

**A NEW SCAM ROCKS THE LIFE INSURANCE INDUSTRY**

**FEBRUARY  
2017**

# **FA NEWS**

FINANCIAL & ADVISORY NEWS

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THE BIG GUNS  
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**Editor**  
 Rianet Whitehead  
 Tel 011 768 2299  
 Cell 082 467 1924  
 editor@fanews.co.za

**Journalist**  
 Jonathan Faurie  
 Cell 079 566 8814  
 jonathan@fanews.co.za

**Researcher/Journalist**  
 Myra Rego  
 Cell 082 291 8760  
 myra@fanews.co.za

**Ads & Subs**  
 Michelle Schreuder-Rankin  
 Tel 011 768 2299  
 Cell 083 787 4567  
 michelle@fanews.co.za

**Design & Layout**  
 Noël Schreuder  
 Tel 011 768 2299  
 noel@fanews.co.za

**Website and**  
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 PO Box 2342  
 Wilropark 1731

Tel 011 768 2299  
 Fax 011 768 3032  
 info@fanews.co.za



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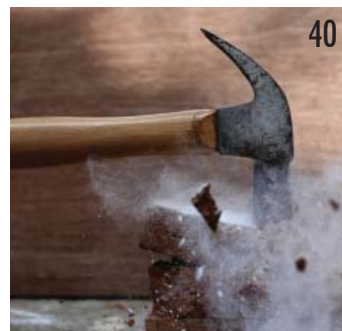
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- A journey of reinvention
- Are we seeing the changing of the Guard?
- Are bond proxies quality stocks?
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# It's all about to change...

## LETTER FROM THE EDITOR



Rianet Whitehead  
Editor

All indicators show that 2017 will be the year of regulatory changes... For the past few years we have seen deadlines on the implementation of specific regulatory changes come and go, but it does look like we might see some of those implemented this year.

Are you ready for the changes or do you still believe that if you put your head in the sand it will pass? Reality will be hard if you have been ignoring the discussions around regulation, and I would suggest that you visit the FAnews website to get an update of where we are in terms of possible regulatory changes and what the impact of it might or will be on your practice.

Technology and the impact thereof has become a regular feature in the magazine and it has become clear that if you do not adapt and stay abreast of technological changes, you will be left behind. Although technology and the changes we have to make sometimes seems a bit daunting and expensive, it is a reality that it makes your life easier, without a doubt. Change is sometimes difficult, but often for the best!

FAnews' year kicked off with the filming of The Insurance Apprentice 2017 and episodes started on 3 February. By the time you receive this magazine quite a few episodes will be available for viewing, so do not miss out on what I believe is a showcase of insurance – in a positive way – like you have never seen before. The message is clear; insurance is an industry filled with opportunities and an industry anyone serious about building a career will consider. Make sure you watch the episodes on either YouTube/theinsapp or Facebook.

Arno Lawrenz Head of Fixed Income Portfolio Management at Ashburton Investments recently commented, in light of Davos and what came out of those discussions, that faster economic growth will diminish the importance of wealth in a society, whereas slower growth will increase it. Increasingly, public-private partnerships will have to become the norm for us if we want to make any headway into our greatest challenges. The Budget will be another opportunity for Minister Gordhan to create the societal framework in which we address these, and it will be interesting to see what is in store for South Africa on this front. Keep an eye on the FAnews Online newsletter for more on Davos and the budget speech.

Enjoy the read! Until April.



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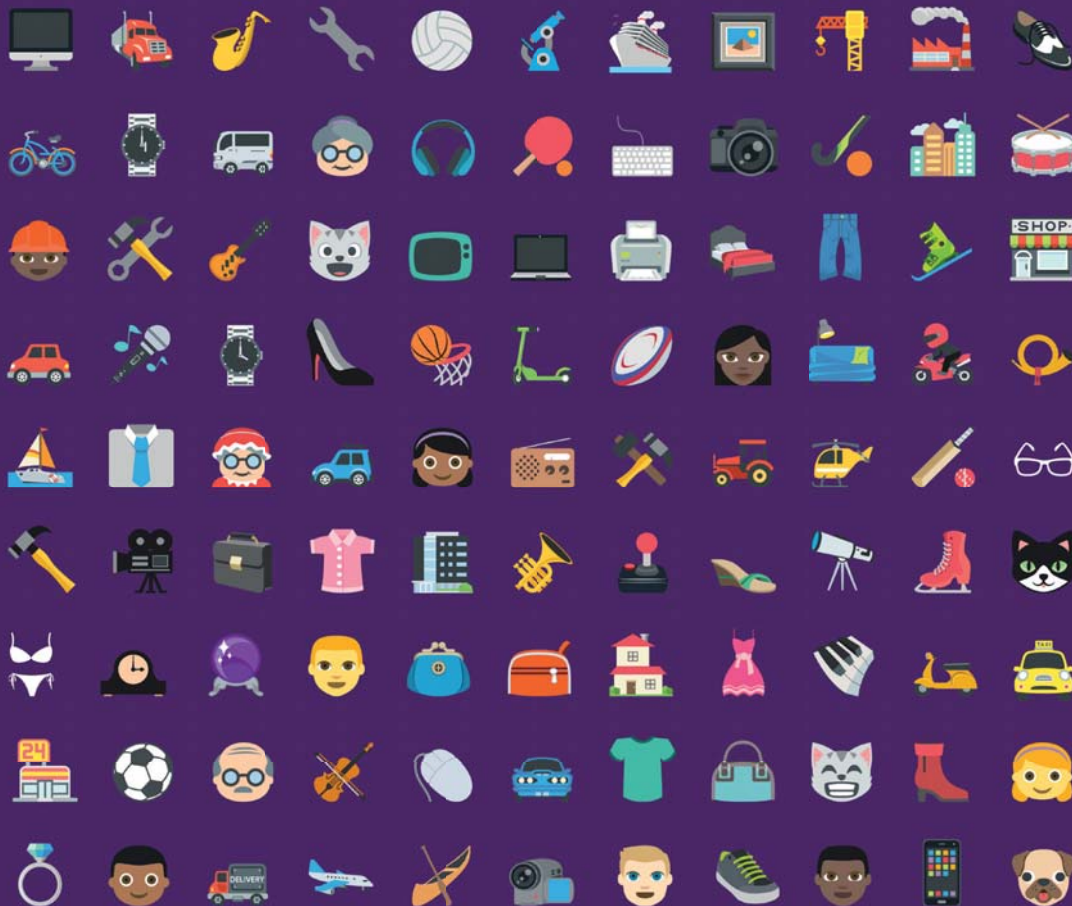
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# The art of managing CLIENT RELATIONS



Ask any successful business owner how they manage to create a positive customer experience, and the answer will very likely be that they “always put the customer first”.

**A**nother popular answer is that the “customer relationship is always at the centre of what we do”. But what, exactly, does it mean to put your customer first, or at the centre of what you do?

## Forging a positive experience

In business language this approach to the customer relationship is known as customer centricity – an approach that creates a positive experience before and after the point of sale. And while it is very clear that many insurance products are putting the customer first before the product is sold, it is not always that obvious after the policy kicks in.

The long term insurance industry’s approach to customer centricity does not always factor in the fact that policyholders’ needs change. If we claim we are customer-centric, we, as product providers, have a responsibility to anticipate and match these needs over time. Part of this responsibility is to acknowledge that no-one’s needs change in the same way, and this should be inherent in the design of long term insurance products. This, in turn, will enable good, honest, needs-matched advice, which will empower financial advisers to follow a customer-centric approach.

## Taking centre stage

The role of the financial adviser has always been crucial to following a customer-centric approach, because the financial adviser is responsible for bridging the gap between the product and the customer.

In an industry where basic long term insurance products are outdated and have inefficient product structures, it has become increasingly difficult for advisers to bridge this gap. Regulatory changes like the Retail Distribution Review (RDR), which requires unbiased, ongoing advice, have added even more pressure to find and sell products that are truly customer-centric.

## Newer is better

There are newer, forward thinking product providers that offer sustainable solutions with transparent, premium efficient cover that matches clients’ needs. This new generation of life cover providers harness technology to reduce the paperwork between the client and

the adviser through client-friendly quoting interfaces, smart forms that auto-populate client details, tele-underwriting and electronic signatures that save time and reduce the schlep factor.

They also embrace Big Data, which provides a wealth of information becoming available about consumers and their behaviour. Thanks to this, customer-centric product providers are gaining growing insight into exactly what consumers’ needs are. They also have sophisticated technology and incredible processing power at their disposal to create products that are intuitive, flexible and customisable to match clients’ needs very precisely. Big Data also allows customer-centric insurers to pick up those life changing events that typically prompt customers to review their insurance cover.

## Adapt or die

There are many life cover providers that claim the customer is central in everything they do. This, unfortunately, is not the case with traditional life cover products filled with complex jargon, heaps of paperwork and unsustainable premium patterns.

The life cover providers that are truly getting it right are the ones that match customers’ needs before and after the policy is sold. And they do not just match these needs by incorporating flexibility and accessibility into their product design thanks to technological advances. They can match truly unique, individual needs and are able to change with these needs on a personalised basis – and that is where true customer centricity comes into play.

This, in turn, empowers you – the financial adviser – to provide the best, ongoing advice and to bridge the gap between the customer and the product.



**Leopold Malan**  
Executive Director: Processing  
BrightRock

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# Engage through social media

# AND REAP THE REWARDS

In the specialist insurance space, insurance brokers often have to interpret the mysteries that surround niche products on behalf of their clients.

**T**he effective use of social media can however, assist in overcoming this daunting task.

## Unfounded concerns

Many brokers fear that they may be inviting trouble into their personal space if they engage on social media, but this is simply not the case.

While there are numerous recent examples where people have landed in hot water for things published on social media, if one sticks to the same principles of common decency on the digital social platforms as one would in a face to face interaction with strangers, there should be nothing to worry about.

Social media also allows users to draw attention to new risks that are looming on the horizon very quickly. The impact of driverless cars, 3D printing and drone usage are only a few of these risks that can all be debated by business owners, insurance practitioners and other experts long before they become real exposures.

## Renewed adequacy

If one considers legislative changes, social media allows brokers the opportunity to start a conversation with clients and insurers to make sure policy coverage is adequate for the new environment. Take the proposed national liquor regulations as an example. This regulation could lead to new liability exposures for bar and tavern owners so the impacts of these regulations were discussed openly on social media platforms.

## Increased brand awareness

Effective social media usage can also lead to

increased brand awareness in the insurance sector.

It can be used as a tool to drive activity back to a website in order to further engage with brokers. Consumers are bombarded with irrelevant information on a daily basis in the form of billboards on the side of the road, television adverts, radio adverts etc. Social media enables people to choose who they want to follow and which brands they believe will speak to their interests and needs.

A broker interested in liability insurance can therefore engage with an insurer such as SHA on their social media networks. This two way communication is far better than the one directional advertising we are used to.

It is important that brokers, and insurers alike, engage with other industry professionals and stakeholders on social media. Shared, free knowledge is available right across the social media spectrum. The platforms also provide unique opportunities for brokers to establish ongoing contact with their existing and prospective client rather than relying on an email at renewal or claim time.

## Attesting to benefits

I believe that most people within the insurance industry can attest to the benefits of engaging on LinkedIn; however, Twitter and Facebook are not fully utilised yet.

Brokers need to follow influential players in the industry who are very active and engage with them on these social portals to ask questions and share content ideas. It can be

a very valuable way of building a social media presence by tapping into the minds of these experts.

As an underwriter, I often research clients' social media pages and check their websites for additional insight into their business. It can be a very handy tool to prepare ahead of a meeting with the broker to discuss current and emerging risks for a particular client. If you want to know more about your customers and what they think about your products, social media tends to be more honest and untailored than website content. By following the right accounts, one can also see what some of the big international players are working on and try to find a way to localise their problems and solutions.

I am very happy about the increasing number of social media courses and presentations within our industry. I encourage more industry players to attend these to ensure that they take full advantage of the benefits that social media has to offer.



**Simon Colman**  
Executive Head: Alternative Distribution  
SHA Specialist Underwriters

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# Bringing out the **BIG GUNS IN 2017**

After a tough 2015 and 2016 where South Africans faced many challenges, the prevailing sentiment is that 2017 will probably be another year of stunted growth. Some of the industry's brightest minds came together to provide an outlook for the year from their specific perspectives.



## Schalk Malan - Executive Director: Product Design – BrightRock

The past year has seen major changes to the local and global sphere that will continue to impact negatively on consumer budgets. Long term cover providers will be under increas-

ing pressure to be responsive and nimble under these conditions, and there will be an increased demand for cost efficient cover.

### REGULATORY CHANGE

The continuing implementation of the Solvency Assessment and Management (SAM) regime and the Retail Distribution Review (RDR) will remain a major focus for our industry.

Providers will be working hard to put the necessary reporting structures, systems and processes in place to comply with the expected changes. However, these changes also provide an opportunity for providers to innovate to the benefit of the industry and its prospective and existing policyholders, and we hope to see progress in this regard.

### THE NEED FOR HIGH ADVICE

We are also going to continue seeing a rise in the number of market players who are selling long term products direct to consumers. In spite of this, there is definitely a continued demand for high advice at initial sale point as well as ongoing advice where advice and product features need to adapt to client's changing needs.

Premium patterns, underwriting requirements and terms offered are often more difficult to navigate and many customers still opt for an intermediary to help them navigate these products. This means that the adviser is critical in the value chain.

## Servaas du Plessis- Consultant: Momentum Consult and CEO of Forensic Services at EOH

By nature, the short term insurance industry is a volatile one. To highlight the changes in the industry would be to highlight the overall challenges that have affected the financial services industry as a whole.

### RISING AMBIGUITY

The rising ambiguity of the state of the economy – due to economic and political shifts in the country – has inevitably put pressure on household disposable income and the decline of the consumer purchasing power. This has led to the low sales of short term insurance policies.

Related to a decrease in consumer purchasing power, we have seen an increase in policy lapses in the short term industry; this could flow into 2017. Consumers focus on cutting back on costs, and grudge purchases such as short term insurance are the first to go from household budgets.



### STICKY FINGERS

According to the South African Insurance Crime Bureau, it is estimated that 30% of insurance claims (across all sectors) are fraudulent. Further findings reveal that South Africa has recently been seeing a huge increase in fraudulent insurance claims.

In 2014, over 7 000 insurance claims were detected as fraudulent, altogether reaching an estimate of over R400 million. This is a steep increase from 2013 (30%); forcing insurers to enforce stricter payout measures.



## Michelé Schliesser - Chief Operating Officer: Mutual & Federal

### MOVING CLOSER TO BROKERS AND CUSTOMERS

We are living in interesting times. In South Africa, and around the world, we are seeing rapid and disruptive change.

Technology and social media has been affecting customer expectations and the way we do business. Customers now expect personalised service, faster communication and real value for money.

I believe that the best way for our industry to meet this need is by delivering customer service excellence and enabling brokers to do the same. This becomes even more important in an environment like South Africa, where times are tough for customers and where political uncertainty and drought have further reduced consumer confidence.

Insurers know that during these times, it becomes crucial to assist our clients to be correctly insured. This is where we rely on the advice of brokers to help us move closer to clients, with relevant solutions that will effectively meet their needs.

### IMPROVING EXPERIENCES

Internationally renowned Information Technology research company, Gartner, has forecasted that 6.4 billion connected devices would be in use worldwide in 2016. This is an increase of 30% from the previous year, and this figure will reach 20.8 billion by 2020.

Seeing that the claims experience is one of the key moments of truth for clients and brokers, insurers need to be reminded how critical it is to continually strive to improve this experience. Insurers' aim should be to achieve this by continuing to put the necessary digital solutions in place to enable communication that is more frequent, have faster turnaround times and better procurement strategies to control costs for clients.

### THE VALUE OF ADVICE

As the insurance industry evolves to meet customer demands while keeping pace with significant changes, the role of brokers cannot be underestimated.

The role of brokers will continue to evolve and insurers should focus to enable brokers to provide better customer experience through digital innovations.

## Michael du Preez - Product and Marketing Executive: Tracker

### INNOVATIVE DISRUPTION

This year will be a tough year from a business and economic perspective. Businesses will have a challenging environment in which to operate. Yet 2017 will also be an exciting year, particularly when it comes to advancements in technology.



Think innovative disruption such as those we have seen from start-ups Trov and Lemonade.

Trov, an insurance start-up from Australia, which provides what it calls on-demand insurance, offering insurance via a mobile device for individual assets, will launch in the United States before the end of 2017 and will also launch in the UK soon.

Lemonade, the peer-to-peer insurance technology start-up sold 142 policies and generated \$14 300 in gross written premium in its first 48 hours, in addition to raising \$13 million from venture investors in an initial round of funding.

In a world where everything is connected, with changing consumer behaviour and technological advancements, businesses need to think about how they stay relevant and protect themselves to ensure they are successful into the future.

This is particularly relevant to insurers that are no longer expected to just cover the unpredictable, but to anticipate the unpredictable too.

## Wynand van Vuuren - Head of Legal and Claims: King Price

### TREATING CLIENTS AS RISKS IS A THREAT

In the highly competitive insurance industry, client retention is critical for a successful and sustainable business. Yet, many insurers still see their customers as risks; their model focuses on what they would have to pay out should a client claim.

The industry still seems to believe that we are in the business of selling insurance and managing risk; but these are merely elements that form part of internal processes. In reality, we are in the business of selling peace of mind, which stems from trust. And trust can only be created within a mutually valued relationship.

When driving customer retention, it is vital to create experiences that develop such relationships with clients rather than letting them feel like just another transaction or a risk that needs to be managed.





# WALK the line

In part one of this article series we discussed general issues around moving books of business, and we concluded that this topical, but also often confusing and complicated subject in the financial services industry, can be defined as a change to the contracting parties to an insurance policy, or a change to the contracting parties in an agreement dealing with insurance policies, or the replacement of one insurance policy with another where such a replacement consists of the cancellation of one insurance policy and entering into another insurance policy soon thereafter. (Read the full article in the November 2016 edition)

We will now focus on the moving of a book of business by changing or replacing the following contractual relationships:

- A broker wants to move insurance policies from one insurer to another insurer while that broker remains the broker for the client; and
- one broker wants to move the functions he performs with respect to insurance policies to or from another broker while the insurance policies remain in force.

### From one insurer to another

The relationship that would need to change to give effect to this type of move of a book of business is the contractual relationship between the policyholder and the insurer.

The broker is not a party to the contractual relationship that needs to be amended to give effect to this move. The broker might however be able to influence either of the parties to the insurance contract to change their contractual relationship to give effect to the move of the book of business.

If the broker can persuade the insurer to transfer the book of

business to a new insurer, or for the insurer to cancel the book of business, the legal requirements would be those discussed in more detail in part one of this series.

The legal requirements are those set out in sections 36 and 37 of the Long term Insurance Act of 1998 (LTIA) and the Short term Insurance Act, 1998 (STIA).

It is important to note that the consent of the policyholder is required to establish an insurance contract between the policyholder and the new insurer if the book is moved by way of replacement.

Attention must be given to the requirements of the new draft Policyholder Protection Rules (STIA and LTIA) that was published for comment on 23 December 2016 and will possibly become effective on 1 May 2017. Specific duties are placed on role players where policies are being replaced, or where an insurer cancels a policy.

### Other options

Other options would be for the broker to render a financial service to the policyholder that will result in the policyholder changing the contractual relationship with the insurer by replacing the policy. This would entail cancelling the insurance policy with the one insurer and entering into a new insurance policy with another insurer.

The actions performed by the broker in this regard would most likely constitute the rendering of financial services as defined in the Financial Advisory and Intermediary Services Act, 2002 (FAIS) and the broker would need to comply with all the requirements of FAIS. In terms of the FAIS General Code of Conduct the broker would need to make specific disclosures to the client before advice is provided with respect to the replacement.

**What is the correct way of moving a book of business? Are you complying with the requirements of the Financial Services Board (FSB)? This is the second article of three that investigates this issue, so be sure to read part three in the April edition.**

In addition, if the relevant insurer is a long term insurer and a member of the Association for Savings and Investment in South Africa (ASISA), there would be additional obligations that must be complied with in terms of the ASISA Standard on Replacements.

### RDR Phase I implementation

Brokers who implement a replacement process to move a book of business should also take note of the following :

- In terms of the new draft Policyholder Protection Rules and the proposed amendments to the Regulations under the LTIA (that will also possibly become effective on 1 May 2017) monitoring obligations are placed on insurers where long term risk policies are being replaced, and insurers may not pay commission where certain requirements around replacements have not been met by the broker.

### Client consent

Where the move of a book of business requires consent from the client, the consent can be in the form of consent by the client that the broker can perform certain functions on behalf of the client. This would generally be where the broker is appointed as a mandated intermediary that can enter into certain transactions on behalf of the client.

It is important to note that there are certain limitations to these structures. In the Status Update document, the FSB states that appropriate amendments to FAIS will be considered to ensure that, where the broker holds a discretionary mandate in relation to insurance policies, any cancellations of insurance policies are indeed consistent with the mandate and that clients are aware of these transactions.

### Moving from broker to broker

There is also an agreement between the broker and the client in terms whereof the broker renders financial services to the client. When a broker wants to move a book of business from one broker to another, it is the contractual relationship between the broker and the client that is being amended or replaced.

There are instances where one broker would want to move his book of business to another broker. This can typically happen where the broker for example retires and sells his business.

Whereas the agreement between the broker and the client can provide for the broker's rights and obligations in the agreement to be ceded and assigned to a new broker, it is important to know that there are various disclosure obligations and other considerations in this regard.

### Immediate notification

In terms of FAIS, a provider who ceases to operate as such, must

immediately notify all affected clients accordingly and take, where reasonably necessary or appropriate in consultation with the clients and product suppliers concerned, reasonable steps to ensure that any outstanding business is completed promptly or transferred to another provider. Ceding and assigning the agreement is therefore not something that can take place in the background without the knowledge of the client.

Furthermore, where a provider renders a financial service to a client, the provider must at the earliest reasonable opportunity, furnish the client with full particulars regarding the business (business and trade names, registration number, address, telephone number and email address). The broker must further also supply the legal and contractual status of the provider whether the provider holds guarantees or professional indemnity or fidelity insurance cover or not and whether a representative of a provider is rendering services under supervision.

All of these disclosures must be made by the new broker and the client might decide not to proceed with the contractual relationship with the new broker.

### Be careful what you say

Another consideration is the fact that, in terms of the FAIS General Code of Conduct, the broker cannot disclose any confidential information acquired regarding the client to the new broker without the prior written consent of the client.

The new broker would not be able to render a financial service without the confidential information, and the moving of a book of business from one broker to another broker without the appropriate consent will create difficulties for the new broker.

Client consent is important to effectively transfer the agreement between the broker and the client to a new broker.

It is important to note that there is also another relevant contractual relationship that must be taken into consideration when one broker moves his book of business to another. That is the contractual relationship between the broker and the product provider. The new broker would obviously need an agreement with the product provider to be able to continue rendering financial services with respect to existing products of the client.

**Juanita Moolman**  
Partner  
Webber Wentzel



# Relationships, skills and **EXPERIENCE**



Marry them and you will have an amazing insurance industry going forward

**W**hile the insurance industry is facing various challenges, including increased competition, a complex technical environment and increasing regulation, the talent gap remains the most critical issue facing the industry.

As the current workforce shifts towards retirement, many companies risk losing vital institutional knowledge gained through experience and long term established relationships. The PWC 2016 report estimates that over 40% of the current workforce in the insurance industry will retire in the next ten years. This is further compounded by the fact that by 2025 Millennials will comprise 75% of the global work force.

These statistics are particularly vital for our industry's sustainability; therefore cultivating relationships, skills and experience will form the bedrock of our industry. If we marry them we will have an amazing insurance industry going forward.

## Closing the gap

Cultivating relationships, skills and experience, refers to closing the potential knowledge gap that the industry will face as a result of retirements and the impact of technology on our business operations. The fact that our industry is made up of various service providers that are interlinked means that relationships, skills and experience are key components of how we provide service to clients.

Take a look at the impact of technology on our business. Even after updating and

automating processes, which the younger generations are more in tune with, and functionalities of system development, the very same systems still require institutional knowledge to maximise the value of the technology and the output thereof. It is this technology gap that requires the industry to marry relationships, skills and experience to maximise the benefits of 21st century technological innovations.

Typically this is a business operations issue which requires decision makers to establish new organisational models that ensures collaboration is achieved through skills transfer, interaction and engagement between generations. This is one way of marrying the concepts and creating a wonderful industry, which in turn allows us to fulfil our client promise and lobby government for industry positions.

## Facing challenges head on

Underneath all those internal organisational challenges we also have to prepare ourselves for the ever evolving consumer expectations. In other words, as we cultivate relationships, skills and experience, it should not be done at the expense of delivering our client promise and failing to identify key consumer trends.

This requires a strategic approach in which we are able to utilise our institutional knowledge in the form of experienced individuals who have established relationships built over decades.

What is meant by this is that we need to facilitate a handover process in which we hand-over the relationships to the younger generations who will ultimately take the business forward.

Building partnerships and expertise is a key part of our industry which ultimately allows us to deliver excellent service, innovate in our businesses and create value through results. There is no doubt that institutional knowledge built over decades has special insights on relationships, skills development, partnerships and key industry trends.

We need to proactively use this institutional knowledge and impart a good work ethic on the less experienced employees within the business. Having the right mix of talent in our businesses will go a long way towards enriching the industry. This will also ensure that we fulfil our commitment to deliver a superior client experience and strive to achieve the best possible results

## Protecting the industry

The bottom line is that our industry is ever evolving and will continue to undergo significant changes and challenges in the next few years. We need to cultivate relationships, skills and experience to ensure that we have the most amazing industry and that our industry performs its fundamental function of securing risks and growing the economy.



**Thapelo Mokau**  
Claims Administrator  
AON Benfield



# Perfecting the **CUSTOMER EXPERIENCE**

Customer experience has become a key focus area for most businesses. Organisations are investing a lot of resources to ensure that they are providing their customers with pleasant experiences in all interactions. This is no different for insurers, as they too have to do their utmost to enhance and perfect the quality of service they provide to clients.

**O**ver the years it has become very important for insurers to monitor and track client experience on an on-going basis, as this has a direct impact on organisations' ability to attract and retain business.

## A ripple effect

We live in a digital era where the impact of 'word of mouth' has been amplified by high usage of social media networks. Potential clients tend to conduct extensive online research before they decide who they want to do business with. Negative reviews based on bad customer experiences may result in losing out on potential business.

By effectively monitoring and tracking clients' experiences, insurers can identify pain points and opportunities, on an on-going basis, to improve the service that they offer to their clients.

## Consistency is key

Both inbound and outbound interactions are important considerations when it comes to analysing customer experience, and may include customer surveys, telephone discussions, written communication, walk-ins, social media interaction, Hello Peter (and other similar websites), word of mouth and employee feedback. To optimise client experience, companies need to have dedicated teams to constantly track client experience and ensure that necessary steps are taken for consistent positive experience.

In designing and improving customer journeys, insurers need to take an 'outside-

in view' and focus on customer centricity. Insurers also need to ensure that all employees who interact with customers have complete contextual awareness to ensure full resolution of the issue.

Companies need to recognise that clients interact with businesses through multiple communication channels and touch points, and provide clients with a seamless and consistent experience across all interaction points. If a customer initiates an interaction online but needs to speak to an agent halfway through the transaction, the switch from the website to a phone call needs to be as seamless as possible and not require the client to start from scratch and provide information that was already provided during the online interaction.

## Always be first

Insurers should strive for first contact resolution for client queries, complaints and requests, i.e. address these within the first interaction as much as possible. Companies who have matured in customer service are able to predict and pre-empt customer complaints and queries. This allows these companies to offer proactive service, rather than waiting for clients to initiate contact with the company.

Kate Leggett from Forrester recommends the following;

- Customer obsession – for companies to achieve higher levels of loyalty and company revenue, they need to obsess about delivering differentiated service experiences in line with customer expectations.

- Provide easy and effective customer service that instils positive emotions.
- Assess your operations against best practice and identify opportunities to improve customer experience.
- Get to know your customer by conducting surveys. Information from these surveys should be used to identify pain points along customer journeys.

## Customer expectations

When benchmarking customer experience levels, it is important for insurers to compare themselves with progressive industry players like Amazon and Apple, rather than focusing on traditional competitor comparisons. Insurers need to understand that customer expectations have been raised across almost every industry and that customers want to interact with companies that are digitally progressive.

This is shaping an entirely new reality when it comes to client expectations, with customers expecting the same level of service from all businesses they deal with.



**Motshabi Nomvethé**  
Technical Marketing Specialist  
PPS



# Battle ground investing: **TEAM UP WITH THE HUMANS**

Robo advice is the latest fintech-trend to hit South Africa and holds the potential to open financial advice to a mass market.

**T**here is a pertinent question to ask: is South Africa ready for machine-driven advice?

## Not news

The concept of robo advice is nothing new. The USA has been working on it since 2008. While the US has had a solid eight years of practice, the interesting thing to note is that it has seen the majority of its growth in the last year.

Robo advisers could be a catalyst to democratizing financial advice, making it more affordable for all South Africans to have access to financial advice. But in order to do so, it needs a solid model. It is important that South Africa does not take a US based robo advice model and merely replicate it in South Africa. It is necessary to take into consideration the various demographics and diverse needs, wants and barriers facing South African consumers.

## The human factor

While the tech element is a key component in the robo adviser model, the human factor should not be overlooked.

Uber is a prime example; the company embraced technology in a big way while harnessing the power and value of the human element. They empowered the driver, they did not replace him.

Robo advisers should fulfill the role of a co-pilot, assisting the consumer; while not replacing the financial adviser completely. I do

not think that the average South African investor is ready for driverless cars and certainly will not be for some time.

From what I have seen thus far, this seems to be the focus, and while the future of this looks promising, I think today's opportunity lies in building Uber for advisers and that is certainly where our focus will be.

## Guiding the uninformed

The above point is particularly pertinent when it comes to consumers who do not understand robo advice, or those who have never had financial advice to start with.

The idea of engaging with a machine for matters relating to their money could be incredibly daunting. It is thus vital to hold the consumer's hand through it all and ensure they feel comfortable and confident throughout.

Humans should very much still be a key part of the process. This is why a co-pilot model could be a useful idea. The consumer should still be actively involved but never out of sight of the co-pilot. This is a great way to empower the consumer, but never have them fear that they do not have support or guidance on their journey. The user experience is vital in this instance.

## The meat of the issue

When it comes to robo advice, it can be broken into two parts:

- Investment advice. The task of translating client inputs into investment outputs by means of algorithms; and in so doing, answering questions such as what investments to make, how often and to what value. At its core, the purpose of investment advice is to match an appropriate investment to investment goals, risk profile/ tolerance and a time horizon. While on the surface this seems a simple enough task, the process is fraught with pitfalls that in the outcome result in the advice striking a delicate but informed balance weighted by you inputs. The ultimate goal though is easy: to get people investing.
- Managing and modifying user behavior. This is walking the investment journey with consumers from their first investment through to reaching their investment goals. The task of the adviser is to engage with them along the way, educate and entertain them, keep them informed and up to date and ultimately encouraging and supporting them to make the right decision when the horizon is most clouded. This is the difficult stuff, the stuff I am afraid where most advisers fail to deliver real value, too busy and under qualified for the job. This is where technology will face its biggest challenges but also where I see the largest opportunities, our Uber adviser alongside us for the ride. We already outsource our fitness and health to online services, why not then our financial fitness too?

### Make or break

Stepping too far to the right will be the make or break factor for robo advisers in the South African market. Managing and governing relationships with users is key. It is not enough to just modify behaviour. The adviser needs to be a shoulder to lean on and provide consumers with the confidence to continue long term.

In spite of the challenges, robo advisers hold great potential to open many doors for everyday consumers. Provided the advice is of a good quality, there are serious benefits associated to the model. For starters, an automated system such as this means it can get to everyone; broadening the access point to financial advice. It lowers the cost associated with receiving financial advice and provides a model that can scale.

And how do robo- advisers fare when it comes to Treating Customers Fairly (TCF)? In principle, it should fare very well. In fact the six TCF outcomes are, in my view, more easily achieved if delivered through a technology driven robo experience.

I am excited to watch the development of robo advisers in South Africa, there are huge opportunities and impacts that will come from democratizing investing for all South Africans and I think these machines have a critical role to play. My only advice would be to partner people with technology, think Uber... not driverless cars.



Charles Savage  
CEO  
Purple Group



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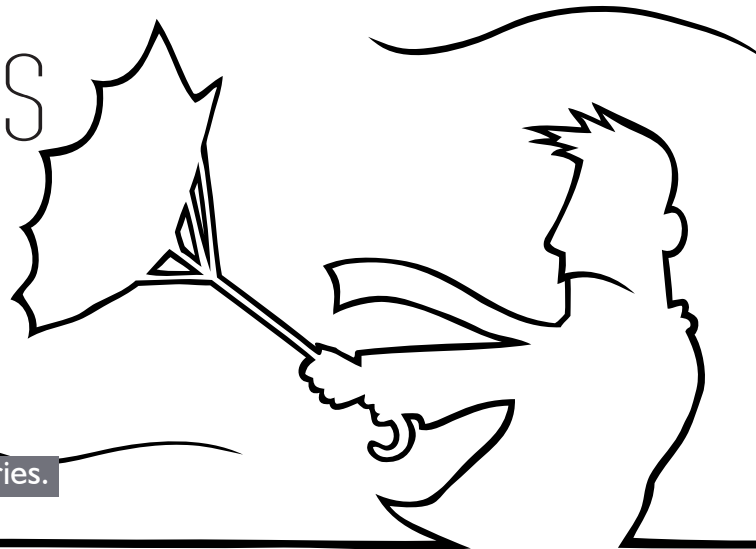


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# The howling winds OF CHANGE



From changing customer behaviour to new regulations, over the next ten years the industry will face more disruptions than most other industries.

**F**Anews spoke with Sujeeth Bishoon, Executive Head at Acuideas, to find out more about the company's product offering to negate these disruptions.

**Question:** How should companies overcome the disruptions that face them in the financial services industry?

With huge advances in technology and the digitisation of the insurance sector, greater emphasis needs to be placed on product development, in order to adapt to the changing risk environment.

There are many factors that guide development, such as societal trends, new legislation, competitors and feedback from customers, however all new products must meet regulatory requirements. One fundamental new development is that clients want the convenience of having one advisory company taking care of all their needs.

**Question:** What are the innovative and risk-based solutions that you provide to brokers?

We offer brokers access to personal lines and commercial lines products underwritten by multiple blue chip insurers. Acuideas has partnered with risk carriers to also create unique products that address gaps in the insurance market.

We also offer the broker access to geo-analytics, which will provide them with greater insights into their existing and potential new customers. Acuideas offers the broker a superior servicing value proposition. The broker will interact with a dedicated account executive who will service the broker's needs across multiple insurers on the Acuideas platform.

**Question:** What role will data play in the future of the financial services industry?

Data runs the insurance sector, so the better a company can gather and analyse data, the better they are positioned to manage risk, understand their clients and then create actionable insights. Through developments in technology, data sources are evolving, this means that insurers must use the multiple, available sources of information to increase their client knowledge. With new entrants to the industry, it is crucial to thoroughly understand market drivers and remain competitive, by integrating multiple data sources that capture information accurately.

**Question:** Will the role of research and development in the industry change going forward?

Being innovative is essential, particularly when the industry is highly competitive as it is in South Africa.

Successful investments assist the insurer by retaining and growing their client base. Indwe has invested in Acuideas after recognising a gap in the market. Part of the company's success is that it breaks the mould by providing both the independent broker and the product provider with new, smart ways of doing business. Higher consumer expectations in terms of insurance service delivery, and the introduction of legislation to professionalise the industry, are key driving forces to the disruption and innovative changes in terms of product development and the convergence of financial services offerings.

Financial services businesses have to adapt to the information age, and utilise customer data insights to create meaningful integrated customer value propositions.

**Question:** What are the cost implications of this? What will brokers' return on investment be?

Brokers do not have to sacrifice any of their commission, advice fees or ownership in their business to join the Acuideas Model, and they will retain their own FSP and business identity. Acuideas is remunerated by insurers for performing a binder function.

We have presented the offering to selected independent brokers, who really like the model. The model will evolve with the legislation and technology landscape to ensure that independent brokers remain competitive and offer their customers great value propositions.

Over time Acuideas will introduce unique product offerings on its platform and offer the brokers tools to differentiate their service levels and advice in the market.



Sujeeth Bishoon  
Executive Head  
Acuideas



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# Profiling the mind OF A NEW LEADER

Last year saw a changing of the guard at PPS as Mike Jackson retired as CEO.

**T**his paved the way for a new leader who will bring new ideas and a fresh approach to the company. FAnews caught up with newly appointed CEO Izak Smit to discuss his appointment as well as other challenges the company faces.

**Question:** PPS has a unique model; how has this benefitted the company in the past?

It is a fairly unique model as there are not that many mutual companies operating in the South African insurance industry anymore. By operating under the mutual business model, it means that the profits that PPS makes – which do not get used to fund new business development – are returned to our members via their PPS Profit Share Account.

Over the past ten years, the accumulated profits that have been returned to members was in the region of R22 billion.

**Question:** Is the mutual model losing or gaining relevance in the current economic climate?

I believe that the mutual business model has relevance irrespective of the economic situation. Since the big financial crisis of 2007/2008, businesses operating under the mutual or cooperative business model have actually grown quicker than businesses operating under the shareholder model globally.

**Question:** Does regulatory changes keep you and your team awake at night?

The financial services industry by its very nature is heavily regulated; so anyone operating in financial services must simply make peace that this is a highly regulated industry and if they are not on top of regulatory changes, then they have a big problem.

Regulation should be a big focus area for any financial services company. It should not keep you awake at night if you plan accordingly and it should not simply be about ticking boxes but more about identifying where the regulator is coming from and then identifying the opportunities.

**Question:** How do you grow the business in tough economic times when insurance may be seen as a product which may need to be substituted if house hold balance sheets don't balance?

People sometimes do take chances and cancel their insurance when times are tough. We often see that during tough economic times



Izak Smit: CEO - PPS

that insurance does not suffer as much as retirement savings. This is probably because people are quite worried about a catastrophe occurring and would rather start skipping payments towards retirement money.

Luckily at PPS we are still seeing good growth, even in tough economic times. The fact remains that underinsurance in the industry is so big there are plenty of people who need cover and make the right decision.

**Question:** PPS must do a lot of research into product relevancy. What makes a graduate professional tick?

Graduate professionals look for something a bit more special than the average person. Whether it is how they are contacted, the service or the advice they receive, they expect a premium offering and a premium brand.

**Question:** How do products aimed at graduate professionals evolve as lifestyles and responsibilities change?

Generally speaking, products are simpler and easier to get when you are young and that is why it is important to just start the right habits from a young age, like putting money away on a regular basis.

Once the clients have built up some assets or extended their families, they need to consider other products and how to manage their portfolio from a cash perspective because as assets build up, so too does the risk exposure. This just shows how important financial planning is. ●

**Listen to the full interview at:**

<http://www.fanews.co.za/video/in-discussion-with-pps-ceo-izak-smit>

# IT TAKES A SPECIALIST TO UNDERSTAND PRODUCTS AS SPECIALISED AS OURS

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PPS offers unique financial solutions to select graduate professionals. PPS is an authorised Financial Services Provider.

# Riding the escalator TO NOWHERE

On 12th October 2016, the Registrar of Short Term Insurance – the Chief Executive Officer of the Financial Services Board (FSB) – made an application to the North Gauteng High Court to liquidate Saxum Insurance.

## ► IN PERSPECTIVE WITH PROF VIVIAN ►►►



Robert W Vivian  
Professor of  
Finance & Insurance  
University of the  
Witwatersrand

It is a rare event for a South African insurer to be liquidated at the behest of the regulator.

In the 1960s, there were a number of insurers which got into difficulties in the UK. During the same time, a similar experience happened in South Africa. The most famous South African example was Parity in 1966. Subsequently, the businesses of two well-known insurers – AA Mutual and IGI – were liquidated, but in both cases, all liabilities were discharged and a surplus remained. More recently the First Central was handed over to curators but was eventually handed back with a small surplus. In these three cases policyholders were paid out.

### Insufficient assets

Thus in the South African context, an unusual feature of the Saxum liquidation is that it apparently (according to the Financial Services Board) will not have sufficient assets to settle the claims made against it.

This distinguishes Saxum from the AA Mutual, IGI and First Central. On 10 December 2016 the FSB approached the South African Insurance Association (SAIA) asking it to make an approach to its members to see if they would consider contributing towards the Saxum shortfall, which was estimated at some R15 million.

If the short-fall does not materialise, the insurers will be refunded their contribution to the Saxum fund.

The FSB's approach to SAIA contained a hint that the industry in future will be required to contribute to a fund to be used to cover future losses resulting from insurer failures. This is an extraordinary state of affairs. The financial services industry is paying billions every year towards regulation, and in addition, a fund is to be established to pay uncovered claims when the regulation fails.

If a fund is established, consideration should be given to disbanding regulators and taking the billions spent on regulation to establish the fund set up to compensate the public for the losses suffered because of insurer failures. It is a bit odd to have both expensive regulators and an expensive fund at the same time to bailout insurer failures. If a fund is to be established,

then the current intrusive and expensive regulatory system should be dismantled.

### The difference being...

Of course a major difference between the past and the present is indeed the billions currently spent each year on regulation. Looking at the Saxum incident, have these billions improved matters at all?

There is no evidence that the billions have produced any benefits when looking at the Saxum matter. The complex solvency asset management (SAM) system will not make any difference to the Saxum matter.

As we have indicated in earlier articles dealing with prudential regulation of insurers, the prudential system was based on two fundamental requirements:

- First, maintaining a proper transparent insurance accounting system – which had to be open to public scrutiny, and
- second, maintaining a surplus, a reserve, on the balance sheet. Lloyd's treated premiums as amounts contributed to a trust fund with only clearly defined withdrawals from the trust fund; and premiums are paid into a bank account and become the assets of the insurer. From these assets, claims are paid. If insurance is priced correctly then the assets of an insurers should always exceed its liabilities. To be on the safe side the assets of insurance company need to exceed the liabilities by an additional amount. That additional amount, the reserve, ensured policy holders would always be covered. The entire system is funded out of premiums. Capital plays a minor role in the system.

The historical position was that the insurer had to have a reserve equal to 25% of premiums. Fifteen percent was a normal reserve, and after the liquidation of the business of AA Mutual, an additional 10% was required as a catastrophic reserve.

So what is important is for the regulator to keep an eye on the reserve. If it was above 25%, then policyholders were not at risk.

### Meaningless changes

One of the recent meaningless changes was to do



Agata MacGregor  
Lecturer in Insurance  
University of the  
Witwatersrand



Justine van Vuuren  
Associate Lecturer in  
Insurance  
University of the  
Witwatersrand

away with the simple 25% of premiums as a reserve, and replace it with a much more complex Capital Adequacy Ratio (CAR).

So instead of a simple reserve sufficient assets to cover liabilities rule, a complex risk based capital (RBC) method was introduced.

If an insurer cannot maintain a simple asset to cover its liabilities plus a reserve rule, giving it a much more complicated system does not help at all.

The focus has moved from ensuring that premiums are sufficient to cover claims to a complex belief that capital is somehow important. It should also be noted that the liabilities are covered by premiums, and premiums constitute revenue not capital. Moving the solvency focus to capital does not help.

#### A tangled web

The CA replaces the solvency ratio. In the FSB's founding affidavit against Saxum, CAR is defined as (Assets – Liabilities)/CAR. It is of course confusing to have CAR mean Capital Adequacy Ratio and Capital Adequacy Requirement. Let us rather use SCR; solvency capital requirement.

Assuming a company has assets of R1.25 billion, liabilities of R1 billion and it has been determined its SCR is R250 million, then its CAR would be R250 million/R250 million = 1.

If we then assume the company's premiums equaled R1 billion, then the solvency ratio would be 25%. If the liabilities causing the reserve to decrease to R150 million, then the company would still be solvent, but its CAR would be down to 0.6.

A CAR does not convey the same information that the solvency ratio did.

#### Expressing concern

The registrar advised in his affidavit that he is concerned about Saxum went back to 2015. From January to May, the CAR was 1.24, 1.22, 1.04, 1.01 and 1.14. Since in January and February these ratios were well in excess of 1, it is not clear why the FSB was concerned. In May 2016 the ratio had declined to 0.97.

On 8 September 2016, the FSB issued a notice that Saxum desists from carrying on any new business, by which time the insurer was technically insolvent.

We cannot see anything in the new Twin Peaks regulation which would have changed the Saxum outcome. The CA Ratio is less clear than the solvency ratio. Having a different even higher capital requirement would not have changed the outcome since Saxum was not able to raise the lower capital amount.

When the financial statements of Saxum are examined, matters of concern appear.

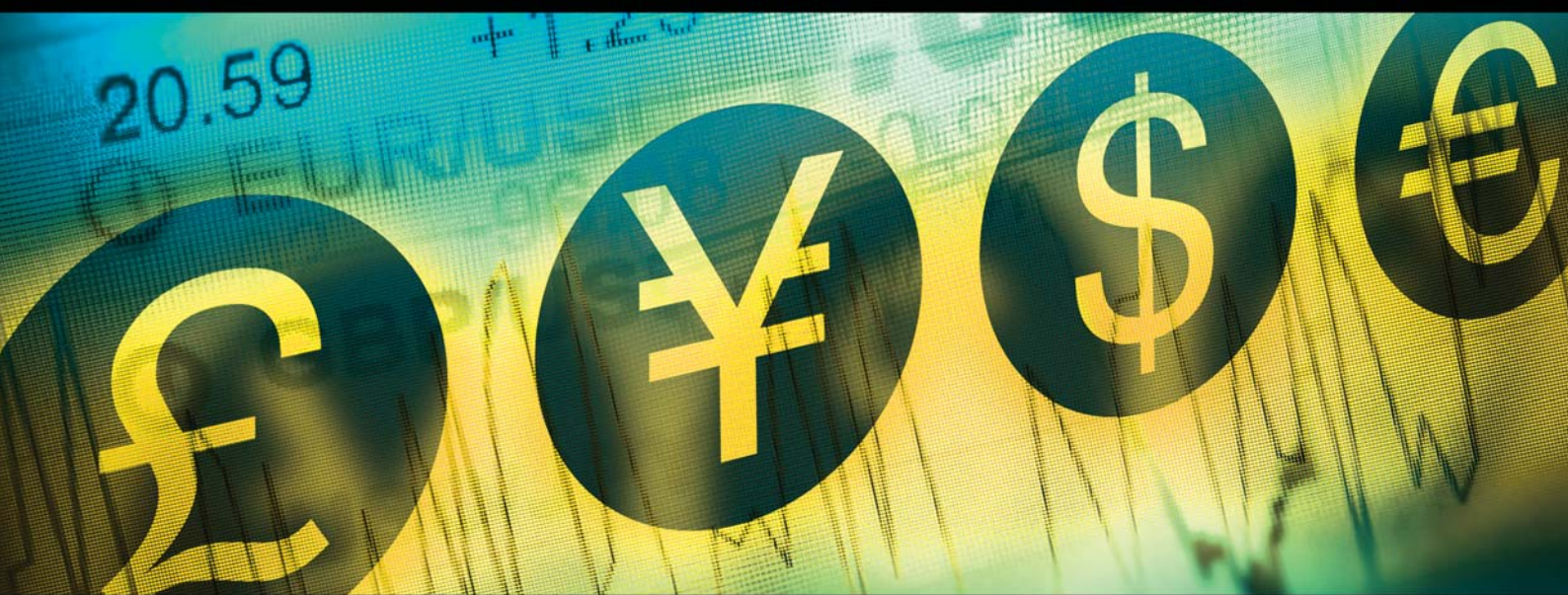
The company had a net premium income plus net commissions earned of R74 m. Its expenses were R 70.2 m (Management expenses R42.5 m + Underwriting management fees R27.7 m) leaving a mere R3.8 million to pay claims of R33 m.

#### Cul-de-Sac

The rationale for the existence of an insurance company is to pay claims. If only 5.1 % of its income is devoted to paying claims, it is unlikely the company can or indeed should or will exist. It is also noted that in the final year management expenses increased by more than 100% without an explanatory note.

One wonders how the FSB let the situation escalate to this point. ●

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# WHAT TO STUDY - a conundrum of higher education choices



**T**he matric class of 2016 struggles with questions such as what they want to do with their lives, the careers they want to follow and what they should do or study to get there. And it is not just school-leavers who struggle. We tend to think the question of what to study becomes less important later in life. This is not the case. With the current emphasis on continued education in an ever-evolving world, what to study remains relevant even into retirement.

## Continued professional development

The Financial Advisory and Intermediary Services Act regulates the minimum qualification requirements in the financial services industry. It also makes provision for continued professional development requirements which may require further studies. With a national focus on skills development and an industry focus on increased professionalism, further studies remain a priority for both employers and employees, even after the fulfilment of the basic compliance requirements.

This leaves many with the question of what to study. To add to the complexity, completing a search on the internet will provide a number of options, ranging from short courses to higher education qualifications and executive education.

## Broad qualification routes

The National Qualification Framework (NQF) was promulgated in 2008 to create a single integrated system for the registration, publication and articulation of quality assured national qualifications. Qualifications higher than the National Senior Certificate (NQF level 4) were categorised as Higher Education with its own sub-framework. Due to certain shortcomings, the Council of Higher Education (CHE) initiated a review of the Higher Education Qualification Framework in 2010.

A revised Higher Education Qualifications Sub-framework (HEQSF), designed to be simple, clear and easy to understand, came into effect

in 2013. The HEQSF also created three broad qualification routes with certain boundaries, namely vocational, professional and general routes. Table 1 below illustrates the HEQSF:

**Table 1: Higher Education Qualification Sub-framework (adapted)**

Level	National Qualification Framework: Sub-framework and Qualification Types
10	Doctoral Degree; Doctoral Degree (Professional)
9	Master's Degree; Master's Degree (Professional)
8	Bachelor of Honours Degree; Postgraduate Degree; Bachelor's Degree (4 years, 480 credits)
7	Bachelor's Degree; Advanced Diploma
6	Diploma; Advanced Certificate
5	Higher Certificate
4	National Certificate

## Where to begin

People employed in financial services study for many reasons, whether it be to meet compliance requirements, to specialise in a certain area, further a career or study towards a professional designation awarded by the IISA or FPI. This leaves many with the question of whether they should start their studies with a Higher Certificate or a Bachelor's Degree.

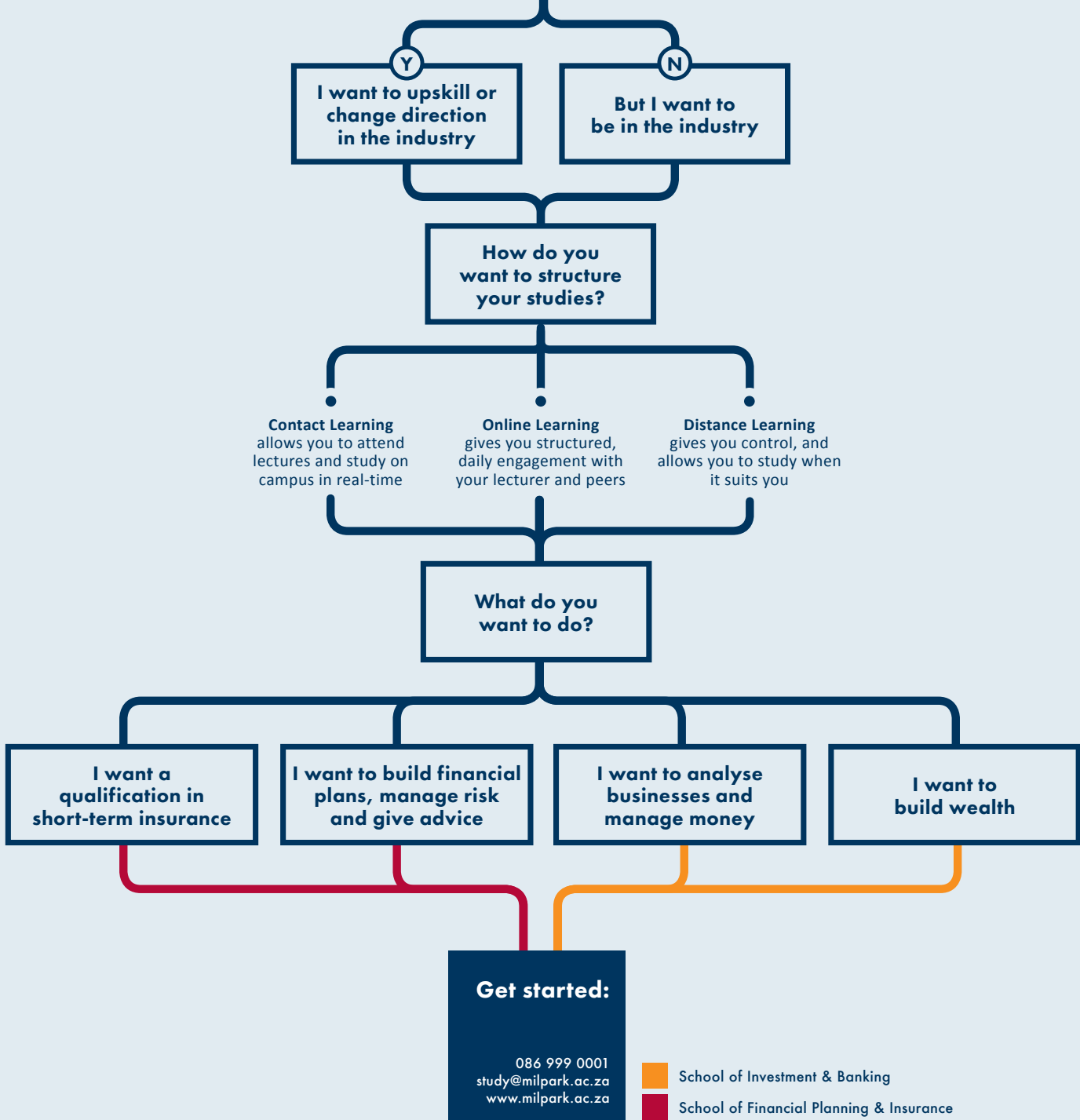
The decision they make will be determined by a number of factors, but one also needs to consider the articulation options available on completion of a qualification.

The following diagram sets out the different Higher Education qualification options available, based on the HEQSF, with the articulation options available.

## Studies – a conundrum of choices

Information	Option 1	Option 2	Option 3
Qualification type	Higher Certificate	Diploma	Bachelor's Degree
Exit level	<b>NQF level 5</b>	<b>NQF level 6</b>	<b>NQF level 7</b>
Number of credits	120 credits	360 credits*	360 credits
Minimum number of years to complete studying full time	1 year	3 years* *Other options available for professional programme	2 years

# Are you in the Financial Services industry?



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# WHAT TO STUDY - a conundrum of higher education choices

Purpose	An entry-level, career-focused qualification. May fulfil qualification requirement for compliance with the FAIS Act in the Financial Services Industry.	Provides focused knowledge and skills in a particular field and enables graduates to enter a number of career paths.	Provides a well-rounded, broad education that equips graduates with the knowledge base, theory and methodology to enable them to take initiative and responsibility in an academic or professional context.
Minimum admission requirement	A Senior Certificate, National Senior Certificate or the National Certificate (Vocational) with appropriate subject combinations and levels of achievement	A Senior Certificate or National Senior Certificate with appropriate subject combinations and levels of achievement. Alternatively, a Higher Certificate or an Advanced Certificate in a similar field.	A Senior Certificate (with exemption), or a National Senior Certificate or National Certificate (Vocational) with appropriate subject combinations and levels of achievement. Alternatively, a Higher Certificate or an Advanced Certificate or Diploma in a related field may also be accepted for entry into a degree.
Articulation options	Advanced Certificate or Bachelor's Degree	A Bachelor's Degree or an Advanced Diploma*	A Bachelor Honours Degree or Postgraduate Diploma



Information	Option 1	Option 2	Option 3	Option 3
Qualification type	Advanced Certificate	Advanced Diploma	Postgraduate Diploma	Bachelor Honours
Exit level / Number of credits / Minimum number of years to complete studying full-time	<b>NQF level 6</b> 120 credits 1 year	<b>NQF level 7</b> 120 credits 1 year	<b>NQF level 8</b> 120 credits 1 year	<b>NQF level 8</b> 120 credits 1 year
Purpose	Students are prepared to enter a specific niche in industry.	Provides the specialisation required by a specific niche in the labour market. Also aims to prepare students for postgraduate studies.	For working professionals who want to undertake advanced development in an area of specialisation. May lead to professional designations, such as the CFP® Professional designation awarded by the Financial Planning Institute.	Focuses on building research capacity in a specific academic field.
Minimum admission requirement	A Higher Certificate in the appropriate field	An appropriate Diploma or Bachelor's Degree	An appropriate Bachelor's Degree or an appropriate Advanced Diploma	An appropriate Bachelor's Degree or appropriate Advanced Diploma
Articulation options	A related Diploma programme or Bachelor's Degree	A Postgraduate Diploma, a Bachelor Honours Degree or a Bachelor's Degree	A related Master's Degree, usually in the area of specialisation of the Postgraduate Diploma	A Master's Degree in the area of specialisation of the Bachelor Honours Degree



Information	Option 1	Option 2	Option 3	
Qualification type	Diploma or Bachelor's Degree	Postgraduate Diploma	Master's Degree	Master's Degree

## A case of circumstance

Let us consider a few case studies:

Peter Samuels (24) entered the insurance industry as a call-centre agent after he had completed matric. He does not have any other qualifications. Peter wants to move into a representative role, but he also plans

to specialise in claims management at a later stage. He is not willing to spend more than two or three years studying. It is after all, not easy to study while working full time.

Peter should first complete a Higher Certificate that is listed on the FSB's list as relevant to the representative role into which he

wants to move. His first priority is to meet the minimum compliance requirements. The qualification is occupation-specific and should be relevant to him in the workplace. Peter can then continue with the Advanced Certificate in a similar field, which will provide him with the knowledge and skills to operate in a niche environment.

Mary Makgadu (25) wants to become a Certified Financial Planning® Professional. She has completed a Higher Certificate and meets the compliance requirements in terms of the FAIS legislation. Mary knows that she needs to complete a Postgraduate Diploma in Financial Planning or a Bachelor Honours Degree in Financial Planning before she can apply for this designation. Mary first needs to complete a

Bachelor's Degree, a prerequisite for a Postgraduate Diploma or Bachelor Honours Degree.

#### Modes of study

There are also different modes of study available, such as contact learning, distance learning or distance learning with full online support.

#### Herewith an overview of the different options available:

	Contact Learning	Distance Learning	Distance Learning Online
Main characteristics	Need to attend scheduled face-to-face classes.	Receive study material via the post or online and need to pace one's own studies towards assessments. Limited telephonic or online interaction with lecturer and other students.	Studies at home, but have scheduled online sessions to attend or activities to complete. High involvement with online lecturer and other students. Weekly online participation a requirement.
Is this for me?	If you want to be a full-time student or have the option to attend evening or weekend classes while working through the day, this is an option to consider.	Mainstream option for working adults or people without access to contact learning due to their location. You have to plan and pace your own studies and have limited opportunities to learn from and with others.	No classes, but access to an online lecturer and other students. This is a flexible option, but with the benefits of being in a class. The learnings you take from online participation may even be more pronounced than being in a class.

There are many choices to be made on what to study, the mode of study and the area of specialisation. It is always a good idea to start with the end in mind, but be realistic about current work and family commitments. Consider the options carefully and do not allow the conundrum of available options to cause you to "not choose at all".



Marilize Putter, CFP®  
Dean: Financial Planning and Insurance  
Milpark Education



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# Qualifications and training – ASK THE RIGHT QUESTIONS

The South African financial services industry has a long, credible history of doing business in a specific way.

In an effort to reinvigorate the industry, the Financial Services Board (FSB) has encouraged the industry to embrace a culture of Treating Customers Fairly, putting it at the heart of their business.

This has brought a renewed focus on education and training and specifically, the question of whether the education and training system is in fact supporting the industry to achieve its regulatory and business imperatives.

## Asking the right questions

The formal South African education and training system is among the most mature in the world. With the introduction of democracy 22 years ago, and the associated necessity to recognise previously 'informal' learning as well as the impetus to create a system of parity between qualifications, came the establishment of the South African National Qualifications Framework.

This does not mean that we do not have challenges in the education and training space. One of the challenges that Inseta recognises is that, just as insurance has its own jargon and policy wording, so too does the education system and thus brokers are not always able to engage critically with the system and are not able to asking the right questions of the right people.

Firstly, it is important to clarify the roles of certain entities in the skills development and broker support space. The role of the FSB – the industry regulator – is the establishment of regulation and monitoring of compliance. INSETA – the Insurance Sector and Education Authority, looks after the regulation and monitoring of accredited qualifications and training providers and the funding of training in the industry. While the compliance officers and training providers tend to play the intermediary role in respect of advice and training, respectively, with regards to credit requirements.

This clarity is important as many brokers find themselves frustrated after contacting the

INSETA to establish how many credits they may require to obtain a specific license – this is not our role and therefore we encourage brokers to ask this question of their compliance offices.

## Get value for your money

Another challenge that we have identified is that brokers are not asking the training providers the right questions. While the learning that they receive is largely of high quality, some brokers are possibly not getting sound advice when it comes to their learning needs and their compliance requirements.

Inseta has also identified that while brokers are aware that they need a certain amount of credits to receive a qualification, for example 120 credits, they are not always given good advice and end up achieving small packages of credits through skills programmes from different providers and may then end up having achieved in excess of 120 credits that are not in fact relevant for the achievement of the qualification.

We therefore urge brokers and training providers to firstly establish the qualification that the broker needs to achieve and then work together closely to achieve the requirements of the qualification and not focus on incoherent skills programmes.

## The simultaneous challenge

A simultaneous challenge at the moment is attracting new skills to the industry. While we have one of the best recognised learning systems in the world, the standard of primary and secondary education in this country is making it challenging to find new entrants and the misperceptions about the industry make it difficult to attract top skills into the industry.

We have noticed that high achieving students are deciding to pursue careers as doctors and lawyers rather than to pursue careers in the financial services industry. This is a major challenge as the industry ages and remains largely untransformed

## The positive side

Despite the challenges we need to focus on the positive initiatives available. Inseta is doing a lot to support skills development and offers bursaries and learnerships to small business in support of full qualifications for their already employed staff.

In addition, we also offer learnerships where companies are provided with funding to support unemployed matriculants to achieve a full qualification and get work experience within the company. Inseta will pay their stipend every month as well as their tuition costs and companies are expected to provide work stations and mentoring support in the workplace. When the learnership is properly implemented it can be used as an effective recruitment tool as well.

We also have a management and leadership programme which is tailor made for the insurance industry and has captains of the insurance industry mentoring attendees through a tough university programme that focuses on leadership.

We work tirelessly to produce employable skills for an industry that we love and we are fortunate to support an industry that is largely taking up the challenge of providing skills and work experience for the many unemployed youth that are currently not in education and training. With continued support and robust engagement we believe that INSETA through partnerships with industry can make a real impact on the industry and the communities that we serve.



**Nadia Starr**  
Manager:  
Learning Division  
Inseta



faisit specialises in the delivery of high-quality education and training interventions to learners, companies and training providers.

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# The journey from **PAST TO PRESENT**

As I pen this article I am reminded about the vision of one of the greatest leaders of all times.

“Education is the most powerful weapon which you can use to change the world,”

**Nelson Mandela.**

**C**hange and innovation is vital to the evolution of the economy in order for it to strengthen and grow. And while there is no simple on and off button, there are certain key drivers that can monitor and regulate the transformation process

### Significant milestones

So what drives innovation and how can we use these drivers to boost our education system thus contributing to a more meaningful workforce population? The answer, although it may seem quite obvious, is the introduction of the National Skills Development Strategy (NSDS) in 2001.

2020 marks a significant milestone in the evolution of the NSDS for South Africa. I call it an evolution because of the many faces it has presented over the years since the implementation of NSDS one.

Let us take a trip down memory lane and look at what the change drivers for the respective NSDS models and what it means to the South African Economy.

NSDS one started with an emphasis on equality and the need to cultivate lifelong learning in a workplace environment. Learning was aimed to be driven by demand and on the needs of public and private sectors. The key deliverables were critical to ensure that the desired outcomes were achieved. This led to the beginning of the Sector Education and Training Authorities (SETA) landscape.

### Need for improvement

The emphasis in NSDS two was placed again on equity, quality training and skills development in the workplace. The need for the promotion of employability was identified. NSDS two also identified the need for assisting designated groups to gain knowledge and experience in a workplace environment in order to gain critical skills. The quality of the provision was identified as a problem area needing improvement.

In NSDS three, the emphasis leaned toward that of institutional learning linked to occupationally directed programmes. It promoted the growth of FET Colleges in order to address national skills needs. Better use of workplace skills programmes had been encouraged. Improved service delivery within the public sector was identified as an imperative.

### Innovation and evolution

There has been much discussion in terms of the changing landscape post March 2020. SETAs are currently established until the end of March 2020. It has been confirmed that the current SETAs are reconstituted for an additional period of two years, i.e. 1 April 2018 to 31 March 2020 to facilitate the transition.

### Post 2020

The first option has minimal change and causes minimal disruption to current service delivery. This option does not address some of the challenges faced with the current system and does not talk to the establish-

ment of a single Department of Higher Education and Training. This therefore may not be an option for further consideration.

Option two is to cluster the SETAs. This does not offer much change in terms of the current system and there is no clarification in terms of how the clusters would be coordinated and controlled.

The third option presented is the establishment of a Skills Council. The primary proposed function of the council is national skills planning, the management of skills development funding, shared resources, standards setting and quality assurance. I am not entirely convinced that this option is in line with the vision and strategy.

The last and most viable option is that of option four. SETAs have been a key role player in post schooling education systems and ideally should form part of the system under the Department of Higher Education and Training. It is proposed that the SETAs would be re-established and renamed Sector Education and Training Advisory Boards (SETABs) and become permanent structures of the DHET system.



**Kershen Pillay**  
CEO of Masifunde

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- This means the sponsor needs to be credit worthy to be approved
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**To apply the sponsor will need their ID, payslip and 3 months bank statements. Based on R32 000, the monthly interest portion due for 12 months is approximately R600.**

- Upon the learner finding gainful employment, the loan will then move from the guarantor to the student and the student will start making payments towards the principal amount

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## TESTIMONIALS

**Irfaan Dawood** was a matriculant who obtained the short term insurance FAIS qualification. His commitment to hard work saw him being

appointed as Finance and Insurance Manager at one of South Africa's premier dealerships (BMW Supertech).

His growth was exponential. In under 5 years he is now the Group Finance and Insurance Manager for BMW Supertech and is ranked third in the country across the BMW network.



## TESTIMONIALS

"I got my first job, a Banking job, through Quest! I worked as an Enquiries Clerk at branch level whilst I was studying within the financial services industry. After

graduating, I continued my journey in financial services sales and am now the Head of Sales and Marketing for FNB's Branch Banking Channel and FNB Retail's Key Individual."

- **Andrew Bladon**

# To app or NOT TO APP?

There really is an app  
for everything these  
days.

**Y**ou can use an app to help you find someone in your immediate vicinity who needs a hug. Or you can set your phone to let you know when the best time is to go to the loo during a movie so you do not miss anything too important.

There is even an app that reminds you where you parked your car... in a pirate voice!

## No simple task

But ask anyone who has launched a successful commercial app and they will tell you it is not a straight forward exercise.

Over the last few years, serious money has been thrown at developing mobile applications. More than 75% of enterprise apps have ended up in the uninstall bin. Why? Herd mentality. Everyone wanted an app for business because everyone else had an app for business; very few had a tangible business need behind them.

It is all good and well designing an app that lets you add cat stickers to your photos, or fake-texts you during awkward dates, but enterprise apps – especially in the insurance industry – need a real commercial purpose and one that benefits both business and consumer.

## Complete thinking

And once you have a business case for an app, be sure to think through the implications... all the way to the end. Even good apps have backfired.

The insurer's goals were noble: to provide better service to policyholders. But they

soon realised that making it easy for a customer to claim was not always in the business' best interests. Not only did they see a big jump in the number of claims reported (which actually increased their administration costs, rather than the opposite they had hoped for), the perceived ease of access to the claims process had also increased the number of fraudulent claims.

## Big ticket expense

Mobile app development has become a big ticket item in many digital strategy budgets but companies are not always as disciplined in making decisions around app development, as they would be when spending the same on another aspect of their business.

Apps are visible in a way that other business software is not. If you make a wrong move with your back-office technology, you can more than likely manage it to minimise any impact on your clients. If you misstep with a consumer-facing app, you run a much higher risk of reputational damage to your business.

## Leveraging mobile

Now that the app honeymoon phase is well and truly over, organisations are starting to re-assess how they can take advantage of mobile devices to do better business, better. More companies are seeing the value of incorporating apps into a holistic digital strategy, rather than apps being that strategy.

The app-trap is such an easy one to fall into; it goes something like this:

*We need an app.*

*Why?*

*Because it is essential to our digital strategy.*

What is the strategy?

*Well, the strategy is to launch an app. So, we need an app.*

This is a surprisingly common circular argument that we hear often in strategy sessions. Technology, particularly mobile apps, should empower your business goals, rather than drive them. And allow yourself to think more broadly than just consumer-facing; a mobile productivity tool for your own staff may unlock better value.

The shape of the industry is being changed by well-built apps that meet a real need. Just ask Australian on-demand insurer, Trov. Their combination of a disruptive business model, powered by a quality mobile platform, has unlocked the elusive millennial market locally and globally.

Will we see more apps in the insurance industry in the future? Absolutely. Will they be useful? That's the real question.



**Claire Wood**  
Managing Director  
Innosys



# Flipping the switch – IMPACT ON ADVISERS

Estimates suggest over 500 billion devices will be connected to the internet by 2030. This means that the Internet of Things (IoT) is set to revolutionise every sphere of life, including the insurance and financial advisory sectors.

**T**here will certainly be inherent risks to our connected future, with greater opportunities for hackers to use these numerous entry points to disrupt networks or to sniff out information from our digital footprint to commit fraud or theft.

## Predicting behaviour for good

However, growing digital footprints also offer numerous opportunities to insurers as they help to predict behaviour and are rich sources of information to help risk rating.

With the opportunity to track every aspect of life, data analysts have at their fingertips an opportunity for unobtrusive in-depth market research. While this needs to be solicited on the part of the data provider and technology user, the application of big data and advanced analytic tools has the power to revolutionise both short term and long term insurance, with further applications in financial planning.

## Individualising investments

In this regard, the greatest opportunities for the adviser is the ability to use data and analytics to better individualise investments, establish financial plans and offer insurance against hard data and facts. This is better than the biased, incorrect or, often, patently false self-reported information supplied by some clients.

This is because human bias and expression, more often than not, does not correlate to actual behaviour. However, with the assistance of hard data from telematics or the use of smart devices to gather information, these biases can be reduced or eliminated and there will be less chance to hide specific facts.

This not only helps advisers to better understand their clients and select the best products for them, but more accurate data and insights can also assist in improving underwriting to secure the best possible premium.

These processes may also reduce the potential for material non-disclosure, which could affect claims, for example.

## Improving premiums

Furthermore, with the continued collection of data which establishes trends and patterns, there may be opportunities to regularly improve premiums through continuous underwriting based on monitored behaviour.

This could lead to new products such as dynamic life insurance, which scales in accordance with real-time changes to a client's risk profile. While this has been possible in the past, it was prohibitive due to administrative requirements.

However, IoT and its integration with other systems has the power to change that.

## Understand change

This all means that advisers will need to understand the changing product offerings on the back of these advancements, and the devices and technologies that enable them. They would then advise clients on the best option to suit their specific needs, along with the devices and technology that would enable this.

And therein may lie additional opportunities for revenue generation, with advisers

becoming a sales channel for IoT devices that integrate with insurers' systems.

However, these advancements will also create direct threats to the adviser. The financial sector is an example, with robo-advisers already commonplace in mature markets. With easy-to-access web-based interfaces, clients now receive financial advice and invest at the click of button. As this continues to evolve, advances in artificial intelligence will disintermediate the adviser.

The truth is, technology is much better at performing certain tasks, especially where emotions can influence decisions. However, an element of interpersonal engagement will, for the foreseeable future, still be required in the sector. It will therefore be advisers who best understand these new technologies, embrace the way they are changing the industry, and accordingly adapt their business model who will survive and thrive in the information age.

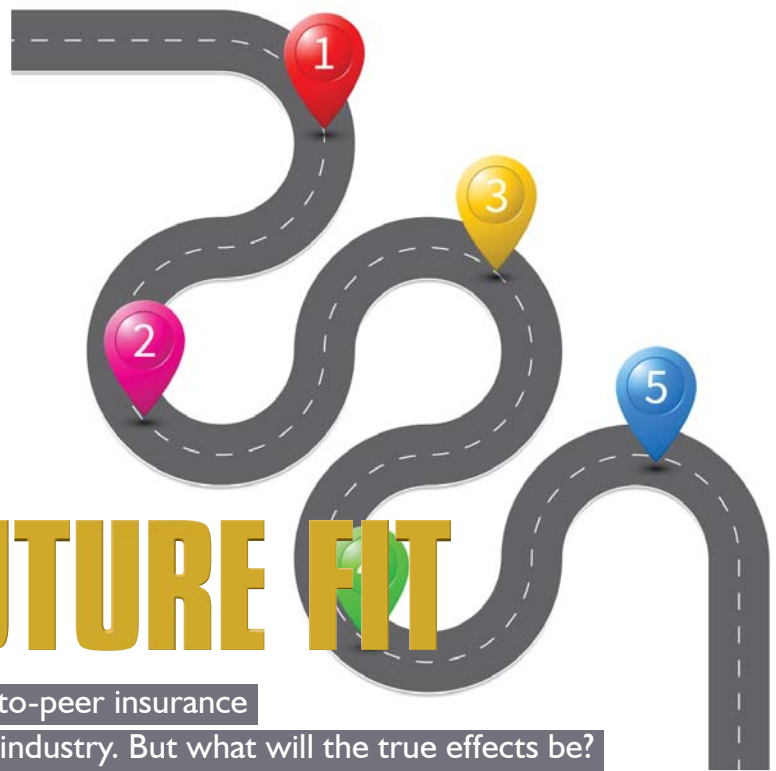
And those who adopt technology to change how they find and secure business, and engage with tech-savvy consumers to still offer a human touch and individualised advice, will carve out a new role for themselves in this rapidly changing landscape.

Grant Field  
CEO  
FedGroup



# An industry roadmap to

# BECOME FUTURE FIT



There has been a lot of talk about peer-to-peer insurance (P2P) and the impact it will have on the industry. But what will the true effects be?

**P**2P is not a new concept; it was the original model of the insurance world. Mutuals were formed by collectives such as farmers to share both their losses and their gains.

It is practically a P2P model as it has the same concept of coming together to insure against risk and then diversifying that risk amongst a group, rather than having one person transferring the risk to another.

## P2P aims

The aim of peer-to-peer insurance are to save money through reduced overhead costs, increased transparency, reduced inefficiencies, and especially to reduce the inherent conflict between insurance carriers and their policyholders at the time of a claim. In the broker model; the only requirement is that all group members must have the same type of insurance such as liability insurance; the concept carries no costs other than the special insurance. Providers are financed through the brokerages' commission from insurers.

In the carrier model; the only requirement is that the group members have something in common such as being members of the same club. The concept carries no cost other than the fixed fee to the carrier's management, the cost of reinsurance and other more minor expenses.

## Emerging methods

Today, mutual insurers effectively use the P2P model. However, there appears to be a few emerging methods that are transforming the dynamics of the risk/insured pool and

creating new benefits for policyholders, carriers and investors.

An article on Medium, P2P and Structural Innovation by Kyle Nakatsuji suggests that by redefining the traditional insurance structure, P2P models can offer unique benefits such as:

- The P2P system could mitigate elements of conflict in traditional, centralised insurance models. Because insurers (for the most part) get to keep the premiums they do not pay out in claims, occasionally the incentives of policyholders and carriers can fall out of alignment. Conversely, in a pure P2P model, because the premiums not needed for claims are refunded to the policyholders. In theory, any conflict with a carrier is diminished;
- P2P organising models might leverage large networks like Facebook and LinkedIn more effectively than traditional insurance. The nature of self-selection logically fits the use of a social or professional network; it is easier to imagine a group of Facebook friends deciding to form an insurance group than it is to imagine that same group recommending all of their friends to purchase individual policies from a large provider. In effect, large networks power the formation of smaller networks;
- P2P models, by enabling modifications to the size and composition of risk pools, could create differentiated pricing strategies. P2P models are often associated with self-organisation, but do not necessarily require it. So, if P2P facilitators become involved in pool selection, and can use existing or new underwriting criteria to influence or control

pool composition, they could actively construct pools that offer each member the highest possible returns after claims. In other words, P2P facilitators might algorithmically generate smaller baskets of varying risk profiles – shifting members when necessary – to intentionally spread expected claims across numerous pools, thereby creating consistently lower average claims volumes per pool.

## The future of P2P

There are various other structural approaches that might be used to create acquisition cost and pricing advantages or lower barriers to entry for start-ups. These are not necessarily novel structural ideas, but rather applications of existing legal strategies employed in surplus or specialty lines insurance to broader, bigger lines.

The successful implementation of the P2P model relies on a number of assumptions. However, at the end of the day, we are looking forward to finding out how companies are able to use structural innovation to create unique and differentiated value for customers.



**Thomas Kieck**  
Business Development Director  
Tial Technologies



**GENASYS**  
*Technologies RSA*



ALWAYS  
**INNOVATING**  
A STEP AHEAD  
OF THE REST.



# Matching the PACEMAKER

When it comes to technological development, underwriting management agencies (UMAs) – and many insurers – are generally on the back foot.

**W**hile there is an understanding that we need to be doing something when it comes to putting that something into practice, the industry as a whole is struggling.

## Ahead of the curve

There are however always exceptions. Some companies are ahead of the curve in their approach and ability to innovate and set the pace in a changing world. But these are few and far between.

What is clear is an ever-increasing pressure for UMAs to modernise their digital environments. This pressure is coming from a number of quarters, including:

- **Regulatory and insurer pressure.** This revolves around data accuracy, granularity and integration. It is a mammoth, admin-intensive task, and while significant progress has been made, there is still a long way to go;
- **Consumerisation.** The focus here is to give customers the option of buying a tailored product or service at the click of a button. Brokers and clients are seeing how their interaction with insurers, particularly personal lines insurers, is changing. This has been most prevalent in the motor and health markets globally, where telematics and wearable technologies have enabled consumer customisation on a mass scale;
- **The rise of insurtech.** Insurtech players are motivated by the belief that the insurance industry is ripe for innovation and disruption. This means new entrants to the market, new ways of doing insurance, and new or changing revenue models for insurers and intermediaries; and

- **Artificial intelligence (AI).** AI is on the rise in underwriting and claims handling. Although we are not 100% there, we are seeing a huge shift coming in the way customers make decisions. AI may seem inconceivable to many, but there is no doubt it will soon be a major force in the market, bringing both opportunities and threats into the UMA environment.

## Separation anxiety

Many UMAs are reluctant to spend money on technological infrastructure. Firstly, it is difficult to scope as we don't really know where it will end.

Secondly, many UMAs have already invested in technology, particularly their administration platforms, so reinventing thought processes at this stage would not be cost effective.

## Where to start

So where do we start? We believe the following three themes are crucial in underpinning how UMAs go about modernising their technology environments:

1. Systems will need to have open application programming interface (API) to allow for real time data exchange with insurers and brokers. These interfaces form a go between that enables direct communication between systems. Modern system architectures comprise a mesh of connected APIs that are constantly sharing information. These systems will enable brokers to share policy or claims information with a UMA in real time, and give insurers access to publicly available data, such as weather information, within their own systems. UMA to insurer alignment is key in getting this right, enabling both operational efficiencies and


the opportunity for an improved client experience;

2. Real-time data exchange is wasted if systems do not support a greater degree of automation to ultimately deliver improved efficiencies and customer service; and
3. Systems will need to handle new and unstructured forms of data. These technologies have already disrupted the medical scheme and life insurance industries as insurers seek to change customer behavior using personal health monitors and rewarding clients for meeting exercise goals. Short term insurers are analysing data collected by vehicle telematics and increasing home automation systems to help understand their risks better and provide more personalised products.

The thing about the digital revolution is that it never remains static. Just as we think we have got a handle on it, everything changes again. But UMAs need to keep up in order to ensure their continued survival. Falling behind is simply not an option.



Ian Gately and Doug Laburn  
Lombard Partnerships



# Living in a **PAPERLESS WORLD**

In today's tech-age it would seem logical for financial planning practices to have an interest in going paperless, but then I walk into advisory offices and see piles of files and am told that there is no way that they can go that route - not in this industry – it is impossible.

**T**hen I speak to the owners of three practices: one in Johannesburg, one in Durban, and one in the United States. Two of them are completely paperless and the third relies on either one or two pages of paper per client. Printing costs have fallen away, processes are shrinking and efficiencies are realised beyond expectations.

## No looking back

Grace van Zyl of Aspire Wealth Management went paperless a year and a half ago and has not looked back. In fact she is now creating a virtual office with an off-site server and switchboard. Grace saves R3 000 per month on printing costs alone, not considering time and space saved, and the eradication of cluttering files and bulky cabinets.

Dhevan Naicker of The Retirement Specialist, stumbled upon an electronic signature solution on his new Apple Mac and wondered how he could use this in his practice to move away from paper. It was not long before he removed paper from his office altogether, to the extent that when one of his administrative assistants resigned, he did not need to replace her because so much time was being saved by not printing, scanning and pushing paper.

Readers may remember Kate Holmes from Belmore Financial who spoke at the FPI Convention in June last year. Holmes went paperless from the outset and clearly states that electronic communication is a prerequisite to working with her. In fact she advises, "Do not underestimate your clients. Many of them have already moved activities online from bills and shopping, to travel and news, and might be wondering when you will do the same."

## Lead and they will follow

If you are considering going paperless, you will need to embed the process and be patient as you initially assist your clients to embrace a new way of doing things. Van Zyl describes the learning curve as a 'natural progression' referring to the ease of adoption. Of all her clients, five retain paper files due to their age and lack of resources.

Naicker says that once he "wrapped his head around the new process", his clients followed. He had to be comfortable and confident himself to communicate his requirements.

Holmes says that electronic paperwork and communication are a criteria for working with her. "You must be comfortable with technology and a paperless relationship." Looking at her website, she is quite explicit in this regard. It also allows her to live her nomadic lifestyle, with clients all over the world.

## Seeing the beauty of it

Most practices have been heavily paper based since inception and some staff training should be expected, but Holmes does state, "That is the beauty of so much new technology – it is intuitive and easy to adopt."

As you explore electronic solutions to accompany going paperless and streamlining your process, consider taking photos of IDs and proofs of address with your smart phone. Use Skype, Google Hangout and Facetime to communicate with your clients and even share documents and take them through presentations remotely if it is not possible to meet face to face.

## Take a stance

Most financial planners I meet have a desire to reduce their paper, but your decision needs to be to remove it. You have to scan in and dispose of all existing files and draw a line in the sand: from this date on, no paper.



Jason Bernic CFP®  
Financial Planning Coach  
Old Mutual Wealth



# Opposing the **NATIONAL TREASURY BULLDOZER**

The motive behind National Treasury publishing the demarcation regulations on 23 December shows a disregard for the rights of ordinary people under the Bill of Rights and puts the government at odds with the Constitutional Court which, in judgment after judgment, has stressed that the Constitution plays a special role in protecting vulnerable people.

Everyone, says section 27 of the Bill of Rights, has the right to have access to healthcare services. Lack of healthcare services for individuals seriously infringes their core right to dignity. Government is obliged to take reasonable legislative and other measures to achieve the realisation of these rights and has had since 1994 to do so.

## Justifiable limitations

If a law limits human rights it must be reasonable and justifiable in a democratic society based on human dignity, equality and freedom; a balancing process between the rights of all affected needs to take place.

Government's own motivation document reveals that gap cover insures up to 585 000 lives, according to the industry; hospital cash plans insure 1.5 to 2 million lives, and primary healthcare plans insure 110 000 lives.

Government alleges that the current problem with health insurance products is that providers are circumventing the medical schemes framework, and health insurance products are harmful to the medical schemes environment. This assertion has been challenged for 15 years and no evidence has been put up to prove that it is true.

The Alexander Forbes 2016 Diagnosis comprehensively examines the South African medical schemes industry and shows no such evidence. Since 2000 when demarcation was first mooted, the medical scheme industry has grown by 1.4 million principal members and 2.2 million beneficiaries and now serves 3.95 million principal members and 8.81 million beneficiaries.

Most of the population cannot afford medical scheme membership. They can afford basic insurance products. National Treasury agrees that more needs to be done such as lower healthcare costs resulting from the Competition Commission enquiry on healthcare, the Twin

Peaks approach (it is not clear how that will help), the National Health Insurance system and low cost benefit medical schemes.

None of this was in place on 23 December and none is likely to be in place for years to come. Nothing has been done since 2000 to give relief to those who cannot afford medical schemes except what the insurance industry has done. Despite this, governments solution is to take away essential rights from April 2017.

## Intriguing critique

This is where the cynicism comes in. In balancing the rights, the advantage of the disadvantaged, and allegedly taking into account current realities, the regulations draw a line through the rights of up to two million people covered by hospital cash plans and hundreds of thousands of other insurance policies.

At the moment, if you cannot afford a medical scheme, hospital cash plan insurance will help to pay your hospital expenses whilst you are in hospital. What do the demarcation regulations substitute? They substitute a daily allowance of R3 000 per day in hospital or a lump sum of R20 000 per year; but the insurer cannot agree to pay the hospital their costs. This will inevitably lead to corrupt practices. The longer someone stays in hospital, the more money they will get in their own pockets. There are many other deficiencies in the regulated products.

## Medical cover everywhere

Insurance products also offer primary healthcare. You can, for instance, get a certain number of visits to a doctor or a specialist paid for by an insurer on a managed healthcare basis. From 1 April 2017, that will no longer be possible. You may have been paying premiums for an insurance product since 2000 with very little use, but you keep it going because everyone knows that as you get older your needs for healthcare increase.

*(Continued on p.41)*



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# Time for the HAMMER TO FALL?



The Retail Distribution Review (RDR) has been one of the major talking points in the financial services industry for the past three years now. The Financial Services Board (FSB) is keen to implement it and the industry will reluctantly accept it.

**D**estination 2016 came and went without the implementation of RDR; but this does not mean that the FSB has forgotten about it, the regulator is now working towards a new date, which is March 2017, for the implementation of Phase I of this key piece of legislation.

## The long road

The initial RDR discussion document was published in November 2014. Against the background of the Treating Customers Fairly (TCF) approach to regulating conduct of business in financial services. The RDR discussion document proposed substantive reforms to the regulatory framework for financial advice and for distribution of financial products to customers.

The RDR put forward a range of regulatory proposals to be implemented in three broad phases. In November 2015 the FSB published an update on the implementation plans for the Phase I RDR proposals, followed by a more general status update in December 2015.

Technical work, consultation processes and reviews of extensive stakeholder inputs have continued throughout 2016. The status update document as at December 2016 provides an overview of the status of specific regulatory instruments that will give effect to RDR Phase I proposals and provides an update on the FSB's current thinking regarding proposals to be implemented in RDR Phases II and III, including planned technical work that will be undertaken.

The implementation of RDR proposals has been delayed a number of times, presumably because the FSB is working hard to refine the legislation so that it will not cause unintended problems in the industry.

While these are noble intentions, making the industry wait on tenterhooks for this to take place is concerning. The basic principle of business is that the work that is done today will be done to open the doors of the business tomorrow, but who wants to go to bed at night unsure about how the industry will be regulated tomorrow? And if the implementation is delayed a number of times, it is like a stay of execution in a way.

## Full steam ahead

Another reason for the delay is presumably because there needs to be an overarching piece of legislation put in place that will govern RDR.

In a release to the media in December 2016, the FSB said that RDR Phase I is being given effect through proposed amendments to the following regulatory instruments:

- The General Code of Conduct for Authorised Financial Services Providers and Representatives, issued under the Financial Advisory and Intermediary Services Act (FAIS Act), to be consulted on in early 2017;
- Fit and Proper Requirements for Financial Services Providers, issued under the FAIS Act, published for comment in October 2016;
- Regulations issued under the Financial Advisory and Intermediary Services Act, which will be consulted on in early 2017;
- Regulations under the Long-term Insurance Act and the Short-term Insurance Act, published on 9 December 2016, for comment by 22 February 2017; and
- Policyholder Protection Rules under the Long-term Insurance Act 52 and the Short-term Insurance Act 53, to be published on 15 December 2016 for comment by 22 February 2017.

## Issues of clarity

Since the FSB announced that it will be implementing RDR, there has been precious little insight into the FSB's thinking regarding the actual makeup of the legislation. There has however been a lot of speculation concerning this.

One issue that the FSB has been adamant about is the banning of commission. Their headstrong outlook was questioned at an industry event in 2016 which did raise some eyebrows.

RDR has split the industry down definite lines. There are those who believe that it will improve the industry and there are those who believe that if we implement RDR in its current form, the industry will struggle to operate as it used to.



Our version of RDR comes hot off the heels of the implementation of RDR in the UK. By all accounts, our version of RDR will look very similar to what has been implemented in the UK.

### Vigorous debates

There was a vigorous debate at the SRP Africa Structured & Alternative Investments Conference in 2016 where a number of industry professionals spoke about the dangers of following a cut and paste model from the UK. These professionals suggested that adaptation was needed; particularly when it comes to the issue of banning commissions.

Marius de Jongh, Senior Specialist within the Collective Investment Scheme team at the FSB, said at the conference that commission will indeed be banned and that performance fees will be brought in. He added that the FSB feels very strongly about this.

It was pointed out to De Jongh that this was unnecessary as there are financial services industries in Europe which have implemented RDR but commission is still the main form of remuneration.

De Jongh stood his ground. "We cannot build an industry where commission is banned in some cases and not in other cases. We will not regulate by exception. The stance taken by the FSB is an informed decision. However, this does not mean that it is the right decision," De Jongh did try and extrapolate this stance further by saying "It is more about getting a car on the road then getting the perfect car on the road."

The only thing worse than shifting the goal posts and being frugal when providing information into its thinking is if the FSB was to say one thing and implement something else. Make a decision and stand by it. Whether it will benefit the industry remains to be seen, and only the FSB will be held accountable if it does not. ●

## Opposing the **NATIONAL TREASURY BULLDOZER**

*(Continued from p.38)*

The insurer will not cancel this policy unilaterally – subject to the maximum age for cover – if they treat customers fairly. Cancelling when risks get worse after a long period of premium payment is not allowed by the Financial Services Board (FSB).

But, from 1 April 2017, due to the passing of the demarcation regulations, many of these benefits will come to a sad and sudden end.

### Striking a better balance?

National Treasury claims that the regulations strike a better balance between medical schemes and health insurance products so that consumers are better protected. This is certainly not the case. Consumers who cannot afford medical scheme membership are much worse off.

The National Treasury document itself recognises that these people need lower healthcare costs, Twin Peaks, NHI and low cost benefit medical schemes, none of which is in place.

The only fair basis is to wait until these benefits are in place and then to decide what insurance products are needed. That is years away. In the meantime there is no basis for this drastic change.

My own file on demarcation dates back to 2001 when I was briefed by the South African Insurance Association. Seeing that nothing has been achieved – except by insurers – to help those without their section 27 rights, there is no justification for the demarcation regulations. They are, in my opinion, unconstitutional and should be

challenged not only on section 27 grounds, but because they amount to an unlawful deprivation of property in violation of section 25 of the Constitution.

### Further disadvantage

By the way, medical scheme members themselves are further disadvantaged. The regulations allow top up products where the medical schemes have limited benefits which are topped up by valuable insurance products. There is no harm in that if it is at the expense of the disadvantaged.

Therefore, the demarcation regulations take from the disadvantaged and give to the privileged. It seems that National Treasury have become impatient and pushed through regulations which are not constitutionally justified. I do not believe our courts will endorse what has been done.



**Patrick Bracher**  
Director Regulatory, Insurance  
Norton Rose Fulbright South Africa Inc.



# Floating on an OCEAN OF ETHICS

As phrased by the Ethics Institute, ethics is neither an optional add-on to normal business nor is it a soft issue. All business strategies have an ethical dimension that we cannot escape, as we cannot escape our own shadow.



**E**thics holds enormous risks for companies, but equally important, it creates trust, reputational and competitive opportunities.

## The foundation of compliance

Essentially what this definition means is that ethics is the foundation of compliance. In order for compliance to function effectively in an organisation, it is necessary for it to form part of an underlying ethical culture.

Even though compliance and ethics are two distinct concepts, compliance cannot exist without ethics. The two must co-exist in harmony.

Compliance refers to acting in accordance with legislation while ethics refers to doing what is regarded as right, regardless of what legislation stipulates. Compliance is therefore something that the law or regulations require you to do or refrain from doing, while ethics is a moral consideration.

## Acting accordingly

In the corporate environment, it is important to implement policies and procedures to ensure that all employees act in accordance with the law. This should be done in conjunction with the promotion of an ethical culture within an organisation.

To simplify, employees should not just obey the rules out of a fear of discipline, but should also want to do what is right. This ethical behaviour should filter down from the board and top management to all layers of the business, ultimately creating an ethical culture.

This ethical culture is emphasised by Principles 1 and 2 of the King IV Report on Corporate Governance for South Africa, 2016 ("King IV"). The report states, respectively, that the governing body should lead

ethically and effectively, and the governing body should govern the ethics of the organisation in a way that supports the establishment of an ethical culture.

It is therefore evident that ethical leadership is regarded as fundamental in realising an ethical culture within an organisation.

## Good citizenship

Principle 13 of King IV continues further: the governing body should govern compliance with applicable laws and adopted non-binding rules, codes and standards in a way that supports the organisation being ethical and a good corporate citizen.

From this citation, the relationship between compliance and ethics is evident.

King IV places a considerably higher amount of emphasis on ethics than its predecessor, King III.

Even though compliance is a mandatory requirement in King IV, there is a higher emphasis on displaying compliance through evidencing the desired outcomes as a substitute for following the mere tick box approach to compliance.

King III called on companies to apply or explain the principles, but King IV goes further by assuming application of all the stated principles and requiring organisations to explain and demonstrate how these principles are applied in practice.

## Adjusting actions

Organisations will have to adjust the way they are currently operating. It is no longer sufficient to show mere compliance with legislation by ticking the boxes.

Laws and regulations are put in place to yield specific outcomes. Organisations are

now required to show that these outcomes have in fact been achieved by adhering to the spirit and objective of these laws and regulations.

Organisations need to instil a system of ethical values and ethical culture, which drive decision making processes if they want to thrive not only in the eyes of the law but also in the eyes of their clients and the public at large, as well as its bottom line.

Vivek Wadhwa once said: Corporate executives and business owners need to realise that there can be no compromise when it comes to ethics, and there are no easy shortcuts to success. Ethics need to be carefully sown into the fabric of their companies.



**Harry Pretorius**  
Executive Head: Legal & Compliance  
Europ Assistance South Africa



**Estelle Neethling**  
Compliance Counsel  
Europ Assistance South Africa



# IS THE SKY THE LIMIT, OR JUST THE BEGINNING?

We don't see the sky as a ceiling, but a window into potential. The forces that mould the stars are the same ones that tear them apart. It's how we choose to harness the forces at hand that set us apart. The greater the challenge, the greater our inspiration.

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We drive ourselves to create products and services that make a difference – no matter how big or small your business challenge. Because we believe there is always a better way.

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# FULCRUM

We see it differently



# A love affair

# WITH SPEED

One of the sad facts about South Africa is that whenever it comes to the festive season at the end of the year or the Easter Weekend towards the middle of the year, we brace ourselves for the reports when we return to work telling us how many people died on the roads during the periods in question.

**T**his year was no different. While we are all no doubt hoping for a festive season where 1 714 deaths were recorded on South African roads over the festive season; more recently, road carnage reared its ugly head again.

FAnews recently did a newsletter on this topic.

## The RAF weighs in

The Road Accident Fund (RAF) CEO, Dr Eugene Watson, points out that this statistic places significant strain on not only the RAF, but the country as a whole.

"Despite good intentions, including that of government and other transport entities, the RAF's claims expenditure still remains unacceptably high at over R32 billion per annum, where each rand paid is a painful reminder of the extent to which lives are lost and people seriously injured on our roads. The claims expenditure, coupled with liabilities of more than R150 billion, represent large sums of money our country could assign to valuable services and infrastructure if the war on road crashes is won," said Dr Watson in a media release to the press.

## What is being done?

It's all very well condemning the fact that road deaths in South Africa is unacceptably high after the deaths have occurred, but that is like lamenting losing a bet on a horse after the race was run, it is kind of pointless.

We need to ask what is being done about road deaths before we approach seasons where we know there will likely be high death tolls.

Firstly, let us look at the current rhetoric from government regarding this issue; Transport Minister Dipuo Peters assigned most of the blame for the current festive season death toll to customised high powered cars – which she labels as unsafe – and to what she refers to as stubborn and chauvinistic men.

Addressing the media in Midrand at the beginning of December, Peters said that new road fatality statistics have shown nearly 80% of the deaths on South African can be attributed to the latter issue.

Peters said this while she was delivering a progress report on the state of the Festive Season Road Safety Campaign which was launched at the beginning of December. "We claim no easy victories and we tell no lies in confronting the scourge of road carnage underpinned by lawlessness and a recalcitrant attitude of some of our road users," Peters said. ●

## Readers weigh in

Naturally, this was a sore point for our readers who vociferously voiced their opinions on the matter.

John said that visible policing, and enforcement of the basics is the only way to resolve this. He added that every single day he sees vehicles going through red traffic lights, often once it is already green for the other traffic; reducing the speed limit or making more laws is unlikely to help. The problem we have in SA in general is not the lack of laws, but the enforcement of them.

Jack went so far as to say that the entire system must be reformed. From driving licence centre corruption, police corruption, enabling visible policing, scrapping the RAF entirely, mandatory third party insurance through exiting insurance industry, tighter enforcement on bus/minibus industry, infrastructure investment in non-motorised transport lanes and mandatory vehicle maintenance.

Finally, Clive Burgess pointed out that the only reason that the UK and Australia have a low death rate on their roads is a competent police presence. He said that if one tries speeding in Australia or the UK and they will quickly find the law being enforced. ●

# 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.
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- We provide you with optimal binder mandates that give you flexibility to underwrite and manage claims
- We offer you secure capacity.
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- You participate optimally in underwriting profits.
- Cross selling opportunities are explored into our other UMAs

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- Working capital to facilitate growth or acquisition;
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- 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

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# How do we sleep WHILE OUR BEDS ARE BURNING?

According to research, 2016 was the year most affected by natural disasters. This has not only affected South Africa, but international locations as well, and has a direct impact on the insurance industry as clients need to be compensated for the losses they suffered.

**T**he recent fires raging in Somerset West, Western Cape, have highlighted the risk of wild fires and the significant damage they can cause.

According to an article on the TimesLive news website, the damage from the recent fires is up to R60 million, making this one of the larger fires in recent history. This has made it increasingly clear that there is a need to reduce the risks that lead to fires starting and has stressed the importance of having the right cover should a fire occur.

Commenting in the article, Carolyn Thompson, Head of Personal Lines at Mutual & Federal said that South Africa usually has a vast amount of dry biomass after the dry season, which makes the months thereafter a high risk time for fires.

The severe drought and strong winds in the Western Cape makes the risk even higher. During this time, it is even more important to take preventative measures and to be strict about activities that could start fires, such as smoking and camp fires.

### Become vigilant

In a release to the media, Dawie Loots, CEO of MUA Insurance Acceptances, said that consumers who live in areas that are known to face a higher risk of fires spreading, should have proper insurance cover in place to ensure that any losses are financially covered.

### Protecting a major export

The recent fires in the winelands of the Western Cape has again brought the issue of the wine producer's risk to the fore, with a number of wine farms being adversely affected.

In a press release to the media, Shehnaaz Somers, Head of Commercial Underwriting at Santam said the company is still assessing the damage and loss as a result of fires spreading to well-known vineyards and guest farms in the winelands and surrounding areas.

"Our claims team is assessing about 50 claims related to the recent fires, most of which are related to buildings and vineyards. However, it is still too early to report on the exact extent of the damage. We know that last year, runaway fires destroyed vineyards in Stellenbosch, Overberg, Simonsberg and Kogelberg early in 2016 resulting in losses estimated at around R240 000 per hectare. This included the loss of income to the farmers and the additional labour costs required to re-establish the vineyards," said Somers.

Somers added it could take between five and seven years for an average wine vineyard to become productive again after a loss or significant damage. The loss of a vineyard can have a major impact and knock-on effect on the financial viability of the farm operation as a whole.

"The destruction of vineyards by fire, crime or weather-related

events also has a significant impact on the overall production volumes which in turn places international exports and revenues - and ultimately the livelihoods of those communities engaged in the wine producing sector at risk."

### Spreading the risk

Currently, there are about 98 597 hectares of vines producing wine grapes under cultivation in South Africa – an area covering some 800 kilometres in length.

Thanks to strong exports to large parts of Europe and America, the South African wine industry is a significant foreign exchange earner for the local economy. The South African Wine Industry Information and Systems (SAWIS) confirms that local revenues from the wine industry contributes more than R36 billion to the national gross domestic product and provides employment to more than 300 000 people.

Most local wine farmers have insurance protection against weather-related incidents. Industry reports show that a number of them are still grappling with the consequences of a protracted drought in early 2016.

"Since the majority of local wine farms are not limited to one single varietal, a number of producers have more than one estate which is often spread over different districts or regions in order to get better diversity in the taste of their grapes. Resultantly, the wine producer's risk is also spread geographically, which can serve to mitigate the risk somewhat," said Somers.

The risks to the wine producer are also present in the supply and distribution chains to which he or she is inextricably linked.

### Particular risks

Somers explains that when it comes to insurance, the local wine industry presents some very particular risks.

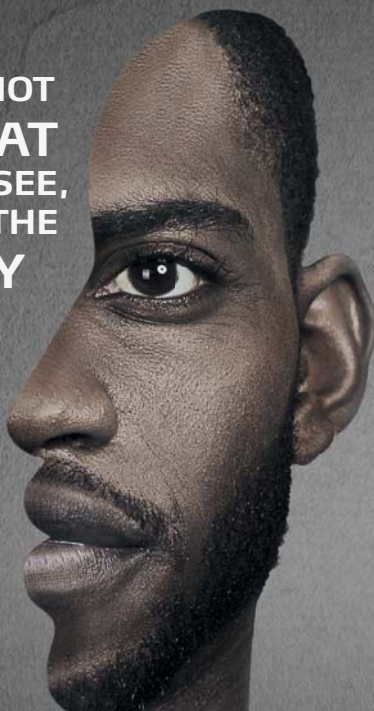
"Apart from the standard cover for theft, fire and severe weather related incidents, wine farming requires a type of specialist cover to provide financial security to the producer - from planting through to production, bottling and distribution. These risks include fire damage to plant materials, uprights and trellises as well as any loss of revenue or income that the farmer may suffer should his vineyard be destroyed by fire," said Somers.

Once the grapes have been harvested, risks originating from accidental damage or loss during the wine making process itself are covered through an accidental damage cover that offers protection should the wine become contaminated.

Extended liability cover protects the farmer or wine producer against any additional legal liability or claims that may result from defective or contaminated products or in the event that it is recalled from shelves or export containers.

As El Nino departs, we are possibly entering into a La Nina cycle. This will bring heavy rains and possible floods. Therefore, the possibilities of natural disasters have not disappeared, the nature of the risk changes. The industry needs to be more vigilant now than ever. ●

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BUT THE  
WAY  
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In today's connected, digital economy, traditional insurance is changing. Services like Uber and rentals are changing the profile of our clientele. The millennial – the confident, achievement oriented individual who expects exceptional service – is not only your future customer but also your existing customer. In fact, most customers are behaving like millennials.

Marketing to millennials is a bit different from traditional marketing. Forget the stereotypes, you need to understand their behaviour. And understanding behaviour comes from obtaining intelligence from the data you are collecting from your customers.

Tracker is connecting to this world of information, gathering insights and developing offerings that keep up with changing consumer needs.

Every day more and more information passes through our systems, which have evolved from simple tracking devices to smart devices that supply us with a total of nearly 35 million packets of data per day in real time. But what insights can we gain from this data?

Let's look at Tracy. Tracy is a trendy and sophisticated millennial equipped with the latest technology and online 24/7, 365 days a year. By analysing the massive quantity of data and information we had on her, we were able to draw out certain patterns and predict future occurrences.

We know Tracy's address has changed three times in the last six years. She has gone from being a student to being employed, self-employed and back to being employed again. She has only visited a traditional dealership twice and services her vehicle at an independent workshop. Her primary grocery store has also changed.

As we monitor these trends we can see that her mobility habits have changed. Distance travelled is down 37 percent and the duration of an average trip is down by 15 percent. Weekend and night time driving are also significantly lower.

This information reveals that the cost of Tracy's mobility is increasing. The fixed cost of her vehicle is the same but she's doing fewer kilometres. So what do we do with this information?

We could suggest downsizing to a more affordable and cost effective option for her changing needs. She could insure per trip in the future, or insure herself rather than her vehicle.

By using the data we have at our fingertips we aim to identify the wants and needs of our consumers which haven't yet been noticed and, as such, provide a service that targets individuals and enriches their experience.

The big question is, how do we as an industry adapt to ensure we continually deliver this sort of value to our customers?

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More meaningful customer connections.





# Hitchhiker's guide to the #GENERATION INVESTOR

Hashtags, apps and status updates – welcome to the world of Generation Y.

Masters of everything hip and high-tech.

**G**eneration Y-ers, commonly understood to consist of those born between 1980 and 2000, are, according to an article in Time Magazine, sometimes labelled as lazy, entitled, selfish, shallow and fame-obsessed. Ask any Generation Y-er about these stereotypes though and the likely response, distributed across a multiplicity of social media, would be something like, 'nobody understands us' - and they would probably be right.

What about the typical Generation Y-er's attitude towards money and investing? For financial advisers, taking the time to learn what influences a Generation Y-er's financial decision-making and understanding, and how to engage with them is key to tapping into this strategic market segment. It is therefore crucial to understand what characterises Generation Y, and more importantly, how to appeal to the next generation of investors.

### Who are they?

While grouping individuals born across two decades and in extremely varied socio-economic circumstances is problematic, certain economic and political issues unify Generation Y. They will have grown up during the rise of the internet, increased consciousness of climate change, geo-political instability following global events like 9/11, and many Generation Y-ers will have left school to face the continuing effects of the 2008 recession on the job market. Further still, South African Generation Y-ers must confront the lingering socio-economic effects of apartheid.

Unsurprisingly, these factors affect the financial decision-making of Generation Y-ers. A study found that, as a result of experienc-

ing the financial crisis early in their careers, they are highly conservative regarding risk compared to other generations. Moreover, having witnessed the impact of the 2008 recession on their parents' long-term investments, as well as the culture of instant gratification that characterises the Digital Age,

Generation Y-ers are typically sceptical of long-term investing as a means of achieving financial success. They are also more likely to delay important life milestones like starting a family and purchasing a home compared to their parents.

The study notes that the advent of the internet has also affected how Generation Y-ers make financial decisions, though not in the ways you might think. Although they have digital access to more information than ever before, they tend to look to their spouse, friends and parents for key financial advice more than any other generation and will then make decisions based on input from multiple sources.

### A new generation of advisers

Generation Y-ers are more comfortable than other generations with mobile technology and transacting online and financial advisers will need to engage with younger investors on their terms. According to an article on Thinkadvisor.com, more than half of Generation Y-ers would prefer a 'hands-off' or low-touch engagement with advisers, and email and phone calls together are the preferred methods of communication for millennial investors.

In the near future, online automated investment advisor platforms, or 'robo-advisors', designed to generate customised investment plans based on parameters provided

by investors, will likely become increasingly popular among younger investors, who typically look for a low-cost, real-time and transparent service.

### Lasting relationships

However, while inventive technological solutions catered to young investors' needs can give financial advisers the competitive edge, Generation Y investors, like their elder counterparts, still seek a personal experience and service.

Financial advisers should be mindful that, perhaps more so than any other generation, Generation Y-ers yearn to be treated as individuals, each having their own unique inspirations and aspirations. Take the time to validate your assumptions about Generation Y investors and engage with them continuously about their ever-changing financial needs. Connect with them instead of simply selling a product.

Doing so will allow you to establish valuable long-term relationships with young investors, and crucially, might just help you avoid being among those who simply 'don't understand us'.



Jared Lesar

John Loubser

Candidate Attorneys: Bowmans



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# Unlocking value for CLIENTS



In a world of financially savvy investors, cost benefit analysis is not only an evaluation method for the businesses they lead, but also an exercise they apply to their personal finances.

**T**his astuteness of modern investors can be attributed to the information age, among various factors. How we should advise, the solutions we offer, and the timing of such investment decisions is information that is easily accessible to investors in today's digital age.

This challenges the financial adviser to place more of an effort into understanding investors' individual needs, and to develop outcomes-based investment strategies that unlock value where benefits far outweigh costs.

## Various layers of costs

Paying advice fees can be viewed as a grudge cost by a number of investors. Full disclosure of the various layers of costs at the beginning of the advice process goes a long way in protecting the reputation and business of a financial adviser.

Upfront fees may be easily understood by investors; however, it is mainly the commissions and ongoing fees that clients tend to scrutinise. This is done more so during unfavourable market conditions when assets experience a drawdown.

A professional financial adviser should ensure that the investor derives maximum benefit out of each cost. This not only puts the financial adviser in a good position to defend fees, but also helps to protect the reputation of the industry in the event of a dispute.

## Risk vs return

The current change in world leaders, which will most probably result in a shift in economic policies, is likely to have a negative effect on investment markets. In a world of investing, this effect may take the form of significant drawdowns wiping a lot of value from investment assets.

To mitigate this risk, financial advisers need to ensure investors have well-structured portfolios that take into account risk and deliver on expectations. A multi-asset portfolio can offer some level of protection against risk as market conditions affect equities, bonds, property and cash differently.

Investors also have options to choose the level of control they want over their portfolios. A fully managed discretionary portfolio gives the financial adviser flexibility to make the necessary adjustments to suit market conditions, thus unlocking additional value.

Investors who are most vulnerable to the effects of a drawdown are retirees as they do not have the advantage of time to recover losses. A financial adviser cannot over-emphasise the importance of a well capitalised and structured retirement portfolio.

Financial advisers should also help investors understand the difference between a market and retirement drawdown. The former is driven by a variety of economic factors while the latter is a result of withdrawal of money from a retirement fund.

## Time considerations

With the world economy facing huge uncertainties, never has it become more pertinent for advisers to demonstrate the value of their expertise. Clients need our guidance more during times of market volatility so we can help them stay the course.

## Measure of value of advice

The emotional fulfilment an investor enjoys at the end of an investment term will be an important measure of the value a financial adviser brings into a relationship. It is therefore important to understand the goals of the investor as that is where the emotional connection lies.

Two accountants may earn the same income but their long term financial goals would be specific to their individual circumstances.

Adopting a goal based financial planning approach and tailoring an outcome based investment strategy is most likely to deliver on desired outcomes, compared to selling products not linked to a specific goal.

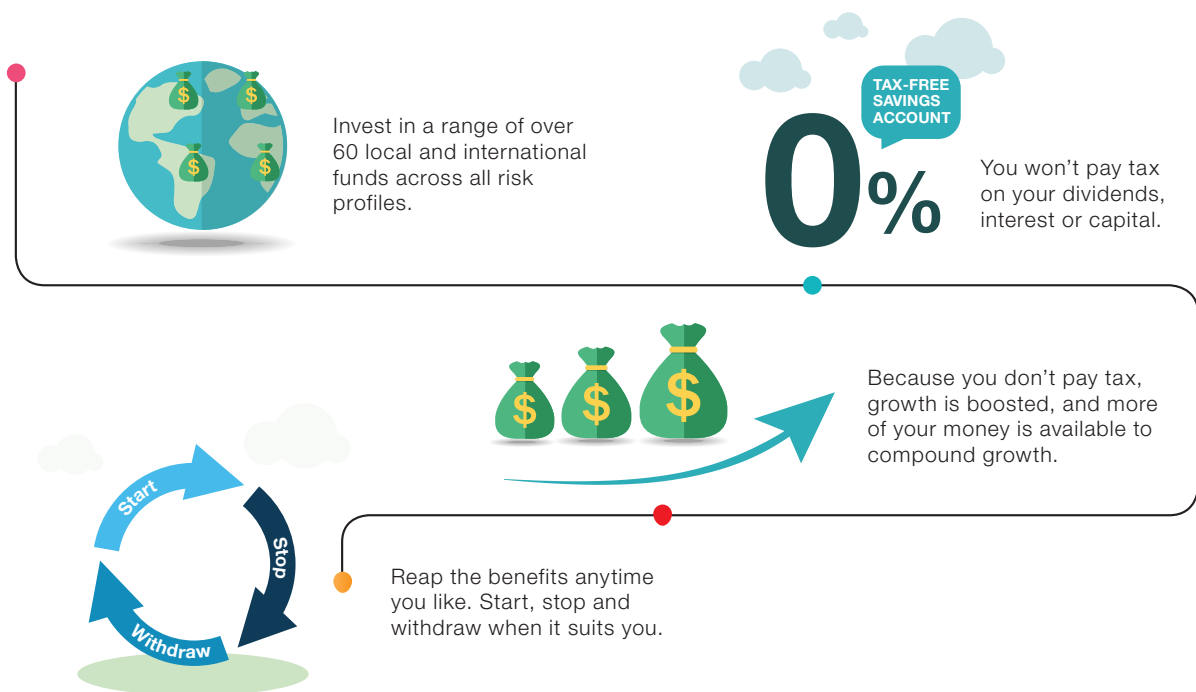
As conventional wisdom states, money is a means to an end. It is the role of the financial adviser to demonstrate that the benefit of relying on investment management expertise far exceeds the costs associated with it.



Preenay Sathu  
Channel Head  
FNB Financial Advisory

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In 2015 and 2016, SA equity markets (as measured by the All-share index), generated uninspiring total returns of 5.13% and 2.68% respectively.

# The voice of reason IN A NOISY CROWD

**A**bove average volatility, on the back of turbulent socio-economic and political times, was the common thread and, with uncertain election and referendum outcomes pending in Germany, France and the Netherlands – on top of the United Kingdom's decision to trigger Article 50 – the impact of the rise in global populism and nationalism is likely to be a prominent feature.

## Asking questions

Looking at this global scenario, investors in retirement funds will (or should be) questioning what this means for their retirement savings and, what, if any, action they ought to be taking.

However, decisions made in times of extreme vulnerability – such as switching out of underperforming funds – can be driven by panic rather than sound investment fundamentals and, here, the Hollard Investment team shares some of the principles it applies in volatile times:

## Specialist investment advice vs self-advice

First off, we advise inexperienced investors against relying entirely on their own knowledge and instincts and recommend that they work with a seasoned financial advisor who can help them to understand their risk profile, and articulate their financial and retirement goals.

Only then – once these have been balanced against their financial needs and circumstances, and an integrated financial planning exercise has been conducted – is it possible to identify, and select, the most appropriate retirement funds.

## Response vs (over) reaction

When the unexpected shows up, markets often over-react and investors can be

short-changed in the process. As every good fund manager will agree, the golden rule is “fundamentals over emotions” and, while this is always easier said than done, it is helpful to remember that it is the fundamentals that are the actual drivers of long term asset value.

These typically play out over three to five years and, in our experience, responsive investors find it easier to take the long view and align better with fundamentals, while reactive investors are more likely to be guided by emotion, with the risk that future retirement value can be left on the table.

## Time in vs timing

Chopping and changing portfolios in response to market fluctuations and events is not recommended.

Generally, investment managers who manage multi-asset retirement funds seek to add value by employing strategic asset-allocation (which anchors the portfolio to the long-term drivers of asset class returns), tactical asset-allocation (which acknowledges that prospective value of expensive assets diminishes and increases in cheap assets) and stock picking. It's all about strategically balancing 'time in the market' against 'timing the market' and it's a complex business.

## Risk profile vs best fund

Being in the “Best Fund” is every investor's expectation but, unless there's a fit with their risk profile, it does not matter where the fund sits on a ratings chart.

Risk profiling involves considering the investor's years to retirement, their knowledge of financial markets, their accumulated retirement assets, and their ability to tolerate capital drawdowns and it should – ultimately – be an input to the balance of growth versus income assets in a client's retirement fund.

Of course, as risk profiles change over time, so does the balance of growth vs income assets and our experience has shown us that this approach helps to manage client expectations better.

## A word on diversification

Some say the only free lunch is diversification but in our view that only applies if the diversification of underlying investments is meaningful, i.e., if it involves continuous evaluation and decision-making on the different look-through risk exposures in relation to return expectations. (Risks include the diminishing ability of borrowers to pay back capital, sensitivity of income assets to interest rate changes, diminishing ease of investments disposal, massive currency movements and underlying managers' unique risks.) Retirement funds that practise meaningful diversification are less likely to be impacted in very volatile periods.

So, while volatility certainly affects markets (and can influence investor behaviour), it is not necessarily the monster under the bed that it's often thought to be. With the guidance of a seasoned financial adviser, most ups and downs can be ridden out. The real challenge for investors is ensuring they invest early enough to give themselves the best possible chance of a soft landing into retirement.



Conlias Mancuveni, FRM MSc MBA  
Head: Investments Research  
Hollard Investments



# Comfort away from **THE EDGE OF FEAR**

Your clients have different levels of comfort when it comes to financial security. However the same does not apply to critical illness cover.

I am sure you will agree with me when I say that comprehensive critical illness cover has become a non-negotiable for clients. Having the peace of mind in knowing that they will be covered and receive a claim pay-out in the event of contracting a critical illness has become a priority for most clients.

## Product evolution

If I reflect on the insurance industry and how the concept of comprehensive critical illness cover has changed and improved over the years, the catch-all benefit category comes to mind.

It was introduced a long time ago as a mechanism to ensure that clients can enjoy peace of mind in knowing that they are covered, to some extent, should they contract a previously unknown disease or condition.

Although the catch-all benefit category does offer clients more peace of mind with regards to comprehensiveness, the level of comprehensive critical illness cover which this offers varies a great deal from one insurer to the next and is only applicable to unknown diseases or conditions.

This got me thinking, especially after reading a recent article in BBC News which highlighted a bumper load of nearly 1,500 new viruses that were discovered on the globe. It then comes as no surprise that a virus like Zika almost paralysed a continent like South America in 2016.

With the phenomenal advances on the medical and technological fronts that allow for new discoveries like these, it once again emphasises our vulnerability as humans.

## Ahead of change

In light of the above, it has thus become vital for insurers to not only ensure that their clients enjoy comprehensive critical illness cover, but to also structure their risk benefits in a way that supports medical and technological advances.

However, flexibility – along with affordability – has to remain top of mind. In line with this, so-to-speak new generation critical illness benefits must also cater for early pay-outs. These need to be aligned with early detection trends, especially if one considers the likelihood of developing cancer which stands at one in ten before the age of 65 but increases considerably to one in two at the age of 85.

Another crucial aspect to consider in the design of critical illness benefits is the simplicity of the benefit itself. The industry is notoriously known for complicated critical illness benefits where clients are not sure what they are covered for and if that cover is comprehensive enough.

Then with longevity, it is important to incorporate this into critical illness cover.

This is simply because, as per the above mentioned statistics, the longer we live, the higher the likelihood of contracting a critical illness and we would need to fund expenses for a longer period of time. Therefore, critical illness benefits must provide clients with additional payments over and above any initial lump sum payments.

## Levelling up

Although the catch-all benefit category was created to cater for the unknown, one insurer has redefined the concept of comprehensive critical illness cover. This insurer managed to remove the practice of competitor analysis in terms of coverage because comprehensiveness is now absolute and guaranteed.

Equally important, with critical illness cover for children now becoming a focal point in the insurance market, the design for this should be as progressive as critical illness cover for adults. As a result, insurers should ensure that their critical illness cover for children also provides the widest possible protection against child specific conditions, from birth.

By ensuring that clients and their children enjoy the most comprehensive critical illness cover in the market, it allows insurers to focus attention on refining and designing new products that can address future client need today.



Stephen van Niekerk  
Head  
Momentum Retail Insurance Products  
and Solutions



# Today's financial plans must address tomorrow's financial wellness



As we enter, what is expected to be, another tough economic year, finding new ways to offset risk and to “ring-fence” your clients’ hard earned money is becoming increasingly difficult.

According to the World Bank, South Africans are the biggest borrowers in the world, with 86 per cent of the population in debt which leaves a narrow margin for budgeting and saving. Estelle Scholtz-Mare, Head of Marketing for Financial Planning at Momentum states that “This could be because in a modern economy, clients’ lifestyle aspirations influence their spending much more than in previous centuries.

Linked to this, the annual Momentum Unisa Household Financial Wellness Index, which details, over time, the state of the nation’s financial wellness, indicates that during 2015, an increased number of 76 out of 100 SA households, were under financial pressure. All of the above are strong indicators that it is time for clients to prioritise financial wellbeing. However, the journey towards financial wellness starts with sound financial advice that includes a meticulous financial plan with a budget linked to this.”

Scholtz-Mare adds that “Momentum’s purpose is to enhance the financial wellness of every individual, family, community and business in SA. To translate this into an actionable vision, we define financial wellness to be the continuous process of assisting clients with planning and managing their money so that they can afford their expenses and reach their goals over their lifetime. However, the financial adviser remains the crucial link that connects clients to Momentum.”

## A plan that fits the lifestyle

Estelle points out that “Today, financial planning is a service that is not only accessible to everyone earning a salary; it is an essential part of becoming financially well. A successful financial plan relies on team work, it requires both the adviser and the client to form a partnership and for each party to understand each-other’s role in the process. Also, the adviser must look beyond being a purveyor of products and endeavour to understand the unique needs of their clients.”

She further adds that “In order to achieve financial wellness clients must have the correct mind-set. This means a desire to build financial knowledge, and the willingness to get on track. Even the best financial plan will unravel if clients have not made their financial security and growth a priority. In fact, people that are ‘financially well’ tend to have two things in common; they have a financial plan and a budget in place and keep to it. Since it is never too late to implement a sound financial plan and budget that will

create lasting financial wellness, there are a number of unique instruments and platforms that can assist in this regard.

As you well know the days of scribbling a budget on the back of a serviette have long gone because today we have some sophisticated tools that can assist clients with the process. Momentum realised that clients need to be encouraged to budget, it is not something that they do naturally and as a result, we developed an innovative budget tracking tool called MyFintrack that can assist your clients a great deal. Available under the financial wellness tab on Momentum's website, [www.momentum.co.za](http://www.momentum.co.za), this easy to use budgeting tool allows your clients to automatically download their bank statements into an online, customisable budget template and it updates the budget every time they transact. MyFintrack shows your clients all of their income and expenses from different bank accounts in a single view."

### Escalating risk factors

"Another vital element of financial wellness involves a long-term view", Estelle says. She highlights that "If your clients are not totally committed, no product in the world will perform the way it is designed to if it is cancelled, lapsed or side-lined.

When it comes to having a long-term view, most of your clients dream about enjoying a comfortable retirement. While it is always advisable to seek the assistance of a financial adviser to help them with a retirement plan, they can also log onto Momentum's financial wellness section at [www.momentum.co.za](http://www.momentum.co.za) and do some of their own calculations by using the MySmarts tool.

With this innovative tool they can work out how much they would need to save in order to retire or how much they would need to save to reach a specific goal. Sometimes people are embarrassed about their lack of financial knowledge and this tool helps to build confidence and assist them to ask you the right questions. Furthermore, tools like these can go a long way to endorse your clients' existing financial plan."

### Take control to offset risk

Having a holistic approach to budgeting and savings is vital. Equally important is access to innovative and flexible product enablers that address a client's unique needs. This is why Momentum makes it their business to listen to your clients' needs by

approaching risk in a comprehensive manner where every possible client need is considered and incorporated into benefit designs.

Steven Schultz, Head of Marketing for Investments and Savings at Momentum states that "Out of the box thinking has become a non-negotiable when it comes to customisable platforms and investment components that can aid your clients' in achieving their savings goals. Innovative investment capabilities with embedded risk-control mechanisms are a fundamental component of Momentum's "Outcome-based" Solutions. "

Consider our latest award-winning structured product, the Momentum Growth Enhancer. With this particular product, your clients can enjoy a minimum secured return of 25 per cent after five years as well as enhanced participation in a globally diversified index on all returns above 25 per cent. This revolutionary product was designed to give investors complete capital protection, peace of mind and unlimited potential to benefit from enhanced returns."

Schultz further adds that "Investing abroad is an additional strategy that can be considered to reduce your clients' overall investment risk while simultaneously enhance their returns. The incorporation of international exposure can give your clients access to additional investment opportunities, whilst cultivating a diversified investment portfolio. To understand the value that an international asset complement can unlock, Momentum provides your clients access to a wide range of offshore investment capabilities, foreign currencies as well as direct access to some of the world's largest stock exchanges."

### Conclusion

Estelle Scholtz-Mare concludes by saying that "In a nutshell, knowledge is power and a detailed financial plan gives your clients the ability to gain insights into how the various elements of their financial lives fit together. It is however important to acknowledge your role when it comes to filling the gaps in your clients' financial wellbeing. Remember that financial planning is not just a means to help clients avoid or offset risk; it also helps to highlight opportunities.

In partnership with you, it is our responsibility to encourage South Africans to seek out expert financial advice and put the best possible plan in place that will enhance long-term financial wellness, especially in tough economic conditions."



# A new scam rocks the **LIFE INSURANCE INDUSTRY**

Fraudulent activity is a critical issue that the insurance industry has been battling with for a number of years.

**A**s the years go by, and economic times become tough, fraudulent activity increases. This puts insurers in impossible situations. Do insurers believe in moral values such as good faith, or do they approach every claim with a measure of scepticism? We recently published a newsletter discussing a new scam that is rocking the life insurance industry.

## The other half

Just when you think you have seen it all when it comes to fraud, you get bowled over by the creativity and the lengths that some people will go to.

This was the situation regarding a spate of recent cases presented before the office of the Life Ombudsman where heart pacemakers are errantly implanted in healthy individuals who have enough medical cover to claim for what is an expensive procedure.

## Enter the culprits

Judge Ron McLaren, the Life Ombudsman, points out that the complaint relates to Insurers X, Y and Z. These names were left out by the Ombudsman.

According to the Life Ombud determination, it was submitted that on 3 February 2015 an application was made to Insurer X for insurance. The following cover commenced on 1 March 2015 with Insurer X: life cover worth R5.5m, illness benefits worth R5.5m and disability benefits worth R2.75m.

It must be pointed out at this time that in addition to the cover with Insurer X, the complainant also successfully applied on the 4th of February 2015 to Insurer Y for the following benefits; life cover

worth R6m, illness benefits worth R5m and disability benefits worth R1m.

Insurer Z also issued a policy to the complainant with effect from 30 March 2015 for the following benefits: life cover worth R6m and illness benefits worth R6m.

## The heart of the matter

"In the application with Insurer X, the complainant was described as the owner of a business who had a monthly income of R30 000. Following an operation for a pacemaker implantation during August 2015, a claim for a policy benefit was rejected by Insurer X," said McLaren.

The Judge added that the insurer produced evidence that the complainant was unemployed at the time of the application for insurance. Insurer X pointed out that the complainant answered a question in the application form relating to previous and existing assurance in the negative by leaving it blank.

After referring to the insurance cover which had been granted to the complainant by Insurers Y and Z, with effect from March 2015, Insurer X averred that the complainant was hugely over-insured.

The complaint was dismissed by the Ombudsman on the grounds of the complainant's non-disclosure or misrepresentation.

## Further deceit

Insurer Y also rejected the complainant's claim for the insured illness benefit in respect of the pacemaker implantation. The insurer relied on the incorrect employment and income information which the complainant had furnished.

The insurer further raised the complainant's false negative reply (by drawing a line through it) to a question in the application form relating to other insurance cover.

"Insurer Y referred to the policies which had been issued more or less simultaneously by it and Insurers X and Z. The complaint was, likewise, dismissed by the Ombudsman on the same grounds of the complainant's non-disclosure and or misrepresentation.

Insurer Z received a claim from the complainant for R1.8m under the policy for the pacemaker implantation.

This insurer indicated that it was awaiting the outcome of the criminal investigation of the matter.

The Ombudsman made a provisional ruling that the complaint could not be taken further until notification was received that the said investigation had been completed.

### Red flags and questions

Reflecting on the scam, Judge McLaren said that he came to the following conclusions relating to this case, and other similar cases.

- It is believed the insurer which reported the pacemaker scam to the Ombudsman's office said that the scam is financed by people who find financially indigent (needy) participants to apply for insurance cover. For a couple of months substantial premiums are paid by means of loans from the financiers to the participating applicants at allegedly exorbitant rates of interest. It is yet unknown what happens to the proceeds of a successful claim against an insurer;
- When questioned about the complainants' inflated income, the Ombudsman's office expressed the view that it is an inescapable inference that the reason for the falsity of the complainants' disclosed income is to justify the substantial cover applied for and that they can afford the premiums; and
- Likewise, the complainants' false negative replies to the questions relating to other insurance flow from their desire to hide from the insurers the extent of their cover for similar benefits, the Ombudsman's office said.

If the insurance industry is serious about combatting fraud, they need to get on top of scams such as these and address them before they become major issues. However, that is easier said than done. •

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# Focus on **WHAT MATTERS**

It is easy to feel intimidated in the current economic environment. The major disruptive trends in the financial services industry have been around for a while but now they seem to be gathering alarming speed and landing with some critical mass.

**T**he nature of our work is changing; the stability of the base economy is threatened; technological innovation is moving ever faster and so is product innovation. Niche specialists, dis-intermediators and cost-cutters are growing trends.

How should advisers and service providers react? In the employee benefits space the answer is complex but there are some primary themes.

## 1. Focus on what matters

Demonstrate constantly that we understand what makes people healthier and more productive and demonstrate how we can significantly impact on those things with holistic benefit solutions. Successful companies will not be cost-cutters and margin operators in this space; they will understand that benefit packages are now the key tools in attracting and retaining the best talent.

They will also understand that employees work better when they are provided for properly. Investment in the right benefits clearly delivers to the bottom line but the case for this will have to be made constantly and effectively to avoid a race to the bottom in terms of costs which, ultimately, will damage everyone. This demands a commitment from the industry to broaden the knowledge base and use the wealth of data and contemporary thinking on all kinds of issues like consumer financial vulnerability, productivity drivers, mental health and long term disability risk management.

MMI C&PS has invested in the research for four different indices for precisely this purpose. One of them is the Effective Employee Index which enables companies to properly benchmark the productivity of their employees.

## 2. Meeting the benchmarks

Customers will not tolerate engaging with providers that do not offer delightful experiences recognising their full context or providers who do not offer contemporary personalised solutions. Good digital platforms are now table stake. Customers must be able to access their own profiles on their own terms and gain real-time data on performance. One-size-fits-all left this industry a long time ago and impenetrable jargon should have gone with it.

No matter how good the benefits package, unless the employee fully understands it and has confidence in the likely outcomes, there will



be no productivity benefit for the company. This puts a premium on communication skills and a willingness to constantly explain the basics to deliver re-assurance. Given the problems with scale, advisers will not be able to give dedicated time to every single employee and will therefore need to leverage digital tools to educate and guide where possible.

## 3. The most valuable asset

With automation everywhere, a real human voice has increased value. Over time, technological progress will steadily wring inefficiencies out of administration and product processes but in service-related industries, the "inefficiencies" involved in talking to other people can be seen as a key benefit. The bank of knowledge and trust built up through a long-standing relationship has enormous value which is often taken for granted.

Clients need to be reminded of service value, especially in a crisis or an event out of the routine. Automated "best price" organisations can cope with the ordinary effectively but they tend to come up short when something disruptive and outside-the-model occurs.

## 4. Taking advantage of complexity

The industry and economic landscape is dynamic, fragmented, complex, and enormously intimidating. In the American employee benefit space alone Zenefits, Objectway, Embroker and Trinet are all new and carving out space, and similar offerings will follow.

Not many clients want to engage with multiple specialists nor will they have the ability to evaluate the different offerings on anything other than cost. Advisers and providers of these new type of solutions on offer need to be trusted navigators in these turbulent seas.



Riaan Singh  
Senior Manager: Digital Strategy  
MMI Corporate and Public Sector



# NAVIGATING SCARCITY

South Africa faces challenging times ahead having to balance the increasing – and very often conflicting – financial needs of various parties.

**F**rom students protesting for free education, to farmers requiring relief due to the ongoing drought, we are in an environment of scarcity, and as a society we need to evaluate how best to navigate a path towards abundance.

In our specific context, the employee benefits industry has a key, long-term role to play by partnering with advisers to help fund members to improve their financial outcomes.

## Robust processes

The 2016 Sanlam Benchmark research indicates that members of retirement funds are typically unaware of their retirement funding or group insurance arrangements. Further, employer processes and blind-spots are contributing to this culture of funding under ignorance and apathy.

As an illustration, we have anecdotal evidence of human resource (HR) practitioners of a few large JSE-listed firms advising employees to cash out their retirement savings as it is less paperwork for HR to complete when compared to the process of preservation.

Advisers to the employer have to look beyond the scope of financial advice in such cases in order to improve outcomes. Such issues may be addressed by streamlining the preservation process so that minimal input is required by the gatekeeper. Navigating scarcity requires us to collaborate to identify and mitigate such risks using pragmatic and simple mechanisms.

## Other aspects

Another procedural aspect that may be

addressed is the induction process where retirement funding decisions need to be made. This is typically made amongst a myriad of other employment related decisions and information overload.

Procedurally, this may be addressed by advisers by revisiting those day one decisions six months later once the individual has begun to find their feet. In a context where most employees do not ever revisit those decisions, employers and advisers can help move more members towards better outcomes by actively enabling them to review their choices at a more comfortable time when they have the mental space to consider their choices more carefully.

## Appropriate defaults

Intelligently designed processes work best when combined with the appropriate mix of default structures to help fund members navigate scarcity.

Advisers, trustees and employers have a shared responsibility to consider and implement a mix of defaults that would improve financial outcomes for a breadth of the membership base of the fund or employer group.

The introduction of a default targeted minimum replacement ratio provides a focal point to employers and trustees to frame the collective impact of the mix of defaults.

Individuals and their advisers can then evaluate departures from the default system implemented by the fund or employer against the default projected replacement ratio to ascertain whether and how to make use of individual choices in conjunction with their adviser.

## Understand the struggle

As an industry, we need to understand the struggle of individuals who are saving for retirement. There is an urgent need for preservation and for individuals to increase their retirement contributions. On the other hand, we live in tough economic times where cash is hard to come by. The decision to tighten the belt may come at the same time as a decision to support an elderly parent or a child that has a chronic illness. We are living in times where we are being pressurised by all sides.

Stakeholders in the employee benefits arena need to identify the faults in the processes that inhibit long term wealth creation in conjunction with a mix of default strategies engineered to deliver a minimum targeted replacement ratio.

Advisers have the opportunity to provide services to funds and employers by understanding and enhancing processes and to individuals where a departure from the default better enables their desired financial outcomes.



**Viresh Maharaj**  
Chief Operations Officer  
Sanlam Employee benefits



# The heartbeat of **EXPENSIVE MEDICAL COSTS**

An important development has occurred in the subplot of the journey towards reinvigorating the medical scheme industry as we work towards the implementation of the National Health Insurance scheme.

**T**he Department of Health has been threatening to release its Demarcation Regulations for a number of years and has finally done so when it recently tabled a draft version of this. We recently did a newsletter profiling this new stance.

## A matter of record

According to the release by government, the regulations would specify which types of contracts are regulated under the Long Term Insurance Act and the Short Term Insurance Act as health policies and accident and health policies, and accordingly excluded from the Medical Schemes Act, No. 131 of 1998 (MSA), despite such contracts meeting the definition of the business of a medical scheme.

The regulations seek to clearly demarcate the responsibility for supervision of medical schemes and health insurance products, and ensure that health insurance products do not undermine the medical scheme environment, resulting in better protecting for consumers.

This is all good and well; but do we need to remind government that if medical tariffs were introduced into the industry whereby the cost of medical care could be affordable, there would be no need to buy insurance against inflated costs?

## The three focal points

Three categories of health insurance products are of particular relevance to the above mentioned demarcation, namely:

- Medical Expense Shortfall policies (Gap cover plans);

- non-medical expense cover as a result of hospitalisation policies (hospital cash plans); and
- primary healthcare insurance policies.

Draft Regulations allow insurers to continue to provide Medical Expense Shortfall policies (Gap cover plans) and non-medical expense cover as a result of hospitalisation policies (hospital cash plans) in a manner that complements medical schemes, subject to strict underwriting and marketing conditions.

The draft Regulations do not allow insurers to continue to provide primary healthcare insurance policies. These types of benefits will, going forward, have to be provided in accordance with the Medical Schemes Act. In this regard, the Minister of Health has requested that the CMS grant a two year exemption, subject to certain conditions, for primary healthcare insurance policies, while further research is being led by the Department of Health into the development of a Low Cost Benefit Option (LCBO) guideline. It is envisaged that the existing primary healthcare insurance policies will be required to transition into a LCBO framework once finalised.

## The opposition

Predictably, this has been met with opposition in the market.

Michael Settas, Director – Kaelo Xelus, says that the joint release by National Treasury and the Department of Health has simply replicated the inflationary and unsustainable provisions of the Medical Schemes Act within the health insurance market.

According to Settas, the Demarcation Regulations would dictate what healthcare products insurers can market and under what conditions. The conditions under these regulations include:

- open enrolment, anyone can join, age or health aside;
- the removal of any underwriting ability for insurers; and
- the elimination of premium rating in accordance with risk (everyone must pay the same premium regardless of claims).

### Fighting from the trenches

"Healthcare costs are almost always higher than inflation. However, replicating the medical scheme provisions outlined will push them to levels way beyond what consumers can afford. This indicates that there remains unjustifiable denial from regulators that the private healthcare sector is in an unsustainable cost spiral," says Settas.

He adds that an analysis of private hospital costs from 2000 to 2012 show that in real terms, costs doubled. The cost trajectory tells us that by 2028, it will have doubled again. "Medical schemes, which carry the bulk of these costs, rank within the top five highest household expenses for many South Africans. And next year they will be increasing contributions by double Consumer Price Inflation and, very importantly, benefits will simultaneously be declining," says Settas.

He adds that the decline in benefits means that consumers carry a double cost burden; the medical scheme contributions that rise at double CPI and the mounting out-of-pocket healthcare costs they carry because medical schemes are forced to reduce or carve out benefits.

### Not all bad news

There is a lot of concern regarding the Demarcation stance.

However, there may be a positive side. In a release to the media, Jill Larkan, Head of Healthcare at financial advisory business GTC, believes that overall, these changes will be to the benefit of consumers. The Minister of Health aims to have all healthcare-related products aligned to a single, standardised set of guidelines that will include low-cost medical scheme products.

She noted that these guidelines would go a long way towards achieving uniform standards within the medical care environment. She explained that, rather than outlawing the existing primary healthcare cover products in its entirety – and thereby removing a large number of beneficiaries from the medical cover net – government will adapt the guidelines regulating medical schemes.

"There has been a gap in the market for low-cost medical schemes that provide an adequate basic level of cover. Medical aids have been criticised for becoming unaffordable due to premium increases which are often higher than inflation, resulting in many consumers opting for lower-cost options provided by primary healthcare policies," said Larkan.

She added that a crucial point to this issue is the fact that the Medical Schemes Act has very strict stipulations on the basic minimum requirements of a medical aid. One of these is the provision of minimum benefit levels (as outlined in Prescribed Minimum Benefits), which increase the underlying cost of any medical aid product.

"The new guidelines will, in all likelihood, relax some of the more onerous rules in order for schemes to be classified as a low-cost benefit option," she said. ●



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23 - 26 JULY 2017

# HOT OFF THE PRESS



- **Zurich South Africa partners with Camargue** - Zurich South Africa has entered into an underwriting manager binder arrangement with Camargue effective 1 February 2017. There are various operational aspects relating to the partnership that are being finalised. The policies and covers in place for all existing Zurich South Africa specialist liability and financial lines customers will remain unchanged and so too will the claims handling. At renewal, brokers and policyholders will have access to Camargue's market-leading propositions.
- **Sanlam launches pay-as-you-go accident cover app** - South Africans and tourists visiting this country can now purchase instant accident cover on demand via their smart phones, thanks to a new app by Sanlam. Go Cover, a first on the South African market, requires a simple once-off registration after downloading and optional nomination of a beneficiary or contact person. A couple of clicks thereafter, smartphone users can secure up to R1 million life cover for twenty-four hours or for an extended period of up to 30 days. And this comes with a minimum price tag of just R10. Read more about Go Cover and how it works at [gocover.co.za](http://gocover.co.za).
- **Sasria wins Public Sector Audit Excellence Award** - Sasria was awarded winner in the 2016 Integrated Reporting Awards in the small state owned category by the Chartered Secretaries of Southern Africa. In addition to this, another award was bestowed on the company for the 2015/16 SAICA Public Sector Audit Excellence Award, this is in recognition for achieving clean financial audits for the last five years. Sasria endeavours to continue to remain solid in times of turmoil and more importantly, covering the extraordinary.
- **United General Insurance partners with Ctrack to provide telematics solutions to its clients** - United General Insurance Company Limited (UGI), one of Malawi's leading short term insurers, has partnered with global vehicle tracking services company Ctrack, part of Inseego Corp. to provide insurance telematics services to its customers. It has launched an aggressive rollout strategy, with the first 1 000 units already delivered and potential for expansion across the group's entire customer base. The partnership will provide added advantages to its clients who insure with UGI, and have the tracker device installed in their vehicles.
- **South Africans can now hold their cash in dollars** - Rand Merchant Bank (RMB), a division of FirstRand Bank Limited, has listed an innovative new product on the Johannesburg Stock Exchange (JSE), which will enable companies and individuals to hold unlimited quantities of cash in US dollars. Investors earn the return of a US Treasury note, receiving an income stream in US dollars, which is settled in rands. RMB, which created, issued and listed the instruments, will act as the market maker providing liquidity in the product.
- **Sanlam set to acquire majority stake in BrightRock** - Sanlam announced that it is set to acquire a 53% stake in needs-matched life insurance provider, BrightRock, subject to regulatory approval. According to Sanlam Personal Finance (SPF) Deputy CEO Hennie de Villiers all due diligence processes have been finalised and completion of the transaction is dependent on when final regulatory approvals are granted. Under the agreement, Sanlam and BrightRock will continue to function as independent businesses, retaining their own brands, life insurance licences and management teams.
- **TIA Technology accelerates growth with new office** - The office will be based in Johannesburg, South Africa, to provide technology support to the insurance industry across the continent. TIA already has a well-established customer base in the region, making it well-placed to help transform this growing market. Tian Horn, ex-MD of Roundcube South Africa, has been hired as Area Manager for Africa.
- **Liberty Awards Top Students** - Of 147 learners at the Katlehong centre east of Johannesburg, 51 achieved distinctions for maths, and 44 achieved distinctions for science; while the 102 learners at the Umbumbulu centre in KZN scored 20 distinctions for maths, and 26 for science. "We are incredibly proud of all our learners, especially the top achievers who managed impressive scores against all odds," says Mr Tumelo Mabitsela, CEO of Kutlwanoeng. "These results prove that our students have built a strong foundation for a bright future; it will go a long way to secure their futures, and with their work ethic and diligence, they really can be anything they want to be one day."
- **Old Mutual Global Equity another Raging Bull Award** - Old Mutual has once again been recognised for its top performing Global Equity Fund at the 2017 Raging Bull Awards. For the fifth consecutive year, the Old Mutual Global Equity Fund was awarded top performance by a Domestic Collective Investment Scheme for the Best (SA-Domiciled) Global Equity General Fund category. The Fund also took home the award for the best performance on the basis of risk-adjusted returns by a Domestic Collective Investment Scheme in the (SA Domiciled) Global Equity General category.
- **Sanlam portfolios take the lead** - Several Sanlam portfolio managers brought home accolades for being the top performers in their fund categories after the 21st Raging Bull Awards ceremony. The prestigious Raging Bull Awards ceremony recognises the top managers in the South African unit trust industry, measured on their long-term performance. Awards for asset-

specific categories of funds are based mainly on straight performance, calculated by Profile Data for the three-year period to end 2016. The winners were the Sanlam Investment Management (SIM) Enhanced Yield Fund, the SIM Small Cap Fund and the SIIP India Opportunities Fund.

- **A new era for CIA** - CIA bids a fond farewell to André de Waal, founder and Managing Director for the past 17 years, as he retires from the helm of the business. An incredible leader with a very specific vision, Andre together with his business partners, Georgie Graham and Jannie de Wet built CIA into the leading building insurance specialist it is today by putting passion for client service at the heart of everything the company does. Filling the big shoes André has stepped out of is Douglas Haig.
- **A first for the HCV market** - Natsure HCV & Commercial announced that they are now able to offer Truck Hire as part of their HCV product offering. This option will provide a fleet owner with a replacement Truck-Tractor for a period of 30 days whilst the fleet owners damaged vehicle is in for repairs after an accident. The cover will not replace the loss of use cover which is still available under their existing Heavy Commercial Vehicle policy. This new value add to the product bouquet is suited to smaller fleet owners, five trucks or less, as all the vehicles are constantly on the road leaving the insured without a backup vehicle in the event that one is damaged.
- **Ashburton's Flagship Multi Asset Fund Celebrates 25 Years** - The Jersey-based Replica Sterling and Dollar Asset Management Funds were launched in 1992 to provide the wider public access to the successful multi asset strategy that had previously only been available to private investors. Today, the Fund has assets under management of over £250 million and has returned 5.7% annualised over the past 25 years\*.
- **New Satrux funds now own more of the market** - Satrux, a pioneer in the index-tracking space, is launching two exciting new exchange traded funds (ETFs), now making it possible to invest in property and inflation-linked bonds alongside your equity ETF portfolio.' Investors have the opportunity to be the first to invest in these new ETFs in the initial public offering (IPO), which opened on Tuesday, 7 February. Those taking up the IPO are in a fortunate position in that they will pay no brokerage fees on their initial investment and will participate in the performance of the ETFs from the first day they trade on the Johannesburg Stock Exchange (JSE).
- **Nick Kohler to step down in 2017** - Nick Kohler has said that as he heads towards the completion of 10 wonderfully exciting and fulfilling years as CEO of the Hollard Group, he has decided to step down during the course of this year. While the exact timing of his departure is still uncertain, they will follow a thorough process to achieve the best possible transition for Hollard. Whoever succeeds him will inherit a dynamic business that is fully capable of achieving its purpose of enabling more people to create and secure a better future on a multinational stage.

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## Hollard Daredevil Run

On 7 February, Hollard launched the ninth edition of its annual Dare Devil Run to much fanfare and anticipation.

The annual event is held to raise awareness surrounding testicular cancer and prostate cancer which affects one in every 263 men, and one in 39 respectively.

Speaking at the launch of the event, Heidi Brauer - Hollard Chief Marketing Officer - pointed out that the 2016 event alone raised enough awareness that over 100 men who were considered most at risk for testicular and prostate cancer visited their doctor for examinations.

This year's edition of the Dare Devil Run will take place on 24 March.



# EVENTS & HAPPENINGS



## New appointments in the industry

From left: **Margaret Nienaber** has been appointed Chief Executive, Standard Bank Wealth; Chubb announced that **Chris Caalsen**, Property Underwriter for Chubb in South Africa, has been promoted to the new role of Terrorism and Political Violence Underwriter; **Neil Beaumont**, currently Business Development Manager for Chubb South Africa, has been promoted to the newly created role of Global Accounts Manager for South Africa; and Allianz Global Corporate & Specialty (AGCS) Africa has appointed **Storm Canham** as Team Leader for Liability.

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## KZN Bidvest Better Business Breakfast provides insights on 2017 opportunities in both business and rugby

Recently a number of Bidvest companies held the Bidvest Better Business Breakfast in the scenic Silver Ring room at the Greyville Racecourse in Durban. The aim of the breakfast was to thank Bidvest clients in the region for their support and to educate all those in attendance about which companies, all fits in the Bidvest Group stable.



## GENRIC Youth Foundation Trust expands support to school for deaf youths

In its second year of existence, GENRIC Youth Foundation Trust (GYFT) has significantly expanded the number of youths it sponsors to help them achieve new academic heights by dedicating money to De la Bat School for the hearing impaired in Western Cape.

Left: Zanele Mbanjwa receives her GYFT-sponsored school gear.

Right: Ricardo Brandon Govender tries on school shoes, sponsored by GYFT.



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## RAGING BULL AWARDS

The Raging Bull Awards were established to honour the managers of funds that consistently earn good returns for South African retail investors. Competition has increased dramatically over the years. There were fewer than 50 unit trust funds when the awards were first presented; now there are more than 1 000.

The 2017 Raging Bull Awards and Certificate Winners are listed below.

### TOP OUTRIGHT PERFORMERS

**Raging Bull Award for outright performance by a domestic equity general fund over 21 years**

Investec Equity Fund

**Best South African Equity Industrial Fund**

Coronation Industrial Fund

**Best South African Equity Financial Fund**

Nedgroup Investments Financials Fund

**Best South African Equity Resources Fund**

Investec Commodity Fund

**Best South African Equity Mid and Small Cap Fund**

Sanlam Investment Management Small Cap Fund

**Best South African Equity General Fund**

Investec Value Fund

**Best South African Multi-Asset Flexible Fund**

Centaur BCI Flexible Fund

**Best South African Multi-Asset Low-Equity Fund**

Allan Gray Optimal Fund

**Best South African Multi-Asset Medium-Equity Fund**

Nedgroup Investments Opportunity Fund

**Best South African Multi-Asset High-Equity Fund**

Centaur BCI Balanced Fund

**Best South African Interest-Bearing Variable-Term Fund**

Coronation Bond Fund

**Best South African Interest-Bearing Short-Term Fund**

Sanlam Investment Management Enhanced Yield Fund

**Best South African Multi-Asset Income Fund**

Prescient Income Provider Fund

**Best South African Interest-Bearing Fund**

Prescient Income Provider Fund

**Best South African Real Estate Fund**

Absa Property Equity Fund

**Best (SA-Domiciled) Global Multi-Asset Flexible Fund**

MI-PLAN IP Global Macro Fund

**Best (SA-Domiciled) Global Multi-Asset Low Equity Fund**

Nedgroup Investments Global Cautious Feeder Fund

**Best (SA-Domiciled) Global Multi-Asset High Equity Fund**

Allan Gray-Orbis Global Fund of Funds

**Best (SA-Domiciled) Global Real Estate Fund**

Grindrod Global Property Income Feeder Fund

**Best (SA-Domiciled) Worldwide Multi-Asset Flexible Fund**

Flagship IP Worldwide Flexible Fund of Funds

**Best (SA-Domiciled) Global Equity General Fund**

Old Mutual Global Equity Fund

### OFFSHORE FUND AWARDS

**Best (FSB-Approved) Offshore Europe Equity General Fund**

Templeton Euroland Fund

**Best (FSB-Approved) Offshore USA Equity General Fund**

STANLIB Offshore America Fund

**Best (FSB-Approved) Offshore Far East Equity General Fund**

SIIP India Opportunities Fund

**Best (FSB-Approved) Offshore Global Real Estate General Fund**

Grindrod Global Property Income Fund

**Best (FSB-Approved) Offshore Global Fixed-Interest Bond Fund**

M&G Global Government Bond Fund

**Best (FSB-Approved) Offshore Global Asset Allocation Fund**

Nedgroup Investments Global Flexible Fund

**Best (FSB-Approved) Offshore Global Equity Fund**

Contrarius Global Equity Fund (Ireland)

### TOP RISK-ADJUSTED PERFORMERS

**Raging Bull Award for risk-adjusted performance by a domestic asset allocation fund over 21 years**

Investec Managed Fund (R/A)

**Best South African General Equity Fund on a Risk-Adjusted Basis**

NGI Private Wealth Equity Fund A

**Best South African Multi-Asset Low-Equity Fund**

NFB Ci Cautious Fund of Funds A

**Best South African Multi-Asset Medium-Equity Fund**

Nedgroup Investments Opportunity Fund A

**Best South African Multi-Asset High-Equity Fund**

PSG Balanced Fund A

**Best South African Multi-Asset Equity Fund on a Risk-Adjusted Basis**

NFB Ci Cautious Fund of Funds A

**Best South African Multi-Asset Flexible Fund on a Risk-Adjusted Basis**

Centaur BCI Flexible Fund A

**Best South African Interest-Bearing Variable Term Fund on a Risk-Adjusted Basis**

Coronation Bond Fund R

**Best South African Interest-Bearing Short-Term Fund on a Risk-Adjusted Basis**

Coronation Jibar Plus Fund A

### **Best South African Multi-Asset Income Fund on a Risk-Adjusted Basis**

Prescient Income Provider Fund A I

### **Best South African Real Estate Fund on a Risk-Adjusted Basis**

Absa Property Equity Fund A

### **Best (SA-Domiciled) Global Equity General Fund on a Risk-Adjusted Basis**

Old Mutual Global Equity Fund A

### **Best (SA-Domiciled) Global Multi-Asset Low-Equity Fund on a Risk-Adjusted Basis**

Coronation Global Capital Plus [ZAR] Feeder Fund A

### **Best (SA-Domiciled) Global Multi-Asset High-Equity Fund on a Risk-Adjusted Basis**

Allan Gray-Orbis Global Fund of Funds A

### **Best (SA-Domiciled) Global Real Estate Fund on a Risk-Adjusted Basis**

Catalyst Global Real Estate Prescient Feeder Fund A

### **Best (SA-Domiciled) Global Multi-Asset Flexible Fund**

Nedgroup Investments Global Flexible Feeder Fund A

### **Best (SA-Domiciled) Worldwide Multi-Asset Flexible Fund**

Platinum MET Worldwide Flexible Fund A

## **OFFSHORE RISK-ADJUSTED FUND AWARDS**

### **Best (FSB-Approved) Offshore Europe Equity General Fund on a Risk-Adjusted Basis**

Templeton Euroland Fund

### **Best (FSB-Approved) Offshore USA Equity General Fund on a Risk-Adjusted Basis**

STANLIB Offshore America Fund

### **Best (FSB-Approved) Offshore Far East Equity General Fund on a Risk-Adjusted Basis**

Ashburton Chindia Equity Fund

### **Best (FSB-Approved) Offshore Global Real Estate General Fund on a Risk Adjusted Basis**

Catalyst Global Real Estate UCITS Fund A

### **Best (FSB-Approved) Offshore Global Fixed-Interest Bond Fund on a Risk-Adjusted Basis**

M&G Global Government Bond Fund

### **Best (FSB-Approved) Offshore Global Equity General Fund on a Risk-Adjusted Basis**

Contrarius Global Equity Fund (Ireland)

### **Best (FSB-Approved) Offshore Global Asset Allocation Fund on a Risk-Adjusted Basis**

Nedgroup Investments Global Flexible Fund

## **TOP MANAGEMENT COMPANIES OF THE YEAR**

### **Offshore Management Company of the Year**

Nedgroup Investments

### **South African Management Company of the Year – Third Place**

Nedgroup Investments

### **South African Management Company of the Year – Second Place**

PSG

### **South African Management Company of the Year**

Allan Gray

# **PPS sponsors unique Panorama cycle tour**

The Panorama Tour, a 12 year old cycle race which is the only road stage race for teams of two in South Africa, is proud to announce PPS as its headline sponsor for its 2017 event.

“Helping clients be and stay healthy has always been part of the PPS philosophy,” says Gerhard Joubert, Executive: PPS Group Marketing. “As a result, we felt that sponsoring this unique cycling event further cements our commitment to ensuring and protecting the health and wellness of our members, both physically and financially.”

This event is for a rare breed that strives to be the best they can be and is prepared to put the hard work in to be successful, he says. “This mirrors our members, who are a rare breed themselves being graduate professional members who provide vital skills in the country. The sense of achievement as the riders cross the finish line demonstrates that hard work pays off.”

The PPS Panorama Tour is from the 28th April to 1st May, and takes place at Casterbridge, White River, Mpumalanga. Entries opened on 31 January 2017. It is a four day stage race on road over approximately 350km. Information can be found on [www.panoramatour.co.za](http://www.panoramatour.co.za).

For the latest news and updates, find us on Facebook at [www.facebook.com/thepanoramatour](http://www.facebook.com/thepanoramatour) or, find us on Twitter at @ThePanoramaTour or, by following the tag #PPSPanoramaTour.





# THE INSURANCE APPRENTICE 2017

**O**ne hundred and thirty five applications, and only eight made the cut... meet Kabelo Paile (Santam), Kurt Stanley (Associated Insurance Brokers), Keith Bester (Hollard), Lisa Foster (Hollard), Mutoda Mahamba (MMI Holdings), Nick Kadima (Lombard), Palesa Bolofo (Hollard) and Sicelo Mlotshwa (AON).

Eight episodes, six tasks... and a tough week filled with challenges, fun, learnings, hard work and honest conversations.

The Head Judge for 2017 is Simon Colman, Head of Commercial Solutions for SHA, assisted by Vuyo Lee, Independent Consultant. Each day they were assisted by the sponsor's company judge.

### The winner takes it all

The winner will be going to Lloyd's of London, attend The Insurance Conference in Sun City and receive a massive bursary from Inseta.

	DATE	SPONSOR
Episode 1	3 February 2017	Aon
Episode 2	10 February 2017	Marsh
Episode 3	17 February 2017	Discovery Insure
Episode 4	24 February 2017	Sasria
Episode 5	3 March 2017	Hollard
Episode 6	10 March 2017	Inseta
Episode 7	17 March 2017	FSB
Episode 8	TBC	PWV Brokers

### Episode one – Sponsored by Aon

In Episode one you will meet the eight apprentices and find out why they believe they can win and what their respective strategies are. "Aon is proud to support the Insurance Apprentice in its journey to attracting the right talent into our industry and positioning insurance as a career of choice" said Aon's Liza Kok.

### Episode two – Sponsored by Marsh

For the first task the apprentices were required to deal with a difficult client who had not complied with requirements set in his policy document. The client was notified that his insurance would be cancelled unless he implemented those requirements as a matter of urgency but the challenge was that the client does not have the funds to do that immediately. To top things off, he was not particularly easy to deal with.

### Episode three – Sponsored by Discovery Insure

The task for the day was finding out what the next big disrupter in the industry will be. Suggestions given were that it can be a new innovation or an enhancement on Discovery Insure's current product offering. While trying to stay focused on the task, the apprentices also had to maintain a four star rating in the Johannesburg traffic through the Discovery Insure Drive Safe program.

Follow all episodes on [www.TheInsuranceApprentice.co.za](http://www.TheInsuranceApprentice.co.za)



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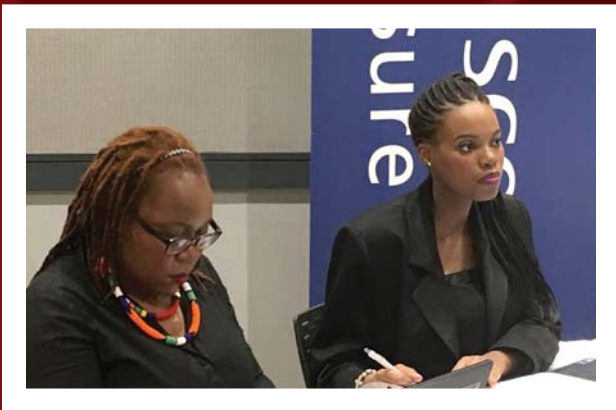
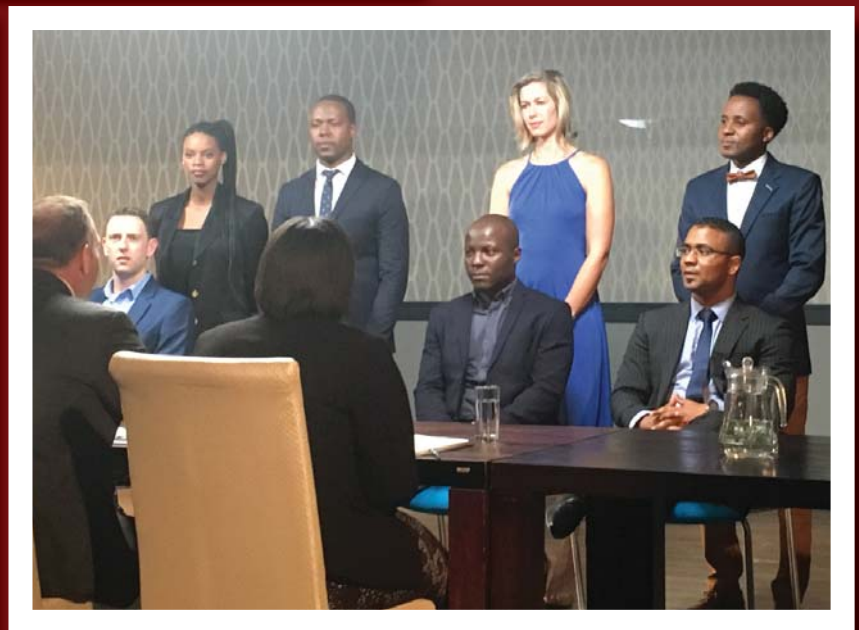
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