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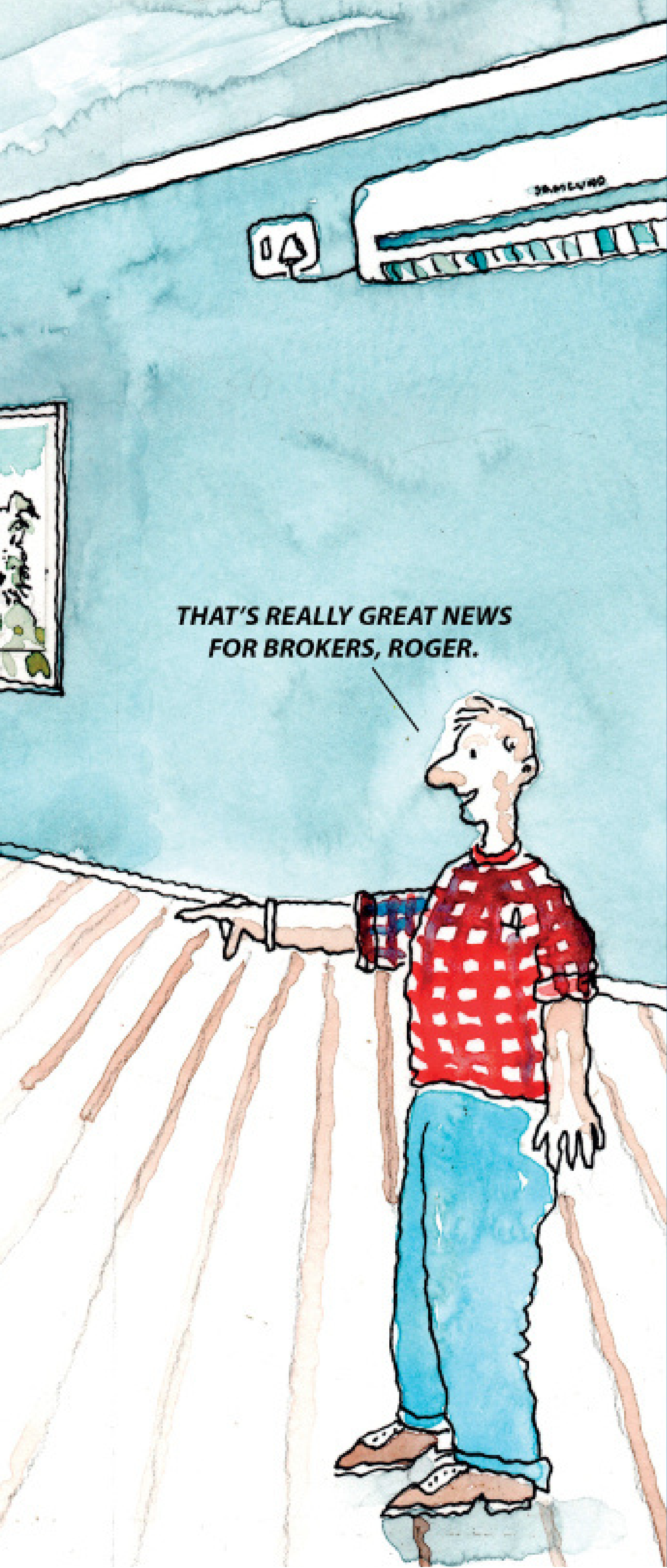

THAT'S REALLY GREAT NEWS FOR BROKERS, ROGER.

COVER MAGAZINE

MAIN ARTICLES

BLESSING UTETE

A closer look at the primary reasons for the Pension Fund Reform unrest in France reveals some interesting lessons.

BRANDON NAIDOO

Investing only in one emerging market country like South Africa, whose GDP makes up only 0.4% of the global GDP, may not be wise.

DANIEL STEVENS

With biodiversity and economic issues taking centre stage in South African agriculture, we believe that index insurance offers a unique solution to farmers.

PRIN MUNSAMY

In a country where wealth is only enjoyed by a few privileged and structural poverty prevails, what role does insurance play? An important one.

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THE WORLD IS YOUR OYSTER

Tony Van Niekerk, Owner & Editor

When it comes to investment strategies, diversification is up there as one of the most important. Diversification mainly includes, currency and geo-political risk, economic cycle risk, and sector disruption risk. However, once you start getting technical and personal, the opportunity cost includes, family structures, income and capital gains tax, regulatory changes, unexpected innovations, and longevity developments, amongst others.

It is not as straight forward as simply deciding what the general offshore average is and whether you are looking at long- or short term investing. When taking all the various factors into account, it is clear that South Africa is still very much in the mix as part of a diversified portfolio.

What is clear from the various contributions to this feature, is not only that advice is essential to this process, but that advisors should also be consulting technical experts when it comes to factors like regulatory requirements and pitfalls in the various jurisdictions. It can be a minefield, where clients lose, rather than benefit, from their diversification efforts.

In this issue we also explore the world of agri insurance, although it seems very few product providers are willing to share information on their initiatives and endeavours in this segment. The few contributions we received indicates a massive need for protection of especially small-scale farmers. Who will take the lead in this segment? The jury is out.

Wishing you all a fair amount of knowledge gained after reading this edition. Tony

FINANCIAL PLANNING

"The tectonic shift to sustainability continues but remains complex and nuanced." -Ursula Marchioni at BlackRock

PANDEMIC SHOCK SHINES A SPOTLIGHT ON THE VALUE OF LONG-TERM INSURANCE COVER

But more needs to be done to fill SA's R34 trillion insurance gap.

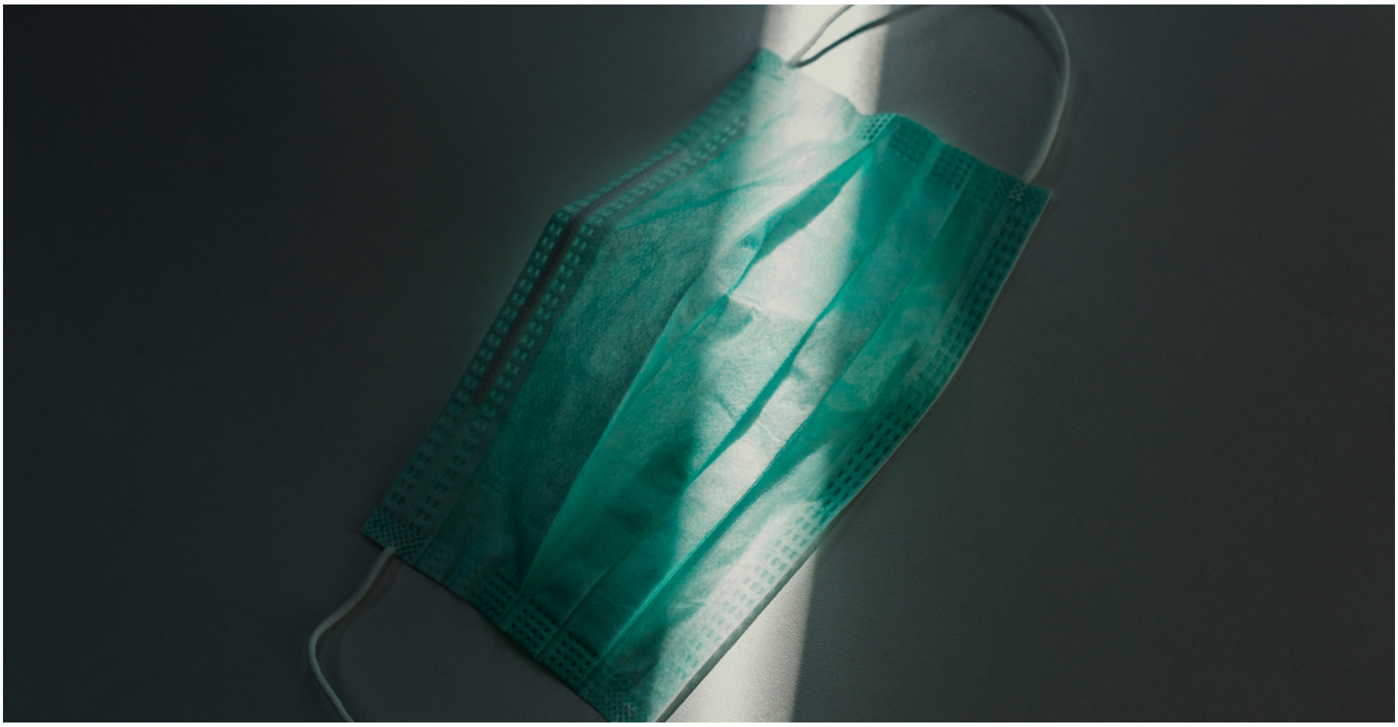
The local economy may have clawed itself back to its pre-pandemic levels in 2022, but positive as this is, it does little to soften the impact caused by the loss of life and ongoing health issues that COVID-19 left in its wake - and these negative effects will take years to work through the economy. Of all things the pandemic has highlighted the value of being better prepared for life's uncertainties, in particular the need for life insurance cover so that families can continue to survive after experiencing an event like the death of a breadwinner.

According to Liberty's Lead Specialist for Research & Insights, Zandile Makhoba, Liberty recorded a 17% rise in the number of life insurance policies taken up by clients earning around R1 million or more a year, since the pandemic. This segment also showed a notable 29% increase in the amounts being insured for in their policies. "Conversely there was an overall 30% decline in the number of new clients, concentrated in the income segments between R500 000 to R900 000 a year. Notably this segment was also the hardest hit by the post-pandemic economic downturn," she says.

"The gap may be narrowing among the middle- to upper-income groups, who now increasingly recognize the value of this type of cover. Unfortunately, there are still thousands of South Africans who remain uninsured – despite having the financial means to be so and run the risk of tremendous financial harm to their dependants in the unfortunate event of death, critical illness or even retrenchment," says Liberty's Sales Director, Johan Minnie. "The pandemic raised awareness around the value of life insurance following an unexpected catastrophe; yet there is still an ongoing R34 trillion insurance gap indicated by the Association for Savings and Investments South Africa (ASISA)," he added.

Zandile Makhoba, Lead Specialist for Research & Insights, Liberty

Johan Minnie, Sales Director, Liberty



Women encouraged to focus on life insurance cover

Liberty also found that there was no change in the male to female ratio measured by the number of in-force life insurance policies, with 54% of policyholders being men and 46% being women. What was significant is that the average sum assured by male policyholders grew significantly more between 2019 and 2022, perhaps due to the legacy gender skew towards men being breadwinners and financial decision makers in the household.

Women were just as impacted by the pandemic and had their finances impacted too. This could be stalling their growth. We encourage women to make the effort to take up life insurance cover," says Makhoba. In addition, there is a demographic trend in that people with post matric qualifications, such as university degrees, are becoming increasingly insured following the pandemic."

"This could be due to improved levels of financial education with this group seeking access to financial advice. Long-term insurance remains a very personal matter and everyone has different lifestyle needs, which is why a financial adviser is able to create a unique solution," says Makhoba.

A long to way to go

While some of the insights may be encouraging, Minnie acknowledges that the industry still has a long way to go towards making a difference in closing the wide insurance gap. "We are making strides, but the job is far from done. The insurance gap is still too wide for us to feel that people are adequately covered.

The pandemic did shine a light on the need for better future planning, and we have also looked at more ways to offer financial planning with our adviser force," says Minnie. He adds that Liberty's financial advice philosophy is designed to allow the client to create their own life story through a holistic plan.

With a stressed economy South African's need all the help they can get in navigating not only their finances, but their future: "Financial advisers are no longer just here for insurance discussions, they are here to help you navigate your whole life - whether you're a young graduate, building wealth in the middle of your career, or looking to retire," says Minnie.

THE EVOLVING SHIFT TO SUSTAINABILITY

Ursula Marchioni at BlackRock Portfolio Analysis and Solutions

In spring 2022, BlackRock Portfolio Consulting team partnered with 170 clients in Europe for an annual survey reviewing their portfolio-construction practices relating to sustainability. In this article we outline the key results from this research. Against a materially different macro environment, sustainable investing appears to remain a central priority for European investors. 63% of participating investors said the challenging macro backdrop had not altered their conviction on sustain-ability, and 23% said they were more likely to invest sustainably than last year.

While long-term sustainable-investment conviction remains firm, the shorter-term picture has been more complicated. End clients have sought short-term performance opportunities in non-sustainable investments, primarily in the energy sector. One of the main themes we saw in this year's survey was managing short-term style biases resulting from tactical allocations designed to enhance performance.

If we compare 2021 and 2022 portfolio samples,[2] the share of Article 8 and 9 products[3] grew from 35% last year to 37% for traditional portfolios and to 55% for sustainable portfolios. This shows a barbell approach to client portfolio offerings: most clients are retaining traditional portfolios while launching sister offerings that are fully dedicated to sustainable investing.

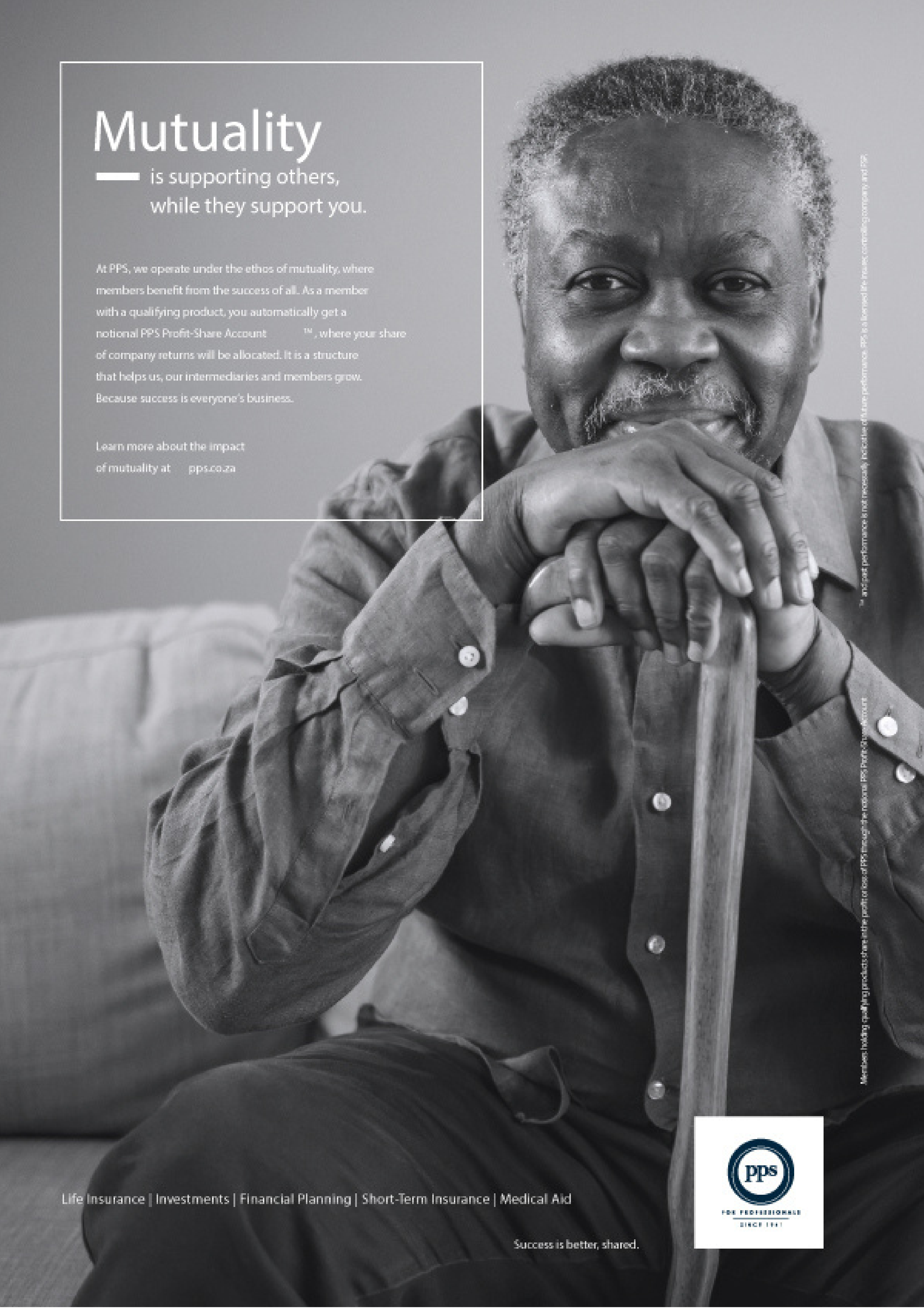
The penetration of sustainable strategies in these sister sustainable portfolios is increasing fast, while it shows a lower but stable growth for the traditional portfolios. The tectonic shift to sustainability continues, with the transition to net zero expected to take centre stage in the upcoming years.

Another key finding relates to the rise in the average ESG scores of portfolios from 6.6 (in 2021) to 7.3 for traditional portfolios and to 8.1 for sustainable portfolios in 2022. This is the result of both product evolution and product substitution. The net zero transition is emerging as a key catalyst for investment actions in the upcoming years.

A quarter of respondents have started to transition their portfolios. Meanwhile, 16% have a plan in place and are yet to start executing it. The remaining portion of our sample haven't set a transition strategy – showing that, moving from pledges to practice is taking longer than expected. This is partly due to the current focus from investors on ensuring compliance with MiFID and SFDR regulations, which is taking priority.

It is clear from EMEA investors' portfolios that the net zero transition will be a multi-year journey. The universe of EMEA products that our investors can currently access is broadly not aligned to the Paris Agreement, which poses significant challenges for investors who want to build diversified portfolios that limit the global temperature rise to below 2°C, preferably to 1.5°C, compared to pre-industrial levels.

In our sample, ESG-focused portfolios were only 2-2.5°C aligned while non-ESG portfolios were even 'warmer' at 2.5-3°C. Nevertheless, as the real economy shifts towards net zero and the availability of investment products and metrics advances, we expect progress to be made towards clients' 2030/2050 pledges.


Mutuality
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HOW THOUGHTFUL PENSION REFORM CAN HELP ENSURE ECONOMIC STABILITY

Lessons France can learn from SA following France's Violent Pension Fund Reform Protests

In October 2010 there were massive strikes across France against pension reform. Activist Jean-Baptiste Reddé's slogan **"Ecoutez la colère du people"** (Listen to the people's rage) became world famous as the symbol that epitomised public sentiment. More than a decade later France is burning again because of President Emmanuel Macron's proposed pension reform that plans to make the French work longer, by pushing back the legal retirement age from 62 to 64 or reduced pay-outs for early retirees.


Blessing Utete of Old Mutual Corporate Consultants

South Africa at the same time is also going through its most significant retirement reforms -National Treasury in February 2021, tabled the proposed "two-pot system" which is scheduled to be implemented in March 2024.

The glaring difference though is that South Africa is not experiencing anything near the levels of violent dissent as France is getting from the unions, public or retirement fund institutions. A closer look at the primary reasons for the unrest in France reveals some interesting lessons.

Overall trust in the SA retirement system / Lack of Trust in the Government

The SA government retirement system reforms have been future focused with most changes not impacting any accrued benefits as at the date of the change, so members will keep their vested rights and benefits. In South Africa, retirement funds are well regulated by the Financial Sector Conduct Authority. By and large there have not been many significant governance failures in the sector and over time, due to the increased governance requirements, there has been a significant reduction in the number of stand-alone funds in South Africa with many funds moving into commercial umbrella funds.

Trust in "Government" depends on the approach adopted when reforms are proposed. The less democratic, inclusive, and transparent, the greater the probability that the reforms will be vehemently opposed and public confidence in its undertakings will be diminished.

Furthering economic insecurity vs solving old age poverty

France's defined benefit system is projected to dive into deficit in the coming decade amid France's aging population. A deferred pension age is intended to sustain contributions for a longer period to mitigate the risk whilst recognising the extended lifespans of the population. The government's rationale to alleviate the strain on the retirement system therefore seems wholly plausible. Why then has the reform been met with such resistance?

The proposed pension reform has come at a time when many French workers are already facing economic insecurity, high unemployment and inflation, and declining living standards. People think that they are being short changed. It touches on their pockets because working longer means more money paid in tax to subsidise retirees and with high inflation and cost of living, there is an erosion of disposable income for saving.

Our most recent significant retirement system reform which is the proposed "two-pot system" has been designed to mitigate South Africa's retirement savings crisis. The system seeks to strike a balance between two problems: maximising retirement savings by minimising early withdrawals; whilst simultaneously allowing for early access to a portion of one's retirement savings to address the financial consequences of unforeseen events and emergencies, such as Covid-19.

Although pension coverage for older people is very high in South Africa (92.6%) due to the largely non-contributory state pension known as the Old Age Grant – 40% of the elderly are poor. This emphasis on better retirement outcomes while maintaining limited access therefore has led to the buy-in of the vast, majority of fund members.

Lack of Consultation

In France, the proposed pension reform is seen by many as having been imposed by the Government without adequate consultation with workers and the public. Consultation and engagement with stakeholders are critical in the reform process. It must however be borne in mind that a consultative approach can lead to delays in reform because initially not all parties will be satisfied with the proposed reform. There is, however, a better chance that it will avert a situation where unions are protesting against change because they have not really bought into it.

The South African consultative process has been comprehensive with input obtained from industry and all stakeholders from the outset. This has meant that Government has received significant buy-in and advice. The process has been underpinned by cooperation and almost all of the major concerns of unions and industry have been taken on board and addressed in some form or another.

In Conclusion

While the French system is feeling the pain, it's highly unlikely that we can expect a similar outcome here.

Adrian Gore, CEO of Discovery

THE FUNDAMENTAL NEED FOR HEALTH AND BEHAVIOUR MODELLING FOR RETIREMENT PLANNING

Discovery Group last year announced the launch of Cogence, a discretionary fund manager (DFM) seeking to significantly enhance the business of wealth creation in South Africa. Uniquely, Cogence combines the investment expertise of BlackRock, one of the world's leading asset managers, with personalised health data from Discovery, which operates the world's largest behavioural change programme.

It offers model portfolio solutions built upon BlackRock's asset allocation views and integrates Vitality's data and analytics, all supported by industry-leading portfolio analytics and risk management technology, Aladdin Wealth™. Through this merging of technology and investment expertise, Cogence is not only the first truly global DFM in South Africa, but the first DFM globally to add a layer of personalised health and longevity insight to essentially map out every aspect of an individual's financial plan.

These metrics consider how long you will live, how healthy you will be, how much money you need and, importantly, they support financial advisers in making recommendations to their clients. It's an innovative solution designed to help tackle one of the greatest socio-economic challenges in our society.

It is well known that South Africa has a well-documented and alarming retirement savings shortfall. More than 90% of people are unable to afford retirement, meaning that they rely on their families, communities, or the state to survive. With this gap having remained stubbornly persistent, it is evident that change is required to help people achieve financial health during their life after work.

A multi-dimensional approach to retirement

It goes without saying that the better the growth of an investment portfolio, the better the financial outcome for the individual investor at retirement. But returns are less than half the picture. Simply put, the fact is we try to save money to make sure that at retirement, we have enough compared to our pre-retirement savings. In calculating the replacement ratio, we need to consider the amount of money you've saved, its investment growth, divided by life expectancy. That determines what you have per year or per month to live on. A mere 1% retardation of expected investment returns reduced a 40-year-old saver's replacement ratio at a retirement age of 65 from roughly 80% to 60%.

A replacement ratio is a basic measure of retirement-income adequacy equivalent to the ratio of pension entitlement to lifetime gross earnings. A 2020 study {1} reported the replacement ratio in South Africa for individuals with 'average' earnings to be just 19% – well below the mean of 59% for OECD countries. In its calculation, the same study considered pension income to last earnings for full career workers and assuming individual earnings grow in line with average earnings but did note considerable differences between pension systems globally.

This dramatic swing in the adequacy of retirement savings due to a small change in expected returns, demonstrates a high degree of elasticity the extent to which changes in one variable will cause changes in another. However, the real point here is that replacement ratios are often more elastic to these behavioural and longevity risks, than investment returns. By the same analysis of elasticity, a 20% reduction of a 40-year-old's contribution rate could see her replacement ratio drop from 70% to around 50% at retirement, while living beyond 75 can dramatically reduce the amount of money available for each extra year.

In traditional models for retirement advice, what is often underappreciated are these behavioural risks – how much you save - and longevity risks – how your physical condition and behaviours impact how long you will live, and how much of that time you are expected to be healthy. With this in mind guiding people, nudging them, incentivising them to make sure that they understand these aspects is just as important as chasing investment returns.

A multi-dimensional approach to retirement savings extends beyond concerns about costs and returns to consider behavioural and demographic factors that are critical in achieving an optimal retirement outcome. These might include failing to anticipate the impact of living for longer, and the associated medical costs, as well as behavioural issues such as saving too little and too late, withdrawing from those savings early or withdrawing too much in retirement.

The first DFM offering holistic health and behavioural insights

Supported by Aladdin Wealth™, BlackRock's industry-leading investment and risk technology platform, and Vitality insights and data, Cogence is the world's first discretionary fund manager that fully models retirement solutions, taking health experience into account. In so doing, Cogence moves beyond the conventional approach of considering primarily investment outcomes – finding the best returns – to factor for issues relating to behaviour and longevity.

With lifespans extending, clients need the financial means to retire comfortably and withdraw income at a sustainable income level; and most importantly, also the good health to ensure they can enjoy it.

[1] Source: Credit Suisse Research Institute, "Rethinking Retirement." Davos Edition (2020).

THE RISE OF AFFORDABLE MEDICAL INSURANCE

Sandra Sampson, Director at Allmed Healthcare Professionals

With its two-tiered, highly unequal healthcare system, only 14.86% of South Africa's population can currently afford private healthcare, and rising costs are making it difficult for many to keep paying their monthly medical aid premiums.

There are plans to implement National Health Insurance (NHI) to fund healthcare in the public and private sectors, although this process which began in August 2011 has been slow, and the NHI Bill is still under consideration in the National Assembly. Despite concerns about the state's ability to implement the NHI effectively and competently, delivering quality medical care to the population must continue to be a priority for every healthcare provider. This is where a specialist Temporary Employment Services (TES) provider can assist - delivering a flexible, competent, quality workforce on demand for institutions in both the public and private sectors.

Increasing access to quality healthcare

The public healthcare sector is primarily intended to serve those who are unable to access private medical aid and is currently accessible to all, regardless of immigration status or nationality. Significant funding is a massive drawcard for specialists in the private sector, which has resulted in a widening gap between public and private healthcare facilities in much of the country. The impending NHI is intended to address this gap and enable greater access to specialist care and more free services for all, while improving the quality of public healthcare by establishing a national fund that will allow for the purchasing of healthcare services on behalf of users. Estimates for funding this national health initiative range from R165bn to R450bn, and the government has been given the go-ahead by the Gauteng High Court to continue its recruitment drive before the bill has even passed.

Access starts with affordability

In line with this move, affordable healthcare insurance is on the rise. This trend starts with partnerships between healthcare and financial services providers, and has already been seen in the likes of Dischem, Clicks and Tyme Bank's TymeHealth, all offering medical insurance, enabling access to high-quality healthcare specialists to a market that was previously woefully under-serviced. As the demand for quality healthcare increases, there will be a proportionate increase in the need for healthcare professionals.

Practical resourcing alternatives

It is not economically or practically feasible for healthcare institutions (whether in the private or public sector) to hire more medical professionals permanently, which means they will have to explore other resourcing options. This is becoming increasingly difficult in South Africa, as many skilled medical staff are seeking work elsewhere as a result of poor working conditions created by loadshedding, corruption, and incompetent administration.

Although the Department of Home Affairs has added new skills to our country's critical skills list (many of which include medical practitioners and individual specialisations) the healthcare industry is still severely understaffed. Hospital groups are only growing more frustrated with the government's inability to address the decreasing number of medical practitioners, particularly nurses.

The Hospital Association of South Africa (HASA) has reported that nurses in the country are reaching retirement age without the necessary inflow of younger employees. In 2020, there were more than 21,000 nurses in training, but South Africa still needs as many as 26,000 additional nurses to meet the growing demand.

Meeting the demand flexibly

TES providers in the healthcare sector have the potential to meet the demand of healthcare institutions for nurses and specialists, without these institutions having to commit to the responsibilities and costs associated with full-time employment. TES providers are on hand to supply the vetted and highly-skilled workers so desperately needed. Every healthcare institution can be supplied with the resources necessary on a shift-by-shift basis.

So, if, for example, there is a deficit of five ICU nurses at a certain hospital, a TES provider can meet this with very short notice. If, on the other hand, patients are discharged or rerouted, these additional nurses can be cancelled at short notice, and the TES provider picks up the hospital's slack and answers it with flexible resources on demand. Additionally, when it comes to meeting the fluctuating demand for speciality staff, a TES partner will become indispensable.

Equitability and affordability depend on agility

Ultimately, regardless of when the NHI comes to fruition, healthcare institutions should begin partnering with a TES provider if they haven't already. Along with providing medical professionals on demand, this comes with cost-saving benefits for the hospital or clinic. Not having to employ full-time staff to meet fluctuating needs is a cost-saving exercise. Not only from a wage standpoint but also from an HR perspective in terms of payroll, industrial relations and skills development.

The TES partner is responsible for all aspects of the employment relationship, while the healthcare institution gains access to qualified healthcare professionals as needed, at a fixed rate on flexible terms. This means that as soon as hospitals decide to invest in making their wards and spaces bigger and more efficient, they will have access to the medical resources necessary to staff them in a manner that enables equitable access to quality healthcare.

THE SOUTH AFRICAN PENSION SYSTEM IS AT THE BOTTOM OF THE GLOBAL RANKINGS


Allianz SE

Allianz have launched the second edition of its Global Pension Report, which analyzes 75 pension systems around the globe using its proprietary Allianz Pension Index (API). The index consists of three pillars: Analysis of basic demographic and fiscal conditions as well as determination of the sustainability (e.g. funding and contribution periods) and adequacy (e.g. degree of diffusion and pension level) of the pension system. A total of 40 parameters are considered, with values ranging from 1 (very good) to 7 (very poor). In the weighted sum of all parameters, the evaluation of the respective system crystallizes into one overall score.

No respite

The Corona pandemic has led to a decline in life expectancy in many countries; in a few, a (small) baby boom could even be registered. However, this is only a short-term interruption of the unabated and accelerating trend of societal aging, readable in the global old-age dependency ratio[1]: by 2050, it is expected to climb from 15.1% today to 26.3%; in 2019, an increase to "only" 25.3% had been forecast. The latest data from China, Korea or Italy, for example, point to speedup of demographic change," said Michaela Grimm, co-author of the report."

"In particular, birth rates are developing even worse than assumed, despite all family policy efforts. But it doesn't help to lament; we have to face the facts: The intergenerational contract has become fragile. The younger generations Y and Z in particular are being called upon to make (even) greater provision for old age themselves. The inconvenient truth is: they have to work longer as well as to save more and in a more focused way."

Busy standstill

The unweighted overall score for all pension systems studied is 3.6: barely satisfactory. Compared to our last report in 2020, this represents only a small improvement. On the one hand, this is hardly surprising. After Covid 19, war and the energy crisis, the fiscal space of most countries has narrowed even further.

On the other hand, however, it is very disappointing: the need for pension reforms is not in dispute, but rhetoric is rarely followed by powerful action: work on the pension construction site is not progressing. In fact, only a few countries such as France or China have managed to significantly improve their scoring through reforms.

France almost exemplifies the political dilemma of such reforms, as they turn the usual political economy on its head. Instead of handing out benefits today in exchange for impositions later, they require impositions today to avoid cuts later. The few pension systems that are doing well today – notably Denmark, the Netherlands and Sweden, with an overall score well below 3 (see table) – therefore also have one thing in common. They set the course for sustainability very early on, at a time when the demographic bomb was still ticking quietly. They can therefore serve as a model for many developing countries, which also still have a window of opportunity to stabilize their pension systems. In many other countries, however, it will hardly be possible without painful reforms.

Rethink

In addition to the technical details, such as contribution levels and periods, there is a key adjustment for sustainable and adequate pension systems: the social value of work. "Automation, digitalization and artificial intelligence are enabling universal access to education and thus new concepts of work. The dissolution of the rigid dichotomy between employment and retirement currently exists only for a privileged few. The pension system of the future starts by rethinking the world of education and work for all," said Ludovic Subran, chief economist at Allianz.

Reform needs

With an overall score of 4.2, the South African pension system is at the bottom of the global rankings. It is only small consolation that most other African countries have very similar scores. Problems include the low coverage, the low benefit level and the lack of retirement savings, imperiling the adequacy of the system. The South African pension system scores slightly better in terms of sustainability, mainly thanks to low contribution rates (which could ease future reforms).

Moreover, South Africa has two big advantages: it (still) has financial leeway as public spending for the elderly is very low and it will remain a "young" country: the old-age dependency ratio is expected to rise to 16.3% by 2050 – South Africa is set to be among the countries with the youngest population worldwide. Nonetheless, the sooner reforms are enacted the better.

Allianz services 49 markets in Africa through offices in Cameroon, Côte d'Ivoire, Ghana, Kenya, Madagascar, Morocco, Nigeria, Senegal, Uganda, Burundi, Egypt and South Africa through Allianz Global Corporate & Specialty.

The best pension systems worldwide with a total score below 3

Country	Total score	Basic conditions (score)	Sustainability (score)	Adequacy (score)
Denmark	**2.2**	3.0	2.5	1.4
The Netherlands	**2.6**	2.9	3.4	1.7
Sweden	**2.6**	3.1	2.9	2.1
New Zealand	**2.8**	3.1	3.4	2.1
USA	**2.9**	3.5	2.8	2.6
Taiwan	**2.9**	4.0	2.8	2.4
Israel	**2.9**	2.8	3.5	2.5
Belgium	**3.0**	3.9	3.0	2.4
South Africa	**4.2**	3.9	3.9	4.5

The report can be found here

PENSION FUNDS HOLD THE KEY TO UNLOCKING SA'S TRILLION RAND INFRASTRUCTURE INVESTMENT OPPORTUNITY

The South African investment community and pension funds, in particular, are sitting on the cusp of an infrastructure boom that provides an excellent opportunity for diversifying portfolios and supports the development of critical infrastructure for the country.

Pension funds should strongly consider the opportunity sparked by the South African government's ambitious investment drive. Under its Infrastructure SA (ISA) programme, the government is committed to raising more than a trillion rand over the next five years. However, the government is looking for more support from pension funds, which have been slow to invest in the country's infrastructure compared to similar pension fund participation in Europe and the US.

According to the Organisation for Economic Co-operation and Development's long-term investing of large pension funds and public pension reserve funds 2022 report, pension funds invested $211.8-billion in infrastructure in the preceding year. Investing in alternative assets, such as infrastructure, private equity, hedge funds, , and real estate, can help diversify pension fund portfolios.

Currently, alternative assets comprise only 8% of pension fund investments in South Africa, compared to 18% in Europe and 24% in the US. To make it easier for pension funds to invest, National Treasury has amended Regulation 28 of the Pension Funds Act.

Vuyo Ntoi, Co-Managing Director of African Infrastructure Investment Managers (AIIM)

"Taking advantage of the infrastructure investment opportunities will hopefully drive a shift in current trends which have reflected a steady decline in investment in fixed capital by government and private businesses since 2012, when the National Development Plan set targets for this measure, which have not been met."

This amendment introduced a definition of infrastructure and set a limit of 45% for exposure in infrastructure investment. While the overall allocation limit for alternative assets is capped at 27.5% under Regulation 28, pension funds are free to invest in a range of asset types, including bonds and listed and unlisted entities. Although there is no specific infrastructure sector instrument, pension funds can invest in a range of asset types to diversify their portfolios.

Such investment will not only help create jobs and stimulate economic growth, but it will also improve the country's critical infrastructure, which will benefit all South Africans. The government seems committed to working with the private sector to achieve its infrastructure goals, which presents an incredible opportunity for investors. The infrastructure backlog in South Africa is substantial, culminating in a number of infrastructure crises for the country.

The electricity crisis is the most visible to us because we experience it every day in our households and workplaces, but there are other problems. Issues around water delivery are linked to electricity problems, crumbling distribution infrastructure, and a backlog in the development of new bulk water sources across the country.

Some of the country's current infrastructure is not fit for purpose. We see some key institutions in the logistics sector crumbling from an operational performance perspective, owing to poor maintenance of existing infrastructure and reduced or flawed investment in new capital stock. As a result many businesses were not able to take full advantage of a commodity boom immediately before and after COVID-19.

Investment opportunities range from the development and construction of greenfield projects to investing in upgrades and refurbishing of brownfield projects. These assets are long-term good yield providers, and pension funds can participate either by buying debt through bank syndications, buying bonds that relate to a specific infrastructure project, by participating in private equity funds such as the ones managed by ourselves, publicly listed equity, as well as listed infrastructure equity funds. Taking advantage of the infrastructure investment opportunity will hopefully drive a shift in current trends which have reflected a steady decline in investment in fixed capital by government and private businesses since 2012, when the National Development Plan set targets for this measure, which have not been met. The amendments of Regulation 28 and the investment power of pension funds are critical to reverse the funding decline that has in part led to the crises we currently face.

PROTECTING THEIR FUTURE PAYDAYS

How to help your clients understand some income protection basics

It is a well-known adage in our industry that a client's ability to earn an income is their greatest asset. But according to the latest South African insurance gap study published by ASISA in 2022, which found a disability insurance gap of around R19 trillion, clients are simply not doing enough to secure their future paydays.

To help your clients understand the need for income protection, framing the discussion around the value of every payday and what they can do to keep those paydays coming even if they were to get sick or become disabled, may present a useful entry point for this important discussion.

Clyde Parsons, Chief Innovation Officer, BrightRock

When it comes to income needs, age matters

Any person who works for a monthly salary and is dependent on that salary, needs income protection until they reach retirement age. And young people actually need a lot more disability cover than older people. That's because the total amount of cover your client needs to protect their remaining pay cheques usually reduces as they age, as they will have fewer and fewer paydays left to protect over time. The insurance gap study shows that clients tend to be under-insured at younger ages, and over insured at older ages – or to buy down cover as they get nearer to retirement age. That's because, when they first start out in a career, a client's need for income protection is typically at its highest because of the dependency on their income for the rest of their working life. As they start to near retirement age, their children will be likely to have left home and their debts will be paid off, and with fewer paydays left to protect, their financial responsibilities will start reducing. Their retirement savings should kick in at retirement age to provide them with an income once they stop working.

A good income protection product will therefore match your clients' changing needs over time, by offering the following features:

- Track the value of their remaining pay cheques: Typically, this cover will start out fairly high and increase initially to match your increasing financial needs. Then, as your client nears retirement, the cover for their income protection needs will start reducing as they near retirement. There are many products on the market that start off with very low premiums when clients' financial exposure is at the highest but offer more cover later in life, when they actually need less cover. The structure of these products means that as cover grows, so do their premiums – this could compromise affordability later in life while leaving your client with a cover short-fall today.

- Certainty of pay-out: Clients should know what they will receive when they claim. For example, if it's a lump sum, clients should have guaranteed certainty around the income they can buy with the lump-sum. It's also vital that clients understand the claims criteria. Will their claim depend on objective clinical criteria or the insurer's subjective view of whether they can earn an income or not? Will their pay-out be reassessed in claim, even once permanence has been established? These questions deserve careful consideration to ensure your client knows what they can expect.

- Flexibility is an equally important feature: Because no two individuals' needs are the same, a needs-matched approach enables clients to change their choice of a lump-sum to a guaranteed recurring income pay-out (or any combination of income and lump-sum) at claims stage, when they know what their prognosis is and what their financial circumstances are. This provides your clients the best of both worlds – an income and a lump-sum benefit in one. The ability to change their cover as their needs change without medical underwriting is also vital. BrightRock offers clients the ability to buy more cover when their needs change or to convert their disability cover to a different benefit, such as life cover or dread disease cover. Because this is free of medical underwriting, clients have certainty of cover, whole of life.

While the insurance industry tends to categorise income protection and capital disability cover as separate benefits, it's to understand the interplay between the two through a comprehensive approach that takes account of their changing needs. Inefficient traditional product structures mean that clients' decisions have often been driven by what they can afford, rather than what will best meet their needs. By structuring cover efficiently through a needs-matched approach, which aligns with how clients' income needs typically change over time, it is possible to offer clients more disability cover for their premium rand, while locking in greater certainty of claim, protecting their future insurability, and offering them the ability to choose the pay-out option that best meets their need at claim stage.

OFFSHORE

"The exchange rate is just one of the considerations to look at when investing offshore but it should never be the sole reason to invest offshore." - Eugene Taljaard, regional manager at Momentum Investments

HOW TO INVEST OFFSHORE


David Crosoer, Chief Investment Officer at PPS Investments

The rand is optically undervalued most of the time, but this is partly because South Africa is becoming structurally less competitive. One implication is investors should not be too preoccupied with the level of the ZAR when making long-term investment decisions.

Many investors remained scarred after investing in foreign equities in the late 1990s when the ZAR was extremely undervalued, and foreign equities were extremely expensive. Understandably, perhaps, the 'rule of thumb' is that one needs a strong rand before investing offshore, but in most instances, this is not in fact the case.

The rand has traded at extreme weakness just a handful of times over the past thirty years, and typically not for long. Even then, the relative outperformance of (say) SA over foreign equities from these points are less clear-cut than one might think.

The South African equity market is concentrated in a handful of large stocks that often are global in nature and consequently the distinction between investing in global companies listed in Johannesburg and investing in global companies listed offshore is less pronounced than one might at first think. Our investment framework (i.e., when we buy foreign equities) tends to ignore the ZAR unless it is at extremes. Even then, it is not always clear that it sends a reliable signal (i.e., that foreign equities will underperform). More generally, we expect the ZAR to continue to depreciate over time and model an additional 2% p.a. depreciation of the ZAR over and above that implied by the interest rate differential. This makes foreign investments at almost any currency level attractive, especially if we have a sufficiently long investment horizon.

The relaxation of foreign exchange control limits to 45% has made a meaningful difference in diversifying away from SA specific equity risk even in more aggressive balanced mandates where the bulk of South Africans investment savings are found. Our strategic asset allocation framework now equally splits between SA and foreign equities across all risk profiles, and we increasingly make use of active global equity managers to deliver competitive returns for clients. We believe investing in global companies that earn hard currency insulates SA investors to some extent from the erosion of their own rand-based purchasing power, which we expect to continue as long as the economy remains uncompetitive.

At the same time, our multi-manager research process gives us access to exceptional global asset managers with compelling multi-decade track records of impressive outperformance. Unsurprisingly, then, we tend to favour foreign equities over other asset classes when we invest offshore. In addition, given we expect the ZAR to continue to depreciate over time, over-and -above that implied by the interest rate differential, we typically do not try to hedge this currency risk.

By Fabiana Fedeli,
Chief Investment Officer: Equity, Multi-Asset and Sustainability at M&G Investments (UK)

INVESTMENT CAUTION REQUIRED AS GLOBAL RISKS PERSIST

So far in 2023, global financial markets have experienced some wild swings, dictated by the guessing game over growth, inflation and the path of US interest rates. Banking sector jitters have also added to the uncertainty, with investment managers having rarely seen such dramatic shifts in market views in such brief timeframes.

This is why caution is required when investing at the moment, because no one can predict what will happen in the world's largest economies. Even though consensus expectations point to recessions in the US, UK and Europe over the near term, GDP growth estimates have been revised upwards, and the odds for recession have fallen. History has shown that previous recessions related to interest rate hikes have occurred with a 5- to 15-month lag from the last rate increase, and have varied in severity. In reality, no one can be sure about the timing and extent of a downturn.

"Despite the highly uncertain environment, we still see ample opportunities to generate above-market investment returns going forward by using a relative-value approach across both global equities and bonds."

In such uncertain conditions, one must avoid the guessing game and go back to fundamentals to determine how best to invest. Consequently, we are broadly neutral to underweight global equities based on prevailing valuations. Now is not the time to take on broad country or sector bets. Corporate earnings in the US, UK and Europe have been mixed, but reasonably resilient, generally beating estimates. But global equity valuations differ widely across countries and even within sectors, with individual companies offering a wide variety of dividend and earnings yields. As such, investors need to be selective in choosing equity exposure.

In M&G's view, US equities are more expensive than their counterparts in Japan, China and certain other emerging markets, which offer good value on a relative basis. As such, our multi-asset portfolios are overweight the latter markets at the expense of the US, Canada and Australia, among others, and they are carefully diversified to reflect the elevated uncertainty.

Meanwhile, global bonds are a relatively safe bet, now offering the highest real yields in 10 years after the past year's central bank rate hiking cycle. Some government bond yields are equivalent to certain equity earnings yields, but with much less risk, so we have been happy to have increased our fixed interest holdings over the last few months. This includes 30-year US Treasuries as a way to offset equity risk, and because real US Treasury yields are generally higher than their European equivalents. Certain emerging market bonds are also offering attractively high yields for the risk involved. However, our portfolio positioning is broadly neutral in global bonds, given the still-high interest rate risk prevailing worldwide. Should inflation remain stubborn and continue to surprise to the upside, investors could face more rounds of central bank rate hikes that will further undermine bond prices.

So with global equity and bond valuations not offering adequate potential returns for the risk involved, our global cash holdings are higher than average. This is for diversification purposes and to take advantage of any future tactical opportunities that might arise when assets become mis-priced.

Despite the highly uncertain environment, we still see ample opportunities to generate above-market investment returns going forward by using a relative-value approach across both global equities and bonds. In our view, there is no need to try to predict the next direction of interest rates or the likelihood of a recession and take directional bets. Instead, focus on fundamental valuations of specific stocks and bonds, be sure to stay carefully diversified, and make volatility your friend by using short-term mis-pricing to add high-quality assets at attractive valuations.

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OFFSHORE INVESTING: WHAT ARE YOUR OPTIONS

While the benefits of offshore investing are relatively well known and doing so is an attractive concept to many South African investors, the process is often perceived as complex and overwhelming. But it doesn't have to be. There are two main ways in which to invest offshore, which I detail below.

As a reminder, some of the advantages of investing offshore include:

- Diversification: Investing offshore can help lower the overall risk of an investment portfolio. The South African stock market makes up a mere 1% of the global stock market, which means investors could be missing out on 99% of global equity opportunities. It's also highly concentrated with a number of large companies and sectors dominating returns. Investing outside our borders could protect against concentration risk.

- Exposure to global themes: High-growth and rapidly changing sectors like pharmaceuticals, biopharmaceuticals, aerospace and technology are underrepresented in our domestic market. By investing abroad, investors can increase their exposure to global companies and investment themes that they can't necessarily access in South Africa.

- Protection against currency devaluation: If you're concerned about an uncertain political/economic backdrop and protecting global spending power, offshore investing can help guard against any potential depreciation of the rand. The rand as an emerging market currency has a history of volatility and investing offshore can help to preserve wealth when it weakens.

- Increase in foreign currency costs: If an investor is planning on educating a child overseas, supporting a child's international move or if they themselves plan on emigrating and/or retiring abroad, they may need to prepare financially by increasing their allocation to foreign assets in order to mitigate exchange rate risk.

Philip Robotham, Head of Intermediary at Schroders, South Africa

What are the options?

Direct exposure:

You can convert rands into foreign currency by physically moving your money from a South African bank account into an offshore account. 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 annually with the approval of the SARB and a tax clearance certificate. This takes the total amount of cash a client can move abroad to R11 million. Once this physical cash is in an offshore account, the funds can be used to invest directly in offshore assets.

There's quite a lot of administration involved in this route, not least of which is understanding and abiding by local regulatory requirements including the tax treatment of these investments. Most foreign-denominated offshore investments also stipulate a minimum investment amount that can be fairly high for your average investor. On the plus side, there's a lot of flexibility associated with this approach and you can choose the currency you receive your proceeds in.

Indirect exposure

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 45% of their assets overseas
- A foreign-administrated rand-denominated local unit trust that invests entirely offshore. These are known as "feeder funds".

Both structures afford 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 your are happy that the proceeds from any divestment are paid in rands. And importantly, this route can be the most accessible way to access offshore markets as some funds accept a minimum investment of R500.

All investors should be sure to understand the tax considerations and estate planning consequences of owning assets abroad. For more information of tax considerations and estate planning, please contact an adviser or consultant.

Multi-asset funds benefit from an integrated process

John Gilchrist, Co-Chief Investment Officer, PSG Asset Management

Multi-asset funds are, by their nature, designed to provide clients with a 'whole' portfolio experience through combining a variety of asset classes to balance risk and return. Yet we often find that, when managers run these portfolios, they don't do so on an integrated basis.

Instead, fund managers will often run multi-asset portfolio allocations along asset class lines, and manage components of the portfolio against various benchmarks. While most multi-asset portfolio managers are closely involved with the South African equity component of their funds, many outsource management of offshore equity, property and/or fixed income components to other teams or companies. They will then also assess the performance of these outsourced components against various indices.

For example, most local asset managers manage the SA equity portion against the FTSE/JSE Capped SWIX All Share Index (Capped SWIX) and assess the teams running the outsourced assets against relevant benchmarks (for example the MSCI World Index for global equity, SA Listed Property Index for local property and the All Bond Index for local bonds). We believe this practice risks delivering a sub-optimal outcome to investors at certain points in market cycles.

One reason is that it can be challenging to integrate all the interactive effects and the unintended correlations on a dynamic basis when combining different building blocks. We believe that there are good reasons to use a building block approach, but that the overall outcome can be improved when augmented with a dynamically fully integrated portfolio as part of that process. PSG Asset Management is one of few local managers running a globally integrated, bottom-up selection process, offering a truly differentiated approach that holds some key advantages in helping to secure better long-term portfolio outcomes.

One reason for the tendency to outsource global allocations is the widely held belief that South African managers can't run global portfolios successfully. Often, the reason cited for this view is that local managers simply lack the expertise or the resourcing to do so effectively, given the vast universe of investible assets available in global markets. However, an unintended consequence of this approach is that decisions around global and local allocations are pegged to benchmark weights and exposures, rather than on the merit of individual opportunities.

If one started with a blank piece of paper, equity in a South African multi-asset fund should consist of the most attractive global equities (regardless of whether they are listed in SA or not) and SA-listed shares where local asset managers have substantial experience analysing the companies and know the environment extremely well. Instead, a focus on benchmark weightings within a multi-asset portfolio can lead to the inclusion of shares that we would argue shouldn't make the cut. Analysis by Avior indicates that only 42.7% of the Capped SWIX's revenues are generated in South Africa. The top 10 shares by index weight account for 43% of the Capped SWIX, but on average they generate only 27.4% of their revenue locally.

If you remove the largest local banks (Firstrand, Standard Bank and ABSA), the remaining seven shares on average generate less than 9% of their revenue in SA. These shares, many of which are dual-listed, should ideally compete against their global peers for inclusion in any client's balanced portfolio, but are frequently default inclusions due to their prevalence in index benchmarks. Use of a local equity benchmark within a fund that can also invest directly offshore forces that fund to hold potentially less attractive SA-listed global shares, to the detriment of the investor.

While we acknowledge the significant headwinds and challenges South Africa is currently facing, one should not conflate poor economic prospects with poor investment opportunities. A number of SA-focused companies have managed to grow earnings strongly over the last few years despite the economic challenges. Not only have these companies proven their resilience and ability to grow in a tough environment, but the outlook for their future earnings growth is attractive.

Despite this, they are priced as though they will never grow earnings. In addition, if the South African environment proves less challenging than current sentiment suggests, these companies will perform incredibly well, with less resilient competitors having fallen by the wayside over the years. Most of these attractive SA Inc. opportunities lie outside the top index constituents, however, making their meaningful inclusion in the typical balanced fund unlikely. Many larger asset managers may also struggle to make meaningful investments in smaller SA focused shares due to liquidity constraints.

An analysis of the largest balanced fund unit trusts at the end of 2022 reveals that:

- Offshore equity allocations remain fairly low at 25.9%, despite the Regulation 28 offshore limit having been increased to 45%.
- A sizeable additional effective offshore exposure of 22.4% is obtained through locally listed shares that generate revenue globally.
- There is limited exposure to smaller SA Inc. shares (less than 7% of the portfolio on average) – we believe some of these shares are among the best investment opportunities globally due to the extremely poor SA sentiment and resultant low ratings.

The table overleaf compares the average portfolio composition of the largest balanced funds to that of the PSG Balanced Fund. It highlights the extent to which following a globally integrated process can result in different portfolio composition and outcomes. The PSG Balanced Fund holds only two of the largest shares in the Capped SWIX (Anglo American and Standard Bank), preferring to invest directly offshore in the best global opportunities as is evidenced by the higher direct offshore holding than average. In addition, the fund has a sizeable exposure to smaller SA Inc. shares (including for example true SA Inc. shares like Hudaco and Kaap Agri).

An analysis of the largest balanced fund unit trusts at the end of 2022 reveals that:

31 DECEMBER 2022	AVERAGE FUND	PSG BALANCED
Equity & property physical exposure	**65.6%**	**75.9%**
Offshore equity	**25.9%**	**28.9%**
Local equity	39.1%	41.8%
SA inc (look-through based on revenues)	16.7%	24%
Sa inc mid cap (look-through based on revenues)	6.8%	17.3%
SA bonds	15.7%	20.5%
Offshore cash & bonds	8.5%	1.7%
SA cash	6.5%	1.9%
Other	3.7%	
Total	100%	100%

Source: PSG Asset Management analysis

We believe a globally integrated investment process allows the fund manager to construct optimal portfolios and to assess SA-listed opportunities more objectively. By contrast, any limitation on investment freedom is likely to drive poorer performance over the longer term and can have a substantial impact on returns generated for clients. PSG Asset Management has been investing globally since 2008, with a fully integrated process and portfolio managers making the instrument level investment decisions across all asset classes.

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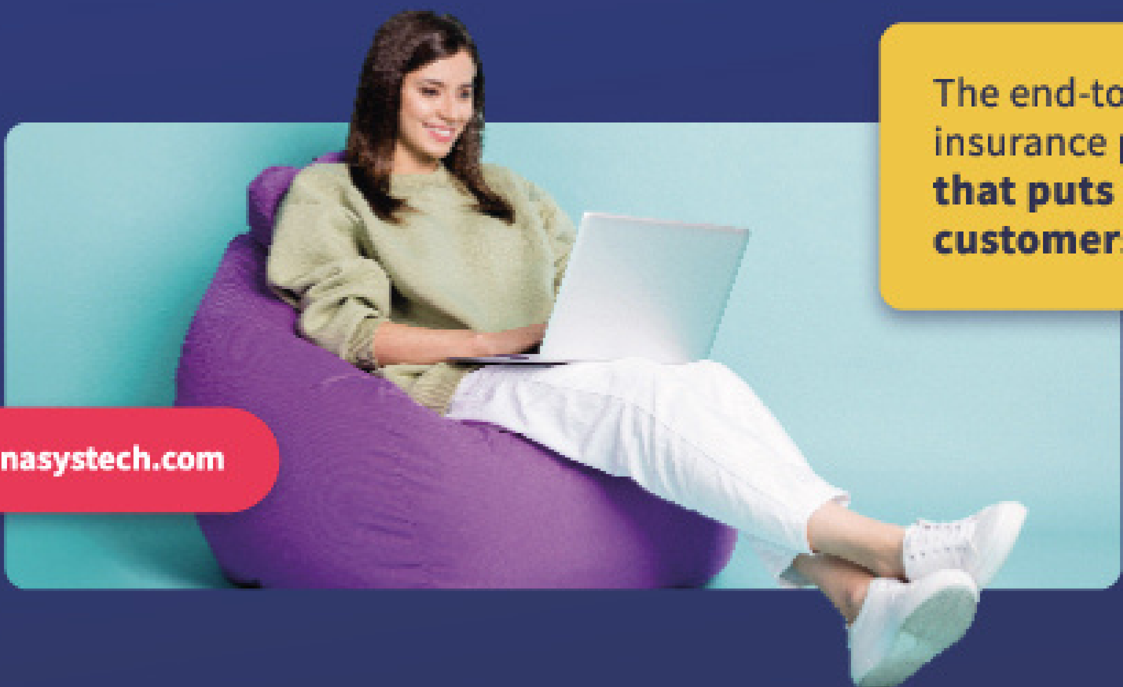

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WHEN IS THE BEST TIME TO INVEST OFFSHORE?


Eugene Taljaard, regional manager at Momentum Investments

One of the most common questions financial advisers get from clients is: "When is the best time to invest offshore?"

It is a loaded question because advisers are often faced with the conundrum of trying to manage clients' behavioral biases while sticking to a specific investment goal or journey. When looking at the current exchange rate, one can argue that now may not be the best time to invest offshore. The currency is probably at its weakest since the height of the Covid pandemic. Investors are anxious whether the US will go into a full-blown recession and locally there aren't too many good things to support our currency.

Waiting for the best time to invest offshore is sometimes just a different way of saying that you are trying to time the currency. It is important for investors to realise that the currency being at the perceived "best" level is never reason enough to invest offshore. Investing is personal and clients would be far better off articulating their needs and objectives to a qualified financial adviser and putting the right asset allocation in place to meet that needs and achieve the objectives. Where that need includes offshore exposure, the focus should then be on the most feasible way to implement the plan given the clients circumstances.

Only focusing on the rand exchange rate can often lead to a case of nothing ventured nothing gained there will always be reason to wait a little longer. There will be periods where the currency is undervalued and likewise periods where its overvalued. Research, however, suggests that making the right call on the exchange rate does not make a substantial difference to the outcome when investing offshore over the long term. Clients are therefore better off focusing on getting the right asset allocation in place along with a suitable product or structure that can make a meaningful difference to their outcome. But that's where the behavioral aspect comes in – clients are often reluctant to put a plan in place because of noise in the market, whether it be market related or currency related.

Luckily there are a few tools to mitigate risks, especially where clients have sizeable assets they want to move into a different currency. Investment platforms and authorized forex dealers have a number of risk-mitigating tools that can help advisers manage clients' expectations and behaviors. The Momentum Wealth International platform, for example, allows investors to phase in their investment over a period of time thereby limiting their exposure to the market and providing them with a gradual transition into the assets they need. Forex providers similarly offer trading tools that allow trades to execute when a specific level of the exchange rate is available or, in some cases, derivate instruments like forward contracts that allow clients to 'lock in' an exchange rate to trade in the future.

"The exchange rate is just one of the considerations to look at when investing offshore but it should never be the sole reason to invest offshore.."

The exchange rate is just one of the considerations to look at when investing offshore but it should never be the sole reason to invest offshore. Things like where the investment will be held, what type of product or structure will be used and how this will influence the client's tax situation both during their life and at death are far better elements to spend time on getting right. Those are typically the elements advisers and their clients should focus on – those that are in their control – and not the currency nor the market. For more information on investing offshore, visit Global Matters on our website at momentum.co.za.

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Should you go for gold in your portfolio?

Christiaan Bothma, Investment Analyst at Sanlam Private Wealth

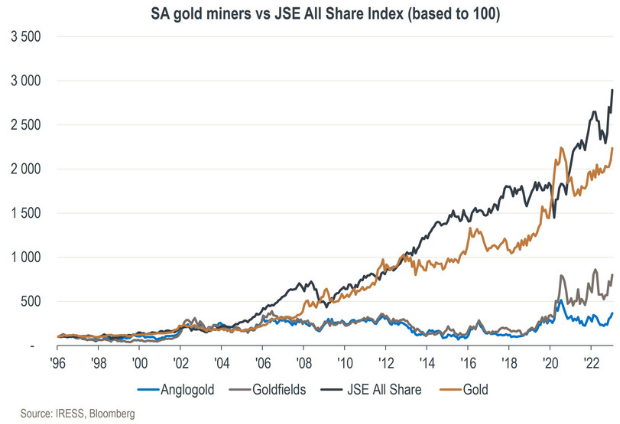
Views on whether to include gold in an investment portfolio tend to be highly polarised investors seem to either love it or fail to see the investment merits of the precious yellow metal. In our view, owning gold can be highly lucrative in an equity portfolio context – in times of crisis, it can provide valuable currency when other shares are cheap.

Gold tends to do well in an environment in which other risky assets struggle, but it performs poorly in times of economic expansion and increased risk appetite. One typically wants to own it when you expect real interest rates to decline (when you think central banks will start cutting interest rates or inflation will rise significantly while global growth slows – the so-called stagflation seen in the 1970s). Conversely, you need to be wary of gold investments when you expect interest rates to increase while inflation remains under control – this is typically when gold's outlook relative to other asset classes doesn't look too promising.

Gold Shares or Physical Gold?

If you're going for gold in your portfolio, the question arises as to which of gold shares or physical gold is the better choice. As is to be expected, gold equities have a strong correlation with gold prices (over the past decade, Goldfields and AngloGold Ashanti have shown a correlation coefficient of >0.7 to the rand gold price) and should therefore do well when gold prices rise. So as a starting point, the merits of gold shares are similar to those of physical gold – they tend to do well in an environment in which other risky assets perform poorly.

However, over the past few decades, gold shares have significantly underperformed both physical gold and the JSE All Share Index (ALSI) on a cumulative basis. From 1996, assuming dividends were reinvested, the ALSI returned 13% and the rand gold price 12% per annum, while Goldfields and AngloGold returned just 8% and 5% respectively. As can be seen on the chart below, R10 000 invested in 1996 in the ALSI would have yielded R289 500 today, compared to R223 500 for physical gold, R80 100 for Goldfields and R36 600 for AngloGold.



Gold company management teams globally have, on average, not been good allocators of capital. South African listed shares have also been faced with ageing and ever-deepening local mines, leading to company profits largely being spent on diversifying offshore while paying very low cash returns to shareholders. This has therefore not been an investment you wanted to own through the cycle – if you managed to make money from gold shares you needed to have traded them very well, as illustrated on the chart.

What is clear, however, is that there are certain times (for example, in 2008/09 and 2019/20) when owning gold equities can be very lucrative in an equity portfolio context. As we've mentioned, like physical gold, gold equities tend to perform well during a crisis when other shares don't, providing valuable currency at a time when other shares are cheap.

Why We added to Gold Shares

After not owning gold shares for more than a decade, we decided to initiate a position in mid-2022, as we felt the macro backdrop presented several scenarios in which gold and gold shares could potentially do very well. The major risks were an inflation spiral where the US Federal Reserve (the Fed) did not have the ability or willingness to bring inflation under control as the economy weakened, or a large escalation in geopolitical tensions. In addition, we believed that the price of gold as insurance was at that stage not excessive – it was priced in line with the expectation for forward-looking real interest rates, and South African gold equities were trading on single-digit multiples.

Our preference was, and still is, for AngloGold Ashanti. Its large JSE-listed peer, Goldfields, had performed much better operationally over the preceding three years – it outperformed AngloGold by more than 100%. The latter had also been experiencing a leadership vacuum but found a credible CEO in the Colombian Alberto Calderon, with a clear strategy to improve the performance of the company's mines. We were therefore of the view that there was ample room to catch up to Goldfields, off a low base.

Our Current View

AngloGold's performance since then has surprised to the upside. At the time of writing, the company has rallied by more than 50% compared to the market's 20% and rand gold prices' 12%. This has led us to take profits, as we feel the cost of owning gold shares (insurance) has increased too much. In addition, with inflation cooling across the globe, the likelihood of stagflation (the real bull case for owning gold and gold shares) appears to have declined quite significantly.

Despite taking profits, we do, however, maintain a small weight in AngloGold, as there are still a few macro scenarios that could lead to an outcome where gold does even better. Most notably, we could yet see an escalation in geopolitical tensions or a severe global recession, which would force the Fed to change course and to start cutting interest rates. In these scenarios, we still see meaningful upside in the gold price and in gold shares.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Offshore: Still a serious consideration

Brandon Naidoo, Liberty's Head Specialist for Retail Investment Propositions

Tony van Niekerk discussed offshore investments with Brandon Naidoo, Liberty's head specialist for retail investment propositions. The conversation revolved around the viability and importance of investing offshore, especially considering the current state of the South African economy and the depreciating value of the rand.

Brandon emphasized that offshore investment is not just about currency fluctuations, but also about diversification and accessing a broader range of investment opportunities. He highlighted that relying solely on the South African market goes against the concept of diversification and investing only in one emerging market country like South Africa, whose GDP makes up only 0.4% of the global GDP, may not be wise.

Brandon further explained that the opportunity set on the Johannesburg Stock Exchange (JSE), the biggest stock exchange in Africa, has reduced significantly over the past 23 years, with the number of listed companies decreasing from over 600 in 2000 to around 310 currently. He also pointed out that the dominant sectors on the JSE are financial services, resources, and mining, whereas globally, sectors like clean energy, robotics, artificial intelligence, and semiconductors are set to dominate in the coming decades.

Regarding the currency, Brandon acknowledged that it is an emotional factor in investment decisions, but he also highlighted that the stock market and the economy do not always move hand in hand. Many South African companies already earn a sizeable portion of their earnings from offshore operations, mitigating some of the currency risks.

Role of the advisor - As far as advisers are concerned and how they should work through this environment themselves, to make sure that they understand and know how to diversify offshore in a safe way for their clients, Brandon stated that there are a few different layers to this. The first level is understanding what the client is trying to achieve and what their family dynamics are, which is going to help you to decide which instrument is best. We keep talking about investing offshore, whether it is directly or indirectly, it needs to happen via an investment instrument. So, do you go offshore via a unit trust?

Do you go offshore via an endowment? Now these are questions that will be answered by the advisor, but it is only after consultation with the client based on their needs. He used a few examples to explain this. According to him, the basic difference between a unit trust and an endowment wrapper or a life wrapper is that with a unit trust you are going to pay tax as a client in your own hands.

So you will need to declare all the interest that you earn, all the capital gains that you make, and you will pay tax on this in your own hands, whereas with the life wrapper or with the endowment, it is the company or the financial services provider that pays tax according to what is called the five fund taxation approach. The tax is taken care of for the investor, who receives the proceeds net of tax. Some people say tax free, which is incorrect. It is net of tax because there is tax being paid. It is just being paid by the financial services provider on investor returns rather than paid by the investor directly.

He stressed that tax is one component and access another. As an advisor, you speak to the client and realize that this client needs access to the funds within the next year or two, then suddenly the decision is between unit trusts or a collective investment scheme. According to Brandon, the ability to nominate a beneficiary could be a further consideration, because you will be able to do that with an endowment, but you will not be able to do that on the side of the unit trust.

There are a few extra layers specifically for business owners, said Brandon. They tend to prefer the endowment because of creditor protection. Section 63 of the long-term insurance act talks to creditor protection if your investments have been in place for a period of greater than three years, and beneficiaries are spousal children, creditor protection can come into play as well. He continued: "State duty is going to be payable either way. So, whether you decide to go via a unit trust or via an endowment, a state duty is payable. But I want to, at this point, bring your attention to when you are going offshore. When you invest in a collective investment scheme offshore, there is something called Situs".

He explained that Situs is essentially a state duty of the country that your investment is housed in. He used the example of the UK, where Situs is levied at a level of 40% on values that exceed 325,000 pounds. There is a rollover benefit where if it is yourself and your spouse, you can roll over. So, you only start paying from double that amount of 650,000 pounds. But Situs is levied at 40% and in South Africa we are more familiar with the 20% estate duty and 25% if it is greater than 30 million.

Brandon mentioned that the next decision lies in whether the investment is indirect or direct? If direct is the option, he recommends hard currency, US dollar, as the investment of choice. Once you have made that decision you determine whether you go off via a collective investment scheme or via a life wrapper? According to him, these types of questions will help the adviser decide. The next stage in the process is, assuming you have gone the endowment route, which is quite popular when you are going offshore in hard currency, is deciding which funds to invest in?

Besides the above, he highlighted the challenges of navigating regulations related to the various investment options and emphasized the importance of working with an accredited financial advisor who will explain different routes for offshore investing, including indirect investing through financial service providers and direct investing in hard currency.

He mentioned that, while interest rates in offshore currencies have improved, they may not be as attractive to South African investors compared to local investments, noting that the role of the financial advisor is crucial in understanding clients' unique circumstances and goals, and helping them choose the right investment instrument for their needs, such as unit trusts or endowments.

Knowledge is key - In conclusion Brandon emphasized that financial advisors need access to knowledge, advice, and expertise to make informed decisions about offshore investments, as it is impossible to have all the knowledge about different jurisdictions. From a Liberty perspective, they do provide support structures, such as investment specialists, legal marketing specialists, and international fiduciary services, within their "offshore ecosystem" to assist advisors in providing suitable advice to clients.

Liberty's flagship products, the Liberty Offshore Investment Plan and Liberty Global Direct, are options for advisors to look at as the company's Invest team conducts due diligence on fund managers to help advisors make informed decisions about suitable funds for their clients' needs.

AGRI-INSURANCE

"To successfully change the mindset of small farmers about agricultural insurance will require skilled brokers." - By Thokozile Mahlangu, CEO of the IISA


Thokozile Mahlangu, CEO of the IISA

Despite exposure to huge risks SA's SME farmers remain largely uninsured

While it is a fact that businesses always face the risk of disasters that might result in unrecoverable losses, the reality is even worse for agricultural businesses, with farming being one of the riskiest activities to engage in.

Along with the typical business, financial and market risks that affect other industry sectors, farmers are also exposed to risks related to nature, climate and weather events such as floods, hail, cold and drought. Unfortunately, the situation is becoming increasingly worse as a result of climate change. Research by the United Nations Office for International Disaster Risk Reduction (UNIDRR) reveals that when looking at agriculture, industry, commerce and tourism combined, the agricultural sector bears about 63% of damage and loss from disasters.

Yet, small and medium farmers in South Africa remain hugely underinsured, even though they face risks beyond their control that could wipe out their livestock, crops and infrastructure. This is despite the fact that more underwriters have started to sharpen their focus on agricultural insurance, particularly for smaller and emerging farmers.

However, some industry bodies argue that the prevalent attitude among many farmers seems to be that agricultural insurance is an investment in a service that they are unlikely to ever need and so they would rather save the money or invest it elsewhere. This is perhaps not surprising, considering the tough economic climate that is forcing many farmers to tighten their budgets and do more with less.

But this is forcing many farmers to become risk-takers who choose to rather invest their money and hope that nothing goes wrong. Unfortunately, this is a recipe for disaster as a catastrophic event can occur at any time, potentially putting the farmer out of business.

Well-established agricultural enterprise VKB Group has previously weighed in on this issue, claiming that smaller farmers are often opposed to insurance because many of the crop insurance products are simply not available to them, but only to larger farmers. Despite this perception, there a number of products in the market that are aimed at smaller farmers.

VKB has also found that there seems to be a lot of confusion among small farmers about how insurance premiums work, with many believing that since they are insured, they are guaranteed a high pay out in the event of instituting an insurance claim. Yet, this is not always the case as there are rules and policy conditions that need to be adhered to, and this can lead to disappointment and distrust of insurance products among farmers.

However, considering the risks and their potential impact on a farmer's livelihood, small and medium farmers should start viewing agricultural insurance as a crucial component of their business.

"Underwriters must ensure that their products are tailored to the needs, challenges and risks faced by small and medium farmers in order to meaningfully establish themselves in this market."

This naturally presents a significant opportunity for brokers and underwriters who have the potential to make inroads into this underserviced sector and in so doing provide a vital safety net for the country's food security, as well as for the thousands of jobs that small scale farming provides for South Africans.

But to successfully change the mindset of small farmers about agricultural insurance will require skilled brokers who can provide context and act as experts who can guide and advise farmers about the risks they face and the insurance products and services that will best meet their needs. Similarly, underwriters must ensure that their products are tailored to the needs, challenges and risks faced by small and medium farmers in order to meaningfully establish themselves in this market.

Like in other economic sectors, agricultural insurance requires farmer-specific assessment. Brokers and underwriters alike must be aware that the demand for insurance will differ significantly from season to season, the type of crop, weather conditions and the farmer's financial position. While it is difficult to predict what the ultimate uptake of agricultural insurance among small and medium farmers will be, it can well be argued that more could be done in terms of developing insurance products for farmers, but this calls for closer collaboration between various stakeholders along the value chain.

THE RISE OF INDEX INSURANCE:ENSURING FOOD SECURITY AND THE CREATION OF JOBS

With biodiversity and economic issues taking centre stage in South African agriculture, we believe that index insurance offers a unique solution to farmers.

With approximately 1.3 million smallholder farmers and 40 000 commercial farmers, both are exposed to the same risks. However, the challenges faced by the former are unique due to a number of factors. These challenges present an opportunity for insurance products that fit the nature of these farmers.

What is index insurance?

An index is defined as a measured value of a parameter such as rainfall, temperature, soil moisture etc. It pays out if a particular measure, for example rainfall, is above or below a certain level.

Daniel Stevens, Head of Agriculture-Crop Insurance at Santam

With index insurance if the measure drops below, or is above, a predetermined level the policy will pay out to the farmer or the insured. Therefore, there is no waiting period for an assessor to assess the damage. This is because it takes the actual measured variable such as rainfall throughout the insurance cover period into consideration and compares it to the historical average for the same grid and period to determine the deviation from the historical average. This product is currently available in other African countries such as Kenya, Mali, Uganda, and Zambia and is dependent on government support and subsidies. In countries such as the USA, India, and China, multiperil agricultural insurance is subsidized in order to promote food production and sustainability.

Although not readily available in South Africa just yet, Santam has identified it as viable solution to provide much-needed cover for farmers, especially small and medium farmers. Santam has completed a pilot on a Soil Moisture Index product in collaboration with the South African Insurance Association, The Department of Agriculture, Land Reform and Rural Development, the Financial Services Conduct Authority, and the Prudential Authority and a decision is pending whether it will be permitted or not.

What Types of indexes are available for farmers?

Weather Based Index Insurance is concerned with a predefined critical weather event such as soil moisture, rainfall, temperature etc. The structuring of this index is based on a weather parameter. The payout triggers when the insured parameter hits the agreed threshold. For example, if the soil moisture content needed for optimal plant growth should be 40% but the available moisture for the plant is below or above that – leaving room for soil moisture deficit of excess soil moisture content, given the agreed threshold between the insured and the insurer, a payout may be triggered.

Area yield index insurance considers the reference yield per crop per region. The yield guarantee level is based on reference yield which can be an average yield in a region - and therefore a payout triggers when the actual yield falls below the guaranteed yield, which is benchmarked against the average area/regional yield, hence the term Area Yield Index. Normalized Difference Vegetation Index (NDVI) is a product that is used to quantify vegetation greenness and is useful in understanding vegetation density and assessing changes in plant health which affect plant quality. A payout triggers when the measured parameter falls below the agreed threshold.

Which index products are available in South Africa? While the country awaits the index insurance products to be legislated in the insurance act, the implementation of these products will see job creation in South Africa reaching higher levels thus greatly impacting the long-term economic performance of farms and the country. Should this product be permitted in South Africa, and purchased by farmers, there would be a great impact on the long-term economic performance of farms. This is because insurance has a stabilizing effect on income through indemnity payments on insured losses. A stable income often is a condition to receive financial loans and to be able to invest.

Farm investments are necessary for farm growth. In addition, some production activities are too risky without insurance or on-farm risk reduction measures are not possible or not efficient. When having insurance, farmers are able to readjust their production strategies and thus improve the economic performance when measures of risk avoidance or risk reduction are less efficient.

SHORT TERM INSURANCE

"Insurance can be the final line of defence against poverty."
- Prin Munsamy, Solutions Actuary at Metropolitan GetUp

Broker growth
Which levers to pull?

An independent COVER survey

The purpose of COVER's Future Fit Broker Survey is to track the levers to growth, as seen by brokers themselves. Our first survey assisted us in determining certain levers and to measure the impact these have, based on the opinions of surveyed brokers.

About two thirds of brokers surveyed felt their growth outlook to be stagnant or under 10%. Only one third expects growth higher than 10%. This underlines the importance of finding and using the levers to growth that will assist the intermediated market to grow.

Those expecting under 10% or stagnant growth sited economic growth (mostly clients downsizing and business failures), emigration, direct challengers, a hardening market, and the regulation burden as reasons for the lack of growth.

The one third that expects over 10% growth are those focusing on selling and new clients, diversification, adding additional value to clients and including VAPS products in their line-up.

What is interesting is that nobody raised technology as a lever when commenting on the reasons behind their growth expectations, although later in the study we see that most see technology as crucial or especially important for their future.

Matt Gurran, CEO of Garrun Insurance Brokers:

"Over the past three years, many claims were paid in the South African market, including those related to SASRIA, floods in KZN, and COVID business interruption. This has resulted in reinsurers repricing, which could pose both a threat and an opportunity for brokers."

The following growth levers dominated the feedback

1. Relationship:
Many brokers responded that retaining clients through challenging times is an essential strategy when growth is slow. This is where a trusting relationship pays off. The issue that needs further unpacking is what the secrets are to building this trusting relationship.

Clients (word of mouth, understanding risk, managing expectations, trust) Underwriters (personal contact, understand specific needs of both sides), adding extra value.

2. Diversification:
Personal lines under pressure but most still positive for this bus saying it helps get into bus market while clients also look for personal touch. Risk management service NB across the board. SMME, Emerging risks

3. Regulation:
The biggest issue, with compliance is the amount of time it takes, which limits the time for sales and client interaction. This was raised by all respondents and came up in various areas of the survey. Exploring Regtech will be crucial to understand how to move the needle with this lever, as regulation is here to stay.

Debbie Holroyd, Scottfin CEO:

"The continuous change in regulations is affecting the efficient running of brokerages and making it difficult to remain competitive."

4. Skills:
Underwriting, sales, risk management
Most feel they have the skills needed for SME business or are working on growing those skills. There is an opportunity here for insurers as brokers still rely heavily on product provider training while a substantial number also focus on private external training. Internal training efforts are low key and are mostly combined with provider training.

Finding staff skilled in underwriting is difficult or exceedingly difficult for most. This is also why 97% sees access to skilled underwriters as crucial or very important. Again, this could be a competitive edge for both insurers and brokers who get this one right

Debbie Holroyd, Scottfin CEO:

"The industry needs to go back to basics and train their staff on fundamental insurance principles before jumping into compliance training".

The shift towards more risk management engagement with clients, 50% of respondents felt they were very prepared for risk management with the other half saying they are upskilling staff, leaves a whole are open for strategic initiatives.

5. Technology:
Although the bulk of respondents sees this as critical, 50% have just started on the digitisation journey with many saying they have a long way to go.

The key issues are time and cost. This becomes a real issue as the bulk of respondents said using their own system is important. Interestingly, most said the choice of platform was not that important, an issue that needs to be explored further.

6. Product suite:
Well priced, innovative products were crucial to 65%, while it was important to the balance, second in importance only to access to underwriters/ assistance with claims. Again, defining what would determine a product to be innovative is unsure and would be interesting to unpack with brokers.

Elliot Schwarts, Independent broker, and marketing consultant:

"The essence of competitive advantage in business is to be better than everybody else at something the client is prepared to pay for"

THESE TRENDS WILL SHAPE SOUTH AFRICA'S INSURANCE INDUSTRY IN 2023

Thabiso Rulashe, Strategic and Market Intelligence Manager, Santam

South Africa faced several challenges in 2022, including climate-change-related weather disasters, load-shedding, and a rise in cyber-attacks. Combined, these obstacles created a demanding insurance landscape. In 2023, insurers cannot operate similarly to how they did the previous year, especially if they intend to mitigate existing risks and pre-empt new ones that might emerge this year. Here are some of the trends the industry has faced in 2022 and can expect to continue seeing in 2023.

Increasing frequency and severity of climate-related disasters

KPMG's latest South African Insurance Industry Survey 2022 reveals that during the 2011-20 period, weather-related disaster losses broke all previous records, leading to total insured losses of US$135 billion, the highest amount ever recorded. The new decade started with 2021 being the second-costliest year ever for insurers globally.\The impact of climate change is undeniable, with extreme weather events, like the flooding that displaced hundreds of people in the town of Komani in South Africa's Eastern Province in February this year, increasing in strength and intensity.

These extreme weather conditions have destroyed economies, livelihoods, and lives and are impacting insurance availability and pricing. More so since the KwaZulu-Natal flood and storm damage claims reached over R4 billion in 2022 alone.

For this reason, 2023 will see more insurers implementing location-based underwriting to identify the geographic, location-specified risk profiles for properties taking out insurance. Similarly, insurers dealing with declining municipal infrastructure risk can attempt to mitigate their exposures by collecting an array of related geolocation-based information about the areas they insure.

Properties in low-risk locations will continue to be insurable without requiring much adjustment. However, those in higher-risk areas may become increasingly difficult to insure or lead to higher excesses and insurance premiums or additional expenses to meet special risk mitigation requirements imposed by insurers.

Insurers will need to review load-shedding policies

South Africa's intermittent power cuts continue to raise concerns about home safety and whether insurers will pay out load-shedding-related theft and damage claims. While some insurers don't consider blackouts an insurable risk under most insurance contracts, more providers like Santam now consider the cause of the loss as a factor beyond the client's control.

More insurers will, therefore, consider claims related to power surge damage or theft during load shedding, such as theft resulting from malfunctioning security systems during a power cut.

Cybersecurity insurance will become crucial for risk mitigation

According to Mimecast's State of Email Security 2022 survey, three out of four South African companies saw more email-borne threats that year, 94% were targets of phishing emails, 55% said attacks were increasingly sophisticated, and 60% were hurt by ransomware attacks, up from 47% in the previous year, resulting in downtimes that lasted an average of about 11 days. These growing attacks make cybercrime one of the most potentially fatal risks South African businesses face today.

As a result, cybersecurity insurance will be crucial for everyone with an online presence this year, more so for businesses responsible for protecting customers' information. So, 2023 will see cyber insurance play an essential role in helping organisations recover from any business interruptions and financial loss incurred from these attacks.

ESG will give insurers a competitive edge

The climate-change-related issues the country faces mean more insurers will likely be judged by the steps they take to limit the impact of climate change, not just by the plans they present. More insurers will, therefore, need to adapt to emerging climate change-related risks and, in partnership with other role players, lead efforts to address the impact of climate change. For example, Santam has introduced a Partnership for Risk and Resilience (P4RR) programme, which aims to assist South African communities with becoming more resilient to disasters triggered by natural hazards.

The programme has provided critical disaster risk management support to 82 municipalities across South Africa, positively impacting 12.5 million people across the country. In 2022, the eThekwini Municipality's disaster preparedness received a significant boost with the signing of a Memorandum of Agreement (MoA) with Santam, which provided disaster risk management support, capacity building and advisory services to enhance the metro's ability to prevent and handle future catastrophes such as floods, fires, and droughts.

Initiatives such as these are essential in building capacity in the country's communities and making them more resilient to climate change and related disasters. Most importantly, they help build a sustainable and transformed economy and financially resilient societies that can withstand a turbulent and risky world.

Despite facing a turbulent 2022, South Africa's insurance industry is incredibly resilient. Over the years, it has demonstrated remarkable agility and adaptability in overcoming countless obstacles, especially following the impact of the pandemic, and this year will be no different.

Dave Honeyman, Business Head at SHA Risk Specialists.

Hosting a hole-in-one?

Prize indemnity insurance can help a business promote its brand

The 2023 Club Champs golfing season is in full swing. With fairways across South Africa being in pristine, pre-winter condition, many golfing establishments are also primed to welcome contestants to try their hand at hole-in-one competitions. Prize indemnity insurance offers a range of businesses an effective way of promoting their brands by offering grand prizes in the form of cars, vacations or large cash payouts.

SHA has underwritten prize indemnity policies for over 30 years, providing peace of mind for golfing estates and businesses with a means of paying for large prizes when lucky punter win big. Hole-in-one competitions, purposed towards driving brand awareness and expanding marketing databases, have become commonplace in the golfing world. These competitions usually involve cash prizes or expensive items and require a substantial amount of skill and luck to win.

However, sponsors of these prizes are not always willing or in the financial position to pay out a large sum of money or the cost of a big prize. Therefore, to mitigate the substantial risk that comes with hosting these types of contests, businesses can opt to take out prize indemnity insurance

I recall one of our most memorable claims was for the cost of an Audi A3, won by a young man who won a hole-in-one competition at the Serengeti Golf Estate. We've also paid out for large prizes won by professionals during the Sunshine Golf Tour. With more businesses and brands seeing value in running these kinds of promotional contests, we foresee a greater uptake of prize indemnity insurance by establishments in other sporting disciplines.

Contestants and spectators at these events represent potential business prospects for brands, who use competitions of this kind to gather marketing leads. In an example of how a typical hole-in-one competition works; a solar power installation business could have a representative attend a popular golfing event and offer contestants the chance to win a solar power system worth R200 000, if they can get a hole in one.

A prize indemnity insurance policy will cover the full value of the prize and the insured would pay a once-off premium for the event. The nature and cost of this type of insurance depends on several factors, including the statistical odds of contestants being successful. Underwriters also consider the number of players participating in the competition as well as the distance of the shot.

"Hole-in-one competitions, purposed towards driving brand awareness and expanding marketing databases, have become commonplace in the golfing world. These competitions usually involve cash prizes or expensive items and require a substantial amount of skill and luck to win."

In the case of a hole-in-one competition, SHA requires the minimum distance for the shot to be 150 metres for men and 130 metres for women contestants. Furthermore, if the indemnity exceeds R400 000, SHA will require video footage of the shot. These terms and restrictions will differ depending on the nature of the sport.

Small businesses can also take advantage of this kind of competition, for example, a butcher who may wish to run a promotional drive at a local course. The butcher could erect a serving station at the chosen hole and offer boerewors or chicken prego rolls to spectators, challenging them to try their hand at getting a hole-in-one. The prize, for example, would be a R3000 voucher awarded monthly for a year, for meat products from the respective butcher.

These kinds of examples, where small businesses use events as exercises to sign-up potential clients to their newsletters or promotional databases, are typically the kinds of clients we serve. Rugby has adopted a similar practice, welcoming spectators onto the field to try kicking the ball to hit the crossbar for a chance to win a sizeable grand prize. Another variation of this competition could be executed in netball, with contestants trying their hand at shooting the ball through the hoop from a specified distance.

Brokers should encourage businesses in any sporting or related field to approach SHA with their proposals for high stake competitions. Our prize indemnity policies can be structured and tailored to any kind of sporting event, whether the contest involves a degree of skill, or the outcome is purely left to chance.

7 TRENDS IN MULTINATIONAL INSURANCE PROGRAMS

In today's fast changing world, companies face risks that span borders and regulatory regimes, which is resulting in growing interest in multinational insurance, a fully end-to-end customized service for the cross-border exposures of organizations, including risk transfer and captive services.

These are some of the current and future trends in this space:

1. Cross-border exposures have never been more volatile for multinationals. Expect the unexpected.

The volatile socio-political environment has dramatically impacted the risk landscape, presenting risk managers with the challenge of how best to protect their companies in the face of conflict, political unrest, economic risk, supply chain disruption, increasing cyber threats and climate change. Most experts, including Allianz Risk Barometer respondents, predict that businesses will continue to experience significant disruption around the world for some time yet. Scenario planning is vital to plan for the growing number of crises, as is ensuring holistic insurance cover is in place.

2. Regulatory challenges, a broadening customer footprint and lower entry barriers mean the market is poised for sustained growth.

The global programs market is set to grow in 2023 and in years to come. It is already estimated to be worth in the region of $50bn according to industry estimates [1]. Anticipated drivers of future growth include: our ever more interconnected world, a broadening customer footprint as international companies expand, the increasingly complex regulatory, tax and reporting environment around the world, and lower barriers of entry as digital tools and portals help facilitate service improvements. Global programs ensure full insurance coverage and can help prevent any regulatory violations. At the same time, global risk consulting and claims services are becoming increasingly important, given this current environment.

3. Digitalization is unlocking real-time data and enabling greater collaboration

Companies have woken up to the power of data in their businesses, and increasingly want to conduct business digitally. When it comes to global programs, firms now expect much faster turnaround times than in the past. In response, the world's leading insurers are turning to digitalization to improve how they operate global programs, speeding up systems and improving data collection and analytics, including 24/7 accessibility and real-time updates. API (application programming interface) technology is enabling a more streamlined, real-time exchange of data between stakeholders.

Such improvements are enabling greater transparency over what is covered under a local policy and what is covered under a master. Any potential gaps can then be easily identified and addressed, making things easier for clients, brokers, and insurers alike. Ultimately, digitalization is helping to deliver a better and deeper understanding of risk. It is making it easier for risk managers to take an active role in risk management, offering increased access to data and greater levels of collaboration with insurers and brokers, both of whom, in turn, can then spend more time on client-focused activities.

4. Growing use of captives alongside global programs

Many multinationals are increasingly using their captives alongside their global programs, either with or without risk transfer or as a full-service captive. Captives are growing in popularity, particularly if there is a lack of capacity in certain areas or effective rate increases on certain lines of business means that for companies either increasing utilization of the captive they have or forming a new captive or cell captive is an attractive option. Financial lines, errors, and omissions, D&O and cyber have been among the most popular lines of business for multinational captives. A captive is an invaluable tool when it comes to coordinating the different covers of various subsidiaries around the world and collating risk information on exposures and losses.

5. Post Covid-19, the awareness of the need for greater contract certainty is growing

The pandemic brought some challenges that tested the relationships between risk managers and insurers, particularly around which risks were covered, and which were not. This has led to a greater focus on contract certainty and data analytics, as well as increasing interest in global programs, which can be a valuable tool for helping multinational companies tackle the ever-evolving risk landscape.

Contract certainty is one of the big insurance lessons learned from the Covid-19 pandemic. There needs to be better greater clarity around what policy wordings mean to have a better understanding of what is and what is not covered. Global programs deliver full transparency over what is covered under a local policy and what is covered under a master. Any potential gaps can therefore be easily identified and addressed as needed, making things easier for all parties.

6. Global programs can help organizations with ESG and emerging risks

Environmental, social, and governance (ESG) issues are increasingly landing on the desks of risk managers. Multinationals face growing interest and increasing scrutiny from regulators, investors, customers, and employees about their ESG footprint. In global programs, ESG is integrated into underwriting via industry leading rules and tools, while technology and data analytics is increasingly delivering better insights into big, emerging risks such as climate change, cyber and global supply chain issues.

7. Don't forget the growing influence of AI and the metaverse

Artificial intelligence (AI) applications bring benefits such as increased efficiencies, new products, and fewer repetitive tasks, while the metaverse – the space where interconnected physical and virtual realities converge – has the potential to provide experiences not available in the real world, giving rise to a booming virtual economy. Insights gained from AI-powered analytics and data could expand the boundaries of insurability, extending existing products, as well as giving rise to new risk transfer solutions. However, as with any disruptive technology, increasing usage of AI and engagement with the metaverse will also introduce new risks and potential liability scenarios to society. To ensure their safe and secure use, both will need rules among users and platform providers and appropriate measures for enforcing them.

HOW TECHNOLOGY IS POWERING THE EVOLUTION OF SA'S INSURANCE INDUSTRY

Karen Rimmer, Head of Distribution at PSG Insure

The rapid acceleration of technological development is one of the driving forces behind some of the major shifts in the insurance industry. Technology is bringing a new level of innovation to traditional methods of gathering data, underwriting policies and crafting new insurance products to meet the needs of an evolving consumer base. Understanding how these innovations will impact the insurance landscape should be a top priority for insurers and their clients.

Technology can be a powerful enabler of change. On the one hand, these innovations can help insurers make sense of what 'risk' looks like in the digital age, and on the other ensuring assets are covered appropriately given rapid technological innovation will present a challenge.

Drones provide a new perspective

There has been an increasing deployment of aerial drones for data capturing purposes. Where before, certain geographical locations were out of reach for insurers, drones have broadened accessibility to outlying or disaster-prone areas. Drones are fast becoming the 'eyes and ears' of insurers, making the data collection process more accurate and efficient. Drones can gather invaluable data that underwriters can use to gain a better understanding of their clients' risk exposures. Drones have also proven to be highly effective tools for assessing the extent of loss or damage when evaluating the validity of claims in the case of a natural disaster.

The potential this technology has to reduce fraudulent insurance claims, predict emerging risks to specific sectors and save insurers time and resources, can amount to millions of rands annually. While nothing can replace human ingenuity, technological tools such as drones can serve as aids for stakeholders at every level of the insurance industry, from advisers and their clients to underwriters and product developers. As insurers, the more tech-driven solutions we incorporate into our service offering, the more we will be able to empower and equip clients with futureproof risk management tools.

Electric cars and the new breed of motor vehicle policies

There is also a wider adoption of electric/hybrid vehicles as a factor that will transform the way insurers structure and underwrite motor vehicle policies in the future. Although the market in South Africa, for these vehicles of this kind, is still in its infancy, experts see the year-on-year increase in demand for electric vehicles as a sign of things to come. This technology is set to become a game-changer in an area that has remained relatively unchanged for a number of decades, especially now with sustainability being at the forefront of many industry operations. Electric vehicle systems differ substantially from combustion engine vehicles and are therefore exposed to a different level of risk.

For example, electric vehicles could suffer significant damage caused by a power surge or the improper use of charging ports. Furthermore, in the case of complete electrical failure, the reinstatement of the required software programs can be a costly exercise. Arguably the biggest risk facing owners of electric or hybrid vehicles, involves the cost of replacing the car's lithium-ion battery, which can cost in excess of R100 000, depending on the model. Therefore, insurance policies for these cars are more bespoke than their fuel-powered counterparts, with underwriters needing to account for increased risk exposures. These factors, coupled with the fact that electric vehicles typically cost more than conventional cars, mean that premiums are usually higher. Policies also come with a new set of conditions, exclusions and extensions that may fall within the scope of specialist insurers.

With the increasing adoption of this kind of technology by South African consumers, insurance advisers will play a pivotal role in helping clients to understand their changing risk profile and how to best protect their new valuable assets. This will become particularly important in cases where policies do not cover the replacement of expensive car components such as lithium-ion batteries. In these instances, advisers may advise their clients to implement alternative means by which to safeguard their vehicles, such as an allocated savings pool or self-insurance.

While the uptake of electric and hybrid vehicles in South Africa is relatively low compared to other countries, it is definitely a market to keep a watchful eye on. While socioeconomic pressures may yet serve to curb higher purchasing volumes, the onset of climate change and the call for a more stable supply of energy will undoubtedly increase adoption in the not-too-distant future. These and other technological advancements will continue to challenge insurers to become more proactive and prioritise agility in their product and service offering.

IS INSURANCE THE LAST LINE OF DEFENCE IN THE FIGHT AGAINST STRUCTURAL POVERTY?

The World Bank Organisation describes the face of poverty in the starkest terms, which might lead you to believe that all poverty is the same, right? Wrong. There are, in fact, several different kinds of poverty, including that which is embedded in a society, known as 'structural poverty.

When referring to structural poverty, the World Bank again pulls no punches, deeming it a "persistent and long-standing poverty that arises from systemic barriers that limit the ability of individuals, households, and communities to access resources, participate in markets, and realise their full potential."

And while we see instances of this in both developed and developing nations, South Africa – which sports the highest Gini coefficient in the world – is a prime example of a country where structural poverty pervades due to our tumultuous past. Many live in poverty due to the economic and social structures that still exist in South Africa.

The role of insurance in addressing poverty

In a country where wealth is only enjoyed by a few privileged and structural poverty prevails, what role does insurance play? An important one. Insurance can be the final line of defence against poverty. It does this by protecting against situational poverty, caused by a crisis or sudden loss.

Prin Munsamy, Solutions Actuary at Metropolitan GetUp

Also consider that people already living in poverty need capital to live. In the absence of permanent work or savings to provide cash injections into a household, sometimes the only way that they can access the funds that will allow them to cover the education costs of a child or put a roof over their family's heads, for example, is to wait for the insurance pay-out that follows the death of a loved one.

In China, the two largest causes of poverty are listed as disease (42%) and natural hazards (20%). A report released by researchers from a Beijing university and Swiss Re Institute investigated the role of insurance in alleviating poverty via two pilot projects and found that insurance and its supporting mechanisms were powerful tools in minimising the risk of falling into poverty due to ruinous health expenses or natural disasters.

Insurance acts as a cushion should the unthinkable happen. It works on the premise of sacrificing a little of your income every month, so when this one event happens, you have the means to survive it. In short, it bridges the gap created by an absence of wealth, buffering the policyholder and preventing them from falling victim to situational poverty.

One job loss away from poverty

The reality is that many South Africans, who face steep financial pressure thanks to the rising cost of living, are only one 'unforeseen event' away from poverty. This was made very clear to us when the Covid-19 pandemic took hold, and thousands sunk into poverty. You could be currently employed, but still highly vulnerable to future poverty. Households with multiple incomes have a higher chance of surviving should an individual of that collective lose their income. However, if you have a single or primary breadwinner who loses their income or even life, the chances of that family succumbing to poverty are higher.

Single-income households in industries that are volatile, such as hospitality or farming – which are seasonal – are also extremely susceptible to poverty. He says that even though money is tight, many South Africans still find a way to keep themselves insured. It is something that they value and so they are willing to make difficult trade-offs on their monthly budgets so that they can have some sort of cover.

When it comes to protection against poverty, is there one insurance product that trumps all?

When it comes to what kind of insurance should be prioritised, there is no clear-cut answer, as it will depend on the unique needs and circumstances of the individual. Different insurance solutions are designed to solve a variety of contexts. Many of our clients prioritise funeral cover because funerals may have special significance in their culture. Death has unpredictable timing, and the high cost of funerals can cause immense financial burden to loved ones left behind.

Moreover, the payout from a funeral policy is not only used to cover the costs of the funeral, as I've already highlighted, it's also used to cover other costs. When it comes to insurance, the key thing to ask yourself is, what is the thing standing between me and poverty? Is it my income? My spouse, who provides for my family? My work, which is reliant on my health? And then seek the appropriate level of cover. Ultimately, insurance can help us protect ourselves and our loved ones against those events that may ruin us financially, and some cover is always better than no cover. Look for products that offer payment flexibility so that you can still retain a level of cover even when times get tough.

TECHNOLOGY

"The TX strategy is essential for insurers to attract and retain policyholders in the changing economy as younger generations enter the market."
- Wimpie van der Merwe, CEO, Global Choices

Dane Richard, the CEO of JMR

TECHFEST2023 : GETTING CLOSER TO THE CLIENT

JMR, an insurance industry platform provider, is participating in the upcoming COVER TechFest2023. Dane Richard, the CEO of JMR, highlights the need to engage with peers, share insights and contribute views on technological innovations within the industry.

JMR's participation in TechFest highlights the value of engaging with peers and sharing insights to understand technological innovations in the insurance industry. Dane will be participating in a panel discussion focused on client communications. He highlights three areas in client communications management specifically; personalized communications, AI and automation, and cloud migration, emphasising the importance of innovation in this field.

According to Dane, document automation is one area where technology can benefit the insurance industry. By automating repetitive tasks such as policy generation and claims processing, insurance companies can free up their employees to focus on higher value tasks, such as customer service and relationship building. This can lead to faster turnaround times and greater customer satisfaction.

However, it is important to note that automation should not come at the expense of personalized communication with clients. As he highlights, there is a big drive towards personalized communications in the insurance industry, as it can help businesses build stronger relationships with their customers. By tailoring their communications to the specific needs and preferences of each individual client, businesses can show that they understand and care about their customers, which can go a long way in building trust and loyalty.

"AI and natural language processing tools can also play a valuable role in client communications management, by helping to automate tasks such as email and chatbot responses, while still maintaining a personalized touch."

AI and natural language processing tools can also play a valuable role in client communications management, by helping to automate tasks such as email and chatbot responses, while still maintaining a personalized touch. By using AI to analyse customer data, businesses can also gain insights into customer preferences and behaviour, which can help them better tailor their communications and products to their customers' needs.

Cloud migration is also increasingly important in the insurance industry, as businesses seek to align their infrastructure to support innovation in client communications management. By migrating their systems to the cloud, businesses can benefit from greater flexibility, scalability, and cost-effectiveness. This can help them to better manage their communications with clients and respond quicker to changing market conditions.

However, as Dane acknowledges, the adoption of omnichannel models and the drive towards achieving a single customer view can also present complications. Omnichannel models, which allow customers to interact with businesses across multiple channels, can be difficult to manage and may require significant investment in technology and training. Similarly, achieving a single customer view, which involves consolidating all customer data into a single, unified profile, can be a complex and time-consuming process.

He raises the fact that, while there are many exciting technological innovations that can enhance client communications management in the insurance industry, it is important for businesses to approach these changes carefully and thoughtfully.

Dane concludes that, by balancing automation with personalized communication, and leveraging technologies such as AI and cloud migration, businesses can improve their customer relationships and better meet the needs of their clients.

CREATING THE TOTAL EXPERIENCE PLAYBOOK FOR YOUR BUSINESS

Wimpie van der Merwe, CEO of Global Choices

Creating a total experience (TX) playbook can streamline the complex insurance purchasing process, empowering insurance brokers with digital tools to personalise services and meet changing customer needs. Insurers leveraging digital technology can allocate their resources efficiently, allowing for a focus on value-added tasks. Prioritising customer experience when creating innovative insurance products is key to satisfying customers seeking protection against financial risks, while accommodating evolving needs.

The TX strategy is essential for insurers to attract and retain policyholders in the changing economy as younger generations enter the market. To stay ahead, insurers need to create superior experiences for both existing and new clients with different expectations and values.

A comprehensive TX strategy that integrates MX (multi-experience), CX (customer experience), EX (employee experience), and UX (user experience) will help achieve this goal. By optimising multiple objectives and creating shared experiences across devices, platforms, and touchpoints, insurers can prioritise customer service, user satisfaction, and employee engagement. This holistic approach builds trust and fosters better relationships throughout the policyholder lifecycle, while ensuring consistency across all channels. Additionally, it provides a comprehensive view of interactions and delivers an exceptional experience every time.

Creating an effective total experience framework

To create a comprehensive total experience framework, insurers need to focus on the crucial elements of customer needs, compelling offers, and delivering results. To ensure that each experience decision and action is informed, start with a 360-degree view of the customer and employee, with a commitment to fostering the best possible experiences. Investing in a Total Experience approach will yield long-term benefits, including satisfied, loyal customers and engaged, happy employees who stay with the company for years.

Identifying where to begin the process can be challenging. To address this challenge, implement the five "E's" of the total experience framework:

Evaluate:

Understand your customers' perceptions of your brand, evaluate your current capabilities, and deliver on your brand promise.

Envision:

Develop experience designs that drive growth and reduce costs, and establish a blueprint, business case, and transformation roadmap.

Empathise:

Use customer feedback to identify pain points, prioritise improvements, and track progress towards resolution.

Enable:

Empower employees with the correct tools, training, and support to provide exceptional service and drive performance.

Evolve:

Continually refine and improve your total experience strategy based on customer and employee feedback, data, and industry trends.

Do a total assessment of your business

To gain a comprehensive understanding of your business, it is important to conduct a total assessment. Even companies that strive for a total experience can't succeed without a thorough comprehension of the total state. You must examine every component of the overarching experience and consider the underlying business, technology, and operational capabilities. The following aspects must be considered:

To assess the state of your business, think through the following:

- Your current CX vision for each business unit
- All customer touchpoints, interactions, and experiences
- The overall sales and service value streams
- Major business initiatives and how they support your total experience vision

To evaluate the technology state of your business, consider these factors:

- Enabling technology capabilities for each core function
- Your customer data assets, insights, and predictive/proactive capabilities
- Your digital conversational maturity, including automation, artificial intelligence, and overall conversational experience
- Your unified CX platform which enables hyper-personalised experiences

To assess your operational state, focus on the following areas:

- Employee experience, especially those who interact with customers directly
- Put incentives in place to promote exceptional brand experiences
- Eliminate operational and system silos
- Evaluate your operating model to drive efficiency

Create a total experience maturity model

To create a total experience maturity model for your organisation, focus on the following five primary components:

- Alignment
- Understanding
- Design
- Co-ordination
- Measurement

A basic maturity model typically has four levels:

- Limited: Limited CX channel offerings, siloed data, inconsistent experiences, essential KPIs, no enquiry channels
- Ad hoc: Preliminary pain points identified, strategy not integrated across all channels, KPIs neglect operations side, call centre not proactive, limited insights
- Reliable: More dynamic journey maps, formalised research processes, robust data insights incorporated into design, CX and EX not yet differentiated
- Embedded: Total experience is embedded across the organisation, true omnichannel environment, integrated systems, data and processes, sophisticated analytics, simple and streamlined data on a central dashboard

Understand customer needs at a deeper level

To deliver a total experience, it is crucial to understand customer needs at a deeper level. Categorising human needs into three types - functional, emotional, and social - can aid in achieving this understanding. Functional needs focus on what the customer is trying to accomplish, while emotional needs refer to how they want to feel when interacting with your company. Social needs relate to how they want to be perceived based on their association with a particular brand. Meeting emotional and social needs can help drive value and create a sense of purpose for both employees and customers. Understanding these needs can aid in building customer personas and segments.

Creating well-defined customer segments and personas

Creating well-defined customer segments and personas is essential in designing a personalised total experience. Segmentation enables you to identify the most valuable target customers for your business, while personas provide granular insights into their behaviours, preferences, and motivations.

By combining both, you can create a highly detailed picture of your customers, which can then inform your data management strategies and lead to continuous improvements in the total experience. AI technology can enhance the accuracy and efficiency of this process through automated data analysis and pattern recognition, allowing you to identify trends and customer clusters in real-time. This way, you can adapt your product offering and marketing messaging to address specific needs and desires, resulting in higher engagement and brand loyalty.

Creating a total experience operating model

A total experience strategy requires companies to assess and potentially change their operating model to better align with the customer experience vision. This involves reviewing and optimising various elements including capabilities, structures, processes, data assets, and investments to support the delivery of a seamless total experience. By leveraging AI technology in this process, organisations can gain deeper insights into customer preferences and behaviours, identify pain points and opportunities for improvement, and optimise their operations in real-time to continuously enhance the total experience. This approach allows organisations to stay ahead of constantly evolving customer needs and preferences, ensuring that they remain competitive and relevant in an increasingly digital landscape.

TECHNOLOGY – JOURNEY TO EFFICIENCY

Unpacking the fundamentals of insurance in relation to technology - Episode 1 in a series of five conversations between Tony and Tavio Roxo, CEO of OWLSTM Software. TechFest 2023 kicked off with an overview of these fundamentals as the basis for an insurance digitisation journey. We now explore each in more detail.

Tavio Roxo, Ceeo of OWLS Software

Tony: At the start of the event, we ran through the fundamentals of a successful insurance business, identifying the following, strong financial management, effective risk management/ strong underwriting, diverse portfolio of products, solid marketing/ distribution strategy, good customer service, healthy cultures, and strong technology infrastructure.

From your perspective, when you approach a company on a digitization journey, where do you start?

Tavio: The first thing to recognize is that this is not a one solution fits all scenario because different companies are in different phases of their technology journey and their business maturity. They also have different products, different distribution channels, different broker networks and they need a technology that would assist them in their business.

Some of the fundamentals you outlined earlier are true across all these businesses, although slightly different in each one. As an example; company A is a long-standing insurer, operating for 25 years. They have a legacy system, and now they are looking to potentially upgrade. They are going to approach it from a slightly different position than company B, who is five years old, is operating on Excel and now wants to distribute their product completely digitally, versus company A, which is doing it through a broker network.

When you are approaching company A, the data points that they must consider on their technological journey would be heavily weighted in favour of how you drive your product rules through into your intermediary network. Whereas, with company B, it is going to be more of a discussion around how you digitize the system or their processes, to allow external policy holders to access it in a digital journey way.

Both of them use pastel, for instance, so both of them will have to take the underlying data and have an integration or some sort of a mechanism to push that financial data into a form that they are able to consume in a way which makes sense to them, so that they can preserve the financial management, which you speak of.

Company A might approach it from the point of view that their risk and underwriting will be more complex because they have legacy systems and more complex underwriting rules because of the nature of the product. Company B is looking potentially to do a lighter product which goes to market with three or four questions asked, to immediately assess the risk and calculate a premium.

I have never come across two insurers in the same vertical, selling the same product, through the same channels, that do not operate completely differently. So, I do not think there is a one size fits all.

This whole discussion is around this customized approach, and that is what makes it so complex. You cannot walk into exclusive books and buy a book that tells you exactly how to upgrade your business. It does not exist. You must figure it out, and you must approach the discussion or approach the process with an open mind, understanding that there is more than one tool which can serve your needs. You need to look at identifying what are the most particular important attributes on your journey for the next five years. You can look at it and say yes, they can all output into financial systems, they can all do X or Y, but what I specifically need, is that digital journey, while company A needs an intermediary portal.

Tony: You understand insurance, but you are a technology person, and your clients would be insurance people. How do you bring the two disciplines together?

Tavio: That is a complex question. There are a couple of things to consider. I mentioned earlier that no two insurers are the same. So, the first phase of it, would be to try and understand and remember that any insurer, any business in the insurance industry that is looking to upgrade, migrate, move across to a new technology platform, is doing so because they are experiencing pain of some or other sort. That is the first phase. What are the pain points? What are you trying to solve? What are the burning issues in your business that bring about this discussion and bring about this need or want to move across to a new platform? The business would know what those are because that is what brings them to the discussion.

Whether it is at a board level saying we are not getting sufficient reporting, or at a regulatory and operational level, where we are not getting concise and accurate reporting daily or frequently. All these can be a reason for guys to be moving across to another platform or investigating if another platform could work.

Once you have isolated that, you break the business down in a very methodical way, into the various areas that cut across all insurers. Those are the areas that you spoke of. One area will be financial for sure.

Another area, which you must understand as a technology provider, is the nature and sophistication of the underwriting questions, and how do those change the rating factors for your pricing of the premium? How can you do that in a more efficient and more dynamic way? Fulfilment is also an area which all insurers must grapple with, as a regulatory requirement, which you must deal with.

Claims management. Here the questions can be, how do you receive a claim, how do you deal with a claim once you received it, how do you account for it? You can almost map out this current process that might be used in the insurer, and then simultaneously map out an optimal process so you can see gaps and friction points immediately.

A very easy one to identify is where you can insert an API for two technologies to talk to each other, to consume information between each other, where it is currently not happening that way because there is a human in between, extracting out of one system, transforming, modifying, manipulating, and then putting it into another system for its consumption. Whenever you have that, you can eliminate it. You can take a five-day work packet and reduce it to an instant. These are a few of the efficiencies and reasons why some of the guys are doing it, and why they want to move across.

Tony: In conclusion on this one and in preparation for the next few episodes, which of these fundamentals do you find are mostly raised by guys when they say what their pain points are?

Tavio: Typically, there are a few hard areas in an insurer's world that makes it difficult to run a good shop, which you can, to some extent, solve by bringing heavy lifting technology to the party. One of the side advantages of running a good shop where the hard stuff is sorted, is that employees realise it is a good shop, and they are proud to be associated with it. So are customers, policy holders and brokers. It is important to run a proper setup, and it is difficult to do that at scale with eyeballs and not leveraging or leaning on technology to do that.

To build or to buy: A complex question

Leo Holesgrove, Guidewire representative for Southern Africa.for Retail Investment Propositions

The build versus buy debate is an ongoing topic for many companies, especially in the financial services industry, where there is a lot of pride in doing things internally.

However, due to black swan events like floods, power shortages, and riots, which have resulted in smaller margins and difficulty in discussions with reinsurers, insurers are now considering a more agile approach that can increase efficiency and agility.

One of the biggest drivers to consider a customer's business case for buy rather than build is futureproofing one's business. Insurers need to consider using technology, data, and available talent to increase agility and efficiency across the full life cycle. Using embedded analytics to turn your core system into a system of insight can provide the best customer experience possible. Other drivers include speed to market, efficiency in paying claims, empathy, and support, increasing profitability, clear retention strategies, and empowering business users internally.

“One of the biggest drivers to consider a customer's business case for buy rather than build is futureproofing one's business”

The decision to build versus buy depends on each company's frame of reference and their phase in the life cycle. However, business continuity and disaster recovery have raised the ante, and companies need to future-proof themselves regarding scale, innovation, and expansion inside and outside of their borders.

In evaluating build versus buy, functional depth, data in and out, and support are the three main categories to consider. Building or buying the most functionally robust system to meet changing business or market demands is a consideration for functional depth. Easily managing how data is ingested and dispersed between the core systems and the broader customer ecosystems is a challenge for many companies that can be addressed through buying rather than building. Whether the system is easy to maintain and innovate on is also a consideration.

Software as a service (SaaS) is changing the competitive landscape for companies, especially smaller players that lack the financial resources to build or buy expensive platforms.

One of the biggest concerns for companies considering SaaS solutions is data residency. Many companies believe that they need to keep their data within their country's borders and are hesitant to move to cloud-based solutions. However, Guidewire has been working with AWS (Amazon Web Services) and the Microsoft platform to offer SaaS solutions to its clients. With AWS coming to South Africa, Guidewire has been able to transform its value proposition from delivering software to customers to a SaaS offering that makes it easier for clients to innovate and drive agility.

Guidewire's SaaS offering enables clients to continually innovate and focus on what they do best while leaving the details of software maintenance to Guidewire. We provide support for running and operating the software, including installation and functioning, network storage, backup configuration of hardware platforms, operating systems, database, application updates, and other tasks related to software maintenance. This allows clients to focus on their customers and innovation, creating products quicker and getting them to market faster.

Moving to a SaaS solution is not an easy decision, but it is something that needs to be discussed and worked through in the initial consultation process with the client. It can be challenging to give up control in a build environment, but the benefits of SaaS, including scale and flexibility, outweigh the initial challenges. Companies can focus on supporting business, being more innovative, and creating products quickly, increasing their profit lines.

Guidewire's move to SaaS solutions is a testament to the growing popularity of cloud-based solutions in the insurance industry. By working with AWS and other cloud providers, we are enabling clients to leverage the power of cloud-based solutions while maintaining data residency within their countries. As more companies move to cloud-based solutions, the competitive landscape will continue to change, creating new opportunities for smaller players to thrive.

In conclusion, the buy versus build debate is an important one for companies to consider, especially in the financial services industry. Insurers need to future-proof their businesses to increase efficiency, agility, and profitability.

Understanding the drivers and categories to consider when evaluating build versus buy can help insurers make informed decisions that align with their business strategies.

GENERAL

Climate Change is Bad For Our Health

Sarah Hogekamp Life/ Health Actuarial Associate, L&H Cologne, Genre

It is not yet clear whether 2022 was the warmest or second warmest year for Germany since weather records began. The current record holder is 2018 with an annual mean temperature of 10.5 °C.1 What is indeed clear is that preliminary results indicate at least a tie between both years.

This change in the average annual temperature alone tells us little about climate change per se, as the term doesn't just stand for the occurrence of heat waves or the increase in the global average temperature. Seasonal and regional changes in rainfall, for example, are also consequences of climate change. In Germany, we had drought years from 2018 to 2020, followed by the floodings in 2021, all defined as extreme weather events. Climate change means that the frequency and intensity of these different weather events such as heat, frost, drought and flood is increasing.

These changes have an unequivocal impact on human health and mortality trends – and that has serious implications for insurance products in the life and disability segment.

Health and heatwaves

The heatwaves referenced above were extreme weather events that created dents in health and mortality. In general, extreme heat has several adverse health effects including but not limited to:

- stress to the cardiovascular system, which actively works to regulate the body's temperature. If the stress becomes too great, dizziness, a sudden drop in blood pressure or heat stroke can occur.
- stress to the renal system, which is sensitive to dehydration. A higher outdoor temperature increases the body's water consumption. If there is no adjustment in water intake, this can be detrimental to health, especially to the kidneys.
- reduced physical activity to avoid heat stress.

Studies show that in addition to the highest age bands, children, the chronically ill, outdoor workers, pregnant women, and people in socially and economically disadvantaged urban areas are particularly exposed to heat-related health risks.2

Figure 1 shows that during the heat wave in summer 2018 in Germany, average deaths increased in all age bands. The relative increase seems to be weakest in the 30-54 and 55-64 age groups. In the youngest age band, the high volatility of the results makes interpretation difficult, but there appears to be higher mortality over a longer period of time.

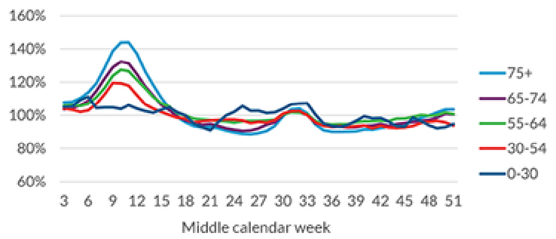

Figure 1: Own plot of four-week moving average deaths per week 2018 compared to the average of all weeks in 2016-2019. Data from Federal Statistical Office (Destatis), 2023, "Sterbefälle – Fallzahlen nach Tagen, Wochen, Monaten, Altersgruppen, Geschlecht und Bundesländern für Deutschland, 2016-2023" Retrieved January 27, 2023.3

The results of these simple evaluations are consistent with a study from South Africa on relative mortality risk by temperature and age group. An increased risk of death is found not only at higher ages, but also particularly strongly among the youngest (the 0 to 4 age group), while in the middle age groups neither heat nor cold – as we know it – has a significant effect on the relative risk of death.4

Influenza influence

A logical next step after investigating rising temperatures and the resulting heat mortality, is to also look at the flipside, cold mortality. Can the increased mortality during heat waves be offset by reduced cold mortality? To answer that question we must distinguish between cold mortality and mortality during the cold season.

One major contributor to mortality during the cold season in Germany is influenza. While there is a correlation to cold temperature, it is not exclusive and the overall influenza activity is ultimately determined by many additional factors. Although seasonal influenza occurs in winter in both the northern and southern hemispheres, factors such as seasonal influenza occurs in winter in both the northern and southern hemispheres, factors such as seasonal variations in host immune response, changes in influenza strains, and environmental factors such as humidity and UV radiation also influence influenza activity5 and, indirectly, influenza mortality. So even if the winters did become milder with climate change, influenza activity might still be significant.

Figure 2 shows that overall mortality per 1.000 inhabitants in Germany is higher in winter e.g., January, but the correlation between temperature and mortality appears much weaker than it does in summer e.g., August. While the analysis lacks an age-standardization and should therefore be handled with care, it clearly hints towards a stronger relationship between summer and heat deaths as against winter and cold deaths, where influenza activity might play an active role in dispersing the picture.

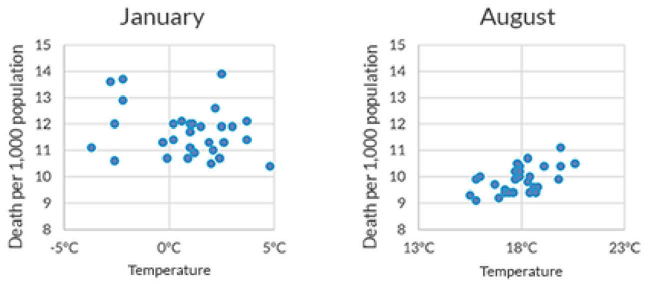

Figure 2: Own plot of monthly mortality per 1.000 inhabitants by mean monthly temperature in Germany 1990-2019. Data from Federal Statistical Office (Destatis), 2023, "Sterbefälle je 1000 Einwohner: Deutschland" and the Federal Climate Data Center Germany, 2023, "KU21 – Klimaanalyse (2023) Zeitreihen und Trends von Gebietsmitteln der Parameter Temperatur, Niederschlag, Sonnenscheindauer und verschiedener Kenntage." Retrieved January 27, 2023.

Inevitable adaptation

This being said, it's not all bad news. If we look at the optimal temperature with the lowest mortality, we clearly see it varies by region and appears to be particularly higher in warmer regions than in cold ones. Often, the warmer a country is, the higher the optimal temperature, as can be seen with London/UK and Rome/Italy, for example. In addition to temperature, the regions compared differ in their demographics, socioeconomics and other environmental factors, such as precipitation. These observations clearly support the assumption that heat-related excess mortality can be actively mitigated in the future by adjustments to our behaviour and environment.

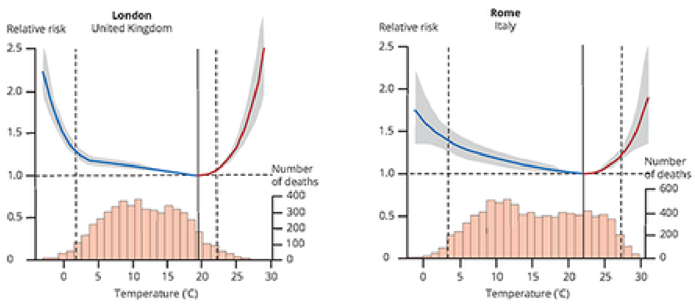

Figure 3: Associations between temperature and mortality in four European cities. Copyright holder: European Environment Agency (EEA). adapted from Gasparrini et al. (2015)

The data clearly shows us that man-made climate change is real and it is increasingly noticeable in Germany. The medical data also clearly shows us that a higher temperature leads to additional stresses on the body – this applies not only to the very old, but to all age groups. It stands to reason that this additional stress results in a potential burden for life insurance companies.

Factors other than the direct effects of heat considered here, such as severe weather or spread of disease vectors, merit a deep dive into the role they play.

On the one hand, the evident complexity calls for further research on this topic, including by actuaries. On the other hand, it is clear that in addition to efforts to limit climate change, adaptations to limit overall risk are urgently required.

End notes:

1.Deutscher Wetterdienst (DWD), Deutschlandwetter im November 2022, Last updated:30.11.2022, https://www.dwd.de/DE/presse/pressemitteilungen/DE/2022/ 20221130_deutschlandwetter_november2022_news.html

2.https://climate-adapt.eea.europa.eu/en/observatory/evidence/health-effects/heat-and-health/heat-and-health

3.To understand whether heat mortality also affects middle-age bands in Germany, we look at the four-week moving average of deaths per week in 2018 compared with the mean of all weeks from 2016 to 2019. The summer of 2018 was particularly warm in Germany, and 30 or more "hot days" (days with 30 °C or more).

4.Scovronick, Noah, et al. "The association between ambient temperature and mortality in South Africa: A time-series analysis." Environmental research 161 (2018): 229-235.

5.Lowen AC, Mubareka S, Steel J, Palese P (2007) Influenza virus transmission is dependent on relative humidity and temperature. PLoS Pathog 3(10): e151. doi:10.1371/journal.ppat.0030151

Managing the risks of celebrity sponsorship for your brand

Philip Cronje, Business Unit Manager of Aon South Africa's Sports, Recreation and Entertainment Division.

What happens when sponsored celebs behave badly?

In a world obsessed with the lifestyles of the rich and famous, big brands are increasingly signing up with famous A-list celebrities, athletes, musicians and TV personalities to endorse their products and services. It's a highly effective and popular way to attract attention to a brand and its products through the shared positive associations.

But it is also high risk if things go awry.

While many such endorsements work very effectively, history has also shown that when a celebrity falls from grace in spectacularly public fashion, it can cause significant reputational damage and have serious financial repercussions for the sponsoring brand if not managed swiftly and strategically.

eath, disability and disgrace insurance is a way that sponsoring companies can protect their brand financially when a sponsored celebrity behaves inappropriately and the brand decides to distance their association with them. Additionally, this cover also protects the sponsor if tragedy strikes and the celeb endorser is unable to continue as the face of a campaign, either through death or disability.

In today's digitally inclined society, public scandals are so much more prevalent on social media and the internet than ever before. And while death and disgrace insurance is not a 'moral barometer' of behaviour, it is a reflection of society's tolerance of it, especially when that tolerance is linked to your brand.

It's also important to note that 'disgrace' is a very subjective matter, and that certain brands may have a higher tolerance to certain indiscretions than others. For example, Gillette remained on as a sponsor of Tiger Woods after the revelations about a string of extra-marital affairs. But in instances where the actions of a celebrity are in direct opposition to the ethos and values of the sponsoring brand, sponsors have reacted by publicly and swiftly withdrawing their support. Brands can even derive positive public sentiment when such action is seen to be taking a stance against an important societal issue.

Using sports stars, musicians, actors and celebrities to promote a brand typically incurs huge costs in terms of branding, advertising and marketing campaigns, media and advertising placements, product labelling and so on, all of which would need to be recalled at huge cost and loss if a celebrity sponsorship is hastily withdrawn. Companies are increasingly turning to insurance and risk management to mitigate against these risks and aligning their insurance cover and their contracts with the celebrity endorser accordingly.

The risks and impact include:

Removal of advertising:

Companies may be required to remove advertising materials featuring the public figure, resulting in a loss of time and money. In many instances the sponsor will need to recreate its entire advertising campaign, even the products on shelves if the packaging or merchandise bears their image or endorsement, costing millions in lost production, merchandise and packaging costs, as well as any remedial action required to protect their reputation.

Loss of income:

If a public figure's death or disgrace results in negative public relations, the company may lose income as a result of decreased sales or the company's investor relations being affected negatively.

Damage to brand reputation:

The negative publicity associated with a public figure's death or disgrace can fundamentally damage a brand's reputation and adversely affect customer trust. The primary reputational risk is that the inappropriate behaviour is seen by the public as a direct reflection of the brand's values and sentiments. This is why such cases demand swift and strategic action on the part of the brand to firstly distance themselves from the unsavoury behaviour, but also to publicly make a statement about what their values are and limit further damage by association.

Difficulty finding a replacement:

Finding a suitable replacement for a public figure who is no longer available can be time-consuming, challenging and costly, often delaying the marketing campaign.

Death and Disgrace insurance is available from various insurance carriers and structured to cover certain costs, from the removal of all advertising material and creating an entirely new campaign, through to the product recall of any items bearing the celebrity's name or image, as well as the recreation of any packaging and merchandising that needs to be removed and replaced. It is not possible however to insure against a drop in sales revenue as a result of the death or disgrace of a celebrity, because it is very challenging to accurately quantify the direct monetary loss associated with an endorsement.

When contemplating a celebrity endorsement, it's highly advisable for brand owners to consult with a specialist risk advisor who can guide them through the process of assessing all the potential risks. This involves analysing every conceivable "what if" scenario, assessing the financial and reputational ramifications and the costs of any required remedial actions, assessing what risks can be avoided by transferring them contractually to the sponsored individual, which ones should be insured and which ones should be retained.

Demand for death, disability and disgrace cover has increased, driven by recent high-profile cases as well as the fact that organisations are becoming more sensitive about managing their reputations in the age of the internet and social media. Properly scoped insurance covers guided by the professional advice and risk mitigation skills of an experienced broker are essential to ensure that when celebrities are caught doing something they probably shouldn't, sponsoring brands can recover and return to normal business operations and building their invaluable reputation, as soon as possible.

FOUR WORDS TO SUM UP 40 YEARS OF BUSINESS SUCCESS


Dr Laurie Dippenaar, a UP alumni and retired captain of industry

Receiving an honorary doctorate from the University of Pretoria is “a huge honour and very unexpected”, says Dr Laurie Dippenaar, a UP alumni and retired captain of industry who co-founded some of South Africa’s biggest and most successful financial institutions. Dr Dippenaar, who was awarded an honorary doctorate on 21 April 2023, says his 40-year career as an entrepreneur in financial services can be described in four words: “traditional values, innovative ideas”. “Of course, it’s an oversimplification, but if you needed to sum up our success in only four words, it would be those four words.”

In the late 1970s, a few years after graduating from UP with an MCom degree and then qualifying as a chartered accountant, Dr Dippenaar and two partners started Rand Consolidated Investments with initial capital of R10 000. “We went from three people to about 45 000,” he says, referring to FirstRand, which today has total assets of R2 trillion and is the largest financial services group, by market capitalisation, in Africa.

How did they do it?

Start with the basics and grow

“You start with a basic idea that you think will turn out to be profitable. In your first year, you are just trying to survive and then if you are successful with your original idea, you expand it. Ours was an expansion that took 40 years of good strategic decisions.” The main thrust of these strategic decisions was to constantly diversify the income of the group. Starting out with project finance for public utility companies and municipalities, Dr Dippenaar and his partners diversified into merchant banking, then life insurance, followed by short-term insurance, health insurance, and so on “We kept on diversifying, which made the group more resilient and robust,” he says.

The brands they created or expanded are household names today, including OUTsurance and Discovery. The group also merged with brands such as First National Bank, Rand Merchant Bank, First Rand, Momentum Life and Wesbank. Dr Dippenaar was chairman of all these companies during his four decades in financial services.

Meanwhile, not content with creating some of the most famous financial institutions in South Africa, he served in the governing bodies of various educational institutions, not least UP, where he served for 24 years, only stepping down about two years ago.

Witnessing the transformation first hand

“I am probably the longest-serving Council member ever,” he says, explaining that every time he decided to call it a day, he was asked to stay on. “Fortunately,” as he puts it, the Minister of Higher Education and Training decreed that the maximum term a university Council member could serve was nine years and so he was finally able to retire.
“I really enjoyed my time with the Council. The transformation from the time I joined to today is amazing. The Council used to be a collection of pale males from industry. Today, it is diverse in terms of gender, demographics and skills, and of course is a lot larger.”

Dr Dippenaar continues to co-sponsor the Laurie Dippenaar/FirstRand Postgraduate Scholarship, which awards bursaries annually to South Africans for postgraduate studies abroad, in any discipline, at an international university of their choice.

Together with his eldest son, he also looks after the Dippenaar family investments and is as up to date as ever on current financial and economic trends.

A capable state

Youth unemployment is a serious concern, as is South Africa’s grey-listing by the Financial Action Task Force. “To increase employment, we need economic growth and for the economy to grow, we need a capable state, and for a capable state, we need a meritocracy and a good supply of educated people.” He says Singapore, whose civil service is based entirely on meritocracy, is a shining example of what can be achieved when government officials are appointed on merit, not loyalty.

On the subject of South Africa’s grey-listing, Dr Dippenaar has this to say: “Our banks were not found wanting. The country was grey listed because the state was not prosecuting financial crimes. The banks would report irregularities, and nothing would come of it. Has anything flowed from Zondo (the inquiry into state capture)? No one has been in court yet for the VBS Bank fraud and collapse. Hopefully, something positive will happen.”

Still, there are some beacons of excellence to look to. “A qualification from a world-class, prestigious university like UP is highly regarded in the business world, society at large and internationally. An honorary doctorate from UP is a huge honour.”

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