State insurer's funds 'not enough for catastrophe'

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CAPE TOWN — State-owned special risks insurance company Sasria might have to rethink its dividend policy if it is to build up its capital reserves by the R6,5bn considered necessary to provide cover for a major catastrophe, Parliament's finance committee heard on Friday.

A rise in insurance premiums is also on the cards, Sasria officials warned. Last year, Sasria paid R153,5m in dividends to the state, money that could have been used to build up its capital reserves from R3,5bn to an estimated R10bn.

Suggestions of a possible change in the company's dividend policy come at a time when the Treasury is looking at the cash reserves of state-owned entities to fill its own dwindling coffers.

Sasria audit committee chairman Adam Samie told MPs that Sasria had to prepare for a really catastrophic event that could result in heavy insurance claims. This could be a once-in-200-years event of the order of the destruction of New York's World Trade Centre.

"We might get to a stage where we say we can't pay a dividend but need to use the money to build up our reserves." Mr Samie said.

"Currently, and only taking account of the risks that we insure, our actuarial assessment is that we could have an event equal to a R10bn payout. There is a huge shortfall between our actual reserves and what the estimated reserves required are meant to be." he said.

The shortfall was funded through reinsurance at an additional cost to policyholders but management felt that the gap should be bridged by Sasria building up its own reserves. Mr Samie said this had become necessary because of the rising trend of claims for damages caused by strikes and service delivery protests, which were eating into its reserves.

Sasria paid out about R175m in strike-related insurance claims last year. This represented about 70% of total claims rather than the more acceptable level of about 4%-5%.

The insurer's gross premium income rose 28,7% to R1bn but underwriting profit declined by 10,4% and pretax profit by 12% to R616m, largely due to a big increase in claims and lower than expected investment income. Sasria believed that the spike in strike-related claims might have been a once-off event linked to local government elections and the service delivery protests to which they gave rise, but the trend has continued in the current year.

Sasria MD Cedric Masondo said the higher claims this financial year were mainly due to damage caused during labour strikes. The trend was beginning to undermine Sasria's profitability, hence the need for an increase in premiums. Mr Masondo said Sasria projected a continued rise in the risk of strike damage, saying that this required Sasria to strengthen its balance sheet and ensure long-term sustainability.

"The amount lost to these events really is too high. It should not be at this level," Mr Samie said.

He said Sasria realised that it had allowed its premiums to slide "way too much" and would have to be adjusted upwards, especially in the light of the new risks. Premiums had fallen by about 70% over the past 30 years, during which time there had only been two increases.

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