Inseta Research Report 2014/15

Part 1: Desktop Overview of Transformation and Skills Availability in the South African Insurance Sector

inseta
INSURANCE SECTOR EDUCATION AND TRAINING AUTHORITY

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Executive summary

This desktop report is the first in a series of reports arising from a comprehensive study of the insurance sector. The first phase, covered here, is a broad-based preliminary desktop study intended to define the context of the additional planned research. The study has been commissioned by Inseta to determine the status of transformation and the availability of necessary skills in the insurance sector, to equip Inseta to fulfil its mandate.

Changing shape of the insurance environment

Most industry observers are optimistic about the outlook for the South African insurance sector. Although, undergoing a period of unprecedented change, it has weathered the global financial crisis and is performing relatively well. The key areas of change, looking forward, are transformation, regulation, technology and globalisation. This is also true of the insurance industry as a sector of the financial services industry.

Transformation

Views differ regarding the success of the transformation process, defined as the process of becoming a free and fair society. A major element in the process is employment equity. Here, progress outside of the public sector is slow. Industry members say this is due to the serious shortage of qualified Black candidates in most professional and management fields. Some industry leaders also believe transformation is more than affirmative action and that the objectives of transformation will be achieved only if business creates equal opportunities for all.

Regulation is a powerful driver of transformation that is putting the insurance sector under ongoing pressure. Most industry members accept the need for tougher regulation, but express concern about the cost of regulation, and especially the high costs of compliance.

Technology

Technology is completely rearranging the financial services terrain. Insurers' ability to harness big data will determine their long-term survival chances. Healthcare technology means people are staying healthier and living longer, which is changing the client demographic. At the same time, increasing automation is changing the dynamic between insurance sector employees and their staff. But while technology becomes more complicated every day, the availability of staff capable of working with the technology is a growing challenge worldwide.

Technology changes the client as well as the insurable event. For instance, the Google self-drive car is likely to change the format of accident insurance, while telemedicine could introduce new liability risks.

Human behaviour

As customers become increasingly mobile and tech-savvy, they are breaking free of the broker, depending on social networks for much of their financial advice and opting to buy simple products online direct from the insurer. Meanwhile, as people stay healthy and live longer in a dynamically changing world, they are likely to completely change career several times during their working lives. Employers seeking to attract quality staff must provide clear career paths, lifelong learning and a stimulating work environment.

Globalisation

The intricate interconnections between world financial services markets intensify the effects of change, economic crisis, and natural disaster. Companies able to ride the waves of change will have a distinct advantage. There is already a clear shift in the balance of power within markets, as growth slows in aging, saturated first world markets and innovation sets the tone for companies arising from the emerging markets.

Skills: Where are the gaps?

Worldwide there is a large and growing gap between the skills employers need, and those available in the market. In South Africa, under pressure to achieve financial equity, employers face an even greater challenge.

What employers want

Today's employers within the insurance sector are prioritising character over high grades. The want people with a sound education, solid technical knowledge and an understanding of the industry – but skills can be taught and experience earned. Given a choice, employers will pick the worker with good team skills and creative problem-solving skills.

Skills deficits

The insurance sector is facing skills shortages across the board, in all population groups. Statisticians, actuaries and experienced senior underwriters are in short supply. The pool of IT skills accessible to all industries worldwide is desperately limited, and the insurance sector in particular struggles to compete. The skills shortage extends from specialist quantitative, mathematical and investment skills, to sales and distribution skills, to management, and beyond.

The role of education

The education systems of the world are often held responsible for failing to produce graduates capable of functioning in the modern workforce. Schools and tertiary institutions are perceived as out of sync with the industry needs, and are still locked into producing graduates with a narrow, specialist perspective, and limited capacity to think outside the box.

The education system has a pivotal role to play in preparing learners for the work environment. However, The Department of Education in South Africa acknowledges that, school education standards have deteriorated to the point that matric exemption doesn't necessarily imply even functional literacy, while university graduates take up to 18 months in the workplace to become productive.

Involving the private sector

Researchers agree that private sector involvement is key to overcoming the skills crisis in South Africa and elsewhere. Programmes that begin developing young people through a wide range of interventions are essential to ensuring a pool of the kind of employees the industry needs to survive and compete.

Skills development

Skills development covers the full spectrum, from improving the broad base of skills within the informal sector, to helping vulnerable groups to become more productive, to helping schools develop high value "soft skills" like critical thinking, problem-solving, teamwork and communication.

Funding challenges

The need for funding continues to outstrip the availability of funds. Governments worldwide cannot afford to provide skills development for all who need it, and alternative, private sector-oriented funding mechanisms are essential.

Working together to achieve solutions

Public/private partnerships are becoming more common, while at the same time the roles of public and private sector within these partnerships are changing. Another growing trend is the development of global inter-sector partnering, which combines global corporations, international institutions, government entities and civil society organisations.

Background

This is the first report on a series of studies intended to provide detailed insight into the various facets of the insurance sector, which falls under Inseta. This report provides a broad overview of the state of transformation in the sector, and of the availability of skills and need for skills development.

Role of the organisation. Inseta's mandate is to grow the pool and quality of scarce and critical skills in the insurance sector, enhancing the sector and supporting South Africa's transformation. Its vision is to facilitate a skilled and capable workforce to serve the insurance sector, which includes:

- Short-term insurance
- Life insurance
- Pension funds
- Risk management
- Healthcare benefits administration
- Unit trusts, retirement annuities and other investment instruments
- Funeral insurance
- Reinsurance
- Auxiliary activities, including UMA and brokers

Serving Inseta's vision. Inseta has commissioned Len Deacon & Associates (LDA) to complete an in-depth study of the status of skills development in the different segments of the insurance sector. This research project is intended to equip Inseta as an authority on labour market intelligence within the sector, to identify skills needed, and to provide the foundation for a strategy that will have a measurable, positive effect on the availability of needed skills to the sector.

Project goals. As defined by Inseta, the goals of this study are to:

- Determine the status of transformation in those sub sectors of the insurance industry Inseta serves
- Determine what skills are available and identify skills shortages
- Highlight areas that offer job creation opportunities
- Identify industry expectations to address identified gaps in skills
- Identify gaps between existing and needed levels of qualification and skill

Painting the backdrop. This first report is based on a broad-based preliminary desktop study of the South African and international insurance sector. As such it serves as a backdrop to further studies focusing specifically on different segments of the insurance sector.

Desktop research. This report is the result of desktop research covering a wide range of sources (see Bibliography). The information contained here does not necessarily reflect the opinions of either Inseta or LDA.

Scope

Inseta's mandate is to grow both the availability and the quality of critical skills throughout the insurance industry. More than that, we strive to promote South Africa's transformation by developing skills that will, in turn, foster employment equity and broad-based black economic empowerment. To serve our industry well, Inseta needs reliable, up-to-date information. To this end, Inseta has appointed Len Deacon & Associates to conduct a comprehensive study of the entire insurance industry. This study will:

1. Explore the status of transformation within the industry
2. Determine what skills are available and where there are skills shortages
3. Highlight areas that offer job creation opportunities across all levels
4. Explore industry expectations to address identified gaps
5. Evaluate the gaps between the qualifications and skills industry personnel have, and those that they need

This desktop report provides a broad overview of the state of transformation in the sector, and of the availability of skills and need for skills development. The process after the desktop research and this report is to do qualitative interviews with selected key stakeholders, conduct telephonic and web based surveys, analyse the data and present the following sub sector reports:

1. Short-term insurance
2. Life assurance
3. Retirement funding
4. Healthcare benefits administration, Funeral insurance

Changing shape of the environment

The challenges of the past decade have been enormous and further challenges lie ahead, yet overall the outlook for the South African insurance sector is positive. Industry leaders have bought into the transformation process, and are driving change faster than most sectors of the insurance industry. While regulation is often a costly burden, the relationship between regulators and industry members is strong. The biggest challenge is in the desperate shortage of skilled professional and management people.

Globally competitive insurance industry. South Africa's sophisticated insurance industry has already demonstrated its ability to perform well against a global benchmark. The World Economic Forum Global Competitiveness Report 2012-2013 ranks South Africa third out of 142 countries for financial market development, and second for accountability of private institutions.

Change is the new norm. While it is currently performing relatively well, the insurance sector is facing a period of unprecedented change, both locally and globally. The key to surviving and even profiting from these changes is effective development of human resources.

Change equals opportunity. The PwC report "Insurance 2020: Turning change into opportunity" states:

> *"Insurers who anticipate and plan for change can create their own future. The future may be hard to predict, but need not be hard to prepare for."*

Key trends.[1] Research revealed key trends that will continue to affect the insurance sector for the foreseeable future. Each trend has implications for the skills the sector will need to survive and thrive, and must be taken into account when creating a strategy for developing human resources. These trends are:

- **Transformation:** The insurance sector has been criticised for being slow to adopt fully integrated transformation at all levels, and accused of merely complying with regulations

[1] Data contained in this report is as at June 2014

and ticking the boxes rather than seeking to fully transform the industry**.** Many employers have responded favourably to pressure to achieve employment equity, but admit that progress is slow. A key concern is the lack of school leavers and graduates with needed skills emerging from schools and universities.

- **Regulation:** The local financial services industry, which includes the insurance sector, has pushed through a period of intensive regulation. For the most part this has been motivated by the need to:
  - Drive social and economic transformation
  - React to the global financial crisis (many observers credit tough regulation with South Africa's relatively smooth ride through the last decade)
  - Improved governance

  However, the cost of compliance is high, and is complicated by the lack of people with the skills to administer it.
- **Technology:** Sophisticated and ubiquitous software and hardware are opening up "big data", and are transforming the dynamic between seller and buyer. But, to translate this data into insights that lead to more effective relationships within the market, the insurance sector needs an influx of technological talent with a far broader understanding of business than most "IT geeks" achieve.
- **Human behaviour:** Thanks to technology, customers are better informed and more used to navigating an array of choices than ever before. Providers have learned they must meet the customer on his terms, or lose out to more sophisticated competitors. Employee needs have also changed; employers who want to attract and retain quality staff must provide stimulation, challenge, and opportunities for growth. Yet new entrants into the job market are typically not prepared to cope with a challenging, dynamic work environment.
- **Globalisation:** National borders continue to become more permeable. On the one hand this opens up opportunities to enter new markets. On the other, it makes the local industry more vulnerable to distant economic, environmental and other catastrophic events. This is forcing a more sophisticated approach to risk modelling and risk transfer. Global trends in technology, fashion, lifestyle, perceptions, and many other factors also influence customers' and employees' expectations and behaviour.

State of transformation

Involves broad-based social and economic change. Transformation in the South African context is a hold-all term for the array of efforts toward achieving a fair and free society. It encompasses affirmative action, employment equity, economic empowerment, political freedom, equal opportunity, overcoming poverty and unemployment, equality, and economic growth.

Differing views on progress. Opinions vary as to how well the transformation process is progressing in the nation overall.

- Desmond Tutu[2]says he is disillusioned by the slow pace of transformation.
- President Jacob Zuma[3]believes South Africa has achieved political freedom and must now focus on economic freedom.
- Adam Samie, CEO of Lion of Africa Insurance, perceives a need to develop skills and eliminate discriminatory barriers in the local industry.
- Leo Morwe, Human Resources Director of Aon SA, says that South Africa must go beyond a simplistic tick-the-box approach to transformation.

[2]Freedom Day press conference, 27 April 2014
[3]State of the Nation address, February 2014

Employment equity

Top management in government approaching parity. The Commission for Employment Equity (CEE) Report released recently confirms that Africans are in the majority at top management level in government (70%) and parastatal (60%) organisations. Whites account for 14% of top management positions in government, and 23% in parastatal bodies. According to the 2011 census, Whites account for 8.86% of total population.

Table 1: Employment Equity in top management versus overall EAP.

	% of EAP's	% in top management positions
African	75,2	19,8
Coloured	10,6	5,1
Indian	3,1	8,4
White	10,8	62,7
Foreign	0	4,1

Table 2: Population distribution trends for top management, all economic sectors[4]

	2003	2005	2007	2009	2011	2013
African	14,9	17,9	18,8	20,3	18,5	19,8
Coloured	4	3,7	3,9	5	4,8	5,1
Indian	4,9	5,6	6,1	6,9	7,5	8,4
White	76,3	72,6	68,2	63,8	65,4	62,7
Foreign			3,1	3,9	3,9	4,1

Whites still dominate with 62, 7% at top management level in the private sector, followed by Africans at 19,8%, Indians at 8,4% and Coloureds at 5,1%.

Table2 shows fluctuations in the employment distribution of African, Coloured and White population groups in terms of their representation at the Top Management level.

- The representation of Indians increased with 71,4% from 4,9% in 2003 to 8,4% in 2013
- Foreign nationals has increased with 32, 5% from 3,1 in 2003 to 4,1 in 2013.
- White representation decreased by 17,8% from 76.3% in 2003 to 62.7% in 2013
- African representation increased by 32,9% from 14,9% in 2003 to 19,8% in 2013.
- Coloureds representation increased over the same by 27, 5% from 4,0% in 2003 to 5,1% in 2013.

Miniscule change in representation of African professionals. African representation at the professionally qualified level fluctuated during 2003-2013.

Table3 shows fluctuations in the representation of Blacks at the Professionally Qualified level over the ten year period albeit at varying degrees.

- Africans representation decreased slightly by 1, 5% from 39.0% in 2003 to 38.4% in 2013.
- Coloured representation increased by 57,4% from 6,1% to 9,6% over the same period and has been gradually declining from 2009.
- Indian representation increased by 70,9% from 5,5% in 2003 to 9,4% in 2013.
- While the representation of Whites increased by 24,4% between 2003 and 2005, the representation decreased significantly with 33,7% from 61,3% in 2005 to 40,6% in 2013.
- The representation of foreign nationals increased with 71,4% from 1,4% in 2007 to 2,4% in 2013.

[4]CEE Report

- Indians and coloureds have benefited the most from the opportunities that arose and African representation actually decreased marginally over the period in this significant occupational level that serves as a stepping stone to the Senior Management and Top Management levels.

Table 3: Population distribution trends for professionally qualified, all economic sectors[5]

	2003	2005	2007	2009	2011	2013	% EAPs
African	39	38,8	24,1	32,8	36,3	38,4	75.2
Coloured	6,1	9,3	8,5	13,5	10,2	9,6	10,6
Indian	5,5	7,9	8,7	8,1	9,1	9,4	3,1
White	49,2	61,3	57,2	43,7	42,3	40,6	10,8
Foreign			1,4	1,8	2,1	2,4	0

Workplace parity in the insurance sector

Insurance sector outperforming others. Recent research by Inseta indicates that the insurance industry is advancing toward parity at management and professional levels more effectively than other sectors of the financial services industry.

Table 4: Racial distribution top management level 2013

	All sectors[6]		Financial services industry[7]			Insurance sector [8]	
	Top Managers	Professional	Senior Managers	Top Managers	Professional	Senior Management	Managers	Professional
African	19,8	38,4	2,0	17,5	15,0	15,0	25	36
Coloured	5,1	9,6	7,0	5,2	7,7	7,7	14	14
Indian	8,4	9,4	10,1	9,4	9,6	9,6	11	11
White	62,7	40,6	57,0	63,4	64,2	64,2	50	37
Foreign	4,1	2,4	3,0	4,7	3,5	3,5	1	1

A direct comparison between the managers and managers in all sectors and the financial industry would not be able due to different data sets being held by the department of Labour and the Inseta. However, the pool of managers in the insurance sector is substantially more transformed than the financial services industry or all sectors.

The professional occupational class, that serves as a stepping stone to management levels in the insurance sector is significantly more transformed than all sectors and the financial services industry.

- Africans in the insurance sector consist of 36% whilst the financial services industry only has 15% in professional positions. This represents a deviation of 140% better transformation level by the insurance sector.
- Colourds in the insurance sector consist of 14% whilst the financial services industry only has 7,7% in professional positions. This represents a deviation of 81,8% better transformation level by the insurance sector.
- Indians in the insurance sector consist of 11% whilst the financial services industry only has 9% in professional positions. This represents a deviation of 18% better transformation level by the insurance sector.

[5] CEE Report
[6] CEE Report
[7] CEE Report
[8] Inseta Workplace Skills Report 2013

- Whites in the insurance sector consist of 37% whilst the financial services industry has 64,2% in professional positions. This represents a deviation of 73,5% better transformation level by the insurance sector.
- Foreign nationals in the insurance sector consist of only 1% whilst the financial services industry has 3,5% in professional positions. This represents a deviation of 71,4% better transformation level by the insurance sector.

Recruitment challenges in the insurance sector

Good intentions aren't enough. The insurance sector, along with the rest of the private sector, has come under fire for its slow adoption of employment equity. But members of the insurance sector say the problem starts with a too-small recruitment pool.

- Despite in-house efforts to advance staff, there is a serious shortage of qualified Blacks at senior management and professional level. They are expensive to find and difficult to retain in the face of aggressive headhunting.
- The IT profession is dominated by white males. IT staff from all racial groups are difficult to attract and retain, since this sector must compete with other industries that may be more appealing for a variety of reasons. One challenge is that the insurance industry companies have core systems that use specific programming languages, which limits the range of experience their IT staff can achieve. IT professionals must keep abreast of rapid changes in their field or their skills become outdated, so they change jobs to gain wider technical experience.
- There is an overall lack of Black candidates in certain areas, particularly risk management, investment management, governance, and regulation and compliance. While there has been a significant improvement in the number of Black actuaries available within the industry, there is still a substantial skills gap.

Regulation as a driver of transformation

B-BBEE imperative. The Broad-Based Black Economic Empowerment (B-BBEE) Act of 2003, which served as the foundation of most legislation and regulation focused on transformation, emphasised equity and empowerment for the Black community (including Coloureds and Indians).

New B-BBEE codes, gazetted on 11th October 2013, will replace the existing B-BBEE Codes of Good Practice. The points on the current 5 identified elements add up to 118 (previously 107 for all 7 elements):

- Ownership – 25 points
- Management control – 19 points
- Skills development – 25 points
- Enterprise and supplier development – 44 points
- Socio economic development – 5 points

Amended Employment Equity Act intended to eliminate workplace discrimination. Government continues to drive the process through intensified legislative and regulatory change. Already this year has seen the amended Employment Equity Act signed into law, with the draft regulations released for public comment. The regulations will provide guidelines for eliminating discrimination in the workplace.

Additional legislation and regulation. Recent legislative and regulatory changes that specifically affect the insurance industry and include:

- IFRS[9] 10, which forces organizations to consolidate entities they control

[9] International Financial Reporting Standards

- Various social security transformation initiatives such as the National Health Insurance (NHI) proposals as well as retirement reform proposals
- The Treating Customers Fairly (TCF) programme, intended to replace the Consumer Protection Act within the insurance sector, which includes the Consumer Protection Act and the establishment of the Consumer Ombud
- Elements of the Amendments to the Skills Development Act

Broader perspective on transformation. With these changes, the process has gone beyond the equity imperatives of B-BBEE, to embrace the broader vision of the Freedom Charter, which states: “South Africa belongs to all who live in it, Black and White.” The goal today is to build a society that supports inclusive transformation, seeking to ensure that all South Africans can play a role in our economy.

Insurance sector embracing transformation. This is the context in which the various players in the insurance industry are developing their own transformation agendas. They recognise that transformation is not simply about replacing White people with Black people, or men with women, or the abled with people with disabilities. According to Leo Morwe, Executive Head: Human Resources of Aon SA, it involves creating more opportunities for personal and professional growth to the benefit of a company, its people and the industry in general.

Examples of transformation efforts

Multifaceted approach to corporate transformation. Within the insurance sector the process of change is led by the larger institutions. Each has developed its own approach to the challenge, usually focusing on education, training and skills development. The solutions they choose are typically multi-faceted, underpinned by graduate development programmes, learnerships and ongoing professional development of employees.

Old Mutual Investment Group

Initiatives to encourage diversity. Old Mutual has a number of initiatives designed to embrace and explore diversity. An ongoing series of employment equity and diversity workshops and dialogue sessions targets staff at all levels, from the managing director down. It aims to make participants aware of their preconceived ideas about other cultures and groups, and help them accept that all people are equal and entitled to fair treatment and respect

Building up Black employees. Complementing its targeted recruitment programme, Old Mutual has several accelerated development programmes aimed at Black graduates and employees. These include tailored career paths offered by the Old Mutual Business School, a leadership development programme, support of post-graduate studies, and a bursary programme. There are several training programmes aimed at university graduates and school-leavers

Looking beyond itself. In addition to its internal transformation programmes, Old Mutual has adopted economic transformation as a strategic goal. For example, its Infrastructural, Developmental & Environmental Assets (IDEAS) Managed Fund invests in infrastructure projects, in an effort to deliver an acceptable investment return while contributing to sustainable economic growth.

Aon SA

Equality and job satisfaction. For Aon, transformation means building a company that supports all individuals on a fair and equal footing, and ensuring that individuals are correctly matched to jobs, right skilled, technically competent, and satisfied with their professional development prospects.

Inclusive transformation agenda. The company invests in skills development of current and new staff through programmes such as graduate development, learnerships, scholarships for university students, and a values-based leadership academy for high school learners. Aon emphasises clear career paths, professional development, continued education, advancement opportunities, and mentorship programmes.

More than money. Many industry players say job hopping is a challenge, especially among senior and highly skilled staff. Morwe says it can take more than a big pay check to retain people who are in demand. The new generation of employees thrives in an environment that fosters learning and where they can believe there is room for career advancement.

Human Capital Development Committee

Effort toward greater professionalism. Several industry associations have joined forces to boost professionalism within the South African short-term insurance industry, through the formation of the Short Term Insurance Human Capital Development Steering Committee. These associations include the Financial Intermediaries Association of Southern Africa (FIA), the South African Insurance Association (SAIA), the Insurance Institute of South Africa (IISA), the Insurance Sector Education and Training Authority (INSETA), Munich Reinsurance, Etana and the Financial Services Board (FSB).

Human capital development is key. David Harpur, Chairman of the Steering Committee and CEO of IISA, says a lack of human capital has been identified as one of the top 10 Environmental, Social and Governance (ESG) risks facing the industry over the next 10 to 15 years. He defines professional standards in terms of excellence, training and development within brokers, insurers, underwriters, reinsurers and suppliers to the insurance claims process.

Urgent issues identified. The committee has identified four urgent goals to address:

- To develop a set of professional standards which all CEOs can sign as an indication of their intent to drive professionalism across the industry
- To establish the facts regarding scarce and critical skills in the short-term insurance industry
- To analyse the gaps in curriculum content against critical and scarce skills in the industry
- To create an overarching “new entrants methodology” to attract young South Africans to a career in short-term insurance

Challenges arising from new regulations

Positive attitude prevails. Opinions vary as to the effect of regulation on efficiency and profitability, but most industry members accept the need for improved regulation. In fact, some believe tight regulation, reinforced by the strong relationships between industry players and regulators and a shared understanding of risk models, protected South Africa from the worst effects of the recent global financial crisis.

Costs of regulation a concern. Almost every financial transaction crosses the path of three to five pieces of major legislation, which also demands oversight of agents and employees from a compliance point of view. While most of the regulatory changes enhance financial stability and safety, insurance companies are struggling with the extent and rapid pace of change. Their chief concerns are:

- The financial cost of compliance, involving inter alia:
  - Staff with complex and advanced skill sets, who may not be readily available
  - Sophisticated IT solutions
  - Fines for noncompliance
- Uncertainty regarding many requirements for implementation
- Possible effects on their ability to business effectively

Compliance officers – a rare mix of skills. In terms of the Financial Advisory and Intermediary Services Act (FAIS), financial service providers need to appoint a compliance officer, who must be approved by the Financial Services Board (FSB). A skilled compliance officer will have legal and/or accounting experience, a broad-based knowledge of their company's industry segment, and an understanding of the big financial services industry picture. They also need personal skills, such as an ability to work well with regulatory bodies, management and trustees.

Cost of non-compliance rising. In recent years the number and value of fines and penalties dished out for noncompliance by the FSB Compliance Committee has increased sharply. Since December 2006 the Committee has imposed more than 120 enforcement actions, and records show an increased incidence of penalties for non-compliance.

Fiscal regulatory changes

Intensifying skills gap. Changes in tax and related laws are already intensifying the need for high-level legal and accounting skills coupled with broad-based IT skills. This trend is set to continue for the foreseeable future.

Effect of tax changes on electronic reporting systems

New SARS requirements drive need for more skilled staff. Recent changes to the Income Tax Act (ITA) have intensified the need for highly skilled, versatile IT and accounting professionals.

- Increasing use of automated tax reporting processes demands sophisticated database maintenance.
- Changes to the capital gains tax implemented in 2012 demanded extensive changes to electronic tax systems.
- Dividends tax, promulgated in April 2012, has made it necessary for all entities involved in the dividend distribution chain to develop systems for recording dividend trails and applying exclusions, to meet SARS requirements.
- Coding electronic systems in accordance with the ITA is complex and challenging, as is implementation.

Solvency Assessment and Management framework (SAM)

Improved corporate governance and risk management. This year sees the preliminary introduction of SAM, which is scheduled to be implemented in 2016. It will allow insurers to use risk mitigation techniques to get solvency capital relief, but it comes with a requirement for financial services companies to perform regular Own Risk and Solvency Assessments (ORSAs).

Identification, mitigation, reaction. Risk must be assessed regularly from the point of view of its potential impact on solvency. This is especially important in light of the drive to invest in Africa. Many insurers already use risk mitigation techniques to reduce their capital requirements and stabilise their earnings.

Increasing complexity of risk management. The insurance sector is already facing a shortage of experienced and qualified risk assessors, and the introduction of SAM will make the shortage even more challenging. Risk assessors need a clear understanding of how different investment strategies can lead to different risks, so that they may protect a company's solvency at a level consistent with its risk profile.

Alternatives to reinsurance. At present the most common insurance risk mitigation technique is reinsurance. Under SAM, organisations may explore other techniques to meet their objectives and maintain a desired level of own funds.

Microinsurance

Effort to make insurance more accessible. Only 15% of South Africa's population has a short-term insurance policy. Proposed microinsurance legislation may make insurance more affordable for low-income buyers and more profitable for insurers. KPMG's comparison of the financial and regulatory implications of a proposed microinsurance framework suggest some insurers could halve their capital requirements and significantly reduce their cost base.

Simplified product. Key features of the proposed legislation include a lower entry barrier, and less burdensome requirements than under SAM. Policies would involve:

- A one-year term that the policyholder must renew, with premiums not guaranteed
- Simple, easily understood risk-only products
- Low benefit caps
- No exclusions for pre-existing conditions
- A grace period for overdue premiums

May regulate currently unregulated providers. At present this market depends on many informal, unregulated providers of microinsurance products, such as funeral homes and burial societies. When microinsurance regulation is implemented, possibly only after SAM is implemented in 2016, some may have to become licensed.

IFRS 10 and third party cell captive arrangements

Bringing cell captives into the regulatory net. The FSB is evaluating the cell captive business. IFRS10 is a new consolidation standard that may affect the accounting of third party cell captive arrangements, which at this stage bypass FSB insurance regulations. This will particularly affect specialist underwriters operating in the cell captive environment.

Consolidation. The goal of IFRS 10 is to develop a single enhanced consolidation model applicable to all types of entities or portions of entities. Cells will no longer be separated out from the cell insurer, and will be incorporated into the cell owner's consolidated financial statements. This will affect how cell captives are structured in the future.

Foreign Accounts Tax Compliance Act (FATCA)

United States (US) law applied to South Africa. FATCA is a piece of US legislation that imposes onerous identification and reporting obligations on non-US financial institutions to try to curb tax abuses by US citizens in foreign jurisdictions. Failure to comply can result in a punitive withholding tax.

SARS has agreed to sign. SARS is in negotiations with the US Internal Revenue Service (IRS) with a view to signing an agreement that will incorporate FATCA into South African law, effective from June 2014. This will mean all South African financial institutions will have to identify and report certain information to SARS on clients who are US citizens, who would otherwise have had to report directly to the IRS. SARS will exchange this information with the IRS automatically.

Poorly understood by local industry. South African financial institutions need to educate themselves on FATCA, consider how it will affect them, and take steps to comply. Their new obligations will include:

- Identifying and classifying financial institutions
- Registration on an IRS portal
- Identification of financial accounts
- Client classification
- Systems and process updates
- Reports on client accounts where necessary

Technology

Effect of a transformed IT environment. The massive shift toward technology throughout the insurance sector is having a radical effect on staffing. Information management has become bigger, more complex and more important at every level of an insurance organisation. To compete over the long term, insurance providers will have to be able to capture and analyse vast quantities of data, and use this information to develop workable product development and marketing strategies.

Geeks need broader perspective. At the same time, it is no longer enough for IT people to have a narrow knowledge of programming languages and systems. They also need to develop their underlying knowledge of how investments are structured, regulations, business processes and products.

Skills in short supply

Already a challenge. The more complex skill set the industry now needs will intensify the pressure already on the available pool of IT experts.

The age factor. Most of the work insurance industry employees do today is technology-based. Age clearly influences the level of comfort people feel with technology.

- Young people entering the industry tend to be comfortable with technology, and readily adapt to new systems.
- As a new generation enters the market, customers are becoming more technology savvy and less dependent on the broker for simple products like personal lines.
- Some older brokers find this trend a challenge, but are adopting an "adapt or die" outlook. Many older brokers are becoming highly specialised and thereby limiting the range of technology they need to use, or are teaming with IT people to handle the technology while they remain more people-focused.

Big data

Data flood incoming. According to ViaWest, a – United States - based data centre, information systems generate 2.5 quintillion bytes of data per day. Statisticians estimate that 90% of the data in the world today has been created in the past two years. This "big data" represents a huge opportunity to companies that are able to access it.

Extreme analysis. The collection of enormous quantities of data will enable modelling of social systems at extreme scales, to uncover patterns and relationships that were previously invisible. Agencies will increasingly model macro-level phenomena such as global pandemics to stop their spread across the globe. At a micro level, individuals will be able to simulate information such as their route to the office to avoid traffic congestion based on real-time traffic data.

Key technology. Important technological developments include:

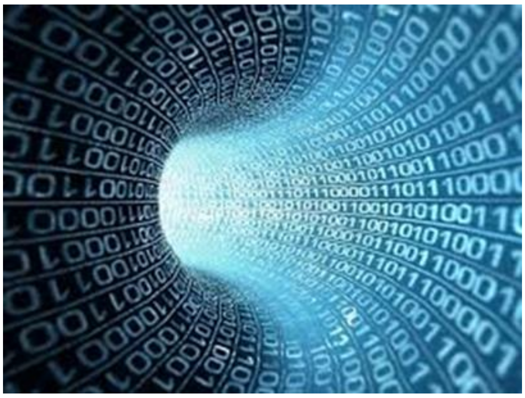
- Smartphones and tablets plus cloud computing, which provide constant internet access (the number of devices and sensors connected to the internet is projected to reach 50-bn by 2020)
- Increased computer power and memory capacity, which permits accumulation and analysis of very large amounts of data

Force for greater technological development. Already big data is driving worldwide investment in advanced analytical techniques to process large volumes of untapped and multimedia data. The goal is software that can translate big data into actionable insights, and the next step is likely to be advances in artificial intelligence techniques, such as machine learning, natural language understanding, and intelligent decision-making.

Potential to add value. There are five broad ways big data can create value:

- It can make much more information transparent and usable.
- As organizations create and store transactional data in digital form, they can collect more accurate and detailed performance information on everything from product inventories to sick days, with potential to boost productivity. Leading companies already use data collection and analysis to conduct controlled experiments to make better management decisions; others use data to adjust their business levers just in time.
- It allows more precise segmentation of customers, making possible more tailored products or services.
- Sophisticated analytics can substantially improve decision-making.
- It can help improve the next generation of products and services. For instance, manufacturers are using data obtained from sensors embedded in products to create innovative after-sales service offerings such as proactive maintenance.

Opportunities arising from big data



New technology will change and create business roles. At present there is a global shortage of people with the mix of IT and a diverse range of other skills to manage big data. But as the technology becomes more sophisticated and the data more accessible, big data will become an increasingly important part of all aspects of business.

Improved risk management. Loss control and risk management will become more sophisticated throughout the insurance sector. Personal and life carriers will move from passively identifying and pricing risk and paying claims, to proactively using big data and actionable insights to reduce loss and manage risk.

Strategic decision-making. In the past the insurance sector has used mainly internal standard data to make tactical and operational decisions regarding which customers to target, how to price risk, how to estimate losses, and so on. The future trend will be to use real-time sensor data, unstructured data from social networks, and multimedia data such as text, voice and video.

Artificial intelligence (AI). AI is predicted to be the next step in big data technology. This will permit even more sophisticated forward-looking strategic decisions, such as which product or solution is best suited to the client in the current and future situation, which markets to enter, and when and how to retain the most profitable customers. Insurers able to use real time big data and advanced forward-looking simulation techniques will have a competitive advantage.

Challenges of big data. Businesses across the board will have to overcome challenges in order to benefit from the big data wave. The drive to meet these challenges will create fresh opportunities. Four key challenges are:

- **Lack of technical know-how.** In addition to developing the skills to manage big data, change management will be necessary to ensure that those driving company strategy understand its potential value.
- **Multiple or older systems that cannot collate data into a single, easily analysed format.** Insurers will need to invest in new technology, hardware and software.
- **Personal, potentially sensitive information.** Many countries have data protection laws governing what data may be used, how it may be collected, what it may be used for, how long it may be retained, and how it must be secured. Insurers will need effective risk management policies to achieve compliance while having optimal use of the data.
- **Affordability.** The systems and personnel to manage big data will be out of reach of most smaller insurance organisations. To survive and avoid being swallowed up by the big players they will need to find ways to pool resources.

Restoring value to person hours

Letting technology do the donkey work. Over the next decade, new smart machines will enter offices, factories, and homes in unprecedented numbers. They will become integral to virtually every domain of our lives, from production, teaching and medicine to security and combat. In the insurance sector, brokers are spending less time on low-value work, while customers take hold of their telephones and internet to deal directly with insurers regarding simple products.

Moving away from commoditisation of human labour. In some areas automated systems have already replaced humans, while in others they augment our skills and abilities. This will reduce the need for workers who merely follow simple instructions to achieve limited, repetitive work, such as many call centre operatives. In the insurance sector, automation will help overcome the talent gap by freeing available skills from mundane tasks.

Automated and assisted decision-making. Extensive internal and external data combined with AI will lead to new techniques for identifying markets, segmenting customers, selecting lists, triaging claims, and proactively preventing and managing loss.

Changing cost structures. There is increasing potential to leverage the internet to adopt a global scale. A shift to direct online channels involves greater upfront cost but lower ongoing cost. With standardised, streamlined processes it becomes possible to use the cloud, making information available anywhere, anytime, at low cost.

Changes in healthcare technology

Clients who stay healthier and live longer. Unhealthy modern lifestyles featuring poor diet, insufficient exercise and high stress have given rise to a range of health and morbidity risks. But new developments in healthcare technology may reverse this trend, changing the shape of the insurance sector.

Biotechnology at nanoscale. Devices and sensors embedded within the human body could improve health outcomes by enhanced monitoring and preventive control of chronic disease.

Customised healthcare. This new medical service and treatment model includes potential for personalised medicine that actively changes the body's biochemistry in response to risks and conditions that are unique to each individual. It has the potential to increase longevity, which will affect life and health insurers.

Telemedicine. This involves sharing medical information via electronic communications to improve a patient's clinical health status, and it includes a growing variety of applications and services using two-way video, email, smart phones, wireless tools and other forms of telecommunications technology. The approach started more than 40 years ago, with hospitals extending care to patients in remote areas. It is now integral to the operations of hospitals, specialty departments, home health agencies, private physician offices and consumers' homes and workplaces. Technology exists to enable patients to communicate directly with a health practitioner via smart TV's from home. This development may impact the insured person as well as the insurable event in case of personal liability claims.

Changes in human behaviour

The effect of social media

Social trends affected by digital technology. Over the past 15 years, developments in digital technology have transformed industries and driven companies out of business. Already strong in Europe and North America, this trend is gaining traction in South Africa.

Shifting balance of power. In this context, one of the most important changes facing the insurance industry is the role of social media in informing and influencing customers. In the past, the insurer was at the centre of all interactions, and the passive client depended on the broker to help match them to a product. Today's customers share information across huge networks, and regard basic insurance products as a commodity.

Shake-up in traditional business patterns. The primary driver of success in this environment is the customer's experience and convenience. An increasingly mobile customer, armed with online and mobile technology, is demanding simplicity, transparency and speed, and is more inclined to bypass the broker and work directly with insurance carriers.

Opportunities and needs. Changes in customer expectations will generate:
- Innovative, simple products, with service provided via service centres and the internet
- Greater focus by agents on more complex, higher-value products
- More effective targeting of customers, including customised products and services
- An incentive to invest in mobile and interactive technology that will differentiate providers

Social network opportunity. As social media continue to grow, people will tend to trust their online communities more than agents or providers. Creative product developers supported by marketing and communication skills will equip companies to use these networks as group insurance channels, with information-driven online intermediaries. Online social networks could ultimately become pooling mechanisms for self-insurance, in which the insurer's role changes from product manufacturer to an administration service provider.

Organisational change driven by virtual networking

Riding the wave of change. Many of the changes futurists predict in the relatively near future sound like science fiction. Organisations that prepare for what's coming by adapting their systems and building the needed skills into their teams will have a distinct advantage as these changes arise.

Superstructed organisations. New technologies and social media platforms are reorganising how we produce and create value. To “superstruct” means to create structures that go beyond basic, familiar forms and processes, to interact at a level that was previously possible only for large corporations.

Traditional concepts giving way. Many organizations are products of centuries-old knowledge and technologies, but this social landscape is being disrupted. A new generation of organizational concepts and work skills is coming not from traditional theories but from fields such as game design, neuroscience, and happiness psychology. These fields will drive the creation of new training paradigms and tools.

New media ecology. New multimedia technologies are transforming the way we communicate. As technologies for video production, digital animation, augmented reality, gaming, and media editing become more sophisticated and widespread, we are developing a new, less text-based and more visual vernacular. As millions of users connect through virtual networks, the multimedia content they generate and view via their laptops and mobile devices is changing our culture.

Changing personal identity. New media are placing new demands on attention and cognition. They are enabling new platforms for creating online identity, while at the same time requiring people to engage in activities such as online personal reputation and identity management. They are enabling new ways for groups to come together and collaborate, bringing new levels of transparency to our work and personal lives.

Shifting perception of reality. Our perceptions of reality and truth are likely to be radically altered by the new media ecology. With ubiquitous capture and surveillance, events will be seen from multiple perspectives, each possibly telling a different story of an event.

Changing needs of the workforce

No longer working for a gold watch. People are staying healthy, living longer, and postponing retirement, and few want to do the same thing their entire working lives. It is now the norm for people to change career paths, developing completely new skill sets, three to five times in a lifetime. Meeting employees’ need for fresh stimulation and lifelong learning is a key function of HR management.

Specialised skills in aging workforce. Balancing the short supply of well-qualified new entrants to the industry, many of South Africa’s insurance sector’s specialist skills are held by the aging members of the workforce. To take advantage of this resource, organisations will have to rethink traditional career paths, creating more diversity and flexibility.

Changing needs of employers

Need to differentiate. As facets of the local insurance sector approach saturation, providers must find new ways to differentiate themselves. Expanding and diversifying markets, streamlining processes, product innovation, systems automation, understanding and meeting changing customer expectations, and complying with changing regulation all add up to a need for integrated business functions. Employees can no longer work productively in isolation.

Generalists preferred. Employers within the insurance sector are moving away from specialisation. They now prefer to take in people with good education and technical skills, and expect the employee to add a wide-ranging set of competencies through experience to qualify for middle and senior management. Employers are also looking for staff with holistic understanding of processes, procedures, and the interconnectedness of different business areas within their industry.

Team players, not heroes. Insurance companies want employees who can thrive in a process-driven, collaborative environment. Some employers intentionally avoid exceptionally intelligent or talented individuals, perceiving them as less likely to be good team players. Rather than intellectual brilliance, they are looking for people with:

- Strategic and governance thinking skills
- Creativity
- An innovative mindset
- An ability to interact with stakeholders
- Willingness to cooperate in a team
- An ability to influence without imposing authority
- Good judgment that balances individual needs and behaviours, the requirements of business, and the demands of the greater environment

If you build it they will come. A challenge not all employers have recognised, however, is the need to design career paths, potentially varied opportunities, and lifelong learning programmes to attract and retain people with the desired mix of skills and personality characteristics.

Globalisation

No economic islands. The interconnectedness of the world financial services markets of which the insurance sector forms part of means individual shocks can have a snowball effect. At the same time, increased global interconnectivity gives high survival value to diversity and adaptability. Organisations with staff and systems that are geared around change will be more likely to thrive.

Corporate leaders rethinking their markets. For decades, most multinational companies have used their overseas subsidiaries as sales and technical support channels. The past 10 years have seen a strong trend toward outsourcing everything from customer services to software development, while innovation and design have remained in R&D labs in developed countries. As markets in developing countries grow, it is increasingly difficult for first world headquarters to develop products that can suit the needs of a different category of consumers.

Power shift. The US and Europe no longer hold a monopoly on job creation, innovation, and political power. Organizations from developing countries like India and China are innovating faster than those from developed countries in some areas, such as mobile technologies. South Africa has a long history of technological breakthroughs, from the first human heart transplant to the development of oil-from-coal technology.

No more satellites. Multinationals are learning that their physical presence in areas where new competitors are emerging is critical to their survival, but it is not enough. The key is not just to employ people in these locales but also to effectively integrate these local employees and business processes into the global organization.

The world is waiting. Most South African insurers have operated primarily at a local or national level. Even for those who don't plan to expand beyond our borders in the foreseeable future, there is an increasing trend to think globally. Insurers must think beyond measuring risk exposure and determining premium, to deciding which geographies, products, customer segments and channels to focus on.

Emerging markets

Looking beyond our borders. Many South African insurance companies don't see the local low-income market as offering much profit potential. Instead, they compete for churning business through product innovation and service, and their growth strategies focus on expansion into Africa and other emerging markets.

Partnering to minimise risk. When entering a new geographic market, local players typically seek partnerships with existing companies in the country, to minimise barriers and manage risk. Challenges typically faced when setting up in an emerging market economy include:

- Different regulatory environments
- Different requirements from local authorities
- Potential political instability
- Slow profit return
- Need to tailor business models and products to suit each environment.
- Different tax policies
- Information management challenges

Emerging markets more attractive. The developed world is facing uncertain growth and strict regulation, and developed economies were most affected by the financial crisis of the last decade. By contrast, the E6 (China, India, Brazil, Russia, Indonesia and Mexico) account for a growing share of global GDP. During 2006-2020 the E6 is forecast to contribute 47% of global GDP growth 2006-2020, while the G6 (Germany, France, UK, Italy, Spain and Poland) is expected to contribute less than 24%.

Causes of change. Demographic variations govern the differences in appeal between developed and emerging markets.

- In the developed world, the old outnumber the young. In emerging markets except China, the working age population will continue to outnumber the dependent population for the foreseeable future, leading to more productive growth and creating a more viable market for life assurance and investment products.
- The rising middle class in emerging markets accounts for increased consumption, leading to small business growth, and generating commercial insurance opportunities.
- Government infrastructure investment, population growth, new business and wealth creation are fuelling construction, land development, energy and transportation, generating a demand for insurance.

Emerging market is a stepping stone. World economies have become more interdependent, but the influence of the developed nations will wane while emerging markets become the engine for global growth. Futurists predict that emerging market insurers will move into the developed world to become global insurers, while at the same time seeing the rise of truly global markets.

Offshoring potential. Offshoring simply means having the outsourced business functions done in another country. In addition to expanding offshore, local insurance services players could see opportunities arising from foreign companies in search of an offshoring location. Cheaper locations are available, but South Africa's pool of experienced insurance expertise makes this country attractive. This could put strain on tight human resources, especially as companies paying in rands compete with those paying in euros and dollars. At the same time, it could introduce fresh skills and new resources for skills development to the local environment.

Africa

General sense of optimism. Most local insurance services companies are including the rest of Africa in their growth strategies. The current economic outlook for the continent is promising, and it represents a growth opportunity in an ailing global economy. But poverty, unemployment, income inequality and deteriorating health and education are still a problem in many African countries.

Need for skills. These countries will be able to offer only limited HR resources, and South African companies will look to the local pool of skills to meet their needs. In particular, they will need people skilled in compliance and risk management and able to cope with the demands of different environments.

African growth points. The main growth points are Nigeria, Angola, Kenya and South Africa, as well as possibly Egypt and Ghana. Nigeria especially is experiencing rapid economic growth, and South Africa may not be the largest economy on the continent in a few years.

Insurance opportunities. The potential of the African market is based on:
- Need for new areas, such as micro-insurance and funeral business
- Compulsory insurance
- Improved communications network
- Large uninsured population

Megatrends

Small boat on a big sea. One effect of globalisation is to throw all economies into the same pool. Only a few members of South Africa's insurance sector can compete effectively against multinational competitors in a global market, but they can defend themselves, and take advantage of opportunities, by developing their awareness and understanding of international trends.

Global economic crisis

Relatively insulated. In common with most developing economies, South Africa was somewhat insulated from the global recession of the last decade.

Still seeing market weakness. Despite having avoided a complete meltdown, the South Africa insurance industry is still experiencing some aftershocks from the recession. Interconnected global markets means that individual shocks can send tremors throughout the market, and this has increased the risks associated with expansion. The International Monetary Fund predicts that South Africa will continue to experience sluggish economic growth and higher current account deficits, leaving the economy exposed to both internal and external shocks.

Improved cooperation. On a positive note, industry observers say the financial crisis has enhanced communication between the US, the European Union and emerging market regulators. Either of two scenarios could emerge:
- Regulators could negotiate global insurance regulations, standardising products and policies and leading to globalisation of the insurance value chain, or
- Regulators in different countries could continue to develop different new regulations.
- Between these extremes, emerging markets may prevent developed market players from entering their markets, or limit their activities, or encourage developed market entry.

Catastrophes and disasters

Losses huge and escalating. Natural catastrophes and human-induced disasters caused $186-bn in economic losses and $77-bn in insured losses in 2012, making it the third costliest year on record, according to Swiss Re. The frequency and severity of catastrophic events has increased over the past 20 years, with hurricanes and tropical storms accounting for 45.2% of total catastrophic losses worldwide during 1990-2009.

Need for risk-related skills. Risk management in an environment of more catastrophic loss demands more sophisticated risk modelling using advanced early warning technologies, as well as an innovative approach to risk sharing and risk transfer.

Local effects of climate change. Closer to home, the past decade has seen such extreme weather events and catastrophes as drought, floods and hail. At the same time, as property values rise in emerging market economies, and particularly in high-risk coastal areas, we are likely to see increasing demand for reinsurance.

Social instability and terrorism. Insurance carriers of commercial property, business interruption, workers compensation, life and benefits cover are facing more risk as the incidence of unrest and terrorism rises. Traditionally these products have been modelled independently, and the industry needs people with the skill to do more detailed, integrated modelling to understand the capacity requirements for terrorism cover.

Green revolution

Growing environmental awareness. Both government and the private sector have recognised the need to tackle key environmental challenges and have embraced green growth policies. A goal expressed in the National Development Plan is the creation of 300 000 green jobs by 2020. A matching goal is to improve the health and well-being of the public by, for instance, protecting water resources and limiting carbon emissions.

Implications for insurance sector. The insurance sector is not generally considered to have a particularly large environmental impact compared with many other industries. However, finding ways to support improved environmental policies will help reduce risks ranging from health impacts to environmental degradation to catastrophe. For this reason the trend represents an opportunity for creative product development and risk management.

Personal finance trends

Social security. Rising dependency ratios are putting pressure on the solvency of social security and welfare programmes worldwide. These ratios are expected to increase on average 14% in the G6 nations during 2006-2025, while US social security is forecast to be depleted in 2037.

Opportunities for investment products. As consumers lose faith in social security and focus on saving for retirement, the industry will see new opportunities for life and annuity insurers.

Challenges presented by government. Governments may seek to increase tax revenue by, for instance, targeting preferential tax treatment of life, annuity and retirement policies. Financial services companies are also facing competition from government and non-financial services companies.

Debt and inflation. Rising consumer debt and escalating inflation limit people’s available funds for buying investment and protection products. The challenge to the insurance sector is to develop creative, affordable solutions while effectively managing their own risk.

Expectation of corporate governance

Confidence shaken by corporate mismanagement. Events such as Enron and the global financial crisis have drastically changed the international financial services landscape. The PwC/CFSI's Insurance Banana Skins 2013 Survey polled more than 600 insurance practitioners and industry observers in 54 countries to find out where they saw the greatest risks over the next two to three years. Concerns over corporate stewardship were on average ranked 8th out of 27.

Local companies mostly trusted. South African respondents to the annual survey felt comfortable with the quality of management at the country's insurance firms, with concerns over corporate stewardship ranked only 15th.

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Inadequate recruitment. Local respondents gave a high risk rating for "failing to recruit the right talent".

Skills: Where are the gaps?

There is a growing mismatch between the skills employers need and the talent available. This applies not only to technical skills and knowledge, but also to employees' capacity to learn, adapt, lead, think laterally and solve problems creatively.

Global problem. An estimated 31% of employers worldwide find it difficult to fill positions because of talent shortages in their markets, according to Manpower, an international employment agency. It is even harder to attract employees with critical skills. Some 65% of global companies and more than 80% of companies in fast-growth economies have problems finding employees with the skills they need, according to Towers Watson, a leading global professional company specialising in employee benefits, HR consulting and actuarial skills.

Political football. The 2014 CEE Annual Report maintains that there is no shortage of qualified Black people who can fill senior and top management positions, and suggests that the private sector is not doing enough to recruit, train and promote them. But industry members say there is an acute lack of skilled, qualified individuals in the open market.

Bigger challenge in South Africa than elsewhere. According to PwC/CFSI's Insurance Banana Skins 2013 Survey, South African companies rank finding the right talent as their third biggest concern, against a global average of nineteenth largest concern.

Prefer to develop skills in-house. For local employers, the most practical solution is to develop a broad base of trained individuals within their organisation and promote senior staff from that pool, rather than being too dependent on external recruitment.

Practical recruitment challenges. Employers in the local insurance sector face a range of problems when trying to find the staff they need.

- Regulation and compliance roles are difficult to fill due to the complex set of skill requirements.
- Many applicants lack interview skills.
- Matric results are not a reliable indicator of ability, so most employers conduct psychometric assessments of their own.
- Companies outside Gauteng find it difficult to attract top candidates.
- The investment banking and asset management subsectors pay the highest packages for specialist risk management and investment management candidates, putting other segments of the financial services industry at a disadvantage.
- Employers are competing for experienced staff from a pool where demand exceeds supply. It can take a year to source suitable staff, and because they are in short supply their salaries are inflated and they are subject to headhunting.

Resist outsourcing. Despite the difficulty of finding staff, South African insurance companies will typically outsource only when skills are not available any other way. When they outsource, they will give preference to a South African company or multinational with operations in South Africa. In most cases they will not outsource for a potential cost saving, because they want to contribute to South African economic development and job creation.

What employers want

Character is most important. Sound education, technical knowledge, an understanding of the industry and relevant experience are all characteristics that employers seek to recruit. But, they say, skills can be taught and experience can be earned. Today's leading employers are looking more at candidates' temperament, character and ability to think. Researchers have identified 10 key mental and social skills that are critical to success.

- **Sense making**, or the ability to determine the significance of what is being expressed. As smart machines take over routine jobs, there will be an increasing need for the higher level thinking skills that cannot be codified, and that are critical to decision-making.
- **Social intelligence**, or the ability to connect to others in a deep and direct way, to sense and stimulate reactions and desired interactions. Socially intelligent employees can quickly adapt the way they express themselves to the way people react. This is a key skill when collaborating with groups of people in different settings.
- **Novel and adaptive thinking**, or the ability to respond creatively to situations. These skills will be at a premium in the next decade, particularly as automation and offshoring continue.
- **Cross-cultural competency**, or the ability to operate in different cultural settings. In the South African context, cultural diversity is the inevitable result of workplace parity. Also, many organizations see diversity as a driver of innovation, because groups with a range of perspectives and skill levels outperform like-minded experts.
- **Computational thinking**, or the ability to translate vast amounts of data into abstract concepts and to understand data-based reasoning. With the advent of big data, many more roles will require computational thinking skills. HR departments will seek out resumes that include statistical analysis and quantitative reasoning skills.
- **New media literacy**, or the ability to critically assess and develop content that uses new media forms, and to leverage these media for persuasive communication. Workers will need to become as fluent in different visual forms of communication as they are currently expected to be with the written word.
    - **Multidisciplinarity**, or the ability to understand concepts across multiple disciplines. Many global problems are too complex to be solved by one specialized discipline, and need multidisciplinary solutions. This shift away from specialisation means workers will need to speak the languages of multiple disciplines. This requires a sense of curiosity and a willingness to go on learning far beyond the years of formal education.
- **Design mindset**, or the ability to think differently about solving problems. Workers of the future will need to recognize the kind of thinking that different tasks require, and adjust their work environments accordingly.
- **Cognitive load management**, or the ability to filter information to maximize cognitive functioning. This skill involves knowing how to filter the constant flood of information from diverse sources, and focus on what is important.
- **Virtual collaboration**, or the ability to work effectively as a member of a virtual team. Technology has made it easier than ever to work, share ideas and be productive despite physical separation. But the virtual work environment also demands a new set of competencies. Leaders of virtual teams need to develop strategies for engaging and motivating a dispersed group, and members of virtual teams need to learn how to find environments that promote productivity and wellbeing.

Implications of these skill set needs. To succeed in the next decade, individuals will need to navigate a rapidly shifting landscape of organizational forms and skill requirements. They must be adaptable lifelong learners, continually reassessing and developing their skills.

Employers must adapt to their environment. Businesses must also be alert to the changing environment and adapt their workforce planning and development strategies to align with future skill requirements. In particular, they should develop and maintain a workforce strategy for sustaining business goals, and should collaborate with universities to address lifelong learning and skill requirements.

Skills deficits

Table 5: Areas where skills are lacking

Information technology	Specialist quantitative, mathematical and investment	Statisticians and data analysis
▪ COBOL developers ▪ Information architects ▪ JAVA developers ▪ .NET developers ▪ IT project managers ▪ SAP developers ▪ Software developers ▪ Systems architects ▪ Systems analysts ▪ Systems developers ▪ Digital managers	▪ Credit risk specialists ▪ Equity analysts ▪ Fund managers ▪ Investment analysts ▪ Investment bankers ▪ Investment business development managers ▪ Investment managers ▪ Market risk specialists ▪ Mergers and acquisitions specialists ▪ Portfolio managers ▪ Quantitative analysts ▪ Research analysts ▪ Risk analysts	Dearth of statisticians in SA. Most individuals with an interest in statistics tend to become actuaries. Need to be able to identify trends and develop innovative solutions from analysis of big data.
Actuarial	**Underwriters**	**Sales & distribution**
▪ Qualified and student actuaries ▪ Reinsurance actuaries ▪ Short-term insurance actuaries – need created by Solvency II regulation ▪ Specialist actuaries to implement regulation	Skills develop with experience, and market lacks senior underwriters with 10-15 years' experience	▪ Financial advisors ▪ Heads of distribution channels ▪ Sales managers ▪ Broker consultants
Other skill areas	▪ Management and general business skills ▪ Compliance officers and other legal experts ▪ Chartered accountants and other accounting experts ▪ Business bankers ▪ Claims assessors ▪ Claims specialists ▪ Customer relationship managers ▪ Engineers ▪ HR specialists ▪ Legal experts ▪ Middle and senior management and branch managers ▪ Recruitment managers ▪ Risk surveyors ▪ Risk assessors ▪ Tax specialists ▪ Analyst developers	

Encouraging entrepreneurship

Independent consultants may need support. It may be significant that we were able to find very few references to entrepreneur development by the insurance industry. Such specialists as insurance brokers, reinsurance brokers and loss adjusters often work as independent consultants. It would be interesting to assess what they need in terms of nontechnical training, such as business management, IT and communication skills, and marketing.

Consultants could provide high-cost skills. South African insurance companies prefer to keep their more sensitive roles in-house, but in the current market certain skill sets may not be available to smaller organisations. There may be benefit in exploring the potential for teams of independent consultants to provide certain key skills to multiple client companies.

The role of education [10]

Education system criticised. Employers and researchers worldwide blame the education system for failing to produce graduates capable of functioning in the modern workforce. They believe this is why unemployment levels remain high while employers cannot find the workers they need in the market.

Out of sync with industry needs. Educational institutions are largely the products of technology infrastructure and social circumstances of the past. Up to a few decades ago, employers were demanding that schools and universities produce graduates prepared for a workplace that valued specialisation. Educators adjusted accordingly, but in the meantime workplace needs have veered back toward generalisation and the kind of thinking skills that are developed through a classical education.

Potential role of employers. Industry experts believe employers should partner with educational providers to align educational programmes with employers' needs of the employment sector.

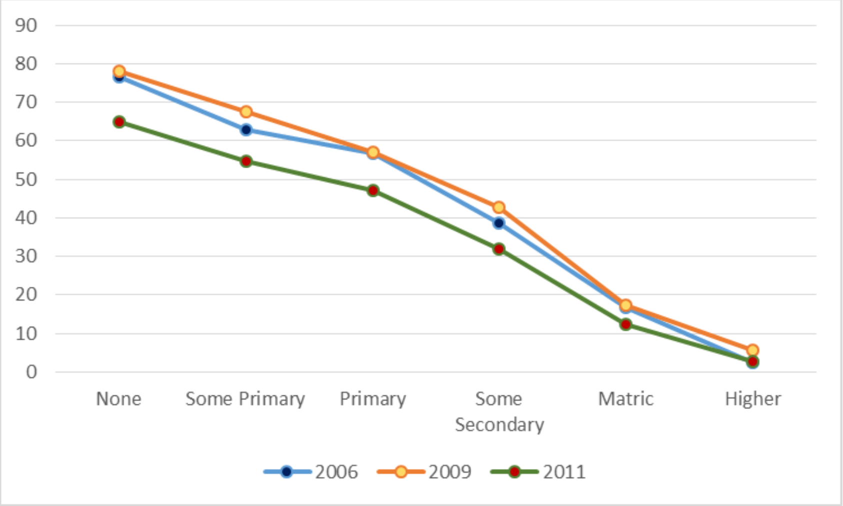
Need a broader approach to education. Today's business environment, and not only in the insurance sector, needs generalists and people who can solve problems, not specialists and order-takers. Educational institutions should:

- Emphasise developing skills such as critical thinking, insight, and analysis
- Integrate new-media literacy into education programmes
- Include experiential learning focusing on soft skills, such as the ability to collaborate, work in groups, read social cues, and respond adaptively
- Extend the learning constituency into adulthood
- Integrate interdisciplinary training that allows students to develop skills and knowledge in a broad range of subjects

[10] FW de Klerk Foundation August 2012: South Africa's education system was ranked 133rd out of 142 countries in the world by the World Economic Forum; National Planning Commission - teachers in black schools teach an average of only 3,.5 hours a day, compared with 6,.5 hours a day in former white schools

Poverty and education

Figure1: Poverty incidence of households by education level of household head



Varying levels of poverty. There is a significant difference in levels of poverty among the adult population in South Africa, from the perspective of education attained.[11] The timeframe evaluated is from 2006 – 2011. In 2006, only 6,0% of individuals with an education level higher than matric were living in poverty. While this proportion increased to 10,6% in 2009, it had decreased again to 5,5% by 2011.

Schools

Matriculation not an indicator of ability. The passing grades for the National Senior Certificate (NSC) are only 40% in maths or math literacy, English and a second language, and 30% in other subjects. Despite this low requirement only 50% of children matriculate, and of those only a small percentage pass maths at a level that will qualify them to take a degree that will open up the insurance sector.

Low matric marks block school leavers from opportunities. Maths and science are required for a BCom degree, needed to enter the insurance sector.

- In 2013, only 43% of NSC candidates sat the maths paper. Only 40,5% achieved a pass mark of 40% and above, and only 15,6% achieved 60% and above.
- Only 32% of candidates wrote physical science, and of these only 25% achieved 50% and above. Only 14,4% obtained 60% and above.

[11]Sats SA report, published March 2014

Figure 2: Maths and physical science results for matriculants[12]

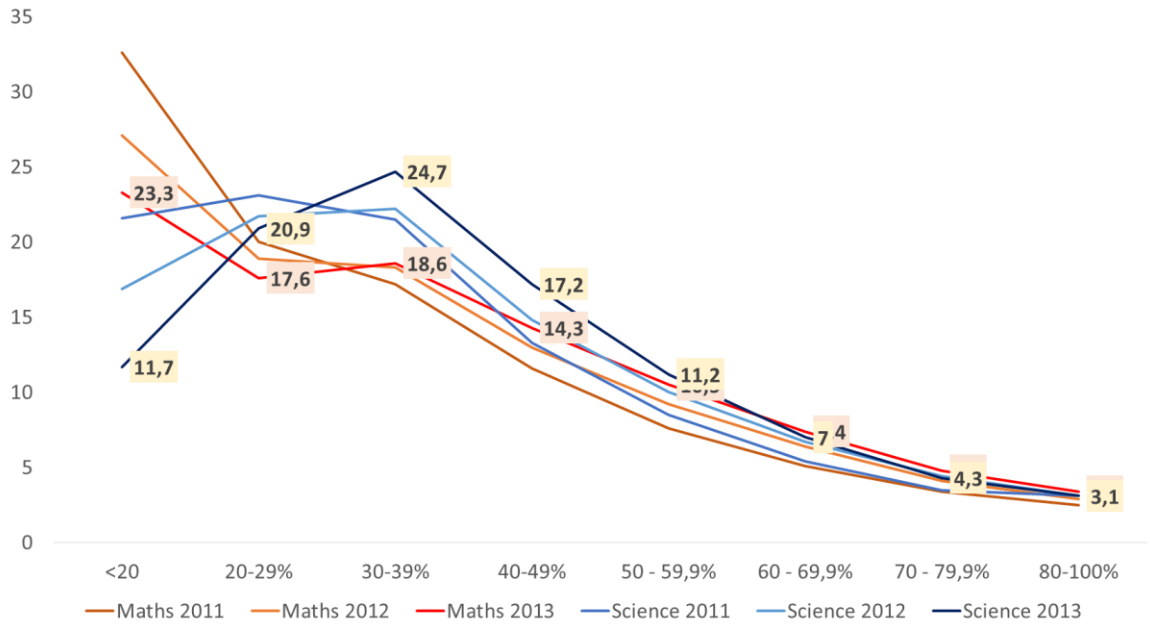


Table 6: Matriculant results in maths and physical science

	Maths 2011	Maths 2012	Maths 2013	Science 2011	Science 2012	Science 2013
<20	32,6	27,1	23,3	21,6	16,9	11,7
20-29%	20	18,9	17,6	23,1	21,7	20,9
30-39%	17,2	18,3	18,6	21,5	22,2	24,7
40-49%	11,6	13	14,3	13,3	14,8	17,2
50 - 59,9%	7,6	9,2	10,5	8,5	10	11,2
60 - 69,9%	5,1	6,4	7,4	5,4	6,7	7
70 - 79,9%	3,4	4,1	4,8	3,5	4,4	4,3
80-100%	2,5	2,9	3,4	3,1	3,1	3,1

Poor skills even in distinction students. According to the 2013 National Diagnostic Report on Learner Performance issued by the Department of Basic Education, many of the physical science candidates, including 'A' candidates, could not express themselves clearly in questions that required an explanation. They also noted that poor mathematical skills and poor use of calculators contributed to the poor performance of some candidates.

Students unprepared for university, workplace. Of those who wrote the NSC examinations in 2013, less than a third received a university exemption. An additional 30,8% qualified for admission to diploma studies, implying that a total of 61,4% of learners qualified

[12] Source: Moneyweb, National Diagnostic Report 2014 Department of Education

for admission to higher education. But in fact a pass rate of 30% do not mean pupils are numerate or literate.

Benefits of education measurable. Despite these disadvantages, less than 10% of university graduates are unemployed, compared with 30% of matriculants who don't study further. Less than 20% of those who achieve some other post-matric qualification are unemployed.

Tertiary education

University curricula too narrow. Insurance employers say the university system doesn't produce the level of skill the industry needs. Undergraduate degrees don't prepare students for the roles they will fill. BCom graduates can't do risk management; IT graduates lack programming skills; business graduates tend to focus on technical skills without practical application and rarely have flexible thinking skills. There is no programme broad enough to equip candidates for regulation and compliance work.

Stunted capacity for growth. Graduates like these can be employed to plug a specific gap, but are of limited use outside their area of specialty. In addition, it takes up to 18 months for them to become productive due to their lack of workplace skills. Over the longer term, individuals with limited skills and narrow vision are less likely to adapt to a changing workplace environment.

Align university programmes and employer needs. Members of the local insurance industry would like universities to broaden studies that are overly directed toward specific professions. In the UK and the United States, undergraduates study abroad range of subjects and specialise in unrelated areas during post-graduate studies. The result is a more comprehensive range of thinking skills and a greater ability to solve problems creatively. Some companies actively seek students with non-commerce degrees because it is easier to teach about financial services than to teach how to think strategically and creatively.

Lack of commitment a cause of failure. Further Education and Training (FET) vocational colleges have tried to offer extra lessons to help students improve their basic math skills to a level where they could cope with the work. According to one lecturer, the students tended to be unmotivated and didn't like maths, so wouldn't try to understand. This lack of motivation could also be a reason for the high failure rate in the first year of university.

The Quality Enhancement Project (QEP).

National project to promote student success. QEP was launched on 27 February 2014 by the Council on Higher Education. It will replace institutional audits in the second cycle of quality assurance, and is intended to enhance all aspects of teaching and learning. Its goal is to increase the number of graduates with personally, professionally and socially valuable attributes.

Poor throughput is a national challenge. Higher education in South Africa is failing in its basic mission: to produce the graduates required for the reconstruction and development of South African society. Of the 18% of 20-24 year-olds enrolled in higher education, about half drop out without obtaining a qualification. The QEP recognizes that this is a national challenge and requires the higher education system to collectively reflect on the challenge, the lessons learned and the solutions required.

Product of extensive research. The QEP is the culmination of an extended period of research and consultation following the end of the first cycle of quality assurance in 2011. It provides an enabling framework within which individual higher education institutions and the higher education system as a whole address the challenge of increased student success.

UK experience

Divide between needed and actual skills. A skills gap is developing in the UK financial services industry, according to a MathWorks poll. This gap is the difference between the skills graduates entering the industry require, such as IT and real-world problem-solving skills, and those they actually possess.

Graduates falling behind the curve. The skills gap has worsened in the past three years, as companies have turned toward more complex and intricate ways of capturing, manipulating and understanding data. Without the skills needed to use this data, many firms will face difficulties in the near future. The insurance sector seeks to recruit graduates capable of navigating equations, statistics and models, and implementing them through code to offer reliable insights.

Multifaceted solution. Experts taking part in the survey identified a range of measures they believe will help tackle the issue, such as:

- Real-world project-based learning
- Collaboration between the education sector and industry
- Encouraging students to combine IT and mathematics skills
- Cooperation between industry and academia to ensure students are prepared for their careers by understanding the needs of industry
- Offering guest lectures, practical examples of real-world problems and internship programmes, to engage industry in the development of graduates
- Integrating industry-standard software, hardware, and thinking into the curriculum

Involving the private sector

Employers know best what they need in their workforce to excel within their market, and they have the strongest motivation to achieve it. It makes sense, therefore, to involve the private sector in repurposing and breathing new life into the education system.

Private sector has a key role. According to “Africa at Work”, by the McKinsey Global Institute, the private sector is the only long-term solution to creating stable jobs, raising living standards and reducing poverty. Some businesses independently provide training opportunities to their staff and others. More typically, they act in partnership, either with other businesses or with the state and often with the support of donors.

First acknowledge the problem. An unexpected issue found during this desktop study is that, according to a survey of business leaders in five African countries[13], some employers simply don’t perceive a lack of workers with appropriate skills and work experience to be a major obstacle to business growth. This lends credence to a perception by young people in Africa that a lack of demand for labour is the biggest obstacle to youth employment[14]. While members of the South African insurance sector do recognise the problem, these perceptions may exist even here.

Reap what you sow. A 2012 survey of youth, education providers and employers in nine countries[15]found that employers who reach out regularly to education providers and youth, offering them time, skills and money, are most successful in hiring the talent they need. Typically they approach young people via new media and youth-oriented organisations. These employers are also more likely to offer training to their employees.

Characteristics of a successful training programme. Two features tend to be present in successful programmes.

- Education providers and employers actively step into one another’s worlds. Employers might help design curricula and offer their employees as faculty, while educators have students spend time on a job site and help them secure hiring guarantees.

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[13]McKinsey Global Institute, 2012
[14]African Economic Outlook, 2012
[15]Mourshed et al McKinsey Centre for Government 2012

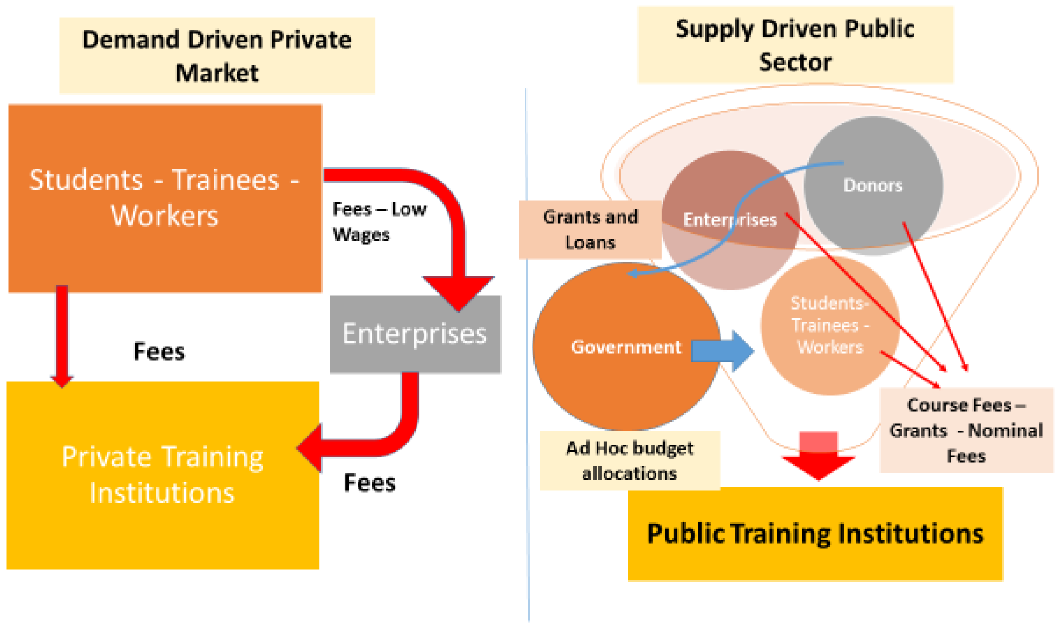
- Employers and education providers break free of the conventional linear sequence of "enrolment leads to skills, which lead to a job". They treat the education-to-employment journey as a continuum, and employers commit to hire youth before they are enrolled in a programme to build their skills.

Catch them young. A successful local programme, Go for Gold[16], prepares disadvantaged young people for jobs in the construction and engineering industries. The programme begins in early secondary school, and participating companies sponsor the most promising students through tertiary training. The programme has had a 100% secondary school pass rate since 2002, and on average 45% of students graduate with a qualification in construction, building or carpentry, as compared with the national average of 10%.

Comprehensive approach is most effective. Research indicates that programmes that combine on-the-job and in-class training, and offer a combination of soft and technical skills, can have a significant positive impact on the employment and earnings of programme participants.

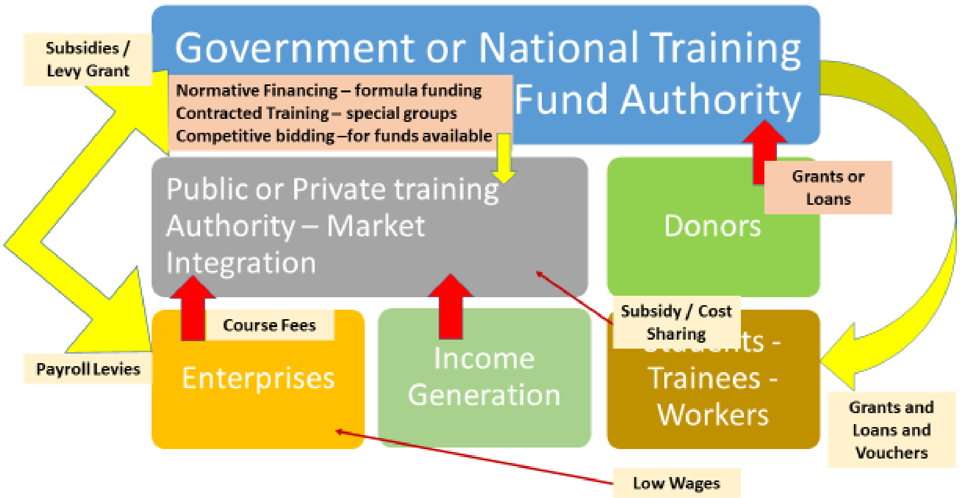
Improve industry image. To attract quality young talent, the industry must be perceived as an important, innovative and interesting workplace. In part, the solution to the skills shortfall is to market financial services as a dynamic, challenging growth area with alluring job prospects and clear career paths.

Figure 3: Traditional fragmented training markets



[16]http://www.goforgold.org.za/

Figure 4: Moving toward integrated, demand-responsive training markets



Skills development

Training for practical application. The purpose of skills development is to help people gain marketable skills and then find employment where they can use those skills. This requires an in-depth knowledge of the labour market and the ability to translate that knowledge into training programmes that will attract unskilled or under-skilled job-seekers.

Make it pay for itself. Ideally, training programmes for disadvantaged groups include income-earning opportunities, including apprenticeships, with formal recognition of the competencies gained.

Target the vulnerable. Skills development programmes should engage with the informal sector and vulnerable employees, to help them become more productive.

Improving skills in the informal sector. According to the 2012 African Economic Outlook report, the informal and rural sectors will play an important role for young people seeking work. The report stresses that:

- Education systems must become more comprehensive and linked to the labour market, so that secondary school graduates have both the academic and practical skills for a small business or self-employment
- Informal apprenticeship training must be recognised, as this is the route most young people follow to gain skills
- Guidance on jobs and the labour market must be available at all stages of the education system
- Government policies must nurture the entrepreneurial talent within the informal sector

Soft skills are important. Studies have confirmed that employers at all levels value skills not typically addressed by schools today, such as

- Critical thinking
- Problem-solving
- Respect for colleagues
- Task-oriented leadership
- Communication
- Team conflict mitigation
- Quality service
- Good work behaviour

- Decision-making
- Accountability
- Customer care

Funding challenges

Unemployment among youth stimulates investment in training. Recent research by UNESCO (United Nations Educational, Scientific and Cultural Organization) found that governments and development partners were most likely to invest in skills training when youth unemployment rose. But while private finance is flowing into the developing world, much more is needed to fund skills development – and, according to the Global Monitoring report of 2012, donor contributions are slowing down.

Education costs more than government can afford. As more young people complete their education, the number entering the workforce is rising while the demand for skilled workers in an increasingly globalised world is growing. The cost to a government of providing skills development for all who need it are becoming prohibitive, and alternative financing mechanisms involving the private sector are essential.

Table 7: Training finance - the emerging policy consensus

Role of training finance in meeting policy objective	Explanation
Redefined government role	Government role diminished but still critical, entailing reduced public budgetary support for formal sector institutional training.
Funding diversification	Diminished government financing role, with diversified sources of financing, greater cost recovery and cost sharing.
Cost sharing	Increased cost sharing, with higher, more realistic training fees, scholarships for the needy and state-backed student/trainee loans.
Training levies	Funding diversification measures include training levies on enterprises.
Income generation	Funding diversification measures also include income generation by public training institutions.
Decentralisation	Income generation furthered through decentralization of control over public sector providers and greater institutional autonomy.
Private sector	Government encourages private sector provision of training.
Finding public training institutions	Replace arbitrary, ad hoc funding arrangements with objective formula funding related to inputs, outputs and outcomes. Consider subsidy of selected private training institutions.
Trainee/consumer choice	Greater trainee/consumer choice; vouchers may help develop the demand side of the market where subsidy needs to be retained.
Levy-grant	Levy-grant mechanisms introduced where formal sector enterprises under-train.
Training funds	National training funds to take a broader and longer-term view of training expenditures in a national context
Training authorities	Where institutionally possible, fully-fledged, autonomous national training authorities established.
Stakeholders	Increased participation of stakeholders, especially employers, in national training policy formation and execution
Disadvantaged groups	Continuing and enhanced government role in skills development as an integral part of measures to assist disadvantaged groups.
Informal sector	Central attention paid to neglected training needs of micro-enterprises and informal sector producers.

Successful funding approaches. Not all funding systems will work in low-income countries. For instance, levies and tax benefit systems are more likely to be found in countries with thriving economies and sophisticated governance structures. However, studies have identified several types of initiatives that work even in an impoverished setting.

- Global inter-sectoral partnering, building on the increasing amount of private funds flowing to developing countries
- Skills development programmes moving from international and national companies down through their supply chains
- The establishment of sectoral alliances
- Earn-and-learn programmes
- Soft skills development
- Voucher schemes
- The establishment of national training funds
- Application of low-cost technology

Working together to achieve solutions

In-kind support. In addition to cash, the private sector can add value in-kind to a workforce development partnership, for example:

- Participation on alliance steering committee, secretariat or other intermediary
- Internships, apprenticeships and learnerships
- Mentoring, job shadowing and career advice
- Donations of technology and equipment
- Providing classroom and meeting space
- Supporting donated staff time and expertise
- Access to business connections and networks
- Supporting entrepreneurs through:
  - Competitions focused on innovations
  - Helping develop business plans
  - Providing loan guarantees
- Supporting job skills needs assessment or market assessment, including training NGOs or others to undertake such work
- Designing and/or implementing a social marketing campaign to reach targeted groups

Public-private partnerships

Rising popularity. PPPs have become more common, due to:

- A massive increase in private money flowing to developing countries
- The globalisation of the world economy
- Governments in the developing world needing help in managing aid well

Changing roles in PPPs. In the education sector in the past, PPPs were most commonly set up to make private finance available to build schools. More often now industry/education partnerships involve the use of public money to purchase training services from the private sector in order to expand a school's skills development capacity.

Opportunity to introduce industry early. Industry/education PPPs can involve more strategic activities such as identifying occupational standards, governance of training institutions and development of training programmes.

Global inter-sector partnering

Involving global entities. Global ISP involves a cooperative effort between global corporations, international institutions, government entities and civil society organisations. The International Youth Foundation is a leading proponent of global ISP in the field of skills development, and its work has led to projects like:

- Support from Lucent Technologies for education and learning programmes in 16 countries throughout Asia, Africa, Europe and Latin America
- Nike, Gap and the World Bank working together to improve life prospects and conditions for factory workers in five south-east Asian countries
- Support from Microsoft to incorporate IT into the daily lives of young people in Russia, Poland, South Africa and the Philippines
- CISCO contributing funds, expertise and equipment to create national networks of IT training centres in India, Mexico, Palestine and South Africa
- Nokia working to enhance the life skills and leadership skills of young people in several countries including Brazil, China and Mexico.

National strategy development

Support government efforts. Many countries are drawing up and implementing programmes for businesses to play a role in the strategic development, governance and design of the national skills development system. The strategy paper on lifelong learning prepared by employers' representatives for the G20 emphasized the importance of employers' contributions to policy development with regard to:

- Providing training
- Matching education and training to labour market needs
- Encouraging and supporting lifelong learning
- Maintaining the relevance of education and training through continuous evaluation and system improvements

Keep accreditations relevant. The move to involve employers has in part been driven by the introduction of national qualification frameworks based on occupational standards and competence-based curricula, and the creation of sector skills councils. For these initiatives to succeed and establish a demand-led skills development system, employer involvement is critical.

Engage at local level. Large and small employers from the formal and informal sector can also get involved in implementing skill development programmes, for instance through:

- Involvement in the governance of institutions for instructor training and upskilling
- Helping develop training programmes and learning materials
- Providing access to specialised equipment
- Offering on-the-job training and work experience to students
- Helping provide vocational guidance and information
- Supporting quality assurance of the teaching and assessment of learners

Involving private sector training providers

Risks of private providers. Many governments are encouraging provision by private sector training providers, but this can raise some concerns, for example:

- Market-driven institutions may not meet desired standards of quality and sustainability.
- Poor people, particularly women, are often excluded because they lack the academic entrance qualifications. If completion of primary education is a requirement, that will exclude more than 35% of males and 60% of females from poor households.

Choosing the right providers. Guidance on engaging private training providers can be found in CIDA's Skills for Employment Guidelines (2011). CIDA Empowerment Fund ("CEF") is a 100% subsidiary of the CIDA Empowerment Trust. CIDA is a 100% black-owned and controlled broad-based investment company. Another model for deployment of private training providers to meet government targets is the DFID-funded project (Department for International Development a UK initiative), Skills and Innovation for Micro-Banking in Africa (SIMBA), in which grants are provided to financial service providers to procure capacity building services from regional commercial suppliers.

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