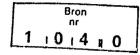
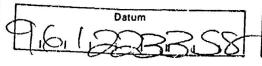
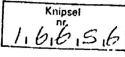
INSTITUUT VIR EIETYDSE GESKIEDENIS

Die Universiteit van die Oranje-Vrystaat











Business Day

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Special risks

HE potential dispute over the fate of the R8,5bn investments owned by Sasria (SA Special Risks Insurance Association)

needs to be seen in perspective.

Government believes that the reasons for establishing Sasria hardly exist any more and that a large portion of the assets of the section 21 company should be turned over to the state. Legal advice to the representatives of the leading private sector insurers who sit on Sasria's board is that government has no right to take

the assets for itself.

With the best will in the world, it would be difficult to justify Sasria's assets being left idle or being transferred to management by private sector insurers who acted largely as agents rather than principals when dealing in special risks.

Sasria, set up by the former government when private sector insurers were unwilling to accept risks associated with civil disturbances, has never been proved to have been necessary.

Government became the insurer of last resort for claims related to riot or civil unrest. It was never necessary for government to be called on to honour that pledge and, with few claims against them, Sasria's assets grew to their pre-sent level invested in highly liquid money market instruments, equities and bonds. Ironically, they could be seen as a legacy of apartheid to a post-apartheid country. But it is a legacy that should not be used for short-term gain, no matter how tightly government itself is having to budget.

Government reasonably now argues that, given the country's present stability, there is no need for a highly capitalised special risks insurance underpinned by the state. Reducing Sasria's assets to about R1bn would still provide acequate cover.

If needs be, government could continue to accept ultimate responsibility for risks associated with rict or civil unrest, after all, its policies largely determine the country's level of social tranquility. In this case, is there any need for Sasria's funds to remain locked up in what are effectively sterile investments?

The attraction of Sasria's assets to Finance Minister Trevor Manuel is that they are not small when compared to the state's proposed R40hn-odd borrowing requirement. If they can be sold and offset against government's own borrowing needs, it should be easier to contain the deficit inside the targeted 4% of GDP

This is fine on a narrow view. But if mobilising Saaria's assets gives government breathing space, we could well see less pressure to privatise state assets as a means of containing the fiscal deficit. The ramifications of that are incalculable, particularly if it delays transfer of ill-managed state enterprises to an efficient

managed state enterprises to an entrient and profit-motivated private sector.

However, the state has other underfunded insurance and assurance liabilities that could be placed on a sounder footing by proper funding. And if Sasria's assets were specifically earmarked to reduce government's own debt and its servicing costs, the result would be less pressure on capital markets from competition for funds between the state and private sector borrowers.

However government might handle Sasrin's assets, it must not be tempted to use them for short-term advantage.

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