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Risky Business

Insurance underwriting is generally misunderstood. The "unfairness" of an underwriting decision is a story often told. When someone gets denied a payout due to non-disclosure the public often rallies against the insurer and calls out the big bad company as doing everything to avoid paying. Likewise, when John and Joe, standing around the braai, discover that one is paying double for the same amount of cover. All of these are typical examples of how underwriting is misunderstood. This article should clarify the ins-and-outs and make sense of a process most of us will have to go through in our lifetimes.

The contract of insurance is essentially one based on trust and risk. Clients need to trust that, if they are completely honest with their insurer, they will pay out an insured sum in the hour of need. However, what is often forgotten is that the concept of trust goes both ways.

The insurer also needs to trust that their clients will honestly disclose all information they will need. The insurer needs all your information in order to assess the risk they will be taking insuring your life.

No one likes visiting the dentist but it's necessary. Likewise, underwriting is a pain in the neck but if you want the cover, it is something that just has to be done. You may find the questions intrusive and time-consuming. You're asked about your income, health status, family history, lifestyle habits and a lot more. You're even sent a nurse to meet you at a convenient place to draw blood from you, perhaps even weigh and measure you.

It's a deeply personal process that ultimately decides the level of cover and the cost of the premiums you will pay. Insurers do this to make sure they have enough information about you to know that they've charged you the correct premium, and that you have peace of mind that your claim, which is the insurer's ultimate promise to you, is honoured when the time comes.

What is underwriting?

Underwriting is a process where the insurer checks who qualifies for insurance and how much they qualify for. Insurers set their pricing based on average risks. Underwriters are required to find out which people stand out from the average, and to charge them the correct premium for their unique risk. This keeps life insurance premiums fair for everyone.

While underwriting can seem painstaking, the process is streamlined as far as possible, by only asking for essential information required to initiate policies. Truthful, comprehensive disclosure is imperative for underwriters to make accurate assessments.



To ensure transparency and to ease the process, your financial adviser can step in to assist where you are unsure about how to answer a question. We are experienced and well-equipped to deal with these questions.

There are no "white lies" in underwriting

Underwriting is your most important and powerful tool to get cover that is accurately priced, meets your expectations, and guarantees your claim payment. Even if you think certain information is unnecessary, rather bring it to the underwriter's attention. Rather disclose everything required, and more, and let the underwriter decide its relevance. Insurance benefits are very comprehensive, and even events you think are minor (such as a previous knee injury, for example) can give rise to claims later.

The impact of non-disclosure

Non-disclosure happens when the medical, financial, lifestyle or occupational questions are answered incorrectly or where important information is omitted when applying for cover. This ranges from deliberate fraud (not telling us that you have had cancer, for example) to innocent omissions where certain information is simply forgotten (you went for physio for your back 2 years ago, it doesn't currently bother you, you forgot to mention it) . The most common areas of non-disclosure are related to occupation, financial standing and most frequently medical disclosure. A popular misconception is that insurers avoid paying out claims. This, however, is not the case and it is the philosophy of reputable insurers to pay out all valid claims. However, it requires cooperation from policyholders from the outset

Consider this:

- Failure to provide full medical and financial information at application may delay the underwriting processes and could lead to the cancellation of a benefit or reduced payment at claim stage;
- Take time to think about the questions in the application form and provide all relevant information;
- Check the summary of the disclosures in policy documents and go back to your financial adviser or insurer if there are errors or omissions;

Regularly review your cover to ensure it remains in line with your needs.

The reality is that non-disclosure can result in the rejection of a claim. This can be traumatic because you need the money during this difficult time in your life. This is precisely why it is so important to provide truthful and detailed information during the underwriting stage.

If you are concerned about non-disclosure on your insurance cover, speak to your financial adviser to update your policy and ensure that you have provided all the information required to secure your insurance cover.



Investment terminology

Benchmark Risk—A collective measure of the various risks related to the potential for the returns of a unit trust to differ significantly from the returns of the benchmark against which it is measured.

Debt to capital—Indicates the percentage that debt comprises of total capital; calculated by dividing each underlying fund holding's total debt by total capital. A large debt/capital ratio indicates that a company is highly leveraged.

Market capitalization—A determination of a company's value, calculated by multiplying the total number of company shares outstanding by the price per share. Also called capitalization.

Operating Margin—A measurement of what proportion of a company's revenue is left over after paying for variable costs of production such as wages, raw materials, etc.

Price/Earnings ratio (P/E) - The share price of a share, divided by its per-share earnings over the past year. For a portfolio, the weighted average P/E ratio of the shares in the portfolio. P/E is a good indicator of market expectations about a company's prospects; the higher the P/E, the greater the expectations for a company's future growth in earnings.

P/E to Growth—A ratio used to determine a shares value while taking into account earnings growth.

Return on equity—A measurement of a corporation's profitability that reveals how much profit a company generates with the money shareholders have invested.



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Banking on a change

The South African Reserve Bank is one of only eight central reserve banks worldwide that have shareholders other than the governments of their respective countries. In March 2018 SA President Cyril Ramaphosa announced that this should be changed. This article looks at the institution called the South African Reserve Bank (SARB), how it is structured and what it does.

The SARB is the central bank of the Republic of South Africa. It was established in 1921 by an Act of Parliament, in response to the abnormal economic conditions resulting from the First World War. It is the oldest central bank in Africa and first issued SA banknotes to the public on 19 April 1922 (prior to that commercial banks issued banknotes).

The SARB's functions include:

- to formulate and implement the country's monetary policy;
- to issue banknotes and coins;
- to supervise SA's banking system;
- to manage SA's gold and foreign-exchange reserves;
- to act as banker to the government;
- to administer SA's exchange controls; and
- to act as lender of last resort (i.e. to lend to commercial banks) in exceptional circumstances.

The independence and autonomy of the Bank are entrenched in the SA Constitution. While the government sets the overall monetary policy goals for the SARB, the latter can use any instruments of monetary policy at its disposal to achieve the goals. The mandate currently set for the SARB is to achieve and maintain price stability in the interest of balanced and sustainable economic growth in South Africa. The achievement of price stability is quantified by the setting of an inflation target by Government that serves as a yardstick against which price stability is measured.

The SARB is run by a board of directors consisting of a Governor (presently Lesetja Kganyago), three Deputy Governors, and eleven Directors. The Governor and Deputy governors are appointed for five-year terms by the President of South Africa in consultation with the Minister of Finance. Four of the directors are also appointed by the President for terms of three years. The remaining seven directors are appointed by the shareholders of the SARB, also for three -year terms.

Some of the SARB's activities have been organised in wholly owned subsidiary companies -

- Corporation for Public Deposits - accepts call deposits from the public sec-

What makes a Rand?

All South African paper money is printed by the South African Bank Note Company (SABN), although the company's managing director, Peter Gloster, points out "in theory what is produced here is stationery. It only becomes valuable when issued by the Reserve Bank."

Gloster declines to reveal how much it costs to make banknotes. There are a limited number of places worldwide which make the ingredients for secure banknote printing. South Africa imports nearly everything.

The paper comes from Europe and is specially made for South Africa. It arrives in the country containing different security fibres, the metallic thread and the

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tor and invests the funds in short-term money-market instruments and special Treasury bills

- South African Banknote Company - prints all the banknotes currently in use in SA and also prints banknotes for neighbouring countries
- South African Mint - is responsible for the manufacturing of all circulation coins issued in South Africa and also produces coins for other countries. This company also produces Krugerrand coins.

Unlike the Bank of England, which provided the model for establishing the SARB, the SARB is structured as a company with private shareholders and is one of eight reserve banks worldwide that have shareholders other than the governments of their respective countries (the others being Belgium, Greece, Italy, Japan, Switzerland, Turkey and the USA).

According to the SARB website, the Bank currently has more than 750 shareholders and its shares are traded on an Over- the-Counter Share Transfer market co-ordinated within the SARB (the SARB was delisted from the JSE Securities Exchange in 2002). After allowing for certain provisions, payment of company tax on profits, transfers to reserves and dividend payments to shareholders, the surplus of the Bank's earnings is paid to the Government. The SARB has 2 million shares in issue and no single shareholder may hold more 10 000 shares. Shareholders are entitled a dividend of not more than 10 cents per share per annum (the total maximum dividend is therefore R200,000 or a maximum of R1,000 for any individual shareholder). The SARB's operations are therefore not driven by a profit motive but are intended to serve the country's best interests.



The future of the above share structure will be subject to intense speculation in the coming months. However, for the time being, the President has assured that the constitution sets the role of the Reserve Bank as protecting "the value of the currency in the interest of balanced and sustainable economic growth in regular consultation with government. This policy has not changed".

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watermarks.

The paper is made of cotton pulp rather than wood, which gives increased durability, as well as providing an added security feature.

Cotton-based paper can easily be made dull under ultraviolet light, whereas it would be expensive to do the same with wood-based paper. If the paper were not made dull in this way, it would obscure security features which are only visible under ultraviolet light.

Most of the inks used on banknotes, especially the more exotic fluorescent and invisible ones, are also imported.