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State underwriter's increases for terrorism cover criticised in light of its profit

GlenMIB questions 20% rates hike

EDWARD WEST

Cape Town – Financial services and risk management group Glenrand MIB (GlenMIB) has questioned the pending 20 percent increase in Sasria rates for terrorism insurance cover.

Sasria is the state-owned underwriter established to provide business with an insurance safety net for terrorism and related risk.

MIB said yesterday the increases, accompanied by reduced cover, were difficult to justify in the light of Sasria profits.

Jas Visser, the head of reinsurance at short-term insurer Santam, said the Sasria rate increase was justifiable considering the context.

Sasria had not lifted rates since the September 11 2001 attacks. Reinsurers had since instituted three rate increases globally. Sasria did not move its rates because it had been tied to a three-year reinsurance agreement.

Visser said 20 percent was high given the inflation rate, but not given that Sasria had to bring its reinsurance rates in line with that of its reinsurers.

David Harpur, the chief executive chairman, said in GlenMIB's recently released annual report there was no sign of insurance rates or terms of cover softening in the short term. "We

believe the hard insurance market will prevail for the balance of the new financial year and beyond, with a few possible exceptions."

Rod Pearson, spokesperson for GlenMIB said Sasria's pretax profits of R425 million for the year to December 2001 were significantly better than any other South African insurer.

"The rate increase is far more than the rate of inflation. Moreover, Sasria cites a possible 30 percent increase in

reinsurance rates after the World Trade Center attack as a reason for the hike.

"That would amount to R42 million, a figure which would not impact significantly on Sasria's 2001 underwriting profit of R64 million. In any event, the actual increase in reinsurance rates has yet to be confirmed," said Pearson.

"Simultaneously Sasria plans to reduce cover in that an exclusion will be imposed on damage to property by

terrorism involving biological or chemical agents. This means that decontamination costs and interruption caused by contamination, for instance, by anthrax, wouldn't be covered."

"True, this has been forced upon Sasria by worldwide reinsurance requirements ... but a case can be made for negotiating such cover, particularly given Sasria's sizable assets."

GlenMIB shares closed 4c up at R2.24 yesterday.