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Page: 1
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1
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Source Page: 2

Sasria to remain under state care

Govt may within five years review its monopoly as insurer providing for political risk, writes Hilary Joffe

THE best way to privatise specialist insurer Sasria would be to abolish it and deregulate the market for political risk cover, allowing private sector short-term insurers to provide political risk and riot cover for their policyholders, just as they cover them for fire, theft or motor claims.

Government may be ready to do that in five years' time, but it is not willing to do so yet.

Hence its decision to maintain Sasria as a state-owned entity, with a monopoly on providing insurance for damage resulting from perils including political and non-political riots and civil disturbances.

Government and Sasria will review the insurer's position in five years' time. By then, however, says Sasria chairman Cyril Ramaphosa, SA will be deeper into its democracy and the sense of stability will have grown.

The private sector short-term insurers should then be able to take over covering individuals and companies against riots and the like.

This is just as they do in many other countries, and just as they did in SA until the late 1970s, when Sasria was established because the private sector could no longer get reinsurance for political risk cover and government had to step in.

For now, though, government still wants the kinds of policies which Sasria provides. And the private sector is not willing to provide them.

The crucial issue is the "non-refusability" and "noncancellability" of Sasria policies. Sasria cannot refuse cover to anyone.

And it cannot cancel a policy — for example to a policyholder who claims once too often. Sasria also does not "risk rate" its policies as private insurers do — policyholders do not pay higher premiums because they live in high-risk areas, or lower premiums in low-risk areas.

Government and private sector players last week put a somewhat different spin on the outcome of the Sasria talks.

The government line, however, was that the short-term insurers are not ready yet to take on providing specialist cover for political, labour and other riots and disturbances.

Treasury director-general Maria Ramos said short-term insurers were concerned that they would not be able to get reinsurance on the international market for noncancellable, nonrefusable policies such as those provided by Sasria.

Short-term insurers indicated that they would be delighted to get the new stream of business. But they must have the discretion to accept or reject a risk and the discretion to set rates.

"On the one hand, government was saying SA is now a normal society and Sasria could be privatised. On the other hand, government said it doesn't want us to cherry pick business, or charge premiums according to our perception of the risk, or cancel policies," says Mutual & Federal executive GM Keith Kennedy. "We say deregulate the business and let market forces dictate."

This would probably mean lower premiums for some policyholders and higher rates for others. Private sector players, however, argue deregulation would generally be good for consumers, because Sasria has been a monopoly.

Monopoly or not, Sasria has been one short-term insurer whose premiums have fallen in recent years, with levels of political and labour unrest having declined since the 1994 democratic elections.

There are other "perils" — Sasria has paid out claims relating to eight bomb attacks in Cape Town in the past two years.

But the trend, in claims and premiums, is downward. And it is low cost, with an expenses ratio of about 2%, because all its administration and marketing is done through the 56 short-term insurers who are the agents for its policies.

Sasria has been transformed in the past two years and further changes announced on Friday take that further. It is now a private company, with the state as sole shareholder.

Its huge capital base has been slimmed down to more appropriate levels, yielding a total R10,5bn in special dividends paid to government over the past two years.

The latest R3,2bn dividend payout leaves it with shareholders capital of R500m and a further R1bn in government guarantees. That means a solvency ratio of 500%-600%, Sasria MD Mike Strydom estimates — well above the statutory requirement for short term insurers.

The government guarantee had been withdrawn in early 1999, but has been reintroduced as a result of the capital reduction. Sasria, which pays a maximum of R300m on any claim, also reinsures part of its book.

The government guarantee would kick in only after two catastrophic losses — of R2bn each — after the R500m and reinsurance had been exhausted.

One of the options government would contemplate in five years' time would be a sale of Sasria. Private sector players counter, however, that it is a lucrative business mainly because it is a monopoly — and there would be few takers unless that monopoly were guaranteed.

If SA society moves further towards normality over the next five years, retaining the monopoly and the special nature of Sasria's policies may well not be deemed necessary.