

# FANNEWS



JUNE 2024 - EDITION 161

## **UNDERSTANDING**

prescription in claims

## **GUIDING CLIENTS**

through the Two-Pot Retirement System

## **CLIMATE CHANGE...**

the single biggest risk facing insurers

## **DECODING THE SHIFT**

in investment patterns

## **THERE IS DIVERSIFICATION,**

and true diversification

## **INSURING THE UNPREDICTABLE**

**CATCHING UP WITH STEPHEN VAN NIEKERK**



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As I review this edition, I'm filled with pride and excitement about what we've put together. I'm incredibly thankful for our amazing team. We might be small, but we get things done. I appreciate the strong relationships we've built over the years, the smart people who share their insights with our readers, and the brands that support our efforts to improve the industry by keeping everyone informed.

This edition includes a great mix of articles: technical insights, the impact of AI, the importance of the human touch, real-life examples of mistakes we can learn from, and a look at the future. A key topic is the urgent need to move from talking about knowledge and skills transfer to actually doing it. Lately, there have been more discussions about skills and knowledge transfer, after years of little progress. How did this process work 30 years ago? What happened, or didn't happen, that created this gap between those nearing retirement and the U35s who are eager but often lack opportunities? While there are some excellent efforts being made, I think it's just not enough.

I recently attended the Insurance Crime Bureau (ICB) conference, which ended with a talk about the shortage of investigators and the steps the ICB is taking to fix this problem. They are not just talking about it; they are actively working on solutions. This approach can be applied to many skills in our industry. Simply discussing the issue in articles or at conferences is not enough. It's time for action. What is your plan?

Enjoy the read! It's a great one...

Rianet Whitehead | Editor

"Actions, not words, are the ultimate results of leadership." - Bill Owens



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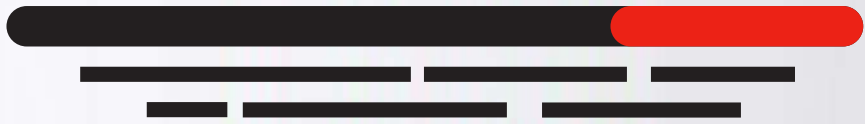


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○ — FROM THE TEAM AT — ○

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# AIE's 50th anniversary: A CELEBRATION OF EXCELLENCE IN INSURANCE

**T**his year, the African Insurance Exchange (AIE) is commemorating 50 years of fostering excellence, innovation, and collaboration in the insurance industry.

## A chat with IISA CEO, Thokozile Mahlangu

Rianet Whitehead, FAnews Editor, spoke to **Thokozile Mahlangu, Chief Executive Officer of the Insurance Institute of South Africa (IISA)** about the conference (21 to 24 July), reaching this significant milestone, and more.

**Q** The aim of our conversation is to discuss the AIE conference. However, could we start with a brief update on how things are going at the IISA?

**MAHLANGU:** In terms of updates, firstly I'd like to share that the IISA recently announced the successful renewal of our affiliation status with Chartered Insurance Institute (CII) in London. As a Chartered professional body of more than a century's standing, the CII – supported by its Societies – grants Chartered titles to individuals and organisations that meet a strict qualifying criterion.

The relationship is strategic for us, and the renewal is for the next three years. It's a collaboration we have with CII which aims to improve the public trust in the insurance profession. It elevates the standing of the IISA. The affiliate institute status is a symbol of commitment to professional standards. It demonstrates to customers, members, corporate partners, and professional networks that the IISA is at the forefront of its profession and goes an extra mile to put ongoing professional development, prioritising client centricity and trust at the heart of everything it does.

Secondly, we completed our audit for the 2023 financial year and our results were quite pleasing. We recorded over 100% achievement growth on our net results, 6% profitability and our solvency and liquidity ratios are healthy. We also recorded a 20% increase in total assets.

It was a huge one for us on the backdrop of a challenging three/four years with the Covid era and recovery thereafter.

**Q** What are the main themes for this year's conference, and why were they chosen? How do these themes align with the current challenges and opportunities in the short-term insurance sector?

**MAHLANGU:** The theme for the 2024 AIE conference is Foundation. Foster. Fearless.

Foundation looks at the foundation of insurance and how it started. The history of it and the core principles; Foster looks at nurturing and growing, with a key focus on innovation and taking advantage of the digital environment that we now live in, talent development and growth of the industry; and Fearless focuses on forging ahead fearlessly, despite any challenging environment we come across... it's about agility and adaptability.

**Q** What are the primary objectives of the conference and what do you hope attendees will take away from the event?

**MAHLANGU:** The conference serves several purposes. It brings together experts to share knowledge, research and best practices. It's also an opportunity to reflect on the industry's challenges,

including solutions. It's got rich content and thought leadership. It's an opportunity for lifelong learning – really sitting back in the three days, reflecting and investing in one's knowledge, learning and skills development. It's an opportunity for our corporate partners to showcase themselves as supporters of skills development.

It's also an opportunity for upcoming professionals to meet up with captains of the industry and have meaningful conversations, it also provides opportunities within the three days to schedule meetings, secure business and more. It's an opportunity for exhibitors and sponsors to showcase their products and services. It's also an opportunity to network and collaborate with each other and reconnect. And then, of course, there's the social element of sitting back, relaxing and having fun!

**Q** Given the importance of networking at this conference, could you elaborate on the specific initiatives or events planned to facilitate networking among attendees?

**MAHLANGU:** The networking at the conference is segmented into two or three components. There is business networking that allows one to have meetings, which can run concurrently with the business sessions or can happen outside of that. Then there is the networking, where people can secure meetings in advance, even before the conference. Then we have the social element, where we have the golf day and prize giving, followed by a welcome cocktail on Sunday – street food in food trucks at the Cabanas lawns.

On Monday, we have the Gala and Awards dinner, to recognise the stalwarts in the industry – the companies that have done socially significant initiatives that we have identified, and also some of the previous leaders we have had in the IISA, and then, of course, the academic awards. And lastly, on the Tuesday, we will have the farewell closing party at the beach – something different.

**Q** A lot of us have attended the conference many times, but what advice would you give to first-time attendees to make the most out of their experience at the AIE conference?

**MAHLANGU:** The conference has key elements. For a first timer, I encourage you to engage and network with other delegates on the conference platform, check out who is attending, secure meetings in advance and establish relationships. Take the time to attend the business sessions to learn, connect and stay abreast.

**Q** Tell us about the importance of sponsors and why they should be part of this conference.

**MAHLANGU:** Sponsorship provides an opportunity for sponsors to show that they are committed to professional development and lifelong learning. They are investing in the learning of the industry, the learning of the challenges etc. Over and above that, it allows the sponsor to showcase their brand.

**Q** Is there anything else you would like to add?

**MAHLANGU:** In closing, with the conference being fifty this year, we thought it would be great for us to become socially relevant to the community where we have been hosting the conference. We have partnered with Sun City and the local community; we have adopted two schools so we will be handing over some equipment that the learners can utilise and, with that, we will be contributing to improving the pass rate of matriculants in the area, with mini talks on careers in insurance. ●

## SAIA congratulates the IISA

In a recent conversation with Rianet Whitehead, Editor of FAnews, Vivienne Pearson, CEO of SAIA also chatted about the AIE conference, what SAIA's role is, the importance of the conference for the industry and more.



"The 50th AIE conference is a big milestone and I do want to congratulate the IISA who have continuously arranged these conferences quite successfully," she said.

### SAIA's role and involvement in the AIE conference

When asked about SAIA's role and involvement, Pearson said that SAIA is involved. "We used to be very much more involved, but our agenda is so huge, and we are only 22 people at SAIA. Following a board level discussion, quite a few years ago, where we were questioning the original involvement of SAIA, versus our agenda that we have and the fact that we are not in the business of conference organising, and since the IISA have been successful in arranging this conference, we curtailed our involvement slightly. We are, however, very involved in giving input on the content, the programme, the speakers etc. In this way, I think we do add value to the conference, and we support it 100%."

The conference, she stated, is very important for the industry. "Years back, SAIA considered hosting an annual conference, but we decided against it, because we believe the AIE conference is really delivering on being the most prominent, most important conference for the industry. And the fact that it is doing so well, means that SAIA and other bodies don't really have to mess with what's working."

"The importance of networking, person to person, also cannot be overemphasised. This is one of the biggest advantages of the conference, including the relationship building," she concluded.



Rianet Whitehead, FAnews Editor, speaks to Thokozile Mahlangu, CEO of the IISA, about their 50th anniversary, the upcoming AIE conference and the main themes for this year's conference, how these themes align with the current challenges and opportunities in the short-term insurance sector and more.



Rianet Whitehead, FAnews Editor, speaks to Vivienne Pearson, CEO of SAIA about the upcoming AIE conference, what SAIA's role is, the importance of the conference for the industry and just a general conversation about industry challenges and opportunities.



# THE DELICATE BALANCE OF PREMIUM RATING AND LOYALTY

In the intricate world of insurance, partnerships are the bedrock upon which success is built. At the heart of these partnerships lie three crucial stakeholders: the insured, the broker, and the insurer. However, maintaining a harmonious relationship among these parties is not without its challenges, particularly when it comes to the delicate balance of premium rating and loyalty.

## Striking the right balance

One of the central ethical dilemmas faced in the industry is the question of whether it's fair to charge loyal clients more than new customers at renewal. Loyalty, it is argued, should be rewarded, not penalised. Striking the right balance between pricing sensitivity for both clients and brokers, especially in times of financial strain, falls squarely on the shoulders of insurers. It's incumbent upon them to ensure that pricing remains fair and commensurate with risk, fostering trust and stability within the partnership.

Effective communication is the cornerstone of any successful partnership. Whether conveyed verbally, visually, or in writing, clear communication pathways are essential for mutual understanding and trust. Transparency and rapport between insurers and brokers not only instil confidence but also provides valuable knowledge that can be shared with clients, thereby minimising misunderstanding, and conflict.

## Collaboration between brokers and insurers

However, in an industry characterised by constant change, the failure to communicate changes can have dire consequences.

Collaboration between brokers and insurers is paramount, with brokers needing to be kept abreast of any adverse underwriting results or shifts in industry trends. This collaborative spirit fosters adaptability, innovation, and resilience - qualities that are indispensable in navigating the ever-evolving insurance landscape.

Efficiency and effectiveness go hand in hand in driving future success. Striking a balance between the two ensures a steadfast focus on the insured and the end results, infusing confidence in insurers and propelling profitable growth. Embracing digitalisation strengthens partnerships by streamlining processes and providing a competitive edge in the market.

Discovering that you could have secured an equivalent insurance product at a significantly lower price after years of loyal premium payments can evoke conflicting emotions. On one hand, there's elation at the prospect of saving money going forward. Yet, on the other hand, there's a sense of frustration or even betrayal for having paid more than necessary for several years. This scenario underscores the growing attention given by international regulators to the issue of differential or marginal pricing in insurance risk assessment and pricing strategies.

## Loyalty and consistency in pricing

From an economic standpoint, setting the right price is a delicate balance for insurers, with profitability often hinging on the trade-off between sales volumes and profit margins. Charging too little may jeopardise solvency, while charging too much, risks

driving customers to competitors. Optimal pricing strategies involve understanding customers' willingness to pay and employing price discrimination based on market segmentation and elasticity of demand. However, the ethical implications of such practices are subject to debate, with questions arising about fairness, particularly in the context of loyalty and consistency in pricing.

While some argue for differential pricing to reflect varying risk profiles, others advocate for a more standardised approach to treat all customers fairly. Regulators in different regions are increasingly scrutinising these practices aiming to ensure equitable treatment of customers across the industry.

In essence, the tension between profit maximisation and fair treatment of customers underscores the complexity of pricing decisions in the insurance industry. While differential pricing may seem economically rational, it also raises ethical concerns regarding loyalty and fairness. As regulatory scrutiny intensifies, insurers face the challenge of balancing commercial imperatives with the principles of transparency and equitable treatment. Ultimately, achieving a delicate equilibrium between profitability and ethical conduct will be crucial in shaping the future landscape of insurance pricing practices.



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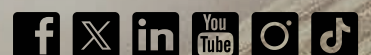


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# WHEN WE WERE YOUNG: some inspiring words for budding financial advisers and planners



Choosing financial advice as a profession is not an easy decision. Young advisers who join the competitive financial advice industry often become demotivated by the challenge of building a client base when the revenues from such efforts take months or years to flow. It turns out money and networking are not your only concerns.

## Experience, knowledge and soft skills deficits

"The biggest challenges faced by young advisers includes the lack of experience in working with clients; limited knowledge of product providers' service offerings and administrative requirements; and attracting new clients," says Brendan Dunn, a CFP® and Senior Financial Planner at Hewett Wealth. He compares the theoretical knowledge of financial planning obtained through study with earning a learner driver's license. The work that young advisers put in with clients and providers earns them the right to 'drive' in the financial advice and planning world.

Russell Ho, a CFP® at Succession Financial Planning, believes that many young advisers get thrown into the proverbial deep end. "No one tells you that you are a business owner and entrepreneur; the skills needed to build a business were not taught at school or university," he says. In his experience, young advisers struggle with how to find prospects; how to engage and pique prospects' interests without sounding like a policy salesman; and how to gain each prospect's trust and convert him or her into a life-long client.

## The remuneration pressure is real

The money pressure is real too but differs based on where in the financial advice market you find yourself. Ho distinguishes between starting at an independent advice practice versus at a 'tied' Financial Services Provider (FSP). He notes that young advisers often face immediate pressure due to commission, production or sales targets when they should be figuring out the basics of meeting and interacting with clients.

There are pros and cons arising from both the independent and tied advice models and the size of the FSP. "Starting at an established, largely tied product provider taught me selling skills; how to communicate with clients; and how to engage and build

relationships while establishing my confidence, especially since I joined the firm straight from university," Ho says. "You get to learn how a large firm is run as well as identify your financial planning niche."

Taking a more nuanced approach, Dunn notes that the culture and experience in the firm you are joining are more important than the type of practice. "There are some excellent tied agent firms who provide next-level service and comprehensive financial planning to their clients," Dunn says. If the firm's culture is a fit, then young advisers can focus on learning as much as they can from the team around them.

## Kudos for mentorship

The opportunity to be mentored stands out as a potential benefit for young advisers starting at larger firms. Ho mentions that he was helped by an established, successful financial planner who ran a medium-sized, tied practice and was hyper-focused on good client-focused financial advice and experience in sales. "Young advisers must be clear on their 'why' for choosing to be a financial planner and entering the financial advice profession," Ho says, before warning those who are in it for money that they could face hard times, especially in the beginning.

Since advice is central to this profession, FAnews asked what advice an established adviser might give to a younger person considering embarking on a financial planner career. "This is a long road with multiple ups and downs," Dunn says. "You should learn as much as you can from your experienced colleagues by listening and watching, and remember, it can take a long time to gain traction in this industry." For those who stick it out, it can be a very rewarding career indeed.

## Reputation and trust-based relationships

"If it is about money, then you are in the wrong profession," Ho warns. Your early days as a financial planner will be dedicated to building your network and working on establishing your reputation - and trust-based relationships with clients, among other important soft skills. Ho also raises an excellent point for young advisers, being that you cannot let remuneration influence the advice you give. Giving conflicted advice is contrary to the



Financial Advisory and Intermediary Services (FAIS) Act and its accompanying Codes of Good Conduct.

According to Ho, "Being a financial planner is a long-term career and you will see more benefits both in income and career opportunities the longer you stay in the profession." In his experience, the first three to five years will be tough; but once you start getting referrals from other clients, and avail of the brand-building opportunities in public speaking and working with the media, you can grow and scale your practice.

Sometimes, a young adviser just needs a few words of encouragement to stay the course. Dunn suggests trying to excel in every aspect of your new job. He recommends that those starting in the profession focus on doing right by their clients and always providing the best possible service. "There is always something you could be working on whether that is technical knowledge or soft skills," Dunn says. Other essential advice is to be open to meeting new people and building relationships and friendships within the industry, and more broadly.

### Time in the profession

Are concerns over remuneration dissuading university graduates and school leavers from considering the profession? "Remuneration does play an influential role in the 'stay or not' debate; but it should not prevent someone from considering the financial advice profession," Ho says. He equates success in the profession with success in investing. Put another way, it takes time for a financial adviser to build up his or her earnings; the longer you commit, the more profitable your career will be.

Of course, there is the rational counter that nobody can afford to work for free. "A young adviser needs to be able to provide for his or her family and future," Dunn says. "This is not the right industry for those chasing fast money above all else, but that does not mean that the financial rewards are not meaningful and significant". He reminds aspiring planners that the industry is incredibly entrepreneurial, and that each client interaction is part of a longer-term process of building your book of business. It takes time to reach financial success; but those who persevere, win.

One of the issues facing financial advice professionals is that the media tends to highlight advice and product failings rather than celebrate successes. The news wires are full of stories of greedy individuals, often operating on the fringes of the regulated financial planning profession, who fleece the old, uneducated, and vulnerable. Young advisers must be aware of the negative impact of bad actors on the industry and ensure that they always act ethically.

An ethics focus, and a decision to promote the fair treatment of customers will serve young advisers well, especially if they start in a pressured sales environment. There is a lot of pressure placed on people entering the industry to hit the ground running to bring on clients and generate income to cover their costs from the outset. In this context, Dunn reckons that a rethink on remuneration might help ease the burden for new entrants.

### Lifting the financial burden

"It would help to have a stable base of earnings; for a young adviser to be worrying about how he or she will be able to meet monthly debit orders and buy groceries each month, or worrying about job security because they fail to meet their targets, is too much pressure," Dunn concludes. Lifting the financial burden will allow young advisers to focus on career-enhancing soft and technical skills.

For his parting advice, Ho suggests taking your time and not being afraid to reach out to well-established financial planners for advice, guidance, or insight. "Be very clear about why you are choosing the financial advice profession, this will give you a framework for your decision-making and be your guiding light during hard times," he concludes. "It helps to think of how your client will experience and view every aspect of your financial advice offering."



Gareth Stokes  
Stokes Media



# BUILDING TOGETHER: risk management for sustainable futures

**B**efore my grandmother passed away more than 15 years ago, I remember I used to visit her every night while she was in hospital.

## Explaining a risk manager's role

At the time, I was a risk manager for a large multi-national, multi-listed company on a big project – and we were putting in many additional hours.

One evening I fell asleep at her bedside, waiting for her to finish her reading. When I woke up, she was smiling at me, asking what work I do that makes me so tired. It was then that I realised I did not know how to explain to her, without using corporate risk management jargon, what I do and why I thought it was important, in a way that she could relate to.

I had a similar experience recently when colleagues in local government asked me how risk managers could prepare themselves for coalition government (which may be our future at national and provincial levels after the coming election).

Again, I was wondering how to explain a risk manager's role to the political players coming into coalitions, the constituencies with expectations for improved lives in line with election manifestos, or the operational and administrative staff who must get the job done under challenging circumstances, with unsolidified coalition agreements driving decisions in their organisations. Add to this, the additional complexities of including sustainability, ESG, climate change, and planetary boundaries in risk appetite frameworks, and all I could think of was how I would explain this to my grandmother. So, this is what I came up with...

## The treehouse analogy

Imagine you want to build something, let's say a treehouse. You gather all the resources required, like wood, nails, and paint. You then realise you can't do this on your own and invite your friends to help you.

In this scenario, you resemble a local town council or a company (if you are in the private sector). Like you, local government and companies gather what they need, like money and materials, which they transform into something that people want. They also give jobs to people that have the skills to make their products or deliver their services. But here's the thing: just like you need your friends to help with the treehouse, local governments need companies to work with them, and they need communities to buy (and pay for) their products and services, give them a place to operate, and provide skilled people to deliver their products or services.

Unless local government, communities, and companies (large and small) work together, we cannot find a balance to improve people's lives in a way that will last for generations to come (which is what we call risk and sustainability management). We, together,



must realise that sometimes (even if we think it is outside of our control or not our fault) we do things that aren't so good for our organisations, our people, or our planet. We often try to make up for this by doing good things (mostly through our community outreach and corporate social investment programmes), like giving money to schools and feeding schemes, or cleaning up towns. In a coalition governed South Africa, we need to work together in the same way as if we had to build a treehouse, where everyone can play. We should think of it as a big teamwork project where different groups work together to make sure people are OK and our planet stays healthy.

On a practical level, we need all sorts of people and organisations to meet minds, share ideas, and start projects to help make the places where people live and work better – by changing what we can together, and managing the impact of what we can't change on people and the planet. Just like a treehouse, which every child can imagine, we must not over-complicate this. We must figure out how to do this in the simplest and least costly possible way.

As local government risk managers, we must deliver our risk management "product" in such a way that mayoral councils, and town or ward councillors can use it to identify sustainable projects (otherwise, our treehouse could fall apart after the slightest gust of wind), and to identify the friends to help build the treehouse (the small businesses, companies, and community members that will help them implement the projects).

We must talk to these people (who must often make their decisions without us), in ways that will help them understand and cope with uncertainty. Like choosing the right tree and the strongest branch to build our treehouse in, we must manage the pure risks (like fire, crime, natural disasters) to our projects so that we can insure them at a good price. Like designing the actual layout of the treehouse, we must think about what we will need in the future (if we ask twenty friends to help us build and the treehouse is too small for all to play in, some of them may become upset and break it down or go build their own treehouses elsewhere).

### The right experience

We must upskill ourselves in what we need and not waste our time and effort on what we don't need, like a friend who doesn't like climbing trees and will not want to help build a treehouse. We must work hard to gain the right experience, and we must give our friends the training and tools they need to manage the things that could go wrong. People often say we must work smart, not hard. However, we must work smart and hard. We must become strong for when things get tough, which consists of having clear processes and relationships in place with the right friends.

Simply put, it is our responsibility to enable our national, provincial, and local governments, our communities, and our companies to make the best decisions that will allow us to implement the projects that will improve our future for the long run.



Christelle Marais  
Executive Director  
Lucidum

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# THE BIGGEST RISK WE FACE IN THE NEXT FIVE YEARS IS A FAILED STATE



**O**n our current trajectory, we need to consider whether it will take five years or less.

The definition of a failed state is “where the state has been rendered ineffective, unable to enforce its laws uniformly or to provide basic goods and services to its citizens”. This causes the country to experience weak governance, failing administrative processes, humanitarian crises in employment, health and education, persistent social tensions, and often, violence.

## Are we too apathetic and polite?

The comment we often hear is that “South Africans are incredibly resilient people”. However, we must consider if we are too apathetic and polite. Where is the societal outrage at the blatant failures we see in South Africa? We currently exist in a country with increasing

crises in many government-run areas such as health; education; transport; energy; safety and security, etc.

State Owned Entities such as Transnet, Denel, SABC, SAA, POSTNET and Eskom are all shadows of their former selves, teetering on the edge of complete failure and dependent on billions of Rands in tax-funded bailouts.

Physical infrastructure such as roads; water, sewerage and energy have become major concerns to not only private citizens but also to businesses that depend on these services to provide products and services.

I have listened to commentators who say that “we are not a failed state, because we are not in a state of civil war where chaos and mayhem are part of our daily lives”. However, when we experience 85 plus murders per day; 140 plus sexual assaults per day, and thousands of contact crimes per month; coupled with high unemployment; low economic growth; no political stability; and losing billions to financial crimes; then how can we sit back and say “all is ok and we can continue down the path with hope and a prayer”.

## The insurance industry has faced challenges

To make up for these weaknesses we, as a society, have started to provide private solutions for education, security, health, firefighting and others, while we continue to pay taxes for the provision of these services with zero expectation of receiving quality delivery from the government.

The current South African Government claims that they inherited a system that did not cater for all, which is correct. What they do not like to highlight is the absolute corruption and theft that has bankrupted the above SOEs and broken government-run processes. The South African insurance industry has faced significant challenges in recent years, and the risk of a failed state could of course exacerbate these issues.

## The potential impacts of a failed state

So, let’s delve into the potential impacts of a failed state on the industry: continued socio and economic instability will result in further devaluation of the Rand, creating imported inflation and costs. South Africa could become very difficult to reinsure and invest in as a long-term strategy.

Black Swan events such as climate change; social unrest; terrorism and even cyber events are all exasperated by a lack of governance. As we have recently seen, international companies will develop fatigue in dealing with our political and structural issues and exit.

As a solution? We will continue to be “resilient”, however, we had better do so more actively. Post elections, we need to hold our leaders accountable by demanding change, demanding a more effective governance structure that will provide an environment in which both citizens and businesses will feel safe to exist and invest.



**Garth de Klerk**  
Chief Executive Officer  
The Insurance Crime Bureau (SAICB)



# SELF-SERVE FUTURE: the role of intermediaries

The insurance sector is experiencing a profound transformation, with the overall customer experience taking precedence over price and product offerings.

This shift presents a challenge and opportunities for insurance brokers, who must forge seamless connections and maintain constant availability to effectively communicate, engage, advise, and satisfy customers via various channels and digital devices around the clock.

## Adapt and stay relevant

To succeed in this evolving landscape, brokers must adapt and stay relevant. Despite the digital revolution, brokers play a vital role in offering independent and trusted advice. To ensure future success, insurance brokers need to embrace digital sophistication and focus on providing strategic advice. Meeting the demands of today's connected customers for transparency and control is crucial. Embracing digital technologies and strategies early can offer significant advantages, helping brokers to stay ahead.

As technology progresses, brokers must find a balance between safeguarding their core business and exploring new strategies that add value and support to their customers. A well-designed total experience ecosystem can effectively achieve both objectives.

By utilising a total experience ecosystem, brokers can enhance customer interactions by integrating various channels and touchpoints. This approach ensures consistent and personalised service throughout the insurance journey, strengthening customer

relationships. Such ecosystems also provide brokers with valuable insights into customer behaviour and preferences, allowing them to continuously tailor their services and offerings.

## Balancing demographic shifts

Insurance brokers will need to balance the demands of younger generations with those of older ones, such as Gen Xers and Baby Boomers, who may be less comfortable with digital interactions. It is essential to recognise that the demographic makeup of customers and employees will change significantly by 2030, with digital natives comprising half of South Africa's adult population.

Brokers must align the needs of younger digital natives with those of older generations. Understanding digital natives' unique perspectives on risk, including their thorough information-gathering methods and practical crisis responses, is crucial. This generation values trust, flexible solutions, simplicity, and a holistic approach to managing various aspects of their lives. As they continue to mature, they will influence the economy, shape risk products, and affect insurer talent recruitment. To manage the diverse risk needs of this rapidly evolving demographic, insurance brokers must develop added value and digital services.

## Preparing for the future of self-service

An insurance self-service portal is an online platform that offers seamless services for clients to manage their insurance needs (24 hour emergency assistance, update information, claims, proactive risk management tools, renewal, and quotes etc.) independently. It provides secure and quick access to data for all involved parties in the

insurance industry, promoting operational efficiency and customer satisfaction. There are different types of insurance portals, including customer, broker, and supplier portals, each catering to specific stakeholders in the insurance process. Additionally, specialised portals like HR portals, employee self-service portals, and e-learning portals may be utilised to manage specific aspects of an insurer, integrating various systems for a more efficient insurance experience.

The future of self-service lies in leveraging advanced technology, thoughtfully integrated into business operations to provide customers with faster access to better information with minimal effort. We will see broader applications of AI and related technologies. However, for most scenarios, fully automated support remains a distant goal. The immediate focus should be on using AI to enhance the efficiency, intelligence, and effectiveness of your support staff.

To ready your team for the future, start by mapping out your customer service experience. Identify areas where technology or improved processes could streamline operations and reduce effort.

This proactive approach will allow you to make informed decisions about incorporating new technologies into your service model as they advance and become more accessible.

Brokers need to align the preferences of younger digital natives with those of older generations. Understanding the unique attitudes of digital natives towards risk, including their methodical information-gathering and practical crisis responses, is critical. This generation values trust, flexible solutions, simplicity, and a holistic approach to managing various aspects of their lives.

As they mature and gain experience, they will influence the economy, risk products, and insurer talent recruitment. Insurance brokers must offer added value and digital services to address the diverse risk needs of this demographic.



**Wimpie van der Merwe**  
CEO & Founder  
Global Choices,  
Digital Path & Claim  
Central Africa

# TRANSFORMING TALENT RETENTION VISIONS INTO REALITY



**P**wC's Global Workforce Hopes and Fears 2022 Survey of over 52 000 global workers, including South Africans, reveals that most companies risk losing skilled employees by failing to support their personal, professional, and societal ambitions or missing opportunities to build trust.

Cultivating an empowering, transparent, and values-driven workplace culture has never been more critical to attracting and retaining talent.

In today's rapidly evolving business landscape, a positive and ethical workplace culture is essential for attracting top talent, boosting employee engagement, and driving sustainable success. For this reason, organisations must create a clear and compelling vision that unites employees around these shared values and goals. Leadership also plays a crucial role in embodying and promoting ethical behaviour, creating psychological safety, and empowering employees to innovate and thrive.

## Valuable strategies and advice for organisations

Here are valuable strategies and advice for organisations looking to foster a positive, diverse, inclusive workplace culture in 2024.

**1 Establish a foundation of a shared vision** - the foundation of a positive workplace culture is a clear vision. This vision should articulate what the organisation stands for, its goals, and how it plans to achieve them. A well-defined vision provides clarity and direction, guiding every aspect of the organisation's culture. That vision is enabled by the values of the business.

**2 Appoint leaders who shape the workplace culture** - leaders play a crucial role in shaping and maintaining a positive workplace culture. It cannot be stressed how important it is to intentionally select leaders who embody the organisation's values and vision. To ensure that employees align with the organisation's values, leaders must consistently communicate and reinforce them. Leaders should lead by example, demonstrating the values in their actions and decisions.

**3 Creating an inclusive environment** - creating an inclusive environment where everyone feels valued and respected is paramount in today's workplace. An inclusive organisation should be open to hiring individuals from diverse backgrounds, embracing different perspectives, and creating spaces where everyone can contribute authentically.

**4 Balancing high performance and well-being** - a positive workplace culture is often synonymous with a high-performance culture. A high-performing organisation is one where everyone contributes to its success. Clarity around goals, expectations, and performance measures is essential.

When employees understand what they need to do and how their work contributes to the bigger picture, it creates a sense of purpose and drives engagement. However, while driving high performance is crucial, organisations must balance this with employee well-being. Creating a healthy work environment that supports performance and well-being is important. This includes providing support, encouraging self-care, and offering comprehensive employee assistance programmes. Recognising and rewarding performance

and well-being also reinforces the organisation's commitment to a holistic approach. Leaders should strive to encourage people to prioritise their well-being because employees cannot perform at their best when they are not looking after themselves

**5 Maintaining culture in a hybrid or remote world** - hybrid and remote work trends necessitate maintaining a strong positive culture. Leaders should create regular opportunities for engagement and communication, whether online or in person. Leaders must consistently reinforce the organisation's values in their interactions with remote teams. Continuous communication about company performance, goals, and challenges helps to maintain transparency and build trust.

**6 Continuous measurement and improvement** - to strengthen workplace culture, organisations must measure and assess it regularly. Employee surveys, focus groups, performance metrics, and culture assessments gauge what's working and what isn't. Analysing sick leave data, employee assistance programme utilisation and turnover rates can provide valuable insights into the health of the culture.

Listening to employees, gathering feedback, and acting on the insights gained is crucial.

## A positive and ethical workplace culture

By actively listening to employees, organisations can maintain a positive, responsive workplace culture.

Building and maintaining a positive and ethical workplace culture is an ongoing journey that requires intentional effort, strong leadership, and consistent communication. By establishing a clear vision, developing leaders who embody the organisation's values, fostering inclusivity, balancing performance and well-being, and regularly assessing and improving the culture, organisations can create environments where employees thrive, and business success follows.



**Portia Mogale**  
Managing Executive of  
Human Capital  
Sanlam Corporate

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# Social impact vs purpose-driven business: WHAT IS THE DIFFERENCE?

**T**raditional profit-driven organisations are transitioning towards a more progressive approach in the evolving business landscape. This shift is driven by changing consumer and employee demands, regulatory requirements, technological progress, and the understanding that purpose and profit can coexist to drive sustained success.

This has resulted in many organisations embracing a more holistic, stakeholder-centric approach to their business by aligning their operations with broader societal and environmental objectives to stay relevant and to spur positive change.<sup>1</sup> Businesses are increasingly recognising that purpose and social impact are not just components, but rather fundamental pillars of their overall strategy and success.

This recognition is driven by the need to have deep insights and information to make better decisions. For instance, impact assessments provide valuable economic, social, and environmental data on the effects of their actions and operations on these three areas. Additionally, this recognition is crucial for strengthening their narrative and equity story by enhancing transparency, credibility, and trust with stakeholders.

### Social impact, and a purpose-driven business

The Impact Taskforce (ITF) adopted the Impact Management Project (2021) definition of impact, which is a change in an aspect of people’s well-being, or the condition of the natural environment caused by an organisation.<sup>2</sup> Businesses need to understand and measure their impact because it drives sustainable growth, promotes trust and loyalty among stakeholders, and contributes to the overall well-being of society. Also, it encourages environmental stewardship, promoting sustainable practices that help preserve our planet for future generations.

Social impact can be defined as the net effect of an activity on a community and the well-being of individuals and families.<sup>3</sup> Thus, social impact in business is how a company’s actions and activities

create positive social and environmental change beyond financial gains.

Purpose-driven businesses are organisations that operate with a deeper sense of meaning and strive to make a positive impact by integrating social and/or environmental goals into their core mission and business model.<sup>4</sup> The shift towards purpose-driven businesses is attributable to changing consumer preferences, the need to attract and retain top talent, the desire to enhance brand reputation and differentiation, the pursuit of long-term sustainability, and the response to regulatory and societal demands for more responsible business practices.<sup>5</sup> Thus, many businesses are aligning their values and mission with the needs of society and the planet to stay relevant.

### Why do clients care?

Purpose-driven organisations demonstrate a higher level of maturity in their awareness and authenticity. These organisations recognise that being purpose-driven goes beyond mere compliance to create value for their business and all stakeholders (see Figure 1).

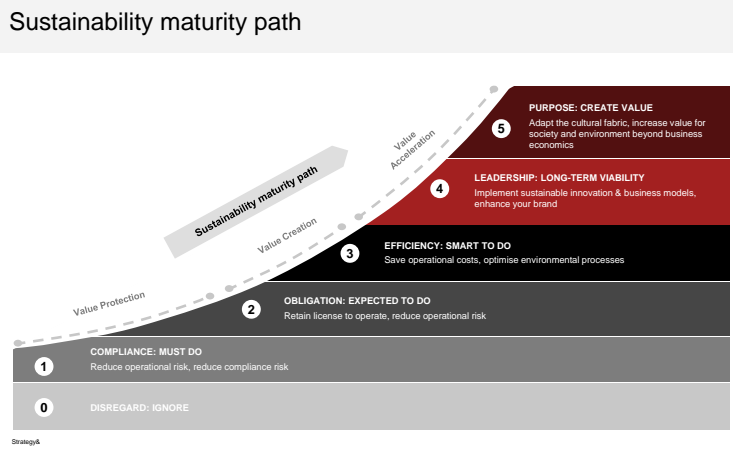


Figure 1: Sustainability maturity path

This holistic, stakeholder-centric approach is important to clients because it influences their perception of the organisation's authenticity, credibility, and commitment to making a difference. Clients value organisations that demonstrate a genuine commitment to creating positive change and making a difference in society, which can influence their purchasing decisions, loyalty, and advocacy for the brand.

This approach is crucial for investors and the wider stakeholder community as, for example, Millennials show a keen interest in investing in companies that resonate with their values. A World Economic Forum (WEF) study surveying 5 000 Millennials across 18 countries revealed that the primary focus for any business, as indicated by respondents, should be the betterment of society.<sup>6</sup>

### The significance of shared values

By effectively integrating societal and environmental impact objectives into their core mission and strategy, not only will organisations drive their sustainable growth, but also enhance their brand reputation and boost their ability to resonate with the values of a wider range of stakeholders.

This alignment of values between society and businesses not only fosters loyalty, engagement, and satisfaction but also underscores the significance of shared values in driving investment decisions and stakeholder relationships.



**Dirk Mostert**  
Director and Senior Economist  
Strategy&, PwC South Africa



**Julie Rosa**  
Sustainability and Energy Director  
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<sup>1</sup> Harvard Business School Online. 2020. *The Triple Bottom Line: What It Is & Why It's Important*. Retrieved from <https://online.hbs.edu/blog/post/what-is-the-triple-bottom-line>

<sup>2</sup> Impact taskforce. n.d. *Financing a better world requires impact transparency, integrity and harmonisation*. Retrieved from <https://www.impact-taskforce.com/media/io5ntb41/workstream-a-report.pdf>

<sup>3</sup> Centre for Social Impact. n.d. *About: We believe everyone has a role to play in creating social change*. Retrieved from <https://www.csi.edu.au/about/>

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<sup>6</sup> World Economic Forum. 2013. *From the Margins to the Mainstream. Assessment of the Impact of Investment Sector and Opportunities to Engage Mainstream Investors*. Retrieved from [https://www3.weforum.org/docs/WEF\\_IL\\_FromMarginsMainstream\\_Report\\_2013.pdf](https://www3.weforum.org/docs/WEF_IL_FromMarginsMainstream_Report_2013.pdf)

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# PSG Financial Services REimagines South Africa and celebrates top advisers

**P**SG Financial Services' Annual Conference this year was themed 'Reimagine South Africa' and included top financial services industry leaders, journalists and other distinguished speakers who discussed challenges facing the country as well as potential solutions.

CEO Francois Gouws provided an overview of the group's strong performance and strategic focus areas. He said PSG wants to grow organically and through acquisitions, streamline advice processes,

optimise platforms, grow its footprint and drive transformation. Advisers are integral to PSG's strategy and the firm's success. Dan Hugo, outgoing CE of Distribution, discussed key plans to ensure the ongoing success of PSG's adviser offices by harnessing technological investment so advisers can spend more time on value-enhancing activities, growth and client experience.

The conference's gala dinner celebrated the achievements of the firm's top advisers.

## The winners are...



### Wealth Manager of the Year

Heinrich Richter, PSG Wealth Melrose Arch, secured this year's title for the 5th time.



### Wealth Adviser of the Year

Nelis Brink, PSG Wealth and Employee Benefits R21, earned the achievement for a fourth time.



### Insure Adviser of the Year

Ryno Pretorius, PSG Insure Bloemfontein Pretty Gardens, was a first-time winner in this category.



### Employee Benefits Office of the Year

PSG Wealth R21 Employee Benefits took the honours in this category for the 12th time. Nerine and Neels Brink accepted the trophy on behalf of the office.



### Office of the Year

PSG Wealth and Employee Benefits R21 garnered this year's award for the second time. From left to right - Wayne Stevens, Lizaan Robijn, Chantel Swart, Nerine Brink, Francois Gouws, Neels Brink, Elke Brink, Dan Hugo, Jan Botha, Gerrie Cilliers and Nelis Brink.

## External contributors

SA thought leaders share insights on local challenges and reimagining solutions

### A range of experts unpacked SA's problems and reimagined solutions.

André De Ruyter, former CEO of ESKOM and current senior fellow at the Yale Jackson School of Global Affairs in the US, discussed our electricity crisis and its impact on the economy.

He said ESKOM should shift focus to expansion of transmission infrastructure instead of procuring renewables as these add to government's contingent liabilities, while the private sector is in a better financial position to invest and take on this risk.

Advocate Glynnis Breytenbach, former prosecutor for the National Prosecuting Authority (NPA) of South Africa and a Member of SA Parliament, outlined several challenges the country faces from a justice system perspective and the impact reforms could have on economic growth.

In the run-up to the national election on 29 May, a panel discussion between political journalists

and analysts Qaanitah Hunter, Justice Malala and Stephen Grootes generated interesting debates.

The second panel, led by financial journalist Alishia Seckam, debated whether closer cooperation between the private and public sector is bearing fruit. Panel members included James Mackay - CEO Energy Council of South Africa, Andile Sangqu - Chairperson of the Transnet Board and Jannie Durand - CEO/ Executive Director at Remgro.

The line-up also included author and speaker GG Alcock, who shared insights into the opportunity that the informal sector holds - prompting advisers to re-evaluate their perceptions on the SA economy. Futurist John Sanei provided insights about mindset changes needed to rethink how we approach grand challenges we face as a society in the digital age.



### Lifetime Achievement Award

Earlier this year, Dan Hugo decided to step down as CE of Distribution. To recognise his immense contribution for over two decades, He was awarded PSG's first Lifetime Achievement Award. Hugo continues in his capacity as Chairman of Acquisitions.



## THE VALUE OF LIFE IS NOT BASED ON HOW LONG WE LIVE, BUT ON HOW MUCH WE CONTRIBUTE TO OUR SOCIETY.

MPHO MMEKWA

Call Centre Supervisor,  
Global Choices

“My passion is people and managing an Emergency call centre.

Working beside our customers and being able to assist them is what makes me happy. Being an empath and a woman of strength gives me the capability to lead the team daily. I have spent many years in this kind of environment, and it has taught me the roughest and toughest lessons. I have become fearless and have blazed trails and broken barriers to achieve my goals. I have made my days brighter and better by adhering to the Values of the company”

Mpho is a bright rising star at Global Choices Lifestyle, who has been an integral part of the growth and success whilst leading her team with complete integrity and empathy. Mpho is one of our many Global Ambassadors who understands the challenges we are facing in the rapidly expanding Emergency services sector.

“The individuals who make contact with their Emergency assist number are generally already hyped, stressed, injured, or exasperated in some way or another and it is our core responsibility to maintain a calm and composed approach, offering our clients the service they deserve.

I adore my work and my colleagues, and support the Global Choices holistic and empathetic approach to our clients wellbeing.”

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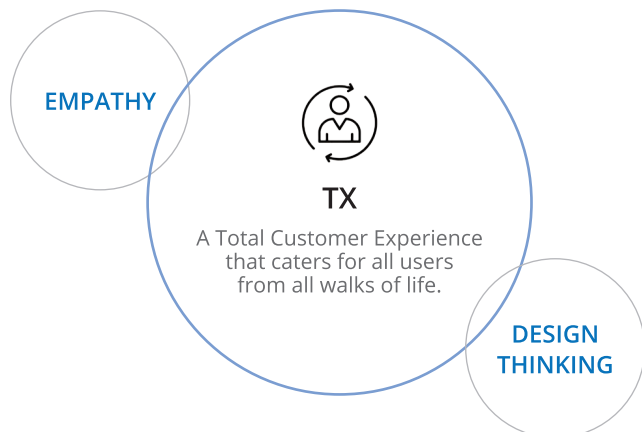


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# MOMENTUM LIFE INSURANCE LAUNCHES INNOVATIVE TECH-BASED SOLUTION

**T**raditional processes are giving way to innovative solutions that improve efficiency and enhance customer experiences. On the topic of solutions, Momentum Life Insurance has launched an integrated online quoting platform.

**FAnews** chatted to **Stephen van Niekerk, Executive Head of Momentum Myriad** to give us more details.

**Q** Can you explain what this tech is all about and why it's set to change the life insurance industry as we know it?

**VAN NIEKERK:** The life and health insurance industry is transforming, and the need for digitising processes is becoming increasingly pivotal in the long-term insurance industry.

In response to this, about a year and a half ago, we developed an integrated online quoting platform, QuotaM, that provides advisers the ability to completely submit business to us, without the need to stick to paper processes. It is supported by two further digital innovations, which we call LifeReturns® and FastTrack.

LifeReturns® is a digitally enabled discount model, enabled by mobile technology. It is an industry-first screening innovation that we use to determine discounts in real-time, while clients screen, to make insurance more affordable for more people with less effort. It uses available smartphone screening technology, similar to taking a 'selfie' video, to analyse light reflected from facial skin for measuring health risk factors within a 90-second mobile screening session. By asking a few additional mandatory questions that cover BMI, estimated fitness level, and medical scheme membership, the LifeReturns® screening technology then uses these

results to calculate and offer clients personalised discounts of up to 35% on their monthly life insurance premiums.

FastTrack is an AI based underwriting engine and is built into the LifeReturns® digital screening process. If the client is healthy and younger than 50, the LifeReturns® screening process simplifies and streamlines the life insurance underwriting process. Qualifying clients, who successfully complete the FastTrack digital underwriting questions as part of the LifeReturns® screening process, can have their cover issued immediately after their application has been submitted – without the need for further traditional medical tests.

This, for us, is the future. These are key innovations within a digitally enabled environment.

**Q** How has uptake of the platform been with clients and advisers?

**VAN NIEKERK:** Clients are embracing it because there are many benefits for them, including discounts etc. For advisers, it's easier for them because they have a platform where they get to do business straight through without paper.

**Q** How exactly does this innovation benefit the client and the financial adviser, aside from it being a cool piece of tech?

**VAN NIEKERK:** This technology has provided us with the opportunity to digitise our application process completely – from the quote stage to applying for insurance. This saves our clients, our financial advisers, and us time and effort, reduces costs, and helps us keep life insurance affordable.

Our clients are benefitting immediately; the average discount for clients who complete a digital screening is about 23%.

The comprehensive screening process also means that healthier clients won't need to do any additional medical tests to qualify for their insurance cover, because we will already have the basic information, we require from the screening process. This saves time and effort and reduces costs.

For the financial adviser, the tech helps them remain relevant to a younger, digitally savvy market, who generally have fewer health issues. It also means that onboarding clients is getting easier and easier – with LifeReturns®, FastTrack, QuotaM, and MSign, a digital signature process, our advisers almost don't need to see a client in person to help them address their life insurance risk needs anymore.

### Q How are clients responding to this innovation and process?

**VAN NIEKERK:** They love the ease of use, simplicity of the process, and the fact that they don't need to jump through hoops to earn their discount. Current wellness and rewards programmes that are used to fine-tune premiums have become very complex. They often require you to track daily activities, gain points, go to the gym, have a biokineticist do a fitness evaluation, etc. But with LifeReturns® we've simplified this completely and you get to do everything with your smartphone. Clients can do whatever they want in terms of maintaining their healthy lifestyle: our only requirement is to do a quick self-screening with your smartphone once a year, something which you can do in the comfort of your home.

What's more, by doing their annual reassessment screening clients effectively get a free digital health checkup of their most important health vitals every year. They also have the option to use the digital screening throughout the year if they want to keep a closer check on their vitals. Interestingly, there have been several cases of the screening technology identifying health issues such as high blood pressure, which the clients were unaware of. As you know, with the kinds of disorders associated with chronic high blood pressure, early detection is extremely important as it significantly increases treatment success and life expectancy rates. So LifeReturns® is providing benefits above and beyond what it was initially designed to do.

### Q In the life underwriting space, are people more aware of their health in general?

**VAN NIEKERK:** It is difficult to answer, but we believe that giving clients a hassle-free way to the screenings stated above will improve awareness. Over time, creating awareness and making it easier for clients to take action will be a way to add value and improve health outcomes.

### Q You've mentioned FastTrack a few times – can you dive a little deeper into this?

**VAN NIEKERK:** Certainly. FastTrack is our innovative and streamlined digital underwriting process that uses AI, machine learning and algorithms during the screening process to medically underwrite the clients. For qualifying clients, their policies can then be issued on submission without the need to complete additional medical tests. By eliminating the need for traditional insurance medicals for these clients the onboarding process is quicker, more cost-effective, and less labour-intensive. There are no calls for medical appointments, follow-ups, or the need for additional tests. The process really becomes frictionless for the clients and advisers.

The market feedback on FastTrack underwriting has been phenomenal and has already exceeded our expectations. We believe that close to half of the clients under 50 who are healthy, have a qualifying BMI and select the qualifying benefits can be underwritten with FastTrack underwriting if they complete a screening – that would make it easier than ever to get insurance cover in place, and save countless hours and rands. And the qualifying benefit set is already quite comprehensive. It currently includes life cover, disability and impairment cover and also critical illness cover.

### Q You also referred to other onboarding technologies that Momentum Myriad is using. Can you tell us more about these?

**VAN NIEKERK:** Yes. Within the broader Momentum group, advisers can engage digitally – the platform is called VIA. There are many functionalities available – from communication preferences to data management, there are also quote systems.

QuotaM is our online onboarding platform for new business and alterations. Because it is online, it is 'live' and all data is updated in real-time, which ensures that all necessary data is up-to-date and immediately available. So, as an example, as soon as a client has completed a digital screening, that information is available and we can immediately calculate a discount for them and include it in the quote for their life insurance cover.

MSign is our secure digital signature software that enables clients to electronically review and sign documents on any internet-enabled device. This makes the process paperless, frictionless, and faster to complete than ever before.

### Q And finally, how are these digitised processes helping Momentum Myriad, as a business, to remain relevant in the evolving insurance landscape?

**VAN NIEKERK:** Internationally, insurers are in a race to simplify application and underwriting processes. This is a balancing act between keeping it affordable and simplifying underwriting too much to the point where it becomes meaningless. The integrity of the data is supremely important as it forms the basis of pricing the risk an individual represents correctly.

Compromising on the quality of benefits and breadth of cover isn't an option for us, so affordability and simplicity must stem from more economical and faster processes, providing clients with an easy, low-effort and intuitive process for earning discounts to reduce their premiums. By transforming key processes that are time-consuming and costly, like onboarding and underwriting, we believe we will keep insurance and advisers more relevant for consumers. ●



We've heard a lot of buzz in the industry about the technology-based solutions that Momentum Life Insurance has launched. Rianet Whitehead, FAnews Editor, speaks to Stephen van Niekerk, Executive Head of Momentum Myriad, to tell us what this tech is all about and why it's set to change the life insurance industry as we know it, how this innovation benefits the client and the financial adviser, and more.

In the ever-evolving world of financial services, staying ahead of industry trends and understanding the shifts in investment landscapes is crucial for success.

**FAnews** had the opportunity to chat with **Craig Sher**, the executive and Head of Research and Development at Discovery Invest, to delve into his extensive career with the company, the evolving landscape of the investment industry, and the vital role of financial advisers.

With over two decades at Discovery, Craig shares his journey, the innovations he's been part of, and the emerging trends advisers need to be aware of. Plus, he shares valuable insights on maintaining creativity in product development, the impact of demographic shifts, and the importance of shared value in driving better financial outcomes.

**Q** Craig, you've been with Discovery for many years now, tell us about your career leading up to your current role?

**SHER:** I've been with Discovery for 21 years, and it's been a fantastic journey - Discovery is truly a product developer's dream.

I joined Discovery right out of university in Discovery Life's Research and Development (R&D) and technical marketing team and, after we launched Discovery Invest in 2007, I was the Head of R&D and the actuarial teams for both Discovery Life and Discovery Invest. As the businesses matured, my focus turned exclusively to Discovery Invest and we've been building out that business ever since.

We have done so many exciting things and launched not only many different products, but also started new companies within the Discovery group. I've had the privilege of being involved in Discovery Life, the launch of Discovery Invest and Employee Benefits and most recently the launch of Cogence – the DFM asset manager in collaboration with BlackRock.

**Q** What is it that gets you up in the morning, and what are your passions within your role?

**SHER:** My nature is to be very disciplined and routine orientated – in fact my wife would call me a creature of habit. Yet, paradoxically, what gets me excited is the environment, which is so fast paced, which means I am doing something different every day. It's a world full of curveballs, and that's what I love. My role brings diverse problems and allows me to think creatively, together with some of the smartest people I've ever met - this gives me energy.

**Q** You've just been on a roadshow to connect with advisers around the country. Why is connecting with advisers important for you and the business?

**SHER:** Our recent roadshow was to launch a new range of products for Discovery Invest. We've always maintained that our advisers are the key to our business and so our partnership with them is central to everything we do. Connecting with our advisers is important, not only because it lets us show them our new offerings, but equally so that we can listen to them, gather their feedback to continue to build out what we need for our collective clients.

**Q** What are some of the key shifts you've seen in the investment industry over the years, and where do you think the industry is heading?

**SHER:** There are four key seismic shifts that I think we are seeing unfolding.

The first is the rise of new asset classes and investment opportunities which means that having access to worldwide research and global technology is more important than it has ever been. Advisers can no longer just buy a single local unit trust and expect everything to work out. A lot of advisers are leaning on DFMs to help them navigate this.

The second is the affect that demographic changes and longevity is having on long term financial planning. Globally, as life expectancies have increased, corporates and even countries are shifting the risk of outliving savings to the individual. We've seen this in the move from defined benefit (DB) schemes to defined contribution (DC) schemes worldwide. This risk will only increase as longevity increases.

The third is the centrality of client behaviour in long term outcomes and the ability to modify this. At Discovery, we've done a lot of work on creating incentives to get our clients to change the way they save and combat their behavioural biases. And we've seen a lot of success in this regard.

The fourth is the impact that technology is having and will continue to have on our industry. We are starting to see the benefits in terms of ease of doing business, simplification and so forth. But I think there is much, much more to come - technology will change the investment landscape in ways we haven't even imagined yet.

**Q** What are you most proud of in being part of the Discovery Invest team?

**SHER:** I'm certainly proud of how the business has grown and its financial metrics. The company started in 2007, and over multiple years it has been the fastest-growing retail active unit trust company in South Africa, so it has done incredibly well - it now boasts just over 145 billion in assets under management.

More than this, however, is the pride I have in the strategy we've developed and how this manifests in products that have often exceeded our expectations in creating better outcomes for our clients. We know that South Africans have been dubbed as one of the worst savers in the world, with only 6% of people able to retire comfortably. So, when we design products, we always go back to that singular goal we had in mind when Discovery Invest launched, which was to help our clients build a healthier and more secure financial future.

Internally, we always say that every product we've ever built has to stand up to the test of "would I sell this to my own mother". Being part of a company that constantly thinks this way is a great source of pride.

**Q** How does Discovery's Shared Value philosophy manifest through Invest and specifically the work you do?

**SHER:** Uniquely, Discovery Invest operates this shared value model. The idea behind this is to encourage clients to perform

# DISCOVERY INVEST'S CRAIG SHER ON INDUSTRY SHIFTS AND ADVISER ROLES



good investment behaviours which lead them to better long-term outcomes. The research shows that there are three key things that people need to do to optimise their investment outcomes. They need to: (1) save longer, (2) save more and (3) withdraw responsibly when they retire. These behaviours have been found to provide significantly larger economic benefits than fee reductions and sometimes even greater value than investment returns.

What the shared value model recognises is that these behaviours are also very good for Discovery as an investment provider: when clients invest for longer, invest more or withdraw less, assets stay invested longer and grow larger which means that Discovery makes additional profit. The company uses this excess profit to fund the rewards (investment boosts) to our clients for their good behaviours. The result is a self-funding program where clients do what is good for themselves and get better outcomes as a result. Our shared-value model has just reached a milestone of just over R20 billion in rewards to clients.

Clients who receive Discovery Invest's unique savings rewards and boosts, save on average more than three years longer than those that don't. They make higher contributions to their investments and withdraw lower amounts when they retire.

These interventions are creating the positive investor behaviour we need as a country.

**Q** I assume that product development is a critical part of your work and the success of the Invest business. How do you manage to encourage and sustain such a high level of creative thinking with your team?

**SHER:** At the outset, we make sure we hire the best and brightest people. We have a rule that you have to hire people smarter than yourself.

We then immerse these people in a culture of fast paced innovation – they get access to cutting edge data and R&D, they work with executives and CEOs and are motivated to come up with ideas. Having an optimistic and energetic outlook is crucial and there is absolutely no place for any arrogance. We've found that when you bring these ingredients together, great people create brilliance.

**Q** Your last word to the FAnews audience – advisers and planners.

**SHER:** We are incredibly grateful to our financial advisers. We recognise that it's key for advisers to have the product tools and investment opportunities available to do their job well, and this is where we continue to focus our energy as Discovery Invest. ●

Having been with Discovery for many years, Rianet Whitehead, FAnews Editor, speaks to Craig Sher, Head of Research and Development at Discovery Invest about his current role, why advisers and connecting with them is important to the business, some of the key shifts he has seen in the investment industry over the years, some emerging trends in the investment landscape that advisers should be aware of and more.



**C**ogence is the first South African Discretionary Fund Manager (DFM) making leading global fund research and insights available to local advisers through a powerful collaboration with BlackRock, Discovery and RisCura.

This strategic partnership equips advisers with unparalleled resources to better serve their clients, streamline their processes, and stay ahead in a competitive market.

### **In conversation with Cogence's CEO and CIO**

In an exclusive interview with **FAnews**, **Jonel Matthee-Ferreira**, recently appointed as CEO and CIO of Cogence, shares insights into her extensive career and the unique value Cogence brings to the financial advisory and investment landscape.

Drawing on over two decades of industry experience, Matthee-Ferreira discusses her career journey culminating in her current position at Cogence. She elaborates on the innovative approaches Cogence employs to enhance adviser efficiency. Additionally, she offers a forward-looking perspective on market trends and evolving client expectations, emphasising the importance of adaptability and long-term focus in navigating today's complex financial environment.

### **Q Tell us about your career and what you believe prepared you for this role?**

**MATTHEE-FERREIRA:** I have been in the industry for over 20 years. I started at a small asset management company as a Research Analyst. From there I joined Metropolitan to start Metropolitan Multi Managers where I was also sort of the CIO/CEO. Then after that, I joined ABSA, first as Head of Product Accreditation and we also started a range of portfolios for ultra-high-net-worth clients, and it was an interesting, fascinating journey.

We were still part of the Barclay's Group then, and I joined Brandon Zietsman who is now at PortfolioMetrix. It was a great learning curve. From there, for the last eight years, I spent as the Head of ABSA Multi Managers and then there was a corporate action between ABSA and Sanlam and I spent about a year there.

So, in summary, I started as a Research Analyst, became a Portfolio Manager and then headed up a business and I think that is what equipped me to be the CEO and CIO of this very important business opportunity. My experience definitely assists in what I have been doing now.

### **Q Please tell us a bit about Cogence, the meaning of the name, and how the business is related to Discovery?**

**MATTHEE-FERREIRA:** So, Cogence stands for collaboration and intelligence. Collaboration with our partners – our partners are BlackRock (on the global side), RisCura and Aladdin Wealth. BlackRock is responsible for our asset allocation and our global manager selection. Cogence then combines this with the local investment management expertise of RisCura, who intimately understands the local market within a global context. Our Cogence technology is underpinned by Aladdin Wealth.

Discovery owns Cogence 100%. We are our own FSP and have our own executive team, so we are very independent when it comes to running the business, but we do leverage Discovery's functional support areas, including Vitality.

Using Aladdin Wealth, BlackRock's industry-leading investment and risk technology platform, and Vitality insights and data, Cogence is the first discretionary fund manager that fully models retirement solutions, taking health experience into account. We are looking at disrupting wealth management in the DFM industry.

### **Q What is Cogence solving for advisers, planners and clients that other DFMs aren't already doing and how does the business achieve this?**


**MATTHEE-FERREIRA:** There was quite a bit of research done recently where advisers spent 1/3 of their time giving advice to clients. The other 2/3s of their time was spent on admin, legislation, etc.

Through an unmatched digital experience, Cogence helps financial advisers cut through investment complexity with efficiency, clarity and confidence. This results in smart, seamless solutions that help advisers grow their businesses.

We want to partner with advisers to make sure they have time to give advice and focus on that. We are trying to assist advisers, so they have a very easy process. Our advantage is the powerful partnership with BlackRock, as well as our technology that is world class and world leading.

### **Q We all know the importance and power of data. Tell us how Cogence uses data from the Discovery group to improve your product?**

**MATTHEE-FERREIRA:** The benefit of Vitality is critical for us in terms of the research



**JONEL MATTHEE-FERREIRA**  
CEO and CIO  
Cogence

# COGENCE:



and articles we are able to leverage, for example, people are living longer and there is a gap in retirement. There is always new information available to us, which is where the power of collaboration lies with Vitality.

**Q** You've just released the Cogence 2024 Market Outlook. Can you expand on the trends you are seeing and what these mean for the investment landscape?

**MATTHEE-FERREIRA:** Last year everyone expected the interest rates to come down at the beginning of the year, but no one expected inflation to be so sticky. So, that interest rate cut that we all expected is not going to happen anytime soon. And also, most likely when the interest rate cut happens, it will be slower than expected. There is also not a lot of cash in the market. Central banks have run out of cash. So, I think we are in an interesting time where we are seeing higher inflation, growth is stagnant, globally there is geopolitical tension, Environmental, Social and Governance (ESG) factors have become a big factor and technology too.

**Q** In your view, how have client expectations evolved over the past few years – especially in the investment and asset management space?

**MATTHEE-FERREIRA:** If you think about a few years ago there were a few big names where all the money went in to. It was very focused on single managers and there was a lot of focus on diversification. But clients are much more educated now and there is much more information available to them to make decisions. Clients are also a lot more demanding and expect personalised advice. I think it's a combination of new products coming to the market, legislation changing and more informed clients.

**Q** What do advisers and planners want to see and hear from DFMs? What really matters to them?

**MATTHEE-FERREIRA:** They are looking to us and I think it's important that we enable them to sit in front of their clients and to be informed; to be able to tell clients what they can expect from their portfolios and what needs to be done to get to their retirement successfully, etc. I think advisers are expecting more from their partners and DFMs to assist them in planning for their clients, running their practices and also making it easier for them to give advice.

**Q** Your last message to the FAnews audience?

**MATTHEE-FERREIRA:** We are in exciting but difficult times. No day is ever the same. It's daunting but don't panic. We've seen turbulent times in previous years but stay focused on the long term. The market will recover. ●

## DISRUPTING THE SOUTH AFRICAN DFM INDUSTRY



Having recently joined Cogence, as the CEO and CIO, Jonel Matthee-Ferreira speaks to Rianet Whitehead, FAnews Editor, about her career and what she believes prepared her for this role. She also speaks about Cogence, and how the business is related to Discovery, what Cogence is solving for advisers, planners and clients that other DFMs aren't already doing.

**ANDREW HORSFALL**  
CEO - Milpark Education

# MILPARK: WE TAKE A DIFFERENT APPROACH TO HIGHER EDUCATION

**M**ilpark Education has become one of South Africa's top higher education institutions. With different schools offering various professional and accredited programmes, the organisation is making a name for itself through academic excellence and a student experience that is more inclusive overall.

It means greater support and flexibility for course and fee structures and a deeper understanding of life and work pressures. There is also wider accessibility to education by giving students opportunities to meet academic requirements to gain admittance to programmes.

## Unlocking student capabilities

Milpark Education CEO Andrew Horsfall says Milpark has prioritised understanding South African students and their needs. "We found that South African students have the potential to succeed, but what they are lacking is support and help in unlocking their capabilities."

Milpark has taken a more interactive approach to contacting students and how the online platform dispenses information and study material. By embracing a more holistic understanding of education, the focus is placed on students and assuring them that whether they are working professionals trying to advance their careers or young matriculants battling to survive while furthering their studies - they will not be alone while they study. Academic modules are flexible, lecturers are approachable, and student counselling, guidance and tutoring are woven into academic programmes.

There is arguably more interaction with lecturers and facilitators than at traditional campuses, and online meets are invited and encouraged. It flows from the Milpark ethos: "We've got you. You've got this". This

message comes through in all communication with students as well as on the website and can be seen even in brochure information about academic programmes.

## Unique in its niche capability

So far, the numbers are looking good too:

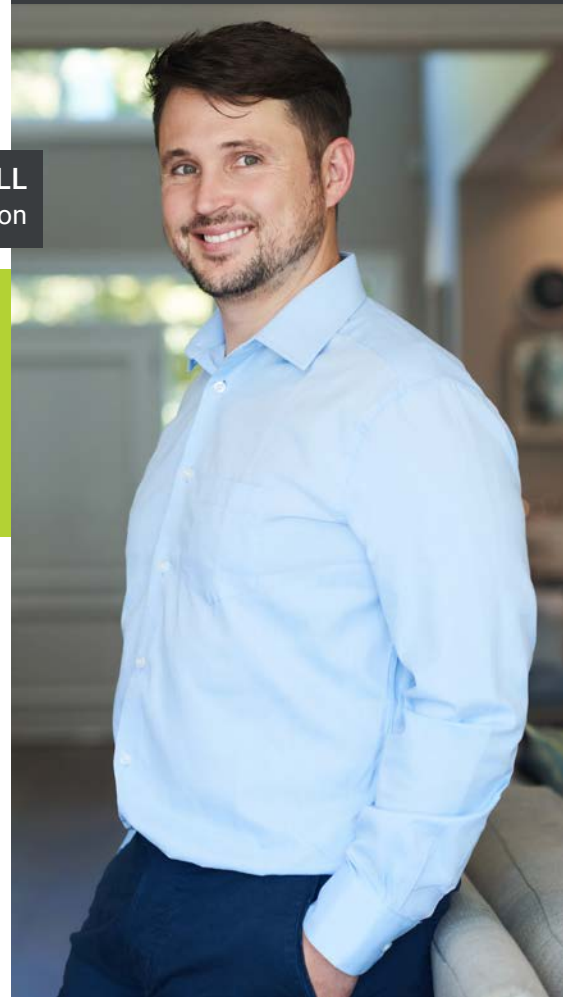
- In 2023, Milpark Education became the biggest pipeline of chartered accountants in South Africa; and
- The organisation is set to become a leader in accounting and financial educational offerings.

Milpark Education is part of Stadio Holdings, which posted significant growth in 2023. The holding company also owns two other educational institutions: Stadio Higher Education and film school AFDA.

Milpark was established in 1997 and went online (fully) in 2015, ensuring that it was confidently virtual when the demands for online education exploded during the COVID-19 pandemic in 2020. While other educational institutions played catch up, Milpark fine-tuned its platforms, improved its services and developed more advanced resources.

There are currently four schools: the Business School; the School of Commerce; the School of Financial Services, and the School of Professional Accounting (incorporating CA Connect).

Milpark Education's School of Financial Services (SoFS) was formed in 2023 following a merger between Milpark's former School of Investment and Banking and the School of Financial Planning and Insurance. The SoFS is unique in its niche capability as a provider of higher education across all four major areas of specialisation in the South African financial services industry. Milpark's new online BCom is of particular interest as it offers ten areas of specialisation, giving students an additional edge in their studies and future careers.



## Flagship qualifications

Milpark's flagship qualifications are:

- Doctorate in Business Administration (DBA);
- AMBA-accredited Master of Business Administration (MBA);
- Postgraduate Diploma in Accounting (PGDip (Accounting)/CTA);
- Postgraduate Diploma in Financial Planning (Accredited by the Financial Planning Institute of Southern Africa);
- Postgraduate Diploma in Business Administration;
- Postgraduate Diploma in Banking;
- Postgraduate Diploma in Investment Management;
- Postgraduate Diploma in Public Administration;
- Postgraduate Diploma in Risk Management;
- Bachelor of Commerce – with a selection of Majors;
- Bachelor of Business Administration – with a selection of Majors; and
- Undergraduate qualifications in banking, financial planning, short-term insurance, human resources management, accounting and management.

Milpark's programmes are all available through distance learning, with the flagship qualifications being offered as distance learning online (DLO), an enhanced digital form of distance learning. ●

# MARISA GRUNDLING:

## a passion for insurance and education

**M**arisa Grundling has extraordinary enthusiasm for all things insurance and risk management. It is matched only by her love of teaching and sharing her knowledge with young professionals keen to learn more about the increasingly important role of insurance professionals in the business world today.

Marisa openly acknowledges that she likes coming up with out-of-the-box ideas and approaches. She is always thinking up new ways of teaching and presenting complex theories to students. This comes in handy for her position as Head of the Department of Insurance and Risk Management for Milpark Education, one of the top institutions for higher education in South Africa.

### Her career path

Marisa's career started in the insurance industry where she worked for 12 years, working her way up the ladder. She eventually became a broker and took on a senior role at a Pretoria insurer. But she had always loved teaching and training others, and with a mother who was a teacher, it seemed like lecturing was a logical next step.

"I enjoy the interaction with students as I am an extrovert," she admits. "I like interacting with people and there is nothing better than when someone has one of those 'Aha!' moments and they suddenly get a concept."

She believes in making learning fun and is always exploring better methods of presenting and explaining course material. She also feels strongly that we should never stop learning and is currently studying for a master's degree in international education at the University of St. Andrews. Her other qualifications include certificates in short-term insurance and risk management and a BCom specialising in short-term insurance. She followed this with a postgraduate programme in higher education at the University of London.

She loves pedagogy and learning about the practice and method of learning. She quotes research that shows that most people retain only about 5% of what they learn in traditional lecture settings. On the other hand, when people teach others, they remember 90% of the material. This is why she is a big believer in co-learning methods like group sessions, role-playing, and flipped classroom methods.

### A growing need for insurance experts

When asked if insurance isn't dull, she laughs out loud. "There is absolutely nothing boring about insurance! No company is alike, and you must understand each company and its unique profile to comprehend their particular risk exposure." She goes on, "If you look at what is happening in the world of business right now, it is exciting to see how there are constantly new products being developed to meet market demands."

She says there is a growing need in the market for insurance experts who understand what it is like to run a business in times of instability and uncertainty. Risk management is a particularly keen interest of hers. "The business world is so dynamic, and it is constantly changing. Risk management has emerged as a critical pillar for those who not only want to survive but thrive."

### A real edge in the market

This is why she is delighted about Milpark's new Postgraduate Diploma (PGDip) in Risk Management, as it comes with five specialisation streams that give individuals a real edge in the market.

She is also excited about The Insurance Apprentice (TIA) competition, in which Milpark Education is participating this year by awarding bursaries to the top three candidates. "It is such an incredible initiative, and people learn so much. I follow it religiously and am so excited to see how people grow. It is an incredible initiative." ●



Join FAnews Editor, Rianet Whitehead, as she sits down with **The Risk Avengers**, a dynamic group of individuals from the insurance and financial services industries, who all met at Milpark Education. Rianet introduces us to **Nicole Stow, Prudence Motha, Nobuhle Moyo, and Matthew Vagle**, who share their journey, insights, experiences and the importance of collaboration and having the right partners in their venture. Discover the common thread and the context within their studies at Milpark, plus the most exciting aspects of their project.



# RESILIENCE AND AGILITY - the secret to unlocking future-proof growth

Over the last few years, insurers have faced – and continue to navigate - a host of obstacles that threaten the growth and survival of the industry. From COVID-19 to the stark realities of climate change, the rising cost of living and having to solve for cyber security risks - the pressure has been felt from all sides.

We've seen some emerge stronger and others have lost some ground but what's been clear is that resilience and agility are vital for the success of businesses in insurance.

## Navigating the changing landscape

**Shaka Zwane, Executive Head, Insurance and Fiduciary at Standard Bank South Africa, and Linah Mabena, Chief Executive at Standard Bank Insurance Brokers,** talk to us about how to successfully navigate the changing landscape.

### Q To what degree has the penetration of technology transformed the industry and customer experience?

**MABENA:** For a long time, the industry talked about digital transformation as a strategy, because we all know the benefits of technology. However, the challenges brought on by the pandemic and the extreme weather-related events became the catalyst for change, which made the transition happen quicker. Covid was a turning point for all of us because, in the middle of the crisis, we were able to automate processes we never thought we could in the timeframe in which we never thought possible. Submitting a claim using WhatsApp as a channel did not make sense pre-pandemic but that changed when claims couldn't be made at a branch due to lockdown.

Automation and digital tools also improve clients' experience and add value by saving customers costs of driving to the physical branch or phoning the contact centre. We are in the business of alleviating as much stress as possible for our clients, thus access and speed of execution is paramount for our clients.

### Q What considerations should a business keep top of mind when "growing" through a digital transformation journey?

**MABENA:** Going digital can be a radical experience, one that requires a lot of investment and boldness because a lot is at stake.



Digital tools also broaden access to financial services because they can alleviate the need for additional physical infrastructure investment. Investing in digital infrastructure, including cloud-based services, artificial intelligence, and customer-facing technologies contributes to enhancing efficiencies and subsequently, improving user experiences. But it also requires a lot of education because while customers like the convenience brought by digital channels, we have found that the bulk of our clients still prefer to visit the branch or phone the contact centre and hold on for 30 minutes to speak to a specialist consultant, for something they can do by themselves using their mobile phones.

Digital also requires a segment strategy as we cannot assume that everyone with a smartphone has data, can read and is comfortable using technology. The role of high-tech has enhanced what we do but it does not necessarily replace physical human interactions, which is critical to customers, especially during moments of vulnerability.

### Q To what extent have consumer behaviour and attitudes toward life-related insurance changed?

**MABENA:** Monolithic solutions are now a thing of the past. Clients want personalised, modular and customisable solutions, giving them the freedom to choose their own benefits based on their individual circumstances and affordability. Consumer behaviour and attitudes have also changed toward life-related events. Life-altering events such as the pandemic, climate change-related weather disasters and economic turbulence causing loss of employment have brought with them a greater appreciation of the importance of Insurance. For us, the task is still to educate customers about the different insurance solutions. We believe there is a revolution required around consumer education at the back of the changes



in consumer behaviour and attitudes towards life insurance. The big challenge for the industry is to educate clients about the world that has become uncertain, volatile and complex. It's not just about Covid. We have seen climate-change patterns, which result in floods and fires. Consumers need to be educated to protect what that they have worked so hard for because insurance is precisely about that.

### Q What do you think have been some of the biggest lessons for leaders in the insurance industry in the last few years?

**ZWANE:** Some of the life-threatening events that have taken place in the last few years have underscored the importance of being able to adapt quickly to unexpected events. Leaders learned that having flexible business models and robust contingency plans is crucial for maintaining operations and customer service during crises. One of the biggest challenges has been responding to the changing weather patterns and economic turbulence in South Africa. This requires a multifaceted approach from leaders in the insurance industry including staying informed about the macroeconomic conditions and political developments in South Africa. It's important that leaders (and their teams) understand the broader economic and environmental landscape, including inflation rates, currency volatility, and policy changes which are all essential for making informed strategic decisions.

### Q What do leaders need to consider in facing economic turbulence head-on?

**ZWANE:** While several key attributes are instrumental in driving business resilience and agility, especially in the face of recent challenges, economic turbulence does increase the unpredictability of risks. It's imperative that leaders enhance their risk assessment models to account for economic instability, including the poten-

tial impacts on claims, underwriting, and investment portfolios. A proactive approach to risk management can help mitigate adverse effects. Economic hardships can affect customers' ability to afford insurance premiums. Insurers need to consider offering flexible payment options, customised products, and value-added services to retain customers and support them through financial difficulties. In addition, clear and robust customer retention strategies should be considered for business sustainability.

### Q What have been the key attributes that have driven business resilience and agility in your organisation?

**ZWANE:** Our leadership team has been pivotal in setting a clear vision and direction for the organisation. Their ability to anticipate changes, make informed decisions quickly, and inspire confidence has been crucial in navigating turbulent times.

We've also made a commitment to innovation. Embracing innovation has allowed us to stay ahead of the curve. We have and continue to invest heavily in new technologies, digital tools, and innovative processes that have streamlined operations, improved customer service, and opened new revenue streams. One of Standard Bank's imperative is transforming client experience. Placing the customer at the centre of everything we do has driven our ability to remain resilient and agile. By actively listening to our customers' needs and feedback, we have tailored our products and services to meet their evolving expectations, enhancing customer satisfaction and loyalty. Finally, our comprehensive risk management framework has helped us identify, assess, and mitigate potential risks proactively.

### Q Beyond offering life insurance cover, what social aspects should life insurers consider when designing solutions in this evolving world of insurance?

**MABENA:** While life insurance and funeral cover remain important in leaving a legacy, tough economic times call for the industry to think of ways to give back to the client while they are still alive. South Africans are under considerable pressure from interest rates, which are at a 14-year high. The insurance industry has to evolve with the socio-economic landscape to meet the needs of clients, and this means offering benefits that go beyond covering the cost of a funeral. The funeral product, as we knew it five years ago, has had to evolve to add value and benefits like cashback incentives that can be enjoyed while still alive.

With policies, consideration had to be given to the social challenges that come with losing the main policyholder or a breadwinner. We've had to think about how we can create a buffer for the grieving family to be able to survive beyond the tragic incident, with incentives such as groceries and airtime long after the funeral. We cannot just think of our client relationships as transactional. From a short-term insurance perspective, additional solutions like tyre and rim, warranty cover and medical gap cover, are available for customers to consider as complementary or as a stand-alone to enhance the core cover benefits.

Lastly the benefits offered in commercial insurance like the business interruption cover which are in addition to restoration of the infrastructure following an insured event as critical for continuity and sustainability of the business. The world is moving and so are our customer needs and this is challenging all of us to stay relevant. ●



JADE JENSEN - Managing Director: Fulcrum Collections

# FULCRUM - powering Premium Collection and Finance

**A** dynamic, functioning insurance sector involves countless interactions between diverse stakeholders, each with a specific role. If any of these stakeholders drops the ball, even for a moment, they risk undermining the protection insurers and underwriters offer to businesses and households across the economy.

**Premium collection and premium finance champions**

Fulcrum is an innovative brand working tirelessly to enable brokers, insurers and other financial services brands to succeed in the competitive insurance and insurance broking disciplines by giving them an edge in crucial areas like premium collection and premium finance.

We help you to achieve the cost efficiencies and transactional scale that your FSP needs, freeing up your time to concentrate on what you do best.

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Premium collection and premium finance are compliance-heavy, technical activities. As a company specialising in these areas, Fulcrum has had to adapt to South Africa's evolving regulatory framework and position itself for the accelerated development and adoption of technology.

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## ALEXFORBES' STRATEGIC MOVE INTO THE DFM MARKET

**F** Anews recently chatted with Viresh Maharaj, Executive: Retail at Alexforbes, to delve into the company's strategic entry into the Discretionary Fund Management (DFM) market and the motivations behind this move.

**Q** What were the primary reasons behind Alexforbes' decision to enter the DFM market now?

**MAHARAJ:** It's simply about helping people. As part of our core business, we're focused on assisting retirement fund members and those nearing retirement. We realised that the capabilities we've developed can be further utilised, especially in providing investment advice. We've built an internal engine room to effectively assist clients. Now, we aim to extend access to this engine room to other IFAs, enabling them to benefit from our expertise in investment management, research, and related capabilities, while they focus on specialised advice.

**Q** What are the advisers feeling about you offering them this service?

**MAHARAJ:** The way that we see it is that the best of advice is in our DNA. We share that common experience of dealing with

people. The retail market is big enough to compete in and collaborate. With our ability to help, there will be IFAs who want to work with us, who see the opportunity to benefit from our scale and independence of all asset managers because we are SA's largest multi-manager, and to benefit from the enablement capabilities that we built for our team, to benefit their practices so they can be unleashed and free themselves to focus on what they do best.

**Q** You are a late entrant to the market, what is your view on this?

**MAHARAJ:** We believe that now is the right time to enter this space. The DFM market has matured over the last five to ten years, and many other companies have entered, but none have the breadth and depth of capability or Investment Solutions that Alexforbes can deliver to IFAs. We have taken our time to make sure that our models work and that they work well for a breadth of different needs.

**Q** What technological innovations have you integrated into the offering to enhance service delivery and efficiency?

**MAHARAJ:** IFAs who choose to partner with Investment Solutions by Alexforbes have access to the same platforms and capabilities enjoyed by clients who have

invested over 500 billion in assets with Alexforbes Investments. We are enhancing those capabilities and are on a technological journey.

One of the key aspects of that is the exciting acquisition of Outvest from Outsurance. We have been integrating Outvest into our tech app and intend to provide IFAs who partner with us the ability to use the Outvest platform with their DFM portfolios. This provides a first-of-its-kind digital-in-a-box solution that would otherwise be inaccessible to the typical IFA.

**Q** What is your unique value proposition? In other words, why Investment Solutions by Alexforbes?

**MAHARAJ:** It's in the name itself. We have unparalleled capabilities to offer solutions for investments. It's on our track record, reputation, and reach that we have developed over the past 19 years of existence, and with 26 years of investment track record and experience, we have unmatched research capability in South Africa. Within Alexforbes, we have the largest manager research team in the country. We have an offshore relationship with Mercer, the world's largest multi-manager, with the world's largest manager research team who evaluate thousands of managers across the world and investment strategies.

So, as an IFA, you have unparalleled access to the best offshore research available from the comfort of your practice in South Africa by partnering with Investment Solutions by Alexforbes.

**Q** Your final word to the FAnews audience?

**MAHARAJ:** This launch of the DFM is one of a few initiatives we at Alexforbes have implemented to become more relevant to you. This is a new era for us and how we can play a different role in the broader financial services sector. My request is, let's have a conversation and see if there is something that Alexforbes can help you with. ●



Rianet Whitehead, FAnews Editor chats to Viresh Maharaj, Executive: Retail at Alexforbes, to delve into the company's strategic entry into the Discretionary Fund Management (DFM) market and the motivations behind this move.



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# TCF, REGULATORS AND THE LAW OF CONTRACTS

In our prior article, we argued that contemporary regulatory frameworks often fail to align with broader societal systems, including reality, history, market practices, common law, constitutional law, and other accepted norms.

This also applies to the new Twin Peaks system. What seems to have occurred can be termed the “blank sheet approach.” Rather than crafting a system that aligns with existing frameworks, it seems the drafters (and administrators) perceived they were given a clean slate. They were thus free to devise and implement a regulatory framework without much consideration for existing frameworks, which had functioned efficiently. They could even fabricate issues to address.

As previously noted, a similar situation arose in the early 2000s, when the UK regulator decided that financial institutions across all markets were not treating their customers fairly. This was then treated as a problem to solve which became TCF. While these points have been addressed previously, further elaboration is unnecessary for this article.

## History, what exists, matters

In two previous articles we pointed out that where certain practical problems had occurred, legislation was passed to deal with these problems (Vivian et al., 2019; Vivian & Taylor, 2019). Without explanation, these remedial provisions were not carried over into the new blank sheet legislation.

For example, insurance, by its nature, is international and foreign insurers offer cover in South Africa. Where this happens, a question arises as to which law applies and which courts have jurisdiction. An example of this is Lloyd’s presence in South Africa. This question was discussed when the 1923 and the 1943 Acts were passed. Eventually, Lloyd’s sent out a delegation to meet with legislators.

The legislation was drafted by Mr Webber, a Founding Member of a law firm. Eventually, in 1969, the Insurance Act of 1943 was amended to insert a provision providing that in the case of domestic policies, South African law applied, and South African courts had jurisdiction. When the Insurance

Act was replaced, this provision was left out and what remained was obscure, to say the least. In practice, the issue arose again. The court had to decide whether the contract should override and undo what both the courts and parliament had decided, but which no longer appeared in the legislation. This would have allowed discredited English law to be applied in South Africa (Classic Sailing Adventure’s (2010 SCA). This was an unnecessary complication.

Academically speaking, this blank sheet approach creates massive problems. Academic knowledge builds on what is known. This was captured by Sir Isaac Newton’s famous remark, “If I have seen further than any other man it is because I have stood on the shoulders of giants”. So, if a system springs into existence which is created afresh and outside the existing frameworks, it is difficult, if not impossible, to analyse using existing and established parameters.

## TCF and contracts

The law of contracts within the Treating Customers Fairly (TCF) - regulated environment can be used to illustrate the problem. We start with the notion of obligations. When a financial institution enters into an exchange transaction it incurs obligations to the consumer. Historically, we know that under the common law, going as far back as the Roman writer Gaius (AD 180), in private law obligations arise from either delict or contracts. We also know that courts around the world incrementally developed the law of contracts to enable it to effectively facilitate commerce.

The principle that evolved through this process is that obligations are those accepted by the parties to the contract themselves but subject to public policy. The obligations do not arise from third parties outside of the contract. The resulting engagement will be economically feasible.

In the previous article, we discussed TCF, which was introduced in the early 2000s in the UK. It is not based on specific laws but on principles and outcomes. Take Principle 9 - “The firm must take reasonable care to ensure the suitability of its advice... for any customer who is entitled to rely upon its judgement”, and with this, there is also

the outcome – “Where customers receive advice, the advice is suitable and takes into account their circumstances”.

Is this now part of the contract between the parties? Is this a legislatively imposed obligation? The common law does not say what TCF says. It says something different. For example, when goods are sold there is an implied warranty that it is suitable for the purpose for which it is sold. The point is the emphasis is on the product not the needs of the user.

## Reality: Pensions Black Hole

Let us apply this to the so-called UK pension mis-selling scandal of the late 1980s. In the 1980’s, the private sector had Defined Benefit occupational pension schemes. The firm would pay the employee a pension for life based on his or her final salary adjusted for inflation and then on the death of the member the pension would continue to the death of the spouse. The UK pension system is complex, but it also offered a type of Defined Benefit pension system, the SERPS.

When firms started to carry out projections of the costs of Defined Benefits pensions system, they ended up with what has become known as the Pension’s Black Hole. Projecting into the future Defined Benefit pensions would require firms to pay in millions to cover the deficits, the Black Hole. Once these deficits were quantified and brought on the firm’s balance sheets, it was clear some firms would face severe financial difficulties going forward. So many firms, and the government with its SERPS, decided on a movement to Defined Contribution schemes.

What that meant was the cost of the Pension’s Black Hole was transferred from the schemes to pensioners themselves. Most pensioners would be worse off, and pensioners of the future would not have sufficient funds to survive.

The fact that the vast majority of members of occupation pension schemes would be worse off was not advertised (and is still not to this day). Members of occupation pension schemes were encouraged to transfer to Private Pension Schemes

(PPP). The private sector, what we now call asset managers, were more than delighted to take on the new business.

Asset managers do not guarantee returns. They used to do calculations producing indicative values, but they have even stopped doing that. They try to manage funds to benchmarks but do not guarantee they would outperform some other possible rate of return.

We now know the inevitable result. Many, if not most of those who transferred out of Defined Benefit schemes, were worse off than they would have been had they not switched. The inevitable "loss" they incurred was blamed on bad advice.

### Cause of the losses

It was simply accepted the switch was mis-selling and was the cause of the "loss" and the financial industry had to be punished. This sentiment is reflected by Julia Black and Richard Nobles (Black & Nobles, 1998). "This [mis-selling] is not an example of regulation seeking to punish a few rogue members of an industry; it is the [entire] industry which has been found wanting by its regulators." It should be

noted that it was not the courts but regulators which were involved.

This statement highlights the problem of contracts and regulation. The obligation imposed upon the industry did not arise from the contract. They never agreed to do what they were accused of not doing. In a contract to be wanting is not to perform one's obligations under a contract. The industry was found wanting, on something it never agreed to do in the contract. The law of contract did not seem to have been considered. An obligation was imposed ex post facto on the industry by a third party.

### A number of fundamental conclusions

Firstly, third parties are imposing obligations on suppliers without their consent or agreement, thus altering the basis of obligations.

Secondly, if a contract exists, suppliers are forced to accept terms not negotiated by them, changing the basis of obligations.

Thirdly, the financial feasibility of complying with these new obligations is not considered, contrary to the evolved principles of

contract law aimed at ensuring economic viability. Fourthly, neither parliament nor the courts seem to be involved in this fundamental shift.

Finally, the complexity of this regulatory shift challenges traditional frameworks for analysis.

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# UNDERSTANDING PRESCRIPTION IN CLAIMS FOR PROFESSIONAL NEGLIGENCE

One of the key principles in the dispute resolution process is finality, which relates to ensuring that disputes are resolved within a reasonable time. Prescription plays a vital role in this concept as it determines how much time an aggrieved party has to pursue a claim.

The Prescription Act<sup>1</sup> prescribes the time limits within which an aggrieved party can institute legal action against a wrongdoer. The Act provides that in respect of a debt that does not relate to a mortgage bond, judgment debt, tax-related debt, debt owed to the state and a debt arising out of a bill of exchange or negotiable instrument, the prescription period will be three years. Section 12(1) of the Act provides that prescription commences to run when a debt becomes due. The Act further states that prescription will begin to run when a creditor has knowledge of the existence of a debt.

## Claims for professional negligence

Prescription of claims against professionals has not been a straightforward matter to tackle and has resultantly been the subject of many disputes before our courts. The contentious issue has been what is considered knowledge of a debt, as it relates to claims against professionals for professional negligence.

## How have our courts approached the issue?

Our courts have previously held that the period of prescription begins to run against a creditor when the creditor has the minimum facts which are necessary to institute an action<sup>2</sup>.

In the case of *Links v MEC for Health, Northern Cape*<sup>3</sup> which dealt with a medical negligence claim, it was held that in cases of professional negligence, a party seeking to rely on prescription must show that the plaintiff was in possession of suffi-

cient facts to cause them, on reasonable grounds, to think that the injuries were due to the fault of the medical staff.

Resultantly, the court found that without advice from a medical expert, it would be unrealistic for the law to expect a litigant who has no knowledge of medicine to have knowledge of what caused his condition without having first had an opportunity to consult a relevant medical professional or specialist for advice.

On the other hand, the Supreme Court of Appeal, in dealing with a professional negligence claim against an attorney, in *McMillan v Bate Chubb & Dickson Incorporated*, held that prescription will begin to run when a creditor acquired knowledge of all the material facts from which the debt arose and does not require any knowledge of the legal consequence of the negligent action<sup>4</sup>.

Similarly, in *Johannes G Coetzee & Seuns v Le Roux* [2022] ZASCA 47<sup>5</sup> where the applicants only became aware of the attorney's breach of the mandate during the cross-examination of Mr Le Roux, the court accepted that this was a legal conclusion, not a fact from which the claim arose and, as such, was unrelated to the commencement of the running of prescription.

However, in the recent constitutional court judgment of *Le Roux and Another v Johannes G Coetzee & Seuns and Another*<sup>6</sup>, the Supreme Court of Appeal's judgment was overturned. The court determined that in certain instances of professional negligence involving legal practitioners, a legal conclusion might be necessary for a complete understanding of the facts leading to the debt. This includes knowing that the legal advice received was incorrect. Additionally, the court clarified that the plaintiff's knowledge could not be imputed from their agent (another attorney) for prescription purposes, as it necessitated the plaintiff's actual subjective awareness, not that of their agent.

## Importance of developments, from a claim's perspective

Law will always evolve in line with the boni mores of society. The above-mentioned judgements are a reflection of that. It is important to remember that prescription will only commence to run once a creditor has knowledge of the facts from which the debt arose, except where the facts essentially speak for themselves.

From an insurance perspective, claims against professionals have arguably become riskier since the 'longtail' nature of such claims has just been extended and the test to determine actual knowledge has become more nebulous. Prescription defences are, therefore, under increased scrutiny and claims which might otherwise have been said to have become prescribed, may yet still be alive.



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<sup>1</sup> 68 of 1969

<sup>2</sup> *Minister of Finance and Others v Gore* NO 2007 (1) SA 111 (SCA) para 17

<sup>3</sup> *Links v Member of the Executive Council, Department of Health, Northern Cape Province* [2016] ZACC 10; 2016 (4) SA 414 (CC); 2016 (5) BCLR 656 (CC)

<sup>4</sup> *McMillan v Bate Chubb & Dickson Incorporated* [2021] ZASCA 45

<sup>5</sup> *Johannes G Coetzee & Seuns v Le Roux* [2022] ZASCA 47

<sup>6</sup> *Le Roux and Another v Johannes G Coetzee & Seuns and Another* [2023] ZACC 46

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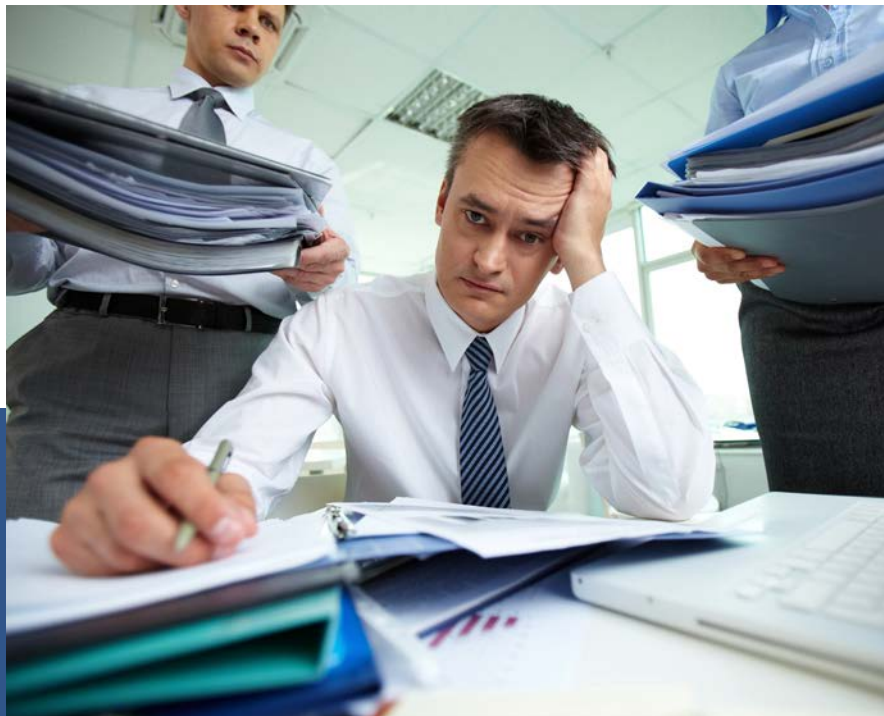
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# A REFRESHER ON THE COFI BILL and the latest developments

**T**he Conduct of Financial Institutions Bill (COFI), which may still be promulgated in 2024, represents a major leap forward and will have far-reaching implications for all financial institutions. Here's a refresher on the Bill and the latest developments to be aware of.

## What's the aim of COFI?

The COFI Bill aims to consolidate the principles of conduct in the current legislation governing the financial services sector. When enacted, COFI will wholly replace the Financial Advisory and Intermediary Services (FAIS) Act and will formalise the application of the Treating Customers Fairly (TCF) principles that underpin all financial services market conduct regulations in South Africa.

The COFI Bill aims to protect customers of financial institutions, ensure their fair treatment, and promote financial inclusion. However, to achieve these objectives, COFI aims to create consistency in how the TCF principles are understood, applied, and enforced within the industry and across all regulations. The Act will apply to all financial sector institutions including banks, insurers, brokers and financial advisers, and asset managers, among others.

## When will it come into effect?

There is still uncertainty as to the final promulgation of the Act. However, the

Financial Sector Conduct Authority (FSCA) has said it believes the National Treasury's intent is still for it to be tabled for Parliament's approval this year.

## What's important to know right now?

■ **Reporting** - A key aspect of the COFI Bill that's under the spotlight at the moment is the Omni-Conduct of Business Return (Omni-CBR) reporting system, which aims to formalise data collection in the industry.

The Omni-CBR is a new off-site monitoring tool developed by the FSCA, which will require financial institutions to report in detail on conduct indicators and customer outcomes, including issues such as business composition, complaints handling, and policy cancellations. The FSCA expects this more onerous and granular reporting framework to support better customer outcomes by bringing issues of fairness to the surface.

By supporting a more consistent and formalised data framework across the industry it will allow the FSCA to compare data across industry players, quickly identify issues and outliers, and act swiftly against any institute that is failing to deliver fair outcomes. This places a higher onus on financial institutions to collect and analyse data, and to use data to identify problems, understand their causes, and take action to address them.

■ **Licensing** - The current system issues licences based on the category of institution – for example, whether your business is a bank, a financial services provider, or an insurer. Under the new system, the focus shifts to what activities your business is engaged in. Institutions engaging in multiple activities will require only one licence, but they will have to obtain authorisation for each activity and will need to add these approved activities to their licence.

■ **Enforcement** - A key aspect of COFI is enforcement and it has often been described in the media as legislation that aims to give teeth to the TCF outcomes. By providing detailed guidance on how institutions must conduct themselves in order to comply with these outcomes, and by supporting reporting in the industry that supports careful monitoring of conduct indicators, COFI will equip the regulator to identify and remediate breaches, and to act against the perpetrators of poor market conduct.

However, it will also equip financial institutions themselves to better understand how their business is delivering for clients – which, ultimately, will serve to improve customer satisfaction and retention, supporting more sustainable business practices and contribute positively to the bottom line.

## What do you need to do next?

COFI brings opportunities with it and financial institutions who embrace it will fare well in the COFI era. A good place to start is to focus on reporting. Start by identifying the various data sources in your business that will help you understand how you are performing in terms of customer outcomes.

This should include collecting customer feedback, analysing the feedback, and implementing steps to address any issues you pick up in the process. The sooner you start gathering and interrogating this data, the better equipped you'll be to comply with COFI and to start submitting your Omni-CBR reports.



Glenn Hickling  
Head of Legal  
BrightRock

The recent communication from the Information Regulator serves as a timely reminder of the importance of compliance with the Promotion of Access to Information Act (PAIA) and the Protection of Personal Information Act (POPIA). In this context, insurers are tasked with the responsibility of submitting annual reports (submission date: 01 May 2024 - 30 June 2024) on access to information requests, providing insights into their processes and procedures for handling such requests.

As insurers grapple with the complexities of compiling and submitting these reports, **FNews** spoke to a **Kent Davis, Partner** and **Wendy Tembedza, Partner at Webber Wentzel** about the pressing issues.



Webber Wentzel plays a critical role in assisting insurers with preparing and submitting annual reports to regulatory bodies, including the Information Regulator. "We keep clients informed about submission deadlines. Additionally, we advise clients on submission content to ensure they meet their compliance responsibilities under legal requirements," said Tembedza.

### The common challenges insurers face

"Insurers face several challenges when compiling and submitting annual reports on access to information requests, particularly under the Policyholder Protection Rules (PPRs). According to these rules, insurers must maintain an effective data management framework that ensures data is always up-to-date, accurate, reliable, secure, and complete," continued Tembedza.

"A significant challenge arises from the fact that policyholder information is often obtained through third parties such as insurance intermediaries and binder holders. Despite the obligation for insurers to include terms in their agreements with these parties regarding the provision of information, the data received is frequently not up-to-date, accurate, or reliable. This discrepancy in data quality can pose significant obstacles for insurers when they need to comply with information requests promptly," added Davis.



## THE STAKES OF FAILING TO MEET information reporting deadlines

"The provision of poor-quality data to insurers may result in difficulties in timely compliance with information requests. Insurers must manage the data received from third parties appropriately and in a timely manner to avoid these challenges," continued Davis.

This situation, according to Tembedza, underscores the importance for insurers to enhance their data management processes and establish clearer communication and oversight mechanisms with third-party providers. "By doing so, insurers can improve the accuracy and timeliness of their responses to information requests, thereby enhancing their overall compliance with regulatory requirements."

### Strategies to streamline submission and compliance

"Our firm recommends that insurers implement a systematic process for collating the information required for reporting obligations well in advance of known submission deadlines. This proactive approach ensures that insurers are not caught unprepared as deadlines approach. By starting early, insurers can effectively monitor and revise their processes as needed, ensuring they remain compliant with regulatory requirements," stated Tembedza.

"Regular monitoring of this process allows insurers to assess their level of compliance and address any deficiencies in their procedures before submission deadlines. This proactive management helps mitigate risks associated with last-minute preparations and enhances the overall efficiency and accuracy of annual report submissions," she said.

"Implementing these strategies enables insurers to streamline their annual report submission process, maintain compliance with regulatory requirements, and reduce

the likelihood of issues arising during the reporting period," she added.

Tembedza mentioned that insurers should be aware that the Information Regulator (IR) is taking a more proactive role in monitoring compliance with the Protection of Personal Information Act (POPIA). "The IR is now assessing businesses that process significant amounts of personal information to ensure compliance with POPIA obligations. For insurers, having a robust process in place to meet reporting requirements is crucial to demonstrate their commitment to complying with POPIA. This proactive approach helps insurers fulfil their compliance obligations effectively and showcases their understanding of regulatory requirements."

### Failure to submit by the June deadline

Both Davis and Tembedza jointly concluded that while the IR's notice is drafted as an invitation for submissions, submitting a report should not be considered a voluntary exercise. "All private bodies must submit these reports. It is not clear what the consequences for non-compliance with the notice are; however, the IR could potentially serve the head of a private body/Information Officer with an enforcement notice. Should an Information Officer or head of the private body fail to comply with the enforcement notice, he/she may be liable for a fine or imprisonment or both. Moreover, the IR may conduct a compliance assessment on private bodies that fail to comply."



**Myra Knoesen**  
Journalist/Researcher  
FNews

# HEALTH AND SAFETY: a pillar of company culture – risk management view

**W**ith the shift towards remote and hybrid work, post-COVID-19, employers were forced to reevaluate leadership for productivity and employee well-being. For some, this renewed focus on the real value of human capital necessitated a closer look at company culture.

As a growing body of research has shown, positive company culture is linked to higher levels of productivity, innovation, creativity and ultimately profitability. Nurturing culture requires intentionality – a commitment to promoting meaningful and sustainable change.

## Fostering a positive company culture

It is our belief that a healthy culture built on trust and support leads to the success of the business. This requires making a concerted effort to create an environment in which principles like transparency and mutual respect are upheld. Management teams need to be approachable and willing to listen, for employees to feel free to express themselves without fear of judgement or intimidation.

This investment into company culture should be supplemented by the experience gained from servicing a large proportion of the local business community.

The hands-on experience makes it clear that fostering a positive company culture goes far beyond surface-level interventions such as extra leave days, free coffees or incentive programmes. While these kinds of company perks may play an important role in helping employees feel a sense of

belonging and fulfilment, a strong company culture is also about so much more. In a world that is often characterised by uncertainty and volatility, employees place a high value on safety and security. In turn, creating a workplace that is truly safe and secure, relies on building employee-employer relationships that are based on trust.

## Investing in factors such as health and safety

One of the most tangible ways employers can demonstrate their commitment to fostering trust is by investing in factors such as health and safety. Legislation such as the Compensation for Occupational Injuries and Diseases Act 130 of 1993 (COIDA) for example, plays a central role in offering workers – and in certain instances, their families, financial compensation against the health and safety risks that come with employment.

In the unfortunate event that an employee is injured, contracts an occupational disease, or dies as a result of a workplace incident, COIDA provides a vital mechanism by which the employee or their family can be compensated. Yet, even though thousands of these kinds of incidents place employees under immense financial strain every year, as much as 50% of registered companies in South Africa are not COIDA compliant.

If anything, this lack of compliance is reflective of the need for greater awareness around occupational risks and how to bring health and safety objectives into the organisation's culture that contribute to long-term success. After all, an investment in the well-being of employees needs to account for the fact that performing simple, everyday work duties can pose a range of health hazards. In the event that these risks

are brought to bear on the employee, their lives and their livelihoods may come under threat.

## COIDA-compliant companies have a strong base

Becoming COIDA compliant is, therefore, more than just a fiduciary duty – it is also a moral and ethical imperative that can make a meaningful difference in how employees see themselves in relation to the work they do on a daily basis. Insurers have an important role to play in developing solutions that can meet this need.

This drive can lead to the development of, for example, an Employee Injury Assist service that helps employers become COIDA compliant and provides the administrative support needed to report incidents, submit medical reports, ensure settlements and the like.

At the very least, COIDA-compliant companies have a foundation that they can build on – one that helps employees feel more secure. In the long run, this translates into higher job satisfaction, reduced stress levels, better workmanship and less absenteeism. By investing in employee well-being and fostering a positive environment, COIDA-compliant companies can create a pathway to sustained success and resilience in the face of workplace challenges.



**Dave Honeyman**  
Business Head  
SHA Risk Specialists

One of the most significant challenges facing the South African insurance sector is a fast-approaching skills shortage, as many industry veterans are heading for retirement, taking years of expertise and experience with them.

This comes at a time when insurance risks are becoming increasingly complex and client expectations for brokers to provide expert advice are growing. Unless skilled and knowledgeable young professionals can be developed, the industry could well face a gaping skills deficit within the next few years.

### The logical option to explore

While recruiting new talent seems like the obvious answer, employing new staff alone is not likely to be sufficient to backfill vacant positions fast enough. Unfortunately, recruitment on its own will not be sustainable in the long run, mainly because the right talent is hard to find, and new employees take time to get up to speed and gain the required experience.

This means that upskilling and occupational training, together with mentorship and skills transfer is the logical option that the insurance industry should be exploring if they have any hope of averting the looming skills crisis.

### Efforts to upskill the workforce

However, is enough being done to transfer skills and knowledge and are there enough "givers and receivers" for this to be a successful approach? In the absence of a coordinated, industry-wide collaborative strategy, it is difficult to gauge whether current skills transfer initiatives are sufficient to meet the long-term requirements of the overall sector.

It is important to recognise that the transfer of skills and knowledge in the South African insurance industry is a multifaceted and ongoing process, with various efforts being made to address the challenges.

According to the Sector Skills Plan 2020-2025, released by the Insurance Sector Education and Training Authority (INSETA), there are perceptions of transformation and success in addressing the skills shortage within the industry.

The report highlights efforts to upskill the workforce, particularly in response to the impact of the Fourth Industrial Revolution on the sector and mentions the development of new occupational qualifications and the prioritisation of technological skills development. However, the effectiveness of these initiatives can vary, and the perception of whether enough is being done can differ among stakeholders.

The INSETA report does outline strategies to align with national goals of reducing unemployment and addressing inequality and poverty through skills development. This includes forming partnerships with universities and increasing support for students, which seemingly indicates a proactive approach to skill transfer in the industry.

KPMG's South African Insurance Industry Survey 2023 indicates a robust recovery in the industry, highlighting the collective effort of insurers and reinsurers during the past few challenging years. However, it warns that the road ahead will remain challenging as new risks emerge and calls on the industry to continue to adapt and evolve in approach to skills and knowledge transfer.



## BRIDGING THE GAP: addressing the skills shortage in the industry

As for the question of whether there are enough willing givers and receivers to make for meaningful skills and knowledge transfer, the industry has historically struggled to fill the talent gap from a shrinking pool of qualified candidates. Employers have also expressed concerns about the education system producing school leavers with inadequate skills, which affects the pool of potential receivers of industry knowledge.

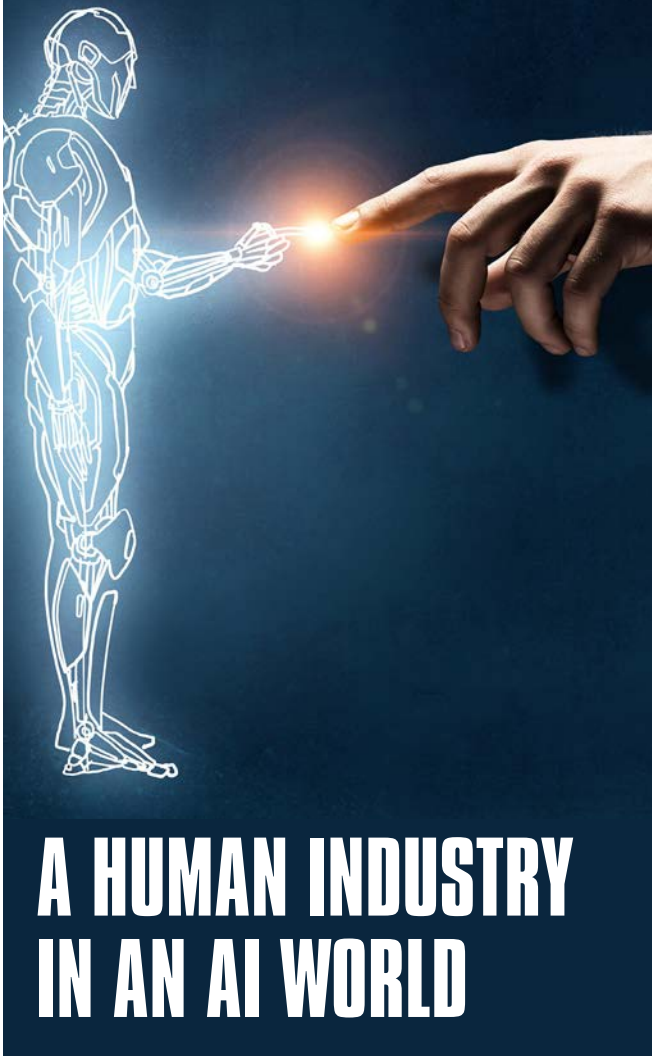
### The importance of skills transfer

However, it is hoped that as the insurance industry becomes increasingly digitally transformed, Millennials and Gen Zers – who are widely regarded as digital natives – will be attracted to the insurance sector. These candidates will be best placed to contribute towards future innovation.

Nonetheless, the industry can ill-afford to lose the years of invaluable experience that retiring professionals will take with them. It has often been noted that many workers do not document their work processes, leading to a lack of reference for future generations. If anything, this should underscore the importance of skills transfer.



**Thokozile Mahlangu**  
Chief Executive Officer  
The Insurance Institute of South Africa



In an Artificial Intelligence (AI) dominated landscape, the human element remains pivotal in shaping industries. With AI's boundless potential, there's an unprecedented opportunity to revolutionise every facet of our industry, from production to distribution. Yet, alongside these opportunities, come inherent risks.

The challenge lies in navigating these complexities to harness AI's potential while safeguarding against potential pitfalls.

**FAnews** spoke to **Edward Halsey, VP of Marketing at Genasys Technologies** and **Wimpie van der Merwe, CEO of Global Choices** about the associated risks and opportunities with AI, if we, as an industry are equipped to mitigate the risks and more.

### The possibilities and opportunities

The world, according to Halsey, has undoubtedly gone all in on AI, with more than \$200b forecast to be invested by 2025.

And is it any wonder given the possibilities? "There are many long-term efficiency issues within the insurance sector that have proven too challenging to address, but with the power of AI, the impossible suddenly seems possible. Whether it's Lemonade settling claims in less than two seconds, those tackling the UK's £1b a year fraud issue with AI-led detection or the combination of geospatial imagery with computer vision to address the vast underinsurance in the property sector, we suddenly find ourselves able to optimise our processes in ways we'd never thought possible. We've even witnessed Google built technology that can assess vehicle damage automatically from images, source and order parts economically and coordinate local repairs without the need for human intervention," said Halsey.



Van Der Merwe added that, "the opportunities include improved risk assessment, personalised offerings, cost efficiency, enhanced controls, and seamless customer experiences throughout the value chain, facilitated by intuitive actions and responses to risk, forming a comprehensive experience strategy. These factors will significantly influence the future of the industry."

Mitigating AI risks is a complex challenge that requires collaboration across various sectors including technology, policymaking, ethics, and research, according to Van Der Merwe. "There are ongoing efforts to develop frameworks, regulations, and ethical guidelines to address these risks, but it's an evolving field that requires continuous attention and innovation."

### The risks raise serious questions

Yet embracing AI comes with its own set of challenges, Halsey said. "Beyond ethical dilemmas, AI's efficacy hinges on the quality and integrity of its training data. When fed biased or incomplete datasets, AI can produce skewed outcomes - a glance at AI-generated definitions of 'beauty' quickly highlights this issue. The question arises: have we established stringent enough processes to ensure training data is beyond reproach? Moreover, with OpenAI boasting 475 expert AI engineers, there have still been instances of data inaccuracies or, more concerning, outright 'hallucinations'. Relying on AI for tasks like automated underwriting raises serious questions if it begins to misinterpret policy terms, regulations, or claims eligibility. Such biases have already sparked debates around algorithms in healthcare, credit scoring, and predictive policing, underscoring that life's complexities extend beyond what raw data can capture."

Van Der Merwe also noted that "the risks include data privacy concerns, ethical considerations, and potential job displacement, but it will also create a new special field of jobs and new risks."

He agreed with Halsey about the ethical considerations in AI adoption being crucial. "Some challenges include bias in algorithms, client privacy and data concerns, a lack of transparency, and potential job displacement. The strategies to address these concerns include promoting diversity in AI development teams, ensuring data privacy protection, implementing transparency and explainability in AI systems, and establishing clear guidelines and regulations for responsible AI usage. Building trust through ethical practices and monitoring are essential for fostering the responsible development and adoption of AI technologies."

### AI can elevate experiences and innovation

"Technology and AI are transforming the financial industry, by automating routine tasks, enhancing deep data analysis, and improving efficiency. While some tasks may become automated, financial professionals can adapt by focusing on more strategic aspects such as client relationships, complex analysis, and decisionmaking. Continuous learning and upskilling in areas like data analysis and AI can help financial professionals stay very relevant in this evolving landscape," continued Van Der Merwe.

Halsey added that as we continue to integrate AI into the fabric of the insurance industry, its role in automating tasks and enabling the delivery of customised insurance solutions becomes increasingly clear. "AI has the power to elevate customer experiences and foster the creation of innovative products, responding directly to the evolving expectations of our clients. However, the rapid adoption of AI technology also brings a responsibility to upskill promptly. This is not just to harness its benefits fully but, more critically, to navigate its complexities and potential challenges effectively. The industry must move quickly to understand and leverage AI, ensuring we're equipped not

only to reap the rewards but also to mitigate the risks. It's a delicate balance between embracing the future and safe-guarding against its uncertainties, requiring a keen understanding of AI's capabilities and its limitations."

### The skill of effectively using AI tools

The skill of effectively using AI tools, including prompt engineering and precise data querying, is crucial, according to Halsey. "Consider an example where an AI analyses the relationship between car colours and accident claims, concluding that grey cars are 10 times more likely to be involved in accidents than orange cars. However, this conclusion could be misleading if the AI isn't prompted to consider the proportion of cars by colour on the road. Given that 26.8% of vehicles are grey and less than 2% are orange, the higher incidence of accidents involving grey cars could simply reflect their greater prevalence. Much like autonomous driving, the immediate future seems very much pointed towards augmenting and supporting human activity, rather than letting it operate freely without checks and balances. After all, I'm pretty sure that's how Terminator started. Instead of replacing humans, AI's adoption should be about removing the mundane and repetitive tasks, returning people to high-value tasks, and augmenting them in such a way that their capabilities and productivity are dramatically uplifted," emphasised Halsey.

Most importantly, Halsey mentioned this approach ties in perfectly with customer expectations of brands being digital when you want it, and human when you need it. "Time and time again, we hear about customers wanting digital-first experiences, but when it comes to advice or reassurance (think: brokers/claims) they still crave human interaction. Computers cannot replicate empathy, trust, and consideration as skills."

### The intersection of AI and human expertise

"Although AI is set to revolutionise claims validation, assessment, and adjudication processes, its influence on claims litigation and financial aspects is limited. The expertise of insurance professionals will continue to be indispensable. Customer acceptance of emerging technologies will vary. Offering diverse interaction channels, encompassing AI-driven and human-assisted methods, accommodates customers across different technology adoption stages, while risk facilitation ensures widespread customer engagement. AI's incorporation enhances customer service in the evolving insurance realm, amplifying effectiveness when coupled with human involvement," stated Van Der Merwe.

In conclusion, Van Der Merwe said "AI is opening a wide array of possibilities, allowing us to harness AI and code our knowledge and abilities to contribute to humanity and find solutions to human and environmental challenges. "However, we must also acknowledge that AI has the potential to transcend human nature and logic, evolving into new dimensions of intelligence. This could potentially challenge or pose a threat to the purpose and existence of humanity."



Myra Knoesen  
Journalist/Researcher  
FNews



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# HARNESSING AI:

## opportunities and challenges in the insurance sector



**T**he rate at which insurers are adopting Artificial Intelligence (AI) varies at present, with some early adopters taking the plunge to see how they can integrate it into their business, while others are more circumspect, preferring to take their time.

However, technologies such as AI ultimately have the potential to improve productivity and efficiency, as well as to streamline and finetune processes such as underwriting, risk assessment and policy wording within the insurance industry. Additionally, the use of AI enables companies to gather meaningful information data insights from their clients, which facilitates personalisation, improved marketing and cross-selling opportunities.

### The adoption of AI

Despite the varying degrees of adoption at this stage, we are already seeing significant investment and involvement from the insurance industry at large. Insurers, reinsurers and brokers alike are investing in technology.

I think that many people are still trying to grapple with AI and wrap their heads around how best they can utilise it. There is still a lot of debate to be had around this topic, but the adoption landscape will evolve significantly over the next five years.

AI adoption will also likely be shaped, to a large degree, by the advancement and evolution of this technology and what it can generate, especially as we move towards Artificial General Intelligence (AGI), which is an intelligent system with comprehensive or complete knowledge and cognitive computing capabilities.

At the same time, AI has the potential to help alleviate some of the skills shortage that is currently creating a major threat to the sector, through its ability to learn some of these skills and tasks and teach them to people.

By harnessing these skills, AI has the ability to help people up their skills and abilities a lot faster and to almost become a partner or assistant to professionals making their way up through the industry. Essentially, AI has the potential to help fast-track training and learning and this can resolve some of the skills shortage challenges that we are facing.

### One of the challenges

However, one of the challenges to AI adoption that we have seen is the fear that AI might make some jobs redundant and lead to people potentially becoming unemployed. But I think that AI has a long way to go before it gets to that point.

As seen with various major changes that have shaped the world, such as the previous industrial revolutions, big technological advancements are always looked at with a lot of fear and scepticism.

There is always a fear that such advancements will cause massive job shortages and mass unemployment, yet this is almost always unfounded. I think human beings, by their very nature, are quite adaptable and what we'll find is that the way we work will evolve instead. There may be some jobs that will become redundant, but I don't think it will be the end of the human working force.

As such, I think there will be a good opportunity for humans and AI to work in collaboration with each other. But it is relatively early days, so much work still has to be done before this becomes a reality.

### Narrow windows of opportunity

It can be a positive step for South African companies to adopt this technology early to see if they can get the enhancements and benefits from it because huge technological evolutions tend to have narrow windows of opportunity.

AI will revolutionise the way we work as an industry and there is no hiding from it. So, embrace it as early as you can and try to get ahead of your competitors and perhaps even leapfrog some other countries in areas of technological advancements.



**Ryan van de Coolwijk**  
Product Head: Cyber  
ITOO Special Risks

**W**e have just witnessed the release of the latest version of Chat GPT, and what I have observed so far is truly astounding in terms of its capabilities.

It takes instructions and proactively analyses what is asked and produces answers within seconds - to a very high quality.

### **AI in the insurance space**

With this power, there are a host of other things that can be done. Some of it would be for the benefit of businesses and consumers, but it could also be used for negative reasons as well. It can shorten the time it takes to put together PowerPoint presentations, take minutes, summarise meetings and even draft correspondence according to a specified tone and language. Furthermore, it would be able to provide legal opinions, to the same level as qualified experienced attorneys.

What we are finding more and more in the insurance space is that AI is able to underwrite policies by applying specific rating tables and underwriting criteria, as well as administering claims in ways human beings are not able to do. It is able to assess damages on vehicles from photographs as an example, source part prices and then provide a final assessment quote within seconds. It can check facts provided by policyholders for fraud, but we are still in the early stages comparatively speaking.

### **A dangerous shadow that comes in with it**

Because of the power of the tool (I only touched a small number of examples above) there is a dangerous shadow that comes in with it. There still needs to be a human specialist to be able to check whether the output that is produced is correct and accurate. The longer AI becomes part of our lives, such experts (needed to check AI) will become fewer and fewer as more of the younger generation will become reliant on the output without needing to think and analyse the data that gets given. For example, if a legal opinion is produced, you would need a lawyer who can still read the opinion and agree on the level of its findings. Already the quality of case law research that can be done and analysed is very impressive. You need the attorneys who grew up without AI to be available.

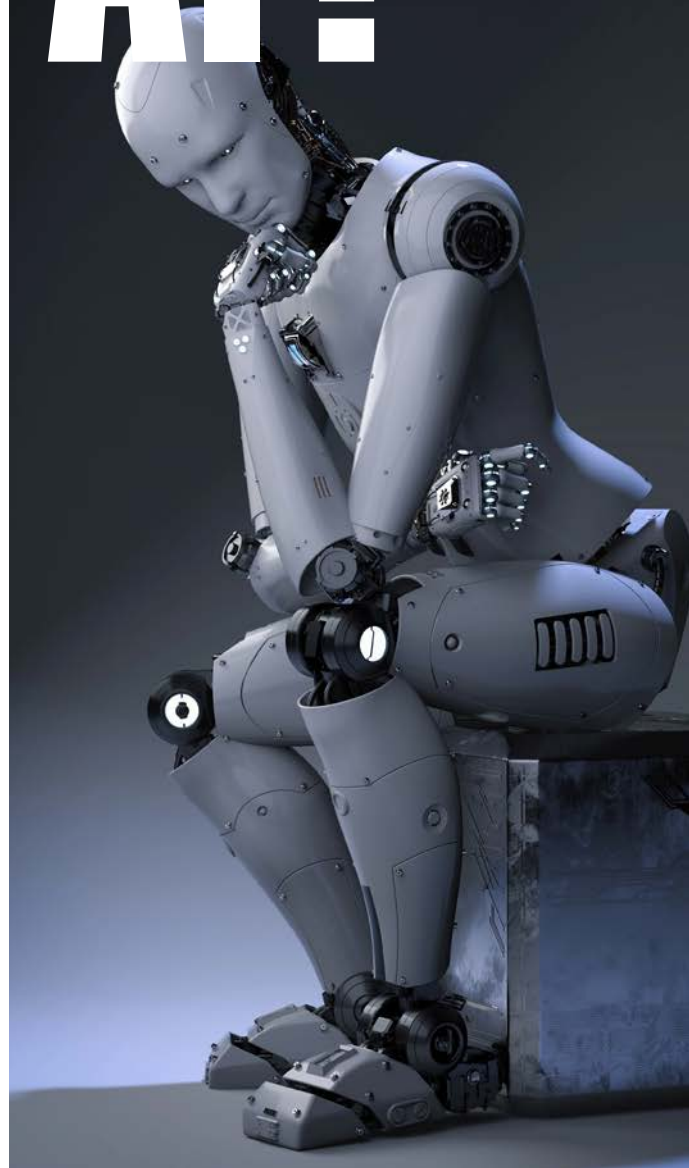
The other dark side is the clear potential for fraud, theft and other criminal behaviour. We are already very reliant on voice and facial recognition to identify ourselves. AI is already at a point where it can imitate people's looks, voices and characteristics and theft of identity will be common to hack into bank accounts, if this has not happened already. Our phones and sensitive applications are easy to access with facial recognition. Imagine if an AI-supported call phoned you in your spouse's voice to confirm a password for the credit card or bank account. The dangers as well of AI making major decisions for people in sensitive cases like wars, criminal prosecutions and other public policies shows the danger of where this can lead.

The major world legal jurisdictions are in the process of drafting regulations to deal with AI to make sure it's fairly and responsibly used by corporates and it's done for the right purposes with proper checks and balances. If it is left to run unchecked and unregulated, many areas that are currently being administered by human beings may be taken over by machines which can be dangerous, given how early we are in the development.

### **Developments in this area**

Out of curiosity, I recently saw a new dental procedure where robots are conducting all examinations. There must be established standards for these AI-supported robots, as they influence both health and financial advice, with AI systems now managing unit trusts. Can a computer be held legally responsible? There are significant legal and IT developments in this area.

# WHAT IS FAIR AND RESPONSIBLE AI?



Danny Joffe  
Head: Legal  
Hollard Insure



# BALANCING TECHNOLOGY AND THE HUMAN TOUCH

**A**chieving seamless integration of technology and human interaction is an ongoing challenge in the insurance industry. In my 20+ years working as a broker, financial adviser and now software provider to the insurance industry, I have come to appreciate the vital importance of finding the balance between technological advancements and the human touch in claims management.

I recently fell victim to this conundrum as a client of a large short-term insurer. My experience showed the cracks in the claims process of this particular company. Despite submitting thorough documentation for two distinct claims related to lightning damage, I found myself embroiled in a frustrating ordeal. Mishandled cases, inconsistent communication and dismissive treatment left me feeling marginalised and unappreciated, despite nearly a decade of loyalty as a customer.

Encounters like this highlight the urgent need for enhancements in our approach to claims management. As an industry, we absolutely have to leverage available technological support to enrich the journeys of our customers.

The claims process is a pivotal moment of truth for customers, where trust can either flourish or falter. Sadly, narratives of exasperating claims and experiences are all too common.

## Achieving the balance

However, within these challenges lies the prospect of transformation. The solution lies in harnessing both technology and the human touch to deliver exceptional customer experiences.

Here are some ideas around how we can achieve this balance effectively:

**1 Strike the right balance** - We have to achieve the right balance between technology and the human touch.

Picture a scale, with technology on one end and the human touch on the other. While technology offers efficiency through data management systems, the indispensable human element provides the empathy and communication components that are crucial for customer satisfaction and trust.

**2 Use technology effectively** - Technological advancements in data management systems offer flexibility, scalability, and efficiency. From centralising claims data to streamlining processes and providing automated notifications and updates, technology significantly contributes to improving efficiency, precision and overall customer satisfaction within the insurance sector.

**3 The human element** - While technology enhances efficiency, it falls short when it comes to providing the empathy and understanding customers seek during a claims ordeal. Skilled insurance professionals play a vital role in

offering reassurance, handling complex cases with empathy, and negotiating solutions in disputed claims – aspects where technology just doesn't have what it takes to satisfy policyholders.

**4 Seek out synergies** - The synergy between technology and the human touch is vital when it comes to delivering outstanding customer claims experiences. By seamlessly integrating technology with empathetic and knowledgeable professionals, insurers can guarantee that claims are handled efficiently, accurately and empathetically, thereby preventing negative experiences and restoring faith in the claims process.

## Both elements play equally significant roles

Achieving balance between the human element and technology is crucial for retaining customers, especially after a claim. Understanding customer needs and preferences, delivering personalised service, ensuring efficient communication, handling complex problem-solving, and building trust and loyalty are key aspects where both elements play equally significant roles.

Excellence in claims management requires a delicate balance between technology and the human element. By embracing this synergy, insurers can create a brighter, more customer-centric future where trust, satisfaction and loyalty reign supreme. Investing in both technological solutions and human capital, while preserving the human touch, is essential to deliver exceptional customer experiences and shape the future of the insurance customer experience.

As Lauren Freedman, President of the e-tailing group and a pioneer in e-commerce, said, "Customers remember the service a lot longer than they remember the price."

So, let's work together as an industry to enhance the insurance customer experience and safeguard our reputation.



**Marcia Le Roux**  
Head of Marketing  
for Africa  
SSP Worldwide



# THE POWER OF EMPATHY IN OUR INDUSTRY...

Last week, I encountered a car accident resulting in minor damage. Thankfully there were no injuries. Despite my long-standing experience in the industry, where I've often comforted clients in similar claims situations, I was taken aback by my shock and uncertainty.

Upon sending images of the damages via email to my broker, I was pleasantly surprised by the immediate call. Despite being unwell, he took the time to inquire about my well-being and assured me that his office would offer support throughout the process.

## What is empathy

Essentially, empathy is the ability to understand and share the feelings of others. In the context of non-life insurance, it's about recognising the trauma that clients often experience when dealing with uncertain situations like accidents, theft, or property damage.

Whether it is a claim experience, changes to the policy contract, or even a higher-than-expected renewal increase, how we engage with clients will allow us to rise above transactional engagement and offer compassion, support and reassurance. Empathy in the insurance context goes beyond simply settling claims promptly. It's about understanding the unique needs of policyholders, recognising their concerns, and showing a genuine commitment to their well-being. Acknowledging these emotions can trans-

form a client's interaction and shape their overall experience with the company.

Times of distress and trauma are pivotal moments of truth for insurers. It is essential that both the insurer and the intermediary act in a manner that does not add to the client's distress or uncertainty. This is where empathetic engagement can be a true measure of excellence, something that is sorely needed in these evolving times, and which is demonstrated by my personal experience.

## Introducing empathy to our processes

Bringing empathy into the process, elevates a customer-centric strategy into action, which enables a client to experience compassion. By actively listening to a client's narrative, we can create a safe space for them to express their emotions and facilitate a sense of understanding and trust.

Empathy serves as an effective catalyst for communication, conflict resolution, and relationship-building. By listening attentively to client concerns and addressing them with empathy and understanding, we can foster trust and loyalty, laying the foundation for long-term relationships.

In an environment where the risk landscape is continuously evolving, and the significant influence of digitalisation, data analytics and artificial intelligence, empathetic engagement will help us understand that each client's circumstances are unique,

enabling us to approach the risk management process in a personalised manner. If we can understand the context in which our clients operate, we can offer proactive risk mitigation and - management strategies tailored to the client's specific needs.

Empathy is not a tick-box exercise. It has to be embedded in the company's culture, values, and processes. It requires strategic alignment through updated engagement strategies and starts at the leadership level, but simply must filter through to all levels of the organisation. This brings us full circle back to the power of relationships in our industry. Empathetic engagement fosters longstanding loyalty and deep relationships. We can leverage the data at our disposal to craft tailored solutions to meet individual client needs. When used strategically, technological tools, like advanced analytics, can assist insurers and brokers in moving away from a transactional role to relationship-based consumer interactions.

Making use of digital tools to gain insights into our customers' needs, automate processes and provide multiple communication channels, can enable us to build meaningful relationships with our clients.

## The benefits of empathy

By establishing an emotional connection with clients, where they feel understood and supported, loyalty and retention are likely to improve. Making the process more personal can enhance customer satisfaction and brand loyalty.

Building trust and loyalty through empathy is essential for creating lasting relationships. Whereas automation can be used to streamline operations, it must always be coupled with human interaction to ensure that customers feel understood and supported.

Integrating empathy into our business models cultivates strong customer relationships and establishes a unique identity in a competitive market. It's important to remember that behind every client, there is a person with real emotions. Embracing empathy can transform these individuals from mere clients into loyalty advocates.



**Tarina Vlok**  
MD  
Elite Risk Acceptances



# A DEEP DIVE INTO PI COVER AND RISK MANAGEMENT

**F** Anews hosted a webinar, sponsored by **Econorisk**, where experts delved into the complexities of Professional Indemnity (PI) cover, risk management, PI placement and the PI renewal process.

## Understanding Professional Indemnity

**Jame Skuse from Econorisk Special Risks** provided an in-depth look into Professional Indemnity.



"Professional Indemnity (PI) Insurance, also known as Professional Liability Insurance, Civil Liability Insurance, or Errors & Omissions Insurance, is designed to protect professionals against claims made by third parties, usually clients, alleging negligence while providing professional services. This insurance covers both legal defense costs and settlement costs," he said.

"PI insurance is crucial for various professionals, including architects, accountants, actuaries, auditors, consultants, engineers, legal professionals, medical professionals, financial advisers, and brokers. It is particularly vital for brokers and financial advisers due to regulatory requirements," he added.

Skuse mentioned that the amount of PI insurance required depends on several factors, including "regulatory minimums, the potential for a single significant loss, systemic losses, and affordability. Regulatory minimums vary based on whether the Financial Services Provider (FSP) holds client funds and their license category, ranging from R1 million to R5 million in both fidelity and PI limits. Several factors also influence the rating of PI insurance, including the industry or profession, the revenue of the business, past claims history, and the number of staff or professionals covered."

He outlined the lifecycle of PI insurance and important terms such as the Limit of Indemnity, Annual Aggregate, Any One Claim, Reinstatement, Deductible, and Retroactive Date. "Understanding these concepts is essential for professionals to manage their risk effectively."

"When placing PI insurance, it is crucial to understand that this is catastrophe cover, and thus maintaining a high but affordable deductible with a higher limit of indemnity is best practice. Avoid gaps in coverage and ensure thorough disclosure of all relevant information. PI insurance ensures regulatory compliance, sound risk management, and provides comfort to clients while protecting the professional's reputation, business, and lifestyle," he said.

## The evolving PI landscape

**Andrew Lilley, Joint CEO, Econorisk**



highlighted that the PI insurance landscape has undergone significant changes in recent years. "Renewing PI policies has become more challenging, with shifts in markets, rates, deductibles, and policy risk management requirements," Lilley noted. The way advice is given, recorded, and retained has a direct impact on the coverage and rates negotiated for PI insurance.

Effective placement of PI cover requires a thorough understanding of the business. According to Lilley, "Access to information such as business activities, class of business, revenue projections, number of staff, claims history and changes in operations or risk management practices is crucial." He emphasised starting the process early, ensuring accuracy, and fully completing the proposal to secure appropriate PI cover.

The complexity of the proposal form, he said, has increased, particularly for outsourcing or binder brokers. Detailed questions now include:

- Records of all communications with customers regarding uninsured risks.
- Documentation of renewal discussions.
- Needs analyses and records of advice.

"These requirements align with the broker's duty to provide accurate and timely advice. The General Code of Conduct imposes specific duties on FSP representatives, which are often the root of PI claims," Lilley explained.

PI insurance should not be merely a regulatory checkbox but a crucial part of a broker's risk management strategy. "While it's nearly impossible to have a PI limit that covers all exposures, the limit should be sufficient to cover potential claims and legal costs," Lilley advised.

A higher PI limit offers more financial protection against professional negligence claims. In case of a significant claim, a higher limit ensures coverage for legal costs, settlements, and damages without exhausting the broker's resources.

"The wording determines the extent of coverage, exclusions, and obligations under the policy," Lilley stated. Brokers need to

*(Continued on p.56)*

A woman with voluminous, curly, light-brown hair is smiling broadly while looking at a tablet computer. She is wearing a black turtleneck top and grey patterned trousers. The background is a bright, out-of-focus office space with a whiteboard.

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# A DEEP DIVE INTO PI COVER AND RISK MANAGEMENT

(Continued from p.54)

ensure that the policy wording aligns with their risk profile and business operations.

## Risk management in insurance

**Steve von Roretz from Leppard** highlighted the limitations of liability as key to risk management, stressing the importance of managing liability to protect clients and brokers from claims and financial losses.



**Michael Salant**, an independent legal consultant, highlighted Section 2 of the FAIS General Code, which mandates that financial service providers must act honestly,



and fairly, with due skill, care, and diligence, and in the interests of clients and industry integrity. This principle is essential for maintaining trust and reducing liability risk.

Salant mentioned a significant Ombud ruling where an insurer rejected a claim for a stolen vehicle due to the absence of a satellite early warning device. The complainant argued that the broker did not properly inform them about the requirement for this device. Despite the broker sending a general letter and policy schedule to clients, the Ombud found no evidence that the broker provided specific explanations or followed up with the client. This case underscored the importance of clear communication and documentation to avoid liability.

Salant detailed several general reasons why claims are made against brokers, including:

- Lack of insurable interest;
- Ineffective disclosure of warranties;
- Time bars on claims;
- Inadequate or incorrect advice;
- Insufficient understanding of the policy by clients;
- Lack of records of advice; and
- Failure to effectively deal with summonses.

Salant provided claims examples to illustrate the complexities and challenges brokers face:

- **Claim 1:** Business interruption cover with a six-month indemnity period did not account for significant turnover growth. The broker's oversight led to a R27 million loss.
- **Claim 2:** A contractor's claim for defective workmanship was rejected because the broker incorrectly advised that public liability insurance would cover it, resulting in broker liability.
- **Claim 3:** Restructuring a motor fleet policy overlooked critical third-party liability details. A motor collision led to significant liabilities, and the broker was held accountable due to inadequate documentation and advice.
- **Claim 4:** A broker relied on verbal



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communication instead of documenting the need for a tracking device for a high-risk vehicle. When the vehicle was stolen, the claim was rejected, and the broker was liable for not having a proper written record.

Salant mentioned the difficult environment in which FSPs conduct business highlighting the following:

- **Regulatory changes and compliance:** New regulations and stricter compliance requirements make it harder for FSPs to navigate the legal landscape without facing potential claims.
- **Customer expectations:** Clients now demand more from their service providers.
- **Complexity of exposures:** As the financial environment becomes more complex, so do the exposures and risks FSPs must manage.
- **Systemic risks:** Broader issues like weather patterns, environmental degradation, cyber threats, and corruption also contribute to increased claims.

Von Roretz said that this should include, as a minimum:

- **Assessment of customer risk profiles:** Rate customers based on their

complexity and size and assess the exposure to the FSP itself.

- **Terms of engagement:** Enter into professional contractual agreements with customers. These contracts must confirm the role of the FSP and ensure the respective responsibilities are clearly set out. Record that the customer is the expert in his business and has duties of disclosure and defining his needs.
- **Define scope of services:** Clearly outline the services provided and responsibilities assumed. Specify what services are not included to avoid misunderstandings.
- **Limit liability:** Agree with customers on the extent of your liability in monetary terms and in time. This recognises that the FSP is not a guarantee for all ills and that the FSP simply can't be held responsible for unlimited amounts and over unlimited time. This limitation must be embedded into the contractual agreement.

Salant added FSPs should:

- **Maintain transparency:** Be honest about your capabilities and avoid taking on tasks beyond your expertise.
- **Anticipate potential issues:** Consider what could go wrong and how it could

impact your business in the event of liability.

- **Record mandates in writing:** Ensure all agreements and client expectations are documented. This must include accurate and comprehensive records of advice.

Von Roretz and Salant agree that implementing these strategies can lead to numerous benefits, including enhanced reputation, business growth and sustainability, trust-based relationships, competitive advantage, minimised losses and affordable PI insurance.



**Myra Knoesen**  
Journalist/Researcher  
FAnews



FAnews hosted a webinar, sponsored by Econorisk, where experts delved into the complexities of Professional Indemnity (PI) cover, risk management, PI placement and the PI renewal process.



# HNWIs concerned assets ARE UNDERINSURED

**A**frica's millionaire population is estimated to increase by 65% over the next decade. This is according to the 2024 Africa Wealth Report, published annually by Henley & Partners in partnership with wealth intelligence company New World Wealth.

## The continent's millionaires

This year's report shows that there are currently 135 200 High-Net-Worth Individuals (HNWIs) with a liquid investable wealth of more than US\$1 million living in the continent, along with 342 centi-millionaires, and 21 billionaires.

Despite a tough economic environment in the past decade, South Africa remains home to over twice as many HNWIs as any other African country, with 37 400 millionaires, 102 centi-millionaires and five billionaires.

South Africa, Egypt, Nigeria, Kenya, and Morocco account for 56% of the continent's millionaires and over 90% of its billionaires. It's interesting to note that strong assets drive the investable wealth in the continent under management growth in most major markets.

## The consequences of under-insurance

It's indisputable that art and antique collecting is one of the most lucrative investment activities for wealthy individuals in Africa and globally. However, with soaring global inflation, it is essential to guard against the consequences of art and collections under-insurance and the subsequent loss of value in the investments. The client must conduct an annual valuation to keep pace with the asset value fluctuations.

The research commissioned by the UK-based insurer, Ecclesiastical and conducted by the market researcher company BVA BDRC, shows that three in five (62%) high net-worth collectors in the UK were concerned their art and collections were underinsured.

With African stock markets underperforming against global peers, local property markets facing challenges, and currencies depreciating against the US dollar, African investors have seen their wealth eroded on many fronts in the past decade. The high-net-worth individuals who invest in art, antiques and other collectibles were concerned about decreases in the value of their assets. Insufficient cover can lead to a collector losing value in their investments.

## Brokers must educate their clients

Brokers and clients must work together regularly to value their assets to ensure the right information is obtained and the right sums are insured. In this circumstance, brokers play a critical role in ensuring that clients accurately value their assets to get the right or adequate coverage. The clients, with the help of their brokers, determine exactly what cover they should take and what they should not take. It is far better to trim down the cover taken than to let a policy lapse or to underinsure to save on premium.

On many occasions, high-net-worth collectors underestimate the coverage they need because they do not have the knowledge and skills to value assets such as artwork collectables and antiques to assess adequate insurance coverage. Some clients may not understand the policy wording or how the effects of inflation can have an impact on their assets and cover when they lodge a claim.

Brokers must educate their clients on how to value their assets and ensure they match up with policies and that the risk levels align with their ever-changing needs. The consequences of being underinsured could lead to a significant financial loss for a client after a claim and unhappiness with the broker and insurer.

There are dire consequences if the insurance policy is not correctly structured. In addition, a client can also lose trust in you as a broker because of perceived incorrect advice and can consider cancelling the cover and moving to another broker.

Insurers and brokers must continue helping clients find the best approach and make the necessary adjustments to their policies. At Infiniti Insurance, we rely heavily on our brokers to continue educating clients that it is critical to be adequately insured against all old and emerging risks as the economic environment changes.



Sharon Paterson  
CEO  
Infiniti Insurance

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# UNDERSTANDING CO-INSURANCE PLACEMENTS WHEN INSURING LARGE COMMERCIAL RISKS



Brandon Botha  
Senior Property Underwriting  
and Reinsurance Manager  
IUM

Co-insurance policy contracts have drawn criticism over the years, due to the lack of legal understanding regarding the differences in conditions of cover granted by each co-insurer on the program, and the effects these differences may have at the claims stage.

The legal complexities may seem daunting when reviewing the most basic of insurance contracts, so one can only imagine the difficulties that brokers and their clients face when it comes to insuring larger commercial risks requiring multiple insurer participation.

## The necessity for co-insurance

In a global market where underwriting capacity is in short supply, we find that larger commercial and corporate risks where the single location limit runs into the hundreds of millions or even billions, co-insurance is the only option to sufficiently insure these risks. In these cases, brokers are required to source capacity from multiple insurers.

This capacity is structured on a proportional basis, normally led by a lead insurer who assumes the largest portion of the risk, followed by additional insurers with smaller shares.

## The role of the lead insurer

In a perfect world, the lead insurer provides specific conditions of cover, i.e., rates, policy wordings, subjectivities and restrictions. All co-insurance participants agree to the conditions of cover provided by the lead insurer, including a coinsurance or follow the lead clause, which allows the lead insurer to process all amendments and claims on behalf of the entire co-insurance panel.

However, due to current market conditions, the co-insurance panel may not have the matching underwriting autonomy as the lead insurer, as each co-insurer is limited by the restrictions imposed on them by their respective reinsurance treaty program. For example, some insurers may be restricted in their ability to provide flood cover in KwaZulu Natal, due to the recent flooding, while other insurers may not have this restriction imposed on them by their reinsurance treaty program.

## Accommodating individual co-insurer restrictions

These individual co-insurer restrictions may result in insurers agreeing to a collective insurance placement while rejecting the follow-the-lead clause. It may be necessary for each insurer to impose their own restrictions and subjectivities, which will apply to their share of the risk only. In such cases, brokers need to have a thorough understanding of these differences in conditions of cover to ensure contract certainty for their policyholders.

## The benefits of co-insurance split placements

A split placement refers to a co-insurance program where one insurer provides cover for certain perils while another insurer does not. These differences in conditions of cover can become challenging at the claims stage and need to be understood upfront at policy inception.

An efficient approach to split placements is to simplify the differences in conditions of cover by each co-insurer without compromising the policyholder or insurer. This can be achieved by each insurer making use of a standardised document when inputting their specific requirements, placing emphasis on removing duplications and only highlighting their specific exclusions or subjectivities which differ from the lead insurer. The co-insurance panel must make the effort to first understand the conditions of cover granted by the lead insurer and then decide if any specific exclusions or subjectivities are applicable to their share only. This practice would in turn make the co-insurance placements less cumbersome.



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# THE CONSTRUCTION SECTOR IN SOUTH AFRICA



**W**ith the global population, urbanisation and demand for properties continuing to grow, global construction levels are set to rapidly increase over the next decade.

In 2023 alone, the construction industry contributed 2.7% to South Africa's total GDP. Further, last year's South Africa Construction Industry report revealed that the compound annual growth rate (CAGR) of the construction industry in South Africa is expected to be at 5.8% between 2023 and 2027, resulting in construction output reaching ZAR267 million by 2027.

The importance and value of this sector to the country's economy has been made clear by the South African Government. Most notably, the Government's National Infrastructure Plan 2050, announced in 2022, will pump over ZAR2 trillion into infrastructure development over the next few decades.

## AI and Big Data likely to revolutionise industries

The insurance construction industry in South Africa is therefore well-positioned to benefit from the rapid growth in the sector. The industry, however, does face a significant challenge when dealing with the huge volume of data each construction project generates, 96% of which is going unused. With the recent rise in technologies that can analyse immense volumes of Big Data, construction insurance providers have been able to better harness this information, providing them with a greater understanding of project risks and allowing them to create tailored solutions for clients.

The combination of Artificial Intelligence (AI) and Big Data is likely to revolutionise industries across South Africa, and the construction insurance sector is no different. The country is expected to show an annual growth rate (CAGR 2023 – 2030) of 20.64% in the AI sector, resulting in a market volume of ZAR162 trillion by 2030. Furthermore, South Africa was ranked the second highest country in Sub-Saharan Africa on AI readiness in the Government AI Readiness Index 2023, and the only country in Sub-Saharan Africa that scored above average in terms of technological capability.

## Tailoring policies to bespoke needs

The key benefit that Big Data will provide the construction insurance sector is it will allow insurers and brokers to tailor policies to bespoke needs. Investing in robust data collection mechanisms to collect data from a variety of sources, including historical claims data, Internet of Things (IoT) sensors, satellite imagery, weather forecasts and construction project management systems, will allow insurers to access previously untapped information.

For example, when it comes to construction projects in South Africa, natural disasters including floods, droughts and earthquakes are serious risks for developers. Big Data analytics, however, allows insurers to analyse a wider variety of data sources than traditionally used, including geological surveys and weather patterns. Furthermore, Big Data allows the construction insurance sector to take part in real time monitoring and alerting. Construction insurers can leverage IoT devices to track construction sites in real-time, monitoring potential risks or changes from established norms. Currently, over 60% of Africa is covered by 4G mobile phone networks, and there are an estimated 570 million internet users. By exploiting IoT and creating automated alerted systems, construction insurers can receive notifications about anomalies or significant events in real time, allowing for rapid interventions to mitigate losses.

## Access greater expertise and data sources

Finally, the importance of collaboration in making sure that Big Data fully benefits the construction insurance sector cannot be forgotten. The construction insurance sector must make sure to enhance connections with construction industry stakeholders, such as contractors and engineers, to access greater expertise and data sources. Further, partnering with technology providers will ensure the sector stays up to date with the latest developments in Big Data and incorporate advanced technologies into their services.



Duncan Urquhart  
Senior Underwriter  
for Construction and  
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# CLIMATE CHANGE...

the single biggest risk  
facing insurers



Climate change has rapidly emerged as the single biggest risk facing the short-term insurance industry in South Africa, and globally. The catastrophic impacts of climate change, including more frequent and severe weather events like floods, hailstorms, wildfires and droughts, threaten the sustainability of the industry unless all stakeholders take urgent measures to mitigate these risks.

## Devastating climate disasters

In the first five months of 2024, short-term insurers have already had to contend with disastrous windstorms in Cape Town, unprecedented flooding in Southern Brazil, floods and cold lava flows in Indonesia, deadly floods in Tanzania and Kenya, deadly floods in China, unprecedented floods in Dubai, Oman, Bahrain, and Qatar and a powerful earthquake on the island of Taiwan.

In 2023, South Africa experienced a stream of devastating climate disasters, which means local insurers had to pay out billions of Rands to catastrophe claims. Old Mutual Insure alone has seen a six-fold increase in catastrophe claims in the last few years.

## The costs to insurers

In April 2024, Aon, a global reinsurance broker, reported that economic losses from natural catastrophes in 2023 were 22% higher than the 21% century average. Last year reinsurer, Munich Re, estimated that natural disasters in 2023 caused around \$250 billion in total economic losses and \$95 billion in insured losses worldwide.

As climate change intensifies, the costs to insurers will become unsustainable without major interventions. Some of the largest US home insurers like State Farm are already pulling out entirely from wildfire and flood-prone regions like California due to excessive losses. If this happens in South Africa, it could leave many homeowners uninsured and unable to obtain financing for homes in high-risk areas.

## Enhancing the industry's resilience

To maintain their financial viability, South African insurers must urgently adapt their risk models, underwriting practices, and pricing to account for escalating climate risks in a more granular, scientific way. This includes leveraging new data sources like satellite imagery, AI analytics and catastrophe modelling to gain a street-level view of climate risks like flooding and wildfires.

Insurers will also need to proactively communicate changing underwriting criteria to customers and guide them on mitigating their climate risks through measures like flood-proofing homes. Brokers have a key advisory role to play in this process.

Regulators and the government must likewise act quickly to support the insurance industry's sustainability and prevent a protection gap crisis. This could potentially include establishing an insurer of last resort or enabling innovative products like parametric climate insurance policies.

The relentless onslaught of climate change catastrophes in 2023 was a wake-up call, threatening the ability of communities vulnerable to its impacts to access insurance coverage. Failing to adapt also threatens to destabilise the entire short-term insurance industry. All stakeholders must work urgently to enhance the industry's resilience through data-driven pricing and underwriting, smart mitigation, and collaborative regulation. The future viability of the sector depends on it.



Soul Abraham  
Chief Executive: Retail  
Old Mutual Insure

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# ADAPTING TO SHIFTS

in modern  
consumer  
behaviour in  
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**Sedick Isaacs**  
Head: Bryte Africa Takaful  
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**W**e live in a world of constant change primarily driven by technology and innovations.

Consumer behaviour is primarily dictated by the speed with which service can be delivered, and technology constantly changes and speeds up processes. This means that businesses must be agile and adapt to this change in customer behaviour and demand.

## Why does this shift in behaviour affect insurers?

The internet and technology have made purchases and transactions so much easier, and access is virtually uninterrupted 24/7. Insurers need to be acutely aware of the changes and align with customer demand to be competitive and create sustainability via easily adaptable business models. This speaks directly about being a competitive player in an environment that has seen many new entrants competing for the same customer. This means a continuous review of customer needs and demands.

## What drives this change in behaviour?

How the customer wants to deal with an insurer and how customer service is provided is critical in retaining and bringing onboard new customers.

Price remains a critical driver of customer behaviour, and insurers must implement and provide access to cost-effective systems and utilise technology like machine learning and AI to stay competitive.

■ **System access:** More customers demand personalisation and self-service to manage their portfolios. The broker's expertise is still vital in providing the necessary advice, but hybrid management appears to be part of future customer needs and behavioural trends. Brokers play a critical role in choosing products as they have the experience and knowledge to understand individual personal and commercial business needs. The COVID-19 pandemic has also significantly shaped how customers see access in general purchasing and interacting with various industries, including insurance.

■ **Risk management:** Customers are aware of the changing environment, including climate change and weather patterns, and they look toward insurers and brokers to provide guidance to protect their assets and well-being. A typical circumstance is the uncertainty created by emerging risks that customers do not fully understand the impact of, like cybercrime, electric vehicles and the implications of insurance cover, solar power, climate change, and how they will be affected and the type of covers that will be required. All of this also carries regulations, and this understanding is critical. This is where the expertise of the broker is vital. This will contribute to changes in customer behaviour and create a demand for expert advice and support.

## Understanding the shift

Data has become one of the most important aspects of understanding customer demands and needs in the modern world. Data interpretation and utilisation are significant drivers of adaptability as they allow brokers and insurers to analyse behaviour patterns by collecting customer data in various ways. This informs certain decisions in response to trends picked up via data analysis and what changes may need to be implemented. Data also provides clear indications of any shifts in customer behaviour and demands.

From a broker and insurer perspective, understanding the shift or change in customer behaviour is paramount. This understanding, combined with modern technology and data and leveraging the relevant skills, will ensure awareness, create adaptability, and bring about sustainability.

The ability to be agile and adaptable in business modelling will undoubtedly be essential to growing a business and, more importantly, retaining customers in a rapidly changing risk landscape.



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# Insuring the unpredictable: 2024 GLOBAL ELECTION RISKS

In the wake of South Africa's recent elections and as the world braces for the 'super-cycle' election year of 2024, the insurance sector faces increasing challenges from political risks.

FAnews spoke to Muzi Dladla, Executive Manager of Stakeholder Management at Sasria SOC Ltd, who provides an in-depth look at how these developments are shaping the industry and what measures are being implemented to mitigate potential disruptions.

A large crowd of people is walking down a street at night. In the background, a large fire is burning brightly, illuminating the scene. A sign in the foreground reads "VOTE FOR PEACE". The crowd is diverse in age and appearance, and many are wearing winter clothing. The overall atmosphere is one of a significant public gathering or protest.

VOTE  
FOR  
PEACE

## Preparing for political disruptions in 2024

The global election super-cycle presents significant concerns for insurers, particularly those covering political risks.

According to Dladla, the main issues include the unpredictability of election outcomes and the potential for associated political violence and civil unrest. "Elections often act as a catalyst for political tension, which can escalate into violence. Insurers must anticipate these risks and prepare accordingly," Dladla explained.

Sasria SOC Ltd is proactively preparing for these potential disruptions by enhancing its risk assessment frameworks and collaborating closely with stakeholders to ensure comprehensive coverage. "We are refining our models to better predict areas of high risk and are working with local authorities to bolster preventive measures," Dladla stated.

This preparation involves extensive data analysis and scenario planning to anticipate various outcomes and their impacts on insured properties and businesses.

The rise in geopolitical tensions globally has led to an increased demand for coverage against politically motivated acts such as riots, strikes, and terrorism. Dladla highlighted that recent events have underscored the critical need for political risk insurance. "The insurance market has seen a significant uptick in inquiries and policies related to political violence and public disorder," he noted.

This surge is driven by businesses seeking to protect themselves against unforeseen disruptions. "Companies are more aware of the vulnerabilities in their operations due to political instability. Our goal is to provide peace of mind and financial stability to our clients amidst these uncertainties," Dladla added.

### Trends in political violence and civil unrest

Over recent years, there has been a noticeable increase in both the frequency and severity of claims related to political violence and civil unrest. Dladla observes that certain regions and types of incidents have shown marked increases. "We've seen a rise in claims from urban areas where political demonstrations often escalate into widespread unrest," he said.

Particularly, Dladla pointed to South Africa's 2021 riots as a significant event that highlighted the vulnerabilities in both urban and commercial settings. "The 2021 unrest was a wake-up call for many businesses and insurers," he said. "It demonstrated the need for robust insurance frameworks capable of addressing large-scale disruptions."

### Challenges in underwriting political violence risks

Assessing and underwriting risks associated with political violence and civil unrest pose unique challenges due to the inherent unpredictability of such events. Dladla emphasised the difficulty in navigating these uncertainties. "The primary challenge lies in the volatility and rapid escalation of political events," he explained.

To manage this, Sasria employs advanced data analytics and maintains a dynamic risk assessment approach. "We rely on real-time data and continuous monitoring to adjust our risk models," Dladla noted. This allows Sasria to provide more accurate underwriting and tailor policies to the evolving risk landscape.

"By staying agile and informed, we can better serve our clients and mitigate potential losses."

### Role of insurance in mitigating risks

Insurance plays a crucial role in helping businesses manage the financial and operational risks associated with political violence and civil unrest. Dladla outlined several common types of losses businesses face, including property damage, business interruption, and loss of revenue. "In many cases, the financial impact extends beyond immediate physical damages," he pointed out. "Business continuity is severely disrupted, which can have long-lasting economic repercussions."

To mitigate these risks, Sasria offers specialised products designed to cover various aspects of political violence. "Our policies provide comprehensive coverage that includes not only property damage but also business interruption and recovery support," Dladla said. He advises brokers and advisers to emphasise the importance of these policies when discussing risk management with their clients. "It's essential to highlight the broader impact of political violence and ensure businesses are adequately protected."

Effective collaboration with brokers and advisers is also pivotal in educating clients about political risk insurance. "We conduct regular training sessions and provide detailed resources to help brokers understand the nuances of political risk insurance," he explained.

Sasria also offers direct support in the form of consultations and risk assessments. "Our team is always available to assist brokers in tailoring policies to meet the specific needs of their clients," Dladla added. This collaborative effort ensures that clients receive comprehensive and informed advice, enhancing their ability to navigate the complex landscape of political risks.

### The future of political risk insurance

Looking ahead, Dladla predicts that the demand for political risk and violence insurance will continue to grow. He identifies emerging risks such as cyber-attacks linked to political motives and increasing social unrest driven by economic inequalities. "The insurance industry must evolve to address these emerging threats," he asserted.

Sasria is already adapting its strategies to include coverage for new types of risks. "We are expanding our product offerings and investing in research to stay ahead of these trends," Dladla said. He emphasised the importance of innovation and flexibility in responding to the changing risk environment.

"Our focus is on providing comprehensive solutions that safeguard our clients' interests in an increasingly volatile world. Our mission is to ensure that businesses can withstand and recover from political disruptions. By working together with brokers, advisers, and stakeholders, we can build a resilient framework that protects against the uncertainties of tomorrow," he concluded.



**Myra Knoesen**  
Journalist/Researcher  
FNews



# INSURING IN AN ERA OF GEOPOLITICAL UNCERTAINTY

**W**hen asked about the biggest risks that the insurance industry needs to deal with, many in the sector will point to issues such as climate change. Its effects, through less predictable and more destructive weather events, are already being keenly felt in the property and casualty market.

This will undoubtedly be of huge importance to the industry for decades to come. However, over a shorter horizon, such as five years, geopolitical risk has arguably been overlooked as something that is going to demand ever more of the industry's attention. The risk landscape is rapidly developing and reinsurers' withdrawal from the market means that accessing coverage will become increasingly difficult.

## Drivers of geopolitical tension

Growing geopolitical tension was predicted by many to be one of the major themes of 2024, in part, driven by the huge number of elections taking place worldwide. A third of Africa has held national elections, with South Africa's General Election held on 29

May. Elections are also due to be held in nations where there is armed conflict, so there is potential for tensions to become further inflamed.

Even beyond 2024, however, the most important drivers of geopolitical tension – the war in Ukraine, conflict in the Middle East and China-US relations – are likely to remain important factors in the market beyond the close of the year, shaping how underwriters assess their risk appetite.

## The risk landscape is changing rapidly

In an environment where political risk is rising, the industry is facing higher insured losses. Civil unrest has been seen across the world in recent years, including in South Africa. For many, it has heightened the perception that risk is growing, and reinsurers have responded by withdrawing from the market. As conditions harden, insurers are having to pass higher reinsurance costs onto their customers. This cycle looks unlikely to be broken over the next five years.

Insurers' sense of growing risk is not helped by the fact that the risk landscape

is changing rapidly. The development of cyber terrorism, and the use of state-sponsored cyber-attacks, is something that the industry is having to get to grips with quickly. This has become more important as cyber-attacks are increasingly likely to produce physical damage.

The widening ambit of damage resulting from political violence has meant that insurers are reviewing terms and conditions and becoming more selective in what they will insure – many now refuse to cover NBCR (nuclear, biological, chemical, radiological) attacks. They are also limiting capacity for those regions they consider most exposed. In this context, the role played by brokers becomes more difficult but much more important, ensuring that clients get the coverage they need at a price they can afford.

National governments have also stepped in to ameliorate the situation. Many have established state-backed terrorism risk insurance pools or a government backstop for insured losses. In France, the Gestion de l'Assurance et de la Réassurance des Risques d'Attentats et Terrorisme (GAREAT) acts as a pool of insurers, with 70 insurers and reinsurers mandated to participate. In the US, the Terrorism Risk Insurance Program (TRIP) provides a federal backstop and encourages more capacity to be made available.

While these schemes can help, they cannot eliminate the struggle to access capacity. Moreover, they are not a solution to worldwide instability; in many of the countries where political violence risk is at its highest, no such equivalent scheme exists.

## Navigating the market effectively

Brokers will therefore continue to play a vital role in helping companies to navigate the market effectively. They should work closely with clients to help them develop a thorough understanding of their exposure and coverage needs. Most importantly, they will need to leverage their knowledge and contacts to unlock capacity in a constrained market.



**Snehal Keskar**  
Associate Director  
MNK Re.



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For more information on how to make special risk insurance less risky, visit [sasria.co.za](http://sasria.co.za)



# FINANCIAL ADVICE CRUCIAL

as clients' life policy premiums rise sharply



**T**he second your writer hit 'send' on his requests for comment on life premium escalations, he regretted it. Days later, seated at his writing station, he was trying to figure out how to scrunch five submissions totalling over 15 000 words into a two-pager.

"Being a financial adviser has to be among the toughest jobs in the world," he mused. But rather than mope, let us unpack this complex risk insurance matter.

## Why the sudden interest?

Some FAnews readers raised concerns over the steep premium escalations on clients' life insurance policies. They claimed these increases were pricing their clients out of the product, in many instances forcing clients to abandon the policies when they needed the cover most. FAnews started the analysis by putting the product environment under the microscope, unearthing a pre- and post-legacy product nightmare.

With the caveat that product varies significantly from one insurer to the next, it appears there are three main life insurance premium patterns at play called level; compulsory; and age-rated premium. "There are quite a few derivatives of these with terms such as renewable; stepped; and life-stage premium patterns commonly mentioned," says Jurgen Eckmann, Franchise Principal and Wealth Manager at Consult by Momentum, Hurlingham.

Eckmann estimated that 80% of life policies in force domestically used age-rated premium patterns. This pattern offers the lowest possible initial premium from which point premiums increase in line with the policyholder's age, adjusted annually. "Affordability becomes a problem at an older age because the premium increase quickly outgrows your client's income, especially in retirement when premiums can increase by over 10% per year," he explains.

Overall, clients on this type of policy can expect annual increases of 3-4% each year

in their 20s; 4-5% in their 30s; 5-6% in their 40s; 6-7% in their 60s; and 8-10%, thereafter. If your clients opted for an inflation-linked benefit increase, you can add a few percentage points to each of the aforementioned premium ranges.

## The affordability vs premium 'dance'

A compulsory premium pattern allows clients to pre-select the rate at which premiums increase every year; the higher the annual increase, the lower the initial premium will be and vice versa. Your clients can select an annual increase from 10%, which results in an affordable initial premium but sizeable increases thereafter, or a lower increase of between 9% and 3%. "The premium on a 3% annual increase is initially more expensive but provides long-term sustainability" Eckmann says. Again, clients have the option of inflation-linked benefits.

Finally, a level premium pattern allows your client to select 0% premium and 0% benefit

increases; this premium pattern is the most expensive initially but provides certainty and long-term affordability. "Your client's premiums remain constant over the years; but so does the benefit amount, which will be eroded by inflation over time," Eckmann says. Financial advisers should take note of a couple of curveballs.

In your ongoing client interactions, you are likely to encounter both old and new-generation life insurance policies. The former consists of an investment and risk component whereas, the new generation products, issued from the early 2000s, are considered 'risk only' products that offer no cash or surrender values.

### New-generation product challenges

The premiums on old-generation products are skyrocketing because they were priced with an over-optimistic view of investment returns. In contrast, the newer risk-only products are priced with more realistic long-term investment return expectations. This does not mean that new-generation policies will not face big premium hikes when they come out of the so-called guaranteed term. More on that in a moment.

Clyde Parsons, Chief Innovation Officer at BrightRock, says the terms 'fixed' or 'level' imply that your client's premium will not increase over the duration of the policy, though this is not always the case, because insurers have the right to review the premium at specified future dates. Brightrock takes a somewhat different approach to its competitors. "We always guarantee the chosen premium growth pattern for 10 years," he says. This flexibility introduces complexity, but it is this complexity that allows financial advisers to structure needs-appropriate solutions.

Parsons warns that "inconsistency in the market [may result in] clients and advisers struggling to understand exactly how premiums and cover will grow over the duration of the policy, and, despite having access to a premium guarantee, may end up with unexpected and unsustainable premium increases later on." The question becomes whether the looming affordability crisis caused by 10% and higher annual premium increases is due to bad advice, poor product design or some or other external shock such as a pandemic.

### Who is to blame? Advisers, providers or pandemic?

"Affordability remains a pressing concern, particularly for individuals approaching retirement age. To address this we advocate for proactive financial planning and budgeting... policyholders must understand the rationale behind their insurance coverage and prioritise it in their budget," says Motshabi Nomvethé, Head of Technical Marketing for PPS Life Solutions. She advocates for ongoing engagement between the adviser and the client to review policies and ensure their coverage aligns with their life stages and financial circumstances.

According to Eckmann, the industry is guilty of commoditising life insurance policies by mainly considering "the most cover at the best premium". He says discussions about depth of cover; premium projections over five, 10 and 15 years and into retirement; and comparisons of age-rated versus compulsory versus level premium patterns are often too neglected. It is too easy to replace life policies after five years and then quote on a new policy that may be slightly cheaper, but ultimately has the same affordability flaw built in.

BrightRock seems sympathetic to financial advisers' plight. "The onus must be on the insurer to create solutions and new

approaches that give the policyholder the flexibility to tackle the affordability issue; affordability and underinsurance are two major challenges within the life insurance industry," Parsons says. "If insurers fail to reconsider the traditional structure of cover, clients and advisers are left with a trade-off between long-term sustainability and initial affordability."

### Surrender versus reducing benefits

These observations aside, it seems the only option for a retiree caught up in an inflation-linked age-related or compulsory premium life insurance policy is to surrender it, or possibly reduce the sums insured. "Reducing sums insured to make premiums more affordable is a viable option for some individuals, but it requires careful consideration of various factors," says Nomvethé. She suggests reassessing your client's financial situation to "strike the right balance between affordability and adequate coverage".

There are other alternatives to reducing cover. "If affordability becomes an issue, clients and financial advisers might consider suspending voluntary benefit growth for a year; cancelling future voluntary benefit increases in totality; or reducing cover amounts," says Joretha Bothma, Head of Product Development, Underwriting and Claims at Momentum Life Insurance. It will be up to the financial advisers to determine whether these steps are available for the insurer and premium pattern combination relevant to each client.

BrightRock believes that reducing cover is not viable given that most South Africans are currently substantially underinsured. "It would be more appropriate and sustainable to structure clients' cover to align to their underlying financial needs; this would strip out wasted cover and premium inefficiency to create a cost saving that can either be used to buy more cover upfront for the same premium or to afford a more sustainable premium funding pattern," Parsons says.

From FAnews' perspective, you cannot expect clients to tackle an actuarially determined insurance gap when they simply cannot afford their monthly insurance premiums. "Many clients are stuck in their age-rated premium pattern policy due to the fact that they are older and cannot change their premium pattern due to age or health," notes Eckmann. He turns to financial advice fundamentals to offer a solution.

### FNA for the win

"A detailed Financial Needs Analysis (FNA) and evolving comprehensive financial plan will highlight your client's need for life insurance in terms of death, disability, dread disease and income protection benefits at different life stages," he concludes. "You should be able to work out which benefits are most important, and the amount of cover required, in consultation with your clients ... in the unfortunate event they need to reduce cover it will be done via a well thought out and planned strategy to ensure their financial plan is minimally impacted."



Gareth Stokes  
Stokes Media



## WHAT HAS COVID-19 DONE TO THE COST OF LIFE INSURANCE?

**O**ur brains have the incredible propensity to forget or block out lived traumatic periods or memories. This process is called dissociation. Dissociation is the brain's unconscious defence mechanism to protect an individual from emotional pain.

The ability of a person's brain to call upon this extremely beneficial dissociation mechanism seems very much alive and well. Just four years on from the start of the traumatic and world-changing event that was COVID-19, some people still find they are unable to remember clearly, thinking that it was not that bad. And, at the most extreme, some people still sometimes question whether it was real or just a dream.

### The impact of COVID-19 on life insurance

The life insurance industry felt the impact of COVID-19 the most. These companies are run by some of the most brilliant people - the actuaries with spreadsheets that factor in just about every possible eventuality.

The global pandemic sat on those spreadsheets with a 0.0027% probability of ever happening. And when a black swan event like COVID-19 happens, the obvious knee-jerk reaction is to price life and disability as if this event might occur regularly in the future.

And so, just when my dissociation mechanism is helping me block out the trauma of COVID-19, I see the latest monthly debit order for my life and disability cover run through my account, and my daydream snaps to an abrupt end.

### Life and disability insurance... valuable tools

An interesting thing about life insurance is that most people who have it, see it as an asset on their balance sheets. However, it is of no more value than car insurance, and yet, for some bizarre reason, a person who is considering changing or cancelling their life cover immediately resorts to the "what if" something happened to me tomorrow scenario, which would result in this "asset" they have been religiously committed to for so many years, being worthless.

Life and disability insurance are valuable tools to cover individuals in the most vulnerable years of their lives. But it should be viewed as no more than that.

Recently, I interacted with a brilliant professional who was complaining about his premiums having skyrocketed to R38 000 per month. After a simple cash flow and risk analysis, it was established that his balance sheet was enough to support his retirement. When it was suggested that he cancel his policy, he immediately resorted to the "what if" and "what a waste of all those years of contributions". I then paged through to page 8 of his policy schedule which showed that his monthly premium for dramatically reduced cover would be R73 000 per month.

The above helped move the conversation from a "what if" scenario to one where we instead put together a plan based on known facts, which is that a premium of R73 000 per month will be unaffordable in five years. There was a possible slight gap in his balance sheet value for the next 12 months, so we took out a fixed 12-month term cover for the same value as his existing cover at one-third the price of his current premium.

We then devised a plan to help him deal with his feeling of loss and contribute the equivalent premium amount into an investment. With conservative growth assumptions, we showed a balance sheet asset of R3.8m in five years and, astonishingly, an asset of R10.7m in 10 years.

If this individual had continued contributing to his life and disability premiums for the next ten years, he would have paid a total of R7 355 476 in premiums for something worthless on his balance sheet.

### Explore strategies to transform expenses

If your clients are experiencing substantial increases in life and disability premium costs, explore strategies to transform these expenses into valuable balance sheet assets, providing significant benefits for their financial planning and security.



Lee Cairns  
Wealth Management  
Anchor Capital

**D**espite being a rather overused term, 'empathy' continues to be a key ingredient when it comes to solving problems, designing products and building relationships. This is especially true for life insurers as we continuously re-evaluate traditional models and processes to better suit modern risks and needs.

In the traditional product development lifecycle, actuarial and data insights are often the primary informers. And rightfully so; this information is foundational to building sustainable life insurance products. However, actuaries can be distanced from the business as a whole, only seeing needs and solutions through their specific lens. An empathetic lens would see needs from the client's perspective before looking for solutions.

### **From silo to collaboration**

As an actuary myself, it has been my experience that great ideas often come from unexpected places, casual chats, and anecdotal evidence from people in the business, especially those who are client-facing – and who better to report on your customers' actual needs than your sales and claims teams, and your network of financial advisers, who talk to your clients every day. In addition, those who see products and needs from the viewpoint of an underwriter, an IT engineer, or a business developer, for example, also have valuable insights. Combined with the data, these different perspectives are crucial for taking product development out of a silo and into a collaborative space and aiding an understanding of how a product is going to land with financial advisers and their clients.

Engaging with every individual who interacts with an insurer's products creates a constant feedback loop that allows the insurer to understand the causes of any issues or frustrations and respond appropriately with improvements and enhancements. An empathy-led insurer would actively seek this input and then sift through the details, filter out the 'noise', look for trends and patterns, identify real needs, and then build solutions to meet these needs.

### **Empathy must encompass humility**

And here's where a personal opinion of mine comes into play: empathy must also encompass humility. As an insurer, while striving to meet more needs, remain relevant and affordable, and improve your bottom-line, it's quite likely that some changes and innovations may not land as you envisaged. Even if you think your solution is cutting-edge, you need to be humble enough to get feedback from your clients, and everyone who interacts with your products, and to go back and sharpen your blade where necessary.

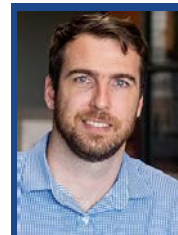
Being humble also means being open to the possibility that your idea or your product, may fail. It means being able to admit that some issues remain larger than your proposed solution. Most importantly, it means actively seeking constructive feedback and being willing to go back in and implement any viable suggestions in order to improve your offering.

It is also critical to really understand the intricacies of the systems that support your product distribution. Be realistic about what the business can do; its operating capabilities and constraints. It does not matter how good an idea is, if you cannot deliver it practically, efficiently and cost-effectively, call it. Over-promising and under-delivering, whether it be to other business units, advisers or clients, will override the empathy that's guided you to that point, and instead create mistrust.

### **Collaborative product creation**

Solving problems, creating products, and building relationships from a position of empathy gives everyone in the life insurance value chain an edge. It's been a driving factor, influencing numerous product launches and enhancements, and will continue to be the crucial component in delivering upcoming product updates in the weeks and months ahead.

# EMPATHY-DRIVEN PRODUCT DEVELOPMENT IN LIFE INSURANCE



Nic Smit  
Chief Product Actuary  
Bidvest Life



2023

# Protecting financial security: Momentum Life Insurance's 2023 claim statistics

Momentum Life Insurance's recently released claim statistics for 2023 reflect a 'typical' year free from extraordinary events like pandemics or natural disasters. Although 'typical', these claim statistics highlight the unpredictability of life and the essential role of adequate life insurance cover in safeguarding against life's uncertainties. They also remind us of the importance of undergoing age- and sex-related health screenings, which provide lifesaving early detection for many illnesses. Additionally, they

reiterate that improved lifestyle choices could mitigate many living benefit claims.

In 2023, Momentum Retail paid R6.5 billion in claims, of which R5.6 billion was accounted for by claims under Myriad, Momentum Life Insurance's flagship product offering.

## Myriad claim amounts paid per category:

Mortality: **R4.02 billion**



Critical illness: **R830 million**



Lump sum disability: **R486 million**



Income protection: **R258 million**



## Death claims

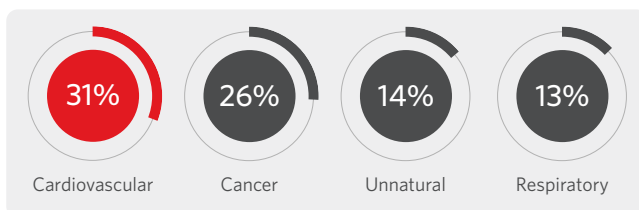
Cardiovascular conditions and cancer were responsible for more than half of death claims (57%) in 2023 and were the top two causes of death for both sexes. Unnatural deaths, respiratory conditions and nervous system conditions made up the balance of the top five causes of death. We had just over twice as many male death claims despite having a roughly even split between the sexes. As one would expect, the proportion of death claims increases with age, with more than 60% of deaths after age 60.

Unnatural deaths, from causes such as accidents (mostly motor vehicle accidents), suicides, surgeries, and homicides, accounted for only 14% of all death claims, of which 85% were for males. 65% of death claims for individuals younger than 30 were unnatural deaths, with motor vehicle accidents being the leading cause.

In 2023, Momentum paid out R120.9 million in terminal illness benefit claims. These claims are paid when a person is suffering from a terminal condition with no hope of recovery, with death expected within 12 months. A sobering insight is that cancer was the cause for 91% of these claims, reflecting the devastating impact of undiagnosed cancers that lead to late-stage claims.

A concerning observation is that 80.5% of the clients who tragically passed away due to a critical illness in 2023 did not have critical illness cover with us. This highlights two concerning potential gaps: Our clients may be underserved in living benefits, such as critical illness and disability cover, and even those who have cover often do not have sufficient protection in place.

### The major causes for death claims in 2023

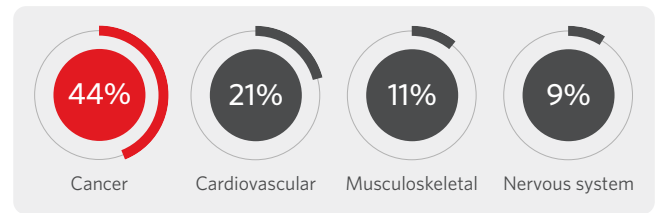


## Critical illness

Cancer was the leading cause of critical illness claims at 44%, with cardiovascular, musculoskeletal, and nervous system conditions rounding off the top four causes. Interestingly, females had more claims at younger ages than males, while also representing 41% of claims overall. Another notable observation is that more than half of female critical illness claims were for cancer. In contrast, males exhibited a far higher proportion of cardiovascular claims. Cancer claims accounted for 37% of male critical illness claims, but cardiovascular claims were relatively close behind at 29%.

We know that critical illness incidence increases with age, but it's not unheard of in younger people, as evidenced by the claim for testicular cancer from a 23-year-old client in 2023 - which again makes the case that these illnesses can occur at any time, however unlikely you think this may be. Critical illness cover is invaluable as it provides financial support while clients are still alive. Despite the importance of such cover, there is a concerning trend of clients having inadequate critical illness cover in place.

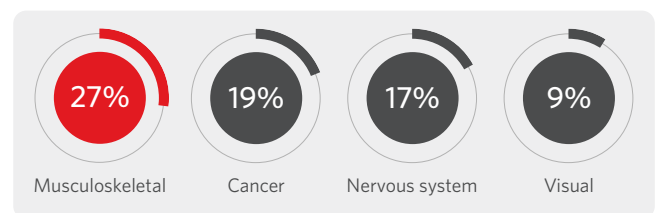
### The major causes for critical illness claims in 2023



## Lump sum disability and income protection

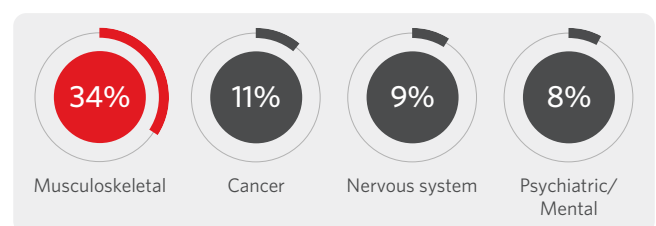
When we consider the causes of lump sum disability and income protection claims in 2023, we find that the top three causes are the same: musculoskeletal, cancer, and nervous system. We see a change in the fourth largest cause, with visual impairments ranking fourth highest in lump sum disability claims and psychiatric or mental conditions ranking fourth highest in income protection claims.

### The major causes for lump sum disability claims in 2023



If we break down income protection claims further, we notice that although the spread is relatively similar between men and women, there is a significant difference between the percentage of musculoskeletal claims, with men accounting for 39% and women accounting for 27%.

### The major causes for income protection claims in 2023



These claim statistics underscore the importance of comprehensive life insurance cover. From life cover and critical illness to disability and income protection, having adequate life insurance is crucial to provide invaluable financial support and stability in the face of life's unpredictability. Momentum Life Insurance remains committed to upholding its reputation for reliable claim payouts, ensuring that valid claims are honoured and providing much-needed financial support to clients in times of distress. This commitment, combined with our comprehensive benefits and robust underwriting and claim management processes, reflects our dedication to serving our clients with integrity and compassion.

# FAIRNESS IN INSURANCE CONTRACTS



Glenn Hickling  
Head of Legal  
BrightRock



**T**he general legal position in South African law has been to preserve the sanctity of the contract. This means that the contract's wording – though subject to the laws of interpretation – must be given effect to, even if the results could be harsh or onerous.

## A balance between legal certainty and fairness

Fearing that legal certainty might be compromised, the courts have been careful to interfere in contracts based on fairness.

This approach flows from the assumption that the parties to a contract have freedom of choice, equal bargaining power, and symmetry of knowledge. In reality, however, this is not always the case. Insurance contracts are often complicated and pertain to an intangible good whose value can only be experienced after the sale. It's precisely for these reasons that consumers need the assistance of a financial adviser when purchasing insurance.

The Bill of Rights has provided the necessary pressure to incorporate fairness in contracts to maintain the values of human dignity,

equality, and freedom. With these values increasingly at the forefront, the legal profession has sought to find a balance between legal certainty and fairness, and considerable progress has already been made.

Regulations have also been introduced that impose fairness, for example, through the Financial Advisory and Intermediary Services (FAIS) Act and the Consumer Protection Act. The Office of the Ombudsman for Long-Term Insurance also continues through its equity jurisdiction to contribute to the infusion of fairness into insurance contracts.

## Two cases illustrate this point

### ■ Kidney donor's claim paid

In CR 242, the complainant had one of her kidneys transplanted to save her brother's life and lodged a claim for the transplant under her insurance policy. The insurer rejected the claim, as her condition was deemed to be an "intentionally self-induced illness." Recognising that the particular clause could not cover every eventuality, the Ombudsman asked the insurer to consider that the strict application of the clause would produce harsh results. Furthermore, that these results could not have been contemplated by the drafters of the clause. This was, the ruling held, an exceptional case as illustrated by the example of the doctor who, whilst treating patients infected by a contagious disease, eventually becomes sick or where an insured gets bitten by a snake that he believes to be poisonous. To treat himself, he cuts the bite mark with his pocketknife which becomes infected and for which he lands in hospital.

After some analysis, the office concluded that the clause realistically intended to refer only to the deliberate conduct of an improper nature. The donation of a kidney was not of an improper nature. The insurer eventually agreed to pay the claim.

### ■ Late submission of a claim

In CR 336, the insurer rejected the claim under a funeral policy due to its late submission – the policy included a 12-month late submission clause. The complainant's daughter, who was the life insured, had died in a motor vehicle accident. The complainant explained that the reason she submitted the claim late was due to her being hospitalised for depression after learning of the fate of her daughter. The office deemed these circumstances as worthy of the imposition of their equity jurisdiction. Accordingly, the insurer paid the claim.

The Ombudsman will always use its equity jurisdiction cautiously and rationally, as illustrated by these examples, and never arbitrarily. It is a "supplement to, not a substitute for the law" but its mere presence reminds insurers to act with a humanitarian conscience. In so doing, the continuous seep of fairness into insurance contracts will not be impeded. This is good news both for financial advisers and their clients, who can rest assured knowing that in the South African life industry, fairness is one of the most important imperatives.



# MAXIMISING LEGACY:

## the strategic imperative of estate planning

In the world of managing finances, few things are as important and meaningful as estate planning. It's not just about who inherits what when someone passes away; it's a careful plan to protect wealth, keep family stories alive, and make sure the next generation is taken care of.

It is more than just writing down who gets what - it's like drawing a detailed map that guides one through laws, reduces taxes, and honours the beliefs and memories of the person planning their estate.

### Thoughtful estate planning

Given the ongoing fluctuations in today's economy and regulatory environment, the importance of thoughtful estate planning cannot be emphasised enough. Here is why:

- **Protecting wealth and legacy** - Building wealth takes a lifetime of hard work. Smart individuals know the importance of protecting their assets. Strategic estate planning sets up a framework to protect wealth from taxes, creditors, or mishandling. By using trusts, setting up the right asset structures, and utilising tax-saving strategies, individuals can make sure that what they leave behind continues to be remembered and valued by their family.

- **Navigating legal complexities** - Estate laws are complex and detailed. Without proper planning, estates can get stuck in legal processes, leading to delays, incurring additional costs, and family disputes. Strategic estate planning helps individuals organise their affairs to make asset transfer smooth, reduce administrative obstacles, and ensure their wishes are followed precisely.

- **Minimising tax burdens** - Taxes play a big role in estate planning. Ignoring them can lead to significant financial losses for heirs. By using tax exemptions, deductions, and credits strategically, individuals can lower their estate tax burdens and pass on more wealth to their beneficiaries. Effective planning also allows for techniques like gifting and philanthropy to reduce tax impacts.

### Creating family harmony

Maintaining family peace is a crucial part of estate planning. Without clear communication and directives, asset distribution can cause conflicts. Strategic planning encourages open discussions, sets expectations, and resolves potential disagreements before they become disputes. By promoting understanding and cooperation, families can navigate wealth transfer with respect.

### Embracing values and giving back

Estate planning goes beyond finances; it's a chance to make a lasting impact by supporting causes that matter. Whether through charitable donations, creating foundations, or funding scholarships, individuals can use their money to make a difference and leave behind something meaningful that's more than just material possessions. Smart planning means making sure your money goes where you want it to, helping causes you care about and ensuring your contributions benefit society.

### The part financial advisers can play

When it comes to leaving a legacy, financial advisers are instrumental in helping clients achieve their goals. To do this effectively, advisers must take a deeply personal approach, getting to know their clients' values, family dynamics, and aspirations. This means digging into their current financial situation, identifying potential roadblocks, and envisioning their future needs and dreams. Staying on top of ever-changing tax laws and regulations is also crucial, as it allows advisers to find innovative ways to minimise tax liabilities and preserve wealth for the next generation.

This might involve setting up trusts, gifting strategies, or charitable donations that not only reduce tax burdens but also align with the client's values. Collaboration with other experts, like lawyers and accountants, is also vital to ensure the estate plan is both legally sound and expertly executed. By taking a thoughtful, holistic approach to estate planning, financial advisers can empower their clients to leave a lasting impact on their loved ones and the world around them.

Strategic estate planning is vital for a smooth and tax-efficient transfer of wealth. By taking a proactive and thorough approach, people can protect their wealth, maintain their family's story, and ensure a seamless transition for future generations. It's not just about money; it's about values, family unity, and leaving a meaningful mark on the world. Estate planning isn't just a task to check off; it's a strategic necessity that requires careful thought and execution.



**Roy McMurchie**  
Head of Fiduciary  
Services  
PPS Insurance

# GUIDING CLIENTS THROUGH THE TWO-POT RETIREMENT SYSTEM



**W**ith the upcoming implementation of the Two-Pot Retirement System, the role of financial advisers is evolving significantly. These professionals are not just guides but crucial partners in helping customers navigate the complexities of managing retirement savings under the new framework.

## Demand for customer education

### arises

With the advent of the Two-Pot Retirement System, a significant demand for customer education arises. Advisers assume a crucial role in helping customers understand the ramifications of tapping into retirement savings for financial emergencies.

The short-term impact on households is difficult to predict as it is the first of its kind in the South African retirement landscape. The current state of uncertainty and financial pressure may increase the temptation to access this money unnecessarily.

However, when looking at the example of Chile, where early access was allowed in response to the COVID-19 pandemic, there's a great concern that many investors will withdraw what they can simply because they can.

### An opportunity for advisers

A study published by the Chilean Social Protection Survey, using Monte Carlo simulations, showed that a 10% early release of pension funds resulted in significant losses in future retirement savings, reducing monthly pension benefits by 7.26%.

In the long term, the new legislation will bolster long-term financial well-being by providing more preservation, which will be achieved by

mandating the preservation of two-thirds of retirement savings for future income.

This presents an opportunity for advisers to help customers understand their options and guide them to decisions and behaviour that will continue to safeguard their long-term financial outcomes. Although the new system introduces a new structure for retirement savings, segregating funds into a 'retirement pot' for long-term growth and a 'savings pot', both pots are still aimed at accumulating capital for retirement and should be invested accordingly.

Financial emergencies should be catered for with an emergency fund. Access to the savings fund should ideally only be considered in the event of a dire unforeseen emergency that has depleted the emergency fund. This new retirement system aims to provide greater flexibility to deal with extreme adverse events while maintaining the focus on securing a stable financial future for retirees.

The savings pot can be withdrawn once per tax year and the withdrawal amount will be taxed as any other taxable income during that tax year. The funds in the retirement pot can never be withdrawn - the money must stay invested until retirement.

### Three messages to communicate to customers

There are three messages that advisers must communicate to customers:

**1 No immediate action is required for most South Africans** - the transition to the Two-Pot Retirement System will be automatic, requiring no immediate action from most retirement fund members. The pre-September 2024 pot will be reduced by 10% or R30k (whichever is the lowest), which will be moved as a once-off transfer from the pre-September 2024 pot to the savings pot, to serve as a seeding amount in the savings pot. This will only happen once on 1 September 2024 and then not again.

**2 It's not a case of 'use it or lose it'** - members maintain full control over their funds, with the flexibility to access their savings at any future point when necessary, making it beneficial to keep funds invested longer to leverage tax-free growth.

**3 Performance is not impacted** - The structure of the Two-Pot Retirement System on 1 September 2024 will be an accounting exercise, not an asset allocation or investment strategy change. Regulation 28, which governs asset allocation, will continue to ensure diversified portfolios, mitigating risks and supporting consistent returns.

As South Africa transitions to this new system, financial advisers are more essential than ever, serving as the custodians of retirement stability and ensuring that retirees can face the future with confidence and security.



Lizl Budhram  
Head of Advice  
Old Mutual Personal Finance

Rianet Whitehead, FANews Editor chats to Lizl Budhram, Head of Advice at Old Mutual Personal Finance about the much talked about Two-Pot Retirement System.



# GET PREPARED

## FOR THE TWO-POT RETIREMENT SYSTEM

The Two-Pot system will help you preserve your retirement savings, while also giving you access to a portion of those savings for emergency purposes before you retire.

The new system aims to make both your future and your present financial situation more comfortable. But you have to keep in mind that **any withdrawals from your Savings Pot before you retire will reduce your lump sum benefit available at retirement. It is crucial to protect your savings in this pot until retirement.**



### VESTED POT

Your existing retirement savings accumulated up to 1 September 2024 will be allocated to the Vested Pot and will be subject to the existing rules. No further premiums will be invested into this pot.



If you are part of an occupational fund, then the current access rules on withdrawal will still apply to this amount.

### RETIREMENT POT

Two-thirds of future contributions will go into the Retirement Pot.



The funds in your Retirement Pot are not accessible until your retirement.



The Retirement Pot will be used to provide your income at retirement.

### SAVINGS POT

One-third of future contributions will go into the Savings Pot.



As at 1 September 2024, 10% of your Vested Pot (capped at R30,000) will be transferred into your Savings Pot as an opening balance.



You can withdraw cash from your Savings Pot once per tax year.



If you withdraw from your Savings Pot you will pay a transaction fee as well as tax based on your marginal tax rate.



Minimum withdrawal is R2 000.



Don't be tempted to withdraw from your Savings Pot as this will reduce your money available at retirement.



What you don't spend from your Savings Pot will be available as a lump sum when you retire.



Scan here to learn more and get prepared

For more information on the new Two-Pot Retirement system, scan the QR code or speak to your financial adviser.

**TWO-POT**  
RETIREMENT SYSTEM



**OLDMUTUAL**

# SAVINGS WITHDRAWAL BENEFITS

## - what you need to know

**M**any retirement fund members are awaiting the introduction of the Two-Pot Retirement System on 1 September 2024. Once introduced, members of retirement funds, including retirement annuity funds, will be allowed to take a portion of their fund benefits before retirement. These pre-retirement withdrawals are called savings withdrawal benefits.

It is, however, crucially important to note that taking Savings Withdrawal Benefits will have a negative impact on fund members' benefits when they retire. Savings withdrawal benefits should only be taken in the case of financial distress and where all other financial solutions have been exhausted.

### Three pots or components

On 1 September 2024, retirement funds will set up three pots or components for each fund member. These components are referred to as the vested component, savings component and retirement component.

Initially, the benefits members have accumulated up to 31 August 2024 will be reduced by 10%, (capped at R30 000) and this once-off "seed capital" will be transferred to their savings component. The balance of their accumulated benefits, plus fund returns thereafter, will be allocated to their vested component. All the current rules of access that apply to the retirement fund will be retained for benefits in the vested component.

The "seed capital" and one-third of members' contributions made from 1 September 2024, plus fund returns thereafter, will be allocated to their savings component. The benefits in the savings component can be withdrawn at any time or left to grow. Two-thirds of members' contributions made from 1 September 2024, plus fund returns thereafter, will be allocated to their retirement component.

### Savings withdrawal benefits

Savings withdrawal benefits can be taken from the savings component once in a tax year. The value of the withdrawal, before taking into account any charges or transaction costs, must be R2000 or more. A second savings withdrawal benefit will be allowed in the same tax year, provided the member has terminated their membership in the fund and the value left in their savings component is less than R2000.

Savings withdrawal benefits will be taxed according to the member's marginal tax rate. A tax directive will be required from SARS before the savings withdrawal benefit may be paid out. To obtain the tax directive, the retirement fund would require a member's tax reference number and annual income. The retirement fund would pay out the withdrawal, less any tax. It is important to note that if a significant number of fund members apply for immediate withdrawal on 1 September 2024, this could create administrative delays.



## Frequently asked questions

**Q** If members have multiple retirement funds, can members withdraw the seed capital from each one?

Yes, the seed capital will be available on all retirement funds. This means members who have multiple retirement funds, for example a company pension fund and a retirement annuity, would have access to the seed capital in the savings component of each retirement fund.

**Q** What can members access if they are retrenched?

For pension and provident funds, members will be able to access all the benefits in their vested component as well as the benefits in their savings component (if they haven't already accessed them in the year). However, for retirement annuities, members will only be able to access the accumulated balance in their savings component unless the value of their whole retirement annuity is less than R15 000 in which case they should be able to access everything. This is why it is important to keep the savings component for emergencies only.



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# IT'S BUSINESS AS USUAL AT MEDICAL SCHEMES

Since President Cyril Ramaphosa publicly signed the National Health Insurance (NHI) Bill to become an Act on May 15, there have been threats of litigation and, unfortunately, a great deal of misinformation. **Lee Callakoppen, Principal Officer of Bonitas Medical Fund**, says, the Act is a complex piece of legislation that still needs to be clarified, along with new reforms and regulations, which could take years. His advice to private healthcare members is: to remain calm, it is 'business as usual.'

"There is no need to panic at this stage, members of private medical schemes are unaffected. Access to affordable, quality healthcare services remains a priority and private medical schemes are still going to be providing healthcare and benefits to members," he said.

"The Bill proposes a phased-in approach which could take decades, so it would be irresponsible to cancel private medical scheme membership now."

## PHASING IN OF NHI

The President has stated that the Government is open to additional engagement and collaboration with various stakeholders – including business, labour, social partners and the healthcare sector.

The Government has also reiterated that implementation will be phased in. "There is no

element that is going to happen overnight. Our legal framework also allows for amendments to be made," said Presidential spokesperson, Vincent Magwenya.

## COLLABORATION IS KEY

"We have always been supportive of access to universal healthcare," says Callakoppen. "However, we strongly believe public and private healthcare systems have a dual responsibility to deliver this. We acknowledge the gap that exists, especially in terms of infrastructure and believe we have a role to play in supporting the enhancement of public facilities and healthcare reform in general."

"In fact, we have supported various public healthcare initiatives over the past years in partnership with Gift of the Givers. These have included providing access to water infrastructure to supply clean, running water at various public health facilities, hospital ward refurbishments, supplying medical bursaries and sponsoring an audiology programme," added Callakoppen.

## OUR CONCERNS

There remain concerns, mainly around funding, administration and continued freedom of choice as set out in the Bill of Rights.

■ **Funding:** detail is lacking in terms of the funding of the NHI – the most likely option being additional taxes. However, it is diffi-

cult to know what the actual costs will be. What needs to be taken into account, is that taxpayers, including private medical scheme members, already fund 75% of the public health budget.

■ **Administration:** the administration of the proposed central system of healthcare will need rigorous governance. NHI too, would be a not-for-profit organisation, owned by its members. Private medical schemes are under strict scrutiny and undergo public audits as they are obligated to the members of the medical scheme which is, in essence, a Trust Fund.

■ **Bill of Rights:** all international concepts of universal healthcare make provision for freedom of choice and we believe citizens should be open to purchasing private healthcare should they have the means to.

## THE ROLE OF MEDICAL SCHEMES

Currently, the medical schemes' role, under the fully matured NHI, is that of complementary services cover. According to the White Paper, NHI will be rolled out in priority areas first – these include healthcare at schools, childhood cancer, women's health (including pregnancy, cervical cancer and breast cancer), disability and rehabilitation services as well as hip, knee and cataract surgery for the elderly.

"But what about the remainder of the population?" asks Callakoppen. "If the NHI is to be rolled out to specific target groups first, what becomes of others in need? That's why we believe public and private healthcare can and should coexist."

## THE WAY FORWARD

It's imperative that measures are put in place to allow medical schemes to work in tandem with the NHI, so that duplication of costs is prevented.

We have always been in support of universal healthcare and believe we need to focus on public and private enterprises working together, strong leadership, accountability and dealing with social-economic issues.

In conclusion, Callakoppen says that Bonitas, as with other medical schemes, will continue to look at ways of providing members with access to affordable, quality healthcare as they have done for the past 40+ years.



LEE CALLAKOPPEN - Principal Officer: Bonitas Medical Fund

Bonitas



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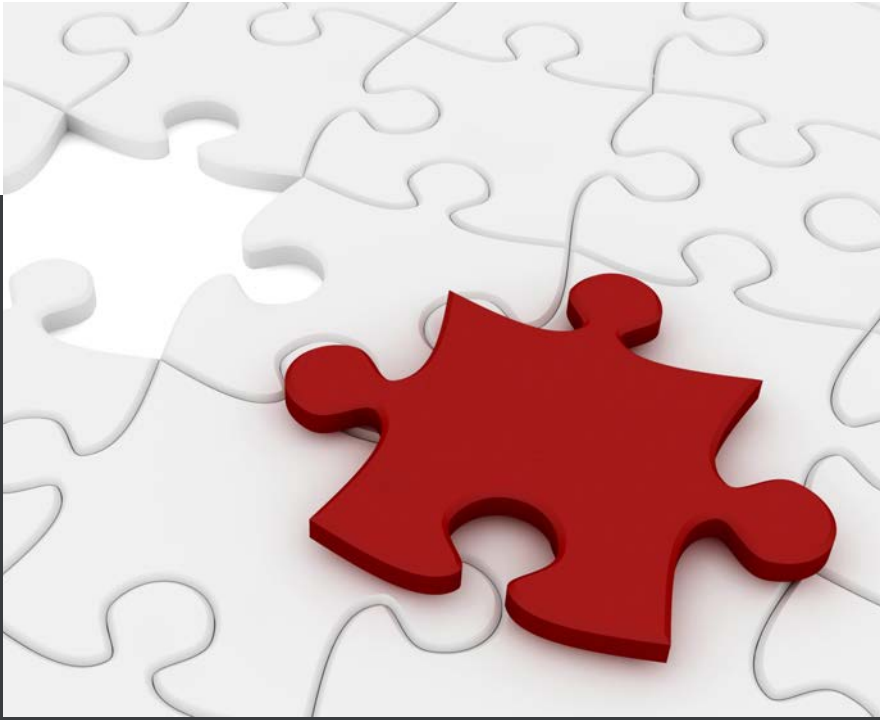
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# GAP COVER PROVIDERS ARE SEEING MORE HIGH-VALUE CLAIMS THAN EVER BEFORE

**A**s medical inflation has continued to rise and the cost of medical procedures has increased, medical schemes are faced with the juggling act of keeping premiums affordable, while still offering adequate cover.

In addition, new procedures such as robotic-assisted surgery and new cancer drugs offer better outcomes, but at a greatly increased cost. As a result, we are seeing increased medical expense shortfalls, particularly when it comes to specialists, as well as increased co-payments and sub-limits. The upshot of this, for the consumer, is vastly increased out-of-pocket expenses, which is why Gap cover has become critical.

Given the increase in both the frequency and Rand value of claims, having Gap cover in place has never been more important.

## The state of Gap cover

The frequency and value of Gap cover claims have increased dramatically over the years as the gap between what medical

schemes cover and what specialists and providers charge continues to widen.

In 2023, Turnberry paid out R119 968 466 in claims, proportionately this accounted for 56% of the total claims, with medical schemes covering the remaining 44%. This figure includes a significant number of high-value claims, with many of them exceeding R100 000. Three of the highest claims in 2023 were R129 193,60 for heart disease, R128 485,43 for a nasal polyp, and R125 735,08 for a spinal fusion surgery.

These are figures paid out over the course of a single year and for a single diagnosis. Gap cover policies are subject to an overall annual limit (OAL) per individual covered by the policy, and this limit is increased in April each year and is currently R198 660,43 per insured person. This limit resets every year, which means that over a lifetime, the amount paid out for individuals and families is far higher. At Turnberry, the top three lifetime claims are figures in the hundreds of thousands of Rands: R502 983, R450 225, and R414 331 respectively.

## What does this mean?

The most common procedures we see as a Gap cover provider are spinal disc problems, cancer, heart disease, cataract surgery and maternity, and these claims can and often do exceed R100 000 per incident. These figures highlight the fact that in South Africa, Gap cover is essential for anyone wishing to access private health-care without potentially incurring significant out-of-pocket expenses.

The reality is that even young and healthy people could need costly medical procedures, and as they age and life stages change, medical needs do too. Accidents can happen to anyone, regardless of age, and injuries related to sports and physical activity are also common in younger age groups. Starting a family inevitably involves increased medical expenses, from pregnancy and childbirth to raising children who frequently need medical attention. Health issues related to stress are also on the rise, including anxiety and depression. In later life stages, chronic diseases like high blood pressure, high cholesterol, and prediabetes become more common. Cancer can strike anyone and is increasingly seen in younger population groups.

## Brokers should engage with their clients

The cost of quality medical care continues to increase, and medical expense shortfalls as well as co-payments and sub-limits are becoming more and more common, at higher amounts. This means that any medical treatment, regardless of a person's age or life stage, can end up costing tens of thousands of Rands out-of-pocket. Over a lifetime, these sums could potentially add up to millions.

It is important for brokers to engage with their clients to make sure they have the right medical scheme cover in place first, and then to supplement this with appropriate Gap cover, to ensure that they are able to access the medical care they need without the financial burden of out-of-pocket expenses resulting from medical expense shortfalls, co-payments and sub-limits.



**Brian Harris**  
General Manager  
Operations  
Turnberry



**BRIAN MCMILLAN**  
Head of Retail  
Structured Products  
Investec

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Millennials and Gen Z are spearheading the shift towards sustainable and impact investing.

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# Decoding the shift in investment patterns

**S**ustainable investments are more than an afterthought. Environmental, Social, and Governance (ESG) factors are now a priority!

Investment patterns are shifting at an interesting pace. The world is forced to turn its interests towards sustainability. Set against an environment beset by climate change, Mother Nature has set the agenda for a shift in investment priorities. Globally, the financial services sector, governments, and businesses have had to re-prioritise. When it comes to investor decision-making, however, it is the Millennial generation and Gen Z who have charged ahead.

## Shifting priorities

There have been notable shifts in investment patterns over the past five to 10 years. In particular, we note a significant growth in interest towards alternative asset classes.

While traditional investment vehicles generally focus on listed and liquid investments, younger investors look towards alternative markets and alternative asset classes. Investment portfolios typically perform best when diverse, but the demand for alternative investments continues to grow. This trend is set to continue across the globe.

## Regulatory requirements

As the world navigates climate change's significant effects, regulatory requirements also become more onerous. ESG portfolios are no longer an afterthought for companies as global pressures build for governments to ensure corporate accountability. Building a company towards incorporating and prioritising the ESG agenda now makes better business sense. And, where investors are concerned, sustainability portfolios that were once a nice-to-have, are now considered a priority area.

## Socially conscious investors

Compared to their predecessors, younger investors exhibit distinct preferences. The trend toward non-traditional investments and alternative asset classes is growing at pace. Younger investors are far more open to alternative asset classes, like capital-protected products or cryptocurrencies.

Simultaneously, however, a fundamental interest in sustainable investing is on the rise. Younger investors actively seek opportunities to align their financial goals with their values, prioritising companies with strong environmental practices, social responsibility initiatives, and ethical

governance structures. Investments generating positive social and environmental impact alongside financial returns are gaining momentum. This includes initiatives focused on renewable energy, sustainable agriculture, and community development.

Millennials and Gen Z are spearheading the shift towards sustainable and impact investing. Their influence is set to rise, with ultra-high net worth Baby Boomers set to bequeath some US\$70 trillion to their heirs over the next 20 years in the US alone, in what is known as the Great Wealth Transfer. Therefore, established financial institutions must adapt their offerings and cater to this evolving demand. Globally, this shift in investment priorities is also noted, as environmental and sustainable investing has become a critical investment theme over the past few years. This bucks a common misconception amongst more traditional investors that sustainable investing comes to the detriment of returns. Over the past five years, a strategy of picking stocks according to their ESG metrics would have outperformed the market by 3% per year.

## Adjust your strategy

It is therefore imperative that financial advisers adjust their strategies and offerings. Offering a range of alternative investment opportunities is a must where traditional investment opportunities are hindered by their short-term limitations. Traditional investments prioritise stability and long-term growth, which makes them less than ideal for short-term wins. Market volatility, slow trade execution, and transaction fees also hinder the possibility of attracting quicker returns. Traditional investment vehicles are built for buying and holding, enabling underlying assets to appreciate over time. Moving towards a more diverse offering, it's time to learn more about non-traditional assets and sustainable investment products. Moreover, you'll be better equipped to answer the younger investors' critical questions by effectively leveraging technology platforms and investment digital tools. Prioritising the sustainability agenda is critical to retaining and attracting younger investors as clients.

Greta Thunberg may have started a youth-focused climate change protest, but the actual effect of shifting social priorities is equally felt throughout the investment landscape. Evolving investment preferences and a remarkably influential generation of investors lead the charge toward a more sustainable future. ●

# South Africa's investability:

## It's easy to paint a negative scenario around investing in South Africa



**MYRA KNOESEN**  
Journalist/Researcher  
FAnews

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Turbulence – or rather, volatility, when it comes to the financial markets – is a defining feature of markets and has and will always be present.

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Over recent times, amidst regulatory shifts, pandemic-induced lockdowns, economic slowdowns, electricity issues, crime and corruption and heightened global geopolitical tensions, the question of South Africa's investability has loomed large among investment analysts.

Foreign and local investors scrutinise the investment landscape, and the query arises: is South Africa a viable investment destination? **FAnews** spoke to **Reza Hendrickse, Portfolio Manager at PPS Investments** about this and more.



### Is SA a viable investment destination?

South Africa, according to Hendrickse, is indeed investable. “Our financial market is world-class, related institutions are advanced, and there is value to be found in our equity and bond markets. Admittedly, South Africa is not perfect, and growth is constrained by widely known challenges that pose risks. However, investing in any emerging market inherently has a higher level of risk.”

The question, he said, is ultimately whether these risks are being adequately compensated for. “We believe they are, but we also believe that exposure in a portfolio should be appropriately sized, with a healthy allocation to foreign markets complementing South African exposure. We also believe risk should be actively managed through adequate diversification across managers and strategies.”

“Our tactical asset allocation house view is currently neutral on both SA bonds and SA equities, despite appealing valuations. This speaks to the poor structural environment. The government's inability to implement required reforms is especially concerning with SA bonds, given our debt trajectory, but investors are being compensated for much of this,” he added.

### Conditions in SA are probably worse than average

These challenges, Hendrickse stated, should not be downplayed, but at the same time, they

are not unique to South Africa. “For example, parts of India, Australia and even the United States have experienced loadshedding from time to time. Unfortunately, South Africa's experience has been severe due to prolonged underinvestment in infrastructure, rather than growing pains, but we think the worst is behind us.”

“Crime is indeed elevated, and we have the highest crime rate in Africa, but there are countries globally, mostly emerging, with higher rates of crime. Corruption is also present in most countries, to varying degrees. On both fronts, however, conditions in SA are probably worse than average,” he emphasised.

Investing successfully for the long-term, Hendrickse said, requires a general sense of optimism, but one certainly cannot ignore the significant constraints with electricity and logistics that our asset managers are increasingly flagging. “Progress here has been slower than hoped, but the industry is working actively with government to try to resolve the constraints. Of course, in an election year we will hear lots of noise, and we still think risks to SA are skewed to the downside, but every risk has a price, and SA assets are relatively cheap.”

“As South Africans, we are constantly bombarded with negative news headlines. Determining whether widespread negativity has already been reflected in asset prices is our main concern. For the most part, we believe it is. Bear in mind a “good” country could end up being a bad investment destination if the price paid is wrong, and even a “bad” country can be a great investment if the price is right,” he said.

### Defining feature of markets

“Turbulence – or rather, volatility, when it comes to the financial markets – is a defining feature of markets and has and will always be present. Today's combination of risks is arguably unique, but the same could be said for any time in history. We think investor sentiment will continue to swing between extreme optimism and extreme pessimism, such as what we are seeing in SA assets now. But therein lies the opportunity,” continued Hendrickse.

“There are downside risks in SA, which valuations offer compensation for, but the bar is

arguably low in SA for positive surprises. We don't expect an imminent sea change and, therefore, continue to maintain only measured exposure locally, but attractive valuations keep us from being underweight local asset classes. We would be comfortable adding SA equity exposure should the local market sell off materially from here," he added.

"Outside of SA, we now view global risks as more evenly balanced, after previously seeing them skewed to the downside. In response, we upweighted foreign equities to neutral late last year. Typically, as a multi-manager we look for managers that can exploit volatility, hence we see this environment as relatively positive for generating active returns," he said.

#### Investors in a world of global uncertainty

According to Hendrickse, an investment strategy should always be a function of one's investment objective and should also be consistent with the period one intends to invest for. One way of addressing the risk of a negative surprise, he said, is to ensure that one is adequately diversified.

"There are a host of traditional and modern asset classes and manager strategies available to investors if the intention is to improve consistency. Alternative asset classes such as hedge funds and private markets can also supplement traditional investment holdings to further improve consistency and introduce different sources of return," he added.

"We have started to include alternative assets in some of our institutional portfolios, to help diversify equity market risk. There are still

some constraints in easily incorporating them in traditional retail portfolios, but we do expect this to become more common over time, and we are well-placed to take advantage of this," continued Hendrickse.

#### A final word

"Risk and return tend to be positively correlated. Achieving good returns, therefore, requires taking calculated risks and allowing sufficient time for things to play out. Risk can also be viewed in various ways, such as either the risk of losing capital or the risk of not achieving a high enough return," he said.

Whatever one's objectives are, Hendrickse mentioned that it is important to have a plan and to stick to it, while guarding against extreme optimism or pessimism, because such conditions don't last forever. "Local sentiment is bombed out, and it is easy to paint a negative scenario around investing in SA. However, it is important to consider both the "bull" and "bear" cases when committing capital to any investment, and to be especially attentive when the consensus view is either overly optimistic or pessimistic, because this often coincides with turning points. There is clear evidence that conditions in SA are far from ideal, but the seeds are potentially being sown for a period of surprisingly good returns going forward."

"There was a lot of noise this year, given elections all around the world, but the overall global environment is not as negative as it was a year ago, and central banks could well be cutting interest rates soon. In such a climate, one does not want to be too conservative or aggressive," he concluded. ●

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Outside of SA, we now view global risks as more evenly balanced, after previously seeing them skewed to the downside.

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Stokes Media

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It becomes a self-fulfilling prophecy: as more money leaves local equity investments in favour of bonds or offshore investments, the JSE ends up with lower ratings and liquidity, which in turn causes more companies to de-list.

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## Like profits in a downturn: SA firms are abandoning the JSE in droves

**T**he number of firms listed on the JSE has fallen by almost a quarter over the past eight years, from 395 listings end-2015 to 294 in July 2023.

This ongoing decline presents challenges for equity-focused investors and portfolio managers and is a potential disaster for retirement-focused balanced or multi-asset funds that must comply with Regulation 28 of the Pension Funds Act.

### Affecting one-in-four listings

“The de-listing trend started in 2015, following the Nene-gate scandal, with a net loss of about 100 listed companies since,” says Cornette van Zyl, a Portfolio Manager at Sanlam Investments. And things could get worse as 60 of the remaining firms have primary listings on offshore exchanges.

Ralph Thomas, Head of Balanced Funds at Sanlam Investments, singles out concentration risk as the main concern associated with the dwindling size of the JSE. Concentration risk leads to idiosyncratic or stock-specific risk, which in plain English means being exposed to risks that affect a single company rather than the market as a whole. “We usually expect beta to be diversified, but the trend in JSE de-listing has increased idiosyncratic risk even from an asset allocation basis,” he says. “This was not something that concerned us previously.”

### The Magnificent Seven conundrum

Dr Nico Marais, Chairman and Co-Founder of Carmel Wealth says the decline in JSE listings is regrettable, before noting that international fund managers face similar challenges. “A lack of market breadth or concentration risk manifests itself in many financial markets and in different ways; just ask US-focused managers who have to deal with the top 10 stocks in the S&P500 index representing 25% of its value,” he says.

The balanced and multi-asset funds that manage much of South Africa’s growing pool of retirement savings have to comply with the asset class and location limits contained in Regulation 28, including holding a maximum of 45% of their assets offshore. The question becomes: is this level of offshore exposure

adequate to offset the concentration risk that attaches to the JSE’s dwindling opportunity set?

“We prefer representative, diverse allocations in as wide a possible an opportunity set,” says Thomas. “The increase in the allowable foreign allocation is welcomed, but we still sit in a position where we are required to invest 55% of Regulation 28 compliant portfolios in a country which represents a mere 0.4% of world GDP, and 1.3% of world equity market capitalisation.”

### Limited diversification opportunities

Thomas is also concerned about the limited diversification opportunities in the local equity index compared to world markets. He specifically mentions the limited nature of the domestic opportunity set between and within sectors on the JSE, with portfolio managers unable to obtain exposure to some of the most important global investment themes.

The dearth of diversification opportunities illustrates the need for sophisticated portfolio construction that is designed around investors’ needs for capital growth, portfolio protection or income; especially when dealing with a smaller, concentrated universe of investable stocks. “More care has to be given to minimising unintended bets in your portfolio such as an unintended over or underweight in resources, small-cap or value stocks,” Dr Marais says.

### Self-fulfilling prophecies

The more companies leave, the worse it becomes. “Rising concentration risk combined with low returns erodes the attractiveness of listed SA equities as an asset class,” concludes Van Zyl. “It becomes a self-fulfilling prophecy: as more money leaves local equity investments in favour of bonds or offshore investments, the JSE ends up with lower ratings and liquidity, which in turn causes more companies to de-list.”

Asset managers will have to use all the tricks in their investment toolboxes to stay ahead of the delisting trend. “Besides the increased pressure on portfolio managers to get stock picking right with fewer stocks to select from, being able to design risk-aware portfolios combined with effective hedging mechanisms is more essential than ever,” Dr Marais concludes. ●



**HAMILTON  
VAN BREDA**

Head of Retail Sales  
M&G Investments



While listed infrastructure operates in the global equity market, it has different characteristics and behaves differently to global equity in terms of three important factors: return profile, volatility, and dividend growth potential.



# Does listed infrastructure add value to a portfolio?

**A**mendments to Regulation 28 of the Pension Funds Act, which provided a definition of infrastructure and increased the limit of investment into this asset class to 45%, could be the catalyst for opening up the opportunity set of listed infrastructure.

Listed infrastructure is buying shares in the listed companies that own or control strategic physical infrastructure assets with high dividend growth potential over the long term. These include critical infrastructure, long-life concessions, and perpetual royalties.

The most important common denominator for these assets is the ability to secure long-life cashflow streams. An example would be 'perpetual royalties', which is where royalties are paid in perpetuity to the landowners for any economic value derived from that land. These long-life cashflow streams can be valuable for investors such as pension and provident funds, which are looking for stable and growing long-term incomes that enable them to provide steady payments to their retired members over long periods of time.

Typically, listed infrastructure centers around three core or economic categories: utilities, energy and transportation. However, there is also social infrastructure, which consists of health, education, and civic infrastructure; and evolving infrastructure, which includes the physical infrastructure assets that are geared towards a digitally enabled society.

## Economic infrastructure

The economic, or core incorporates:

- Utilities, such as pipelines and terminals;
- Energy, such as electricity, water, and waste management; and
- Transportation, such as railways, airports, and ports.

The benefit of this component is that it tends to be defensive and offers conservative but stable dividend growth over time.

## Social infrastructure

This category covers infrastructure that provides health, education, and civic functions. These investments also have defensive qualities, as well as a guaranteed revenue stream (most often coming from governments).

## Evolving infrastructure

This covers infrastructure that serves the modern world, such as digital infrastructure, which encom-

passes transmission towers, data centers and optical networks.

This broader definition of infrastructure provides a higher level of return diversification because:

- The underlying return constituents of each of the three categories tend to behave differently across various market environments.
- There is diversification across the categories, sectors, and subsectors.
- Geographical diversification.

While listed infrastructure operates in the global equity market, it has different characteristics and behaves differently to global equity in terms of three important factors: return profile, volatility, and dividend growth potential.

Compared to global equity, the return profile of infrastructure is more consistent and stable, especially when high-quality companies are carefully selected for their ability to provide stable, long-term dividends.

Looking solely at the performance (net of dividends), one can compare the All-Country World Index Utilities Sector Index (a proxy for infrastructure) versus the ACWI (proxy for global equity) returns over 20 years. With a 6.5% p.a. return from utilities and a 5% p.a. return from the ACWI, this 1.5% p.a. outperformance illustrates the reliability, compounding effect and significant long-term appeal of infrastructure investments.

As listed equity is invested in the equity market, investors can experience some market volatility. But infrastructure moves differently to the equity market over the long-term, and with a beta measure of less than one, is less volatile than the overall equity market.

At the same time, the compound annual growth rate (CAGR) of the S&P 500 Utilities LTM Earnings Index has averaged 8.3% over 20 years. This demonstrates the power of consistent compounded earnings, cashflow and growth.

The expansion of the opportunity set allowed in Regulation 28 has provided local investors with access to a wider range of asset classes and geographical regions than ever before. By focusing on companies that own strategically advantaged physical assets with long-term growth potential, it is possible to deliver growing cashflow streams to investors, which has proven to be a successful strategy over time. ●



**GARETH STOKES**  
Stokes Media

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Advisers should stress that AI is not a replacement for human expertise but rather a capability that will enable both asset managers and financial advisers to deliver better outcomes for clients, personalised in the context of their circumstances.

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# Harnessing Artificial Intelligence:

## For cost-effective, optimised advice

**T**he integration of Artificial Intelligence (AI) into business processes and investment decision-making presents major challenges for asset managers and investment advisers, locally and abroad.

As AI becomes more intuitive and user-friendly, asset managers are under pressure to ramp up the pace of their technology adoption to create deeper investment value for clients.

### An asset management revolution

The experts interrogated for this piece agree that AI will revolutionise the asset management industry. Harry Raikes, Investment Director, Private Equity at Schroders Capital, says the technology “will improve efficiency, automate routine tasks and enable asset managers to focus on more complex issues.” He believes AI will contribute to enhanced decision-making due to its capabilities to analyse vast amounts of data far more quickly and accurately than humans.

“The technology will enhance data-driven decision-making and operational efficiencies, enabling more precise and faster investment strategies, and the automation of routine tasks to reduce costs and human error,” says Mauritz van den Heever, Head of Operations and IT at Carmel Wealth. “Additionally, it allows for personalised investment services and the tailoring of portfolios to meet investors’ needs.”

Those who do not embrace the technology risk being left behind. “AI is a powerful technology capability that has been democratised with the launch of Chat GPT through which many use cases have been demonstrated,” says Ferdi van Heerden, CEO at Momentum Investments. The next requirement is for regulators to put a regulatory framework in place to accommodate emerging technologies and ensure trust in AI-backed approaches.

### Enhance, optimise and explore

Asset managers are taking a nuanced approach to the development and implementation of AI-backed solutions within the technology’s broader capabilities. Charlotte Wood, Head of Fintech, Innovation and AI Strategy at Schroders describes a three-part strategy for AI deployment under use cases titled ‘enhance productivity’; ‘optimise existing processes’ and ‘explore ways to transform the industry’.

“We see immediate benefits in removing much of the administrative burden from our workforce, therefore allowing more time to focus on client outcomes,” she says, commenting on the first use case. Under the third, the asset manager is “exploring ways AI can revolutionise investment processes” with due attention to governance and training employees on the safe and effective use of the technology. “We have had generative AI in production for over a year and were among the first to launch an internal-only AI assistant, Genie, which is available to employees globally,” Wood says. The AI is built on the latest GPT models and has over 1 000 users.

AI will play an enabling role across investment management activities. According to Van Heerden, the use of AI and other enabling technologies such as the cloud, data analytics and tokenisation and blockchain “will be effective in introducing deep efficiencies to investment processes, regulatory compliance and reporting [resulting in] lower cost delivery models and improved experiences for clients and financial advisers.”

### Schooling your clients on AI

FAnews asked what financial advisers should tell clients on the subject of AI in portfolio management. “You should first differentiate between the use of AI in portfolio management versus investment in AI within portfolios or funds,” Van den Heever ventures. In the first instance, AI can be seen as no different to past technological innovations; something that can be leveraged to the benefit of clients through enhanced portfolio management.

“Advisers should stress that AI is not a replacement for human expertise but rather a capability that will enable both asset managers and financial advisers to deliver better outcomes for clients, personalised in the context of their circumstances,” says Van Heerden. Of course, where AI tools are used, the adviser and investment manager must disclose how they are using the technology in clients’ portfolios and/or the advice process.

“You should explain how AI can be incorporated into portfolio management to enhance efficiencies, but it is essential to maintain the human connection to ensure that financial advisers’ experience and expertise are being leveraged,” Wood concludes. ●



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Yet, for numerous individuals, ESG has transformed into a figurative “Pandora’s Box,” brimming with precarious commitments, regulatory complexities, and potential liabilities.

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# ESG in 2024: moving beyond labels to true sustainability

Insurers and reinsurers are increasingly placing ESG (Environmental, Social, and Governance) considerations at the forefront of their agendas, recognising the significance of these factors.

However, for many, ESG represents risky promises, regulatory challenges, and potential liabilities.

Terms like “clean,” “green,” “ESG,” and “carbon-neutral” have gained even greater prominence in the markets, signalling a growing focus on sustainability. Yet, the future of companies without a committed ESG strategy remains uncertain, as the integration of ESG principles becomes increasingly intertwined with long-term profitability. Ultimately, as ESG continues to shape the investment landscape, the imperative for businesses to adapt and embrace these principles is clear.

FAnews spoke to **Michael Field, Fedgroup GM: Investments** and **Warren Winchester, Fedgroup GM: Ventures** about ESG considerations in the investment arena, what the future of companies without an ESG commitment holds and more.



## A tick-box exercise

In the current landscape of the investment arena, the question of whether ESG (Environmental, Social, and Governance) practices are merely a tick-box exercise, or a genuine risk differentiator is hotly debated.

“Some argue that ESG has indeed become a tick-box exercise, diverging from its original intentions. Fedgroup, for instance, holds the view that, in many ways, ESG has been ‘hijacked’ and therefore don’t use the term ESG because they think it stands for the wrong things and that the framework is flawed.

Instead, they emphasise impact investing, focusing on tangible positive outcomes rather than simply checking boxes. They contend that true impact investing allows for the measurement and reporting of the actual effects investments have, moving beyond superficial labels like ESG,” said Field.

## Mislabelling and misrepresentation of ESG

ESG considerations have ascended to the forefront, if not the zenith, of the agendas of insurers and reinsurers.

Yet, for numerous individuals, ESG has transformed into a figurative “Pandora’s Box,” brimming with precarious commitments, regulatory complexities, and potential liabilities.

“The mislabelling and misrepresentation of ESG over time has contributed significantly to this perception. Some exploit ESG, framing it as anti-ethical to profit or returns, utilising it to justify subpar performance under the guise of ethical investment. This manipulation, often exemplified by practices like greenwashing, has led to disillusionment among stakeholders, revealing the ulterior motives behind such strategies. Fedgroup, in contrast, adheres to straightforward criteria, ensuring that actions yield a net-positive impact on people and the planet while remaining financially viable. Their approach eschews short-term gains in favour of sustainable, long-term contributions to both investors and the broader community, aligning with the genuine ethos of ESG,” said Winchester.

## Transcending superficial trends

Looking ahead to 2024, familiar terms like “clean,” “green,” “ESG,” and “carbon-neutral” continue to echo in the markets.

“In the United States, however, ESG, in its current form, shows a downward trend, a pattern anticipated to replicate in South Africa. A notable example of this decline in the US involves corporate clients distancing themselves from the world’s second largest ESG debt market. The market for sustainability linked loans, estimated at \$1.5 trillion by BloombergNEF, faces abandonment due to factors such as heightened regulatory demands, dwindling financial incentives, and the spectre of accusations of greenwashing. Nonetheless, within the investor space, financial services providers committed to the authentic ethos of ESG are delving deeper, transcending superficial trends to seek genuine positive impacts,” said Field.

“Recognising the long-term benefits of sustainability, they mitigate real world risks, positioning themselves for enduring success.

For instance, prioritising sustainable farming practices ensures not only profitability but also secures long-term rewards by nurturing the soil. Consequently, as we progress, we anticipate a divergence: providers accustomed to superficial compliance may regress or fade into irrelevance, while those genuinely striving for meaningful change will thrive, catalysing a shift towards a more sustainable future," added Field.

The question of sustainability and profitability looms large: what lies ahead for companies lacking an ESG commitment?

According to Field, while the mere commitment to ESG may seem inconsequential, it is the actions taken that truly matter.

"Providers in the investment realm who view ESG through a lens of mere compliance, akin to a tick-box exercise, and engage in 'window dressing' tactics risk missing out on the enduring advantages associated with genuine ESG principles and may expose themselves to significant

risks. Conversely, those who approach ESG intending to make a positive impact, embodying the philosophy of 'look after the community and the community will look after you,' will continue to unlock doors to sustainable opportunities," he said.

#### **A responsibility to act with integrity**

In his concluding remarks Winchester said, sustainability has firmly entrenched itself in our collective consciousness, and despite the exploitation of ESG principles, numerous providers in the investment sphere understand that ESG cannot be confined to spreadsheets alone.

"They appreciate the importance of integrating genuine ESG principles into every aspect of decision-making. Perhaps it's time to shift our focus away from spreadsheets and towards the fundamental actions required to create a meaningful impact in the long-term. Every individual matters, and we must recognise that we have only one planet. As corporate citizens, it is our responsibility to act with integrity and accountability at all times," he said. ●

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The question of sustainability and profitability looms large: what lies ahead for companies lacking an ESG commitment?

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Combining systematic and appropriate actively managed strategies can help mitigate downside risks and facilitate the construction of diversified global equity portfolios.

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## Invest in the global equity market, they say...

**N**obel Prize laureate, Harry Markowitz, famously declared, “Diversification is the only free lunch in investing.” While this principle is deeply ingrained in the investment profession, its effectiveness hinges on quality and execution.

For South African investors, this principle takes on heightened significance when investing in global equities. As of 30 April 2024, the weighting of South African stocks in the MSCI All Country World Index (ACWI), an index representing 85% of the investable global equity market, stood at a mere 0.27%, emphasising just how much diversity exists beyond domestic borders.

### The equity market

Venturing into the global equity market offers many advantages. Firstly, it grants access to a vastly expanded pool of companies compared to domestic markets. The Johannesburg Stock Exchange (JSE) currently boasts just 277 listed companies compared to the MSCI ACWI, which comprises 2 840 constituents from 23 developed and 24 emerging markets. The global equity market also provides unparalleled intra-sectoral diversification – the JSE’s technology sector, for example, is dominated by a handful of giants (such as Naspers and Prosus), while the MSCI ACWI’s technology sector comprises 342 diverse constituents!

Furthermore, the South African equity market has significantly contracted over the past 30 years, declining from over 700 listed stocks on the JSE to just 277 presently. This reduction can be attributed to various factors, such as low economic growth, negative business sentiment, a sovereign credit rating downgrade and the Financial Action Task Force greylisting, leading to increased capital outflows.

### Economic representativeness

Beyond the abundance of choice, investing in the global equity market exposes South African investors to the higher growth potential of diverse economies and megatrends shaping the global landscape. From the transition to low carbon to the advent of digital disruption and artificial intelligence, embracing global markets unlocks a universe of opportunities.

However, amid the allure of global equity market diversification, a question arises: is the global equity market itself truly diversified? After all, wouldn’t investing a little in every company in the world represent ultimate diversification?

According to the World Bank, the five largest contributors to world GDP are the US at 25%, followed by China (17%), Japan (4%), Germany (4%) and India (3%). In 2024, the International Monetary Fund projects the following economies to be among the fastest growing in the world: India (6.5%), followed by the Philippines (6%), Indonesia (5%), China (4.6%) and Thailand (4.4%).

However, when we turn to the top five countries represented in the global equity market index, proxied by the MSCI ACWI, a different picture emerges. As of 30 April 2024, the US dominates this index at 63.3%, followed by Japan (5.4%), the United Kingdom (3.6%), France (2.9%) and China (2.8%). This composition raises questions about the economic representativeness of the global equity market indices. With such a substantial concentration in the US and a disproportionately low allocation to large economies such as China and India, global equity market indices appear to deviate both from the economies contributing most to global GDP and those forecast to experience the highest growth rates.

While concentrated exposure to the US equity market poses diversification risks to investors, elevated valuations of these equities intensify this risk even further. Currently, the US economy is deemed expensive, with historically high valuations. There is also notable concentration in the US information technology sector (23%) – while this sector has performed remarkably (up 51% in 2023 and continuing to surge), there are clear indicators of potential overheating.

### The level of diversification

Even if the heavy reliance on the US economy can be overcome, there is still a question about the level of diversification that global equity markets automatically offer.

Navigating the challenges posed by concentration risk in the global equity market therefore requires a comprehensive approach. Combining systematic and appropriate actively managed strategies can help mitigate downside risks and facilitate the construction of diversified global equity portfolios.

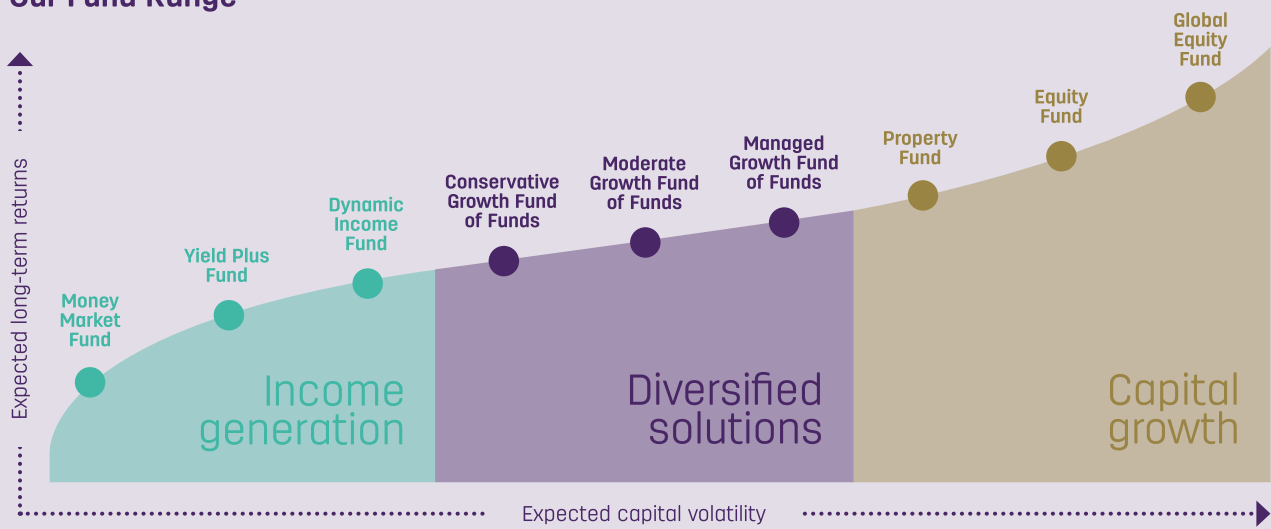
Of course, investors should also broaden their investment opportunity set through diversification into other global asset classes such as global infrastructure, global real estate and global fixed income – but that’s a matter for another article. ●

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**PAUL COUNIHAN**  
Chief Wealth Officer  
Fedgroup

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Like a conductor blending harmonies, it is important to highlight the importance of fixed stable returns alongside the dynamic melodies of alternative assets.

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## There is diversification, and true diversification – choose wisely

**W**ell, it seems the JSE (Johannesburg Stock Exchange) has been shedding more companies than a cat sheds fur in summer.

In fact, on average, more than 14 companies delist from the JSE annually, which is why market commentators often refer to this trend as a “slow death.”

### Creating the perfect storm

This trend is viewed in the context of a struggling local economy and negative business sentiment, but there are several factors at play, and the decreasing number of listings doesn't necessarily signify a weaker market.

Furthermore, there is an intricate dance of factors leading to this decline. From the corporate tango of consolidation to the cha-cha of compliance burdens, it's clear the JSE stage is seeing some serious moves. Add in the allure of unlisted markets for investors seeking refuge from market tempests, and you've got a dwindling guest list at the JSE ball. With fewer options to pick from, investors may find themselves stuck in a financial foxtrot, longing for more variety and higher yields in their portfolio playlist.

### In sharp contrast

However, the international scene is painting quite a different picture; the so-called ‘Magnificent Seven’ shares which is a group of high-profile, technology-centric mega-cap US companies have outperformed the international market and therefore captured investors' attention. During 2023, they climbed 75.71% while the broader S&P 500 Index returned 24.23% for the year. But this creates a tremendous concentration of risk which is why a prudent asset diversification strategy is always recommended. Back to conventional wisdom: investors should never put all their eggs in one basket, especially if it's a tech-filled one.

### Moving anti-clockwise

There is also the recently established Cape Town Stock Exchange. With its promising strides forward, it's like spotting a phoenix rising from the ashes of the JSE's delisting trend.

What's the secret sauce, you ask? Well, it seems the recipe involves a dash of lighter listing criteria, a pinch of speedier launch times, and a hearty serving of innovative capital-raising structures. All served up with a side of strict compliance, of course – because what's a successful exchange without a solid rulebook? It's a tantalising menu that just might tempt companies back to the listing table, breathing new life into the market.

### Listed versus unlisted: is it still a thing?

With the JSE currently in turmoil, investors might cast a wider net to unlock value and increased returns. However, whether companies are listed or unlisted, the mechanics remain the same.

It's like comparing a sports car on a racetrack to one cruising down a scenic route – different journeys, but they have the same powerful engine under the hood. Allowing public markets to trade in the stock of that company is the key difference, and yes, this changes some of the required reporting and disclosure requirements, but the fundamentals of stable companies with strong earnings remain the same whether listed or not. And size doesn't always matter, but specialised expertise surely does.

Like a conductor blending harmonies, it is important to highlight the importance of fixed stable returns alongside the dynamic melodies of alternative assets. It's a performance where well-diversified asset classes take centre stage, building a solid foundation for long-term prosperity. And just like a finely tuned instrument, uncorrelated asset returns packaged in regulated structures add that perfect balance, ensuring a portfolio sings with confidence through market highs and lows.

It is also important to highlight the relevance of reverse engineering asset choices. And, just as the most skilled chef relies on a trusted sous chef, thorough financial advice from a professional adviser is the secret sauce that brings it all together. So, whether an investor is navigating local markets or sailing the seas of offshore investments, wisdom should be their compass and a seasoned adviser their guiding star. ●



**GARETH**  
Stokes

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Liquidity management is a critical function for fund managers in the private market space, as it often determines the success and stability of investment funds.

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# THE HOTEL CALIFORNIA (NOT)

## You cannot just check out of private markets

**T**he struggle for domestic equity market returns, and the ongoing decline in the number of JSE-listed firms, have forced many institutional investors to consider opportunities in private markets. These investments often require capital to be invested for multiple years and can be difficult to exit should the need arise.

### From start-up to mega projects

Lebo Thubisi, Deputy Chief Investment Officer at Alexforbes summarises the private market opportunity set as private equity; private real estate; infrastructure and private debt. “Private equity involves investing in privately held companies, ranging from start-ups to established businesses, with the potential for significant returns upon exit,” Thubisi says. The size of private market opportunities varies from small-scale investments in start-ups to large-scale infrastructure projects requiring substantial capital commitments.

And so, the question begs, why should local investors consider private markets to begin with? “Investors are increasingly exploring private market opportunities, given the characteristics of resilience against market volatility; the potential for enhanced returns; and risk management via portfolio diversification,” says Conway Williams, Head of Credit at Prescient Investment Management. Changes to Regulation 28 and a desire to meet Africa’s infrastructure development needs are other strong motivators.

### Gobbling up the illiquidity premium

Thubisi broadly agrees. “Private markets offer the potential for higher returns compared to public markets as they provide access to unique investment opportunities with less competition,” he says. “Investing in private markets helps to diversify portfolios and provide long-term capital appreciation while reducing correlation with public market fluctuations.”

Local investors are keen to get involved in private markets to benefit from the so-called illiquidity premium, referred to as ‘an incremental return that compensates investors for owning assets that are not easy to sell’. As such, liquidity is a defining consideration for the allocators of capital involved here. Williams points out that “liquidity management is a critical function for fund managers in the private market space, as it often determines the success and stability of investment funds.”

He shared a long list of client-focused liquidity risk assessment factors in what was among the most detailed response to questions this writer has seen. Key points include matching the maturity profile of investments with the liquidity needs of clients and, in the case of a fund, holding sufficient liquid assets to meet redemption requests without impacting the fund’s overall performance.

### Asset allocation and diversification

“Liquidity risk is a concern, as exiting investments may not always be feasible in the short term,” explains Thubisi. In practice, investors mitigate this risk through asset allocation strategies and diversification, among others. Although emergency exits are uncommon, investors often have provisions in place including buyback options, secondary market transactions or negotiating with other investors.

There are a handful of SA-focused fund-of-funds (FOF) arrangements that give institutional investors flexible access to private markets. “These arrangements involve pooling investments from multiple institutional investors into a single fund, which then invests in a diversified portfolio of private market assets such as private equity, venture capital and infrastructure projects,” Williams says. FOFs give investors a broader range of investment opportunities in the private market while spreading their risk across multiple assets. These structures do not fully address liquidity concerns.

### Balancing liquidity and investment goals

“Balancing liquidity needs with long-term investment goals is crucial, and investors must carefully assess their liquidity requirements, investment objectives and risk tolerance when allocating capital to illiquid assets,” says Thubisi. “Diversification across different asset classes, geographies and investment strategies can help manage liquidity risk while maximising long-term returns.”

And the final word... “The local market continues to experience growth and development, particularly in the private market sector; we have observed a significant buoyancy in the private market, offering abundant opportunities for investors to deploy funding,” Williams concludes. “Not all deals are bankable; but the pipeline of opportunities remains robust, especially in the R100 million range.” ●



**MICHAEL FIELD**  
GM of Investments  
Fedgroup

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While acknowledging both the boons and pitfalls which AI brings to the table, there is a sobering truth: those seeking overnight riches through AI may find themselves sorely disappointed.

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# Has AI tipped the scale in asset management?

In the ever-evolving landscape of investments, the rise of Artificial Intelligence (AI) and Machine Learning (ML) has been nothing short of transformative.

Like a skilled conductor, these technologies orchestrate a symphony of data, reshaping traditional practices and opening new avenues for wealth creation, and according to PwC, AI technology could contribute up to \$15.7 trillion to the global economy by 2030.

## Risk and reward

Risk management is key in the investment world, but ironically, using AI in investment algorithms could seem a bit risky to some asset managers.

However, in the investment environment, technology is akin to a double-edged sword. One must look at how technology is applied in the investment space. AI is a tool and any tool used incorrectly can be dangerous. If AI is left to manage funds unsupervised or without human intervention, it could easily lead to negative outcomes.

Also, the whimsical world of AI-generated images often serves as a stark reminder of the importance of our human intuition and it's this gut reaction that we need to keep close. That said, AI has read every published book on investing, every website article and forum discussion, meaning it knows the full historical trends with 100 percent recollection. If this was a person you would want them in the room with you, especially since this "person" can assist with investment decisions based on facts and not emotion.

## Emotion drives investment decisions

People often say emotion should be kept out of investment decisions because it increases risk, but this is easier said than done, especially during volatile financial cycles. However, AI can serve as a handy tool to assist with unbiased, emotionless investment decisions.

To avoid investment decisions that are based solely on emotion, investors can use AI, but should also lean on the expertise of a seasoned financial adviser, a guiding beacon in the stormy seas of investment. And let's not forget the

power of diversification; a tried-and-tested strategy in the arsenal against risk. A well-balanced portfolio could pave the way to financial stability and prosperity.

Ah, and the allure of the quick buck - an age-old temptation that often leads investors down a treacherous path. While acknowledging both the boons and pitfalls which AI brings to the table, there is a sobering truth: those seeking overnight riches through AI may find themselves sorely disappointed. After all, Rome wasn't built in a day. I champion the timeless virtue of patience, reminding investors that long-term prosperity transcends fleeting fads. With a wellspring of diversification and a steadfast resolve, investors can weather the storms of risk and uncertainty.

## What the future might hold

What will the investment landscape look like 20 years from now, especially with an AI injection? Many investors are predicting market consolidation due to the high cost of developing a capability to be competitive. This is likely true, but it would be naive to think that, as with all new technology, some new stars will be born.

Already we see prominent asset managers with teams of analysts pouring over data looking for opportunities, but AI is very well suited for this task. Maybe the inverse will happen and the power of a large team of analysts will become commoditised. At the end of the day, the market doesn't actually generate wealth, it simply moves it around. It's people and companies that need to increase the pie.

We have always said that technology is good at certain tasks, and humans are good at other tasks. Never get one to do a task that the other should be doing.

Indeed, at Fedgroup, the march towards progress embraces AI as a powerful ally, yet never at the expense of disregarding the invaluable essence of human intuition and expertise. In this age of innovation, the mantra remains clear: wield technology as a tool to its fullest potential, but always with the guiding hand of human wisdom at the helm. ●



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Orbis Portfolio Management (Europe), London



**MATTEO SBALZARINI**  
Orbis Portfolio Management (Europe), London

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Market concerns focus on two main things: political risk and cost pressure from Medicare Advantage plans.

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## Finding opportunity in US healthcare

**M**anaged Care Organisations (MCOs), UnitedHealth Group and Elevance Health serve the vast and complex US healthcare market.

In the US, most working people get health insurance through their employer or government-funded Medicaid (need-based) or Medicare (age-based) schemes. Both plans can be administered by the MCOs, but the MCOs are not just insurers, they increasingly own and manage physician practices, care centres and pharmacies, making them better placed to connect the dots for patients across this complex system.

### Benefits from two long-term tailwinds

With this industry setup, the MCOs benefit from two long-term tailwinds: an ageing population and increased outsourcing of Medicare and Medicaid administration.

This has been a winning formula historically, with UnitedHealth and Elevance growing earnings per share by 15-17% per annum over the last 10 years.

Indeed, we find the two companies rather special investment opportunities when comparing their moats, growth runways, returns on capital, historical track records and management quality with how the stocks are priced by the market.

### Political risk and cost pressure

Today, those prices look reasonable due to pessimism we see as excessive. Market concerns focus on two main things: political risk and cost pressure from Medicare Advantage plans. Political risk is a persistent worry for the companies, but we believe that MCO-destroying political changes are extremely unlikely. Republicans have no interest in socialising healthcare, and Democrats would need control of the presidency, House of Representatives and 60% control of the Senate to push through such a major societal change – even if they had a unified view internally on the best approach, which they do not. Neither Donald Trump nor Joe Biden is focused on healthcare in their campaigns ahead of the upcoming election.

Moreover, while the US famously spends more than other countries on healthcare, that is not

because of the MCOs, but because healthcare professionals, drugs, medical devices and facilities cost much more. That level of care is great for patients, but it comes with costs.

Cost pressures on MCO-managed Medicare plans have become a concern for investors. Last year, Humana, a competitor of UnitedHealth and Elevance, saw a sharp uptick in medical costs in excess of how Humana had priced its policies, severely hurting its margins.

This now looked like an underwriting mistake, investors worried that UnitedHealth and Elevance would suffer similar problems. We don't expect the MCOs we are holding in the portfolio to see pressure to the same extent. Further, the MCOs reprice their policies annually, so any weakness should prove short-lived.

### Taking intelligent risks

We remain confident that the companies can continue to deliver as they have in the past. Healthcare spending should continue to grow a little faster than the US economy, and the companies should continue to grow moderately faster than wider US healthcare spending as more people adopt MCO-administered plans. Meanwhile, we see Elevance and especially UnitedHealth taking intelligent risks in building out their own care networks, positioning them to drive better efficiency and outcomes across the system. We believe the companies can grow earnings per share by 12-15% per annum for years to come.

In the short term, the path might look less smooth. Healthcare reform could rise to the top of the election news cycle, and weakness in Medicare Advantage plans could depress sentiment. But as long-term investors, we think those risks are reflected in the companies' prices.

UnitedHealth normally trades at a similar price-to-earnings multiple to the S&P 500. It now trades at a discount. Elevance, which has somewhat lower returns on capital than UnitedHealth, trades at an unusually large discount to the US market. In both cases, that is despite long-term growth prospects that we believe are above average. ●



**FRAN TROSKIE**  
Research Analyst  
PPS Investments



In a society which tends to have a short attention span (fast food, fast fashion, bite-sized news-snippets), we are sometimes blinded by short-run volatility or blind to the long-run pay-off.



# Balancing life's pressures

## with purpose-driven investments

**W**e all feel lost at times and sometimes an existential crisis can strike unexpectedly. Existential crises sometimes coincide with big life events or significant birthdays. Turning 30, 50 or 60 does not get less intimidating; navigating a baffling array of study fields; facing a career crossroads, experiencing setbacks and learning to thrive despite them, are all daunting.

### Reducing the pressure associated with investing

Can we not simplify purpose in at least one area of our lives? Can we release some of the anxiety associated with investing? Is there a clear answer as to why and how we invest our hard-earned money? As an Economist, I would respond "Yes, on the one hand. However, the answer is, no".

Depending on where you are in life, there are often multiple goals to consider when structuring an investment portfolio. The objectives and needs of a professional starting out in an industry differ from those of a working parent, or those of a retiree. However, there is a common understanding for each life stage that the purpose of an investment portfolio is to deliver financial returns.

When viewed through a broader lens, which considers both intergenerational and intra-generational impact, we can no longer afford to focus solely on financial returns and must become acutely aware that our decisions have a knock-on impact. As modern investors, we have the ability and, one hopes, the desire to shape a different future. It sounds somewhat trite, but we need to "do good while doing well". The concept of altruistic self-interest is therefore quite fitting.

Purpose-driven investment portfolios can serve multiple objectives. They can speak to nuanced understanding and the lived experience of what society, the environment and communities need.

### A simplified approach to purposeful investing

The duality, the balance between altruism and self-interest and the imperative to "do good,

while doing well" can seem daunting. There is no blueprint to the how, but there are guidelines.

It could be as simple as (an individual) allocating a portion of investment returns to a Trust, NGO or NPO which serves a purpose and resonates with them. Far more effective, would be to invest with an asset manager that supports purposeful investment initiatives.

A thorough, well-structured asset manager selection process takes engagement with asset managers on ESG and CSI and the ability to fulfil financial expectations and needs into account. In terms of asset allocation and portfolio construction, think about whether a combination of higher-yielding investments and more purpose-oriented investments can still deliver the desired financial and societal return.

A well-diversified portfolio, therefore, not only makes sense from a risk and return perspective, but also allows investors or asset allocators to target specific impact objectives that may include:

- Allocations to non-traditional asset classes, including real assets or private markets.
- Adaptability to take advantage of new opportunities as and when they arise.
- Assess whether investment timelines are realistic and reflective of investment needs, and reconsider how to structure portfolios with an appropriate time horizon.

### The foresight to look beyond

In a society which tends to have a short attention span (fast food, fast fashion, bite-sized news-snippets), we are sometimes blinded by short-run volatility or blind to the long-run pay-off. It may be appropriate to be invested in an asset class which will "plod along" at first, but deliver excellent financial returns over the long term, and in a way that aligns with investors' purpose.

Much of the angst around the 'how' can be shifted to the shoulders of a multi-manager with the ability and agility to identify drivers of returns and manage risks, and the foresight to look beyond the traditional and the long-term investment view. ●



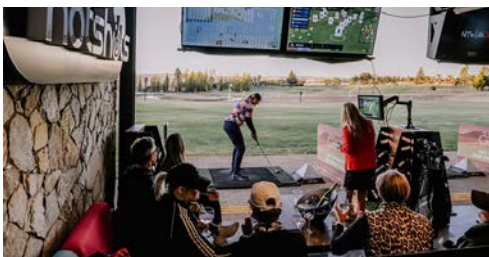
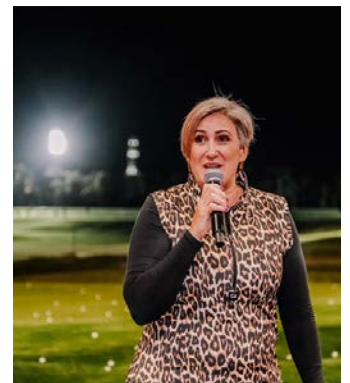
# GWII Mix 'n Mingle – Golf Masterclass

**G**auteng Women in Insurance hosted a golf masterclass, on at the World of Golf aimed at non-golfers, to teach women the rules and fundamentals of the game and provide practical experience on the golf course.

The event included networking opportunities with industry experts and professional golfers and provided a unique opportunity for women in the insurance industry to learn a new skill.

GWII would like to thank the main sponsor, Discovery Insure, co-sponsors Credit Guarantee and Osprey Underwriting Managers and complimentary sponsors Consort Technical Underwriting Managers, Cover Exec, Rand Mutual, SHA Risk Specialists and Santam Insurance for their sponsorship and support.

GWII would also like to thank Glasfit for sponsoring the photographer, activation sponsor Genoa, and our prize sponsors Digicall Group, Glasfit, Global Choices, iTOO Special Risks, Michelle Ori, National Salvage Brokers, and Rand Mutual.



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# Environmentally Exposed -

## The impacts to the environment following a spill



On the topic of *“Environmentally Exposed – The Impacts to The Environment Following a Spill”*, Gauteng Women In Insurance (GWII) recently hosted a Continuous Professional Development (CPD) session, proudly sponsored by EnviroSure.

During the session, Adelle Hartley, General Manager of EnviroSure gave an overview of Environmental legislation, Nema Section 30 reporting requirements including fines and penalties for contravening the National Environmental Management Act. She also delved into claims scenarios highlighting the various methodologies utilised and the impacts on the environment.



See the photo album here:

### Risks & Covers Available

**TRANSPORT RISK**  
Spillage from vehicles transporting dangerous goods and/or potential pollutants

**SITE RISK**  
Spillage from storage and usage of dangerous goods and/or potential pollutants, including the products used during the manufacturing process

**ABOVE & UNDERGROUND STORAGE TANKS**

### Legislation

- The Constitution
- National Environmental Management Act, Act 107 of 1998 (NEMA)
- National Environmental Management: Waste Act, Act 59 of 2008
- National Water Act, Act 36 of 1998
- National Environmental Management: Air Quality Act, Act 39 of 2004
- Who is liable in the event of an incident?

**Legislation**

- Framework for the Management of Contaminated Land (2010)
- NEMA Section 28 makes provision for landowners, operators, product and equipment owners, negligent parties and more
- The Department of Environmental Affairs (DEA) is guided by the ‘Polluter Pays Principle’

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## NEMA

National Environmental Management Act (No 107 of 1998)  
**Section 30**

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# Leaderwalk: the future of leadership is collegiality



In collaboration with Business Engage and the 30% Club, Gauteng Women in Insurance (GWII) hosted a LeaderWalk on 12 April, with main sponsor GIB Group, and co-sponsors Garrun Group and Norton Rose Fulbright South Africa.

In this Leaderwalk, themed 'The Future of Leadership is Collegiality', guest speaker Mike Teke, CEO of Seriti, spoke about what it takes to be an effective leader in today's business world.

## A discussion

We thank our table hosts (below) for accepting our challenge to facilitate discussions:

1. Cliff Garrun (Garrun Group)
2. Jurie Erwee (GIB Group)
3. Paul Sanders (GIB Group)
4. Peter O'Dwyer (Bryte Specialist Motor)
5. Rethabile Shabalala (Norton Rose Fulbright South Africa)
6. Rianet Whitehead (FANews and The Insurance Apprentice)
7. Wimpie Van Der Merwe (Global Choices, Digital Path & Claim Central Africa)

In the feedback session, all the table hosts agreed with the comments that Teke shared.

## Thank you

Thank you to all the delegates who attended this event, we hope that the session inspired you, as leaders, with effective leadership tips within today's business realm. Thank you to Mike Teke for his time, and the books donated. Thank you to our main sponsor and co-sponsors for making this event possible.

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