OVERVIEW

Embarking on the next evolutionary step

The company's groundbreaking cell captive concept surpasses traditional insurance practices

Guardrisk occupies a unique space within the insurance ecosphere. Until now, the company has studiously avoided assuming large amounts of risk on its own balance sheet. It did this by assisting clients to self-insure, through a concept known as cell captive insurance.

This is where a client sets up a ring-fenced facility in a registered insurer to accept insurance premiums from itself and pay out claims – to itself. The incentive is to keep payouts (and hence, premiums) as low as possible due to good risk management. So, for example, driver re-training programmes have been found effective in reducing accidents and saving on fleet management operating costs and insurance. Any surpluses left over at the end of the year are then paid out as dividends to the cell captive owners, who are both shareholders and clients in the scheme. It's a brilliant concept that resonates with corporate clients, who stand to save significantly on their traditional insurance premiums. It's little wonder that Guardrisk, which pioneered this concept, remains the world leader in this field.

This is different to traditional insurance, where premiums are paid into a common pool. For example, in medical schemes, the sick make a higher claim on the common pool than the healthy, which is why many schemes now offer reduced premiums for those who have regular doctor check-ups and go to gym.

Freddy Mavunda

Walter Cronje: Unique actuarial skill helped mitigate risk and save on costs and premiums

The more active you are, the less likely you are to claim against the medical scheme. Similarly, motor vehicle insurers commonly offer "cash back" for those who make no claim on the common pool over a period of years.

Unlike traditional insurers, Guardrisk earns about 80% of its income from fees and investment income, and is not dependent on underwriting profits.

What it means:
New era for insurer as it takes on new underwriting ventures with the launch of its GGI and other innovative technologies

The company has grown from R843m in premium income and 66 cells 21 years ago, to gross premium income before premium refunds of R19.7bn in 2018. It now has assets of nearly R22.5bn and 300 cells.

All this is about to change with the birth of Guardrisk General Insurance (GGI), which will compete alongside traditional insurers and means Guardrisk will now underwrite certain risks and accept premium income for its own account. The launch of GGI in March 2019 merely announces to the world a business that is already nearly a year old. Walter Cronje, Executive: Guardrisk General Insurance, says the business unit is already generating about R1.6bn a year in premium income.

You won't see Guardrisk's name prominently displayed in advertising or product information. It will continue to operate as a niche, business-to-business insurer, offering products through its extensive broker network. But the same compelling business model that made Guardrisk the global leader in cell captives will be brought to bear in the general insurance market.

Is this not a risky move into an overtraded market that appears to be dominated by a few large players?

"Our unique offering is our actuarial skill deployed at a level previously reserved for the larger corporate type risks, enabling us to maintain a sustainable underwriting margin," says Cronje. "We're not coming into the market to buy market share and undercut our competitors on price. We already have market share. What we're offering is additional insurance capacity in a market where certain risks are close to impossible to insure. And for our existing clients, we bring new insurance products and capabilities, hopefully where they need them most."

Traditional insurers would expect to achieve an underwriting margin of 4%-8% (insurance surplus left after claims have been settled, but without adding head office expenses) and GGI currently does well in comparison, but keeps the focus on the sustainability of the margin rather than chasing the upper limit.

"The same kind of innovation that made us the world's leading cell captive insurer will be deployed to ensure clients are able to access Rolls-Royce underwriting at Mini costs," says Richard Eales, managing executive at Guardrisk Insurance. "This is exciting news

Freddy Mavunda

Richard Eales: Cost-effective packages for midmarket clients

for the midmarket because, until now, the kind of actuarial modelling that we can offer would generally be found only in the large corporate market."

Some of the groundwork for this evolutionary step was done in 2017, when Guardrisk acquired two niche underwriting operations: C&G Guarantees and C&G Engineering Risk Underwriters and Marine Underwriting Managers (MUM). C&G focuses on underwriting in the construction, engineering and guarantees sector, while MUM is a specialist one-stop insurance provider for cargo and hull cover. Over and above this, Guardrisk went out into the market to acquire actuarial and technical underwriting and claims skills to strengthen its in-house capabilities.

"We're fully geared for an inflow of claims," says Cronje. "And just as in the cell captive market – where we focus on reducing the costs of claims through more efficient procurement – we are doing the same at GGI."

A little over a year ago, Guardrisk restructured its business around life and nonlife cell captive and traditional nonlife insurance, in part to comply with changes to the law. The new Insurance Act requires all insurers to relicense their businesses. Like most players in the insurance space, Guardrisk went through a business overhaul to meet the act's prescriptions, but also saw an opportunity to expand its data warehousing and actuarial capabilities. In practical terms, it is now able to offer clients a deeper-level understanding of their business and insurance risks.

There is no doubt that the regulatory burden on insurers has escalated with the enactment last year of the Financial Sector Regulation Act, known as the Twin Peaks Act. This introduced two new regulatory bodies: the Financial Sector Conduct Authority (replacing the Financial Services Board), with the Prudential Authority at the SA Reserve Bank overseeing financial stability.

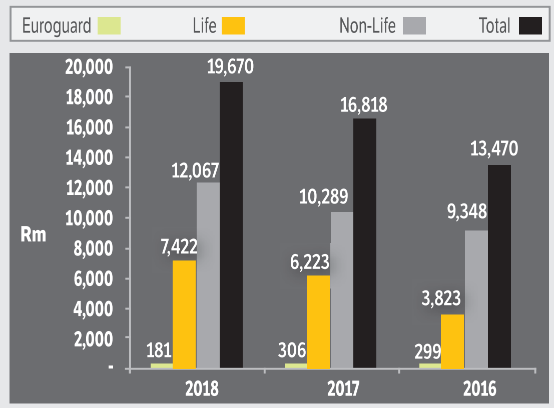
Guardrisk was able to turn this compliance burden into a business opportunity. The magic is in the voluminous data and analytics behind the business. For instance, data has shown that certain drivers are more accident-prone than others, and that certain routes are more prone to cause breakdowns.

Once these risks are understood, fleet managers can reduce the costs of insurance and vehicle repair by retraining drivers or avoiding pot-holed or dangerous roads. Guardrisk's actuarial intelligence is able to slice and dice data in many different ways to identify and mitigate risk. x

Gross premium income before premium refund

R19.7bn

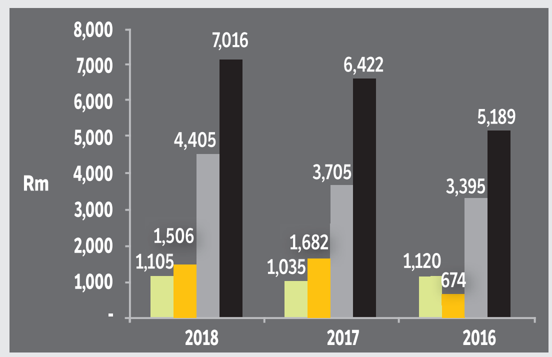
This is an important and traditional indicator of the growth opportunities in a specific market segment or group of companies



Cell shareholders' funds

R7bn

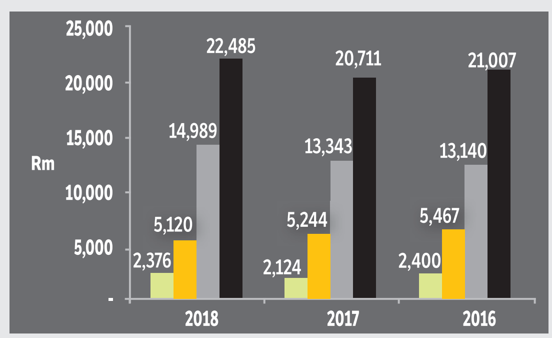
A good indicator of the cell captive model's success is the building of capacity within clients' cells



Assets

R22.5bn

Asset growth is aligned with premium growth and signifies the business's overall financial strength



Source: Guardrisk

MILESTONES

The Guardrisk evolution over the years

- **Formed in 1993 — pioneered cell captive concept, a first in the world;**
- **1994 — premium income of R56m from 12 clients;**
- **1999 — cell captive concept extended to life insurance;**
- **2003 — premium income exceeds R2bn and assets of R2.53bn;**
- **2013 — premium income exceeds R9bn, and assets under management R12.5bn;**
- **2014 — sold to MMI Holdings;**
- **2018 — gross premium income before premium refund of R19.7bn, assets R22.5bn and 300 cells;**
- **2019 — achieved level 1 BBBEE rating as part of MMI Holdings and entered the traditional insurance underwriting market with the launch of Guardrisk General Insurance. x**

GGI

Staying ahead of the game

Innovative technology has set the company apart

Herman Schoeman: Specialist underwriting capability was the catalyst for success

● Guardrisk, the world leader in cell captive insurance, got where it is because of the partnerships that it developed with clients – brokers and reinsurers since its launch in 1993 – and by avoiding taking on too much risk on its own balance sheet.

That has now changed, with the launch of Guardrisk General Insurance (GGI), which marks the company's official foray into traditional commercial and corporate insurance.

"Becoming the leader of the pack was the easy part of the Guardrisk story. Staying well ahead of competitors in a competitive and, I think, world-class industry, is the tough part," says Guardrisk CEO Herman Schoeman.

Today Guardrisk's international footprint extends to Mauritius and Gibraltar, where its offering has been replicated mainly for its client base, who also operate in the wider Southern African and European markets.

One of the cornerstones of Guardrisk's success is its specialist underwriting capability. Over the years, specialist underwriters have moved away from large general insurers, seeking other ways to apply their skills.

Guardrisk has entered into a number of underwriting manager agreements with these specialist underwriters, and now offers a range of niche insurance cover options through Underwriting Management Agencies.

A critical element in Guardrisk's campaign to stay ahead of the game is technology. The insurtech revolution is the next frontier in the global insurance world, and Guardrisk is using this technology to bring affordable products to the market, quickly and efficiently.

An application programming interface created by SA fintech company Root, and backed by Guardrisk's main shareholder MMI, allows software developers to build and prototype insurance products at little or no cost.

In addition to allowing insurers to track and reward prudent policyholders, insurtech also allows innovations such as premiums based on asset usage, where the less you use, the less you pay.

Guardrisk will now be extending the rigour of scientific underwriting – generally found only in the large corporate market – to the midmarket sector, bringing cost savings and efficiencies enjoyed at the upper end of the market to the mid segment.

GGI's offering includes motor; engineering; marine; personal accident; corporate and specialist commercial; medical gap cover; and guarantees, with a broader liability offer to follow shortly.

The Guardrisk story is far from finished, says Schoeman. In fact, it may just be getting started. **x**

MUNICIPALITIES

Special packages help mitigate risks

A complex underwriting system led to Guardrisk's municipal book returning to profitability after two years of losses

● There are 263 municipalities in SA, but only 49 achieved clean audits from the auditor-general in 2016. The situation is so dire that the auditor-general has been given additional powers to enforce recommendations intended to improve municipal financial health and hold responsible executives to account.

Irregular spending was reported at R50bn in 2016, and, possibly, as high as R80bn. Given the dire state of municipal finances, it seems unusual that anyone would extend insurance cover to the sector. But Guardrisk has had a long association with this portfolio, developing into a significant component of its underwriting business.

Of the 263 municipalities, 136 are insured by Guardrisk. Most other insurers have deserted this segment of the market, forcing some municipalities to even purchase expensive cover in the overseas market, subject to large deductibles.

Walter Cronje, head of Guardrisk General Insurance (GGI), says lack of adequate information is one the biggest problems facing insurers. "As a general rule of thumb, municipalities have poor record-keeping and incomplete asset registers. That means we have to dig to find the information we require before we can provide cover against specific risks."

Guardrisk did not want to turn its back on what has been a fairly loyal market segment. By tightening its risk pricing and limiting cover in the absence of credible information, its municipal book has returned to profitability after two years of losses. The major risks facing municipalities are under-insurance of critical assets and infrastructure maintenance.

Cronje says the company does not insure the large metros as their size and complexity puts them in the category of large corporate risks, a market segment where Guardrisk has limited risk appetite.

The issues around infrastructure maintenance and record keeping highlighted earlier put the metros beyond the scope of Guardrisk's underwriting focus for now. The size of some metros has forced them to reinsure risks in the overseas market, where premiums are higher and deductibles larger.

The latest Insurance Amendment Bill and its associated Reinsurance Guidance Note seeks to limit local insurers in the quantum of reinsurance purchased offshore. This will make it difficult to purchase reinsurance in the offshore markets, worsening the challenges facing the metros in securing appropriate insurance cover. **x**

Corporate Report compiled by Ciaran Ryan
Advertising executive: Cris Stock

Guardrisk was founded, and has thrived, on a bedrock of innovation. In 2019 the group enters the next exciting phase of its evolution, positioning itself in the conventional risk-taking space with the launch of Guardrisk General Insurance.

The Guardrisk General Insurance offering currently includes motor, engineering, marine, personal accident, corporate commercial, medical gap cover and guarantees, with more innovation to come.

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