SAIA

SOUTH AFRICAN INSURANCE ASSOCIATION

BULLETIN

PROMOTING A TRUSTED & SUSTAINABLE NON-LIFE INSURANCE INDUSTRY FOR SOUTH AFRICA

November 2021

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1 From the Desk of the CEO

The year 2021 was a year of mixed fortunes for different industries as corona virus restrictions remained in force, albeit in relaxed form in some countries. Some industries continued to shed employees as demand for their products slowed. The number of unemployed persons increased notably to 7.8 million in the second quarter of 2021, reflecting decreased labour market participation. As a result, the official unemployment rate increased further to a new record high of 34.4% in the second quarter of 2021. With the number of discouraged work seekers increasing by 3.3 million, including those who did not search for work due to other reasons, increasing to 44.4% over the same period.

Climate change has remained at the top of the agenda, and a challenge faced by the world over. The recent COP26 summit held in Glasgow deliberated a lot on how the world could transition to renewable energies, in the process reducing carbon emissions. South Africa is one country heavily dependent on coal, a fossil that emits volumes of carbon in the process of energy generation. These changes in weather patterns continue to impact the farming community as they experience longer drought periods, and flash floods that damage farm produce. The infrastructural damage caused by floods in South Africa has cost lives and livelihoods, while also running into billions of Rands over the last few years, severely impacting the insurance industry.

The intermittent electricity generation and distribution, resulting in loadshedding has only exacerbated the prospects of an early economic recovery. According to Eskom, the current energy availability factor stands at 65% and this has been attributed to some planned maintenance outages, while conceding that there were some unplanned outages. For load shedding to stop, the Energy Availability Factor should at least be 75%. We continue to face a power supply shortfall of 4000-megawatt (MW), as conceded by Eskom in March 2021. And this remains a concern for the insurance industry in South Africa, as the total economic impact of load shedding in SA has been estimated to be as high as R338 billion over the last 10 years. In 2022, SAIA will continue to participate in forums that seek to mitigate the possible risks of a power grid failure which may have a severe impact on its members.

Cybercrime also remained at the top of the insurance industry’s agenda. As we shifted all business processes to the digital age, so did the level of risk. The year 2020 and 2021 saw a spike in the number of reported incidents around cybercrime. As cybercriminals continue to fine-tune their skills to avoid detection, this will remain an area of great concern for the industry as we move into 2022. Statista.com estimates that electronic connected devices will be close to or over 30.9 billion by 2025, and this interconnectivity will undoubtedly have vast pockets of cyber criminals waiting to pounce. SAIA will therefore continue to participate on cyber resilience platforms created within the financial sector, like the South African Reserve Bank’s Cybersecurity Resilience Sub-Committee and the ASISA/SAIA Cyber Incident Response Team.

The year has finally come to an end. Most of us will be leaving the bustle of city life to spend time with family and loved ones, while others will be embarking on some form of holiday to find some place in the sun that could revitalize our energies for 2022. However, the world remains shackled down under the seemingly unshakable shadows of the Covid-19 pandemic and a fourth wave is almost imminent.

Do take care of yourselves over the festive holidays, remember to social distance, wash your hands regularly and always keep your mask on in public spaces.

Viviene Pearson
Chief Executive

2 Insurance Risks

2.1 Tackling the Skills Gap

Critical specialised skills shortages affect many industries globally. According to research from CareerBuilder, the skills gap could potentially cost organisations millions annually (Lighthouse research and advisory, 2019). This skills gap threatens the sustainability and profitability of organisations, and this shortage may continue unabated unless there is comprehensive, collaborated effort from all stakeholders.

The skills drain is further exacerbated in the non-life insurance industry by the loss of specialised skills due to retirement and the inability of the industry to replace these skills fast enough. Educational programmes may address the knowledge gap; however, relevant skills are a combination of theoretical learning and in bulk on the job experience, and most specialised skills take many years to master. Organisations require skilled personnel who can innovate and are strategic, and often, skilled staff is the competitive advantage that leads to growth, profitability, and sustainability of the industry.

The requirement for a Reskilling Revolution was adopted at the annual World Economic Forum in Davos in 2019. The purpose of the Reskilling Revolution is for private, government and civil society collaboration to ensure better jobs, skills, and education to one (1) billion people globally within the next ten (10) years in anticipation of the future sustainability of employees and employers. The Closing the Skills Gap Accelerator Model will be the main initiative from the Reskilling Revolution project, which has the following key areas:

1. Lifelong learning and upskilling
2. Proactive redeployment and re-employment
3. Innovative skills funding models
4. Skills anticipation and job market insight

According to IDEX Consulting, the insurance industry skills shortage woes to attract and retain talent is further compounded by FinTech start-ups whose innovation and flexibility attracts those with technological or data literacy skills which are in dire need within the traditional insurance organisations (IDEX Consulting, 2021).

Replacing lost talent is critical especially when traditionally insurance is perceived not to be an appealing career choice with most insurance professionals entering the market “by mistake.” The traditional insurance sector needs to attract young entrants into the industry and retain them but more importantly to ensure that there is a critical skills transfer from the more matured veterans within the industry, especially those in specialist classes of insurance, in order to address future organisational needs.

According to an Insurance Sector Education and Training Authority (INSETA) study based on interviews conducted within the insurance sector in South Africa, many organisations noted that the skills shortage has placed additional strain on staff who are required to perform additional duties due to the skills shortage. This results in many senior staff advising that they do not have the capacity to mentor, in addition there is no incentive (or sometimes desire) for skilled staff to pass on their knowledge.

When a form of skills transfer does take place, there is often a productivity paradox (inconsistency) which further dampens the incentive for skills transfer. Organisations are output driven and incentivise bottom line contribution, whilst training and mentoring cannot immediately be linked to financial performance, thus where time is limited, staff may rather focus on their output productivity rather than training which leads to the productivity paradox. The INSETA study further elaborated that some of the major market challenges identified are:

Poaching and Job hopping. Short-term gains may be harming the long-term development of the market where there is no loyalty after training has been completed.

Lack of interest. The insurance industry is generally not seen as an ideal career by young professionals.

Professionalisation will improve industry status. The industry needs to enforce a high level of professionalism and education. The negative perceptions of the industry may be harming entry into the industry.

Modern technology does not encourage initiative. As much as technology is seen as an enabler, it may also be an impediment to attaining on the job training. There is a benefit to automation and computer-based decisions, however, there is complex underwriting skills lost to a younger generation that relies solely on the output from a computer or for example, a script in a call centre environment, but has no understanding of the underwriting elements that contributed to the final decision. It has been experienced that call centres may attract many young entrants into the industry, however, many cannot progress further into other lines of business due to lack of skills.

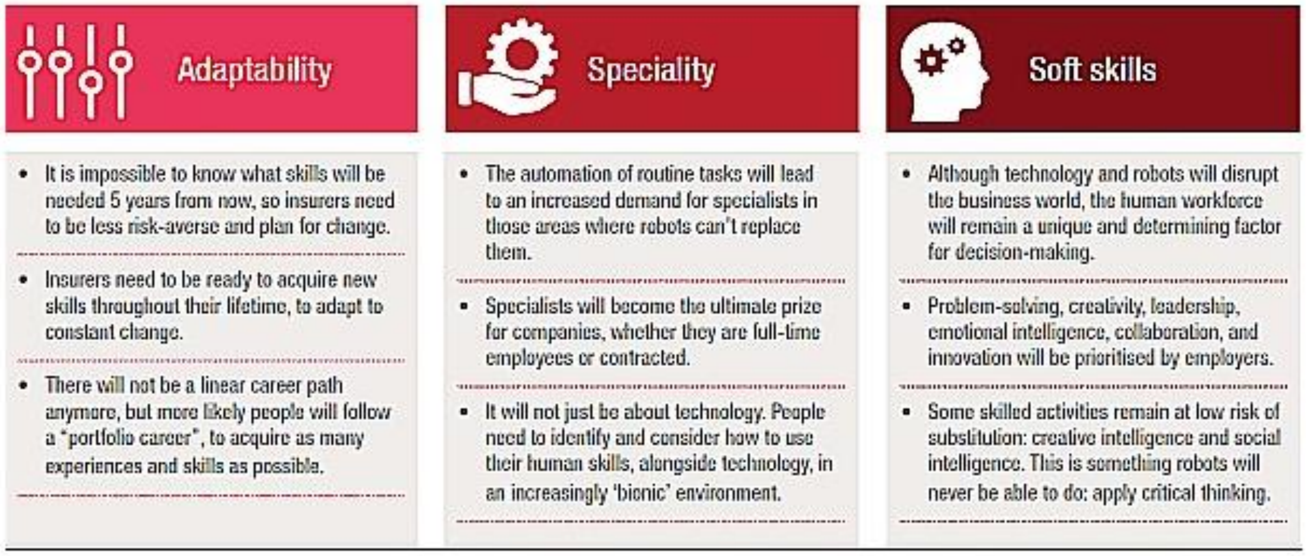
High cost of training. Most organisations have their own internal training programmes; however, training is often expensive and time consuming. In addition, adequate training requires a hybrid of ongoing practical on the job training coupled with educational theoretical training and not all internal training is recognised as appropriate National Qualifications Framework (NQF) level training by the industry.

Needed mix not available. The industry has indicated that it is often difficult to find candidates who have the desired years of practical experience and skills coupled with the desired level of qualifications. This desired mix is not easy to find in one candidate. This is further coupled with industry regulation regarding regulatory exams along with suitable qualifications that may be restrictive and a barrier for promotions for candidates with practical experience. Taking into consideration the financial cost of obtaining a degree or qualification is not always feasible for most, unless sponsored.

Possible solutions

The war on talent is ongoing and insurers are also competing with other industries to retain talent. PricewaterhouseCoopers (PwC) found that one of the positive outcomes due to Covid-19 restrictions is the flexibility of a work from home policy. Now organisations have greater access to skilled personnel as the hiring pool is no longer geographically restricted. This flexibility of work from home has assisted in retention efforts of current skilled staff and opened the organisation to the Gig economy (e.g., Gig workers who are independent contractors, online platform workers, contract firm workers, on-call workers, and temporary workers) by engaging with experts globally to access digitally skilled talent.

Skills also need to be redefined to suit future needs. The ecosystem is continually evolving, and all involved upstream or downstream must adapt for the skills of the future by upskilling and redefining occupations. PwC notes that future talent will require the following skills:



Employees of the future: PwC Market Research Centre analysis 2018

The INSETA study found that all companies surveyed reported that there is a critical shortage of skill for strategists, specialised skills, and underwriters. The demand for specialised staff has been steadily rising each year with many executive positions requiring specialist underwriting and actuary skills. Risk management professionals are also in high demand in corporate. Other key skills include actuaries or mathematical skills as many actuaries are choosing consultancy companies or non-insurance industries despite there being a critical shortage for this skill in the insurance industry.

Given the current volatile market coupled with frequent natural and man-made disasters, risk modelling and pricing skills are also highly desirable skills lacking in the industry. Lastly other skills highlighted include engineering, economics, general underwriting, death and loss adjusters, and technical accounting for insurance and reinsurers.

Skills transfer is essential for the longevity of the industry. The INSETA survey further found that the industry believes that those who pass on their expertise should be rewarded, this may be a way to encourage sustainable skills transfer and succession planning especially where there has previously been resistance to skills transfer. There are numerous ways training can take place such as through secondment opportunities for exposure to different divisions internally or job rotation for upskilling learners or graduates, peer to peer coaching, job shadowing and supervision.

Essential to the professionalism of the industry would be an insurance college or apprenticeship programme like the one found in the United Kingdom (UK) insurance industry and/or lobbying with public learning institutions for insurance specific and relevant degrees to provide the foundational knowledge required in the industry. Internal skills transfers may also assist ideal candidates to learn new skills such as technology in addition to current skills and ensure a well-rounded varied skills set.

SAIA acknowledges the role industry must play to bridge the skills gap through various educational projects in cooperation with our members. Since late 2019, the SAIA skills development working group has embarked on various industry educational projects such as the SAIA-INSETA-IISA Retiree Programme, this programme aims to transfer the invaluable experience and skills of personnel who are near retirement or have recently retired. The pilot will start in February 2022 and will end in December 2022 for evaluation.

The focus of the programme is for retirees to coach and mentor selected candidates from junior management occupational levels for the year. SAIA members have been encouraged to nominate both retirees and junior management candidates for the pilot. The pilot will target the following lines of business:

1. **General Insurance**
2. **Specialist Lines**
   2.1 Agriculture
   2.2 Aviation
   2.3 Engineering
   2.4 Liabilities
   2.5 Marine
3. **Loss Adjuster**
4. **Risk Surveyor**

In addition, the SAIA skills development working group has completed a body of knowledge programme in late 2020, where SAIA members contributed to updating and making relevant insurance study material courses or modules to be taught at public universities, including Technical Vocational Education and Training (TVET) colleges in South Africa. This material may also be utilised by our members for their organisational training requirements.

Lastly, in 2021 the working group has started a process with INSETA with the Quality Council for Trades & Occupations (QCTO) to investigate an Insurance Apprenticeship Programme made up of two layers, first layer being foundation to create insurance practitioners and the second layer being more advanced to create insurance professionals.

SAIA always strives to collaborate for the betterment of the non-life insurance industry and shared learnings are critical to tackle the mammoth task of ensuring an abundance of critical skills remains active within the industry, thus a call for action to the industry to tackle its skills gap.

This article was written by Kabelo Paile, SAIA Manager: Insurance Risks. For more information, please contact: Kabelo@saia.co.za

3 Transformation

3.1 The GFIA Inclusive Insurance Survey and SAIA Management Control and Skill Development Update

The Global Federation of Insurance Associations (GFIA) recently released a survey on their twenty-one member countries including South Africa. The focus was on the following areas, “women’s access to affordable and adapted insurance, insurer’s internal practices in diversity and inclusion within companies and financial education and economic empowerment. The survey found that South Africa has made progress in the latter with “South African transformation legislation that requires that vulnerable sectors of the population be included in Financial Education programs, especially women and rural communities." There were also good reports on investment trends with companies prioritising investments into Black women owned companies.

There remains opportunity in terms of the availability of insurance products and services specifically tailored to the needs of women and the proportion of women in senior management and leadership positions, however, the Employment Equity (EE) legislation is in place to address these challenges.

Industry Management Control and Skills Development remains a priority for SAIA and its members. SAIA continues to collaborate with the financial sector partners, the Insurance Institute of SA (IISA) and Insurance Sector Education and Training Authority (INSETA) to address challenges and opportunities in the area of skills development such as the establishment of a task team that looks at identifying the industry's required skills and the opportunities to develop these skills, among other critical projects.

SAIA in collaboration with the Association for Savings and Investment SA (ASISA) and the Banking Association SA (BASA), issued two position papers on Management Control and Employment Equity (EEA2 Reports) which was presented to the Department of Employment and Labour (DoEL). SAIA will conduct an industry workshop on the outcomes of the submissions to the DoEL and start engaging on possible industry initiatives to assist members towards meeting the proposed targets.

Read the full survey here: https://www.saia.co.za/index.php?id=2272

This article was written by Tessa McQuire, SAIA Transformation Projects Coordinator. For more information, contact: Tessa@saia.co.za

3.2 SAIA Data Collation Tool Project

In order to have a better view of how the industry progressed in key transformation areas, the SAIA Procurement Data Collation Tool was developed earlier this year. The tool is now fully functional and officially launched on 2 November 2021. The first survey which focuses on three areas of procurement, namely Personal Lines Motor and Property Related claims and Broker Commission has been issued to members who registered on the data tool. The intention of the survey is to provide the industry with an analysis of its progress and performance and identify areas of opportunity and improvement. The deadline to complete the survey is 15 January 2022.

Members that sell personal lines products (motor & non-motor) are encouraged to participate in this exercise. The data will allow SAIA to track progress in the above crucial procurement areas and to keep various stakeholders including government updated on the industry's transformation commitments as agreed to in 2017.

The SAIA Code of Conduct stipulates that "SAIA members shall take accountability for transformation by participating in transformation data collation exercises from time to time, amongst other requirements."

SAIA thanks members that have registered on the tool and those who attended the training sessions. User training sessions are scheduled to continue until 14 January 2022.

Members who have not yet registered are encouraged to do so by contacting Mrs. Tessa McQuire – tessa@saia.co.za.

This article was written by Tessa McQuire, SAIA Transformation Projects Coordinator. For more information, contact: Tessa@saia.co.za

3.3 Money Smart Week South Africa 2022

Money Smart Week South Africa (MSWSA) is an annual financial literacy campaign that aims to create awareness around the importance of financial empowerment and education. In 2021 MSWSA ran concurrently with Global Money Week and shared the theme "Take care of your yourself, take care of your money." The theme highlighted the importance of building financial resilience while staying healthy during the Covid-19 pandemic. The campaign includes a wide variety of financial sector topics such as building resilient businesses, being aware of scams and fraud, the importance of retirement and funeral planning. Please find the Monitoring and Evaluation report for 2021: here.

SAIA as a participant in the National Consumer Financial Education Committee (NCFEC) partook in the campaign to raise awareness of the SAIA Consumer Education Fund initiative's identified topics relevant to the non-life insurance industry such as safeguarding assets, risk management, financial literacy, business risks, and policy management.

The campaign is again set to take place from 21 - 27 March 2022, and SAIA invites members to put forward possible themes to focus on which can be included in the campaign that will further highlight the consumer education efforts of the industry, and contribute to the awareness of the value of the non-life insurance industry's products and services as a mechanism that contributes to building the South African economy and society.

Please forward your suggested topics to Tessa McQuire, SAIA Projects Coordinator: Transformation: Tessa@saia.co.za by 12 January 2021.

This article was written by Tessa McQuire, SAIA Transformation Projects Coordinator. For more information, contact: Tessa@saia.co.za

4 Industry News

4.1 To Disclose or Not to Disclose?

Good faith (Uberrimae fidei) is probably the most important implied condition of insurance. We can quote various definitions to explain the purpose of insurance, but my preference is as follows:

"Insurance is a contract of utmost good faith whereby the insurer, in consideration of a premium engages to indemnify the insured against pecuniary loss arising from, or to pay him an agreed sum of money on the happening of a specified future event known as the risk in which the latter is insurably interested."

We have arrived at the stage when it will be assumed, we have completed a contract valid and enforceable. The insured now, ought to be able to rest secure in the knowledge that they are covered for loss falling within the risk(s) as defined in the policy. However, that security may be flawed by innocent or deliberate non-disclosure of information at the conclusion of the insurance contract. It has been put to the insurance company who has not the means or the same means of knowledge as to the risk as the insured.

The law relating to disclosure contains various elements as stated below:

1. The general rule is that the insurer is entitled to be informed accurately of all facts known to the insured which are material to the risk, whether a proposal form is completed or not.

2. A fact material to the risk is every circumstance which any reasonable man might suppose could in any way influence the insurers in considering and deciding whether they will enter into the contract. Facts are included which the insured ought reasonably to be expected to know but not an opinion.

3. The insured must answer material questions in a proposal form truthfully and accurately; if the answer is warranted, it must be correct irrespective of materiality. A warranty in this instance is a statement of fact deemed to be material, which the insured is called upon to make with complete accuracy.

   The proposer should be reminded that in addition to answering the questions contained in the proposal accurately, they are obliged to bring to the attention of the insurer any relevant information known to them.

4. A warranty is an important aspect of an insurance contract as it is a fundamental term of the policy. A warranty in insurance transactions is a statement or stipulation upon the exact truth of which or the exact performance of which the validity of the contract depends on.

   A warranted statement of fact or belief is an affirmative warranty which may be either as of fact or as to knowledge.

   A promissory warranty is a warranted promise of future conduct. For example:

   Warranted that all road vehicles shall be closed and locked when such vehicles are left unattended.

   It will be gathered from the preceding information that no excuse such as forgetfulness, mistake or misunderstanding will be accepted for an insured’s failure to comply with the high standards of disclosure laid upon him by law and conduct.

   The implication is, if the insured violates the warranty, even if the violation did not bring about a claim, the insurer may deny responsibility of the claim and terminate the insurance policy.

5. The duty of disclosure recurs upon each renewal of an indemnity policy, which may be based on the original proposal form as amended by subsequent disclosure. Likewise, any change in the risk midterm must immediately be disclosed to the insurer. It is not for the insured to decide whether the information is material or not, that decision is the prerogative of the insurer.

6. The Insured is not obliged to disclose material facts which the insurer knows or ought to know which are imputable to it through an agent or servant. Nor may the insurer rely on failure to disclose a breach of warranty, if after discovery, it acts in a manner inconsistent with repudiation. (This may give rise to the defences of estoppel and waiver).

7. In the absence of fraud, the insurer avoiding a policy (as distinct from avoiding liability under a valid policy) must return the premium received, therefore.

   If the policy is cancelled by reason of a breach of a promissory warranty, presumably only a rateable portion of the premium is recoverable.

8. The questions in the proposal form are framed by the insurer and it is its duty to make them clear and unambiguous, especially when it attaches so much importance to the truth and dire consequences to the untruth of the answers. The rules of interpretation apply to all terms and conditions in the policy as well as to questions in the proposal form. Disclosure is also a continuous responsibility of the insured to keep the insurer informed of any change in risk, whether material or otherwise.

It is important that every insurance practitioner takes cognizance of the above and practices good faith.

This article was written by Kobus van Niekerk, FCII Chartered Insurer. For more information contact: kobus@consort.co.za

5 SAIA Circulars - November 2021

MD Circulars – November 2021		
MD-2021-023	Industry Procurement Data Collation Survey – 2021.	16.11.21
SG Circulars - November 2021		
SG-2021-148	Request for Capacity for Foreign Nuclear Risks with Effect from 1 January 2022.	03.11.21
SG-2021-149	Invitation to the Israeli Trade Mission to SA/SAIA Cyber Insurance Event.	05.11.21
SG-2021-150	Invitation to SAIA Members to Participate in Insurance Risks Committees.	09.11.21
SG-2021-151	Notice of Change of Venue: Israeli Trade Mission to SA in collaboration with the South African Insurance Association's Hybrid Think and Drink Event.	09.11.21
SG-2021-152	Section 72 Application to South Africa African Revenue Service by SAIA as a Binding Class Ruling for SAIA Members.	11.11.21
SG-2021-153	INSETA CEO Webinar Invitation	11.11.21
SG-2021-154	Vehicle Damage Quantification (VDQ) Annual Chairman's Report - November 2021	22.11.21
SG-2021-155	SAIA INSETA IISA Retiree Repurpose Programme	29.11.21

IMPORTANT NOTICE
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