on the simplified premium allocation approach (PAA). All they needed to check was that, if the building block approach was used, the results could be very different, needing a check every two years or so. On the life side however, the long-term nature and different structure of the contracts meant that they needed to look outside for solutions that could help them.

On the long-term side, according to Harshan, they decided on a recently new product to develop the model and a full retrospective approach. They chose this product as the assumptions, variables, discount rates etc are easily accessible, making the modelling must easier. Once they have completed this phase, they will expand it to their other product lines. For the short-term business OUTsurance started off with the premium allocation approach for their smaller Namibia business where there are much fewer accounts, providing them with good experience in understanding IFRS 17. According to Harshan, this worked well as they then really understood the standard to a much deeper level which now is just a matter of scaling the models and calculations etc.

David said that, as most of their business qualified for the PAA, they built a model in Excel, starting with Motor as that is where they need to check if PAA is the right choice, due to the loss making challenges and onerous nature of these products in Africa. So, they did the model in Excel and then compared it to the PAA and IFRS 4. The next step was to share it with their quality assurance partner to see if it complied and review where they added in judgments. Basically, building Excel models for one product and scaling it to others. For some products the results with PAA were similar, but for the more onerous products not. They kept their key approach but added an additional loss component, which is the difference between the PAA and the GMM result.

When presenting the difference between the IFRS 17 and IFRS 4 balance sheet on the short-term side to the board, David explained, IFRS 4 allowed for an unexpired risk result which is essentially the same as the loss component, so it was not very different. However, on the long-term side, it was different from a balance sheet and an income statement perspective. For example, he mentioned that from and IFRS 17 perspective annuity premium is seen as revenue, whereas under IFRS 4 it is not. Cash flow is not part of the income statement, so now you have to separate what is revenue. That was a very stark difference from IFRS 4 and we did a lot of training around this. On the Balance Sheet side, David said, there currently is just one line for actuarial policyholder liabilities but under IFRS 17 you have to break it down to different components. Overall, the differences between IFRS 17 and IFRS 4 was quite a shocker for the Board and senior management. Furthermore, on the life side, he said they have always reported on embedded value which has some similarities with IFRS 17.

When asked whether, based on these different approaches with different product lines, they had to have different projects, approvals and resources, Harshan said they looked at it from a holistic point of view. According to him this was beneficial as sometimes you needed to apply GMM when there are onerous contract or where coverage is greater than one year, which they had in a lot of their short term business. So having broader IFRS 17 skills in one team was very helpful. This also helps when dealing with auditors and providers like Moody's Analytics as the business, as a unit, makes coherent decisions. At this point Zamara mentioned that they have seen this time and time again, that running different projects for IFRS 17, in the same company, just adds unnecessary complexities, whereas looking at it holistically, from a group level is much more streamlined.

On the issue of challenges that remain outstanding, Harshan said that there are three big topics from a technical point of view needs to be focused on. Firstly, the risk adjustment and how it will be calculated, which can prove to be tough if you don't have the right software. Secondly the reinsurance contract boundary, where you have to project future new business under the GMM. According to him that will be a new concept for most. Lastly, the counting of the cash back component, which is a bit of a gap in the standard, requiring further chats with the tax authorities and auditors."

For Britam, according to David, reinsurance is also a big issue and so is risk adjustment, which they started working on a few months ago. This includes the question of credit risk and its inclusion under risk adjustment. One of their other big challenges for them is budget constraints and having assistance and software for IFRS 17. The time they have spent so far made it clear that they need assistance and software. Lastly, change management and helping people understand what IFRS 17 means and requires is another focus area.

David was asked whether they approached IFRS 17 as an opportunity to streamline and, in general, advance their financial reporting to be more business intelligence oriented or if they saw IFRS 17 as purely a compliance issue. To this he mentioned that one of their business strategies going forward is better business analytics and they were certain it would help them there. For example, it helps them understand their product portfolio in terms of profitable or onerous business.

FINAL COMMENTS

Harshan indicated they would like to finalise IT development and record some open balances at the end of 2020 and by June 2021 have their technical papers signed off by the auditors. They want a fully automated monthly process by June 2022 to provide comparative figures.

David concluded by saying that they have June 2022 as a milestone where they would like to have everything finalised and set up, but also hope to have basic models in place to see the impact by December 2021. For them 2021 is the make or break year, and he mentioned that one of the reasons is for this is that skills will become scarcer as the deadline comes closer.

To hear more about the readiness of insurers in the region, and challenges faced with the implementation, visit https://cover.co.za/gearing-up-for-ifrs-17/

Digital is crucial to bridging the insurance gap between rural and urban citizens

Greg Gatherer, Account Manager at Liferay

In South Africa, the divide between rural and urban citizens is significant. According to research from the Treasury Department, rural areas have much lower GDP per capita levels and higher rates of unemployment.

They also have less access to healthcare and other critical services that urban citizens might take for granted. Insurance is no exception. Putting aside the millions of subsistence dwellers and casual workers who are likely uninsured, some estimates show that as many as 70% of South African farmers are under-insured. There are a variety of reasons for this divide, both among the rural poor and farmers, with cost and connectivity, and general insurance literacy playing major roles.

That said, bridging the gap between rural and urban citizens represents a major opportunity for insurers. Key to doing so is embracing digital products and services, which cater to the needs of people in rural areas. Rolling out these services not only exposes insurers to new markets, but also gives them a chance to contribute to rural GDPs.

SMARTER FARMING PRODUCTS

Within the broader context that farmers in South Africa face, it's easy to see why so many of them are uninsured or underinsured. While 2020 may have been a bumper year for agriculture, this isn't always the case. Over the past few years, South African farmers in every province have faced drought, alongside other natural and man-made disasters -- such as floods and runaway fires. In such an uncertain economic atmosphere, many are forced to cut costs wherever they can. As a grudge purchase, insurance is often a victim of these cost-cutting measures.

But this needn't be the case. With levels of rural connectivity improving in some regions, insurers can take a smart approach to agricultural insurance. Just as car insurers use real-time monitoring and data to incentivise safe driving, so agri-insurers can provide discounts to farmers who use connected sensors to monitor crop and livestock health and who can demonstrate that they have risk mitigation plans in place. They can also use any data and insights available to communicate with farmers and demonstrate savings to them.

CONNECTING THE RURAL POOR

Of course, not all farmers can afford this level of sensor-driven connectivity, never mind low-income rural dwellers. That does not, however, mean that these people should be ignored. After all, more than a third of South Africans live in rural areas. Using simplified back-end architecture and a digital experience platform (DXP) insurers can unlock the possibilities of enterprise-exclusive content management capabilities and UI/UX options designed specifically for people in rural areas.

When one Indian company, Sahaj, a rural partner network focused on bringing financial and digital inclusion to rural India, took the second route, it was able to significantly expand its rural visibility, increase customer retention, get updates and news out more quickly, and accelerate the amount of time it takes to get new features to market. During the COVID-19 pandemic, for example, it was able to make a low-cost insurance option available to communities who otherwise wouldn't have had access. In South Africa, insurers could offer products such as lebola insurance, or products that allow people to insure the surplus products from their smallholdings as it travels to a

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market to be sold. If these offerings can be turned on and off with a few taps of a phone, so much the better. Even in markets with as high a mobile penetration as South Africa, the levels of digital literacy may not be high enough for people to fully embrace these products.

Here, insurers can blend the digital with the analogue by training entrepreneurs who can help rural citizens access insurance products digitally, even if their own digital skill-sets are lacking.

These entrepreneurs can, in turn, become customers when it comes to insuring their own businesses.

MEETING NEEDS AND EMBRACING OPPORTUNITY

It's clear that there is both a need for insurance tailored to the full spectrum of South Africa's rural citizens and a significant opportunity for companies who can cater to those needs. It's also clear, however, that digital is crucial to embracing that opportunity and bridging the rural-urban insurance gap.

Insurers beware: another brick in the wall

Nicky Eilers, Assent Legal

Do you ever feel as though you are standing against a wall and having brick after brick after brick thrown at you like a dodge ball that just keeps coming? Just when you think it's over, here comes another one.

So, with the Twin Peaks model now in place, our financial legislative landscape has evolved into one of the most sophisticated in the world. In order to ensure that we are able to attract foreign investments and to protect our own financial integrity, it is the necessary evil that we have to embrace. Having said that, when you have the support of your dodgeball team, it's easier to dodge a ball than if you are the only team member left and all the balls are aimed your way.

As in dodgeball, so it is that when you are a large insurer, despite the multitude of legislation that gets flung at you, the company is able to implement the changes and the impact of those changes faster and easier, but when you are a smaller insurer, with a smaller operational, risk and compliance team, life looks very different and keeping track of all the changes and ensuring compliance with such changes becomes an overwhelming task. Added to this, our new normal does not make things any easier. Issues such as keeping track of tasks, staying abreast of who is doing what and when is certainly one of the downfalls of a team of people working from home. And since this is our new normal, it has become a monster that needs to be caged.

Small companies are realizing the importance of information technology (IT) and are increasingly investing in their information systems, especially in the current environment where tech disruption is changing systems and innovative thinking is necessary in order for them to act as incubators for future economic giants. They are replacing their existing manual and legacy systems with new, more flexible innovations.

THE PROBLEM BRINGS TO THE FORE YET MORE BRICKS IN THE WALL.

First issue: Companies are implementing a different system for each process. This results in a myriad of unintegrated systems and that dodgeball being dropped on the ground.

Second issue: Majority of systems available are developed in foreign countries and therefore not compatible with the South African market.

Third Issue: If the system is foreign it is Dollar or Pounds based, increasing costs and with the fluctuating Rand, results in volatile and unpredictable costing.

Fourth Issue: You get what you get. Customization of systems is not only costly but also often, not possible. Systems are built according to a generic operation and does not make provision for the South African landscape.

Fifth Issue: And then to throw the proverbial spanner (or in this case a wrench) in the works, PPR sets out very specific requirements with regards to Complaints Management. Many companies currently try to juggle this framework by keeping a simple Excel Spreadsheet but this has proven to be cumbersome and inefficient to meet the requirements.

The key to successful 'ball dodging' is a fully web-based business management platform that understands the market, and financial sector.

Financial institutions need one integrated home-grown system that can adapt to their needs, taking a holistic view of operations with systems that are streamlined and customised as one proudly South African solution.

In a Utopia, your business management system would have capability to assist you in creating registers and keeping electronic record of matters that provide single button reporting and a reliable audit trail.


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"If you can dodge a wrench you can dodge a ball" - Patches O'Houlihan

Ideally such a system should have an easy user-friendly capability that allows creating tasks that can be assigned to members of the team, allowing for efficient communication across a single integrated platform with accountable real time reporting on the progression of team actions.

Risk management is an integral part of running any business and this is even more central in a regulated environment. With a business management platform, the ability to automate the risk register is more essential than ever, not only to ensure that the business meets all regulatory obligations but also to ensure that controls which have been implemented don't just remain a paper exercise but are measurable and effective.

This kind of automation further makes real time reporting a sinch making sure that compliance and operations are integrated and speaking the same language. One of the most challenging Prudential requirements is the submission of an annual ORSA report.

This report cannot quickly be constructed on a Friday afternoon, it requires a properly planned and structured annual project involving many parties internal and external to develop the ORSA report and record ready for submission on a specified date.

Assent's Business Management Platform provides all these solutions for an affordable cohesive system with one interface for the business to increase efficiency, service with both qualitative and quantitative outputs. This automated system allows for the creation and recording of your Complaints Management process aligned with legislative requirements, supporting your compliance culture as well as Project Management, Governance and Risk Structures.

With so many changes to the world as we know it, time is of the essence for businesses to redefine traditional thinking and step into a world of fast, efficient real-time communication and reporting to ensure continuity in your business and define our new normal.

TECHNOLOGY

PG66-70

Lipstick & band-aids

Laura Drabik, Chief Evangelist at Guidewire

How Not to Build a Digital Insurance Platform in 4 Easy Steps. Consumer digital adoption trends and disruptive service models shuffled the deck for P&C insurers in 2020. But just as in other industries, established insurance brands can rest easy. Digital-first challengers never really stand a chance against entrenched, name-brand incumbents–just ask Blockbuster, Sears, and Barnes & Noble; or do they?

Like it or not, digital disruptors like Amazon, Google, and Netflix didn't just transform their own industries. They also paved the way for insurance-focused digital-first challengers like Lemonade, Root, Ladder, and others aiming to do the same in ours. As McKinsey points out, they have some killer advantages. There's endless capital investment, like the $1.13 billion that went to just eight digital challengers during the first quarter of this year—a new record. They've got greenfield tech infrastructures that enable them to launch innovative new products faster than some incumbent product teams can build a PowerPoint presentation. Oh, and their convenient emphasis on growth over profits? That's a nifty plus, too.

For traditional insurers hoping to remain competitive in this kind of environment, the question isn't whether they should launch their own digital businesses. According to KPMG, it's how.

Some will crack the code quickly. Others may waste an astonishing amount of time, money, and market opportunity in the process. And some won't succeed at all. So, in the interest of helping you sidestep painful and costly lessons, here's how not to build a digital insurance platform in four easy steps.

STEP #1: SLAP LIPSTICK ON YOUR PIG

By all means, traditional insurers should reuse legacy systems in their new digital businesses. After all, who doesn't love to maximize existing investments? Yes, these systems could burden your new venture by enforcing the same inflexible processes and data models that already enable digital challengers to run circles around you. But some may ignore common sense. Digital insurers, on the other hand, typically run all or part of their operations in the cloud. As McKinsey points out, this gives them access to leading-edge technologies without the operational overhead and capital expense. They can easily connect multiple different platforms and applications using APIs, enabling them to rapidly prototype and deploy new products and services—and scale capacity to meet changing needs—faster than most traditional insurers.

"When you want to combine new technologies with old legacy systems, you spend a lot of time in integration, and that doesn't make you fast in delivering the product," says Aviva Italy COO Vittorio Giusti. Giusti led the launch of AvivaPlus at Aviva Italy, a digital insurer that enables consumers to purchase and manage flexible coverage via mobile phone. "We were free to design the system we wanted, around the proposition we wanted." In most cases, digital insurers develop the front-end CX themselves. But the core insurance system can come from an established platform provider and then integrate additional capabilities to meet ever-evolving customer needs. "Developing the platform ourselves is too cumbersome, " says Thomas Erichsen, CTO of Topdanmark, a 100-year-old Danish insurer that recently began modernizing its operating models. "We made a strategic choice to simply utilize the innovation power" of proven platforms and their partners.

STEP #2: ONLY SELL & SERVICE COVERAGE THROUGH HUMANS

Nothing earns all the feels like forcing digital consumers to talk to a live agent—or having your human service reps ask questions the customer has already answered in another channel. Indeed, the benefits of this approach are plentiful. The last thing you want is to attract consumer segments with the nerve to expect 24/7 service through whatever channel they please. Plus, siloed data is a great way to help marketing and service teams fly blind—limiting their acquisition, upselling, and cross-selling potential like nobody's business. Literally. In contrast, digital challengers build or source their digital platforms to support data-driven, omnichannel customer experiences

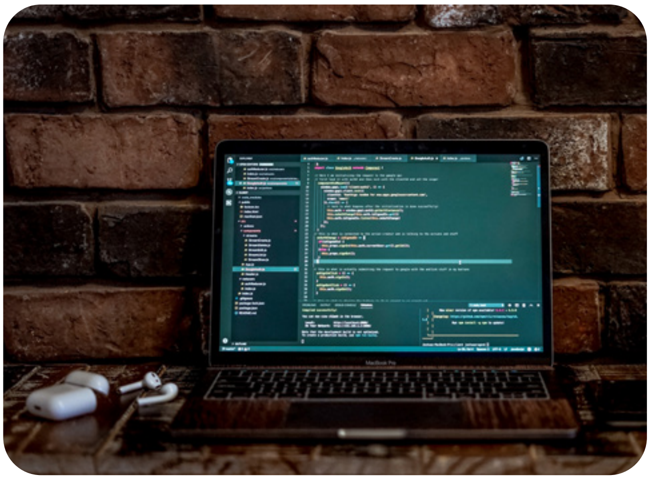
across text, chatbot, web, IoT, and human-based service—or any mix thereof. A customer can start an interaction in one channel and continue it in another, without the insurer ever missing a beat. These innovators understand, as McKinsey has noted in a recent article, that a "user-first" omnichannel approach that balances the digital and human elements of the customer experience is critical to an insurer's ability to remain competitive.

As McKinsey points out, digital challengers' sales and marketing teams work more like Amazon than an old-school incumbent. For one thing, they have cross-disciplinary expertise in data science and conversion optimization, with the ability to mine data and serve up highly personalized content, products, and services. "Customers now expect things to be faster, they want it to be easier, instantaneous, intuitive," said Insurance Australia Group Enterprise General Manager Kylie Burtenshaw, who leads IAG's efforts to transform itself into a digital insurer. "They expect us to preempt their needs." For example, digital insurers might send tailored messages to a customer or prospect about new auto policies when his son turns 16. Or a rep may bring it up during a live interaction. The power of this kind of omnichannel experience in helping digital challengers build rock-solid customer relationships is nothing short of amazing. But you do you.

STEP #3: BOLT INSURTECH BAND-AIDS TO YOUR LEGACY SYSTEMS – OVER & OVER AGAIN

Yes, digital challengers have a lot going for them. So it's a good thing incumbents have an infinite amount of time and resources to bolt the latest insurtech Band-Aid to their many legacy systems. Not just once, but over and over again with each new application upgrade. Tethered to legacy systems, carriers who want to leverage insurtech value propositions in a connected fashion are forced to bolt the insurtech application over and over again to different, disparate legacy systems. With the average Tier 1 having over 70 disparate legacy systems with an average age of 25 years each, valuable time is wasted in creating one-off integrations. Digital insurers think differently, of course. To them, insurtech isn't a Band-Aid used to cover a blemish or hide missing functionality in the legacy system. And it's not just for customer-facing innovation, either. Instead, digital challengers seek best-of-breed insurtech vendors that can accelerate and enhance even the most mundane back-office efficiency efforts. They also don't try to bolt these new capabilities onto outdated systems (see Step #1). They know that success hinges on blending latest-greatest with tried-and-true—insurtech with maturetech.

Nimble digital insurers run proven, cloud-based core systems built specifically for managing the regulatory and operational complexities of the insurance business. And they pair it with an ecosystem of pre-validated insurtech solutions that integrate quickly and take full advantage of the platform's data and functionality. With pre-built insurtech integrations for Guidewire, for example, insurers can launch everything from digital self-service, to texting-based claims workflows, to personalized, usage-based insurance (UBI) and more. As part of the industry's largest insurtech ecosystem, hundreds of different partner solutions are easily implemented once and then update automatically—without interruption.



STEP #4: MAKE DO WITH A DATA WAREHOUSE

Let digital challengers fall for all the hype around big data, predictive analytics, and artificial intelligence. Throwing up a data warehouse will do just fine. Sure, you'll have to build queries that'll have to be reworked every time you want to add a field. And yes, you could wait weeks or months only to get buried by stale, unactionable data. But at least you know what to expect.

Digital challengers do an end run around all that. For them, data, analytics, and AI aren't afterthoughts. They're embedded within their entire business models. That's why so many gravitate toward digital platforms that leverage first- and second-party customer data to unearth insights that can boost conversions or improve retention and profitability. Today's most robust platforms also tap Internet-scale third-party data sources to help price risk accurately while delighting customers with fitted coverage.

And then there's the moment of truth for every insurer—claims. Successful digital insurers leverage AI to help automate and orchestrate data collection and claims processing, identifying low-severity claims that can be automated through repair and payout, while routing more complex claims requiring nuanced judgement and empathy to human adjusters. According to McKinsey, up to 60% of all claims may be automated this way by 2030. Thanks to recent breakthroughs in technology, I'm happy to report some insurers are already achieving that today.

FOUR WAYS TO FAIL (AND TWO WAYS TO WIN)

As the insurance industry moves into what Oxbow Partners calls a Platform Age in which cloud computing and API-driven integrations ensure technology permeates every single facet of our business, all insurers will become digital insurers. Or else. The four steps I've presented here should make the playbook of any organization with the focus and commitment needed to fail at building a digital insurance platform. For everyone else, there are two ways to do the opposite. First, avoid these four steps at all costs. And second, make sure you build or choose a platform that enables you to innovate quickly, engage consumers digitally, and achieve efficient, sustainable growth—no matter what comes next.

In the battle against digital challengers, it's the only way to successfully bite back.

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How south african insurers can ride the wave of digital

Gary Tessendorf, Sub-Saharan Africa Regional Director at Sapiens

The COVID-19 pandemic has proven challenging for sectors across the South African economy, and insurance has been no exception.

Research by McKinsey & Company suggests that the market's total gross written premium (GWP) pool is on track to decline by 15% over the next two years, with a return to pre-pandemic levels unlikely before 2024. But with 70% of the African insurance market's premiums, South African insurers start their recovery from a relatively strong foundation. And with substantial digital penetration in financial services – particularly in online and mobile banking, where McKinsey predicts that post-pandemic usage will be 37% higher than before COVID-19 – there's ample reason for optimism that insurers can enjoy success by providing customers with accessible, intuitive, and seamless digital experiences.

What's more, insurers can ride a wave of digital innovations that make it easier to quickly scale digital transformation and attractive new offerings that will power their performance throughout the 2020s and beyond. Here's a closer look at the challenges facing South African insurers and how they can seize the digital opportunities necessary to overcome them.

THE CURRENT LANDSCAPE

Like many of their counterparts across the globe, South African insurers have spent the past year in firefighting mode: grappling with a dramatic surge in claims, shifting to remote operations virtually overnight, and dealing with a host of customer relations issues stemming from the pandemic and its economic fallout. On top of these unforeseen challenges, insurers have also been addressing new data privacy requirements under the Personal Protection of Information Act ahead of a July 1, 2021 compliance deadline.

With so many short-term issues to address, that's hardly a climate conducive to long-term strategic thinking. This makes it harder for South African insurers to catch up with tech-forward organizations that have been leveraging digital channels and cutting-edge technologies like artificial intelligence to make insurance more efficient, personalized, and user-friendly. To be sure, the South African market has given rise to an impressive crop of InsurTech startups, but these companies represent a small part of the wider ecosystem. The good news is that a more innovative insurance ecosystem doesn't require uprooting the entire industry or pursuing a wholesale transformation.

In fact, there are even silver linings that come with being a digital laggard – as long as South African insurers seize this moment to get the future of insurance right.

RIDING THE WAVE

Just as the entire insurance industry need not be uprooted, insurers don't have to upend their entire operations simply to deliver better digital experiences and unlock the new revenue opportunities that come with them.

APIs make it possible for insurers to integrate new product and service offerings with quick time to market and at lower cost, as APIs can be added on to existing portals. Enterprise Service Buses (ESBs), for instance, facilitate seamless data-sharing among different systems. Insurance digital suites function similarly to ESBs and provide no-code or low-code development platforms, API and integration management tools, and support for partner ecosystems, including with third-party technology vendors.

Harnessing insurance digital suites provides insurers access to advanced customer analytics, insights, and efficient operational capabilities – driving the creation of new business offerings, enhancing personalized service, and boosting productivity, without needing to make hefty (and potentially unfeasible) investments in human resources and entirely new business models. This is a significant advantage at any time, but particularly in a turbulent period like the present, when innovation remains an imperative but insurers need to achieve it with minimal disruption to their business operations.

The InsurTech wave need not wipe out traditional players. As long as they have the right tools to ride it, they can reach new shores of high performance, personalized policies, and productive operations.