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November 2023 Edition

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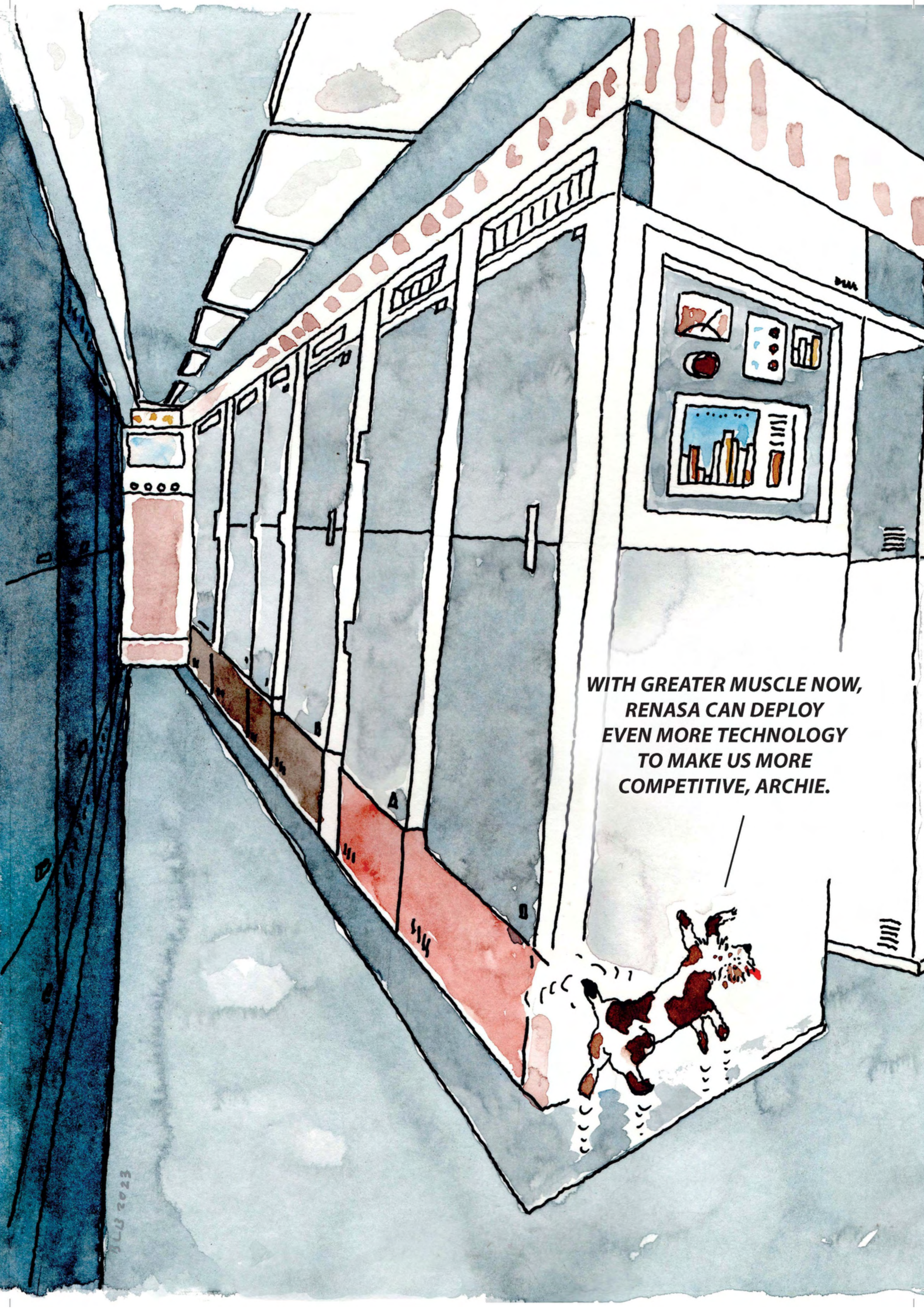
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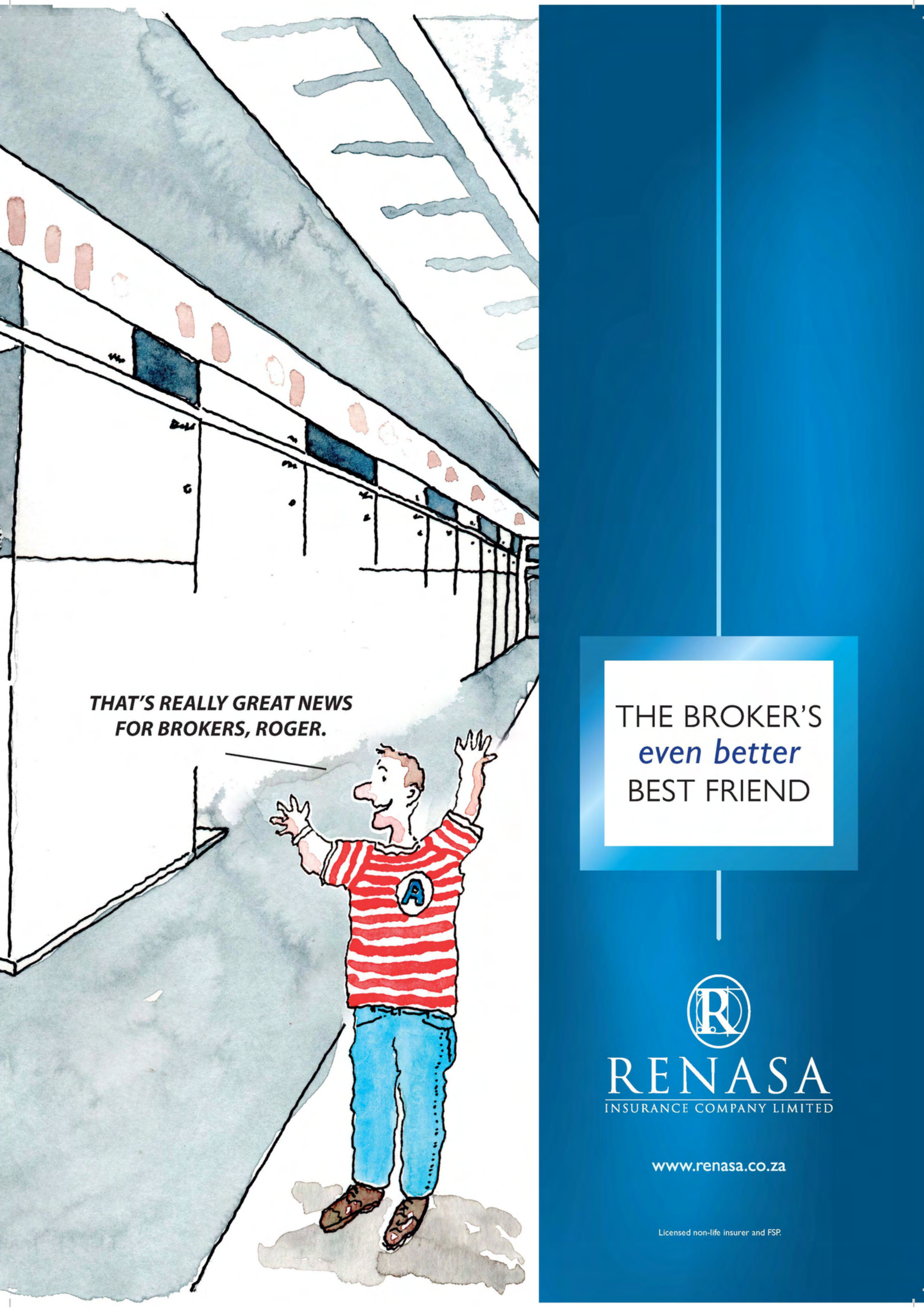
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Financial advisors have a coaching role in helping clients achieve their financial goals, striking a balance between financial flexibility and commitment.

THE 3D RESET THAT WILL CHANGE GLOBAL INVESTING

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LIABILITY INSURANCE: THE BEST APPROACH

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THE CHANGING LANDSCAPE OF HEALTHCARE FUNDING

The past two years have reshaped the way individuals perceive and prioritise healthcare, and the financial challenges they face have prompted the healthcare industry to adapt and innovate.

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A WHOLE NEW BALL GAME

Tony Van Niekerk, Owner & Editor

Owning a pet can simply be the adoption of a rescue on a whim, or a carefully selected and long saved for exotic.

Wrap you tongue around the name of the dog on our cover: Named after the Aztec god Xolotl, and the Aztec word for dog, Itzcuintli, the Xoloitzcuintli (or the Mexican hairless dog) has a keen intellect and eye-catching appearance. Xolos may have short coarse hair on their heads, tail, and paws, and teeth that jut forward like tusks which is believed to be a result of their hairless gene.

This is just one of hundreds of unique dog breeds South Africans own, and each comes with their own unique set of needs and health issues. When owning a pet, especially a thorough bred, you need insurance that will cover you comprehensively where you will need it most. You need a pet insurer that understands the difference between a Xoloitzcuintli and an Abyssinian Sand Terrier if you want that confidence.

This has elevated the opportunities in the pet insurance markets, making it an essential addition to your portfolio as a broker.


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FINANCIAL PLANNING

"Advisors should also play the role of coaches, guiding clients through behavioural changes." **- Farzana Botha, Segment Solutions Manager, Sanlam**

SA LIFE INSURERS: KEEPING PROMISES AND PROVIDING PEACE OF MIND WITH R287.1 BILLION IN PAYOUTS

Gareth Friedlander, a member of the ASISA Life and Risk Board Committee

Beneficiaries and policyholders received R287.1 billion in claims and benefits from South African life insurers in the first half of 2023. The payments would have reached these beneficiaries and policyholders at a time of great need following a tragic life event like death or disability or a life stage change like retirement.

The long-term insurance statistics released by the Association for Savings and Investment South Africa (ASISA) for the first six months of this year show that despite the significant pay-outs, life insurers remain well-capitalised and in a solid position to honour the long-term contractual promises made to customers.

According to Gareth Friedlander, a member of the ASISA Life and Risk Board Committee, the life insurance industry held assets of R3.93 trillion at the end of June 2023, while liabilities amounted to R3.6 trillion. This left the industry with free assets of R364 billion, more than double the reserve buffer required by the Solvency Capital Requirements (SCR).

Healthy reserves are a critical indicator of the health of the long-term insurance industry, providing policyholders with the peace of mind that claims and policy benefits can be paid even in times of extreme market turmoil and/or unusually high claims.

“Life insurers displayed significant resilience over the past three years in an unprecedented operating environment marked by the effects of a global pandemic, a struggling economy and consumers under severe financial pressure,” says Friedlander. He adds that assets held by South African life insurers have shown steady growth over the past three years, from R3.10 trillion at the end of June 2020 to R3.93 trillion at the end of June 2023.

The life industry in numbers

	June 2020	Dec 2020	June 2021	Dec 2021	June 2022	Dec 2022	June 2023
Assets held	R3.10 trillion	R3.23 trillion	R3.43 trillion	R3.71 trillion	R3.51 trillion	R3.7 trillion	R3.93 trillion
Liabilities	R2.76 trillion	R2.89 trillion	R3.10 trillion	R3.36 trillion	R3.18 trillion	R3.4 trillion	R3.6 trillion
Free assets	R330.2 billion	R333.5 billion	R334.6 billion	R350.6 billion	R335.8 billion	R347 billion	R364 billion
Solvency Capital Requirements (SCR) ratio	2.13	2.11	1.97	1.96	2.04	1.96	2.05
Claims & benefits paid per half-year	R229.5 billion	R294.2 billion	R315.4 billion	R292.4 billion	R270.2 billion	R307.7 billion	R287.1 billion

Recurring premium business remains flat

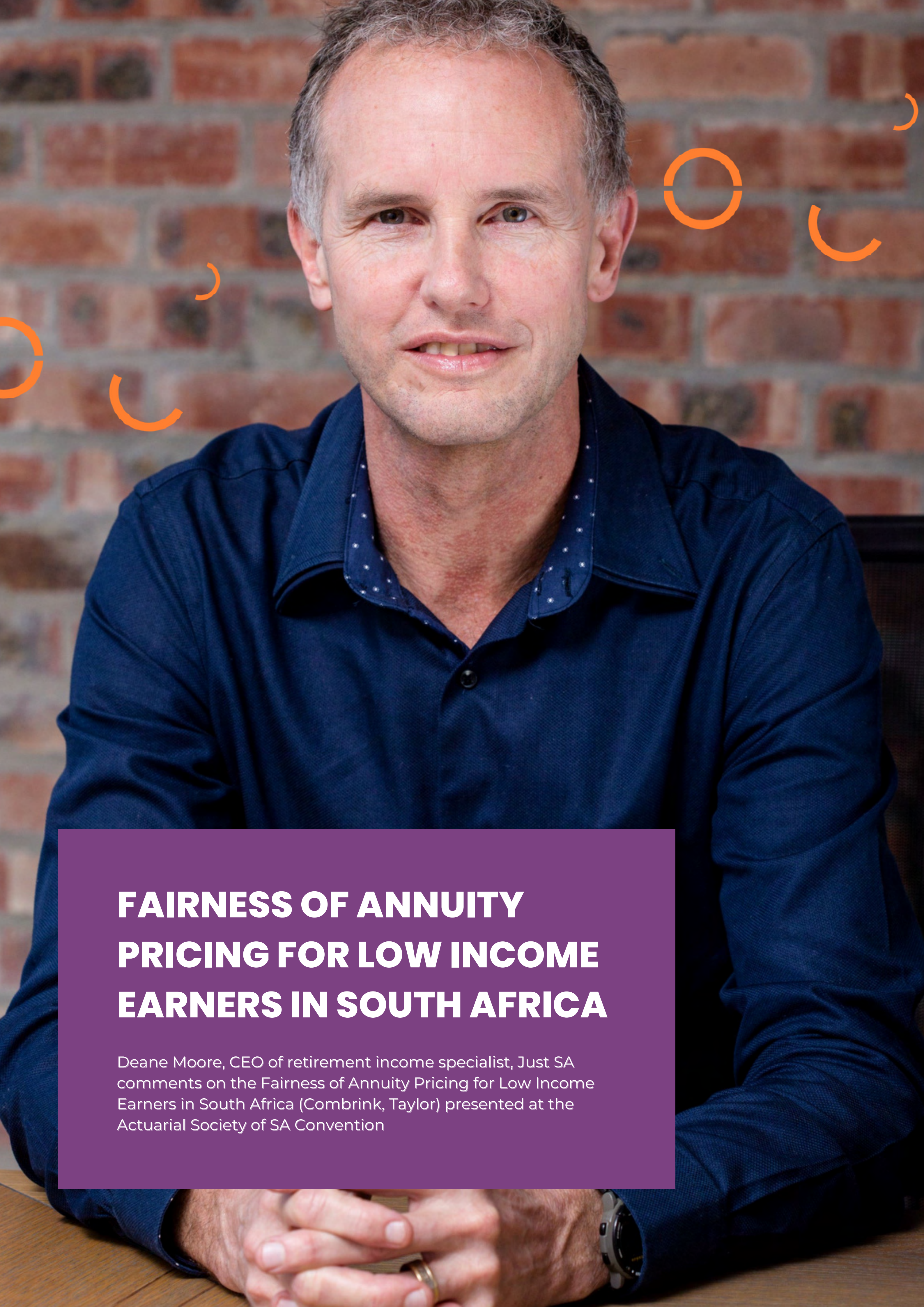
The ASISA long-term insurance statistics show that close to 5 million new recurring premium risk policies (life policies, funeral policies, credit life policies, disability policies, severe illness policies and income protection policies) were sold between January and June 2023. At the same time, however, 4.3 million risk policies were lapsed. A lapse occurs when the policyholder stops paying premiums for a risk policy with no accumulated fund value. Friedlander says the lapse rate is concerning since 4.3 million policyholders and their beneficiaries are now living either without risk cover or with reduced cover. He acknowledges that a high lapse rate is a reflection of the country's economic situation and the severe financial strain faced by many consumers on the back of rising interest rates. In the first half of this year, the repo rate increased twice by 0.5%, taking it to a 14-year high of 8.25% and placing an additional burden on consumers servicing debt like home loans and car repayments.

In addition, several fuel price increases contributed towards a rise in living costs in South Africa, where 32.9% of the population is unemployed, according to the Quarterly Labour Force Survey (QLFS) for the first quarter of 2023. Friedlander also notes that surrenders of recurring savings policies (endowments and retirement annuities) exceeded the sales of these policies in the first half of 2023. While 284 647 policies were sold, 313 318 were surrendered. A surrender of a policy occurs when the policyholder stops paying premiums and withdraws the fund value before maturity. He says this is unsurprising since consumers are more likely to surrender their savings policies during tough times to cope with financial hardship. At the end of June 2023, there were 34.2 million recurring premium risk policies in force and 203 578 single premium risk policies. Recurring premium savings policies amounted to 5.3 million as at 30 June 2023, and there were 2.4 million single premium savings policies.

Message to consumers

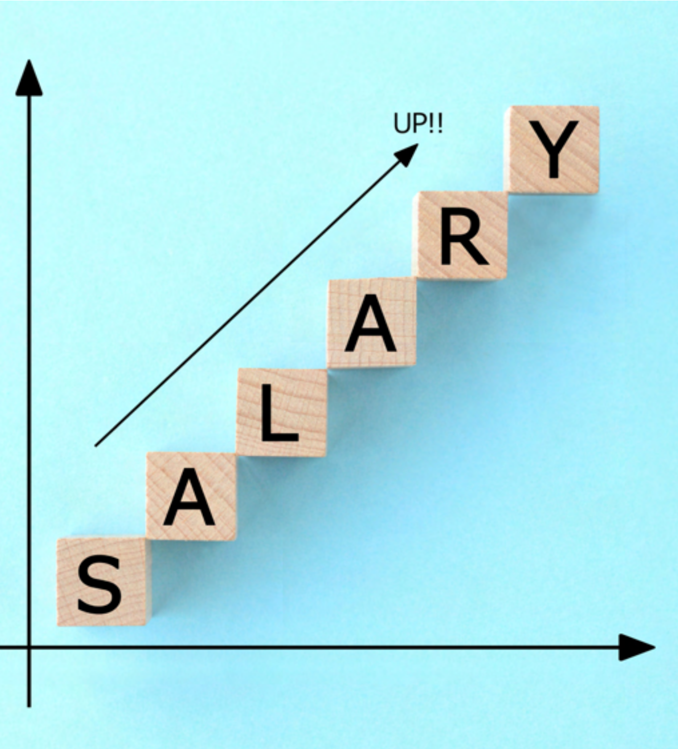
Friedlander says without the buffer provided by risk cover, a tragic life event like death or disability can plunge a household already struggling financially into complete ruin. He urges consumers to consider all other options before giving up their risk cover. "The COVID pandemic highlighted the importance of having risk cover in place like few other events in the history of South Africa. Many life insurers paid a record number of claims, and while these payouts cannot replace loved ones, they can prevent further trauma caused by the financial impact of the loss of a breadwinner." According to the 2022 ASISA Life and Disability Insurance Gap Study, the average South African income earner had a life insurance shortfall of at least R1 million and a disability cover gap of around R1.4 million at the end of 2021.

The study, conducted every three years, shows that South Africa's 14.3 million income earners had life and disability insurance to cover only 45% of the total insurance needs of their households. The average South African household supported by at least one income earner would, therefore, be forced to cut living expenses should the earner die or become disabled, and no other source of income can be found. Friedlander encourages policyholders struggling to make ends meet to discuss options with their financial advisers before letting go of their risk cover. "A financial adviser can help you by taking a holistic view of your financial situation and helping you find sustainable solutions that are not driven by emotions."



FAIRNESS OF ANNUITY PRICING FOR LOW INCOME EARNERS IN SOUTH AFRICA

Deane Moore, CEO of retirement income specialist, Just SA comments on the Fairness of Annuity Pricing for Low Income Earners in South Africa (Combrink, Taylor) presented at the Actuarial Society of SA Convention



The presentation on the Fairness of Annuity Pricing for Low Income Earners in SA at the Actuarial Society of South Africa is a valuable piece of research, with interesting observations that provide a strong challenge to the industry.

As a retirement income and life annuity specialist, we agree on the main finding of the research that fair pricing should allow for income rating. However, we differ on some important aspects:

1. Income rating is only part of the picture. Longevity is driven primarily by health, therefore to price a life annuity fairly, it is necessary to underwrite an individual holistically, allowing for an assessment of their health and lifestyle risk factors, in addition to income.

1. We disagree with the suggestion that low income earners should be denied access to with-profit annuities. Historically with-profit annuities have offered better value for money over a pensioner's lifetime than conventional non-profit annuities, and provide a cost-effective solution to longevity, market and inflation risk.

The effect of taking income, lifestyle and health into account in retirement

For conventional life insurance products, it is appropriate to underwrite in order to price more fairly in the retail market. This is accepted standard practice of all life insurers on pre-retirement risk benefits, to calculate a fine-grained risk premium based on health, lifestyle and income; clients with higher risk factors pay higher premiums. So, how is it that these same individuals suddenly become "standard risks" in an industry that embraces the principles of Treating Customers Fairly? Instead, those with higher risk factors should receive higher guaranteed income over their shorter life expectancy.

The health assessment is the most important factor to enable an insurer to provide higher retirement income. The other two factors – lifestyle and income – are proxies for the probability of suffering poor health in future. At Just SA, where we underwrite on all these factors, we find that more people in lower socio-economic categories qualify for uplifts and higher annuity rates. However, it is worth noting that a relatively low-income marathon winner will not necessarily be expected to have shorter longevity than a relatively wealthy executive with a family history of heart disease, who leads a sedentary lifestyle and smokes to control stress. So, one would expect an overlap in annuity rates between low and high income earners when other factors are considered.

With-profits annuities have outperformed historically

We disagree that with-profit annuities are not appropriate for low income pensioners. Historically, with-profit annuities have delivered significantly higher value over the lifetime of pensioners relative to fixed escalation annuities.This graph shows how a pensioner's income would have grown in the Just Lifetime Income with-profit annuity (JuLI Stablegro) compared to a 5% fixed escalating annuity, both commencing in 2010. Cumulative income from the with-profit annuity has been 5% higher over the 13 year period. If key features of a product are explained properly, and information about these products is made readily available, low income earners will be able to assess the benefits of an income for life and choose the right option to suit their needs. It is certainly more appropriate than the "easy to understand" level annuity which the majority of annuitants have been purchasing in the retail market.

THE VITAL ROLE OF FINANCIAL ADVISORS AS COACHES


Farzana Botha, Segment Solutions Manager, Sanlam

Financial advisors have a coaching role in helping clients achieve their financial goals, especially in challenging economic times, striking a balance between financial flexibility and commitment.

The financial landscape has become increasingly challenging for both clients and companies. High interest rates and financial constraints have made it essential for individuals to manage their finances effectively. Strong financial discipline and having parameters in place is essential in helping clients stay on track.

One key aspect is the value of contractual obligations and commitments. These agreements serve as reminders during challenging times, reinforcing the importance of staying aligned with one's financial goals. It is easy to reconsider one's position when feeling financially stretched, but having a plan in place can provide the necessary motivation to persevere.

Balancing Commitment and Flexibility

Individuals face a dilemma when deciding between locking themselves into fixed savings plans or maintaining the flexibility to adjust contributions based on their financial circumstances. While compulsory savings, such as pension funds, offer a structured approach, they may not cater to the need for flexibility during tough times.

Having an advisor as a sounding board in making these decisions can be a major advantage. Advisors can provide objective perspectives and help clients navigate challenging financial choices. Additionally, the products clients choose should offer a degree of flexibility, allowing for premium reductions or payment holidays when needed. This ensures clients have options to adapt without cancelling their plans.

Advisors should also play the role of coaches, guiding clients through behavioural changes. Financial institutions like Sanlam have a responsibility to enable advisors with the necessary tools and resources. Training and upskilling are vital components of this process, and specialised support functions are available to help advisors develop their capabilities.

The "Advice Partner" tool at Sanlam, which assists advisors in coaching clients by demonstrating potential outcomes based on different financial decisions, encouraging meaningful conversations rather than simply recommending products.

Advisors must take initiative in upskilling themselves in behavioural coaching as the industry shifts towards this demand. Financial institutions like Sanlam are willing to partner with advisors to provide the necessary support. The awareness and commitment of advisors to meet changing customer needs are primary in this transformation.

Brokers Embracing Coaching Roles

Brokers and advisors have been evolving to meet the changing needs of customers. Many are stepping into the role of coaches and mentors, recognising the importance of building strong, long-term relationships based on trust and rapport. This shift towards a relational business practice is proving valuable in today's financial landscape. The financial industry is adapting to a landscape where clients face numerous decisions and choices. Behavioural sciences for advisors have become essential, as understanding consumer behaviour is crucial in helping clients navigate their financial journeys effectively.

The industry's focus on coaching, guiding, and making a long-term behaviour change impact on clients marks a positive shift from traditional selling and advice. As financial advisors become mentors and coaches, they build enduring relationships with clients, fostering trust and becoming invaluable partners on the financial journey. In an era of choice, the role of the financial advisor as a coach is more important than ever, ensuring that clients not only make sound financial decisions but also develop sustainable financial behaviours that lead to long-term success.

GIVE CLIENTS MORE CONTROL THROUGH CERTAINTY

Market returns are volatile in a world where uncertainty is the order of the day. Inflation is unpredictable, and advisers may need to consider alternatives to the standard asset classes.

One option is to give clients certainty and control by outsourcing the risk on income products to Momentum through a guaranteed annuity. This allows clients to convert a lump sum into a guaranteed income stream. The income can be linked to how long a client lives if it is a guaranteed life annuity. Or it can be a guaranteed term-certain annuity, which is an income stream for a specific period of time.

The yields on bond-type assets influence the income offered on all guaranteed annuities. We are currently in a high interest rate environment, which means that clients can lock in very attractive guaranteed annuity rates.

Momentum's guaranteed term-certain annuity

A term-certain annuity pays a specified income for the term chosen. The income can be structured to stay level throughout the term or increase every year. Adding growth to the income helps to protect against inflation over time.

Fareeya Adam, head of guaranteed annuities at Momentum Wealth

Clients who used R1 million to purchase a guaranteed annuity with a level income in the first week of October 2023 achieved the following returns:

Term in years	Monthly income before tax	Return before tax	% of income that is taxable
5	R40 600	8.4%	18%
10	R26 585	10.6%	37%
20	R21 080	11.9%	60%

Source: Momentum Investments, October 2023

The client only pays tax on the interest portion of the income.

If the client passes away during the term, we will pay the remaining income to the beneficiaries, who can choose to receive the remaining payments or convert them into a lump sum.

Momentum's guaranteed life annuity

With a guaranteed life annuity, a client can convert a lump sum into an income stream that will be paid for as long as the client is alive. It is a very pure form of protecting income because the client is assured that they will never stop receiving an income during their lifetime. The return a client receives depends on the income the client chooses and how long the client lives. The longer they live, the higher the return. To manage the downside risk of this, clients typically choose a guarantee term, which provides a floor that the return will never fall below.

For example, if a client aged 65 purchased a guaranteed life annuity with R2 million, with a guarantee term of 20 years, they could achieve the following profile in the first week of October 2023:

Clients can choose an increasing income to pass on some or all of the inflation risk to Momentum. The starting income will be lower initially, but the income could be higher over the longer term. The most common use of a guaranteed life annuity is converting money from a retirement fund into an income stream. In this case, the full income amount is taxable. A guaranteed annuity can also be purchased with discretionary money to convert a lump sum into an income stream and transfer all longevity and investment risk to Momentum. In this case, a client only pays tax on the interest portion of the income from the annuity, so the return after tax is also very attractive.

The current environment is uncertain and volatile, but an upside to the high interest rate environment is that guaranteed returns are attractive. Clients can pass the risk to Momentum so that their outcome remains certain over the longer term – just another way that Momentum gives clients personalised control through certainty. For more information, speak to your Momentum consultant or go to momentum.co.za.

INVESTMENTS

"Wealth managers and investment advisers should be prepared to pivot, reevaluate, and adjust their strategies in real time." **- Sonja Steyn Head of Wealth Management Strategy at Consult by Momentum**


Sonja Steyn Head of Wealth Management Strategy at Consult by Momentum

NAVIGATING UNCERTAINTY:

CRAFTING AN INVESTMENT STRATEGY IN A VOLATILE WORLD

In the ever-evolving landscape of investment, the concept of a " haven" for your hard-earned wealth is increasingly vague. The past decade has witnessed a remarkable transformation in the realm of wealth management, with wealth managers and professional investment advisers embracing innovation and adapting to an era defined by unpredictability.

As we grapple with global events that send shockwaves across borders, regional conflicts that emerge seemingly overnight, and the looming shadow of unpredictable inflation, both the investment industry and wealth advisers must rethink their approach to providing financial advice. In this volatile environment, how can we map a course for financial security and growth?

The Shifting Sands of Investment Strategy

Gone are the days when traditional investment paradigms provided a sense of unshakable security. Today, the financial landscape resembles a constantly shifting environment where yesterday's certainties may no longer hold true. In this context, the roles of wealth managers and investment advisers become even more critical.
The first step in navigating this uncertainty is recognising that the old playbook may need to be revised. It is no longer enough to rely solely on historical data and conventional wisdom. A dynamic approach to investment strategy is essential, one that acknowledges the changing tides of the global economy and the emergence of new risk factors.

The Collaborative Approach

In this era of fluidity, the collaboration between wealth managers, investment advisers, and product and fund providers take on renewed significance. Success in the investment world today hinges on the ability to access timely and relevant information, leverage cutting-edge technology, and tap into the expertise of professionals skilled in decoding complex global dynamics. Wealth managers and investment advisers should get more robust support from product and fund providers.

This support should extend beyond conventional offerings, fostering a partnership that facilitates adaptability and agility. The rise of Discretionary Fund Managers is an example of such a partnership that creates real value for Financial Advisers. Within these partnerships the client also takes on their responsibility in this investment planning process, which allows the client to take ownership of their outcomes, and with the Financial Adviser managing client behaviour that could have a significant impact in this uncertain investment environment. It is no longer enough to offer a suite of investment solutions; providers must equip professionals with the tools, new uncorrelated alternative solutions and insight to assess and respond to rapidly changing market conditions.

A New Age of Financial Resilience

As we navigate this era of uncertainty, it becomes evident that the traditional concept of a " haven" has evolved. It is no longer about finding a static harbour for your investments but rather about forging a path to financial resilience and adaptability. The investment industry must embrace a mindset of continuous learning and innovation. Wealth managers and investment advisers should be prepared to pivot, reevaluate, and adjust their strategies in real time. Together, they can navigate the complexities of the modern financial landscape and provide clients with the confidence that their wealth is in capable hands.

Although the notion of a traditional haven has become more complex, in today's interconnected and rapidly changing financial markets, here are some key considerations:

Diversification is key: While traditional safe havens like gold and government bonds still offer relative stability, modern investment strategies emphasise diversification. Diversifying across different asset classes, industries, and regions can help spread risk and mitigate the impact of market turbulence.
Market dynamics change
Global events, economic shifts, and changes in monetary policy can impact the performance of haven assets. For example, during periods of high inflation, traditional safe havens like bonds may lose their appeal as their real returns weaken.

New investment opportunities: With advances in technology and financial innovation, investors now have access to a broader range of investment options. These include alternative investments like real estate, cryptocurrencies, and exchange-traded funds (ETFs) that may offer diversification benefits and potential safety in certain conditions.
Individual risk tolerance. The concept of a safe haven can vary from one investor to another. What is considered a safe haven for one person may not be the same for another, depending on their risk tolerance, investment goals, and time horizon.

Geopolitical considerations: In the South African context, geopolitical factors can significantly affect what are traditionally seen as safe investment choices. For example, while South African government bonds have historically been regarded as a secure option, their attractiveness can be influenced by elements like domestic political stability, fiscal policies, and regional economic conditions. While the traditional idea of a "safe haven" still exists, it has evolved in response to changing market dynamics, while the quest for financial security remains as important as ever. Today, this concept is more nuanced, and investors are encouraged to adopt diversified strategies that consider a broader range of asset classes and investment opportunities.

Remember the definition of a safe haven is highly dependent on individual circumstances, making it important for investors to work with financial professionals who can tailor investment strategies to their specific needs and objectives. With a collaborative spirit, an adaptable approach, and an unwavering commitment to staying ahead of the curve, the investment industry and wealth advisers can rise to the challenge and guide their clients toward a future of financial stability and growth, no matter how uncertain the world may seem.

THE 3D RESET THAT WILL CHANGE GLOBAL INVESTING

Decarbonisation, Demographics and Deglobalisation are changing the investing landscape and presenting South African global investors with a new set of investment opportunities.

Never believing that 'this time it's different' can be a dangerous mindset for investors. Things can and do change, as global investors are now experiencing with the 3Ds. The 3Ds are a reversal of some of the trends that have dominated the investment landscape for the last three and a bit decades. We believe this 3D reset will reshape global investing.
The 3Ds are decarbonisation, demographics and deglobalisation.

Decarbonisation is gaining momentum

Decarbonisation and the transition to greener energy is gaining momentum, in part due to geopolitical tensions and environmental concerns. Tension between the West and China, and the Russia-Ukraine conflict have sped up the transition to greener energy as countries look for alternatives to traditional sources of energy.

Economies and countries are also facing greater physical damage from traditional fossil fuels, making the transition more necessary and urgent. Giving further impetus are the various legislative requirements, subsidies and tax incentives for cleaner energy sources. Achieving the 2050 net zero emission scenario will mean some companies have to cut emissions by more than 40% in the next seven years alone.

There will be investments in new technology and innovation as decarbonisation intensifies, which is good news for investors. However, they will need to actively evaluate and manage investments in this sector to find the best opportunities for growth.

Kondi Nkosi, Country Head for Schroders in South Africa

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Smaller labour pools and scarce talent drive development in robotics and automation

Demographics are also changing global investing. South African investors are well aware of the aging populations in developed economies, despite not experiencing a similar trend. Advanced economies have high numbers of retiring baby boomers, and an additional number of early retirees following Covid-19, some through illness and others from a re-evaluation of their lives. The net effect of this and lower population growth for business is a smaller labour force and skills' scarcity.

There is competition for talent, which pushes up costs. The smaller labour pool also means workers are in a better position to demand higher salaries, especially as they face higher costs of living. To counter the profit margin squeeze from higher labour costs, companies are turning to technology, including automation and robotics, to lower costs and boost productivity. These growing industries are investment opportunities global investors need to take advantage of.

Deglobalisation, back to the old, old normal

The final of the 3Ds is deglobalisation. The world is getting just a bit smaller as multinational companies reshore to ensure supply chain certainty. A direct and immediate effect of Covid-19 and geopolitical tensions has been supply chain disruptions. Global trade, that once crossed borders and oceans quickly and efficiently, was and is still disrupted and delayed. Companies are opting to reshore, move locations, to where there is more supply chain certainty, either in friendly territories or closer to home. Reshoring is a direct consequence of deglobalisation. Some countries and economies and sectors will benefit. For example, manufacturing sectors in countries multinationals favour will get a boost.

Good news for investors, not for inflation or interest rates

The 3D reset presents many new opportunities for investors, but there are a few words of caution. The 3Ds may have inflationary effects, pushing up costs and ultimately keeping interest rates higher for longer. One example is decarbonisation. Fossil fuels are cheap and abundant, much more so than some of the elements used in greener energy sources such as cobalt, nickel and graphite. More competition for these elements means higher prices, which may fuel inflation. Deglobalisation may also lead to higher inflation as companies have to invest more to reshore, and may lose cheaper sources of labour when they move locations.

We have come from an era of low inflation and low interest rates, which meant cheap, easy money. That isn't part of the investment landscape anymore. Now, we are seeing rapid decarbonisation, changing demographics, and deglobalisation, along with higher inflation and interest rates - a reversal of the trends we all got used to. The era of cheap and easy money is over, and although the 3Ds are offering growth and investment opportunities, they may also mean higher inflation and higher interest rates for longer. This environment favours active investors. Investors need to be discerning, analytical and valuation focused. They also need to adapt quickly to changes.

Key to growth will be diversification to hedge inflation and interest rate changes. Investors will also need to take advantage of the opportunities the 3D reset offers. Investors should consider gaining exposure to productivity-enabling technology, the near-shoring or re-shoring theme, and finding yield opportunities throughout the cycle.
It might be the end of easy money, but it is also a time when active global investors can thrive.

PENSION FUNDS TAKE LONG-TERM VIEW IN FACE OF HIGH INTEREST RATES


Raazia Ganie, Executive Head of Investments at NMG Benefits

High interest rates are a cause for concern for many South African businesses and investors. For the country's pension funds, the impact of the interest rate environment differs widely, depending on their specific strategy. While inflation is showing signs of returning to the Reserve Bank's desired 3-6% range, it's likely that the country will remain in a high interest rate environment for a while longer, as South Africa takes its cue from the US interest rate cycle.

For pension funds, managing high interest rate environments comes down to diversification and having some cash on hand (or liquidity) to take advantage of any opportunities. But over a 40-year period, there will be many varying interest rate cycles in which members will be invested. The important thing for the fund managers is that they balance their portfolios to meet the CPI target over a full market cycle and in turn provide the expected returns as mandated.

In South Africa the retirement fund market is predominantly defined contribution (DC) driven. These funds generally have multi-asset, multi-strategy portfolios, which are differentiated by varying risk profiles. Members are invested in these portfolios depending on their risk-profile or their age.

Defined benefit (DB) funds are a dying breed, and here the strategies vary. Many DB Funds employ liability driven investment (LDI) strategies, which aim to match the liabilities and assets. These strategies are dominated by bonds and generally assets are managed by a specialist LDI manager. The effect of the increased interest rates on these portfolios, in theory, is that both the assets and liabilities will behave in a similar manner and the funding level for such funds would remain stable.

Having said this, both fund types may employ growth asset strategies. The strategy for any fund is as good as its asset allocation, which drives the bulk of the variability of returns. Riding out the high interest rate cycle has many facets, however. Where pension funds have appointed managers with specific mandates, these mandates should have the ability to take advantage of opportunities as they arise. There are also numerous other asset classes such as infrastructure, private markets and even increased offshore exposure which can (and should) be considered.

While pension funds may start seeing potentially lower returns on specific equities during the higher interest rate environment, pockets of value remain. Some opportunities exist within equity markets, especially for those companies that are able to pass on the inflation increase to consumers. Areas like LDI mandates, which are fixed income focussed, can offer opportunities for fund managers with these specialist capabilities.

As real interest rates (that is the difference between interest rates and inflation) go up, the value of the liability comes down. In these circumstances it may be a good time for pension fund trustees to start thinking about whether they want to outsource liabilities. If your interest rates are high, your bond prices are low, due to the inverse relationship which exists. If you need to sell out of assets, these are variables you will want to consider where liquidity is required.

If you had some offshore equities, for example, it has had a strong run and with the weakening exchange rate you may be able to take profits on these, where it can be done efficiently. Within the multi-asset strategies, some funds may have income assets and flexible bond funds. These are different types of fixed income mandates, where fund managers will be able to potentially take advantage of opportunities.

During these types of turbulent times, one often finds that high yield bonds, for example, could be provide good value for fund managers with skill in this area and the ability to identify and avoid bonds which may default. These are the types of shorter-term decisions pension funds could benefit from. In these instances, it is important that pension funds ensure that the mandate provided to a manager is broad enough to enable the manager to make these decisions and take positions across the full spectrum of fixed income instruments.

Income funds can be seen as a money market alternative for funds who want a higher yield than the average money market. The funds generally have a similar liquidity profile to money markets, while taking slightly longer duration tilts, and may hold both fixed and floating notes. The floating notes enable investors to be able to take advantage of interest rates as they rise by earning the higher interest rates.

Money market funds have also seen increased yields, but real rates are not as attractive as they have been in the recent past, when we saw excellent money market rates, and much lower inflation. It’s important to bear in mind that any changes within portfolios come with associated costs. Fund managers must ensure that the opportunity they take will be value additive, net of all trading costs incurred. Otherwise, it may be better to remain in the current positions until value is unlocked (assuming these are still value adding).

At the end of the day it all comes down to diversification. Ultimately pension fund managers want to create portfolios that are somewhat agnostic of the current environment and can stand the test of time. There will always be nuances and potential tactical asset allocation to take advantage of. But the goal remains to balance risk and add return in both a rising and falling interest rate environment.

NAVIGATING CHOPPY WATERS: RETHINKING INVESTMENT STRATEGIES AMIDST GLOBAL TURMOIL AND INFLATION

The ongoing geopolitical issues, global economic volatility and persistent inflation presents a test to the principle of “safe havens” in investment markets. The world witnessed declines in both equity and fixedincome investments in 2022, something we have not seen since 1969. This year we have seen a recovery in global equity markets, however the JSE is still down year to date. Local and global bond markets have recovered somewhat from 2022 but have not provided the returns initially expected for 2023.

In this context, while advice about diversifying to non-correlated assets is still valid, some investors are starting to question the appropriateness of traditional diversification strategies. It is the prerogative of advisers to start exposing and educating their clients to other products and portfolios that could offer opportunities for enhanced returns and diversification. Product providers must also be innovative because recent developments require them to think differently about where to generate returns for investors. Discovery Invest has always been at the forefront of innovation and has launched many structured products over the years.

Structured products are well suited to volatile market conditions as they offer a blend of risk protection against the markets falling, while also giving investors attractive returns when markets perform. Regardless of the pay-off profile, structured products are designed to complement diversified investment portfolios as they often offer investors exposure to different asset classes, geographies, and currencies. Our well-known and extremely popular, Discovery Capital 200+ structured product pays investors 100% gross return on investment after five years if the underlying global share portfolio is flat or positive.

Investors will also have peace of mind from the downside protection offered, where they will receive their initial capital back if the underlying global share portfolio provides a negative return however, the downside protection falls away if the global share portfolio falls by more than 30% during the five-year period. All returns and downside protection mentioned is before the effect of fees and taxes. These products give investors exposure to equity markets in Europe and the United States as the underlying global share portfolio comprises 20 quality European and US companies.

Estee Sevenster, Senior Actuary at Discovery Invest

We currently have 11 open tranches of this structured note as well as six tranches that have already matured. Of the 11 open tranches, nine are currently in line to give investors 100% return. In terms of those already matured, investors in five out of the six tranches received 100% return on their investment over the five-year period, before fees and taxes, outperforming over 99% of all listed funds in South Africa. The March 2015 tranche, which matured in the height of the Covid19 crisis (March 2020), provided investors with much needed downside protection.

We have also recently launched a new and enhanced version of this popular structured note, the Discovery Capital 200|300+. The Discovery Capital 200|300+ products pay 100% gross return on investment after five years if the underlying global share portfolio return is flat or positive over the five-year period. Now in addition to this, if the global share portfolio grows by 40% or more over the same period, investors will get an extra 100% growth! Investors also get the downside protection if the global share portfolio falls by up to 30%.

We currently have two open tranches of the Discovery Capital 200|300+, the April and July 2023 tranches, and they are both currently in line to give investors 100% return before the effect of fees and taxes. Our most recent tranche, the November 2023 tranche is still open for investment until the 20th of November 2023 or until capacity runs out.

THE PROBLEM WITH A 12% YIELD

Thalia Petousis, portfolio manager at Allan Gray

The notion of a government bond trading at a 12% yield can sound very appealing, but it poses several issues. The first is for the bond investor. To own a government bond at a 12% yield does not mean one is earning 12% per annum. On the contrary, while the South African government 20-year bond has traded at an average yield of 12.1% this year, the total return for a holder of this bond over that period has in fact been marginally negative.

The reason for this is that while this bond started the year at 11.5%, it last traded at 13%. Put simply, one has been taking capital price knocks along the way, which eat away at one's return as the bond's market value is made cheaper. Another way to think about this, as put forward by South African Reserve Bank Governor Lesetja Kganyago at the September Monetary Policy Committee meeting, is that bond investors are essentially asking for more butter and jam to spread on the proverbial South African bread.

The yields are rising. A more serious issue, perhaps, is the fiscal implications of the South African government issuing debt at a 12% yield while nominal economic growth is climbing at around half of that, or 6%. In this situation, government's interest expense grows and compounds at a much faster rate than tax revenue growth, requiring cost-cutting measures to offset growth in the unfunded interest bill.

Using theoretical estimates, if nominal GDP grows at 6.5% per annum for the next seven years while government's cost of interest remains at 12% or more, then even if we manage to run a neutral primary balance every year (i.e. government revenue equals government spending, ignoring the interest bill), by 2030 we could easily be in a situation where debt is close to 100% of GDP and where approximately 40 cents on every tax rand that is raised goes towards servicing interest on old debt.

The only way to neutralise the fiscal deterioration from such a growing debt burden is to embark on fiscal austerity and put aside large primary surpluses in the budget every year. A version of such an approach is currently being proposed by National Treasury and the Finance Minister, Enoch Godongwana, although with some resistance from government and unions. This is perhaps understandable when one questions the appropriateness of austerity in a country with such devastating levels of social poverty and unemployment.

Treasury's challenge will be to cut spending in areas where it is wasteful and keep the taps open where it is being routed to social welfare and critical infrastructure. Treasury argues for a restructuring of the public sector by closing redundant government departments and reducing the headcount, as well as scrapping a host of smaller spending programmes that are seen as non-critical.

These strong measures are being proposed as the market awakens to the realisation that the Budget estimates tabled in February were not credible. As discussed in various of my writings this year, the February Budget greatly overestimated corporate income tax collection, which has subsequently been decimated by a decline in commodity export prices and the severe cost of loadshedding, while also pencilling in far lower public sector wage increases than those ultimately agreed to with striking unions.

Against this backdrop, we have already seen Treasury raise their weekly issuance of short-dated T-bills from R12.4bn per week to R14.8bn per week. Any move to raise the issuance of longer-dated government bonds will put further pressure on yields, which is a risk of which we are vigilant.

JUST AS SEASONS ARE CYCLICAL, SO TOO ARE MARKETS

Cycles such as seasons change and repeat themselves routinely, and are identifiable by their characteristics, for example wet and dry spells, or hot and cold. Markets, economies, businesses, interest rates and inflation are also cyclical, and to maximise your wealth creation outcomes you need to understand the changing nature of markets and the impact this has on your investments.

For example, an economic cycle depicts the swings in the economy between expansion and contraction. This is normal for any economy and is characterised by changes in important economic variables like gross domestic product (GDP), interest rates, inflation, and consumer spending.

Similarly, markets go through periods of growth and contraction, slowdowns and acceleration, overvaluation (expensive markets) and undervaluation (inexpensive markets). Even investor behaviour goes through cycles of negative and positive sentiment, often defined as fear and greed respectively.


Adriaan Pask, CIO at PSG Wealth

Many investors find navigating these cycles difficult

Restrictive global monetary policy, persistently high inflation and the local electricity crisis have caused increased volatility in our markets, and investor sentiment has also been poor. This is similar to what we have seen in past interest rate cycles, however, after sustained periods of successive interest rate hikes, sentiment turns negative, the economy cools down, and markets often do so as well. However, there are three important aspects worth noting. Firstly, the slowdown is by design. Monetary policymakers increase interest rates with the deliberate aim of combating inflation by cooling the economy down, and the unfortunate consequence of this squeeze is poor sentiment. Secondly, it is cyclical. A period of rate hikes is proven to be followed by a period of rate stability and eventual interest rate declines. This cycle has repeated itself for decades.

Finally, and perhaps most importantly, interest rate cycles are typically much shorter than investment horizons, which has important implications for investors. While a typical interest rate or business cycle is normally seven years on average, the typical investor's investment horizon is usually multiples of this, and investors should therefore expect periods during their investment horizon where interest rates are higher than usual, times when the economy is under pressure, and seasons when sentiment is negative. When investing over the long term, investors can thus expect to see many cycles. Some will be easy to navigate, while others will be more challenging.

However, tough periods should not induce panic. Not only are they normal, but they can even be positive from an investment perspective as they create opportunities for long-term investors. Moving forward, our data suggests a positive longer-term outlook for most financial counters – both domestically and abroad. Valuations are currently cheap (especially in the local market), and interest rates are probably peaking. When sentiment is poor, opportunities often arise.

Not all cycles are correlated: but that is a good thing

Although there are frequently periods where local and international cycles are closely aligned, there can be nuances around valuations that change the outlook. US markets have, for example, been cyclically optimistic in recent times. Earnings projections for the S&P 500 are overly optimistic in our view.

However, we are keeping a close eye on these aspects as volumes, operating leverage, and margins will be tested when the effects of recent interest rate hikes start to fully affect the US economy. Analysts' current consensus projection for S&P 500 earnings per share to reach $276 (from $196 currently) is overly optimistic in our view, especially if the US enters a recession. The optimistic view is reflected in markets already (it is in the price), and any negative surprise will be frowned upon by markets. The period of US counters carrying lagging domestic assets is likely to end as the cycle turns.

This cyclical rotation between emerging and developed markets is also nothing new. We have seen it many times before. Neither market outpaces the other indefinitely and, similar to other cycles we have looked at, these cycles create opportunities to take advantage of more attractive valuations. That said, it is worth noting that risk can also be managed more effectively by diversifying across areas.

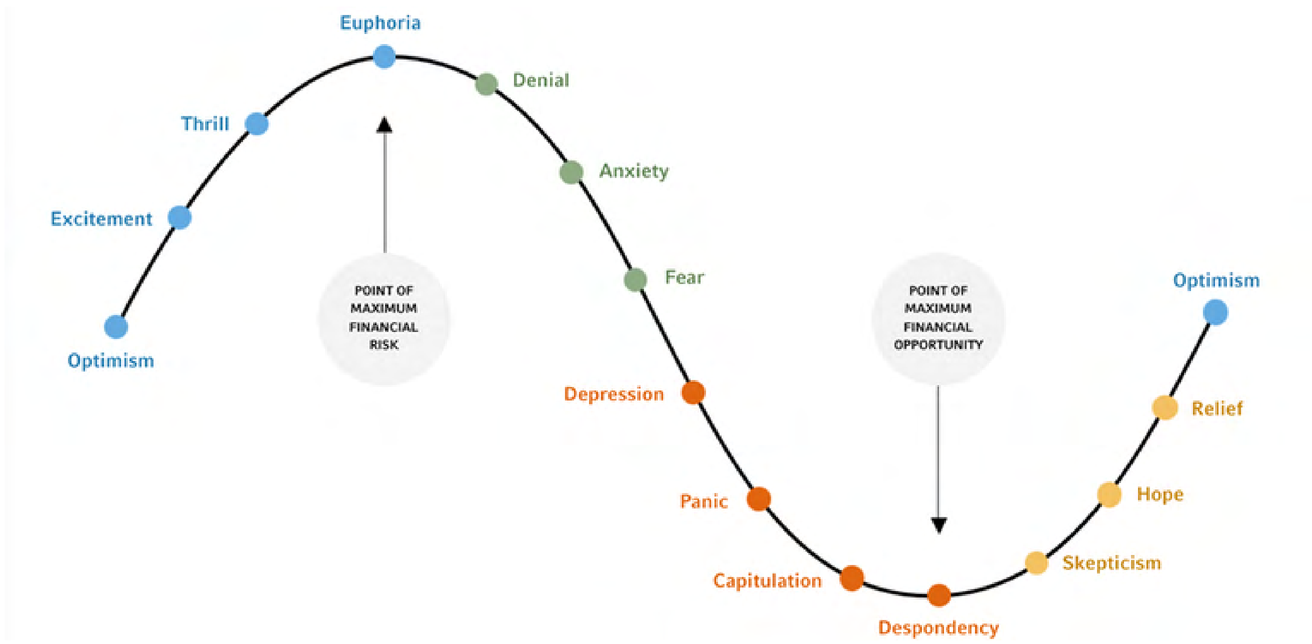
The political and economic environment in South Africa weighs on markets

Concerns around tensions between the US and SA together with the ongoing electricity crisis continue to hinder local growth. However, South Africa's general elections next year offer a critical opportunity to alter perceptions about our country, and solving loadshedding challenges could also provide fertile ground for improved investor sentiment.

The challenge, however, is that investing in strained areas often causes investors to feel uneasy and instead they seek out the perceived certainty of winning markets. This behaviour of only investing in what is comfortable by looking at what worked previously results in what is called 'chasing performance'.

Since markets function in cycles, one can often achieve better outcomes by considering a counterintuitive approach and investing in what is struggling, a task that is much easier said than done. Media also plays an important role here as news headlines may supress opportunistic thinking, leaving investors with a sense that 'winter will never end'.

A typical market cycle and emotions investors experience at each stage



Source: Russel Investments (2023)

Current opportunities we see in the markets

A peak in the SA interest rate cycle is expected before the end of the year, and we believe there may even be a slight interest rate cut this year, which the market has probably not yet factored into prices. Improved output from Eskom's power plants in the coming year could not only cause a reduction in loadshedding but, with re-ratings likely in South Africa, could also favourably impact local ratings. History has shown that bond yields decline as interest rates stabalise and decline. The same holds true for property yields and stocks in general.

The risks to the upside are disproportionate, given the elevated South African yield curve. Despite being under profit pressure, listed property reaps the rewards of lower yields and higher ratings. Even if earnings are steady, a stable mood and falling interest rates should boost ratings and the positive long-term forecast for domestic and international financial counters. Sentiment can be a barrier but is also the key to opening up investment opportunities. Given the increase in yields, cash is becoming a little more appealing, with income and preservation strategies benefiting from this increase. We do, however, caution against excessive cash holdings in investments that are aimed at long-term growth.

Cardinal rules of investing to create a lasting legacy

As discussed in the previous edition of The Wealth Perspective, investors should be cautious of making hasty investment decisions. The longer one stays invested in the markets, the more likely it is that the power of compounding will work in one's favour. While there are risks associated with investing, planning ahead and being aware of market cycles can help prevent costly investment mistakes. Diversifying one's investment portfolio is equally important. Spreading investment risk across a variety of different investments helps ensure that investments will navigate market turbulence more effectively and with less stress.

We may not know exactly when cycles will turn but, as sure as seasons change, so too will favoured and unfavoured areas of the market. This highlights the importance of diversification and the difficult task of maintaining a long-term mindset during both favourable and unfavourable periods– a task best undertaken with an objective and experienced guide. Contact a trusted financial adviser to assist you in making sure that the different market cycles rather work in your portfolio's favour, than against it.

LIABILITY INSURANCE

"Liability insurance is often misunderstood or perceived as being complex, yet it is not." - **Tiaan Erasmus, Regional Head Coastal (WC & KZN) at iTOO special risks**

PROFESSIONAL INDEMNITY INSURANCE MARKET TRENDS

IMPACTING THE ENGINEERING SECTOR

In order to manage a Professional Indemnity portfolio, the risk itself needs to be attractive to insurers, who carry the ultimate risk. And while clients across all professions are experiencing price increases, capacity remains sufficient in most markets, while insurers remain cautious in their approach towards complex and poor-performing risks.

Detailed information remains critical when renewing your PI policies and the need for focused and disciplined risk management remains key. Equally important is the need to timeously report claims or potential matters which could result in a claim.

Following Covid, a new way of work has been adopted and while we navigate through this tricky terrain, the claims trends being identified by insurers show that we still have some way to go before we strike a balance.

Clarissa Rizzo, business unit manager for professional risks at Aon South Africa

Professional Indemnity Claim Trends

Some Insurers have highlighted five trends that are affecting professional indemnity claims at present. These include:

1 - Claims relating to design errors, be it calculation, specific materials, weather conditions or loadings, with a view that these trends are due to utilising identical designs scoped for other projects without having regard for distinguishing factors in the current project.

2 - Lack of skills transfer, lack of peer review and economic conditions that require quicker output with fewer resources, have also been identified.

3 - Fee recovery typically happens when the insured starts action for recovery of outstanding fees and their client responds with a counterclaim for negligence. In some instances, the counterclaim comes in as an avoidance tactic or a potential defence to the initial fee recovery.

In other instances, there is real merit to these counterclaims and the fee recovery action by the insured seems to be a catalyst for the client to formulate their project grievances against the insured.

4 - Breaches of environmental legislation are another identified trend noted by insurers.

5 - Negligent acts of subcontractors or JV partners, where there is a lack of due diligence on the appointed parties or insufficient contractual instruments to ensure that the insured does not assume liabilities on behalf of their partners.

Given the adjustment and move from a soft market to a hard market over recent years, Q1 2023 remained stable in the professional indemnity arena, however, changes to insurers' reinsurance treaties have prompted some limit and sub-limit changes to certain policies. These challenges are not unique to South Africa. Limits and deductibles remain generally flat across most of EMEA, apart from Germany which experienced upward pressure on some risks. Increases in deductibles remained an important lever for clients to consider in an attempt to help offset the premium increases. While coverage has remained stable, increases can be expected as well as coverage restrictions being imposed on future renewals.

Insurers have specifically reported concern around consultants who are subcontracting with other entities. In many instances, the sub-consultants are relatively inexperienced and, in most cases, do not have the manpower to thoroughly check the work. For the same reason, they have limited insurance coverage in terms of retroactive dates and limits, which makes recovery in the event of a claim instituted against the consultant in respect of the subcontractor, extremely difficult for insurers to recover. At the same time, the consultants have not always been paying for this cover, since their policy would typically respond to defend the action in the hopes of recovering the amounts.

As a result, we can expect changes to be imposed by insurers to the underwriting methodology in the near future whereby fees paid to sub-consultants will quite possibly be included and no longer deducted from the fee income annual declarations to insurers. This too will create a potential increase in premiums. Consulting engineers are typically involved in larger, more complex projects which require higher limits. With 385 reported claims between 2019 and 2023 emanating from 1500 professional indemnity policies placed with insurers through Aon. The amount claimed so far, taking into account that there are still a total of 103 open claims, is in excess of R446m. The current loss ratio is climbing rapidly and these identified trends cannot be ignored.

Insurers incentivising adherence to Quality Management Services (QMS)

While the professional indemnity market is experiencing challenges relating to capacity, price increases, deductible increases and stricter underwriting controls, insurers continue to incentivise firms for adhering to QMS. A 25% discount on the deductible payable on a claim is a common incentive if the Insured qualifies for this, but it is no longer a given that this discount is automatic. Qualifying firms have definitely seen the benefit in these incentives over the years. Firms that successfully limited their liability, in line with the Insurers requirements, agreement qualified for a 50% discount in the deductible payable on a claim.

Where the insured finds itself qualifying for both on a particular claim then a potential 75% reduction in the deductible payable becomes applicable. PI claims are long tailed in nature and generally only mature after a 60-month period or longer. During this time, while determining liability or defending such, the deductible is usually only called upon when the matter is finalised. Going forward, however, insurers are contemplating and implementing a deductible to costs as well as to damages or settlement. This has not yet been officially implemented but we are starting to see this pulling through from various insurers on certain policies, which is, without a doubt, a bone of contention.

Some challenges faced by engineering and construction companies continue, with a few key areas highlighted below:
- Public-private partnerships
- Sustainability (environmental, safety and social issues)
- Risk management
- New contract models (such as 'guarantee maximum price')
- Resolving disputes
- Fraud/ethics

Looking ahead and beyond the confines of PI, Aon's Global Risk Management Survey of 2022 placed cyber security as the number one risk facing all organisations, with an economic slowdown, scarcity of materials, regulative or legislative changes and failure to meet customer needs all within the top 10 current risks, and projected risks to continue well into 2024. The operating environment for engineering professionals is fraught with risk and the complexity that comes with many interrelated risks. The value of having a professional broker that understands every aspect of your professional and operational risks should never be taken for granted.

A CHANGE IN THE LIABILITY LANDSCAPE HAS SEEN AN UPTICK IN LOCAL BUSINESSES SEEKING COVER

Liability insurance is often misunderstood or perceived as being complex, yet it is not. Historically, liability insurance used to be low on the list of coverage in South Africa, but the landscape for clients, intermediaries and insurers has changed significantly over the last 15 years. While the buyers of comprehensive liability products used to be almost exclusively large corporations, these insurance policies are now freely available to all companies and even SMMEs. At the same time, the size and frequency of liability claims are increasing, and companies focus much more on this segment of insurance. Several factors have driven this change. Firstly, amendments to legislation prompted a change in buying habits and product development. For example, the Companies Act of 2008 extended the powers and remedies available to shareholders and stakeholders in bringing liability claims against the directors of a company. This drove demand for directors' and officers' liability insurance.

Secondly, the Consumer Protection Act, which came into effect in 2011, created uncertainties for businesses as it entrenched and advanced the rights and remedies of consumers concerning the marketing, promotion, distribution, supply and the sale of goods and services. Thirdly, South Africans are still catching up with the requirements of a law that came into effect more than 10 years ago. The Safety at Sports and Recreational Events Act 2 of 2010 applies not only to professional event organisers but to any person or organisation in charge of a significant party or gathering. Furthermore, revised regulations ushered in more professional intermediated services, with intermediaries playing a vital role in advising clients on liability risks.

This resulted in a clear transition from insurance agent to risk professional, as intermediaries had to adapt to change and competition from direct insurers. Pricing was no longer the only value proposition and clients expected intermediaries to have all the relevant solutions.

We have also seen an increase in free avenues of redress. Increasingly, financial service providers subscribe to the various Ombudsman services, enabling clients to find redress without exposing themselves to expensive litigation. This has created an interdependence between managing client expectations and risk, with expectations often being that the insurer should bear all liability risks.

In the early 2000s, opportunities arose for South African businesses to export products and expertise to other parts of the world. This meant increased risk and reward for local companies and insurers eager to expand their risks and portfolios.

During the period of deflation in liability premiums that followed, the market witnessed an oversupply in capacity and organisations could easily purchase up to R1 billion in liability coverage from one or more insurers. However, the claims environment changed after a few years, with liability insurers often having to defend complex claims in foreign jurisdictions at huge expense.

In the current market, not only do liability insurers have to deal with the effects of pro-consumer legislation that result in costs and awards often being ruled in favour of the plaintiff, but they also have to contend with the issue of “social inflation” – a term that describes how insurers’ costs continue to increase over and above general inflation as growing litigation costs continue to multiply.

All of these factors have raised the appetite for liability cover among local companies that increasingly recognise the importance of investing in customised, affordable products that provide liability cover for small and medium businesses. Ultimately, liability insurance cover should be seen as a form of balance sheet protection that allows organisations to focus on their core activities, which should not include having to manage complex and time-consuming litigation. That should be left to the experts.

LIABILITY INSURANCE
THE BEST APPROACH


Irene Abrahams, Head of Liability, Leppard Underwriting

Businesses, whether SMEs or large corporates, have in recent years experienced various exposures, followed by significant increases in losses and claims scenarios. There is no doubt that 2020 and 2021 will be years remembered by all.

There was an enormous impact by the Covid-19 pandemic, followed by many challenges; from the 2021 widespread civil unrest to the natural disasters – floods which plagued most of the year 2022. The reality of persistent, disruptive volatility came to the forefront. The times we are living in show an increase in volatility. Today, extraordinary events have become the norm. There is no business that can predict specific risks. There is a need to prepare for a future that has become uncertain and volatile.

That future includes, as we are already seeing, issues with cybercrime, data protection and privacy, climate change and threats to the supply chain. The world of legislation continues to evolve dealing with matters such as crime in the financial sector, corruption, money laundering, protection, and rights of the consumer. In this increasingly volatile environment, short-term insurers and brokers need to pay close attention to risk management.

As risks evolve, the liability underwriter and the broker need to stay abreast of the emerging exposures and their impact on the business. The question – what's the worst that can happen before it happens? – highlights the importance of risk management which is where the emphasis should lie.

As an industry, we encourage the insureds to act as though as they were not insured. The intention here is to instill in them a culture of managing their exposures. Where risks are transferred and there is a frequency of liability claims, the resultant response from insurers is to increase premiums and deductibles as well as tighten terms. All of these can be controlled if not avoided by the implementation of good risk management practices.

What can insureds do? Have legal agreements in place under the careful guidance of a qualified attorney who will help in the drafting of these agreements when entering into a business relationship. Hold harmless agreements as an example, will ensure that the insured's contractors and suppliers are contractually responsible for their own negligence and/or errors and omissions in the case that something has gone wrong which has led to a claim.

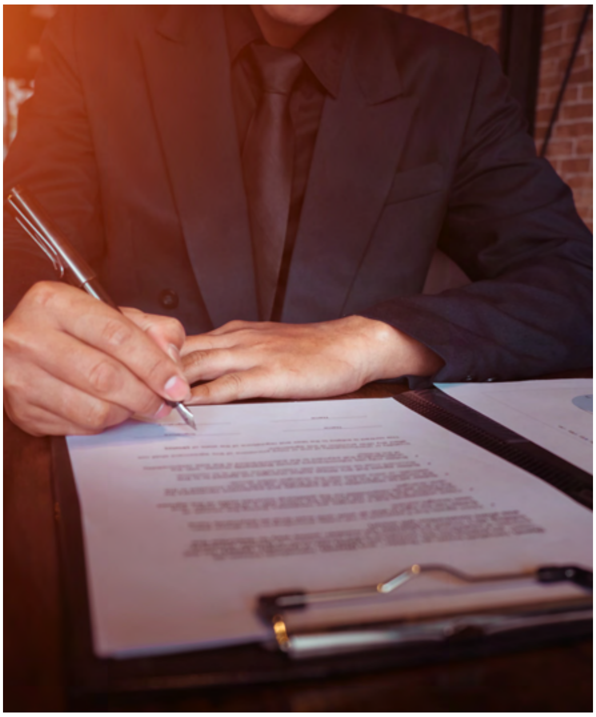
Ensure that a contractor or a supplier has the relevant liability cover in place by requesting certificates of insurance and verifying the validity of the cover. Businesses that import products, whether they are raw materials or finished goods, have the responsibility to verify compliance with the applicable industry standards and regulatory bodies.

Pertinent information on the products should be gathered from the suppliers and rights of recourse against the manufacturers or suppliers must be maintained and stated in the contracts. As part of a risk management program, insureds should schedule safety reviews on a regular basis to ensure that products and premises of operations comply with required standards.

The popular "slip, trip and fall" scenario has resulted in exorbitant compensation payouts to third parties. A proper premises risk assessment should be carried out coupled with a review of contractors such as cleaning service providers and structural maintenance companies.

At the start of this article, there is mention of the role of legislative bodies in the protection of consumer rights in this volatile environment. The Consumer Protection Act has imposed strict liability on all who are in the supply chain. Therefore, in view of the enactment of this legislation, insureds should establish proper documented policies to meet applicable regulatory requirements and an example of such a documented policy is a product recall plan which is but one amongst many.

In conclusion, the advice given by insurance intermediaries is vital in the planning, developing and implementation of a robust risk management plan which will help insureds build policies and procedures around avoiding potential threats in these unprecedented times.



SHORT TERM

"For the visionaries in the insurance realm, the future is filled with potential."
- Mark Danckwerts, partner and Africa insurance practice leader at KPMG

KPMG INSURANCE SURVEY 2023:

Harnessing technology and relationships to gain competitive advantage & build trust.

KPMG South Africa recently launched its annual South African Insurance Industry Survey for 2023, its 25th anniversary edition. Thirty-one non-life insurers, seventeen life insurers, and four reinsurers were surveyed.The non-life insurance industry results were largely characterised by the impact of the Kwa-Zulu Natal floods in April 2022, the July 2021 civil unrest, and a hardened global and local reinsurance market.

Life insurers have benefited from the normalisation of mortality levels post the COVID-19 pandemic and a number of successful corporate transactions. The industry continued to demonstrate its resilience in the context of GDP growth of only 2%, high levels of unemployment, interest rate hikes, and local infrastructure challenges.

Mark Danckwerts, partner & Africa insurance practice leader at KPMG

At its core, insurance is about problem-solving, and the use of technology emerges as a formidable ally in this mission. Given the challenges of the last two years, those that embrace these changes will be best positioned to carve out more profits in the form of efficiencies and improved customer loyalty" continues Danckwerts.

Non-life insurance industry

The non-life insurance industry reported gross written premiums (GWP) of R140.1 billion in 2022, reflecting an increase of 9.6% when compared to 2021. This is a strong top-line performance considering the overarching inflationary and economic growth environments and market competition. Excluding Sasria's results, which are considered to be an outlier for 2022, profit after tax for the industry was R4.6 billion less than in the prior year, reflecting insurers' exposure to higher natural hazards and increased reinsurance costs.

"As the cost of insurance claim increases it is inevitable that insurance premiums will increase; in fact, policyholders might have already seen sharp increases in their premiums," adds Danckwerts. "Reinsurance cover is significantly more expensive than it was a year ago as global reinsurance companies reprice after the COVID-19 pandemic and as they recover from a number of unprecedented natural catastrophes. Many insurers are however doing what they can to bring these costs down by digitising, simplifying and automating processes, and applying other operating model adjustments across the value chain to drive efficiency and cost reductions."

"Insurers are managing their risks and the premiums they charge by incorporating stricter underwriting processes. To an extent this means that they are reducing their risk tolerances, for example, by reassessing the extent of insurance cover they will provide on homes situated in flood-prone areas or vehicles situated where there are more accidents or incidences of theft." While the industry held up well in managing its exposure to increased natural catastrophe losses, insurers are encouraged to continue making comparisons using real-world events in their catastrophe modelling and taking steps to remediate any material gaps.

Life insurance industry results

Life insurers showed their resilience in 2022 with remarkable improvements in their results. This was especially pronounced following the two-year disruption triggered by the COVID-19 pandemic and a volatile global market. GWP for life insurers surveyed increased by 4% from R275.2 billion in 2021 to R287.5 billion in 2022. Furthermore, profit after tax increased over the period, from R17 billion in 2021 to R26.1 billion in 2022. This performance is reflective of the recovery and stabilisation experienced by life insurers to normalised mortality levels, post-COVID-19.

"While the South African life insurance industry has proven to be exceptional in dealing with the challenges of the last few years, there is still an opportunity for insurers to continue to create value for both shareholders and consumers. This is predicated on the industry being able to motivate many millions of people - especially younger generations - to understand and fully embrace life insurance. To do so, insurers will need to engage customers with tailored messages using data and technology. Secondly, as competition intensifies, we are likely to see several strategic partnerships to improve this sector's digital reach into niche markets," adds Danckwerts.

Reinsurance industry results

The 2022 financial year strategy for reinsurers was one of growth, recovery, and refocus. The continued constrained economic environment, lagging remnants of COVID-19, unreliable power supply, and unpredictable levels of natural catastrophes have influenced the 2022 results of reinsurers surveyed. GWP of those reinsurers surveyed grew by 18% over 2022, a welcome reprieve following a downward trend experienced in the previous three years. The biggest contributors to this increase are the hardening of reinsurance rates, particularly from July 2023 renewals, repricing, and organic growth. "The view of the market is that sufficient capacity is available to the primary market, on the basis that this is reflected in pricing structures. As a result, a hardening of reinsurance rates is expected to continue into the near future," says Danckwerts. "

Conclusion

According to Danckwerts, while the results of 2022 reflect a strong recovery, the road ahead is expected to be challenging with the advent of new and emerging risks including the continued erosion of social cohesion, climate change, and South African-specific challenges. However, the collective effort of insurers and reinsurers alike over an exceptionally challenging past few years has ensured a sound outcome for policyholders and the common good.

"With significant opportunities for insurance companies to disrupt and reimagine how insurance works and reaches people, the future is potentially bright but this can only be achieved through the integration of technology and redefining the ways in which insurers interact with customers. For the visionaries in the insurance realm, the future is filled with potential," concludes Danckwerts.
Full KPMG insurance survey report: https://we.tl/t-yzEkkCsvp0

Why **My Glass?**

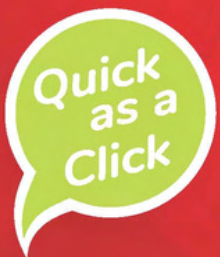
We Are ***Clear*** *About Service*

Mobile Service

My Glass comes to you, offering convenient on-site solutions.

Versatility

Not just vehicle glass, My Glass also specializes in building glass repairs and replacements.



Custom Claims Management

Experience seamless incident reporting with My Glass Bordereau, our bespoke online claims management system.

Extensive Stock

My Glass boasts the widest range of available stock, ensuring prompt service.

GLASS CHALLENGES FACING THE INSURANCE INDUSTRY


Gary Stieger, MD My Glass

As a 36-year glass industry veteran I would consider myself as reasonably experienced. I am also the founder partner and MD of My Glass, a company with a national network of over 150+ independently owned and managed mobile service teams.

In this context I would like to raise a concerning trend that seems to be gaining momentum, which is “sub-contracting” or glass broking. What is “sub-contracting” and why is it a concern as surely any form of entrepreneurship should be welcomed and supported, especially in the context of South Africa’s current dire economic climate?

Normally I would agree and support any form of entrepreneurship HOWEVER in the context of a safety critical item such as a windscreen and even certain building glass applications, I believe the model unfortunately opens and exposes the insurer, fleet manager or body corporate to significant risk with possible injuries or worse, not to mention the PR and reputational damage.

We all understand that managing and reducing the ACOC is critical in every business in today competitive climate. We also understand that when an opportunity to cut costs presents itself, naturally want to take advantage of the offering, because it ticks the box. BUT does it really?

What are the fundamental differences between a “glass broker”, Franchise or a License model?

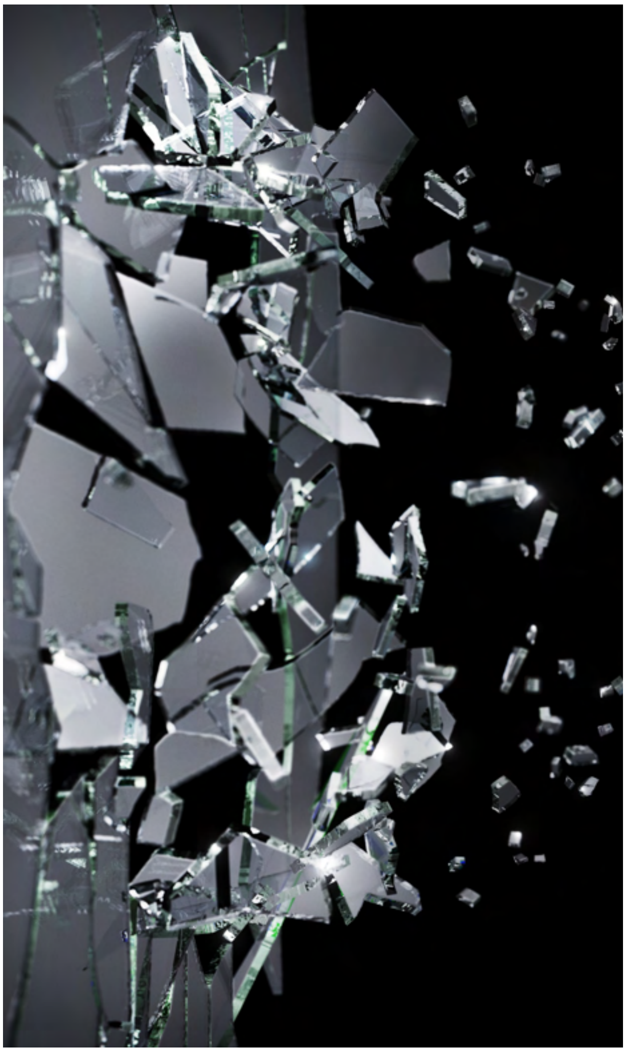
1. A glass broker generally operates by appointing a non-branded, independent subcontractor to carry out the work /fitting on behalf of the broker. The broker generally supplies the glass and pays the subbie a nominal fee to fit the glass.
2. A franchise generally operates under a strict and structured business model, where the franchise owner must comply with the rules, branding, processes, systems, and SOP’s. Generally, the franchisee is also restricted to the products and brands that may use in the business.
3. A licensee model is like a franchise model in relation to the branding, rules, processes, systems branding and SOP’s, but it allows the business owners freedom to select from a range of approved products and brands. The model however allows the Licensee more freedom to use their natural entrepreneurial flair.

So, what is the concern about the Glass broker model? The model reduces costs and gets the job done I hear you say. Yes, it does, but that is exactly the problem, it is often too simple. Unless of course the missing components are not important to you and the high risks are worth the cost savings. A windscreen is not just another commodity. A windscreen and in fact any automotive glass, or even building glass are in most applications, safety critical items.

Insurers are forced to rely on their approved service providers to ensure:

1. The brands fitted are “approved” and meet the required quality and safety standards. Unfortunately, the SABS stamp does not automatically mean the glass is a quality product nor does it translate to the glass fitting properly. To save costs some brokers are using brands which do not have a good reputation for quality and fitment and that could crack again because the cross curvature / shape does not conform 100% to the shape of the vehicle’s body.

2. The brand / type of polyurethane must comply with the OE specifications to ensure it will not damage the vehicle and will not fail in an accident. Using the incorrect Polyurethane could actually erode the vehicles body. This is a critical aspect of the fitting process which cannot be stressed enough. To cut costs, some fitters use inferior products, even resorting to using silicone to fit glass. Remember subbies are often only paid a nominal fee to fit the glass so economics often dictates what products they use. Buying at the “cheapest” possible price is often their only option.



3. That every subbie is suitably insured for defective workmanship and PL (Public Liability).

4. The methodology being applied by the subbies complies with the relevant SABS/SANS specifications.

5. Compliance with the AAAMSA specifications relating to replacing building glass.

6. A proper evaluation of any new subbie is conducted, and appropriate ongoing accredited training is provided.

7. There are sufficient processes (overt and covert) in place to mitigate the risk of fraud taking place.

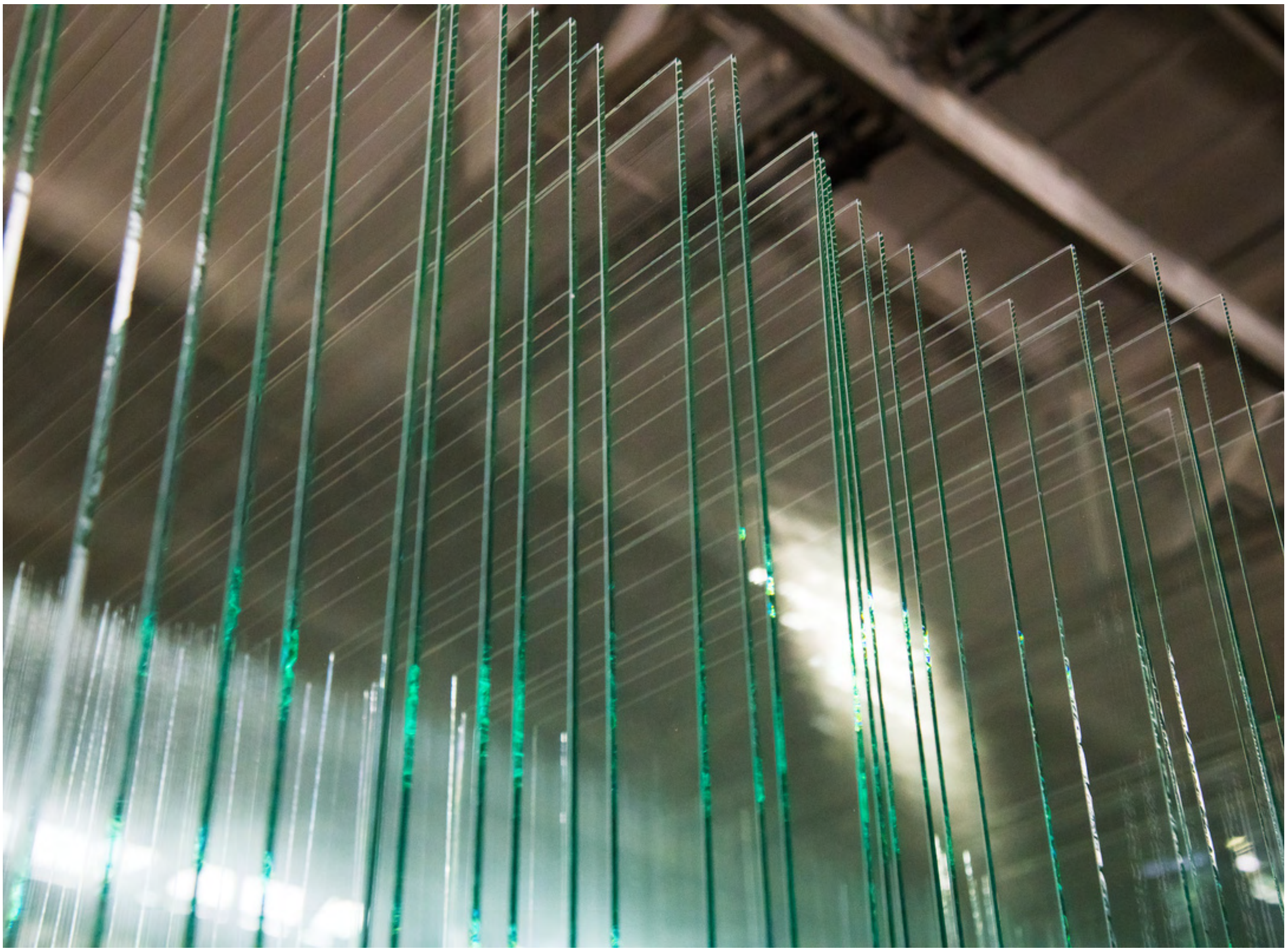
8. The effective management of sundries. Are clips being used or are the mouldings / beading being “glued/bonded” in place to save costs? This behaviour will prove to be costly with future replacements as the moulding will most probably need to be replaced with the next fitment.

9. Are the fitters and vehicles all branded and easily identifiable? In today’s crime ridden streets, is there the possibility of someone mascaraing as the appointed SP to gain access to the client's home, office, or vehicle? What actions are being taken to mitigate this significant risk?

10. Are the SLAs being managed to ensure compliance or does the broker rely on manual feedback?

11. All documentation and client information are being managed and handled in accordance with POPIA (PROTECTION OF PERSONAL INFORMATION ACT).

12. The list goes on and on...



Each of these items collectively contributes towards ensuring clients receive a correctly fitted quality product. Leave any of these important items out of the business processes and the risk factor begins to escalate. I believe every business wants to be as cost efficient as possible but the danger of removing any layer or measure of “control,” could prove to be an elevated risk and dangerous strategy. We do not want the industry to degrade into a free for all, purely driven by the need for an unrealistic or unsustainable ACOC. Another concerning fact about the broker model is the fitting fee generally being paid to subbies is often insufficient to grow or sustain a glass business, never mind sustain the business which should have all the necessary the management and controls, IT systems as well as branding etc which most reputable insurance companies understandably expect and demand.

Let us also be honest, what other choice does the SMME really have to negotiate or leverage his or her fitting fee as there are another 10 SMME’s in line, all willing to do the same job… it is sad fact of a desperate situation. It would cost prohibitive and almost impossible for each insurance company to effectively manage 100s of glass service providers nationally, to ensure that every product, process, and management thereof is being complied with. Hence the reliance on the SP with a national footprint to ensure 100% compliance within their own respective networks.

Every step omitted from the business or operational processes, or which is not being managed correctly will expose the principal insurer and client to an escalating risk. In closing, when selecting a service provider who claims to have a national network, I would recommend that you ensure that every single aspect, process, management, and IT system is in place, as ultimately who going to bear the eventual “costs” for noncompliance? The growing glass broker trend is a combination of ignorance, fuelled by the need to reduce the ACOC’s, mixed into a dire economy. A potentially dangerous mix which could prove very costly in the long term.

If you have any related concerns, I would be glad to advise you and or review your current glass SP arrangements. Please feel free to contact me to setup a confidential discussion: gary@myglass.co.za

SA NEEDS ALL HANDS ON DECK TO REDUCE NATURAL DISASTER IMPACTS

Dr Moses Khangale, Disaster Risk Management expert and Manager for Stakeholder Programmes at Santam discusses the roadblocks and opportunities towards building a resilient South Africa.

Disasters, triggered by natural hazards, will continue to affect South Africa, destroying infrastructure, lives and livelihoods. It is imperative to plan ahead and collaborate with other stakeholders in order to manage the risks and reduce the impact. The International Day of Disaster Reduction, which took place on 13 October, was a day set aside by the United Nations to "celebrate how people and communities around the world are reducing their exposure to disasters and raising awareness about the importance of reining in the risks that they face."

While disasters are not new, they are, however, becoming more frequent and intense. This is exacerbated by climate change, with South Africa especially vulnerable. In 2021, the Intergovernmental Panel on Climate Change (IPCC) Report identified the SADC region as one of the globe's climate change hotspots. Already naturally dry and warm, due to climate change, temperature is expected to increase with devastating effect for water availability, veldfire and drought risks amongst other. The IPCC Report has identified that the single biggest climate change risk that South Africa may have to face in the near term (2021–2040), is one or more 'day zero' droughts occurring in the Gauteng Province.

A frightening thought. From an insurance perspective, climate–induced disasters already account for the largest share of disaster-related losses in South Africa, a trend that is projected to continue.

South Africa's preparation is less than desirable.

We only have to think of the floods in KZN last year, and the very recent Western Cape floods to know that South Africa is vulnerable to disasters. For the past five years, we have seen the costs of disasters and climate change rise, to amounts way beyond what the public sector can realistically shoulder, especially given the current strained fiscus. Insurers have experienced increased claims due to weather related losses, with no increase in insurance penetration.

A natural response when risk increases is to increase premiums. But this short-term measure would only serve to increase the insurance risk protection gap. We must accept that disasters will occur more frequently – and that we cannot sit back and let them devastate the country, its people, infrastructure and economy.

Dr Moses Khangale, Disaster Risk Management expert & Manager for Stakeholder Programmes at Santam

We cannot do it alone

Recovering from disasters, rebuilding communities, and ensuring better resilience against future disasters is too onerous a task for one sector of society alone, business or government. We must use our collective knowledge and experience to partner and collaborate with all stakeholders so that we can reduce the risk and impacts of these disasters.

As a business who specialises in risk management, a robust example of this is our Partnership for Risk and Resilience (P4RR) programme, and its key component, focussing on Climate Change Adaptation. Through P4RR, we have used our risk mitigation knowledge to help communities and municipalities reduce their exposure to risk and adapt against disasters and the effects of climate change.

Increasing municipalities' capacity to manage disaster risks

P4RR works with partners in the private and public sectors, including municipalities and national government departments, as well as NGOs, to help manage and mitigate risks, focusing on fire, flood and drought. Our primary aim is to enhance municipalities' capacity to proactively manage local disaster risks.

This includes initiatives such as training fire officers and Disaster Management personnel and ensuring they have fire-fighting and disaster management equipment, helping municipalities develop disaster management plans and disaster-ready communication kits, as well as running disaster simulation exercises. We also encourage the use and sharing of data and information through a flood, fire and drought data exchange.

P4RR works with selected municipalities and to date, we have assisted over 80 municipalities, impacting the lives of over 12 million South Africa. Although it is sometimes self-evident where the need for these interventions is greatest, P4RR uses scientific studies to ensure our programmes are effective and implemented where most needed. For example, the outcome of a study of the 2017 Southern Cape wildfires was the formation of the National Disaster Resilience Round Table (NDRR). This Round Table is one of the most inclusive, integrated responses South Africa has mobilised to date in the climate risk reduction and adaptation sphere, for fire, floods and drought.

The P4RR, through the NDRR, facilitated the establishment of the Climate and Disaster Resilience Fund (CDRF), an independently run fund for projects that align with and strengthen the South African government's response to risks associated with climate change and increasingly frequent disasters. To help municipalities with the development of climate change adaptation plans, P4RR partnered with the Council for Scientific and Industrial Research (CSIR), National Disaster Management Centre and the Department of Forestry, Fisheries & Environment in 2019 to launch the Green Book.

The Green Book is an interactive planning support platform that integrates the knowledge fields of urban planning, climate change adaptation and disaster risk reduction to provide climate change adaptation support for South African municipalities so they can reduce their vulnerability and exposure to climate hazards. Santam and the CSIR have completed development of climate change adaption plans for nine districts and one metro in September 2023. The aim is to reach 30 districts by 2025.

Proactive approaches will build resilience

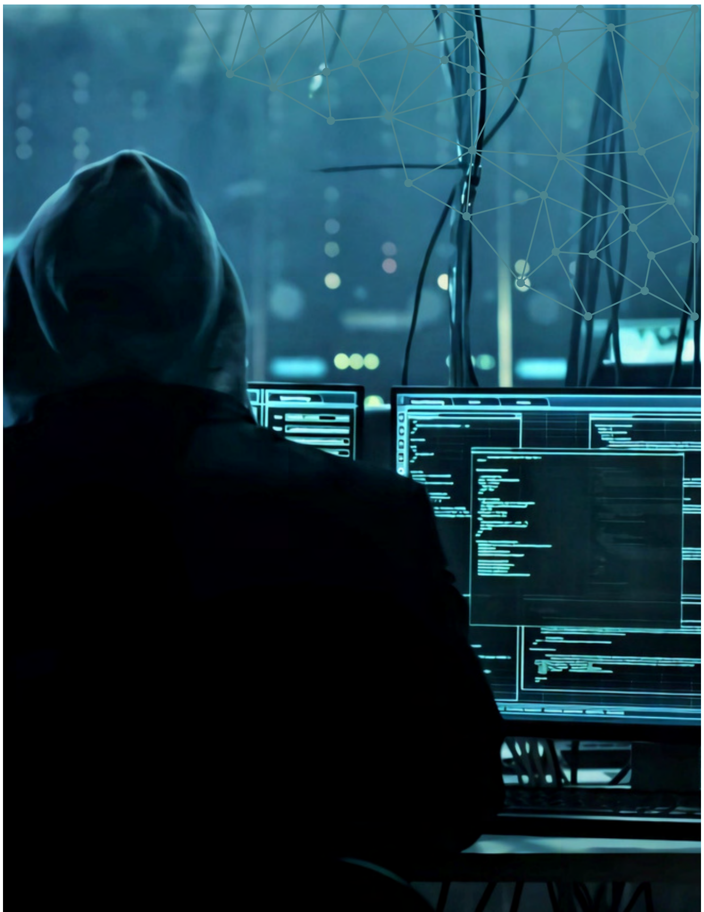
The 2023 International Day of Disaster Reduction is a reminder that building a resilient society should be a collective endeavor. Our efforts as Santam to date have made a difference, but as the risk of disasters increases, communities, businesses and government must proactively work to prepare.

NEW DIGITAL RISKS CALL FOR INSURANCE INNOVATION

Digitalisation is a source of new growth, new risks and new efficiencies for the insurance industry. Digital value creation has led to an increase of firms' intangible assets, including digital data. At the same time, increased dependency on digital infrastructure makes such assets more vulnerable, for example to business interruption and cyberattacks. In its latest sigma study, "The economics of digitalisation in insurance", Swiss Re Institute finds that potential benefits across countries and throughout the insurance value chain are far from exhausted.

In the report, Swiss Re Institute introduces the Insurance Digitalisation Index, which tracks the progress made in 29 sample countries with respect to the digitalisation of their insurance markets. South Korea came out on top of the index, followed by Sweden, Finland and the US. While advanced markets with strong physical infrastructure and high internet access rates have made most progress in digitalising their economies, China, Slovenia and India are catching up.

China, for example, has moved up by ten places in just ten years. This is because emerging markets can jump straight into adopting newer digital technologies rather than transitioning from legacy systems.


Jerome Haegeli, Group Chief Economist at Swiss Re

Jerome Haegeli, Group Chief Economist at Swiss Re, said: "The study clearly shows a positive correlation between resilience and digitalisation. For society, digitalisation is a force for giving more people access to insurance and thereby closing protection gaps. For insurers, gains from better underwriting, risk mitigation and risk measurement from digitalisation of insurance improve the quality and efficiency of their work." Digitalisation of the wider economy will also create new risk pools, opening up opportunities for insurers. For example, digital technology has facilitated sharing-economy business models, which have resulted in fundamental shifts in operational risks and liabilities that require innovative insurance risk transfer solutions. Sharing services like Uber and Airbnb are increasingly replacing private ownership.

This requires a shift in business mix from personal to commercial lines based on usage, as personal lines typically exclude cover for commercial usage of vehicles and homes. Insurers can help achieve such coverage through innovative digital risk transfer solutions. With the shift from producing physical goods to providing information and services, the global value of intangible assets – which increasingly include digital assets – of listed companies has increased fivefold over the past 20 years, to USD 76 trillion in 2021. Close to 80% of that value remains uninsured. Firms will need protection against digital risks, for example business interruption and cyber risks, as well as the emerging liability risks related to AI.

"Cyber security is a key concern for businesses globally, as reflected by the rapid growth in demand for cyber insurance: Swiss Re Institute estimates global cyber premiums will reach USD 16 billion in 2023, up 60% from 2021, and USD 25 billion by 2026."

Cyber security is a key concern for businesses globally, as reflected by the rapid growth in demand for cyber insurance: Swiss Re Institute estimates global cyber premiums will reach USD 16 billion in 2023, up 60% from 2021, and USD 25 billion by 2026. Digital technology allows insurers to gather and process large sets of data using connected devices, data analytics and machine learning. This will allow more holistic and accurate risk assessments and better pricing of risks. Digital solutions can also automate standardised tasks, such as data collection and analysis for underwriting, driving down costs and ultimately leading to lower premiums. Insurers' digital transformation projects are targeting a 3–8 percentage point improvement in loss ratios and savings of 10–20% in other parts of the value chain.

Pravina Ladva, Group Chief Digital & Technology Officer at Swiss Re, said: "Despite the rapid digital transformation of the insurance industry, accelerated by recent advancements in cutting-edge technology, we still see significant potential to make insurance more accessible and affordable for consumers. Our industry should see this as an encouragement to continue investing in innovative solutions and adapting to emerging risks." For consumers, online marketplaces lead to greater price transparency, present multiple insurance products and providers in a single place and allow customers to seamlessly complete the onboarding process online, making insurance more accessible and affordable. Aside from distribution, investments in insurance technology have shifted towards efficiency gains and improving underwriting and claims.

How to order this sigma study: The English version of the sigma 5/2023, "The economics of digitalisation in insurance", is available in electronic format. You can download it here.

Sandra Sithole, Partner & Dr Ninakhulu Ntsanwisi, Associate from Webber Wentzel

IN SICKNESS AND IN WAR:
INSURANCE COVERAGE FOR GLOBAL EVENTS

Events such as the Covid pandemic and rising levels of cybercrime are encouraging insurers to revisit their policy wording to exclude certain events. Over the past three years, the world has suffered serious humanitarian and financial losses from the Covid-19 pandemic, climate change and catastrophic weather, political unrest and wars in central Africa, Europe and more recently, the Middle East. Although the human costs of the pandemic have receded in the last two years, the number of lives lost owing to war and natural disasters is rising. In all circumstances, the full implications for insurance are still unfolding.

Pandemic exclusions

In the initial waves of the pandemic, many businesses tried to find out whether they were indemnified under their business interruption insurance policies for Covid-related losses. In South Africa, this question has largely been answered: the insurance industry has responded by removing Infectious and Contagious Diseases (ICD) extension from policies to indicate that it has no intention of covering such global risk. Elsewhere, the courts are revising previously-accepted approaches towards concepts such as causation, aggregation, and the proper construction of key policy terms.

This will differ between jurisdictions. In South Africa, the Supreme Court of Appeal held in the matter of Café Chameleon that government's imposition of a lockdown in response to multiple outbreaks of a 'notifiable disease' was covered by the infectious diseases clause. Recently, we have noted a shift towards litigation against insurance brokers for failures to adequately assess a business' risk and advise and/or recommend ICD extensions. This avenue of litigation has not yet been tested in court.

War exclusions

In general, war exclusions are commonplace in All-Risks insurance policies. The specific language of war exclusions varies, but typically loss or damage arising from acts of war such as invasions, insurrections, revolutions, military coups, and terrorism are excluded. In South Africa, a war exclusion excludes cover for loss or damage to property, death or bodily injury related to or caused by "...war, invasion, act of foreign enemy, hostilities or warlike operations or civil war "or "any act (whether on behalf of any organisation, body or person or group of persons) calculated or directed to overthrow or influence any State or Government, or any provincial, local or tribal authority with force, or by means of fear, terrorism or violence".

With the recent surge in cyber attacks, many businesses have had to take cyber security more seriously. Demand for cyber policy coverage has increased, but the cyber insurance market has not yet caught up with the challenges brought by, among other things, new war tactics such as cyber war and terrorism, which may not be adequately dealt with in traditional war and terrorism exclusions. In recent years, war exclusions have found their way into stand-alone cyber policies. In many policies, a disconnect persists between traditional war and terrorism exclusions and the cyber risk itself. The insurance industry has to stay abreast of technological development to ensure that war exclusions are fit for purpose.

Firstly, the war exclusion clause is still based on the MultiMark III standard wording, which does not consider technological advancement or unpredictable changes in the digital space. The result is that existing cyber insurance may not fully protect businesses against cyber risks and insurers may inadvertently cover cyber risks when they do not intend to: "the silent cyber" problem. Secondly, most cyber policies do not specifically exclude cyber war (cyber attacks that arise from war, invasions, hostilities, state sponsored terrorism and other warlike operations) and cyber terrorism (premeditated usage of disruptive activities against computer systems with the intention to intimidate or cause harm) or distinguish between the two. Some policies will cover cyber terrorism but not cyber war.

New exclusionary clauses

In an attempt to bring clarity, in August 2022, Lloyd's of London released Market Bulletin Y5381, requiring its syndicates to include the following baseline exclusions clauses for state-supported cyber attacks in their policies from 31 March 2023:

- exclude losses which arise from a war (declared or not), where the policy does not have a separate war exclusion;
- exclude losses arising from state-supported cyber-attacks that significantly impair (a) the ability of a state to function or (b) the security capabilities of a state;
- be clear as to whether cover excludes computer systems that are located outside any state which is affected in the manner outlined in (a) and (b) above, by the state-backed cyber-attack;
- set out a robust basis by which the parties agree on how any state-backed cyber-attack will be attributed to one or more states; and
- ensure all key terms are clearly defined.

Other insurance providers may follow Lloyd’s example by excluding state-supported cyber-attacks from standard cyber insurance policies. From a South African insurance perspective, there is certainly a need for businesses, led by brokers, to scrutinise current policy wordings to determine whether there is sufficient cyber cover, either in their All-Risks or standalone cyber policies. Insurers should take care in wording exclusions to ensure that the policies clearly indicate what is covered and what is not. In South Africa, courts interpret exclusion clauses restrictively and any ambiguity will be interpreted against the drafter.

INSURANCE INNOVATION NEEDED TO OFFSET THE RISING RISKS OF CLIMATE CHANGE

The climate crisis is set to be one of the greatest challenges humanity will face, a watershed moment with protracted effects whether we overcome this predicament or not.

Vis Govender, Co-founder of Everything.Insure and Group CEO of FirstEquity Group

Not only will climate change have a significant impact on our current environment and the world around us but the way we address this issue will define the lives of future generations for years to come. While people, leaders, organisations and industries across the globe have been galvanised to do their part to mitigate the impact of climate change and enable more sustainable development, human activity is producing greenhouse emissions at record levels.

Although lower than anticipated, global carbon dioxide emissions from both energy combustion and industrial processes grew by to a new record high of 36.8 Gigatonnes in 2022. Meanwhile, the average global surface temperature has been steadily rising with the hottest ten years since records began in 1880 all falling in the last decade. This has meant that both the frequency and intensity of extreme weather events such as heatwaves, soaking rains, severe floods, years-long droughts and extreme wildfires are increasing.

In 2022 there were at least 28 significant climate events, including damaging wildfires across the contiguous United States, record-breaking rainfall in Pakistan which affected 30 million people, destructive typhoons in the Western Pacific and devastating hurricanes in the Eastern North Pacific. In South Africa we recently saw the Western Cape face an intense storm which caused intense flooding and significant damage, leading to the South African Weather Service declaring a level nine extreme weather warning - the highest level ever issued for the region. This followed close after the extensive 2022 flooding in KZN which was evaluated by Wits University as the most catastrophic disaster recorded in the province's history.

The growing trend of extreme events is leading to an increasing exposure to weather risks which in turn has seen a marked rise in insurance claims. As a result, we can expect to see risk-based premiums rise over time, potentially impairing the affordability and availability of insurance protection - particularly in regard to coverage against climate-related hazards.

The unavoidable impact on insurance

The insurance industry is required, by regulation and good practice, to build the cost of expected losses into their capital and pricing models using known historical data such as, for example, the fact that once every five years there will be a major hailstorm in a region or that there will be one major flood every 50 years in a particular area. However, the rising climate risk is injecting uncertainty into an industry that is built on predicting risk. With the changing weather patterns, we are seeing unexpected frequencies such as say two 50-year events happening in 5 years. This is a dilemma for insurers and we can soon expect to see climate change drive up prices considerably and possibly even push insurers out of high-risk markets.

In agriculture, one of the industries most vulnerable to climate change, the adverse effects of floods, drought and fires have meant that crop and livestock insurance for farmers is becoming costly or unavailable and will have knock-on effects on critical sustainability factors such as global food security. We've also seen some large insurers draw hard lines in the sand to not insure properties susceptible to the impact of climate change, for example, those that are close to a shoreline (like along the Atlantic Seaboard), within a flood basin (as in the KZN South Coast), or in areas that are at high risk of veld and forest fires, such as in Knysna.

It's likely that this is a trend that will continue, with the eventual outcome being that it will be impossible or extremely expensive for consumers to insure certain properties or goods that are most vulnerable to the negative impacts of climate change. The other trend we are seeing is that insurers may agree to insure the property but exclude cover for the specific perils such as flood. This approach of not offering cover against high-risk perils will be detrimental to insurers too as they are walking away from significant revenue, and this shrinking premium pool might result in further increases in prices, creating a vicious cycle of premium inflation leading to unaffordability.

Adopting a new approach to insurance

Unfortunately, insurance is a zero-sum game in the long run, so if the severity and likelihood of claims are rising, then so too must premiums. Traditional models of insurance just don't apply in a future filled with uncertainty, and it is clear then that what the insurance industry desperately needs is innovation in order to reduce exposure to climate risk and increase climate resilience.

One way to inject much-needed innovation into the industry is by adopting digital technologies such as Satellite Imaging, Artificial Intelligence and Machine Learning to predict, detect, monitor and forecast extreme weather events and automatically alert consumers ahead of time to mitigate the risk of loss or damages.

Additionally, digital and self-service technologies are being used to improve efficiencies and reduce or remove administrative costs of insurance, which in turn reduces premiums and can make insurance more affordable and accessible. Besides technological interventions, we need new capital models and a more proactive approach to developing new and targeted products that specifically cover climate-related risks.

Enter parametric insurance. Unlike traditional indemnity-based insurance, which pays out a claim after a rigorous process involving the client proving the loss event and an assessor establishing the quantum of the claim, Parametric insurance insures a policyholder against the occurrence of a specific (weather) event and pays out a claim in relation to the magnitude of the event without the client having to prove or substantiate his loss.

For example, a policy which pays out an amount if a storm of more than 150 mm of rainfall or winds in excess of 100 km/h occurs with the payout amount based on a sliding scale linked to the severity of the event. One of the benefits of Parametric insurance models is that it brings in new players prepared to inject fresh capital into the industry. These new entrants don’t have the legacy systems, processes and infrastructure built over decades that the incumbents have so they are generally more left-field and open to innovation.

Another positive trend we are seeing is that insurers are embracing the various climate accords and are investing in or incentivizing renewable energy technologies while turning away from insuring fossil-fuel based industries in the expectation that this will help the climate crisis.

Non-traditional insurance strategies such as above are offering consumers greater choice, flexibility, and increased customisation and at the same time are enabling a more robust and resilient insurance industry better equipped to weather the climate change challenges. In such an uncertain and dynamic climate environment, it is encouraging to see that the insurance industry is relinquishing its traditionally staid posture and embracing innovation.

TRANSPORT MONTH:

TRUCK DRIVER WELLNESS CRITICAL TO ROAD SAFETY

Anton Cornelissen, head of Heavy Haulage at Santam

Drivers are the backbone of the trucking industry, and by the nature of the work they do, they work under unique physically demanding conditions. This puts them at increased risk of a range of chronic health conditions, including diabetes and hypertension. These conditions, coupled with fatigue, can negatively affect the reaction time and significantly increase the risk of collisions. This is according to Anton Cornelissen, head of Heavy Haulage at South Africa's largest short term in surer, Santam, who says that a recent study conducted by the Road Traffic Management Corporation (RTMC) highlights the unfortunate prevalence of truck related crashes on our roads.

"The RTMC conducted a study over a period of 5 years (between 1 January 2018 and 31 December 2022) for trucks and buses involved in fatal crashes, which revealed that a total of 4 001 trucks and buses were involved in fatal crashes during this period in 2 560 fatal crashes with 3 413 fatalities recorded with a combined crash severity of 1.33 (average fatalities per crash)." Cornelissen says that sobering statistics like these highlight that road safety is everyone's responsibility, not just the government. "Now in its sixth year Santam has partnered with the RTMC, in a collaborative effort with other stakeholders such as Law Enforcement, the National Bargaining Council for the Road Freight and Logistics Industry (NBCRFLI) to raise awareness around truck driver wellness and its impact on the safety on our roads through a series of Driver Wellness Awareness events.

The last activation for 2023 will take place on 20 December 2023 at N3 Heidelberg. Cornelissen explains that the RTMC is a government agency that specializes in route management and traffic safety. "The partnership allows us to access their expertise in promoting safe driving practices and improving road safety and combine this with our know-how and experience from a heavy haulage claims perspective for the benefit of South African road safety. In addition, RTMC provides the necessary resources such as locations, personnel, and logistical support to ensure the success of the driver wellness days.

This allows us to leverage these resources to create impactful Driver Wellness Awareness days." "The activations address both the physical health of drivers as well as the health of vehicles. A mobile clinic from the NBCRFLI provides free medical examinations for truck drivers to look at key indicators such as blood pressure and blood sugar levels. Based on these results, information on wellness factors such as the correct diet and tips to prevent fatigue are shared with participants," says Cornelissen.

By choosing different locations around South Africa for the driver wellness days, Cornelissen says that the programme can reach a wider audience and cater to the needs of truck drivers across the country. "By hosting events in various locations, we can ensure accessibility and convenience for truck drivers who may be traveling through different routes. This approach demonstrates our commitment to supporting truck drivers nationwide and promoting road safety on a broader scale." He says that as a leader in heavy haulage insurance, Santam encourages fleet operators to prioritise the health and wellness of truck drivers. And through the partnership with RMTC, they endeavor to highlight the importance of driver wellness and believe that a well-rested and healthy driver is a safe driver.

Cornelissen concludes that in an effort to keep expanding on the success of the initiative, this series of events will go beyond general wellness and focus on addressing the specific challenges and needs of truck drivers. "We aim to constantly strive to make these events more impactful and relevant for drivers by always expanding the number of stakeholders that offer value and free services like health checks for drivers at these events. This also provides us a valuable opportunity to interact with the actual drivers and highlight to them the importance of safe driving practices, fatigue management, and overall well-being."

EVOLUTION OF PET INSURANCE

In my second interview with Cameron Clark, the new business executive at P.UMA, Chanelle Fischer, the head of operations, and Mitchell Cousins, the broker liaison, we delved into the fascinating world of pet insurance.

Our discussion highlighted the evolution of pet insurance over the years and the pivotal role played by P.UMA in reshaping the industry. From the early days when the market was dominated by only two players to the current era of customised and comprehensive coverage, we explore the past, present, and future of pet insurance.

The Early Days of Pet Insurance - Chanelle Fischer reminisces about the humble beginnings of pet insurance when P.UMA was first established. At the time, there were only two established players in the market, with PetSure and MediPet leading the way.The market was relatively small, with PetSure boasting around 20,000 pets and MediPet covering approximately 8,000. P.UMA saw an opportunity to expand the market by introducing an accident-only plan, realising that a single insurance product was insufficient for the diverse needs of pet owners.

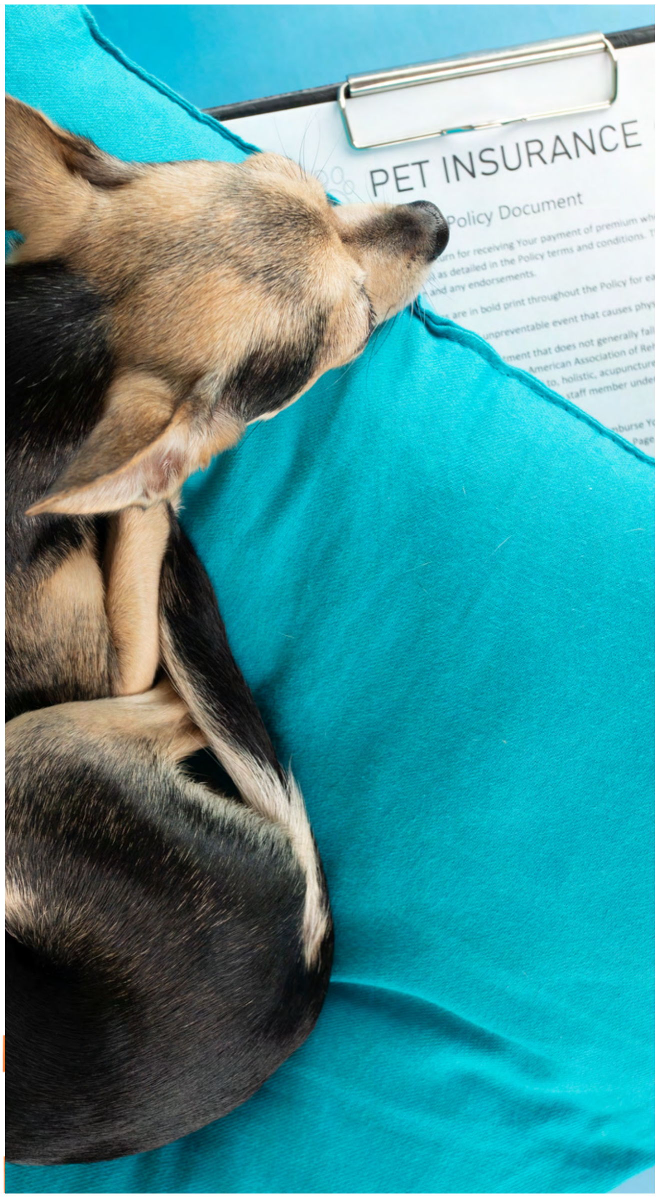
This pioneering move led to significant changes in the pet insurance landscape, as other providers followed suit, offering similar accident-only plans. Chanelle notes that imitation is the sincerest form of flattery, highlighting the impact P.UMA had on transforming the industry.

Customisation and Individualized Coverage - One of the key challenges in pet insurance is designing products that cater to the specific needs of different breeds and individual pets. Cameron Clark emphasises that P.UMA's approach is rooted in strong underwriting processes that prioritise individual pet assessment which gives pet owners upfront underwriting T&C's allowing customers to make an informed decision. Instead of imposing blanket rules based on breed type, P.UMA believes that each pet should be rated individually. Exclusions or waiting periods are determined by a pet's medical history, ensuring fairness for both pet owners and their beloved animals.

Understanding Pet Insurance Coverage - Cameron further explains how pet insurance works at P.UMA, highlighting the importance of researching sub-limits. Unlike some competitors who set annual limits in conjunction with sub-limits and display them, P.UMA focuses on individual case management, much like the approach used in the medical aid space and this allows them to offer plans with no annual limits and no sub-limits which is unique in the pet space. The team assesses the appropriate costs for specific treatments, works closely with vets to determine fair payouts, and processes claims accordingly.

The Role of Brokers in Pet Insurance - The conversation also sheds light on the essential role of brokers in pet insurance. Brokers serve as intermediaries between pet owners and insurers, guiding clients in selecting the right coverage based on breed, age, and budget. Chanelle emphasises the importance of broker-client interactions, stating that customers who purchase pet insurance through brokers receive personalised advice and options, resulting in a comprehensive product tailored to their needs.

Mitchell Cousins underscores the value of brokers selling pet insurance through an intermediary channel with the support of companies like P.UMA. He warns against the direct channel, where insurers often upsell other products, potentially taking business away from brokers. The emotional connection people have with their pets makes pet insurance an ideal addition to broker conversations about home and content insurance.



The Road Ahead for Pet Insurance - As the pet insurance market continues to grow, there is a need for responsible expansion and public education. Cameron Clark believes that the role of brokers is pivotal in this regard. Brokers can compare different products, offer advice, and help customers understand the nuances of pet insurance, such as sub-limits and annual coverage caps. With the rising costs of veterinary treatments, the importance of pet insurance becomes increasingly evident.

The conversation with P.UMA's experts highlights the growing potential in the pet insurance industry. They encourage brokers to seize the opportunity, emphasising that pet insurance is not just an emotional sale but also a gateway to offering more value to customers. P.UMA is committed to supporting brokers, providing tools, training, and technology to make the process seamless and educate brokers about their products.
In conclusion, the world of pet insurance has come a long way, with P.UMA at the forefront of transformation and innovation. As pet owners become more aware of the benefits of comprehensive coverage for their beloved animals, the pet insurance industry is poised for further growth.

Brokers stand to play a vital role in ensuring the public's awareness and understanding of this vital financial protection.

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HEALTHCARE

"Intermediaries and financial advisors will play an increasingly key role in assisting employers in navigating the complex healthcare market."
- Mbali Khumalo, Managing Director of Simeka Health

NATIONAL HEALTH INSURANCE BILL:
WILL IT WIPE OUT MEDICAL INSURANCE?

Lenee Green, Partner, Mateen Memon, Associate & Mariam Ismail, Trainee Attorney at Webber Wentzel

The NHI Bill does not contain any clarity on how South Africa's large and complex medical schemes and insurance industry will be affected.

On 12 June 2023, the National Health Insurance Bill (the Bill) was passed by the National Assembly and is currently with the National Council of Provinces for consideration. Its laudable aim is to make primary healthcare widely accessible. The Bill has been closely scrutinised by various stakeholders in the healthcare sector. Concerns have been raised by medical schemes and insurers about the effect the Bill will have on their current businesses.

The Bill, among other things, covers:

- who will be able to access health care services;
- how these services will be funded;
- the establishment of a board and advisory committees to achieve the objectives of the Bill;
- general provisions applicable to how the fund will operate;
- complaints about and appeals of decisions made by the fund; and
- the source of income of the Fund and transitional arrangements.

Clause 33 of the Bill states that once the National Health Insurance (NHI) is fully implemented, medical schemes can only offer complementary coverage for services not reimbursed by the NHI. Clause 6(o) of the Bill allows individuals to purchase services not covered by the NHI through voluntary medical insurance schemes.

This means medical schemes cannot cover services already covered by the NHI, potentially jeopardising their existence. This approach may face constitutional challenges related to the right to access healthcare, property rights of medical schemes, and freedom of trade and profession.

Current regime

Broadly, four main categories of business will be impacted by the Bill:

- business of a medical scheme as defined in the Medical Schemes Act 131 of 1998 (MSA);
- insurers licensed to conduct insurance business pursuant to the Insurance Act 18 of 2017 (the Insurance Act);
- insurers who offer products pursuant to section 8(h) of the MSA (the Exemption Framework); and
- insurers who offer products pursuant to the regulations published under each of the Long-Term Insurance Act 52 of 1998 and the Short-Term Insurance Act 53 of 1998 (the Demarcation Regulations).

Medical schemes

Presently, only medical schemes may carry on the "business of a medical scheme" as defined in the MSA. The "business of a medical scheme" involves undertaking liability for the provision of obtaining "relevant health services", defraying expenditure for "relevant health services" or rendering health services by the medical scheme itself or by any supplier of a "relevant health service" in return for a premium or contribution.

A "relevant health service" under the MSA is very wide. It includes "any health care treatment of any person by any person registered in terms of any law, which treatment has as its object..." The objects include a broad range of medical services, including the physical or mental examination of a person, the diagnosis, treatment or prevention of any physical or mental defect, illness, or deficiency, ambulance services and hospital or similar accommodation.

Insurers

Medical schemes must be distinguished from medical insurance provided by insurers. Insurers may provide medical insurance under, among other dispensations, the Insurance Act. Schedule 2 to the Insurance Act provides for various classes and sub-classes of insurance business for which life insurance companies and non-life insurance companies may be licensed. Schedule 2 allows insurers to provide health and disability benefits under the risk class of business for life insurance and accident and health and travel insurance under the classes for non-life insurance.

Health insurance is provided upon the happening of a health event. A health event is defined in the Insurance Act as one that relates to the health, mind or body of a person or an unborn, other than a disability event. The disability event is defined and includes circumstances where a person loses a limb or becomes physically or mentally impaired. It is apparent that there is an overlap of products provided for in the Insurance Act and offered under the MSA. he Demarcation Regulations provide for the demarcation between insurance business and medical schemes business.

The regulations provide that a benefit that would otherwise have been a medical scheme benefit, but meets the exact requirements (definitions) set out in the tables in the Demarcation Regulations, is classified as an insurance product. In March 2017, the Counsel for Medical Schemes (CMS) issued an exemption framework for insurers as a transitional arrangement while the development of a low-cost benefit option (LCBO) for medical schemes was developed (Exemption Framework).

To the extent that an exemption was granted to an insurer in terms of section 8(h) of the MSA, and subject to the conditions of the exemption, the insurer was permitted to continue to underwrite those products until the expiry of the exemption. On 25 January 2022, the CMS granted insurers that had previously been granted an exemption in terms of the Exemption Framework an extension of a further two years.

The background to the LCBO is that a ministerial task team on social health insurance launched the low-income medical scheme consultative process in 2005. In 2015, the CMS issued a circular that considered introducing a guideline to allow medical schemes to introduce LCBOs in response to the growing number of working South Africans who did not have medical scheme coverage because they could not afford it.

Following various engagement processes, the LCBO Framework Advisory Committee issued a Report in May 2022 (the Report). The Report states that LCBOs still have the potential to “alleviate pressure in the public healthcare system and allow resources to be redirected to the poor”. This process has progressed quite slowly, and it remains to be seen what comes of it if anything.

While the Bill is a piece of framework legislation, it does not provide clarity on what will become of insurance under the current regime. The fate of medical schemes is dealt with in a very cursory manner, without considering the nuances of the current regime.

The LCBO could have been a path to make healthcare more accessible, but the process has become stifled, and it may never come to fruition. What is left in the wake of the Bill is a great deal of uncertainty. Industry participants and stakeholders will have to keep abreast of the process and ensure that their comments are taken into account as the system evolves.

DON'T MAKE RASH DECISIONS WHEN IT COMES TO CUTTING YOUR MEDICAL COVER IN TOUGH ECONOMIC TIMES

Reo Botes, Managing Executive, Essential Employee Benefits

In these extremely challenging economic times, many South Africans are forced to reassess their budgets and cut back on non-essential items due to inflation, reduced income and the need to prioritise essential needs. As financial priorities shift, certain 'high ticket' items such as healthcare might seem to be unnecessary expenses, especially for young, healthy individuals. However, the truth is that health should never be a sacrifice, and unforeseen accidents or illnesses can wreak havoc on your financial stability. Ignoring medical cover is a risk we cannot afford to take. Fortunately, there are alternatives that allow you to manage your health cover without straining your finances, and they come with a vital component: customised and affordable cover.

Look at all your options

Customised health insurance plans are designed to cater to the specific needs of businesses and their employees. These plans simplify the complex world of insurance, making it easier for you to understand and choose cover that aligns with your lifestyle. They provide expert and personalised guidance through a team of specialists ready to assist you through the insurance process, answering questions and helping you make informed decisions. Furthermore, your cover is carefully crafted to support you during critical situations, offering financial relief and assistance when you need it most. Amid economic uncertainties, medical cover may seem like an unnecessary expense, but health is priceless. Falling ill or suffering an injury without access to proper treatment can have far-reaching consequences, impacting your work and personal life, reducing earnings, and causing unnecessary suffering.

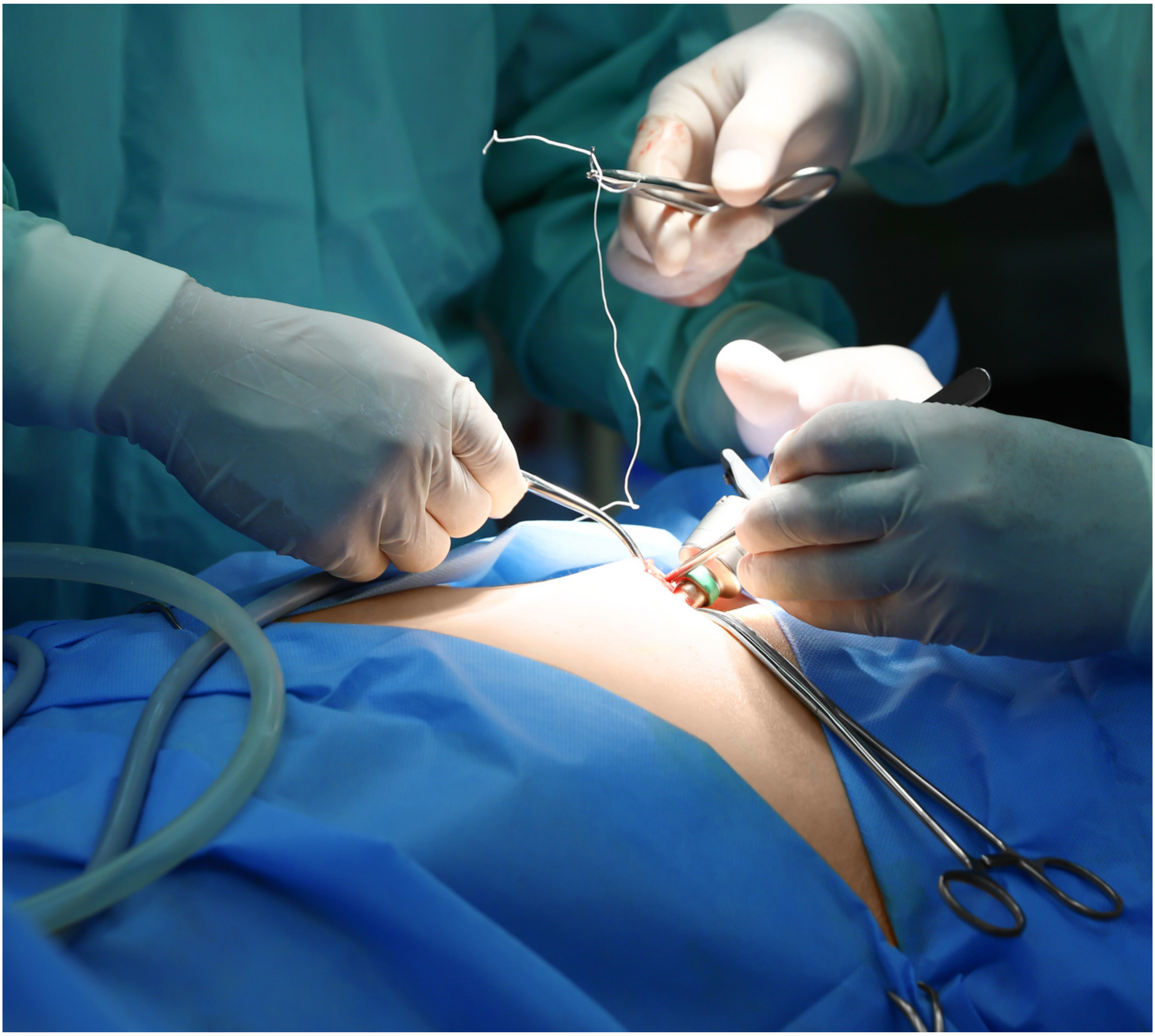
Accidents, emergencies, and chronic illnesses can strike at any moment, and paying for private treatment out of pocket can result in significant financial setbacks. Customised health insurance plans ensure that you have suitable cover, preserving your health and financial well-being. Navigating the intricacies of medical aids, hospital plans, and health insurance can be confusing, given their varying levels of cover, limits and costs. It is a crucial decision that could shape your future, necessitating careful consideration. For employers, partnering with a provider that offers rich benefits at a cost-effective price point is not just a wise choice; it's an essential one. Such partnerships make private healthcare, accessible, ensuring that quality medical care is available to all. Tailor-made health insurance solutions empower employees with comprehensive cover that addresses their individual health requirements.

So, what does health insurance cover?

For day-to-day primary healthcare, health insurance (also called medical insurance) is an affordable option that will give you access to private healthcare for doctors' visits, medication, dentistry, and optometry. Health insurance offers great protection, allowing you to make use of private healthcare, which will reduce your risk of long-term health challenges. You can also add on a hospital plan which will cover accidents and emergencies.

While health insurance is a great, value-for-money choice for a wide range of benefits, it is also important to understand that it does not cover as many chronic and dread diseases, as well as medical procedures that are considered elective (that is, not an emergency). If you want to be able to make use of a private facility for this, medical aid cover is still important, albeit that many medical aids also do not cover elective procedures.

When it comes to your health, both medical aid and health insurance have their place; they can also work together, so you need to compare the right things for the right purpose and think through any major decisions carefully. Recognising the unique needs of employees is an essential element of comprehensive health insurance, a provider that tailor solutions to their specific requirements not only safeguards their health but also contributes to a healthier, more engaged workforce overall.



Making the best decision for you

There is no right or wrong answer when it comes to medical cover – it is all driven by suitability and affordability. Nevertheless, it's crucial to keep in mind that there could be consequences if you decide to discontinue your medical cover while on medical aid and later decide to enrol again. Making a knee-jerk decision can be detrimental to your health and the health of your family, and you need to always have the best cover you can afford according to your risk profile. Selecting your medical cover type is a significant decision that requires thorough investigation. Innovation in health insurance products is the driving force behind exceptional value for money.

It's not merely about affordability; it's about optimising the utility of every healthcare rand spent. These innovative offerings allow businesses to enhance employee benefits without straining their budgets, fostering a culture of well-being and security within the workplace. When choosing a provider, scrutinise how they offer cover, understand the limits, and learn how they work. Reach out to advisors and insurance brokers to help you make an informed choice, understanding the long-term implications, so you can make the right choice.

BONITAS BALANCING INCREASES WITH VALUE AND SUSTAINABILITY

Lee Callakoppen, Principal Officer, Bonitas Medical

South Africans are struggling with an economic backdrop of market volatility, rising unemployment and declining incomes. Add to that, spiraling utility costs, load shedding and fuel increases which make things even tighter, financially, for everyone. When income is stretched, decisions on where to spend and save become critical, including whether to spend hard-earned income on private healthcare. Medical aids need to be innovative and nimble with our healthcare offerings.

Our plans - from traditional through to hospital, savings, networks, Edge (virtual) and income based – are simple and easy to understand. These are structured to meet a diverse range of quality healthcare options that are easier on the pocket. 2024 will be no different, balancing valuable benefit enhancements, with a focus on keeping contributions affordable. We have a responsibility to educate members and non-members about making the correct choice when it comes to their health and to be proactive in guiding them towards living a healthier lifestyle. This includes our comprehensive Care programmes as well as preventative screening, wellness checks and additional benefits.

Creating caring

The reality is that the prevalence of non-communicable diseases such as diabetes and hypertension have increased year-on-year. This is further compounded by the increased burden of mental health which is a risk factor for non-communicable diseases and vice versa. To provide support to our members with non-communicable diseases we have enhanced our range of Care programmes to cover: Audiology, HIV/AIDS, cancer, diabetes, mental health, back and neck, hip and knee replacements and hospital-at-home. A disease-specific approach has been created for these conditions, with a network of doctors that are experts in treating these conditions, to improve clinical outcomes.

be better benefit

To address the decline of preventative screening, including wellness checks and health risks assessments, we have intensified our drive to increase screening uptake, while ensuring our members have access to appropriate screening tests for all life stages. The 'Be Better Benefit' is funded completely from risk and provides a range of tests and benefits to ensure that members get access to the necessary screenings, to allow for early detection.

This innovative benefit provides access to a wide range of tests, depending on the plan selected, such as:

• An annual wellness screening per beneficiary to check blood pressure, blood glucose, BMI and cholesterol
• Flu vaccines, HIV tests, lipograms, mammograms, pap smears, prostate screening, pneumococcal vaccines, whooping cough boosters, HPV vaccines, stool tests for colon cancer, dental fissure sealants, free online hearing screenings and access to contraceptives up to R1 950.

Benefit Booster gets a boost

For 2024, we have enhanced our Benefit Booster. It is the only benefit in the market which provides members with access to an additional amount to use for out-of-hospital expenses, effectively giving savings and day-to-day benefits a healthy boost. Members can choose how to use their Benefit Booster, as it covers everything from additional GP consultations to acute medicines. Accessing these benefits is easy. Depending on the member's selected plan, they simply need to complete an online wellness questionnaire on the Bonitas website and/or a wellness screening at a Bonitas wellness day or at a participating network pharmacy. Wellness screenings can also be done at a GP as part of an annual check-up.

Valuable advice

Navigating the medical aid environment can be tricky, which is why independent advisors are invaluable. Bonitas brokers are independent and unwavering in supporting our commitment to provide care of the highest quality are key, guiding clients when choosing a medical aid. We have renewed our forward-thinking focus on outcome-based healthcare, always striving to introduce new distribution models and channels that keep us current and sustainable. Our strategy is to be agile and to play our part in reshaping the healthcare ecosystem - walking the wellness path alongside our clients.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Medical Aid for South Africa

AN END TO END HEALTHCARE OFFERING IS BECOMING A BUSINESS AND BROKER GAME CHANGER

Neil Kinsley, Head of Distribution and New Business Development at Unu Health

In today's competitive business landscape, maintaining a productive and healthy workforce is crucial for long-term success. Yet in South Africa, 2.25 million members of the workforce are on sick leave today. Let that sink in. That is 15% of the country's workforce who are not at work. To put that in perspective, average global absenteeism is 3.75 days per working year with South African numbers being more than triple at between 8 to 15 days per working year. The impact of lost productivity on the bottom line of business across the board is staggering. Close to 85% of the population do not have access to private healthcare, leaving more than 50+ million South Africans to rely on State healthcare resources. Without access to quality primary healthcare early in the health cycle, our workforce will continue to fall behind.

This pattern is set to perpetuate because lack of access to quality healthcare has a significant knock on impact as people are left with little choice but to travel far distances to clinics and stand in long queues to receive often unaffordable healthcare. To do this requires an entire day off work while also resulting in a higher disease burden that costs upward of 4.2% of the country's GDP. If there is a hope of South Africa achieving sustainable economic growth, quality primary healthcare must be made more accessible and affordable for all. This begins with businesses investing in comprehensive healthcare benefits, promoting preventative care programmes, and educating their workforce about the importance of maintaining good health.

Healthcare disparities in employee benefits

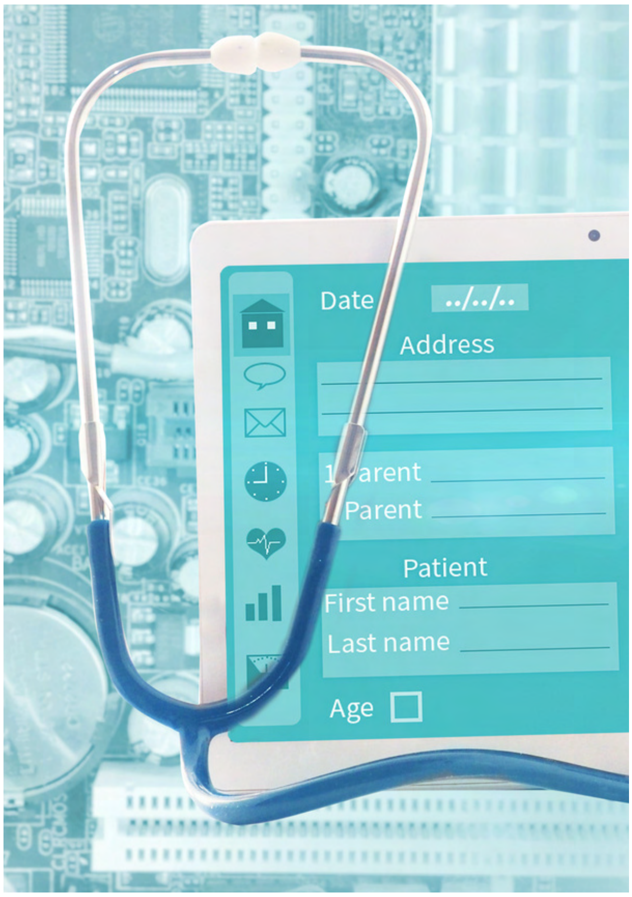
Traditionally, employee benefit programs have primarily catered to upper-income employees. These programmes typically include comprehensive health insurance plans, wellness perks, and various other benefits that are out of reach for lower-income workers. This disparity in benefits not only affects the overall well-being of the workforce but also contributes to income inequality and employee turnover. One of the core issues is the limited options available for lower-income employees. They often have to settle for basic health insurance plans with high deductibles and limited coverage. This can result in financial strain, reduced access to medical services, and increased stress. Such disparities in access to healthcare can lead to a less motivated, less healthy, and less productive workforce.

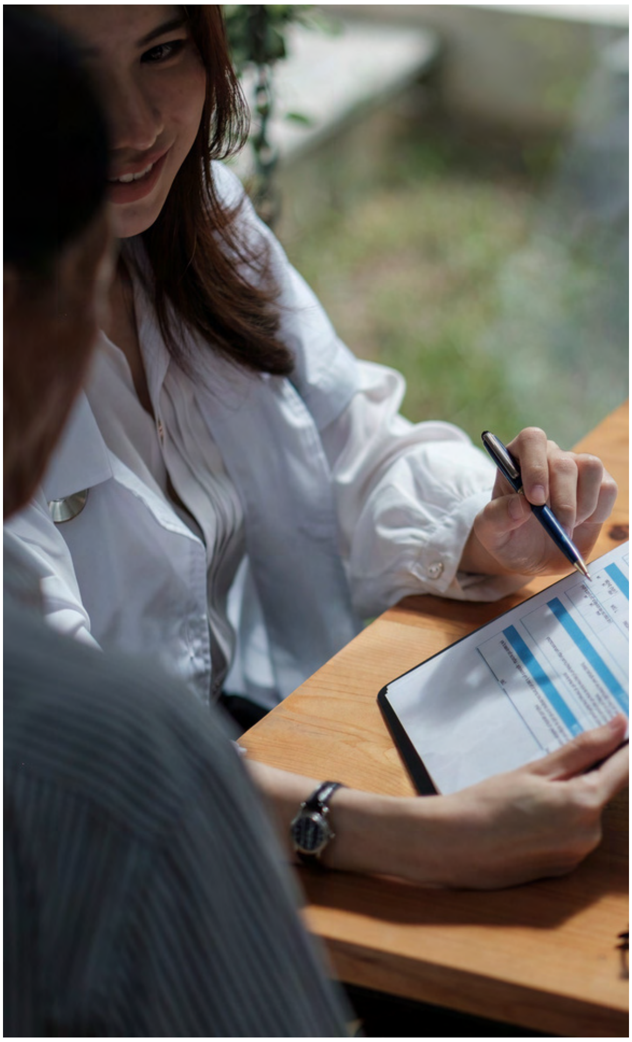
Digitally driven healthcare services

The opportunity to forever change the way the vast majority of the population access healthcare and take control of their health and wellness journey is being driven by digital innovation. An explosion in mobile technology is connecting smart phone users to an array of digital services, including healthcare platforms. A prime platform for healthcare technologies to showcase their innovation, application and integration into the existing healthcare infrastructure is now available.

In a South African context, where people have had to rely on ineffective systems for so long, advancements such as these are a game-changer set to become very much part of the future of healthcare. Experiences can now be tailored to the individual with palm-of-the-hand access that is always available, affordable, and most importantly quality driven, offering care when it is most crucial in the fight to combat NCDs – early in the health cycle.

Unu Health is one such technology platform that connects people to the healthcare they need to live healthier and more balanced lives. Users are empowered with access, information and expertise so that they can confidently take control of their own health and wellbeing.





The critical role of the broker in bridging the accessibility gap

Any employee benefit broker who has consulted to a company has probably had to exclude a large portion of employees because typically there is a gap for those earning less than R30 000 as they cannot afford private medical schemes. Now that the technology exists, brokers and Intermediaries play a pivotal role in bridging the gap within the healthcare ecosystem. Not only is there a need, but there is also an opportunity for brokers and Intermediaries to become part of the solution to unlock access to equitable healthcare solutions for a sustainable economy – and a holistically healthier workforce.

For the first time in the healthcare landscape, an opportunity exists for brokers to offer their clients a complete end-to-end solution via the Unu Health app. Cutting edge technology does not exclude a single member of the client's workforce – no matter what their income. The value add and client relationship building opportunities are undeniable as brokers now have the ability to offer a corporate solution that addresses business risk and employee wellbeing.

Currently there is no other platform that offers brokers this type of end-to-end employee healthcare solution. Clients are asking for it, Unu health's technology platform is delivering it, so there is no reason why brokers should not be including it in their offering.

LIMITING MEDICAL AID INCREASES ISN'T THE ANSWER TO OUR HEALTHCARE WOES

Gary Feldman, Executive Head of Healthcare Consulting at NMG Benefits

Earlier this month, the Council for Medical Schemes (CMS) recommended that medical aid schemes cap their contribution increases for 2023 at 5.7%. On the face of it, limiting medical aid increases looks like a prudent cost-cutting measure. In reality, it could affect the sustainability of the entire healthcare ecosystem, which includes patients, healthcare providers and funders alike.

The bigger challenge is that private healthcare is not sustainable in its current format. There is clear overservicing in many areas. That's why both the private and public healthcare systems need to be reviewed to come up with a system that affords all South Africans access to decent healthcare.

In the meantime, the healthcare industry is trying to balance affordability and sustainability. It's essential that the industry finds ways to manage rising healthcare costs. But restricting contributions to medical aid schemes is a blunt response to a complex and nuanced situation.

The harsh reality is that few, if any, medical aid schemes will adhere to the 5.7% contribution cap being proposed by the CMS. During the Covid years, some schemes put through low, and even negative, increases. We saw medical schemes changing the way they implemented fee increases, including deferring increases, dipping into reserves, and announcing delayed increases.

None of those measures are sustainable in the long term. That's because claims have gone back to pre-Covid levels, so schemes will come under severe financial pressure if they don't make more realistic increases now.

What type of increases can we expect? In general, medical inflation is around 3% higher than the consumer price index (CPI). What that means is that we can expect to see increases of at least CPI plus 3%, if not more. In fact, we will potentially see several medical aids putting through double-digit contributions in the coming months to stay abreast of rising costs and claim levels.

Some schemes will justify contribution increases above inflation due to some industry-specific cost factors. We're already seeing hospitals increasing their prices by 10% or more, for example. It doesn't help that providers hike their rates by 10%, but funders can only increase their contributions by 5.7%. That's simply not sustainable. To ensure the sustainability of schemes, we anticipate increases of between 7% and 10%.

Of course, the bigger question is what steps need to be taken to create a more sustainable and equitable healthcare system. At the moment, there are about 4.5 million registered members of different medical schemes, serving a total of around 9 million beneficiaries. That leaves 51 million South Africans who rely on the public health system.

And here, the elephant in the room is the National Health Insurance (NHI). Make no mistake, an NHI is necessary, because everybody in the country has the right to access decent healthcare.

As we know all too well, there are several challenges to NHI. Perhaps the biggest of those challenges is that there's low to zero trust in the ability of government to manage what will effectively be a medical scheme that's 20 times bigger than Discovery. Then there's the funding of the NHI, which remains a well-kept secret.

Throw into the mix the chronic shortage of doctors, nurses and facilities in our country, and you're starting to get an idea of the mountain facing NHI. Medical schools are still generating the same number of doctors they did 30 years ago, and our population has doubled since then.

At the same time, the brain drain is robbing us of the highly trained medical professionals our healthcare system is crying out for. The bottom line? NHI may not be fully implemented in our lifetime. That's not particularly comforting to the average medical aid member, whose main concern at this stage is that any increases in medical aid contributions are kept as low as possible. We're already seeing many members downgrading their plans and options, and any further increases will only put more pressure on consumer wallets that are already under immense strain. Most of the larger medical aid schemes have introduced network options in an effort to maintain affordability. Other than that, their options are limited in the current healthcare set-up. The best thing medical aid members can do at this stage is to speak to an informed broker to ensure they get the best coverage for their family's needs at a price point they can afford.

Ultimately, balancing affordability with the provision of quality healthcare requires a holistic approach that recognises the complex relationships between the various stakeholders in the system. Until then, we're not going to reduce healthcare costs, let alone ensure a robust and sustainable healthcare ecosystem for all.

THE RIGHT ADVICE IS KEY IN SELECTING MEDICAL AID AND GAP COVER TO SUIT YOUR NEEDS

Medical aid is a must in South Africa for anyone looking to make use of private healthcare, as the cost for those who are not members of medical schemes is simply out of reach for most people.

However, co-payments, sub-limits and medical expense shortfalls have become increasingly common, leaving people out of pocket even when they do have medical aid.

As a result, gap cover has become an essential part of a comprehensive healthcare portfolio, but selecting the right product can be daunting. When it comes to choosing medical aid as well as gap cover to suit your needs, your life stage and your budget, the right advice is critical.

James White, Director of Sales and Marketing at Turnberry Management Risk Solutions

Step 1: Choosing a medical aid option

Selecting a medical aid scheme and plan option is a personal exercise, as there are many different offerings available from multiple providers and everyone's circumstances are unique. The right plan depends on your individual circumstances, such as your age and your life stage, as well as your own health. It also depends on affordability and budget factors, as the cost of medical aid can be a significant expense. It is also important to consider any limitations, additional expenses, exclusions or waiting periods that could apply, which again depends on personal circumstances.

For example, a single, healthy 26-year-old with no children will have very different needs from someone in their mid-fifties with a chronic condition like blood pressure or diabetes, and a basic hospital plan might be sufficient for them, while the person with the chronic condition will need a more comprehensive solution. At the same time, a 26-year-old who is planning to start a family or who has children will also have different requirements from their medical aid. Sifting through the many different options to find the right one for you can be a challenging task, which is why brokers and financial advisors are available to provide advice.

Filling the gap

There are essentially three core components of gap cover, with the most important one typically being hospital expense medical shortfall cover, as this is where most out-of-pocket expenses originate. The other two essential components are co-payments and sub-limits. It is once again important to also look at exclusions, limitations and waiting periods imposed by the gap cover provider. Once a medical scheme option has been selected, the 'holes' in your cover can be plugged with an affordable gap cover policy that will supplement the medical aid option you have chosen in terms of these three areas.

If your chosen medical aid option includes large co-payments then it is critical for your chosen gap cover to have substantial co-payment cover, for example. All medical aid schemes and options differ when it comes to these elements, so it is vital to find a gap policy that fits well to supplement your cover. There are also a range of value-added extras that gap cover providers may offer, including a casualty benefit to cover the expenses of a visit to the emergency room, counselling benefits and premium waivers. Again, the advice of a broker or financial advisor can be invaluable in helping you select the right gap cover policy to suit your needs as well as your chosen medical scheme plan and option.

One size does not fit all

The reality is that there is no single solution that will meet everyone's circumstances, lifestyle, life stage, age, budget, and other needs. Everyone is different, and to effectively protect your financial future, it is essential to get the right fit. Expert advice can go a long way in making sure you have the best medical aid cover you can afford – and the services of a broker are included as part of medical schemes, so there are no additional fees for making use of this service. Your broker can also help you to find the most appropriate gap cover to fit your unique individual needs.

About Turnberry Management Risk Solutions

Founded in 2001, Turnberry is a registered financial services provider (FSP no. 36571) that specialises in Accident and Health Insurance, Travel Insurance, and Funeral Cover. With extensive experience across healthcare and insurance industries in South Africa, Turnberry offers unsurpassed service to Brokers and clients. Turnberry's gap cover products are available to clients on all medical aid schemes, as they are independently provided and are therefore transferable in the event of a change in the client's medical aid scheme.

Turnberry is well represented nationally, with its Head Office based in Bedfordview, Johannesburg with Business Development Managers in Cape Town and Durban. The Turnberry Team's focus on outstanding client service comes from having extensive knowledge and experience in the financial services sector and is underwritten by Lombard Insurance Company Limited. Lombard Insurance Company Limited is an Authorised Financial Services Provider (FSP 1596) and Insurer conducting non-life insurance business.

MEDICAL AID SCHEMES MUST INNOVATE OR PAY THE PRICE

Fedhealth Principal Officer Jeremy Yatt

Medical aid annual contribution increases among South African medical schemes are announced each September, and this year many consumers had a rude awakening as some schemes played catch up after the smaller increases announced during the pandemic. Not only that though: some medical schemes chose to slash members' savings in 2024 while also increasing their contributions, effectively decreasing the value consumers are getting out of their medical aid cover overall. The net effect of this is a heightened sensitivity to healthcare costs in South Africa and huge pressure on consumers' finances in general.

I believe that if schemes don't provide new solutions to address these issues, then they risk losing existing and potential members fast – especially those within the younger generation. According to an international study performed by market research firm Gen HQ, 71% of Gen Z thinks that healthcare should be free or low cost to everyone. While this may be an international study, it's likely that this sentiment is shared by many young South Africans today. But up until now, young people just starting out in their careers have faced a challenge: they couldn't afford to be without medical aid, but they couldn't afford to pay for it either.

Under 35s are also used to running their lives online, and they crave something different to the medical aid their parents had. While the medical aid of yesteryear may be comforting and necessary for certain age groups, we knew there was also an urgent need for an affordable hospital plan that offered a fun and future-focused alternative for the under-35 digital natives. With these needs in mind, we designed Fedhealth's new flexiFEDSavvy option, which launched in January of this year. Our flexiFEDSavvy plan gives under-35 members full medical aid (not medical insurance) for under R1 000 per month.

With this plan, they don't only get comprehensive private hospital cover at an extensive network – they also benefit from unlimited virtual GP visits and three face-to-face consults at a network GP (paid from Risk), as well as screenings and other benefits. The mental health crisis facing our youth is also a huge cause for concern. According to the latest UNICEF South Africa U-Report poll published in 2022, 73% of children and youth felt they needed mental health support over the past year, of which 38% – more than half – actively sought help.

For this reason we've placed mental health at the centre of our offerings, with our free resources like the Panda app offered to all Fedhealth members on all plan options. The app gives members virtual access to educational material, mental health assessments and connects them with mental health experts for support. To further complement the affordability aspect of our medical aid offerings, we're providing two integrated products that can complement our Savvy option. Our NexGen Gap cover, designed by Sanlam, takes care of any 'excess' co-payments in case of planned hospital procedures at non-network hospitals, and starts from just R64.90 per month for individual members.

Sanlam Primary Care, on the other hand, provides young people with some day-to-day benefits in case they need them, from only R423p/m for individual members and R317p/m for corporate members. By combining a hospital plan with a much more affordable primary care insurance plan, young members get all the cover they need in an innovative package that suits their lifestyle and needs. We see these new offerings as a vital addition to the medical aid industry in terms of attracting younger members as well as meeting new healthcare demands in a rapidly changing world.

Want to provide your under-35 clients with smarter ways to make their money (and health) go further? Visit fedhealth.co.za or speak to a Fedhealth Broker Consultant today.

TAKING A HYBRID APPROACH TO HEALTHCARE FINANCIAL PLANNING

As consumers balance increasingly tough financial constraints, the planning and affordability of their private healthcare strategy has become a household emergency. For many families, healthcare funding is one of their biggest costs – anywhere up to 30% of their household expenditure - but it's also one of the most important as no one wants to lose their access to private quality healthcare in a health crisis given the perilous state of public health care facilities.

The trend of medical scheme members moving to lower benefit and cost options has been consistent for some years now, and the primary driver of this comes down to affordability and perceived value of benefits versus premium paid. Recent announcements by medical schemes show that most scheme members are facing weighted average increases to their medical scheme premiums in 2024 of anywhere between 7%-12%, and in some instances a decrease in their funding to medical savings accounts to cover day-to-day primary care needs.

In virtually all instances, scheme members are paying a lot more for less benefits and face a growing burden of out-of-pocket healthcare costs which they need to self-fund – a trend that has been consistent for years now. Secondly, for many members there is a disjoin between the premium paid, versus the perceived value they receive, and this is especially notable in the younger market. Minimal utilisation members typically the young and healthy - feel aggrieved at paying the same as high utilisation members, for benefits that they don't currently use – so are buying down to core hospital plans or opting out completely.

Paul Cox, Managing Director at the Essential Group of Companies including health insurance provider, EssentialMED

Another driver of private healthcare costs is that healthcare provider costs have also been rising well above inflation for years, and there is currently no pricing regulation as to what they can charge, like in the pharmaceutical sector. Health care providers, notably specialists who are in short supply in South Africa, also face no meaningful market competition dynamics which would rein in unfettered price increases. In the current market, demand for specialist services way outpaces supply, driving up costs. The costs of medicines and advanced medical treatments, notably in the oncology space, are also rising.

The bottom line is, regardless of these market pressures and dynamics, maintaining access to private healthcare, especially for hospitalisation, remains high on the list of consumer priorities, given the dysfunctional state of many public healthcare facilities. There is a definite approach by healthcare financial advisors to prioritise healthcare funding in a hybrid model, leveraging the synergies between core medical scheme benefits for hospitalisation needs, gap cover for any tariff shortfalls, and health insurance for primary care needs, in a cohesive and complimentary approach.

EssentialMED provides a snapshot of the key trends playing out:

- **Moving to a core 'Hospital' Plan:** While members may be prepared to forego the costs of medical scheme cover for their day-to-day and primary healthcare needs, having a solid hospital plan with their medical scheme is non-negotiable. When you consider that the hospital bill for a health crisis like cancer, heart surgery, car accident or extended stay in ICU can easily run into six-digit numbers, a hospital plan provides the peace of mind and absolute necessity that the big ticket, hospitalisation private healthcare costs are sorted.

- **Gap cover for shortfalls on hospitalisation bills:** Gap insurance covers the difference that arises from the rate that healthcare specialists charge for in-hospital procedures versus what your medical schemes benefit pays to providers – the difference can be upwards of 400% and more of medical scheme tariff, particularly on core 'hospital' benefit options. If your medical scheme option only pays out at 100% of tariff, you will then be liable to pay the shortfall of the other 200% to 400% charged by your healthcare provider as an "out of pocket" expense if you do not have gap cover in place.

- **Health insurance for day-to-day and primary care needs:** when opting for a core hospital plan with a medical scheme, you are covered for in-hospital treatment only, subject to the terms and conditions of your benefit option. Cover for day-to-day and primary health care such as GP visits, optometry, dentistry, specialist consultations, preventative healthcare, acute medication and the like are not covered. Taking out a health insurance benefit for day-to-day primary care is a very affordable way to mitigate and manage these primary healthcare expenses separately, protecting you from onerous out-of-pocket expenses. Many consumers mistakenly believe that it is an 'either or' between medial aid and health insurance, which is not the case at all. An option like EssentialMED's day-to-day benefit gives you access to private primary healthcare at an affordable rate, with unlimited managed visits to network doctors and dentists, unlimited access to acute and chronic formulary medication, radiology, pathology, optometry and even cover for specialists on a managed basis when referred by a network GP.

By coupling a core hospital medical scheme benefit, gap cover and day-to-day health insurance plan, you get a complimentary and affordable hybrid solution, ensuring that you retain access to quality private healthcare – for in and out of hospital - when you need it most. Your hospital plan ensures access to care in a private hospital. You mitigate against the potential for onerous and unbudgeted out-of-pocket expenses for hospitalisation tariff shortfalls with your gap cover and your day-to-day health insurance plan provides access to essential primary and preventative healthcare that you and your family will require throughout the year.

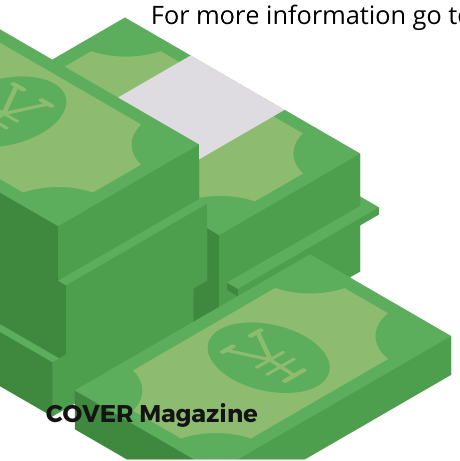
Consider the following example:

Based on a family of four - 2 adult dependants and 2 children younger than 20			
	Comprehensive Medical Scheme option	Core Hospital plan/gap cover/day-to-day health insurance combination	
Comprehensive Medical scheme benefit - per month	R 17 555	R 6650	Core Hospital Plan – per month
Comprehensive Gap Cover – per month	R 530	R 530	Comprehensive Gap Cover – per month
		R 595	EssentialMED Day-to-Day health insurance benefit – per month
Total monthly premiums	R18 085.00	R 7 775	Total monthly premiums

(Premiums are based on a leading open medical scheme's comprehensive benefit and a core hospital plan benefit with premiums valid as at 1 March 2023 as published on their website. Gap cover premium based on a comprehensive gap option and EssentialMED's day-to-day health insurance benefit, both as at 1 March 2023).

In assessing a hybrid healthcare funding model that caters for all the interconnected variables and your unique current health circumstances, as well as all the unknowns, its crucial to engage with a professional and accredited healthcare broker who will guide you through the process, explain the role of the different options between medical scheme benefits, gap cover and health insurance, and ensure that you have the best solution for your circumstances and budget. Healthcare funding options tend to be complex as there are so many benefit options and solutions to consider, and all vary widely in terms of offering, regulatory framework and benefits – making like-for-like comparisons near impossible.

The best approach is to get the expertise of a healthcare broker who is adept at building the right strategy for your needs based on benefit design, contributions, affordability and practicality – aligned to your specific needs analysis and those of your dependants. The emphasis must be on balancing your cover and finding economies where they are to be found, managing your expectations as to what is and is not covered in the varying scenarios, and understanding the inherent role that risk management and your responsibility to that process plays in building your healthcare funding strategy.
For more information go to www.essentialmed.co.za



INNOVATING PERSONALISED HEALTHCARE FUNDING

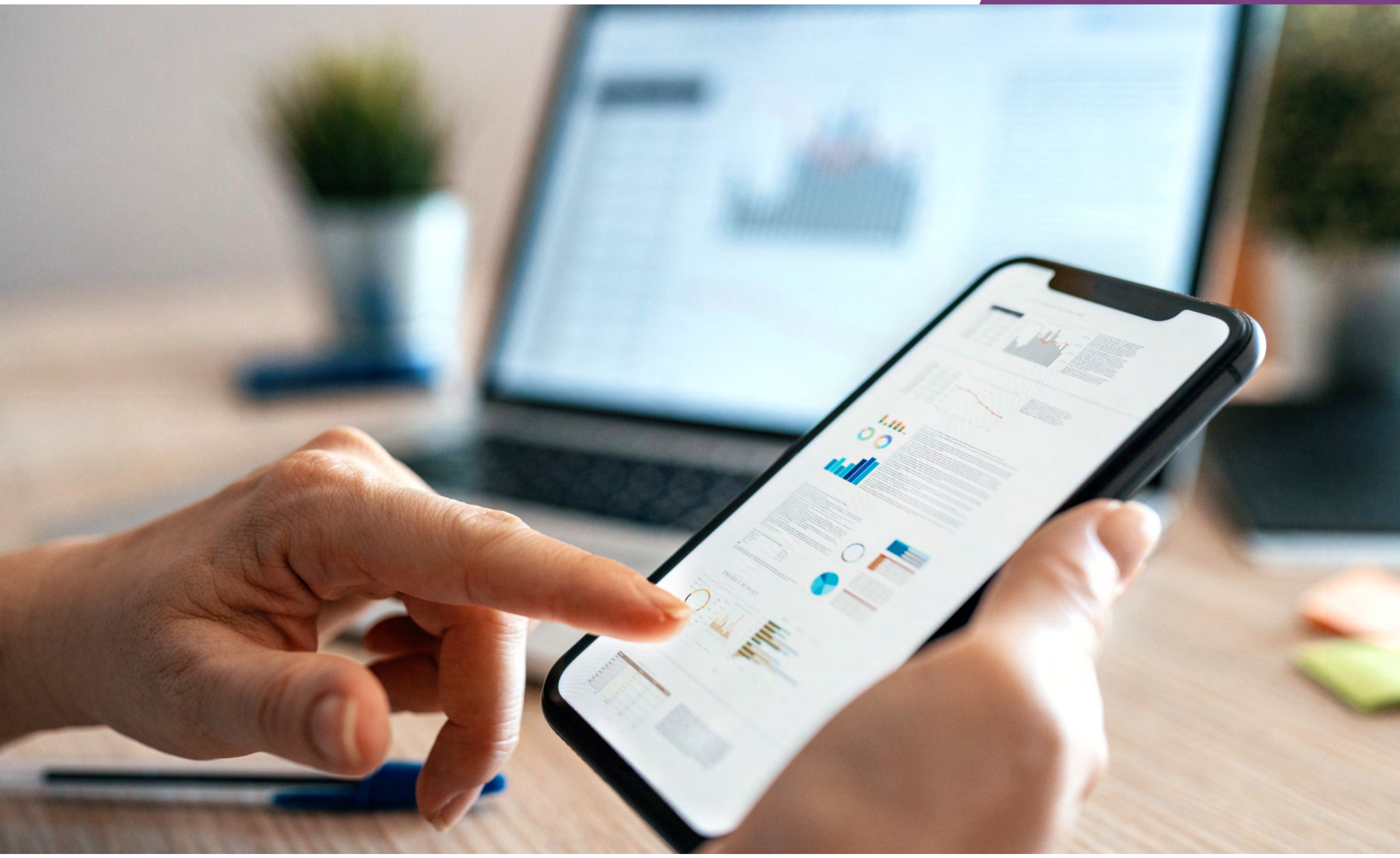

Dr. Ryan Noach, CEO of Discovery Health

Medical aid is a must in South Africa for anyone looking to make use of private healthcare, as the cost for those who are not members of medical schemes is simply out of reach for most people.

The Discovery Health App, introduced on the 25th of October is poised to become a personalised gateway to the healthcare system for all Discovery Health customers, offering end-to-end healthcare support and navigation. This groundbreaking digital platform introduces several first-in-South Africa innovations designed to enhance the health and well-being of its users.

The CEO of Discovery Health, Dr. Ryan Noach, expressed his enthusiasm for the app, stating, "The new Discovery Health App is the digital front door to the health system for our customers, providing a single access point through which health consumers can meet all their digital healthcare needs." With the integration of cutting-edge digital healthcare technology and services, this app consolidates all aspects of an individual's health in one convenient location, offering a myriad of benefits.

One of the standout features of the app is its personalised approach. The "Just For You" section provides tailored health and lifestyle recommendations, allowing users to make informed decisions about their well-being and care. This approach supports Discovery Health's drive to deliver healthcare solutions that align with each individual's unique needs.



In addition to these personalised features, the Discovery Health App introduces three pioneering services that are firsts in South Africa:

- Speak to a Doctor Now: This on-demand service enables users to speak to a doctor 24/7, providing immediate access to healthcare professionals. The app also includes an emergency feature that can pinpoint a user's location and summon medical assistance when needed. In non-urgent situations, users can book appointments with healthcare professionals.

- Virtual Physical Therapy: In partnership with Genie Health, this feature offers users support for musculoskeletal rehabilitation. Users can access in-app support for prescribed physical therapy exercises, with the app tracking their movements through their device's camera. This innovative technology ensures that exercises are performed correctly, increasing the chances of a successful rehabilitation.

- Digital Therapeutics for Mental Health: With a focus on treating depression, this feature provides internet-based Cognitive Behavioral Therapy (iCBT). Considering the rising global rates of mental illness, it addresses a critical need. Users can undertake a mental wellbeing assessment, and those diagnosed with symptoms of depression can access iCBT to support their treatment. This service is provided in partnership with SilverCloud® by Amwell®, a globally digital behavioral health and wellbeing platform.

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Dr. Noach emphasised the importance of mental health care, noting that an increasing number of individuals worldwide experience mental disorders, particularly depression. In South Africa, the prevalence of mental illness has grown significantly, with depression being the most diagnosed condition.


Confidence Rule 71:
FOR EVERY SMART CAREER MOVE, MAKE A SMART FINANCIAL MOVE.

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The Discovery Health App is segmented into four main categories:

- Just For You: Offers personalised recommendations and "next best actions" based on individual needs.
- My Health: Provides access to relevant information and programs, including health checks and mental wellbeing assessments.
- My Cover: Allows users to manage their medical aid plan, view accounts, track benefits, and manage claims.
- Get Care: Facilitates access to immediate care in the healthcare system, including the "Speak To a Doctor Now" feature.

The app is seamlessly integrated into the broader Discovery digital ecosystem, enabling users to navigate between the Discovery Health App, Discovery Bank, and Discovery Corporate apps. Dr. Noach stressed that this app aligns with the growing global trend of digital healthcare adoption, accelerated by the structural health system pressures during the COVID-19 pandemic.

Investment in digital healthcare technologies, including AI, cloud platforms, wearables, and telehealth services, has skyrocketed, and user demand for these technologies is on the rise. Discovery Health aims to meet this demand by providing innovative tools that enhance access to healthcare and contribute to the health and well-being of their customers. The launch of the Health App will assist Discovery in their mission to make healthcare more accessible, personalised, and convenient for its members.

MIND YOUR GAP COVER

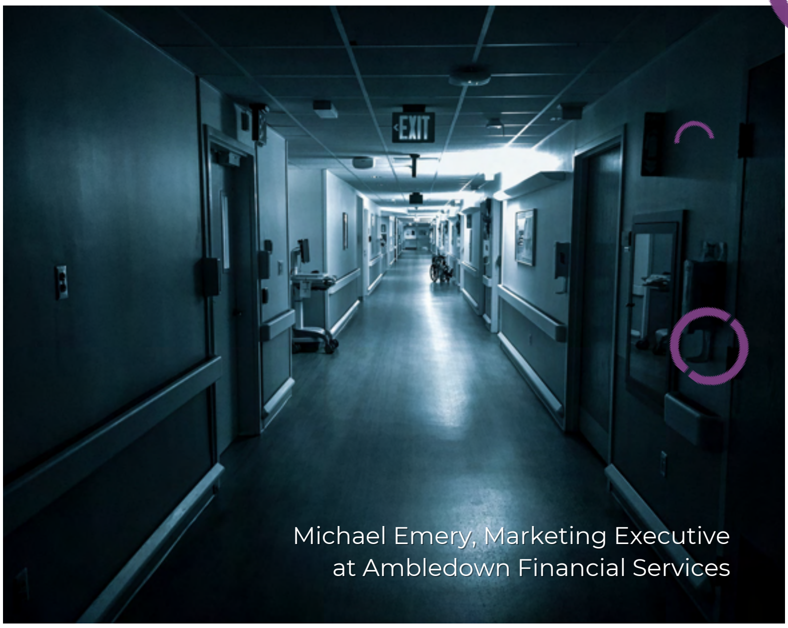
Times are challenging, and with medical costs on the rise, it's not surprising that gap cover is becoming an even more important part of the mix.

One of the significant consequences of the COVID-19 pandemic is that consumers have become very aware of the importance of having adequate medical cover in place. And given that medical aid costs are likely to continue rising, and the fact that consumer inflation seems to be in an upward trend, consumers are looking at ways how to fund the cover they want.

For those with medical aid, gap cover is an increasingly important way to help finance health care. Basically speaking, gap cover insures medical scheme members against discrepancies between what the medical scheme pays and what the medical service provider charges for in-hospital procedures and defined out-patient procedures. For example, the surgeon and anaesthetist might charge considerably more than the medical scheme's rate for a specific surgical procedure; this shortfall would be covered by the gap cover.

An individual without gap cover would be liable for that shortfall. The same scenario would play out in the case of co-payments (a co-payment occurs when a medical scheme stipulates that the contributor has to pay a proportion of the fee for certain designated procedures).

Gap cover complements medical aid cover because it saves medical scheme members from liability for significant extra expenses when shortfalls or co-payments occur. Despite its important role, it is relatively inexpensive. It is important to note, however, that gap cover is not a medical aid and cannot be used as a substitute for medical scheme cover.



Marketplace trends

It is concerning to note that many of those who have access to medical scheme cover as part of their employee benefits are often unaware of the need for gap cover – they simply assume they are "covered". Alternatively, many employees do not realise that their company medical benefit may actually already includes gap cover. Employees on a company medical scheme must take the time to engage with the consultants appointed by the company to unpack exactly what their benefits are, and what they are covered against . If they are not appropriately covered, then they should seek advice on how to the right level of gap cover.

The same goes for private members of medical schemes. Enlisting the help of a reputable broker will pay huge dividends in helping them to understand exactly what benefits are required, and what level of gap cover is needed. According to current figures from Statista Research, only 16% of the South African population is covered by medical aidi, with the vast majority dependent on the state health care system. An emerging trend is that the cost-of-living crisis is forcing many people to reconsider and downgrade their medical scheme membership.

It's going to be a bumpy year in all sorts of ways. Making sure you have the most appropriate cover for your circumstances is a great way to smooth your path to financial freedom by eliminating one major potential bump. **Ambledown Financial Services is authorised Financial Services Provider No.10287**

Mbali Khumalo, Managing Director of Simeka Health

THE CHANGING LANDSCAPE OF HEALTHCARE FUNDING

The COVID-19 pandemic brought to the forefront the critical importance of healthcare, further emphasising the need for accessible and affordable medical services. In a recent interview with Mbali Khumalo, Managing Director of Simeka Health, we explore the impact of the past two years on how individuals perceive and prioritise healthcare, the financial challenges they face, and innovative ways financial advisors can help clients prepare for healthcare expenses. We also delve into the emerging trends and changes in the healthcare industry in response to an increased focus on healthcare funding and discuss the future of healthcare funding in addressing current financial pressures.

Reevaluating Healthcare Priorities

The past two years have seen a significant shift in how individuals perceive and prioritise access to quality healthcare. The uncertainties surrounding health, particularly during the COVID-19 pandemic, underscored the necessity of healthcare for all. Many households faced economic pressures, yet statistics show that most retained their healthcare cover. The importance of mental health support also became evident, leading to the development of virtual mental health solutions, primarily offered to employer groups. This saw an increased demand for Employee Assistance Programs, which provide mental health and other support to employees. Access to mental health support, particularly during times of crisis, became a critical aspect of healthcare.

Affordability and Balancing Act

Financial challenges have become a key concern for consumers when it comes to healthcare funding. Balancing the need for healthcare with financial constraints can be a daunting task. Healthcare expenditure competes with essential needs such as food, clothing, and shelter. While healthcare remains a high priority for young people, their spending patterns often do not align. Many argue that their chances of making claims are lower, preferring to allocate funds to other immediate needs. It is advisable to at least have accident, emergency, and catastrophic cover, with a hospital plan often providing such protection. Neglecting primary and preventative care can lead to higher risks of catastrophic health events and chronic conditions. Late Joiner Penalties are another financial impact for individuals who delay joining healthcare schemes, sometimes reaching up to 75% of the risk contribution.

Innovative Approaches for Financial Advisors

Financial advisors play a crucial role in helping clients prepare for healthcare expenses, such as Medical Aid, Hospital Plans, and Gap Cover. Advisors should prioritise the health and well-being of their clients, emphasising that being healthy and able to work should be a top priority. Employers also play a significant role in providing access to quality healthcare offerings, ensuring that employees have coverage without waiting periods, exclusions, or Late Joiner Penalties. Tax credits can help alleviate financial pressures through immediate relief when medical scheme contributions are deducted via payroll or during the tax return filing process.

Accredited consultants are essential for guiding members to tailor their healthcare cover to suit their needs. They can recommend a combination of products, such as Medical Aid, Hospital Plans, and Gap Cover, to find the best solution for clients. Additionally, advisors should highlight the potential hidden risks for scheme members, such as co-payments, tariff shortfalls, and benefit limits being exceeded. Gap cover can provide valuable protection at a reasonable cost in such situations.

Emerging Trends in the Healthcare Industry
The past two years have brought about several significant trends and changes in the healthcare industry:

- Relaxation of Compulsory Membership: Employers have relaxed their compulsory membership policies, allowing lower-earning employees to choose from a range of healthcare options. This approach offers more flexibility and affordability.
- Employee Assistance Programs and Primary Health Insurance: Employer Assistance Programs and primary health insurance products have gained popularity as solutions for healthcare needs. These programs provide accessible and affordable healthcare options for employees.
- Cost Containment: Both medical schemes and primary health insurance products have focused on cost containment by offering nurse visits or virtual GP (General Practitioner) consultations as primary care gatekeepers. Additionally, medical schemes have introduced more networks to control costs, with members accepting restricted choices to keep contributions affordable.

The Future of Healthcare Funding

The future of healthcare funding is expected to see the introduction of new players and innovative solutions to address current financial pressures faced by consumers. Hospital groups are offering Gap products, while pharmacy chains are providing primary care products. There is a growing trend of bundled holistic healthcare offerings from major players like Sanlam, Momentum, and Discovery, which offer comprehensive reporting and a clearer understanding of employees' health status. Intermediaries and financial advisors will play an increasingly key role in assisting employers in navigating the complex healthcare market. Proper, accredited advice is essential to guide employers in offering their employees the best possible solutions, including medical schemes, primary care, Employee Assistance Programs, Gap cover, and other health initiatives like preventative care and on-site clinic solutions where applicable.

The past two years have reshaped the way individuals perceive and prioritise healthcare, and the financial challenges they face have prompted the healthcare industry to adapt and innovate. As we move forward, the healthcare funding landscape is expected to continue evolving to provide more accessible, affordable, and comprehensive solutions for consumers, with the guidance of accredited consultants and financial advisors playing a pivotal role in helping individuals and employers make informed decisions about their healthcare coverage.

TECHNOLOGY

"Largely as a result of rapid advancements in technology, the conversation around ethics in business has evolved significantly. " **- Prof. Yudhvir Seetharam; Head of Analytics, Insights and Research for FNB Business**

BIG OR SMALL CYBER SECURITY IS FOR ALL

The cybersecurity landscape has experienced a significant surge in cyber threats, evolving attack methods, and new technologies. Attackers have become more sophisticated in their methods, leveraging automation, artificial intelligence, and machine learning to develop novel attack vectors.

Organizations must ensure that they implement basic cybersecurity practices such as regular patching, multi-factor authentication, and strong password policies. Despite these controls, the human element remains the weakest link in cybersecurity, and attackers are increasingly targeting employees via social engineering tactics.

There is a common misconception that only large corporations are at risk of cybersecurity breaches. However, smaller businesses are equally vulnerable and may, in fact, be at higher risk due to their limited cybersecurity budgets. With fewer resources, smaller businesses may not have adequate funds to invest in cybersecurity measures and become easy targets for cybercriminals.

To protect themselves, smaller businesses need to focus on high-risk areas and adopt basic cybersecurity practices like user access control, vulnerability scanning, anti-virus, and email security. These practices, albeit not expensive to implement, can go a long way in mitigating cybersecurity risks.

Top risks that businesses face in terms of cybersecurity depends on the nature of the business, the scale of operations, and the company's risk appetite. The most vulnerable businesses are those that provide sensitive services or conduct transactions online, possess sensitive customer data, or operate in emerging economies with sophisticated cybercriminals.

Some of the current top risks in cybersecurity include social engineering, security misconfigurations, malware, and ransomware. With social engineering, hackers use manipulation tactics with employees to gain access to systems and data while security misconfigurations occur when defenses are not properly configured. Malware and ransomware can take over a network or system, stealing important data or demanding a ransom.

With social engineering, hackers use manipulation tactics with employees to gain access to systems and data while security misconfigurations occur when defenses are not properly configured. Malware and ransomware can take over a network or system, stealing important data or demanding a ransom. To mitigate these risks, it is important that businesses have robust security policies and procedures in place, such as regular employee training, effective IT controls, and disaster recovery plans.

Common mistakes smaller businesses make in regard to cybersecurity are:

1. Neglecting Anti-Virus and Anti-Malware Software: Smaller businesses often forego loading anti-virus and anti-malware software on every workstation and server. They assume such measures are only necessary for large companies, which leaves them open to attacks.

2. Not Running Daily Scans with Anti-Virus and Anti-Malware: Just installing the software is not enough. These software programs must be applied daily to scan all workstations and servers for potential malware and spyware.

3. Failing to Install Critical Security Updates: Businesses need to stay on top of the latest security updates and patches to ensure their protection against vulnerabilities. Hackers often exploit these vulnerabilities to gain access to systems and data.

4. Cybersecurity Practitioners Not Staying Up-to-Date with Current Trends: Technology advancements are continually creating new vulnerabilities which cybercriminals exploit. Unfortunately, cybersecurity practitioners often fail to stay current with the latest security trends and threats. This can make it challenging to identify and mitigate emerging risks.

The best approach to mitigate cybersecurity risks is to conduct IT Security Risk Management to understand the shortcomings within the environment. This process involves identifying potential threats and vulnerabilities that could compromise the security of the organization. Once the Security Risks and Gaps are identified, processes can be implemented to mitigate the risks.

However, it is important to note that there is no silver bullet for cyber security. Organizations must proactively work to strengthen their security posture by implementing security best practices and continuously monitoring and testing their systems for vulnerabilities. Even with the best cybersecurity technology, humans remain the most significant factor with studies showing over 90% of cybersecurity breaches involve some kind of human error, making it crucial to understand the role of the human element in cybersecurity.

One factor is social engineering, which is used extensively as an attack vector against businesses. These attacks are designed to exploit human behaviour or emotions, such as trust, fear, or shame, to trick people into handing over sensitive information, such as usernames, passwords, or credit card information. Typically, social engineering attacks are executed through phishing scams or tricking employees into installing malware on their computers.

To mitigate the threat posed by social engineering, companies should focus on raising staff awareness levels of the risks and how to detect and respond to social engineering attempts. By providing proactive training and education, companies can reduce the likelihood of their staff becoming unwitting accomplices to these fraudsters.

The landscape of cyber-risks has evolved as a result of changing work practices. With remote working becoming the new norm, cyber attackers could easily target remote users to exploit vulnerabilities in business security practices. Organizations should invest in educating remote workers on security best practices, such as using secure passwords, avoiding public Wi-Fi, and spotting phishing scams.

To mitigate cyber security risks, it’s essential to understand the cyber risk profile of the business. We must continuously monitor and assess the security controls in place and stay up-to-date on emerging threats. Without proper knowledge and awareness, you cannot fix what you don’t know.

THE EVOLUTION OF ETHICS IN AN AGE OF AI AND BIG DATA

Prof. Yudhvir Seetharam; Head of Analytics, Insights and Research for FNB Business

Over the past decade, advancements in big data and artificial intelligence (AI) have drastically transformed our world, creating many new opportunities, but also giving rise to many challenges, particularly about ethics. This transformation is especially evident in the business and education spheres, but tech advances have certainly made themselves felt in every area of society and industry.

In the business realm, AI and big data analytics have revolutionised everything from customer engagement to supply chain management. However, this data-driven decision-making has meant that companies have found themselves grappling with how to avoid a variety of risks, from the misuse of customer data to perpetuating social biases through automated systems.

Largely as a result of these rapid advancements in technology, the conversation around ethics in business has evolved significantly. Previously, these ethical discussions typically centred around issues like corporate social responsibility, fair trade, and sustainability. However, the proliferation of AI and big data has introduced a new set of ethical quandaries that are reshaping the landscape of business ethics.

It's an evolution that has been as quick as it has been transformative. In the early years of the big data boom, the primary focus was on harnessing the power of data for competitive advantage. Businesses eagerly adopted data analytics tools to optimise operations, enhance customer experiences, and drive revenue. Ethical considerations at that time were often secondary, largely reactive, and predominantly addressed issues like data security breaches.

As the technology matured, however, so did the ethical questions. For instance, businesses that deployed AI for hiring or lending were faced with the challenge of ensuring that their algorithms did not perpetuate existing social inequalities. Of course, the questions weren’t limited to hiring; the transparency and legitimacy of AI decision-making in general became a significant issue, leading to a demand for much more 'ethical' algorithms.

The financial services sector faces similar ethical quandaries. While technology has brought great benefit to areas like fraud detection and algorithmic trading, the sector has come under increased scrutiny about issues like unfair algorithmic biases or treating customers fairly. Given the significant focus of the sector on enabling inclusive financial empowerment, biases like these carry obvious reputational risks.

In the education sector too, AI has shown promise in terms of its potential to personalise learning and streamline administration. However, here too, there are growing concerns around ethics. For example, there have been questions regarding the ethical implications of using predictive algorithms to assess student performance, potentially reinforcing existing inequalities in the educational system. The issue of cheating and plagiarism is another huge question mark hanging over education as students increasingly discover the power of large language models.

In recent years, a number of key global events have compounded these growing ethical concerns, but interestingly, they also served as turning points in the collective ethical consciousness with regard to advancing technology. Arguably the most well-known of these was the Facebook-Cambridge Analytica scandal, which brought data privacy concerns squarely into the global spotlight. While it was certainly not beneficial to the parties involved, the event acted as an ethics catalyst, pushing businesses and regulatory bodies to re-evaluate how consumer data should be handled.

Another ongoing catalyst of ethical thinking around data usage has been the controversial proposed usage of AI in predictive policing, which many fear will perpetuate systemic biases. These, and many other milestone events, have forced a re-evaluation of ethical frameworks, not just in business, but in society as a whole, and led to substantial public debates. Businesses have come to recognise that, when it comes to data, ethics is not just a compliance issue, it's a competitive differentiator – albeit one that could be double-sided and, if handled incorrectly, deliver death blows to brand reputation.

Regulatory frameworks like the European Union's General Data Protection Regulation (GDPR), the US Federal Trade Commission's Fair Information Practices, the OECD Privacy Framework Basic Principles and, closer to home, the Protection of Personal Information Act (POPIA) have helped to further accelerate the ethical shift. These regulations have made it clear that organisations are accountable for how they collect, store, and use data.

Perhaps as a result of these regulatory advances, in recent years, there has been a move toward institutionalising ethics within organisations. Companies have established dedicated ethics committees, hired ethics officers, and even incorporated ethics into their key performance indicators (KPIs). And ethical considerations are also being integrated into the entire data lifecycle of many organisations, from collection to analysis and utilisation.

It's clear, then, that our ethical thinking has progressed substantially over the past 10 years, from largely reactive to more proactive and pre-emptive considerations. Given that technological development certainly has no intention of slowing down, ethical concerns are also likely to continue rapidly and exponentially multiplying. The global community will continue to put increasing pressure on any institution or industry operating in the public domain, and demand that they visibly demonstrate that ethical considerations are not merely optional add-ons to their bottom-line aspirations, but integral to their responsible development and deployment of technology. And irrespective of their financial performance, organisations that are not able to deliver on these ethical expectations may well find themselves having to close their doors.

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