COVER

C & E INSURANCE

Waiting for the cranes to get going

DIGITISATION

Back to the fundamentals

TWO-POT SYSTEM

Advisers need to keep the lid on

AN INDUSTRY BUILT ON RELATIONSHIP:

IN CONVERSATION WITH NEWLY APPOINTED GROUP CEO OF MMH

CPD Accredited

June 2023 Edition


WITH EVEN GREATER MUSCLE BEHIND THEM, RENASA WILL NOW BE ABLE TO EXTEND ITS FOOTPRINT EVERYWHERE, ARCHIE.
A


THAT'S REALLY GREAT NEWS FOR BROKERS, ROGER.

COVER MAGAZINE

MAIN ARTICLES

JEANETTE MARIAS

Newly appointed Group CEO for Momentum Metropolitan, Jeanette Marais, talks about her career, MMI and the relationships that holds our industry together.

LIZL BUDHRAM

Advisers should already begin preparing their customers for what to expect when the two-pots system goes 'live'.

THOKOZILE MAHLANGU

Government's plans to spend close to 1 trillion rand on infrastructure projects over three years, bodes well for SA's construction industry, however, there are concerns.

TAVIO ROXO

Unpacking strong financial management and effective risk management and reflecting on how tech can solve challenges in those areas of the business.

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THE JOURNEY IS CLEAR, THE DESTINATION NOT SO MUCH

Tony Van Niekerk, Owner & Editor

Our 2023 TechFest, in itself a four-month journey, recently concluded with a two-day virtual seminar and an in-person cocktail networking event. This year we went back to the drawing board of Insurtech, opened the first slide and asked the question: What are we trying to achieve? The insurance industry is in the business of insurance and the questions is, what are the fundamentals of a successful insurance business. The message was clear, unpack the fundamentals and then find technology solutions that will add value in such a way that the business becomes more client centred, adaptable, profitable, and sustainable.

We are now busy preparing an E-Book on the digitisation journey, with contributions from more that 20 specialists in various fields of insurance industry digitisation. If you would like to get a picture of the destination, look out for the release of our TechFest E-Book in July. You can also visit our website to watch video footage of the event.

Construction & Engineering

In this issue we also unpack the latest on Construction & Engineering Insurance. Despite the depressed economy and uncertainty, there is an optimistic feel to the comments on this segment. Most commentators felt that several infrastructure projects relating to electricity, water/ sanitation and social housing would filter through to the C & E industry. However, risk management and a cautionary approach is essential. Be sure to read the articles in this feature.

Enjoy the read.

THE POWER OF RELATIONSHIPS IN BUILDING A RESILIENT BUSINESS:

Insights from Momentum Metropolitan's incoming Group CEO

Jeanette Marais, the newly appointed Group CEO

In a candid conversation between Tony Van Niekerk and Jeanette Marais, the newly appointed Group CEO for Momentum Metropolitan, Jeanette reflects on her career journey, the importance of internal and external relationships for MMH, and the role they play in shaping the company's culture and future.

Tony delves into the key takeaways from our conversation, highlighting the value of relationships in the business world. With over 30 years of experience in the financial industry, Jeanette certainly knows the value of relationships.

Building a Homecoming: The Powerof Culture

Jeanette began by expressing her gratitude for the opportunity to lead Momentum Metropolitan, a company she considers her spiritual home. Reflecting on her early days at Momentum, Jeanette emphasized the significance of the company's culture as the driving force behind her loyalty and dedication. Despite several mergers and expansions over the years, the winning spirit and competitiveness have remained intact, creating a culture that Jeanette described as her personal anchor within the organization.

Enduring Connections: Nurturing Relationships

I acknowledged the remarkable longevity of relationships at Momentum Metropolitan, with many colleagues still present from the early days. Jeanette agreed, recounting the warm welcome she received upon her return five years ago, as well as the expanding network of professionals she has encountered in the industry. She shared that a growing number of former colleagues have rejoined the group, attributing their return to the strength of the company's culture.

Integration and Diversity: A Fusion of Cultures

The conversation turned to the merger with Metropolitan, and Jeanette discussed how this integration has enriched Momentum Metropolitan's culture. She highlighted the diversity that came with the merger, with Metropolitan's Cape Town-based culture and focus on English-speaking markets contributing to the organization's growth and vibrancy. The fusion of diverse cultures and the expansion into new business branches have brought a unique dynamism to the company.

Commitment to South Africa: Overcoming Challenges Together

Jeanette acknowledged the challenges faced by South Africa, such as high unemployment and financial inclusivity. As a proudly South African company, Momentum Metropolitan is committed to making a positive impact on society. Jeanette emphasized the importance of a healthy private sector in addressing these issues, noting that the company's success directly correlates with its ability to contribute to solving these problems. She highlighted the ongoing efforts to establish a strong voice within the private sector and collaborate with the government to drive positive change.

Relationships as a Driving Force: Leading with Authenticity

When I drew Jeanette's attention to the history of building strong relationships throughout her career, and enquired how this strength will contribute to her leadership role as Group CEO, Jeanette affirmed that she will not change who she is because of the promotion. Her focus on fostering deep, meaningful relationships and extending that ethos to clients and advisors is fundamental to her approach. Although she leads with a strong focus on results, she believed that relationships are pivotal to achieving results, and she emphasized the importance of having a purpose as an organization.

Nurturing People: The Core of Success

The conversation concluded by highlighting the lessons learned during the COVID-19 pandemic. Jeanette emphasized the importance of nurturing and looking after the people in the organization. While acknowledging the significance of relationships and a positive culture, she underscored the value of setting challenging goals and achieving them collectively.

In conclusion, Jeanette believed that, in the face of adversity, such as the pandemic, harnessing the talent within an organization is key to survival and growth.

FINANCIAL PLANNING

"It often takes a “reality check” moment to convince someone to re-evaluate the reasons they might not have the cover they need."
- Petrie Marx, Product Actuary at Sanlam Risk and Savings

GREYLISTING NOT AN INDICTMENT ON SA'S FINANCIAL SECTOR

Alexforbes chair and Nedbank chairman-designate, Daniel Mminele weighs in on the credibility of South Africa's banking industry

Earlier this year, South Africa's greylisting raised concerns about the state of the country's financial institutions, its policies on financial crimes and the health of its investment environment. South Africa's greylisting is however not an "indictment on the banking sector", but rather a symptom of other parts of the system that have not adequately addressed and mitigated the risks surrounding financial crime.

This is according to Daniel Mminele, the most recent guest on a series of webinars entitled Think Big. The series, hosted by PSG and facilitated by award-winning journalist, Alishia Seckam aims to highlight some of the most pressing issues facing South Africans and to allow for open engagement on important topics.

Mminele was recently appointed to the role of independent non-executive director and chairman-designate at Nedbank. He is the outgoing chair of Alexforbes and joins the bank having served as the head of President Ramaphosa's Climate Finance Task Team. He is also most commonly recognised as the former Deputy Governor of the South African Reserve Bank – a role in which he served two consecutive five-year terms.

As such, Mminele's perspective on the credibility of South Africa's financial sector, with particular reference to its recent greylisting, is informed by extensive expertise and knowledge on the inner workings of several key industry-leading institutions. The recent findings of the Zondo Commission brought the magnitude of state capture into stark focus.

Widespread and entrenched corruption have been compounded over time, by the inability to turn policy into proactive action against rampant money laundering. For Mminele, these are the key issues which lie at the crux of the problem. Greylisting was therefore a call to action – one that requires a firm resolution by public and private sector leaders to implement fast, targeted solutions.

Mminele says SA's financial sector drew valuable lessons from the 2008 global recession, having solidified its regulatory and supervisory structures. Being well capitalised to absorb losses better and maintaining good liquidity were strategies employed as buffers against future risks.

The implementation of Basel III since 2013 a revised capital framework aimed at ensuring the continued soundness of the local banking systems was another reform intended to bolster the regulatory and supervisory environment against impending risks. As he explains: “The policies that will enhance the country’s reputation in the global arena are mostly in place. What is needed now is implementation.

How quickly we react in working together towards a solution will determine investor sentiment, which will have a positive impact on the flow of foreign investment into the country and also support domestic investor confidence.” In Mminele’s opinion, banks remain vigilant and should be well-positioned to overcome the hurdles which lie ahead.
The webinar also raised the topical issue of whether the nationalisation of the South African Reserve Bank (SARB) is in the best interests of civil society and industry at large.

On this “evergreen” issue, Mminele indicated that a mere change in shareholding structure would not result in any influence or control over the key responsibilities of the Bank as they relate to monetary policy, financial stability, prudential supervision, oversight of the payments system or the monopoly right of issue when it comes notes and coins. It was wrong to think that the nationalisation of the SARB would lead to a change in mandate or independence, both of which would require a constitutional amendment.

Its independence as one of South Africa’s most important institutional bodies does not give the Reserve Bank “free rein”, says Mminele. Rather, it affords the institution the privilege to act with professional objectivity, free from political influence. There is therefore no real credence to the view of the SARB as being a “state within a state”. Instead, as Mminele concludes, “the best way to look at this issue is to understand that the SARB is independent within the broader system of economic governance but not independent of it.” You can find the full webinar on the PSG Spotify and Youtube channels.

INVESTING IN MEGATRENDS

Marietjie Geldenhuys, Client Portfolio Analyst, Stonehage Fleming

Thematic investing, a dynamic approach to building alpha seeking portfolios, aims to capitalise on structural trends shaping our future and playing out over many years if not decades. These 'megatrends' are distinct from short-term cyclical themes and could lead to significant transformations in the global economy. As such, they might present the potential for very attractive investment returns, while complementing other more traditional investment strategies.

When identifying megatrends, we use a four-pillar approach that looks at demographics, consumption patterns, economic power, and sustainability. While sustainability is closely associated with 'green' products and services, such as solar power, it really goes to the very heart of business practices across every industry.

The goal of thematic investing is to identify the key trends that are likely to develop into significant market opportunities and provide enhanced investment returns for those companies exposed to these trends. We are seeing an increased appetite for thematic investing due to the potential out-sized returns. Thematic investing encompasses a range of asset classes and is distinct from traditional market-cap based asset allocation that can overexpose investors to yesterday's winners. Below are a few examples.

The evolving consumer

What consumers want, who, they are, and how they want to spend their money, is changing rapidly. The Asian economy, for example, had 1.5 billion new consumers entering the market over the last 10 years, and is expected to grow by a further billion consumers over the next decade, gradually turning into a 10 trillion dollar market. There is also the global luxury market, a key allocation in our portfolios which has proven to be very resilient in the current environment of high inflation. Most companies in this sector exhibit low debt, strong growth and have both pricing power and devoted consumers.

Automation and Artificial Intelligence

This trend maps the application of automation and artificial intelligence (AI) and encompasses companies that provide automation products, services and software that enhance business productivity. With the current trends of cost reduction and increased functionality, end-market applications are increasing dramatically. In conventional areas such as assembly, there is still a huge growth opportunity and there are more exciting, non-traditional markets such as healthcare (with a focus on drug discovery) and future mobility, such as autonomous driving. With the potential to disrupt traditional business models, AI has been made possible by the availability of new data sets as well as the dramatic reductions in the cost of processing this data. In the field of robotics, AI is allowing robots to operate in a collaborative way, with each other and with humans in real time.

AAn example of an important enabling technology for AI is semi-conductor equipment, which we see as a leveraged play on AI proliferation. As many automation applications are new iterations of existing technology, built by quality businesses, the multi-decade opportunities in automation can still be accessed without taking binary risks and investing with proven companies and technologies can reduce the risks significantly.

The Green Economy

This is an ecosystem that emphasises a reduction in environmental impact through recycling, resource efficiency and a transition away from the fossil fuels economy. Triggered by policy initiatives, investing in the green economy saw a speculative surge that drove up asset valuations to the point where they became less attractive. Recently, however, valuations have settled back down to more reasonable levels. Two important sub-themes within the overall green economy megatrend are resource beneficiaries and resource efficiency. An example of a resource beneficiary is silver, which plays a key role in the solar power industry as well as in the electrification of transportation. Resource efficiency centers on new models such as leasing, of which Airbnb and Uber are two obvious examples.

Effective thematic investing is about recognising powerful and transformational themes, to complement current portfolios and implementing a strategy with greater sophistication and differentiated alpha potential. From a behavioral perspective, it will be interesting to see if investors are more willing to stick with a thematic portfolio compared to a traditional stock portfolio during a bear market or recession. It should be easier for investors to lean into and stay invested with a theme if they understand how it aligns their capital to a megatrend, and the consequent enhanced long-term return potential that it provides.

PSG goes beyond in its 25th year

PSG hosted its Annual Conference at Sun City during May - a hybrid event with more than 500 advisers and delegates in attendance from across South Africa.

This year's theme was ***'Go Beyond'***, and the group fittingly chose this platform to announce its plans to rename the business to PSG Financial Services, in line with its strategic growth objectives (and pending requisite approvals). Celebrating its 25th year in 2023, the business has evolved into one of the country's leading financial services providers. Today, PSG offers a comprehensive range of products and services, while remaining focused on delivering to its growing client base in line with its high standards. CEO Francois Gouws kicked off the two-day event by setting the scene on what is required for the group to go beyond its perceived limits. He noted that the business has had 10 years of sequential headline earnings per share growth during tough conditions, along with five credit rating upgrades over the same period.

"Navigating challenging circumstances and producing the results we have, is a testimony to our people," said Gouws. "We have a competitive group of professionals at PSG who don't let difficult circumstances hold them back," he explained. Dan Hugo, CE of Distribution noted that the firm's investment in technology is set to continue over the coming years, as various systems are being implemented across the business to continue the company's trajectory as a stand-out, leading financial technology firm. Having set itself the goal of transforming advisers' and clients' digital experiences, PSG will continue to invest heavily to ensure its technological systems are up to the task to not only keep growing its capacity, but also the capability.

And the winner is..

The event also serves as an opportunity to bestow recognition on top advisers from across the country who reached various milestones during the financial year. As is the tradition at PSG, these advisers, together with the winners of the individual adviser and office awards, were announced at the conference's gala dinner.

Wealth Manager of the Year

Paul Sullivan from PSG Wealth Melrose Arch secured this year's title, making this his first win.

Francois Gouws (CEO, PSG Konsult)
Paul Sullivan (Wealth Manager)

Wealth Adviser of the Year

Dulcie Weyks from PSG Wealth Waterkloof Financial Planning earned the achievement this year, making this her first win.

Francois Gouws (CEO, PSG Konsult)
Dulcie Weyks (PSG Wealth Waterkloof)

Employee Benefits Office of the Year

PSG Wealth R21 Employee Benefits took the honours in this category. It is the 11th time that the office won this award.

From left to right: *Francois Gouws (CEO, PSG Konsult), Jurica Prinsloo, Neels Brink, Nerine Brink, Dan Hugo (CE, PSG Distribution), Stefan Steyn (Regional Manager, PSG), Chantel Swart.*

Office of the Year

PSG Wealth Pretoria East garnered this year's award. It is the 12th time that the office secured this coveted award.

From left to right - Back row: *Stefan Steyn (Regional Manager, PSG), Morné Oosthuizen, Johan Borcherds, Dawie Klopper, Tanya Joubert, Tian Ebersohn, Mareli Binedell, Louis van Rensburg, Juanita Myburgh, Corrie de Bruyn, Dan Hugo (CE, PSG Distribution), Chris Wehmeyer. Front row: Franske Neiteler, Francois Gouws (CEO, PSG Konsult), Leon Ferreira, Eugenie Borcherds, Marieta Uys, Armand de Beer.*

Insure Adviser of the Year

Markus Fourie from the PSG Insure Olympus office once again walked away with this award, making it the third time in a row.

Francois Gouws (CEO, PSG Konsult)
Markus Fourie (PSG Insure Olympus)

External contributors: South African and international thought leaders share their insights

The conference celebrated PSG's past successes but also looked to the future, bringing together renowned thought leaders to debate and discuss pertinent issues, and seeking to offer fresh insights to advisers on a variety of relevant topics. Richard Quest, British journalist and news anchor for CNN International, led an interactive audience discussion titled "South Africa – going beyond". Stafford Masie, Tech Investor & Innovation Alchemist who launched Google in Africa, spoke about the breakneck speed of technological development and the fact that our focus needs to be on humanity. Kuben Naidoo, Deputy Governor of the SARB and a member of the Monetary Policy Committee, outlined the specific challenges faced by South Africa, with loadshedding being by far the biggest issue.

Delegates also benefited from insights offered by some of the firm's product provider partners, including Allan Gray, Santam, Ninety One, Coronation, Liberty, Momentum, Sanlam and PPS, as well as two insightful panel discussions.

ARE YOUR CLIENTS EXPERIENCING REALITY CHECK MOMENTS MIDWAY THROUGH 2023?


Petrie Marx, Product Actuary at Sanlam Risk and Savings

This year has brought 'reality check' moments to many, given the tenuous state of the economy, ongoing power outages, and rumours of more rate-hike-linked retrenchments. Major life milestones frequently lead to financial introspection and reassessments, according to a survey by Sanlam Risk and Savings.

If your clients have experienced big life events – like becoming a parent, losing a loved one, or losing a job – in 2023, the chances are they are rethinking their priorities. The year's midway mark is the perfect moment to do so. Petrie Marx, Product Actuary at Sanlam Risk and Savings says, "The middle of the year is the perfect time to check in with your clients and ensure their needs are holistically addressed."

When The Reality Check Moment Hits

It often takes a "reality check" moment to convince someone to re-evaluate the reasons they might not have the cover they need. Marx says, "These moments are often exciting milestones, like becoming a parent (33% of survey participants cited this as a reality check moment), buying a home (23%), or getting married (15%).

Sadly, they also include reality checks such as divorce (8%), losing a job (29%), a death in the family (24%), or a familial illness (14%). These wake-up calls often occur when we least expect them. That's why it's imperative to help your clients plan for the worst while hoping for the best."

Financial reality checks come in all forms, including:

Starting Their Career

The first job is one of the biggest milestones and one that should encourage people to think about their cover. Marx says, "When someone starts their first job, they have roughly 40 earning years – or 480 pay-cheques – ahead of them. The risk of potentially losing their ability to earn an income would come with a devastating impact. For clients in this position, income protection or disability cover is of utmost importance. Additional death cover can also be put in place to avoid burdening their family with student debt." Young people need to be empowered to access affordable income protection options to enjoy greater financial confidence.

Getting Into A Serious Relationship

Starting a serious relationship can have far-reaching implications for your client's finances. This could include combining their finances, buying a home together, getting married, and having children. Marx says, "For clients experiencing this reality, it's imperative to discuss covering their debt with credit life insurance and additional death cover, with long-term debts like a mortgage and short-term debts like credit cards and personal loans all being considered".

For many, becoming a parent is the biggest reality check moment. Having death cover and sufficient income protection as well as disability cover ensures peace of mind.

Illness and Disability

Illness can strike at any point in life. Without the necessary protection, dealing with an illness can become even more challenging due to added financial pressures.

According to Sanlam Individual Life's 2022 claims statistics, 73% of sickness claims are paid to clients younger than 45 years. 56% of disability claims and 58% of severe illness claims were paid to clients younger than 55 years old, with cancer as is the biggest cause of severe illness claims. These statistics show the importance of having sufficient cover in place throughout your life and not just when you are older.

Marx concludes, "South Africans are facing immense financial pressures and it can be daunting to juggle day-to-day needs, let alone plan for life's curveballs. Help your clients to plan for their futures by assessing the risks they face and helping them to manage these in the most cost-effective way possible."

FINANCIAL ADVISERS CAN HELP KEEP THE LID ON CUSTOMERS' RETIREMENT SAVINGS POTS

Lizl Budhram, Head of Advice at Old Mutual Personal Finance

Local financial advisers have another opportunity to demonstrate the value of their advice as they guide customers through National Treasury's two-pot retirement funding system, which goes 'live' from 1 March 2024. From that date, South African savers will potentially have greater and more frequent access to a portion of their retirement savings than previously – and financial advisers will have their work cut out to ensure that customers stay on track with their long-term, holistic financial plans.

What financial advisers need to know about the two-pot system

"Treasury is introducing a two-pot system to address the issue of employees resigning from their jobs to get early access to the accumulated capital in their provident or pension funds – this, in turn, mitigates against the capital depletion that leaves retirement fund members with too little money to ensure a sustainable income in retirement," says Lizl Budhram, Head of Advice at Old Mutual Personal Finance.

The current retirement saving dispensation differentiates between employer or occupational funds (provident and retirement funds) and retail retirement funds (retirement annuities) with tough legislation in place to ensure capital preservation until retirement age.

Members of employer funds and retirement annuities can only access their accumulated capital when they reach their retirement age or become disabled or die. The exception to this rule is that employer fund members can withdraw all their capital when changing jobs and resigning from the employer fund. This withdrawal has both short-term tax consequences and a longer-term financial impact.

From 1 March 2024, Treasury will require the administrators and providers of all employer fund and retirement annuities to split and separately account for fund members' capital and contributions. The current accumulation, or the member's capital balance on 1 March 2024, plus any growth on that amount going into the future, is referred to as the vested balance, which is treated per the current legislation. All new contributions into the fund will then be split into a retirement pot (two-thirds of contribution) which cannot be accessed until retirement age, and a savings pot (one-third of contribution), which will be accessible annually subject to new rules.

"We have already taken steps to ensure that our advisers are informed about the changes and are able to advise their customers on these during their frequent customer reviews," Budhram says. The financial services giant favours advice rooted in the principle that early access to your retirement funding capital can have a negative impact on your long-term retirement provisioning, it should only be accessed if there is an absolute financial emergency.

Product providers are concerned that the legislative changes and the levelling of playing fields between employer funds and retirement annuities could prove tempting for retirement annuity customers. "In the past, the capital in retirement annuities was secure until age 55; from 1 March 2024 customers in these products will have emergency access to up to one-third of their retirement contributions on an ongoing basis," Budhram says.

"There are two clear messages to share with customers: early withdrawal puts your retirement plan at risk; and second, early access to your savings 'pot' is for emergencies only!"

Helping customers navigate the pending two-pot changes

One of the first steps when advising customers on the pending two-pot changes is to get a clear view of their overall retirement funding portfolio. "An adviser will have to deal with customers that belong to a variety of retirement annuities and / or an employer fund. These various funds may have their own way of implementing the two-pot changes. Therefore, advisers will need to understand how each employer fund is going to approach the change," says Budhram.

Providing guidance on financial decision making

Financial advisers must also consider how the change might impact their customer's financial decision making. To do so, advisers should remind their customers of the reason for contributing to a retirement fund in the first place, being that it is a tax effective tool to maximise the capital available to them at retirement. There are two clear messages to share with customers: First, early withdrawal puts your retirement plan at risk; and second, early access to your savings 'pot' is for emergencies only!

Preparing your customers in advance

Getting customers to make changes to their financial behaviour usually takes more than one adviser-customer interaction. "Advisers should already begin preparing their customers for what to expect when the two-pots system goes 'live' because delaying the conversation until March 2024 will not leave enough time for them to help customers with their approach," concludes Budhram.

HOW DFMS ASSIST ADVISERS IN GETTING BETTER OUTCOMES FOR CLIENTS

It is becoming increasingly difficult and costly for financial advisers to keep abreast of all the changes to legislation that affect their practices. Compliance and reporting is taking up a significant portion of advisers' time. Add to that the average age of the industry is 57 years old and the younger advisers aren't yet experienced enough to take over their practices, and you soon realise why so many experienced advisers are choosing to partner with a discretionary fund manager (DFM).

Practice management is essential regardless of where an adviser is on their journey. Whether looking to retire, solving for a succession plan, considering joining a network, selling a practice or merely building assets, there is no doubt that having an efficient practice will open up more opportunities and increase the value of a financial adviser's business.


Florbela Yates, head of Equilibrium

But selecting the right DFM is also a process as not all DFMs offer the same services. The relationship between an adviser and a DFM should essentially lead to a long-term partnership. And advisers should make a list of the issues they are solving for and then ensure that the DFM actually has the skills and capacity to solve them. At Equilibrium, we spend time getting to know our adviser partners and to understand the challenges facing their practices. For those who are looking for assistance with their portfolio management, we build portfolios that align to their advice process ensuring that the outcomes (or benchmarks) actually solve for what they are trying to achieve for their clients over the time horizon that they have agreed with clients.

By understanding the risk tolerance of their clients, we can allocate our risk budget appropriately to ensure that clients remain invested and don't opt out at the first sign of market volatility. Our research shows that the main reason investors don't meet their investment outcomes is because of their switching behaviour and not because of the funds that they picked. Platform statistics show that investors who remain invested for the full investment horizon will have outcomes more than twice those of investors who switched during periods of volatility1. This is true, regardless of the actual underlying fund, provided it's a reputable fund with a solid track record.

Advisers who partner with us, get access to monthly consolidated investment reports showing the look-through into percentages in all their underlying funds, the combined asset allocation at the portfolio level, and the overall performance of the portfolio versus the benchmark over regular periods. They also participate in quarterly report backs, and those advisers with bespoke portfolios participate in quarterly investment committees where they have input into their portfolio construction and manager selection. I believe that with the proposed licensing changes for Category I and II financial services providers, this is one of the biggest reasons that we now see so many advisers appointing DFMs to ensure that they maintain these licenses.

Advisers looking to merge their books with other advisers, join a network, sell their book, planning for succession or wanting to grow assets can also benefit from appointing a DFM to ensure that the offering across various books or their underlying clients is streamlined. By having fewer underlying funds and more overlap between clients, advisers can segment their clients more easily, get access to preferential fees (both with underlying fund managers and platform providers), better reporting and reduced compliance burden on the practice, allowing them to spend time with their clients. Other benefits of partnering with a DFM include bulk switching capability across all clients simultaneously, and access to institutional and segregated mandates, as well as alternative asset classes, which are not usually available to retail advisers.

At Equilibrium, we partner with advisers throughout their journey. We've also seen a recent increase in advisers applying for their Category II licenses. If you find yourself at this junction, we also offer supervisory services (at no cost) to help you achieve the goals that you have set for your business. **1 Momentum Wealth IRR analysis, 2019**

Allianz Global Corporate & Specialty

SATRIX, SANLAM INVESTMENTS AND BLACKROCK DEBATE 'FIXING' SA, DEBT AND OTHER THEMES

"At face value, South Africa seems to be living well within its means from an absolute gross loan perspective, given that developed market economies run significantly higher debt ratios (Japan has 230% debt-to-GDP; Spain 170%; France, the US and UK were all well above 100%). But as with most things in life the devil is in the detail, and the consumption nature of local debt make it unsustainable without sound fiscal reform." said Nico Katzke, Head of Portfolio Solutions at Satrix. "Unfortunately, the contingent liabilities at the country's State-owned Enterprises (SOEs) have the potential to derail government's best-laid debt-to-GDP recovery plans." Katzke, along with Arthur Kamp, Chief Economist at Sanlam Investments and Laura Cooper, Senior Macroeconomic Advisor at BlackRock, debated the current status quo at a Satrix IndexMore Macro Insights session. Some of the questions asked and answered follow.

What are your views on emerging market (EM) and South African debt currently?

Kamp shared two debt-related concerns: first, that SA was paying a very high real interest rate on debt; and second, that SA had to run a significant primary budget surplus to stabilise the debt ratio. Given how South Africa and other EMs were sweetening the 'pot' with higher yields, BlackRock has turned more upbeat. "We are cautiously optimistic on the asset class, especially if we start to see less rate volatility than what we saw last year, given central banks were quite hawkish in terms of the pace of tightening in their policy rates," Cooper said. She added that headwinds to the EM debt markets – such as US dollar strength and rate increases were abating, making it "an attractive opportunity to get exposure to the asset class, notably on a local currency basis".

Is South Africa on life support?

"The latest Bureau for Economic Research Business Confidence Index suggests that local businesses are less confident about prospects for economic growth than they have been for some time," said Katzke. "Our key challenge is to lift the potential GDP growth rate so that we can attract foreign capital, which in turn allows us to invest in and grow the economy, and employ people," Kamp said.

He singled out infrastructure as a major constraint to domestic economic growth, as illustrated by the electricity and transport (to name just two) challenges the country currently faces. Government may have benefitted from an income windfall from higher commodity prices over 2021-2022; but Kamp lamented how much money had been "left on the table" due to infrastructure-related export and production 'squeezes'.

Kamp also pointed out that South Africa's 2023 National Budget appeared to have enough substance to get the domestic economy back on its feet. Unfortunately, the country's unique socioeconomic challenges have introduced massive, long-term expense pressures, while the aforementioned infrastructure bottlenecks are chipping away at revenue. "We have seen quite a sharp fall in the terms of trade as measured by the South African Reserve Bank (SARB) over the last few quarters; with the result that tax buoyancy weakens quite significantly," Kamp said. The Minister of Finance will be tested in coming budgets to reduce debt without cutting too much from State wages and social grant bills.

How do you choose asset class and geographies in this climate?

Asset managers face challenges in choosing which asset classes, and which geographies to invest in. According to Cooper, the most important realisation was that the so-called 'great moderation' – a period during which inflation and rates volatility was low – has ended. "BlackRock sees the need for a new investment playbook, with a greater emphasis on being selective and nimble in asset allocations under a new macro regime. There is also a risk that we could see further tightening in financial conditions, to such an extent that it prompts recessions in both the US and Europe," she warned. In this environment, BlackRock is seeking alternative sources of diversification, with bonds (debt) no longer serving as a nice ballast in portfolios amid elevated inflation. Equities as an asset class still offer upside, but caution over a tactical horizon appears warranted.

Katzke asked which sectors held most potential, given the future earnings value decimation caused by rapid increases in central bank interest rates over the past 18 months. "In this higher inflation, higher rates environment [BlackRock takes] a more selective, granular approach to equity exposures rather than allocating across broad benchmarks … so, looking at healthcare, for example, we see more stable earnings and pent-up demand post-COVID as providing tailwinds," Cooper said. Select opportunities exist in the energy and financial sectors too, though concerns over the recent volatile price action in US banks warrants caution. BlackRock is also overweight EM equities relative to developed market (DM) equities, in part as China re-emerges from its self-imposed lockdowns, and as LatAm benefits from a bullish commodity complex.

How can we 'fix' South Africa?

The discussion turned to how to 'fix' South Africa. Kamp suggested that National Treasury shift from a consumption to investment mindset and encouraged the SARB to maintain its focussed approach to targeting inflation. Stronger fiscal discipline is key as well; even if cost-cutting measures might be painful in the short term, it is non-negotiable to lift the country's growth rate and encourage both domestic and foreign investment. "South Africa must cut consumption spending, raise infrastructure investment and create space for the private sector to participate in the economy in order to raise the country's potential growth rate," concluded Katzke. "If we do this, we will bring much needed foreign capital back to our shores, which will spill over into jobs and improved socioeconomic outcomes."

CONSTRUCTION & ENGINEERING

"Innovative technologies and climate change will shape the future of infrastructure." **- Jim Connolly, Head of Construction and Engineering at Infiniti Insurance**

Jim Connolly, Head of Construction and Engineering at Infiniti Insurance

DYNAMIC RISKS FACING THE CONSTRUCTION INDUSTRY AS THE WORLD AND ECONOMIC LANDSCAPE CHANGE

Innovative technologies and climate change will shape the future of infrastructure

Globally, there is an increase in the adoption of automation, modular construction techniques, as well as other innovative technologies that continue to shape the future of the construction industry. In South Africa, we have seen the demand for green building practices, being driven largely by environmentally conscious international investors.

Despite the current economic depression in the country, there is a high demand for more and upgraded roads, housing, energy, and water infrastructure. Construction companies that adopt sustainable practices may benefit from a competitive advantage in the industry when the government forges ahead with its commitment to a public sector infrastructure development plan.

The private construction projects funded by private and foreign investors will gain momentum this year as the world continues to recover from the impact of Covid-19 pandemic. However, global and national economic pressures will continue to affect the industry and the output is unlikely to return to pre-pandemic levels before 2025. The impact of the pandemic and the lockdown will linger for the next two years.

The economic risks in the construction sector

The construction industry in South Africa is facing substantial risks such as a shortage of equipment due to logistic restrictions caused by the pandemic. Contractors are now feeling the pressure as the cost of goods and services continues to rise due to the high inflation and interest rates globally. Shipment costs across the world have increased dramatically in the past two years, directly affecting the costs of imported goods, especially in the construction and engineering sector.

The construction industry's top risks include scarcity of materials, liquidity risk and shortages of skills. Some of the contractors cannot necessarily afford to train or upskill their workers due to the depressed economic climate. But gradual national and global economic recovery from the aftermath of Covid-19 pandemic will bring new investment and this will boost the industry to create more jobs. However, procurement delays remain a major challenge. Construction companies should be cognisant of these supply chain risks and need to put measures in place to mitigate the risks.

Mitigating and protecting the risks

Under this circumstance, insurance becomes critical to protect the industry against these emerging risks. The contractors need to understand the risks involved in the project in order to put necessary measures in place to mitigate any potential liability that may be incurred.

According to Allianz Global Corporate & Specialty's Global Industry Solution Construction Outlook, fire and explosion are the most expensive cause of loss in the construction sector, accounting for 27% of the value of claims over a five-year period.

Contractors need to regularly assess and update prudent fire mitigation practices, such as preventative and extinguishing measures and methods. It's essential to put contingency plans in place to lower or manage the risk of loss in an event of a fire at a construction site.

According to the AGCS report, natural catastrophes account for almost a fifth of claims by value (19%) and are the most frequent cause of the claim. Construction underwriters need to give more consideration to the impact of these risks, and other extreme events, such as flash flooding and landslides in their risk assessments. Climate change has also triggered an increase in natural disasters globally.

South Africa is no exception, having experienced the worst floods since 1978 when KwaZulu-Natal was hit with heavy rain, floods and landslides in April 2019, resulting in the deaths of 461 people.

At Infiniti Engineering our policy covers the risks during contract implementation and execution during rollout and installation as well as risks affecting machinery and equipment. Through our Guarantee Division we are also able to provide our clients with a Construction Guarantee should they require one.

The policy also provides cover for the engineering and covers the employer's property in the care, custody and control of the contractor up to a limit agreed upon and stated in the policy. We believe that a strong partnership between our trusted brokers and a focused underwriter specialising in project and engineering insurance is fundamental to the success of construction projects.

BUSINESS INTERRUPTION AND NATURAL CATASTROPHES RANK AS THE TOP RISKS FOR THE CONSTRUCTION SECTOR

Business interruption/supply chain disruption and natural catastrophes rank as the top risks for the construction and engineering sector, followed by the energy crisis as a new entrant at #3, according to Allianz Risk Barometer respondents for this industry. After the launch of the top global business risks in the Allianz Risk Barometer 2023 in January, Allianz Global Corporate & Specialty (AGCS) has now published its Global Industry Solutions Construction Outlook, one of several risk trend briefings for specific industry sectors, including technology, media and telecommunications, and financial services.


Blanca Berruguete, Global Industry Solutions Director for Construction at AGCS

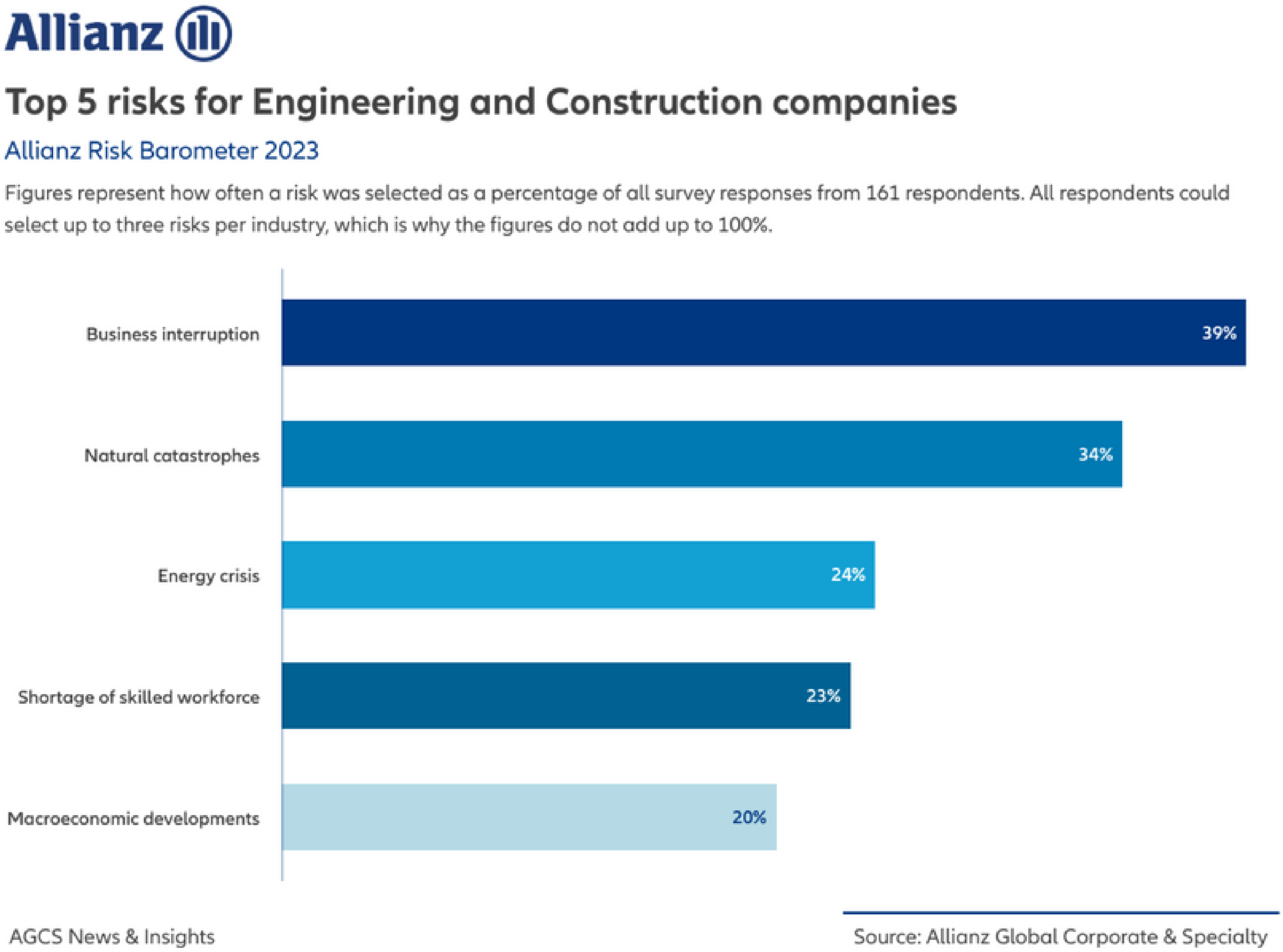
Blanca Berruguete, Global Industry Solutions Director for Construction at AGCS, comments on the top risks: “Larger values are at risk for companies. Construction costs are soaring because of the higher prices for energy and raw materials. Replacement is costing more and taking longer. Materials can also often be unavailable due to logistics, shipping and supply-chain bottlenecks. The result is that any property damage and business interruption losses are now likely to be significantly higher than before Covid-19.”

Berruguete says: “The construction industry is facing a number of challenges such as the prospect of recession, the shortage, and rising cost, of energy, key equipment and materials given recent high inflation, a spike in procurement costs, ongoing shortage of skilled labor, longer lead times, schedules, and cost overruns, compromised supply chains, ever-changing workplace protocols, and increased competition.”

While the energy crisis, in combination with other factors, has contributed to rising costs given construction is an energy-intensive economic activity, in the mid- to long-term, it could also act as a catalyst for the sector to fast forward its green transformation, adopting more sustainable approaches given it is a key contributor to greenhouse gas emissions.

The drive to net zero will help deliver strong future growth for the construction industry but new technologies, innovative delivery methods and greener, leaner practices will also bring new risk scenarios such as potential defects and repetitive loss scenarios or unexpected safety or environmental consequences, in addition to benefits.

“The switch to sustainable energy and the adoption of modern building methods will transform the risk landscape, with radical changes in design, materials and construction processes,” explains Berruguete. “In order to meet carbon reduction targets, rapid adoption will likely be required meaning close co-operation between insurers, brokers and clients, to share data and experiences to help underwrite what can be prototypical risks.”



Fire and natural disasters top causes of claims

Regarding actual claims patterns, fires and natural disasters are the top contributors to construction and engineering losses according to AGCS analysis of 22,000 insurance claims worth €12.8bn over five years from 2017 to end of 2021. Fire is the most expensive cause of loss, accounting for 27% of the value of claims analyzed. Natural catastrophes account for almost a fifth of claims by value (19%) and are also the most frequent cause.

Construction sites need to give more consideration to the impact of extreme events, such as wildfires, flash flooding and landslides in their risk assessments. With climate change increasing the frequency and severity of these events, the costs of property damage and business interruption are expected to escalate.

Download the report

ENSURING SUSTAINABILITY IN THE CONSTRUCTION AND ENGINEERING INSURANCE SECTOR

Kobus van Niekerk – FCII Chartered Insurer
(Senior Underwriter at Consort)

The construction industry, and to a certain extent the engineering industry, is responsible for developing the infrastructure that enables new housing for the homeless, jobs for the unemployed and transport for labour. The finance of these essential niceties is mainly the responsibility of the Government as whole, but especially at a Municipal and Provisional level.

One of South Africa's biggest construction challenges is housing and the services that support it. With an ever-growing population and an increasing unemployment rate, informal settlements are growing in number, size, and inhabitants.

The infrastructure required to support these housing developments, roads and services such as sanitation, electricity and water, which are all essential, are lacking due to the almost complete absence of any investment by local authorities, municipalities and provincial Government.

The irony is that, as cities attract more people looking to improve their financial position, many are unemployed but still require life's basic necessities, thus creating commerce and industry around them. Therefore, the desire to settle the homeless and unemployed in and around our present commercial industrial hubs, with the infrastructure and amenities such as schools to support them, will at the same time invite the commercial world to create jobs. This, in turn, will enable the country to address the major unemployment problem, minimising the crime factor and improving law and order.

The Private Sector has suffered, not only from a lack of investment, but also due to the lack of and rationing of electricity. Housing developments have to deal with an increase in interest rates making the purchase of housing units for many unaffordable. On the other hand, investment into alternate energy sources has flourished, with all forms of business, private households and quasi government institutions such as schools and the medical field, investing in this sector. Whilst new civil work is rare, road repairs and individual housing as well as alterations and additions are on the uptake.

The grim side of this downturn in new civil contracts, is the millions of Rands invested in construction equipment, which now stands idle. The Engineering insurance market is experiencing a decline in the need for specific contract insurance policies whilst annual contract turnovers show a decline in work undertaken and lower estimated future work.

Unfortunately, contractors are also exposed to adverse weather conditions, an increase in crime, especially theft and malicious damage as well as the Construction Mafia, which have led to underwriters becoming more careful in their underwriting. These factors have led to amendments to policy wordings and greater differences in covers available in the market, wordings and underwriting criteria, which, in turn, increase the need for clients to seek qualified advice when taking up new or amending existing insurance.

With the present industrial revolution, the engineering industry is developing and changing in leaps and bounds alongside the technological breakthroughs we are witnessing, such as self-driving vehicles. The original electronic equipment insurance policy designed to insure the office computer is becoming a major tool in insuring complex electronic equipment. The capital outlay is massive, and the physical exposure requires modern and sophisticated underwriting skills. Not only should the material damage be insured, but any consequential losses should also be considered.

The economic pressures and technology advancement have a direct influence on the engineering insurance market. The increase in crime, and the severity of elemental perils should be considered by the underwriter. South Africa is not immune to or isolated from world trends. For example, local insurers should consider the adverse opinion international reinsurers hold towards the coal industry, including mining. Furthermore, it is important that engineering underwriters assess each risk presented to them in accordance with the individual exposure of the project and rating it accordingly. The nature of this business does not allow and cannot afford lower standards, as policies may stretch over years and, without a cancellation clause, the underwriter should be more cautious in their terms, conditions and premium offered.

Another concerning element in the insurance industry, and in particular the engineering segment, is the lack of experienced and trained staff. With untrained staff and / or improper supervision, underwriters will become extremely vulnerable in accepting risks at terms and premiums which are inadequate to the risk at hand. The broker community also suffers from this lack of knowledge syndrome. It is clear that underwriters and brokers should work hand in hand to ensure sustainability in the sector.

Although engineering insurance only contributes about 10% to the short-term insurance market as a whole, their overall responsibility is much higher. It is essential that a sound engineering insurance market is established in order to service the country and this is done through due diligence, competent staff and sound underwriting.

Consort Technical Underwriting Managers (Pty) Ltd (FSP 2273) underwritten by Lombard Insurance Company Limited (FSP 1596) an Insurer licensed to conduct non-life insurance business.

FINDING OPPORTUNITIES IN THE CONSTRUCTION INSURANCE INDUSTRY AND LOOKING AT ITS CHALLENGES

CONSTRUCTION INDUSTRY OVERVIEW

Mike Winstanley, Head of Engineering at CIB

Construction, along with many other sectors in South Africa, has experienced incredibly tough times, in recent years however, the entire picture isn't that bleak.

Macroeconomic challenges such as energy security, inflation, Covid-19 and policy uncertainty have created an environment which has not been conducive to growth, resulting in the construction sector being hit - hard.

Growth in real value added in construction, contracted by 1.5 per cent for the first three quarters of 2021, and its contribution to GDP has been negligible for four consecutive quarters. Construction has a high employment multiplier so its persistent mediocre performance will inhibit job creation. Project disruptions due to slow tendering processes, high labour turnover, low productivity and poor skills and behaviour continue to inhibit performance.

I realise the data looks bleak, but I do expect a turnaround in the construction space. I am cautiously optimistic about the government's commitment to investing in existing and new infrastructure as well as removing red tape allowing more public private partnerships. With elections around the corner, the government now more than ever needs to deliver on what South Africans have been desperate for, which is action and not just words. They cannot be seen to be dragging their heels any longer.

In summary, the sentiment is generally quite positive for 2023 and beyond in the construction space. Although the last three years have been especially difficult with the Covid-19 pandemic supply chain issues, action on project implementation and inflationary pressures, the industry is resilient enough and we believe to see more growth going forward, especially coming off a very low base.

Despite these, I am optimistic about a few sectors in our country. The South African National Roads Agency (SANRAL) continues to excel in road building and management to the extent that the network under its care has improved its condition in recent years while absorbing more of the provincial and regional road network which had helped improve their maintenance greatly.

Major oil and gas pipelines as well as the information and communication networks are in excellent condition. Airports Company South Africa continues to maintain its airports in fair condition, which has assisted in complying with minimum international standards it needs to operate.

Growth is likely to come from renewables and the demand for clean energy

As more governments and people become more aware of the impact of traditional fossil fuels on the environment, the demand for these types of infrastructure projects has ramped up considerably. There are several factors which will drive these projects:

- The Renewable Independent Power Producer Programme (REIPPP) spearheaded by the government. Despite the uncertainty around its implementation, I do believe we will see traction here over the long term.
- New legislation has been gazetted to remove the 100-megawatt licensing threshold which means that solar and wind private power generation projects of any size can be built without a license.
- Increased demand has driven down the costs of renewable energy making it more accessible and affordable.
- South Africa is in desperate need of improved energy security and renewables is a clean way of doing this.
- Our climate lends itself to taking full benefit of these renewables.

Insurers see the construction of renewable infrastructure as a specialist field of insurance. I foresee insurers cautiously underwriting renewables as they come with their own set of risk exposures. Comprehensive underwriting notes will be important as insurers will need to fully understand the risk at hand before putting terms down. The more information an insurer has upfront will speed up the underwriting process.

It is important to note a recent trend regarding the theft of solar panels in the industry. Solar panels are enormously in demand and insurers may want to limit theft covers considerably on site and in offsite storage facilities. They may also want to impose higher theft deductibles. If higher theft limits are requested, I believe insurers will be charging more premiums and will also ask additional questions about why higher limits are required and what additional security measures will be in place if granted, to mitigate incidents of theft.

Our insurance sector is facing challenges but so are our contractors on the ground

It is important to acknowledge the challenges and pressures construction contractors face in our country. Inflationary pressure and supply chain obstacles have ramped up the cost of materials. In an industry already known for tight timelines and strict budgets, the increased cost of materials has reduced their margins even further.

Contractors are also having to face external pressures, one commonly known as the “construction mafia” who invade construction sites across the country demanding money or a stake in development projects. According to a bizznews report from September 2022, a big property developer reported that a heavily armed group occupied a multibillion Rand shopping centre a day before it was scheduled to open. They demanded a 30% cut of the centres income to leave the development in peace. The developer had to deploy a private security firm with its own weapons and helicopters to chase the occupiers off site.

These contractors are also having to retain these services at a significant cost to prevent the group from returning to the centre much like many contractors have had to.

Our Contractors operate in a difficult environment, and I do believe there is growing awareness, which may not have been forefront of mind, that insurance can play a crucial role in protecting their assets and mitigating losses. This has been driven by the growing costs of construction-related liabilities, increased complexity of construction projects and most definitely an increase in the frequency and severity of natural perils.

"It is clear to see how complex and challenging our industry has become, not only in the construction sector but in the insurance sector too. Now more than ever brokers will be needed to play a crucial role in providing sound advice to contractors who are operating in a complex and challenging environment."

AS SA'S INFRASTRUCTURE PLAN TAKES OFF, INSURERS MUST UNDERSTAND THE NEW THREAT LANDSCAPE


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

Government's plans to spend close to one trillion rand on infrastructure projects in the transport and logistics sectors over the next three years, bodes well for South Africa's construction industry, however, there are concerns that current economic pressures could result in lower quality standards on capital build projects, thus increasing risk.

In February this year, President Cyril Ramaphosa and Finance Minister Enoch Godongwana outlined government's envisioned R903 billion rand spend on transport- and logistics-related projects, during the State of the Nation Address and tabling of the national budget, respectively.

Among others, the projects include improvement of the national road network, the construction of bridges, water and sanitation infrastructure upgrades and expansion, among others. Government has been criticised in the past for underspending on infrastructure, and it is hoped that this latest capital injection into the much ailing construction industry will help stimulate a real recovery.

A Research and Markets report, South Africa Construction Industry Report 2023, forecasts that the construction industry in South Africa is expected to grow by 5% to reach R232 billion this year, with steady growth expected over all four quarters of 2023.

However, this growth would be off a low base, as the sector tries to rebound from the devastating blow of the COVID-19 pandemic that saw government cut infrastructure spend by 80% and practically all construction activity grind to halt under lockdown.

The post-pandemic economic climate has been no kinder to construction, with many companies cutting capex by between 50% and 60% to survive, also slashing jobs and reducing work hours. This has resulted in a skills shortage which is likely to be compounded by a skills exodus due to political and economic uncertainty.

In addition, construction companies are seeing their profit margins further squeezed under the pressure from high interest rates, spiralling material, labour, energy and transport costs, forcing them to deliver successful projects with limited resources.

Considering these factors, there is a danger that lower quality standards are likely to plague construction projects going forward. Many construction projects experience non-conformance to quality requirements, as well as cost and schedule overruns. This naturally increases risk and insurance companies must have a good understanding of this new threat landscape.

Lower standards invariably lead to expensive rework, as well as budget and deadline overruns, that can incur sizeable fines and penalties that could potentially wipe out a construction company's profit margin and even result in additional costs.

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The rising risks of insolvency and the increasing cost of claims are thus placing pressure on insurance premiums and prompting to insurers to find ways to limit their claims exposure. It is important that all risks are carefully considered whether financial, contractual, operational or environmental and can be caused by both internal and external sources.

What is needed is a discussion and understanding between a professional broker, that specialises in construction risk, and the contactor, to anticipate any changes in policy wording, terms and conditions, pricing, and potential exclusions to maintain a workable and affordable level of cover.

Insurance plays a vital role as a risk mitigation tool in construction projects, whether cover is taken out due to statutory, regulatory, or contractual requirements, or an additional measure of protection. It is crucial that every party participating in a construction project is aware of the risks involved and manages them to mitigate any potential liability.

Construction companies must also be aware that when planning a construction project, insurance and risk management are crucial components that need to be factored into the planning stages and these costs must form part of the construction budget.

Government's largescale infrastructure build programme should finally result in at least a partial recovery of the construction industry as work on major projects commences over the next three years. As activity starts to pick up, all construction projects will need to be undertaken with a clear understanding of the risks that each one will face.

Rochelle De Lucia, CEO of King Price Insurance commercial and broker division

King Price supports engineering sector as it starts to breathe again

South Africa's construction and engineering sector has struggled in recent years, seeing sharply reduced revenues and impaired cash flow due to a significant slowdown in construction work. However, the Construction Industry Development Board (cidb) reports that the sector is seeing an improvement in activity, with demand for new work increasing and profits looking healthier.

According to the cidb's latest SME Business Conditions Survey, having more on the order books has pushed confidence and activity over the long-term average. Supporting this outlook, the latest FNB/BER Civil Confidence Index shows that there's 'an upbeat expectation for activity' in 2023, with confidence at a six-year high. This index, which reflects the state of business conditions in the civil engineering industry, predicts that the amount of available work will continue to trend higher.

All in all, this is great news for an industry that's slowly letting out a collective sigh of relief.

While the dust settles around the big infrastructure tenders that are expected, there's pressure on the sector to complete smaller projects, like roads, sub-stations and stormwater drains, and the SME sector is thriving. So, this is where we've decided to focus our engineering insurance product.

We're reviving, simplifying and streamlining our engineering product to meet the needs of smaller contractors and projects, like plumbers, electricians, painters, building contractors, telecoms and fibre providers, and H-VAC and solar installers.

In the simplest possible terms, mission-critical assets must be protected against unforeseen incidents and accidents, and so we've made it our mission to make sure that our engineering cover does just that. Our four core engineering sections offer cover for these assets during different project lifecycle needs.

Our contractors' all risks, and our transit and erection sections insure risks and assets during the installation or build. With a big focus on yellow metal, we also cover smaller machinery like rollers and compactors.

Once a project is handed over to the owner, we offer cover for machinery breakdown – for example, for loss of or damage to lifts, boilers and generators in commercial buildings, or for the filtration and temperature control systems needed in some factories. We also cover high-value, sensitive commercial electronic equipment, like large-scale printers.

Farsight and foresight

We're very aware that rising interest rates and reduced lending sentiment from the banks are likely to pressurise bottom-lines, especially in the SME sector. To this end, we've adopted a 'back to basics' approach that enables even the smallest of players to cover all their risks in the most cost-effective way. All our commercial clients can tailor their policies by combining sections from our business, engineering, community and agri offerings to cover their unique day-to-day operational needs, as well as their cyber risks. This ensures that they have all the cover they need and don't pay for cover that they don't need.

Operationally, we've pulled our engineering division back into our larger commercial insurance structures and processes to take advantage of our scale, service capabilities, and skills-base. As a commercial insurer, we take our relationships with our broker partners very seriously, and we rely on brokers' specialised expertise to guide our commercial clients to make sound insurance decisions. Over and above this, we're earning a reputation as an insurer that's flexible and easy to do business with.

Looking forward, and notwithstanding our generally sluggish economy, the lingering effects of the pandemic, and the ongoing effects of loadshedding, the construction and engineering industry seems to be turning the corner. We're in it for the long haul.

SHORT TERM

"Loadshedding and the threat of grid failure will become one of the most immediate risks that small businesses need to mitigate."
- Karen Rimmer: Head of Distribution at PSG Insure

HOSTING AN EVENT?

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

Every participant in an event should have their own event liability insurance

Putting together a large-scale event takes months of planning, with the final result being the work of various contributors such as organisers, sponsors, contractors, suppliers, staff members and promoters, to name a few. And when it comes to safety at an event – whether it's for 50 people or 5000 – the Safety at Sports and Recreational Events Act (SASREA) firmly places the responsibility on each of these parties to ensure the safety at the event.

"The distinction between who is actually responsible for safety is often blurred, which is why all involved parties should have their own event liability insurance cover in place, whether a sponsor, supplier, contractor, event owner, advertiser or events coordinator, as well as actively involved in upholding health and safety standards," explains Philip Cronje, Business Unit Manager of Aon South Africa's Sports, Recreation and Entertainment Division. "The SASREA enables individuals injured at events to seek recourse against any of the stakeholders involved with the event – from the sponsor, a supplier or even an advertiser – and all can be held jointly and severally liable for any damages and civil liability. It effectively means that all parties involved in the making of an event need to be pro-active in vetting the planning and safety of events to comply with SASREA. Comprehensive risk analysis is a non-negotiable when it comes to identifying all possible exposures and to ensure that all conceivable due-diligence is done. Sponsors, as stakeholders in an event, can also be drawn into a suit alongside the event organiser, venue owner and others. It is essential that all parties take a pro-active approach to ensuring that certain minimum standards are met and ensuring compliance with SASREA," Philip explains.

What are the implications of joint and several liability?

All parties involved in an event will be jointly and severally liable in the event of any civil liability arising at any given event. It is a form of liability used in civil cases where two or more parties are found liable for damages. An affected third party can seek payment of the entire judgment from any of the parties deemed to be 'jointly and severally liable'. If any of the defendants are unable to pay the full judgement award, the other defendants will have to make up the shortfall. In the context of SASREA, although it provides for various duties and obligations on each of the entities, in the event of a disaster occurring and injury to individuals, those injured parties may choose to sue any of the entities as reflected in section 4 of the SASREA whether or not there was fault on the part of that party, as the SASREA has placed a burden on all entities to ensure safety and responsibility at events.

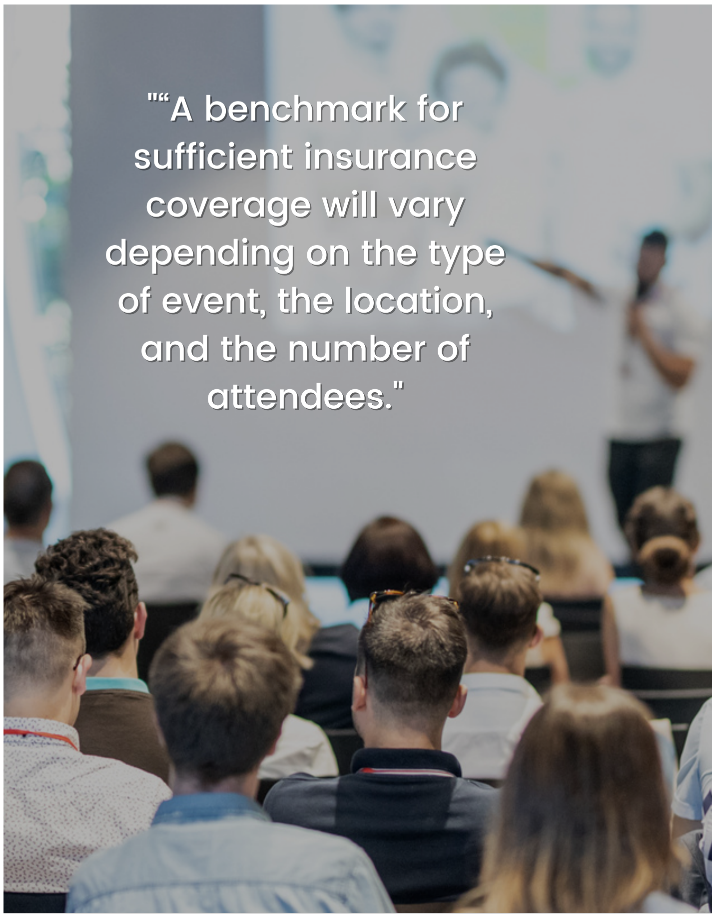
"Most crucially, sponsors should also ensure that they have adequate events liability in place with an insurer who is aware of their exposure in this regard, and not rely on a standard business public liability policy. A good place to start would be to provide your insurance broker with a copy of any legal contracts you have in place in terms of an event, to ensure that any provisions in your contract are not in contravention of the terms and conditions of your liability cover," explains Phillip. It's important to speak to an expert broker who has extensive experience in dealing with events, and who can accurately and expertly evaluate your business exposure to a potential liability claim."

Your broker will be key in assessing what cover you need, that any contracts and actions are not in contravention of any clauses contained within your insurance policy, and that you have the appropriate sums insured to mitigate the potential financial quantum of any liability," he adds.

Examples of event liability claims:

- Personal injury: Claims may be made if a person is injured during an event, such as falling on an uneven surface or suffering food poisoning.
- Property damage: Claims may be made if property is damaged during an event, such as damage to equipment or facilities.
- Third-party liability: Claims may be made if a third party is injured or their property is damaged during an event.

When selecting a limit for event liability cover, a number of factors need to be taken into account to ensure that adequate insurance coverage is obtained.



Aon provides the following guidelines in setting the appropriate sum insured for your event liability cover:

- **Type of event:** The type of event being organised will determine the level of risk involved and, therefore, the level of insurance coverage required. For example, a high-risk event, such as an outdoor concert, will require a higher level of insurance coverage compared to a low-risk event, such as a business conference.
- **Attendance:** The number of attendees at the event will also impact the level of insurance coverage required. The more attendees, the higher the risk of an accident or injury occurring, and the higher the level of insurance coverage required.
- **Venue:** The location of the event will also impact the level of insurance coverage required. For example, if the event is held in a high-risk area, such as a city centre or near a construction site, a higher level of insurance coverage may be required.
- **Legal requirements:** It is important to consider any legal requirements that may apply to the event, such as health and safety regulations, SASREA and the like to ensure that adequate insurance coverage is obtained to meet these requirements.

"A benchmark for sufficient insurance coverage will vary depending on the type of event, the location, and the number of attendees. However, as a general rule of thumb, a limit of at least R10 million per occurrence is considered to be a minimum level of insurance coverage," Philip explains. "It is important to work with a seasoned insurance broker to unpack the risks that are involved and to put appropriate levels of cover in place that accounts for the unique risks involved. Making better decisions about your organisation's risk exposure during an event starts by having data available that is backed by insight that will help you benchmark and make an informed decision when it comes to event liability cover that is fit for purpose," Philip concludes.

Karen Rimmer: Head of Distribution at PSG Insure

WHAT A HARD INSURANCE MARKET MEANS FOR SA SMALL BUSINESSES

The events of the past three years have given rise to an upswing in the insurance market, which has resulted in hardened market. What this means for businesses on the ground is that insurance premiums may be higher than in previous years. Additionally, underwriting criteria may be more stringent, the capacity of insurers may be reduced and competition amongst insurance carriers will be relatively low. These developments were triggered by a series of unexpected changes to both the global and local risk landscapes caused primarily by the pandemic. In South Africa, this was compounded by the 2021 July riots and the severe flooding in KwaZulu-Natal during 2022. Many of the shock waves caused by these events were absorbed by local small businesses. Given the scope and prevalence of new and emerging risks, small businesses need to prioritise the implementation of measures to protect their profitability in uncertain times.

The fluctuations between expansion and contraction of the economy are not unique to the insurance industry. But the susceptibility of insurance to market volatility has been brought to light by recent events. The early years of the 2000s were indicative of a noticeable softening of the market which saw lower insurance premiums, broader coverage and relaxed underwriting criteria. But now, well into the second decade of the millennium, the market has hardened substantially. In a hard market like the current one, advisers and small business owners need to work closely together to find ways to manage and mitigate risks that can approach from several different fronts.

Affordability: a long-term consideration

One of the biggest misconceptions that exist in the commercial space is that only large corporates or established businesses need insurance cover. But, for small businesses, the potential loss that follows risks like cybercrime, looting, fire or employee-related damages can be irrecoverable. Insurance for business interruption was a lifesaver for many small businesses who took a prudent approach to managing unforeseen risks like the pandemic. In the case of the July riots, small businesses who had taken out the SASRIA policy extension prior to the event, benefited from the safety net that this very specific cover provided. So, while a premium may affect the cashflow of a business in the short term, paying monthly premiums is far more affordable and manageable than covering the replacement value of premises, a company vehicle or the cost of litigation.

The advice-led approach to meeting a unique set of needs

What small business owners also need to be aware of is that every insurance policy is different. Advisers play a role, not only as product specialists but as analysts that can assess their client's risk appetite and structure policies accordingly. In some cases, to keep the price of the premium as low as possible, small businesses choose to self-insure certain items. Others may choose to take on larger excesses to cut the monthly cost of the premium. The important factor to consider here is that advisers, equipped with the right knowledge and information on what a company's needs are, can help tailor insurance to meet the unique profile of the client.

Understanding the fine print: roles and responsibilities

One of the aspects of a hard market in insurance involves stricter underwriting, which results in policy wording being reviewed and made more explicit in terms of what the client's responsibilities are. Here, advisers can assist in helping clients navigate industry terminology and gain a clear understanding of what they are expected to take due care to do and prevent loss. It is vital for business owners to discuss all possible risks with an insurance adviser. These risks will vary according to factors such as the geographical location of premises, the crime rate, any existing security infrastructure and how equipment on-site is being used. Likewise, the measures that will need to be taken as proactive safeguards against disaster will vary from business to business.

The hard market and the road ahead

In South Africa, the ongoing energy crisis has placed insurers under immense pressure and required underwriters to employ technical measures to manage the related risks. Going forward, loadshedding and the threat of grid failure will become one of the most immediate risks that small businesses need to mitigate. As industry experts, who are called upon to keep a finger on the pulse of social and economic developments, advisers are in the best position to help small businesses navigate the crisis. The fact that PSG Insure has seen an influx in requests for quotations from small businesses in a number of sectors is testament to the fact that business leaders are realising the importance of managing risk as a matter of priority. There is, however, much ground yet to cover in driving awareness around the role of insurance cover and the guidance of an adviser as keys to futureproofing a business.

Cornel Schoeman, Chief Operating Officer of GENRIC Insurance Company Limited.

Early-stage collaboration

Successfully launching a new insurance product to market is challenging, requiring product innovators to pay more attention to the time and resources required to develop, refine, launch, distribute, administer and take the insurance product to market and break even, and finally, a sustainable and profitable business. This is where early-stage collaboration with the insurance underwriter is crucial in bringing invaluable expertise, technical and regulatory knowledge, capital and technology backing, and support to the table, identifying any potential challenges in the market before the product is launched. Equally important is to get a solid understanding of the working relationship and culture between the product developer - such as a UMA, broker or Insurtech business, and the insurer – establishing upfront whether this is a good match.

With insurance industry regulations requiring onerous capital adequacy limits for cell captives as well as delineating the types of businesses that may own a cell captive, GENRIC's model gives Insurtech start-ups, underwriting management agencies, and entrepreneurs a more financially viable and practical alternative to bring new insurance products to market outside of the traditional and prohibitively costly third-party cell captive arrangements. It is here where our partnerships with UMAs have been the backbone of a growing insurance business able to innovate and meet the needs of highly specific and rapidly evolving market needs.

The role of UMA and Insurer

The UMA is essentially given the underwriting and claims authority via a Binder Agreement by an insurer, which means a UMA determines the terms and conditions and pricing of the policy, issues the physical policy to the insured, and handles all the administration, claims management, product marketing, and client engagements, distribution and so on. As the product innovator, the UMA retains business control while participating in the insurance sector. The insurer provides the underwriting on the insurance product offered by the UMA, the insurance license, and onerous capital, solvency, and technology/systems integrations to bring an insurance product to market. Some examples of these niche insurance products that typically operate on this basis include specie insurance, cash-in-transit insurance, equine insurance, gap cover, goods-in-transit cover, mechanical warranty cover, and so on.

GENRIC unpacks some of the challenges of bringing a new insurance product to market and why early-stage collaboration with an insurance partner is critical:

- **Product design:** An underwriter can provide input on the design of a new insurance product to ensure that it is profitable and sustainable, including determining appropriate coverage limits, deductibles, and premiums, as well as identifying potential coverage gaps.

- **Regulatory Compliance:** Complying with complex regulations and obtaining necessary licenses and approvals is time-consuming and very costly not only from a financial perspective but also from a systems/tech and human capital perspective.

- **Market Saturation:** The insurance market is highly competitive, with well-established players offering a wide range of products and protecting their market share. Breaking through the noise requires a solid value proposition to differentiate in the market, and even then, effective (and expensive) marketing and distribution strategies are critical to go from awareness to conversion.
- **Risk Assessment:** Developing a new insurance product requires research, data analysis, and actuarial expertise to determine pricing, coverage, and underwriting guidelines. Insufficient risk assessment can lead to adverse selection, inadequate coverage, and outright failure.

- **Distribution Channels:** Insurance distribution is incredibly challenging in the South African market, where consumer financial education levels are massively disparate. For all the hype around direct and online insurance, traditional broker models of insurance distribution where brokers provide financial education and advice remain critical in South African insurance models, and these can be difficult to break into without the backing of a big insurance player. Developing alternative distribution channels, such as online platforms or partnerships, takes much work as it requires substantial capital investment.

- **Customer Trust and Perception:** Launching a new product requires establishing credibility and demonstrating value to potential customers, and this is where the backing of the insurance partner makes a big difference.

- **Claims Management:** Developing robust claims management systems and processes to handle potential claims promptly and fairly is essential. Failing to provide satisfactory claims experiences can harm the reputation of a new insurance product before it is properly out of the starting blocks.

- Capital Requirements: Insurance products involve managing risk and paying claims requiring substantial capital reserves. Adequate capitalisation is necessary to meet regulatory requirements and instil consumer confidence.

- Technological Integration: Developing user-friendly, multichannel digital platforms, implementing data analytics, and ensuring cybersecurity are complex tasks. Investing in the right technology and expertise can be demanding, particularly for startups or companies without prior experience in the insurance industry.

The retention of entrepreneurial skills in the partnership is critical

UMAs and Insurtech start-ups are known for their innovative and agile approach to business. They are owned and run by business individuals and entrepreneurs with a great deal of insurance industry experience and specialist skills in certain niche lines of business. As smaller businesses, they are also typically much closer to their clients and have invaluable insights into the niche markets they serve.

Candice Hobday of Arco 360, specialist brokers in equine insurance and the market leader in their field, and **Francois Haasbroek of Automotive VAP Solutions**, which offers one of the most comprehensive niche insurance offerings for the automotive market, provide their insights into what makes for a successful Insurer partnership.

- **Smaller businesses typically know their customers and markets better -** as they are close to their clients and tend to have more frequent personal interactions with them too. Arco 360 points out this is particularly true in equine insurance, where they have personal relationships with their horse owner clients, given how small and specialist this market segment is. This proximity to clients provides valuable insights into customer needs and preferences, which can inform product development and marketing strategies. In many instances, the UMA or broker partner can provide specialised and bespoke cover for their clients and facilitate this with the insurer.

- **Niche focus:** UMAs are focused on serving a specific niche market, which allows them to develop a deep understanding of their customers' needs and preferences. This means their products and services are more effectively tailored to meet the needs of their target market.

- **Flexibility:** UMAs are flexible and adaptable, allowing them to respond more quickly to changes in the marketplace. This can help them stay ahead of trends and meet the evolving needs of their customers.

- **Customer-centric culture:** UMAs emphasise customer service and satisfaction because of the more personal nature of their customer relationships, which helps them build strong and enduring relationships with their customers.

- **Innovation:** Because UMAs will have a specialist focus, they can bring an innovative approach to business and develop new products or services by having their finger on the pulse of their client’s specialised needs.

- **Culture:** UMA businesses have a unique collaboration, creativity, and innovation culture. From the outset, the culture fit between the UMA and Insurer is critical – the UMA partnership model is designed to promote ownership retention, allowing the entrepreneurs behind niche insurance businesses to leverage existing and robust frameworks of the underwriter while focusing on their specialist, expert skills that differentiated their products and solutions in the first place.

In conclusion:

The very existence of entrepreneurial businesses is premised on the fact that they are driven by people with highly specialist and expert skills who want to operate and grow their insurance businesses without the distraction or red tape of large corporate environments and bureaucracy. As GENRIC, we aim to enhance both businesses through a partnership approach that establishes the regulatory, compliance, capital, and good governance controls necessary to differentiate the market by focusing on niche and specialist insurance segments. GENRIC has invested heavily in developing a fast and responsive business partner model that can bring a specialist insurance solution full circle from conceptualisation to live in the market within three months. Our goal is to collaborate early, find ways to help improve the customer experience, develop new lines of coverage that meet the market's evolving exposures, and optimise and modernise traditional insurance distribution to compete and deliver in a rapidly evolving market.

TOUGH TIMES & THE TOUGH GET GOING

Elliot Schwartz, an independent broker and marketing consultant

In challenging economic conditions, many businesses face the pressure to stay afloat and maintain profitability.

Sales become critical as they are the lifeblood of any business. However, the relationship between marketing and sales is often misunderstood. To shed light on this topic, I consulted Elliot Schwartz, an independent broker and marketing consultant, who shared valuable insights and tips on growing a brokerage during tough times.

Schwartz emphasizes the role of marketing in creating a favourable environment for sales. It is through marketing efforts that products and services become known to potential customers. However, during tough economic times, marketing is often seen as an expense rather than an investment. Budgets get cut, and companies fail to recognize the importance of continued marketing during recessions.

Research has consistently shown that companies that continue to invest in marketing during a recession tend to emerge stronger and recover faster. While it may be challenging to allocate funds that seem scarce, cutting marketing efforts altogether can have long-term negative effects on a business. Although some argue this point from a self-serving perspective, the evidence remains that marketing investment pays off eventually.

Furthermore, tough times provide an opportunity for market share to shift hands more easily. When demand is low and consumers are more cautious with their purchases, they become open to alternatives and may switch to alternative products or suppliers. This dynamic presents a unique chance for businesses to attract new customers and increase their market share.

The insurance industry, for example, experiences customers seeking better prices during tough times. Schwartz explains that different strategies can be employed to make money in this sector. One strategy focuses on offering a unique product or service that cannot be found elsewhere. In this case, marketing efforts are primarily aimed at acquiring new customers, as the product itself satisfies their needs. Volume becomes crucial, and marketing messages revolve around what sets the product apart.

Another strategy revolves around differentiating the business through exceptional customer service or efficiency. Instead of emphasizing a unique product, these businesses attract customers by offering a superior experience. The marketing focus is on highlighting the way they do business and the added value they provide to customers. While the volume may be constrained, the objective is to maximize the efficiency of the business's platform and communicate the benefits of their approach.

A third strategy revolves around understanding a specific class of customers better than competitors. By investing in customer knowledge and insight, businesses can offer tailored solutions and build long-term relationships. Here, customer loyalty becomes paramount, and marketing efforts are centered around retaining existing customers and maximizing their lifetime value. During tough times, Schwartz advises businesses to adapt their marketing strategies accordingly. For businesses with unique products, the focus remains on finding new customers even if the market is smaller. In contrast, businesses that differentiate themselves through customer service should consider offering solutions that address the current challenges customers face. Finally, businesses centered around understanding a specific class of customers should prioritize customer loyalty and satisfaction.

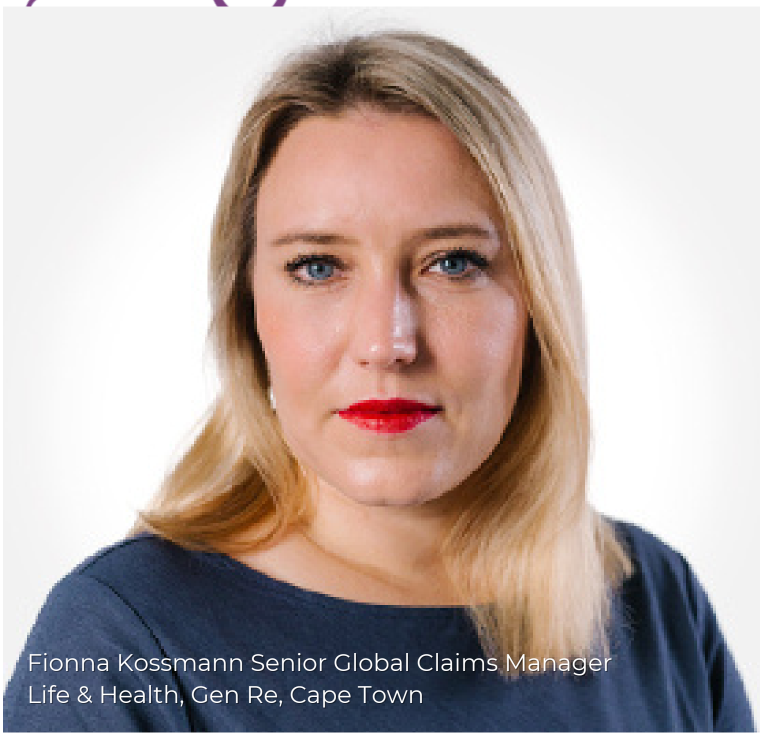
When planning marketing and sales activities, it is crucial to prioritize and fully commit to selected strategies. Instead of spreading resources thin across various initiatives, focusing on fewer, well-executed efforts can yield better results. Businesses need to determine their specific objectives, whether it is creating awareness, enhancing understanding, or incentivizing immediate responses. By selecting the most effective marketing tactics aligned with their goals, companies can maximize their return on investment. In conclusion, tough times present both challenges and opportunities for businesses. While it may be tempting to cut marketing budgets, investing in marketing during recessions can yield long-term benefits. By understanding their unique selling proposition and aligning their marketing strategies accordingly, businesses can position themselves for growth and come out stronger when the economic situation improves.

Prioritizing and fully committing to selected strategies is key to maximizing the impact of marketing and sales efforts during tough times.

TECHNOLOGY

"In today's digital age, customer data has become one of the most valuable assets for businesses." **- Wimpie van Der Merwe, CEO, Global Choices**

CLAIMS AUTOMATION – A SNAPSHOT OF THE INDUSTRY'S NEXT KEY SHIFT


Fionna Kossmann Senior Global Claims Manager Life & Health, Gen Re, Cape Town

The Covid pandemic accelerated investment in technology in the insurance claims space. Unprecedented claims volumes necessitated process changes such as shifting to more digital interactions, adapting the supporting evidence requirements, and adjusting the claims philosophies. Many companies found these changes beneficial and intend to keep them in place. [1]

The successful shift toward more digital product offerings, as well as developments in underwriting and data analytics, has initiated thoughts that operational aspects supporting Claims should follow the same path.

There are already pockets of automation in the claims process emerging, but the absence of end-to-end integration means that a customer travelling through the claims space may still experience a disconnect at various points when it reverts to a manual process.

A podcast by McKinsey[2] discusses the key shifts we're likely to see in the claims space in the coming years and references the disparate nature of these "single point solutions". Literature and anecdotal client research by Gen Re reveals the most prominent of these emerging shifts observed across our market.

This blog reviews some of these shifts, many of which are driven by insurtechs, and the implications of claims automation on training the next generation of claims assessors.

Digitalisation Changes

Key digital shifts underway in the claims space where digitalisation is seen include:

Self-service claims submission portals: As more digital products are entering the market, there is an increased need for online submission portals for claimants to be able to interact directly and online with the claim process. Self-service claims submission portals allow claimants to submit documents, file claims, and receive updates on their claim.

Intelligent document processing : There has been a lot of investment in OCR software (optical character recognition). Digital solutions in various markets demonstrate being able to classify documents, data extraction, and data ingestion to populate fields, for example. Digital solutions can also analyse connections between words, which assists with structuring large amounts of data in meaningful ways, thus facilitating efficiency in the assessment process for assessors and reducing claims administration costs.

Machine-driven decisions: Straight through claims processing to claims payment refers to when a trigger, such as a hospital admission or an ICD10 code, is used to make inferences that a claim event has occurred. This approach is especially applicable in markets where products have event-based definitions related to hospitalisation or diagnoses, for example a heart attack for critical illness products. With the aid of machine-driven decisions, in cases like these the claim is then automatically paid out to the insured without requiring any action on their part.

Claims rules engines: These are said to be one of the main predicted differentiators for a carrier. There are slight variations in what the different rules engines focus on, with some focusing on identifying return-to-work candidates, some measuring degree of occupational disability, and others triaging. Overall, these rules engines promise to enhance resource management, reduce costs of claims administration, and provide transparency and reproducible decision making as well as data analysis.

Claims tools: These provide rule-based guidance to assessors. At Gen Re, we developed the Depression Claims Wizard, which looks at risk factors for mental health conditions and generates recommendations for assessors on how to manage depression claims.

AI Fraud detection: There has been an increased investment in technologies for fraud detection. Some of the primary tools[3] being used are automated red flags, predictive modelling, reporting, case management, and data visualisation.

Data-driven rehab: These are activities supported by the addition of value-added services and insurtech intervention tools that are aimed at shifting the focus to wellness promotion, prevention, monitoring, and management. There are apps focusing on various aspects of health including mental health and pain relief. Some insurers have developed partnerships with providers and apps to offer their insureds a value-added and rehabilitative benefit.

Moving Toward the Future

As in the underwriting journey space, the end-to-end digitisation of the claims space is inevitable, and the transformation is underway. The mortality space is likely to feel the impact sooner since the assessment process is frequently a one-off assessment making automation of processes easier.

The morbidity space is more challenging, particularly where income benefits are provided. It is here that trained claims professionals are required to assess a higher degree of subjective data and make judgement calls that bring essential human qualities into play – those of judgement and empathy.

Skill Sets Required

Assessors are required to synopsise after considering the interaction of multiple factors such as unique circumstances of claimants and then to make a call on the validity of the claim. Among the diverse factors they evaluate are medical, occupational, financial, and contractual elements.

Analytic techniques and tools are being built to assist assessors' unique decision-making process. The inevitable outcome is that claims professionals working in the industry will need to develop skill sets complementary to their traditional professional training.

Skills and Changing Roles For the Future

- The ability to understand, interpret, and analyse information.
- Skilled and experienced assessors playing a critical role in the development of the intellectual property that will come with building automated solutions.
- A possible split in the role or job of the "traditional assessor" with a greater need to focus individuals on specialty skills sets such as data analytics, specialist complex case assessment, and the development, monitoring, and building of tools that will change this environment.

All the above will require broadening of the talent pools and changing the recruitment strategies for Claims team members to meet the demand for the future.

Conclusion

The ever-changing landscape of insurance claims will, over time, need to include more automation. Embracing and incorporating automation allows us to enhance the customer experience, harness our best resources to assess complex claims, and gain efficiencies in processing both simpler and more routine claims. For claims professionals, it opens new and exciting opportunities in different disciplines. It will be important to develop the talent able to work with increased automation as well as guide future automation for the best outcomes.

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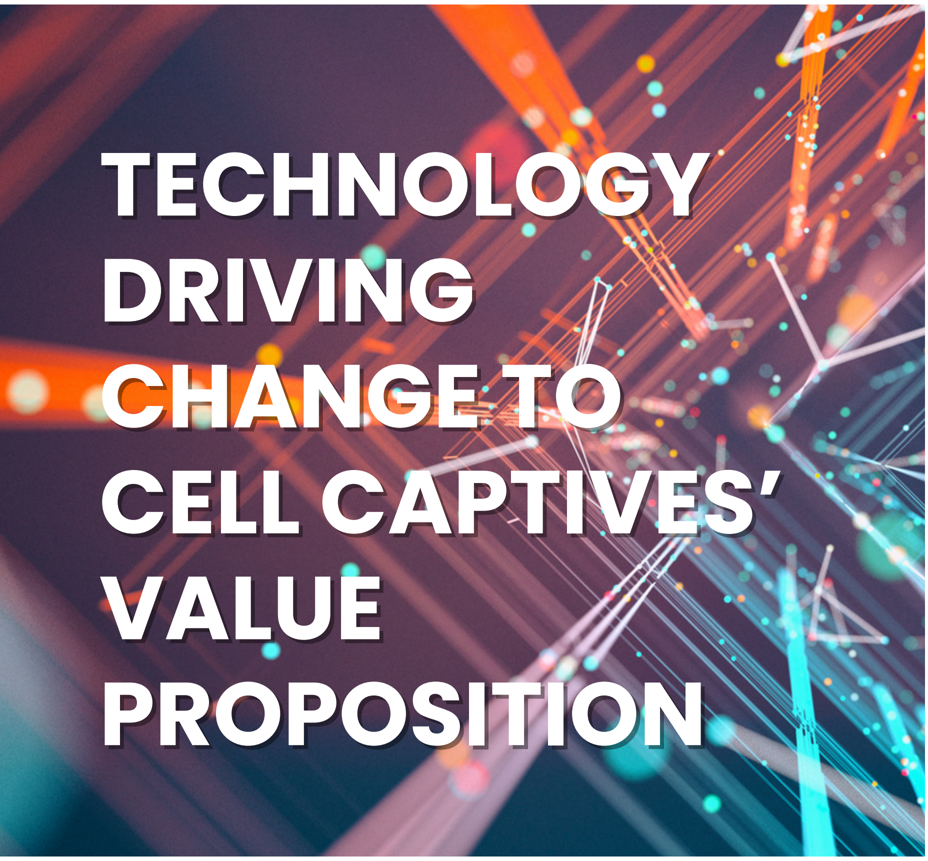

TECHNOLOGY DRIVING CHANGE TO CELL CAPTIVES' VALUE PROPOSITION

Francois Schaap, Managing Executive, Guardrisk Life

Thirty years ago, South Africa's first cell captive insurer opened its doors, for the first-time offering clients all the benefits of owning their own insurance company without the inherent capital, costs, and administrative implications.

Guardrisk pioneered non-life cell captives in 1993 and extended the structure to the life insurance industry in 1999. Initially, non-life cell captives were used to self-insure corporates' risks; and life cell captives were earmarked for employee benefit programmes.

Inherent in the cell captive structure is the ability to innovate and customise insurance programmes. When first party cell captives were introduced three decades ago, they offered a sharp, and warmly welcomed, contrast to the much more rigid, one size fits all, traditional insurance market. First party cells are used by corporates to self-insure their own insurance programmes. Before long, cell captives were extended to third party cell structures, through which clients can sell insurance cover to their customers, boosting their business' earning potential, building their brand, and enhancing their value proposition to customers.

Time has shown that corporates and other entities, such as retirement funds, have embraced first party cell structures; not only because they could now share underwriting profits boosted by prudent risk mitigation (and continually extend their self-insurance programmes as reserves accumulate in the cell) but also because they were now able to tailor make their insurance programmes, according to their unique risk profile and risk mitigation programmes. All while being able to offer new benefits to customers, employees, and members.

During the Covid-19 pandemic, the world saw a major shift towards new working patterns with employees working from home. Now, in the wake of the pandemic, most companies continue to offer hybrid working solutions, no longer restricting staff to office buildings, or even geographical locations. Significant technology investment and advances supported and accelerated the move to a more digital world across all sectors. Even a few years ago, it would not have been possible to do the things in the insurance industry that technology enables us to do today.

In fact, technology has significantly enhanced the value proposition of cell captives, and particularly third-party cell captives. We have moved from offering just a wholesale structure to offering an end-to-end insurance solution, encompassing product, pricing, administration, etc. Our digital platform now makes it easy for clients to simply plug and play, to deliver innovative products and solutions to their customers, quickly and easily.

With staff no longer restricted to specific geographic locations, employers increasingly find themselves needing to accommodate employees located in different countries. The flexibility of first party cell captives means that employers can easily apply multinational pooling, accommodating all their employees in the same structure, regardless of where they work from.

Instead of having to build massive 'engines,' as we would have needed to do a couple of years ago, technology has made it possible for us to quickly, easily, and cost effectively, enable employers to streamline benefits while easily administering and enhancing them at the same time. Certainly, the key differentiator of the cell captive, that is the structure's intrinsic ability to tailor offerings quickly and effectively has stood it in good stead as it sharpens its value proposition.

TECH AND YOUR INSURANCE BUSINESS

The second episode in a conversation with Tavio Roxo, the CEO of OWLSTM Software, about the relationship between the fundamentals of a successful insurance business and your digitization journey.

In our last discussion we looked at how we can group these fundamentals together. We now unpack strong financial management and effective risk management, reflecting on how technology can solve challenges in those areas of the business.

Tavio: When guys ultimately engage with system providers like me, my experience tells me that they typically have what I call a fragmented technology landscape. That is the beginning of the problem or the structural issue that must be solved. This is a structural issue because you typically have different technologies that are operating as silos in different areas of the business. A good example is where you onboard a new policy through a CRM (Customer Relationship Management) or a system which allows you to manage contacts, sales, and you then bring them in to incept a policy. When you incept the policy, the fulfilment mechanism of the inception of that policy may be a different system to the CRM system, and that would then be the place where you administer and manage the policy and the documentation associated with the policy, or maybe you have a third piece of technology that just does the document management.


Tavio Roxo, the CEO of OWLSTM Software

Now it is on a C drive link to that policy holder, with a unique folder and it is not integrated into system one or system two, it is just a standalone in a C drive and you can have access to it. You then have another system which allows you to lodge a claim and a fifth system, which is now operating to process that claim.

You then have a sixth piece of technology, which would be a data lake or a data warehouse, where you take all the data that is living in your CRM system, your claims management system, your performance system, your policy administration system, and you cycle that information into a central place. You then try and normalize it or transform it into a readable, consumable piece of data. You dump it into a data warehouse, and now you have another, an eighth piece of technology, which is the reporting function, which takes that information out. Then a ninth piece of technology takes information that is sitting in your data warehouse, and it puts it into an accounting system. Then you have another accounting system, one or two or just one, which will be utilized to prepare your monthly management accounts and income statements and potentially your balance sheet transactions.

You then possibly have yet another system, which is where you prepare your annual financial statements. You can see there is quite a plethora of technologies in this landscape that people struggle with. They struggle with it because there is no holistic integration amongst all of them, where you can understand that Tony, as a policy holder for insurance company A, has various products, and different associations with the company. Tony could be a broker, a policy holder, a claims assessor, you could have multiple interactions with Tony. So, this is complex from an IT perspective, which is why people have not solved it in the past.

So, how does a technology stack assist a company? The first thing that you are doing when you are trying to bring everyone into a technology journey, is to start at the beginning and then work in the same technology all the way through to claim stage or policy termination. You can then immediately identify Tony as one person. You can identify how he fits in from a life product or from a short-term product perspective. You can understand Tony when his debit order bounces on product A, but does not bounce on product B. You can understand Tony as the broker that you are paying money to because he directed sales to you. This is not you, understanding it by putting it into a data warehouse and extracting it. The data is there, you can understand it and consume it in real time.

Financial management

From a financial management perspective, you then extend that very same theory where you are trying to perform all the functions within the same system or in the same technology architecture, and you then start at voucher level. You start at bank statements, that is where you start. Ultimately you build up our transactions from there. For me, and at least from our software perspective, for us the key feature is every month to reconcile back to bank, down to a balance of zero. Then you know that you are dealing with a financial tool that will give any CFO (Chief Financial Officer) in that business comfort. When you are working at a voucher level, you are working at the most basic data point, and you are extrapolating up from there.

Underwriting and Risk Management

Another aspect, critical for insurers, is obviously the underwriting and the risk management. When you bring someone in to understand that Tony already has nine products with you, and that there is four short-term and five long-term products, and that, when you are giving him the fifth short-term product, you have an understanding that you are exposed to him in multiple places in your business.

So, you have to have that underwriting and risk matrix living in your system, or you have to have it living in a place where there is an automated API running between your black box and your underlying system so, that you can immediately identify that Tony is too risky and you do not want to give him anymore risk cover. That can only be done where you understand Tony as one, and you can only really understand that when you have a similar technology stack, or you have an API between multiple technologies, in a seamless flow. This is the only way you can ever build true scale.

Tony: I guess you can then understand your exposure per client, per region, Per segment of industry, per type of product, all of those. You would be able to extract that, compare exposure, and see what is worth your while and what is not, what is costing you money, where your risk is too high, where you are mispricing, all of those.

Tavio: Yes, and you can do that dynamically, on the fly. You can do that, not after the fact, not after I have taken Tony's 10th risk on, and then realized I should not have taken that on. You do it at point of inception and say, ‘sorry Tony, we are already overexposed to you.’ But that must be automated there. That cannot be an eyeball relying on an eyeball, especially in a complex big insurance business with multiple verticals, multiple products, hundreds, or thousands of employees.

There is just no way that you can do that without having some tool that is able to consolidate it, so that you can understand it.

The future of hyper-personalisation

In today's digital age, businesses face significant challenges when it comes to effectively engaging with customers across multiple channels. Technology is transforming our world rapidly and is revolutionising our working environments and creating new and exciting opportunities for companies and society as our physical, digital, and biological worlds merge.

These ever-evolving changes cause the blurring of lines between humans and technology, which are causing new underlining frustrations, anger, stresses, and uncertainty. Customers now have an unprecedented range of options to interact with companies, from traditional channels to a choice of digital touch points.

A total omnichannel and customer experience transformation strategy is required to address rising complexity, to create excellent customer experience and customer care, and to manage operational costs.

Wimpie van Der Merwe (CEO, Global Choices)

Prioritising customers over product

It is now very important for insurers to adopt a more customer-centric position and re-evaluating their customer care strategies. While care has traditionally been viewed purely as a cost centre, it is apparent that customer interactions and experiences are key in shaping customer impressions of your insurance company and its products or services. A great customer experience is one that is personalised. Personalised digital experiences are crucial for customer satisfaction, and customer data is a key component in achieving this experience. In fact, our entire business is built around these concepts, as are many others in the industry.

In today's digital age, customer data has become one of the most valuable assets for businesses. From small startups to multinational corporations, every company is collecting customer data – but not all of them are using it effectively. A customer data platform offers a centralised solution for collecting and managing customer data from multiple sources, giving businesses a comprehensive understanding of their customers. The future presents a significant shift for the insurance industry.

The conventional focus on selling products and policies and fulfilling claims is transforming into prioritising services, experiences and creating value. The driving force for innovation and growth will come from addressing customers' wants and needs, instead of what insurers want to sell or have historically offered.

The methodology of engaging with customers and distribution channels is also changing dramatically. In multiple instances, distribution partners outside of the insurance industry, including banks, manufacturers, healthcare providers and other well-known brands, will become the "face" or "front door" of the insurance sector.

For example, we recently developed a value-added insurance product and a 24-hour assistance services platform for a well-known international motorcycle brand. Our products provide embedded assistance cover for the first year when a new motorcycle is sold. The deal was done in partnership with a niche market underwriter, who developed a bespoke policy that speaks to and embodies the culture, interests and values of motorcycle enthusiasts. The policy can thus be sold at motorcycle events, rallies and the regional chapter meetings of the motorcycle brand.

Customers' evolving needs and preferences require omnichannel and risk transformation

The changing nature of home, work, business and family is erasing the conceptual lines that kept insurance "traditional". This new generation has made significant lifestyle shifts and choices, which are outpacing the older generations in all aspects. This will require new diverse risk needs and different insurance solutions. Diverse customers have different priorities when it comes to buying insurance. Suppose customers want to protect their purchases at point of sale, while others are tech-savvy and value their data and want some rewards or value back for sharing it.

Small businesses also have unique needs, such as protecting virtual assets or being budget-conscious. Insurance providers should focus on meeting the unique needs of each customer type to improve customer retention and grow their business.

The insurance industry is experiencing a transformation driven by the shift towards personalised policies and services. As customer demands continue to evolve, insurers need to adapt to provide custom solutions that meet individual needs on a hyper-personalised level.

One of the most significant developments is the emergence of real-time risk protection using advanced technologies such as AI, machine learning, data analytics, and digital platforms. These tools enable insurers to deliver customised protections and services instantly and at scale, anywhere and anytime. It is important to continue to invest in and leverage these tools to provide timely and efficient services to customers.

We have seen a huge take-up of our digital panic buttons on cellular phones. These provide real time response for security assistance and medical response services as well as the live tracking of the service provider responding to the location.

Live video streaming from a risk event is also growing in popularity. The information we receive from these videos assists with vital visual emergency assessments. These can range from a burst pipe to activating and visually informing emergency responders to the scene for disaster management and repairs.

Moreover, the rise of ecosystems is erasing the lines between industries, making insurance an integral part of all types of purchases and businesses. As insurers work to create their ecosystems, they must also leverage those led by others to provide a seamless customer experience. Finally, new risks necessitate the need for new products, with the industry innovating to provide coverage for evolving societal norms, cultural values, and emerging trends such as environmental, social, and governance (ESG) issues, personal data ownership, and virtual worlds. Insurers must stay nimble and be agile in their product development strategies to remain at the forefront of this rapidly changing environment.

The push to a total experience strategy (TX) emanates from the evolution of customer preferences and needs as more digital channels emerge. As customers become more integrated with technology and their comfort with digital channels evolve, they will still require human interactions, especially the older generation. Always remember to practise empathy when dealing with human beings, regardless of how tech-savvy they may be!

If insurers are committed to customer journeys, building capabilities and providing seamless services, while retaining a single view of the customer across the different channels, they will be in a great position to delight their customers for years to come.