



"Growth in 2009 will be minimal across all sectors of business."

We believe direct players in the industry will capture more of the market share from the low to middle income earners. As a result of the way direct insurers structure their policy wordings and claims processes, they are able to offer more competitive rates than the traditionalist insurers. Although we foresee inflation decreasing over the next few months, our interest rates are the highest they've ever been and people are looking at ways to save themselves

money. Direct players are able to offer cheaper premiums which we believe will encourage a slight shift in business so would recommend brokers focus on SME business and upper income business that are less price sensitive and more loyal.

Growth in 2009 will be minimal across all sectors of business – not only insurance – as the economy slows and possibly goes into a recession. As a result of the currency depreciation, imported assets and their sums insured should automatically increase by 20-30% in those specific classes, which is an important area that brokers should be advising their clients on. Our industry has seen an average growth of 6 – 7% year on year for the last few years. However, we don't think we will see that number next year, so if its growth you are looking for you are going to have to compete with product and service as your differentiator.

Staff costs are astronomical. The cost of skilled staff has dramatically increased over 2008. In so far as FAIS goes, we have seen some interesting rulings this year by the FAIS Ombud

against brokers and insurers. Both are going to have to make sure that areas such as informing and making clients aware of clauses and restrictions in policy wordings, are monitored and documented.

We don't believe there will necessarily be a product focus for 2009, as companies will be trying to keep their heads above water in these tough economic times and it will be more a case of battenning down the hatches.

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Hardening on the horizon

Mark J Haken, Director, Renasa

These views will concentrate solely on my predictions of the likely developments in technical insurance business in SA during the next 12 months. Whilst legislative and regulatory amendments and developments will most certainly contribute to the mix, it's the economic drivers which will exert the greatest influence on the industry in 2009.

Motor insurance will surely

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"The inevitable outcome must be an increase in insurance rates."

be at the top of most insurance company's agendas. As a result of the modularization of vehicle manufacture, partial losses typically cost a much higher percentage of a vehicle's value than they did previously. The replacement of a front wing used to necessitate the replacement of a light fitting using a chrome ring and half a dozen screws / rivets and a slight panel beating job – say 5% of the vehicle value. Now it's all 'remove and replace' an entire section including xenon headlights – say 20% of the vehicle's value. Then the practice of rating a vehicle on value and discounting for magnitude no longer makes sense – expensive luxury cars now carry very expensive computers, air bags and xenon headlights which also significantly increase the cost of a partial loss. Add to this the ever increasing congestion on our roads as well as a gradual deterioration of the quality of the roads, and the outlook is grim. Therefore companies will need to reassess not only their rating levels, but also their discounting procedures in order to meet the current market realities. These systemic changes in the risk attached to motor insurance will inevitably lead to an increase in motor rates.

The property business will also be subjected to an increase in claims; partly because less money is being spent on risk management in this economic downturn, but also as a result of more spurious and inflated claims being submitted to improve deteriorating cash flows. Reinsurance costs are predicted to increase (see last month's issue), and the inevitable outcome must be an increase in insurance rates.

The international markets will similarly be affected, and allied to this is the expected influx of huge

D&O and PI claims against rating agencies and investment advisors by people attempting to find someone to blame for their losses in this economic fiasco. Whether successful or not, these will take several years to be finalized and the loss reserves will need to be funded; again the inevitable result will be an increase in premiums.

Having regard to the above, taken together with the capital reductions suffered by (most) insurers as a result of the market turmoil, I predict a year where insurance rates will harden significantly, where insurers will take a less lenient view on claims settlements and the winners will be those organizations who are able to manage their systems and claims most effectively.

Trends do have an end



"Who could have foretold that governments all around the world could act in unison."

Nic Kohler, Chief Executive Officer, Hollard

"Those who have knowledge, don't predict. Those who predict, don't have knowledge" – Lao Tzu, 6th Century BC Chinese Poet

With the knowledge collectively acquired over the past year, it would take a brave person to try to accurately predict what will emerge in our business environment over the next year. This time last year, who would have foreseen that 2008 would see AIG, Citibank, Lehman Brothers, Washington Mutual, Bear Stearns and others of a similar ilk either bailed out or bankrupt? Who would have predicted such an abrupt end to the golden era of growth, and the commencement of a recession in some of the world's largest and most successful economies? Who could

have foretold that governments all around the world could act in unison to rewrite the financial system rules in response to a credit squeeze that has brought the globe's financial system to a standstill?

2008 was a timely reminder that "black swans" do exist, that no trend continues forever, and that sensible risk management frameworks should consider discontinuities as well as statistically based forecasting.

So what can we say with some degree of certainty about the year ahead? There are a few constants, or at least a few elements of change that are constant, I believe...

The customer will continue to become more knowledgeable and, of necessity, more discerning as disposable incomes come under further pressure. Understanding the customer's needs and innovatively meeting those needs with products that offer flexibility and hand control back to the customer will continue to be our core focus – no more "one size fits all".

This also represents a great opportunity for brokers whose role in assessing the customer's insurance needs and ensuring that adequate protection is provided at an appropriate price becomes ever more critical. We will continue to provide brokers with crucial support in these challenging times to ensure that they are able to play this vital role.

There will continue to be a dearth of appropriately skilled people. Despite some temporary relief for employers as the market "right-sizes" for the new economic reality, and as overseas South Africans (hopefully) return home to our relative oasis, the best people will be even more sought after as companies recognise that brains trump established rules in a rapidly changing world. The importance of industry and company sponsored training should not be underestimated. It is our view that it would be shortsighted to cut back on training as part of the necessary drive for efficiency in this economic climate.

The focus on risk management in businesses throughout the industry value chain will need to be stepped up – we also expect regulators around the world to respond with ever more stringent regulation and oversight. We anticipate a year of significant regulatory flux including the drafting of regulations under the Insurance Laws Amendment Act