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R8,5bn riot cover pay-out plan

Insurance fund move to pay off State debts

Herald Correspondent

JOHANNESBURG — The Government is preparing legislation which will allow it to divert up to R8,5-billion from a special political riot insurance fund, the SA Special Risk Insurance Association (Sasria), to the reduction of State debt.

However, the plan could be opposed by the fund on the basis of an initial legal opinion obtained in response to the Government plan.

Finance Director-General Maria Ramos said at the weekend that the intention was to leave a portion of the assets — perhaps R1-billion — in an emergency fund for future liabilities of the kind covered by Sasria, but that the bulk would be "used to retire Government debt."

The plan was no different in principle to any other restructuring in which inactive assets could be used to increase spending on infrastructure or to reduce the deficit, Ms Ramos said.

Retiring State debt would help reduce pressure on interest rates.

The total value of Sasria's assets is equivalent to about 20 per cent of gross State borrowing in 1996 and could be of major assistance in meeting the deficit targets set in the Government's macroeconomic strategy.

Government is understood to be seeking ways to access the assets without impacting negatively on the markets. Sasria's stock market investments of around R5,5-billion account for about 5,5 per cent of the JSE's total market capitalisation.

Set up in 1979 as a Section 21 not-for-profit company, Sasria was established after insurers became reluctant to cover political risks following the 1976 Soweto uprising.

Its mandate was later broadened to include risk cover for labour disputes and non-politically motivated riots.

The fund has relied since its inception on the Government as its insurer of last resort.

The question of who owned the fund had "always been vexed," the insurer's managing director, Mike Strydom, said.

Sasria's policy holders had a "bigger vested interest than anyone else," but the argument that by having carried the final risk, the Government had accrued rights "had some merit".

With payouts on claims always lower than premium income, Sasria has never had to call on Government to bail it out.

It has been able to accumulate massive assets valued at more than R8,5-billion at present.

Payments totalling R256-million in 1994 following the Bophuthatswana riots had "probably been the biggest" of any year since the fund's inception, financial manager Charmaine Silverman said.

The advent of democracy in South Africa and the increasing political calm in the country had reduced the need for insurance cover specifically tailored to political turbulence.

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Cabinet secretary Jakes Gerwel said that the Cabinet had at its last sitting on December 4 "noted the intention of the Finance Ministry to introduce legislation in the new year to deal with surplus funds held by Sasria".

But Mr Strydom said initial legal opinion obtained by Sasria indicated that the Government had no right to the funds. Any potential action against the plan would be considered only after further legal advice and discussions with the Ministry of Finance.

About 65 per cent of Sasria's assets are invested in equities, mainly blue chip companies, with 25 per cent in bonds, and a further 10 per cent invested on the money market.

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