COVER

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The fascinating developments in motor insurance

Staying on top of car insurance trends

Are car thieves "out-innovating" us?

MARCH 2023 EDITION

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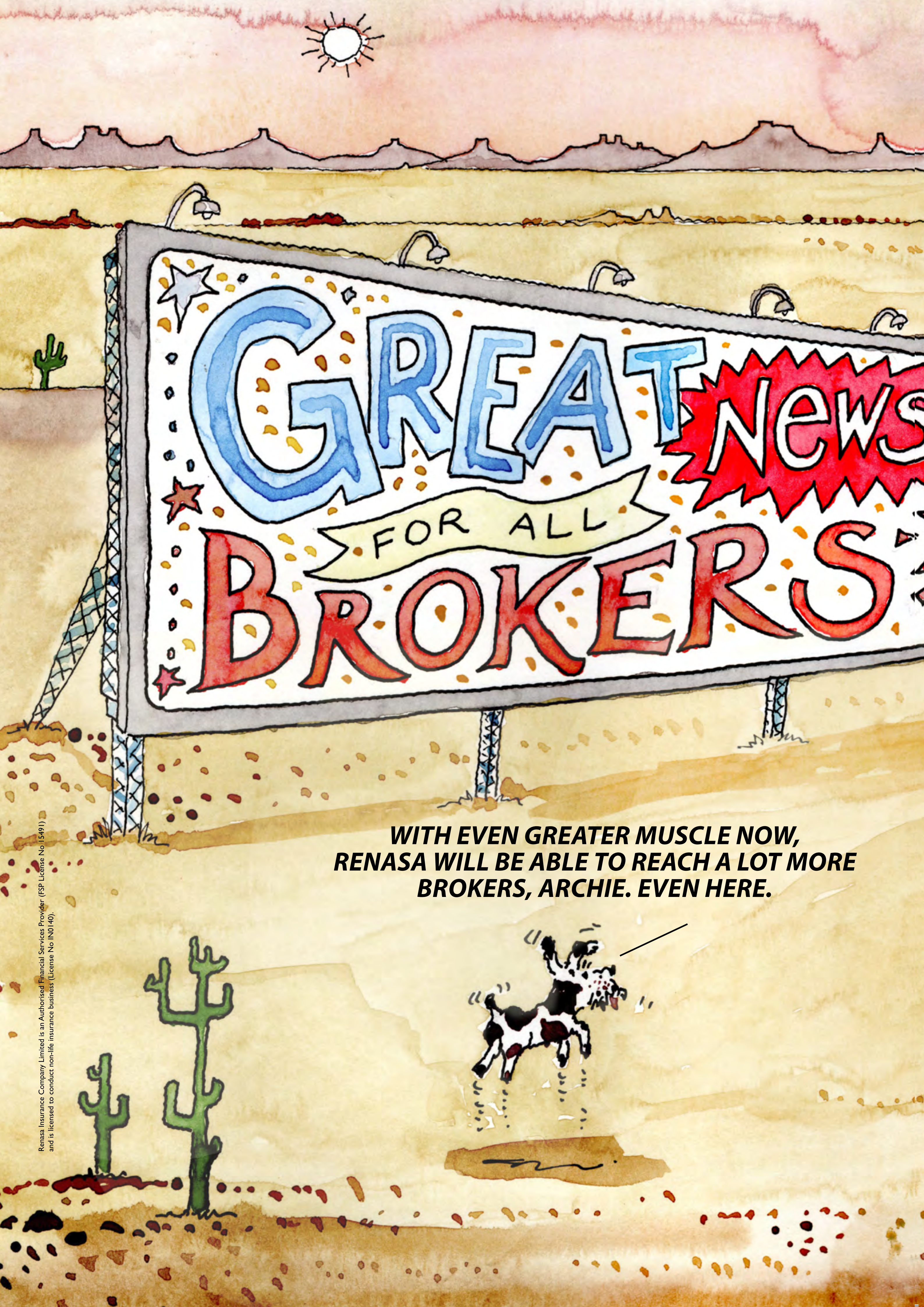
GREAT News
FOR ALL
BROKERS
WITH EVEN GREATER MUSCLE NOW, RENASA WILL BE ABLE TO REACH A LOT MORE BROKERS, ARCHIE. EVEN HERE.


THAT'S REALLY GREAT NEWS FOR BROKERS, ROGER.
BLB 2023

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MOTOR THEFT TRENDS

The insurance industry has taken a step in the right direction by requiring tracking devices in high-risk vehicles. However, more needs to be done to outsmart criminals.

ARE CAR THIEVES "OUT-INNOVATING" US?

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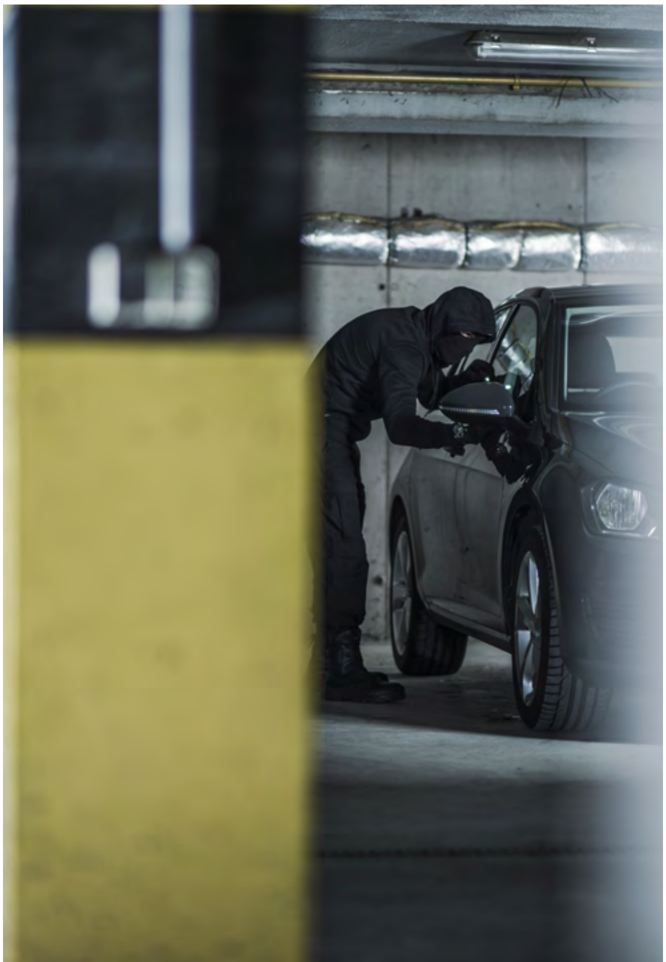

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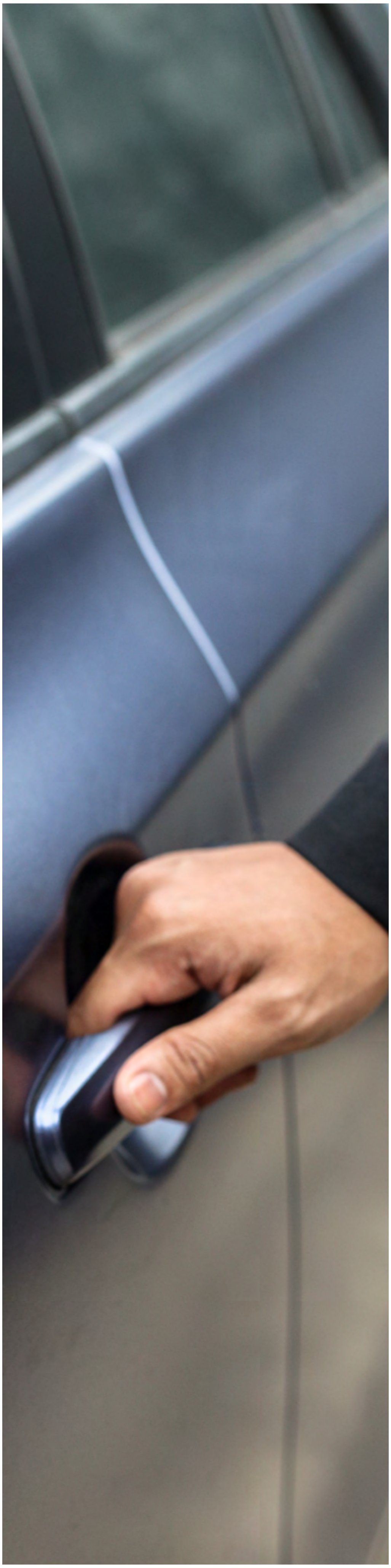


FINANCIAL PLANNING

INVESTMENTS

ALL THINGS WHEELS

SHORT TERM

TECHNOLOGY

PLAYING A CATCH UP GAME

Can we win the war against vehicle crime?

The latest crime statistics show that a car or motorcycle is stolen every 13 minutes in South Africa. The scary part is that hijackings have also increased at the same rate.

TONY VAN NIEKERK
Owner & Editor

As the technology that makes our cars work improve, so do the techniques of the criminals. It is a race between several sectors, for the heart of the car. On the one hand, the protagonist - The guy with a mandate to relieve the owner of her/his vehicle and, on the other hand, the car owner, the motor manufacturer, the insurer and the vehicle security experts (mostly tracking companies).

The big increase in vehicle theft and hijacking numbers have put pressure on insurers to increase premiums and/or include stricter security measures in their minimum requirements, some now requesting a backup tracker for certain "red carded" vehicles.

COVER had a live session to discuss these trends and we publish several articles on the topic in our All things wheels feature this month.

If you would like to know how to protect the risk profile of your motor book and assist your clients to stay safe, we have some content in our March issue that can assist.

Enjoy the read!

FINANCIAL
PLANNING

"DO SOMETHING INCREDIBLE FOR YOURSELF AND YOUR CHILDREN – CONSULT A FINANCIAL ADVISER, AGREE ON A FINANCIAL PLAN WITH CLEAR RETIREMENT GOALS, AND STRIVE FOR FINANCIAL FREEDOM AND PEACE OF MIND AT AND IN RETIREMENT."

- MARISKA COMINS, PSG WEALTH

UNDERSTANDING INSURANCE-LINKED SECURITIES AND HOW THEY WORK

A challenging environment for traditional asset classes means less correlated assets like insurance-linked securities are in higher demand. Beat Holliger, Head of Product Management, ILS at Schroders unpacks the ins and outs

Events in the natural world drive the performance of insurance-linked securities (ILS). This means that their returns are not closely linked to factors such as economic strength or weakness, a company's good or bad performance, or geopolitical concerns, as with traditional asset classes. This diversification benefit is a key reason that investors are increasingly interested in the area. In this article, we unpack ILS and how they fit into a portfolio.

THE MARKET FOR ILS

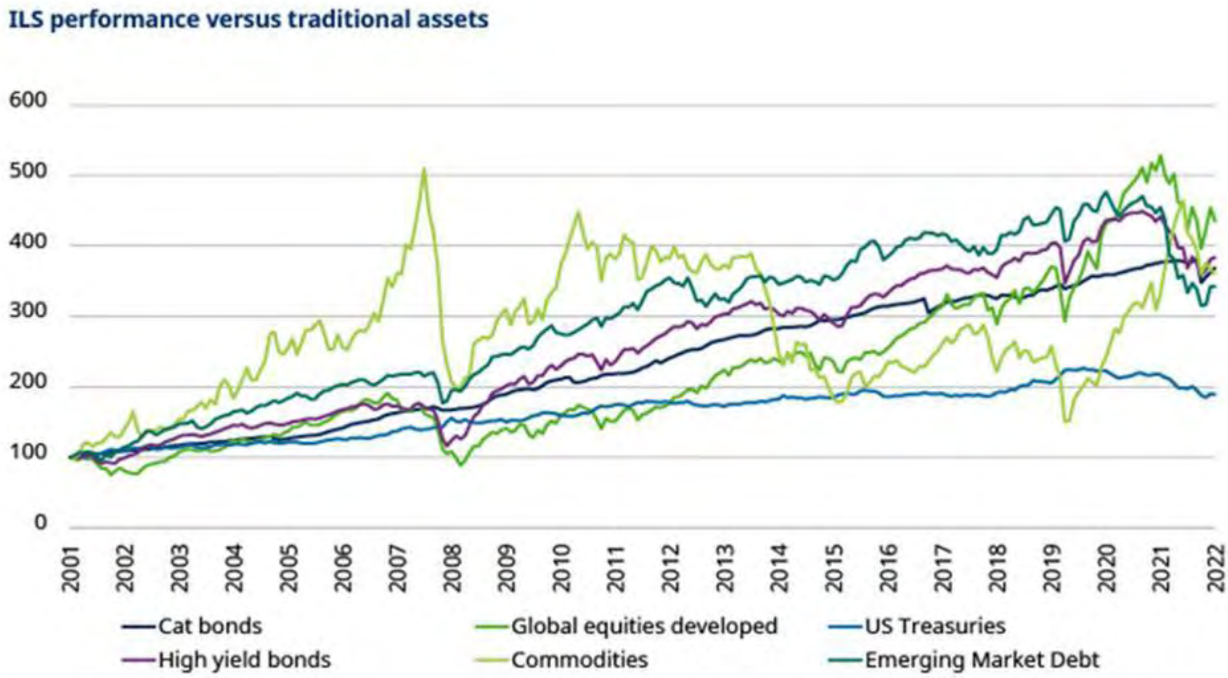
The best-known part of the ILS market is probably catastrophe bonds or "cat" bonds. These instruments are more conventionally tradeable and normally have a life span of between three and five years. But you also get non-tradable, "over-the-counter" contracts, mostly with a 12-month lifespan. This market gives investors access to a wider range of insurance perils than those available in the cat bond market, including marine, aviation and specialty risk and a broader range of investment structures. These instruments also require managers to model the risks themselves rather than using a third party, and there is no secondary market. Their non-tradeable nature means there is an additional "illiquidity premium" for managing this segment of the ILS market.

HOW DO ILS DIFFER FROM CORPORATE OR SOVEREIGN BONDS?

Credit risk

ILS are a way for companies to buy protection against the risk of incurring a loss due to an event. These companies, referred to as "protection buyers", are generally insurance or reinsurance companies looking to reduce or remove the risk of paying out on an insured event. An investor in ILS will receive interest payments, paid out of the insurance risk premium plus a money market return. As such the return is mainly determined by the insurance risk assumed.

Cat bonds and other insurance-linked instruments are not directly exposed to the credit risk of the issuer. The insurance risk is made available to investors via a special purpose vehicle (SPV) known as a "transformer". The buyer of the protection (which could be an insurer or reinsurer) passes a risk, or a proportion of it, to the protection seller (such as an investment fund). The risk moves from the seller to the buyer through a reinsurance contract in the form of a bond (an ILS), issued by the SPV.



Source: Bloomberg, 31 December 2022. Cat bonds: Swiss Re Global Cat Bond TR Index, US Treasuries: BofA Merrill Lynch US Treasury, Global Equities Developed: MSCI World, High yield bonds: BofA Merrill Lynch Global High Yield Index, Commodities: S&P GSCI, Emerging Markets Debt: JP Morgan EMBI+. 606435

Source: Schroders, Bloomberg

This reinsurance contract is backed by collateral which is paid to the SPV by investors when the transaction starts. The SPV then issues securities – such as cat bonds or preferred shares in the case of a private transaction – against this collateral. The result is an insurance risk that has been transformed into an investible instrument. The structure means that the cash paid for an ILS is not directly exposed to the credit risk of the issuer, as it is held separately in a trust account and invested in money market funds or instruments. As a result, the insurance-linked instrument is not exposed to the issuer's ability to pay claims. The likelihood that the pre-defined risks occur, which could impact the investment, is the metric used instead to assess the riskiness of the instrument. What could result in a loss of notional capital is the "insured event". If the tropical cyclone, flooding or earthquake the protection buyer has sought cover for were to happen, this would cause losses to the instrument. This is the insurance risk embedded in the instrument, rather than credit risk. It is also a significant reason for the asset's lack of correlation to traditional markets.

DURATION (INTEREST RATE) RISK

Duration (the sensitivity to changes in interest rates) for ILS instruments is also generally negligible. ILS are notionally floating rate instruments, in so far as part of the coupon paid is based on money-market return. However, the coupon is reset quarterly, meaning shifts in monetary policy make little difference to the instrument's value. Furthermore, the bulk of the coupon is based upon the risk premium. This is a combination of the modelled likelihood of the insured event occurring and – particularly in the case of privately negotiated ILS instruments – an illiquidity premium.

WHERE ARE THE OPPORTUNITIES IN ILS?

A fairly valued investment opportunity for ILS is one that compensates investors sufficiently for taking the insurance risk embedded in it (both on a stand-alone basis and within a portfolio). This means understanding and rigorously testing modelled losses relative to potential return.

CPD ACCREDITED

CORRELATIONS & VALUATIONS: WHY BOTH MATTER

2022 sparked unprecedented soul-searching within the investment community. Arguably, investment managers are used to market gyrations. After all, stock markets are expected to correct from time to time. What triggered the introspection this time around, however, was not market volatility per se, but rather a breakdown in one of the global asset management industry's most hallowed tools: the 60:40 (equity : bonds) portfolio.

The introduction of Markowitz's modern portfolio theory revolutionised the asset management industry in the mid-1900's and brought with it the belief that we could trade off risk and return to reach an optimal portfolio allocation.

ANET AHERN

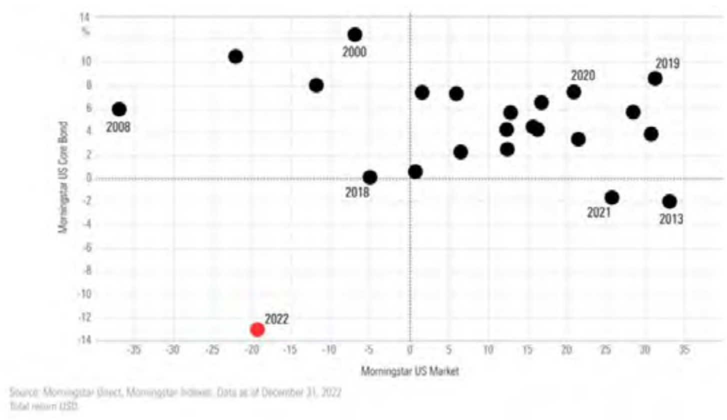
CEO at PSG Asset Management

At the heart of this, has been a reliance on the long-term pattern of negative correlation between stocks and bonds. For over 70 years, it has been common wisdom in the investment community, and the formula has proven itself indispensable in smoothing the investor's ride many times in the past. As if the preceding years were not stressful enough, 2022 was one of the few years on record when a 60:40 portfolio failed to deliver on its promise of reduced risk as advertised.

With a (very) few exceptions, the negative correlation between bonds and equities have served investors well. The extent of the downturn, especially in the earlier half of 2022, surprised many. While there had been some speculation that the bull-run in equities was overdone (and an equity market correction should not be surprising), the sharp fall in the bond market delivered an unexpected double-whammy to investors.

Instead of bonds offsetting equity losses, rather, they contributed to negative overall portfolio returns. And not just a drop relative to what was expected, but the worst in over 100 years.

U.S. STOCK AND BOND PERFORMANCE SINCE 2000



In the wake of the market turmoil, many have been asking whether the 60:40 portfolio has outlived its usefulness. Have the market correlations we have come to rely on, ceased to exist and should we reconsider the relevance of this well-worn portfolio construction stalwart? Correlations by their nature, apply in the long term. Datasets over many, many decades have been studied and we believe they reveal something fundamental about the nature of investors, and how markets work.

It is a human truth that you will require a return or reward before parting with the money in your pocket. In this sense, we cannot abstract investment from an understanding of risk and reward. But does a long-term correlation apply in the market on any specific day? That is a different question entirely. At their most basic level, correlations are driven by how the market values securities under different conditions. Under normal conditions, a market that is bad for equities will tend to be good for bonds, and vice versa, driving the long-term inverse correlation between bonds and equities and laying the foundation for the 60:40 portfolio. And underpinning the market behaviour of stocks and bonds are market dynamics around inflation and interest rates. This much is basic theory.

However, what people tend to lose sight of, is that over the past decade and more, our financial markets have been manipulated to an extraordinary extent. In a world of 'easy money', interest rates were not only kept artificially low, but developed market governments also flooded the financial system with liquidity through quantitative easing programmes.

It resulted in artificially low bond yields, and at the same time caused a sharp run-up in the prices of risk assets that promised higher returns. The more speculative the asset, it seemed, the more prices were inflated (think crypto and special purpose acquisition companies – SPACs – as examples).

Given that both bond and equity markets shared a common driver for their return behaviour over the past decade or more, it should not come as a surprise that when uncontrolled inflation and rising interest rates started to undo the 'easy money' bubble, both markets would be impacted at the same time.

And so, on the face of it, long-term correlations break down. Could investors have seen this coming? We think so. Valuations at extreme levels have been signalling that all is not well in markets for some time. Market cycles became preternaturally elongated while indices became ever more concentrated.

Focusing on the price paid for an investment is central to our 3M investment philosophy, as we believe overpaying for assets handicaps the return investors can expect in the long run. As such, we have avoided over-hyped segments of the market for some time. However, our research shows that many funds are still positioned for the sectors that worked well in the past, even as the drivers of market returns have changed significantly.

We do not believe, however, that the sectors of the market that fared well during the easy money era will be the ones to do well in a more cash-constrained environment. We do think the market experience going forward will mirror that of the last ten years.

Does all of this mean that investors should abandon the 60:40 portfolio? We don't believe so. Within a long timeframe, the fundamental truths of the market are sure to reassert themselves. But we do believe 2022 made a strong case for why investors need differentiated thinkers as part of their portfolios. Even members of the professional investment community become caught up in the powerful narrative of the times.

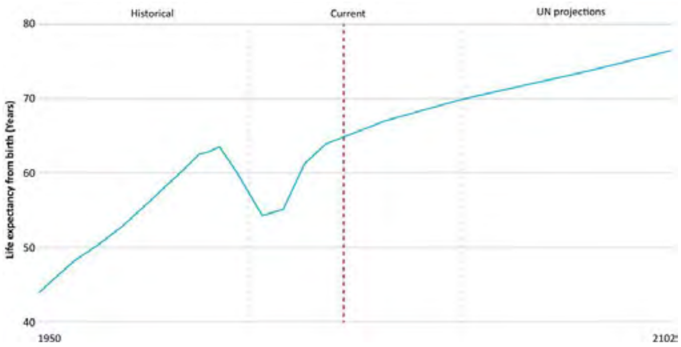
It takes faithful adherence to a tried-and-tested investment philosophy, detailed research and robust debate to see the bigger picture emerging beyond the short-term noise and to question both common wisdom and long-held beliefs, placing the price paid above well-worn patterns. 2022 provides a cautionary tale of the importance of valuations, and reminds us that in investments, the price always matters.

LIVING LONGER IS A RISK: AT LEAST FOR YOU FINANCES!

Mariska Comins, Head of Technical Support, PSG Wealth

The risk of outliving one's savings also called longevity risk is increasing. People live longer mainly due to better healthcare and improved medical technology and, according to the United Nations, South Africans' life expectancy is on an upward trend.

It certainly does sound a bit odd to refer to living longer as a risk, but the impact it may have on your retirement planning could be substantial if not addressed correctly.



INVESTING TO MITIGATE LONGEVITY RISK

You can mitigate against longevity risk by saving more, contributing more regularly, and remaining committed to saving on an ongoing basis. Frequently evaluating your financial goals will also help you determine if your plan is still on track.

Investing for a long-term goal allows you to take on more risk by investing in riskier asset classes, as a longer investment period allows your portfolio to recover from any losses that may occur early on. Asset allocation is about diversifying your investment into different asset classes (e.g. equities, fixed interest or cash) to ensure you achieve your desired financial planning outcomes at a level of risk that you are comfortable with.

Higher returns require a riskier asset allocation, e.g. a higher allocation to equities. If the required level of risk is not acceptable, then the desired financial planning outcomes need to be reviewed and the asset allocation adjusted in a manner that reduces risk exposure. At the same time, you need to re-evaluate your contributions to ensure you make enough provision to achieve your investment goals.

You can start investing in a retirement annuity or a tax-free savings account from any age.

A tax-free savings account (like the PSG Wealth Tax Free Investment Plan) is a voluntary investment that can be used to supplement savings for retirement. Unlike with retirement annuities, funds invested in these products can be accessed at any time.

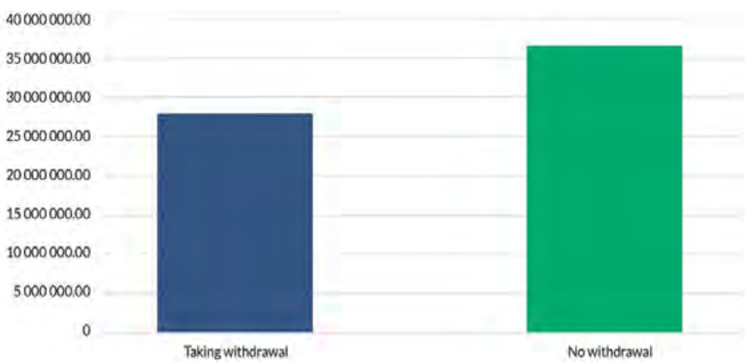
Annual and lifetime limits apply to the contributions you make, but growth within the product is unlimited. Withdrawals should be considered carefully however, because once an amount is withdrawn, that amount is deducted from your lifetime contribution limit. It is incredibly important to preserve the capital you have already saved if you resign from your employer, and not be tempted to access those funds. A large part of financial planning is discipline.

A REAL-LIFE EXAMPLE

Sue (40) resigns from her current employer and decides to take the full R500 000 she has contributed to her provident fund over the past seven years. If she chooses to do, so she will have to pay tax on the R500 000, but it seems like a good idea as she wants to pay off some credit card debt and spend a month overseas before she starts her new job. When Sue starts her new job, she starts contributing to her pension fund (R7 500 a month, increasing by 6% every year, with the pension growing at a rate of 10%). She anticipates retiring at age 70.

The graph below illustrates the net result of her decision to withdraw her funds. At retirement, her retirement fund value is R27 764 939. If she had not withdrawn the R500 000, it would have been worth R36 489 631. In other words, the R500 000 withdrawal has cost her R8.7m at retirement (loss of the saving over 30 years).

SUE'S PENSION FUND AT 70 YEARS OF AGE



IT IS NEVER TOO LATE OR TOO EARLY TO START SAVING FOR RETIREMENT.

Do something incredible for yourself and your children – consult a financial adviser, agree on a financial plan with clear retirement goals, and strive for financial freedom and peace of mind at and in retirement. You can spend your golden years pursuing your passions and follow in the footsteps of Lise Meitner who, at the age of 60, became the first person to describe nuclear fission, or Pablo Picasso who only completed his first masterpiece 'Guernica' at the age of 55, instead of worrying about how you will survive.

‘TWO-POT SYSTEM’ COMMENCING 1 MARCH 2024

In his budget speech on 22 February 2023, the Minister of Finance announced that the proposed two-pot system will take effect on 1 March 2024. Many had hoped for a delayed implementation date, given the development required to systems to accommodate the new structure.

The proposed amendments will allow short-term access for South Africans to their retirement fund money for emergencies within set limitations, while balancing this access with long-term preservation of savings for retirement. To effect the relevant changes, the Income Tax Act will include the following new definitions for “savings pot”, “retirement pot” and “vested pot”.

An important aspect mentioned is that some immediate access to retirement savings accumulated to 1 March 2024 could be accessed. This follows consultation and is a departure from previous comments which would not allow immediate access of past contributions.

IT IS EXPECTED THAT MORE DETAILED LEGISLATION WOULD BE RELEASED IN DUE COURSE, SPECIFICALLY DEALING WITH:

1. “Seed capital”, allowing individuals to have a starting balance in their “savings pot” which would be accessible at any time
2. The treatment of defined benefit funds
3. The treatment of “legacy” retirement annuity funds

Another aspect to be dealt with in a second phase of implementation, is allowing individuals who are retrenched and have no alternative source of income to be able to access their retirement pot.

WHAT IS THE PROPOSED TWO-POT SYSTEM?

This system aims to find the right balance to help members save for retirement while allowing some flexibility for short-term emergencies. The ‘two-pot’ proposal splits new contributions from the proposed implementation date into two pots of money.

For example, let's say you are a member who has a pensionable salary of R10 000 a month and the contribution rate is 15% (R1 500 per month):

The first pot is for longer-term financial security the retirement pot.

R1 000 a month, less any fees and group insurance premiums, will go into the retirement pot (two-thirds). It must be invested until retirement and used to buy a pension from a registered insurer, unless you have saved less than the minimum required amount. The current minimum amount for purchasing an annuity (de minimus R165 000) will apply to the retirement pot. This will improve retirement outcomes for most fund members.

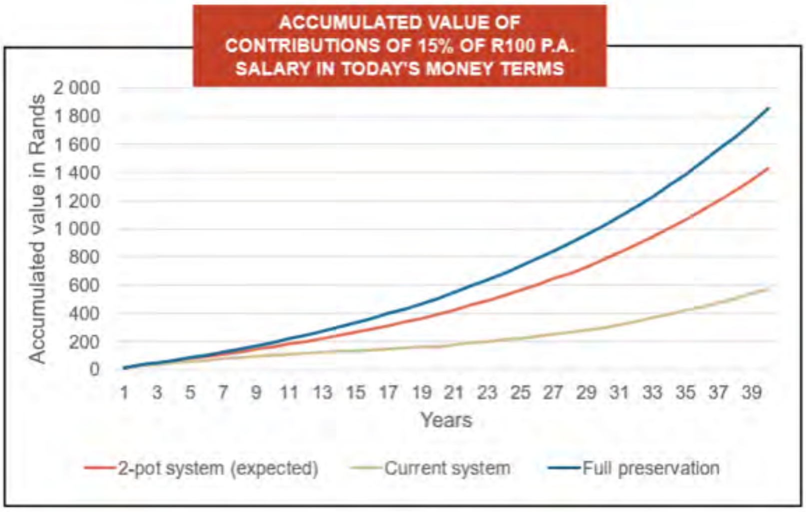
The second pot is for short-term financial relief – the savings pot

R500 a month, less any fees and group insurance premiums, will go into the savings pot (one-third). You may withdraw money from the savings pot once a year at most while working. The minimum amount will be R2 000 per annum. If you withdraw all the savings in this pot before retirement, then you won't have any money to withdraw from this pot at retirement.
Accessing the savings pot should be as a last resort, particularly as any savings withdrawn from a retirement fund reduces your income at retirement. In addition, if you have used up all the savings in the savings pot, you will not be able to access any cash at retirement from the retirement pot. Generally, it is advisable for you to make use of other savings vehicles for day-to-day savings or to finance non-retirement savings goals.

ALEXFORBES' VIEW

For a long time, we have been advocating for improved preservation of retirement savings in South Africa. At present, when an individual leaves employment they can effectively access 100% of their accumulated retirement savings. According to the Alexander Forbes Member Insights™ for 2021, only 9% of members preserve their retirement savings when changing jobs. This in turn leads to very poor retirement outcomes as the average replacement ratio is only 31%. This means that for every R1 000 earned by a member before retirement they will only replace R310 of income in their retirement.

Although there will be access allowed to the savings pot in the new system, this is limited to one-third of the individual's total retirement savings. The other two-thirds must remain preserved at all times. Our modelling has demonstrated that the "two-pot" system will result in a new member accumulating more than double their fund value at retirement as compared to the current system whilst providing access to a portion of their savings annually.



IMPROVING SAVINGS SOME ADDITIONAL THOUGHTS

While the two-pot proposals go some way to address the issue of preservation, at least in respect of contributions made after 1 March 2023, there are other factors that need to be considered to improve retirement savings:

1. Increasing contributions: At present, the average contribution rate of 12.9%1 (after costs and risk benefits) by members of retirement funds is generally insufficient to achieve the ideal 75% income replacement at retirement.

2. Levels of debt: There is a direct link between the amount of debt individuals have and what they can afford in terms of contributions. In 2021, the Alexforbes Member InsightsTM showed that the debt-to-income ratio of the members was 69%, with 6% of members at high risk of financial stress.

"Millennials" in particular, had higher financial stress. The higher the levels of debt and financial stress, the lower the amounts saved towards retirement. This means that to increase retirement savings, interventions are required to assist individuals to live within their means, budget, reduce their levels of debt and ensure healthy financial habits. More emphasis needs to be put on programmes that assist in doing so.

3. Coverage: Most formally employed individuals are adequately covered, belonging to a formal retirement arrangement. However, there are groups of individuals that are not covered by any form of retirement savings, and it is for these groups that solutions are required as follows:

a. Auto-enrolment for formally employed and contractual workers.

b. Scrapping the means test for the State Old Age Pension at retirement. This acts as a disincentive to save at present.

c. Separate interventions should be thoroughly explored for the informal sector, taking the specific dynamics of this sector into account to ensure a sustainable and workable solution rather than destabilising the integrity of the existing retirement funding system. Many other countries have also grappled with coverage in relation to the informal sector – with limited success in practice.

Overall, Alexforbes is supportive of the changes given that over the long-term the outcomes of retirement members are much improved. In the short-term, however, there will be pressure on administrators to process significant amounts of small claims given that a portion of accumulated savings to 1 March 2024 will be immediately accessible.

It is therefore imperative that retirement funds ensure that they can accommodate the changes including:

- Significant changes to systems making use of the latest technology in engaging members

- Investment strategies to cater for the various pots

- Member communication and support to members to ensure members understand their options under the new system

A further implication may be that free-standing funds consider moving to umbrella funds which would cater for the changes.

INSURANCE THAT PAYS MONTHLY

Bidvest life told us that they have set out to change the way South Africans do life insurance by embracing an approach that's built around insurance that pays monthly.

"Traditionally, life insurance is sold as life cover which pays out as a lump sum. We want to change that to insurance that pays out monthly. This solves for what really matters: protecting yourself, your business and your family against unexpected expenses incurred due to illness, injury, disability or death," says Bidvest Life CEO Lulu Rasebotsa. It's a significant change in mindset for advisers and consumers alike. But we're making progress. For a start, Bidvest Life is fast becoming the advisers' choice: two-thirds of our top 100 supporting advisers have their own Bidvest Life policies, which illustrates we are the product of choice for many advisers.

Covid-19 was a cataclysmic disruption that we are all still coming to terms with. For South Africans, the pandemic was a hard lesson on why we need to budget for the risk of losing our monthly income, and the importance of insuring our salaries against life's setbacks. Especially for business owners and the self-employed customer, it highlighted that when it comes to life insurance, the value of monthly pay-outs makes all the difference.

"Bidvest Life is fast becoming the advisers' choice. Two-thirds of our top 100 supporting advisers have their own Bidvest Life policies, which illustrates we are the product of choice for many advisers."

As a result, there's been a clear shift in momentum amongst South Africans who realise the importance of protecting their hard-earned income, and this is evident in our policy uptake. In 2020, 44% of Bidvest Life's policies sold were for income protection. In 2021, that had risen to 47%. At the same time, Bidvest Life saw the highest number of claims in its history in 2021, with claim volumes increasing by 44% over 2020 and 92% of claims paid were for income protection benefits.

"The pandemic showed us unequivocally that income protection is still the most effective insurance against the risk of injury, illness or death. We're seeing clearly that our policyholders are much more likely to claim on income protection than any other type of life insurance, whatever the cause," says Rasebotsa.

WHY CHOOSE BIDVEST LIFE?

We cover a wide range of occupations: including individuals whose occupations may not qualify for traditional cover.

We offer shorter waiting periods to a wider range of occupations: which increase the chances of claims being paid.

Our innovative Fast-Track Events provide claim speed and certainty: We offer quick, hassle-free claim pay-outs for a set list of common injuries, illnesses and impairments.

Critical Illness cover with an Income First approach: Our CI Income benefit pays a boosted monthly income for up to a year if your clients are diagnosed with a listed critical illness, even if they continue to work.

Future proof your clients' cover with no medicals: Our unique Future Insurability options offers the flexibility to increase, decrease and add benefits to client policies as their lives change – even if they have claimed or their health has changed.

Life cover paid out monthly: Life Income provides your clients' beneficiaries with the certainty of a monthly income to ensure their monthly expenses are covered.

CI Assist: supports your clients through the treatment and recovery process when they qualify for a critical illness claim.

Automatic Critical Illness Cover for kids: Biological or legally adopted children are automatically covered for 10% of the Critical Illness Lump Sum cover to a maximum of R250 000.

Female policyholders enjoy a cash boost: to help cover any additional expenses when their child is born. With our temporary income protection cover, the Childbirth benefit is automatically included and pays out the value of the total policy premium x 12 months.

INVESTMENTS

"MORE INVESTMENT PRODUCTS AND FUNDS APPEAR TO STRUGGLE ANNUALLY TO DIFFERENTIATE THEMSELVES AND TARGET THE FABLED "ALPHA" OR OUTPERFORMANCE SET AGAINST ARBITRARY MARKET-RELATED BENCHMARKS."

- PAUL NIXON, MOMENTUM INVESTMENTS

SHIELDING AGAINST ARTIFICIAL INTELLIGENCE

IS THE INVESTMENT MANAGEMENT INDUSTRY SUCCESSFUL?

PwC estimates that by 2025 global assets under management will reach the $145 trillion mark(1). This may sound successful, but finance researchers, State Street, argue that while the industry is profitable it is not successful(2). This is because success should be measured by the extent to which each person reaches their investment goals, and this is where they believe the investment management industry fails.

WHY DO INVESTORS STRUGGLE TO REACH THEIR GOALS?

Investors generally have more information at their fingertips through online research than they ever had before. This provides them with high levels of overconfidence in using this 'scientific' evidence to support their beliefs. This means very risky investments like cryptocurrency, for example, may not feel as risky as they should to them. Added to that, investors often don't have sufficient short-term buffers or savings in place to allow risky asset classes the time they need to deliver. This pushes them closer to being speculators with micro-time horizons and moves them further away from being true long-term investors or wealth creators.

More investment products and funds appear to struggle annually to differentiate themselves and target the fabled "alpha" or outperformance set against arbitrary market-related benchmarks. Investing is personal, and this approach often distracts investors from the most important decision-making to achieve their personal investment goals, i.e. what is the overall mix of assets they should invest in. This is termed asset allocation and relates to the proportion of equities or shares, property, fixed income, cash, and offshore investments in an investor's portfolio. It is one of the most important determinants of investment returns although many investors seem to think that past performance is more important.

During the COVID-19 pandemic, research conducted by Momentum Investments showed that clients destroyed over R600 million(3) in value from switching between different funds. We call this paying a 'behaviour tax' and is calculated as the performance difference between the fund switched from and the fund switched to. The more clients continue to battle with reaching their investment goals (whether it is through their own behaviour or not) the greater the threat to the adviser as distrust and dissatisfaction may ultimately result in disintermediation or investors seeking more direct and low-cost advice offerings.

This leads us to the biggest buzzword of 2023 so far, ChatGPT, a chatbot developed to transfer learning, by providing detailed responses across many domains of knowledge. The name may not roll off the tongue but there is no doubt that artificial intelligence (AI) poses a serious threat to financial advisers. AI combined with automated advice can do something that advisers cannot and that is to provide in-the-moment financial education and advice.

This is where the value propositions of a discretionary fund manager (DFM) and financial adviser are perfectly geared to solve these challenges. The DFM takes the investment management responsibility away from the adviser and focuses different investment strategies (such as value, growth and momentum) on the investor's goals to provide clients with better outcomes. The financial adviser can then focus on critical aspects like behavioural management to ensure that the client has a far better chance at achieving their investment goals.

This behavioral coaching provides a valuable shield against AI because it is something that clients would prefer to receive from other humans who can empathise with them through experiencing similar trials and tribulations. Future-fit financial advisers are accumulating new skills like psychology to manage overconfidence from the investor as well as other psychological and behavioural pitfalls.

The DFM together with the financial adviser play a crucial role in making investments truly personal and while AI in financial advice is inevitable, the DFM allows financial advisers to do what they do best which is to manage the battle plan to get investors to their personal investment goals.

This is what makes the industry truly successful, and investing truly personal. Our trusted DFM partner, Equilibrium, offers discretionary fund management and investment consulting services and solutions to help your clients achieve their investment goals. For more information go to eqinvest.co.za.

Sources:

Source 1

Source 2: McDowall, R., 2013. The Folklore of Finance. Folklore, 124(3), pp.253-264.

Source 3

STAY TRUE TO THESE THREE INVESTMENT TRAITS

As we enter a world of rising interest rates, recessions and bear markets, what are the traits that investors need to successfully navigate their new paradigm?

Or, to put it differently, how do you make sure you don't make critical errors with your investment portfolio during this time? The most important – and most obvious – piece of advice is to have a long-time horizon. While trite, this is absolutely the best advice there is.

However, though often mentioned, it is just as often ignored. Most investors will insist on fiddling with their asset allocation at times like these, hoping to jump out of falling stocks and jump back in when the markets rise. Some will be successful. Many will fail. So, thinking more deeply, what traits enable you to feel confident enough to stick to a long-time horizon? There are few that I've found that work.

THE FIRST TRAIT IS INTELLECTUAL HONESTY

In other words, learn the right lessons from your successful and unsuccessful investments, and don't change what works. For 90% of people, an honest reflection will demonstrate that your time horizon was the main contributor to making a profitable trade. Some investments are profitable and some produce losses. In both outcomes, the wrong lessons can be learned.

For example, investors who profited from GameStop felt clever when the stock was lifted by the 'meme' investment craze of 2022, when narrative trumped reality for a brief time. In reality, the profits from this trade came from enormous short covering rather than skill, which, for a brief time, made a few investors look clever. Another example is the one of a 20-year-old college student who raked in a $110 million profit on a stock called Bed Bath & Beyond after investing $25 million in the meme stock. The reality was it was a short term, high-risk trading strategy executed on a fatally flawed company.

Your investment track record is your lived experience. It's important that each trade is dissected, and your success – or failure – analyzed truthfully. If you have accurately called the bottom once and made – or lost – a buck, recognize that this was probably short-term luck. When you can invest profitably, repeatedly, over many cycles, you're deserving of the title of being a good investor. Learning the right lessons, like how random the markets can be in the short term, should help give you the discipline to stick to long-term investing.

THE SECOND LESSON IS TO RESIST BLINDLY FOLLOWING THE TRADES OF OTHERS.

Following trades of investment gurus or investment billionaires is fine – as long as you know why they made the trade and if it is true to your investment philosophy and time horizon. Often there are portfolio effects, long/short strategies and short-term trades mixed in with sound investment picks made by many of the world's top money managers. There are also just plain mistakes. Investors who followed a strategy of replicating the trades of Warren Buffet, Peter Lynch or Jim Chanos have done well, and have been wise in so doing. But they would have been poorly served by following the trades of Mayoshi Son, Bill Miller, or Bob van Dijk. Following a billionaire's trades only work when you follow the right billionaire. My advice: define your own trade and know when you want to exit it. If you whipsaw between replicating the trades of investment gurus, you could find yourself becoming a short-term trader in no time. You may also find yourself lacking conviction when the time comes to buy if the share weakens – often the time when a share offers the most upside potential.

The final, and most important trait is to get rid of your FOMO. Fear of Missing Out drives investment decisions more often than you might think. However, avoiding FOMO could well be the most important investing skill at this time. Isolating yourself from focusing on the success of others, especially when that success is sudden, rare and seemingly easy, is superpower; so formidable and significant that it's practically impossible to do well over time without it. Charlie Munger once said: Someone will always be getting richer faster than you. This is not a tragedy… The idea of caring that someone is making money faster than you are is one of the deadly sins

SUMMARY

Investing for the long-term really is your best friend, particularly during times like these. To be true to this perspective you must be convinced that your long-term strategy gives you the 'edge', implement your own long-term trades rather than following others and avoid FOMO. If you follow these three investment tenets, you will be better equipped to stay the course.

SAFE-HAVEN ASSETS RUNNING OUT OF STEAM?

Adriaan Pask, CIO of PSG

2022 was a reality check for many investors and wealth managers. Investment themes that remained intact for decades quickly unravelled, forcing them to reconsider their previously considered safe-haven assets like US bonds and growth shares.

A PERFECT STORM FOR INVESTORS, YET SA MANAGERS FARED BETTER

The year started off well enough, until the outbreak of the war in Ukraine, which took many by surprise. The fear of the conflict escalating into a NATO war captured the minds of many investors, leading to a sell-off in global markets. High global inflation numbers and unprecedented interest rate hikes (in size and speed) added to the pressure, creating a perfect storm for investors who had never experienced this level of inflation since the late 1970s. However, South African fund managers are more familiar with these types of conditions. After all, we have seen 7% inflation as recently as 2016. This enabled us to weather the storm better than our global counterparts.

THE INTEREST RATE ENVIRONMENT ALSO LED TO A SELL-OFF IN GROWTH ASSETS

This was most apparent in the tech sector. While some of these tech companies are great businesses, they aren't always good investments, and sometimes they become overpriced. The job cuts being announced by these companies are a clear sign that there is significant pressure on growth and that businesses are trying to cut costs. Ultimately, the sell-off was widespread, affecting various asset classes, including speculative assets like cryptocurrency. (These assets are better suited for speculators than investors.)

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INVESTMENT THEMES THAT HAD BEEN ENTRENCHED ALSO LOST STEAM IN 2022

For example, the transition to cleaner energy saw a large amount of capex being halted during the year. This resulted in a greater reliance on fossil fuels, which was exacerbated by sanctions on Russia, causing the oil price to rally and many oil counters to perform well. Exxon's share price, for instance, rose by 70% in 2022. On the other hand, one of the proxies for clean energy, Tesla, saw a 70% drop in the same year.

Investors began to understand that the shift to cleaner energy was more of a transition than a sudden change. A more pragmatic investment approach will be required moving forward.

BELIEF THAT US GOVERNMENT BONDS ARE RISK-FREE WERE CHALLENGED

Many offshore investors were not prepared for the sell-off in these assets, especially given their bull market for 40 years. And this is reflected in some fund manager results globally. Most investors expected diversification support from holding US government bonds, but that was not the case.

LOOKING AHEAD, 2023 IS LIKELY TO BE A YEAR OF UNCERTAINTY, WITH CONFLICTING FACTORS PULLING IN DIFFERENT DIRECTIONS.

On the one hand, there is evidence of structural underinvestment and diminishing inventories in the commodities market, which could drive prices higher in the long term. On the other hand, there is a risk of a recession in the US, which could dampen demand for commodities in the short term. This could also be said for equities and the US dollar, with high valuations and an expensive fiscal backdrop, respectively.

Balancing these conflicting forces will be a challenge, and some fund managers and investors may choose to time the market (a strategy that we do not recommend), while others may focus on their longer-term positioning. Regardless of the approach, the market is likely to be volatile, with heightened uncertainty and differing interpretations of economic indicators.

Ultimately, the key to success in navigating these uncertain times is a focus on valuations. While sentiment may change and macroeconomic calls can be difficult to predict, valuations have a much stronger track record of carrying investors to success. So, as we move forward, we will remain focused on the fundamentals, while being aware of the risks and opportunities that lie ahead. It is also important to remember that, while there is a likelihood that Fed rate hikes could peak this year, there is a delay between interest-rate hikes and their impact on the economy. Global inflation may not come down until later this year, making it difficult for policymakers to make informed decisions, adding to uncertainty.

While 2022 was a challenging year for investors, it also provided opportunities for those who were prepared and willing to take a long-term perspective. The key to success in the current environment is to have a well-diversified portfolio and to be aware of the risks involved with different investments.

It's also important to work with a trusted financial advisor who can help you navigate these challenges and provide guidance on how to make informed investment decisions.

CAN YOU HAVE YOUR CAKE AND EAT IT?

"There is no such thing as a free lunch", and "you cannot have your cake and eat it." Indeed, many languages have such expressions that say that where there are benefits, there tend to be costs as well. This kind of scepticism is applied to sustainable investing as well. The perennial client question is: does sustainable investing cost returns?

The short answer is no. Academic evidence (see for example the meta-studies by Friede et al. [2015] and Atz et al. [2022]) shows that sustainable investing typically does not cost financial returns. But that doesn't take away client concerns. And the more nuanced answer is: it depends. Yes, sustainable investment approaches can enhance risk-return profiles, by means of better risk management, better fundamental analysis, and/ or more favourable factor exposures. But they can also hurt risk-return profiles due to excessive investment universe reductions. It very much depends on the goals and methods used.

There is much talk about sustainable investing methods (exclusions, ESG integrated fundamental analysis etc.) and the data used, and indeed there is much to be discussed there. But it would be a shame to skip the goals. As the Roman philosopher and statesman Lucius Seneca is quoted as saying: "If one does not know to which port one is sailing, no wind is favourable." In sustainable investing too, you need to know where you're going to actually get there.

There are typically two types of goals in sustainable investing, which both come in various degrees, from non-existent to very ambitious, and which can be combined to varying degrees:

Sustainability as a means for achieving financial results (this is what most ESG integration is about); and Sustainability as a goal in itself: achieving better social and environmental outcomes, where clients may set very specific desired outcomes. And increasingly, institutional investors want to be ambitious in both. The relation between these two goals is not straightforward: in some cases they reinforce each other, in other cases they involve trade-offs.

Let's start with the first goal. In its most superficial shape, this entails simply wanting to keep stakeholders and regulators happy – and avoiding reputational damage. More ambitious is to aim for better risk management. In its most ambitious shape, the goal is achieving a better understanding and management of risk, opportunities, and returns, in a way that combines data and fundamental forward-looking analysis. This can indeed strongly improve risk-return profiles.

The second dimension, sustainability as a goal in itself, also comes with varying ambition levels. Here the spectrum starts with having no such goals whatsoever, but most have moved to the next stage: the goal to avoid the most serious harm, for example by excluding, say, the violators of the UN Global Compact, the world's largest voluntary corporate sustainability initiative. But investors can choose to be stricter on their exclusions. In addition, they might want to select their investments for doing good, formulating positive selection criteria. This can be done in at least two ways.

The obvious way is to make investments that demonstrably make a positive impact: Article 9 eligible under the EU's Sustainable Financial Disclosure Regulation – sustainable investment is the core objective. The less straightforward way is to invest in companies that have a negative contribution to social or environmental value, but with the commitment to strongly improve their contribution through active engagement.

The latter would not fit Article 9, but could fit the UK Financial Conduct Authority's proposed Sustainable Improvers category (recognising that we are yet to see the final text of that regulation). And, back to the returns question, there is evidence of alpha generation from such strategies, both in proprietary and academic research (see for example Dimson et al., 2015).

While there can be positive alpha in Article 9 propositions as well, depending how they are designed, such products can also involve giving up returns or at least assuming more risk: think of ethical investment funds that are so strict in their investment criteria that their universe is excessively reduced; or impact private equity products that have single digit internal rates of return (IRRs) at double digit IRR risk levels because they share the returns with the local population.

That may be great for society, but is not within a pension fund's mandate. Still, it might be a good proposition for some retail or high net worth individual (HNWI) investors who are willing to give up returns for (a lot) more impact. The challenge is to understand where you (and your clients) are on these two dimensions of goals. The above mentioned pension funds are ambitious on both goals: they want to achieve positive social and environmental outcomes, for example aiming for net zero, without giving up financial returns.

Once the goals are clear, the other questions can be addressed: how to operationalise the goals? How to define success? What strategies to use? What trade-offs are involved? How to measure? With what data? How to communicate to constituents? How to explain to them that you are indeed not giving up returns, even if it looks like it?

A director of a Canadian pension fund put it roughly this way: "We don't give up returns in sustainable investing as it would not be within a pension fund's mandate to give up returns. The horizon is crucial: our mandate is to generate good returns over the next 50 years. That means we need to invest in future fit business models. Sometimes we seem to be giving up returns when in fact we are mitigating long-term risks at the expense of short-term returns. In fact, negative externalities represent short positions in companies, which is often not recognised, so the risk is underestimated."

The perceived trade-off between sustainably-run companies and the returns they deliver is misplaced. It is indeed hard to see how returns can be generated without considering sustainability against a backdrop of those sustainability challenges creating risks, opportunities and political and social interventions.

This highlights the importance of Schroders' models on externalities. They are part of our effort to understand the risk-return implications of sustainable investing, especially where the data is fuzzy – while still applying a solid portfolio construction process.

That is not a trivial pursuit. In that sense there is indeed no free lunch.

A BALANCING ACT: NAVIGATING THE SAVINGS, INVESTMENTS AND SPECULATION TRIANGLE

The word "investment" is often used to describe any return-based activity, however there is value in drawing clear distinctions in this regard to ensure ones' personal finances are appropriately structured.

Savings are short term in nature, involve safe keeping or storage of money towards either a specific end goal or emergency funding. Capital risk is very low but returns (or yield) will also be low as the investor would require immediate access to the money. Investments are better viewed as a long-term endeavor where an appropriate amount of risk is taken to generate the required return profile. Examples would be investing for retirement, kids' education or perhaps a lavish family holiday in a few years' time. Speculation involves a much higher risk profile, a lot less certainty around the fundamentals of the relevant asset, and the primary objective is usually a pure profit motive, devoid of any other discernible traditional "goal". The time horizon will therefore most likely be shorter than a traditional investment.

CONVERTING GOALS TO STRATEGY

Once an investor has mapped out a set of goals, developing investment strategies to meet those goals is the next logical step. Your short-term goals like saving for an emergency can involve saving money in a bank product that allows immediate access and provides a reasonable yield. The longer-term goals like a kids' education will need to be invested in assets that can keep up with the relevant inflation (education inflation for instance). The assets chosen will be a mix of yield-based instruments, like cash or bonds, and growth assets like equity and property.

The longer the term of the goal the more growth assets, and vice versa with the guiding principle being to invest in a blend of assets that gives the highest likelihood of matching your inflation-beating objective. The decision around the choice of style, asset allocation and geographical exposure is best left to investment professionals, but more sophisticated and experienced retail investors can take ownership of that decision layer. Having clear goals is key as it allows the assessment of each investment strategy to be viewed in the appropriate context, making for sensible decision making along the investment journey.

INDUSTRY TRENDS

Key recent trends in the investment industry:

1. Increasing dominance of passive, or indexation products
2. Scrutiny on fees (related to (1) above) leading to a decline in product fees across the spectrum
3. Digitizing the investor experience, and widening the opportunity set e.g., Alternative assets

Any current investment solution would likely draw on these trends, with advisors and fund managers increasingly putting client needs at the forefront in solution design. A demarcation between investment manager and investment advisor is perhaps useful - an investment/ fund manager manages the assets while an investment advisor manages the client.

The fund manager makes decisions related to the purchase and sale of assets to produce the required outcome e.g., a return of CPI +5% over rolling 7 years with a drawdown of less than 25%. The investment advisor assists the client in drawing up their financial plan, mapping out all their relevant financial goals and then choosing the funds/investment vehicles most suited to their objectives. Importantly, the investment advisor must also manage client expectations. Clients should be fully apprised of the risk profile and return signature of their various investments, which will – along with guidance from an advisor –limit knee jerk responses to market conditions that can damage return outcomes.

Aligning your chosen investment strategies to your financial goals, in the right proportion, will assist in a balanced response to market events. Having a reasonable amount in savings, the majority in investments and possibly a minority in speculative assets would, broadly speaking, be a suitable outcome for most investors.

CONCLUSION

Investors should clearly map out their financial goals and relevant time horizons. Having an appreciation for the distinction between different activities like savings, investments and speculation is critical to making appropriate financial choices. Consulting a qualified investment advisor, one can then choose investment strategies in the right proportions to meet the identified goals. Staying the course is a key principle in an investment journey, and ensuring one consults an investment advisor at critical decision junctures will help limit decision risk. Awareness of key trends like passive products, lower fees and alternative asset classes will help investors ensure their chosen solutions are well balanced and aligned to their goals. A final word on the matter, there is no better time than the present to begin your investment journey.

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ALL THINGS

WHEELS

"BY 2040, THE WORLD OF MOBILITY WILL LOOK TOTALLY DIFFERENT TO WHAT IT DOES TODAY"
- ROCHELLE DE LUCIA, KING PRICE

VITAL ROLE OF FLEET INSURANCE FOR TRUCKS

Karen Rimmer, Head of Distribution at PSG Insure

South Africa has the largest total road network in Africa, and as such, its road freight industry plays a vital role in mobilising goods, optimising the country's operational efficiency and ultimately, contributing to the economy.

Building a resilient transport or logistics business therefore relies heavily on the ability to employ risk management strategies that consider the unique challenges of truck drivers on South African roads. A vital component of this risk mitigation is securing adequate fleet insurance, informed by specialist expertise and extensive industry knowledge.

Here is what what trucking companies need to know about protecting and managing their fleet. The importance of proper fleet maintenance, backed by an insurance policy that is tailored to the nature and unique needs of the transporting business. Trucking insurance involves navigating a complex risk landscape with several variables and moving parts. This is compounded by a fragile labour force that faces many issues.

The maximum probable loss on a truck is vastly different to that of a normal vehicle, both in terms of scope and nature. These are the aspects that specialist insurers will take into account when structuring a policy and advising fleet owners on how to avoid costly incidents involving multiple levels of liability.

Trucking companies require a bespoke level of service, as policies will vary greatly depending on the distance travelled by each vehicle, whether travel is cross-border or short-haul, as well as the age and condition of the fleet. Other factors that influence the nature and cost of a policy will include the nature of the commodities being transported, the client's security and operational controls and the working hours of drivers.

The above details will have bearing on the level of cover that is needed and in the process of advising clients, advisers will consider multiple liabilities. A fully comprehensive policy for a truck for example, will cover liabilities such as third-party, fire and theft, goods in transit (GIT), marine carriers and environmental clean-up. Possible policy extensions will cover aspects such as refrigeration systems for closed body trucks, added machinery such as cranes and lifts, as well as cover for camera and telematics systems, which are required by all insurers.

However, it is equally as important for fleet owners to take out adequate insurance as it for them to implement formal risk management policies and procedures. This, as she explains, involves two crucial aspects – the upkeep of the vehicles and the effective management of drivers and their wellbeing.

Fleet owners are often made aware of the importance of vehicle and technology maintenance and regular roadworthiness checks. However, we recommend that trucking companies approach risk management both in terms of 'hardware' and 'human capital. This should include a few 'non-negotiables,' such as a zero-tolerance policy on the use of mobile phones while driving or the picking up of passengers en route.

It is also important that drivers are correctly trained and have valid licenses and professional driving permits. Driver contracts also need to include the need for regular breaks at accredited truck stops. Vehicle fleet insurance should also never be thought of as a "once-off" or "static" agreement, says Rimmer. Instead, policies should be regularly updated and reviewed to ensure that the level and nature of cover evolves along with the fleet's growth and development.

For this reason, truck owners need to conduct annual reviews with their advisers and provide updated lists of commodities being transported. In addition, companies also need to provide their insurer with the details of any driver training programmes (which can assist in motivating competitive premiums) as well as accurate records of licenses and permits. The value of trailers also needs be regularly updated according to market fluctuations.

Trucking insurance is considered a specialist class of cover due to the complexities and differences in how fleets are managed and maintained. There is therefore no one-size-fits-all solution to insurance for the transport industry. Advisers should ensure that they are well-versed on the unique risks that face the industry as well as how their client's policy can be tailored to meet the needs of their business model.

CONSUMERS AND WRITTEN OFF CARS

The South African Motor Body Repairers Association (SAMBRA), a constituent association of the Retail Motor Industry Organisation (RMI), has applauded a milestone Gauteng Regional Court judgement in January finding in favour of a consumer who unsuspectingly bought a previously 'written off" car.

The court ruled that in aid of the preservation of the consumer's right to be informed of the true condition of the vehicle, the dealer in that instance, should refund the consumer the full outstanding financed value of the vehicle plus interest even though the selling dealer was unaware of the fact that the vehicle it had sold, was previously "written-off".

SAMBRA National Chairman, Charles Canning says SAMBRA has been actively lobbying the South African Insurance Association (SAIA) for a number of years now for the public release of a vehicle salvage database (VSD) that will inform all prospective buyers of used motor vehicles, whether they are private individuals or user car dealers, of the status of the vehicle.

"This will ensure that the buyers of used vehicles have access to, and will be fully aware of, the condition and status of the vehicle. It will prevent situations such as that which the Gauteng Regional Court has had to rule on and ensure that consumers are fully aware of the condition and safety of the vehicles that they buy," says Canning.

Canning explains that an accident-damaged vehicle is "written-off" by an insurer if the vehicle is deemed 'uneconomical to repair', or differently put, the costs associated with the restoration of the vehicle to its original, safe condition, exceed a certain percentage of the value of the vehicle.

"When this happens, the vehicle should be re-coded on the National Traffic Information System (NaTIS) as a Code 3 vehicle, which will inform any future or prospective buyers of the damaged or salvaged vehicle, that will require extensive expenses to restore". He says "typically, insurers dispose of these vehicles at auctions where they are then bought and repaired, often to sub-standard specification, by unscrupulous repairers, and subsequently sold onto unsuspecting consumers".

The car in this ruling for example, was sold online, and even though it was available on the date of sale, it was not subjected to any detailed inspection by any of the parties to the sale and the plaintiff relied upon the disclosures made on behalf of the defendant and accepted the Multi Point Check report on the face value of it. The plaintiff accepted that the report would have disclosed any major flaws in respect of the vehicle. As it turned out the vehicle was found to have a damaged chassis and not to be mechanically sound.

"Having had no joy with the dealer he purchased the vehicle from, the consumer then approached the Motor Industry Ombudsman of South Africa ("the Ombudsman") and filed a complaint but was told that MIOSA could not resolve his complaint either," says Canning. As a last resort he approached SAMBRA who provided him with an assessment from an independent specialist assessor, who found twenty defects on the vehicle. During the course of his inspection it was established the vehicle was, prior to the sale to the plaintiff, involved in a major accident; to the extent that it was written-off, stocked at a salvage company – and sold at an auction and "put back in the market".

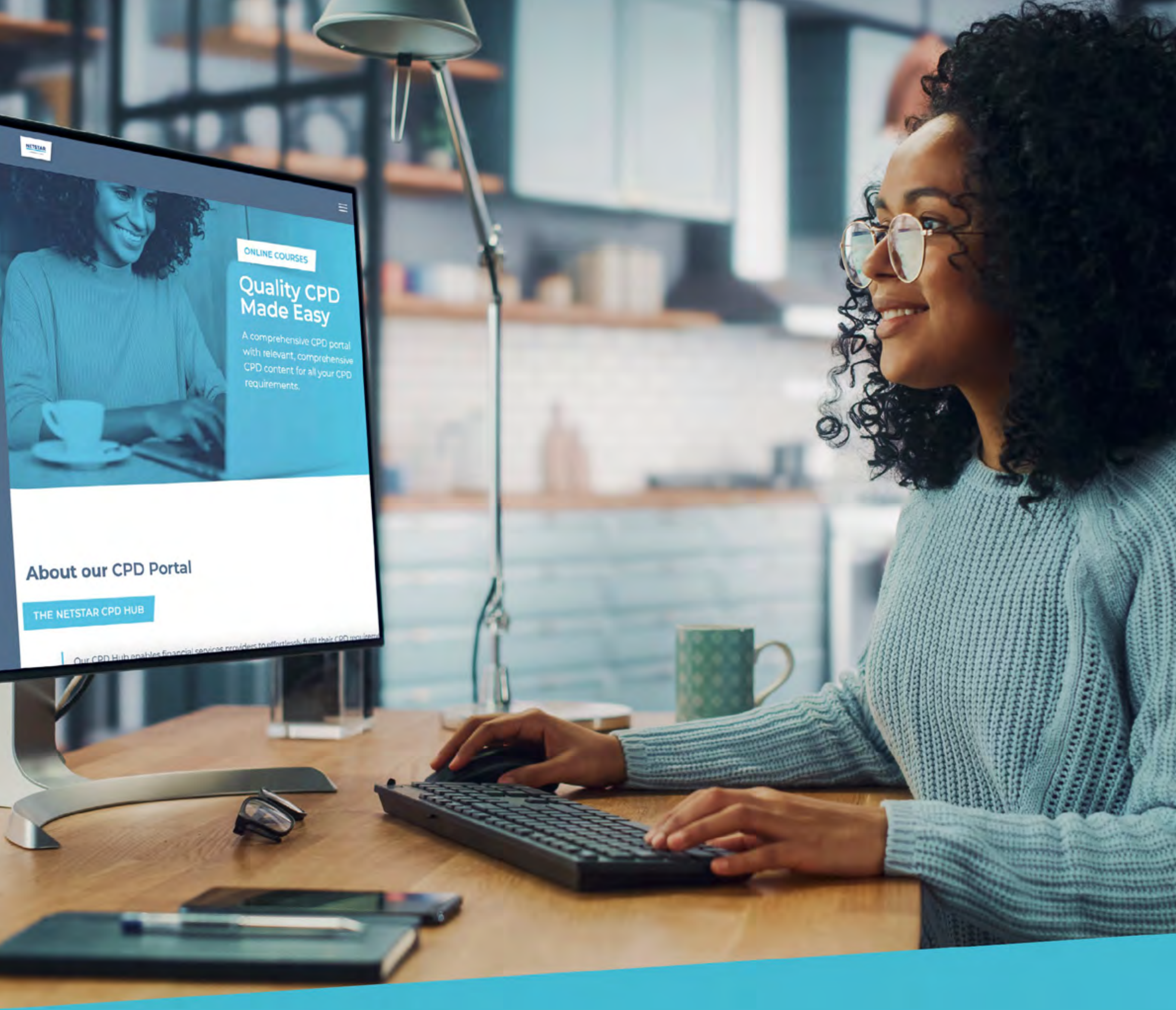
The most serious defects were a defective right front CV joint; part of the chassis leg that was still bent and the right front drive shaft slowly disintegrating. The assessor confirmed the casual observer would not have seen these major defects as they were not visible to the naked eye. This evidence was presented in court. Canning says SAIA has agreed that a vehicle salvage database will be published towards the end of the first quarter of 2023. SAMBRA welcomes this undertaking by SAIA as it will ensure that unsuspecting buyers of vehicles, can obtain information about the status of the vehicle they intend buying, and not end up with the proverbial "lemon".

The National Automobile Dealers' Association (NADA), also a proud constituent association of the Retail Motor Industry Organisation (RMI), is also strongly in support of the publication of a vehicle salvage database, as it will aid accredited motor vehicle dealers in ensuring that they trade-in vehicles of good quality that are not only safe for operation, but also capable of retaining value.

"This will go a long way towards promoting consumers' right to be informed of the status and the quality of the previously owned vehicles that they purchase," says Canning.

Jakkie Olivier, CEO of the RMI concludes, "South Africa is suffering from one of the highest road death rates in the world. Many of these tragic deaths are caused by unroadworthy or poorly repaired vehicles. We support publication of the VSD list so that there is finally transparency and owners and drivers of vehicles will be able to establish the roadworthiness of their newly acquired vehicles and take the necessary precautionary steps in ensuring that the vehicle they operate, is safe.

We do however need to caution that even with the publication of the VSD, we will only be covering about 30% of the insured car part so consumers are still urged to exercise caution and get an independent assessment wherever possible."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TRENDS DRIVING CHANGE IN CAR INSURANCE

BY 2040, THE WORLD OF MOBILITY WILL LOOK TOTALLY DIFFERENT TO WHAT IT DOES TODAY.

Gone will be the days of inefficient, polluting diesel and petrol-engined vehicles. In their place, fleets of self-driving electric vehicles will whiz us seamlessly to where we want to go. People will share rides, which means fewer cars on the road. There will be fewer accidents, cleaner air, fewer traffic jams – and less business for car insurers.

Well, that's the theory, anyway. But we've got some way to go before we get there. Take electric vehicles (EVs), which are seen as one of the major trends shaping the global car insurance industry right now – but we're barely scratching the surface of the trend in South Africa.

Last year, purchases of hybrid and electric vehicles grew exponentially, but still only made up 2.5% of all new vehicle purchases. Autonomous vehicles aren't even a discussion. For us, the bigger trends in the car insurance industry are the rise in technology, connectivity and embedded telematics; and the broader shift in mobility patterns and how we own cars.

THE RISE OF THE MACHINES

The fact that technology is built into practically every car today is driving a steady rise in behaviour and usage-driven insurance, whereby your insurer collects a range of data about how, when and where you drive, and adjusts your premiums accordingly. For us, a major trend in insurance is how we're increasingly using artificial intelligence (AI) to calculate personalised premiums based on your individual risk profile, and to simplify the claims journey. Claims have traditionally been fragmented, complex and tedious, with input needed from a range of stakeholders. Today, our claims engine can adjudicate and approve minor claims almost instantly, with hardly any human intervention. Mobility patterns are changing. Older generations swear by owning their own cars. Younger generations don't. For them, cars aren't status symbols. They're a means of getting from A to B. What this means from an insurance point of view is a reduction in personal car ownership, which will mean a reduction in personal car insurance. Still, someone will own the cars, and will have to insure them. There will always be cars. They'll just be insured differently.

THE EV QUESTION

There's no doubt that EVs are going to become a way of life in South Africa sooner than we think. And if you own an EV, your insurance experience will be similar to that of a conventional vehicle. You'll probably pay a bit more to insure an EV, because it's more expensive than your average vehicle, and they cost more to repair than conventional cars. But the standard factors, like your age, claims history and where you live will still be the biggest determining factors of your personal risk. By the same token, the theft risk for an EV could drop, especially in the early days of EV adoption, as they will be both difficult to steal and hard to dispose of.

The bigger change would be if you choose to install charging equipment at your home. This type of equipment will have to be installed professionally and connected to the building's power grid, and will have to be noted on your policy schedule to ensure that issues like power surges are covered. This will have an impact on your buildings insurance, and you should preferably discuss this with your insurer or broker before you install any charging equipment at a residence. **Now, if you'll excuse me, my car is waiting.**

COVER

STAYING ON TOP OF CAR INSURANCE TRENDS

As technology continues to make unrelenting strides in all aspects of our daily lives profoundly changing the way people live, work and relate to each other and their environment one of the most impacted areas over the past number of years has been the automotive industry. Personal transport has evolved tremendously during the past few decades, with cars becoming ever smarter and safer and, as a result, also more expensive. However, the Fourth Industrial Revolution and the resultant digital transformation have drastically transformed cars and how people make use of them.

THOKOZILE MAHLANGU

CEO of the IISA

Cars are no longer just a means of getting from A to B. Modern cars are supercomputers laden with technology, sensors and artificial intelligence systems that have revolutionised the world of personal transport. Additionally, the very nature of cars and how they are operated is also undergoing a rapid change.

Manufacturers are increasingly focusing on hybrid or electric vehicles to replace internal combustion engines and increasingly sophisticated driver aides are paving the way towards the mass adoption of self-driving cars in the near future.

All of this means that the nature of car insurance is also undergoing a dramatic change as traditional insurance cover may no longer be adequate to cover all nuances around modern day car ownership and usage.

With motor vehicles becoming increasingly hi-tech, the cost of insuring them is also rising proportionally. However, this is not always the ideal scenario. For example, according to the South Africa Short-Term Insurance Industry Report 2022, the country's high car accident rate is one of the factors responsible for the high premiums charged for personal and commercial vehicle insurance.

The report notes that 60% to 70% of vehicles on South African roads are uninsured due to amongst other factors affordability, people believing they will never be involved in an accident because they only drive short distances or do not drive often, or because vehicle owners do not realise how high vehicle repair costs are.

Hence, simply hiking the prices of car insurance is unlikely to result in favourable outcomes.
On the other hand, the evolution of motor vehicles into hi-tech machines is creating its own dilemma for the insurance industry.

For instance, the proliferation of self-driving cars is creating a big worry for the industry, as reports indicate that insurers, who must provide cover for self-driving vehicles, remain deeply divided on how to handle this revolutionary development.

Simply put, the main problem is the unknown risk, with insurers grappling with how they will handle the challenges of investigating crashes involving autonomous or partially autonomous cars. The converse of this scenario is that a smart or connected car can generate rich data for insurers to rely on in tailor-making premiums and policies in real-time based on where, how well and how far a person drives.

In addition, advanced driver-assistance systems, including self-parking, adaptive cruise control and collision avoidance systems, should make cars safer by limiting human intervention to a greater or lesser extent. Could this mean less risk and therefore more affordable premiums?

"A trend that is likely to reshape the car insurance segment in a major way is the emerging new patterns of car ownership and usage. Due to the lockdown in 2020, many South African were forced to work from home, with many companies and people not planning a full-time return to the office."

A trend that is likely to reshape the car insurance segment in a major way is the emerging new patterns of car ownership and usage. Due to the lockdown in 2020, many South African were forced to work from home, with many companies and people not planning a full-time return to the office.

Reports suggest that considering the shift to working from home, rising petrol prices, financial uncertainty and the proliferation of ride hailing services, people are likely to drive less in the future and perhaps fewer people will be inclined to even own a car.

Perhaps a usage-based car insurance approach will be the way of the standard way of underwriting. This means that premiums will depend on the actual amount of time a person spends driving their car, with less time spent driving reducing the risk of an accident and premiums.

THE FASCINATING DEVELOPMENTS IN MOTOR INSURANCE

LIZO MNGUNI

Spokesperson for Old Mutual Insure

I had an interesting conversation with the spokesperson for Old Mutual Insure, Lizo Mnguni, about the fast-changing motor insurance environment.

Old Mutual Insure has been providing car insurance for decades and Lizo has seen the changes that have happened in the vehicle insurance space over the years. At present, he says, the global automotive industry is experiencing a myriad of challenges, such as supply-chain disruption and high inflation of new and second-hand vehicle prices, which have completely transformed the industry and are impacting every vehicle owner.

Lizo says that, with the price of new vehicles skyrocketing due to limited supply and increased interest rates, people are keeping their vehicles for longer and want to keep them in showroom condition. A few years ago, the thought of a vehicle as an investment would have raised eyebrows.

He says that, usually comprehensive insurance provides cover for vehicles against accidents and other mishaps, but it is not always enough. Now some insurers, including Old Mutual Insure, have launched new smart mobility lifestyle insurance solutions to help vehicle owners keep their cars in showroom condition, for longer, with for example Extended Warranty, Scratch & Dent and Tyre & Rim personal lines cover.

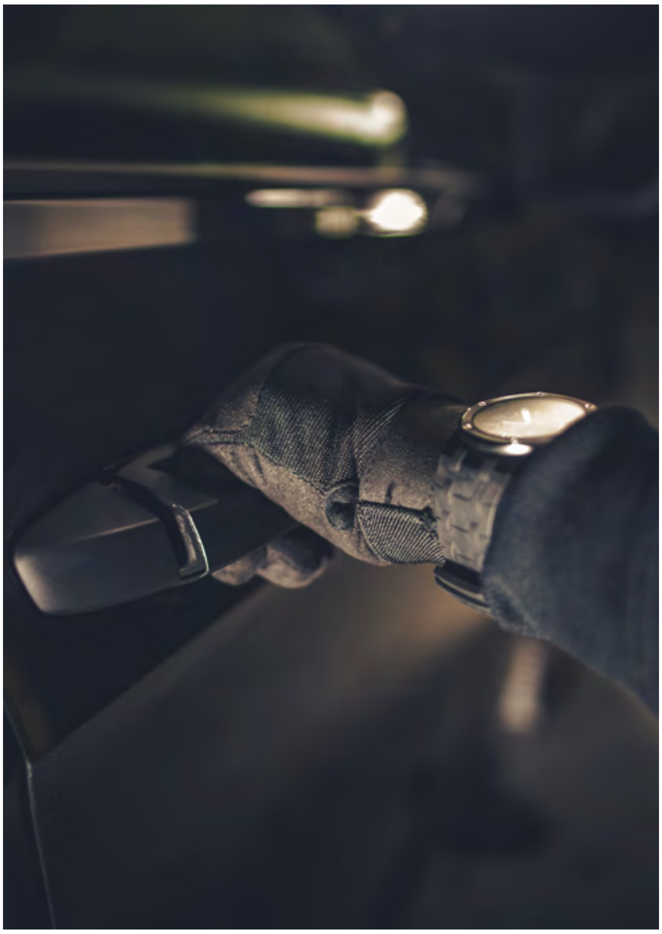
Lizo notes that there has been a lot of innovation in the insurance industry in this sector, as well as in motor vehicle manufacturing. As vehicles have become more technologically advanced, they have also become more expensive to repair and replace. One of the major changes that have occurred is the introduction of technology in cars. This technology has made them more sophisticated, but it has also made them more vulnerable to theft.

Criminals have become more savvy in how they hijack vehicles, which has led to an increase in the theft of cars. Insurers have responded to this by introducing conditions onto insurance policies for additional trackers on cars. This is particularly important for high-risk vehicles.

Criminals have also become smarter in how they use signal jammers to jam remote locking devices and tracking systems, which has created a need for further innovation in this area. Mnguni believes that it is still possible to insure high-risk vehicles, even though there has been a rise in theft rates for certain makes of cars. The events are still unforeseen, and it is not a certainty that a car will be stolen just because it is a certain make or model.

One of the challenges in the industry is educating customers about these risks and how to mitigate them. While some insurance providers have tried to keep the lines of communication open and inform policyholders about how they can avoid falling victim to criminal syndicates, more needs to be done.

There is a need for a more concerted effort to explain to people exactly how these things work and what sort of mitigation strategies they can have.



Mnguni believes that brokers still have a pivotal role to play in the insurance markets, and there is still a lot of scope for them to make vehicle insurance part of their portfolio. In conclusion, Old Mutual Insure has seen significant changes in the vehicle insurance space over the years. With the introduction of technology, cars have become more technologically advanced but also more vulnerable to theft. Insurers have responded to this by introducing conditions onto insurance policies for additional trackers on cars. ***Mnguni believes the industry still needs to do more to educate clients about these risks and how to mitigate them, and brokers have a pivotal role to play in the process.***

MOTOR THEFT TRENDS: HOW THE INSURANCE INDUSTRY IS COMBATING THE GROWING PROBLEM

The insurance industry is constantly facing new challenges, and one of the most pressing is the rising trend of motor theft. COVER recently hosted a live session with insurance professionals to discuss the challenges and trends in the industry.

The panel included Garth De Klerk from The South African Insurance Crime Bureau, Charles Morgan from . The following is a summary of some of the highlights from the discussion. The motor industry has always had to deal with crime and theft trends, but the issue has become more sophisticated in recent times. Criminals have become more advanced and are now able to bypass the security measures put in place by manufacturers.

The high level of motor theft is a risk not just for vehicle owners but also for insurers. The increased risk has led to insurers implementing additional security and safety measures for high-risk vehicles. However, criminals are innovative and have access to syndicates and technology that allows them to capture remote signals and jam security systems.

The South African Insurance Crime Bureau is tracking these developments and working with the industry to reduce the risk. One of the main causes of motor theft in South Africa is poverty. Desperate individuals are stealing vehicles to earn extra money. The insurance industry, crime bureau, South African Police Service, and vehicle security and tracking companies must work together to combat this problem.

Late-model cars are particularly vulnerable to contactless theft, which is a growing trend. Some shopping centres have become hotspots for theft, with criminals exploiting vulnerable situations, such as when a person is at a hairdresser or school. As a result of the growing trend in motor theft, insurers are requiring tracking devices for certain models, and clients are suddenly driving vehicles that are categorized as high-risk. The challenge is that there is not much that an individual can do to change their risk profile once they fall into the high-risk category.

While there is no silver bullet solution, insurers are implementing additional security measures to combat the growing problem. Vehicle owners must take all necessary precautions to protect their vehicles, and the industry must work together to reduce the risk of motor theft. Insurance companies have come up with a new policy that requires two trackers in high-risk vehicles.

However, this reaction seems to be a little knee-jerk, and the question remains, what next? Should insurance companies require three trackers, and will it lead to an arms race? Although most insurance companies have taken this step, some decided not to go that route.

It is a cat and mouse game, and it is all about outsmarting criminals. Insurance companies have identified certain makes and models and areas where they require a tracking device. They have chosen not to require a double tracker, but if a client asks, they would recommend it.

The question is, why are clients still resistant to installing tracking devices or satellite tracking devices? These devices are cheap, and the service is not expensive. Another question is, what can a client do to make themselves less vulnerable? Is there not a bit of responsibility to assist in this regard?

The panelists discussed the matter and suggested that insurance companies need to do more than just require tracking devices. They need to think out of the box and look at other solutions. Physical security is essential, such as using a Faraday bag to stop the key from transmitting to the vehicle, steering wheel locks, and gear locks. Some manufacturers have approved technology that can activate remotely and still find the car remotely.

The panelists also suggested that educating clients is crucial. They need to know which cars are high-risk and what they can do to reduce the risk. Insurance companies need to tell them more and look at other solutions. One of the panelists, Garth, shared that he drives a white Prado, which is a high-risk vehicle, and he bought a steering wheel lock to make it more difficult to steal. This is an excellent example of looking out of the box.

In conclusion, the insurance industry has taken a step in the right direction by requiring tracking devices in high-risk vehicles. However, more needs to be done to outsmart criminals. Insurance companies need to look at other solutions and educate their clients. It is all about making high-risk vehicles less vulnerable and reducing the risk of theft.

"Criminals have become more advanced and are now able to bypass the security measures put in place by manufacturers. The high level of motor theft is a risk not just for vehicle owners but also for insurers."

SECURING INSURANCE PREMIUMS IN A TIME OF INFLATION

Whereas the UK seems to have coined the phrase, 'cost of living crisis,' it's just ahead of other key markets like South Africa, Canada and Brazil. Right now, millions of consumers across the financial spectrum are facing the dual shock of surging inflation and rising interest rates exacerbated by shrinking real-term salaries.

This raises two challenges for insurers. Firstly, payment shock can reduce the availability of income, which gets assigned to high-value debt such as rent, home loan, and car payments. When the cost of credit, fuel, food and shelter are high, insurance premiums and value can become vulnerable to reprioritisation. Once considered reasonable and rational, short-term and life policies can be viewed as expensive and unnecessary. Fully comprehensive car insurance may be reduced to third-party cover, and life insurance benefits might be sacrificed or dialled back.

Secondly, when everyday expenses like food and fuel compete with prioritised debt repayments and other fixed financial obligations, research shows an increase in syndicated and individual fraud, which manifests as invented or inflated insurance claims1.

To counter the effects of shifting financial behaviours as premiums reduce and payments lapse, insurers often freeze marketing and sales activities, look for cuts in operational expenses, and batten down the hatches until the economic storm passes.

This makes sense when the storm is expected to be short-lived but what if the crisis extends into one, two or more business quarters? In a market where insurers are factoring in rate increases to help cover inflated operational costs, will current, elevated retention numbers persist if consumers shop around for cheaper, more flexible or value-added offers from competitors?

When the market begins to move, how will insurers that have not monitored their customer's activities — or stopped marketing quality insurance to their existing customer base — be positioned for growth?

THE POWER OF ACTIONABLE ANALYTICS

Thankfully, the tools exist to make affordable, incremental changes to current systems and processes that can help allay the reduction in current revenues, increase policy premiums from resilient clients, and better monitor and manage the risks of potentially fraudulent applications and inflated claims. In a hard market, there are some easy calls to make.

Mitigate fraud impacts on loss ratios. This can be done quickly and easily using data-driven AI and machine learning software solutions to safely automate the applications and claims processes. Work your existing book. Most insurers can be better at engaging their policyholders.

This captive audience is a rich source of potential to grow new business based on changing needs and life circumstances that can be monitored. egment customers to align with strategic metrics.

"To counter the effects of shifting financial behaviours as premiums reduce and payments lapse, insurers often freeze marketing and sales activities, look for cuts in operational expenses, and batten down the hatches until the economic storm passes."

A holistic view of shifts in affordability, life stage and propensity to purchase can help better manage targeted premium support, adjust cover, prioritise profitable collections, and launch cross-sell and upsell campaigns.

Add value through empathy and education. Few people are untouched by an economic crisis. Insurers can help consumers access empowerment tools that help them understand their credit profiles, be alerted to potentially fraudulent use of their identities, and make changes to improve their credit scores.

The greatest insurance risk in the current climate is reticence. By actively pursuing results-driven strategies, informed by enhanced data analytics, insurers can help transform hard market conditions into quick wins and long-term loyal customers. To quote Warren Buffet, 'Be fearful when others are greedy, and greedy when others are fearful.'

The bottom line? In a 'hard market', insurance companies must take incremental steps — informed by data-driven insights — to positively engage existing clients to mitigate losses and seed future growth. Aviva news release 2022

SHORT TERM
INSURANCE

"UNDERINSURANCE REMAINS A KEY CONCERN IN THE FACE OF CLIMATE RISKS, ESPECIALLY WHEN IT COMES TO OUTRIGHT AND SEVERE LOSSES WHICH TYPICALLY FOLLOW WEATHER CATASTROPHES LIKE FLOOD AND FIRE."
- AON SOUTH AFRICA

HIGHLIGHTING THE PERILS OF UNDERINSURANCE

South Africa is no stranger to the devastating losses of weather catastrophes. In the last few years, heavy rainfalls, flooding and wildfires have increased in frequency and intensity. Following the KZN flood disaster of April 2022, which the province is still struggling to recover from, the provinces of Free-State, Eastern Cape, Limpopo and Mpumalanga have been battered by severe rainfall and floods during February, with people evacuated from low lying and high-risk areas. At the same time, firefighters in the Western Cape are once again battling runaway fires as temperatures soar and winds bedevil efforts to contain the spread.

MANDY BARRETT

Aon South Africa

In Aon's latest 2023 Weather, Climate and Catastrophe Insight report, flooding was identified as the second largest peril across the globe and the most prevalent peril on the African Continent, with a devastating economic loss of $66bn (R1,185bn). While the KZN floods of April 2022 were noted as the largest flooding event on the continent with an economic loss of $3.6bn (R64,672bn), what is more concerning is the fact that only 18% of losses were insured.

According to Aon, underinsurance remains a key concern in the face of climate risks, especially when it comes to outright and severe losses which typically follow weather catastrophes like flood and fire. This trend is likely to come under increasing strain in a tough economic environment where costs are under scrutiny. The impact of an outright uninsured or even underinsured loss of a home and other assets can have severe financial and personal consequences.

UNDERINSURANCE AND YOUR PERSONAL ASSETS

The trend of properties and assets being underinsured for their replacement costs was starkly highlighted in the devastating Knysna fires of 2017, and it's a trend we see continuing as more households face serious financial constraints in the current economy. Many homeowners have not revisited the sums insured on their most valuable for many years, rendering the cover of these big-ticket items woefully inadequate in the face of an outright loss.

Another trend we are seeing is that homeowners who have settled their bond account are opting not to insure their buildings in an attempt to cut costs. Many homeowners who live in security estates are reducing cover on their contents on the assumption that they are not at risk for theft or robbery, underestimating other critical risks such as fire and flood. What many people do not realise is that fire claims are one of the most common large loss claims - and most likely to end in an outright or catastrophic loss, with little if anything, that is salvageable. Similarly, the recent floods have demonstrated how entire homes and everything inside have been swept away, or disappeared under landslides.

Underinsurance occurs when the insurance cover in terms of sum insured on your policy is not sufficient to cover the full cost of a potential claim and does not reflect the actual replacement value at today's prices. The R500k home you bought 20 years ago is likely to be worth five times that amount today to replace.
If you are underinsured in the event of a loss, you're essentially taking the risk of the uninsured portion upon yourself. You may be paid partially for any loss at claims stage due to the average formula being applied. It means that if your property is underinsured by 50%, for example, then you may only be paid out half of your claim, regardless of whether it is a partial or total loss.

THE AVERAGE FORMULA EXPLAINED:

Example 1: You insured your household contents for R250 000, but the actual replacement value is perhaps double that amount, leaving you effectively 50% underinsured. If you suffer an outright loss of all your insured contents – R250 000 - the insurance company may pay only 50% of the claim at R125 000, leaving you out of pocket for the balance of R125 000 due to you being underinsured for the actual replacement value of your contents.

Example 2: You bought your home 15 years ago for R500 000. As building costs increase, the replacement cost - not the market value which is a different thing altogether - has appreciated to around R2million, meaning that your home may be underinsured by as much as R1.5m. If your roof should collapse due to a tornado or catastrophic storm, at a replacement cost of R100 000, your insurance may only pay R25 000 – as you are underinsured by 75% of your home's actual replacement value.

When evaluating a claim, it is often found that homeowners values are understated as the insured sums have not been revisited since the inception of the policy, and in some instances, policyholders intentionally undervalue the real value of their assets, including vehicles, in a bid to reduce their premium costs. These scenarios could leave clients financially compromised in the event of a severe or outright loss.

PAYING THE RIGHT PRICE FOR THE RIGHT AMOUNT OF COVER:

It's perfectly possible to save sensibly on insurance premiums without exposing yourself to crippling uninsured losses. Aon provides the following tips to ensure that clients are paying the right price for the right amount of cover:

- Accept a bigger excess (the first amount you would pay on a claim) and value your assets accurately. Be circumspect as to what you accept in terms of a bigger excess and ensure that you can afford the higher access if you need to claim. Consult with your professional broker for guidance and advice of what will work for your particular circumstances.

- Consolidate your household and motor insurance with one insurer. Not only could it reduce your premium, but you will also save on debit order fees and policy administration charges. Install a good alarm system or upgrade your security in general, allowing you to receive discounts on your premium from underwriters who recognise that claims are less likely to arise when security risks are addressed.

- Insure your property accurately for replacement cost – that is the cost to replace your asset at TODAY's prices and not what you bought it for - avoiding the trap of lowering your cover due to market value fluctuations in the current property market space.

- Your broker will provide advice on the selection of cover and understanding of policy terms and conditions, but always read the fine print.

- Remember to inform your broker of any change of address or improvements to your home, such as putting in a new security system or extensions to your home, which will impact the insured value.

- Always insure adequately where big ticket items are involved, notably motor vehicles that are subject to risk both on the road and in your residential premises. Always opt to insure your vehicle for retail value and remember to nominate additional drivers who may need to use the vehicle if this is a requirement from your insurer.

Navigating the risk of growing weather and climate risks are increasingly resulting in severe, if not outright losses. A well-conceived insurance program is achieved by consulting with an expert broker who can assess your unique needs, risk profile and budget to find an insurance solution that is better able to safeguard your most precious possessions correctly and at the right price.

JOB HUNTING IN THE FAST MOVING INSURANCE NICHE

Studies reveal that the insurance market is not only growing, it's also shifting in a series of interesting ways. Here's what you need to know as a job seeker, brokerage owner or insurer.

A glance at global insurance market projections, courtesy of a Sigma study published by Swiss Re, reveals that an increase of 6.1 percent can be expected by the end of 2022, with total premiums likely to exceed the US$7-trillion mark. Further, non-life insurance could well increase by 7.1 percent to reach US$4.1-trillion, while life premiums could progress by 4.8 percent reaching a solid US$3.1-trillion.

While Swiss Re expects this trend to continue well into next year, it is important to remember that this boom is taking place in an environment steeped with challenges a slowing global economy, exorbitant inflation rates, and the alarming incidence of climate-related disasters.

"If you're looking to make a career move and take on a new insurance job in the current market," says Charles Edelstein, co-founder of jobs board Executive Placements, "it could stand in your stead to note the direction in which this fast-moving industry is veering, so that you can tweak your CV in the direction of the skills you have that employers will most need in the time ahead."

So what transformational trends for insurance in 2023 should you take note of as a job seeker, brokerage owner or insurer? Word on the street is that as insurtech startups make it increasingly easy for insurance customers to seek and apply for the products they need in cyberspace, so the insurance providers out there will need to predict what's coming and shift their focus to embrace where this transformation is leading.

Understanding AI's contribution "As the Fourth Industrial Revolution knocks with more urgency each day upon our doors, so industries across the board must embrace the best in digital acceleration – and harness it to stay competitive and current," says Edelstein.

Artificial intelligence is your friend in the claims-settlement arena, as just one example, while machine learning can automate the processing of claims. "A question worth asking," advises Edelstein, "is whether you have an expert on your team who can provide training and tech-related advice on process administration and risk assessment, as these become increasingly automated."

Making remote work systems-based Paper trails have become a thing of the ark, and the trend towards accommodating a hybrid system of work-from-home and in-office staff members is here to stay. "What this means," suggests Edelstein, "is that your full compliment of staff need to be able to log their work – and see where everyone else is at – on a system such as Asana, or Slack.

If you're not able to support your employees to complete their tasks remotely, this is certainly an area in which you are required to develop your business. Once again, if you're an insurance job seeker who can seamlessly get a team uploaded and working efficiently on such a system, be sure to mention this in your next interview." Servicing a switched-on customer base In the mobility market, as just one example, insurers will have their work cut out for them in the actuarial and product development arenas, not to mention their customer service offerings. The reason? "Shifting customer priorities," predicts Edelstein.

While the frequency of car-insurance claims may decrease, the extent of the cost of these when a claim is made will likely be much more in the future – as component replacements begin to include sensors in self-drive cars and batteries in electric vehicles. "The characteristics of a potential new hire that may grab an employer's attention: an innovative approach, ability to analyse data and come to fresh conclusions, contacts with whom to collaborate say in vehicle manufacturing and sales." Whereas the insurance sector used to have the reputation of being highly conservative, today the scales have tipped in the opposite direction. Increasingly, companies will be hiring based on personality (ability to retain your clients in a shifting landscape); agility (ability to adapt as digital-first and behaviour-based models push other product types aside); and the tech insight to rapidly grasp what a product developer has implemented and why!

Your market share On the continent, the opportunity in this niche extends to untapped markets. In fact, the Research and Markets firm projects that Africa's insurance market will see a compounded annual growth rate of seven percent to 2026 increasing its value well beyond the US$70-billion last tallied at the conclusion of 2020. "Grabbing a piece of this burgeoning pie will certainly depend on the dynamism of the company you choose to join, and/or the desirable skills of the individuals on your team," concludes Edelstein.

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Karen Rimmer, Head: Distribution at PSG Insure

INSURANCE IMPLICATIONS: REMOTE WORKING VS. RUNNING A SMALL BUSINESS FROM HOME

THESE ARE THE IMPLICATIONS FOR SHORT-TERM INSURANCE

The short-term insurance industry is constantly evolving, with developments in the risk landscape requiring insurance products and services to adapt to changing consumer and business demands. The pandemic years are a key example of a period in history where the conventional order of business was disrupted. Abrupt changes like a large proportion of the South African workforce making the shift to remote working, due to COVID-19 lockdown restrictions, gave rise to new risks which needed to be taken into account by advisers and insurers.

In the wake of the pandemic, many companies amended their approach to work, allowing employees to either work fully remotely or via a hybrid system. This has left many employers and employees with questions regarding how working from home affects the nature or level of their insurance cover. Similarly, entrepreneurs who run their businesses completely from home also had questions pertaining to the insurance of their personal assets that are used for business purposes.

DETERMINING WHICH PARTY BEARS THE BURDEN OF RISK

The most important distinction to be made is determining which party carries the burden of risk when employees work from home versus when entrepreneurs run a small business from their homes. In the case of the former, when employees use equipment that belongs to their employer, such as laptops, mobile phones or printers, the employer will be responsible for the insurance cover on these items. It's important for workers to check whether their equipment is adequately insured by their employers and whether there are any workplace policies that relate to how the equipment should be safeguarded in transit or stored. It is also the responsibility of the employer to ensure the insurer is notified of any changes to the risk address if employees are making use of any company assets, such as printers or desks to work from home with.

PERSONAL INSURANCE AND REMOTE WORKING

In the event that employees use their own, personal equipment for work purposes, these items can be insured as part of a home or all risk policy. Albeit not essential, policy holders can inform their insurers that they are using their equipment for both personal and business purposes. For the most part, working from home requires no material changes to the way personal insurance policies are structured. In the case of entrepreneurs who have decided to run their businesses from their homes, a number of considerations need to be made.

BUSINESS INSURANCE FOR SMALL BUSINESS OWNERS WITH HOME OFFICES

There are significant advantages of taking out business insurance for entrepreneurs who use their homes as offices. A business insurance policy will cover work-related risks that may not be covered under a personal policy. This includes any third-party liability claim that may arise if a client or colleague visiting the business owner at their home is injured on the premises. Entrepreneurs who run their businesses from home could also benefit substantially from including a cyber risk insurance product as part of their business policy.

This is particularly important for South African SMEs that store customer data, given that the country is among the most prominent "cybercrime hotspots" in the world.
Those who collect and store large quantities of client data on their personal devices or in the cloud are particularly vulnerable to this kind of risk and need to make provision for protecting themselves both in terms of having a policy as a safety net and implementing good "cyber hygiene" practices.

THE ADDED RISKS ASSOCIATED WITH LOADSHEDDING

South African remote workers and home business owners are also vulnerable to the unique risks that are associated with loadshedding. Cover for alternative energy products like solar energy systems, generators and inverters that have been purchased for use at home will fall under a personal policy. The fact that the employee works from home or runs their business from the premises will have no bearing on their personal policies.

However, in both instances, policy holders need to ensure that they understand their responsibilities in terms of safeguarding their premises from any potential damage that can result from rolling blackouts. This may include taking measures such as installing surge protectors on all power outlets or within the main distribution board, ensuring that they have obtained compliance certificates for the home's electrical system and that fire safety precautions are taken into account.

If you are unsure about which cover will be more appropriate for your specific set of circumstances, contact your insurance adviser to discuss the options that are available to you.

CREATING VALUE FOR MEMBERS & COMMUNITIES

Robyn Carter, IIWC President and Western Cape Branch Manager at Lombard Broker Partners, speaks with Brent Munnik from COVER about the core pillars of the IIWC, which are education, networking, and charities, and how they translate to value for members and communities through initiatives like the RISE program and multiple charities.

Robyn, along with her team, are on a mission to broaden the reach of the Institute with a clear focus on creating opportunities for members, partners, and charities by expanding existing platforms in 2023 and beyond. The IIWC's tagline, engage, enable, and empower, represents every aspect of the business that intertwines to achieve membership satisfaction and societal contributions.

The institute engages through events that create networking opportunities, such as the golf day, castle experience, and nibble and network sessions. The IIWC empowers its members by providing an educational platform and opportunity for them to earn the required CPD hours. The RISE program is designed to empower young professionals and bridge the gap of expertise between them and the more senior individuals in the industry.

The IIWC enables charities by channelling its efforts with a specific focus per charity, which enables them to provide for the organizations. Percy Bartley Home, Saartjie Baartman Home for Abused Women & Children, Food Forward SA, The Message SA, Mdzananda Animal Clinic are the Charities supported by the IIWC. All three pillars are linked, and they feed off each other, creating a sense of community and ecosystem that the IIWC aims to achieve.

The IIWC calendar for 2023 is filled with a mix of educational and networking events, and the gala dinner stands out as an opportunity for the industry players to celebrate successes for the year. It is also an opportunity for the council to say thank you and to give back to members and partners for their support throughout the year. In addition to the party, it is also an opportunity to highlight what the IIWC has achieved for the year, especially related to their charities and the milestones they have reached with them.

Robyn aims to expand the IIWC's reach not only from a membership aspect but also through more collaborative engagements with other local institutes. By creating a constructive collaboration between institutes, members and partners will receive more exposure, more networking opportunities, and charities will receive more support and opportunities to benefit from. The IIWC's core focus for the current year is to create opportunities for members, partners, and charities. This focus is like previous years but with an added focus on expanding existing platforms that already work well.

The IIWC aims to provide its members with value by putting them at the forefront of everything they do, as reflected in their tagline of engage, enable, and empower.

TECHNOLOGY

INNOVATION

"ChatGPT and other competing AI platforms could be a game-changer for the insurance sector, with the potential to revolutionise the way we interact with technology."

- Wimpie van der Merwe, Global Choices

HOW WILL CHATGPT IMPACT CUSTOMER EXPERIENCE, SERVICE, AND MARKETING?

OpenAI's ChatGPT is currently one of the most remarkable AI applications out there, taking conversation to a whole new level. Not only does it generate human-like text for articles,stories, coding and poetry but it also engages in natural conversations with users, drawing from an expansive knowledge base to provide insightful and accurate answers on a wide range of topics.

However, it is more than a passing trend - experts are predicting that the impact of ChatGPT will reach far and wide, potentially disrupting many industries and impacting how people work. One such industry which could be significantly altered by this technology is customer service.

Already boasting sophisticated applications such as chatbots and analytics, the introduction of AI-driven text generation capabilities provided by OpenAI's ChatGPT could revolutionise how customer service works in the future.

WHAT EXACTLY DOES GPT STAND FOR?

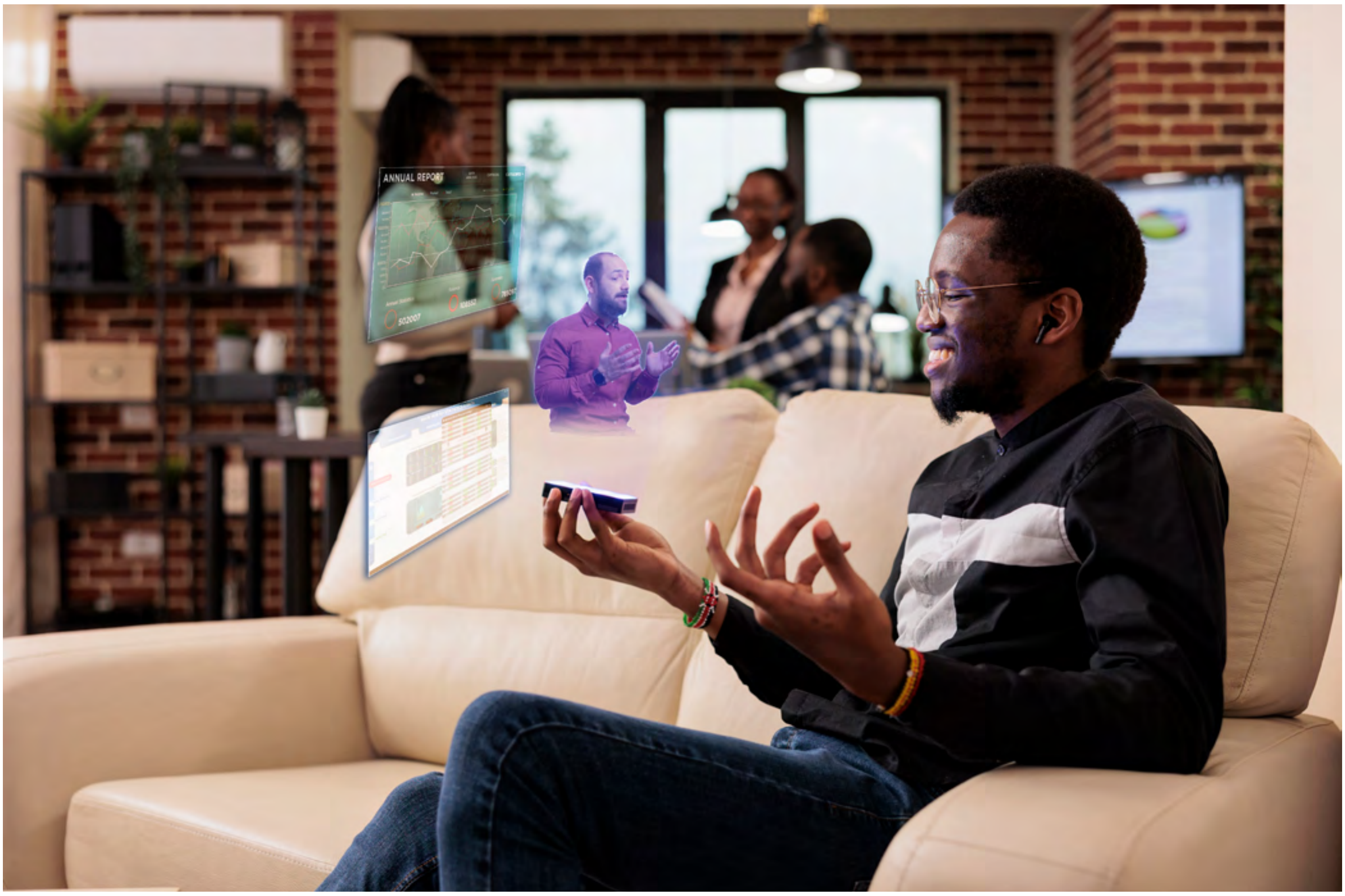
The GPT in ChatGPT stands for Generative Pretrained Transformer and refers to the advanced machine learning (ML) model that powers ChatGPT. This AI technology has been trained on a large dataset of text, allowing it to generate natural language responses based on user input and draw from patterns found in human language.
The specific dataset used is likely to have been chosen by OpenAI to optimise the performance of this chatbot, although they have not publicly shared what kind of data was used. Unlike other AI technologies like Amazon's Alexa which can access the internet for additional information, ChatGPT is only able to rely on the data set it was trained on to respond accurately.

ADDING VALUE

Although it may appear that ChatGPT is capable of doing the same job as a customer service employee, its true value lies in augmenting humans rather than replacing them. By utilising AI-driven text generation capabilities to understand customers' problems and quickly generate possible answers, customer service teams could be empowered to provide more efficient and effective support.

In the end, this will not lead to jobs being lost - but instead create opportunities for specialists who can effectively manage ChatGPT's capabilities to deliver superior outcomes. ChatGPT is an invaluable tool for insurers looking to improve their marketing and customer service efforts to create a seamless communication experience, which is important in an increasingly competitive landscape. The technology can be used to create chatbots that can provide customers with fast and accurate responses to their inquiries, as well as generate personalised content tailored to the individual interests of each customer.

Additionally, analysing customer feedback with ChatGPT can help identify patterns and trends in behaviour which can inform marketing strategy development. Allowing companies to provide customers with a better experience through timely access to information and personalised messages, ChatGPT can revolutionise how businesses approach both marketing and customer service operations.



THE RISE OF CHATGPT AND OTHER COMPETING AI PLATFORMS

ChatGPT and other competing AI platforms could be a game-changer for the insurance sector, with the potential to revolutionise the way we interact with technology. Not only are these advanced AI systems capable of understanding textual input and providing human-like responses, but they can also access an extensive range of knowledge from online sources such as websites and social media.

This means that companies can leverage the power of ChatGPT to stay informed on their products and services in real time, giving them the edge when it comes to staying ahead in today's fast-paced digital world. Customer service work often involves talking to customers, understanding their problems and concerns, providing helpful advice or solutions, and ensuring a positive customer experience. With AI-driven ChatGPT technology at the helm, those same activities can now be undertaken in a more efficient manner than ever before.

Rather than being on the road to redundancy however, this opens many new opportunities for customer service professionals by allowing them to focus on other aspects of their job such as problem solving and strategic thinking.

It's essential for customer service professionals to stay informed, be open-minded, and take steps towards understanding ChatGPT so they can leverage its capabilities. By doing so, they will place themselves in a better position not only to evolve, but also to succeed in an increasingly digital world.

THE POTENTIAL OF AI IN RESOLVING FINANCIAL SERVICES PROVIDERS' CHALLENGES

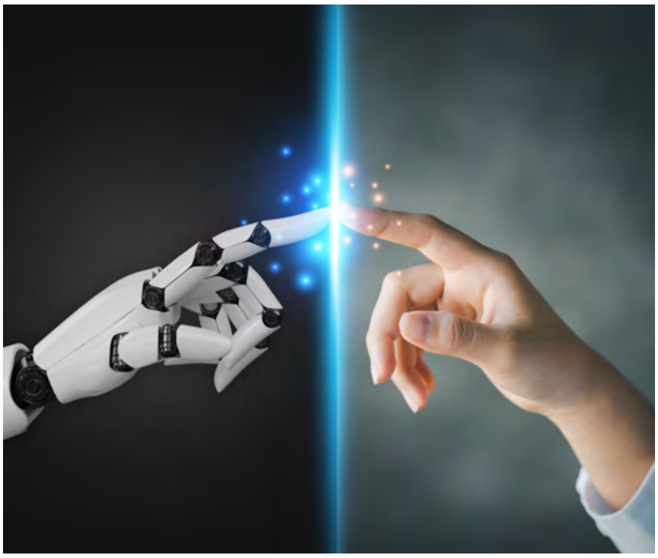
AI (Artificial Intelligence) has already become a part of our daily lives, with tools like ChatGPT being widely used. However, AI is being used even more extensively in the background of the financial services industry. In a recent interview, Bryan McLachlan, Managing Director for Africa at CyborgIntell, spoke about how AI is being used by insurers, lenders, and banks to predict fraudulent activities, identify customers who may stop using their services or stop paying, and classify transactions.

In fact, according to a McKinsey report, the global banking sector could source about $1 trillion in value through AI. While AI is being extensively used in the financial services industry, there are still some challenges that need to be addressed. McLachlan identified five key challenges, which include a shortage of qualified talent, the time it takes to deploy AI projects, the difficulty in trusting AI, the risk of a model failing, and the ethical considerations surrounding AI.

However, McLachlan believes that these challenges can be addressed through new-age AI technology, such as that offered by CyborgIntell. Their technology enables AI project timelines to reduce from three to six months down to one to four weeks. Additionally, their platform automates the entire data science process, including data preparation, model building, model deployment, and ongoing risk management. By automating the entire process, the cost of the project is reduced significantly.

Moreover, CyborgIntell's technology makes it possible to explain every decision made using AI models in real-time, which helps build trust among stakeholders. This is important because stakeholders, including regulators, customers, and shareholders, need to understand what is happening with the AI models. By making the outcomes of AI models fully explainable, companies can ensure transparency, which is crucial for building trust.

According to McLachlan, companies that are involved in AI projects that take longer than a month are doing something wrong. In other words, it is possible to get a quicker return on investment (ROI) by using a service like CyborgIntell. By reducing the deployment time of AI projects, companies can get their AI solutions up and running quickly and start seeing the benefits of AI sooner.



In conclusion, AI is transforming the financial services industry in many ways. While there are still some challenges that need to be addressed, new-age AI technology is making it possible to automate the entire data science process, reduce the deployment time of AI projects, and build trust among stakeholders. By using AI solutions, financial services companies can source significant value and get a quicker ROI.

THE FUTURE OF AI IN THE FINANCIAL SERVICES INDUSTRY IS EXCITING, AND COMPANIES THAT EMBRACE IT WILL BE AT THE FOREFRONT OF INNOVATION.

Editor's takeout

1. AI is being extensively used in the financial services industry, with insurers, lenders, and banks using it to predict fraudulent activities, identify customers who may stop using their services, and classify transactions.
2. The global banking sector could source about $1 trillion in value through AI, according to a McKinsey report.
3. Challenges in implementing AI in financial services include a shortage of qualified talent, deployment time, trust issues, model failure risk, and ethical considerations.
4. New-age AI technology, such as that offered by CyborgIntell, can address these challenges by reducing deployment time, automating the data science process, and making AI outcomes fully explainable in real-time to build trust among stakeholders.
5. Companies that embrace AI solutions can source significant value and get a quicker ROI.

Five key challenges in deploying AI in financial services

- A shortage of qualified talent,
- The time it takes to deploy AI projects,
- The difficulty in trusting AI,
- The risk of a model failing, and
- The ethical considerations surrounding AI

HUMANS SHOULD LEAD CYBERSECURITY STRATEGY

How do you get staff on board with security? By making it personal. Most successful cyber breaches have one thing in common: People. Your company can be protected from every tech angle, with the latest security updates and most advanced threat detection, but it takes just one employee accidentally sharing their password for a major breach to occur.

Human-targeted attacks will remain the number one threat to cyber security and will only keep increasing in volume and complexity this year. As even casual observers have become more adept at spotting emails that don't look quite right, criminals constantly work at creating more sophisticated traps. This year, we'll likely see more complex attacks as well as automation and the monetisation thereof, as bad actors leverage and repurpose the likes of ChatGPT and other AI chat tools.

Human error is not only the biggest security blind spot, but also requires more effort to remediate. It necessitates training and buy-in, as opposed to a security threat you might patch or reconfigure to a more secure mode. And after all that, your security still depends on the will of those humans to engage with the training and execute the learnings.

There are no quick solutions, and any solution in place requires constant reviewing, reengagement, and reporting. So how do you get staff members to engage in security messaging and implement these instructions correctly? By making it personal for and applicable to them. South Africa already has a security-first culture due to our sensitivity to crime in general. Your toughest challenge is then to broaden the scope of staff members' security mindset. Do this by always providing consistent, friendly, and supportive engagement on security topics. If your security team can add value to other staff members' lives, whether through support, personal advice, or leading by example, these quality exchanges will become a foundation for further interaction. If staff members perceive that they, too, get value out of engaging with security teams and materials, they'll be more inclined to adopt your overall organisational strategy and awareness mission.

YOU COULD TAILOR SUCH INITIATIVES BY:

- Using strong awareness content about the threats most prevalent in your business to regularly keep security in focus.
- Adding additional customised content to such materials to dig deeper and create interest in current trends.
- Sharing 'inside info' such as vulnerability notices and remediation steps for consumer phones, tablets, and wireless routers that staff members may use in their personal lives.
- Running routine unannounced simulations and sharing the results with the group.
- Incentivising participation by rewarding star performers - but still supporting stragglers.

VISION, COMMITMENT, ACTION = SUCCESS

Andre Symes,Co-CEO of Genasys

Craig Olivier,Co-CEO of Genasys

Leadership is a vital ingredient in business success, and the Co-CEOs of Genasys Technologies, Andre Symes and Craig Olivier, are living proof of this. In a recent interview, they shared insights into their company's success and leadership approach. The following are some leadership lessons that entrepreneurs can learn from them.

HAVE A CLEAR VISION AND TAKE ACTION TO ACHIEVE IT

Symes and Olivier had a clear long-term vision of changing the world of insurance through better technology. However, they knew that achieving this vision would require taking things one step at a time. They started by expanding their business to the United Kingdom, where they had secured one of their first customers in 2005. With this experience, they had a proof point that their software could provide the capabilities that the UK market needed. They then concentrated on their South African customers and opportunities before driving growth in the UK actively. The lesson here is that entrepreneurs must have a clear vision of what they want to achieve and take action to realize it. They must focus on the present while keeping the big picture in mind. This way, they can avoid getting bogged down by the challenges that come with running a business and achieve their long-term goals.

COMMIT TO YOUR EXPANSION PLANS FULLY

Symes and Olivier took a big risk when they decided to expand their business to the UK market fully. They knew that half measures would not work. If they were not fully committed to their expansion plans, they would not be able to achieve the success they wanted. This is why they spent two and a half years cold-calling customers, building networks, and developing relationships in the UK market. They knew that they could not afford to fail, so they did everything possible to make it work. Entrepreneurs must take a similar approach to their expansion plans. They must commit to their plans fully, develop the necessary networks and relationships, and put in the hard work required to achieve success.

BE AGILE AND ADAPTABLE

Genasys Technologies' platform is highly configurable, allowing the company to provide insurance products that meet the specific needs of its customers. This adaptability is one of the key reasons for the company's success in the UK market. The company's platform was able to provide the capabilities that the UK market needed, and its agility made it possible to configure different product offerings quickly. Entrepreneurs must be agile and adaptable in their approach to business. They must be able to respond quickly to changes in the market, customer needs, and technology advancements. This requires a willingness to learn, experiment, and take calculated risks.

PROVIDE SOLUTIONS THAT SOLVE CUSTOMER PAIN POINTS

Genasys Technologies succeeded in the UK market because it provided solutions that solved customer pain points. The incumbent technology providers in the UK market were expensive, hard-coded, and slow to change. Genasys came in with a rating change that took only a few minutes to complete, compared to weeks for the competition. Customers adopted Genasys' ability to change quickly, making the company the preferred partner for many of them. Entrepreneurs must focus on providing solutions that solve customer pain points. They must be able to understand their customers' needs and provide solutions that meet those needs. This requires a willingness to listen, learn, and iterate until the right solution is found.

In conclusion, the crucial leadership lessons that entrepreneurs can learn from Andre and Craig, include having a clear vision, committing fully to expansion plans, being agile and adaptable, and providing solutions that solve customer pain points.

EMPLOYEE EXPERIENCE IS VITAL TO SUCCESSFUL CUSTOMER COMMUNICATIONS

Wayne Toms, CEO, GhostDraft South Africa

The importance of customer experience has been acknowledged for some time. However, there is a growing realisation in customer service industries, especially ones that are knowledge intensive like insurance, that our most important long-term differentiator is on the payroll our people.

Yet companies are facing significant challenges to find, keep and use the best people. Employee value proposition comes out of this creating a motivation for people to stay and deliver the best work.

WHY EMPLOYEE EXPERIENCE IS IMPORTANT

Firstly, this is a consequence of the increasing shortage of skills people who have expertise and experience in the insurance industry and its processes. This is being experienced acutely in South Africa, but in our interactions with American insurance carriers, we find that they are also currently experiencing such a shortage

Insurance has been slow to grow a new generation of industry experts traditionally this has not been seen as a front-runner in appealing to new job market entrants, and while this is changing, insurers are having to learn how to enhance their value proposition to the skills that they do find

We also know that the profile of new recruits has changed. Generation Z and millennials are less likely to look for a job for life and prefer an employer who can offer them something of value – and this goes beyond just salary – an ability to be effective, to make a difference, and to be stimulated by the work they do. Of course, they are more likely to seek a hybrid WFH (working from home) arrangement, and are completely fluent in working online and with tech. Many companies are catching up on their ability to meet this value proposition

Employee experience has a role to play in the above as it is employee experience is everything an employee encounters at a company, from their initial job search to their last day of work and beyond. And as a major part of the daily work environment which employees encounter, technology tools and systems have a significant role to play.

THE LINK BETWEEN EMPLOYEE EXPERIENCE AND CUSTOMER EXPERIENCE?

We all know the refrain – Happy staff means happy customers. This has become ever more relevant in insurance with the rise of customer service as a crucial factor in how customers select their insurance products. Research shows that one out of every eight customers will leave their provider if they are not satisfied with the communications experience.

This is particularly true for the young, the wealthy, and the technologically sophisticated. This means they want an efficient and smooth journey in their interaction, which will not happen by accident. We need to design how those interactions will occur – and an insurers staff are key in building these interaction points and then handling the ad-hoc interactions when required.

TECH IS AN IMPORTANT PART OF THE EMPLOYEE VALUE PROPOSITION

Recent research by Aspire, the global communications technology analysts, shows that the number one source of job frustration identified by employees is overwhelmingly outdated software tools to enable their jobs. This is a surprising stat, but it makes sense if we consider the factors which drive an employee's sense of value at work.

Put simply, employees are happy in their work environment if they have the following:

- A high work interest factor
- Work, knowledge, and capabilities.
- A sense of reward
- A sense of being able to collaborate seamlessly and effectively with their co-workers

Of course, there are many non-technology measures which can impact these factors, but these are all factors which have a direct relationship to the tech which employees use daily.

CUSTOMER COMMUNICATIONS TECHNOLOGY PROVIDES AN ENGAGING EMPLOYEE EXPERIENCE

As organisations increasingly rely on empowered business teams to use their discretion in managing customer communication, the tech needs to meet certain requirements:

- Firstly, the tech needs to give business users and customer-facing personnel the tools they need to compose, change, distribute, and track communications while working remotely. As we have seen, this is a crucial factor in improving both customer experience and employee satisfaction. the tech needs to be accessible to business users. The tools need to be easy to access – often it is as simple as their browsers, they need to be usable in language that we can easily understand and provide them with access to all the data they need to interact with the customer with a button press.

- Secondly, the tech must automate simple business activities which require little or no intense user judgement to be applied, but often end up swamping many employees in their business day and make for a less attractive job satisfaction. For example, inserting a new claims rule into a set of policy documents is a relatively simple activity, but because it must be done right, is a painstaking process which could be automated.

- Thirdly, the turbulence of the last two years shows us that these solutions should also be flexible, allowing organizations to quickly adapt to a rapidly evolving market. The tech should be easy to refine and change and innovate. Customers' needs vary, and business opportunities change quickly. Employees need to be able to make changes to the interaction patterns with customers and groups of customers in a way that does not take many weeks or months to process a simple change. At the same time, the system needs to protect core business logic, especially since there are strict compliance and actuarial requirements which must be met

- Fourth, since manual processes are slow and prone to creating confusion, customer communications technology should incorporate input from every stakeholder in an agile way while also leveraging automation to standardize and expedite transactions. This will save time, helping employees efficiently address the demands on their time while maximizing the potential of every customer touchpoint.

- Lastly, the tech must enable a direct line to customers to manage those interactions – not only improves the customer's experience, but enables the employee to get an immediate sense that they have been able to meet the customer's requirements, and enjoy the sense of satisfaction that comes with that.

WHEN AN EMPLOYEE MOVES ON

When employees familiar with the processes and technologies that govern customer communications management move elsewhere and there is no unified system or perpetual framework to manage communications, the resulting attrition and the loss of experience and institutional knowledge that follows will inevitably erode customer satisfaction. They may even be the very ones who developed these now outdated systems and software or they may be the only ones with any understanding of the customer journey. Once this institutional knowledge is lost, it will take time (and expense) for new or reassigned employees to learn the old processes or find and develop new ones, worsening both employee experience and customer experience.

IN SUMMARY:

Customer experience cannot happen without employee experience. In addition to retaining employees, organisations need to look for ways to empower and enable them to provide a sustainable employee value proposition. The tech they use has a significant role to play

GhostDraft enables insurers to engage with their customers through our leading suite of document creation, automation, and distribution tools, which are fully integrated into leading policy administration systems. While our traditional focus has been on large and midsize American insurance carriers, we are increasingly seeing an appetite for our solutions in the South African insurance industry. GhostDraft has been rated by Aspire, the global consulting firm specializing in the Customer Communications Management (CCM) industry, on their Leaderboard in the top right quadrant for the insurance industry. Click here to download a white paper on this topic or to view the Aspire Leaderboard.