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2024
WHAT INDUSTRY LEADERS EXPECT

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January 2024 Edition


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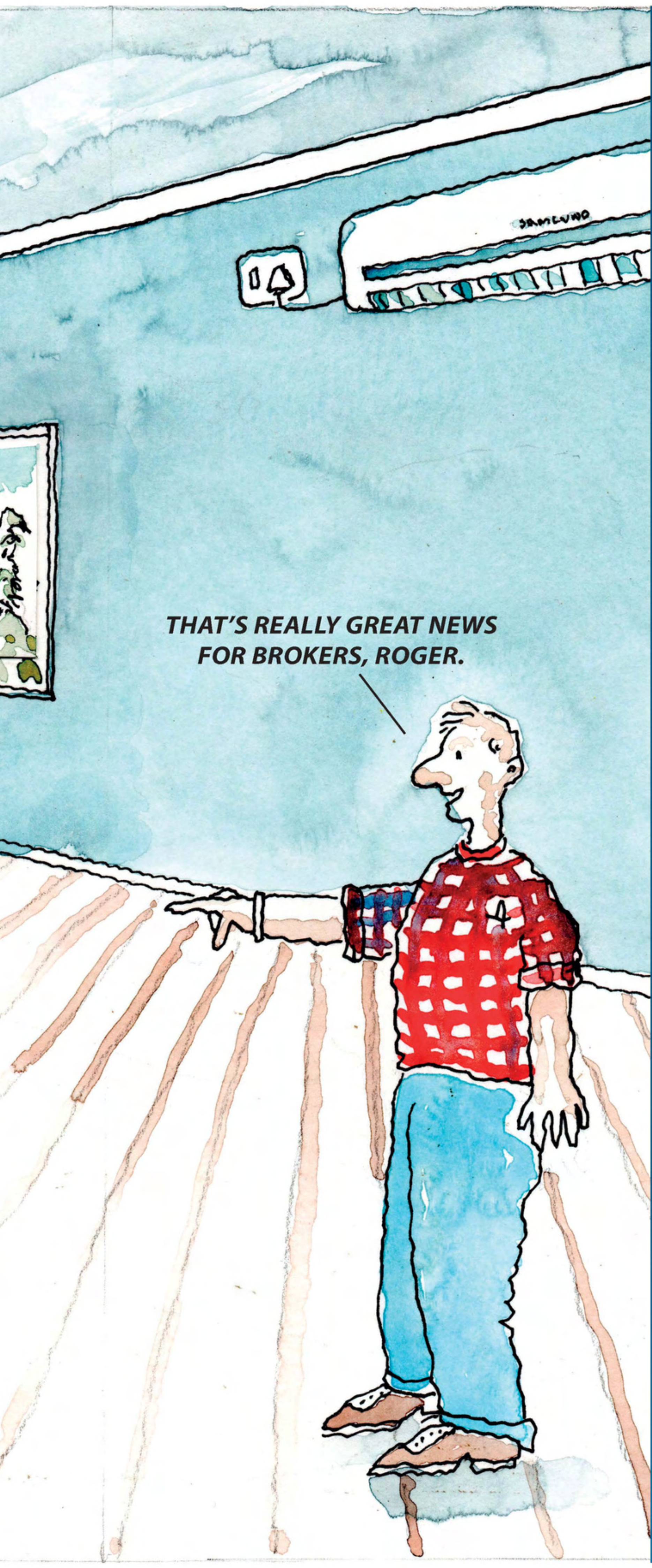

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"Overhyped"? "Fad"? Why the critics are wrong about thematic investing

A difficult period for the performance of some thematic funds has given fuel to the naysayers' arguments. But we believe thematic investing with an active approach is a powerful tool for investors now and in the years to come, says David Docherty, Investment Director, Thematics at Schroders.

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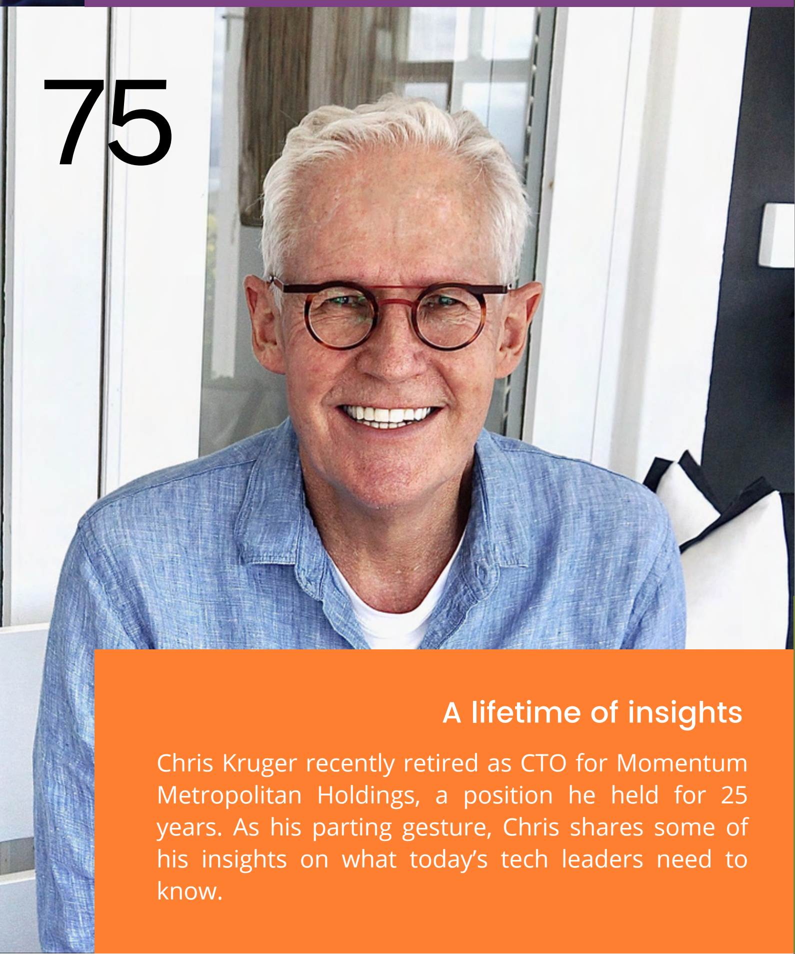
Risk and resilience

COVID-19 was the first in a series of unexpected disasters, volatile market forces and social instabilities that contributed to the development of a hard market. For clients, the hard market means higher premiums and more stringent underwriting conditions, but there's another, more positive side to the coin too. Cedric Masondo, CEO at PSG Insure, unpacks the effects of SA's prolonged hard insurance market.



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Alignment is a key component of digital transformation

Alignment is the foundation upon which your company's digital journey is built. Marcia Le Roux, SSP, breaks down the three areas which a business needs to successfully align itself to in order to experience successful digital transformation

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2024, JUST ANOTHER YEAR?

Tony Van Niekerk, Editor & Chief at COVER Magazine

Every year, for the past 35, COVER kicked off the year with an Industry Outlook. Although there is always the Yin and Yang of challenges and opportunities, the various drivers of industry growth and the factors impacting them, keep on evolving. Societal pressure seems to be number one in both the short-and long term industries, with ESG being the main impactor in the investment space, and societal pressure, whether economic, geo-political or environmental, changing the property and casualty risk landscape.

Uncertainty and volatility remains in the red, but the picture painted by most industry leaders is that our industry thrives on risk, with the silver bullet being effective management of data. Go back a few steps and it becomes clear that managing risk is the strategy and data is the fuel. Leveraging technology and especially AI, is accepted by all as a ticket to the game. More than 50 countries globally, are going to the voting stations, and the issues raised above will be driving the outcomes.

Buckle up and, if you love roller coasters, you will have a lot of fun this year. Embrace the Yin and Yang, leverage the adversity and share the results. Wishing you a memorable 2024.

FINANCIAL

PLANNING ARTICLES

"ESG is a global megatrend that'll continue to escalate in importance in 2024."

- SANLAM INVESTMENTS CEO CARL ROOTHMAN

"OVERHYPED"? "FAD"? WHY THE CRITICS ARE WRONG ABOUT THEMATIC INVESTING


David Docherty, Investment Director, Thematics at Schroders

A difficult period for the performance of some thematic funds has given fuel to the naysayers' arguments. But we believe thematic investing with an active approach is a powerful tool for investors now and in the years to come.

Thematic investing has taken off in recent years. Global thematic assets under management stood at $400 billion as of 1 July 2023, up 11% from the end of last year (according to data from Goldman Sachs).
But disappointing performance for some funds has led investors and commentators to ask whether investment themes are style over substance, or hype over returns.

The charge sometimes levelled at thematic funds is that, by the time they've launched, the theme may have already played out. Sceptics of thematic investing argue variously that it mistakes short-term fashions or cycles for longer-term secular growth; that it encourages over-exuberant investors to overpay; and that investment universes are flawed both for portfolio managers and the end-investors in thematic strategies.

How do we answer the charges against thematic investing?

In our view, thematic investing requires discipline if we are successfully to identify powerful and long-term investment themes.

- To avoid short-term fashions, themes need to have longevity. To achieve this we believe it is essential to work within an overarching framework. At the heart of which is our view that the most powerful themes are those where human ingenuity ignites innovation to address imbalances in the world. These imbalances can be between people and planet and between supply and demand in individual industries. We believe this approach is critical in prioritising the structural over the fashionable and the cyclical.

- here must be share price upside in themes as a guard against overpaying. An obvious point perhaps, but thematic investors are ultimately investing in stocks and shares rather than in themes as abstractions. Once the fundamental attraction of a theme is discerned, the potential investee companies need to be identified and a judgment made on their prevailing prospects and valuations. This is critical to guard against the over-exuberance which some observers fear.

- The creation of a thematic investment universe is critical. It must be broad enough to allow the portfolio manager to navigate an evolving theme, while being narrow enough to ensure the precise exposure to the theme which is being sought by the client. Striking this balance is important for the investment strategy to have the authenticity required by portfolio managers and end-investors alike.

This is where active management becomes so crucial when investing in themes. When it comes to thematics, active investing isn't purely about stock selection for the portfolio. It's also crucial to take an active approach in constructing the theme's investment universe.

Building investment universes is a key part of thematic investing

As we have already said, investment universes must be neither too large nor too small. For example, we took the decision that robotics could not be a standalone theme. There is only a small handful of dedicated robot manufacturers and we believe this is insufficient to form a robotics universe, even if supplier companies are included.We feel instead that automation is a powerful sub-theme within a broader smart manufacturing strategy and prefer this to a standalone robotics thematic. A well-constructed investment universe enables portfolio managers to navigate around the theme within a variety of different subthemes.

The investment attraction of these sub-themes may fluctuate as the wider theme plays out. For example, the theme of energy transition spans a value chain extending from wind farms to smart meters with exposure to consumer, industrial and utility sectors. Meanwhile, the theme of sustainable food and water extends from field to fork, with opportunities at play in several sub-themes addressing the long-term imperative of providing food and water in an environmentally friendly way to a growing world population.

Stock selection remains essential

But even within a carefully constructed investment universe, an active approach to stockpicking is still essential. It can provide a meaningful above-index exposure to companies when a theme is developing and when we believe these businesses' prospects are not reflected in prevailing share prices. By following an active approach, portfolio managers can also avoid large index components which may well have become expensive and "oversized" as a theme matures.

An active approach is all the more important when a theme becomes "flavour of the month" and capital begins to pour in. Active investors have the flexibility to allocate that capital to the stocks they view as having the best prospects and the most share price upside. By contrast, passive investing is inflexible and much less capable of gaining adequate exposure to emerging investment opportunities in evolving themes. An active approach also enables engagement with investee companies to identify and address potential sustainability risks.

The case for themes

In our view, it is wrong to write off thematic funds and that doing so means you risk missing out on the opportunities that change brings. We believe that themes are an important tool for investors, and that the growth in thematic investing will continue. Investing in themes is all about gaining exposure to the forces that will shape the future. And the pace of change is accelerating. Powerful, long-term global trends are transforming the world. They're also creating a wealth of investment opportunities. Themes can help investors find the companies that will best shape or adapt to the new world with the aim of delivering positive returns over time. We are therefore firm believers that a thematic approach can add considerable value. But it needs to be executed with discipline if we are successfully to identify, and profit from, powerful and long-term investment themes.

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SANLAM INVESTMENTS' TOP TRENDS IN RESPONSIBLE INVESTING FOR 2024

Sustainable investment comprises 80% of overall investments, thousands of jobs created

Sustainability is reshaping the investing environment, with a direct impact on worldwide assets under management (AUM) as funds flow toward sustainable investments and innovative solutions to achieve net zero and other shared challenges. Sanlam Investments' Responsible Investing Report hints at top trends in responsible investing for 2024, outlining how deeper data, standardised measurement and reporting, active ownership, and investments targeting specific impact outcomes could help change the course of the world's current trajectory.

Sanlam Investments CEO Carl Roothman says, "ESG is a global megatrend that'll continue to escalate in importance in 2024. For Sanlam Investments, sustainability is part of our DNA. Our investments are rooted in making a meaningful impact towards a better future. Africa urgently needs to tackle critical challenges such as energy and water security. We all need to share responsibility for safeguarding our resources and bolstering resilience in our most vulnerable communities. That's how we empower all Africans to be financially confident, secure and prosperous."


Carl Roothman, CEO at Sanlam Investments

Here, Teboho Makhabane, Head of ESG and Impact at Sanlam Investments, shares key findings from Sanlam Investments' Responsible Investing Report, to indicate top sustainability trends for 2024:

1. Climate change stays front and centre: This year has seen the Libya floods, Morocco Earthquake, China floods, Atlantic Hurricanes, North American Fires, US tornadoes, the Turkey-Syria Earthquake and Cyclone Mocha, not to mention flooding in South Africa following the La Niña weather phenomenon. Additionally, it's been the hottest year on record. The climate crisis is impossible to ignore, and the reduction of carbon emissions will continue to be core to company agendas next year. This is especially pertinent, given regulatory demands and the rise of the carbon credit 'currency' internationally.

Moving fund flows to climate-positive outcomes can make a massive difference. For example, the investments made by Climate Fund Managers (Sanlam Investments' joint venture with FMO, the Dutch Development Bank), through their combined Climate Investor One and Climate Investor Two funds, are expected to generate 718 000 megawatt hours of electricity per year, avoid 812 800 tonnes of carbon dioxide equivalent avoided per year, and reach close to 2 million people.

2. SA will develop greater bonds to green: While the emphasis on the use-of-proceeds social, green, and sustainability-linked bonds is expected to continue, green bonds, in particular, are well-suited for South Africa, given the pressing energy crisis and the promising growth of its alternative energy sector. However, green bonds might extend their reach to the water sector, where there has been a historical lack of investment in crucial water infrastructure projects. Additionally, exploring innovative publicly available structures, like the debt-for-nature swap executed by Climate Investor Two's business Oceans Finance Company with the Ecuadorian government, focusing on the marine protection of the Galapagos Islands, could offer valuable insights into advancing sustainable finance practices.

Although there is a demand for social bonds in the country, their success hinges on the thoughtful structuring of projects and the availability of interested investors. Further to this, the industry could benefit from a more creative approach to categorising social bonds, such as investments in education, which may not yield immediate results but hold the potential to shape the nation's future over the next 10 to 15 years. Sanlam Investments is set to launch a social infrastructure fund in the first quarter of 2024, targeting education, healthcare, rural retail, and affordable housing, as the business expands its mission to create a more sustainable and equitable future.

3. A global call for deeper data: A drive beyond ESG integration to more sustainability-based investments with clear outcomes will be pivotal to driving improved decision-making. Sanlam Investments uses internal and external scoring systems as a cornerstone of its approach to align investments with sustainability objectives. Globally, deeper, more consistent data is required to enable more targeted, scalable, and measurable interventions.

4. Leveraging private debt: Leveraging private debt to aid SMEs, that traditionally have had difficulty obtaining traditional forms of financing, could prompt positive outcomes for the SME sector and job creation more broadly. Sanlam Investments' Private Debt team, which has garnered strong investor support over the past decade, is finding that demand remains exceedingly strong. The team's most recent investment was in We Rent Cars, a company that offers long-term vehicle rentals or subscriptions to individuals, many of whom are "underbanked" and struggling to obtain vehicle finance, to help it expand its fleet, which is expected to create 179 direct jobs and 1 560 indirect jobs.

5. Tackling multiple birds with one investment: Another key trend could be identifying opportunities that address multiple systemic challenges simultaneously and sustainably. For example, Sanlam Investments' Private Equity business invested in SkipWaste, which is a leading provider of integrated waste management in Gauteng, the region responsible for 42% of the nation's estimated 122 million tonnes of waste. Additionally, 75% of SkipWaste's employees are youths, most from challenging backgrounds, so the company also helps provide critical employment and socio-economic inclusion. Two birds. One investment.

6. ESG demand will force greater disclosure: Demand for ESG in investing hasn't yet been matched by companies' levels of disclosure. To shift this, 2024 will likely see greater emphasis on sustainability frameworks and transparent reporting. Given that, in June 2023, the International Sustainability Standards Board (ISSB) issued inaugural global sustainability disclosure standards, Sanlam Investments has been leading the charge through efforts such as the Sanlam ESG Barometer which maps how corporate South Africa is faring in shifting businesses to deliver improved ESG outcomes. Additionally, Sanlam has its own value-enhanced ESG framework focused on engagement priorities and measurable goals, with regular reporting, aligned with internationally recognised frameworks.

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7. More ESG integration across all asset classes: All our investment processes are now assessing the impact of material ESG risk, from a topline and cost perspective. This informs investment decision-making and gives portfolio managers a fiduciary role to engage with investee companies to operate in ways that benefit society and the environment.

8. Greater consensus around sustainability indicators: These metrics measure companies' ESG and sustainability practices. There's much debate around best practice. 2024 may see more calls for consensus and shared benchmarking to increase transparency.

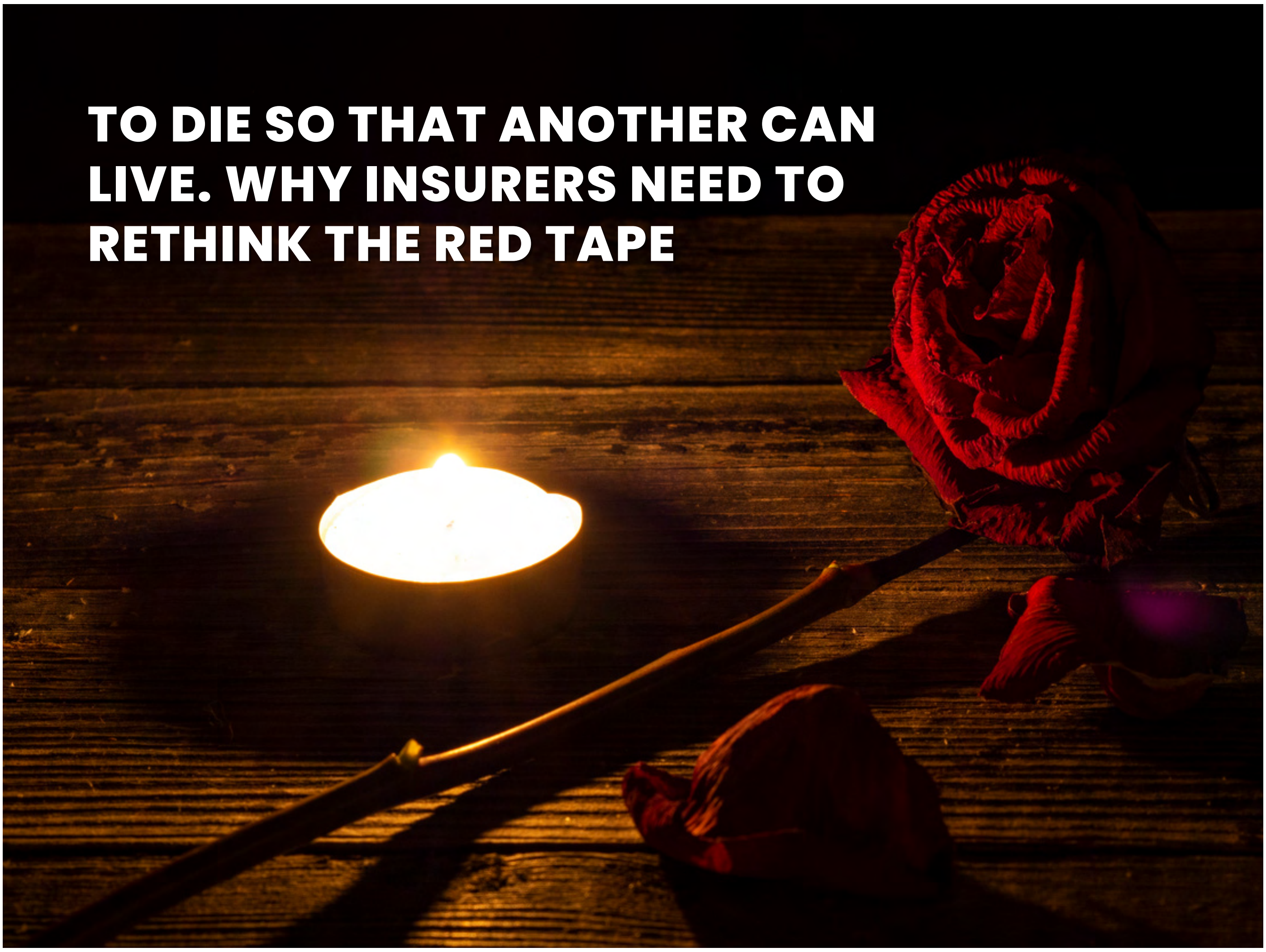
9. Impact investing will gain traction: With alternative investing gaining momentum, this should provide investors with an opportunity to move towards impact investing. The aim of our alternative investing offering is to make meaningful positive impact while garnering robust market returns. In the past five years, Sanlam Investments' impact portfolio has more than doubled to comprise 58% of alternative investments.

10. Emphasis on the 'S': Sanlam is calling for more shared emphasis on the 'S', in ESG, to address systemic inequality and capitalise on South Africa's demographic dividend through a focus on job creation. The Sanlam Investments' Investors Legacy Range is expected to exceed its targeted impact of over 27 000 jobs.

11. Greater scrutiny on governance: Going forward, it's likely more businesses will measure their management teams against clear ESG key performance indicators. These governance metrics will ensure greater and sustained integration of ESG practices.

Roothman concludes that Sanlam Investments will continue to deploy available capital to address Africa's shared challenges head-on, to make a tangible impact in communities across the continent. "We are dedicated to using our influence to foster positive change in our society through investments that pulse with purpose. We urge others to help us redirect global financial flows toward building the world we want emerging generations to inherit. May 2024 be the year we collectively commit to changing the course of our planet's future."

Click here to access the Sanlam Investments 2023 Responsible Investing Report.



TO DIE SO THAT ANOTHER CAN LIVE. WHY INSURERS NEED TO RETHINK THE RED TAPE

Somewhere in a small town in South Africa, someone's uncle has died. A long, drawn-out illness. Family members left behind, grieving. And a funeral plan, dutifully maintained through both sickness and health, finally paid out. The money is used carefully. A stately casket. An elegant tombstone engraved with loving words. Refreshments in abundance for those who've come to pay their respects. A dignified funeral, on all accounts, to honour the deceased. But the funds are also used for other things. A new roof is erected, on a leaky home. Outstanding school fees, finally paid up. New shoes are purchased, for an anticipated job interview. Someone has died, but the needs of those left behind are, very much, alive.

Is this what the insurer intended when drawing up the terms and conditions of their funeral policy? Probably not. But should this be frowned upon, or outright prohibited? In South Africa, where financial inequality prevails and the vast majority have more needs than money, there are four ways for those living on the breadline to access a decent chunk of funds. They can save (difficult, when there's always more month left at the end of your income), they can gamble (risky), they can borrow (which comes with its own set of barriers and pitfalls), or they can use the pay-out from an insurance policy.

In this context, funeral cover, a subset of life insurance, is seen as a wealth creator for families, given its innately community-centric design that provides for the cover of multiple lives. In practise, while intended to cover the costs of a funeral, these policies are also used to provide for anything that life cover would normally cater for. Why is funeral cover then prioritised over life cover in an African market? A couple of reasons. One; funerals are sacrosanct and a dignified passing is considered the utmost priority. Two; funeral cover is designed to pay out quickly, given that a timely burial is important in many cultures and thus these funds are rapidly accessible and three; this type of cover has low barriers to entry.

"when one person in a family dies, those left behind can access sorely needed funds in the form of a funeral policy pay-out; not only to give their loved one a dignified passing but also to address their own pressing needs. "

Berniece Hieckmann, Executive: Strategy, Business Transformation & Business Optimisation at Metropolitan

There's no rigorous underwriting, no medical or lengthy and invasive health questionnaire – all you need is a name and ID number or birth date to add a person to the policy. Thus, when one person in a family dies, those left behind can access sorely needed funds in the form of a funeral policy pay-out; not only to give their loved one a dignified passing but also to address their own pressing needs. As insurers, we need to think about this with both nuance and understanding. In industry speak, we talk about the concept of 'insurable interest', which refers to the interest that one might have in something of value, such as a property or an individual. If they were to lose that property or person, they would suffer a loss. We also talk about 'unjust enrichment', where one should not be unjustly enriched by another person's passing.

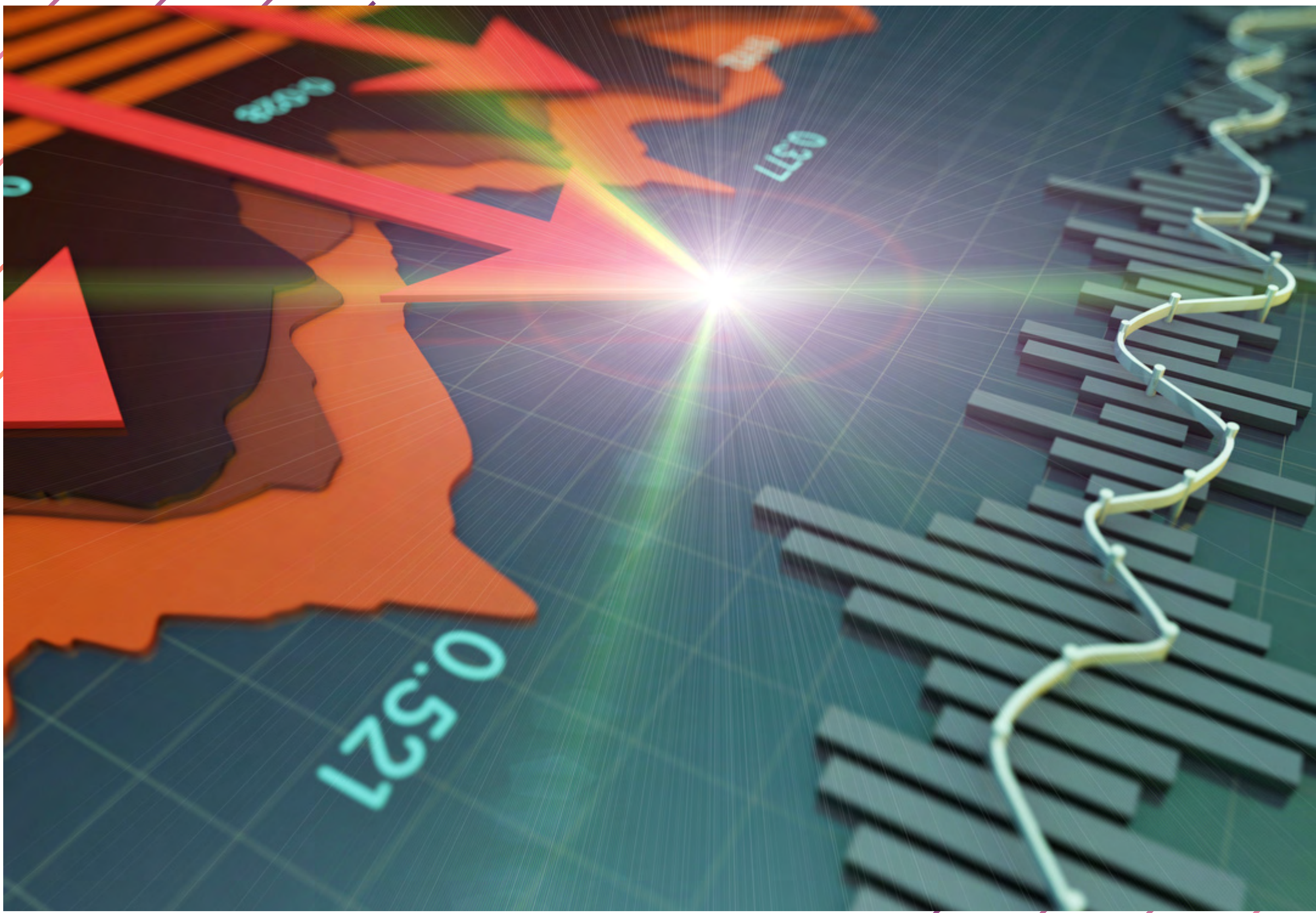
As insurers, we could loftily argue that it is our duty to protect against possible moral hazard, but what this stark lens at times misses is that, when you're serving a country whose socio-economic status reads as 'it's complicated', you cannot be too prescriptive in how you apply these concepts and you need to constantly exercise contextual judgement. One better than this comprehension is intentionally designing products that speak to the realities of our market. For example, Metropolitan's funeral plan offers a flexible payment mechanism where the level of cover can be adjusted up or down per insured life, depending on what one can afford, with premiums able to be paid at various intervals over the course of the month (understanding that many policy holders form part of the informal economy and don't get a salary on a fixed date every month).

There's also a paid-up benefit, where a policy holder no longer has to pay their premiums once they reach a certain age while enjoying full cover. Finally, a cash-back benefit sees policy holders receiving a portion of their premiums back at certain intervals; a welcomed 'bonus' that helps to ease financial burden. We have often heard funeral plans referred to as 'township savings policies'. This term is used cynically, epitomising a very short-sighted view of the market and how these products are typically utilised. As long as people are not venturing outside the legal parameters of our policies, insurers need to understand that our clients are not being dishonest; they're using their insurance to survive.

If you had spoken to the uncle when he was still alive, he might have told you that his legacy was for his family to be kept safe and warm. To help his nephew get a good education. To buy his brother shoes that might impress a prospective employer and help his sibling put food on the table. Had he been alive and could have helped them all, he would have – and they, in turn, would do the same for him. This culture of reciprocity is one that is deeply engrained within the African psyche and is something that we, as insurers, should acknowledge and celebrate, rather than ignore or red tape away.

SHORT TERM

ARTICLES



"The insurance industry is not a standalone sector but is rather a connector of various industries and ultimately, an important component of economic development."

- DR JERRY CHETTY, HEAD OF BUSINESS INTEGRITY AT SANTAM

A BLUEPRINT FOR INCLUSIVE ECONOMIC EMPOWERMENT IN SOUTH AFRICA

Mumtaz Moola, Director at My Glass

Almost 60 percent of employment in the country emanates from small enterprises, making their success crucial for providing livelihoods and bolstering economic growth. In a recent conversation with COVER, My Glass Director Mumtaz Moola unpacks the inspirational journey of My Glass and the motivations behind their unique approach to business empowerment. She explains how My Glass has not only recognised the importance of the entrepreneurial aspect of our economy but has also carved a formidable path by empowering small entrepreneurs through an innovative business model.

The discussion kicks off by acknowledging the vital role of small businesses in job creation, emphasising that it is not solely the government's responsibility to stimulate growth. Businesses, too, need to actively create opportunities and share the benefits, steering away from a model that solely benefits the elite. Mumtaz sheds light on My Glass's distinct approach to empowerment within the glass industry, a sector historically protected and resistant to transformation.

The company's model revolves around empowering individuals, particularly those from previously disadvantaged backgrounds, allowing them to establish and grow their own businesses. The conversation pivots towards the practicalities of My Glass's business model, working on a licensing structure that fosters ownership among entrepreneurs. Unlike traditional franchise models, My Glass refrains from charging franchise fees, enabling entrepreneurs to utilise those funds for building their businesses. The company forms the link between insurers and entrepreneurs, streamlining the claims process and ensuring a steady flow of work to the entrepreneurs.

Mumtaz provides a tangible example of an entrepreneur who started with one vehicle and expanded to four within 18 months, illustrating the real impact of My Glass's empowerment model. The success of these entrepreneurs translates into job creation – for every vehicle purchased, at least four people are employed, fostering transformation, and empowerment. The conversation turns to the gender and racial inclusivity within My Glass's network of entrepreneurs.

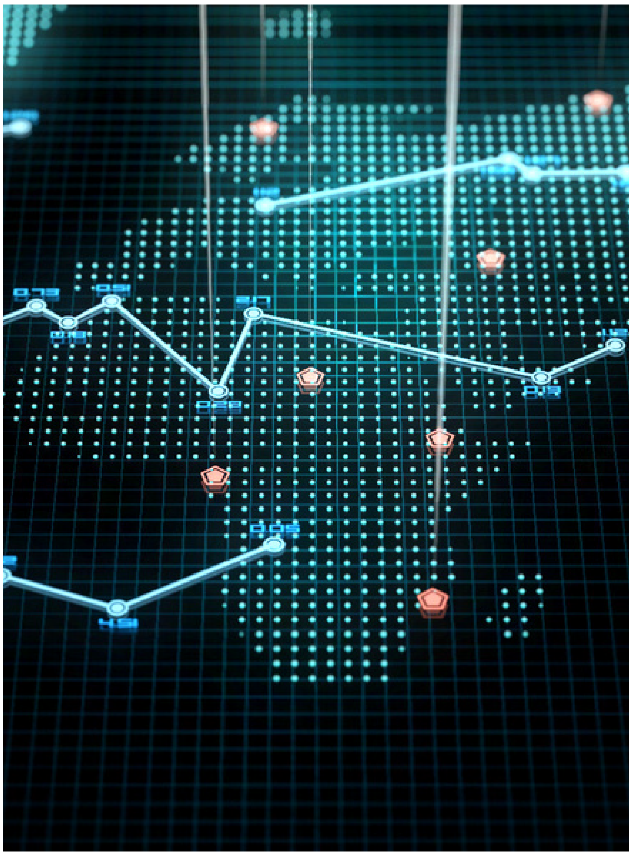
Mumtaz passionately shares her commitment to bringing females into the industry, achieving a remarkable 60 percent black-owned and 40% woman owned businesses within the My Glass model. The company's national footprint is expanding daily, operating on two tiers – fitment centres exclusively working with My Glass and those with existing broker relationships integrated into the system.

Tony and Mumtaz explore the ripple effect of each fitment, not just creating jobs but sustaining families. With every entrepreneur comes the potential to support six mouths, and as of November, My Glass had approximately 500 employees within its system, a number growing daily.

The dialogue underscores the profound impact of the insurance industry beyond claims and replacements. It is about creating an ecosystem that employs and empowers people, stimulating economic activity beyond the immediate scope of insurance services. Mumtaz emphasises that My Glass's model is not just inclusive but familial.

The company has built a family of empowered entrepreneurs, each contributing to the collective success. The conversation concludes with a reflection on the challenges faced and the time invested in fostering real change. Mumtaz notes that it is only in the last two years that My Glass has witnessed tangible transformation, emphasising the commitment required for sustainable economic empowerment.

In a landscape where economic inclusivity is both a goal and a challenge, My Glass stands as a shining example of how innovative business models can lead to genuine empowerment, transforming individual lives and contributing to the broader goal of building a more inclusive South African economy



THE REAL COST OF INSURANCE CRIME

Dr Jerry Chetty, Head of Business Integrity at Santam, examines the interconnectedness of insurance crime and the need for it to be dealt with as a priority crime.

Over the years, insurance crime has succeeded in evading the label of 'organised crime' and its effects are often underplayed. But it is a serious crime, and it is certainly not victimless. If it continues unabated, insurance crime could impact the affordability of insurance for everyday South African and change the way underwriters view and assess risk. Seeing inflated and false claims as a criminal activity and helping South Africans reach a fuller understanding of the consequences, requires a fundamental moral and policy shift.

The insurance industry is not a standalone sector but is rather a connector of various industries and ultimately, an important component of economic development. Large-scale financial prosperity for example, is connected to increased motor vehicle purchases, increased activity in construction, agriculture, and banking. The backbone of these industries is effective risk management, which is where insurance comes in.

For this reason, a blow dealt to the insurance industry – in this case in the form of growing insurance crime – can catalyse a series of knock-on effects in other sectors, which can hamper economic growth in the long term. This in turn, has direct implications for the individual wellbeing of South Africans as well as the welfare of the collective.

Insurance crime is typically committed in two ways. In the first instance, individuals inflate a legitimate claim by claiming for items not stolen, lost or damaged thereby dishonestly increasing the value of the claim. In the second instance, individuals submit false claims by staging incidents e.g. the theft of their assets or vehicles and thereafter submitting claims for these fictious events.

Criminals target the most vulnerable persons in society; include the poor, elderly and students. There have been cases, for example, in which students in search of accommodation have supplied their personal information to fraudsters under false pretenses – this information is then used in fraudulent claims. There have also been instances where criminals dupe the poor into providing personal information and these criminals thereafter use the said information in fraudulent claims.

According to data collected by Santam, the incidence of insurance crime is evenly divided between motor claims (48%) and non-motor (43%) claims. The most common strategies used by insurance criminals involves claiming for losses incurred prior to inception of a policy, claiming for false or staged incidents, and submitting false claim information.

Furthermore, while the onset of the digital age has clear benefits for the way in which insurance crime patterns are detected, the Forensic team at Santam has been successfully using technology to identify insurance criminals, their patterns, and the way they perpetrate insurance crime.

In these cases, family members or members of tight-knit communities share information and assist each other in committing insurance crime. Typically, the emergence of new technology is often accompanied by the emergence of new, more sophisticated criminal strategies. Further down the line, this has implications for insurers, who are called upon to underwrite these novice risks and become exposed by paying out claims due to losses caused by these new criminal strategies.

The increase in claims related to the theft of keyless cars illustrates this interconnectedness of criminal activity. Tech-savvy criminals have developed tools that can interrupt the signals transmitted from key fobs to keyless cars. These incidents are known as CAN or relay attacks.

Another example of this interconnectedness relates to corruption in driver and car licensing departments. Corruption results in individuals illegally obtaining drivers licenses which are then used to purchase cars and take out insurance cover. This is illustrated in an article “Hawks arrest two in KZN learners’ licence scam” published on IOL on 16 November 2023. The authorities are investigating this matter to determine how many individuals obtained their driver’s licence fraudulently.

The authorities have confirmed that they will revoke the licences of such individuals. This event has an impact for insurers as they would have to check if such individuals were insured with them and if any motor accident claims were paid out. This incident again demonstrates the impact relating to the interconnectedness of insurance crime. Similarly, criminals have been found to clone vehicles or use damaged vehicles in insurance crime scams.

To safeguard against these occurrences, Santam has partnered with the South African Fraud Prevention Services and has maintained a close working relationship with the South African Police Services in the criminal prosecution of insurance crime cases. We also engage closely with the Insurance Crime Bureau (ICB), an industry body responsible for representing the insurance industry in dealing with organised insurance crime.

We also utilise an internal team of skilled forensic investigators who are tasked with investigating insurance crime cases where necessary, this specialist team will report these cases to law enforcement for criminal prosecution. The team has achieved great success in achieving criminal convictions. Most recently three (3) insurance criminals were given direct imprisonment ranging from 10 years, 8 years, and 5 years.

As a holistic risk mitigation strategy, an insurance crime working group from several other leading insurers was established to advocate for insurance crime to be declared a priority crime. One of the major pitfalls is that insurance crime is seen as a breach of contract, rather than a crime. This requires a change from all stakeholders in terms of how they view insurance crime. A more meaningful and collaborative process amongst stakeholders to deal with insurance crime will serve as a powerful deterrent and reinforce the measures taken by insurers to protect the sustainability and financial viability of their businesses. This is what the working group hopes to achieve.

While many insurers like Santam have committed to changing this narrative in a bid to curb insurance crime and prevent the subsequent economic fallout, the process is not without its difficulties. Insurers must strike a delicate balance between bringing insurance criminals to justice while preventing innocent and honest policyholders from shouldering the true cost of crime through higher premiums and more stringent terms and conditions.

As a result, we believe preventing the proliferation of insurance crime is not only the responsibility of insurers and law enforcement agencies; the responsibilities also rest with society. Society should be frowning against individuals who celebrate their efforts of defrauding insurers. Rather, the ability of insurance crime to affect lives and livelihoods, makes fighting this scourge everyone’s business.

THE STRATEGIC VALUE OF BUSINESS INSURANCE IN UNCERTAIN TIMES

Khensane Mangwane, Claims Specialist at SHA Risk Specialists

In tough economic conditions like the present, businesses may be tempted to forgo business insurance or reduce their cover as a cost-cutting exercise. This, however, may be a short-sighted approach, given that the main purpose of insurance is to protect natural or juristic persons against the consequences of the manifestation of undesirable risks. The way in which businesses across the country were affected by lockdown regulations during the COVID-19 pandemic, as well as by the torrential flooding throughout parts of KwaZulu-Natal in 2022, are two prime examples of the need to take a proactive stance on risk mitigation.

This is the opinion of Khensane Mangwane, Claims Specialist at SHA Risk Specialists, who says that businesses cannot afford not to have insurance cover. As she explains: “Commercial insurance is often seen as a grudge purchase, when really it is an investment into the financial security of a business. The landscape of risk has changed drastically over the past few years. When we consider factors such as policy reform, certain legal developments, mounting economic pressures, environmental issues and the pitfalls of doing business in the digital age, it’s difficult to deny that what we think of as ‘business as usual’ is in fact, risky business.”

Risk and the ripple effect

An untimely event such as a natural disaster, a third-party liability claim for personal injury or damage to property, could have a devastating impact on a business’ bottom-line. In the event that a business is faced with such an event and does not have the adequate level of insurance cover, recovering from these losses out of pocket could hamper growth prospects and may even lead to a complete shutdown. However, as Mangwane explains, beyond the immediate cost implications of unfortunate events, there are also other consequences to consider. For example, if a product defect results in physical injury to a customer, that customer may have valid legal grounds to pursue a lawsuit against the company.

In these situations, a company may struggle to shoulder the financial burden of legal fees which can add up quickly. Beyond this, however, there is also the possibility for reputational damage. Social media and review sites have made it infinitely easier for disgruntled parties to air their sentiments about businesses in open, public forums. News about faulty products, for example, can travel fast and cause a substantial disruption to sales volumes and sustained profits. Reputational risk is therefore something that needs to be factored in when businesses are planning ahead.

Balance cost control and loss protection

These are undeniably tough times for businesses across the country, with the results of the economic downturn spilling over into multiple sectors. Insurance cover can, however, assist businesses in defending their profit margins and revenue against new and emerging risks. By bolstering insurance cover with processes and policies to do as much as possible to prevent costly errors, businesses can combat risk internally as well externally.

Setting an insurance limit, for example is one way of doing this. An insurance limit is the maximum amount for which a business is indemnified and that can be claimed for in the event of a loss. By working with a broker to set a reasonable limit, businesses can save on the cost of their premium while ensuring that they still have sufficient protection against risk. Once this limit has been set, businesses still need to take reasonable precautions to protect their property, assets and operations from potential losses.

SHA Claims Specialist, Alex Skhakhane therefore says, risk management involves both protection – provided by insurers – as well as responsibilities placed by the insured to prevent unnecessary losses and claims. Change is the only constant It’s also important for businesses to realise that insurance is not a once-off purchase or a static financial safeguard. Rather, it should be regarded as a dynamic financial product that should be updated as a business grows and evolves. With the acquisition of new property, equipment, vehicles and physical assets, comes higher risk exposures. Likewise, employing more staff members or expanding into a new geographical territory or product or service offering, can come with a new set of liabilities.

For this reason, Skhakhane encourages business owners to develop close relationships with their brokers. They are in the best position to offer expert advice on guidance on how to keep ensuring that all bases are covered, but at the same time ensure that insurance policies are tailored in the most cost-effective and comprehensive way possible. As Skhakhane concludes: “Prudent business leaders don’t only think of their immediate challenges but use foresight to predict and prepare for what may lie ahead. Insurance is one of the most effective ways of ensuring that a temporary setback doesn’t become a major stumbling block.”

RISK AND RESILIENCE: UNPACKING THE EFFECTS OF SOUTH AFRICA'S PROLONGED HARD INSURANCE MARKET

"COVID-19 was the first in a series of unexpected disasters, volatile market forces and social instabilities that contributed to the development of a hard market."

Cedric Masondo, Chief Executive Officer, PSG Insure

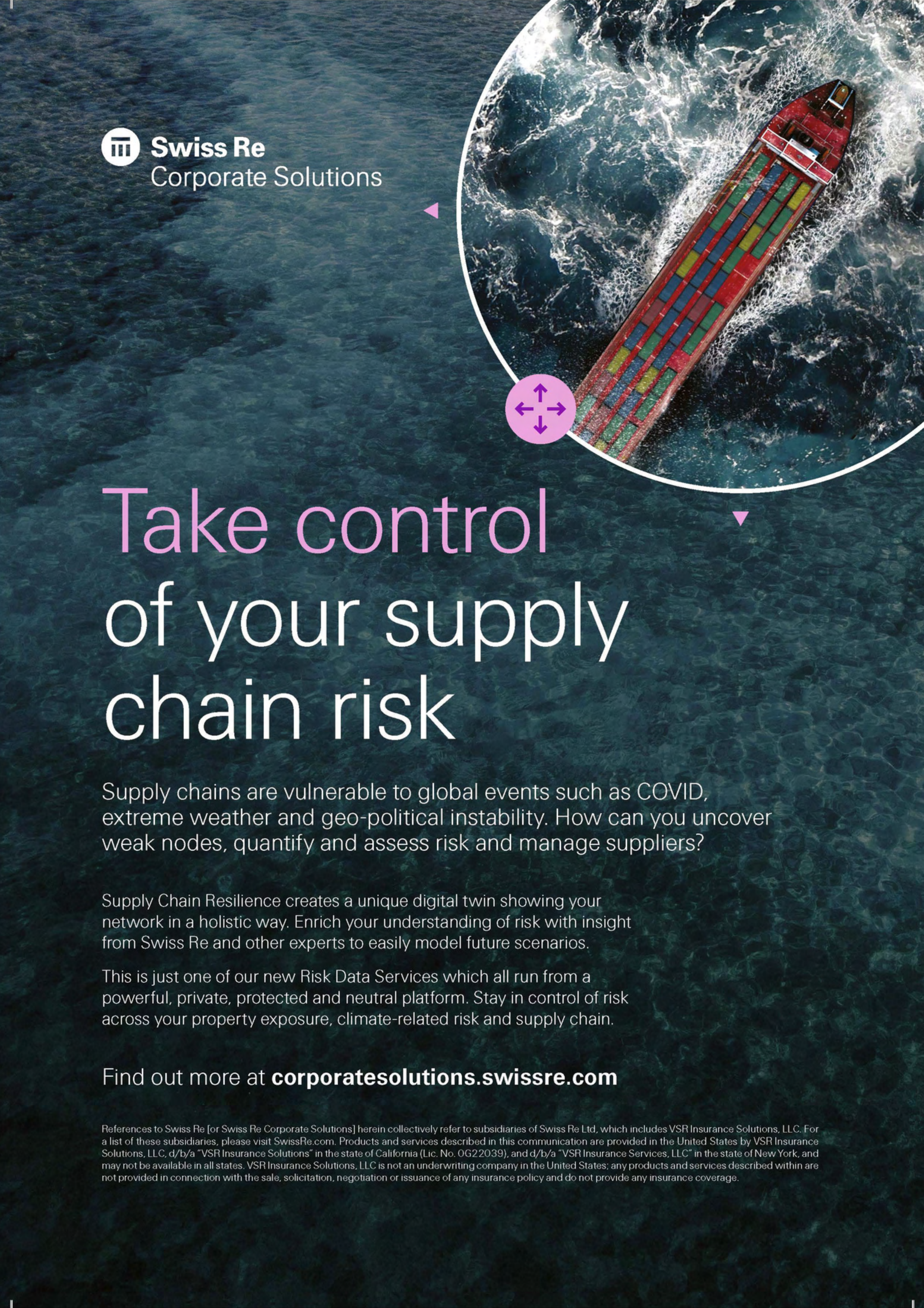
Reinsurers and insurers in the South African market have shouldered massive losses over the past five years. COVID-19 was the first in a series of unexpected disasters, volatile market forces and social instabilities that contributed to the development of a hard market. At the beginning of 2022, conditions in the local insurance markets tightened further – resulting in arguably the most persistent hard market in recent history.

The insurance market in retrospect

Prior to the pandemic years, South Africa's insurance market was characterised by softer conditions. A moderately stable climate both in macro and microeconomic terms, gave rise to an abundance of capital relative to the size of the market. This in turn translated as lower insurance rates and broader policy terms and conditions. This status quo persisted for at least a decade before the arrival of COVID-19 on South African shores, which was a tipping point for the insurance sector.

No one could have predicted the sheer impact the pandemic would have on industries across the board, and certainly, no one could have foreseen what would come next. 2021 saw a spate of riots break out in parts of the country. This was followed in close succession by torrential flooding in KwaZulu-Natal. For South Africans, these untimely events played out within the broader context of the ongoing and then deteriorating energy crisis, which caused large-scale damage due to power surges, equipment failure and inventory losses.

Things weren't looking up on the global front either. During this time, Europe saw an increase in natural disasters, and the Russia-Ukraine conflict put further pressure on supply chains. These events triggered an upsurge in claims – many of which were related to business interruption and property damage. As a result, countless insurers and reinsurers realised that some exposures had not been adequately priced in. These were, for all intents and purposes, years of unprecedented challenges that the market had not seen before, and which were almost impossible to anticipate. With the increase in claims serving to erode capital and threaten markets, investor confidence plummeted.


Swiss Re
Corporate Solutions
Take control
of your supply
chain risk
Supply chains are vulnerable to global events such as COVID, extreme weather and geo-political instability. How can you uncover weak nodes, quantify and assess risk and manage suppliers?
Supply Chain Resilience creates a unique digital twin showing your network in a holistic way. Enrich your understanding of risk with insight from Swiss Re and other experts to easily model future scenarios.
This is just one of our new Risk Data Services which all run from a powerful, private, protected and neutral platform. Stay in control of risk across your property exposure, climate-related risk and supply chain.
Find out more at corporatesolutions.swissre.com
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An unavoidable chain reaction

Outside of these hurdles, the local insurance industry also suffered a knock caused by rapidly increasing inflation and a series of steep interest rate hikes. At the level of the state, slow GDP growth and a lack of infrastructure spending has exacerbated this situation.

On the ground, issues such as poverty and the country's record-high unemployment rate undermined any meaningful progress towards post-pandemic recovery. The culmination of these factors has meant that less disposable income has fallen into the hands of everyday customers. And with less income, comes reduced buying power and ultimately, less spend on insurable assets such as property and cars.

Loadshedding, as a single event, has changed the local risk landscape indelibly, with many insurers removing certain kinds of cover, imposing restrictive clauses and increasing exclusions. A greater level of responsibility has fallen on the shoulders of insured parties, who now have to implement tighter, more thorough risk management strategies.

The emergence of the hard market for insurance

For reinsurers, it has been time to batten down the hatches to increase rates and tighten terms. In an attempt to consolidate and brace for the impact of the hard market, underwriters deemed certain disruptions such as grid failure to be uninsurable. These changes trickled down to insurers, and ultimately, clients, who have contended with getting less comprehensive cover for the same or a higher premium. Some insurers have seen higher policy cancellation rates as clients look to optimise their disposable income. The non-payment of debit orders and defaults on premium payments also increased over this period. On a commercial level, companies have experienced higher rates of closure or liquidation.

However, while the emergence of the hard market may have left industry stakeholders reeling, it may be safe to say that the sector has weathered the worst of the storm. Investor appetite, client expectations and the repricing strategies implemented by insurers to manage the impending risks, have reached a plateau. This does not mean that the hard market is a thing of the past. To the contrary, the hard market is likely to persist well into the new year, especially in light of the country's uncertain political outlook.

A more stable foundation

The long-term effects of hard market pricing and the general tightening of policy has reflected positively on the balance sheets of insurers and reinsurers, which is good news for the sector. In fact, many insurers have reported that they have maintained optimal levels of profitability and are now better equipped and prepared to tackle emerging risks with a greater level of foresight and experience. Going forward, insurers will be keeping an eye on key financial metrics and are arguably more prepared to walk away from bad risks to achieve long-term financial sustainability. This bodes well for an industry that has reached a state of relative stability after several peaks and troughs.

Green shoots of growth can be seen in several of the country's largest short-term insurers, many of which have appointed new C-suite executive and leadership teams who are eager to build on the foundation left by their predecessors. A new leadership system may bring a promising change in direction and a refreshed perspective on how to rebuild trust – the cornerstone of the industry. For clients, the hard market does mean higher premiums and more stringent underwriting conditions, but there's another, more positive side to the coin too. The hard market has increased competition sector-wide.

Insurers who have reinforced their operational policies and taken swift and decisive action to navigate the prevailing adversities, are now better capitalised and equipped to handle claims and deliver service excellence to their clients. Within this environment, these robust insurers are eager for good business and are poised to meet the needs and demands of the existing customer base. In light of this, clients can expect to negotiate competitive premiums and get real value for their money.

These shifts have also brought the critical nature of insurer-adviser and adviser-client relationships to the fore. Clients can expect to lean on the industry experience and specialist knowledge of their advisers, who, having weathered quite a few storms, are ready to stand alongside their clients every step of the way. Equipped with better knowledge on market trends and consumer behaviour, advisers need to go beyond service delivery and become partners of their clients and their businesses. In their advisory capacity, they have the ability to offer clients invaluable insights and the tools they need to thrive, even in times of turbulence.

There's no denying that the local insurance landscape is up against a barrage of new and emerging risks. The weather pattern disruptions caused by climate change, the dramatic uptick in cybercrime, a sluggish economy and the deterioration of state infrastructure are realities that will require proactive, sound solutions. But now, from a vantage point that is decidedly more stable, insurers and reinsurers are better prepared to tackle the task.

INSURERS TAPPING INTO THE CERTAINTY OF NICHE INSURANCE SOLUTIONS AS THE ECONOMY AND VOLATILITY BITES

There is unprecedented disruption and uncertainty in every industry and household right now. Global and local economic and socio-political factors, weather catastrophes and climate change, crime, deteriorating public infrastructure are all exacting a heavy toll on traditional insurers and consumers, as claims and the costs of cover of the traditional property, motor and assets insurance escalate in response to these factors. Yet, while broad insurance coverage like motor, household and business assets covers remain under pressure, both in terms of premium costs and claims ratios, other specialised or niche insurance products are seeing growth.

There are two key drivers behind the growing demand for niche insurance solutions consumers and business owners are looking for the certainty of cover for very specific, and typically unusual risks, and secondly, insurers and brokers are looking for ways to differentiate in a highly competitive market as well as de-risk their traditional portfolios. Insurance and the types of risks people and businesses are facing have also changed radically over the years. New insurance products and technologies now allow insurance buyers to become a lot more granular in their approach to their risks and get the absolute certainty that they are covered for specific and unique events.

It is interesting to note that consumers and businesses are specifically looking for solutions and added peace of mind where they feel most vulnerable – consider the following niche insurance growth areas to illustrate:

- **Gap insurance i**s seeing significant growth as the trend in medical scheme benefit buy-down continues due to affordability challenges. Where consumers are buying down on their existing medical scheme benefits to 'core' plans due to financial distress, they are taking up gap cover insurance to protect them against potential medical scheme financial shortfalls on specialist and in-hospital treatment – these are not unwarranted concerns as recent mega claims paid by Sirago Underwriting Managers show massive shortfalls upwards of R40 000 not covered by the medical scheme – without gap cover, the consumer would have to pay for this from their own pocket.

- **Primary health insurance:** As medical scheme membership and private healthcare remains unaffordable for a huge swathe of the population, insurance companies have stepped in to offer more flexible and affordable coverage options, especially in the primary healthcare space. Customisable primary health insurance plans with add-on benefits such as maternity and accident and emergency cover benefits, and family-specific benefits that offer unlimited GP visits especially those with younger children, are in high demand.

- **Growth in emergency medical support:** Road accidents and crime are a daily occurrence and where public emergency services are under-resourced, demand for emergency medical assistance and evacuation insurance has increased sharply. More and more insurance companies are offering lifestyle-related or accident-only products that cover insureds under specific conditions as demand increases.

- **Mechanical warranty and service plan insurance solutions** are seeing growth as consumers drive their vehicles for much longer and are also replacing with 'used' vehicles versus new car purchases. These solutions reduce exposure to out-of-manufacturer-warranty breakdowns, while a service and maintenance plan provides cover for the scheduled services that the vehicle will need that are no longer covered under the service plan that typically comes with a new vehicle.

- **Personal cybercrime insurance:** the huge growth in online shopping and transacting has seen South Africa hard hit by cybercrime and online fraud, and no one is safe from this risk. While cyber insurance solutions exist for commercial entities, GENRIC was one of the first insurers to pioneer personal cyber insurance to protect the personal data and bank accounts of individuals from fraudulent online and in-app purchases, malware or viruses that harvest personal data, fraudulent EFTs and phishing scams.

- **Specie Insurance:** Highly specialised coverage is essential for safeguarding high-value portable assets such as precious metals, gems, securities, and cash, backed by reputable and economically solid carriers. Insurers are also being heavily challenged to reform existing policy frameworks to underwrite digital assets such as cryptocurrencies and NFTs.

- **Pet Insurance:** For many pet owners, their pets are family members, so having an insurance solution that takes care of their pet's healthcare needs - in much the same way as people rely on medical insurance in a health crisis - is non-negotiable. An analysis of pet insurance claims by GENRIC shows that the average claims costs for veterinary treatment is on the rise – while mega claims for bills upwards of R15k are increasingly common – putting the cost of veterinary care in the realm of private healthcare for people.

- **Shack, informal housing and merchant insurance:** In developing South Africa's first insurance solution that provides buildings and contents cover for shacks, township and rural homes built outside of formal building regulations, as well as merchant cover, GENRIC worked with an innovative insurance entrepreneur to recognise the unique challenges facing low-income markets – from access, affordability, technology, education and payments – to adapt our product to provide meaningful and affordable financial protection to those who need it most.

Cornel Schoeman, Chief Operating Officer of GENRIC Insurance Company

The growth in niche insurance products can be attributed to several factors:

- Diversification and Specialisation: Savvy insurers are increasingly recognising the value of diversification and specialisation by offering niche insurance products that cater to specific industries, professions, or risks, allowing them to develop expertise in those areas.
- Advancements in Data and Technology: The availability of more data and advancements in technology, including data analytics and artificial intelligence, have enabled insurers to better assess and understand specific risks.
- Changing Consumer Needs: As consumer needs and preferences evolve, there is a growing demand for insurance products that address specific risks or lifestyles. Niche insurance products can offer more personalised and targeted coverage, appealing to consumers who may find standard policies less relevant to their particular situations.
- Market Competition: Insurers face intense competition, and offering niche products allows them to differentiate themselves in the market.
- Risk Mitigation: Some industries or businesses face unique risks that may not be adequately covered by traditional insurance products. Niche insurance allows companies to mitigate these specific risks and provides a sense of security for businesses operating in specialised sectors.
- Regulatory Changes: Regulatory changes can also influence the growth of niche insurance products. In some cases, regulatory developments may create opportunities for insurers to develop new products or expand into underserved markets.
- Globalisation and Emerging Risks: The interconnected nature of the global economy and the emergence of new risks (such as cyber threats, climate-related risks) have created a demand for insurance products that address these specific challenges.
- Collaboration and Partnerships: Insurers often collaborate with industry experts, UMAs or other stakeholders to develop niche products. These partnerships can provide insurers with insights into the unique risks associated with a particular sector, helping them design more effective and targeted coverage.

You can't put a price on peace of mind, and in increasingly uncertain times, consumers are looking for more certainty in highly defined insurance covers. Specialist insurance cover gives your policyholders greater certainty and peace of mind. People respect the value that specialisation provides at a time when everything else seems so out of control and uncertain. We expect this trend towards specialisation and niche risk solutions to continue in our radically changed world where there is a far greater appreciation of just how unpredictable and far-reaching risk can be.

For brokers and risk advisors, the growth in specialised insurance products, along with the rapidly changing nature of risks that consumers are facing – consider healthcare funding as just one example – means that the role of advice has never been more important in helping consumers decipher the complexity and choose the right products, at the right time and price.

For insurers and UMAs looking to enter the niche insurance market, successfully launching a new insurance product to market is challenging. This is where collaboration with an insurance underwriter with a solid track record in bringing specialised insurance solutions to market will prove invaluable. By staying ahead of these trends, insurers can provide better coverage options and services to their customers while remaining competitive in the marketplace.

For more information go to www.genric.co.za. GENRIC Insurance Company Limited (FSP: 43638) is an authorised Financial Services Provider and licensed non-life Insurer.

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WRITE-OFFS VS RECOVERIES: WHAT DETERMINES THE FATE OF A CAR IN CASE OF AN ACCIDENT?

Head of MiWay Blink, Keletso Mpisane

Ever wondered what factors determine whether to repair or write off a vehicle that's been damaged in an accident?Different insurers manage the process in different ways, but there are standard laws that govern the whole process, as set out by the Ombudsman for Short-Term Insurance.

Insurers have different internal processes that they follow, but they should adhere to the guidelines set out by the ombudsman.

The following factors determine whether a car should be written off or repaired in case of an accident:

Damage assessment

To determine whether the car is repairable or a write off, the first step in the process is having the car assessed to find out the degree of the damage and the costs of the damage.

The overriding reason that leads to a write off is if the car has been declared uneconomical to repair as the estimated damage has exceeded maximum repair threshold.

Threshold amount

The damage assessment on the car determines if the damages to the vehicle have reached the threshold amount, which is the maximum amount a car can be repaired for. The threshold amount varies from car to car, according to the value covered and the damage incurred.

To get the threshold amount, we look at the current value of the car without the damages and then we look at what is called the 'salvage amount', which is the value of the car with the damages incurred. So, when we take the current value of the car and deduct the salvage amount to get the threshold amount of the car.

For example, if the current value of the car is R100,000 and then after the assessment we find that the damages on the car are for R70,000 and the salvage amount is, let's say, R50,000 for example, the car would be deemed a write off.

Salvage amount

Each vehicle model has a specific salvage amount, or salvage value. The salvage amount of your vehicle is the value that would be received if the insurer sold it to a scrap yard for its parts and frame. Insurers reserve the right to repair or not Insurers reserve the right to either recover or write off the vehicle following an assessment. We are a financial institution so our first option would be to settle with the bank if the car is still financed or the owner if it is not financed.

Availability of repair parts and the car model

The time it would take to repair the car and the likely inconvenience it would cause both the customer and the insurer is taken into consideration. The availability of the parts needed to repair the vehicle is also considered and impacted by the model and age of the car. These factors all impact the threshold amount. It's common for certain parts to be sourced internationally to repair cars.

This influences the overall write-off versus recovery consideration. Geopolitical tensions and pandemics can place constraints on the shipping industry, creating supply and demand pressures. Should an insurer have to repair a car using parts from affected regions, it could mean a rise in costs.

Write off has 3 codes that lead the process:

- **Code 2:** Write offs don't mean that the car can't be repaired, but rather that it would be uneconomical to repair and the insurer will not be taking the risk to repair.

- **Code 3:** There is major structural or unseen damage to the car, and it cannot be repaired back to a safe, roadworthy state. The insurer will not take the risk by attempting to repair this car.

- **Code 4:** The car has to be permanently demolished.

ESCAPING UNCERTAINTY IN INSURANCE WITH IFRS 17 DATA

Viren Patel, Financial Services Industry Strategist at Workday

It's been a year since IFRS 17 was introduced for UK insurance firms. Has it enabled a more data-driven way of working for businesses?

For some insurance firms, IFRS 17 has been another painful turn of the screw. Its data requirements are complex and detailed, with an emphasis on ongoing data collection and the interrogation of historical data. The new code calls for robust, standardised reporting of insurance data, from policy terms and premiums to claims data and more. Compiling the information from disparate business functions will be an uphill battle for firms already struggling with data. But for those with the structures in place to compile and act on their business unit information, there is an opportunity to turn a hefty compliance requirement into a new strategic asset. Combining business and operational data and sharing it transparently will build investor confidence, inform smarter and more timely decisions on risk and streamline reporting processes in the future.

IFRS as opportunity

RSA Insurance Group's latest Broker Pulse Survey[1] showed that insurers are feeling the pinch. Over three-quarters of respondents (79%) said the cost of doing business remains a 'significant concern' as more customers drop out or change cover mid-contract. Uncertainty in insurance contracts is a challenge that regulation like IFRS 17 seeks to solve with data, and it's up to firms to make the most of the opportunity this information presents. Just as carbon emission reporting helps identify new areas for energy efficiency improvements, IFRS 17 data can and should be used across the business to drive better decision-making.

Turning mandatory reporting into meaningful insight

If analysed correctly, insurance contract data offers valuable insights into customer preferences, claims patterns and market trends. Putting it to work will help firms adapt to shifting market conditions and provide better products and services that fit customer needs. Bringing this broad operational data into firms' decision-making will help to illuminate how business events affect profitability and vice-versa. An intelligent data backbone links individual transactions to top-level decisions, so they know they're doing the best for their customers and business.

As economic uncertainty and market disruption continue, insight and agility have become business imperatives. Insurers need to plan and forecast multiple scenarios amid volatile real-world conditions continuously. Detailed, real-time data will help insurers pivot confidently, prepare for potential roadblocks, and recognise and seize opportunities as they arise. If insurance firms are meeting the requirements of IFRS 17, it means they have the data. Now they need the framework to ensure this data is adding value across their business.

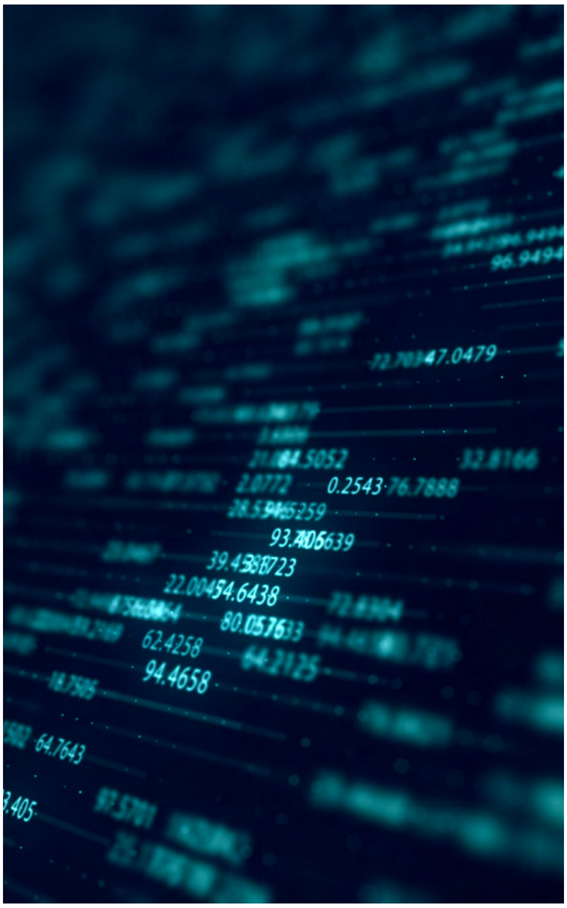
Escaping uncertainty: Using data to mitigate risks

The most obvious first place to put this data to work is in risk mitigation. It's pertinent, necessary and made easier by the data types IFRS 17 requires. Using policy and claims data to build predictive analytics models will help to guide firms around potential risks and emerging opportunities.

In late 2021, McKinsey reported that even the leading insurers could see loss ratios improve by three to five points with digitised underwriting. Data-driven risk modelling doesn't just enhance the underwriting process through speed and consistency – it can reduce exposure across accounts.

This benefit becomes even more powerful when you consider the specificity and consistency of the data IFRS asks for. Data-driven models can be targeted to consider individual characteristics or risks of individual clients and help insurers tailor support and services to each of their needs.

Ongoing data collection also opens the door to continuous monitoring and real-time decisioning models. With solid data insurers can lay the foundation for slicker operations and improved competitiveness.



The long-term value of data-led decision making

Risk mitigation is just the first (and most obvious) application of data. We're already seeing other powerful ways in which insurers are using data across their operations.

- Personalised pricing: With robust data analytics collected routinely, insurers are creating new pricing models that reflect individual risks and can allow for premium rates. Neobanks and fintechs were quick to jump on 'personalised service', but the requirements of IFRS 17 should be a pull - not a push - towards better customer service.

- Innovative insurance products: Insurers are using their real-time data collection to create policies and products that customers love. For example, new health insurance models are offering reductions in rates to people with fitness trackers. In automotive insurance, subscription-based 'pay-per-mile' plans recommend ways for drivers to avoid accident blackspots.

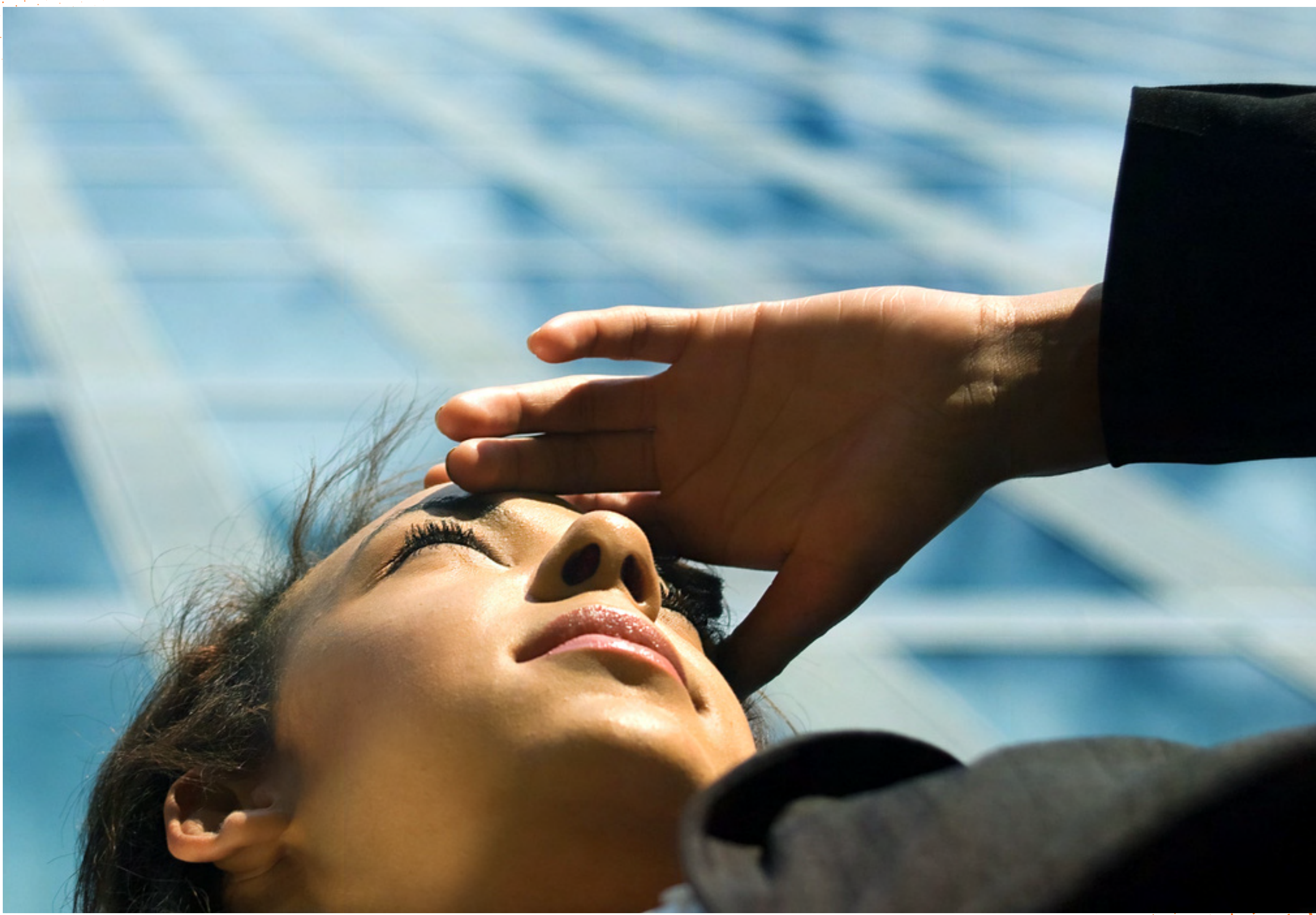
- Fraud detection and prevention: Data analytics is another powerful tool in the ongoing fight against insurance fraud. Text and behavioural analysis on claims have the potential to spot fraud faster and more proactively. Real-time data can also support rule-based detection, in which insurers can set up triggers and alerts to safeguard against fraud as soon as it is spotted.

The race is on

IFRS 17 should be seen as the trigger in the race for better insurance operations. If insurance firms decide to maximise this opportunity, the robust data requirements can filter through to powerful new insights across their operations. Building an intelligent data foundation is the first step out of uncertainty and towards long-term success.

INDUSTRY

OUTLOOK ARTICLES



“With AI and digitalisation on everyone’s lips, we expect to see further developments and advances in 2024.”

- CLYDE PARSONS, CHIEF INNOVATION OFFICER AT BRIGHTROCK

MOMENTUM CORPORATE RESEARCH HIGHLIGHTS THE EVOLVING NATURE OF EMPLOYEE BENEFITS IN A DIGITAL AGE

South Africans live in a time of crisis where they have to weather a poor economic climate, high inflation, and little improvement in the unemployment rate. Local and global market volatility is also a concern and it's driving a lot of uncertainty. As employees navigate a cost-of-living crisis, 1 in 4 people are considering flexing their individual benefits to meet their personal needs. When it comes to financial planning of employees in terms of their employee benefits, there is a definite move towards more personalised solutions that fit into the unique needs of the member rather than the group. Great strides have been made in terms of combining digital technology with the human touch, therefore shifting dynamics of employee expectations and values.

This is according to the latest Partnership Connect research by Momentum Corporate, which explores the evolving landscape of employee benefits in South Africa, addressing the challenges faced by businesses and employees alike in a dynamic global economy. **Momentum Corporate CEO, Dumo Mbethe**, says the 2023 Partnership Connect report findings reveal that, even in the face of ongoing economic uncertainties, the employee benefits industry has proven resilient. "The data shows us that employees are increasingly concerned with personalisation of products, which is greatly aided by new data-led technologies powering the employee benefits industry globally," says Mbethe.

The 2023 Report found that 64% of surveyed employees purchase their own financial products in addition to what is provided by the employer, reflecting increased responsibility for financial wellbeing. Of these, more than half bought their own retirement annuities, life, and savings products; and close to half bought disability and critical illness cover. Looking at different generations, more than 1 in 3 Gen X individuals and Millennials buy long-term insurance products compared to just over 1 in 4 Baby Boomers. Gen X and Boomer individuals also bought more retirement products than Millennials.

According to the report, employers foresee advanced data analytics leading to greater personalisation, predictive risk assessments, and needs-based management. "We now live in an age where financial advisers can use digital technology to identify and address pain points far more swiftly than they ever have before. The trend is to now shift from one-size-fits-all to personalised financial products." Employees can feel overwhelmed by the complexity of financial products, requiring simpler solutions and content that is educational, engaging, and empowering. "Digital channels provide the tech and humans provide the touch, both elements being critical to enrich our clients' experience," Mbethe concludes.

Financial Needs of Clients:

- Consistent financial needs include healthcare, retirement savings, and investments.
- Gig workers prioritise healthcare, while retirement products, long-term insurance, and investments face challenges, possibly due to affordability and access issues.

Role of Digital Transformation:

- The Fourth Industrial Revolution and the Internet of Things (IoT) will bring profound technological advancements.
- The Fifth Industrial Revolution focuses on human-centeredness, sustainability, and collaboration between humans and machines.
- Adaptation to evolving employee needs through advanced digital capabilities is crucial for business relevance.
- Powerful data analytics will enable individual targeting and engagement through multiple channels.

Global Trends and Impact on SA:

- Trends include machine learning in retirement plans, AI transforming insights, and the rise of InsurTech and FinTech in the employee benefits space.

Client Engagement and Education:

- Complete and current employee contact data is crucial for engagement and effective use of digital channels.
- Robo-advisers are accepted if personalised and knowledgeable.
- Employers prioritise education on retirement planning, savings, investment, and tax optimisation.

EB Industry Response:

- Increasing use of virtual and digital channels for client engagement is a growing trend.
- A seamless omni-channel experience is sought, combining technology and human interaction.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BUSINESS INTERRUPTION CLAIMS TRENDS

By: Scott Inglis and Sarah Versavaud

With an easing of pandemic-related supply chain pressures, business interruption loss intensity is returning to more normal levels, but extreme weather and political risk continue to disrupt the operations of large and mid-sized businesses, while ESG concerns are also impacting.

- The costliest business interruption events for large corporates in recent years have been dominated by natural catastrophe activity.
- Contingent business interruption (CBI) claims remain challenging as the impact of natural catastrophes, fires, and political violence can ripple through global supply chains.
- Environmental, social, and governance (ESG) concerns are increasingly featuring in property claims, with implications for the cost and extent of business interruption.
- What really makes a difference to the extent of business interruption is the advance preparation of a robust business continuity plan.

Extreme weather events, fires and explosions, geopolitical risks, ransomware attacks and the Covid-19 pandemic have all tested global supply chains in recent years. This is reflected in the results of the Allianz Risk Barometer, an annual survey which asks businesses to nominate their top risk concerns for the year ahead. In 2023, cyber incidents and business interruption rank as the biggest company worries for the second year in succession.

Levels of interruption increased dramatically following Covid-19, as shortages and transportation delays exacerbated the business impact of natural catastrophes, fires, and machinery and equipment breakdowns, leading to shortages of materials and spare parts and longer times to complete repairs.

However, many of these supply chain pressures have eased in 2023, according to Scott Inglis, Head of Global Practice Group for Property and Business Interruption Claims, Allianz Commercial. “Business activity is now closer to normal than it was a year ago, and this is starting to filter through to business interruption claims activity,” says Inglis.

Extreme weather dominates recent claims activity

However, not all business interruption loss activity has eased. The top causes of business interruption claims remain consistent, with the most frequent and expensive damage arising from natural catastrophe and fire and explosion activity (see box), with natural catastrophe-driven loss activity rising, according to Sarah Versavaud, an Executive General Adjuster in the Chief Claims Office at Allianz Commercial. “When looking at the costliest business interruption events for large corporates over the past two years, the top 20 is dominated by natural catastrophe activity,” says Versavaud.

“Hailstorms in France, and heavy rain and flooding in Slovenia and Italy, as well as in Australia and Germany, have all caused large business interruption claims during this period.” As did damage caused by Hurricanes Ian, Fiona, and several winter storms in the US in 2022, and storms Dudley and Eunice in Europe. The growing relevance of natural catastrophes to business interruption claims in recent years reflects the wider trend for higher losses from extreme weather events. Insured losses from natural catastrophes in the first half of 2023 were $43bn, well above the 10-year average, according to Munich Re1. Near-record severe thunderstorms, tornadoes and hailstorms in the US accounted for more than half of this six-month total.

With a trend towards increased volatility in natural catastrophes, companies need to consider and plan for the impact from a broader range of extreme events, according to Versavaud: “Extreme weather events are less predictable and harder to prepare for than hurricanes and European winter storms, for example, which are forecast well in advance. Hailstorms, tornadoes, and flash floods are usually sudden localized events that can cause substantial amounts of property damage and business interruption in a short period of time.” Hailstorms have resulted in several surprisingly large business interruption claims, Versavaud explains. “Many structures are not designed for extreme hail events, and we have seen extensive damage caused to commercial property roofs during recent hail events, with some large areas destroyed. We had one large corporate client that suffered roof damage from a hailstorm that caused major disruption to the business.
“What really makes a difference to the extent of business interruption is the advance preparation of a robust business continuity plan. And not just theoretical. Business continuity plans must be tested solutions that are updated regularly,” says Versavaud.

CBI claims peak

While not at their record level of two years ago, contingent business interruption (CBI) claims remain challenging as the impact of natural catastrophes, fires, and political violence can ripple through global supply chains in specialist concentrated industries like auto manufacturing and semiconductors. 2021 saw a record number of CBI and service interruption claims notified, as global supply chains were disrupted by storms, fires, and the pandemic. Several large CBI losses were generated by Winter Storm Uri in the US in February 2021, which caused cascading effects on companies and services reliant upon power, including water, transport, and medical services, with the so-called ‘Big Freeze’ particularly impacting the state of Texas. Insured losses have been estimated at more than US $15bn2, with economic damage significantly higher.

Less than a month later, a fire at a semiconductor plant in Japan added to the growing global shortage of microprocessors, hitting production in the automotive and electronics industries. The automotive sector was again hit with supply chain problems from the conflict in Ukraine, with the country an important supplier of parts. While the level of CBI claims of two years ago appears to have peaked, natural catastrophes continue to disrupt supply chains. The flooding in Slovenia and neighboring countries in August 2023 impacted many factories in the region, including several tier-one car part manufacturers.

The resulting disruption to automotive supply chains reportedly3 hit production at a number of car plants and parts manufacturers. "As well as affecting suppliers in the automotive industry, the floods in Slovenia impacted firms downstream in the supply chain, resulting in claims notifications. This was a recent event and claims are still developing," says Versavaud. "CBI claims are still among our top concerns. They are always challenging for insurers because it is never easy to get a clear picture of the whole exposure, and claims can be slow to develop."

Political violence on the rise

Businesses and their supply chains face considerable geopolitical risks with war in Ukraine and ongoing tensions between the US and China over Taiwan, and more recently with conflict in the Middle East. So far, these events have only had limited impact on supply chains and shipping routes but could become more relevant for business interruption going forward. "There are a lot of political headwinds out there right now," says Inglis.

The Russia-Ukraine conflict has resulted in some claims, mostly property damage and consequential business interruption from retail businesses with exposures in the region, explains Versavaud. "It can be challenging to get a handle on such claims, where getting loss adjusters on the ground is sometimes not possible. We work closely with insured clients to get a better picture of the extent of the damage."

Inflation, political instability, and climate change activism have also contributed to rising civil unrest in many parts of the world. According to analyst Verisk Maplecroft4, political risk at the start of 2023 was at a five-year high, with some 100 countries considered at high or extreme risk of civil unrest. According to Versavaud, a wave of protests in France this summer following the fatal shooting of teenager Nahel Merzouk resulted in significant business interruption claims in retail business from riot cover under property insurance policies.

Nuances in mid-corp

Fire and natural catastrophes are also the most expensive causes of business interruption claims for mid-sized corporates. However, the loss experience can be quite different to that of large corporates, whose supply chains are, typically, more international, and therefore can be more exposed to any disruptive event in today's increasingly interconnected global economy, such as production being halted in the automotive or electronics industries, explains Inglis. "We still see loss of earnings business interruption claims for mid-corps, but the risks are different. Due to the turnovers involved, large corps must be more mindful of CBI exposures. Although, of course, every company, regardless of size, should be aware of their CBI risks."

What are the top causes of business interruption losses?

Natural catastrophe activity and fire and explosion rank as the top causes of property business interruption claims, according to Allianz Commercial claims analysis. Natural catastrophe activity ranks highest by value and is the second biggest cause of business interruption by number of claims over the past five years. Fire and explosion is the most frequent driver of claims and ranks second in terms of total losses. Machinery breakdown/equipment damage and faulty workmanship and maintenance are among the other top causes of business interruption claims seen in recent years.

By value of claims

- Natural catastrophes 45%
- Fire/explosion 36%
- Machinery breakdown/equipment damage 7%
- Faulty workmanship/ maintenance 5%

Based on analysis of 1,210 insurance industry claims worth approximately €1.38bn between 2019 and Q1, 2023. Source: Allianz Commercial

Preparing for natural catastrophes

Extreme weather conditions are occurring more frequently with the impact on businesses becoming more severe. Allianz Commercial has produced a number of natural catastrophe checklists to highlight some key actions which can be taken by businesses to address hazards to their business. **Download the Earthquake, Flood, Hailstorm, Wildfire, Windstorm and Winterization checklists at Risk Advisory | Allianz Commercial**

UNPACKING SOUTH AFRICA'S HEALTHCARE LANDSCAPE. EXPLORING THE UPSIDES, DOWNSIDES & SOLUTIONS WITH GAP COVER


Tony Singleton, CEO at Turnberry Management Risk Solutions

As South Africa's healthcare landscape braces for 2024, a myriad of factors, from annual policy reviews to the impending National Health Insurance (NHI) Bill, shape the environment.

Medical schemes, undergoing yearly evaluations, anticipate changes ranging from coverage enhancements to premium increases. Regulated by the Council for Medical Schemes, premium adjustments align with the Consumer Price Index, hinting at a potential 9% average increase for 2024. However, specific plans may deviate, with some facing substantial hikes, posing challenges for affordability.

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Escalating Co-Payments in South Africa's Changing Healthcare Landscape

Co-payments pose a challenge for South Africa's healthcare consumers. Co-Payments are associated with medical procedures, they are increasingly common and costly due to rising medical inflation, creating financial strain for consumers. With co-payment amounts varying from R5,000 to over R30,000, individuals on lower-tier medical plans may face heightened expenses. Gap cover emerges as a crucial tool in alleviating these financial burdens, offering protection against out-of-pocket expenses. Covering non-Designated Service Provider hospitals, scopes, scans, and specialist co-payments, gap cover provides specified or unlimited benefits, with a 2023 annual limit of R198,660.43.

The Crucial Role of Gap Cover in the Era of Economic Challenges & Advanced Medical Technologies

Furthermore, the economic impact of the Covid-19 pandemic continues to reverberate, adding another layer of complexity to the healthcare landscape. Reduced income coupled with increased expenses have made top-tier comprehensive medical aid plans less accessible, pushing individuals towards lower plans, which offer decreased coverage. This shift may leave individuals vulnerable to greater out-of-pocket expenses in the event of accidents, surgeries, or illnesses.

The need for affordable access to private healthcare becomes more pronounced, making gap cover an indispensable tool in managing unforeseen financial burdens. As the list of medical procedures requiring co-payments expands, particularly for those on lower-tier medical plans, gap cover provides a cost-effective safety net, ensuring individuals can claim back potentially significant sums and safeguard their financial well-being.

With the global economy still on the back foot, industry players are grappling with the challenge of balancing the delivery of quality healthcare with cost containment. Advanced medical technologies, such as robotic-assisted surgeries and next-generation cancer treatments, offer improved outcomes but come at a substantial financial cost. The gap between what medical aids pay and what practitioners charge continues to widen, with costs for many procedures reaching two to three times the scheme rate.

Safeguarding Your Health and Wealth in South Africa's Shifting Healthcare Dynamics

In this evolving healthcare landscape, the role of gap cover becomes even more critical. While South Africans may not have control over the rising cost of day-to-day living and medical treatments, gap cover offers a feasible way to ensure access to private healthcare remains within reach. Once considered a 'nice to have,' gap cover has transformed into a necessity. Individuals looking to safeguard their financial future from potentially substantial out-of-pocket medical expenses should proactively seek the guidance of their financial advisors or brokers. Tailoring the right combination of medical aid and gap cover ensures comprehensive coverage, offering peace of mind in an environment of ongoing change and uncertainty.

WHAT WE DO WITH 2024, OR WHAT 2024 DOES WITH US

Lombard Insurance is multi-line insurance company offering insurance and guarantee solutions across a wide range of products. As such, we are connected to most industries in South Africa, and use that connection to help mitigate risk and support opportunities that businesses are faced with. To formulate an outlook on what will happen in our country, economy, and more specifically certain industries, is hard and an imperfect science at best. Yet, just to do the exercise is crucial – regardless of being right or wrong – as it serves to focus thinking on what may happen and what can be done in certain scenarios. Below are examples of current events that could help shape our 2024. They are negative events, however, each of them introduces both risk and opportunity.

1 - Middle East conflict

Internationally, geopolitical events continue to have dramatic effects on global economies. The Middle East conflict has the potential to push inflation and threaten supply in the petrochemical space once again, driving up fuel and transportation costs. While profits can be made on rising producer price inflation, businesses should beware of being caught with excessive stock once prices begin to come down again.

2 - Disruption in supply of tech hardware (semi-conductors, etc.) from the East due to US / China trade war

The trade war between the US and China could disrupt the supply of tech hardware from the East – for example semi-conductors. This in turn can affect the manufacture and distribution of digital consumer products, like mobile phones, fridges, and cars, etc. which are dependent on these crucial components. The danger here is when manufacturers have high fixed costs that continue to run even when production slows or is halted due to the lack of supply of these parts. The automotive industry was affected in some countries through the Covid cycle of supply chain disruption. An opportunity that presents itself is the shift away from complex import supply chains and a move towards local manufacture of these component parts.

Menso Kwint, Head of Lombard Trade Credit

3 - Weather pattern changes (inc. global warming)

Concerns on global warming and weather pattern changes are now mainstream. As recently as December 2023, a historic vote was passed at a COP28 summit where 200 countries agreed to transition away from fossil fuels by 2050 (https://unfccc.int/news/cop28-agreement-signals-beginning-of-the-end-of-the-fossil-fuel-era). This has large implications for the renewables space and many other areas. In South Africa, the domestic solar boom of late-2022 / early-2023 was nothing short of spectacular, and while that frenetic pace may never return spend here should continue for some time still. This phenomenon is playing out to a greater or lesser degree in most places of the world.

Global warming also has large consequences for other industries, including agri and tourism. However, technology is now able to counter these challenges and create opportunity. We construction reclaiming land from rising sea levels, and concepts like smart farming potentially changing the nature of the agri industry (smart farming is about managing farms using technologies like the Internet of Things, robotics, drones, and AI to enhance and optimize food production).

4 - Failure of municipalities, SOE's and service delivery

Perhaps even more interesting are the current trends and events in South Africa affecting our industry outlooks. The current challenges in the service delivery of power, water and rail / port utilities are dramatically restricting economic growth and the survival of businesses. However, the situation (s) also provides deep opportunities for public / private partnerships or gradual privatisation mechanisms – which we are seeing in power production and potential port take-overs.

5 - Poorer consumers

I certainly did not fully understand the shift in consumer through the early days of Covid. I did not realise how positively affected disposable income was by the reduction in interest rates and contraction of spend in travel, eating out and alcohol. People were richer in 2020, 2021 and 2022, and this translated to spend in DIY and consumer goods. This has completely reversed though the later half of 2022 and 2023. The return of driving to work has coincided with rising interest rates, high inflation, and a constrained economic environment where employment and wage push is limited by low GDP growth. This has affected lower LSM (Living Standard Measures) groups to a higher degree. Our cash and carry affiliates have stated that they have never seen the low LSM South African consumer as poor as they are right now. This is a devastating reality and has huge social and economic consequences. Certain retailers have catered to this shift well and others not so much – seen on JSE published results.

6 - Rand weakening

The fiscal deficit in South Africa (difference between government revenue – tax – and government expenses) continues to grow. To shore up this deficit the government borrows. Our government debt to GDP is currently at about 70%, and is set to go even higher (https://tradingeconomics.com/south-africa/government-debt-to-gdp). This coupled to things like our political instability and financial downgrades means more less demand for ZAR out there, which means price down, i.e., the likelihood of a continual gradual weakening of the Rand.

This is a risk if your business is dependent on imported goods, and you cannot pass the price increase on to the end consumer. However, it also means companies that export – like agri and mining – have a positive runway of benefiting from the higher prices of their goods sold. 2024 is around the corner. It will bring challenges, but also opportunities. I think more important that those specific events and their affects is that we are open to understanding what is possible and what we can do about it.

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THEMES FOR 2024: EXPECTATIONS, CHALLENGES, AND OPPORTUNITIES

Clyde Parsons, Chief Innovation Officer at BrightRock

In many respects, 2023 was a year of tremendous change – a year of technological advances, international conflicts, economic pressures. However, we also saw some semblance of stability returning to the life industry after the COVID-19 pandemic, with claims volumes starting to return to pre-COVID levels. We believe strongly that change always brings opportunity, and so we are looking forward to 2024 as a year of opportunity for our business, our industry, and for the financial advice profession.

Tech & AI

With AI and digitalisation on everyone's lips, we expect to see further developments and advances in 2024. The industry will be using these technologies in communication and transactional service delivery to clients, to better manage risk, and – hopefully – to deliver innovative, convenient product solutions to clients. Harnessing technology to make life easier for our clients and their advisers will certainly be a key focus area for BrightRock in 2024.

Fraud prevention and detection

As is often the case in tough economic times, industry statistics released by ASISA highlight financial and claims fraud as a major area of concern in the life and funeral market. There have also been several murder cases profiled in the media recently around this issue, specifically with regard to funeral policies. This problem is compounded by the rise in cyber crimes and the use of AI and other technologies to perpetrate fraud. Fortunately, AI and cyber technologies can also play a role in detection and prevention, and we expect to see exciting developments emerging in terms of modelling and data analytics to help tackle this issue.

Demand for personalisation, convenience and the human touch

While surveys show rising demand for technological solutions that make it easy for clients to communicate with their insurer and transact, they also still crave the human touch – in fact, we'd argue in tough economic times when clients are struggling to make ends meet, personal advice and support are more important than ever. The industry will need to balance these two demands, working to provide convenient technology-enabled service solutions, underpinned by a focus on caring, human interactions that help to instil trust and confidence in stressed clients who, in a complex and challenging financial context, may be more negatively disposed to providers of financial services than during better economic times.

Simpler products that enable advice & solve problems for clients

On a related note, insurers and advisers have a unique opportunity to support clients with better solutions that are clearly linked to a real financial need, that can save them money, and make the decision process a lot simpler and easier. This will help to counteract the threat of lapses, which is always prevalent when clients' pockets are under pressure. We hope the industry will respond by simplifying and customising their offerings to better meet clients' needs. At BrightRock, we believe this is an ideal environment for our personalised, needs-matched products, which are able to deliver more cover for the same premium rand. We are immensely proud to be part of the South African life insurance industry – one of the most innovative, well-capitalised and highly-regarded insurance markets in the world – which has so successfully withstood the pressures of the past few years. We look forward to seeing the industry do what it does so well – pay clients' claims and protect them when they need it most.

TRANSFORMING FINANCE IN AFRICA

A Conversation with Riaan van Dyk, CEO of Sanlam Fintech

In a recent interview, Tony sat down with Riaan van Dyk, the newly appointed CEO of Sanlam Fintech, to discuss the establishment of Sanlam's new fintech cluster and its ambitious goals for transforming the financial landscape in Africa.

Sanlam's Evolution: From 1.0 to Fintech

Riaan began by explaining the evolution of Sanlam, outlining the transition from Sanlam 1.0, the traditional 105-year-old intermediated business to the digitised version of this business, Sanlam 2.0. The aim is to future-proof the existing business while building the future model, Sanlam 3.0 – a large non-intermediated digital platform that opens up new markets and revenue streams in South Africa and beyond.

The creation of Sanlam Fintech as a separate cluster within the Sanlam group was a strategic decision to ensure a clear focus on digital transformation. Riaan emphasised the importance of having a dedicated space with the mandate, funding, and flexibility to think radically differently. This approach allows Sanlam Fintech to simultaneously build the future business model and future-proof the traditional business.

Agile Transformation and Digital Assets

Riaan highlighted the importance of agility in creating an environment conducive to innovation. He applauded the board's decision to create Sanlam Fintech as a separate cluster, granting the team the license to do things differently. The cluster brings together various digital assets, including Sanlam Digisure (a life insurance insurtech), Jasure (now Santam Switch, a short-term insurance insurtech), Miway Blink (a digital initiative of Miway), EasyEquities (an associate business), a payments business called MultiData, Sanlam Credit Solutions and Sanlam Personal Loans. The goal is to consolidate these digital assets and build a future business model that is non-intermediated, completely digital, and aligned with changing client preferences.

Democratising Financial Advice

Tony delved into the aspect of behavioural change, particularly in the context of attracting clients through loans. Riaan emphasised the need to democratise trusted financial advice, making it accessible to all. He argued that providing unconditional access to financial guidance for clients, especially in entry-level markets, is essential for true inclusion. The vision is to offer free, unconditional financial advice to create greater financial confidence and, subsequently, financial inclusion.

Behavioural Change & Client-Centric Approach

Riaan acknowledged the challenge of changing client behaviour and stressed the importance of understanding clients' needs. He emphasised the significance of testing ideas, iterating quickly, and creating products based on real-time feedback. This approach aims to align financial products and services with evolving client behaviours and preferences.

Sanlam Fintech's Focus on South Africa & Africa

While Sanlam Fintech's immediate focus is on South Africa, Riaan acknowledged the critical importance of scale in the fintech business, indicating future plans to expand across Africa. He highlighted two key opportunities for success in Africa: collaboration with the Sanlam Allianz business for shared learnings and an exclusive partnership with MTN for financial services. The latter partnership, leveraging MTN's extensive client engagement, provides a competitive advantage in terms of scale and data-driven insights.

The Future of Payments in Fintech

In the concluding segment, Riaan shared his excitement about the global innovations in payments. He recognised the pivotal role of payments in the fintech landscape and hinted at Sanlam's potential to deliver exciting developments in digital banking and payments. Riaan expressed confidence in leveraging existing partnerships, such as the one with TymeBank, to make a significant impact on clients' lives through improved payment systems.

In essence, the conversation with Riaan sheds light on Sanlam Fintech's strategic approach to digital transformation, its commitment to democratising financial advice, and its vision for creating inclusive financial ecosystems in South Africa and across the African continent.

The emphasis on agility, client-centricity, and partnerships positions Sanlam Fintech as a key player in reshaping the future of finance in the region.

“The goal is to consolidate these digital assets and build a future business model that is non-intermediated, completely digital, and aligned with changing client preferences. “

OPPORTUNITIES & RISKS IN MARKETS

Mike Adsetts, Chief Investment Officer at Momentum Investments

The analogy of a coiled spring comes to mind when reflecting on the state of the world and markets in 2023. At the start of the year and from a geopolitical perspective there was the tension of the Russia-Ukraine war, with the hope that the Ukrainian Spring offensive would create a potential pathway for negotiating. Inflation was coming down, albeit slowly, and interest rates were increasing, creating both opportunities and risks across the investment spectrum.

Locally, the South African (SA) government was determined to score as many own goals as they could. Something that talks to the dire nature of SA politics, infrastructure and the state of our state-owned entities. However, corporate SA had relatively healthy balance sheets and there was a good valuation underpin to SA asset classes despite the difficult economic environment.

As the year progressed, the spring unfortunately coiled ever tighter. The conduct of the SA government, including the Lady R fiasco and the potential of the Russian President, Vladimir Putin, coming to SA for the BRICS summit brought into question the country's official non-aligned position, risking a global political and economic backlash that we can ill-afford.

The Middle East once again become a geo-political mess, with the unfolding tragedy in Israel and Gaza bringing untold misery to that part of the world. The conflict is also undoubtedly sowing the seeds of another generational cycle of hate and violence between Palestinians and Israelis. Brand America has also been tarnished as the human tragedy escalates and they appear unable to positively influence their regional partners.

This backdrop has all cumulated into a higher-for-longer view on interest rates. Although inflation is easing, it is doing so more slowly than anticipated. Geopolitically, the world seems to be fragmenting into regional spheres of influence with high stakes and a lot of political uncertainty.

Under this scenario, we would be close to or at the top of the interest rate hiking cycle around the world. As interest rates start to come down, this would be the trigger to release the tension in our anecdotal spring. With this context, how do I think about the investment opportunity set over the last year? Despite the economic and political backdrop, as well as extreme volatility, global equity as well as shorter duration fixed interest assets provided reasonable returns.

Looking forward, local growth asset classes as well as selected global growth asset classes and longer-duration fixed interest investments should benefit as the interest rate cycle rolls over. However, there is no certainty when exactly we see this happening. From a portfolio management perspective the best approach is to have a well-diversified portfolio across asset classes that matches with your investment duration and has a level of growth asset exposure which over the long run matches your growth objective.

This is exactly how we manage our portfolios at Momentum Investments, because with us, investing is personal.

THE RISK SURVEY CAN ASSIST IN MITIGATING RISKS IN PROPERTY INSURANCE

By: Sharon Paterson, CEO at Infiniti Insurance Limited

Property claims are rising due to a variety of factors, including poor risk management, natural disasters, and catastrophic events. This has had a negative impact on the global insurance market, making it more difficult for property owners to obtain insurance coverage. Due to climate change, the research by Swiss Re, the world's largest reinsurer, projects that homeowners' insurance premiums may increase by 5.3% per year through 2040. Climate change may cause wildfire seasons to become longer and more intense, while sea level rise will create flooding challenges along coastlines.

The effects of climate change are already being felt in South Africa, where frequent rainfall is causing flooding in some low-lying areas. Considering the impact of climate change on properties, insurers must rethink how they underwrite properties, particularly in areas that are vulnerable to these risks. Insurers must begin subjecting property owners to increased scrutiny of their risk management practices, including business operations and people risks. This can be a complex process for brokers, insurers, and underwriters, as many factors need to be considered when presenting the client's risk profile.

The importance of conducting risk surveys

A risk survey can assist in various circumstances where the valuation or risk profile is not standardised or easily calculated. This may include commercial insurance and property coverage, particularly for complex structures, compounds, multi-site commercial properties, developments, and construction sites. In such cases, the survey can assist the underwriter or broker to understand all aspects of the business and the risks associated with it before they can proceed with a quote.

This process is necessary to identify risks that could adversely impact a property and business and to determine the effectiveness of the control measures in place to mitigate such risks. By undertaking the survey, both the insurer and client can avoid unpleasant surprises that may arise at the claim stage. And these can potentially damage the insurer's reputation as well as its relationships with clients.

Property Insurance

Property insurance is one typical example of a cover where a risk survey can come in handy. Property insurance usually covers unexpected damage but does not compensate clients for risks that the clients could have avoided by maintaining regular upkeep of their buildings. While there are variables, some common risk issues identified are basic and often simple to address. These include buildings that are not maintained, with evidence of damage and dilapidation, and a lack of a proper maintenance plan, or fire equipment that is not inspected and maintained regularly.

Failure to conduct routine building maintenance can lead to problems that the insurer will not cover. For example, the damage from a water pipe is covered in the policy. However, a claim for a roof leak that the client failed to repair could be declined because the client did not take precautionary action to mitigate the risk.
All properties are different and can vary significantly in size and complexity, particularly concerning the occupancy (business activities on and within the property). This may include office, retail stores, manufacturing, agribusiness, industrial, storage, processing plants, or a combination.

Survey report helps to mitigate the risks

Upon receiving the risk survey report, the insurer and clients will be aware of the risk exposures. The report will provide recommendations to address the risks and validate risk management systems, practices, and other proactive measures. The report will further demonstrate to insurers that risks have been identified and the client has put measures in place to manage the risks. The findings will help clients determine whether they can make improvements to reduce the risk of future insurance claims. By addressing these issues, the client will also reduce their risk of loss and improve their chances of obtaining affordable insurance coverage. The clients will know exactly where they stand with the risks associated with their business and the property it operates from.

Clients must ensure they have adequate insurance coverage

Clients must ensure that they have adequate insurance coverage when taking out or renewing an insurance policy. This is especially important during times of rising costs, which increase the risk that clients may not have adequate insurance coverage. If clients do not have proper insurance coverage, they could find themselves in significant financial difficulties.

FROM MACRO-ECONOMIC GEOPOLITICAL TRENDS TO MORE NUANCED AI: WHAT BUSINESSES CAN EXPECT IN 2024

Charlotte Koep, COO of insurance platform Root

1. The USA's economy will continue to affect funding for startups

"What happens with the dollar, the rand, the Federal Reserve and US interest rates will continue to affect South African businesses," says Charlotte Koep, COO of insurance platform Root. "That interplay makes quite a big difference to capital availability into emerging markets and riskier asset classes like venture capital, a major source of funding for local startups."

The global minimum corporate tax rate of 15% also takes effect. This OECD initiative increases taxes on companies with earnings in low-tax jurisdictions. As part of the deal, multinational companies will pay more taxes than they do at present in countries where they have customers and less in countries where they have headquarters, employees, and operations. The USA could lose tax revenues as a result of this, which may further complicate the macro-economic impact of its finances on South Africa and other developing economies.

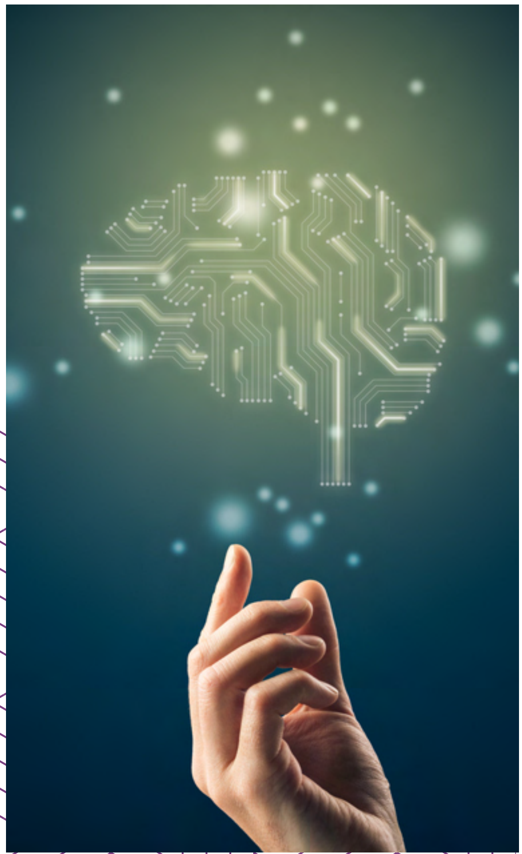
2. Conflict & its business consequences are the new normal

Whether it's Ukraine, the Middle East, civil disobedience or other geopolitical conflicts, war and its effects will continue to have an impact on businesses. With globalisation increasingly coming under scrutiny, some business owners have made peace with fragmented supply chains, as countries become more inward-looking.

Koep believes that there may well be a further shift towards very localised delivery of services, focused on individual needs. "In the insurance field, we expect an increase in the number of insurance products available for climate- and war-related risks," she says, "as well as more insurance for crime and cyber-crimes. We're already seeing a lot of movement there, but specialist providers will come to the fore, including specialist insurance providers for AI-related crimes."

3. AI will be everywhere but it will be more real than ever

AI has certainly created a new security scare for organisations, with Gartner projecting double-digit growth across all segments of enterprise security spending for 2024. But there is more to AI than that. In particular, Generative AI (GenAI) is expected to play a more business-centred role in 2024, going beyond hype to deliver real value. Research house Forrester believes the greatest risk is to wait, hoping that someone else will figure out the way first. GenAI will be "the fulcrum that businesses rely on to enhance, empower, and engage employees and customers — with or without you. Embrace the misstep, and think big," it advises.



Nic Laschinger, CTO of Euphoria Telecom agrees, saying that in 2024 enterprise GenAI solutions will be helping companies to surface the data they have in their systems - and use it better. "For example, the data in your telephony system which tells you which customers call most often, which never call, and what they ask when they call. Using GenAI, companies will be able to extract that for use not just by the call centre teams engaging customers but other areas of the business that need to have better insights into your customers and their needs and behaviours," Laschinger says.

Ryan Falkenberg, Co-CEO of conversational automation specialist CLEVVA, adds that virtual agents boosted by GenAI are almost able to pass the Turing test - when you won't be able to detect whether you are talking to a human agent or a virtual agent.

"There is a lot of local interest in how GenAI can be used to improve customer service and general business effectiveness. GenAI, combined with conversational orchestration tools, now allow us to have human-like conversations that can stick to the rules. It's a major shift from the days of frustrating, limited chatbots. As virtual agents' capability grows, so does their reach. In 2024, expect to be having a conversation with a virtual agent via WhatsApp, website chat, in app and even voice channels, increasingly in the language of your choice," Falkenberg advises.

4. How businesses get paid will become visible and useful

The IDC's top 10 future consumer predictions for 2024–2029 include a positive outlook for established digital services, such as video, audio, and social media, which are expected to continue to grow. It expects consumers to spend over $1 trillion a year on digital goods and services by 2029, signalling tremendous opportunities in the consumer market. As omnichannel and unified commerce take further hold in online businesses, expect that payment service providers will consolidate their services to better assist businesses with both their online and offline payment systems, says Sandeep Chagger, COO of payment platform Peach Payments. "This will extend to global dashboards being made available to group companies in multinationals."

He believes instant payments, such as PayShap in South Africa, PesaLink in Kenya, PAPPS for Pan African payments and MauCas in Mauritius will continue to grow in popularity. Also, although controversial, he expects payment via crypto currencies to increase - which may affect OECD taxation programmes for crypto assets. The OECD's global tax transparency framework for reporting and exchanging information between tax authorities about crypto assets is expected to be fully implemented by 2027, with work on deployments gaining momentum in 2024.

SOUTH AFRICA'S SHIFTING RISK LANDSCAPE

By: Tavaziva Madzinga,
Santam Group CEO

Insuring risk is not a modern-era concept. The age-old practice became a common business security instrument to the burgeoning English shipping industry in the 17th century, and the first insurance "contracts" can even be traced as far back as Babylonian times around 133 AD. The industry has evolved and withstood centuries of evolving risks. Just as steps needed to be taken to address rapid urbanisation and international trade in the 1600's and 1700's, the industry is again facing an escalating risk landscape.

Climate change, infrastructure concerns and socio-economic challenges have created a tough environment for local insurers, who have a responsibility to ensure their business is strong and able to sustainably withstand the cost of the risks that are dominating the environment, and to protect the financial wellbeing of clients and the safety of communities.

The last three years have shown that South African insurers are no longer insulated against the large catastrophe experience of the Asia-Pacific, Europe, and the United States of America. Globally, the 2020 COVID-19 pandemic rewrote the record books on insurer and reinsurer exposures to systemic risks. Locally, rioting and looting caused an estimated R50 billion in economic losses in July 2021, with the April 2022 KwaZulu-Natal flood losses estimated at R54 billion. Half that total was carried by the insurance industry. Climate change-related extreme weather events also dominated the insurance industry's claim statistics in 2022 and 2023.

The growing number of large catastrophe reinsurance claims locally, coupled with rising global losses, has caused reinsurance premiums to increase significantly. This volatility in the reinsurance market will likely become the "new normal". Entering 2023, Santam added global geopolitical developments to its monitoring agenda, with a focus on determining how the BRICS expansion, China-US trade relations, and the Russia-Ukraine War will affect the global reinsurance market. More recently, the resurgence of Middle East conflict has also become a focus. There are concerns that global supply chains will be further impacted by these tensions, contributing to significant claims inflation, with the resultant cost of repairs further compromising the affordability of insurance in the years to come.

Another key area contributing to the increased volume of catastrophe claims globally is the impact of climate change. Changing weather patterns is evidenced by the number of fires, storms, floods and volume of rain - such as the KZN floods in 2022, and more recently in the Western Cape. To address the risks posed by escalating climate shifts, we have aligned our approach with global standards such as recommendations set out by the Task Force on Climate-related Disclosures (TCFD) and are in the process of conducting climate risk assessments to guide our climate change response. An example is the adoption of geocoding technology to better understand our weather-related risk exposure by creating a risk-based view of property locations in South Africa. Climate-related data is mapped with co-ordinates to identify areas that have increased exposure to climate change – these are then managed accordingly through underwriting and pricing actions.

Additionally, attritional weather losses – weather-related claims that are not associated with a catastrophic event – also threaten the sustainability of the insurance industry. According to the 2022/2023 Santam Insurance Barometer Report, Santam experienced a spike in flood-related claims across all lines of business during 2022, and the trend continued into the first half of 2023, as the April 2022 KwaZulu-Natal (KZN) floods were followed by flooding along the Orange and Vaal Rivers in early 2023, and extensive flooding in the Western Cape around June. Each of these events revealed an additional layer of risk in that South Africa's infrastructure degradation increases the extent and severity of flood-related losses. This is a major challenge that will have severe consequences for not only the insurance industry, but the businesses and communities that rely on them. Worsening road conditions, fire-fighting capabilities, sewerage systems, and flood water drainage – to name a few – are becoming increasingly vulnerable to disasters.

Damages following disasters are extensive, the cost of repairs exorbitant and downtime is lengthy. Most importantly, infrastructure that is not structurally sound also has an impact on the number of lives that are lost in a disaster. To ensure sustained insurability, significant focus and financial resources from government are required to turn things around as well as a collaborative effort by the private and public sector.

One example of this collaboration is through our Partnership for Risk and Resilience (P4RR) programme – where we assist municipalities with firefighting, flood defence, and other risk mitigation efforts. The aim is to work together towards proactive risk management outcomes within municipalities countrywide. In addition to increasing infrastructure degradation, loadshedding also poses a major risk to consumers and businesses including the insurance industry.

For the full 2022 financial year we experienced an increase of approximately 67% in claims (compared to 2021) for damage of sensitive electronic items as a result of power surges across our personal insurance and commercial insurance portfolios, totalling R609 million.

Although there is a strong correlation between the number of load shedding events and the frequency of these claim types, we still believe load shedding – as it pertains to power surge cover – is an insurable risk via a combination of cover exclusions, higher excesses, and a "repair rather than replace" policy for certain claim types. From a socio-economic perspective, the steady increase in crime has also become a systemic risk we are tracking closely.

According to the 2022/2023 Santam Insurance Barometer Report, South Africa is seeing a big shift in vehicle crime, with Santam's Commercial and Personal Lines claims experience confirming a significant jump in high-value vehicle hijackings and thefts. Through our ongoing tracking of emerging risk trends, we were able to implement a number of corrective actions to ensure that these high-value vehicles remain insurable.

Additionally, the report found that a growing number of industry stakeholders believe cybercrime to be the next potential black swan loss event for the insurance industry – with a 12% increase in commercial and corporate respondents citing it as a top risk as compared to the 2020/21 report. Despite this, there seems to be an inertia in both risk mitigation and risk transfer efforts in this space. The challenge for insurers and insurance brokers is to offer more hands-on assistance to businesses at both the underwriting and claim stage.

The current high-risk environment presents many challenges for insurers who must prioritise ensuring they can carry these risks sustainably so that more people can prosper. A thriving insurance sector is a critical cog in a healthy economy as insurance empowers individuals and businesses with the freedom to be more resilient. It is therefore vital that we understand and respond to both traditional and emerging risks in an increasingly complex risk landscape.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WHAT HAPPENED IN THE INSURANCE SECTOR & WHAT DOES 2024 HOLD

I have been instructed to be informative without being boring and I have been permitted to be slightly irreverent and controversial. So the views and thoughts expressed here are my own and do not represent the views and thoughts of my employer, the associations to which I belong and/or which I represent.

But, I have worked at insurers, underwriting managers and administrators, product developers and brokers and risk managers over the years , so I would like to believe (based on past predictions and what has occurred year to date) that I do have a reasonably good feel for our market and the economy in general . Besides if I am wrong , it is going to take quite a while for one to prove I was wrong and by that stage I may have finally exited the industry and gone fishing .

The story of 2023 must be Loadshedding. With the insurance sector implementing the Public Grid Failure Exclusion, it appears as though only SASRIA (with some initial goading by the FIA) appears to have stopped short of also implementing this important exclusion. Despite the horrific cost of loadshedding in South Africa , we appear to have once again survived so far , with some light (pardon the pun) on the horizon .

Peter Olyott, CEO Indwe Broker Holdings& Director at FIA

As though to order, we have had some turbulent water related claims in the Western Cape during June and in September. Flooding, due to higher than expected rainfall in the case of June and a phenomenon we had all but forgotten about in September : storm surge . Having been on holiday recently in the Western Cape along the particular sea-board – the effects of the storm surge can clearly still be seen. Then just when we thought it could not get any more depressing , a string of major thatch fires occurred over a three month period culminating in the destruction of one of South Africa 's best loved Family holiday hotels . It is obvious that the underwriting and risk management of these risks will be revisited.

In between all of these, there was an increasing trend of fire losses in towns and cities and who could forget the day the proverbial @#%$ hit the fan in Johannesburg city centre , sending cars and taxi's flying and creating a wide crack in the tar an earthquake would have been proud of . Deteriorating infrastructure has an impact on individuals and the business community , including insurers . There does not unfortunately appear to be any meaningful large scale willingness towards improvement other than the specific contributions made by some of our major South African insurance groups so we should give thanks for their efforts .

We have seen an increasing trend in vehicle thefts and hijackings again as the economy came out of the COVID Era and back into the recessionary or economic stagnation era . I must add, although nothing really to do with the state of the economy, the quality of our driving appears to be aligning with the trajectory of our economy. I witnessed some overtaking maneuvers which would have scared the living daylights out of some of our former and current motor racing champions!

As consumers and businesses come under pressure and insurer losses have mounted since 2020 , it appears as though matters are coming to a head as Insurers are forced to increase pricing and limit cover , consumers and businesses are more exposed to risk than ever but with less available resources and the good ship South Africa sails perilously close to the increasingly rough waters of economic stagnation and the R word .

So what does 2024 hold for us ?

Should we be depressed and anxious? No, we should be very excited as I believe we are in the middle of the greatest era of change in our Industry. The Gods of Perils, Economics, Global Pandemics, Healthcare, Technology, Legislative and Societal changes are creating the perfect storm for fundamental change in our industry across all of its sub sectors. For sure, doing what we have done up to now, even if we do it well, will be insufficient to save us from ourselves. The time now is to be bold, innovative and decisive and, dare I say it, even a little “Elon Muskish” in approach to what should change and why. I see our local motor vehicle manufacturers, suppliers and financiers see vehicle leasing as the next best thing since smart phones, with some very bullish numbers being bandied about – what will that do to the traditional South African motor insurance markets when the cost of insurance and maintenance is included in the lease?

Whilst South Africa climbs in the global ratings as one of the countries moving to the top of the pile from a cyber crime point of view, we still have individuals and small businesses who don’t insure themselves for cyber risks – all the while electronic banking, emails, online trading and the like is going through the roof – does not quite make sense to me. After decades of packaging risks together to make them more economical to distribute and to provide some risk hedging for insurers, the technology now exists to go back to the way things were and to allow consumers (and businesses for that matter), backed by suitable advice of course, to be able to put together their own bespoke insurance covers for when they need it, and to allow the whole bang shoot or parts thereof, to be put on hold when they don’t .

In conclusion, we live in a state of unprecedented global turmoil. We have two major regional conflicts on the go, with Ukraine and Israel and threats of a third in the South China seas. Some significant global and regional leadership elections going on in 2024, and we have kickstarted the year with some significant regional disasters such as earthquakes and flooding. However, I do not foresee any alien invasions or encounters of the close kind, just yet. I can however, categorically say that South Africa shall remain Rugby World Cup champions until at least 2027, sheep shearing champions until 2024 and I shall be most surprised if we advance beyond the semi-finals of any other major sport type during this year. As is the norm, the predictions of Nostradamus shall maintain their level of post-event hindsight interpretation accuracy.

All of the best for 2024 – may it be a great year for you and your businesses .

THE RISKS AND CHALLENGES FACING INSURERS IN 2024

By Thokozile Mahlangu

As 2023 draws to a close, the insurance industry must prepare itself for the challenges that it is likely to face in 2024, with innovation being key to mitigating the risks and changes that the new year is expected to usher in. Some of the biggest challenges local insurance companies faced in 2023 include a tough economic climate and load shedding. These challenges are expected to persist into the new year as there is no silver bullet for Eskom's power generation struggles or the country's socio-economic issues driven by constrained economic activity and a high inflationary environment. The unprecedented levels of load shedding that hit South African consumers and businesses during 2023 are forcing insurance companies to increasingly view blackout-related damages and losses as insurance risks.

Similarly, the increasing frequency and severity of climate-related disasters have prompted more insurers to implement different approaches to underwriting that enables better understanding of risk profiles for commercial and private properties to be insured. The current year also saw digital transformation and climate change being identified as some of the biggest challenges facing insurers, according to research by GlobalData, with cybercrime, legislative changes, geopolitics, and the continued fallout from COVID-19 also making the list.

All these factors have essentially created a tough environment for local insurance providers who not only have to ensure that their balance sheets can sustainably withstand the costs associated with the risks that dominate the environments in which they operate, but also be able to protect the financial well-being of their clients. Looking ahead to 2024, the commercial insurance landscape is expected to undergo several significant changes, while also facing both new and some already-present challenges and risks that will shape the industry over the next 12 months.

Economic and inflationary pressures are expected to continue to put strain on the insurance sector, resulting in the current tough operating environment continuing into 2023. At the same time, South Africa's energy crisis is predicted to continue for at least the next two years.

According to global professional services firm AON, climate change and natural disasters will also remain firmly in the spotlight going forward leading to an increase in cover restrictions in some cases and impacting the renewal of insurance policies.

On a more positive note, technology is playing an increasingly key role in shaping the world and is also significantly impacting the commercial insurance industry. This sector is currently undergoing a transformation, driven by game-changing technologies such as generative artificial intelligence (AI). Such technologies have the potential to benefit everyone involved in the insurance ecosystem, from carriers to brokers and policyholders alike.

The EY 2024 Global Insurance Outlook notes that while many technologies are described as transformative, not all of them live up to the hype. Generative AI does live up to the hype and democratised access to such a powerful technology has seen the advent of many creative applications, with even more innovation on the horizon.

The report reveals that 59% of global insurance CEOs believe that jobs impacted by AI will be counterbalanced by new roles, 58% say that AI is a force for good and 52% plan to significantly invest in AI in the next year.

At the same time, the integration of advanced data analytics into commercial insurance is expected to grow substantially in 2024. Insurers will be able to evaluate risks more precisely and thus offer more customized policies by leveraging real-time data analysis. This will allow for optimised pricing strategies and enhance the customer experience.

There is already a growing interest in harnessing the power of technology from insurers looking to expand and structure their data for better decision-making. This is expected to be one of the main trends that will continue into 2024. As technology continues to automate manual tasks, insurers will assume more advisory roles, leveraging their expertise to guide businesses through complex risk landscapes.

Thokozile Mahlangu is the Chief Executive Officer of the Insurance Institute of South Africa

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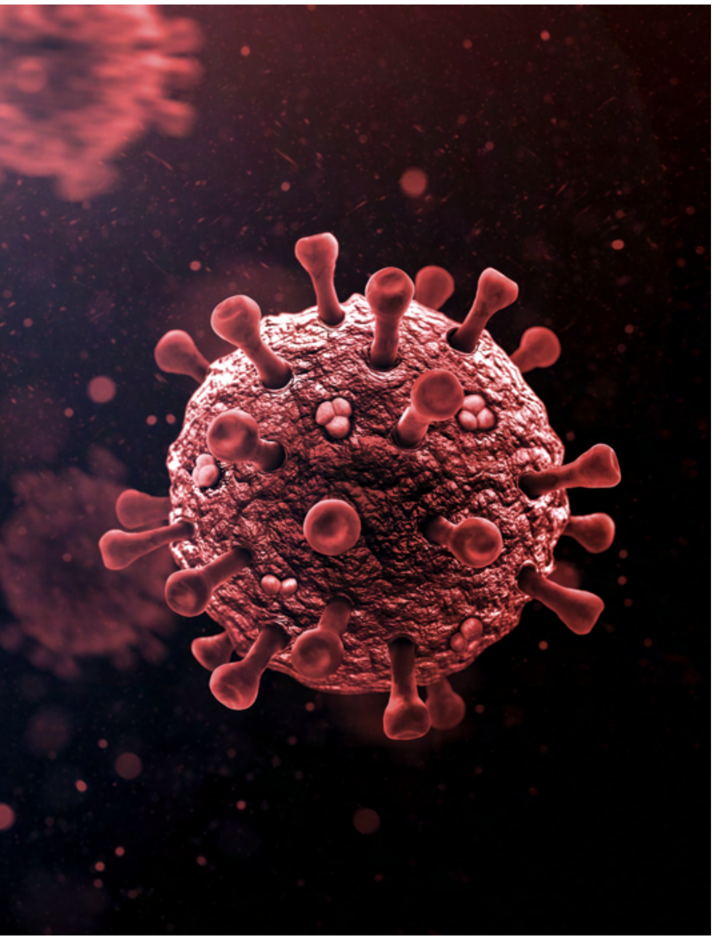
Vanessa Maxwell, Global Head of Financial Lines at Allianz Commercial



KEY RISK TRENDS FOR DIRECTORS & OFFICERS IN 2024: ALLIANZ

Board members and company executives can be held liable for an increasing number of scenarios. Inadequate responses to economic pressures, geopolitical issues, implementing innovative technologies such as GenAI, or environmental, social, and governance (ESG) challenges are among the main factors driving the possibility that a company and its Directors and Officers (D&Os) may be sued in 2024, according to Allianz Commercial's D&O insurance report.

"Buyers of D&O insurance from public and private companies have benefited from favorable pricing and broader coverage through 2023, helped by factors such as new market entrants and the stable trend in US securities class action filings," explains Vanessa Maxwell, Global Head of Financial Lines at Allianz Commercial. "However, there is still a lot of risk facing D&Os and their insurers. Inflation continues to bite, influencing future claims through larger settlement values – at a 10-year high – and greater defense costs. The higher cost of refinancing debt is proving a shock.

Insolvencies are rising, geopolitical uncertainty is considerable, cyber risk is elevated, and ESG claims are here to stay and proving challenging. D&Os need to be prepared for these headwinds and have a strategy that can adapt when presented with a block to the business. Diversity in the boardroom allows companies to have varied approaches to such problems."

Gloomy outlook prevails

Since the world eased out of lockdown from the Covid-19 pandemic, a new normal has not made daily challenges for companies any easier. Economic growth across the globe remains disappointing. Business insolvencies are expected to rise by +10% in 2024, according to Allianz analysis. Inflationary pressures remain and refinancing of existing debt after years of low interest rates is a new test for many. D&Os are seeing fresh pressure on cash generation, and decisions around how companies finance capital expenditure and manage their debt profiles are under more scrutiny from stakeholders, the report notes.

In addition, businesses and their supply chains face considerable geopolitical risks with war in Ukraine, conflict in the Middle East, and ongoing tensions around the world. Political risk in 2023 was at a five-year high, with some 100 countries considered at high or extreme risk of civil unrest, according to analyst Verisk Maplecroft, meaning there is greater pressure and scrutiny on directors to ensure their company is adequately prepared to withstand the impact of business interruption in higher-risk territories, in addition to ensuring the safety of its employees.

Everyone is talking about GenAI

GenAI (generative artificial intelligence) describes algorithms that are utilized to create complex content, mimicking human activity. Discussion around its utilization has been building as the expanse in its capabilities is now impacting how corporations think about their business processes. A third of organizations are using it regularly in at least one business function, according to a McKinsey global survey. "AI's potential to create competitive advantages is exciting but there are also challenges with its adoption that companies should consider, such as threats to cyber security, increased regulatory risk, unrealistic investor expectations about its capabilities, as well as managing misinformation," explains Hannah Tindal, a Regional Head of Commercial D&O at Allianz Commercial.

Litigation recently filed against AI companies has already highlighted privacy risks and copyright law violations. These cases, as well as the challenges noted above, have the potential to bring securities claims, intellectual property claims, breach of fiduciary duty claims, misrepresentation claims and shareholder and derivative lawsuits. "Organizations can mitigate the risks associated with GenAI technologies by setting up best practices and deploying agile methods to keep governance, compliance protocols and legal frameworks current and able to adapt to the technology as it evolves," says Tindal. "Close monitoring of AI's evolution should be a high priority on the boardroom agenda."

ESG claims from both sides

Regulatory action or litigation risks due to ESG-related issues are another major concern for boards, driven by increasing reporting and disclosure requirements around such topics, which could trigger claims in case of an inadequate response or non-compliance. The number of countries introducing ESG-reporting mandates has grown considerably in recent years, exposing directors to costs to responding to investigations, enforcement actions, and potential fines and penalties, for suspected non-disclosure or misrepresentation. Such requirements also expose directors to claims by private litigants, not only for alleged misrepresentation but also due to dissatisfaction with what the required disclosures reveal about a company's commitments to ESG issues. Recent examples of claims have included allegations of failure to manage climate risk to alleged breach of duties by investing in underperforming funds that actively pursued ESG strategies.

"Not every stakeholder holds the same view on an issue or the same view as to what actions directors should take," says David Ackerman, Head of Global Financial Lines Claims, Allianz Commercial. "In a world that is becoming increasingly polarized, politically and socially, the very need for directors to evaluate and address the impact of various ESG factors on corporate value creates risk that claims will be made, by activist shareholders or other motivated stakeholders, on either or both sides of any given issue."

Fallout from the US banking crisis

The report also looks at the fallout from the March 2023 banking crisis in the US. Poor practices and rising interest rates resulted in several banks being dissolved or taken over. Securities fraud claims followed. An interesting aspect of this crisis was the role of social media. The depositors of one of the failed banks, Silicon Valley, were largely tech and healthcare startups, invested in by venture capitalists. When depositors started to withdraw funds, some venture capitalists advised their clients to start spreading their assets to other banks. This advice hit social media leading to a run on the bank, which closed shortly after. The power of social media to get large numbers of people to act in the same way at the same time means that bank runs can now happen too quickly to stop. It is also a reminder for D&Os how rapidly social media can exacerbate a crisis, the report notes.

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A LIFETIME OF INSIGHTS FROM MOMENTUM METROPOLITAN'S OUTGOING CTO CHRIS KRUGER

Chris Kruger retired (CTO) at Momentum Metropolitan

Chris Kruger recently retired as Group Chief Technology Officer (CTO) for Momentum Metropolitan Holdings, a position he held for 25 years. A long time for a leader in any field, and several lifetimes in Tech. As his parting gesture, Chris was asked to share some of his insights on what today's tech leaders need to know.

One size doesn't fit all

Today, the terms CIO and CTO are commonplace, but the role of technology leadership is far from uniform: It varies by industry, strategy, firm culture and operating model. Over the years my role was shaped by taking many perspectives into account. – With input from the CEO, business and IT colleagues – technology became a platform for innovation. When there was an innovation lag, the results were friction: ownership gaps or overlaps that blurred accountability and stifled delivery.

The need for role clarity is something I've underestimated. I've seen vague or miscast remits cut short the careers of some good Chief Information Officers (CIOs). Those anxious to impress can lean into their key business relationships, only to find that their own organisation needs time to catch up. Some pursue innovation at all costs but lose face when they can't keep the lights on. Innovation – and CIO reputations – are each built on sound technology foundations.

I came to view the arrival of a new CEO as my own "first 90-days": Taking pains to get their intent, and to explain our plans, challenges and ways of work. The pace of technological innovation today is rapid and exponential. Every business in every industry will continue to feel the impact. Buy-in and support for the role of the CTO is crucial for success. The process will also need to be repeated if there are leadership changes within the business.

Know yourself

Some of these pitfalls arise because it's a big job with blurred edges. But it also comes down to self-knowledge. The ability to know your strengths, and frankly acknowledge your limits. To design your role in a way that plays to the first, then through the right relationships and structures, make good your limitations. Technology, and being a CTO, is primarily about people: businesses cannot buy innovation by buying technology – it should serve as an enabler to allow people to innovate and do their jobs better. Talent is the key to successful businesses, and understanding your own strengths and weaknesses, as well as those of your team and partners, is vital. Tech must make it better or easier for people. Crucially CTOs further need to prioritise building the IT talent pipeline in South Africa.

Candour and trust

I've been fortunate enough to work with some of the best leaders in financial services. But not one of them would save you if you'd lost the confidence of the business units (BUs). Instead, our leaders have given strategic clarity, instilled belief in our right to succeed, and helped foster a culture of trust among leaders: The knowledge that your peers are up to the job, and act in good faith. That makes a world of difference to IT leadership.

Liberating business without losing control

There are good reasons why firms centralise (or not): Momentum Metropolitan has deliberately chosen a federated business operating model. A decision made when Momentum was a financial services upstart, and one that the company has never regretted. In practice, that means putting technology capability at the point of maximum impact, while sharing when there's a clear case grounded in shared gain, cost or compliance. Done well, a federated operating model can give a business great clarity. Clarity of responsibility for business delivery, revenue generation, and cost accountability. When our former CEO chose federation again, it provided a straight view of the markets we compete for, the clients we serve, and partners on whom we rely.

Through boom and bust

Our operating approach is one reason for my longevity. Because technology implementation teams sit in BUs (with a CIO close to business leadership), most IT spend is viewed through a business lens: There's less risk of a disconnect between means and ends. We keep central teams "light": Both their value and costs are clear. They exist by agreement, and in a downturn, there's less fat to cut. We co-opt good people from business units to support central strategic themes. Strategy becomes "the sum of us" vs. "something done to us". That said, some responsibilities sit squarely on the shoulders of a CTO.

The big bets: judgment and timing

In a federated system, there are still limits on autonomy. Some platform, product and system choices have far-reaching consequences – across businesses and over time. To get them right, you need to know which technologies or partners are likely to stand the test of time, how they expand or constrain our strategic choices, and what they mean for our operating approach. We have good IT and Platform executive committees to help make those decisions, and sound principles to help such as "Know when to evolve, build or buy". But in the end, the buck always had to stop with me. And if a decision falls short, so does the blame. This was never simple, and it's harder now. The big cloud vendors have great strengths, but look set to repeat mistakes made by IBM, Oracle and others. Some new architectures will long outlive the firms that gave rise to them.

AFRICAN REINSURANCE TREATY TRENDS FOR 2024, A REGIONAL PERSPECTIVE

The tough Reinsurance climate being experienced internationally again for the 2024 reinsurance treaty renewals is impacting African Reinsurance terms in the same way and mostly to the same extent across these markets. It's the new normal it seems and we a required to adapt to remain relevant and for markets to be able to compete in a sustainable way.

For example, in the East African markets, hard terms are epitomised by increases of approximately 10% on (loss free) reinsurance premiums on Excess of Loss programmes (higher) Rate-on-Lines and in some cases greater than 100% additional premium on reinstatement of covers. Reinsurers are also restructuring Excess of Loss programmes by increasing attachment points and on Proportional Treaties, unfavourable commission structures are being applied, and if these were not punitive enough, Reinsurers also commit to offer only small written lines making for challenging placements, in some cases, leading to differential terms and thus increasing the number of reinsurance players on a panel.

Another new and worrying trend on Retrocession Programmes is the reduction of capacity by A- Rated securities, which in turn is causing a deterioration in the quality of the retrocession panel.

Additionally, poorly structured (with low deductibles) and priced Retro and Reinsurance programmes result in the same placing challenges which are becoming very difficult (if not impossible) to place. Those books which have not been performing well are struggling to get markets to support their programmes.

In the Primary East African markets, there is a sign of improved pricing at the risk level which is starting to create more stable and sustainable results for Insurers, with under-pricing of business dissipating.

Mike Adsetts, Chief Investment Officer at Momentum Investments

As a result, competition by rating alone in those markets is not as prevalent as in the past. This should also bode well for Retro Reinsurers in the coming years with a commensurate relief on pricing. The absence of large CAT losses across the region in 2023 has helped profitability in these markets.

Regulators are beginning to play a pivotal and tougher role in some markets. For example, in Kenya, in terms of a program that has been renewed, for a company to be able to operate in 2024, the Regulator requires all Reinsurance balances to be cleared up to second quarter. To support this requirement, Insurers are required to get a statement from their Lead Reinsurer to show that all premium balances are indeed cleared as required, other than for accounting reconciliation matters, and only then will they be given the clearance to continue to trade.

Reinsurers too, are beginning to insist in some markets that outstanding balances in respect of premium remittances are to be made as a pre-requisite to renewal.

In Tanzania, the Regulator has also made a stipulation that 30% of the Reinsurance programme needs to be placed in the local market with local Reinsurers. The Regulators there are comfortable however, that the Retrocession Programmes are placed in the international markets. Such Regulatory issues are likely to become a trend in the East African Region. In Uganda however Reinsurers must be accredited, and Reinsurance Brokers have to have a local licence in order to operate there.

In Botswana, the very same conditions prevail as in East Africa, however there are experiences of flat commissions being reduced and result dependant, sliding scales commissions are becoming more prevalent.

Reinsurers are also preferring to opt for non-proportional structures rather than Quota Share or Surplus treaties. On the Retro side, increased deductibles on Excess of Loss Programmes, even on well performing treaties, is continuing into 2024. This is despite a willingness by clients to accept a pricing increase in favour of higher deductibles.

Another feature which is emerging is Reinsurers are sometimes reluctant to back Retro programmes where there are requests for new (innovative type) product lines to be ceded into the treaties as part of the renewal. Rather, they are preferring traditional retro programmes based on standard lines of business where there is a history of sound data for the conventional business, and which have predictable performance patterns and for which they have a better experience.

The Regulator in Botswana now requires Reinsurers to have credit rating of BBB or better for Reinsurers on their Retro panel, which is also a new challenge as Reinsurers who do have a Credit Rating stronger than BBB are reluctant to support Retro business, as those Reinsurers have suffered a lot of Natural Catastrophe's from other international markets. A conundrum indeed!

As regards competition, some markets like Botswana have little to no barriers to entry, hence the market has become overtraded with Reinsurers each looking for their slice of an already relatively small cake. For example, new entrants do not need to be rated and thus competition is rife in the absence of regulation to protect the existing local players as is the case, for example in Namibia, where the State Reinsurer benefits from compulsory cessions.

It would therefore seem that the Botswana Regulator is of the view that "the more the merrier" with 7 reinsurers currently operating there. In this way, the oversupply impacts the ability to drive up much needed risk commensurate pricing to create sustainable performance, ultimately leading to a low growth environment and falling margins with very little room for reinsurance providers to negotiate more stringent reinsurance structures and/or risk improvements.

Another trend across several African markets these days is the developing of protectionist measures - closing out players that are not locally incorporated and as such attracting local investors in the broking or Reinsurance spaces. As such, markets insure and reinsure "within" excluding foreign support in the form of capacity, support, and expertise. The problem lies in finding quality support for Retrocession capacity – without which a market disaster can have a serious detrimental impact.

However, the positive here seems to be a growing demand at the risk level for a "back to basics" approach in terms of underwriting and pricing. For example, Reinsurers in some markets are starting to demand the submission of a bordereaux for both premiums and claims to accompany Quarterly Accounting Statements.

The Rating for securities is getting centre stage and becoming a resounding check in the backdrop of Risk-based supervisions.

In some markets we are seeing that there is a general favour towards signing lines on stand-alone treaties rather than the traditional bouquet approach which hitherto was commonplace. This is most likely against the backdrop of the imminent IFRS 17 accounting standards coming into the fore where onerous contracts will be bearing heavy capital charges from the onset.

We are also noticing a reduced appetite by several Reinsurers resulting in capacity constraints from them particularly on business where there is an unfavourable Premium/Liability imbalance, i.e. those that do not generate adequate premiums to warrant the capacities demanded by cedants. Following this, more and more exclusions are being introduced in treaties necessitating the placement of sub-layer or buy-down Treaty programmes and/or Autofac facility requests. Such programmes are difficult to find adequate reinsurance support for.

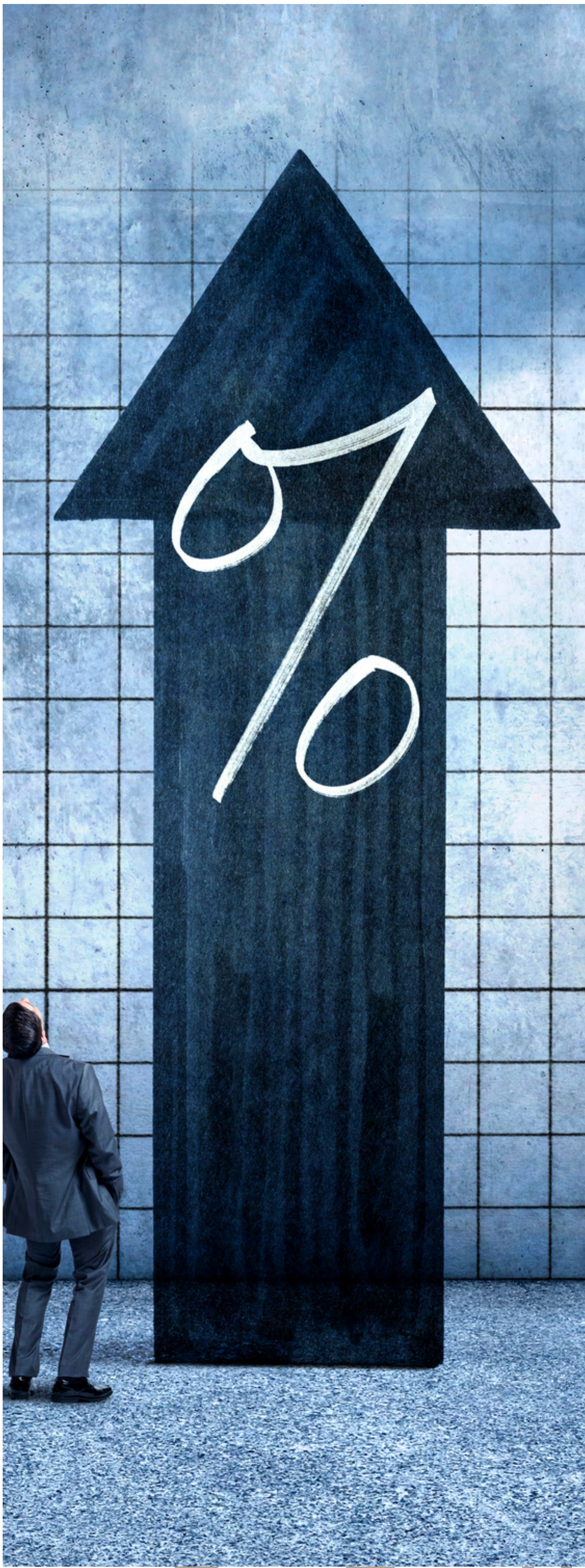
Threats of a new trend of the increasing frequency of natural disasters which we have witnessed around the globe in recent years is also becoming more and more prevalent in the African region. This in turn is threatening underwriting results and creates challenges for Reinsurers to bring about a more realistic pricing of this business. This in turn, has led to a shortage of capacity on Reinsurance programmes, as these disasters occur with predictable regularity. So, the simplified approach to underwriting and pricing which basis its theory on only past experiences, falls short of meeting the required underwriting margins for Reinsurers.

Future pricing using extensive CAT modelling software and techniques is a solution, but due to the exorbitant pricing of such tools, this falls outside the pocket of the smaller up and coming reinsurers who are ill-equipped to do so and thus avoid such reinsurance programmes. Consulting services for these challenges and making use of highly specialised Reinsurance brokers who have strong actuarial abilities and good modelling tools is the way to go to sidestep these challenges.

The rising cost of inflation is having serious impacts on losses and claims which are becoming more and more expensive to settle, due to the inflationary cost of importing parts and raw materials and pricing has not kept up with this trend.

Insurance Policy wordings are also undergoing review and there is also much closer scrutiny to address wording ambiguities in reinsurance wordings to ensure a more appropriate approach to claims decisions. This is also seen on the underwriting side where there is a kind of back-to-basics approach to underwriting and pricing to create a better alignment between Insurers and their Reinsurers. Underwriting profits have been eroded over the years and such measures are being employed to ensure improved underwriting performance and sustainability of the business whilst being cognisant that investment income can no longer be relied upon to boost profits.

In terms of Insurance penetration, Africa has a long way to go to narrow the insurance gap and thus expanding our markets will present good opportunities for future growth. Education in the informal sector on Insurance and related products will doubtless lead to encouraging progress in the insurance sector for decades to come.



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INDUSTRY OUTLOOK 2024: BRYTE INSURANCE

Globally, climate change will continue to make a profound impact on society. These impacts will be felt by businesses and communities alike, affecting food security and infrastructure stability and bringing unexpected weather events like floods, severe storms, and drought. The more proactive governments will continue to invest in measures to mitigate, or at least create resilience against, the impact of changing weather patterns. Businesses and people will need additional insurance protection for impacts that cannot be mitigated at a governmental level. Regrettably, the "protection gap" means that most of the risk – and cost – will again be carried by people and businesses without insurance protection.

For those with insurance, the cost of protection against damaging weather events will increase further during 2024. Other global trends like social inflation and cybercrime are expected to continue unabated. On the positive side, global inflation is expected to stabilise and perhaps even reduce. This will assist with the cost of living crises experienced in many parts of the world, including our country. However, ongoing and unforeseen conflicts could disrupt supply chains again, increasing inflationary pressure.

Locally, the outlook continues to be challenging:

- The lack of infrastructure maintenance is likely to persist, with consequential challenges for residents, businesses and insurance. While some improvement initiatives are underway, the ongoing electricity shortage, water supply disruptions and problems at the railways, ports, roads and heavy haulage industry will not be resolved during the next year or so.
- Although local inflation is expected to reduce in 2024, economic growth and job creation remain deficient.

While many of these trends are not positive, they are broadly similar to the challenges we experienced in 2023. Bryte and many other insurance companies have effectively protected clients and their businesses throughout a very challenging period. Our industry is remarkably resilient, as was proven by COVID-19, the political violence, and the 2022 KZN floods. With elections scheduled for 2024, we are probably in for a few surprises next year, too! I'm confident that we'll be able to step up once again and provide clients with the protection and guidance they need in 2024.

Reza Hendrickse,
Portfolio Manager at PPS Investments

DECODING THE INVESTMENT LANDSCAPE

The investment landscape has been a rollercoaster in recent years, with uncertainties challenging both investors and wealth managers.

2023: Resilience Amid Surprises

One must note the surprising resilience of both local and global economies in 2023. Contrary to initial expectations of a potential recession in the US, economic growth exceeded projections, providing a green light for markets. Notably, the tech sector, driven by artificial intelligence, emerged as a major player, contributing significantly to global equity performance. A defining characteristic of the year was the rapid increase in interest rates, sparking questions about the top of the rate cycle and the possibility of further hikes.

Navigating Uncertainties in 2024

Given the diverse factors influencing markets in 2023, the question is whether it is feasibility to predict market movements in 2024. I can start by acknowledging the macro-driven environment of the past year and emphasising the continued dominance of macroeconomic factors such as growth, inflation, and interest rates. While predicting the growth outlook for the coming year, there seems to be a consensus view of a potential slowdown, with uncertainties persisting. The central focus will be on how central banks respond to the inflation trade path, shaping investment strategies for cash, bonds, and equities.

Micro View:
South Africa in Election Year

Shifting to the South African microenvironment, we are entering an election year that will impact the economic landscape. Despite challenges such as load shedding, rising interest rates, and SOE issues, there I see optimism about economic growth accelerating in 2024. The looming elections may introduce short-term economic benefits, with the ANC expected to maintain dominance, albeit potentially with a reduced majority. While acknowledging long-term concerns such as rising debt levels and credit rating downgrades, a window for positive surprises in the South African economic outlook remains.

Global Geopolitical Risks:
Navigating Unknowns

Moving to global geopolitical risks, with a focus on the Middle East and the tensions between Ukraine and Russia we must acknowledge the unpredictability of geopolitical events and their potential impact on markets. This highlights the difficulty of forecasting such events and highlights concerns about the growth story.

While cautiously optimistic about South Africa, the global economy may not have fully experienced the effects of higher interest rates, signalling potential challenges ahead.

PPS Approach for 2024:
Cautious Stance

As a summary of PPS's approach for 2024, we will follow a cautious stance, with portfolios modestly underweight in risky assets. This caution is grounded in uncertainties surrounding the growth outlook, potential interest rate hikes, and inflation resurgence. The approach extends globally, with underweight positions in foreign equities, overweight positions in global bonds, and an emphasis on holding cash.

PPS's investment style focuses on a longer-term view, strategic asset allocation, and manager selection to navigate the complexities of the evolving investment landscape. In closing, I have a nuanced perspective on the challenges and opportunities that lie ahead in 2024. As markets remain sensitive to macroeconomic shifts and geopolitical uncertainties, a cautious and strategic approach becomes imperative for those navigating the intricate world of investments.

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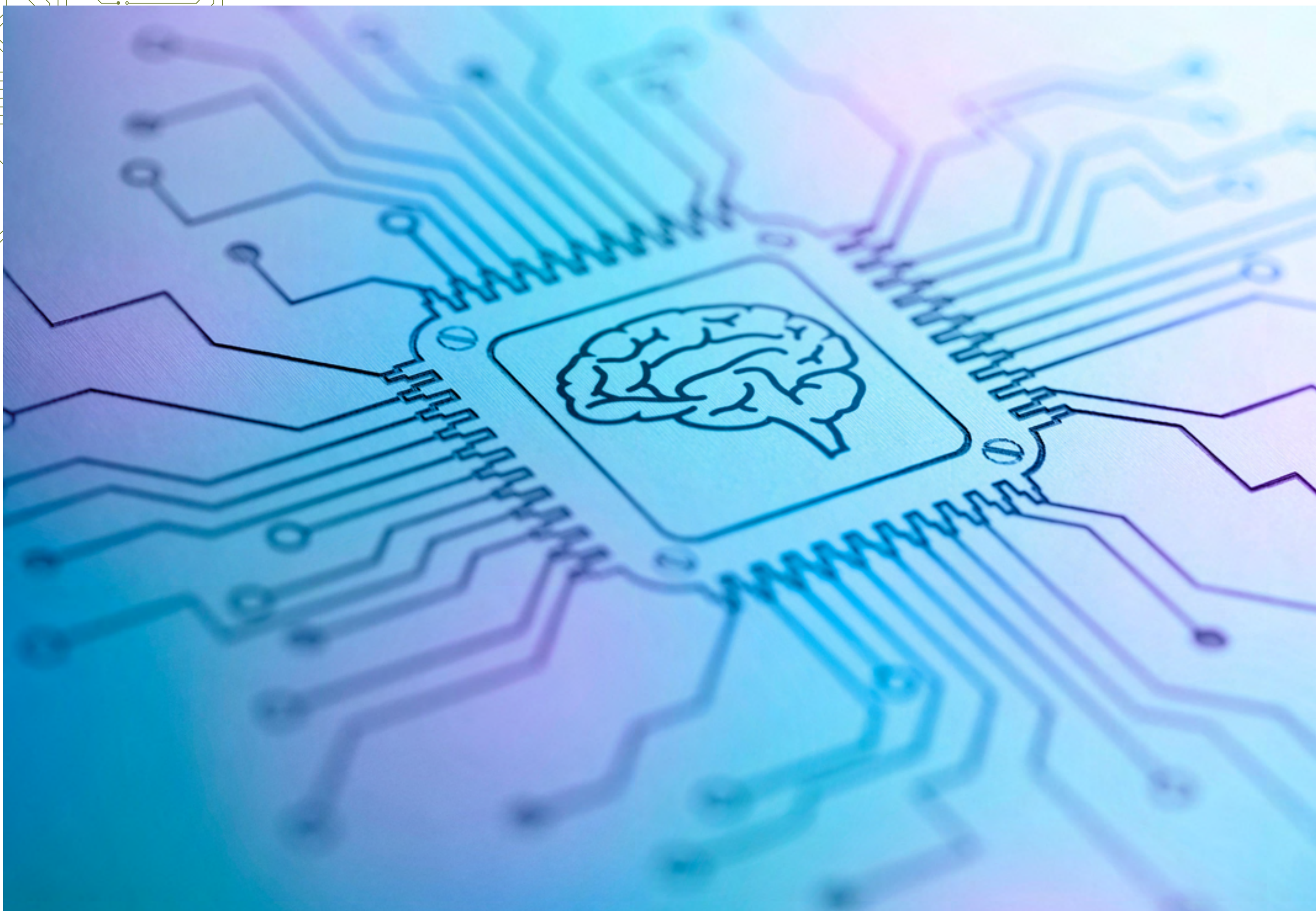

“By increasing operational efficiency, generative AI has the power to transform the insurance sector, opening up innovation opportunities and strengthening customer relationships.”

- CHARLOTTE KOEP, COO OF ROOT

TOUGH ECONOMIC HEADWINDS PROVIDE EXCITING OPPORTUNITIES FOR AGILE, CUSTOMER-CENTRIC FINTECHS

Andy Jury, CEO at Mukuru

At this time of the year there is usually a flurry of articles attempting to lay out trends to look out for in various industries over the coming months. This is a good exercise as it gets one thinking about industries broadly and technology specifically. However, it would be remiss to embark on this exercise without first taking stock of where we are now. The fintech ecosystem is currently in a period of stress, less so for incumbents but noticeably for newcomers. This stress is a direct result of macroeconomic pressures piling up to generate headwinds for new market entrants. As we all know, when the macro picture is less than rosy it affects play out on the ground. In summary, there is less money floating around – less money from investors and most notably, less disposable income in the hands of consumers.

Let's take a moment to appreciate how this looks in the broader African context. Firstly, it means there is significantly less money knocking on the doors of new and innovative businesses that need investors. Just recently, a payments processor headquartered in France lost 53% of its value - this kind of scenario has a knock-on effect across borders. However, there is a massive opportunity for fintechs that have bootstrapped themselves up in the uniquely African context. What does this opportunity look like? For starters, there continues to be a great deal of disruption in the market. Fintechs, mobile network operators (MNOs) and banks will approach the challenges and opportunities differently.

The ones that emerge from this phase in a strong position will be those that have thought about the economics of their proposition carefully, because the opportunity that presents itself in tough times is likely more scalable from an addressable market perspective. On the other hand, those who react will focus on price. A war on price is a race to the bottom. On the contrary, the businesses and fintechs that get through the tough times will be those that focus on customer experience (CX). It may be considered an intangible that sits between the bricks and cogs of a business, but it is crucial.

In difficult conditions, every business focuses on customers returning and using their products and services more frequently. This isn't easy, or everyone would be getting it right. Customers with less money in their pockets become more discerning, and in our experience are looking for a full basket of genuinely personalised customer experience where affordability is a crucial component, but most certainly not the only one. We have learnt that speed, access, trust, convenience and safety in the payments space continue to be exceptionally important drivers in customers' decision making on where to spend their hard-earned money.

At Mukuru we build very tight feedback loops with our customers and the feedback we get time and time again is speed, ease of use and safety is primary to how they develop their consideration set. Looking ahead, regulation will continue to play an important role in how the industry evolves. The FATF's greylisting earlier this year has had a significant impact on businesses such as ours. We are under increasing scrutiny, not because anyone thinks we present any more risk than before, but because accountable institutions must demonstrate that they are confident money isn't being laundered or used for nefarious purposes. The result is that fintechs need to spend more time thinking and planning their products and must be tight in terms of the relationships they build with their customers.

Regulation is also expected to present immense opportunities, especially in Southern Africa. South Africa, for example, lags other regions in the realm of mobile money. Legislation which is expected to come into play in 2025 will effectively form the framework within which e-money capabilities will be governed. This moment will be a significant game changer for the region. The ability for more people to use e-wallets more frictionlessly will add immense value in the South African context and will fundamentally change the landscape of how money is stored, used and moved. Looking toward this big disruption on our doorstep, businesses will approach the opportunity differently.

There will be those who throw mud at the wall and see what sticks, whereas we believe the real winners will be those that remain crisp and precise with their customer propositions. In this context, we believe partnerships will be vital for stability and growth, where partners enter mutually beneficial symbiotic relationships. These can take many shapes and forms, such as payment providers bridging the gap between the informal and formal sectors solving a problem for fintechs who need ways to enable their customers to pay for goods and services, and where the payment provider gets access to millions of previously unreachable customers.

Digitisation and diversification will continue to be important trends in the coming months and years. Take a moment to consider the power that MNOs and banks have traditionally exerted in the formal payments ecosystem – fintechs who are agile can enter into partnerships with other fintechs to offer similar one-stop solutions to those currently offered by the MNOs and banks. This trend will see an equalisation of influence. Lastly, those that prioritise customer needs and wants will emerge stronger. There are two schools of thought on how you digitise money. The first is that you place a wallet in someone's hands and encourage them to use it.

This would be the traditional approach. The Mukuru approach, and certainly the approach of the more agile players, is to find a way to help people with their payment and remittance needs and then graduate them towards using a digital store of value as they develop trust in the brand and the technology. These are divergent approaches, but in difficult economic conditions our experience – which has seen us sign up 14-million customers across many countries – says it is better to listen to what customers want and then walk a journey with them as they become more sophisticated in their digital journeys. Our approach is to solve a problem and then gradually build trust and extend the services and products we offer, as opposed to building a shiny product and waiting for customers to arrive.

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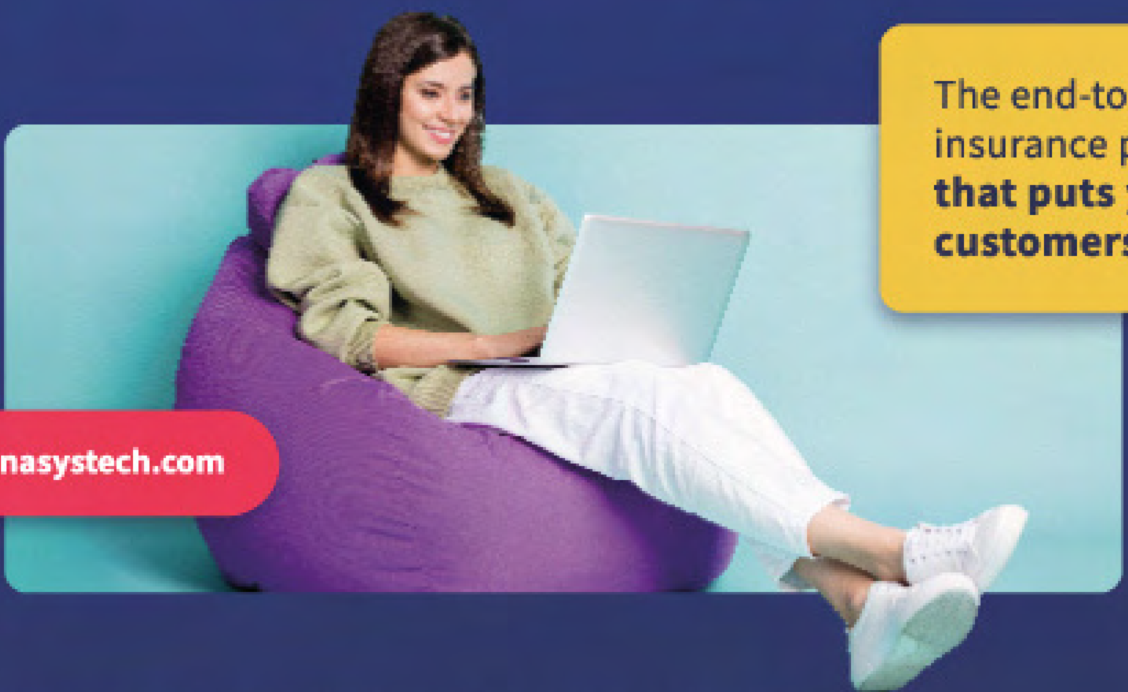

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AI IN INSURANCE & WHY IT SHOULDN'T SCARE YOU

Charlotte Koep, COO of Root

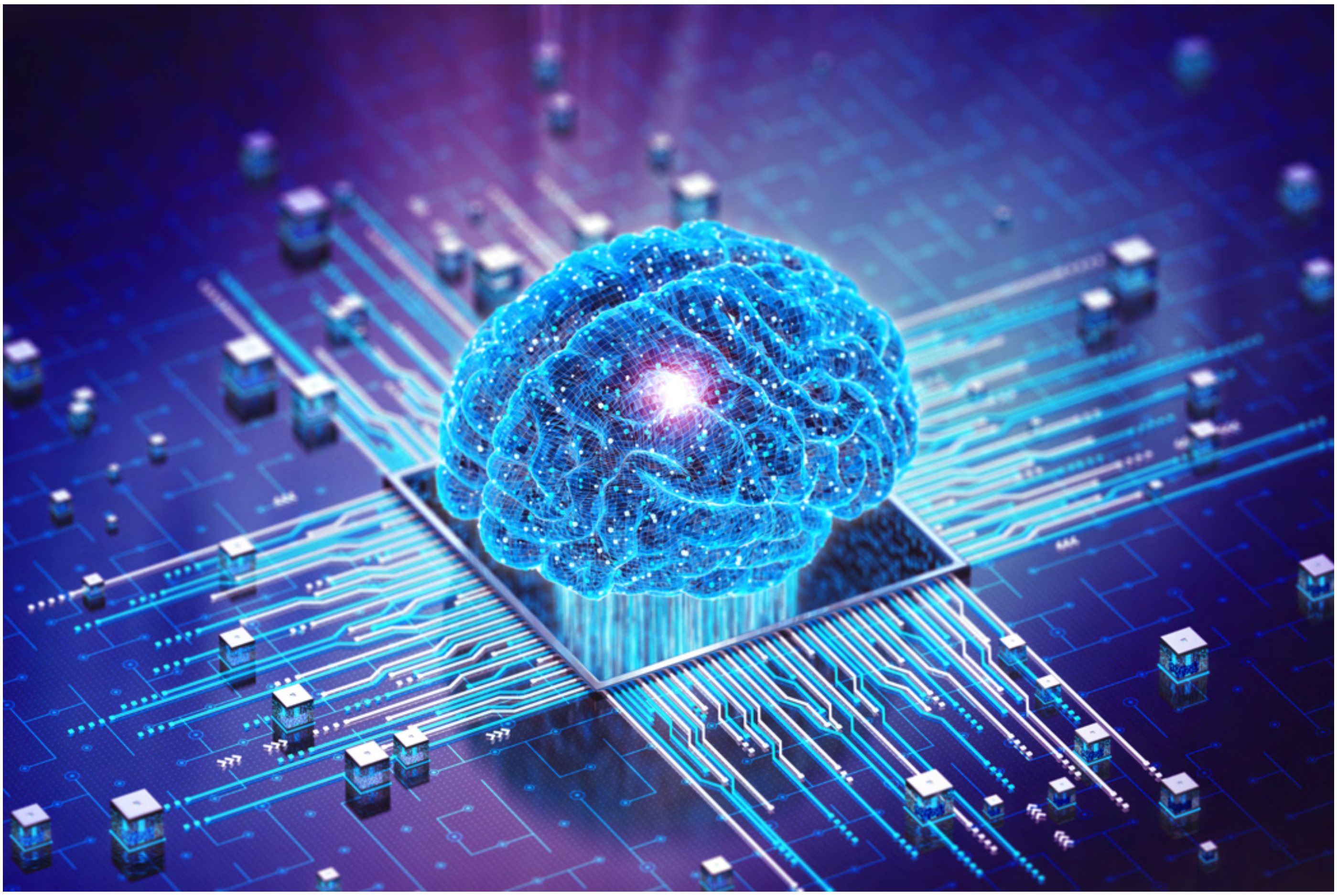
Some call artificial intelligence (AI) the peak of human ingenuity. Although still in its infancy, the successes of AI are mounting. The technology's ability to automate repetitive processes with intelligence makes it a decidedly disruptive power in many sectors. It is transforming businesses and entire industries, from healthcare, manufacturing, and logistics to banking, financial services, and insurance.

Yet, research shows a marked decline in enthusiasm about AI and increasing outrage about its societal impact. An August 2023 survey from the Pew Research Centre found that 53% of Americans say AI is doing more to hurt than to help people keep their personal information private. Only 10% say AI helps more than it hurts. The majority of Americans are concerned about online privacy and a lack of control over their own personal information.

These fears are largely unfounded. AI has the potential to make industries more efficient, accurate, secure and customer-centric. Although we are barely scratching the surface of its potential, Accenture research shows that organisations higher up on the AI maturity scale are using it to outpace their competitors and achieve 50% higher revenue growth than their peers as a result.

"AI is here and it's here to stay. It will likely be as or more transformative than the internet. While calls to handle this technology with care are not unfounded, our stance on AI in insurance is unequivocally positive," says Charlotte Koep, COO of Root insurtech platform. "We recognise the technology's potential to drive efficiencies as well as objectivity in underwriting and claims decisions. The potential to enhance financial inclusion is an important consideration. As with most technologies, human oversight remains crucial.

It's a delicate balance between leveraging AI for efficiency and maintaining human judgement for ethical and complex decisions." By increasing operational efficiency, generative AI has the power to transform the insurance sector, opening up innovation opportunities and strengthening customer relationships, Koep adds. "Of course it is essential that insurers proceed mindfully, but the industry is already highly regulated and intensely scrutinised, which mitigates against many of the areas of concern around AI."



By integrating AI, Koep says insurers stand to benefit from a 10x increase in development speeds, transforming the market with products more closely aligned with individual customer requirements than ever before. This rapid pace of development is a game-changer in an era where customer expectations are constantly evolving. “It’s important to note that clean data makes AI better. Its algorithms are well-suited to businesses where there is an established data workflow with large data volumes. Sectors which have maintained long-standing data banks, such as insurance, stand to benefit the most. Add an insurtech platform and you have easy access to this data, making it simpler for you to use AI more productively and create more value for your customers,” Koep explains.

AI across the value chain

AI's role is multifaceted, impacting every part of the insurance value chain, Koep says. In marketing and distribution, large language models and natural language processing can personalise your messaging for specific customer personas, enhancing engagement and conversion rates. This level of customisation was once a distant goal, but is now increasingly attainable. Policy administration and servicing - traditionally bogged down by manual processes - are ready for AI-driven transformation, Koep believes. Smart chatbots, which are becoming increasingly human-like, now answer customer questions and provide 24/7 support. The feedback these smart chatbots provide helps insurers to identify, calculate and price risks more accurately.

AI-powered fraud detection tools are helping insurers to identify and prevent fraudulent claims, and AI-powered claims processing tools are streamlining the claims process and getting customers their money faster, she notes. “AI's potential extends to lead qualification and prioritisation in sales. By analysing extensive data sets, AI can help target the right customers, reduce churn and improve sales quality. This is particularly beneficial in a sector with high customer turnover, where selecting the right customer from the outset is a key advantage. AI can also detect fraud, predict customer behaviour, and assess credit risk.” Once a futuristic concept, AI is a present-day reality with enormous potential, concludes Koep. “As insurers continue to explore and understand AI's capabilities, we can expect a more dynamic, efficient, and customer-centric industry that aligns with its values and responsibilities.”

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ALIGNMENT IS A KEY COMPONENT OF DIGITAL TRANSFORMATION

Marcia Le Roux, SSP

More and more insurers are realising the benefits of switching to digital. But before you embark on a digital transformation drive, it’s important to ensure that the whole business is aligned with your strategy. Alignment is the foundation upon which your company's digital journey is built. It involves equipping your teams with the skills they need and fostering a culture of flexibility that allows you to thrive in this rapidly changing landscape. There are three areas for a business to successfully align itself to experience digital transformation.

Collaboration

Successful workforce transformations require a collaborative effort involving both business and technology teams, led by influential figures such as business development, the CEO, and the chief information officer. This collaborative approach involves fostering teamwork and driving innovative practices across diverse organisational units, constantly pushing for advancements in the digital landscape.

Recognising the interdependence of all elements within a digital transformation is crucial and calls for effective management. For instance, an efficient operating model relies on skilled talent, and the potential of impressive technology remains unrealised without user adoption. Achieving excellence in the digital and AI realm is not limited to tech companies alone; even large, established organisations can outperform competitors and unlock value by undertaking the challenging task of rewiring their enterprises. This responsibility extends to the entire C-suite, given the cross-functional nature of digital and AI transformations, with each member playing a vital role in fostering these enterprise capabilities. Rewiring the business is an ongoing journey of continuous improvement, representing a process of ongoing enhancement rather than a fixed destination.

Business objective roadmap

Sufficient planning and alignment play an important role for transformational success by establishing a roadmap driven by business objectives within the C-suite. Given the broad-reaching effects of digital and AI transformations on various aspects of a business, investing sufficient time to facilitate a fruitful transformation reaps significant rewards in terms of clear vision and unified implementation.

Some of the top priorities when planning a digital transformation-focussed roadmap include:

- enhancing customer experience,
- acquiring and retaining customers, and
- fostering loyalty.

These priorities rely on leveraging technology and the ongoing advancement of digital experiences on all levels of the business. The specific technology utilised may vary, but it will centre around data, analytics, digital platforms, artificial intelligence, and more – all aimed at continuously transforming the customer experience and meeting the ever-growing expectations of customers. Insurers are increasingly relying on data-driven decision-making for capital investments. To accomplish this effectively, an enterprise-wide approach is required, with a focus on metrics that provide insurers with a solid foundation for making objective investment decisions aligned with their short-term and long-term goals.

Employee-focused strategies

The insurance industry is undergoing a workforce transformation, characterised by the need for employees to develop new digital skills, embrace agile work practices, and adapt to a customer-centric culture. This transformation is driven by the industry's increasing reliance on data analytics, the adoption of emerging technologies like artificial intelligence, and the growing emphasis on personalised customer experiences. As a result, employees are being encouraged to enhance their digital literacy, collaborate across teams, embrace innovation, and demonstrate a proactive approach to learning and adapting to change. Insurers are also facing increasing demands from their employees, who seek companies that share their values, demonstrate strong commitments to corporate social responsibility (CSR), and provide meaningful work beyond mere financial compensation. Consequently, many insurers have made commitments to promote diversity, equity, and inclusion (DEI) throughout their businesses, in addition to their environmental initiatives.

Some strategies to overcome the skills shortage & adaptation to this changing environment are:

- Digital skills development
- Agile workforce
- Data analytics and insights
- Customer-centricity
- Collaboration and innovation:
- Change management and adaptability

These key workforce transformations within the digital transformation landscape in insurance reflect the industry's shift towards a more tech-enabled, customer-focused, and agile workforce to thrive in the digital era. In conclusion, aligning your business with digital transformation requires a deep understanding of the three main areas unpacked above. By embracing these capabilities and integrating them into your organisation, you will position yourself for success in the digital age.

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