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SHORT-TERM INSURANCE *The State to get R3,2bn*

Sasria shelves its privatisation plans for 5 years

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Johannesburg – Sasria, the special risks short-term insurer, would return R3,2 billion to the government, its sole shareholder, by way of a special dividend and would shelve its privatisation plans for another five years, the company said yesterday.

Maria Ramos, the director-general of the national treasury, said the privatisation of Sasria was postponed because the market was not yet ready to assume the business.

Stewart Rider, the vice president at Merrill Lynch South Africa, said the privatisation delay was a sensible move. "I do not think the industry (short-term) is ready to handle this type of risk ... The government does not seem prepared to offer a monopoly to any potential buyer, which could be open to abuse."

Sasria was created to cover risks such as political riot and public disorder which includes labour disturbance, civil commotion, strike and lockout and loss in respect of mortgage loans.

Cyril Ramaphosa, the chairman of Sasria, said the extra five years would also allow the government to demonstrate that democracy was firmly in place, and this would bring down the country's risk rating and make it more attractive for reinsurers to enter the market without the present monopoly which Sasria enjoys.

Michael Strydom, the managing director of Sasria, said technical issues relating to the availability of proper reinsurance was among the obstacles delaying the process. Sasria cannot turn down a potential insured because of the possible frequency of claims, and it also cannot cancel a policy because of increased claims. As a result, reinsurers have been reluctant to throw their weight behind insurers who might be interested in buying Sasria.

Sasria has two reinsurance arrangements – a quota share reinsurance treaty placed locally and a catastrophe excess of loss, covering just over 20 percent of the risks, placed within the Lloyds market in London.

Ramos said the government would continue to consult with the industry to hammer out the technical constraints which were slowing down the process. She added that the dividend declared, bringing the total to about R10 billion, would be channelled towards reducing government debt.

Standard & Poors', the rating agency, maintained its rating on South Africa, which was affirmed early this year.

Sasria's capital base will also be restructured to include a R1 billion guarantee from the government. This would only kick in after all the other resources, including reinsurance, have been exhausted.

Sasria operates through 56 short-term insurers, which act as agents issuing special risks policies to individuals and companies on its behalf. It has an annual premium income of about R200 million a year, with claims coming at about R15 million to R20 million a year. Strydom said Sasria's solvency margin was at present between 500 percent and 600 percent, way above the prescribed minimum by the Financial Services Board.