

# THE YEAR AHEAD

by Bianca Wright

2010 is destined to be momentous year as the hype of the Soccer World Cup is finally realised. But while all eyes are on the implications of this important event in African and South African history, the financial industry needs to look beyond the World Cup towards the challenges and opportunities that lie ahead. So what does 2010 have in store for the industry? While we have no crystal ball, we do have access to some of the leading experts in the industry. Here's what they had to say about the World Cup year ahead.

## BUILDING A REPUTATION

The changes around regulation; the image and reputation of the industry to its stakeholders; the shortage of specialist insurance skills; and the risk management issues around especially the motor book; are all issues that Angela Mhlanga, managing director of Compass Insurance, says will concern the industry in 2010.

The coming year seems set to challenge the industry. "There has never been a more important time for the insurance industry to think on many levels at the same time," said Krisen Govender, Hollard Insurance's head of marketing and communications.

Narrow and conventional thinking will not get the job done. "We have to be flexible and adaptable and be thinking creatively about: giving consumers products they need at a price they can afford as well as advice that works; economic survival in the toughest financial conditions experienced for over half a century; as well as being eco-aware for the sake of our individual, national and global sustainability and realities," Govender said.

Govender added that all industry stakeholders are responsible for the good name of the industry and that the importance of this reputation cannot be overestimated – especially in tough times when clients are stressed. "Our service needs to be consistently helpful and meaningful to each policyholder. This requires that every single member of staff is committed to keeping every promise made." A tall order, he admits, but he also believes that that is what it will take to increase the good reputation of the industry and convince consumers that "we are on their side".

"One negative media report harms us all, whether we are directly involved or not. As an industry, we really need to protect the reputation of our own company as well as the insurance industry as a whole and not be distracted from this important responsibility."

## A CLIMATE FOR CHANGE

Edward Gibbens, executive head of broker distribution at Santam, noted that climate change will also be an issue in 2010 and beyond. "We believe that the risks that climate change presents could be severe, but that they also present opportunities for us to offer new solutions and risk management advice to help our clients proactively manage their risks."

Govender agreed that environmental issues will be at the forefront in 2010, not just in terms of climate change, but also in terms of ensuring sustainable business practices. "Global reality demands that we think outside the financial box and become engaged in a commitment to sustainable business practices."

Although Hollard is not a listed company, we are committed to King II." Hollard has already demonstrated its commitment to environmental sustainability, as the first insurer to measure its carbon footprint. During 2009, the company recycled 49 per cent of the volume of its wet and dry waste and, on its 15 acre campus, Hollard has planted 'non-thirsty' indigenous grasses and shrubs and installed a lighting system that goes dark when nobody is in that office or corridor. "We fully intend to ramp up these activities in the new year and further manage our impact on the environment," he said. Others in the industry seem set to follow suit.

## LEGISLATION AND REGULATION

As in 2009, regulation and legislation will continue to be core issues in 2010.

The possible collapse of the Financial Sector BEE Charter will not be so much of a main issue anymore; however, said Vivienne Pearson, the South African Insurance Association (SAIA) manager for image and reputation. "It has dragged on so long now that the industry is becoming used to the idea of working without a charter. They are starting to deal with the uncertainty better," she said. The focus in 2010, she added, needs to be on how to deal with transformation without the charter should there be no charter in place. "We need to adapt to the situation and see how we can deal with those areas that used to be in the charter but are not in the code."

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Pearson pointed out that there may be new issues for reinsurance members and international companies in particular as once there is certainty around the charter, there will be a whole new range of issues that will have to be clarified such as potential special dispensations around ownership for such international companies. As an industry, Pearson said, "We are ready to deal with whatever is coming our way now."

Changing regulation will be a focus going forward, agreed Gibbens. "We expect to have more certainty on what these changes are and how they will affect the industry," adding that progress made within the industry on the issue of transformation will always be a focus area.

Paolo Cavalieri, chairman of Etana Insurance pointed out that the issue of codes is resolved. "Now the insurance industry needs to be innovative in supporting BEE goals with the aim of sustained growth for all South Africans. At the same time, our industry has opportunities to use its personal connections with literally millions of policyholders to make meaningful contributions in the area of consumer education, which will be a win-win for the industry as well as our nation because we really need informed consumers to grow our economy in sustainable ways."

The significant changes in relevant legislation and regulation, such as the Insurance Laws Amendment Act and the Consumer Protection Act will have a huge impact on the insurance industry during the coming year. In addition, related legislation such as the Road Accident Fund Amendment Act and the FAIS Act, which impacts on requirements in terms of training and development, is likely to play a role in shaping the focus of the industry in 2010. Technical skills, or the shortage thereof, will remain a challenge going forward, Gibbens said.

"The SAIA has been very busy in the area of legislation and regulation and will remain busy into 2010," Pearson added. "In addition, there are many exciting new types of legislation that are on the horizon such as those around micro-insurance that could change things in the future. We need to participate in that as well."

### WORLD CUP IMPACT ALREADY FELT

While all eyes are sure to be focused on soccer stadia in 2010 – certainly during June and July anyway – its impact has for the most part already been felt in industry.

According to Cavalieri, "As dedicated commercial insurers, Etana is sensitive to all areas of construction in the build up to the

World Cup so delivery of obligations is an essential part of the first half of 2010. But the industry cannot allow that anticipation to distract us from what lies beyond."

The impact may be indirect for most in the industry, but Angela Mhlanga said that the market is gearing up for the World Cup through innovative product development and modifications of products to suit especially the World Cup.

"Beyond the World Cup, I believe we will see an economy that is starting to recover from a recession which will bode well for the insurance market," she said. "Although rates are still thin in certain markets, I believe that there will be a turn in underwriting results due to better underwriting that was starting to happen in 2009, the results of which will be seen in the next year as well."

Evan Jones, managing director of Cadiz Wealth, believes the World Cup will run relatively smoothly and South Africa has the experience and the resources to deal with large events. "The after-glow of the World Cup will be significant because the World Cup will profile the natural beauty of South Africa as a tourist destination," he said, "[but] electricity hikes will take the shine off that glow for domestic consumers."

Johnny Symmonds, CEO of Lombard Insurance, said the impact for the company has been digested. "The business we were going to do from the World Cup has already been done." But he does believe that the hosting of the World Cup is going to be fantastic for the country. It will be a strain on internal resources, he warned, but it is bound to have some positive spin on people spending money. "It might not directly be good for us, but it's not going to be bad for us."

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### ECONOMIC CONDITIONS STILL AN ISSUE

Jones added that inflation may start to make an unwanted appearance, largely on the back of rising electricity, input costs, administered prices and the base effect of 2010. "The growth prospects after the World Cup may be quite good if the positive benefits from the event translate into tourism and foreign direct investment. Hopefully unemployment will begin to turn by the third quarter of 2010."

Gibbens agreed, saying that inflation is likely to hike with the expected multiple increases of electricity costs proposed by Eskom. He added that the recovery of the economy will continue to be slow. "Mergers and acquisitions in the intermediary space should continue and there will be more focus on risk management and the role that should be played by insurers, intermediaries and clients," he said.

In the area of marine insurance, in particular, Cavalieri said the world economic situation has had a knock-on effect on local conditions. "One valuable piece of advice is the need to be cautious in choosing vessels to transport cargo. This is because older vessels are being used which increases risk and intermediaries in this area need to give solid advice to their clients who are reliant on safe transport," he said.

On 17 November, a chemical tanker was hijacked 180 nautical miles off Seychelles. Piracy is becoming an increasing concern and it seems that authorities worldwide are powerless to contain the incidents of piracy. "In the area of marine insurance, this is a concern going forward into 2010," he noted.

"Although there is talk that the recession will ease off in 2010, which is of course a good thing, we need to be prepared for the fact that the recovery period will not be instant and we need to set our goals accordingly in the insurance industry," added Cavalieri.

Politically, too, Jones said, 2010 is likely to hold some defining moments. Key questions going forward: will Trevor Manuel be sidelined completely or will he still hold some sway? And will Gill Marcus play a meaningful stabilising role? It is still too early to hazard a guess to answer these questions.

## THE CUSTOMER IS KING

Consumer needs will drive changes in 2010 as they have done in 2009. "Although the economic climate continues to put pressure on the industry, there is still enormous opportunity for growth for short-term insurers that are able to adapt," said Tersia Bester, head of Auto & General's broker channel.

According to Bester, insurers must place greater emphasis on aligning their offerings to consumer needs. "This is more important now than ever before. Consumers are becoming more discerning about what they want and expect from their broker; and given the pressures of the economy, they are also more discriminating about how and where they spend their money," she said. "Consumers now want accessibility; they want to interact more using technology. Brokers must listen to the consumer's demands and make it easy for the client to deal with them."

In addition, brokers must ensure that their solutions meet consumer expectations and deliver value if they want to stay in the game.

Gibbens agreed, highlighting client-centricity as an important consideration for the industry. "Clients want to be treated differently and leading advisers and insurers will adapt to this requirement. Economic conditions are likely to lead to higher levels of innovation, cost management and collaboration."

Cavalieri said that brokers need to become particularly well informed about challenges facing their financially pressured clients in various sectors so that they can contribute in meaningful ways and help them manage risk as effectively as possible under current conditions. He pointed out that Etana has developed a computerised risk management questionnaire, ARQ, to help achieve this in a consistently effective way. "It is an industry first and we feel it will make a big difference in the area of risk management."

"There has never been a more critical time for brokers to shine and show how valuable they are to their clients. It is their expert advice and assistance that can literally save a client from financial disaster and ensure that all avenues of risk are adequately covered. It is also up to them to make sure policyholders are not paying for insurance they don't need."

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Clients are and will continue to demand more from the industry. The challenge, said Govender, is to create and deliver the right product at the right price to meet the varying needs of the diverse population: products which also deliver the benefits that are most sought after by that particular consumer.

"We have an extraordinarily diverse consumer mix and we need to be able to cater to their needs," he said. "Brokers have a particularly vital role to play in delivering personal advice and practical guidance to consumers. This critical role, which is also an opportunity, is to ensure that clients are not paying for insurance they don't need – and are adequately covered for essentials."

According to Govender, experts are suggesting that the market segment referred to as the black diamonds have been amongst the hardest hit by the recession. This is because a substantial amount of asset accumulation by these new economic participants was done on credit.

"This is a particularly important segment in the make-up of the economy and will need to be carefully managed going forward, particularly if insurers want to engender loyalty from them," he advised. "Brokers have the opportunity to assist these consumers by finding opportunities to engage constructively and offer valuable guidance."

On the medical horizon, Gerhard van Emmenis, acting principal executive officer at Bonitas Medical Fund, foresees at least one positive coming from the difficult landscape ahead: "The uncertainty will force service providers to up their game in terms of service levels and efficiency; as a result some schemes will emerge as more prominent and more superior," he said.

## LIKELY CONSOLIDATION

Cavalieri believes there may be a consolidation of major role players in the insurance space. "Insurers, brokers as well as our clients could be affected. It will be the fittest and smartest who will win through these tough economic times. And by being actively involved in the survival not only of ourselves, but of our clients, we will surely solidify relationships to the mutual benefit of all involved. We all need to strengthen ourselves for the future through upping our knowledge and ability to help our clients survive."

Consolidation is also likely to take place in the healthcare funding industry in 2010 and beyond, said Van Emmenis. "The bite of the recession has placed the industry under pressure from increasing costs, stagnant membership numbers and the ageing demographic of the insured population; many are beginning to consider the possibility of mergers as a strategic measure," citing the recent annual report of the Council of Medical Schemes which identified a trend towards consolidation of this nature especially amongst restricted schemes.

The implementation rate of these mergers will be accelerated in 2010, he predicts. "While mergers enable medical funds with similar membership and benefit profiles, to take advantage of economies of scale, leaner administration and increased bargaining power in order to continue to provide reliable cover for their member in times of economic stress, they also bring about an element of uncertainty for the members," Van Emmenis warned.

In his view, the industry would have to apply caution in managing the inflow of members from schemes that have merged or schemes that have been absorbed. "2010 will certainly present a new landscape of the healthcare funding industry," he added.

## UNCERTAINTY AROUND THE NHI

Van Emmenis also believes that the National Health Insurance (NHI) scheme, long touted by government and now seemingly put on hold for a further three years, will be a stumbling block during 2010 and beyond. "As a scheme we think the NHI will provide more citizens of this country with some quality healthcare. The challenge, however, is that to a large degree it is still very unclear and a lot more of information is still required."

Van Emmenis said that medical aid schemes have been a national asset for a long time in this country. They sit on large reserves and can contribute a lot to assisting government in implementing the NHI. "However, there is still a great deal of uncertainty as to whether we will fall away or whether we can contribute significantly to the National Health Insurance, but we feel we could play a significant part to add value once the government provides the basic healthcare for everybody."

This uncertainty is also very visible in member behaviour, with an evident increase in claims across the board. "We believe that this could be due to members going for complicated procedures with the belief that they would rather go now while they still have the cover and before all the changes come into play," he said.

So 2010 is likely to be a challenging year that brings with it opportunities. While those in the know seem certain that the industry will see its way through the tough times, they also recognise the concerns, obstacles and stumbling blocks that 2010 will bring.

