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SPEECH OF THE MINISTER OF FINANCE
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"The Short-term insurance industry: policy imperatives shaping the future"

My sincere thanks for inviting me to be part of this celebration of Auto & General's 20 years in business.

It is indeed a milestone to celebrate. Few would contest that, over the past twenty years, Auto & General has built a reputation as one of the leaders in the short-term insurance industry, on the back of a history of innovation.

In many ways, Auto & General is a testament to how financial services companies should go about building a sustainable business model in the new South Africa.

We have come from a history of perverse politics and social and economic exclusion. This translated into a skewed business focus – one that more often than not ignored the needs of the majority of consumers. Isolation also meant outmoded business practices and technologies. Ownership and control of companies was in the hands of a select few, and investment in the development of black staff was virtually unheard of. The result was gross inefficiencies; both in the manner in which our national savings were utilised and in the way in which they were distributed. Such a situation simply could not provide a proper foundation for future sustainability and prosperity.

To my mind, building a solid foundation for the future rests on following a business model that puts the needs of the consumer at the heart of what a financial services company does. The experience of Auto & General is testimony to the fact that research and innovation around better serving the needs of consumers is a recipe for long-term success and sustainable growth. Sadly, this is not a lesson heeded equally across all quarters of the financial sector.

While these concepts have firmly taken root, there is still much to be achieved – and tested.

As recent experiences across the Atlantic Ocean from us have illustrated, it is often only in the wake of disaster that consumers realise their true insurance needs. Thousands of American homeowners affected by Hurricane Katrina are

confronting the harsh reality that the insurance policies they thought covered them against natural disasters may in fact be virtually worthless.

The process of adjudicating several millions of insurance claims has barely begun, but already Hurricane Katrina is posing a vexing set of insurance problems. Much of the damage along the Gulf Coast was caused by a surge of water that rose as high as 30 feet, the biggest storm surge ever recorded in North America. That surge was technically a flood, even though it was produced by a hurricane, and is not covered by standard U.S. homeowners' insurance. A second, figurative, storm is brewing over how much of the hurricane's damage should be attributed to flooding.

A more interesting question to me is the extent to which these individuals were aware of the fact that their homeowner policies excluded flood damage? How many people now find themselves on the verge of destitution because of exemptions that were included in the fine print?

Herein lies the true test. If we are serious about raising standards of consumer service and protection, are we sure that enough is being done to make the policyholder aware of every eventuality?

Auto & General has certainly led the way in terms of plain-language policies and for this praise is due. However, it strikes me that the majority of consumers

remain in the dark about the nature of the insurance cover they have been sold and what they can expect in the event of suffering damage to, or loss of, property. We cannot be satisfied until such time as policy exemptions are disclosed in the contractual equivalent of flashing red lights. Even then, health warnings are not enough. Consumer education remains critical and insurance companies must ensure that brokers and intermediaries play an active part in these efforts. Our policy thinkers and regulatory authorities will continue to engage on disclosure standards, to ensure that terms and conditions are standardised, clearly understandable and comparable across service providers. Where industry practices continue to expose consumers to abuse, we will not hesitate to legislate.

Going forward, a sustainable foundation for growth is not only going to be about developing products and services that are appropriate to consumer needs, but also about ensuring that access to insurance products is extended to markets which were previously marginalised or excluded.

Statistics from recent FinScope surveys indicate that penetration levels for short-term insurance products amongst individuals in the LSM 1-5 income groups is a meagre 0.2%. While statistics will always be open to dispute, this is a stark reflection of the fact that existing short-term insurance products are neither appropriate nor affordable for the low-income segments of our society.

Not only is this a baffling lost opportunity from a business sense, but it is also evident that the financial sector is failing in its potential to extend a helping hand in bridging the divide between the haves and the have-nots. An integral part of enabling people to emerge from structural poverty is access to appropriate and affordable products for transactional, savings and risk mitigation purposes.

There is both a moral and economic imperative on financial sector companies to transform their products and practices to serve this untapped market. Tackling this challenge requires innovation and courage, as well as a partnership amongst all stakeholders.

In this regard, a commitment such as the Financial Sector Charter would have been virtually unthinkable 10 years ago. The Charter has the potential to demonstrate the power of long-term partnership over pure individualism and myopia. By embracing transformation as the only way to ensure a sustainable and successful financial system, the Charter attempts to bridge the economic and social divide.

In practical terms, the power of shared Charter commitments is evident from successful initiatives such as the Mzansi bank account. Mzansi has removed the blinkers from the eyes of sceptics who believed that initiatives aimed at the low-income sector were not worthwhile. I welcome the progress made in the short-term insurance sector on a proposed Mzansi-style product aimed at addressing

the most urgent insurance needs of the low-income sector, including risk cover on dwellings and household contents against catastrophes such as fire and weather related perils, as well as theft. The National Treasury, in partnership with the other constituencies of the Financial Sector Charter, is in the process of evaluating these proposals in relation to generic access standards.

To be truly meaningful, empowerment has to be broad-based. This is why the Charter does not merely focus on ownership targets, but also extends its vision to wider aspects of empowerment, including the access to finance commitments I have just discussed, as well as human resource development, enterprise development and targeted investment.

On these issues, there are two areas I would like to pick up on:

To my knowledge, of the 54 short-term insurers who are members of the South African Insurance Association (SAIA), only two have black CEO's¹. There are only 3 female CEO's, all of whom are white. The overwhelming majority of board members are also white males. The figures speak for themselves: there is an urgent need for insurance companies to transform their boards and management structures. But I have warned before about the perils of short-termism and headhunting. The industry must commit itself wholeheartedly to training and the development of black managers from within.

¹ SASRIA and The Lion of Africa

Secondly, in the area of procurement, the current panel system of approved suppliers to carry out repairs cannot be allowed to become an obstacle to empowerment and transformation. Targeted procurement is a strategy that has been set out in both the Financial Sector Charter and the Preferential Procurement Act in order to redress the inequalities of the past. While progress is being made in this regard, it has to be questioned whether this is happening fast enough to contribute to the development of the black SME sector in this country. While there is clearly a need for a system that controls quality and guards against fraudulent practices, the criteria for selection should be reviewed so that insurance companies provide assistance where necessary for black SME suppliers to upgrade their capacity. This in turn will represent a commitment to Enterprise Development as outlined in the Charter.

In conclusion, I hope I have shed some light on a number of areas where we have a shared task of laying a new foundation. This may sound daunting at a time when we are gathered to celebrate how much has already been achieved by Auto & General. But I'm sure that, at 20 years young, you all have more than enough energy for the task ahead.

Congratulations and thank you.