SA·EAGLE
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Financial Sector Charter & Black Economic Empowerment

In October 2003 South Africa's financial sector released a groundbreaking and visionary Financial Sector Charter based on the principles of Black Economic Empowerment. The Charter provides for increased access to financial services for poor households and communities and aims to direct billions of Rands of investment into transformational infrastructure, agricultural development, low-income housing and small and medium black businesses.

> "This is a groundbreaking, empowering and transformational commitment which we believe will have a significant impact not only in the financial sector but on the South African society in which the sector operates," Modise Motloba, President of the Association of Black Securities and Investment Professionals (ABSIP).

The Charter also provides for significant increases in black ownership and control, management and skills development over the next 10 years.

Another important focus is the emphasis on procuring services from black-owned businesses and companies which are BEE compliant in terms of this or other industry Charters. The Charter envisages that this will account, within a decade, for more than two thirds of all services bought by financial sector companies.

The sector also commits itself to fostering new and developing BEE firms through joint ventures, skills transfer and infrastructural support.

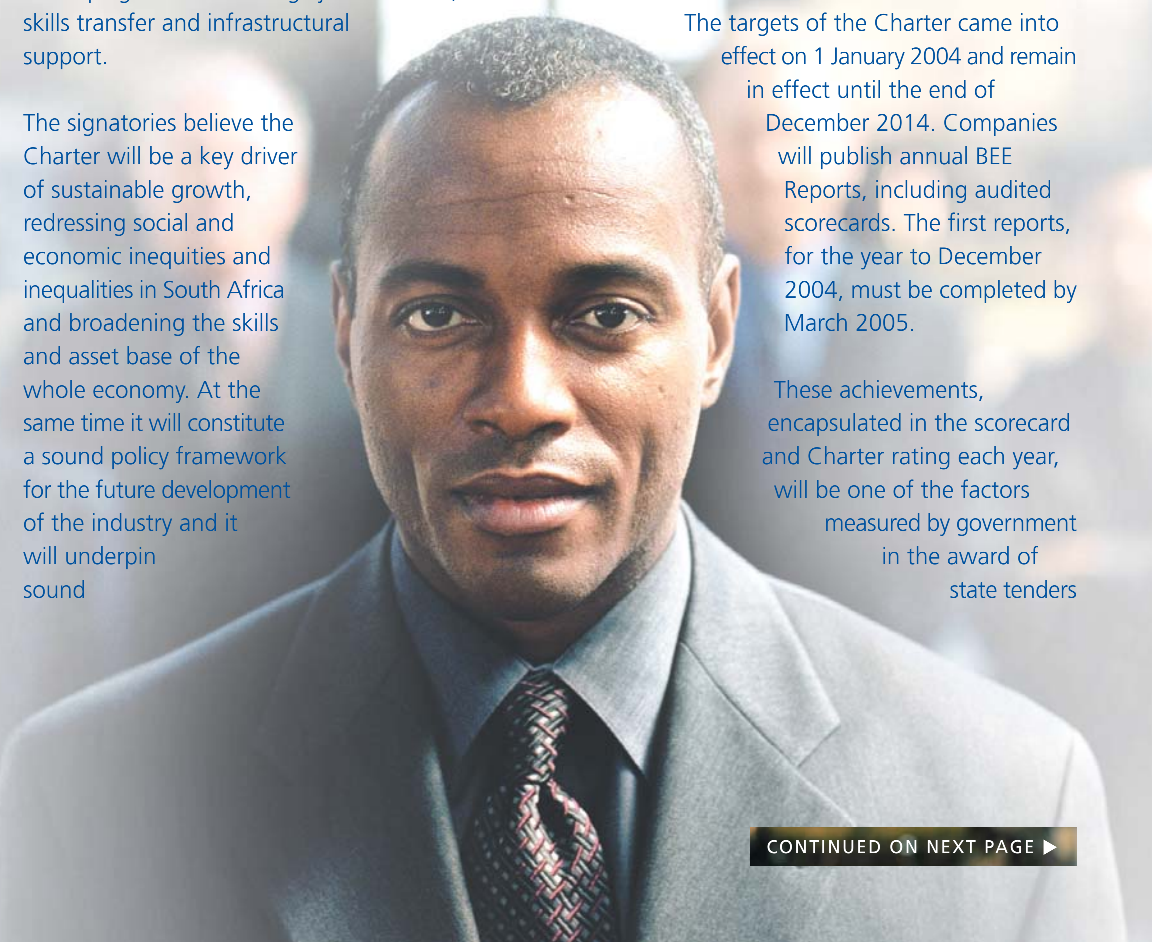
The signatories believe the Charter will be a key driver of sustainable growth, redressing social and economic inequities and inequalities in South Africa and broadening the skills and asset base of the whole economy. At the same time it will constitute a sound policy framework for the future development of the industry and it will underpin sound business practice and maintain the strength and stability of the financial sector.

> "It is the result of more than a year of consultation and negotiation, predominantly within the sector, but including representatives of government and labour. These negotiations were necessarily confidential, because of the potential impact on the economy and on the financial sector if portions of the Charter were misunderstood or taken out of context," Peter Moyo, Head of the Life Offices' Association.

The Charter has been developed by the sector as a whole, representing banks, long and short term insurers, black professionals and black business, unit trusts, fund managers and brokerage firms. It is a voluntary commitment and has been agreed unanimously by 10 industry associations in the financial sector – the Banking Council, the Life Offices' Association, the South African Insurance Association, the Association of Black Securities and Investment Professionals (which also represented the Black Business Council), the Association of Collective Investments, the Investment Management Association of South Africa, the Institute of Retirement Funds, the JSE Securities Exchange South Africa, Foreign Bankers Association of South Africa, and the South African Reinsurance Offices' Association. It has also been signed by the Bond Exchange of South Africa.

The targets of the Charter came into effect on 1 January 2004 and remain in effect until the end of December 2014. Companies will publish annual BEE Reports, including audited scorecards. The first reports, for the year to December 2004, must be completed by March 2005.

These achievements, encapsulated in the scorecard and Charter rating each year, will be one of the factors measured by government in the award of state tenders



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and by businesses in their commercial dealings with each other.

There will be a midway review in 2009 of the first five years, and a comprehensive review in 2015, at the end of 10 years. The intention is that, while the Charter targets have a finite 10-year life, the principles and commitment to empowerment will live on after 2014.

The targets are all seen as transformational. An overriding principle and objective of the Charter is that the growth and development of the financial sector is central to the successful implementation of black economic empowerment. This means that targets must be achieved consistent with sound business practice.

"The imperative of Black Economic Empowerment in the economy and the financial sector drove the process leading to this Charter. The Charter forms the basis for long term growth in the financial sector, and its implementation will reflect that," Jacko Maree of the Banking Council.

The Charter envisages that companies in the financial sector will be 25% black-owned by 2010. A minimum of 10% must be direct ownership with an option to achieve a maximum of an additional 15% through direct or indirect ownership. Indirect ownership acknowledges investment by black beneficiaries, through the collective savings schemes (for example through pension funds), which hold significant shareholdings in companies in the sector.

A key part of the Charter, and the determination of a company's rating, is the balanced scorecard. This allows some flexibility. For example, a "B" rating requires a score of 70% to 80%.

The broad-based thrust of the Charter is reflected in the fact that 81% of the Charter targets relate to the employment, training and promotion of black people, improvement of access to financial services for poor people, targeted investments in projects that address backlogs, underdevelopment and support job creation and the procurement of services and goods from black businesses.

"In developing this Charter, the financial sector clearly demonstrated its commitment to transforming the industry and contributing to the economic growth of our country," Adam Samie of the South African Insurance Association (SAIA)

The potential economic and social impact of the Charter is substantial, both inside the financial sector and in the companies and communities with which it deals.

Empowerment financing – the provision of financing for or investment in targeted investments and BEE transactions by the sector – could exceed R75 billion. Parties to the Charter have agreed to work together to increase this amount.

The four components of targeted investments are transformational infrastructure, agricultural development, low-income housing and small and medium black businesses.

Procurement – the purchase of goods and services from black-owned and black-empowered companies – is seen as a key driver of economic empowerment. The sector has taken an innovative approach, including procurement from black-owned and empowered businesses, as well as from companies which comply with the BEE requirements of industry Charters.

The financial sector has also committed itself to fostering new and developing BEE companies. This includes, where appropriate, referring business opportunities to and procuring financial services from, black-owned financial institutions.

Skills development is another area receiving detailed attention and focuses on two primary areas. One is a matriculation learnership programme in terms of which, over one learning cycle of three intakes, each financial institution will employ up to 4,5% of its total staff in the form of black matriculants, or the NQF Level Four equivalent, in registered learnerships.

The second is that companies, in addition to the existing skills levy of 1% of payroll, commit to a further 1,5% of payroll which will be directed at promoting black skills in the sector.

This will include introducing specialised training programmes and assisting to establish under-graduate and post-graduate diplomas and degrees in financial services.

The sector will also develop learnership programmes, career pathing to facilitate the progress of black people, mentorships to help the rapid development of black professionals, targeted recruitment and cultural diversity and gender programmes.

Foreign-owned financial institutions have participated in and supported the process and are signatories to the Charter. They are subject to the provisions of the Charter insofar as their South African operations are concerned, with some exemptions allowed.

The empowerment targets cover six key areas. They include:

- Employment equity
- Procurement and enterprise development
- Access to financial services
- Empowerment financing
- Ownership and control
- Corporate social investment

While the details of empowerment financing have not yet been concluded, the parties are positive about the transformational and pragmatic approach, which has been established in the interaction with government.

Implementation of the Charter will be monitored by the Charter Council, a body yet to be established. At least half of the council members will be representatives of the financial sector and decisions will be taken by consensus.

The council will receive company reports, monitor progress and review where appropriate. It will operate by consensus and provision will be made for breaking deadlocks.

SA Eagle announces a significant underwriting profit!

Our half-year results, released in July, reflected a substantial increase in our underwriting performance returning a profit of R105,7 million up from R21,8 million for the same period last year.

All underwriting accounts performed satisfactorily with the motor account, in particular, showing a remarkable turnaround from a loss of R27 million in 2003 to a profit of R33 million this year. Claims continue to be closely monitored and following the introduction of our motor vehicle assessment centres, claims costs have improved. The current strength of the Rand has helped to keep the cost of repairs below inflation and vehicle hijacking and theft numbers have reduced.

The absence of major weather related events, large claims combined with lower inflation and crime stability have enabled us to hold premiums at current levels while maintaining the improved level of underwriting performance.

Gross written premiums increased marginally to R1 572 million and although this is a little disappointing, we will not resort to writing business at any cost. Going forward, the adherence to strict underwriting principles and appropriate product pricing remain key focus areas.

Investment income at R64,4 million is R9,3 million lower than 2003 due to lower interest rates and the impact of an AC133 adjustment in respect of unrealised losses on the Company's bond trading portfolio. The equity disposal programme continues with the surplus arising on the disposal of investments amounting to R23,0 million compared to R5,7 million last year.

Headline earnings increased by 71,3% to 940,0 cents per share (2003: 548,7 cents per share) and the solvency margin is 49,7% compared to 47,1% at year-end and 41,5% at 30 June 2003.

Thank you for your loyalty and continued support. We look forward to working with you as we strive to further improve our financial performance and service offering.

The booming bed & breakfast industry

A short term insurance opportunity too good to miss!

One of the fastest growing industries in South Africa is the bed and breakfast and guesthouse business. New establishments are being added daily to the list of homes now open to receiving guests. Like any business venture there are risks and the bed and breakfast industry has its own unique set of circumstances and needs. For the owner, one of the main considerations is adequate and correct insurance cover.

Consider the following scenarios:

- the B&B owner transports guests to the airport and is involved in an accident. The guests hold the driver responsible.
- a guest suffers food poisoning and holds the B&B owner liable.
- things go wrong in the kitchen and the B&B is destroyed by fire. Revenue dwindles to nothing.
- sponsors withdraw their support from a sporting event. The cancellation results in guests cancelling their reservations at the B&B.

The BnB SURE Policy

On closer investigation of the B&B and guesthouse industry it was established that a great number of these establishments are operating with either incorrect or inadequate insurances. In many cases a personal insurance policy provides no liability insurance at all despite the massive threat posed by this method of operation.

In response to this need the BnB SURE insurance policy, designed in conjunction with bed and breakfast owners, was created. The policy recognises, and takes into account, the unique risks associated with running a bed and breakfast business from home. Importantly, the BnB SURE policy covers both personal and business aspects of the residence.

Great emphasis has been placed on the liability insurances as well as the loss of revenue insurances which are regarded as two crucial elements of cover.

Whilst liability speaks for itself, the loss of revenue section of BnB SURE is often forgotten, but a loss that is not adequately covered can seriously disadvantage the owner of an establishment. In addition to providing cover following the risks of fire and storms, BnB SURE also provides cover following a loss of revenue after murder, suicide, cancellation of event and theft to name but a few.

One of the pre-requisites of a policy for the bed and breakfast industry was that it had to be extremely simple in its approach, but it had to cater for the needs of the industry. The BnB SURE policy has been a work in progress with ongoing adjustments being made in order to cater fully for the needs of this niched industry. It is our intention to provide the very best cover available at competitive rates.

FOR MORE INFO Contact Dave Jack on (011) 886 6066 or visit www.bnbsure.co.za

Fighting floods

Floods always were deadly and destructive, but modern society and climate change have turned them more hazardous than ever before. Unfortunately, many business and property owners have been lulled into complacency by years of good fortune and by government bailouts. Some are now faced with the spectre of underinsurance.

Oddly enough, in today's 'live-news-all-the-time' world, the danger of floods is understated. Typical television footage shows life before or after the deluge: people sandbagging a levee or evacuating by car or helicopter, boats puttering down inundated streets, residents drying out their belongings. Life goes on, with resolve, spirit, resignation and all the other emotions that play well to the camera.

What causes flooding?

Most floods are caused in one of two ways. The first is through overload – that is the gutter, the drain, the stream or the river is too small to accommodate the sheer volume of incoming water.

Storm surge is the other main cause of floods. During a bad storm or especially during a hurricane, low atmospheric pressure acts as a sort of vacuum cleaner to the sea below. It sucks the water up into the air, which then hits like a tidal wave when the storm comes ashore. An extreme example is Hurricane Camille of 1969, which fired an 8-metre wall of water at the Gulf of Mexico's coastline.

Changing society + changing climate = worsening floods

That flood damage is worse than ever is largely a side-effect of modern society. Urbanisation is one major factor. Indeed, the relentless human migration from the country to the city has hiked flood risks in several ways.

Part of the problem is as pedestrian as pavement. When rain falls on bare earth, some of it percolates down through the soil, eventually reaching the water table below. This storage buffer is eliminated when land is paved; instead rain is channelled directly into watercourses, making an overload more likely. At the same time, modern farming methods have cut the buffer capacity of the remaining bare earth. Heavy machines on the fields steadily compact the subsurface soil, thus reducing its ability to retain water.

Another problem is holding capacity. When competing with humans for valuable ground space, flood defences sometimes get short shrift. Wetlands are drained and used for building. Rivers themselves get straightened out. Surge ponds, which help rivers cope with periods of overload, are undersized or left out of urban planning.

High population densities only compound the trouble. Add the pavement and the capacity problems together, introduce too much water – and then season with ever-greater concentrations of people and possessions. According to the United Nations, nearly twice as many people live in cities today compared to 50 years ago. The arithmetic is simple: twice as many people in a flood zone means about twice as much damage. And this is not helped any by foolhardy developers who insist on building in areas that should be left as floodplain.

Modern society's other side effect is on our climate. Many scientists and governments now believe that exhaust fumes from cars, power plants and heating systems have turned the earth's atmosphere into a giant greenhouse. Temperatures are on the rise, which means more rainfall, hence more flooding. Global warming also makes weather more severe and in general quirkier and less predictable. So at the same time floods are getting not only bigger, but also sneakier.

How to stay afloat, or even high and dry

For owners of property and businesses, the challenge is to adjust to a brave new world of flooding. And there are two places to start: a review of defences and an insurance assessment.

Much of flood danger can be repulsed with proper defences. This includes walls, banks, levees, berms and other structures that deflect or contain excess water. Buildings also can be made more flood resistant. Key control and electrical systems can be located above expected water levels. Structures can be designed to survive brief inundations, with features such as tiled floors, partly tiled walls and water-resistant plaster.

Of course a sound defence goes beyond what one owner can do. Proper protection can be ensured only through joint efforts of government, insurance companies and policyholders, said the European Federation of Insurers in a recent statement. By definition, repelling floods is a community responsibility, and there is a considerable toolkit available: barriers and containment systems, flood-resistant building codes, emergency plans, public-awareness campaigns and even mandatory insurance schemes.

For extreme events, the only remedy is to spread risk through suitable insurance. Given the change in floodscape of the past few years, now is a good time to review exposure – before the next deluge.

With acknowledgement – Industry Insight

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