



SAIA

SOUTH AFRICAN INSURANCE ASSOCIATION

BULLETIN

August 2016

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1. From the Desk of the Chief Executive

As South Africa continues to grapple with economic growth challenges amid a tough economic environment, the discussion on economic transformation has once again been put under the spotlight. More than ever, there is a growing realisation by the government, business and labour that in order to achieve sustainable economic growth and improve the lives of all South Africans, all role players need to actively drive the economic transformation agenda.

The crucial element of economic transformation is that it promotes a more inclusive society in relation to income, spending power, employment, economic stability and financial security. It is this inclusivity that must be treated as the 'means' and not the 'antithesis' of economic growth, as stated by one of the speakers during the recent Insurance Conference held at Sun City in July. Various presenters at the conference alluded to the importance of growing South Africa's economy through encompassing inclusivity as well as finding innovative sustainable solutions.

As the short-term insurance industry, we are actively seeking and engaging with potential partners to find ways in which we can contribute to the economic transformation process. This is particularly in the small business space – a sector which has a great potential to make a significant contribution towards economic growth. One way is to shift procurement to a more diverse and inclusive supplier base. This includes providing work to small businesses within the building, motor, plumbing and panel beating industries, where insurers can make even greater strides in contributing towards growing the economy. An example of this is the work being done in our Motor Transformation and Sustainability Forum, where we are working together with South African motor body repairer associations to create an enabling environment in which insurers and other stakeholders can increasingly utilise the services of small black panel beating businesses. This important project is also being used as a blueprint for the recently established Non Motor Transformation and Sustainability Forum.

To take the discussion forward on economic transformation and to look at the various ways the industry can contribute to the National Development Plan, the SAIA will be hosting its first Indaba on the topic early next year. This will also be addressed at a roundtable discussion with SAIA member Chief Executives where economic transformation among other issues will be discussed on 8 September 2016.



We look forward to engaging on this important and relevant matter.

Regards

Viviene

2. INSURANCE RISKS

2.1 Business for Road Safety (BRS) Forum

Following the Business for Road Safety (BRS) Forum meeting on 13 May 2016 with the Senior Director: Road Safety from the Department of Transport (DoT), the BRS was invited to a DoT workshop on 28 July 2016.

The objective of the workshop was to identify projects that Business Associations (and their members) could assist the DoT in the implementation of road safety related projects.

The following government agencies were in attendance and provided presentations on current projects and initiatives:

- The Cross Border Road Transport Agency (CBRTA),
- The Road Accident Fund (RAF), the Road Traffic Management Corporation (RTMC),
- Railway Safety Regulator (RSR),
- South African National Roads Agency SOC Limited (SANRAL)

It was agreed that the DoT will make all the presentations available to the BRS Forum for discussions on how the private sector could contribute to these projects, thereby contributing to road safety.

The SAIA will arrange a workshop with the BRS members of the Forum in order to discuss how as Business Associations we could support the DoT in terms of road safety.



2.2 Development of Salvage Database

The Salvage Database Governance Committee had its first meeting and focussed on the completion of a Service Level Agreement (SLA), to be signed between each member company and the SAICB.

Following the committee meeting, the SLA document was sent to motor members for final comments. The document will now be sent to the SAIA Board for approval.

The Committee has also planned follow up meetings to discuss and finalise the roles and responsibilities of the Governance Committee with regards to accessing of data by outside stakeholders and to agree to the ongoing management costs of the system.

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3. GOVERNANCE AND TRANSFORMATION

3.1 Retail Distribution Review

The Financial Services Board (FSB) advised the SAIA recently that the current legal amendments being drafted by the FSB would give effect to some of the proposals in the RDR Phase 1 Update.

The FSB's technical discussions with the industry will continue to run parallel to the legislative drafting process. The FSB is currently drafting the Road Map for Phase 2 of the RDR.

The FSB is also continuing to consult with members of the FSB's Binder Fee Task Team to provide an opportunity for the industry to motivate why the draft binder fee caps in the Retail Distribution Review 2014 document are either appropriate or inappropriate.

The initial draft proposal on the binder fee caps in the RDR is as follows:

- Activity of enter into, vary or review: 2%
- Activity of determining the wording, determining the premiums of a policy, determining value of policy benefits: 2%
- Activity of claims settling between: 1 to 3%



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In respect of the FSB's proposed prohibition on commercial binders, the FSB requested feedback specifically on the commercial lines segmentation exercise undertaken by individual insurers in July 2016, who are also members of the Binder Fee Task Team.

The FSB stressed that whilst the binder fee caps are the current focus, members should not lose sight of the fact that the governance and sustainability of the intermediated model should be reflected by the caps.

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3.2 Update on the Financial Sector Regulation Bill

On the 21st July 2016, the National Treasury (NT) published a media statement on the Twin Peaks Bill, a response matrix to the issues raised during the Standing Committee on Finance (SCOF) public consultation process, as well as a revised draft of the FSR Bill on the National Treasury website: www.treasury.gov.za

The publication of the documents was intended to facilitate any further engagements on issues raised during the public hearings, prior to the SCOF resuming deliberations on the Bill in August 2016.

The proposed amendments in draft are yet to be considered by the SCOF for final decision on the changes to be effected, prior to the submission of the Bill to the National Assembly in Parliament.

A request was made to SAIA members to advise the SAIA of any comments and/ or concerns, if any, with the proposed amendments in order to facilitate further engagements, if necessary. The SAIA met with the NT on the 10th August to discuss our further comments on their response document.

There were no contentious comments received from members on the Treasury responses and in certain instances the required amendments have been made and/ or further clarification provided.

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4. INDUSTRY NEWS

4.1 Access Standards

The SAIA Board has approved the Access Standards and submitted them to the Financial Sector Charter Council for approval. The Council has suggested that if the National Treasury (NT) and the Community Constituency of the Financial Sector Council approve the Standards, this would be accepted by the other constituencies. SAIA is currently in discussion with both NT and the Financial Services Board on the Standards.

4.2 Financial Sector Code

Comments on the draft Amended Financial Sector Code (FSC) have been received. The amended FSC was sent to the Minister of Finance on 22 August 2016 for submission to the Department of Trade and Industry (DTI) for gazetting. It is expected that the FSC will be gazetted in September for immediate implementation.

4.3 Consumer Education

Next of Next Week TV Series

Filming of the six Next of Next Week (NONW) episodes have been completed, with all episodes being subtitled in English. At the end of each episode is a short-segment highlighting the insurance lessons that were covered. These insurance inserts will be provided as a separate stand-alone video that can be used for additional screening purposes.

Industrial Theatre

Twenty-eight live shows have been completed with a total audience reach of approximately 43,000. There was a good audience turn-out in most provinces and crowd participation was encouraged through questions on short-term insurance and free prizes.

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5. Stakeholder Relations and Communication

5.1 New SAIA Board Members

Three new SAIA board members were appointed during the recent SAIA Annual General Meeting in July.

They are Angela Mhlanga, Managing Director at Standard Insurance Limited, Nash Omar, Managing Director at Hollard Insurance Company Limited and Mpumi Tyikwe, Managing Director at Alexander Forbes.

5.2 Upcoming Events

The CEO Roundtable

For the second year running, the SAIA will host a roundtable for all member company Chief Executives to give an update on progress made by the SAIA in implementing its new business model and playing a role in the broader environment in which it operates. Other issues affecting the industry will also be discussed such as economic transformation and how the industry can contribute to growing the economy in alignment with the National Development Plan. The roundtable will take place on 8 September 2016 at the Wanderers Club, 21 North Street in Illovo, Johannesburg.

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6. INDUSTRY NEWS

6.1 Information being used for good in combatting insurance fraud

Sharing quality high density data and linking this with multiple related datasets is a critical part of identifying insurance fraud on a large scale in South Africa and is a prime example of how information can be used to benefit the industry.

This is according to Robin Wagner, Senior Vice President: Head of International Insurance Markets at TransUnion who says that anti-fraud organisations such as the South African Insurance Crime Bureau (SAICB) can detect and act on fraud networks or fraudulently excessive claims by utilising the Insurance Data System (IDS), an insurance industry information-sharing platform.



“Criminal networks often act across multiple insurers and can be so complex that they simply cannot be picked up by a single insurance company. When data shared by a group of insurers is centralised on IDS, there is a greater likelihood of being able to detect these patterns and use this information in subsequent criminal investigations,” Wagner says.

He adds that the effective use of IDS, which was initiated and developed by the South African Insurance Association (SAIA) in partnership with TransUnion, can increase underwriting profitability through the reduction of insurance fraud.

Garth de Klerk, CEO of SAICB, says that his organisation utilises data from the IDS in their criminal investigations, once it has been correctly, cleaned, interrogated and stored by TransUnion. This information is then run past several databases, including the South African Police Service’s wanted list and TransUnion’s auto information services bureau to connect cases and detect fraud patterns.

“Currently, we have over 55 insurance ongoing fraud investigations, with a quantum of claims in excess of R250 million, and this indicates why we are dependent on receiving data of the highest standard. It is crucial to have a partner like TransUnion which is equipped to handle these volumes of data and provide quality services in order help the insurance industry combat fraud,” de Klerk says.

The SAICB utilised IDS in its investigation against a network of 80 individuals who were conducting fraud by repeatedly claiming on cellphone insurance.

De Klerk says the network’s modus operandi was to move from broker insurance to the underwriting manager market and across various companies over time in order to avoid red flags appearing on individual fraud detection systems. He believes a single company would have been unable to identify this pattern.

Wagner and de Klerk agree that insurance companies can further assist in the fight against insurance fraud by improving the quality of data they provide to IDS. Quoting and data capturing are two processes which need to be prioritised in order to improve data quality, ensuring all information acquired is registered accurately.

Wagner concludes, “It is clear that information from IDS can be used for good in the fight against insurance crime. In order to take this to the next level and strive toward eliminating insurance fraud, we need to ensure that the data shared with us by insurance companies is of the highest quality.”



About TransUnion (NYSE: TRU)

Information is a powerful thing. At TransUnion, we realise that. We are dedicated to finding innovative ways information can be used to help individuals make better and smarter decisions. We help uncover unique stories, trends and insights behind each data point, using historical information as well as alternative data sources. This allows a variety of markets and businesses to better manage risk and consumers to better manage their credit, personal information and identity. Today, TransUnion has a global presence in more than 30 countries and a leading presence in several international markets across North America, Africa, Latin America and Asia. Through the power of information, TransUnion is working to build stronger economies and families and safer communities worldwide.

We call this information for good.

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6.2 Influence of currency exchange on Plant Insurance

The depreciation of the rand against major currencies has had a detrimental impact on the construction industry. This is mainly due to the fact that a significant percentage of construction plant is imported from Europe, the US and Asia, resulting in significant increases in the local purchase prices of the plant, as well as the cost of spare parts for repairs. The impact of this has not only affected suppliers and customers, but has also affected insurers.

The increased costs noted above, largely due to the depreciation of the rand, have led to a noticeable increase in instances of under-insurance of construction plant and equipment. If the customers were to increase the sums insured to reflect the correct values, this would result in increased insurance premiums, for a sector in economic decline and a bleak outlook. However, where the customers fail to adequately insure their plant and equipment, they carry a significant portion of the risk, as, in the event of a claim for loss of or damage to same, they would be under-insured, and claim settlements/payouts would be proportionately reduced. The result of this is that in certain cases, the clients may not be able to replace or repair damaged or stolen equipment, thus adversely affecting their businesses. From the Insurers point of view, this trend has a detrimental



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effect on their bottom line, as the inadequate Sums Insured will result in a reduction in premium income.

Construction plant costs millions. A 30% devaluation in the rand coupled with normal inflation can see customers having to pay hundreds of thousands out of their pockets. Insurers have also seen an increase in settlement disputes on claims where average has been applied, either when there has been partial damage, and also in instances where the policy warrants that insurers settle the market value of the insured plant item. There is a widening gap between the market value of plant items and their new replacement value. With a shrinking construction market, and with the closure of many construction companies, the value of plant in a market of willing buyers and sellers has declined significantly due to an oversupply of used plant.

To give an example of the effect of the devaluation of the rand, an insured recently suffered damage to a midrange American made Dozer, the client bought the Dozer brand new in 2013 for R7 500 000.00. However, the same machine is currently being sold for R13 000 000.00, a 73.00% increase in three years. If one accounts for the rate of inflation (on CPI) the new sale value should be R9 250 000.00 and one can ascribe the additional 38% increase to the Rand's depreciation against the US\$. The knock-on effect on a claim could be the following - If the client is insured on NRV basis with a 1 July renewal the 27% increase in the Rand Dollar and New sale value of the machine could mean that Insurers will have to apply average on the claim.

With GDP growth below 1%, insurers have gone into a price war for the few customers that are doing well. The rates are getting thinner and this is also impacting the bottom line. A small claim can see the loss ratios of the customer shoot through the roof.

With current developments in the European markets and the recent "Brexit", the world currencies will be more volatile and will directly impact on our Engineering book.

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IMPORTANT NOTICE

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