

GOOD HOPE AMID MULTI-RISKS

JOHN TOWSEY



AFRICA used to be called the Dark Continent, although nobody would have termed it a dull one. In this respect little has changed — the darkness may have largely gone, but the spirit of the continent is certainly not dull. Africa today with all its changes, its problems and uncertainties could lay claim to being potentially the most dynamic continent.

During the last 40 years southern Africa has gone through major and traumatic change, from the colonial era to independence as relates to central Africa, and through *apartheid* as far as South Africa is concerned. Both segments of southern Africa would now appear to be about to enter further dramatic changes in their socio-political structures.

Following the collapse of the eastern block, the socialist ideology which was most favoured by the majority of central or southern African states immediately came open to question. The result has been a rapid move toward more democratic government and multiparty politics. With very fundamental changes occurring in the Republic of South Africa, black states are now communicating openly with Pretoria, diplomatic channels are opening and new trade links are being formed.

With regard to the South African insurance and reinsurance industry, to consider the effect and the potential of these changes (and more specifically the major changes in process within South Africa) it is necessary to review the industry's present structure. The market is, for obvious historical reasons, based upon the British model with 21 non-life or short-term insurers, all members of the South African Insurers Association; 19 life assurers, members of the Life Offices Association; seven reinsurers transacting both life and short-term reinsurance, being members of both associations. In addition, there are several special companies in both non-life and life categories.

All insurers wishing to transact business in South Africa must be registered within the republic complying with the Company's Act and more particularly the Insurance Act. This

also applies to locally incorporated reinsurers; foreign reinsurers may and do visit insurers in the country in their quest for cessions. However, the opening of anything more than a service or contact office without full local incorporation would not find favour or approval with the relevant authority, this being the Financial Services Board.

As far as intermediaries are concerned, there are four international brokers, a handful of large nationally represented ones and approximately 300 medium-sized

brokers. All these are members of the South African Insurance Brokers Association and account for approximately 8% of business placed through intermediaries. In addition, there are 1200 agents and smaller brokers some of whom are members of the Independent Brokers Council. It follows that the South African market is very much broker orientated and at the present time the majority of business, both commercial and personal, emanates through this medium.

With respect to non-life insurance, the market has attained a high level of sophistication for corporate clients. Specialised coverage, risk management programmes and the use of captives are the order of the day, with the consequent loss of income to the insurance and reinsurance market from this source. So it is not a particularly different tale to the rest of the world. Personal insurance is becoming more and more encompassing with additional types of cover being offered, the use of the one-stop monthly bank debit being the usual method of payment.

The South African life assurance industry can lay claim to be one of the most sophisticated markets in the world. It innovated the unit-linked policy in the sixties and the dread disease covers of the eighties. South Africa's lack of welfare benefits has allowed the life industry to develop at a rapid pace and become a major receiver of individual and pension savings. Consequently, the life industry is an influential investor in the development of the country's commerce and industry.

At the time of writing the country is in the midst of fundamental reform to its social and political system. At present this is unpleasant for all its inhabitants:— a major crisis of expectation among the underprivileged, leading to low industrial productivity . . . lack of growth in the economy . . . a high and unac-



COURTESY JOHN TOWSEY

ceptable inflation rate . . . unemployment with its concomitant crime wave . . . political violence on a large scale with strong undertones of tribal warfare. Although politically motivated damage is covered by the government under-pinned South African Special Risks Association (SASRIA), which is under-pinned by the government, it is not a climate conducive to running a successful underwriting account.

The market has also followed the worldwide trend of reducing rates and over-competition. Last year saw the worst results the South African market has experienced in its history and although much corrective action has been taken, it is most unlikely that 1991 will be better. The crime pattern — which is not presently reducing — and inflation in the cost per claim, are jointly taking their toll.

South Africa suffered two meteorological catastrophes of medium proportion last year. Large fire losses, although down in numbers compared to 1989, nearly doubled in cost and amounted to approaching 50% of the market's commercial and industrial fire premium income.

The local reinsurance market, although not directly suffering from the increase in crime or cost of claim in respect of motor losses — these residing in the direct market — is likewise under pressure and has certainly carried its fair share of increased fire and weather-related losses. Reinsurers have experienced a diminishing client base through mergers and takeovers which has resulted in their looking for new and different areas of doing business. Examples of this have been joint ventures in the formation

of special underwriting entities, either as insurers or as underwriting management companies.

Although locally registered reinsurers have shown underwriting losses for ten consecutive years, technical reserves have remained static as a percentage of net income. Figures produced have been better than those produced in other parts of the world and this has attracted reinsurers not registered within South Africa to compete in this market. In this respect, direct insurers have in the past been able to place as much of their reinsurance offshore as they wished, subject only to the restraint that premium paid to such reinsurers cannot be deducted from income for solvency margin purposes. This effectively limited offshore placement dependent upon the preceding company's financial strength. In terms of the new Insurance Act about to be promulgated, foreign reinsurance placings will be limited to 50% in the aggregate on premium. It is generally considered that this will, in the majority of cases, make little difference to the present make-up of direct insurers' reinsurance cessions.

Returning to the country in general terms, South Africa is a country of extremes and very much a mixture of the industrialised West and the developing world. The political environment swings on what seems nearly a daily basis and what can seem a certainty at one moment is far from that by the next. As a consequence, business and private confidence in the future of the country also swings, a very different environment to that of the developed world. Business must rely upon the basic precept that the economy will continue to function, political influences upon it will be acceptable and moderate, and the economy will be allowed to grow to the benefit of all the country's people.

In the light of that fundamental we can paint a picture showing an enormous potential for growth and expansion stretching far beyond South Africa's borders right up to sub-Saharan Africa. With the country's reform and emancipation well in progress and generally considered irreversible, our northern neighbours are looking to forge links with South Africa and see great advantage to themselves in benefitting from the expertise and resource available. In some of their cases, failing economies need assistance, and that assistance must be inherently African in culture to succeed — really only available from another African state.

As to a time-scale? Africa does not work to the clock like German trains; patience and forbearance are required. As the civil wars in Angola and Mozambique find their way to an end and South Africa's internal politics alter to become acceptable to all, the spoils and inherent riches of Africa may well once more be available — for the benefit of all its peoples.

In small ways, the process has already begun.

Examples of this are: — trade links have recently opened with Madagascar; South African Airways now flies to Kenya; Zambia wishes to join the South African electrical power grid; even with a civil war continuing in Mozambique, the coastline is beginning to be reassessed for tourist and holiday home centres; and the farming potential is once more about to be explored.

The potential for South African business to expand into Africa is enormous in its magnitude, and obviously the insurance industry must be right there to provide risk-bearing resource and expertise. This potential is certainly not lost on the South African market and many companies both in the direct and reinsurance sectors are arriving at a strategy for this new and exciting era.

The potential within the reinsurance market follows the fortunes of the direct writers and provides that sector with a real possibility of a major expansion in its income, something not seen in the last few years. From the gloomy picture first presented, there emerges the possibility of a very opposite scenario for business adjacent to the republic. And what of business within a changed and new South Africa? With the current reforms, two very different but interrelated sectors of the economy have become clearer in definition — the formal and informal sectors.

The first, the natural development and continuance of western-styled business, sophisticated and parallel with its counterparts around the world. With trade sanctions and boycotts on its products lifted, and using the country's vast resources in agriculture, minerals and people, subject to its industries' being able to compete on price, quality and service, the potential is enormous.

The second, exclusively the black community's domain, commenced with initially simple businesses such as street-trading, peddling of simple wares, *shebeens* or illegal bars in the black townships and transport by way of taxis. This second sector is now expanding rapidly and, although remaining informal in its methods and make-up, it is growing rapidly in size to the extent that it is finding the necessity of some of the trappings of formality. Street-trading laws have been considerably relaxed and the *shebeens* are now legal.

The taxi industry, with the use of mini-buses, has expanded to become a major supporter of the motor industry and the singular preferred means of transport for the black commuter. All of these industries now have their associations or representative bodies. It must also be borne in mind that the black businessman, although relegated to doing commerce within his own areas, has developed along more conventional lines to own garages, supermarkets and factories producing a variety of goods.

South African insurers stand to benefit con-

siderably when the country's economy begins an upward trend and as far as corporate business is concerned, as they do now, will need to compete with self-insurance schemes, with captives (which in terms of the new Insurance Act will have to move onshore) and of course each other. To compete successfully, in like manner to their foreign counterparts, they will have to refine their techniques, and, in percentage terms, offer the insured collectively more of his money back by way of claims. They will need to define the areas of business they wish to operate within and become highly efficient in those areas.

The underwriting of personal lines or domestic insurances is presently bedevilled by the soaring crime rate and premiums are approaching the consumers' final resistance level. As a sector it represents over 60% of the total market premium income and therefore cannot be ignored: once again the political environment calls the tune and reduction in crime patterns will only result from a new order acceptable to all with an equally acceptable and efficient law authority.

At present, the number of black householders being insured is negligible. In future, as standards of living improve and they become more drawn into the consuming and property-owning society, a whole new market will be available to insurers. In this respect, the black householder in the past had no exposure or understanding of insurance, he accepted his misfortunes with stoicism as something the gods had laid upon him, re-collected his life and carried on. The advent to him of the car, necessary hire purchase, consequent compul-



sory motor insurance and sometime resultant accident, provided the awareness of what insurance actually meant.

Equally, South African insurers in the main have not until recently taken the emerging black insured seriously as a market, and only in



COURTESY, JOHN TOWSEY

the last few years have they been competing for his business insurances. Premium rates have been high and the loss experience reasonably satisfactory, which is more than can be said for the equivalent white business. The mini-bus taxi industry which is entirely black-owned and operated, has expanded rapidly during the last ten years, becoming a major purchaser of motor insurance. The industry is taken most seriously, not only for the amount of premium: it generates but also for the level of accident and resultant claim, which has been exceedingly high.

Although black life assurance representatives have existed for some years, and burial society plans have always been attractive in the black community, it is only recently that a fully fledged and nationally based black insurance brokerage has been formed. Emanating from this may well be the advent of new insurance products for which the black community really perceives a need. Up to the present wholly black-owned financial institutions have not met with any success and it would be unlikely for the formation of a specifically black-owned insurance company to occur within the near future.

As far as life assurance is concerned, the threat of AIDS dominates the horizon and there are various well-researched theories as to

its potential real effect on the South African economy, and on life assurers in particular. It is generally accepted that AIDS is endemic to the sub-continent and the real potential will only become clearer in four or five years time. Suffice to say that most assurers are setting aside extra reserves and examining methods to protect both themselves and their policy holders from the effects of AIDS.

Apart from this, the industry is following similar patterns to those found in Europe with financial and business alliances being formed with banking institutions, becoming more and more competitive in service with the necessity of better and better systems.

So the new South Africa is nearly upon us; it reflects the nature of Africa — wild, unpredictable, dangerous, extreme and potentially rewarding. It is a climate that will stretch the imagination and creativity of all its industry not least the insurance and reinsurance sector, at a time when once again a pioneering spirit can go forward and find success in new horizons. ■

John Towsey ACII is general manager of Fedgen Insurance Ltd in Johannesburg. He formed part of the senior management and, later, the general management of Standard General, the South African subsidiary of Assicurazioni Generali for 15 years. He began his career with Lloyd's of London.