ADDRESS BY THE HONOURABLE MINISTER OF FINANCE, TA MANUEL, MP TO THE SA INSURANCE ASSOCIATION ANNUAL GENERAL MEETING, COCKTAIL FUNCTION, 18 JULY 2002

Ladies and Gentlemen

Thank you for inviting me to address you this evening.

William Shakespeare, in Sonnet 30, coined an apt yet robust description of the public good that the Short term Insurance industry, efficiently guided under the auspices of the SA Insurance Association, has brought to our society. He wrote:

"All losses are restored and sorrows end"

Modern society requires, and commerce is dependent on, the professional risk bearer, the insurer, to give a measure of certainty against the possibility of loss of property due to a contingency. As an economic concept insurance has its justification in the certainty of the financial burden of losses it creates and in its function of spreading the losses that occur.

The provision of short term insurance has key benefits. Insurance transfers risk from the generally risk averse public to the professional insurer thereby bringing comfort and peace of mind to the businessman and ordinary house-owner, alike, and makes the costs of daily life and conducting business more certain.

Insurance, through the transferal of risk, turns the wheels of commence. It provides for a more optimal utilisation of capital: capital that would have been trapped in reserve funds, or held in safe instruments, to cover the risks that businesses assume, is now released for efficient use and more productive pursuits. This generally would increase productivity and assist capital formation. It is in this cardinal sense that, in my opinion, insurance has an important role to play in the generation of economic growth of a country.

The insurance industry globally has gone through a very rough patch since the occurrence of the tragedy, which has become known as 911. Insurance premiums in air travel and the transport of goods have rocketed. The relatively safe transport by sea of strategic goods, like oil, from the Middle East is now perceived to be more risky. This has led to sharp increases to cover war risks and related risks. These effects are felt both by the insured business and the insurers who now face increased re-insurance costs. This has a negative impact on the cost of doing business, and as been a factor in dampening the global recovery.

Domestic conditions for industry players have therefore been tough indeed. I have read reports of varied increases in the cost of premiums since the year began, from 10 percent for personal and household risks, about 100 percent increase for corporate and commercial risk, to a high charge of some 400 percent in aviation. However, the FSB Special Report on unaudited results for the industry for the period ended March 2002 does have positive news. It reflects a modest but general net premium growth across all activities to R14,5 billion last year, compared to R13 billion in 2000. Underwriting profits showed a marked turnaround from a combined R171 million loss in 2000 to a R199 million profit last year. Overall, underwriting and investment income grew to R1,96 billion in 2001 from R1,4 billion the year before. Importantly, claims as a percentage of earned premiums dropped to 70 percent, their lowest level since 1997. It seems to me that the signs are there that the domestic industry is primed for further growth.

In the circumstances, I must commend the industry on its resilience and in weathering the knock-on effects of 911, which is by far the biggest insurance catastrophe in the modern era. The IMF June 2002 Global Financial Stability Report reflects a conservative total insured losses for 911 of around 60 billion US Dollars. Other estimates sit around 90 billion US Dollars.

It is natural when trading conditions are tough and the hatches are battened down that industries tend to loose sight of large policy issues. In South Africa one burning issue for many a black business entrepreneur has been a slow pace of economic transformation whereby the wealth of our nation has been equitably distributed and the opportunity to participate in such wealth creation has substance. The issue of black economic empowerment has to be tackled constructively by all industries. Glass barriers make poor business associates and to my mind stymie economic activity at all levels.

What this nation needs most in its business ethic is a shared belief in real equality of economic opportunity and the removal of unjustified inequality. Only then can we move forward as a nation, and the wealth created by the sweat of a brow fertilise and ultimately harvest the fruits of our collective labour.

I am reminded by the words of David Daiches Raphael when he grappled with the morality of just institutions, in his treatise "Justice requires Equality". He wrote these wise words:

"We also recognize a claim to equality of opportunity, that is, a claim of every man to an equal chance of developing his capacities and pursuing his interests. Is there also a claim to equal distribution? That is, when material means to happiness are available, should they, in the absence of other claims, be distributed equally? The question may be put alternatively thus: have men a claim to equal happiness, or only to an equal chance of pursuing happiness?"

I would urge you as an industryto give thought and consideration to what these words may mean for our business community.

Raphael goes on to express what he believes equal opportunity means, as follows:

"Equal opportunity means, ideally, maximum opportunity for all to develop the potentialities they have, and failing that, the maximum that is possible in the face of, e.g. economic difficulties. The opportunity is to be equally, i.e. impartially, spread in the sense that discrimination in the provision of a particular type of opportunity for some and not for others should depend on the potentialities that the prospective recipients have,

instead of depending on "irrelevant" considerations such as birth or wealth."

The need to remove whatever glass barriers exist has come and shouldbe undertaken with seriousness and commitment.

I turn briefly to the issue that is also close to my heart: that is the protection of consumers in the financial services industry. I am grateful for the support this Association has shown for the Financial Advisory and Intermediary Services Bill, which will soon become an Act.

In South Africa there has been no formal system of regulating financial advisors and intermediaries. This implies that there has been no recourse for consumers who have been sold financial products that are either ill-suited to their needs or that do not deliver the promised returns.

There has been a long-felt need for regulation that stems from the Commission of Inquiry into the affairs of the Masterbond Group and Investor Protection in South Africa (October 2001).

What is important to understand is that the Bill has a functional and not an institutional approach. It regulates a function, not a person or an institution directly. Therefore, if a person performs the function of "advice" or "intermediary services", that person will have to be licensed under the Bill, irrespective of whether the person is a product supplier (who may already be licensed under some other law) or an intermediary (broker) or an investment manager. In each instance the "advice" or "intermediary service" must relate to a "financial product" which embraces almost every investment or insurance product or financial instrument in the market place.

Effective regulation is to be achieved through a number of mechanisms.

?? Firstly, a financial services provider must be licensed in terms of the Bill and will have to comply with certain prescribed fit and proper criteria relating to honesty and integrity, competency and operational ability and financial soundness. A licence may be granted subject to certain conditions and restrictions, which creates the opportunity for differentiation or categorisation of providers in accordance with the type and level of service rendered. Unreasonable entry barriers may thus be obviated.

?? Secondly, the Bill imposes responsibilities on financial services providers with regard to their representatives for whose conduct the financial services provider is liable. A representative engages in the same activities as its principal but does so for or on behalf of the financial services provider, either because he or she is an employee of or holds a mandate from the provider. Representatives also need to meet the criteria relating to honesty and competency.

In order to establish a professional group of financial services providers in South Africa, the Bill lays down standards for the market conduct of both providers and representatives. The focus is the needs of the consumer, the right of the consumer to be treated fairly, full disclosure of any relevant matter and the responsibility of the industry players to act professionally and to place the interests of the consumer above their own.

A system of compliance is created in order to monitor adherence to the law through the appointment of compliance officers, record-keeping, proper accounting and, where appropriate, auditing requirements.

Due care has been taken to ensure effective law enforcement in the event of transgressions by financial service providers or representatives. Consumer complaints will be dealt with through a formal, yet expeditious and cost-effective dispute resolution mechanism in the form of the office of the Ombud for Financial Services Providers. The design of the office is to meet the constitutional requirements of independence and impartiality. A determination by the Ombud will have the effect of a civil judgment and will be executable through the ordinary judicial process. In addition, civil remedies are available to the Registrar such as class actions on behalf of deprived clients. The Registrar, who is empowered to declare certain practices as undesirable, may impose administrative penalties. Finally, criminal sanctioning is provided for through heavy fines and terms of imprisonment.

An outstanding feature of the Bill is its flexibility of application. This will enable the regulator to rectify unintended consequences, to address cases of hardship and to ensure pragmatism in the application of the Bill.

In conclusion, I look forward to the co-operation of all industries and their intermediaries to play by the rules laid down by this important new Bill, once enacted. May we in so doing also improve the quality of life for consumers by offering them honest advice, a good product at a fair price, within the letter and spirit of the Bill.

I Thank You.