

APRIL 2016

FA NEWS

FINANCIAL & ADVISORY NEWS



ROBO-ADVICE:
friend or foe to
the adviser?

JUNK STATUS
- what is the
bottom line?

**TO PAY OR
NOT TO PAY:**
the question of
warranting fees

Genetic 'make-up'
marks new
predictive profiling

THE COST-EFFECTIVENESS
of multi-manager funds

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Changes galore...

Letter from THE EDITOR



Rianet Whitehead
Editor

Technology is a topic we cannot ignore and it is quite amazing how many of the articles in this edition touch on technology and its impact on our industry.

Technology changes the way we do business, it is affecting how we talk to and how we see our clients. Robo-advice and the future of the broker and adviser dealing with mainly the middle income market is a much talked about topic and there are concerns about the future of these brokers.

The Financial Services Board (FSB) is implementing Phase 1 of the Retail Distribution Review (RDR) in July this year, so for those of you who have buried your heads in the sand with the hope that RDR will pass, I have bad news for you. RDR has received a lot of attention and we have written extensively about this. Now it is time for action. The most important changes worth mentioning now is the commission limits that will be implemented and outsourced, and binder agreements where commercial binders involved will be stopped and fees will be capped to two per cent of the gross written premium. This will inevitably mean that outsourcing and binder agreements will have to be renegotiated.

FAnews will be hosting an event or two where you, as a broker, will have the opportunity to hear directly from the regulator why these changes are happening. You will have the opportunity to clarify a few things and ask the relevant questions to the most relevant people. Make sure you keep an eye out on the FAnews Online newsletter for more detail on this.

Momentum and Liberty also launched their most recent claim statistics. These stats are always a great way of reminding clients why we, as an industry, are extremely relevant. Some of the interesting stats are the fact that there are more pay-outs for the early diagnosis of cancer, which is positive. On the more negative side is the amount of claims paid for retrenchments around the age of 35 to 45. We have articles in this edition around claim stats which will make for some interesting conversation with clients. Also read our newsletters for more on this.

In this edition we also celebrate IISA's 50th birthday with some interesting history shared by Professor Robert Vivian.

From a regulatory point of view this year is definitely one of the most hectic in history; make sure you know what is going on by reading, reading and reading some more. We are here for you!



Some advice from an informed and upbeat adviser

Have we ever seen a time as challenging as now? Not in recent memory I can assure you. This is a time when advisers need to be the crusaders of saving - ensuring that clients are financially stable.

Remain positive

It is important that advisers remain positive during these troubled times. The prevalent atmosphere in the media, and in the market, is negative and it creates panic amongst the public. By remaining positive, advisers not only calm their clients down, but also prevent them from acting in haste.

Be proactive

In this modern era, information is freely available but not always trustworthy.

Wrong financial advice and panic based social media messages can overwhelm sound financial advice. It is therefore key that advisers counter and even pre-empt negative information by actively communicating with clients and acting as a gatekeeper.

Know your facts

In line with the previous point, it is important that financial advisers have their facts on hand. You must be able to justify your investment advice in light of this negative market, amidst the proliferation of bad advice, and get rich quick schemes.

Many customers will not be aware that the market has factored in many of the future negative news, and that quick decisions can prove to be costly in the

long run.

Stick to the plan

Sound long-term investment requires that one sticks to a defined financial plan. If advisers were proactive and positive in countering negative news about the state of the economy, then it becomes easier to convince panicked customers to stick to their plan and not make quick decisions that could hamper the long term growth of their portfolio.

Gain advantage

It is my experience that people are more open to financial advice when they are worried about their finances. Use this opportunity to get in contact with your client base and to target your network to grow that base.



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LET THE CHIPS FALL before betting on your future

The Retail Distribution Review (RDR) proposals released in November 2014, as well as the Phase I update released a year later details the immediate regulatory landscape facing insurance brokers.

These proposals aim to dramatically change the rules and regulations facing brokers currently. If these proposals go through in their current format, brokers will have to take a hard look at their current way of doing business.

This introspection needs to happen as a matter of urgency. The Financial Services Board (FSB) is implementing Phase I of RDR by July, which will bring certain controls into the industry which will restrict certain freedoms that members of the short-term industry are used to. Whether this will be a good thing or a bad thing remains to be seen, and we should wait for the chips to fall before we place any firm bets on our future.

Dealing with an industry first

The compliance challenges, for the first time in many years, include commission limits as well as staff and systems brokers have employed over the last few years. I will have a look at two critical proposed changes which will certainly take effect later on this year.

The RDR proposals state that the broker may charge the client specifically for the advice provided. Advice is currently being remunerated by the insurer in terms of the regulated commission, which is paid for intermediary services and advice.

The commission comes out of the premium and is paid by the insurer, so the client is not really affected by this payment. It is true that the broker may currently charge the client

a direct fee in terms of Section 8(5) of the Short-Term Insurance Act for other services and the fee needs to be disclosed separately to the client.

Client buy-in

If the broker is currently charging this fee, and it will work out to approximately the same fee that the broker will charge as an advice fee going forward, the client will in all likelihood accept this new fee.

If the broker is not currently charging a Section 8(5) fee, it may be a challenge getting the client to accept this fee as it means the amount the client is paying for insurance will increase.

The insurer, in fact, may benefit as the FSB have stated that commission caps may come down given that advice is currently being remunerated by commission. There is some thought that needs to go into this when the change comes through.

The outsourced headache

The second critical change is with respect to outsourced functions brokers are currently doing on behalf of insurers for an agreed fee. The outsourced and binder agreements were based on the Binder Regulations promulgated at the end of 2011 as well as Directive 159 passed shortly thereafter.

These regulations allowed brokers to perform binder functions, including the rating of premiums, and deal with commercial policies in return for binder and outsourced fees which were not linked to profit sharing.

Ensuring survival

Budgets and systems were employed to make sure the broker could service the insurer appropriately. The new proposals are suggesting that a commercial binder be stopped, and fees be capped to specified maximum amounts.

Furthermore those brokers issuing policies for insurers for an outsource fee will have to have a system that talks real time with the insurer's system, and the fee will be limited to two percent of the gross written premium.

This will force brokers to renegotiate their outsourcing and binder deals with insurers, and their remuneration will be reduced in some cases fairly significantly. Brokers need to be flexible with regards to these specific possible regulatory changes coming their way as these changes can have quite an impact on their business.



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Avoid the digital divide: CATER FOR THE YOUTH

Technology moves quickly and it is the biggest challenge facing brokers these days with younger people starting to look for financial solutions.

This could mean that the more established financial advisory processes may perhaps be less appealing to the average Millennial who is more used to mobile apps and online interaction.

Enter the digital native

Currently, legislation is largely geared to an environment where the consumer interacts with a physical person. I have little doubt, however, that an explosion of mobile-platform-based technologies will facilitate new market entrants from a generation who have grown up with said mobile technologies (the so called digital natives).

To the average Millennial, the days of picking up the phone or going to see someone for a solution are passé or not even a consideration. If this generation has a problem, they either go to Google or the App Store for help.

Terms such as light touch advice, non-advice sale, robo/algorithmic advice - call it what you will - are coming and we are already seeing some of the more innovative product suppliers playing in this space. The challenge will be the compliance around providing advice via these platforms.

Recognise the change

The regulator is going to need to avoid being in a catch up situation and rather be on a more proactive footing recognising that this is coming, or quite frankly that it is already here. It needs to take steps to enhance the current regulatory framework around advice that may not involve a physical person. It will be interesting to see how it all unfolds.

Nothing stands still, and technology and innovation are irresistible forces, particularly for the new market of Millennials. The financial services industry must come to terms with the fact that technology will make a huge impact on the way and means that products are designed and sold to end users.

Viva la revolution

Technology is going to drive a revolution, if you will, in the way that financial services are offered to the public. Opportunities abound for the forward thinkers; those who keep their heads in the sand and avoid the winds of change, may struggle to keep up.

The local industry is of course currently eagerly/fearfully/apprehensively awaiting the Financial Services Board's (FSB) feedback on the industry's response to the Retail Distribution Review (RDR) proposals.

To re-cap, the RDR is a bottom-up review of all industry models, with a strong focus on remuneration structures to ensure that fair treatment is applied. However, and equally important, the FSB is seeking to segment intermediaries into very specific categories. The logic of such change is to help clients understand any conflicts their financial intermediary may be under at a very early stage in the relationship, which in theory leads to fair treatment.

Bringing it back home

We leave the big picture now, and hone in on the rendering of financial advice; specifically the concept of a so-called advice gap which typically emanates from an RDR process.

The FSB says they do not believe that an advice gap will emerge and have taken steps to try and avoid this. However, the harsh economic reality is that a number of individuals will either not be able to afford one-on-one financial advice or may not be an attractive economic proposition to an advisory firm, leaving many individuals euphemistically termed the wealth poor.

It is of course in everyone's interest that access to advice is made available to anyone needing it; and it should be affordable. Further, it needs to be appropriate for the upcoming, technologically savvy market.

If we are to achieve this goal, then the current advisory models, and more specifically the legislation that governs the rendering of advice, will have to take cognisance of the coming advice revolution that will rely heavily on technology to deliver products to their target market.



Richard Rattue
Managing Director
Compli-Serve SA

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MEDICAL TREATMENT: a South African horror story



The family is the central unit of South African life. We wake up every day and work hard to love them and to provide for them. But are your clients looking after their own needs? Because in looking after their needs, they are doing right by their families.

The competition commission is currently investigating why private healthcare is so expensive and why costs increase more than inflation on an annual basis. In fact medical specialists, including that of oncology, charges up to 300% more than tariffs set by medical schemes.

If anything, this investigation shows the need for critical illness cover. FNews spoke to Stephen van Niekerk, Head of Retail Life Insurance Products at Momentum to look into the importance of critical illness cover.

Actual costs of medical procedures

Local medical procedures are some of the most costly in the world. South Africans, with medical schemes, pay more than many First World countries for hi-tech medical procedures.

"A Magnetic Resonance Imaging (MRI) scan done in the South African private health sector was the most expensive out of nine countries surveyed by the International Federation of Health Plans. On average, such a scan costs almost R8 800, which is R1 200 more than Switzerland and double the average cost in Chile," says Van Niekerk.

Cancer specific costs

It is shocking when one reads this and actually has to come to terms with these costs. Some illnesses, such as cancer, are hereditary and are more prevalent in society than we think.



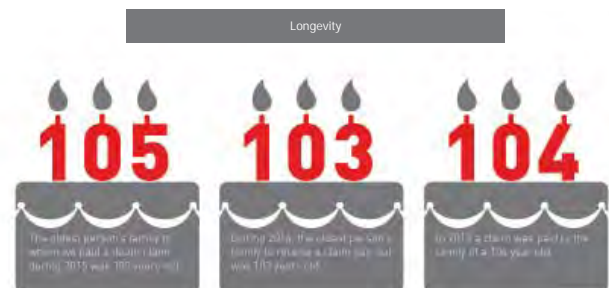
Van Niekerk says that this issue touches a personal cord in many families. He adds that research done by Professor Michael Herbst, Head of Health at CANSA, shows that Prescribed Minimum Benefits (PMB) are not sufficient for cancer.

Herbst pointed out that the Medical Schemes Act only makes provision for so called treatable cancers under PMBs. Treatable cancers refer to cancers that have not spread beyond the organ of origin

or the organ was not damaged beyond repair. He further added by saying that most schemes do not have a specific disease management process for oncology and patients are often left stranded when radiology and pathology benefits have been exhausted.

The cost of not having critical illness cover

The above proves conclusively that the need for critical illness benefits will always be there. In order to have access to the latest medical technology, clients will have to be able to afford this.



"The problem at the end of the day involves the choice of the product that will best suit a client's specific needs. This is because although sophisticated medical technology and treatments are already available in the health sector, further developments are constantly being made," says Van Niekerk.

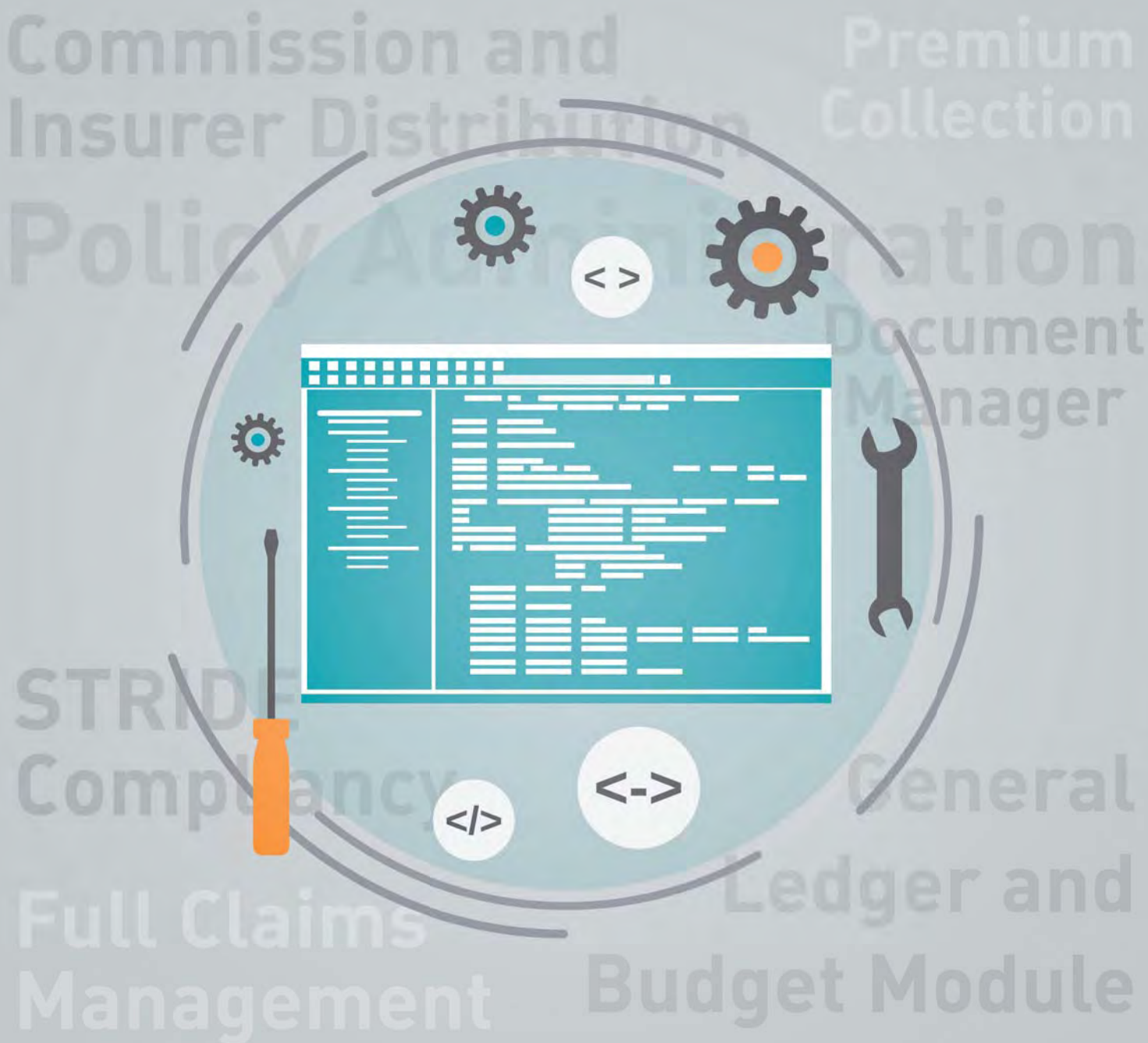
In fact, there seems to be a shift towards more personalised, more accurate and more rapid diagnostic techniques with the single objective of improving the quality of peoples' lives.

The numbers speak volumes

Momentum's claims statistics are an indication of the need for critical illness cover. In 2015, Momentum paid out R398 million in critical illness claims which shows that there is a demand for such cover in the market.

"Brokers may also be noticing that some of their clients are living longer. Longevity can become a problem because as age increases, the likelihood of contracting a critical illness also increases. If we add longevity into this, clients are living longer with a critical illness than ever before," says Van Niekerk.

There has never been a more important time to sell critical illness products than now. ●



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#Harness the power of social media

In a world where 'chatting' with friends and family is done mostly electronically, brands are looking for new ways to engage with their clients.

Broad adoption of social media is a global phenomenon, and in an increasingly technology enabled South Africa (half of all South African's are accessing the internet), using social media to create two-way communication with clients is vital.



Looking for benefits

For insurers, the immediate benefits of social media are obvious and include better exposure to potential clients and higher engagement with existing clients.

Many clients may also expect certain brands to be active on social media because larger brands, such as Discovery, already have a strong presence there.

Certain demographic groups, specifically the Millennials, prefer an online and accessible relationship with their preferred insurer, rather than being cold-called or forced to follow the preferred channel of communication as in the case of larger insurers.

Creating bespoke product offerings using input from social media will become more popular in future and will also be a great differentiator in the insurance industry.

Present what you stand for

Direct insurers are dominant in the social media space. However, there are many opportunities for brokers, advisers and intermediaries to build relationships through social media with new and existing clients.

Writing articles and responses to topical and trending events that people find helpful and insightful is a great way to not only get exposure, but also to establish yourself as an expert in the field and present what your brand stands for.

Quick on the draw

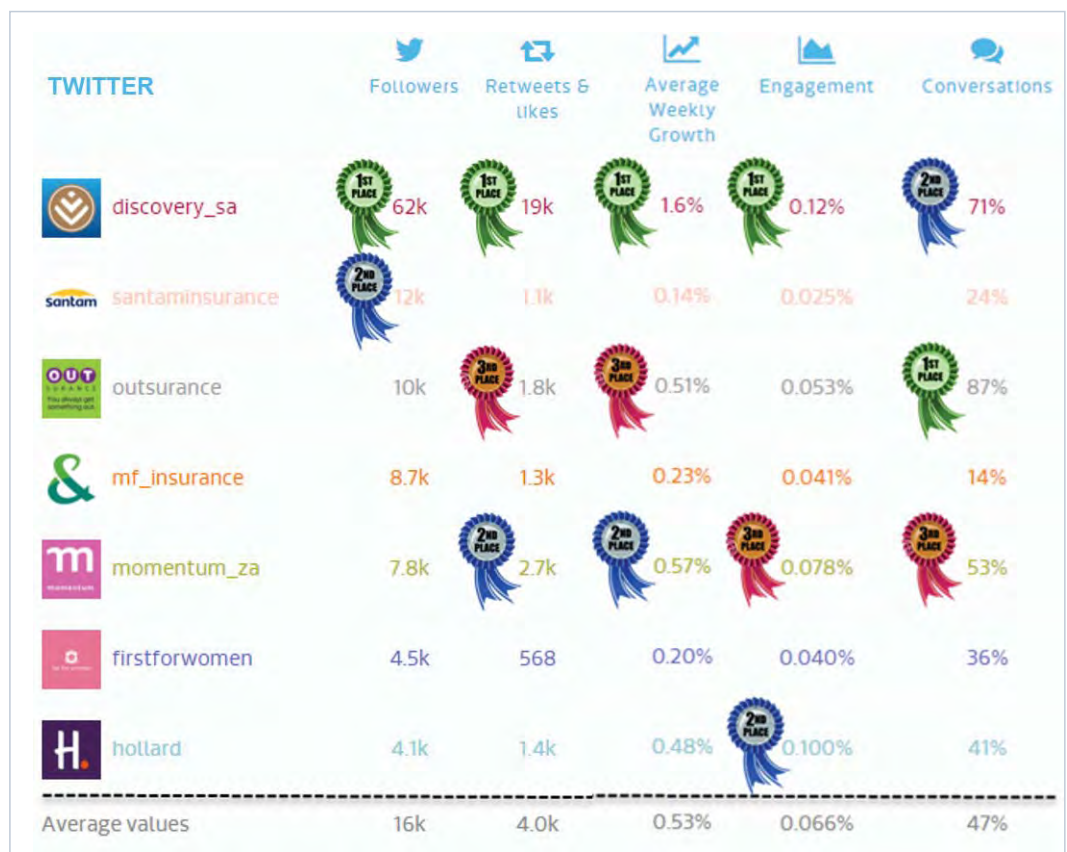
Each platform has its own best-use cases. On faster moving platforms, such as Twitter, where the half-life

of a tweet is 24 minutes, people are looking for real-time expert responses on topical matters (such as a keynote government speech) and trending topics.

Direct insurers often have longer turnaround times to ensure compliance, so this should be used to your brand's advantage. On Instagram, people are looking for thought-provoking and viral images, and accordingly, fostering brand ambassadors is a better approach here.

Blogs are a great resource for intermediaries as people can subscribe to a blog, but not to a website. If you use LinkedIn as a business tool, consider publishing helpful and insightful articles in specialist groups targeting potential customers, such as small business owners, instead of your potential competitors, such as brokers.

Studies have shown that the average online South African spends



2.7 hours each day on social media. On average, each user actively uses three social media platforms. Today, it has become essential for brands to have a strong online presence, and Millennials are actively looking to be insured by companies that engage with them socially; providing them with the most convenient and user friendly experience.

Effectively using social media

For insurance brands to make the most of social media, posts should be brief and to the point, longer articles should rather be linked back to the brand's website or blog.

Insurers and marketers should make use of Google Search Trends to stay current and to use trending phrases of the target audience. Studies have shown that the optimal number of hashtags per tweet is just two. More than two is shown to lower engagement.

We are living in a world of digital natives; the children of today are born into a world of technology and are captivated by it.

These are the clients of the future. Can you afford to be absent on the platform they engage with the most? ●

Graphs: Enteect



Chris Nezar
Technical Lead
Enteect Software

FACEBOOK	Total Likes	Share of Voice	Activity	Endorsement - Ppl Talking About	Engagement Rate	Engagement - Page Checkins
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	45 969	29.5%	1.3	438	0.01	
	45 384	13.8%	0.9	1,299	0.03	3 204
	26 220	18.1%	1.2	212	0.01	5
	25 516	13.7%	1.7	927	0.04	
	21 535	8.8%	0.9	208	0.01	
	15 032	16.2%	1.2	105	0.01	

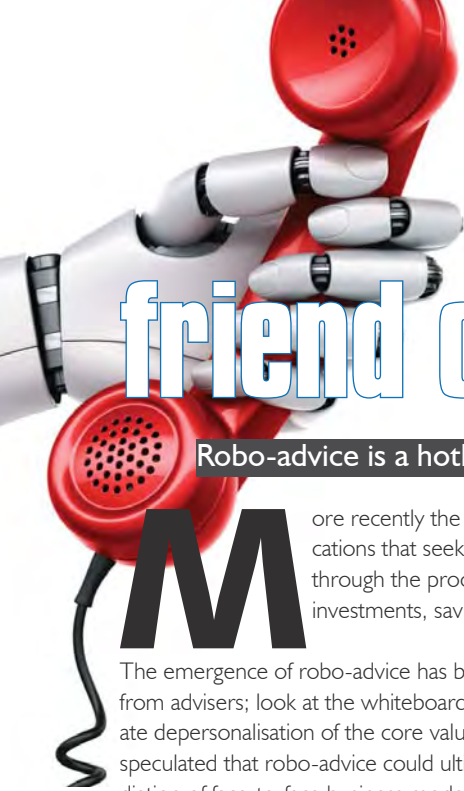
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ROBO-ADVICE:

friend or foe to the adviser?

Robo-advice is a hotly debated topic, both with regards to the term itself and what it represents.

More recently the term has been applied to applications that seek to advise, or guide, consumers through the process of selecting packaged retail investments, savings and protection products.

The emergence of robo-advice has been met with some concerns from advisers; look at the whiteboard next to you as the inappropriate depersonalisation of the core value of personal advice. It has been speculated that robo-advice could ultimately lead to the disintermediation of face-to-face business models.

Others believe it offers an opportunity for advisers to better engage with clients and to make their businesses more efficient. So how has this progressed to date and how can advisers best take advantage of this?

The direct landscape

Due to the relative infancy of the direct landscape in South Africa when it comes to investing, the US is used as a barometer of the success of robo-advisers in attracting assets under management (AUM).

Investment News reported in January 2016 that the assets under management (AUM) for robo-advisers in the US grew by 209% year on year to \$11.7bn from January 2015 to January 2016. This is while hybrid robo-models, typically deployed by large existing investment providers, grew their AUM over the same period by 53.76% to \$136.9bn. While these are material nominal AUM, it is important to note that this represents only 0,5% of AUM in North America.

Global trends

The Boston Consulting Group, in their Wealth Manager Performance Benchmark Report of 2015, highlighted and ranked the top investment priorities in global financial services provider businesses by the percentage of total investment allocation as follows:

- Improve sales force effectiveness (17%);
- Enhance digital interfaces (14%);
- Develop a digital adviser channel (10%); and
- Develop new client segments (6%).

These priorities show clear investments into multichannel strategies underpinned by technology solutions to provide scalability and efficiency to enhance the overall customer experience whilst improving business efficiency and supporting human sales channels.

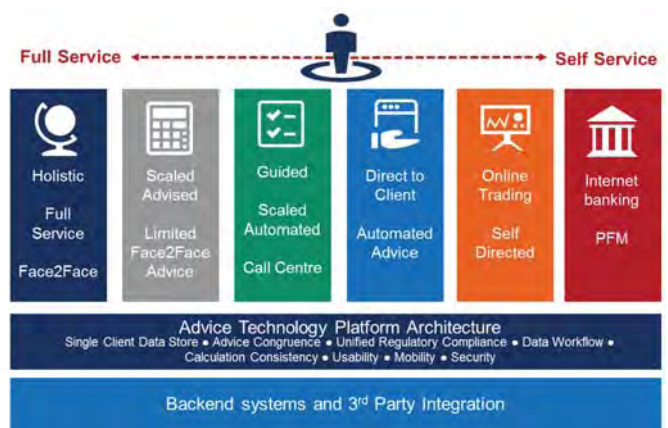
Digital channels as strategic assets

Financial institutions wishing to adapt their business models to take advantage of the new regulatory and customer environments will need to strategically employ technology.

Technology platforms need to incorporate an integrated suite of client front office applications, with a common infrastructure connected into multiple backend support systems.

This needs to be done while remaining logically consistent across these systems and supporting evolving and changing client value propositions and compliance requirements; whether it is to extend existing value propositions, or to develop new ones. It is important to maintain a single client view and advice congruence in an omnichannel advice environment.

The following diagram illustrates the high level architecture of an integrated technology platform:



Multi-advice multi-channel

Whilst initially many robo-advice services were developed by new market entrants as disruptors to the traditional advice businesses, the growing trend is alignment closer to traditional investment businesses as a complementary service solution and vice versa.

Market adoption indicates that robo-advice serves a dual purpose, firstly to introduce and develop new underserved market segments in financial products and services; and secondly to enhance the service levels and expand the range of products and services to existing clients of traditional advice businesses.

Robo-advice should not be viewed as an adversary or alternative to traditional advice models, but rather an opportunity for advisers to grow and scale their business as part of a multi-advice, multi-channel proposition.



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JUNK – what is the

How bad is it really? Will the downgrade affect companies? And if it does...how will it affect them? FAnews caught up with Lesiba Mothata, Chief Economist at Investment Solutions to find out what junk status might mean for South Africa.

What is the chance of South Africa being downgraded to junk status?

There is a significant chance that Moody's Ratings, which has a better credit assessment than Standard and Pooors and Fitch, will catch up and downgrade South Africa to the bottom end of investment-grade credit quality.

Markets have fully priced-in this possibly, and have already begun to discount a situation where Standard and Pooors pushes South Africa into sub-investment grade by year-end.

Movements in domestic bank shares, government bond markets and derivative markets (credit default swaps) all suggest investors expect South African debt to be sub-investment grade within the next 18 months. The probability of a junk-status assessment for South Africa is more than 50%.

If junk status happens, what are the direct implications for companies operating in the rest of Africa and in other countries?

The effect on financial services companies depends on whether the junk status downgrade is orderly or not. A disorderly downgrade has the potential to significantly increase the cost of funding and result in a deep recession.

Given that South Africa remains firmly in investment grade on its rand-denominated debt issued by the National Treasury, a downgrade to junk status is expected only on the foreign currency-issued debt. International credit rating is important, but for financial services firms with large exposure to South African Rand-based income and assets, the effect of junk status may be limited.

The cost of funding will certainly increase for these firms, but the investment grade that is likely to be maintained on rand-issued debt will cushion the possible negative effects.

The feedback from operations based in sub-Saharan Africa and elsewhere is channelled primarily through the Rand. A depreciation of the Rand could improve earnings derived from overseas markets. An orderly downgrade may result in some depreciation of the Rand, given that the local currency remains grossly oversold, but there is a greater probability of it strengthening to below R14 to the Dollar.

Open any newspaper, and a topic that stands out is the demise of the South African economy and its impending downgrade to junk status.

STATUS bottom line?



Lesiba Mothata
Chief Economist
Investment Solutions

However, factors negatively affecting the Rand remain: possible additional Fed rate increases, a continuing slowdown in the Chinese economy and the related decline in commodity prices, and possible capital outflows from broader emerging markets.

Even if it were to sell off further, the Rand may pull back but stay in oversold territory. The rand-hedge properties of countries earning revenue from South Africa and elsewhere will remain a benefit.

Have South African companies already been affected by the recent downgrades?

Spreads between South African debt issued in global markets and US Treasuries of similar maturity have increased substantially in recent months, indicating the cost of funding for domestic firms has become dearer.

Large corporates aiming to raise finance in international markets have begun to pay more on such debts, and the cost to investors of insuring debt against company defaults has also increased.

In this environment of weak domestic growth and surging inflationary pressures, companies are likely to see falling profit margins and potentially intensifying payroll restructuring. There has been a sharp rise of retrenchments in mining and non-mining industries, which has added to the already dire employment situation in South Africa.

How bad is junk status for us as a country?

Investment Solutions' study of countries similar to South Africa that were dropped to sub-investment grade shows it takes, on average, six years to recover. It took 12 years for Colombia to regain the coveted investment grade after it fell from grace in 1999 due to high fiscal deficits and large debts.

Romania, given its large public sector wage bill and pension benefits combined with robust credit creation, was tipped into junk in 2008 and took six years to recover to investment grade. South Korea, however, took just one year to bounce back after being burnt in the 1997 emerging-market crisis that saw bankruptcies surge in the heavily subsidised conglomerates (chaebol) sector.

So recovery can be slow or quick depending on how the authorities respond. In the Colombian case, the authorities continued with constitutionally mandated revenue transfers to municipalities, tightened fiscal policy, maintained a large stock of debt and undertook limited reform well into the sixth year of the downgrade.

In contrast, authorities in Seoul moved quickly to introduce labour flexibility, reform the banking sector, and offer no guarantees to state-owned enterprises. Within six months, although countries normally in a crisis as severe as South Korea's are ostracised from global capital markets, Seoul was able to issue a bond in foreign

currency given the high level of confidence of international investors in the credibility of the turnaround efforts.

How bad can junk status be for South Africa?

It really depends on how authorities respond. A Colombian-type snail's-pace response will result in a longer stay in junk. An agile, fast-paced response similar to South Korea's could see asset markets responding positively.

What will it take for South Africa to move up from junk status?

Implementing economic reform aimed at lifting South African growth is the only way to regain investment-grade status. As seen in all three cases - Colombia, Romania and South Korea - with varying degrees of determination, opening up the economy, making labour markets flexible and ceasing costly guarantees to non-performing state-owned enterprises could quickly turn around the decline.

The South African delegation that engaged investors during an international road show in March returned with plans to re-emphasise small and medium enterprises in the growth strategy by examining the many institutions available for small business funding, repositioning vulnerable industries such as agriculture and mining, and also prioritising industries with large job-creation multipliers such as tourism.

It was promised that by May a detailed plan of action with clear, implementable milestones would be announced. These could contribute significantly to growth if properly constructed. However, the proof of that pudding remains in its implementation.

Will junk status affect the adviser dealing with the investor-in-the-street?

Clients have been deeply concerned about the potential effect of junk status. While there should be discomfort about the potential outcome, nuances need to be considered.

Little media attention is placed on the difference between debts issued by the National Treasury in local currency (Rand denominated) and foreign currency (allotted in international Eurobond markets, mostly US dollars).

Of the total stock of debt, the lion's share issued by the Treasury is in rands (90%), while the remainder (10%) is allotted in foreign currency. All three rating agencies have a better credit-quality rating associated with the 90% of issued debt in local currency.

South Africa is firmly in investment grade on this measure, which is higher than the near-junk (or sub-investment grade) rating on the international debt. If South Africa is downgraded to junk for the latter, it will have an effect, but it will not be the end of the world. It would take a significant event for the 90% of rand-denominated debt to be tipped into junk. A catastrophic event similar to an Arab Spring could prompt such an outcome. ●

SHOULD I STAY OR SHOULD

More on succession planning and selling your practice

Information about selling an advisory or broker business is surprisingly difficult to find in the South African market. Buyers are rife, but sellers are not keen to openly announce their intentions.

There are quite a few obvious reasons for that, but this makes life difficult for those who are keen to buy. Regulatory changes also steer a few brokers and advisers in a direction where they either want to merge, become tied or bank brokers or just get out of the industry after they have built their businesses over many years. So what is the first step and how much is your practice really worth?

FAnews asked a few industry experts some relevant questions in this regard so that we can get the conversation around this topic going.

Succession planning has not always been top priority; but to be without one is not an option anymore. What do we see in practice lately?

ALEX COOK - The Financial Services Board (FSB) through RDR and external compliance officers, are starting to become more insistent on there being an executable succession plan in place in order to protect the client base. While we find that most still do not have an executable plan, the hunt for viable solutions is increasing.

DANNY JOFFE - Corporate brokers and larger independents have larger staff compliments and larger skills bases so they are far more geared to have succession plans in place. The smaller owner managed

brokerages are very reliant on the top management of the company for all activities performed and have almost no succession plans in place should those owner managers ever decide to leave the business or take more of a back seat.

PAUL KRUGER - It forms part of the annual FSB FAIS report, so those not complying are playing Russian Roulette. Treating Customers Fairly (TCF), as the foundation on which all future market conduct regulation will be built, adds another dimension to this requirement.

What is the most important part of a succession plan?

ALEX COOK - The three parties in a succession plan is the existing adviser, the potential successor and, most importantly, the client. All three have the same goal, which is to ensure that the client receives the same (or an improved) level of service. In so doing, both the existing adviser and the potential adviser will also achieve their business goals. The existing adviser will obviously maximise the business's value, while the potential adviser will be purchasing a solid foundation on which to build. As always, agreeing on the appropriate sale price of the business will be difficult.

As a rule of thumb, businesses with established annuity revenue and strong existing relationships in place could expect to negotiate a price in the region of ten times their annual revenue. These businesses would typically be in the investment, medical, employee benefit and short-term sectors.

The picture is somewhat different for those companies that rely on large initial fees from life insurers. These could be considered as two year loans because if the client cancels during that period, the adviser's fee would be clawed back by the insurer. Life is thus a more risky type of business, and crafting a succession plan that works for all parties

is harder. The potential successor needs a large force of hungry wealth managers who are motivated to develop long-term relationships with clients in order to develop a stream of annuity revenue from the existing clients.

DANNY JOFFE - The main issue around succession planning in the short-term industry is having skilled experienced individuals willing to step into the shoes of the previous leadership of the brokerage once that leadership exits the business. The new leadership must be skilled to manage the company strategically as well as run the important client accounts from a FAIS and relationship perspective.

PAUL KRUGER - Succession planning is all about the client, not the adviser. It seeks to ensure service continuity in case the adviser dies, becomes seriously ill or wants to sell his business, so the nature of the business does not really matter.

The decision has been made to sell. Which methods are used to value a business?

ALEX COOK - With RDR and the increased cost of being in business, the frequency of outright sales or exits is increasing. These are often the most successful successions as the existing adviser is in a position to be involved for a period of time making the transition smooth and maximising client retention. The higher the client retention, the higher the eventual price the business will realise.

There are a number of ways to value a business, some of them include:

- A payment equivalent to a multiple of the annual revenue. This would usually be in the order of 1.5 to 3 times, and only annuity revenue would be used in the calculation. The payment is usually staggered over a period of time. The capital raised would not generate enough income to replace the income generated

I GO?



by the business.

- Larger, more-developed businesses could be valued using a true price-to-earnings multiple, which looks at the true profitability of the business after all expenses. Importantly one of these expenses includes the revenue paid to the actual adviser.
- A percentage of assets under advice, where the purchaser takes into account the assets on which the current adviser is advising, and multiplies those assets by a percentage to arrive at a value.
- Future annuity income in order to provide the seller with annuity revenue for life. The concept is that the seller participates actively in the transition to ensure that client retention is maximised. Typically, this sort of annuity works out to around ten times the annual revenue. The big advantage is that the seller can replace the income he or she used to get while being an independent, something that is not possible when using the other methods.

DANNY JOFFE - Currently the value is calculated based on a multiple of annual income of the brokerage being fees and commission. The multiple varies on the growth of the business as well as success. If the owners value it highly, they will use a higher multiple. As stated above there will be a price adjustment based on the number of clients committed and the number of

clients that are still there after a full year. This is to make sure the old owner works hard in that year to make sure the business remains and that the value is fair.

PAUL KRUGER - There is a number of calculations. Usually the retention of business will determine the real value of the business. Where there is a high lapse/turnover rate, one would not be prepared to spend too much money on a shaky business. Short-term books normally have a more constant income flow, based on an as-and-when basis. For life and investment business, upfront commission forms the bulk of the income, followed by trail commission afterwards. Under the new RDR proposals, there may be bigger on-going value in these practices.

How different is the perceived value (of the seller) versus the real value of the business when discussions around this topic start?

ALEX COOK - It can be very different. Some reasons for the gap between real and perceived value could include:

- The seller discounts the value of his or her own input to zero, effectively inflating the business's profitability because no salary is accounted for;
- Key man risk: the seller underestimates the importance of his or her role in the

business;

- Margin: The seller overestimates the net margin that the business generates after all expenses;
- Annuity revenue versus initial revenue: The greater the volume of annuity revenue the greater the value as a rule; and
- Life business: The more life business is written, the lower the value of the business. This is because receipts effectively represent a two-year loan from the life company which may be clawed back if the insured person cancels the policy.

DANNY JOFFE - The value is normally different as the clients are often there because of the current leadership of the brokerage and the relationship. This can change when the leadership leaves as the relationship is often very important. The owner also often has big expectations for the growth of the business which is often unfounded and this affects the multiple used to value the company.

How does the broker-client relationship influence the value of a business?

ALEX COOK - The relationship between the client and adviser is the key to the business's value, and everything has to be done to transfer that relationship to the new adviser. One of the best ways to achieve



SHOULD I STAY OR SHOULD I GO?

this smooth handover is for the seller to join or work alongside the new company for a while. The closer the clients are to the current adviser the more they realise the adviser cares about them and the smoother and more successful the integration.

In cases where the relationship is not that strong, it is often possible for the new adviser/broker with the right approach to uncover a lot of value. This is only possible, of course, if the purchaser has both a strong value proposition, and a strong team with the capacity to take it to the client base. How the purchaser assesses the closeness of the seller's relationship with his or her clients will always be a grey area, more of an art than a science. As in any transaction of this nature, performing a thorough due diligence is critical.

PAUL KRUGER - My recommendation is always that the buyer contracts with the seller to stay on as a relationship manager for at least a year or two after conclusion of the deal. This is also in the interest of the seller, as his remaining payments will be dependent on business staying on the books. One of the first aspects to consider is how closely the potential buyer resembles the seller's approach to their clients. Conflicting views on client care is a recipe for disaster.

What should the seller look for in a potential buyer?

ALEX COOK - Sellers should consider the following issues when looking for a suitor: Decide what their current culture is, and what they would want from a merger partner? What would their clients want? How important is independence to them and their clients? Would they be happy to recommend that their clients rely on one company's products? A few more things to look for in the news company: systems, contracts, licence categories, staff qualifications, RDR readiness, merger experience and technology.

PAUL KRUGER - Sellers should look for compatibility in business approach and business ethics.

An adviser/broker has made the decision to sell. Where do they start?

PAUL KRUGER - A good set of guidelines can be found on Centurion Market Makers' website, which is an Australian company www.centurionmarketmakers.com.au.

What can we learn from our international counterparts?

ALEX COOK - Margins are likely to remain under sustained pressure as technology is making everything more transparent, and the obligations of RDR will add further overheads. As a result, consolidation is inevitable.

The final word on a tricky business

ALEX COOK - An all-or-nothing approach often does not work. In most cases, it is ideal for the seller to continue servicing the 20% of his or her clients that

represent 80% of their revenue and to hand the 80% over to the new adviser/broker, from whose efforts they would earn revenue. At the same time the administration, compliance, overhead and management burden of the whole client base would have to be reduced in order to maximise time. This is one of the key benefits the purchaser should be able to provide through better systems and processes, along with economies of scale.

PAUL KRUGER - The market conduct authority, which is to replace the FSB, will be more outcomes focused. We recently commented on enforcement action where the potential for poor client outcomes led to a fine of R150 000. Similarly, you do not only need to have a TCF tick list as part of your business – it needs to be a living document which is lived out every day. Succession planning will be tested against his as well. If you only have a succession plan because you are legally required to do so, hard times await you under the new dispensation.

There are many options available. Whilst many advisers still do not have a proper plan in place, it makes sense to think about the future before it is too late.



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A tree with strong roots FLOURISHES IN LIFE

South Africans have a poor culture of savings; the vast majority of people who do save, put away less than 8% of their salary toward retirement.

Of those who save, 69% cash out their savings before retirement, compared to 31% who choose to preserve their savings when they leave work. This leaves them financially vulnerable as they would not be ready to retire and continue to lead a comfortable lifestyle where they provide for themselves.

But what if the savings story was different? Some say a tree with strong roots flourishes in life. If savings is your root, you will flourish in retirement.

The longevity factor

Exacerbating the retirement savings challenge is that a growing number of people are living longer in retirement. The number of people living beyond the age of 100 has been doubling worldwide each decade, and is expected to reach 2.2 million by 2050. For South Africa, this trend would add over 10 million pensioners to the country, placing a burden on resources if the savings culture is not radically changed.

There is a 47% to 55% increase in duration of clients' retirement period. This leads to clients needing more money in retirement, which their accumulated savings often cannot provide.

The importance of shared value

The concept of shared value is to align a company's performance and success by addressing social needs. Using this approach, clients, companies and society as a whole benefit together.

The concept relies on consumers doing what is best for themselves, and this is what also creates the best value for the company.

Making shared value work

Using this approach, Discovery Invest is using its own revenue generated by the combination of increased longevity and improved persistency to create two new benefits to boost clients' retirement funding at no additional cost.

The solution tackles savings in two equally key periods: prior and post retirement. Before retirement, clients can plan to retire with increased savings through the Retirement Upfront Investment Integrator. They are provided with the ability to boost their retirement savings upfront by up to 15% based on their retirement term.

This encourages clients to start saving earlier, therefore helping to address a poor savings culture. With a focus on long-term savings, coupled with immediate value upfront for clients, the risk of running out of retirement savings due to increased longevity is reduced. This allows clients to retire with greater peace of mind.

Enjoy retirement

After retirement, the approach aims to reward clients who are leading



healthier lives, by turning their good health into an asset.

In a unique approach, the Retirement Income Investment Integrator is an investment structure that uses health benefits from Vitality to reward clients for conserving their retirement savings and for looking after their health.

The Integrator provides clients with boosts to their annuity income of up to 50% for ten years. Again, by making people healthier and encouraging them to withdraw appropriately from their retirement savings when they reach retirement, means that their overall fund values remain invested longer, which in turn allows Discovery to earn its fees for longer. It is this positive behaviour from clients that enables Discovery to boost their clients' income so dramatically without charging them anything extra.

This solution is relevant in the current South African environment because with this boost to capital, clients are rewarded for making smart financial decisions and living healthy lifestyles.

Because these investment solutions harness both the impact of longevity and persistency, it ensures that it is relevant to clients and the modern world they live in and are likely to retire in.

Investment products should not be innovative for the sake of innovation. They have to be relevant and address real challenges; an approach using this shared value model is a powerful step in solving the structural savings challenges facing our country.



Craig Sher
Head of Research and Development
Discovery Invest



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The era of self-regulation: TARIFF COMMITTEES

This article continues to outline the development of insurance regulation.

► IN PERSPECTIVE WITH PROF VIVIAN ►►►

We reached the point, in 1844, when the UK parliament passed legislation allowing companies once again to be formed. After the passing of the British Assurance Act in the early 1900s, a single Act regulated the insurance market.

The main legislative requirements were that £20 000 be deposited with the government as well as annual financial statements. However, no regulator in the modern sense was established.

Freedom with publicity

Since the financial statements became publicly available, the regulatory mantra was 'freedom with publicity'. Insurers therefore maintained a good deal of business freedom provided that their affairs and financial positions were made public in such a way that it could be independently examined.

Lloyd's, on the other hand, had the Committee of Lloyd's which could exercise oversight of the Lloyd's market. Initially, no similar and comparative oversight mechanism existed for the corporate market.

United Kingdom

In the early 1800's, insurers started to co-operate on a range of issues and in 1868 the Fire Offices' Committee (FOC) was formed, which fostered co-operation on a wide range of matters.

This system became known as the tariff and the FOC was responsible for administering the fire tariff. The FOC never had a formal constitution nor even adopted a statement setting out its aims and objectives until June 1970. The tariff itself existed in a documentary form, a book, which grew ever more comprehensive as the years passed. The tariff contained model policy wordings in addition to minimum premium rates. It was in this way that the corporate market was

self-regulated. The premium rates were of course set high enough to ensure the viability of the market. Tariff committees were formed for different classes of insurance.

Not all fire companies joined the tariff. Tariff companies were very unhappy that there were non-tariff companies which would not join the tariff. When, for example, the CII was formed, which concentrated on insurance education, tariff companies wanted to exclude persons who worked for non-tariff companies from becoming members of the CII. In any event the tariff system spread to other parts of the world.

In 1970, the UK Monopolies Commission started to investigate the tariff system and submitted its report to Parliament in 1972. The commission concluded the tariff system could not be redeemed (par 395) - 'we see *no alternative to [the] abolition of the system as a remedy*' and with that it concluded that the FOC, with its tariff, should be terminated. As tempting as it may be to believe that the commission ended the tariff, there were also other factors. Tariff agreements are in any case very difficult to maintain in practice. They are unstable in the long run.

On the other hand, the tariff was very successful in warding off insurer insolvencies. Between the 1960s and 1970s, a number of the UK insurer insolvencies occurred. These were largely (if not exclusively) drawn from the ranks of non-tariff companies.

The tariff committees thus operated for nearly a century in the UK. Their demise thereafter left a regulatory vacuum which was soon filled in an unexpected manner as will be indicated in a later edition of this series.

United States of America

The US is a federal system and powers that are not assigned to the federal government remain with the individual states.

In terms of the Constitution the federal government was responsible for interstate commerce. *Paul versus Virginia 1868* is a seminal case in the federal versus state-based regulatory controversy.

Mr Paul was an intermediary who placed business in Virginia with New York insurers. The State of Virginia argued that state legislation applied to Mr Paul, and accordingly that he, even as an out of state agent for a group of New York fire insurers, was required to be licensed by Virginia and pay a security deposit. Paul refused to pay the deposit and accordingly was fined thereafter. Mr Paul argued that the sale of insurance across borders constituted interstate commerce and therefore was subject to federal laws and not state laws.

The matter went to court, which had to decide if insurance formed part of interstate commerce making insurance subject to federal legislation. The US Supreme Court decided that insurance was not commerce in terms of the Constitution and that settled the matter. Insurance was a state matter, to be regulated by state laws.

In 1944, the matter was reconsidered in the *South-Eastern Underwriters Association (SEUA)* case. The South-Eastern Underwriters Association looked suspiciously similar to the UK tariff committee. It regulated everything, including premiums. By that stage, the Federal Congress had passed the Sherman Anti-Trust Act (1890) which prohibited any monopolistic business practices. The SEUA was prosecuted for its anti-trust conduct.

The SEUA raised *Paul versus Virginia* pointing out that insurance did not fall under the purview of federal legislation and therefore that the 1890 Act did not apply to state insurance. The US Supreme Court changed its mind and decided that insurance was in fact a federal matter. The states and industry were both outraged and persuaded



Congress to pass the McCarran-Ferguson Act in 1945, which exempted insurance from federal legislation as long as state legislation was in line with federal legislation.

The state tariff committees were closed down as regulation of insurers was transferred to state regulators. In this way the US insurance market became one of the most regulated markets in the world.

The history of US insurance regulation demonstrates an important point, and that is that each country has its own unique history.

South Africa

There is little doubt that South Africa followed the UK system. By 1898, six fire tariff associations had been formed. These were in Cape Town, Port Elizabeth, East London, Durban, Johannesburg and Pretoria. Even at this early stage plans were put in to place to establish a central body, the Fire Insurance Council for South Africa, which was formed in the early part of the 1900s.

It does not appear as if any of the original documents concerning operation of tariff committees or the Council survived, except for possibly some records held by Mutual & Federal. Some tariff books survived. The demise of the tariff in the 1970s in South Africa, following the UK, was traumatic. For a while there was concern that there would be a market meltdown. It is not clear if the demise of the tariff caused the problem or if it simply happened to coincide with the

downside cycle of the market.

Eventually, the then registrar who was concerned about the instability of the market summoned the insurers and required them to come up with a proposal to instill discipline in the market. Insurers arrived at a market accord in terms of which they would not quote against each other unless their quote was considerably below the prevailing price. The market eventually stabilised and became used to operating without the tariff.

After a few years insurers found that they were being asked by leading brokers to approve specific policy wordings. Insurers found this to be a time consuming exercise and eventually suggested that a working committee be established involving the brokers and insurers to agree on a model wording. This gave birth to the MultiMark series of policies. Although the MultiMark policies are conceptually similar to the model policies of the tariff, according to persons who were involved in the MultiMark exercise, there is no link between the two.

In light of these developments, it is interesting to note how regulation has prevented the natural development of sound market practices. Common sense dictated that a committee consisting of brokers and insurers should develop model policies. The development of model MultiMark policies was abandoned for fear that this may infringe the competition legislation.

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DASHCAMS - the dawn of justice

In a world where information is freely available in a number of forms, dashboard cameras and CCTV cameras can play an important role in recording and presenting the facts about driving behaviour and the management of insurance claims.

While verifying a claim, it can be very difficult for any insurer to determine who exactly caused an accident.

Footage from dashboard cameras and CCTV cameras could be useful to support a claim and to apportion blame after a collision between vehicles.

As a result, we could soon find the development of insurance products linked to having a video camera in your vehicle as video footage from these devices can significantly reduce claim-processing time and cost for insurers.

There were recently two horrific accidents in KwaZulu-Natal and Gauteng where trucks had skipped traffic lights, and as a result collided with other vehicles fatally injuring people. In both instances dash cams and CCTV footage could determine the correct facts and who was at fault.

Stacking the benefits

There are many reasons why dashboard- and CCTV cameras are beneficial in the management of claims by insurers.

■ It gives a clear identification of cause and evidence of an accident

When someone is involved in an accident, footage can be the perfect eyewitness and real proof of what had occurred and who was at fault. Dashcam and CCTV footage could be the only real way to substantiate your claims in the court of law.

■ It can assist to fight corruption and fraud

There are dishonest people who will

purposely cause or create a collision or allege that an accident occurred and then blame the other party or supply insurers with false or fictitious information regarding an accident.

Dashcam and CCTV video footage can provide the perfect mechanism to stop these fraudsters in their tracks.

■ It prevents vehicle abuse and confirms responsible driving

By installing a dashcam in your vehicle, you will know exactly how a driver handled your vehicle. This can be very helpful for a claims examiner to track the movements of an incident driver should the need arise during the verification of the claim.

■ It assists in the reconstruction of an accident scene

Video footage from dashcams and CCTV cameras can be very useful in the reconstruction of an accident scene to determine what, or which party, caused the accident and the consequential damage and loss thereof.

Automatic Number Plate Recognition

Automatic Number Plate Recognition (ANPR) by all cameras on the road is one of the tools used in an investigation process. Information collected allows organisations, which have a valid interest in terms of crime prevention, access to the sightings of these specific vehicles.

We need to tread carefully here. If a case does land up in court, the license plate of any other car involved in the accident can only be freely used if it is not visible. If it is visible, you would have to get consent

from the other driver as a license plate number provides access to a host of information.

A vital partnership

There is a system in use in the industry where a fraud detection company has launched an initiative driven by Data RE. This partnership involves the private sector, government, residential associations and security organisation's across the country as well as its neighbours. Each vehicle sighting is recorded and stored with the GPS co-ordinates, metadata, and an image of the vehicle as it passes an ANPR point.

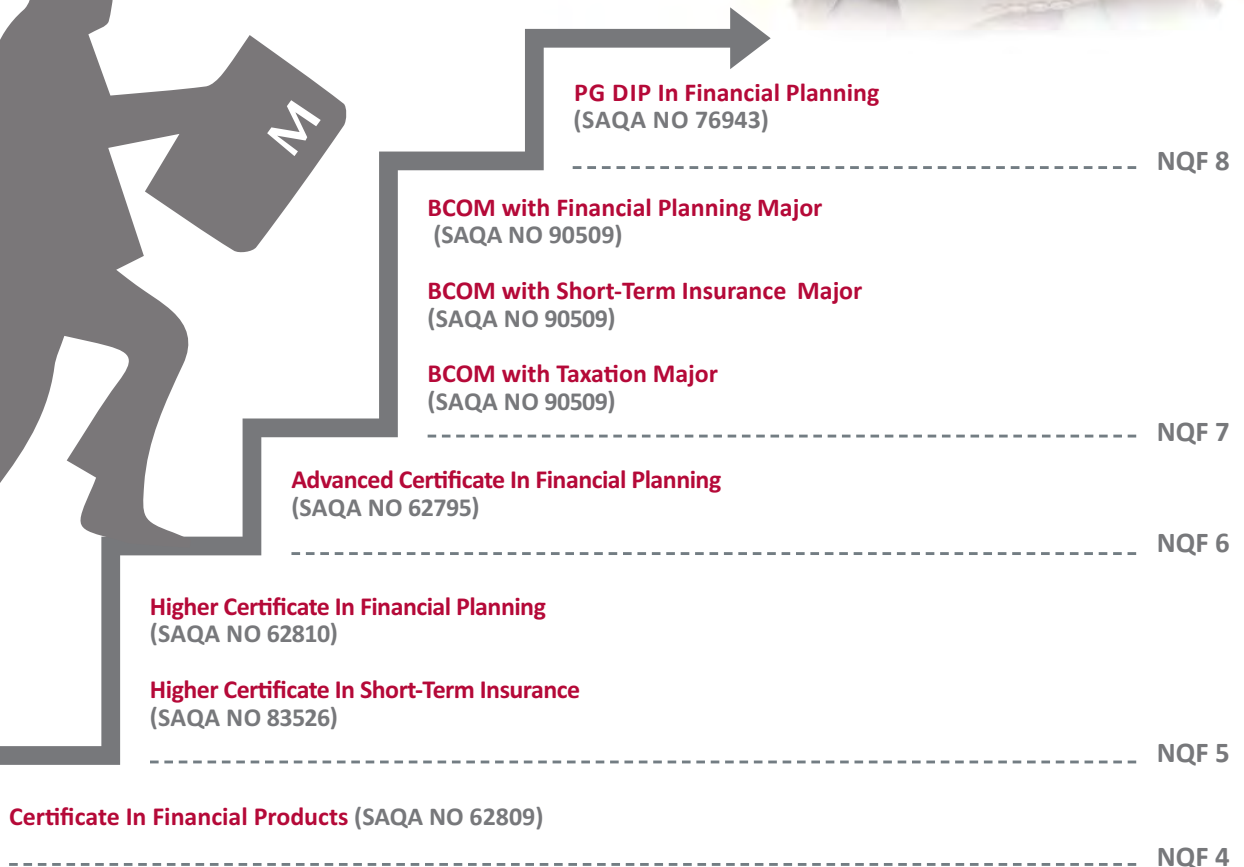
It has been proven in the last few years that companies which are able to adapt and optimal utilise technology, are the companies who are successful and profitable. It is therefore important that insurers and other role-players make use of CCTV and dashboard cameras in the management of claims, criminal and civil cases.



Johan van Dyk
Executive Head
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Teenie, meenie, miney, mo

For an insurer and Underwriting Management Agency (UMA) to be competitive, the right choices need to be made.

South African insurers often have financial interests in multiple UMAs. To debate whether this trend benefits the market or not, one first and foremost needs to have a basic understanding of what it means for an insurer to own or support a UMA.

Pieces of the puzzle

A UMA may be owned (i.e. equity ownership) by an insurer, and this ownership can differ from a minority ownership of less than 50%, to a majority ownership of more than 50% but less than 100%, to full ownership of 100%.

Across the industry, we find a multitude of different practices these days wherein some insurers:

- insist on some degree of ownership of a UMA;
- insist on majority ownership of a UMA;
- do not want to have any ownership of a UMA; and
- mix and match according to specific circumstances and opportunities in the market place.

Having said that, we are also seeing many UMAs in which an insurer has zero percent ownership, which means that the UMA has simply entered into a mutually beneficial business partnership with the insurer.

Supporting one or more UMAs

A question I would like to address is how the competitiveness of a UMA is impacted by an insurer that supports one or more UMAs.

In my opinion the support of more than one UMA by one specific insurer (by means of

equity ownership or not) does not curtail the competitiveness of the UMA at all seeing that:

- Each UMA effectively runs as a stand-alone 'mini-insurer' with separate levels of underwriting capacity; reinsurance treaty structures; bespoke product design and covers; individual pricing modes; bespoke claims service; individual corporate culture and specific operating systems; and
- The market benefits from the unique proposition of each UMA as it gives greater access to choice.

There are insurers who are known for having a multitude of different UMAs. Most of these UMAs, however, do not compete in the same market space - whether by class of business or due to some niche within the same class of business. Therefore, each UMA can be seen as a separate competitive entity in the market, even though each one of these UMAs are tied to the same insurer.

In certain instances where UMAs do compete in the same market space (i.e. same class of business, similar product and target market), many specific and tangible differences (as mentioned above) do exist within each one of the UMAs. As such, the competitiveness between the competing UMAs is not compromised in any way.

Distinct competitive edge

Insurers that truly understand and are comfortable with the UMA business model will appreciate that each UMA needs to represent and deliver on the aspects that make them unique - this is what gives the UMA, as well as the insurer on whose

license it is trading on, a distinct competitive edge.

An insurer that wishes to position and enforce its brand, culture, pricing, claims service, systems, etc. into any of its UMAs, is probably not best suited to operate a UMA business model.

In my opinion, despite the concentration of UMAs being attached to fewer insurers as industry consolidation continues, there are still many independently operated UMAs.

Therefore, the market still has a wide degree of choice. In actual fact, there may still be too much competition in the market place as we are seeing many UMAs giving discounts on premiums to levels where combined ratios do not produce sufficient return on capital.

In these instances, important choices have to be made about the future sustainability of the respective brands and business models.



Gareth Beaver
CEO
Centriq Insurance

WHAT ARE YOU WAITING FOR ..?

Centriq Insurance lives, eats, drinks and breathes UMAs ... And no, it is not just another trend; the dynamic insurer is in it for the long haul as can be seen in the diverse portfolio of UMAs they have secured over the years.

A PLATFORM TO BE GREAT

“At Centriq, the strength of the team is each individual member, and the strength of each individual, is the team - a team of world-class and niche insurance role players the company wants you to be part of,” says Vuyo Rankoe, Executive Head: UMA Solutions at Centriq.

WHY PARTNER WITH CENTRIQ AS A UMA?

- We have the know-how and skills to structure sophisticated UMA facilities.
- We value an enduring, sustainable and mutually beneficial business relationship with you.
- We have strong work ethics, values and are loyal to our UMAs
- You keep your independence as we empower and allow you to run your own business.
- We provide you with optimal binder mandates that give you flexibility to underwrite and manage claims
- We offer you secure capacity.
- We are credible, have a reputable track record, and a GCR AA- rating.
- You participate optimally in underwriting profits.
- Cross selling opportunities are explored into our other UMAs

Real value-adds such as the following are also included:

- Working capital to facilitate growth or acquisition;
- Succession or skills attraction opportunities;
- Cutting edge reinsurance;
- Actuarial and modelling support;
- The very best regulatory, risk and compliance support;
- Information technology enablement;
- Scale and efficiency benefits through access to selected group arrangements, including Centriq's procurement network.

“By providing our UMAs with all the essential support they need at a cost factor that is below what they would have had to pay for these services, we enable them to focus on their core activity” notes Rankoe.

ARE YOU A UMA IN THE MAKING?

While there are successful commoditised UMAs, we at Centriq have seen that the UMAs that succeed the most are those who offer:

- Specialised or niche underwriting management services to the market;
- Have a new market to sell existing products to;
- Have a new opportunity or new product to sell within existing markets;
- Have an idea that already exists, but can do it better, faster and cheaper (i.e. through scale, efficiency, technology etc.)

“Overall, the entrepreneurial spirit, specialised insurance skills, products and services that UMAs provide makes it an extremely valuable business model - UMAs are here to stay,” says Rankoe.

YOUR FUTURE AWAITS

Contact Centriq today to become one of our amazing business partners by visiting www.centriq.co.za or calling 011 268 6490.



COMPLYING WITH TERMS in 'utmost good faith'

FAnews read an article 'Discount for an alarm' that was published in the December Short-Term Ombud's Briefcase based on the issue of complying with the terms and conditions of an insurance policy and non-disclosure.

We thought this article would be interesting to share with you, our readers. We also approached a few insurers to get their perspective on this type of claim.

Some background

The issue was that the client had an alarm, but it was not active and he received a discount on his insurance premium for this alarm. The alarm got cancelled without the broker or insurer being informed. Contents got stolen from his home during a burglary and then a claim was submitted. It is important to note that the alarm was not a requirement for cover to be in place, although the client had the alarm and received a discount for it.

The insurer rejected the claim because the alarm did not work. The client went to the Ombud and the Ombud told the insurer to pay.

Principles of insurance

"It is integral for a client to comply with the terms and conditions of an insurance policy to ensure he or she is compensated in the event of a loss. Cancelling an alarm system may jeopardise the client's position when it comes to claims stage," said Marius Neethling, Personal Lines Underwriting Manager at Santam.

Looking at the case above, Neethling said it is an issue of material change in risk, non-disclosure, misrepresentation and non-compliance of terms and conditions.

"In the majority of cases like these, an alarm system would be an underwriting requirement by insurers for the risk to be accepted. An alarm warranty would then be applicable and if the client did not adhere to the requirement in these circumstances the insurer would reject the claim," he said.

"In a case like this, Santam would initiate an internal process whereby our Internal Arbitrator (IA) would evaluate the decision by the Ombudsman. If the IA agreed with the decision, the claim would be paid. However, if he did not agree with the decision he would raise a dispute and we would enter into negotiations with the Ombudsman," continued Neethling.

Neethling said it is not a case of bending the rules for one individual client, but rather a decision made in the interests of fairness and equity, based on specific facts and merits.

"In the claim under discussion, other underwriting factors were also argued by the insurer in this matter, but because it was raised after the original rejection it was not accepted by the Ombudsman. However, if it were raised with the initial rejection of the claim, the claim probably would not have been paid," said Neethling.

"The Ombudsman's decisions, according to Neethling, are based on fairness and equity after taking the specific facts and merits of the case into consideration," he concluded.

Could clients try their luck?

Drew Schnehage, General Manager for Sales and Distribution at Hollard Personal Lines said, "In this specific instance it is my opinion that it is an issue of a material change in risk and the client should have taken it upon him or herself to notify the insurer of the change. Non-compliance is also a factor, the alarm warranty clearly states the terms and conditions of compliance irrespective as to if it was a policy requirement or not."

"The client confirmed having an alarm that is linked and that it would be armed when unoccupied. The insurer endorsed the policy accordingly and applied the necessary discount and believed in good faith that the client would notify them if the circumstances changed," she continued.

"If the circumstances change, the client should take the necessary steps to inform the insurer that there is a change in risk. The insurer then has the opportunity to re-underwrite by removing the discount or adding a specific condition to the policy. At this point the Ombudsman insists that the insurer must operate in utmost good

faith and pay the claim. Not taking into account that if the alarm was in good working order the incident potentially could have been averted," said Schnehage.

Schnehage said, "We would not settle this claim for the same reasons mentioned above." She mentions that it does raise a question though; if clients get wind of these rulings, would they not try their luck? "The Ombudsman might have good intentions to treat customers fairly but it is a fine line as to when the burglar alarm warranty would be applied and when not."

Schnehage strongly believes that by bending the rules for one client, you are not treating the rest fairly. "If an alarm has not been working or not set as per the terms and conditions of the alarm warranty and full disclosure has been evident of the alarm warranty, it should be a rejection. We need to revert back to the basic principles of insurance; you cannot make decisions on different nuances or circumstances," she concluded.

More to lose with dishonesty

Antonia Oakes, Head of Customer Experience at Mutual & Federal said, "In a case like this, Mutual & Federal applies the following rules; if the client has an alarm, he or she can decide whether he or she would like to take the discount. If the client chooses the discount, the alarm warranty applies. If at claims stage it is found that the alarm was not working or was not installed, there will be an additional excess applied of 10% of the claim."

"We would pay for a claim like this, but only proportionally. We would calculate how much premium we collect had the correct disclosure been made, or alternatively, had we been informed that the alarm is not working then we would pay the portion of the claim for which premiums were received," continued Oakes.

"The client has more to lose by being dishonest. Applying the additional 10% excess on a large claim can result in serious losses to the client. It is in their best interest to be honest and upfront. The right approach would be to make the correct disclosures so that there are no issues at claims stage," said Oakes.

Oakes also agrees that it is not a matter of bending the rules for one individual client but rather considering how an insurer would have provided cover had the true facts been known. "If the insurer would not have covered the risk had the alarm not been active then the outcome could have been very different. It is therefore fair to all the parties concerned."

In conclusion Oakes said, "It would appear in this case that the Ombudsman made the correct decision as the alarm was disclosed as some additional security and not a requirement."



Antonia Oakes
Head: Customer Experience
Mutual & Federal



Drew Schnehage
General Manager for Sales and Distribution
Hollard Personal Lines



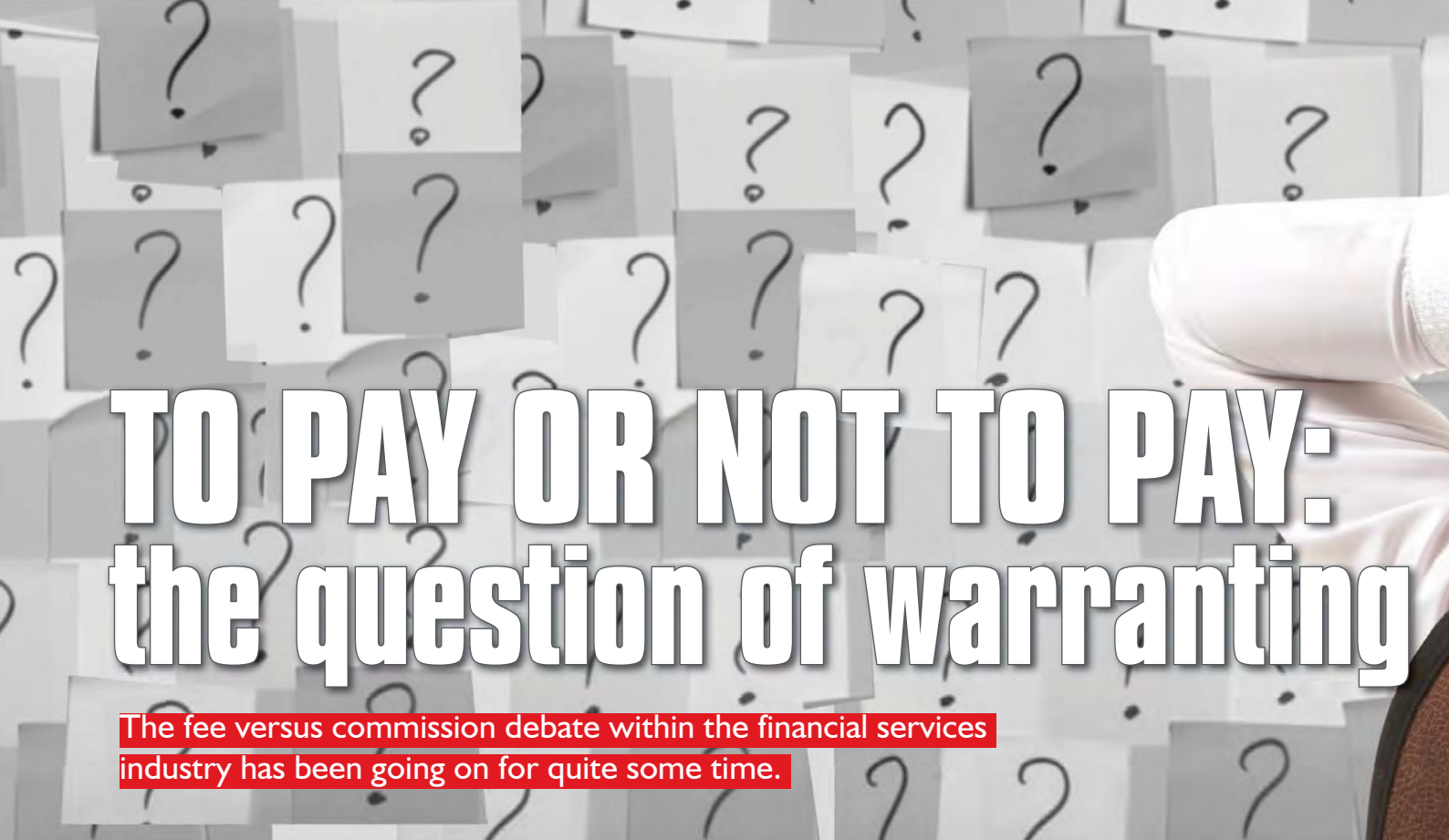
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TO PAY OR NOT TO PAY: the question of warranting

The fee versus commission debate within the financial services industry has been going on for quite some time.

Brokers earn commission and in most cases they also earn an administrative and/or service fee.

Implications for the broker

With the Financial Services Board's (FSB) review of the current remuneration model underway, the way in which advice is given to clients and how brokers and advisers charge for this advice, will change drastically.

This engenders difficulties as brokers perpetuate to perform the same administration functions and consequently require the same income.

FAnews interviewed a few industry people to get their views on the issue of 'unjustified fees'.

The honest truth

According to the collective view of Associated Compliance (AC), an unjustified fee is any fee that does not equate to the actual work done.

AC feel that the broker fee is often unjustified because the cost of delivery for the additional work involved is not equivalent to the fees generated, particularly when charged on a monthly basis. Effective broker administrative systems and work practices should enable fees to be avoided or kept to a minimum. For the regulator to cap commission and allow fees to be charged with no controls, defeats the overall objectives of the commission cap in the first place.

"The FSB is not targeting brokers by saying fees are unjustified; the policyholder is being discriminated against. The issue is that nobody seems to be able to provide a compelling argument for the fees and the FSB's original take was that they may be superfluous. If brokers want to charge fees for services rendered, they should be compelled to invoice the client separately, and not disguise them as part of the insurance cost," they said.

"The FSB wishes to limit fees charged to policyholders for advice only. Other services should be allowed, such as risk management, valuations etc. However, these should be separated from the insurance premium," continued AC.

"The burden of increased compliance administration will ultimately be carried by the client and needs to be carried somewhere – we doubt a direct compliance fee per client is the answer though, it will have to be wrapped into sales processes and included in commission (or whatever form of remuneration the broker chooses under the Retail Distribution Review)," said AC.

Spotting real opportunity

When asked if brokers will survive without the admin fee, AC confirmed that brokers will definitely survive. "It's all about ensuring that your client sees the value. Not all brokers will survive; only those that provide quality advice for the middle/upper income markets or those who develop an appropri-

ate delivery and robo-advice mechanism for the 'lower' end of the market."

"It may entail cutting back on duplicate or unnecessary work and focusing on the real deliverable of advice. The opportunity here is to provide better financial services to current clients and to spend more time with new clients motivating the use of a broker. The implications for those brokers whose service levels do not warrant additional fees levied will be dire, and will force them to merge, sell or reduce the level of service provided to policyholders. For other brokers who are providing a quality advice-giving service, all they have to do is replace it with justified advice fees," continued AC.

Converting to advice fee

Danny Joffe, Senior Legal Advisor of Hollard Broker Markets believes that the loss of the broker fee (Section 8) post RDR is not going to affect the broker, even if the proposal goes through as an advice fee. A fee will still be permitted and will still be allowed to be charged on top of the premium. The only difference is that the fee is paid specifically for advice as opposed to non-intermediary services that the broker performs for the client.

"The client will now have to formally consent but the cap of the fee is still basically unregulated. The outsourced administration fee is paid by the insurer out of premium. This will be heavily reduced in terms of the RDR proposals to cut the fee to 2% of gross written premium and with all the



fees

other onerous data conditions, it will affect brokers' income," he said.

"If a cap fee comes in there is a big danger of an unjustified fee as the cap will be the default fee regardless of what work is being done for it. The fee is justified if the broker is doing genuine administration on the policy which gives the client a better turnaround of service performed," continued Joffe.

No one answer

"In terms of survival, this all depends on how the broker has set up his or her business and how reliant he or she is on the admin fee. There is no one answer here. If a broker has a binder, the binder fee is not affected in the same way and more reasonable caps are being proposed. Many brokers are mainly advice brokers who do not do outsourced functions for insurers. If the broker charges a broker fee which will be converted to an advice fee, they should be ok. Many brokers however stopped charging the broker fee when binder fees and admin fees came in. They may have an issue," continued Joffe.

When asked if he thinks the FSB is targeting brokers he said, "The FSB is very concerned about the broker's advice being given to their client being tainted because of the potential conflict of interests that the fee brings. It is not an issue of the fee not being justified. If different insurers pay different fees, the broker may be swayed to support the insurer paying the highest fee. This argument only works if one assumes the broker is doing exactly the same job for all insurers which are not always

the case. If the broker incurs higher costs in assisting the one insurer over the other, their net gain is no different."

The simple intention

Billy Seyffert, Chief Operating Officer of Moonstone feels that the broker fee is only unjustified if no service is being performed in return for such a fee.

"The principle is simply that an intermediary should not be paid for the same thing twice, irrespective of the source, and therefore, a fee should not be charged for something for which commission is being earned," he said.

"Undoubtedly there has been widespread abuse of these fees which simply gets added on to premium as a means to earn additional income. Also, much of the administration being performed is actually being done on the insurer's behalf, which policyholders should clearly not be paying for as there is provision for outsourcing of administration to third parties in the insurance regulations," said Seyffert.

"In these instances it clearly is unjustified, but we must not generalise. One must distinguish between an intermediary who on a daily basis services clients and bulk operations which contains no personal service whatsoever. If fees have been agreed on and the intermediary charges a commensurate fee for a service which is being provided, I don't see it as unjustified. I pay my broker a fee and I am happy to do so for the services they render," he continued.

Understanding the framework

When asked what the implications are for brokers in terms of the broker fee, Seyffert said: "The impact would be severe if it was simply prohibited, but it is not our understanding that this is the intention. The interim intention is guidelines which will require written consent which the client can opt out of at any time and still subject that there must be a clear service, which is not already being paid for by means of commission, which is in fact being rendered."

"I do not think brokers are being targeted by the FSB, because I do not agree that the FSB has declared these fees as unjustified in general," he said.

"As matters currently stand, many intermediaries would face severe income pressure were it simply prohibited. However, as stated above, this is not the intention," he continued.

It's all about the value

While there are concerns regarding remuneration, change is imminent. However, a transparent business model may not be a bad thing. Instead of looking at the negative side of it, the focus should be on the real aspect which, is advice. As AC mentioned above, it's all about ensuring that your client sees the value of advice and focusing on the real deliverable of advice. For brokers and advisers who are providing a quality advice-giving service, the fee is justified. ●



Innovative new HI-TECH AGRI-INSURANCE

The traditional image of farming contrasts greatly from the space age world of satellites or the hustle and bustle of the financial sector. However, innovation in the agricultural insurance sector is bringing these contrasting factors together.

The result is a new generation of agricultural products that make use of sophisticated satellite imaging to provide farmers with faster pay-outs at lower costs when the weather turns against them.

Farming is exposed to the elements

Farming is a commercial enterprise. However, unlike retail, manufacturing or financial service industries, it is a commercial enterprise where most of its production takes place outside – fully exposed to the elements. This means exposure to hail, wind, floods, and – as we are quite painfully seeing in South Africa right now – drought.

For this reason, farmers may experience a very high degree of volatility in their income. If the weather is good, crops are good and income is predictable. However, if the weather or climate patterns are not in the farmers favour, then income streams may be disrupted for a season – or even a longer period.

Adapting the business model

As an industry, we are quite good at mapping traditional insurance solutions to farmers. Crop shortfall solutions would be familiar to most players, as would the types of products that protect the industry along the agricultural value chain from financial institutions, input suppliers, processing plants, transport companies, through to storage companies.

However we need to find ways to improve the value we bring to the farmer. We need to think beyond traditional crop insurance with its focus on yield volatility, and adapt to the modern day business approach where the focus should be on revenue volatility.

There are new solutions entering the market that can provide the farmer with a guaranteed minimum income. This next generation of products work by removing the income volatility risk in a simple, fast and transparent solution. Products already exist that are underpinned by a regional index. They measure the environmental conditions that can produce a loss or yield by using satellite imagery or high tech weather stations. Payouts can be tightly linked to the commodity price, which can be observed by a third party to ensure fairness.

Satellite based insurance

A big advantage of this type of satellite based insurance product is that there is less need for physical loss assessments on the farm. This leads to a much quicker claims process, especially in regions in Africa where the simple cost of sending a loss adjustor out into remote locations can be prohibitive.

Of course, such a product cannot be viable without reliable data and statistics to create a sound scientific underwriting basis. This highlights the need for strong partnerships to develop and launch the product – and to

access the data that is vital for the product once it is up and running. It also requires solid legislation and regulation to ensure that insurance techniques can be brought into the market in a way that is sustainable and protects both the interest of the farmer and the insurer.

It is important to remember that insurance is not a rescue boat for poor farming practice. Appropriate risk management and mitigation by farmers is a corner stone of keeping farms viable and risks insurable.

However, with the financial security that an insurance policy brings, farmers can rest a little easier and remove the financial volatility from their business.



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#SA DROUGHT

South Africa's farmers have faced a tough few months battling severe drought in certain parts of the country. However, as the winter months approach, Gauteng and other regions have experienced some rainfall, but is it too little, too late?

Dubbed as one of the driest seasons on record in South Africa, the drought severely affected the country's harvest, discouraging the planting of crops. Due to missing deadlines to plant crops in time for the winter season and being unable to plant and harvest crops because of severely dry fields as a result of no rain, farmers face tough times ahead.

Tough times ahead

The 2015 drought has been widely reported on in terms of the possible impact on food security, job losses and the loss of commercial farms, due to discontinuation of farming operations. The reported Government assistance of R300 million is also far from the R10 billion which experts regard as necessary to safeguard continued food security.

The impact on the insurance industry will firstly be felt and have to be dealt with by the crop insurers, where the effect of the weather plays a significant role. The drought has obviously led to farmers not planting and the estimate is that the production of maize will fall from 14 million tons two years ago to between 6 and 7 million tons in 2016. The reduction in crop size will have a ripple effect through the Crop Insurance industry as the level of premium income will fall and the need to cut on infrastructure and overheads put pressure on the bottom line earnings.

The assets side will see the effect in the possible reduction in numbers of commercial farmers, the slowing down (and possible negative) of policy growth as farmers reduce their insurance cover and the reduction in purchasing of agri related assets and implements.

A fundamental understanding

Given the risk associated with farming today; crop insurance is vital. However, the first fundamental to deal with, according to Reinhard Kuschke, Managing Director of AgriSeker, is understanding this highly specialised line of business.

"The detail regarding the technical requirements of a program means there needs to be a very good understanding of what the nuances are that the farmer has to deal with in his agricultural environment, and specifically his crops."

Kuschke mentioned that one of the pertinent questions farmers have to ask are for example, "To which risks are the crops exposed to in terms of an open roof and how can this be converted into an insurance policy or an insurance contract?" Insuring farmers, farms and all things agri comes with a huge amount of challenges of which drought and floods are only part of it.

Rising to the challenges

South African farmers do not operate in isolation, but are susceptible to the international and national economic and political fluctuations and trends.

a tough reality



**Gert Henning: Managing Director
Landmark Underwriting Agency**

The current low point in the SA economy has a direct effect on farming activities, add to this the worst drought since 1984, continued pressure on profit margins due to the increase in input costs due to the rise of fuel, electricity and imported agricultural farming essentials, the political rhetoric around re-allocation of farm land, the lack of and withdrawal of international investments due to SA's downgraded rating, the rising labour costs and you can understand the pessimism that is currently rife in the farming industry.

However, South African farmers have always been a hardy breed, rising to the challenges that come their way. It is a given fact that we will see a reduction in the number of active commercial farmers with the saying that the "weak will be culled and the strong survive" being very apt in this regard.

The current day commercial farmer is knowledgeable in the matter of finance and risk management, thus understanding the importance of mitigation of risk through the insurance process.

Finding opportunity

The challenge that the agri insurance industry faces, also poses the biggest opportunity and that is to re-assess the old and current policies, operations and procedures and to realign them with the current needs and market trends.

The farming insurance industry is far

behind the curve insofar as the development and use of innovative technological development is concerned. There is huge potential in the setting up and use of modern day applications in the industry, with very little being done to directly address the needs of the farmers, especially on the assets field. In this regard the crop insurers are more advanced in their use of technology where there is a direct impact on the insured.

In defining the use of technology in the farming insurance space, one needs to have an understanding of the nature of the market, insofar as the geographic and (changing) demographic challenges are concerned.

This market has never been one where a one-fit-for-all approach has been successful and the use of technology in the insurance field depends on meeting the specific needs of the individual farmer and very importantly, that of the broker.

A positive outlook

The fact that the farmers are responsible for food security must never be overlooked and as such they play a very important part of the total economic and welfare situation of the country.

Bear in mind that the economic outlook for South Africa over the next few years is not positive at all due to the previous mentioned facts. The agri insurers that will be successful are those that will be

flexible in their approach, render above par service and have well set relationships with the specialist agri insurance brokers.

Growth will be slow and the focus will be on profitability, which in the current soft market conditions will be under immense pressure.

The commercial farmer, with the support of his agri broker, understands the role of risk management in his farming operation and is as such in the know as to the role that insurance plays in mitigation of risk.

The fact is that no matter what happens with the economy at large, the farmer knows that insurance of his fixed and moveable assets against specific agri related perils will keep his farm operational. ●



#SA drought – a tough reality

Santam donates R2 million to assist farmers

In a bid to boost the embattled agricultural sector, short-term insurer Santam donated R2 million to help alleviate the financial hardship faced by both commercial and emerging farmers.

Santam Head of Agriculture, Gerhard Diedericks said, “The persistent drought continues to have a knock-on effect on the local economy and threatens the long-term food security of our country. Farmers and communities dependent on the agricultural sector for their livelihoods are bearing the brunt of this crisis. For Santam, lending support to both individual farmers and farming groups is simply the right thing to do.”

“Santam will continue to work with industry partners, brokers and organisations within the agricultural sector to meet the challenges that lie ahead. Collectively we need to do much more to assist our struggling farming communities, and we urge our counterparts to show their support and contribute to this critical cause,” Diedericks concluded.

Immense strain in the agricultural sector

The drought is causing immense strain in the agricultural sector, with many farmers unable to plant and harvest crops and feed livestock. The resultant cost of farming is severely threatening the long-term operation of the farming community, clearly impacting food security.

This, in turn, will impact consumers, with some price increases already reflecting on the shelves at grocery stores and further food price increases expected in the short to medium-term future.

Raimund Snyders
CEO: Mutual & Federal

ABSA contributes R1 million towards drought relief

Absa donated R1 million towards AgriSA's efforts to assist drought-stricken farmers and the communities that depend on farming around the country.

Sazini Mojapelo, Head of Citizenship at Barclays Africa said, “Absa is concerned about the impact of the current drought as well as the threat it poses to food security.”

“This is why the bank has decided to extend financial support to AgriSA-led relief efforts, aimed at assisting distressed farmers and the communities that depend on farming. We believe that Absa's contribution, together with those made by other concerned citizens and organisations, will assist in alleviating the severe effects of the drought.”



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DATA DETOX: leveraging your greatest asset

Data is among the industry's most powerful assets with a perceived value of 37% to 40%. Understanding its significant value, is it not time to leverage this asset effectively?

In the world of insurance, quality data is vital. In addition, accurate and reliable data is required to make quality business decisions, however in contrast; unreliable data can have disastrous consequences such as missed opportunities and damage to one's reputation.

Quality data is now a necessity, one that direct underwriters understand very well. By leveraging this asset, they have successfully penetrated an industry that was wholly broker based.

In order to remain competitive, brokers and agents will need to change their mindset, their processes, and their culture when it comes to data.

Why detox?

The insurance industry is being increasingly driven by data. However, before data needs to be used, it needs to be accurate, complete and consistent. Data not meeting these quality standards will need to be cleaned.

Data cleaning, cleansing or scrubbing is a process used to identify inaccurate, incomplete or invalid data to improve quality through correction.

Data quality problems exist for a number of reasons, but the two most common reasons are data availability and incorrect capturing of information by a user. Completing and correcting data can be a time consuming and tedious process, but it cannot be ignored.

Other benefits of clean data include an increase in retention ratios through enhanced customer relationships, growth through targeted campaigns, single view of the customer and compliance with industry regulations.

The detox process

An iterative process that has been widely adopted for data cleansing consists of the following steps:

- Data analysis or data auditing;
- Workflow specification and execution; and
- Post processing and controlling.

Data analysis or auditing entails the use of database methods, statistical methods, or both, to identify anomalies and their location within data. This may be done manually or completed through a commercial software package such as Microsoft Access.

After the data has been analysed, the workflow - steps that one will perform to achieve high quality data - needs to be specified. Again, these steps can be performed manually, if the data set is small or through a software package for larger data sets.

However, brokers will need to consider the time, effort and cost involved when specifying the workflow. Thereafter, the workflow must be executed until all data sets have been reviewed and corrected.

Upon completion of the workflow, the results have to be reviewed for accuracy and completeness. If the cleansing process was completed automatically, a manual intervention will be required to correct data that could not be rectified.

This process should yield noticeable results in comparison to the quality standards of accuracy, completeness, consistency and uniformity. The process will need to start over for the data that has not met the required quality standards.

Making it a habit

Prevention is better than cure and the same rings true for quality data. After complet-

ing the data cleansing process, the broker will need to ensure that the data quality is maintained.

This can be achieved through implementation of system controls such as data validation i.e. rejecting incorrect data before it gets processed by the system. In addition, there are tools available that will be able to cleanse the data as it is captured thus avoiding the need for a full data cleansing exercise.

Preventing incorrect data and maintaining quality data goes beyond the tools and processes in place. It requires a major cultural shift in the thinking and working habits of all those involved in the data value chain.

Ultimately, with good quality data comes opportunities which, if leveraged correctly, can add significant value to both the business and the customer.



Abdool Rahiman
Head: Claims Operations
& Transformation
Zurich South Africa



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THE COST-EFFECTIVENESS of multi-manager funds

Multi-manager funds, long thought of as expensive, can cost investors less, while providing numerous benefits.

Financial advisers often think of multi-manager funds as a hard sell to investors because of perceived higher costs. However, in reality, investors could be missing out on one of the best kept secrets of successful long-term investing.

Blurry confusion

Confusion about the fees charged by fund of funds and those of multi-managers tends to blur the issue. Fund of funds are very expensive, partly because these managers do not have the necessary scale to negotiate better fees.

Multi-managers, on the other hand, benefit from having significant scale, allowing them to negotiate cost-effective fees. As such, multi-manager funds charge far less than fund of funds, and are often even more cost-effective than single manager funds.

Blending managers in a portfolio

A multi-manager is a fund manager that creates a portfolio by choosing multiple managers to manage the underlying mandates. The aim is to diversify risk and the potential returns through blending some of the best managers in a particular portfolio. By their very nature multi-manager funds have an additional layer of fees (the fee they charge for their service and the fee paid to the underlying asset managers).

This does not necessarily translate into a higher overall fee or total expense ratio. This is because large multi-managers can negotiate very competitive institutional fees with the underlying asset managers, more than offsetting the fee they add on for their service.

A single manager, for example, might charge 1% for their fully discretionary balanced fund, while a multi-manager with a R5 billion fund may access the same mandate for 0.7%. If the multi-manager added a fee of 0.25% for their services, the total charge would be 0.95% cheaper than the single manager.

Added to this, the investor gets all the benefits offered by multi-managers.

Multi-managers conduct extensive research on the investment industry to understand the landscape and the players. They spend huge resources on understanding these managers through an investment due diligence process that covers the managers' investment philosophy and process in detail. This covers house factors, people and teams (including how they are incentivised), and the principles and policies they subscribe to.

Multi-managers decide how to weigh each mandate (from their buy list of managers researched) within the overall fund. A large multi-manager's sizeable investment team and the quality of its people, processes and systems means that its research and on-going monitoring is rigorous and robust.



Due diligence matters

Having a multi-manager investment team responsible for investment due diligence is like having a professional on your side who knows what to look for and knows how to decipher complex financial language. A multi-manager, by constantly reviewing a fund's investment positions and mandate adherence, aims to identify and prevent catastrophic risks before they occur.

There have been a number of high-profile fund failures which bring to the fore the importance of operational and governance due diligence. The 2008 Fidentia scandal saw R1.4 billion siphoned from a pension fund aimed at paying an income to widows and orphans of mineworkers. In 2013, the Sharemax-promoted Zambezi Retail Park property syndication turned out to be a Ponzi scheme with R2.5 billion of investors' capital disappearing.

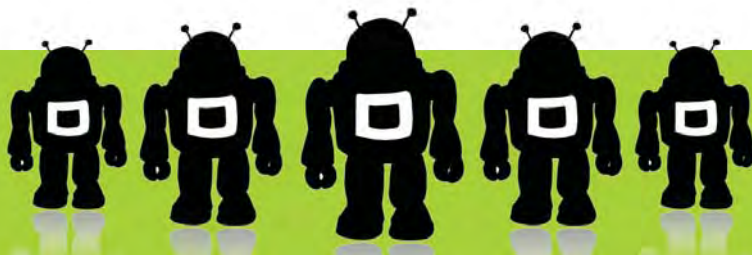
As recently as December, a South African unit trust lost 66% of its value in two days when the fund manager could not get out of complex derivative positions that went against it following President Jacob Zuma's shock firing of Finance Minister Nhlanhla Nene. In total, investors lost more than R250 million.

The lesson is clear. Operational due diligence and governance procedures matter. Changes in regulations are raising questions about the manager's risk governance and attention is shifting to the administrator and trustee. In cases like these, financial advisers could be next to come under the magnifying glass, especially if the work that they have performed before recommending a fund to a client is superficial, baseless, or based on past performance.



Joao Frasco
Chief Investment Officer
STANLIB Multi-Manager

Will robo advisers take over the world?



In 2015 eTrade, a large USA based online discount investment supermarket for self-directed investors, conducted research on 900 experienced investors who have at least \$10 000 in online investments asking them to choose between three account types which yielded the following results.

Account Type	Age 25-34	Age 35-54	Age 55+	Total
Account Type 1 - Low cost, robo adviser-only solution, managed and rebalanced solely by an algorithm%	29%	23%	32%	27%
Account Type 2 - Moderately priced, robo advisor/ financial adviser hybrid solution, defined by automatic rebalancing and regular human guidance.	53%	55%	43%	50%
Account Type 3 - Higher cost, financial advice-driven account, managed solely by a professional financial advisor.	18%	22%	25%	23%

Source: E-Trade Financial Corporation 2016

This type of data suggests that robo-advisory models backed by human support will be more successful than models that rely exclusively on technology with no human contact.

The research further suggests that the idea that investors will only gravitate towards the cheapest solution is a myth. While intuitive and insightful digital tools are a necessity in catering to today's investors, at the same time, investors seek human guidance. Investors want to be able to talk to a professional, especially during extreme market volatility.

Robo adviser trends

Machines are not taking over the world. Despite the rise in software, research suggests human guidance and support still have an important place in the minds of investors.

Value Matters

Much has been said about how attractive low or no-fee platforms have become, particularly for younger investors. Yet results show that investors are not entirely driven by cost.

Humans Matter

Many investors today are willing to pay more for a robo-solution that includes some human support.

Passive vs Active

Passive products like ETFs and index funds remain the more popular choice due to their low cost and ability to outperform most actively managed products over the long term.



Lance Solms
Director: Business Development
Itransact

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Investment Solutions launches unit trust portfolios aimed at stokvel market

The South African stokvel market is believed to be worth up to R45 billion and represent the assets of some 8.6 million members, creating huge untapped potential for investment products that could offer higher returns than bank deposits.

Investment Solutions recently launched three unit trust portfolios aimed at the traditional collective savings market in partnership with The National Stokvel Association of SA (NASASA), which is intent on improving the financial literacy and understanding of the general stokvel community. The investment-management company has been attending monthly indabas in Gauteng held by NASASA and offering investment education and advice.

"We don't want to change what stokvels are doing. Our number-one priority is to educate," said Alex Forsyth-Thompson, Head: Stokvel Investments at Investment Solutions.

"If a stokvel has money it will not need within the first year, it may not be in its best interest to leave it in a bank account being weakened by inflation. There may be better ways to utilise this money, which is why we are marketing three unit trust portfolios: a conservative income-type portfolio with bonds and cash; a moderate portfolio with a three-year investment

horizon; and a moderately aggressive portfolio with a three- to five-year horizon."

Investment Solutions intends to sustain the integrity of stokvels while providing them with "solutions to do what they already do, just more effectively". Forsyth-Thompson said by investing their money smartly, stokvels, which usually save towards burials, groceries, school fees, celebratory events or, increasingly, operate as investment clubs, would potentially earn interest and capital gains versus just having their money in a bank account.

"We have met stokvels with millions of rands saved to advise them on how best to invest this money."

Investment Solutions, along with other types of service providers, is harnessing the collective power of stokvels. "We FICA the group bank account and the proof of residence used for this bank account. People do not default on contributions because of the discipline and peer pressure stokvels create. This means they are a successful alternative to formal savings. And with stokvels growing faster than the pension fund industry, this crucial market cannot continue to be ignored by the financial services sector."

STOKVELS

Investment Solutions advises stokvels which are thinking of investing into unit trusts to consider the following:

1. We recommend that the group first register with the National Stokvel Association of South Africa (NASASA).
2. Each stokvel must have a Constitution. NASASA has a template available.
3. The group must draw up a resolution which determines who the representatives and signatories are. This avoids rogue members making decisions.
4. These representatives will be approved in line with the Financial Intelligence Centre Act.
5. The stokvel itself will be viewed as the investor. Tax certificates and statements will be issued in the name of the group.
6. Administration must be handled by each stokvel.

Alex Forsyth-Thompson
Head:
Stokvel Investments
Investment Solutions





Are you looking to grow your stokvel savings?

Contact us on 0860 333 316 or stokvel@ishltd.co.za to find out how our products and services may help you grow your money.



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Investment
Solutions

WITH CONFIDENCE

ACTIVE vs PASSIVE: is the debate over?



Active fund managers will tell you that the debate is over.
Passive fund managers will tell you it is not.

The debate is still fully alive and well, and we are no closer to a resolution than we were since the debate began.

Don't try to beat the market

In 1975, John Bogle - the founder of Vanguard, the world's largest provider of unit trusts and ETFs - realised that the cost of active investing was one of the main reasons it did not do as well as the market itself. In fact, Bogle discovered that the longer the timeframe, the more active investing would fall behind the market.

Bogle came up with a revolutionary idea: Do not try to beat the market. Instead, invent a fund that delivers the performance of the market, but without active management and its associated costs.

In other words, use the market to grow your wealth and cut the costs of investing to the bone. ETFs are now one of the most popular and fastest growing investment products in the world.

Don't look for the needle, buy the haystack

Active investing is like looking for needles in the haystack. You need skill to pick the winners all of the time. Passive investing would be like owning the entire haystack, and thus being exposed to the profits of all of the needles all the time.

PASSIVE FUNDS	ACTIVE FUNDS
Fund constituents are decided by the contents of an index.	Fund constituents are decided by a fund manager who "chooses" the winners from the apparent losers.
Rarely change fund constituents. This costs less.	Constantly buy and sell stocks (churn) whilst looking for the "winners". This costs a lot.
Neither outperforms nor underperforms the index. It provides the performance of the index, no more and no less.	Performance depends on the fund manager's skill and luck. It may or may not outperform its investment objectives.
ETFs are 100% transparent. Constituents of the fund are published freely by the ETF issuers.	Most actively managed funds do not disclose their holdings regularly - they would be disclosing information to rival companies.

It's hard to beat a passive fund

Each year, academic studies comparing the returns of actively managed funds vs passive funds show that in the aggregate, actively managed funds do not generally deliver returns higher than their passive counterparts.

Consider the next table.

Percentage of active funds beating the index up to Dec 2015

INDEX	1 Year	3 Years	5 Years	7 Years	10 Years
FTSE/JSE Top 40 TR	22%	32%	29%	27%	21%
FTSE/JSE Top 40 SWIX TR	48%	32%	20%	13%	14%
All Share Index TR	39%	38%	33%	25%	20%

Source: Profile Data 2016. (General equity fund classification).

Simply put, if you had invested in a Top 40 index over the last five years you would have beaten 71% of active managers whose mandate it was to simply beat the market.

Exchange Traded Funds do not try to do better than the market, but because of their lower costs they often end up beating the funds that try.

Passive costs less

Consider the analysis below over a one year period up to 31 December 2015.

General Equity Average TER	1,52%
1 year average return before fees	3,52%
TER as a % of return	43%
Broad Market Equity ETFs* Average TER	0,39%
1 year average return before fees	3,06%
TER as a % of return	13%

Source: Profile Data 2016

Despite ETFs performing slightly less than the active funds, their percentage of costs expressed against their returns are remarkably lower than their active counterparts.

Keep it simple

You may say that it is possible to beat the market, and you may be right in some cases, but the odds are heavily stacked against you.



If you are looking for a simple low cost way to grow your wealth over the long term, ETFs are the answer.

Lance Solms
Director of Business Development
Itransact

REGULATION 8 AMENDMENT – the balancing act



Does the amendment to Regulation 8 of the Medical Schemes Act balance the protection of medical schemes against the protection of medical scheme members in light of very high claims?

Despite divergent views, the above ambiguous question can only be answered with a “yes” with reference to the above two opposing and paradox opinions on this rather complex issue.

Rationale behind the draft

The proposed amendment, in a nutshell, provides that medical schemes must be liable for the payment of Prescribed Minimum Benefit (PMB) services in accordance with the billing rules and tariff codes of the National Health Reference Price List of 2006. Alternatively, schemes may negotiate tariffs for PMBs directly with healthcare providers without any co-payments or deductibles to its members.

The rationale behind the draft regulations is to protect medical schemes from its current open-ended liability in respect of the payment of PMBs. As a direct consequence, its members will be protected as well.

The question nobody asks

The critical issue and actual catalyst behind the extraordinary high cost of private healthcare in South Africa, and also the question that conveniently seems to escape the media, is why nobody is questioning the pay-in-full, blank cheque scenario that healthcare providers apply to claims for PMBs.

Speaking to City Press recently, after representatives from the World Health Organisation (WHO) and the Organisation for Economic Cooperation and Development presented their submissions about the high cost of private healthcare, Health Minister Motsoaledi said, “This is what I have been telling South Africans all along, but nobody wants to listen to us.”

According to Motsoaledi, South Africa has the highest private healthcare cost in the world. However, with only about 8% of the population that benefit from private healthcare, many may ask how is this possible?

Unpredictable expenses

According to the latest Annual Report from the Council for Medical Schemes (CMS), approximately 53% of total risk claims paid by schemes were PMB claims.

Within the South African private healthcare sector, there have not been any legislated tariffs for healthcare providers for the last decade or so. Coupled with this is a ruling by the Registrar of Medical Schemes that all schemes must pay in full (at whatever cost the doctor/specialist charges) for PMBs. This situation resulted in unlimited and unpredictable expenses for schemes that ultimately result in above average member contribution increases, year after year. Medical schemes are non-profit organisations and its members are essentially shareholders having to absorb these expenses by means of higher contributions.

An example would be the case of a member that had his appendix removed (a PMB). The private hospital account was paid in full. The surgeon that performed the operation charged R3 674. The anaesthetist, assisting at the same operation, however, charged R16 200, or 400% of the medical scheme's tariff. The profound question to ask is if the anaesthetist charged a reasonable tariff?

Making it work

If medical schemes are to reimburse all astounding high claims in full, there may be a short-term benefit for the specific

member concerned, but the next logical step would be that contributions will rise disproportionately to the perceived value (cost versus actual benefit) for the majority of those members who seldom claim and/or who subsidise the cost of the high-claiming members. In the current difficult economic climate they may choose to abandon their medical scheme, leaving the rest of the members to pay even higher contributions.

Currently the heated debates over the amendment of Regulation 8 are predominantly the result of the vested financial interests of the respective stakeholders, either overstating the benefit or the burden of such change in legislation. The existing regime is placing an undue burden on medical schemes which, in the process, undermine the accessibility to private healthcare for more than 90% of South Africans.

We need to focus on making it work for all role players; not on fighting it to the benefit of one party at the loss of another.



Brian Watson
Executive
Genesis Medical Scheme

Our partnership changes lives, **every day**

"Your clients work the better part of their lives to make their hopes and dreams come true. Dreams that might include a comfortable retirement, providing for their children's education, leaving a legacy that counts and hoping for a strong 'safety net' in the event of illness or disability." This is the sentiment of Stephen van Niekerk, Head of Retail Life Insurance Products at Momentum.

He adds by saying that "Equally important is to ensure that your clients have consistent, excellent claim experiences, regardless of the nature of their risk requirements.

As a result of our client-centric approach, our risk pool has grown steadily with more than 500 000 clients who chose us as their preferred financial wellness partners through the years. This is why the total amount assured on the Myriad book now stands at more than **R1 trillion.**"

We make it count, every time

Van Niekerk states that "From our side, we do everything possible to ensure that our internal claim processes, including that of our internal claims committee, complies with rigorous industry standards. This is because we are in the 'people business' and always look for reasons to pay valid claims. This principle is based on a solid foundation that includes comprehensive and objective benefit definitions.

Consequently, during 2015 Momentum Retail Insurance has paid **R2.4 billion** in death claims, **R398 million** in critical illness claims, **R242 million** in disability claims and **R91 million** in income protection claims; amounting to more than **R3.1 billion across all benefit types.**"

Some of Momentum's largest claims during this period include:

- A death claim of **R85 million**
- A critical illness claim of **R5 million**
- A disability claim of **R7 million**
- An income disability claim of **R593 000 per month**



Relationships that stood the test of time

He further states that “With a more client centric approach, we are well aware that clients’ expectations are closely aligned with trust and transparency. This is why we will never discourage clients from taking their cases to the office of the long-term insurance Ombudsman, should they not agree with our claim decisions. Thus, we ensure that we regularly engage with the Ombudsman, as a powerful soundboard and conversations always involve the best interest of your clients because nobody understands the dynamics of the claims process better than we do.”

During 2015, the office of the Ombudsman received approximately 5018 long-term insurance complaints of which 313 involved Momentum Retail Insurance. From these, 91 complaints related to risk claims and once again none of these cases transpired in a ruling against Momentum.




Stephen remarks that “When it comes to the repudiation of claims, which refers to a breach of a contract by the one party that justifies cancellation by the innocent party, Momentum had a repudiation rate of 0.4 per cent during 2015 compared to an industry average of 1.1 per cent during 2014, for underwritten death claims, which is the most recent statistic. The Association for Savings and Investments, SA recently indicated that non-disclosure remains the dominant reason for repudiation of claims in the industry as a whole.

While we always look for reasons to pay claims we have a responsibility towards our existing policyholders to protect our risk pool by only paying valid claims. If it becomes clear, at claim stage, that information was withheld from us during the application stage, we may review the information provided at inception. This is not “underwriting at claims stage” but is done to determine the nature and materiality of the possible non-disclosure. This prolongs the claims assessment process in some instances, especially during early claims, but is done to protect the interests of all our policyholders.”

Zooming in on our claims

Death claims

He continues by saying that “Partnering with a trusted life insurer is probably one of the most important decisions your clients will ever make during their lifetimes. Knowing for sure that your clients’ loved ones will be supported and taken care of in the same way that they would have, provides unequalled peace of mind. Therefore, delivering on our promises will always remain a key priority.” During 2015, the three major causes of death claims involved cardiovascular, cancer and respiratory related diseases which accounted for 67 per cent of Momentum’s total death claims during the mentioned period.

	Major causes	Percentage
	Cardiovascular	35%
	Cancer	19%
	Respiratory	13%




Creating context on a global scale, the World Health Organisation (WHO) stated that between 2006 and 2015, non-communicable diseases (NCDs) or otherwise known as chronic diseases like cancers and cardiovascular deaths, had increased by 17 per cent, and the greatest increase was seen in the African region with 27 per cent. Healthy lifestyles are key to the prevention of approximately 80 per cent of NCDs.

With a more client centric approach, we are well aware that clients’ expectations are closely aligned with trust and transparency.

Critical illness claims

“The process of empowerment involves the ability to have access to resources when a life-changing event happens. With the major advances in the medical field over the last couple of decades, there are some phenomenal technology and experimental treatments available for numerous diseases. But they all come with a hefty price tag and having comprehensive critical illness cover in place goes a long way towards empowerment and choice,” according to Stephen.

During 2015, the three major causes of critical illness claims involved cardiovascular, cancer and nervous system related diseases which accounted for 68 per cent of Momentum’s total critical illness claims during the mentioned period.

	Major causes	Percentage
	Cardiovascular	34%
	Cancer	20%
	Nervous system	14%

Van Niekerk highlights that “We have also noticed an increase in the number of claim pay-outs for early stage critical illnesses. This is very much in line with the increased awareness of critical illnesses that leads to more regular screening and medical ‘check-ups’ which could lead to early detection of critical illnesses.”




Linked to this, during 2015 the Lancet medical journal reported that South Africa could see an increase of 78 per cent in the number of cancer specific cases by 2030.

On a global scale, there is an expected 75 per cent increase in cancer cases. This would push the total global number of newly detected cancer cases from 12.7 million in 2008 to a staggering 22.2 million by 2030.

Lump sum disability claims

He adds that "Being disabled are viewed by some as the end of the road. Having adequate lump sum disability cover in place allows your clients the freedom to challenge these perceptions by still living life to the fullest."

During 2015, the three major causes of lump sum disability claims involved musculoskeletal, nervous system and cancer related conditions which accounted for 51 per cent of Momentum's total lump sum disability claims during the mentioned period.

	Major causes	Percentage
	Musculoskeletal	27%
	Nervous system	14%
	Cancer	10%




Health24.com emphasised the risk of becoming disabled when they stated in 2011 that, at the time, there were about 12.4 million working South Africans. Of these about 52,000 were likely to become permanently disabled in the next year. That is 142 every day.

Income disability cover can help your clients protect one of their most valuable assets: their ability to earn an income.

Income disability claims

Stephen points out that "Income disability cover can help your clients protect one of their most valuable assets: their ability to earn an income. A monthly income is at the centre of many of your clients' plans. They rely on this to meet their short-term financial commitments and to secure their long-term financial wellbeing. However, just as income needs vary, so should your clients' income protection be tailored to their specific requirements."

During 2015, the three major causes of income disability claims involved musculoskeletal, surgery and cancer related conditions which accounted for 45 per cent of Momentum's income disability claims during the mentioned period.

	Major causes	Percentage
	Musculoskeletal	25%
	Surgery	11%
	Cancer	9%

Interestingly, according to Moneyweb (2013), temporary disability is much more likely to occur than permanent disability and the vast majority of disability claims last

for less than 90 days. This emphasises the importance of income disability benefits which makes provision for shorter claim periods.

Longevity

Van Niekerk suggests that "You might have noticed that some of your clients are living longer, but did you know that by 2055 there will be more people over the age of 60 than under the age of 15 in the world? The vast majority of your clients have a set of genes that will allow them to easily reach their late 80s and early 90s, not to even mention the phenomenal medical advances that will aid their longevity.

This means that some of your clients will live to experience the 22nd century. Thus, longevity has become an undeniable reality of life and should therefore feature prominently in your clients' financial wellness profile.

Momentum's one-of-a-kind Longevity Protector Benefit significantly reduces the risk of clients outliving their capital. This is because should your clients survive a qualifying critical illness, this benefit enables them to receive additional pay-outs (on top of their critical illness benefit) for the rest of their lives, which means their critical illness cover will simply never run out.

Also, in cases where your clients become disabled and unable to work, they can receive 50 per cent extra disability pay-outs every five years until retirement. Then, at age 80, if your clients have never claimed before, our longevity protection solutions pay-out a significant lump sum that can supplement your clients' retirement income in the long-run.

By making regular pay-outs after a claim or a lump sum at age 80 if there was no claim, this benefit can help your clients avoid the financial stress of running out of money or becoming dependent on family as they get older."

In closing

Stephen states "to establish a 'living' relationship with clients requires active involvement from your side as a trusted financial adviser. We have a strong belief that a true 'intermediary partnership' consists of you and your clients choosing us as your preferred lifetime financial wellness partner and this demands a unified approach from both us and yourselves."

To establish a 'living' relationship with clients requires active involvement from your side as trusted financial adviser.



Genetic 'make-up' marks new predictive profiling



When reviewing some of the media reports regarding the phenomenal advances in the medical fraternity, the concept of consumer profiling becomes significant.

However, as consumer profiling has become a 'science of sorts', various genetic studies have managed to identify specific markers in our DNA that could potentially cause certain diseases during the course of our lives.

Linking associations

Just as advisers are able to pin-point exactly what their target market's preferences and behaviours entail, so has the medical world too by linking specific genes to specific diseases.

Scientists from the University College of London in the UK, for example, have found that women who had a particular version of the BRCA1 gene (mutations in these genes) were far more likely to have heart attacks and strokes. Also, the BRCA 1 and BRCA 2 genes have long been associated with an increased risk of developing breast cancer.

In another study, researchers from the National Human Genome Research Institute in the UK have found a genetic signature that is common to five different types of cancers including colon, lung, breast, stomach and endometrial cancers. This shows that a number of aspects linked to the human body are being demystified at a rapid rate.

Determining factors

Treatments for various illnesses are thus being 'personalised' more and more according to peoples' unique risk profiles. This means that some of the traditional treatments like chemotherapy and radiation could be tweaked or might even become absolute

in future. One example of a new generation treatment includes immunotherapy that uses the body's own immune system to attack cancer infected cells and prevent the spread of the disease in the body.

Having access to patients' genetic 'make-up' and understanding each patient's potential risk associated with this could be very useful for doctors. Knowing in advance before a patient notices symptoms linked to a disease gives both the patient and doctor a major advantage in treating the disease in its early stages.

This is where aspects like early pay-outs come into play when advisers and clients consider critical illness benefits. It has become a non-negotiable for critical illness benefits to make provision for early pay-outs in line with early detection trends and to offer clients unsurpassed breadth of cover.

The ability to gain control over diseases that previously resulted in certain death, implies that people's lifespan might increase.

The vast majority of individuals have a set of genes that will allow them to reach their late 80s and early 90s but their lifestyle choices and behaviour does play a role. In fact, to live to about the age of 90, 20 to 30 percent of that is going to be genetics, and 70 to 80 percent is going to be lifestyle choices and behaviours.

Unique longevity benefit

In a 2012 study published by the PLOS ONE journal, Thomas Perls, a professor of medicine and geriatrics at Boston University

in the US, looked for genetic signatures of exceptional longevity in the genomes of 801 centenarians. No single gene stood out, but the top 281 genetic variants that were most associated with old age served as a sort of constellation of genetic markers that were strongly associated with extreme old age.

In light of this, it has never been more important to incorporate longevity into a client's financial plan by choosing benefits that will enable clients to maintain their quality of life without having to worry about outliving their capital.

One insurer got this right with a unique longevity benefit that provides a continuous pay-out to clients for as long as their clients live because their clients do not have to select the benefit or the amount of cover that is required. As a result, the constant concern around having enough cover when it is needed most is almost eliminated completely.



Dr Adela Osman
Chief Medical Officer
Momentum

CANCER REMAINS the leading cause of claims

Reconnaissance is a mission to obtain information by visual observation or other detection methods about the activities and resources of an enemy or potential enemy. It is a vital component when it comes to winning wars as if you know your enemy, you can exploit its weaknesses.

Data has also become an important aspect in the financial services industry, and the struggle to find new growth in the industry is no different to fighting a war. By having valuable data on hand, an insurer can tailor make products to cater for individual needs which allow clients to feel that they are valuable to an insurer.

Cancer retains the lead

Cancer remains the largest cause of claims, followed by cardiac and cardiovascular conditions. Over the years, the trends on cancer have been consistent.

With medical advancements such as better screening programmes and more awareness around health and lifestyle, cancers are being diagnosed earlier and at younger ages, and people are more likely to survive a cancer diagnosis than before.

Although the top five claims causes constitute 64,9% of all claims paid, the more interesting findings have been on what segments, in terms of age are life stage, were claimed for.

Young successful people mostly claimed for loss of income, mainly due to retrenchment. Retrenchment claims were at 15.9%, cancer at 12.3% and motor vehicle accident claims at 11.9%. This was also the main cause of claims among men in this age group.

The top three claims for young parents were for cancer at 22.5% (largely driven by female breast cancer claims), cardiovascular related claims at 14.5% (which is the biggest risk factor for males) and finally, strokes or central nervous system disorder claims at 8%.

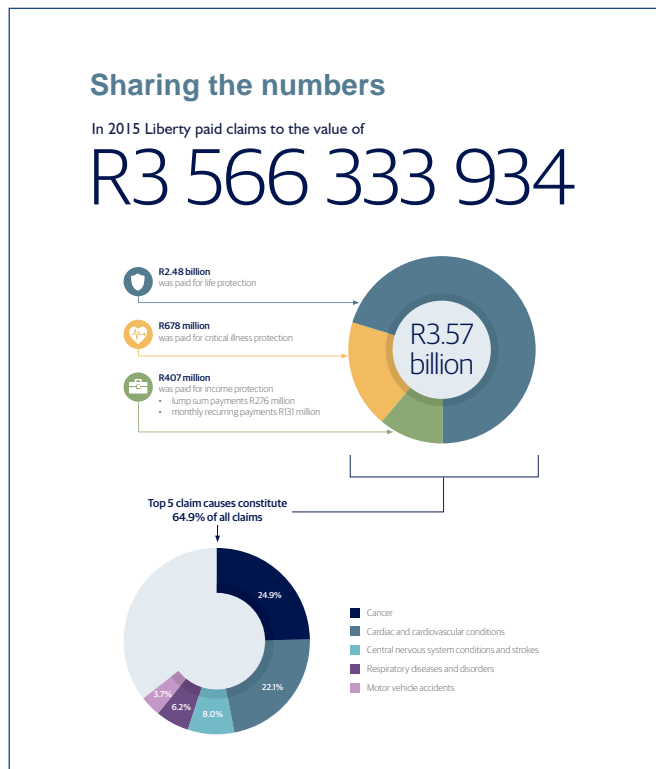
For established providers, the trends were cancer claims at 26.9% (prostate cancer for males and breast cancer for women), cardiovascular related claims at 21.1% (again the biggest risk factor for males), and stroke or central nervous system disorder claims at 8.7% of claims.

For the older generation, whose kids already left home, cancer claims were at 25.6% (with prostate and breast cancer being the most common), cardiovascular disorder claims at 25.3% and respiratory diseases or disorder claims at 7.9%.

A friend in uncertain times

What is the value of life insurance? To be a certain friend during uncertain times. In an age where non communicable diseases are becoming more prevalent, clients cannot afford not to have insurance. Every client wants to provide for their family and critical illness cover allows them to do so when tragedy strikes.

It is about building relationships. It is moving beyond being a product provider to becoming a valuable business partner. Data such as claims statistics allows the industry to tailor make products to show that the industry truly cares about the lives of clients.



Top of the charts

The vast majority of payments - with a total value of R2.48 billion - were for claims on life protection while R678 million in critical illness protection claims were settled. At least R407 million was paid for income protection.



Nicholas van der Nest
 Director for Risk Product Innovation
 Liberty



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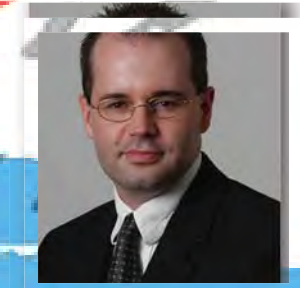
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Nothing more than a romantic fantasy

In 1875, the American Express Company established the first pension plan in the United States. Back then, life expectancy was 49 years; although people who lived to see retirement continued working well beyond 65. In fact, if a male over 65 years old was not working, it was likely due to a disability, which was not something you could insure against at that stage.

Fast forward 140 years, and you'll find that what has changed most about the retirement industry is the way it is regulated.

Same look

Products remain fundamentally the same; members frequently contribute a small premium to a fund that slowly grows over the course of their lifetime, so they need not spend their golden years breaking their backs but instead enjoy the peace and medical care they have worked so hard for.

Today, however, people live longer, their financial needs are more varied, and the things they want to do when they retire have changed.

Disappointing sluggishness

While a retirement annuity is certainly one of the human race's most prolific innovations over the last century-and-a-half, it is disappointing to see how little the industry itself has changed. Gone are the days of the horse and buggy; but in many ways, the approach to retirement feels like something out of the Wild West.

As an industry, we are becoming increasingly aware that we have to innovate when it comes to product creation, but we need to be more nimble and move faster when it comes to building products that meet our customers' ever-changing needs.

Admittedly, there are several financial products that appear to offer innovative opportunities for people to diversify, hedge, and insure their old-age economic security; but these seem to be the exception and not the rule.

Nothing more than a romantic fantasy

The industry faces another problem. A recent South African retirement study has revealed that 84% of respondents dismissed

a comfortable retirement as nothing more than a romantic fantasy.

This begs the question: have we done our best to encourage a savings culture towards our customers' golden years?

More than that, have we been innovative in the creation of new, affordable and accessible products or solutions to offer our customers more choice?

We can no longer rely on generic solutions, or approaches to communicate the importance of planning for retirement any longer.

Lean towards simplicity

According to a recent Harvard Business Review, the one thing that engages consumers in adopting a brand or product is the simplicity in the decision-making process.

If the industry wants to increase adoption of retirement products, we have to create products that are easy to find, easy to understand, easy to evaluate, and easy to buy. We have to turn money into meaning. In other words, not just share a balance statement on the value of their savings, but rather an answer to the questions surrounding it.

By way of example, 2012 saw the launch of a suite of investment products (including a retirement annuity product) that does not cost the customer any upfront costs if it does not yield at least a specified annual return. In 2015, the same company launched another product which offers an Exact Income Fund, an investment portfolio that guarantees income in retirement, regardless of market fluctuations.

Influencing the future

The challenge our industry faces is not only to ensure that today's generation has its ducks in a row ahead of retirement, but rather to influence the next generation; a

generation to whom you cannot sell, unless they buy in. This means the wholesale change of generic retirement packages, and how we communicate about these products.

If we do not want to claim for our own retirement prematurely, we need to come up with new solutions and approaches that resonate with our customers.



David Lloyd
Managing Director of Innovation
Liberty

“

We have to innovate when it comes to product creation

”



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Retirement income innovation and longevity

Each month we are bombarded by multiple statistics of how South Africans have not saved sufficiently to generate sustainable retirement income.

However, the saving aspect forms only one part of the challenge. The manner in which savings are used and the efficiency thereof needs to be considered in any reform.

The expected income generated by retirement capital can in fact be represented by a closed formula.

The formula

Retirement capital must equal the expected present value of future income minus expected expenses. Income advisers should be able to generate this calculation and explain it to retiree clients.

Three main factors influence the calculation being future investment returns, the expected income inflation rate and the probability of the client being alive to receive the income. These three factors directly correspond to three of the primary retirement income risks being:

- Investment risk: the risk of investment returns not meeting expectations;
- Inflation risk: the risk of expenses growing faster than income; and;
- Longevity risk: the risk of outliving capital.

Longevity

Longevity remains the primary factor because if the client is not alive to require income, then the investment returns and income inflation are irrelevant.

Consider the retiree with serious cancer who is expected to live one year versus the healthy high net worth retiree - a vastly different future income expectation and requirement.

The expected investment return and income inflation only become applicable if the retiree is alive to be influenced by those factors. In fact, for a given level of retirement capital, the first retiree could be expected to be able to draw a significantly higher income while alive. It is therefore important that any longevity

assumptions are correct. The study of retiree longevity is receiving massive attention worldwide. These studies not only look at the current state of longevity, but how longevity is changing in the future.

A retiree's probability of being alive is influenced by multiple factors including age, gender, income, occupation, smoker status as well as current and past medical diagnoses.

An interesting line of study has inferred that any longevity projection is influenced by the period in history in which a retiree was born. As an example, the longevity pattern of a 70 year old ten years ago is different to a 70 year old today because the first retiree was born before World War II.

Income generation

The product or method used to generate the income is irrelevant as all will at their base need to incorporate the formula highlighted above.

The key focus should be on the approach in each product to the elimination or amplification of the risks associated with each of the factors to achieve the desired outcome. Elimination of the risks results in greater certainty. Amplification of the risks allows the potential to increase affordable income with the potential for negative outcomes.

Guaranteed annuities

Guaranteed annuities ultimately provide advisers a baseline result of the calculation and the easiest way for an adviser to perform a discounted cash flow calculation that incorporates longevity.

The resultant income incorporates longevity to generate a resultant affordable sustainable income. This means that an adviser is able to perform the calculation by simply requesting a quotation where the underwriting takes account of the factors listed above that affect longevity.

The South African insurance market has seen

significant work over the past several years to build country specific longevity models.

These have resulted in products that allow retirees to protect themselves against the income risks associated with their longevity as well as use longevity to enhance retirement income. This allows the elimination of the longevity component from the sustainable income calculation and allows retirees to acquire risk free sustainable income that is not subject to the risk of outliving their retirement capital.



Jason Sharp
CEO Paramount Life



Adam Jacobson
Actuarial Manager
Paramount Life

Panel beat your solutions to change client touch points

Today's up-and-comers interact with brands and products differently from previous generations. To attract and retain clients accustomed to technology enabled lifestyle solutions, the employee benefits industry will have to adopt unconventional/non-traditional, out-of-the-box approaches to client touch points and become disrupters in their own markets.

As is the case in other industries, the employee benefits market is facing increasing competition from non-traditional start-ups with innovative ideas, ground-breaking digital systems, and new ways of defining the market and engaging with clients. The retail, private taxi and hotel industries are already starting to feel the pinch in this regard, and it won't be long before players similar to Uber or SnapScan start to create ripples in our own industry.

Be innovative

Innovative, game-changing companies such as Uber came into being in response to changing customer needs in the digital era. Retirement savings products currently do not offer the simplicity and ease of use that these technology-driven companies can offer. Yet this is the space our industry will have to occupy if we wish to assist the so called Millennial generation who will be our clients in the decades to come.

It means providing clients with easy access to clear and complete information, and offering them highly relevant products; but above all, interacting with them in ways they have become used to in other industries.

But it is not just about adding a few nice-to-haves to a website, sending more SMSs or creating a new app. It is about changing and individualising each member's unique experience with their retirement fund.

Enhance efficiency

The most effective way of engaging with fund members is when certain events take place in their lives. Each of the events presents an opportunity for innovative touch points. For example, instead of reading through reams of paperwork on day one of employment, a new fund member could be watching a short video containing the necessary information.

Monthly contributions also provide opportunities for enhanced client engagement.

Members could receive an SMS each month stating where the month's contribution has been invested, which may encourage them to visit the fund's website and use retirement calculators - and other technology-driven functions - to assist them in making the right choice to ensure a good retirement outcome.

Simplifying the important question

The annual benefit statement is another example. Imagine if, instead of a page littered with numbers, the statement provided an answer to one simple question: will I have enough money to fund my preferred lifestyle in my later years?

With a bit of planning, the industry could enable savers to benchmark their savings against a lifestyle dream by informing them of the type of lifestyle they are on track for.

The crucial point of these, and other innovative client touch points, is their client-centricity. They are not about pushing or selling product, they are solely about enhancing the experience the individual member has with the retirement fund.

Professionals remain key

It is important to note that none of these new ways of interacting will replace the need for fund members to obtain professional financial advice. The world of retirement savings remains complex. In the end, these touch points can only provide very limited information in terms of basic and default choices to be made.

Overall, the digital enhancements in the pipeline across the industry can only enhance the client-intermediary relationship. They will not only attract more clients seeking expert advice, but will also enable

intermediaries to offer a much more rewarding experience to their existing clients.



Dawie de Villiers
CEO
Sanlam Employee Benefits

“

The most effective way of engaging with fund members is when certain events take place in their lives

”

Bringing Millennials into retirement

“Retirement is a long, long way ahead - why should I care?”

These are the resounding words of Millennials in response to financial planners asking them about their planning around retirement. They are young, finally done with their studies and securing their share of the world. They have just discovered freedom and have the money to enjoy it.

As an adviser you should try talking to a 25 year old about retirement and watch his eyes glaze over before locking on the fleeting image of anything more interesting than, well, you.

Next best something

Whether you are holding onto the Millennial label yourself, or have comfortably crossed one or two generations, piercing the next best something or other requires a compelling value proposition delivered more smoothly than the eligible bachelor's pickup lines.

You are not only competing with other individuals who have the perfect solutions for young professionals, but also against advisers who are perfectly engineered to appeal to that target market.

Opportunity to simplify things

Robo-advisers are a hot topic but, rest assured, young professionals still value face-to-face relationships. However, they are picky, because they can be.

Their access to information is overwhelming, but daunting at the same time. This is where you, as an adviser, will discover the opportunity to simplify things and demonstrate that financial planning is about setting goals and working toward them.

How you do this is by way of a plan, and it takes a skilled professional, like yourself, to build one.

The ironic reality is that these young professionals are largely ignored by the cream

of the adviser crop because they have not accumulated assets as yet. They are however, swarmed by sales people waving products in the air, but this group is wiser than that. Unless you can connect with them and provide them with valuable advice, they will ignore you and go online because it is easier and less noisy.

Another reality is that more than 96% of South Africa's working population cannot afford to retire, so perhaps this is a conversation worth having, but how?

Approaching prospects

I would rather have one first meeting with 100 prospects than 100 meetings with 100 prospects. I would state what I do and how I do it and why these prospects need to listen to me.

Present to groups and tailor different versions of your presentation to speak to respective industries. Approach it from a risk analysis point of view and educate your audience, because they are already highly educated and want to know more.

Let Millennials know that you understand the freedom that they feel because they are earning a salary. Express the joys of youth and talk about holidays and summer madness. Let them see and hear that you get it, and then bring goals into it. Talk about the lifestyle that people want to lead into retirement and reverse engineer that back to the risk that they need to take, on the money that they should invest.

Time is the biggest dictator of how much risk one can take. Millennials are young and are able to take advantage of the power of compounding interest over a very long period. Refer to their parents, talk about Sandwich generations, Boomerang kids and bring it back to the now so that they start to understand the importance of a plan.

Give them some good, practical advice like living with their parents for as long as they

can. Tell them to enjoy the money they earn but to commit to a savings plan and not to get into debt. Remind them that cash is king.

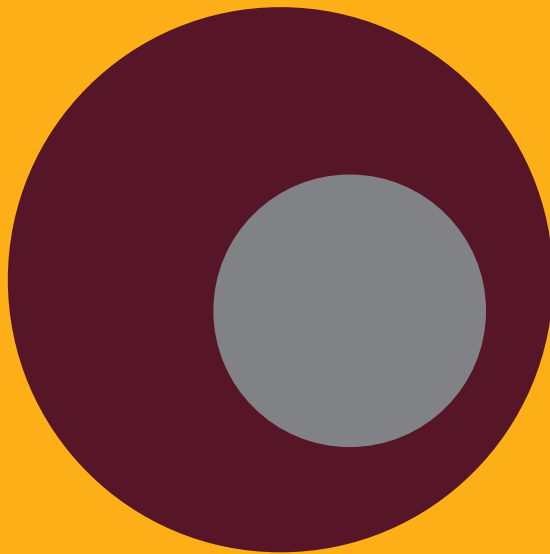
Sometimes six years at a university does not teach students about the basics of money, but you can. If you do it well, you will have a lifelong client that will grow your business while he or she grows his or her own career.



Jason Bernic CFP®
Financial Planning Coach
Old Mutual Wealth

“ Unless you can connect with them and provide them with valuable advice, they will ignore you and go online





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Navigating the maze: EB for a diversified market

When structuring employee benefits for the small-to-medium enterprise (SME), there are certain principles that should be applied regardless of the size of company or the socioeconomic circumstances of staff members.

Foremost among these is the selection of an employee benefits provider and the cost implications thereof.

Advisers need to understand that, from a risk-rating perspective, group cover will be cheaper than individual policies due to cross subsidisation; males cross subsidise females, and the youth cross subsidise the mortality risk of older individuals.

The cost factor

As such, underwriting is only required above a certain limit for some employees, whereas individual policies require underwriting from the first rand insured.

The cost of these benefits will then come off contributions to an umbrella fund, along with the provider's administration costs. This is priced into the offering and included in the total contribution rate.

Providers that levy additional admin fees against retirement savings erode value and nullify the cost benefits of umbrella funds. Therefore, advisers need to be aware of cost structures before advising their clients on potential offerings.

They should also be wary of providers that undercut the price for group cover initially to secure business only to implement double-digit escalations in subsequent years to cover the shortfall. Always remember, if it sounds too good to be true, it usually is.

Focus on metrics

With these principles in place, the information then needs to be extracted from employees for the insurer to determine adequate cross subsidisation ratios and price the group benefits. These include gender, date of birth, occupation and income of employees.

While occupation determines risk, income ultimately determines employee group benefits as a person's basic financial require-

ments generally do not vary based on industry verticals.

Take for example a small manufacturing business with 20 employees; most of whom are semi-skilled or unskilled. They work with machinery and income levels are usually low. They generally support an extended family.

In this instance, an adviser should look at the basics, bearing in mind the cost of benefits because the higher the sum insured the more expensive the premium. The cost of the group cover is proportional to salary. The basic requirement would include life cover which should not exceed three times the annual salary for management and no more than once the annual salary for factory workers to remain affordable.

Funeral cover of at least R15 000 should be included as it's a relatively cheap benefit comparatively and meets an important need for these socio-economic groups, because the benefit extends to the entire family. To cover the potential risks of working on the factory floor, capital disability should be included. A lump sum benefit is preferable as it's more cost effective than income protection.

The other side of the coin

Conversely, a small law firm that employs mostly qualified professionals has a vastly different risk profile for work-related injuries. While most staff will earn good salaries, there are also low income earners in this business such as the secretary, office administrator and cleaner. This creates massive income disparity that the adviser should consider to categorise levels of cover between high and low earners.

As a starting point, the higher earners can consider life cover that equates to five times their annual salary to take advantage of the cheaper cover through the group scheme. The lower income earners can consider life cover of three times their annual package to keep it more affordable.

In this instance, income disability cover is more important than capital disability for higher earners to maintain their standard of living. They can also afford the premium. The lower earners should consider lump sum disability of three times their annual salary. Due to the low cost and the minimal impact it has on premiums, funeral cover is worth including for both groups as it pays out within 48 hours.

Additional cover for higher earners should include critical illness and education trust cover, which continues to pay for the education of their children should they pass away as they can afford both benefits.

Encourage following the standard

The industry standard for retirement savings is 10% of pre-tax income. Higher earners could go higher to take advantage of new tax structures. However, it's wise to keep the all-inclusive premium – risk benefits and retirement – to no more than 15% of pre-tax earnings for lower income earners.

Finally, advisers need to understand that they should never negate their requirement for consultation, regardless of the degree of cover offered. While individual consultations may be the norm with high income earners, there is a need to meet



Walter van der Merwe
CEO
FedGroup Life

with everyone before structuring employee benefits because all employees have a right to consultation regardless of the fees that will be charged. This can of course take the form of a group consultation for lower income earners.

The adviser should also be involved in regular client engagements. This is an opportunity to provide updated info to employees and foster stronger relationships. This could lead to opportunities to up-sell to clients or find other opportunities

to sell financial products to make the whole transaction more viable rather than relying solely on once off upfront commissions that do not benefit anyone in the value chain in the long term.

Lump sum for kids... in whose best interest?

At a time when retirement reform is moving in the direction of annuitisation for adult retirement fund members, it is strange that no-one is giving thought to those at the other end of the age spectrum.

These are minor children on whose behalf trustees frequently elect to pay a section 37C lump sum to the guardian or caregiver.

Stretching funds

A child is powerless in the face of how the guardian may choose to spend a lump sum but if the death benefit is paid to a beneficiary fund instead, a monthly "stipend" is paid to maintain and educate the child.

What is more, if the benefit is professionally invested, it can often be stretched to fund tertiary education too – helping to find a solution to one of the country's most pressing problems represented by the #FeesMustFall campaign.

Thinking long-term

The time has come for government, trustees and retirement fund members alike, to start thinking about beneficiary funds as a critical vehicle in funding the educational needs of children. The argument is compelling:

- The guardian receives a monthly income towards the upkeep and education of the child, calculated together with the beneficiary fund's trustees.
- Capital payments for school fees, medical bills and the like are controlled carefully by the beneficiary fund trustees, to ensure the correct payee receives the funds.
- The lump sum is invested for long-term growth by professionals. A beneficiary

fund can access the expertise required to achieve the best returns at an appropriate risk, and at a reasonable cost.

- Trustees should compare service providers – ideally an independent administrator which selects best-of-breed investment managers and works according to an asset allocation model for each individual beneficiary fund child member would be better. Such a model would take the child's age and particular circumstances into account and slot them into a 'life stage' model best suited to the child's income and capital growth needs.
- The beneficiary fund account is in the child's name. Rightfully when they turn 18 they may receive the residue of the funds (there is a powerful argument to be made for the age of majority for beneficiary funds to be extended to 21, something for which the industry is currently lobbying. In my experience and based on feedback from guardians, many 18-year-olds do not yet have the life experience or financial wisdom to manage a residual lump sum responsibly).
- The tax advantages are significant. No tax is paid in the beneficiary fund and furthermore any payment out of a beneficiary fund, whether capital or income, is tax free.
- The child's account is practically ring-fenced should the guardian die. This means that other family members will be unable to access the funds which should be principally reserved for the child's education.

Powerful financial tool

Beneficiary funds were launched in January 2009. Seven years later, they are a tried and trusted solution for Section 37C death benefits, but awareness remains relatively low.

Let us all use 2016 to help promote the advantages of this powerful financial tool.



Ofile Moea
Executive Director
Fairheads Benefit Services

“
The tax advantages
are significant
”

A proactive approach to workplace rehabilitation

Workplace rehabilitation is the process of helping employees to return to the workplace after an illness or injury which is beneficial to both employees and employers.

Whether the employee is receiving rehabilitation support for a fracture, surgery, depression or other illness, some of the benefits include skills retention, effective risk management, improved productivity and financial wellness (as employees are integrated back into a secure job).

It is essential for businesses to take on a pro-active approach towards rehabilitation and to partner with a multi-disciplinary team of assessors with industry specific experience to assist in the identification and management of adequate rehabilitation.

Challenges by nature

A rehabilitation process is challenging by nature and workplace rehabilitation is no exception. Some employers terminate an employee's service very early on in the incapacity process, leaving the employee with nowhere to return to.

Economic pressures make a facilitated return to work difficult as people are expected to hit the ground running, even after an injury or illness. Another challenge is the quality of the medical and rehabilitation service in provincial hospitals, which is often the channel that is used during the rehabilitation process.

Workplace support

These and other challenges can be curbed by investing resources into adequate workplace rehabilitation solutions, which differ from industry to industry.

While some industries such as the mining industry offer in-house rehabilitation services, most companies outsource to manage the associated costs. Some larger companies also offer in-house support.

Psychiatric conditions are prevalent in the financial industries and wellness support in this context is therefore imperative. Integrated wellness programmes play a big role in general workplace support.

Because rehabilitation is so multi-faceted, it is advisable to draw on a network of rehabilitation specialists that can assist your client's company with facets such as:

- Type of rehabilitation;
- Acute in-hospital rehabilitation;
- Sub-acute post-discharge rehabilitation;
- Work rehabilitation with the focus on managing the residual issues to ensure a return to work;
- Work hardening: this is rehabilitation within the workplace facilitating a successful return to work in a graded fashion so as to build up endurance after an injury or illness. This kind of rehabilitation is focussed on job tasks; and
- Re-skilling and re-training: where a person can no longer return to their own occupation, they can be re-skilled or re-trained to allow them to perform an alternative job.

Early rehabilitation and compliance to rehabilitation is of utmost importance in the outcome of a condition. Research has proven that the sooner the intervention commences, the more likely a person is to return to work within three months, and the shorter the claims payment duration is likely to be.

Making cover a 'must have'

Part and parcel of the solution around workplace rehabilitation is accident and critical illness cover.

The financial impact of accidents and critical illness has ramifications for employers and employees alike: for the employer, this includes loss of productivity, absenteeism and operational pressure, while the effect on employees includes the cost of healthcare and accommodation as well as the adjustment resulting from the injury or illness.

Having a financial solution in place softens the blow of an already stressful situation, alleviating the burden of financial pressure. In financially difficult times, people see products such as accident and critical illness cover as "nice to have" with the mind-set that "it will

never happen to me", which is why these incidents are often not budgeted for.

In this regard, making accident and critical illness cover compulsory for employees may in the long run help ease some of the burden of circumstances that are out of their control, and at the same time employees can benefit from group benefits rates.



Elna Van Wyk

National Head: Underwriting and Disability Management
MMI Corporate & Public Sector, the division of MMI Holdings that services medium & large businesses

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Part and parcel of the solution around workplace rehabilitation is accident and critical illness cover

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IISA celebrates 50th golden anniversary

A brief background

IISA's roots go back to 1898, when the first Insurance Institute in South Africa was established in Cape Town. Subsequent developments saw further institutes develop in all the main cities in South Africa, all affiliated to the Chartered Insurance Institute (CII) in London.

The institutes initially provided insurance technical learning material for distance learning and testing by examination.

In 1966 the local institutes voted to form a central South African body and the IISA was formed as an affiliate of the CII, with the local institutes in turn, becoming affiliates of the IISA.

In this capacity the IISA has been the custodian of professional standards in the insurance industry, and more recently, in November 2012, have been formally recognised by the South African Qualifications Authority (SAQA).

IISA through the years

In celebration of the IISA's success and its contribution to promoting skills development and advancement, FAnews interviewed David Harpur, CEO of the IISA, to tell us how the role of the IISA has changed since its inception, to give us the institute's biggest highlights of the past few years and what the IISA's future plans are.

Harpur mentioned that any industry that wants to see itself as a profession has to have a professional body that sets standards, works toward educational requirements for people in the industry and is supported by all other industry associations and bodies as the educational provider. "That is the role the IISA has adopted," he said.

This year marks the Insurance Institute of South Africa's (IISA) 50th anniversary since its reformation in 1966. Halfway to becoming a centenarian, this a time to reflect and an occasion to commemorate as the IISA celebrates this milestone.

Central body of knowledge

The IISA is a professional membership institute for the South African insurance industry whose aim it is to promote skills development and professional conduct among members engaged in the insurance industry.

The IISA maintains a central body of knowledge and develops and sustains relationships with local and international insurance institutes and industry bodies. It serves the insurance industry as a whole, with the strongest support originating from the short-term market.

The purpose of the IISA is to offer a central organisation for the promotion of efficiency, progress, welfare, knowledge and general development and advancement among persons in the insurance industry. To promote and assist the study of insurance, exercise control and supervision over the professional standards of the members and to seek to improve the professional status of qualified practitioners.

The AIM is to stay connected, exchange knowledge and to engage on topics and challenges facing the industry.

"The Institute has changed considerably since its inception in terms of membership numbers and sponsorship support. We have introduced CPD programmes. We have become a professional registered institute in terms of SAQA, and in November 2012, we became one of the first 40 professional bodies in South Africa. This has added to our status as the IISA being the only professional body for the short-term insurance industry in South Africa. So there have been a lot of milestones along the way," said Harpur.

"We have developed a lot of courses through universities and colleges. We are currently working with Moonstone and others to launch more study opportunities for students across the country.

We have evolved from a small institute that kicked off in Bloemfontein, into quite a substantial institute involving 15 staff members and many, many thousands of qualified insurance professionals," continued Harpur.



**THEY SAY A GREAT INSTITUTION WILL
STAND THE TEST OF TIME.
THIS YEAR AN EXCEPTIONAL INSTITUTE
WILL CELEBRATE ITS 50TH ANNIVERSARY.**

Happy 50th anniversary, IISA, from the team at

FA NEWS
FINANCIAL & ADVISORY NEWS



IISA celebrates 50th golden anniversary

Biggest highlights

In touching upon the biggest highlights over the years, Harpur said one of the biggest steps was when the insurance exams that students wrote were localised to South African requirements.

"We used to write the CII London exam, but it was decided many years back that the exams should be localised. The institute had to create its own course material for study, set its own exams, mark them, adjudicate them and set the right standards. It was a big development which has followed on through with the courses we offer through universities and colleges," he said.

Another big step, according to Harpur, was the recognition of the IISA as the professional body for the short-term industry that happened in 2012. "It strengthened our activity and growth base."

Marking one of the highlights on the IISA's calendar is the insurance conference. The growth of the conference comes in as a third highlight where from small beginnings of 200 to 300 delegates, the conference in 2015 hosted a record attendance in excess of 1 200 attendees from an estimated 402 organisations and 29 countries.

"This is beneficial indeed. This has been a big milestone and it has become an industry event for people to learn and network. In 2016, we are expecting 1 500 delegates at the conference," continued Harpur.

"The other big highlight has been the growth of our professional membership through qualification and the tremendous support we have had from the market and key players," he continued.

Looking at the future

Looking at the previous year, this year the IISA is looking at having panel discussions at a greater level at the insurance conference, with some breakaway groups to cater to the various needs of members. Harpur said the conference will need to keep evolving to attract the right people, but there is no doubt that there is massive growth. In terms of how technology is changing the Institute, Harpur said, "We are looking at putting together internet based training opportunities for people to do their CPD. So people can sit with their laptops and listen to lectures, follow talks on specific subjects and earn CDP hours in that way. We have members throughout the country, in Africa and around the world so an internet based delivery will help in meeting the CPD requirements."

In reflecting on and commemorating this special occasion, FAnews would like to congratulate the IISA on reaching this auspicious milestone and wishes the Institute many more years of success in its contribution to promoting skills development in the South African insurance industry.

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Mirabilis congratulates the IISA for 50 years of excellence.

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This year is the 50th Anniversary of the formation of the Insurance Institute of South Africa (IISA). This provides a convenient opportunity to discuss the development of the South African insurance market, especially the short-term market.

An insurance market requires a developed economy in order to flourish. It can be argued that insurance really started to come into its own after 1760 with the beginning of the industrial revolution.

Commissioning take off

Before that, economies were mainly agricultural in which case marine insurance would have been the main form of insurance. Marine insurance was important because international trade required insurance for ships and cargo. As the industrial revolution got underway cities developed with factories and this required insurance for the economy to develop. Without insurance, economic growth would have been significantly impeded.

It is not surprising to note that insurance in South Africa only started to develop after the arrival of the British in 1795. They departed in 1803, but returned to stay a few years later.

During the interim period, the Cape was under the control of the Batavian government and a concerted effort was made to place the Cape on a sound economic footing. A report was commissioned to set-out a blue print for economic development. This report noted that South Africa did not have any insurers and therefore encouraged their formation. This did not happen for some time. What did happen was that the economy under the British started to take off and a significant number of foreign insurers started to appoint South African agents.

My, my, how times have changed...

Development of the South African insurance market

International expertise

It is important to note that insurance expertise came from abroad, not locally. This would continue well into the 1970s. These insurers came from all parts of the world, but predominantly from the United Kingdom. What is noteworthy is the speed at which insurers spread round the world, including South Africa.

As the volume of business increased, the next logical step was for foreign insurers to open permanent branch offices in South Africa. The first company to do so was the Royal Insurance Company, established in 1845, a year after the UK passed legislation allowing the formation of companies. By this time, South African insurers had been formed by expatriates, not South Africans. The first was the SA Fire & Life in 1831 and later, the Old Mutual in 1845. The SA Fire & Life was formed by Thomas Le Breton, while Old Mutual was formed by John Fairbairn. The Afrikaans companies Santam and Sanlam were formed later in the early 1900s.

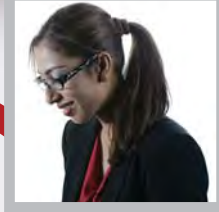
A regulatory committee

The early insurance market was therefore largely dominated by foreign companies and UK institutions were largely replicated in South Africa. One of these institutions was the tariff. The hallmark of the UK financial market was self-regulation and consequently, the insurance industry regulated itself via tariff committees. These committees regulate the affairs of its members, companies which joined the tariff. These committees drew up very detailed rules including model policy wordings and regulated premiums, commissions and so on.

Not every insurer joined the tariff and thus two markets co-existed; the tariff and the non-tariff markets. Naturally the tariff companies were the benchmark with respect to policy wordings and premium rates for the entire market. The tariff continued until the 1970s.

The rise of insurance institutes

By the late 1890's, it was realized that tariff committees could not be all things to all men and so another institution was formed, allowing the tariff committee to concentrate essentially on market regulatory matters.



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Insurance
Institute of
South Africa
celebrating
50 years
in the industry.
We salute you!



HAPPY 50TH BIRTHDAY!



FROM:



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might say
you're 50.

We'd say
you're precisely
18 264 days,
438 336 hours,
or 26 300 160
minutes old.

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ensuring that companies
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INSURANCE INNOVATION



My, my, how times have changed...

Development of the South African insurance market

The other institution was the Cape Insurance Institute modeled on the UK practice which had formed the first insurance institute in 1873. This was followed by others. Insurance institutes initially concentrated on arranging social events for the industry but quickly included insurance education.

In the UK, in the early 1900s, a central body was formed known as the Chartered Insurance Institute (CII) which turned its attention to insurance education. In South Africa other insurance institutes were formed and they started to offer educational programmes in conjunction with the CII in London. In 1966, it was decided to form a central body - the IISA, to take over insurance education activities which had been conducted by the local institutes. Regulatory issues continued to be catered for by the tariff committees.

Domestication of insurers

The National Party won the 1948 general election and the economy gradually became more centralized. As the international community reacted to apartheid it also became more isolated. In the 1960's, the government formed the opinion that foreign companies should form local publicly quoted companies, thereby allowing South Africans to invest in these companies.

The government did not like the idea of foreign companies operating through branch networks. The government approach had an impact on the South African insurance market since many of the leading insurers were merely branch operations of their parent foreign company.

This arrangement nevertheless had considerable advantages to South Africa. At this point, the expertise was still from the overseas companies. But as a result of pressure from the government, the process of domestication of South African insurers took place. All foreign insurers formed local companies and many listed on the Johannesburg Stock Exchange (JSE).

Thus, for example, in the UK the company was the Royal Insurance Company (plc) but in South Africa the local company became the Royal Insurance

Company of South Africa (Ltd). The insurance market thus became "South Africanised", although in many cases the major shareholder was still the foreign parent company. The government of the day then indicated it would like to see closer cooperation between foreign and local companies. In the spirit of this initiative, for example, the Royal joined forces with Old Mutual to form Mutual & Federal. The beneficial involvement of foreign insurers continued until quite recently.

It is only in recent times, for example, that the UK Royal Insurance Company, then the Royal and SunAlliance, now the RSA Group, disinvested its holdings in Mutual & Federal. Within the last few weeks Zurich has also indicated an intention to disinvest.

Remarkably stable market

By the 1970's, the tariff system had run its course. It was decided in the UK to disband the various tariff committees and South Africa soon followed suit. The South African Insurance Association (SAIA) emerged in the place of what was the central tariff committee.

The South African short-term market has been remarkably stable and successful. In the last fifty years only three significant short-term companies were of concern, namely Parity, AA Mutual and IGI.

Parity was largely a third party motor insurer. The case of the AA Mutual is very interesting as its demise has had a lasting impact on the SA insurance market. When the matter of the AA Mutual was finalized, it turned out it had millions as surplus assets, that is, after settling all claims and paying liquidators for more than two decades.

The formation of the Financial Services Board (FSB) is largely due to the findings of the Melamet Commission of Inquiry into the collapse of the AA Mutual, supplemented by the subsequent views of the Van der Horst Committee. Similarly, when the IGI was liquidated it ended with a surplus after paying all outstanding liabilities, including claims and liquidation costs. ●



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Witwatersrand



Justine van Vuuren
Associate Lecturer in
Insurance
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commitment.**

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The **GLITZ** and **GLAMOUR** of THE INSURANCE **APPRENTICE** 2016 Gala Evening



Andre Brooks was announced as the winner of The Insurance Apprentice 2016.

On 14 April a star studded evening was held at Hollard's Villa Arcadia when Andre Brooks, Account Manager at Price Forbes, was announced as the winner. Andre will fly business class to Lloyds of London for a week to broaden his horizons, sponsored by Lloyds of London. He has also won a bursary worth R70 000, sponsored by Inseta, to study a course of his choice.

Andre beat his five fellow finalists Alicia Narainsamy (Auto & General), Celina Bhima (Hollard), Chris Caalsen (ACE Insurance), Karabo Koepka (Hollard) and Unathi Ntengo (Marsh Africa) to the top spot in a tense season finale.

Joining the six finalists for the evening were Priya Govender (Mutual and Federal) and Richard Cunliffe (AON Benfield), who both made the cut for the competition, but were voted off early on.

The guest speaker for the evening was former Proteas cricket captain Graeme Smith who related how he had ascended to the cricket captaincy – and how he and his team transformed themselves into the top side in the world with team work. The Insurance Apprentice judge Vuyo Lee from Momentum spoke about her time on set as well as how the judges arrived at their decisions for each episode.

The top three, being Alicia, Andre and Chris, were then called to the stage to await the verdict and when being announced the winner, Andre exclaimed: "What a journey!" Jubilation from Price Forbes guests in the audience was marvellous. In Andre's speech he saluted his fellow competitors for their calibre and for their courage in entering the competition, and he thanked the judges, the sponsors and finally Andre thanked his "campaign manager" – his wife.

A proud moment for everyone involved in The Insurance Apprentice and a job well done to all the young stars!





Hot off THE PRESS



- **PPS evolves its business model** - PPS Short-Term Insurance is transforming its business model to become a short-term insurer. The company will enter into a joint venture with Santam. Santam will assist PPS Short-Term Insurance to develop the systems required for operation as a short-term insurer and provide claims administration services.
- **Investment Solutions launches two passive funds** - Investment Solutions has expanded its portfolio line-up with the launch of low cost passive unit trusts, in partnership with Coreshares. Investment Solutions Conservative Passive Unit Trust and Investment Solutions Aggressive Passive Unit Trust are passively managed, multi asset class portfolios, that each aim to deliver returns above its inflation linked return objective.
- **Camargue's new eLearning module now live** - Camargue has added a fourth module - Cyber Risks - to its progressively robust eLearning platform. The eLab course is aimed at addressing cyber-crime. For brokers to successfully complete the course they must be able to identify risks pertaining to the use of technology in the business; describe the direct effect on loss of income due to e-risk infringements; describe the e-risks policy; list the exclusions of the policy and apply the policy in an actual scenario.
- **GCI launches succession plan for independent brokers** - Independent brokers, like independent financial advisers, often build strong businesses with good income streams, and they just need a way to capitalise those strengths when they exit the business. GCI have successfully pioneered a similar process for independent financial advisers, to create an income stream that will continue into retirement and beyond to create a financial legacy. The process could be phased in line with commercial realities or the seller's plans.
- **Agri-Vie Investment Fund and STANLIB launch EXEO Capital** - Agri-Vie Investment Fund and STANLIB have launched EXEO Capital - an Africa-focused private equity partnership - which will allow both parties the opportunity to expand their alternative investment offerings. STANLIB has taken a partnership stake in EXEO Capital. EXEO Capital will be spearheading the imminent launch of Agri-Vie Fund II during the second quarter of 2016.
- **MUA launches product aimed at middle income earners** - The new product is the solution for individuals who do not yet qualify for the MUA Executive Product, but want access to the exceptional personalised services offered by MUA. Through a productive partnership with Auto & General MUA is enabled to use the economies of scale at Auto & General to allow the MUA claims model to work smoothly and effectively.
- **Bonitas and Liberty discuss amalgamation** - Bonitas medical

scheme and Liberty medical scheme are in discussions to amalgamate to create an even stronger and more sustainable medical scheme that will provide enhanced cover and benefits to their respective members. The new scheme would have a broader national footprint; better economies of scale to negotiate better rates and improve provider networks.

- **Mutual & Federal acquires CGIC** - Mutual & Federal has acquired 100% of the issued shares in Credit Guarantee Insurance Corporation (CGIC). Raimund Snyders, CEO of Mutual & Federal says, "CGIC has already made a significant contribution to Mutual & Federal's 2015 result. We look forward to its continued strong performance, as we work together to build a leading insurance business, both in South Africa and outside our borders."
- **PPS Investments launches a tax free investment account** - PPS Investments has launched a tax free investment account for all investors who wish to supplement their long-term savings tax efficiently. The tax free investment account allows investors to contribute a maximum allowable amount without being charged capital gains tax (CGT) when accessing these savings or switching funds, dividend tax when receiving dividends, or income tax on interest earned on these contribution amounts.
- **MEducation360° wins silver in the Bookmark Award** - The SchoolTool, which is part of Multiply's Education360° offering, received national acclaim when it scooped the Bookmark Award in the category, "Excellence in Research". SchoolTool not only helps you find the perfect school for your child, but also calculates all the costs involved for that school.

Morningstar announces winners

Morningstar announced the winning funds and fund houses for its 2016 South Africa Fund Awards

The winners of the 2016 Morningstar South Africa Fund Awards are:

FUND CATEGORY AWARDS	WINNERS
Best Aggressive Allocation Fund	Personal Trust Managed
Best Cautious Allocation Fund	Nedgroup Investments Stable
Best Bond Fund	ABSA Multi-Managed Bond
Best Flexible Allocation Fund	Bateleur Flexible Prescient
Best Global Equity Fund	Investec GSF Global Franchise
Best Moderate Allocation Fund	27four Balanced Prescient Fund of Funds
Best South Africa Equity Fund	Mazi Capital Prime Equity

FUND HOUSE AWARDS	WINNERS
Best Fund House: Larger Fund Range	Prudential Investment Managers
Best Fund House: Smaller Fund Range	Foord Asset Management

HEAD NORTH for success



Gauteng Women in Insurance (GWII) recently hosted its second event for 2016 at Hollard's Villa Arcadia. The event was titled Head North for Success and hosted Khanyi Dhlomo, guest speaker who holds a number of accolades and was named one of Forbes' magazine's 20 Most Powerful Women in Africa aged under 40. Dhlomo addressed the GWII ladies about the principles of leadership in business.

"There will be times when you question your brand and purpose, but be assured that you will rise. This is a characteristic of leadership. What you want doesn't always come packaged the way you want it; but if you put something out there and believe in it, it does happen. Shine to the best of your ability, but pace your rise because perfectionism is self-sabotaging. If you are in a good space and your intentions are good, you are headed in the right direction."

All good deeds

This time around guest speaker Dhlomo nominated two charities of her choice: The Door of Hope Children's Mission, and Children of the Dawn. Thank you to the attending GWII members for their contributions as well as Insure Group who always generously sponsor our nominated charities.

GWII members also kindly donated socks which will be given to the homeless around the Chris Hani Baragwaneth Hospital. This project is run by a school girl, Tia Benn, who is the daughter of Professor Carol Benn.

Prizes up for grabs

We always have a few lucky ladies walking away with prizes donated by sponsors. We would like to thank all of the sponsors who contributed to the prizes. The sponsors were:

- Hollard - two Carol Boyes sugar spoons;
- Centriq – two Engelsrufer (Angel Whisperer) necklaces to the value of R 3000 each;
- MMX Systems and Galel Training & Development each sponsored a cooking course voucher for the winner and a friend from The Good Food Studio;
- Members also walked away with Destiny magazines.

A word of thanks

GWII would like to thank Hollard for their sponsorship, effort and continued support. The Hollard marketing team rock! Also, a huge word of thanks to Genasys Technologies for sponsoring the decadent French macarons and to Clyde & Co for sponsoring the Bean There coffee bar.

Photos of the event, sponsored by Insure Group, can be viewed on www.gautengwomenininsurance.co.za



EVENTS & happenings



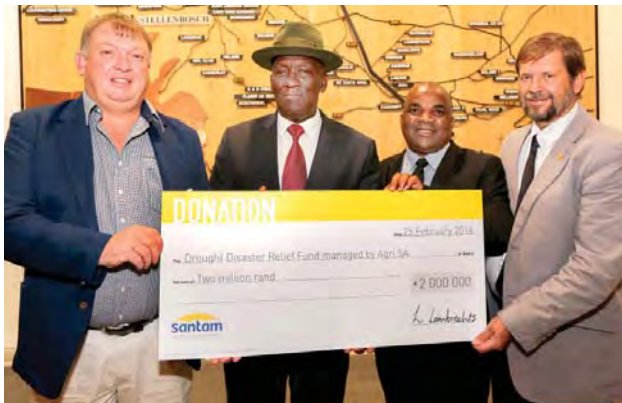
Tracker Men in the Making

Tracker, together with the Department of Education and SABC, recently unveiled the 2016 'Men in the Making' programme, following the successful run over the last seven years. Tracker's Men in the Making initiative is aimed at empowering and developing young boys through exposing them to positive role models, career guidance and to the working world; hopefully allowing them a crucial and inspiring glance into their potential future careers.



Camargue voted Top PI/Liability UMA for 3 consecutive years

Camargue has again been voted Top PI/Liability UMA in the PMR Africa national survey on Underwriting Managers (UMAs) in South Africa. It received the highest ratings in the Professional Indemnity Cover category, with a mean score of 4.15 out of a possible 5.00.



Santam donates R2 million to Drought Relief Fund

In support of drought stricken farmers leading insurer Santam donated R2 million to the National Drought Disaster Relief Fund managed by Agri SA at the Agri South Africa 2016 Commodities Congress. From left: Gerhard Diedericks, Santam Head of Agri; Bheki Cele, Deputy Minister of Agriculture, Forestry and Fisheries; Phenias Gumede, Deputy President: Agri SA; Johannes Möller, President: Agri SA.



JSE rings the bell for gender equality

The Johannesburg Stock Exchange (JSE) joined 34 other stock exchanges around the world in marking International Women's Day (8 March) in order to raise awareness of gender equality and the need for transformation in the financial industry. The keynote address, was delivered by Public Protector, advocate Thuli Madonsela. From left: Advocate Thuli Madonsela, Public Protector, Zeona Jacobs, Director Marketing and Corporate Affairs, JSE, Anne Githuku-Shongwe is the newly-appointed Representative for UN Women's South Africa Multi-Country Office (SAMCO), Aarti Takoorden, CFO, JSE, Nonkululeko Nyembezi-Heita, Chairwoman JSE



OSTI hosts farewell

The Board of Directors of the Ombudsman for Short-Term Insurance cordially invited FAnews to join them for cocktails on 25 January at the Johannesburg Country Club in Auckland Park to say farewell to Ombudsman Dennis Jooste and to welcome his successor, Deanne Wood. We wish Dennis well in his retirement years.



Appointments in the industry

From left: Telesure Investment Holdings appointed **Manny Rios** as its Chief Executive Officer; Allianz Global Corporate & Specialty (AGCS) Africa appointed **Vanessa Kohler** as Senior Underwriter within the Financial Lines Business; Allianz Global Corporate & Specialty (AGCS) Africa appointed **Bridgette Benting** as Head of Human Resources (HR); **Theuns Prinsloo** has joined the Bidvest Insurance Group to take up the position of Head: Actuarial in the company's actuarial department; saXum Insurance Limited has appointed **Leeann Minnaar** as Head of Legal and Compliance at its Head Office in Gauteng, and PSG appointed **Francois Moller** as the new Head of Technical Support Services (TSS).



Women in Finance host JSE CEO

Women in Finance Network in partnership with Investec hosted Nicola Newton-King for breakfast in March. Nicola Newton-King is Chief Executive Officer of the Johannesburg Stock Exchange Limited.



Centriq participates in Daredevil run

Walking alongside the road wearing nothing more than a purple speedo is probably one of the boldest and most daring things a guy can do. Well, not for the men of Centriq Insurance who participated in Hollard's Daredevil run recently to create awareness around prostate cancer. Team Centriq at Hollard's Daredevil run on 19 February 2016.



INSETA's ground-breaking pilot ends

INSETA hosted its broker development program closing event in February. This ground-breaking pilot project, focusing on the development of small, black brokerages in the insurance industry was run by INSETA in partnership with ASISA (Association for Savings and Investments S.A.) through a customised, 12-month broker development, training and mentorship program.



Promotions at SHA

SHA Specialist Underwriters announced the two promotions of **Odett van Jaarsveld** (left) and **Kirsten Cronin**. Van Jaarsveld was promoted to Head of Retention Liability Corporate Solutions in conjunction with her role as the Head of Single Projects and Cronin is now the Manager of FI Corporate Solutions.



Glacier International hosts annual seminars

Glacier International's annual Navigate seminars took place across the country in early March. Fund managers taking part in the panel discussions responded to questions from the audience. Andrew Brotchie, MD of Glacier International, launches the Navigate Optimised Model Portfolios,

EVENTS & happenings



Appointments in the industry
ACORD announced that **Deon Olckers** will join the organisation as a representative for South Africa.



New appointments at Price Forbes Insurance Brokers
Price Forbes Insurance Brokers has strengthened its technical capabilities in the Western Cape by appointing **Lee-Anne Lekay** as technical broker, and has further expanded its client service team by appointing **Jakes Makakabule** as Account Manager.



IIG announces councillor of the year
The Insurance Institute of Gauteng's (IIG) Past President Zuriel Naiker announced Olivia Smith, Marketing & Events Officer at Allianz Global Corporate & Specialty Africa (AGCS), as Councillor of the Year at the IIG Inaugural Dinner.



Centriq and Nautical make going to school cool
Centriq Insurance joined forces with Karabo Rasebopye from Nautical Underwriting Managers to provide children with the essential stationery they need to make going to school cool. Happy faces all around as the children received their goodie bags.



Santam gives emerging farmers a much-needed boost
More than 600 emerging farmers from villages and rural towns across the country were recently empowered to start their process to successfully convert their subsistence farming into commercial farming through a series of consumer education training programmes. The training, driven by Santam, imparted the necessary financial and business skills to the farmers. Successful course graduates of the Santam sponsored Consumer Financial Education Training held at Jan Kempdorp, Northern Cape, receive their course completion certificates.



Camargue donates cheque to Brainstorm Support Group
Camargue, a committed long-term supporter of Brainstorm, donated R125 000 to the professional support group for brain injury and stroke survivors. The funds were raised by a resolute group of cyclists who under the Team Camargue banner, secured corporate and private sponsorships for cycling in the Lions Karoo to Coast mountain bike challenge last year. In the photo Mitch Marescia is signing the Brainstorm Cheque.



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