

SAUMAchat



THE VOICE OF THE UMA



FROM THE CHAIR

It is hard to believe that it is that time of the year again – time to send our holiday wishes and plan our new year's resolutions! 2010 will always be remembered as an awesome year with so much happening on various fronts.

We would like to dedicate this final issue of SAUMA Chat to all our members. Thank you for your valuable input, support of the board and the decisions we had to make on your behalf, as well as your support for all our initiatives.

As underwriting managers, we will definitely remember this as the year in which we once again demonstrated the important role we play and the valuable contribution we make towards the insurance industry. We are very grateful for the growth in our membership and the interest from various external parties in the underwriting fraternity.

GOALS

One of our goals was to expand our networks and focus on raising awareness, which we certainly achieved. We only have to look at the applications received for associate membership and the attendance of our annual conference and social breakfast.

To the Board of Directors of SAUMA: Thank you for your hard work and dedication to make this an association of which we can all be proud.

We also submitted a number of successful and comprehensive documents on a wide range of topics and legislation this year to the various industry bodies including the FSB. This is a reflection our commitment to be a professional and dedicated industry body. We invite you to regularly visit our website, which is packed with interesting information, legislation and upcoming events.

We hope you will enjoy this issue of Chat, and we would like to take this opportunity to wish you and your families a very happy,

relaxing and safe festive season. Let's all work together to make 2011 another super year; a year in which we can be thankful for our blessings and grateful to be part of a team that creates value in our beautiful South Africa.

Tersia Davey

The sustainability challenge

Our Sustainability Conference held at the Indaba Hotel in Fourways in September certainly provoked some serious thinking.

One of the speakers was Terry Booysen CEO of CGF Research Institute (Pty) Ltd. Booysen emphasised the need for all organisations to have proper governance, risk and compliance principles, as well as high ethical values for the benefit of investors. He added that "the attainment of the ability to sustain requires the formulation of integrated, well balanced strategies... and an effective Board of Directors who will lead and control the company in a sustainable manner".

We have many directors amongst our members. Do they know their duties and responsibilities? Is the board they serve on an effective one?

SEVEN BOARDS

In its training courses, the Institute of Directors talk of seven different types of boards:

- 1 TALK SHOP:** Spend their time talking with no effective decision-making process and little implementation.
- 2 RUBBER STAMP:** Dominated by executive who steam roll through their own items.
- 3 NUMBER CRUNCHERS:** Focussed on short-term needs based on financial impact with little strategic thinking.
- 4 DREAMERS:** Whilst strategically focussed tend to be unrealistically optimistic often overlooking competitive threats.
- 5 ADRENALIN JUNKIES:** Have big appetite for risk but tend to lack strategic direction.
- 6 ACADEMIC:** Intellectually challenging, but detached from management and invariably fail to monitor performance.
- 7 THE EFFECTIVE BOARD:** Clear strategies, well implemented and monitored. Considers the needs of all shareholders and stakeholders.

We all need to think about these and into which of these types of boards we fall.

Peter Darroll

THROUGH THE INSURANCE GATEWAY



- Michael E. Stoker (www.insurancegateway.co.za)

It is amazing to think that out of all of the activity surrounding the short-term insurance industry in South Africa, some 40% to 50% of the industry's premium income relates to motor insurance. It is small wonder then that the industry is galvanising together to ensure the sustainability of motor insurance, in the face of deteriorating underwriting results.

Clearly the industry has recognised that an ever-increasing spiral in premiums is not the answer to remediation of the deteriorating results, as affordability issues will ultimately result in consumers lapsing cover.

High crime and accident rates are said to be the main reasons behind the deterioration, with unlicensed drivers, poor driving skills, inappropriate driver behaviour, a lack of law enforcement, the unroadworthy state of many vehicles on the road and road infrastructure challenges, being significant contributors to the high accident rate.

The high cost of repairs, in particular spare parts, the availability of parts and the impact this has on repair times is also a significant contributor towards the deterioration of underwriting results.

The low percentage of vehicles on the road that are insured further exacerbates the deterioration, since in most cases there is little or no chance of recovering damages from an uninsured guilty party. It is estimated that only 35% of the 9,5 million vehicles on South Africa's roads are insured.

The alarm was sounded at The Insurance Conference in May this year with a separate breakaway session on the sustainability of motor insurance and a follow-up to this was held by the Insurance Institute of South Africa at the PIP (Promote Insurance Professionally) Seminar in July.

SAIA MOTOR STRATEGY ACTION PLAN

That motor insurers are serious about this is evidenced by implementation of the Motor Strategy Action Plan by the South African Insurance Association. The action plan has three prongs to it and SAIA have established three new committees to handle this, each with a particular focus on the issues surrounding the sustainability of motor insurance.

The Motor Vehicle Drivers Committee will consider all relevant issues around the

drivers of motor vehicles, whether they are insured or uninsured, as well as all other road users including pedestrians.

The Vehicle Committee will consider all relevant issues around insured and uninsured vehicles on our roads.

The Vehicle Crime Committee will consider all relevant issues around vehicle crime, with close collaboration with the South African Insurance Crime Bureau and Business Against Crime SA.

AARTO IMPLEMENTATION

It is hoped the long awaited implementation of the Administrative Adjudication of Road Traffic Offences Act, No. 46 of 1998 (AARTO) will bring about a change in driver behaviour as in terms of the Act, infringements will result in demerit points being issued against drivers, which can ultimately lead to suspension of a person's driving license.

INTRODUCTION OF MICRO-CHIPPED NUMBER PLATES

A new number plate system is to be introduced whereby number plates will contain a micro-chip with the vehicle and the owner's details. Although this will take some while, as it is yet to be phased in, apart from the other perceived benefits, this new system may also assist in getting unlicensed vehicles off the road and could lead to an increase in the recovery of stolen vehicles.

BASIS OF INDEMNITY

A further quandary which insurers face is that each year vehicle values reduce and so premiums when based on a rate applied to the value of the vehicle reduce, whilst repair costs continue to escalate. As a consequence also under discussion is the possibility of offering different forms of indemnity, for example one where approved "generic" parts are used as opposed to original manufacturers parts.

VEHICLE TELEMATICS

This powerful technology enables the collection of driver behaviour data which goes way beyond simply recording the distance travelled, which is said to facilitate a far more accurate premium rating structure, based on the insured's driver profile.

Such rating engines are already in use in Europe and the USA however there are lingering concerns about privacy issues and in some countries for example I think it was in France, where it is against the law for anyone other than Traffic Police to measure anyone's speed, so systems had to be adjusted to

accommodate for this. Examples of local insurers using telematics include Hollard who offer the Pay as You Drive System and MiWay's, MiDriveStyle option.

Telematics certainly lends itself to innovation. For example, a UK insurer who had identified that drivers who had recently acquired their drivers licence were more prone to accidents during peak hour traffic, offers discounts to such drivers who do not use their vehicle during peak hour periods. Not that the insured then couldn't when the need arose, as the premium would literally be calculated at the end of each month, based on that month's driving profile.

It is unfortunate that I have not come across, at least in the public domain, any studies on the legal implications of telematic applications in South Africa, in the context of the Protection of Personal Information Act and our road traffic laws; and I mention this purely to stimulate open debate in this regard.

COMPULSORY THIRD PARTY PROPERTY DAMAGE INSURANCE

Compulsory third party property damage insurance has to be the big one. This is supported industry wide, as well as by the Automobile Association. Considering that approximately only one third of vehicles on the road are insured, compulsory third party property damage insurance would immediately triple the size of the risk pool, which should have the impact of reducing premiums.

If the government are committed to free trade, there should be no debate, as is currently the case, about whether such compulsory insurance should be administered by the state or by private enterprise, given also that the short-term insurance industry in South Africa being well regulated and having an enormously strong infrastructure, is well equipped and experienced to handle such a scheme.

Moreover, perceptions that a sizeable fund would need to be created before implementation of such a scheme are misguided, as motor own damage portfolios typically operate on a pay as you go basis, with little or no long tail risk. Unfortunately, given the typical time span for the passage of legislation, this one will not be a quick fix. The challenges faced by motor insurers are many and varied, where solutions include collaboration with the authorities and other stakeholders in the economy and the industry can be commended for their concerted efforts to find solutions, in order to ensure the sustainability of motor insurance.

SAUMA SUSTAINABILITY CONFERENCE – SEPTEMBER 2010

- By Peter Darroll

On Tuesday, 12 October 2010 close to 200 people gathered at the Indaba Hotel in Fourways, Gauteng for the first ever SAUMA Conference.

Tersia Davey, chairperson of the SAUMA Board, welcomed members and guests reminding them all that a key function of the Board was to keep members informed of developments in the market place. An annual conference was deemed as a way of doing so.

Sustainability is the buzzword of the year, but what does it entail? Tersia tabled the following definition: "Development that meets the needs of the present without compromising the ability of future generations to meet their own needs," (Brutland commission).

This set the tone for the morning and was an ideal introduction for opening speaker Terry Booysen of CGF Research Institute (Pty) Ltd. Terry stressed that all organisations need to have proper governance, risk and compliance principles and high ethical values for the benefit of investors, all stakeholders and communities.

These issues were again stressed later in the programme by Nic Kohler, CEO of the Hollard Group, in his discussion on the current state of and trends in the insurance industry.

Hugo van Zyl, CEO of SA Insurance Crime Bureau, addressed the impact of fraud on the sustainability of the industry, and the financial implications of not addressing such issues.

Bruce Whitfield of PrimeMedia spoke of the trial and tribulations of his good friend Richard Cranium and their impact on the environment. Jeremy Maggs of Who wants to be a millionaire fame spoke of the need to ask tough questions in order to be sustainable.

Thank you to all sponsors without whom the conference would not have been possible. The main sponsors were Hollard and RMB Structured Insurance assisted by ABSA, EFS, Glasfit, Guardrisk, Infiniti Insurance, INsuregroup, Lireas Holdings, Lombard Insurance Group, Mutual & Federal, Santam, Tracker and Tial Technologies.

Inspired by a flood of congratulatory messages, with many stating that this was the best conference they had ever attended, the SAUMA Board has already started planning for their 2011 conference next September.



Kim Forbes of Cover magazine and Terry Booysen of the CFG Research Institute.



Delegates gathering in the foyer before the conference starts.



Tersia Davey addressing a full auditorium.



Terry Booysen talking on company governance.



The ladies from sponsors Insure Group.



Hugo van Zyl from SAICB considers a point.



Earnest discussion at tea time.



SAUMA Board member Peter Darroll and Diane Jack of Compendium Insurance Brokers.



SAUMA Board members Leigh Friend, Tersia Davey and Natasja Blok.



Nic Kohler, CEO of Hollard, during his presentation.



Jeremy Maggs makes a point in "How to ask tough questions".



Stef Theofanidis, SAUMA Vice Chairman.



The SAUMA Chairperson does her bit handing out gifts to delegates.





SUSTAINABILITY CONFERENCE - 12 OCTOBER 2010

