COVER

MAY 2021 ISSUE

INNOVATION

A JOURNEY, NOT A DESTINATION


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MAIN STORIES

INSURANCE INNOVATION JOURNEY

Full coverage of our exciting webinar series exploring digitalisation from a strategic innovation perspective. Insurtech is exciting but strategic innovation planning is essential.

THE IMPACT OF REGULATION

Guy Holwill, CEO of Fairbairn Consult, takes us on a whirlwind journey through the main legislation financial advisors need to comply with. Scary ride but essential reading.

MAJOR D & O RISKS TO BE AWARE OF

Javesh Ramcharan, AIG Senior D&O Underwriter, outlines five key areas that shed light on the major risks faced by company directors globally in a rapidly evolving and highly unpredictable business environment.

IFRS 17 : VERY FEW ARE READY

I spoke to **James Ingram, senior director at Moody's Analytics**, about the challenges facing insurers and the solutions available along the way to compliance with IFRS 17. It is complicated, skills are few and there is very little time left to get ready.

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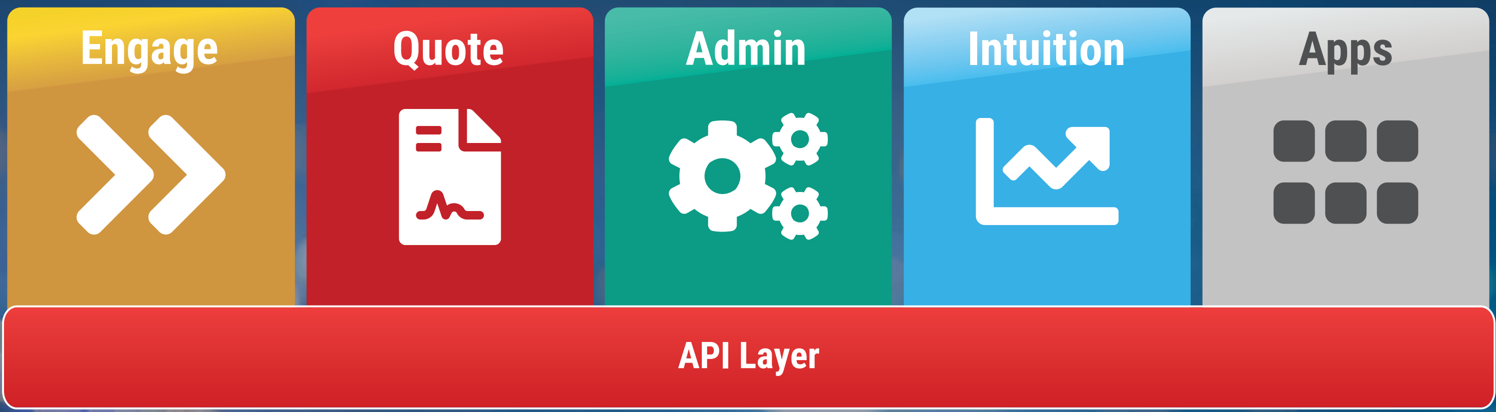

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MAY 2021

GENERAL

FINANCIAL PLANNING

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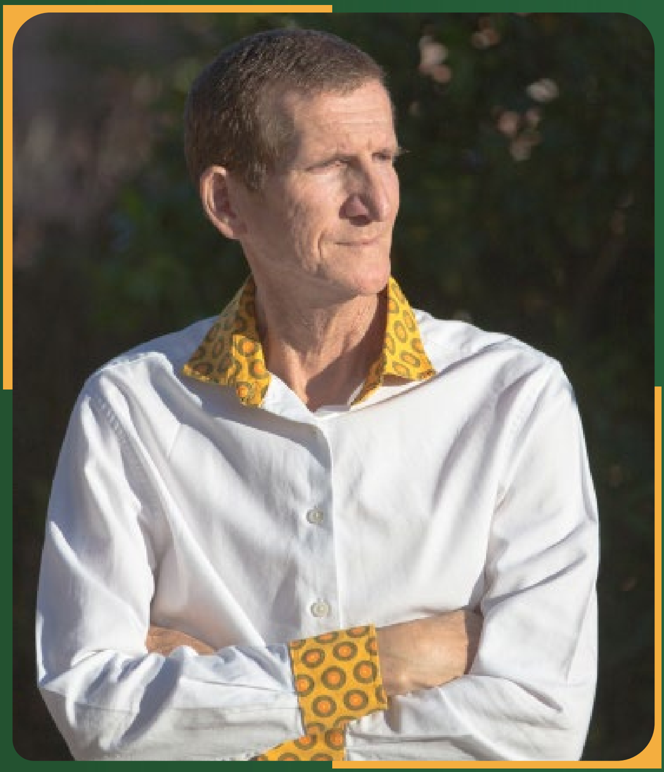
SHORT TERM

INSURANCE INNOVATION JOURNEY



The Road to Inclusivity

Tony van Niekerk, Managing Editor, COVER Publications

However, it is estimated that by 2035, all vehicles manufactured in Europe with be electric only. Change is inevitable, even when it starts slowly.

When hybrid electric vehicles first came onto the market, it was only the seriously committed "greenies" or "tree huggers" that invested and, even now, these vehicles are priced outside the affordability range of the average vehicle buyer. However, it is estimated that by 2035, all vehicles manufactured in Europe with be electric only. Change is inevitable, even when it starts slowly.

So, also, it is with game changing innovation in insurance. The first movers and radical innovators are mostly skunk works, small niche insurtechs and a few non-insurers who push the envelope of standard processes and models in the industry. However, as these models refine and start to get traction, it becomes attractive and viable to the average underwriter to participate. I would like to argue that we are here now. Let the games begin!

Insurance Innovation Journey – We recently hosted a series of webinars to discuss digitalization from the perspective of innovation. After all, this is just another facet of innovation. The biggest mistake made in the quest to compete with increased digitization is to jump at quick fix plug-ins offering access to untapped markets or apps that digitise sales and on-boarding. This might look like quick wins but they mostly do not deliver nearly as well as expected, due to the lack of strategic decision making in the selection and implementation of technology based opportunities.

In our Innovation Journey feature on page 60 several presenters at the webinar share thoughts on this journey and especially the strategic approach to digitization.

René Schoenauer. Director, Product Marketing, EMEA at Guidewire Software, approached his presentation from the point of the insurance value chain, exploring the various touch points for optimisation across the chain. According to Bruce Sahd, CEO, Casejohnson and Partner in COVER Advisory, explains that insurers are "in a 'stuck situation', not because CEO's are not aware of the possible strategies available to them, but because there is no clear roadmap to get from where they are now - to where they want to be. His presentation provides some very practical tips on how to embark on and successfully sustain the digitisation journey.

The innovation journey is aptly defined by Valerie Hayter and Isaac Chindotana of Lireas Holdings when they said "Innovation is not just about the introduction of technology but includes the creation, development and implementation of new products, processes, services or business models with the aim of improving efficiency, effectiveness, competitive advantage or producing new profits or growth for the organisation."

Kali Bagary, CEO of The Data Company unpacks the opportunities that innovation opens to intermediaries and how they should approach benefitting from the opportunities offered by digitisation.

If you are interested in innovation, insurance technology or digitisation regarding any aspect of the insurance value chain, I highly recommend you read this feature and, if you want more detail, to **watch the webinar videos here.**


CARGO

FINANCIAL PLANNING

P11-30

The risk of not paying attention to risk

Kapil Joshi, Head: Momentum Collective Investments

Investors are exposed to different risks when investing. These risks can include interest rate risk, credit risk, inflation risk, volatility risk and political risk.

Our investment philosophy – outcome-based investing – is that we target a specific return over a chosen period and we define risk as the likelihood that the fund won't deliver the return it's targeting. It may sound like semantics. However, it means risk doesn't have to be reduced to three simple definitions of 'low', 'medium' and 'high' any longer, but can be described in sync with your client's goals: Will they or won't they achieve their investment goal and, if they miss it, by how much will it be?

Our outcome-based investing approach mitigates against investment risks, and we construct portfolios that are truly diversified across many sources of risk and return. The primary focus of this approach is to ensure funds track towards their outcomes with a strong focus on risk management. This is, however, only a part of the solution. An investment philosophy needs to consider how clients behave when there are risk catalysts and our applied behavioural finance unit allows us to understand these triggers.

It has been proven that it is difficult for clients to remain invested during uncertain times. Momentum Investments did a detailed analysis of investor behaviour preceding and during the Covid-19 pandemic of 2020. Results show that as market crashes go, the investor behavioural response was all too familiar. The period of panic after the effects of Covid-19 became a reality would see South African investors lose about R100 million between April and December 2020, due to fear-based investment switches. As panic set in, the number of switches in March 2020, at the time of the crash, spiked to nearly 300% compared to the number of switches in January 2020. We also clearly see a 'risk off' strategy for March and April as investors moved to 'safety', or at least they think so.

ON THE SIDELINES WAITING

The latent effects of this value destruction are rooted in investors rushing for safety and getting stuck in safe assets where they remain for a large portion of the inevitable market recovery. They're in the wrong place at the right time; on the sidelines watching. We believe in the value of financial advice, and this is where the financial adviser can play a crucial part in helping clients to stay invested. Advisers can help clients change their thinking so they realise that staying the course is as important as choosing the right fund and that if your personal circumstances haven't changed, you shouldn't be changing your investments.

To mitigate the risk of switching, it is crucial for clients to invest in well-diversified funds that invests in various asset classes both locally and offshore. A combination of asset classes will reduce a fund's sensitivity to market swings and make the journey to the client's outcome smoother, and help them to stay on track to achieve their personal investment goals. Diversification is the most important factor for reaching long-term financial goals while minimising risk.

THE TOOLS ASSOCIATED WITH RISK

It is important for clients and financial advisers to understand the risks associated with the type of funds or solutions they are considering. There are a number of formulas which are used to measure risk and clients should not be discouraged by the investment jargon used in fund fact sheets. All risks aren't made equal. Importantly, risk is only one aspect in the overall consideration of investments but a critical one. To quote Warren Buffet: "Never test the depth of a river with both of your feet". This quote highlights the importance of diversification as one of the biggest benefits to managing risk.

At Momentum Investments this is where our philosophy meets our portfolio construction process across our range of single and multi-asset funds, both locally and globally. We take the noise, jargon and fear of risk out of the financial adviser's lives and make it our business to manage it. With us, it's that personal. **When it comes to investments, there is a risk of not paying attention to risk. But the bigger risk is trying to manage it yourself.**

The stunning simplicity of protecting your clients' income

Leza Wells, Chief Product Actuary at Fmi -A Division of Bidvest Life Ltd

Typically, most life insurers go straight to insuring against death and permanent disability with lump sum benefits. In fact, lump sum life cover makes up nearly three-quarters of all business written by the industry compared to income protection currently only making up 8%.

This is concerning when one considers that the greatest risk any individual will face during their working career is a temporary injury or illness[2].This is evident in the fact that a third of FMI's policyholders claim on their income protection policies.

By appreciating the degree to which we rely on our monthly income to provide for our living expenses and how likely a break in that income will be due to injury or illness, we begin to understand the importance of protecting income before anything else.

SIMPLIFIED PLANNING:

There's a stunning simplicity to income benefits. You don't have to try figure out how much lump sum your clients require to best support their financial needs in the future; you don't have to make assumptions around inflation; you don't have to make assumptions around inflation or put your clients' lump sum at risk when deciding on to invest; nor do you need to consider how long a lump sum payout would need to last. **All you need to know is what your client earns.**

INCOME BENEFITS OFFER YOUR CLIENTS MANY ADVANTAGES:

Easier to understand and relate to: Simply put, income benefits mimic the income stream your clients are trying to replace in the event of an injury or illness. This makes planning for and managing their recovery that much easier for them.

Secures your clients' financial future: Customers are more likely to keep their cover in place because income benefits are more relatable and easier to understand, and premiums don't escalate every year as significantly as lump sum cover.

More cost-effective: Income benefits can save customers money because they're typically more affordable than the lump sum equivalent.

Guarantees an income stream: to ensure a client's financial future is secured in times of temporary illness and disability.

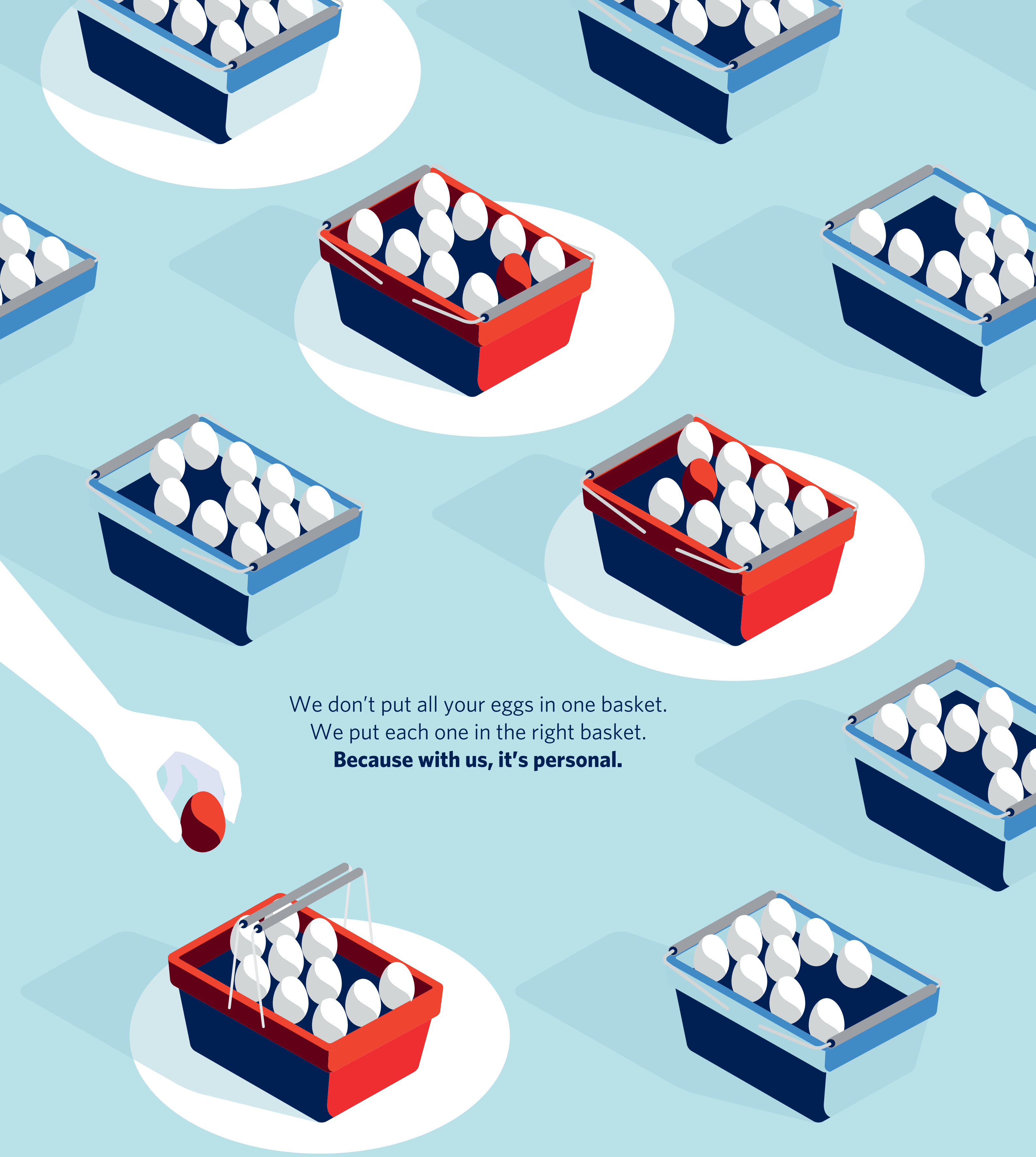
Income benefits mitigate investment and inflation risks: because your clients don't need to worry about investing a lump sum of money and the risk of future investment returns as well as the future impact of inflation.

Income benefits mitigate longevity risk: because your clients don't need to worry about running out of money before they die.

Income benefits mitigate behaviour risk: so your clients will not be tempted to spend large sums of money on expensive cars or luxury holidays.

Ultimately, we all need to reconsider what we've come to believe about life insurance. It's time to start seeing life insurance as an opportunity to protect your clients' monthly earnings and the future income they are yet to earn.

Our role as an industry is to start by understanding the mindset of our clients at each stage of their lives – solutions that can adapt as life changes and for as long as is required – in order to provide the very best cover possible. **Start seeing life insurance as something that protects your clients in life, not just in death, by putting their income first.**


We don't put all your eggs in one basket.
We put each one in the right basket.
Because with us, it's personal.

Impact of regulation

Guy Holwill, Ceo Fairbairn Consult

The last big regulatory wave was FAIS in 2004. Since then, we've had a few ripples like Commission Regulations, Conflict of Interest, Regulatory Exams (RE), and Treating Customers Fairly (TCF).

But we are now looking at a tsunami of change – the combination of the Retail Distribution Review (RDR), Anti-Money Laundering (AML), the Conduct of Financial Institutions Bill (CoFI), and the Protection of Personal Information Act (POPI). These regulations are being implemented with the specific intent of changing the industry. Therefore, it is important to understand the impacts so that you can position yourself to thrive under the new regulatory dispensation.Firstly, we will look at the essence of the different regulations and then consider the impact on the different parts of the industry.

RDR: THESE PROPOSALS ARE MULTI-FACETED AND WILL IMPACT OUR INDUSTRY IN DIFFERENT WAYS. THE MOST IMPORTANT OF THESE ARE:

1. Adviser Classification

You will be classified as either be a Registered Financial Adviser (RFA) or a Product Supplier Agent (PSA). This is straightforward for most advisers, but there are a few surprises like advisers working under a Cat II license, who will be classified as a PSA and will not be allowed to advise on investments other than their own portfolios. As per the update to the FAIS General Code of Conduct in 2020, you can only use the "independent" designation if you are not in the same group of companies as a product supplier and you do not receive any payments other than commission (no binders, rebates or outsourcing).

2. Product Restrictions

If you are a PSA you are restricted to your group's products. This is already effective for insurance products, but the impact will amplify when you are restricted to your own investment products. This will include being restricted to your own single or multimanager funds, model portfolios, and share portfolios.

3. No rebates – of any kind

Many advisers have moved on from dirty class funds with rebates but have replaced this by pricing a rebate into their model portfolios through a Discretionary Fund Manager (DFM). If you have done this, you should be disclosing this Conflict of Interest to your clients and that you cannot use the "independent" designation.

4. Fee for service

This is actually what RDR is about. Advice fees are where an adviser is paid by their client for services rendered, in the same way as a doctor, lawyer, or accountant – i.e. R3,000 to do XYZ or R1,000 per hour.

AML: As an FSP you have two responsibilities in terms of AML. The first is that product providers require you to gather certain information about the client, and the second is in your capacity as an Accountable Institution. This is the real problem for smaller brokerages, because you need to have your own systems where you can demonstrate that you have screened and risk-rated clients before you enter into a business relationship – i.e. before you give any advice. We saw the first fines in 2020, and you can be certain that there will be many more for brokerages that have not built these systems.

CoFI: This changes FSPs into Financial Institutions, with different licences to do different things. Most of this will be straightforward for big companies that have systems and controls in place. However, for some smaller brokerages, CoFI is going to be a huge challenge because you will be required to demonstrate that you have all the operational systems and processes to comply with regulation, give advice, manage client information, etc. In addition, you will be required to demonstrate that you have sufficient operational capital in your business.

POPI: Like AML and CoFI, POPI will require all FSPs to build systems and processes to manage and protect customer data. Once again, it will be the smaller brokerages that will find this the most difficult, because they do not have the skills and resources to implement these systems. Secondly, let's have a look at how these regulatory changes will impact the different parts of the industry and what shifts are likely to happen to the current landscape.

Independent Registered Financial Advisers = IFA

Some IFAs will make the changes required to be able to operate as an independent financial institution. But many will find that the compliance burden is too much, and they will move to bigger brokerages so they can spend more time with clients and free up capital that will otherwise be required in their own brokerage.

Networks = Registered Financial Advisers = RFA

Networks are brokerages with their own FSP that can provide advice on whatever products their license permits without being limited to offering products of any particular product supplier. Almost all big brokerages are associated with a product provider in some way. Some are owned by a big financial institution, while others have a product provider such as a DFM in their group. Because of their link to a product supplier, the FSCA will scrutinise these businesses to ensure that clients are actually receiving unbiased advice.

Due to their scale and shareholding, these businesses have the capital and resources to create the operational abilities to comply with all the regulations. This means that the advisers can spend more time with clients while management looks after the regulatory aspects.

Banks = PSA and/or RFA

Banks are all vertically integrated businesses with product suppliers in their group of companies. If the advisers operate under the licence of one of these providers, they will be classified as PSA. If they provide advice under a separate FSP, and they can demonstrate that they are not being influenced by the product supplier, they will be classified as RFA.

Tied Agencies = PSA

Tied agencies will feel the impact of the product restrictions, especially around investments. Tied advisers will need to be able to express their value in ways that go beyond the products.

CONCLUSION

Various regulations are going to make it increasingly onerous for IFAs to run their own FSP. Some IFAs will move to bigger Networks to reduce the compliance burden, while still enabling them to offer clients best of breed products from across the market.

At the same time, RDR will make some advisers leave tied agencies or banks to get away from the product restrictions. Until now, these advisers would have opted for broking, but they are more likely to join Networks to avoid the increased compliance.

Vaccines and the way forward

Bonitas Medical Fund

Principal Officer of Bonitas Medical Fund, gives an update on Covid vaccines and how the Fund is positioned for the rollout to its members.

Various scenarios have been presented regarding the speed of propagation of the third wave – the worst assumption is that it will be twice as fast as the second wave. The best case scenario is that the virus is 50% more transmissible than the second wave. Regardless, the urgency for the roll out of the various phases of the vaccination programme is undeniable.

Unfortunately private procurement of the vaccine is currently prohibited but as procurement is opened to other entities, we will take every step to ensure we have access to vaccines for our members. We want to mitigate the risks of them contracting Covid-19 as well as getting seriously ill or dying, which is why we are working behind the scenes to ensure we are ready to roll out the vaccine to our eligible members.

Medscheme (Bonitas' administrator) is engaged and collaborating with the Department of Health (DoH), Business for SA, Board of Healthcare Funders (BHF) and various industry stakeholders in order to assist with the rollout from Phase 2. We are also in the process of requesting accreditation to set up private vaccination centres. This will ease access for our 'at risk' members and provide a broader footprint, including remote areas of the country.

Our over 10 000 members, who are healthcare workers, have already started the vaccination programme in Phase 1. There are around 72 000 members who are classified as 'Essential/Congregate workers' and 185 000 high risk members who are either over 60 or have comorbidities. We intend beginning the Phase 2 rollout as soon as the vaccine is secured.

The latest information on South Africa's procurement of vaccines is that there are:

- 11 million doses of Johnson & Johnson (J&J)
- 20 million doses of Pfizer BioNTech
- A further 20 million doses of the J&J is being negotiated. This would be sufficient to cover the targeted 37 million adults in SA

Through collaboration with one of our partners, Afrocentric Health, we will be able to administer up to 150 000 vaccinations per day.

We are all familiar with the 3 Phase roll out plan as outlined by the DoH but there remains uncertainty about some definitions such as an essential worker - outlined in Phase Two: Essential workers, persons in congregate settings, persons over 60-years and persons over 18-years with comorbidities.

The DoH announced from the onset that healthcare workers would be vaccinated in Phase 1. Phase 2's priority group would include essential workers, persons in congregated settings, persons 60 years and older and persons over 18 with comorbidities.

However, it has since been announced that, as a result of a shortage of the acquisition of vaccinations, these groups will be adapted in order of priority.

As it stands on 8 April 2021 (subject to change), these groups include the following:

Phase 2	Priority Group	Definition
	Essential workers	Teachers, police officers, miners, workers in security, retail food, funeral, banking and essential municipal and home affairs, border control and port health services
	Persons in congregate settings	People in prisons, detention centres, shelters and care homes. In addition people working in the hospitality and tourism industry and education insititutions are also at risk
Persons 60 years and older		
Persons older than 18 years with comorbidities		Persons living with HIV, TB diabetics, chronic lung disease, cardiovascular disease, renal disease, obesity, etc

What we have done is to ensure we know, upfront, who our high risk member population is and, once Phase 2 commences, we are able to ensure that all those who want to be vaccinated, will be.

Together with our administrator, we have set up various processes to ensure we are able to achieve this goal to ensure peace of mind for our members.

An African solution to a South African problem

Nikolaas Delport, Business Development IDFM, Riscura

Over the last two decades, many companies have delisted from the JSE. In its 1988 peak, it had 754 companies listed, which was down to 274 at the end of 2020, with no slowdown in sight.

Although the reasons for delisting differ, major contributors include the popularity of private equity investment vehicles and the high regulatory burden placed on listed companies. This has been further exacerbated by low market values generally trending sideways and the COVID-19 pandemic.

For South African asset managers running Regulation 28 compliant funds for the retirement industry, this has caused a peculiar problem as their South African equity component, over time, has become less diversified, which is posing an increased concentration risk.

Current South African retirement fund regulation allows funds to invest 30% offshore, and over the years, asset managers have maximised on this allocation, bringing a market advantage to their investors. This has allowed retirement fund members to gain access to tech-heavy developed markets and fast-growing emerging markets while also benefiting from a weakening South African Rand.

"South African equity exposure to African equity is a good option to boost investment diversification."

But an often underutilised and misunderstood offshore allowance is the additional 10% offshore African allocation, allowing a Regulation 28 compliant fund to invest a maximum of 40% offshore. This can ease the concentration risk posed by the contracting South African equity universe, while at the same time, allows fund managers to avoid decreasing their current developed market and emerging market offshore allocations.

It's important not to disregard Africa over negative headlines, even if some countries seem to be poorly run and saddled with corruption. Negative headlines do not warrant the dismissal of the entire continent as an investment destination. As an example, recent South African newspaper headlines don't paint SA in a positive light necessarily, but living here, we know that life goes on and there are many attractive investment opportunities. Dig a little deeper and you will find about 180 well-

run listed companies across Africa outside of SA, with sufficient liquidity, operating in fast-growing economies, at incredibly attractive multiples to invest in. Re-allocating South African equity exposure to African equity is a good option to boost investment diversification. Africa as an asset class has historically been quite volatile but importantly, weakly correlated to other asset classes. By adding 5% African equity exposure, the entire portfolio volatility decreases, while also increasing the rand hedge component of the portfolio.

The best way to gain access to Africa is through a specialised, active African equity manager. Investing in Africa has certain nuances and requires many onsite visits that are performed best when you are 100% focused on the single asset class.

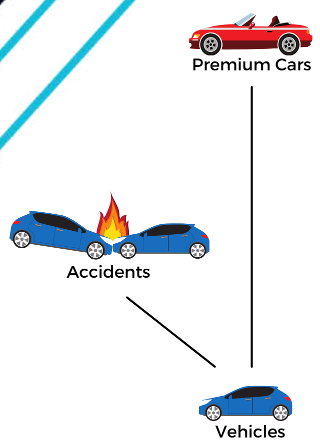
It helps to have this focused specialist. The underdeveloped nature of African financial markets enables a talented manager to add sufficient alpha. Additionally, passive managers seldom consider Africa as an asset class. And with index investing in its infancy in Africa, passive strategies ultimately prevent access to this asset class and are capturing additional capital in South Africa.

Within the current regulatory constraints, pension fund trustees should encourage their Regulation 28 compliant fund managers to resolve a uniquely South African problem by investing in Africa.

THE DATA COMPANY

"Data is the New Oil"

Innovating using Data Driven Digital Transformation



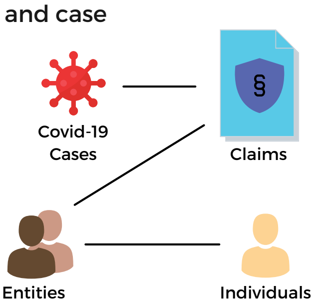
About Us

- **We help businesses with their digital transformation journey by unravelling complex data and rapidly building applications to reveal powerful insights and automate processes.**

What We Do

- The Data Company helps enterprises accelerate their business agility by unlocking the value of data to create new revenue opportunities and operational efficiencies for organizations.
- The world is one big data problem. A recent study by industry body research revealed that, on average, organizations that invest in data and analytical capabilities.
  - Increase their revenues by 8%
  - Reduce costs by -10%.

- Big Data might be the buzzword of the day, but actionable insight should be the flavour of the month.
- Using our AI and ML Fraud Detection and Investigation Platform - DataWalk. The DataWalk solution can help businesses cut the cost of fraud.
- DataWalk is an end-to-end solution for detecting, preventing and managing both opportunistic and organised claims fraud. Solution functionality includes components for fraud detection, alert management, investigation tools and case handling.
- Capabilities
  - Automated scoring
  - Automated business rules
  - Incorporate AI and machine learning
  - Text mining
  - Anomaly detection
  - Network link analysis



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Offering clients options to cope with volatility

Vimal Chagan, Divisional Executive for Investments at Liberty

Anyone who has been in the trenches of investing long enough will tell you that frightening market slumps are inevitable, as is long-term growth.

One real hedge against these savings potholes are insurance-based investment strategies that provide a guarantee against excess downside volatility, protecting clients against the dips, but allowing them to fully benefit from market gains.

Would it therefore not be ideal to participate in the rollercoaster's climbs, but have some sort of protection against those frightening downward sections? Especially when you are drawing down for an income whilst in one of those slumps.

Volatility, the extent to which an investment rises and falls due to market changes, is part of the course, but understandably daunting. Having a highwater-mark guarantee is a way to control this. This is something that ordinary investment strategies don't normally offer.

MAKING THE CHOICE

So ideally how should financial services providers – whether licensed insurers, asset managers or wealth managers – be managing their clients' funds?

Living annuities remain the firm favourite in the South African market. Statistics from the Association for Savings and Investments (ASISA) for the period January to June 2020 shows that only 8 856 life or guaranteed annuities were purchased, in comparison to 22 000 living annuities – a 29% to 71% split. It has been shown that living annuities keep pipping guaranteed annuities at the post.

Whether the choice of living annuity vs guaranteed annuity is purely driven by a retiree's urge for more control, going it alone is never ideal and is, quite frankly, probably terrifying for most clients. Lifecycle-specific goal-based advice is vital to support investors making decisions on drawdown rates or investment direction.

THE RISK DECISION

When faced with volatility and wanting to temper it, a client could choose to adjust his or her risk appetite and the risk-profile of all underlying investments to such an extent that the rollercoaster turns into a steam locomotive – chugging steadily towards its destination.

This will take care of volatility (that train won't necessarily derail) but could cause a different type of risk where the client never reaches the financial destination that was originally planned. Multi-strategy investment portfolios, for example, are actively managed and reviewed by professionals whose specific mandate it is to deliver performance during any market cycle.

The five different approaches range from conservative (target of CPI+ 1 – 2% over 0 to 2 years) to aggressive (CPI +6% over 5+ years) and includes the client in a co-creation exercise to find the solution that matches their particular needs.

INSURING AGAINST THE DIPS

For those invested in more aggressive portfolios pre- or post-retirement either through a retirement annuity or through a living annuity, a high-water mark guarantee provides a unique tool to protect against market slumps.

For an upfront fee of 1% of your investment lump sum, it protects 80% of the highest value that your investment reaches at each quarter end, over a five-year period. It also protects your income drawdown because if you are below the guaranteed level, part of your income will be paid for by that guarantee throughout the five-year period that it is in effect.

"Lifecycle-specific goal-based advice is vital to support investors making decisions on drawdown rates or investment direction."

There is an element of growth sharing in years when markets perform really well. If, at the end of five years, your investment is below the guaranteed level, your investment will get topped-up to that level. In essence, it creates a rollercoaster where there are more ups than downs.

EVOLVING ADVICE

Ongoing goal-based advice is part of this evolution, this has become more important than ever in a world where people are living longer and attitudes toward retirement are changing. It is no longer a switch that is flipped, but rather a transition into a new phase of life that may realistically include a centenary birthday.

The multi-strategy model fits well into an approach where clients are provided with holistic lifecycle goals-based planning.

Combining it with an offering like a high-water mark guarantee does offer peace of mind so the bumps of market volatility can be smoothed out, and the profits of a good upturn can be enjoyed.

Impact investing and the battle against inequality

Novare Impact Investment Partners

Benedict Mongalo, the managing director of Novare Impact Investment Partners, looks at how impact investing can make the world a better place and provide returns.

For all the noise against rising poverty, hunger and unemployment, the numbers are still going the wrong way. Yet, the world is awash with cash following unprecedented stimulus that spurred stock markets to record highs, interest rates to all-time lows and a global scurry for everything from mielies to cryptocurrencies.

THIS PARADOX NEED NOT EXIST.
Impact investing is successfully meeting the overwhelming need to address social inequality, environmental degradation, and infrastructural gaps with the requirement that invested capital make a financial return. According to data compiled by the Global Impact Investing Network, impact investing has seen assets under management jump from zero to $715 billion in just over a decade -- and most funds taking this approach by far outperformed their expectations.

While often lumped together with environmental, social and governance investment strategies, impact investing takes a different approach by looking for a more direct outcome. ESG funds, for example, buy stocks based on how well the companies manage risks such as pollution and work injuries or purchase bonds targeting green financing. Bloomberg Intelligence estimates that ESG assets will top $53 trillion this year.

Impact investors search for projects, companies or communities seeking to solve some of the world's most pressing challenges. Once made, these investments are then objectively measured to determine how effective they are at making the world a better place, alongside a financial return.

The global push toward sustainable investment is shining light on the reality that investors can no longer bask in the glory of their rising wealth without turning that capital into something that will serve the broader needs of our people and our environment.

Society's most vulnerable do not directly share in the benefits of soaring stock markets, higher commodity prices or record-low interest rates. On the contrary, the poor end up paying more for food.

Let us take booming agricultural markets as an example, where investors can quickly snap up commodity futures,

agricultural exchange-traded notes or index funds, or other such products that are available to buy and sell. These will always be available, however, the most vulnerable in society barely have an opportunity to participate in financial markets.

TO MAKE A DIFFERENCE AND STILL MAKE MONEY NEEDS A FRESH PERSPECTIVE.
Where there is food insecurity due to supply shortages and surging commodity prices, there are opportunities. These can include the funding of an agricultural project to boost output, uniting communities or operations to improve economies of scale, building a processing plant, or better connecting producers to distributors. The benefits then become tangible through stable or even lower prices, improved workers' well-being, and potentially a bigger market with a better chance of thriving.

Impact investing as an asset class is only beginning to play a role where shareholder interests merge with those of a broader group of stakeholders. Considering that governments no longer have the resources or means to meet their citizens' needs in areas from energy and transport to health and education, there is plenty of room to grow and numerous gaps to fill.

With many of the gains made against poverty wiped up during the Covid-19 pandemic, the urgency to rebuild a more inclusive society is more desperate than ever. It is possible.

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Can changes to Regulation 28 be a panacea for our ailing economy?

SAVCA Private Equity

A group of panellists at the recent SAVCA Private Equity Conference debated National Treasury's proposed amendments to Regulation 28.

The regulation is part of the Pensions Funds Act and limits local retirement funds' exposure to certain investments to ensure portfolios are well diversified and do not take on undue risk. **Tanya van Lill, SAVCA CEO** said they expect the changes to provide much needed economic stimulus to South Africa's struggling economy: "The proposed changes to Regulation 28 provide retirement funds with an opportunity for a higher degree of diversification, greater access to sustainable and impact investing, and improved overall financial security for pension fund savers in the long run."

A welcome proposed change is that private equity was delinked from hedge funds and the investment limit for private equity will be increased from 10% to 15%. The proposed amendments also include increasing the limit local retirement funds can invest into South African and African infrastructure. Should the proposed changes become effective, retirement funds will be allowed to hold up to 55% of their value in infrastructure. It is hoped that such changes will make investing in infrastructure easier, which in turn should create jobs and spur economic growth. Van Lill added: "SAVCA's 2020 private equity industry survey showed that investment in African infrastructure has been an emerging theme over the past decade. Active investment from funds in various regions were funnelled into projects in energy, transport and ICT sub-categories. "This serves as a catalyst for development on the continent, in a way that fosters the achievement of targeted and specified developmental goals. Furthermore, infrastructure investment opens up new opportunities for add-on or related investments."

CHANGES ARE "HITTING THE MARK"

Panel moderator Anne-Marie D'Alton, CEO of Batseta kicked off the session by asking Thomas Mketelwa, Principal Officer of the Kwa-Zulu Natal Municipal Pension Fund as to whether the changes hit the mark or not. His response was that they were indeed hitting the mark but that things could be improved in places. "The changes may not have introduced the issue of infrastructure in the way we were hoping it would be introduced – as an asset class on its own," he said. "But the bottom line is that we're happy and would like the changes to be implemented without further delay. It's an investment opportunity for us." **Mantuka Maisela, Chairman of the Motor Industry Retirement Fund,** was also positive about the changes. "Regulation 28 is going to bring hope to our people," she said. She pointed out that unemployment is high and infrastructure development should uplift people by creating jobs.

BETTER DEFINITIONS WILL HELP

Another change involves providing a more precise definition of what infrastructure investment means. **Tebogo Kgosi, Deputy Principal Officer of the Transport Sector Retirement Fund,** believes this will have many benefits. "It will enable better data collection and measurement," she said. According to the proposed definition, infrastructure includes installations, structures, facilities, systems, services, processes that relate to matters specified in Schedule 1 (of Section 1 of the Infrastructure Development Act of 2014). "To us, the beauty of Schedule 1 is that it is diverse and a well-thought out definition that covers all areas relating to infrastructure," said Kgosi. She did, however, comment that it would be preferred if the definition of infrastructure is included as part of Regulation 28 rather than in a separate Act.

NEW ALLOCATION LIMITS

According to **Soyisile Mokweni, Chairman of the Consolidated Retirement Fund,** the most important change is that hedge funds are no longer linked to private equity. "It's fantastic that private equity investments now get a 15% allocation on their own," he said. "This regulation is giving us an opportunity to look at private equity and infrastructure investment as a way of having a meaningful impact on developing our own country," commented Mokweni.

EXECUTION BY DIVERSE AND TRANSFORMATIVE BOARDS IS KEY

However, the changes to the regulation are only one part of the conversation. D'Alton questioned the panellists as to what else needs to be in place to ensure infrastructure investments materialise. Maisela's response was: "Diversity, including of expertise, is very important for boards, as is transformation and inclusivity. Trustees must use service providers who understand the plight of the people – who understand that some members may be in rural areas where there are no roads, toilets or bridges."She also advised boards of trustees to assign assets or give mandates to black asset managers who have roots within those communities and who truly understand the socioeconomic challenges they face.

STEPS IN THE RIGHT DIRECTION

Drawing the session to a close, D'Alton highlighted the widespread support for the proposed changes to Regulation 28 across the panel and encouraged trustees to actively participate in the public consultation process.

Commenting on the session, van Lill said: "Overall, the session highlighted just how much work still needs to be done in this area for the implementation and execution of the proposed changes to be successful.

"However, ensuring alignment between retirement funds, that proper classification and definitions exist and that oversight and monitoring is effectively undertaken are all steps in the right direction," she concluded.

Shariah-compliant structuring and its relevance to impact investing

Faizal Bhana, Director – Middle East, Africa and India, Jersey Finance

Sustainable finance, specifically impact investing, has gained considerable momentum over the past few years and shows no sign of slowing down.

Investors are looking for ways to build up communities and put money to work responsibly. At the same time, demand for Shariah-compliant products is growing, not just among faith-based investors, but also among non-Muslim, ESG-minded investors. To take a glimpse into the Shariah-compliant financial services potential requires consideration of both the consumer and corporate demand and activity. The largest group of consumers using Shariah-compliant wealth management solutions currently are in the 50-70 age bracket, according to research published by Jersey Finance, **The Evolution of Wealth Management in the World of Islamic Finance 2019.**

It is expected, however, that in the next few years, 60% of the demand for Shariah-compliant products will come from those aged between 25 and 50 years. Individuals are forecast to account for more than half (55%) of this increase, versus 33% from family offices and 12% from institutions. Similarly, in 2019, US$145.7 billion of sukuk (the Shariah-compliant and structured bond equivalent) were issued globally, according to the International Islamic Finance Market. This represents an increase of 18.3% from 2018 and a staggering 499% from a decade ago.

Socially responsible investing (SRI) and the trend towards products offering environmental, social and governance (ESG) standards are among the drivers of increasing demand for Shariah-compliant wealth management solutions. An overwhelming majority (92%) of Jersey Finance's respondents said that incorporating new investment principles such as SRI and ESG would help boost the Shariah-compliant wealth management market. This creates the potential for an alignment of the demand for ESG investments and the Shariah-compliant products and services offering.

Innovation: Shariah-compliant financial products and services are perceived, primarily due to complexity in structuring, of potentially increased marginal cost deferential with similar conventional products. Similarly, potential additional regulatory oversight, and limited choice also restrict the development and have slowed progress across the continent. The industry is, however, growing and evolving all the time. Broader trends in innovation, fintech, and impact investing have made Shariah-compliant products and services more accessible to all classes of investors, while enhancing their attractiveness – especially for those looking for a social return on their investments; particularly the tech-savvy, ESG conscious 'NexGen' population. Similarly global multilateral Islamic Finance infrastructure organisations are working towards standardisation of key structures to address issues on consistency and complexity. In the corporate and sovereign/quasi-sovereign sectors, there is also particular interest in sukuk, which are frequently significantly oversubscribed, including by conventional investors.

Conventional bonds are loan instruments, with investors putting their money in interest-only instruments. With sukuk, by contrast, investors are putting their money into the underlying asset, construction project or in a leasing arrangement for a defined asset or asset class, making it more secure and lowering risk. As the UK government moves ahead with its sophomore sovereign sukuk issuance, we anticipate governments across the continent will also look at raising further sukuk to finance critical post-Covid projects and initiatives aimed at reviving and reinvigorating national economies. ESG and impact investing will form a key consideration in these sukuk structures across the continent.

Emerging Fintech: Innovative fintech approaches are also lowering the costs of these products. For instance, a new Shariah-compliant UK fintech platform focussed on property investments via equity is now available – with no debt, no interest, and full voting and financial rights. Emerging technologies have the potential to disrupt the market and create change, with greater efficiency, accountability, and transparency, while serving a previously unbanked population.

In Kenya, investors are developing a fintech platform to assist farmers in accessing funding, while online shariah banks now offer transactional products for retail investors. While investors in the Middle East and Malaysia are largely driving the trend towards Shariah-compliant products and services, this sector is also of interest to the rest of the world. Africa is home to around 250 million Muslims, and Sharia-compliant products and services are available in more than 21 African countries, according to Nigeria's Premium Times.

These include Kenya, Morocco, Niger, Nigeria, Senegal, South Africa, Sudan and Uganda. Increasingly, Muslim families across the continent use Shariah-compliant trusts and foundations to structure their private wealth for estate planning and succession planning. Similarly, on the philanthropic side, waqfs are a common tool for charity endowments. Families are using the waqf structure, whether as a foundation or trust, to direct their philanthropic endeavors directing resources where the greatest impact can be achieved.

This sits within the prism of ESG but increasingly on commercial terms, ensuring longevity, self-sustainability, and self-sufficiency for their impact investments. Several infrastructure projects in the region have been funded through Shariah-compliant financing, and the African Development Bank suggests that Shariah-compliant finance could also be used to help strengthen the SME and microfinance sectors.

Scope to grow: Nigeria has the fifth-largest Muslim population in the world and rising government support for Shariah finance, Fitch Ratings said earlier this year. Currently, however, Nigeria has a less than 0.5% share of the global sukuk market and Shariah-compliant banking is in its infancy. Assets of the two Shariah-compliant banks in Nigeria is estimated at US$564 million, or less than 1% of total banking industry assets, according to the Islamic Financial Services Board. While Shariah-compliant banking progress is expected to be delayed in the short term, there is still scope for Islamic fintech products to grow – especially with Nigeria's largely unbanked population and increasing smartphone penetration. Kenya, on the other hand, is looking to enhance its position as a hub for Shariah-compliant finance and plans to put in place a regulatory framework to govern its Shariah-compliant industry.

The Nairobi Stock Exchange has also pushed for Kenya to issue its own sukuk and put enabling infrastructure in place to further support the industry. In South Africa, there are plans to issue a second sovereign sukuk in 2021/2022. The country previously issued a US$500m sukuk in 2014, when it became the first African nation to do so, and received subscriptions worth US$2.2 billion – showing the strong appetite among investors for this type of product. It's also testament to the vital role sukuk can play in financing South Africa's post-pandemic recovery.

For the greater good: Shariah-compliant products and services, although originally were created to serve the needs of unbanked Muslims, have in recent years aligned with the values of socially conscious, ESG-focussed investors, regardless of religion. A core principle of Shariah-compliant finance is that money and financing should be directed and put to use in the real economy, directly promote economic activity, and should ultimately benefit society as whole. With social cohesion and community development at the heart of Shariah-compliant finance, these solutions are ideally suited to the movement towards sustainable finance and impact investing.

The Global Impact Investing Network recently estimated that the worldwide impact investment market sat at US$715 billion in 2020 – a figure which is expected to increase in coming years. In line with this, it's quite fitting that Jersey Finance recently launched its new sustainable finance strategy. Entitled **Jersey for Good – A Sustainable Future**, the strategy makes the case for Jersey's finance industry to support the transition to a more sustainable future and sets out a vision and a number of objectives for where Jersey intends to be by 2030. The report also includes an initial two-year 'pathway' to deliver on those objectives.

For international finance centres (IFCs) such as Jersey, the shift towards Shariah-compliant finance, sustainable finance and ESG investment has resulted in a growing interest from both financial institutions and high net worth individuals (HNWIs) – particularly from Asia and the Middle East and increasingly from Africa, fuelling growing interest mostly from wealthy African investors. Shariah-compliant products and solutions emphasise partnership and shared risks over conventional borrowing and interest-led investments. Industries and activities

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"Emerging technologies have the potential to disrupt the market and create change, with greater efficiency, accountability, and transparency, while serving a previously unbanked population. "

are carefully vetted to exclude sectors perceived to be harmful, such as gambling or tobacco industries. This ethos of responsibility and collaboration makes Shariah-compliant products and solutions suitable for investors across the spectrum who want their funds to provide direct impact within the overarching objective of ethical and socially responsible commercial investments. Jersey offers Shariah-compliant investors a flexible legal system, a forward-thinking regulatory regime, and a tax-neutral environment. In Jersey, Shariah-compliant products and structures are regulated and administered on the same basis as conventional products and structures – providing true parity under the law. This positions the jurisdiction as a clear leader for Shari-compliant financial services.

Unlike other jurisdictions, Jersey does not need to amend its laws to accommodate all shariah-compliant structures and contracts, including waqfs, sukuk, and other special purpose vehicles. Instead, the Island provides a robust international platform for private, institutional and sovereign Africa-based investors to realise their diverse impact driven investment ambitions and objectives.

As interest in the Shariah-compliant finance sector continues to grow and develop in Africa, coupled with a growing emphasis on responsible investments with real, measurable impact, investors will continue to search out and partner with fiduciaries, intermediaries and financial institutions that understand their requirements and have the necessary experience and expertise.

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Investment technology has to adapt to the investment journey

Behavioural Finance Experts at Oxford Risk

Wealth managers need to adapt behavioural science techniques to boost client engagement and enhance client profiling to improve the investment journey, according to behavioural finance experts Oxford Risk.

It warns that advisers and wealth managers are not making full use of technology which could be harnessed to deliver a powerful approach to suitability and engagement while providing hyper-personalised and self-refining recommendations. Blending technology and behavioural science enables a comprehensive approach to suitability that recognises the complexity of each client and their emotional needs over time.

Greg B Davies, PhD, Head of Behavioural Finance, Oxford Risk said: "Where it's used in client engagement efforts at all, technology tends to focus on the administrative aspects of advisers learning about their clients, while treating those clients as robots. **"**Selecting good investments is important but achieving good investment outcomes is more so. Emotional responses to the investment journey mean the calm person who sets the course is often different to the stressed one who will have to stick with the journey."

Oxford Risk, which builds software to help wealth managers and other financial services companies assist their clients in making the best financial decisions in the face of complexity, uncertainty, and behavioural biases, has developed proprietary algorithms to target products, communications, and interventions for each individual client at a particular time. Behavioural tools assess investors' financial personality and preferences, as well as changes in financial situation, which, supplemented with other behavioural information and demographics builds a comprehensive profile.

Oxford Risk's financial personality assessment examines 15 distinct dimensions, each of which has specific implications of what to do differently depending on whether an investor is high or low on that aspect of personality. Based on that deep understanding individual investors can be matched to investment solutions tailored to their unique needs and personality.

Greg B Davies added: "Investment is a journey. Investment tech needs to come along for the whole ride. "Our research has conclusively demonstrated that we can measure investors' financial personality with simple but well-constructed questionnaires that are quick and easy to use, stable and empirically validated, and which add substantial depth to client profiles."

The financial personality tests do not need to be answered at a single point in time but can be spread over the course of the client relationship removing the need for an onerous upfront profiling process and replacing it with an ongoing dialogue.

OFFSHORE INVESTMENTS

P32-40

SA investors continue to look for greater diversification

Werner Burger, Equity Analyst and Portfolio Manager at Momentum Securities

While the JSE has seen some recovery after the lifting of the hard COVID-19 lockdown, investors are still flocking out of local equities. In fact, Morningstar data shows that more than half of local equity funds experienced net outflows over the year ending February 2021.

South African investors across the spectrum – in search of shelter from currency fluctuations and tepid local economic growth forecasts – are therefore increasingly looking for offshore exposure. Fortunately, there is indeed growth to be found.

The performance of the Momentum Securities' International Portfolio which has returned 77.7% since it was launched on 1 June 2016 to the end of February 2021. This is a full 14.70% above the benchmark's 63% return on a cumulative basis. It translates into an annual return of 12.90% compared to the benchmark's 10.80%. Over four years, the portfolio ranks in the first quartile compared to peers with annualised returns in excess of 12.4% per annum compound after fees.

The fund's appeal has grown as local investors look for increased access to global markets against a difficult local backdrop. "The SA Equity market has under-performed relative to the US Equity market over the past decade or so. Various factors have contributed to the US Equity outperformance including the very strong growth of the mega-cap US listed technology stocks. US Corporate tax cuts by the Trump administration, as well as large scale share buy-backs, have also contributed to the relative outperformance.

During the same period SA entered a low growth, low confidence cycle of under-investment caused by the politically volatile and uncertain environment. As a result of the local environment, we've seen the number of stocks listed on the JSE decrease by nearly half since its peak in 2001.

The opportunity set for local stock investors has reduced due to mergers, management buyouts and a lack of new listings. SA investors have realized the importance of diversifying their portfolios by investing in offshore markets. We do however forecast returns in the mid-teens per annum for the SA Equity Market over the next three years or so. The SA Equity market screens as very attractively valued compared to both our emerging equity market peers as well as developed equity markets.

That, combined with very strong relative earning growth from the SA equity market over the next 12 to 18 months, should see the SA Equity market perform well".

The international portfolio is a high conviction portfolio made up of 20 – 25 stocks on average. "It aims to maximise risk-adjusted returns by actively investing in global listed equities. The fund is typically for investors who are comfortable with a high degree of risk. Potential investors should be aware of the fact that share prices can fluctuate significantly based on investment cycles and should therefore be prepared to invest for the medium to long term.

Looking at our investment team's stock picking philosophy, the fund invests in companies with strong balance sheets, high cash conversion and good capital allocation track records: Our objective is to generate benchmark-beating, risk-adjusted returns over time.

"The opportunity set for local stock investors has reduced due to mergers, management buyouts and a lack of new listings. SA investors have realized the importance of diversifying their portfolios by investing in offshore markets."

The Momentum Securities International Equity Fund was conservatively positioned going into the COVID-19 crash in March 2020, holding over 15% USD cash at the time. We were therefore able to deploy cash post the collapse in markets. Over the second half of 2020 we started rotating exposure from some of the expensive technology counters in to value investments including a UK FSTE 100 ETF as well as a MSCI Value Factor ETF. More recently the fund added exposure to the Hong Kong listed tech giant Tencent, where we started to see value in the counter post the selloff since January 2021.

One of the biggest holdings in the fund is currently Mastercard as we expect the secular shift toward card-based and electronic payments to continue. Mastercard has a robust balance sheet and we expect the company to continue delivering strong earnings growth over the coming years. We also have a large allocation to gold, which includes the physical metal via ETFs, as well as gold shares. **In a world where interest rates in many developed markets are at (or very close to) zero percent, we view gold as a defensive alternative to the currencies in these markets.**

Offshore investing in a nutshell: the 'when', 'how' and 'where' of moving money abroad

Kondi Nkosi - South Africa Country Head for Schroders

Offshore investing should be part of everyone's investment strategy. It helps diversify your portfolio across different investment instruments, markets and even manager. This is vital for managing risk and potentially increasing your returns.

Furthermore, investing offshore gives you access to some of the biggest and most successful companies and markets in the world as well as lesser-known businesses that have really good growth prospects. You also broaden your exposure to sectors that aren't as accessible in the local market, like the aerospace or medical device industries. We look at the nuts and bolts of where and how you can invest overseas.

WHEN SHOULD I INVEST OFFSHORE?

Clearly the wrong time to invest offshore is when the rand is weak because one unit of foreign currency is going to cost more rands than it did before the currency weakened. Trying to time the movement of the rand, like trying to time the markets, has proven to be a futile undertaking. Sure you can make an educated guess, but it's far better to consistently move your money over time. This way your gains from exchanging at a good rate, and your losses from exchanging at a bad rate, should balance each other out. The principle remains that it's the long-term effects that matter most and these are the most deserving of your focus and planning.

HOW SHOULD I INVEST OFFSHORE?

Broadly speaking, there are two approaches: the direct offshore investment using your investment allowance, or indirectly – accessing a fund managers' institutional allowance.

DIRECT

You can convert your rands into foreign currency by physically moving your money from a South African bank account into an offshore account if you are over the age of 18 and a taxpayer in good standing. This is most suitable for investors who are happy to leave assets offshore for the long terms, perhaps because they plan on a lot of international travel or they expect to incur expenses overseas. The South African Reserve Bank (SARB) allows individuals to take up to R1 million out of the country a year without tax clearance. A further R10 million can be moved offshore each year with the approval of the SARB and a tax clearance certificate.

These funds can then be used to invest directly in offshore assets of your choosing. There's a lot of flexibility associated with this approach and you can choose the currency you receive your proceeds in.

INDIRECT

The alternative is to invest in rands through:

- A locally-administered unit trust that is mandated to invest a portion of the fund in international markets. Local funds can invest up to 30% of their assets overseas and an additional 10% across the African continent.
- A foreign-administrated rand-denominated local unit trust that invests entirely offshore. These are known as "feeder funds".

Both structures can give you access to international markets without physically moving your money abroad and you are not restricted by how much you can invest in the unit trust (it doesn't count as part of your personal R11 million offshore allowance). This can be a straight forward option if you are happy that the proceeds from any divestment are paid to you in local currency again. And importantly, this route can be the most accessible way to access offshore markets as investors could start saving with R 500 a month via debit order in some of these funds. All investors should be sure to understand the tax considerations and differentiations involved with these routes, as well as the estate planning consequences for owning assets abroad.

WHERE SHOULD I INVEST OFFSHORE?

Where you invest will depend very much on your own financial circumstances. You should consider your investment horizon, your financial objectives and your appetite for risk, amongst other things. Broadly speaking though, looking at both developed and emerging markets increases the opportunity set of your investments. While developed markets might carry less risk, investing some of your money in emerging markets gives you access to the dynamic growth potential of companies from some of the world's fastest-growing economies, including China, Taiwan and India, and often at discounted prices.

Speaking to a trusted professional can help you identify where, how much and through which avenue you could invest offshore. There is an increasing number of global asset managers with funds on offer in South Africa so it's becoming easier every day to invest offshore.

Emerging markets: the post-pandemic promise

Franklin Templeton Emerging Markets Equity

Franklin Templeton Chief Investment Officer Manraj Sekhon highlights why the team's conviction in emerging markets hasn't wavered.

From the height of the pandemic through to the current early stage of recovery, our Emerging Markets Equity Team's conviction in the growing structural advantages of emerging markets, led by key Asian economies, has only strengthened as the evidence has accumulated. Exemplifying this post COVID-19, China is now on track to become the world's largest economy before the end of the decade. The team believes this trend, which the COVID-19-led divide in performance over the last year reinforced, will continue to have positive implications for portfolio allocations to emerging markets, led by China, for years to come.

A year has now passed since the correction of March 2020, as markets first appreciated the implications of a global pandemic. The last 12 months have seen more disruption than entire decades in ordinary times. Emerging markets, led by Asia, have remained relatively resilient, having successfully adapted to or suppressed the virus. By contrast, a return to economic normality in the West is dependent almost wholly on vaccines. While we are seeing rapid progress with vaccinations in the United States and United Kingdom, Europe remains far behind amid continued lockdowns and economic stagnation.

A YEAR ON

Looking back on our prior outlooks, we highlight some key points:

- At the early stages of the pandemic, we emphasized China's resilience—borne of drastic policy measures—which suggested even at an early stage that of large economies, China could ultimately be among the least affected by COVID-19.
- We saw far greater risks associated with demand destruction in the West and related liquidity and corporate stress driving a deflationary shock.
- While the massive monetary and fiscal packages unveiled in developed markets globally were greeted with optimism, we harboured doubts whether this would translate into the V-shaped recovery we expected in China.
- This caution hinged on whether developed markets would be able to replicate several factors shown to successfully drive containment. These included decisive policymaking paired with effective execution, economic resilience supported by digitalization, and social cohesion.

THE WORLD TODAY

Many countries in the West failed on the factors outlined above, albeit the extent to which we would see divergence with the more successful emerging Asian economies has taken us by surprise. This gulf in performance was evident across health outcomes, economic impact, partisan politics and social unrest—in turn, reinforcing the spread of the virus. With continued weakness in developed markets, we have seen a continuance of unprecedented fiscal and monetary stimulus. In the United States, the long-term implications for debt service, incipient inflation and currency debasement remain unaddressed. In Europe, the longer lockdowns are extended, the greater the risk that temporary economic weakness translates into structural stagnation. We continue to hold our views of a year ago, and believe the structural underpinnings of emerging markets' resilience have been evidenced by the stark contrast with developed markets over this period.

CHINA

It is striking that while China was the only major economy to show reasonable growth during 2020, and with an ongoing strong recovery, policymakers have set a more cautious growth target for 2021 of 6% against International Monetary Fund forecasts of 8%.[1] In addition, for the first time, no longer- term average growth target was set. This was paired with greater emphasis on environmental and social reforms and new clean technologies—a "greening" of the economy. These measures signal the government's broader push to a more sustainable and higher quality of growth for the long term. China's fiscal and monetary stimulus during the pandemic was far more measured than in the West; previous periods of overheating in real estate and shadow lending have driven an innate caution. We are now accordingly seeing a greater balance in China between economic recovery and policy leeway—a "Goldilocks" environment in which the government has greater flexibility to respond to economic developments. With any slowing of the economy, we wouldn't be surprised to see policy loosening. We believe we've passed the nadir in China-US relations, though tensions will remain elevated. After years of aggressive trade policy, the US trade deficit continues to reach all-time highs. Rather than a futile focus on trade, we believe the United States would benefit more from domestic reforms, infrastructure investment and advancing digitalization in its economy.

PORTFOLIO IMPLICATIONS

The concept of a world-leading emerging-market company has evolved from an aspiration to a reality over the last decade—a trend reinforced during the pandemic. Taiwanese and South Korean semiconductor firms dominate the global industry with their strong manufacturing capabilities, especially in cutting-edge semiconductor chips. Moreover, their clout has generated the cash for them to ramp up investments and widen their competitive advantages amid booming demand for chips from high-performance computing, bitcoin, auto, and other businesses. By comparison, Western semiconductor firms have struggled to keep up, whether in innovation or capital expenditure. South Korean companies have also spearheaded the development of electric vehicle batteries, which have achieved greater penetration worldwide on the back of policy support and technology advancements. In China, biotechnology firms are developing innovative treatments for cancer and other major diseases and have won the confidence of global pharmaceutical groups in licensing these new drugs. India's internet space, which has been under-represented in stock markets, also offers huge potential, in our view. Taken together, evidence of emerging market companies scaling the value chain has increased, and we see durable growth characteristics in many of these firms. We expect a rising number of high-quality companies to emerge as various industries continue to develop and consolidate.

From the height of the pandemic through to the current early stage of recovery, our conviction in the growing structural advantages of emerging markets, led by key Asian economies, has only strengthened as the evidence has accumulated. Exemplifying this post COVID-19, China is now on track to become the world's largest economy before the end of the decade. We believe this trend, which the COVID-19-led divide in performance over the last year reinforced, will continue to have positive implications for portfolio allocations to emerging markets, led by China, for years to come.

Managing the complexity of offshore investing

Henk Appelo, Lead Specialist: Product Owner for Investments & Sarmishtha Haribhai
- Head of Technical Communication: Retail Investments Both from Liberty.

The interconnectedness of the global Investment landscape along with the ease at which global markets are now able to transact among themselves has created a growing interest in offshore investing by local investors searching for better diversified returns.

Investing offshore allows local investors to benefit from the profits generated by top global companies like Apple and Facebook in the US, and SAP and Airbus in Europe for example. Not only this, it protects against currency fluctuations should the investor decide to take their money offshore, although it is possible to invest in overseas companies while still keeping your money in the country which in itself has some advantages in terms of liquidity and simplicity. The local investment environment is seen in some cases as being at the mercy of corruption, as well as political and economic uncertainty, and this has shifted the mindset of investors who are always looking for new opportunities, not to mention stability for their funds.

As well as the higher returns being generated by offshore economies, rapidly growing offshore companies and funds offer better growth prospects in the long-term. Liberty offers a variety of portfolios ranging from tracker funds to actively managed funds offered through STANLIB and their offshore partners. The access to market leading managers like Brandywine Capital and Columbia Threadneedle Asset Management is an opportunity for local clients.

The commitment to engage top global managers with solid track records is key to getting the best out of overseas investment opportunities for South African investors. Ultimately, the intention is to provide clients with both active and passive solutions to more appropriately complement or enhance their existing investment portfolios. It is obvious that investing offshore allows the investor the benefit of diversification. You can spread your risk as you have greater access to different investments in different countries with different economies and opportunities.

With Liberty's Offshore Investment Plan for example, you can invest in offshore index trackers, which include equity, bond and cash trackers. The cash index trackers are offered in various currencies. Investing in tracker portfolios gives you the ability to access different asset classes at a low cost. Also, you can choose to have a fund manager grow your money by making the investment decisions for you. It is important to consider the legalities of tax in relation to offshore investing. For example, with our Offshore Investment Plan being an endowment, the returns will be subject to income tax at a current rate of 30% and an effective capital gains rate of 12%. Foreign dividends will be subject to withholding taxes at different rates and local dividends will be subject to dividends withholding tax at 20%. The proceeds from this investment will generally be regarded as capital in nature and exempt in your hands as an investor.

The preferential tax rates applicable to this particular plan will work to the advantage of any earner in a higher tax bracket. Also, investors will not be adversely taxed on currency fluctuations. This all allows your funds to have more opportunity for growth. Investments in the Liberty Offshore Investment Plan are a lot less complicated because they still fall under the South African legal jurisdiction. This means that, should you as the investor and policyholder pass away, your loved ones don't have to comply with any potentially complicated or costly foreign legal requirements.

The legalities of investing offshore are complex, and really this depends on the individual investor's taste for risk and how they view the opportunities being offered in the long-term.

Optimal allocation for offshore vs local investing

Yuvern Dokie, Senior Technical Investment Specialist, Alexander Forbes Investments and John Anderson, Executive, Investments, Products and Enablement, Alexander Forbes

After the rand plummeted and blew out to more than R19 to the dollar early last year, there has been a lot of debate around taking more investments offshore and easing restrictions of offshore investing. The analysis and discussions that follow consider the different markets and how they stack up against a balanced solution.

During the peak of the Covid-19 pandemic, both local and global markets fell drastically, and a lot of attention was given to offshore investing. In the chart below, we consider the retirement savings balance at 31 March 2021 of an individual who panicked on 1 April 2020 because of the negativity around the rand and South Africa, switching all their investments to be 100% offshore. We compare this to what they would have earned in SA equities or in a typical balanced fund.

INVESTING FOR RETIREMENT IS FOR THE LONG TERM

There has been plenty of volatility over the year, but local equities have delivered north of 50% over the year ending 31 March 2021, almost double of what the global market index gave us over the same period in rand terms. Although it is a short period, the merits of the analysis and the risk of listening to the noise and following a trend blindly rather than sticking to good long-term investment principles should be considered.

"Investing for retirement is for the long term, so do not get caught up in the short-term noise. Base decisions on sound investment principles that have been tried and tested and stay level-headed through investment markets."

Extending the analysis to a longer period, from 1 January 2001 to 31 March 2021, the results show that 90% of members remained invested in their strategies despite the three market crashes of the Dot-com bubble and 9/11; the global financial crisis; and more recently, the market crash due to the Covid-19 pandemic. Overall, default strategies adopted by retirement funds have fared well to ensure that members remain appropriately invested for the long run. Investing for retirement is for the long term, so do not get caught up in the short-term noise. Base decisions on sound investment principles that have been tried and tested and stay level-headed through investment markets.

MARKETS MOVE IN CYCLES

When using rolling 5-year returns, which tie into the time horizon used for a global balanced portfolio, the returns have shown interesting results:

- A typical balanced fund met an inflation + 5% real return target 53% of the time, with no rolling 5-year periods showing negative returns.
- In contrast, investing 100% offshore would have resulted in meeting the inflation + 5% real return target only 40% of the time, with 13 rolling 5-year periods showing negative returns.

Markets move in cycles and we do not know which cycle will be next. We do know, however, that we need sensible principles, and we need to be positioned for different types of outcomes in a balanced approach. It is imperative to marry risk and the expected return.

REGULATION HAS ADAPTED TO THE CHANGE IN ENVIRONMENT

Offshore limits have increased over time to allow for more allocation to offshore. The changes over time have shown evolving regulation and relaxing of regulations to accommodate different investment environments. Looking at investment principles for pensions, South Africa compares reasonably well with other countries based on where pension funds typically invest. There is a local bias in any country's pension fund allocations as the liabilities are in the home currency. Many listed companies on the JSE have offshore exposure through offshore earnings which needs to be considered when identifying the "true" allocation to offshore.

BALANCED FUNDS SHOW AN ATTRACTIVE RISK-RETURN PROFILE AS A RESULT OF DIVERSIFICATION

Alexander Forbes analysis shows our best investment view of what a post- and pre-retirement solution should look like to deliver on their long-term inflation objective. The analysis shows that the optimal asset allocation uses a blend of offshore and local asset allocations, with the "sweet spot" of strategic offshore allocation being between 25% and 27.5% at present for accumulation portfolios, which is within the regulation limits. **In addition, Alexander Forbes analysis shows that for pensioners the optimal asset allocation depends on the individual's preference for an income or legacy, as well as the level of drawdown of the individual.**

How to invest offshore

Radhesen Naidoo, Head of Orbis Client Servicing in South Africa, and
Thandi Skade, a Communications Specialist at Allan Gray

Diversifying your investment portfolio with offshore exposure can be an effective way to mitigate rand weakness and foreign currency fluctuations, which heavily influence the price of food, petrol and other goods and services.

More importantly, it helps investors tolerate periods when markets can be turbulent as your investments are spread across different currencies, regions, and economies. This means you can maximise the potential to earn long-term returns under different market conditions, while still protecting your capital in real terms.

THERE ARE VARIOUS WAYS TO GET OFFSHORE EXPOSURE; HERE ARE THREE TO CONSIDER:

1. You can get some offshore exposure through local unit trusts: Most South African investors have some offshore exposure through their local unit trusts, which are allowed to invest up to 30% offshore and an additional 10% in other African countries. This is in addition to their exposure to locally listed companies that may have offshore operations.

2. You can invest in rand-denominated offshore unit trusts: If you go this route, you invest in rands, but your investment is fully invested in offshore assets. You use your asset manager's offshore investment allowance, rather than your own. While this route saves you on the admin, the possibility remains that these funds may be closed to new investments from time to time when your asset manager reaches their South African Reserve Bank-prescribed foreign currency limits.

3. You can invest with offshore managers: You can use your annual offshore investment allowance and invest with offshore managers. However, navigating the world of offshore investing can feel overwhelming because of the sheer volume of global unit trusts available to choose from. In addition, the process of investing with different foreign managers directly can be administratively demanding. Using an offshore investment platform, such as Allan Gray's, can help when it comes to narrowing down the options and dealing with the associated administration. One key advantage is the lower minimum amounts required compared to investing directly because investment platforms aggregate multiple clients' underlying assets.

Furthermore, there are benefits from an estate-planning and capital gains tax perspective, which are discussed in further detail below.

ESTATE-PLANNING AND TAX BENEFITS

If your offshore platform is locally domiciled, there are estate-planning benefits for South African tax residents if you die while invested. Your offshore assets will form part of your South African estate and be processed by a local executor. Tax, for South African tax residents, is calculated on worldwide assets, so this will not increase the tax paid, however, it will reduce the administration in managing probate issues in multiple jurisdictions.

From a capital gains tax (CGT) perspective, there are benefits to investing via the offshore platform or directly with an offshore manager, compared to investing in rand-denominated offshore unit trusts. If you invest in rand-denominated offshore unit trusts, when you sell your investment, you will pay CGT on all gains, including capital growth and currency fluctuations, on your original investment (i.e. both the base cost and the sale value are calculated in rands).

If you invest in foreign currency, when you sell assets, you only pay CGT on the capital growth earned in foreign currency. In other words, the growth in capital is in foreign currency and converted to calculate CGT using the exchange rate at the date of sale. This means that if the rand weakens, it is more tax-efficient to be invested via the offshore platform or directly with an offshore manager, while if the rand strengthens, it is more tax-efficient to be invested in a rand-denominated unit trust.

NEED HELP?

As with local investing, there are many decisions you need to make before investing offshore. The most suitable avenue is one of them. You will also need to carefully consider how much exposure you need, how to manage your asset allocation, and which investment manager has a philosophy that resonates with you and funds that match your objectives. Remember, the decision to invest offshore should never be taken in reaction to movements in the market. **Rather, it should form part of a diversified approach to constructing a well-balanced investment portfolio.**

Going global: navigating the complexities

Nick Jeffrey, Relationship Manager at Sanlam Private Wealth

Investing offshore is an essential ingredient in any high net worth individual's overall portfolio – in tumultuous times, it's crucial to have a diversified investment portfolio to hedge against risk.

For South Africans, an offshore strategy can be fraught with potential complications, however – not least of which are currency volatility and tax hurdles, and choosing the most appropriate structure for your portfolio. It's imperative to obtain expert advice and 'do it right' from the outset. Here's what you need to know before going global. Investing offshore has always been a hot topic for South Africans, for a number of reasons – to protect wealth from domestic political or economic risk, to gain access to markets and opportunities unavailable locally, or to diversify across multiple geographic locations and currencies.

There are different ways of accessing the global market. The simplest way is to invest in rand-denominated options such as dual-listed or rand hedge companies on the JSE that earn the majority or all of their revenue from countries outside South Africa, or local feeder funds providing access to offshore versions of these funds. It's important to note that with rand-denominated options, tax will always be paid on the rand unit price, which means that both asset price appreciation and currency depreciation could impact any potential capital gains tax (CGT). Many South Africans prefer to invest directly offshore by owning hard currency assets, however. In this case, you'll pay CGT only on the hard currency asset price movement (the rand will have no tax impact on your investments). If you're not restricted by the SA Reserve Bank or SA Revenue Service from holding direct offshore assets, you can use your offshore allowances (a R10 million foreign investment allowance and a R1 million single discretionary allowance per year) to transfer your after-tax funds abroad. Alternatively, if you don't have the required regulatory approval or you wish to invest more than your annual allowances, you can make use of the asset swap capacity of a financial services provider such as Sanlam Private Wealth.

KEY CONSIDERATIONS

If you're going the direct route, it's essential to obtain expert advice before you decide to ship out some of your assets, to ensure you don't get tripped up by the complexities that often accompany global investments. These could include complications around estate duty or inheritance tax (both local and foreign), donations tax, local legislation and restrictions on investing offshore, and the overall effect of currency fluctuations. Professional advice is crucial to ensure you consider all the factors that could impact your eventual investment returns as well as the intergenerational transfer of your wealth.

KEY FACTORS TO CONSIDER INCLUDE:

The most appropriate structure: The most common ways of structuring a global investment strategy are investing directly in your own name, integrating assets into a life insurance policy (often referred to as a 'wrapper'), or lending money to an offshore trust to make investments. It's crucial to select the most appropriate structure for your needs. Owning the right asset, but through the wrong vehicle, might have a dire impact on your overall investment portfolio.

Setup and administration of offshore trusts and company structures: Offshore trusts and company structures remain a popular option for asset protection, tax relief and estate planning purposes. However, setting up and managing these structures can be costly and complex. Be sure to work with a team of experts who can deliver a solution that will stand you in good stead for generations to come.

Global life insurance solutions: Investing through an insurance 'wrapper' offers flexible investment options and some tax efficiencies, with the added benefit that your estate won't have to pay executors' fees. It's important, however, to weigh up the pros and cons and make sure that you don't get tied up in a costly solution should your circumstances change in future.

A joint tenancy arrangement: In certain instances, it might be a cost-effective solution to invest directly in your own name with a joint tenancy arrangement. However, given the potential complexities, it may be a less flexible option.

Local and offshore tax advice and structuring: Tax structuring is a key element of any high net worth investor's wealth strategy and plan. Factors to take into account include local and offshore taxes, and SA Reserve Bank regulations, for example.

Global estate planning: To ensure the orderly transfer of your assets to the next generation, it's important to consider all aspects of estate planning and winding up of estates, including:

- Local and offshore inheritance taxes: Drafting and reviewing of local and offshore wills
- Safekeeping of deeds of title, and original trust documents and share certificates
- Executorships
- Power of attorney to administer offshore estates.

SHORT TERM

P43-58

Efficient & transparent claims

Wimpie van der Merwe, CEO Global Choices

COVER: One of the most important things about our industry is collaboration and Global Choices is all about that. Your 24 Hour Emergency Assistance solution adds very well to that and speaks to an essential element of our industry, namely emergency services. Please give us an overview of this particular solution.

Wimpie: We offer 24 hour emergency services that covers three aspects of the market. Firstly, around people's cars namely, motor car accidents, roadside assistance, and the systems around the motor vehicles on the insurance side. Secondly, on the personal side with things like trauma, legal assistance, services, medical, crime, victim assist services, etc and then, finally, on the home emergency side.

Underneath that we continuously create new products, services or digital solutions. Something we realised very early on is that, when we get an emergency phone call, with most of our clients in the insurance industry, it's the beginning of a claim process. Our Live24 assist technology, launched a few month ago, allows the call center agent or case manager getting that phone call to visually see what a client is seeing or the situation they find themselves in, whether it is a motor car accident or a home emergency like a geezer.

We then assess the emergency and send the necessary responding units to go out to that risk event. I always promote design thinking, looking at every aspect, every touchpoint or issue that the client experiences or may experience, and how we can find solutions around those specific experience, especially if it is becoming quite laboursome or there are delays etc.

When an emergency phone call comes in we capture vital visual information at that stage and, simultaneously, use that information to start pre populating usual claim forms and communicate and finding solutions for the convenience of the policyholder or the customer on the other side of the process. We then take it through to the claims process and finally the claims resolution process. Hence our partnership with the Australian company Claim Central Consolidated.

Claim Central Africa, of which we are 50% shareholders. It is a combination of collaboration of different technologies between us focusing on the end user, to see how we can actually resolve their risk event as comfortable and as easily as possible. A further benefit is for the broker and the underwriter, where they can see what happened with those cases through a transparent, mutual platform, following and tracking it as well.

COVER: You mentioned the broker and the insurer. What particular role do they play in this process now? Do they still have a role to play?

Wimpie: Brokers need to be available for their clients 24/7. They don't have to be physically sitting there waiting for the phone to ring, but through different solutions in technology they can actually be part of it. We have become the extension of the brand of the broker, the underwriter and the insurer. This puts quite a lot of pressure on us because we are dealing with someone else's reputation and their brand in the market. We need to be very conscious not to cause any damage to their reputations or brand. With technology, our whole strive for the broker/underwriters is in creating these digital platforms where you've got a single customer view. Every interaction with an insurance client is communicated with the broker, underwriter or insurer, our client at that same time. When we get a phone call, they will get a notification through different mediums and they can go in to view the status of that process and then also intervene or start other processes that can assist a client further on the claims side. Or, when they give us certain mandates, we can start with the F & L water claim forms etc. We don't do anything without their permission and we've agreed on protocols and processes that they are comfortable with, saving time and money for them as well. They are a very integral part of it, as it is a partnership. It is not just outsourcing to us and hoping for the best. We take the relationship very serious in that regard.

COVER: That is exactly why I was very interested to see that you launch what you call a car rental replacement option. How does that work?

Wimpie: It works pretty much the same as the car rental option. When we get a phone call that you have been in a motor car accident, depending on the situation, we capture the vital visual information for our live logic at that stage or, if the person is not in a position to actually speak because of the incident. If you took out this cover, we start simultaneously, from that first touch point with technology and with AI, to access to certain databases in order to manage that emergency case. At that point we start activating the car replacement.

Remember, we can now see the vehicle is going to take two or three weeks to replace, or to be repaired. That person will need the car hire for that time period. So it almost becomes like a concierge desk, where we activate the car hire to be delivered from the policy, prove it and then deliver it.

We even created a gap cover for five days until your claim is approved. Then, simultaneously, we capture all the information for the claim form to be submitted. The next day we will pick you up and take you to the police station for your case number and complete part of the claims process. This reduces the risk of time passing with no claim submitted. Then there are also different options. If you don't take the gap cover for five days, there's at least a three day one, for using Uber. We actually start the claims process at the emergency phone call and then see it through, case managing it with the customer on the other side.

We also track the repair of the client's vehicle with the repairer, using the same technology, simultaneously reporting back to him/her and the broker, underwriter or insurer. All this is visual. So, when the vehicle is repaired, we do a wrap around video with the repairer and send it to the client. If the client is happy, we can pick him up with a home chauffeur and take him/her to fetch the vehicle. It is very much a concierge type of service, integrated into making something that started with a negative event, into a more positive one. This prevents just being reactive, because the insurance industry is notorious for only reacting when there's a demand or a call for action. We become intuitive at the moment when a risk event starts, looking for what else we can do to assist the client.

COVER: Absolutely! Luckily the insurance industry is becoming more proactive than it used to be. But, just to wrap up Wimpie, what feedback are you getting from brokers and clients on these services?

Wimpie: Feedback is essential for us. I always go back to the feedback, especially with technology and solutions like Live24. We only started five months ago and so far have about 60,000 policies on the services while we also use it at the specific events such as home emergencies, like a burst geyser etc. and with motor car accidents. The customer experience has been very positive, because they can actually see the call center agent and of course, your agent can see what the client sees. So this is almost like the design thinking process where empathy is essential. Where you put yourself in the shoes of customers to help them with their claim form, etc. Based on the feedback and, as we're going through these specific cases, we are improving the whole time. On geyser claims, when you send a plumber into the roof and he captures that label, we can immediately go and check if it's a warranty claim or an insurance claim. It is amazing that, just by being there at that moment with the service provider, you can actually save quite a lot of money. So far we've found that close to 60% of all our geyser claims are not insurance claims. This means insurers have been paying for many warranty claims.

However, don't then leave the client and say sorry, this is not an insurance claim. Rather say, we'll help you with the warranty claim process, providing convenience and completing the process which you started,. You have to focus on the customer and the experience, taking out the hassle factors. You know I love to roll my eyes like the emoji, I always think like a customer. Are they rolling their eyes at us? That's where we focus to see how we can surprise them and make them happy. **At the end of the day, that broker, underwriter or insurance company gets huge, huge kudos if we do things 100% right. Yes, we are in the service industry and we don't get it 100% right, but we are getting real close to it every day.**

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Tech-led agri insurance to broaden inclusivity

Santam Insurance

Despite a myriad of setbacks caused by Covid-19, optimism in South Africa's agricultural value chain recently reached a six-year high. We asked Santam for some comments on the current environment, from an insurer perspective.

This suggests that the industry is bouncing back, although the full impact of the lockdown is still coming to the fore. Farmers have admirably adapted to a new normal, but risks – new and ongoing – remain, from theft and natural disasters to Covid-19-linked crises, such as an excess of beer-grade barley because of the alcohol ban. Insurance plays a pivotal part in proactive risk mitigation, with technology increasingly a catalyst for broader inclusivity.

Hanlie Kroese at Santam, says, "Santam believes in proactive risk management and mitigation strategies that employ technology to add lasting value to our clients. We're harnessing the power of technology and next generation learning to ensure we set the benchmark for agricultural insurance and industry understanding in Africa. "Throughout this pandemic, we've seen many of our farmer partners pivot or deploy innovative strategies to survive – and enhance their offerings for the long-term. As their risk profiles evolve, we're committed to providing the right policies at the right price. Our aim is to use technology to extend our reach and support small farmers and new entrants to the industry."

CURRENT TRENDS AND THE IMPACT OF COVID-19

There's currently a mixed bag of trends buffeting and buffering the agricultural sector according to Omri van Zyl , CEO Agri Enterprises:

- Consolidation in the industry: This has been hastened by the liquidity issues caused by the Land Bank; expect more of it to happen sooner rather than later
- Export crops soar: Export crops are doing well, with power foods becoming increasingly popular as a result of the pandemic
- Land question dampens investment: Uncertainty of the value of land continues to cast a shadow on the investment appetite from both local and international investors
- Growth prospects look good: The rains have been much more prolific this year than in the past six years, which has helped drought-stricken areas

With regards to Covid-19, multiple sectors have taken a hit, including those bolstered by tourism – e.g. wine, wildlife and agro-tourism (an agricultural operation or activity that attracts tourists to a farm) businesses.

The alcohol ban has also had significant effects, causing an industry crisis, with a myriad of players impacted. According to Farmer's Weekly, there was delayed processing of wine grapes due to a lack of wine storage facilities because of carry-over wine stock from 2020. Barley makers were severely affected, with ABInBev lowering its barley mandate by 70 000 tons in 2021. Farmers stand to lose between R1500 to R2000 per ton should malting barley be used for feed instead. Table grape production has also been impacted, with the dampening of the hospitality industry – the catering and wholesale markets especially – meaning fewer outlets for grapes not meeting export standards. Van Zyl continues that dire economic indicators and the unpredictability of markets remain key challenges. Navigating this uncertainty is one of the biggest difficulties our farmers face. "However, people are incredibly resilient, and we've seen many farmers and entrepreneurs adopt virtual platforms for trading and communication. We're also seeing increasing activity in the online auction space and expect this to play a big role in the future. Finally, agri-tech is a sustained focus as markets become more virtual. Farmers who embrace technology will have a competitive edge.

"Technology is also playing a massive role in agri insurance. Our latest research conducted by Agri Enterprises shows there's a significant digital divide between small-scale farmers and their access to commercial solutions. For example, when looking at a sample of 105 small-scale wool farmers, we found that less than 10% have any form of insurance.

"The opportunity to bridge this is substantial, but it'll take considered research and development. We are continuously seeking solutions, including how to optimise the Internet of Things, machine learning and data management to modulate a new generation of products for small-scale and commercial farmers. Our broker partners also have a huge part to play."

Investment in agri tech is critical to risk mitigation and management. "We expect to see more blockchain interventions, virtual price formulation and farmer-specific risk management. We're also likely to see commodity-specific interventions in the value chain being industry game-changers. **Technological interventions for off-takers, agribusinesses and even retailers will be the future of insurance."**

2021: Major D&O risks

Javesh Ramcharan, AIG Senior D&O Underwriter

Drawing on the Board Directors' Guide to D&O Liability Insurance, Javesh Ramcharan, AIG Senior D&O Underwriter outlines five key areas that shed light on the major risks faced by company directors globally in a rapidly evolving and highly unpredictable business environment.

With tumultuous times persisting into 2021, it's worth taking a closer look at the Directors & Officers insurance claims landscape through the lens of the Board Directors' Guide to D&O Liability Insurance. Produced by Board Agenda in partnership with AIG, the Report outlines five key risks in the claim's environment – and by implication, these are the five major risks faced by company directors today and in the near future. While some are expected, others are not – and included in the latter category is the continued impact of the #MeToo scandal which demands attention and sensitivity from every company director.

INSOLVENCY CLAIMS

It is a traditional source of D&O claims, but the uniquely uncertain near-term economic and political outlook means this source of liabilities is set to increase. Prior to the pandemic, insolvency rates were already on the up in Western Europe and North America due to slowing global trade, political threats such as Brexit and trade wars between the US and China. Now multiple sectors – including automotive and retail – are under pressure from technology disruption, changing consumer behaviour, climate change concerns and competition.When companies fail, questions are asked about the actions and decisions of directors. Recent high-profile insolvencies have resulted in escalating regulatory scrutiny, and aggressive targeting of directors by administrators and creditors seeking to recoup losses.

CYBER INCIDENTS

Cybercrime is here to stay, presenting relatively easy money for criminals. Such incidents have resulted in multiple D&O claims in the US with investors pursuing directors for perceived shortcomings which have resulted in losses. With data and IT infrastructure being vital to all trade, and the tightening of cyber and privacy liability laws, investigations and lawsuits are likely to increase. In the wake of a cyberbreach, consequences for directors can include shareholder class actions where they are perceived to have failed in their duty to manage the risk, such as ensuring proper security controls or backups were in place and up to date. There have been cases where companies and directors have been sued for their failure to disclose cyber risks, such as GDPR exposures. So-called "fake president and CEO impersonation fraud" is another related threat that has led to D&O claims, whereby employees and executives have been tricked into transferring funds to criminals' accounts.

CLIMATE CHANGE AND ENVIRONMENTAL CLAIMS

Interest in climate change risk is rising, from investors, regulators and various interested parties, and directors are increasingly expected to consider and mitigate climate and other environment-related risks. Several cases have emerged in the US where claimants sought damages from energy companies accused of contributing to global warming and some environmental disasters, including mining dam failures in Brazil and wildfires in California, have resulted in large D&O claims. Investors may also seek compensation for a company's failure to adapt to climate change or to adequately disclose environmental risks. Activist groups in the UK and Australia have filed complaints against financial services firms alleging they had failed to comply with climate change reporting requirements. In 2019, the UK's Prudential Regulation Authority applied new rules that require certain financial services firms to nominate a senior manager responsible for identifying and managing financial risks from climate change.

#METOO AND SOCIETAL RISKS

With increased personal accountability, changing attitudes and the rise of social media, directors today face claims related to employment related risks, ethics, and culture. Directors may face prosecution or civil litigation where they fail in their duty of care to employees or where they preside over a toxic corporate culture that permits abuses. Allegations of sexual misconduct, bullying and discrimination delivered a spike in employment practices liability claims in the US; derivative class actions have been filed against boards of corporations alleging dereliction of duty over misconduct or inappropriate workplace relationships.

The potential for employment liability-related D&O claims is not limited to the US. In France, for example, a group of former senior executives at a major telecommunications company went on trial in 2019 accused of “moral harassment”, after a wave of suicides following company restructuring and job cuts in 2006. In the UK, the introduction of gender pay gap reporting could create a potential liability for directors that fail to take action to address any disparities.

MERGER OBJECTION LITIGATION

Merger objection litigation has increased in recent years, to the point that most M&A transactions involve a lawsuit, often filed within days of deal announcements. According to Cornerstone, eight in ten mergers resulted in shareholder litigation in 2017 and 2018. Some 39% of all US federal court securities suit filings in 2019 were merger objection lawsuits, while 7% involved initial public offerings. Plaintiff lawyers and investors are aggressive in pursuing claims against directors, often alleging misleading prospectuses or because they are chasing governance changes. While many M&A claims are ‘nuisance lawsuits’ and are dismissed with or without settlements, defending them is relatively expensive and D&O insurers are often the ones footing the bill.

Given the risks faced by directors today – and given that some are well-recognised, while others are evolving with changing business and societal attitudes, board engagement with D&O risk and insurance has never been more important.

By keeping abreast of the risks that lead to claims, directors are better equipped for productive engagements with risk managers and brokers, providing an optimal opportunity to source appropriate D&O cover in mitigation of their overall threat landscape.

Lombard Commercial becomes Lombard Broker Partners.

For greater possibiility.

LOMBARD
Commercial

LOMBARD
Broker Partners

Cyber insurance now a must

Travys Wilkins, Executive Director of Surestart

South Africa has quickly migrated to remote working and digital business on account of Covid-19 and consequently instances of cybercrime are exploding.

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CONSUMERS ARE ALSO AT RISK

Cyber risk is not only of concern to businesses, consumers are also at risk. The two biggest individual cyber risks for consumers are identity theft and theft of funds when there are breaches in online banking financial services.

According to the South African Fraud Prevention Service, identity theft in South Africa is up by a staggering 337% in 2021. In addition, South African consumers are reportedly painfully complacent when it comes to guarding themselves against the ills of the online world.

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Consumer use of online banking is increasing, but this comes with financial losses should your bank account, payment card or mobile wallet be hacked. Customers who use banking apps lost 88% more last year than in 2019 and online banking losses shot up to an average loss of R32 298 per transaction.

A cyber policy would cover the investigation costs, the lost funds and legal fees. If you lost R32 298 for instance, a cyber policy would pay out the full amount or a portion depending on the cover you chose.

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DIFFERENT TYPES OF CYBER RISKS

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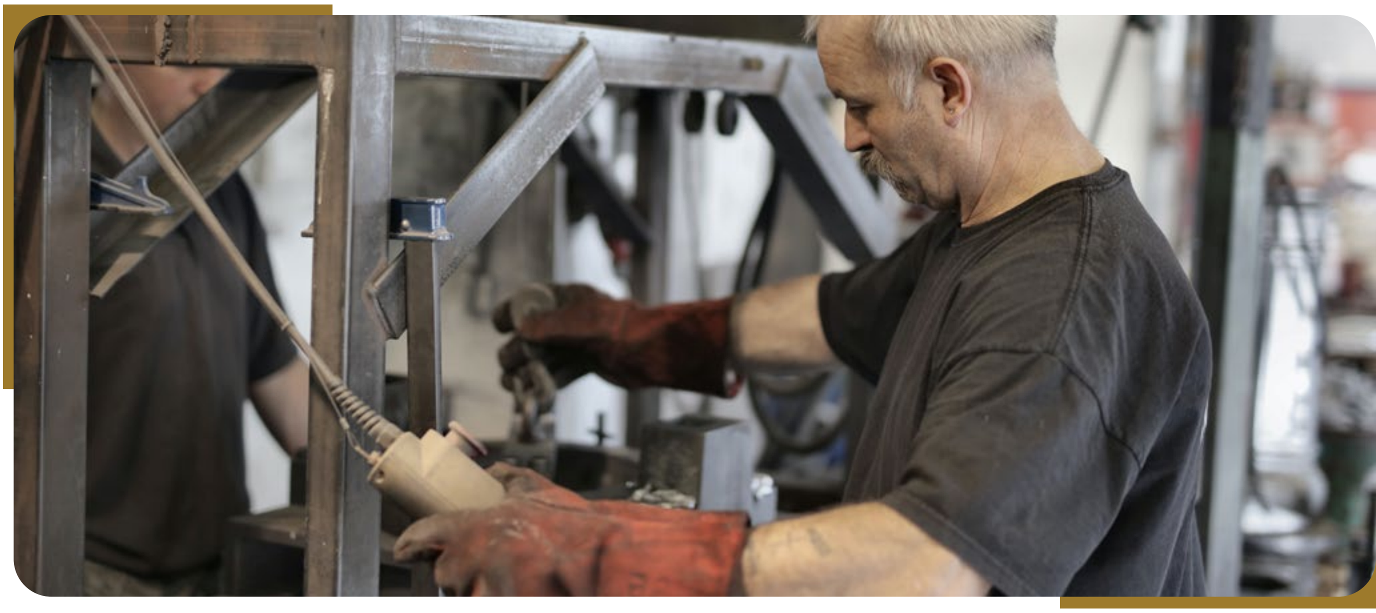
Machinery Breakdown: Is your business covered?

Garth Rowe, Principal Claims Officer at Aon South Africa.



If your business relies on high value or specialist machinery in its daily operations and service/ product delivery, the breakdown of such machinery can incur significant losses - not only from a repair or replacement perspective, but also in terms of business interruption losses and reputational damage incurred during down time.

Machinery breakdown insurance cover is designed to provide indemnity for sudden and unforeseen physical loss or damage to insured machinery.

Whilst a standard assets policy provides cover for damage to property arising from perils such as fire, storm, flood, theft or malicious damage, machinery breakdown insurance is intended to cover the risk of damage to machinery arising from its own mechanical breakdown. It is critical, therefore, for any business that relies on specialist machinery to have adequate machinery breakdown insurance in place.

An assets policy may be structured as a composite policy with separate sections that provides for specific machinery breakdown and electronic equipment breakdown sections in addition to the standard property damage section. The business interruption section of such a policy would usually be triggered in the event of damage to property whether arising in terms of the general property damage section, the machinery breakdown section or the electronic equipment breakdown section of the policy.

The adequacy of the sums insured in respect of each section of the policy is important, as the severity of business interruption losses following a machinery breakdown event can be just as devastating as the losses following an event such as a fire.

WHAT IS MEANT BY SUDDEN AND UNFORESEEN PHYSICAL LOSS OR DAMAGE?

The "sudden and unforeseen" requirement in a typical machinery breakdown policy often poses challenges in circumstances where a post-loss investigation reveals that even though the breakdown event itself may have occurred suddenly and was unforeseen from the insured's point of view, the breakdown was due to a gradually developing process or deterioration that the insured may not even have been aware of until the actual breakdown occurred.

CASE STUDY

The question of what constitutes a "sudden" event was the subject of much debate until the Supreme Court of Appeal judgment in the case of African Products (Pty) Limited v AIG South Africa Limited 2009 (3) SA 473 (SCA) finally established the precedent that informs this aspect of insurance and legal practice.

In this case a machinery breakdown and business interruption claim arose when production at a maize milling facility had to be stopped because of an electrical failure. The electrical failure occurred when the PVC insulation covering the copper conductors in certain electrical cables had, over time, softened and worn away. Consequently, some of the copper conductors came into contact with each other and this caused the cable failure and the consequent electrical failure. The cables had been laid underground beneath a concrete slab and were not visible from above. The cables had also been laid very close to each other with the result that the heat generated by the electric current which passed through the cables was not able to dissipate sufficiently. This caused the PVC insulation to deteriorate.

The Court did not agree with the argument advanced by the insured's counsel that the physical damage to the cables only occurred when the copper conductors came into contact with each other. In the Court's view, the damage to the cables occurred when the PVC wore away, resulting in the copper conductors becoming exposed, with the inevitability of them coming into contact with each other at some later stage.

The Court held that the physical damage to the cables had not been sudden. It was the manifestation of the damage that was sudden and not the actual damage, which had occurred over a lengthy period. The insured was, therefore, unsuccessful in obtaining indemnity for its loss in terms of the machinery breakdown policy. There are many other examples of machinery breakdown failures where the manifestation of the damage may have been sudden but when the cause was investigated it turned out that the damage was caused by a gradually developing condition that inevitably led to a mechanical failure. Metal fatigue failure, for example, is sometimes associated with the formation and propagation of cracks due to a repetitive or cyclic load placed on a structure over time.

MANAGING THE RISKS ASSOCIATED WITH MACHINERY BREAKDOWN

The implementation of a sound engineering risk management program that can anticipate and mitigate the risk of machinery breakdowns, compliments your machinery breakdown insurance and will address the challenges identified above.

Depending on the circumstances, the various risk management strategies and techniques could range from simple visual inspection programs to more sophisticated pre-emptive analysis, for example, using thermographic testing or ultrasonic/X-ray inspections. Such programs could assist in predicting machinery breakdown failures and allow businesses to take the necessary steps to avoid or reduce the risks associated with gradually developing mechanical failures.

The value that an expert broker brings in the field of business insurance comes to the fore when addressing the risks faced by your business from every possible angle. The long-term sustainability and protection of a business enterprise is critical, making it important to understand exactly what your insurance and risk management program covers.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In a year as challenging as 2020, we are pleased to say that our unwavering commitment to our members and our operating model has resulted in a considerably positive financial year. This feat has enabled us to allocate R2.2bn in Profit-Share to those who matter most to us — our members. Here's to 80 more years of life-long relationships and shared success.
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Expanding focus and presence

Lombard Broker Partners

COVER Magazine spoke to Daryl De Vos, Head of Lombard Broker Partners, about their recent rebrand and expansion of their footprint across the country.

Tony: They say change is the only constant and we are exploring change at Lombard today. Lombard Commercial is rebranding to Lombard partners. Please tell us a bit as to what prompted this change?

Daryl: Yes, Lombard commercial as we know it was started about six years ago, with a focus being on writing business from the independent brokers, only within the commercial space. In the last 18 months we've decided that, in order to scale up the business, we needed to look wider than just the independent broker commercial space. So what we've done is, we've since started doing business with the global brokers. And we have also gone into two other areas, being hospitality and personal lines. A big part of the change was driven out of the fact that we did not want to be pigeonholed as a commercial underwriter only, but more as a general underwriter.

So we created divisions within what will be known as Lombard Broker Partners. We will have commercial, personal lines, hospitality and any other new lines of business that will come on later. Then we've also got some UMA business from UMA's that do commercial business on our behalf, as a further division. In this way we start creating focus where the commercial guys only focus on commercial, personalised on personal and hospitality on hospitality. The big driver of the change was to get out of the pigeonhole of only being recognised as a commercial broker, a commercial underwriter. At the end of the day, we now consider ourselves a general underwriter.

Tony: And the strategy, is it still around brokers and brokers as your partners?

Daryl: Absolutely. We are only going to be dealing within the intermediate space, we have got no great desire at all to go the direct route. It's all within the intermediate market.

Tony: In terms of the brokers, how has that worked for you in the past with regards to partnership and the various underwriters?

Daryl: Again, in the past, we've had a reasonable success, in that, in each of the markets that we operated in, we chose what brokers we wanted to work with, and we got support from those brokers. We felt that we needed to expand that by having people on the ground. In the past a lot of the business was run out of Johannesburg and everything happened from there. All the marketing and underwriting. We felt that we needed to adopt a decentralised approach, whereby we created regional offices. So we've got regional offices in Gauteng, KZN and we will soon have a regional office in the Western Cape, although we do have representation in the Western Cape at the moment. However, with the advent of COVID and people working remotely, we decided we'll just wait a little while and see how that develops over the next few months or the best part of this year before just running in and opening up a physical office. What we have found is having people on the ground, so to speak, and empowering those people to be able to make underwriting decisions, resulted in traction in the support we are getting outside of Gauteng.

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So most of the business currently sits within Gauteng and under normal circumstances, because Gauteng is such a big market, you would expect that. We however certainly don't believe that we've got anywhere near to sufficient traction out of the Western Cape and KZN since we've put people on the ground In those two markets. We are certainly seeing a lot more activity around quote requests, and we have seen a lot more income being generated having people on the ground. At the end of the day, Durbanites want to work with Durbanites and Capetonians want to work with Capetonians. So we don't want to just be the seagull that flies in and takes their business and leaves. We want to add value to the local economies as well, by employing people and creating a presence within the local economies.

Tony: It sounds like it's more than just relationship. It's also from a claims and underwriting perspective.

Daryl: Yes, what we have done, and again it's a process, is to start decentralising the day to day claims and underwriting processes into the region. Again, it's a matter of creating a relationship with your counterpart on the ground as opposed to trying to do it from Johannesburg. So if someone's got a problem on a claim, they are able to meet face to face, obviously COVID allowing that, to be able to sort out the problem as opposed to trying to do it far from Johannesburg. What we really want to do, is drive operational efficiencies within the regions, and have a fairly lean head office structure that is there to support the regions. Their main operation happens in the regions and the regions being empowered to make underwriting decisions and decisions around claims.

We still believe that there is place in the market for people empowered to make decisions, because it also enhances the service you're able to give our brokers.

A prudent time for a corporate political risk assessment

Institute of Risk Management

Increasing internal conflict within the ruling African National Congress in an important election year as well as broader societal unease has raised a vital debate on how companies should identify and respond to political risk.

While the issue has always been on the country's strategic risk radar, seemingly more pronounced party factional battles, now spilling into the public discourse are a cause for concern. Companies, says the Institute of Risk Management (IRMSA) should be aware of this new environment and develop an understanding not only of broader implications but also the potential threats and opportunities it poses for leadership, staff and customers.

Says IRMSA Chief Risk Advisor Christopher Palm, "We live in robust democratic country where political interrogation and contestation are part and parcel of our daily lives. But as the country still fights the scourge of the COVID-19 pandemic and plans for a possible dangerous third wave, citizens are now looking for certainty and stability from political leaders. If the current trajectory of rhetoric continues, we have concerns that this environment which is critical to growth, development and service delivery could become compromised."

"A better understanding of political risk can also be beneficial to a company in terms of recalibrating its existing strategies and business plan."

To that end, IRMSA recommends that risk officers should be developing a keener understanding of the current political climate, engaging with experts in the field and presenting regular and well-informed updates to the C-suite. IRMSA says there should also be greater engagement with staff over their concerns." Says Palm, "The best understanding of any political environment often comes from the lived-reality of people who work in organisations.

Managers should make time to listen to their concerns and develop strategies to assist employees who for instance might find themselves unable to get to work or who have perhaps been threatened with intimidation. Their real-time feedback is also useful in compiling a continuing composite picture of the micro-environment in which a company operates."

A better understanding of political risk says IRMSA can also be beneficial to a company in terms of recalibrating its existing strategies and business plan. "While companies do not like uncertainty, choppy waters can also refocus their thinking in terms of its service offering, if changes can be made, or whether new revenue streams can be developed.

South African organisations are recognised the world over for being adept and nimble when it comes to making these changes," notes Palm . IRMSA says dealing positively and responsibly with political risk should not scare a company but should rather be seen as responsible and prudent leadership practice. IRMSA suggests that companies develop a political risk management dashboard that looks in political terms at the organisation's current strategic and operating environments; primary and secondary sectoral threats; and then potential impact on the organisation.

Once that is accomplished, says IRMSA it becomes much easier to develop both risk response and communication strategies should the need arise. IRMSA also suggests that organisations re-look at their existing political risk insurance cover.

As part of its ongoing advisory service, IRMSA has a range of qualified experts who can help companies conduct and implement a political risk assessment.

Businesses and consumers increasingly under threat of costly cybercrime

ITOO Insurance Underwriters

Now possible to insure against it - South Africa has quickly migrated to remote working and digital business on account of Covid-19 and consequently instances of cybercrime are exploding.

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"When cybercriminals successfully strike an organisation, the results can be disastrous. If you're an ethical and concerned business operating online, cyber insurance is crucial to protect your business and reassure customers that you're protecting them," says Travys Wilkins, executive director of Surestart, an insurtech that enables the creation and distribution of insurance products.

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INSURANCE INNOVATION JOURNEY

P60-74

Innovation elevates the entire insurance value chain

René Schoenauer - Director, Product Marketing, EMEA at Guidewire Software

It is no secret anymore that the insurance industry globally is facing accelerated transition and change caused by raised customer expectations, fast evolving digital technology and advanced data and analytical capabilities.

Customers are expecting the same speed, convenience and transparency as they are used from global platform and ecosystem players like Amazon, Netflix or Spotify. And it is not only the policyholder who has that expectation, but also any stakeholder within the entire insurance value chain searching for the same state-of-the-art experiences. All of this is accelerated by the "New Normal" the world finds itself since the beginning of 2020 with the pandemic fuelling the need and desire for excellent digital journeys and experiences. With every stakeholder throughout the insurance value chain expecting speed, convenience and transparency, innovation is necessary within every phase of that chain.

In Product and Pricing technology and new tooling provides insurers with the ability to create new products that are more flexible and tailored to the needs of the policyholder. Innovative tools for product development and design increase the ability of business departments to create new or adjust existing products with fewer iterations and shortened deployment cycles and thus decrease the overall time-to-market and gain the ability to increase customer satisfaction and customer retention rates through personalized products that are more transparent and better to understand for their customers.

There are various use cases around usage-based insurance like telematics driven Pay-As-You-Go insurance solutions for motor lines or parametric insurance solutions through IoT technology and automatic real-time adjustments of insurance rates or coverages based on internal or external circumstances changing detected by sensors. This applies to both personal and commercial lines insurance. The benefits of such solutions start with premium growth through new products, increased customer satisfaction and retention, but also span over to improved time-to-market and lower operational cost in product design, development and deployment. In Marketing & Sales technology offers a variety of opportunities to grow an insurers business and market share by reaching new customers and improve satisfaction of existing customers.

This can be achieved through deployment of new channels and more importantly by providing policyholders a true omnichannel experience through seamless integration of all communication touchpoints an insurer offers to them. Customers want to be met at their terms and convenience is one of the most important criteria in this context. In addition, digital technology and advanced data and analytics help insurers to gain deeper insight about their policyholders and their needs. It will help developing more personalized offerings, recommendation on new coverages or adjustment of existing coverages based on changing risk profiles which will lead to a more targeted engagement with policyholders and thus improve customer retention.

In Underwriting insurers can achieve higher operational efficiency and sustainable business growth through innovative technology.

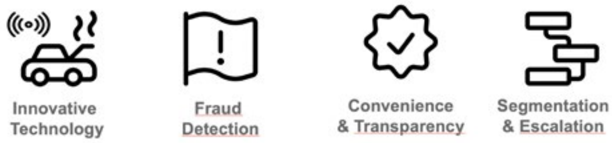
and analytics and technology like drones or IoT devices and sensors. With new insights from data insurers will be able to better assess, evaluate and price new categories of risk like cyber or reputational risk, risk categories that have been a challenge for underwriting in the past. Data will allow an underwriter to make better informed and more accurate decision.

At the same time, the new data and insights can be used for automation purposes. Drones and IoT devices provide capabilities for innovative risk assessment. Both will have an impact on operational efficiency either directly or indirectly through higher automation rates or reduced cycle times. Another benefit will come through increased customer satisfaction as underwriting decisions will be shortened and more transparent to policyholders.

In the area of Policy Admin and Service the innovation opportunity lies in personalization of the whole customer relationship and the ability for insurers to provide new enriched services to their customers and agents.

Insurers will be able to act more proactively with risk advice and risk prevention services and tackle a challenge where a lot of platform and ecosystem players have raised the bar: closing the engagement gap with the customer. Customer satisfaction and retention will be positively improved, the insurer has the ability to proactively reduce occurred losses with innovative risk advice and prevention services

Last but not least looking at innovation in claims. Telematics solutions can automatically create a first notice of loss in case of a car accident, the same technology can at the same time call emergency and vendor services like towing and help the policyholder in a stressful and emotional moment.



The claim itself can be enriched with detailed data about the damage of a car and additional parameters like acceleration and thus help assess the assessment of the accident situation.

Advanced data and analytics help insurers in loss reduction through detection of fraudulent cases, identify the risk of litigation, help in segmentation based on predicted claims severity and help in either automating claims or escalating them to specialized teams.

"With new insights from data, insurers will be able to better assess, evaluate and price new categories of risk like cyber or reputational risk, risk categories that have been a challenge for underwriting in the past. Data will allow an underwriter to make better informed and more accurate decision."

The two biggest drivers in this area are advanced data and finally, insurers can offer their policyholders convenience and transparency through innovative technology where it matters the most, in the moment of truth.

This is just a quick overview on opportunities and in summary, innovation is possible in any phase of the insurance value chain with huge benefits for any stakeholder, be it the insurer, the policyholder, the underwriter the agent or any other stakeholder.

One key element to those benefits is technology that enables the IT department to act more agile and as an innovation enabler and thus increase the agility of the

The case for design thinking in the insurance industry

Wimpie van der Merwe - CEO, Global Choices

Even in today's period of rapid change, it appears that a lot of insurance companies are trying to create new solutions by counting on outdated paradigms. To overcome modern challenges, new paradigms are needed.

Fresh thinking from outside the insurance industry will drive the next wave of growth within the insurance sector. Design thinking may be a desired approach that shapes customer-centric innovation, but few companies do this well.

WHAT IS DESIGN THINKING?

Design thinking may be a methodology used to solve multifaceted problems and satisfy complex needs. It is a philosophy, a toolkit, and a process. What differentiates this method of thinking against the backdrop of other problem-solving techniques is a suite of core beliefs that are optimistic, human-centred, collaborative, and boldly experimental. It requires "designers" to get their hands dirty, embrace ambiguity and learn that the best ideas often come from collaborating with a diverse source of strengths, and remembering the vital insight of human truths.

DESIGN THINKING ANTICIPATES THE HUMAN EXPERIENCE FIRST

Empathy is the foundation of this human-centred design process, involving the work you do to understand people within the context of a design challenge. Technology cannot replace the power of empathy. Technology should act as a tool for people, and not the other way around. Yet many insurance companies put technology first. This is evident in the hype surrounding insurtech. Many of those solutions are designed round the instrument and not the human. Defining the customer and identifying the matter that you are trying to unravel will vary drastically among players across the value chain.

DESIGN THINKING DELIVERS INNOVATIVE IMPROVEMENT

One of the first steps involved in the design thinking process is to define the problem. Creating breakthrough value propositions isn't about being incrementally better. It is about really making a difference. Looking beyond insurance, it is both remarkable and refreshing to witness the willingness of other organisations to bet big, fail fast, learn key lessons, and come back hard with improved offerings. The insurance sector can learn from these players. It is not just about providing good insurance products and customer experiences but about having customised policies on demand.

Insurance companies will also need to step in to help their clients with risk prevention and mitigation. To remain relevant, insurance companies are fighting a battle for client attention and retention on an unprecedented level, discovering that previously successful problem-solving methods are rendered ineffective by rapid changes in society. Human-centred insurtech can help with this.

DESIGN THINKING PROVIDES FOCUSED OBJECTIVES

To create innovative change, insurance companies cannot keep adding elements simply because their competitors do. This tactic will lead to solutions that are undifferentiated and too complex or vague. Many players within the industry still think they can be everything for everybody, but to be relevant and appealing they›re going to need a razor-sharp focus for specific target groups and an understanding of what they truly do well.

DESIGN THINKING DEFIES CONFORMITY

Insurance companies have become enslaved by the rules they created around the customer experience, distribution, and services. Holding on to these rules can only stunt improvement. Conformist wisdom gives a false sense of security — if everyone believes it, how can it not be true? Conventional wisdom revolves around the rules of the game, on leaders lacking curiosity, creativity and imagination — rules about what products should look like, pricing, communication, the customer, and the entire value chain by which these elements of a worth proposition are delivered... the industry's sacred procedures.

DESIGN THINKING CAN BRING INSURANCE OFFERINGS TO LIFE

Insurance is essentially a construct manifested in many pages of legal jargon that not many people truly understand. This service, with little customer involvement, creates a true problem when selling the merchandise. In an era of data overkill, sensory experiences are vital within the business buying decision. However, within the grander realm of monetary services, design is usually the forgotten discipline. Design thinking is centred on the customer and interface and may assist in bridging the gap between abstract offerings and, therefore, the real lives of consumers.

Looking beyond thew normal barriers of the insurance sector is critical for producing differentiated products and services. Direct alliance with digital platforms, distribution channels, and policyholders can unlock a number of client insights. **With enough creativity, many things can be made tangible, and solutions will begin to present themselves.**

Data: The key to digitalisation

The Data Company

Tony interviewed Kali Bagary, CEO, The Data Company, after his presentation at COVER's Innovation Journey webinar

Tony: The Data Company is doing a lot of work with data in the intermediary space, which has become an essential component of how brokers do their business, although it's not really been exploited by brokers. Can we get your opinion on whether or not brokers or intermediaries are getting value from their data at the moment?

Kali: I see intermediaries almost in two categories. One I would say, are the larger intermediaries, and I think they probably are getting value from the data. They have the organization, the funding, the individuals and the skills within the organization to set up data models and leverage from the data. I think. where intermediaries are not getting value, are the SMEs where you know, the size of those organizations are limited. Some of them have grown through smaller mergers and acquisitions and I don't believe they're getting value from data, certainly based on some of the discussions we're having.

Tony: So what are the main issues why they are not getting the needed value from that data?

Kali: As I mentioned ,with some of the smaller and the medium enterprises, they've grown through mergers and acquisitions, so their organizations are sitting on different systems. The quality of the data varies from line of business through to the organizations that they've aquired. Some of their data is structured, some of it is unstructured. So just getting access to that data in the first place is not easy for those organizations. With the added complexity now around COVID-19, I think a lot of those brokers are now working from home. The number of face to face interactions are reducing so, getting access to that data from disparate systems in different locations, is a big challenge.

Secondly, I think within that space, sometimes the completeness and the accuracy of that data is lacking. And, when we're out there in a sales mode, you're eager to promote and sell a product so the administration tends to be a job that you take on when you go back to the office, etc. So some of those records, maybe is not as accurate as it can be or maybe haven't been updated so frequently. So I think those are some of the challenges that they have. In the intermediary space, getting the 360 view of a client is also still a challenge, because short term insurance, compared to long term investments for example, maybe do not have all the data pulled together. Furthermore, you might not be able to reconcile an individual due to the data being from different systems.

Tony: In the webinar we did on the 18th of February, you unpacked how intermediaries can get that value. Please give us your thoughts on how could they can potentially use their data to innovate.

Kali: Because there's a great opportunity to innovate. We see some of the new Insurtechs coming in with technology, using a data driven approach to focus very much on the products that they're offering, the time and place when they're promoting those products, the channels they're using to promote those, such as social media. The secret is in looking at all of those technology advantages and the data you can optimize. The next thing is around user experience, making sure that you've got the right platforms for the right products. Most people would be comfortable buying a travel policy on a mobile app, but I don't think the same when buying an investment policy, it's a whole different experience, different data and then making sure you're using the right technologies to support the products that you're trying to promote.

The other issue is looking at really innovating around pricing and underwriting. There's a lot more now pay as you go type insurance as opposed to taking out an annual insurance policy. So it's being able to innovate and for example offer usage based insurance and other similar opportunities.

Tony: Lastly, for intermediaries, as a starting point, what is the base they need as an essential to build from.

Kali: I think the intermediaries need to be supported by organizations like the Transunion, the Insurance Crime Bureau and the FIA, where, you know, they've all got access to industry wide data that they could provide. Somehow, they all need to make that data available at an affordable price.

Because some of the smaller intermediates would like to use that data. I would like to use enrichment services, but the intermediary must get access to that data and then processing the data at a cost per transaction. So, if somehow, those bodies could come together to create an offering for the industry where that data can be anonymized and used as a benchmark, I think that would be very, very valuable. I also think organizations need to do a gap analysis, initially, to look at what data they've got, what products are selling, what target segment they're going for, and then engage with companies like the Data Company who can help them build their strategy based on where they are today and where they want to go to.

That needs to be done on an incremental basis, not necessarily a big bang. So start picking small manageable chunks, delivering value to the business and then moving on to the next one.

The Insurance Innovation Journey: key takeaways from Lireas' presentation

Valerie Hayter & Isaac Chindotana, Lireas Holdings

THE INNOVATION DECISION

Innovation is not just about the introduction of technology but includes the creation, development and implementation of new products, processes, services or business models with the aim of improving efficiency, effectiveness, competitive advantage or producing new profits or growth for the organisation. This was achieved in Lireas's case when they introduced the UMA and insurtech business models to the Hannover Re group in 1988 and 2016 respectively. The importance of group wide open innovation such as Hannover Re's Journey re completion in 2016 was highlighted as being a strong promoter and facilitator of innovation. Organisational culture and the "people factor" also contribute immensely to the success of innovation within organisations.

DRIVERS OF INNOVATION

Traditional Insurers have been very slow to innovate compared to the upcoming insurtech start-ups which move at a fast pace and bring about many changes that are creating efficiencies, solving problems, creating better customer journeys, connecting people, introducing new platforms and distribution channels. Various real life examples of such insurtech companies namely InvestSure, Inqaku and LifeQ were utilised to explain various innovations. Collaborative strategies were not utilised much as a means to innovate by traditional insurers in the past but this is now on the rise. Examples of collaboration between OMI & Pineapple, Hollard & Lumkani as well as Compass Insure and InvestSure were utilised to illustrate such collaborations in the market.

CLOSED VS OPEN INNOVATION

Open Innovation was promoted as more effective than closed innovation with respect to the quantity and quality of outputs as it facilitated the generation of more and better ideas from within and outside the organisation and is the more effective innovation strategy.

ENTREPRENEURSHIP AS A MEANS TO SUPPORT INNOVATION

The complementary nature of contributions by incumbents and start-ups in collaborative entrepreneurship was highlighted. It was noted that incumbents (insurance companies) benefit from the creativity, structural flexibility, agility & speed, customer orientation and entrepreneurial mind set of start-ups (insurtechs) whereas insurtechs benefit from the established brand, legitimacy, resources, networks as well as distribution/customer base that the incumbents bring to the table. Cultural differences between traditional insurance companies and insurtechs were highlighted as well. In addition, asymmetries between Incumbents and Start-ups were discussed in areas such as corporate governance, regulatory knowhow, flexibility, appetite to experiment and silo mentalities of traditional organisations. Executive support and corporate venture capital (CVC) firms like Lireas in bridging the asymmetry and cultural gaps as well as mentorship are critical for the success of the partnership between incumbents and start-ups. It is critical that innovation gets support from the highest levels within an organisation to develop a culture of innovation in the company.

EVALUATING OPPORTUNITIES

Important considerations in evaluating innovation, entrepreneurship and collaboration opportunities were grouped into 3 key elements being People, The Idea and Commercialisation. Under People it was highlighted that track record and cultural fit of the entrepreneurs were key considerations. For the idea, consideration is given to important questions such as what problem will the idea solve and what change will it bring. Lastly, the commercialisation considerations should consider size of the market (as well as total addressable) for the envisaged product as well as the effectiveness and efficiency of the distribution channels that will be used to sell the product.

FUNDING INNOVATIONS

This was the last section of the presentation and highlighted how innovations are funded. Internal funding tends to be limited and competes with other imperatives of the organisation. External funding at the very start of an idea generally comes from the entrepreneurs own savings as well as Friends, Family & Fools (3Fs!) who take a leap of faith in the entrepreneur and the idea until it gains traction and becomes investment 'ready' to allow the entrepreneur to approach VCs and CVCs.

VCs tend to invest for short periods of time with desired exit multiples as well as pre -defined exit horizons. CVCs like Lireas invest long term as they invest to support certain strategic outcomes and objectives of their corporate parent (Hannover Re Africa group in Lireas' case). In closing it was highlighted that innovation is key to continued existence and sustainability of the insurance industry amidst rapid change, needed to solve problems and bring about efficiencies as well as addressing the demands and expectations from consumers.

The business benefits of getting big data right

Sharon Wood, Linktank Connect

Big data has become the buzzword of the day. However, it is how you serve your customers based on the actionable insights that you derive from the data that matters – and the benefits of getting the data right are potentially enormous.

The Business Application Research Center (BARC) has found that practices that have invested in data and analytical capabilities have increased revenues by an average 8% and reduced costs by 10%. There is no doubt that arriving to the point where you are getting the most out of your customer, product provider and other external data from third parties is no simple process - and, as such, it is likely to be the biggest challenge facing financial advisors in the future. The reduction in costs when you have to invest in technology to get there may seem counterintuitive. But it highlights the benefits of putting in place technology-enabled systems that ensure your data is integrated and operationally streamlined and effective

In a recent webinar hosted by Cover Magazine, Linktank founder and director Jen McKay and The Data Company CEO Kali Bagary discussed how to tackle this challenge and why it worth the time and effort. Bagary warns that financial advisors that don't get this right will fall behind. Those that do, he adds, will achieve a single source of truth for their customers that will enable them to receive actionable insights. "It's not about what data exists but how to take action based on the insights achieved from the data." The BARC research found that "good data" enabled 69% of organisations to make better strategic decisions, 54% to improve operational processes, 52% to gain enhanced customer insights and 47% cost reductions across the operations.

McKay discussed how far most financial advisors are from this desired state of data. Linktank advisor research has shown that 74% of the respondents use multiple software applications and 90% have no integration at all, with standalone systems and data manually captured in different systems. Operating effectively always comes down to managing the complexity of the flow of data through the business, she explains, and most practices are using one or two software systems in addition to Microsoft programmes, like Excel and Outlook. "Financial advisors maintain information in multiple places with no way of connecting them. Integration opportunities are available, but they are few and far between and it is costly to patch them."

Bagary explains that using and taking advantage of the technology out there to help you give the right advice doesn't need to be a scary prospect. "It's a journey and doesn't need to happen overnight. You can map out where you want to get to and break it down into chunks. That way you can make sure the process is cost-effective and repeatable."

McKay paints a picture of what the ultimate result could be: a central administration hub that plugs in internal and external data sources that you can build once and use many times. It will give you a 360-degree view of the customer, with their information consolidated and clean. You can then create dashboards and visualisations of the data that are meaningful to you and your client."

Bagary and McKay highlight that achieving the holy grail of a single source of truth of your clients is not as difficult or costly as you think. All it takes is recognizing the value in getting your data right and finding the right technology partner to get there.

Strategic Digitisation: Commit to the Journey

Bruce Sahd, Founder Case Johnson

INSURERS STRUGGLE TO DIGITISE

New and different is risky. No surprise then that insurers worldwide remain the digital laggards. Where do we start? Who will guide us? What if it goes wrong? The pure digital startups fare a lot better when it comes to insurance innovation. These new entrants threaten to leave the incumbents behind. Insurers seem stuck.

This 'stuck situation' is not because CEO's are not aware of the possible strategies available to them. It is because there is no clear roadmap to get from where they are now - to where they want to be. Do we have the capabilities in-house? Do we need help? Complex questions. Not even the starting point is clear, let alone the destination. The solution lies in adopting the right execution strategy - but execution is notoriously difficult.

EXECUTION IS DIFFICULT

If it wasn't difficult then every insurer would be digitised already! Strategic digitisation is a journey, a process. A process of developing and executing the strategy. A journey rather than a destination. Learn by doing, and adapt along the way, because the destination can change. So the challenge insurers face is not only the question of 'what strategy'.

It is again and again the question of 'how to execute'. A good execution philosophy starts by accepting that the destination can change. A change in one area can require a change in another area, it has to be seen as a dynamic whole. Digitisation affects every area - it has to be executed 'holistically'.

DIGITISATION IS HOLISTIC EXECUTION

Digitisation is executed best with a holistic approach. This is because digitisation opportunities bring together the functional silos into a new whole. Technological disruption impacts all the business functions, not just IT or sales or customer service. Holistic means managing technology, pricing, risk, distribution, branding – all simultaneously. Holistic execution means combining the thinking piece - and the doing piece - all at the same time. Digital is a dynamic new technological disruption that cuts across all areas. Executing all the pieces together requires an understanding of each piece in the overall value chain. Holistic execution therefore means finding the right multi-disciplinary skillset. Execution must be managed by the right jockey.

THE JOCKEY MUST MANAGE

The 'digitisation horse' needs to be ridden by the right jockey. A jockey with a multi-disciplinary skillset to manage holistic execution across all functional silos. Knowledge in product design, pricing, data-mining, IT, accounting, marketing, social media is critical. For example a change in distribution strategy can change data-warehousing requirements. This can in turn change product pricing, which changes financial breakeven targets. This then changes the technological specs, which changes vendor costs etc etc.And so on and so forth. Where do we find this person? In-house? Or from outside? Insurers don't always want to bring in heavy-duty expensive consultants. But they also don't want to lose another year. The CEO must appoint the right jockey early in the process. The CEO must be seen to lead the digitisation effort.

THE CEO MUST LEAD

Digitisation starts and ends with the leadership and boldness of the CEO. Most CEO's accept the need to digitise, but are usually too busy with core business priorities. Lip-service to digitisation is not the same as digitisation. Digital transformation is too strategic to be hands-off and delegate downwards. CEO must lead but not manage, the jockey must manage. The CEO must always be seen to be leading the project. Humility is the greatest strength – accept that I cannot know everything. And even if I do, I cannot do everything myself, and I don't want to lose another year! Humility helps to save time, and it's easy to measure the money value of lost time.

How do I make clear measurable progress, in a way that can be seen by all stakeholders? Digitisation requires organisational change in order to succeed. Change will not happen without strong leadership from the top. Foot-dragging, problem-finding and 'boss-pleasing' only wastes time and drains energy. The CEO must lead and commit to the journey.

COMMIT TO THE JOURNEY

CEO's must commit to the digitisation journey, even if the destination is not clear. Which area do I want to digitise? Distribution? Underwriting? Back office? Service (chatbots)? And why? Lower costs? Reach new segments? Grow customer base? Up/cross sell? Beat the competition? Build the brand? Simplify the offering? Make it easier for customers? What else is out there? is this the right strategy for my business? Do i have the complete picture? And even if I am sure about the strategy, who will implement it? And even if I have the right people, who can guide or advise or train them? So many questions. The best way to answer them is to commit to the journey. Appoint a jockey, start with a helicopter view. Scan the external environment, do an honest audit of internal capabilities. But start - start small and start soon.

START SMALL BUT START SOON

Make a humble start but do it sooner rather than later. Don't procrastinate, the timing will never be perfect.There is no need to spend a lot of money to get started. Start small, follow a roadmap, and hold the jockey accountable. Spend small initially, at each stage invest a little more as unknowns become knowns. Losing time is the most expensive thing an insurer can do. There is no finish line - but get onto the digitisation horse and start the ride.

Joining forces for the customers sake

Click2Sure - Insuretech & SAAS Insurance Software Solutions

InsurTechs like Click2Sure's is cloud-based, modular and scalable software as a service (SaaS) that enables any company to digitise an insurance value chain from the distribution and onboarding of insurance products through to administration and reporting.

It enables non-insurance companies, whom we call Affinity Partners, to easily incorporate insurance products into their offering to customers and create an additional, profitable revenue stream. Platforms like ours enable multiple insurance distribution channels - in store/ in branch and online; via QR codes, SMS, USSD codes, instore terminals, tills or the e-commerce journey - and issue policies to more customers than any traditional call centre or broker can do in the same period of time. Best for Short Term Insurance, Extended Warranties or Credit Life Insurance, when the decision- making process is not a complex one and a customer can decide to purchase insurance in a matter of seconds. We give any business the opportunity to easily launch insurance products, reach more customers with it and gain deeper customer insights. It makes a great administration tool for an enterprise and policy holder, with all policies' details on one digital dashboard. There are several benefits with this type of insurtech solution: cost saving (SaaS is cheaper than on-premise, legacy software); zero capex outlay (you just pay monthly licence fees); no maintenance issues (this becomes the responsibility of the SaaS provider); effortless implementation (our platform can go live in as short as 30 days); scalability (the solution grows along with your business growth); data security and, most importantly, deep customer insights - as the data on your customers is consolidated, in real-time and with one customer view point, businesses can easily offer more value to customers by improving the relevance of the offerings to them, increasing the customer relationship and loyalty.

Embedded Insurance: a game-changing insurance industry innovation: The biggest insurance industry disruption coming out of insurtech SaaS like Click2Sure's is the enormous business opportunity of embedded insurance for any non-insurance enterprise. It opens a completely new revenue stream for companies that have never sold insurance before. Embedded insurance is the digitally-enabled sale of an insurance product by any company, via multiple customer touch points. It requires transforming the whole traditional insurance value chain into digital form to enable any company, in any sector, to seamlessly integrate insurance solutions into their customer offering, either as a complementary add-on to their core offering (pet food; cars; laptops etc.). Ultimately, for the consumer, embedded insurance enables quality, relevant insurance policies at lower prices. Meanwhile, retailers benefit in three ways:

Increased Customer Lifetime Value (LTV): Embedded insurance overturns the decades-long traditional approach to insurance - buy something now, insure it later. By offering insurance up front at the point of sale, embedded insurance gives customers the cover they need in real-time, when it is top of mind, fast and effortlessly. The take-out for the customer? They feel that the company understands their needs in terms of convenience of purchase, simplicity of product and peace of mind. The benefits for the company offering embedded insurance? First-time customers are likely to become repeat customers; existing customers are more inclined to stay with the retailer, and both groups are likely to increase their basket size during their shopping journey.

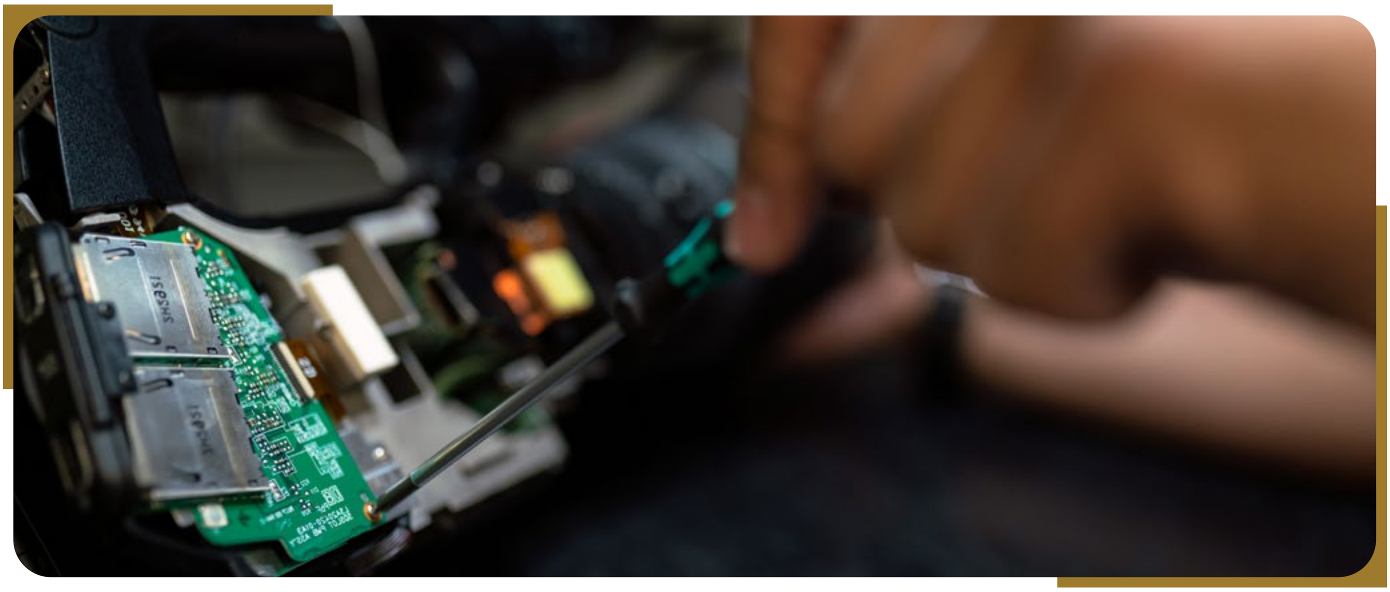
A new revenue stream: Research shows that consumers are more likely to opt for embedded insurance cover with higher cost items. Consumers paying more than R15 000 for a purchase are most likely to buy up-front insurance for it, with a 30% take-up. Retailers dealing in higher-ticket products like appliances, computers, jewellery, motorbikes, tyres and cars should take note. In the automobile space specifically, the take-up of insurance cover offered at the point of sale can rise as high as 85% (**PYMNTS Retail Product Insurance Study**, USA, 2020). Research also suggests that even offering embedded insurance on low-ticket items sold online, prompts increased buyer interest in those items - sometimes turning a possible purchase into an actual purchase. Embedded insurance revenue opportunities: Higher end of the market - high insurance take-up/ lower end - increased purchase. By far the most common type of insurance taken up at point of sale is the Extended Warranty, making this a logical focus area for retailers to begin with in terms of embedded insurance offerings, followed by funeral policies.

Deeper insight into customers' purchase behaviour: By switching on embedded insurance, a retailer's data becomes more integrated and rich across inventory, orders, sales and after-sales. This aggregation of "big data" enables the company to do various things: assess risk, predict future customer behaviour or recommend relevant products and services to customers. This capability, to offer more personalised engagement to customers, adds further to customer loyalty and ultimately, the company's revenue.

It's genuinely a big deal: In summary, our SaaS platform is an enabler for non-insurance companies to launch insurance products and grow their business - and an enabler for insurance companies to sell more products to more customers, onboard faster and administer much more efficiently with less manual work. Both parties gain one consolidated source of data informing decisions on products they sell, customer segments to prioritise, how to upsell, cross sell or introduce other products and how to continually build a relationship with the customer, delight them and grow them into brand evangelists.

Insurtech: looking behind the hype

Deon Pieterse, Ellipsys Technologies (Pty) Ltd



WHAT IS INSURTECH?

Insurtech refers to the use of technology innovations to disrupt or transform the insurance market, especially, but not limited to, how clients interact with their insurers or brokers.

OLD GUARD VS AVANT-GARDE

Insurtech is allowing traditional insurers to innovate and operate more efficiently and effectively with customers in a disintermediated way through chatbots and Artificial Intelligence (AI). Insurtech is also introducing new players to the market either as brokers, underwritten by traditional insurers, or as direct insurers, by enabling non-traditional policy sales and claims intimation via smart phone apps.

ARE THE BENEFITS BEING REALISED?

REDUCING COST

Automation and analytics allow insurers to reduce cost and streamline operations, but this may be difficult with traditional operations and legacy systems. An ecosystem approach allows insurers to replace parts of their systems to realise immediate benefits without a total system replacement. With more players in the Insurtech space this is becoming more of a reality and with increasing competition actually becoming a necessity.

CUSTOMER FOCUS

Insurtech enables insurers to establish a more data-centric, customer-focused business model. Analysing more data allows a better understanding of customers to be able to offer more flexible and suitable insurance products. Customers are getting used to a digitised world and starting to expect everything around them to keep up. "The [insurance] customer has evolved, and much of that has been born through how they're engaging with their other service providers outside of the insurance sector" said Jeffery Williams, senior analyst at Forrester, a global market research company.

MANAGE RISK

Insurtech not only allows insurers to reduce the cost of insurance (such as allowing a customer to reduce the time on cover) but also allows them to reduce their own risk by using technologies such as advanced telematics in vehicles and cell phones to monitor items such as driver behaviour. This is achieved by using data to identify, analyse and monitor risk exposure.

NEW GROWTH

Insurers can explore new markets at a lower cost than ever by teaming up with Insurtech companies. Ecosystems offering insurance Application Programming Interfaces (APIs) are proving themselves and insurers are increasingly willing to fund or support new ventures. This is opening new opportunities in markets such as new younger drivers or uninsured drivers.

BEST PRACTICES

By teaming up with an Insurtech partner or even multiple partners, insurers can get the benefits sooner than trying to reinvent the wheel for themselves. Technology is always changing, and the rate of change is accelerating more than ever. Adopting an ecosystem approach to systems allows flexibility to system renewal instead of an all or nothing approach as well as enabling ease of integration with Insurtech partners via APIs.

FINAL NOTE

Customers are expecting their insurers to keep up with technology and to interact with them in ways that they prefer. Technology provides the enabler for insurers to get creative, all they need is some initiative and the right technology partners.

The Art of Partnering & Collaboration in Insurance Technology

Andre' Symes, MD Genasys Technologies UK

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

At our recent Insurance Innovation Journey webinar series Andre' Symes, MD Genasys Technologies UK, and collaboration expert, shared some secrets. Part 2 of this presentation will be published in the next issue. When it comes to ecosystems and choosing partners we should think about dinosaurs, USB ports, cables, or paint palettes. We need to ask ourselves, why have ecosystems become so important? Dinosaurs have been evolving for hundreds of millions of years at a steady pace, and they would have carried on evolving, unless the asteroid hit. That is very similar to what happened last year, when COVID hit. Effectively, they were not able to adapt fast enough. It is exactly this step change that we need to be able to make to stay relevant and survive.

Changing legacy systems, takes a very, very long time, it really does. So when COVID happened, we didn't have the luxury of spending two years implementing a new system, we had to adapt quickly. Think about how platforms and digital services have rendered bricks and mortar companies irrelevant, and how the digital era is enabling us to change quickly. I mean, business schools at the moment are littered with numerous cases about Toys R Us versus Amazon and Uber versus taxis. It's this digital ecosystem that they can create that enables them to adapt fast for environmental change. This is why ecosystem are so important. Simply put, technology options give us the ability to adapt and pivot quickly. So again, why is this important? Technology ecosystems give us choice. Choice gives us the ability to adapt to change quickly and this ability to adapt or to evolve faster than the dinosaurs could, or existing dinosaurs can, is really what future proofs our business. Nobody can predict the unforeseen or the future, but we can engineer for the unforeseen, and we can architect for it.

The question now is, what do we do to enable these ecosystems? How many of us have got a pile of cables lying useless in a bottom drawer. To create ecosystems, we all have to be able to interact with each other. 20 years ago we all had a Sony Ericsson or Nokia or Siemens, etc and none of them could talk to each other and each needed its own cable to connect to computers. It was a nightmare to set them up. At one stage we brought in all these adapters, which brought with them their own complexity. It wasn't until we created universal connectors like USB, Bluetooth or Wi Fi that connecting systems or connecting devices became easier. Right now I've got a USB cable plugged into my laptop, and I can access my Garman and my phone, etc, from there, with one connecting port. That is effectively what it is that we need to have. Now USBs are not perfect, but it's a hell of a lot better than the cables we had before. And that's where we want to go with our ecosystems. The USB is the API in the ecosystem. I cannot over state how important API's are. API stands for application programming interface and is basically just a connector between different systems.

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

Last, but certainly not least, we need to get internal buy-in from large organisations. It is currently a huge problem where we have large incumbents that don't adopt the future. They don't adopt the change or this open ecosystem mentality. They will know we need to do it but, when it comes time to pull the trigger, things stall. That's when we start struggling with change and we saw, in our COVID asteroid experience from last year that those that were able to change did change, and they leaped from their competition. So it is massively important to make sure that you get internal change management, even to the point where you create innovation teams that can help the traditional business understand the need for this open API's, ecosystem approach rather than the monolithic approach of building everything yourself and attempting to hoard that IP.

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

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

customers or your customers, customers life, don't bring them on board. Then you are effectively just using tech for the sake of tech. And that is rule number one that you shouldn't do. Don't ever try and use tech for the sake of tech. There's a term "Maslow's hammer" that often comes out in our hypothesis adoption analysis, Take Blockchain as an example. Four years ago, blockchain was the be all and end all solution to everything in insurance and, whilst there has been use case adoptions, it has gone through a time cycle, and it is no longer here. So, quite often, we hear people just using tech for the sake of it, it has to improve your customer's life. In the end, when it comes to ecosystems, the question is whether they are they going to embrace collaboration? Now, you would think that mentioning ecosystems off the bat, that there is going to be colaboration, but don't be so sure. In any sort of ecosystem, as well as in the environment and natural ecosystems, there is always a predator. We therefore need to make sure that all ecosystem partners are aligned to the same goal, so that they can all, collectively, add value to the end customer or to the ecosystem as a whole. Andre' discusses this further in our next issue.

What is the right tech for my advisory business?

Linktank & Atwork

Three of SA's leading tech experts attempted to answer this burning question at a webinar hosted by COVER last month. Read on for a rundown of the key considerations…

AN INVESTMENT NOT AN EXPENSE

As Trevor Stacey, atWORK's Business Development Executive, explained, "finding the right technology is fundamental for ANY business." So much so that Nina Lowes of Linktank has built an entire business around helping advisers to choose the right software. "We help advisers to view investing in technology as just that," said Nina. "An investment…Not an expense."

AUTOMATING THE PROCESS

As the flowchart above illustrates, choosing the right software for your business – just like choosing the right home or car for your family – can be both time consuming and costly. Especially when many business owners don't really know what they're looking for. To this end Linktank has recently launched Hadeda Technologies which automates some aspects of the decision making process to make "it quicker, easier and less expensive for clients," explained Hadeda Ambassador Robyn Clay.

WHAT ARE THE PAIN POINTS?

Surveys conducted by Linktank show that there's been very little change in the challenges faced by Advisers over the past six years. What's more, 60% of advisers plan to revisit their tech in the next one to three years and a staggering 56% of advisers are dissatisfied with their current tech.

While the individual challenges faced by advisers are of course illuminating, it's important to remember that simply putting in the time and effort required to find the right technology solution can make all these individual pain points disappear.

APIS AND OPEN SYSTEMS ARCHITECTURE

While Trevor is confident that atWORK offers a superior solution for most financial advisers, he has come to realise that "we cannot be all things to all people." This is where APIs – sometimes referred to as plugins – really come into their own. As a cloud-based software solution that's built upon Open Systems Architecture, atWORK can integrate any third-party provider into its system, provided they have an API.

> *"Too many South African businesses are looking at technology as a grudge purchase, and making decisions based on price not suitability. This is a grave error, as even small investments in the wrong technology will cost your business both time and money."*

This means that atWORK's clients can quickly and seamlessly benefit from the latest software innovations around the globe. These include risk profiling software, e-signing capabilities, anti-money laundering solutions and much more. "Even if you don't end up choosing atWORK," Trevor says graciously, "Be sure to go with a provider that can integrate third-party solutions using APIs."

MEASURING RETURN ON INVESTMENT IN TECHNOLOGY

Too many South African businesses are looking at technology as a "grudge purchase," says Robin, "and making decisions based on price not suitability." This is a grave error, as even small investments in the wrong technology will cost your business both time and money.

One of the most enlightening segments of the webinar was a short video interview with advisers who had been through the Linktank/Hadeda process. One explained how investing in the right technology has allowed him "

to buy back time" for himself and his staff while another stressed the importance of waiting to see long-term returns (a concept which financial advisers should feel some affinity for!). Trevor likened having the right software to owning a mobile phone: "You don't realise how much you need it until you're out of signal or the battery dies." And he reminded viewers that the simple stuff – like a program's ability to remind you when it's a client's birthday– is just as important as the fancy financial wizardry.

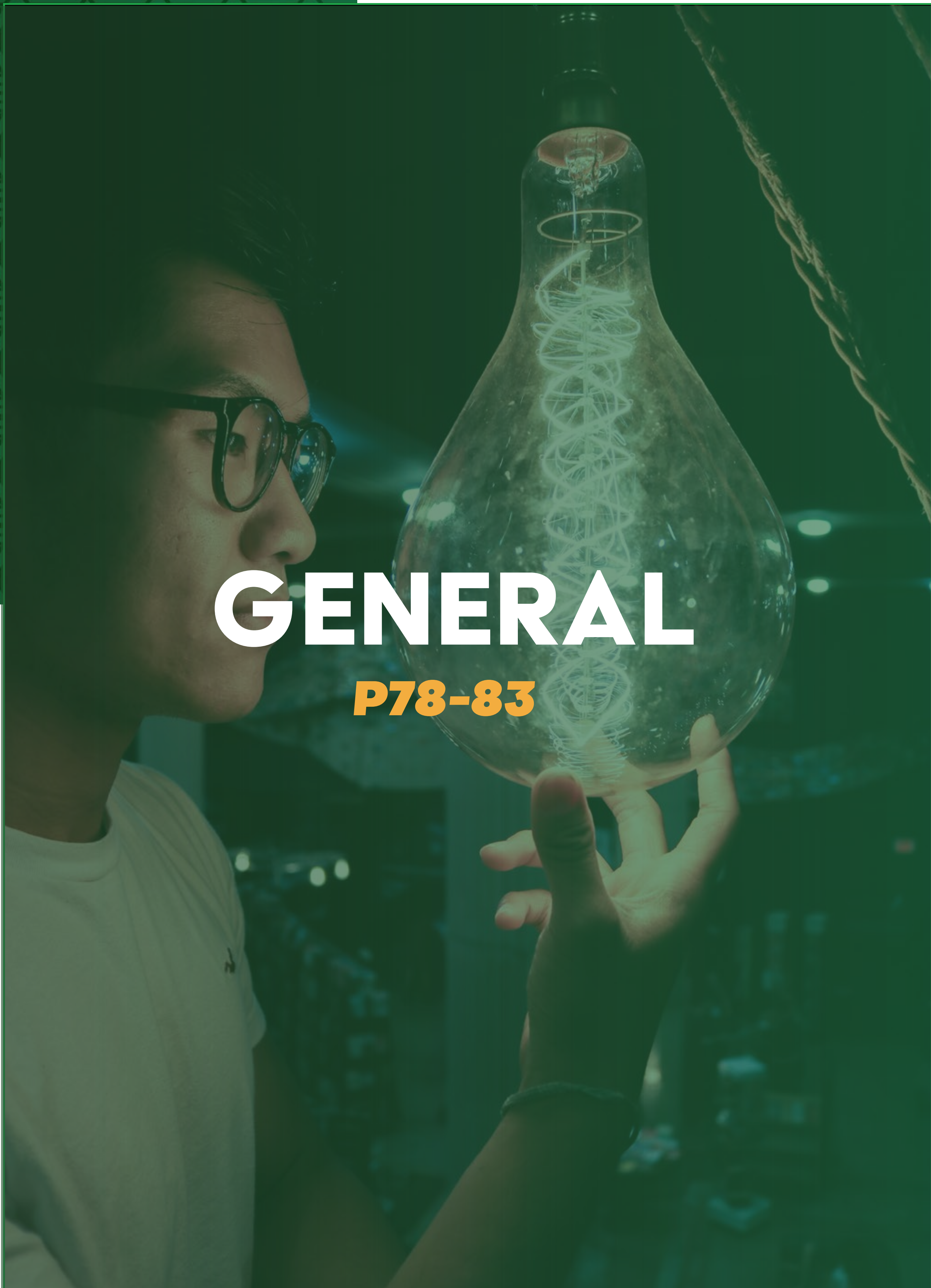
THE QUEST FOR A TRULY CLIENT-CENTRIC SOLUTION

The panellists also discussed the rise in client portals, a topic which is especially relevant in the post-Covid digital world. Being able to have customers manage their documents and investments via a secure server is real win-win as it can save advisers significant amounts of time and money while also empowering clients to take more responsibility for their financial wellbeing. But Linktank research shows that "0% of advisory businesses we've come across have successfully harnessed technology to deliver a truly client-centric experience," said Robin. Trevor viewed this alarming statistic as an opportunity for atWORK to prove the power of their Virtual First philosophy. In recent month the company has seen a huge increase in "straight-through processing" where new business quotes are automatically generated and integrated into virtual documents which can be digitally signed within the system. atWORK already boasts a simple "client servicing portal" where clients can check information and documents, but in the coming months they will be launching a purpose-built virtual client portal which will "take the entire financial planning process online," with no need for a bricks-and-mortar office, let alone a paper document.

THE LONG AND THE SHORT

All three panellists agreed that it's impossible to overstate the importance of viewing tech as an investment not an expense and taking the time to find the right solution for your business. But to really get the most out of technology, added Robin. "you need a technology strategy which takes into account the bigger picture and the inevitable legislative and industry changes."

While it's impossible to predict the future it is very easy to invest in a system which accepts APIs...Which is kind of the same thing.



GENERAL

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IFRS 17 – the pressure is on

Moody's Analytics

COVER spoke to James Ingram, senior director at Moody's Analytics, about the challenges facing insurers and the solutions available.

TONY: Many African insurers are working with you and your team to get ready for IFRS 17. From your experience so far, what is the status of adoption in Africa and the readiness of insurance in the region?

James: It's a tale of two stories. According to what we've tracked internally, in South Africa, around half of the insurers have gotten started, with the remainder yet to decide on a solution for addressing the IFRS 17 reporting requirements. Outside of South Africa, the story really is different. Some of the larger insurers have appointed advisors and started the process of exploring their options. They may have completed their gap analyses, but we have not seen anyone really embark on their project so far. In South Africa, we saw that the first insurers begin the process back in 2019. However, the more commonplace reality is a delay, owing initially to the IASB's extension of the deadline, and then the impact caused by the pandemic. As a result, we are looking at the real possibility that many insurers across the continent may have a limited period for parallel running. What we saw was that the early movers, at least in South Africa, would have had the option of choosing between either in-house system builds or third-party software. However, for those that remain, the choice really is whether to pick an off-the-shelf solution, or perhaps a managed service. Practically speaking, whether people have realized it or not, the complexity of the standard means that an Excel spreadsheet is not going to cut it. Finally, and this may sound surprising, we come across numerous examples where IFRS 17 project budgets have not even been secured, despite the limited time remaining before parallel runs.

Tony: That's normally what happens with these big regulatory changes where people almost wait until the platform is burning before they do something. Do you see any specific challenges that insurers will face with IFRS 17 implementation?

James: Having now worked with insurers in their implementation since late 2018, I know that these challenges are encountered regardless of the size, where an insurer is located, or the business that they write. If I can summarize at the highest level, you can argue that it boils down to two key challenges: resourcing and expertise. The standard itself requires interpretation, which calls for accounting expertise together with actuarial insight. If you have tackled IFRS 17, either as a standalone actuarial or standalone financial project, you missed the much broader significance of the standard. Both stakeholders need to have equal input into the approach taken and this could be aided by a third, the technologists.

There is a skill shortage everywhere, not just here in Africa, with respect to the expertise that comprehends all three facets. Now, many people will turn to consultants that can help fill the knowledge gap but by now many of the best are going to be tied to ongoing projects. So if we are saying that actuaries and accountants need to be equal players, in reality this is often simply not the case and, as a result, you can run into a lot of problems. The fact that some insurer's approach is very much a CFO bias, while others leave it to their actuarial function, proves that. There is a strong indication that success of the project is therefore contingent on equitable influence from both sides.

You have this pressure on resources, and with a shallow pool of expertise that understands all the various facets, there is a demand on resources. All this is further exacerbated by the competition for priorities and prioritization caused by COVID-19. Then another thing we see is that, until you get into the weeds of a project, the size and the complexity of the task is not always clear, especially on the data side. We are pleased to say that a number of our clients are now producing results. But again, this is not the case for many others in the market. Then there is the scarcest resource, which is time. Interestingly, we had a project lead at our client OUTsurance, one of half a dozen Moody's Analytics IFRS

17 clients in South Africa, who said during a webcast last year that even though they began their project back in 2019, they wished that they had started much sooner, given the myriad of internal and external challenges they have encountered.

Tony: Insurers will now have to start gearing up to run their parallel runs to meet the 2023 deadline. From your perspective, your experience and that of Moody's Analytics, are there any key recommendations that you can provide as a starting point, to help them fast track the implementations?

James: I guess top of the list is not to wait for everything to be ready before starting your implementation project. We recommend a sprint-based approach to implement the standard. Because based on what you find, depending on the products and portfolios, there may be different levels of readiness in terms of data availability, methodology, choices, and so on. It is much better to run an iterative approach and obtain results early in the process. Spend too much time upfront on gap analyses and impact assessments before starting, and you may find it's not the best use of the remaining time you have left to meet the requirements.

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Second, I would say, use your software selection process to fast-track your implementation. What I mean by that is—take proof of concept, for example—it gives you not only a high-level understanding of the solution, but it gives you the ability to start training your project team, using the solution, and gaining insights about the data requirements.

This will help you identify potential gaps in your existing systems. We also suggest that configuration-based approaches will save a lot of time over toolkit approaches since they avoid the need for coding and will require far fewer resources to carry on the implementation project.

Finally, I would strongly urge you to consider asking around for feedback. Many insurers started their IFRS 17 journey a couple of years ago. Whether within the continent or outside, these insurers are now well advanced in their implementation and, from what we've seen, are ready to share the lessons they've learned, the challenges that they faced and the successes that they've achieved with their peers.

This is an industry that is learning as it goes along. We have a community of users that have helped educate and learn from one another. It has proved valuable to give people confidence that they are not alone. When they are approaching a challenge, trying to interpret a problem and how to resolve it, they can speak with others who are facing that same challenge in a similar business. Ask around, be clear on whether you want to pick an approach that allows you to configure something that is already prebuilt, and think about starting your implementation as quickly as possible.

Tony: So then finally, from a Moody's Analytics perspective, how are the Moody's Analytics solutions that you've got for IFRS 17 helping African insurers transition to this new standard?

James: Moody's Analytics took the decision to design a purpose-built solution for IFRS 17, acknowledging that both actuarial and accounting components demanded equivalent levels of focus. Our premise here is that, unless you take this approach, you risk ending up either with a bolted-on CSM engine, subledger, or reporting interface that fails to meet the needs of its user group. This approach has the added advantage of allowing us to develop using the latest technology, which then facilitates integration and helps keep implementation light, instead of building on legacy technology that will likely require re-platforming within a short timeframe as business needs evolve.

The South African insurance market is a strategic focus of Moody's Analytics. We have invested heavily to become the provider of choice for IFRS 17 and we are committed to bringing our clients success through our purpose-built platform. We do this in many different ways. First, our solution is out of the box, but is configurable. This addresses, in a single platform, all actuarial and accounting challenges raised by the standard. Our implementation approach is light, and we can have clients up and running their own data within weeks, rather than waiting months.

This addresses a critical market concern, as demonstrated by a recent PwC IFRS 17 survey of South African insurers. Link https://www.pwc.co.za/en/assets/pdf/ifrs-17-survey-results-your-journey-so-far.pdf

In that survey, 50% of respondents flagged, as their biggest concern, the integration of technology solutions. Having a light implementation is critical, especially given the remaining time that insurers have. Another thing that we have done is introduce project accelerators to enhance integration, by reducing the data preparation required. It allows the project teams to focus on the business side of IFRS 17, rather than getting data ready. We also offer extensive training to transfer knowledge to our clients and empower their users.

This gives greater independence and reduces reliance on consultants and the providers themselves, and, as you may figure out, it will help reduce costs. Finally, our software-as-a-service (SaaS) model accelerates deployment while reducing the cost and maintenance required for upgrades, which allows greater visibility and control of downstream budgets.

In summary, it is our ability to quickly produce results, readily satisfy proofs of concept, and reference client successes that creates trust in the insurance market. **These are a few of the reasons why Moody's Analytics has been chosen for IFRS 17 by more than 60 insurers worldwide.**

The unique role of the reinsurance broker

Neesha Parbhoo, the CEO of MNK Re of South Africa

Tony: Our industry runs on relationships and when you talk about an advisory role, you obviously talk about relationship. But let's start at the beginning, first of all, can you tell us a bit about MNK Re how you see your role in the local market.

Neesha: MNK Re is a Lloyd's broker and was established in 2010, remaining a small to midsize broker for the last few years. Last year, with COVID hitting the world, and then finding sort of an opportunity to expand, the CEO of MNK Re UK decided that it was time to actually leverage off the current situation. Because MNK Re is built on niche, innovative products, as much as we do the traditional reinsurance, just like every other broker does, the focus is on bringing new products for emerging risks and emerging problems. With that said, we started a conversation early last year, about opening the office in South Africa, as a hub for Africa. By the end of this year, we will have five new offices around the world. Our staff compliment, since we started on the first of July 2020, is up by 400%. So we are rapidly growing and looking at interesting areas of the world to grow in. This is a very exciting space for us and we are very happy to be part of a team that is so diverse and so energetic.

COVER: The first conclusion for me, looking at the uncertain times we are in, is that there is definitely a role for you or a place for what you do as a reinsurance place. This then brings me to asking you, how you see, in today's insurance industry, the role of the reinsurance broker?

Neesha: I think the role of the reinsurance broker has evolved massively, especially given last year, it needs to be less transactional, and more in line with understanding the needs of the clients and the needs of the market. There's huge uncertainty, even now about where we end up, whether we're going to be stuck in this phase for a year or two years, no one really knows. This is also compounded by the fact that the economy around the world has shrunk significantly. So there will be less spend available on insurance and reinsurance. At this point, the reinsurance broker plays a vital role in finding the balance between the clients' needs and market out there. The way we see it, having these offices around the world gives us a bit more insight into what's happening all over, and we are able to draw on all of that knowledge and give our clients the best advice possible. I also believe that this is the time to be highly in tune with everything that is going on because, to give clients the best advice, may not always mean making the most money, and we all have to be ready for that.

COVER: We always have the challenge that clients have to work with you to fully benefit from the diverse benefits you offer. So, when it comes to reinsurance broking, do you feel that clients are optimising that relationship? And, if either way, what do you think are the sort of leavers for optimising your services?

Neesha: I don't believe that clients are optimising the value of reinsurance brokers, especially in the South African market. If you look at the structure of our market, there are a number of smaller to mid-size UMAs and yet, there is a drive for 90% of our market to focus on what would be the top two reinsurance brokers in South Africa, once AON and Willis merge. This is why I think, in this environment, there is a huge place for the small to mid-size broker to fill that gap. If there's more alignment between the broker and the client, I think you'd get much better results while at the same time, the smaller broker is in a position to give more attention to that client than the bigger brokers would.

Tony: So, from an MNK Re perspective, how do you plan to get your clients to take up your services, and I would say to work a bit more closely with you to optimise those benefits?

Neesha: I think that's the challenge here, there are a

number of brokers out there and differentiating ourselves is the biggest challenge that we're facing at the moment. What we are trying to deliver, and the message we're trying to get across to clients, is that we're moving away from words such as bespoke, and agile, and we want to be in tune.

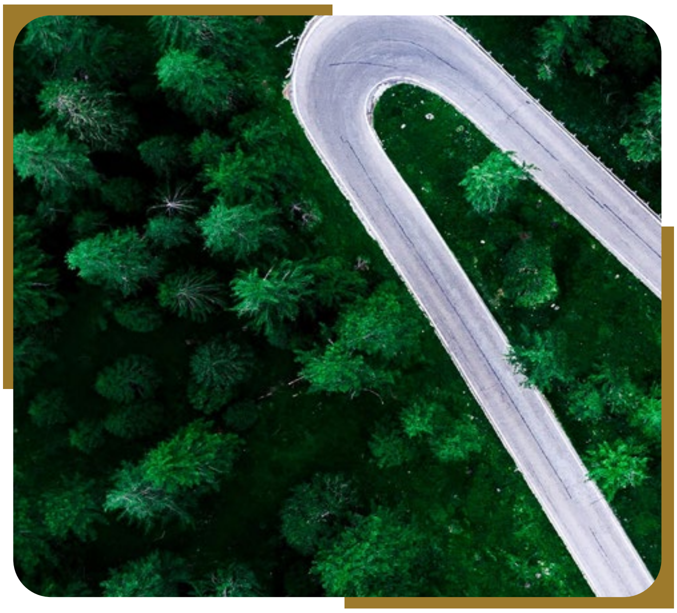
I think key to assessing the client's needs, and being able to provide the optimum service is being very intuitive about the client almost anticipating what they require, before they actually know it themselves. And that's what we are trying to do. Build very close relationships with clients and completely understand their needs from a holistic point of view, not just reinsurance based. In addition to that, I would say that the innovation that we're trying to bring into the market is key, the focus on lower priced products, because of the state of our economy at this point, trying to bring in products that fill the gap and almost try to build everything back up again. Consumers are not in a position where insurance is just a natural spend, and we need to give them some sort of comfort or level of cover that protects them but doesn't take a chunk out of this spend every month.

Tony: In closing, a little bit of a softer question. How do you feel about the year ahead? I mean, the economy is challenging, it's a tough environment after the experience last year, etc. How do you feel about the year to come?

Neesha: I think that my personal and not the MNK Re view is such that this situation is here to stay for a while. And, instead of letting it drag us down and remaining stagnant for yet another year, we need to learn how to work with it and work around it. With respect for new boundaries, and I hate the phrase the new normal, but basically we've got to embrace it for what it is and start finding ways to work around it. We all live in hope that things will change soon, but I think staying stagnant and being in limbo is not going to work for businesses, the economy and the world over. It is about thinking out of the box now, more now than ever before.

Telematics: More than just tracking cars

Belinda Felix, General Manager Insurance and Banking Vertical at Netstar



Tony: Telematics has come a long way, I remember when I first heard about telematics, it was all about finding your car when it disappears. That's how we got to know it and for a lot of people that is still the idea. Can you tell us a bit about what telematics firstly is and then vehicle telematics specifically.

Belinda: Telematics is quite a broad subject because there is really two verticals within telemetry. The one is obviously your stolen vehicle recovery. Tracking your vehicle if it's stolen and then recovering it. Then you have the data that comes out of the vehicle via data streaming which we also use. On the commercial side we can decipher how much fuel is being used, route optimization, total operating costs of vehicles, and then, what a lot of insurers and companies are currently doing, is looking at how they can measure driver behaviour to reduce risk. So there's a lot of data that comes out of the telematics unit and it's quite nice to see how we can use that data, firstly for the customer, and then also for the insurer or finance house.

Tony: Maybe you can tell us a bit about how you have seen this change over the years, from the basic of just finding your car, to where we are now. Has there been in a specific pattern, or has something prompted the change in terms of how you use it now?

Belinda: There has been a big change because primarily, when we started out, it was just focused on stolen vehicle recovery. We went from being a reactive to a proactive unit, which was the first big milestone and breakthrough in telemetry. From having your vehicle stolen or hijacked and then you having to phone in, to actually having your vehicle tell you, or the unit say, that the vehicle has been stolen or hijacked after it has been armed.

That was the first breakthrough. Then, obviously, we have progressed to asking what other information we can derive from the unit, and how we can use that information to mitigate risk. So when it comes to accidents, you can look at your first notification of loss, the G-forces with regards to accidents and then you can do assessing to ensure that there's no fraudulent claims.

Then there is route optimization for consumers. As well as the shortest routes, they can also track loved ones, adding to safety. Then, on another flip side, it is used in validating data, the time of accidents for example, so that you have the correct information when you submit a claim, avoiding any discrepancies.

Tony: It's fascinating to see how technology changes and impacts what we do. From the pandemic perspective, that obviously has changed so many things for us in the industry. How has that made a difference in the telematics environment?

Belinda: Going into hard lockdown, obviously, everybody was at home and there wasn't a lot of traffic on the road. However, we had the essential services running so we could still monitor and track those assets. But what we realised coming out of lockdown over the month is that a lot of insurance companies have actually approached us to do modular, user based insurance. They are going more towards the connected vehicle and data streaming, to utilise the data for a reward loyalty programme or to measure risk.

Many of the big insurers are also stepping away from your "stolen vehicle recovery only" unit. They are making sure that they've got that to at least mitigate the risk on the high risk vehicles, but also using the date to see what kind of drivers they have and then basing their premiums on the driver behaviour. We are noticing more and more of that coming through from insurers.

Tony: On the more personal side. What do you find most exciting about these current developments?

Belinda: I think it's about trying to not do a vanilla type of product for each of our customers. So where one group or one insurer will look at a specific data set for their risk, another group would look at a totally different data set and building insurance products around that. If you are looking at first notification of loss as a service to your consumer it means that, in the event of an incident for example, a G-force notification is sent through and you can activate response teams. It's a service that your customer would obviously appreciate.

Then, looking at the claims side of things, if you look at the G forces and impacts on the first notification of loss, you can mitigate fraud if there are any parts that are being claimed for the vehicle where the impact was not appropriate. Those are the types of things that are very exciting to see coming together.

And then obviously digitization, because insurance was usually a pen to paper type of transaction, but now we're trying to put everything into the consumers hand through apps and digitization. This ensures that when things happen, at a press of a button they can send an alert and they can submit a claim. So there's a lot of exciting product developments happening in the background.

Tony: Absolutely brilliant. Then, based on all of this, there are a lot of developments around telematics. Netstar have launched a CPD platform, specifically for brokers to improve their knowledge in that environment and get CPD points. What is your vision with that platform?

Belinda: Netstar has been in the telematics industry for 27 years, so we have vast knowledge on telemetry, and all the risks involved in the different fields, be it consumer space, or commercial space. What we decided to do last year was to give back to the insurance industry.

The insurance industry and the finance industry have always been very big customers of ours and we wanted to do something that allows us to add value to our insurers and brokers to keep their staff aware of how telemetry is helping us in the insurance space, and also getting our name out there. It is about brand awareness and also just giving back, because of the six CPD hours that can be obtained through the CPD course.

Tony: Lastly, what feedback are you receiving from people that have gone onto the platform and done CPD?

Belinda: I think you should give it a shot and actually go do the CPD, just so that you can see. We've had really great response from brokers and insurers alike because, usually, the CPD points are based on normal insurance related topics, where we have tried to throw in a lot of the benefits of telemetry into the courses that we have created.

It is clear that the content adds value and found to be interesting. From both insurers, big insurers, direct insurers and brokers, we've had an overwhelming response and take up of the CPD courses that we've put into the market.