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State insurer assesses election year risks

By **KHULEKANI MAGUBANE**

● Sasria, the state insurer providing cover for riots and public disorder, is in discussions with reinsurers to continue providing grid-collapse cover next year as it keeps an eye on possible social and economic risks in an election year.

These include the possibility that the Eskom grid could completely collapse, despite an improvement in the energy outlook over the past few months.

"Insofar as grid failure is concerned, as for now up to the end of March next year Sasria is going to continue to give that cover. We will then go into negotiations with our reinsurers in ... February, and they are going to assess the likelihood of grid failure," said Sasria CEO Mpumi Tyikwe, who anticipates that more reinsurers will exclude grid failure from their cover.

"The indication we are getting now is that they will give us a grid-failure exclusion. Which means currently, one of 17 reinsurers have that exclusion, but come April you could have more giving that grid-failure exclusion," he said.

Earlier this year, Sasria told its clients the reinsurance market had urged it to eliminate coverage for claims stemming from grid failure.

It had to withdraw a circular announcing it would no longer be providing damage cover for grid collapse after local insurers complained that they were not consulted and given the chance to develop contingency plans.

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>
> **Mpumi Tyikwe**
> Sasria CEO

Tyikwe said that if reinsurers exclude the cover, Sasria could approach providers of a special catastrophe bond offering funding to cover the event. But whoever provided the bond would require an upfront fee to make the fund available.

"We are exploring every option on the table. The team is working hard to find an alternative solution. A catastrophe bond is an alternative source of insurance for a business. Normally we get capital from shareholders; if they don't have capital, we go to reinsurers. If they don't have capital we can go to a catastrophe bond for specific categories."

He said that if the covered risk materialised, the issuer of the bond would give Sasria the money, but if it didn't they would keep the fee.

However, an increase in energy availability had instilled confidence that a complete collapse of the grid could be avoided.

Tyikwe said that while the grid was now under strain with the return of stages 4 to 6 of load-shedding, the country had not seen a repeat of the failure of any of the 81 units of generation capacity as they had been adequately maintained.

"Unplanned maintenance is reducing. This summer's planned maintenance is three times what it was in winter. I have good reason to believe that it's unlikely that we will get grid failure. Private sector power generation shows that even over the next two years it is approaching a solution."

Tyikwe said approaching the fiscus for a bailout would be the last resort for the insurer, given the impact that load-shedding and port and freight constraints were having on the economy.

"If you look at the challenges that Transnet is having, the mining sector, and that we have a very high unemployment rate in the country, the water issue being touch and go as well, those are the things that I would say keep me more awake at night than this single event happening on its own."

Thanks to R22bn received from the Treasury through budget allocations, Sasria made a significant recovery after the unrest that swept KwaZulu-Natal and Gauteng in 2021, Tyikwe said.

The wave of violence and looting created a R50bn dent in the economy and wiped out an estimated 5,000 jobs.

"The claims [from the unrest] got reduced from R37bn and we worked to R31.5bn. That gave us some savings. We got the premium to start reflecting the risk. We increased the premium by 48%. Is that reflective of the risk? Not quite. But it's a step forward."

The loss due to the 2021 unrest was the highest suffered by any insurance company in South African or African history, he said.

Meanwhile, the South African Reserve Bank released its Financial Stability Review for November this week.

Senior economist Herco Steyn said the central bank and its Financial Sector Contingency Forum were planning for the "improbable, but not impossible scenario of a complete national electricity grid shutdown or another potential systemic event".

Tyikwe said Sasria could withstand an event in South Africa causing up to R17.5bn in claims.

Anything above that could prompt it to go back to the taxpayer, but the insurer had not experienced a case such as the 2021 unrest claims of R31.5bn since its formation in 1979, he said.