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SASRIA

Caught in the Act

Failure to ratify changes to riot insurance cover has thrown the industry into confusion. With effect from January 1 1987, the Special Risks Insurance Association (Sasria) was to cover riot, strike, and malicious damage (RSMD) — basically, non-political riot damage.

Several things have, however, gone awry. To begin with, cover was expected to be incorporated into Sasria through Section 18 of the 1986 Finance Act. But, in the event, malicious damage was omitted, not through error but "because the Standing Committee on Finance (Scoff) didn't want it in" (*Economy* August 29).

The wording used to define RSMD is also challenged as legally inadequate. In detail, it says "any riot, strike or public disorder, or any act or activity which is calculated or directed to bring about a riot, strike or public disorder."

Apparently it was agreed to rework legal changes through the Financial Institutions Second Amendment Bill 1986, expected to go through the last session of parliament. It did not.

So, probably until the middle of next year, Sasria will have to rely on the original changes. This could cause problems.

For, as the memorandum to the second amendment Bill says, it is traditional to market cover for riot, strike and malicious damage as a package and not distinguish between customary malicious damage (non-political

vandalism) and malicious damage arising from riot, strike or public disorder.

It goes on: "By excluding the customary malicious damage from the package, the traditional approach will be disturbed and problems of definition and interpretation will be created in the settlement of claims..."

Sasria MD Rodney Schneeberger says, however: "There's no real problem. While some believe malicious damage should be included, this is a very small part of the overall picture."

"Sasria understands that while professional reinsurers have withdrawn facilities in respect of riot and strike, non-political malicious damage will still be provided to direct underwriters, at least for the time being."

Should reinsurers later withdraw malicious damage cover, he says, Sasria would apply to Scoff for permission to provide it.

But not all are happy. Says a broker: "To me, it seems a disaster. I don't think anyone understands what's going on. The negotiating table is here in SA, so I expect overseas reinsurers will just follow the local insurance companies, as they always have."

When pressed for comment, Don Gallimore, executive director of Priceforbes Federale Volkskas, said: "There is just no perception among retrocessionnaires and possibly among SA reinsurers of what is involved here."

"It is a complex area, which is why we've ended up with a misguided enactment." He

says there is no legal definition of "public disorder" as embodied in the changes.

Apparently Sasria is busy devising standard wordings for the extension of cover to riots and strikes which will include a definition of public disorder as including lock-out, labour disturbances and civil commotion.

Brokers believe the end result will be satisfactory as long as malicious damage is covered by reinsurance treaties — as is likely.

Says Lenz Keel, GM of Swiss Re: "We're very concerned. We don't want the man in the street to be left with a gap in insurance. We would like Sasria to provide malicious damage cover, but until it does we are prepared to take it on."

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