LEARNER GUIDE

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Demonstrate insight into current affairs in the financial services sector

Introduction

The purpose of this module is to introduce you to the enormous wealth of information available in the media. Most of the events appearing in newspapers, financial magazines and on the Internet, whether social, economic or political, have some form of influence on the financial markets.

This module is intended to promote general knowledge and understanding of current affairs in the field of insurance.

The emphasis is on reading newspapers and other media. It aims to encourage and empower you to understand what you read and hear in the media and to practically apply the information.

Purpose of the Unit Standard

This Unit Standard is intended to promote an in-depth knowledge and understanding of current affairs in the Financial Services sector in order to ensure knowledgeable and informed workers. It requires the application of knowledge and interpretation of current affairs and provides an opportunity for the learner to integrate theory and practice and to engage in thinking processes at a high level.

The qualifying learner is capable of:

- Analysing the impact of changes in financial indicators on Financial Markets.
- Analysing issues related to corporate governance and ethics.
- Analysing corporate events and the potential impact on the Financial Services industry.
- Identifying commentators and analysts in the industry and the potential impact of their opinions on the market. .

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Module 1

Analyse the impact of changes in financial indicators on Financial Markets

This Module deals with:

- Three global financial indicators tracked over a period of six months and the changes are recorded graphically
- The expected effect of changes in three global financial indicators on the Financial Markets with examples
- Three domestic financial indicators tracked over a period of six months and the changes are recorded graphically
- The expected effect of changes in three domestic indicators on the Financial Markets with examples
- Three global, legal, political and/or socio-economic events that could impact on the Financial Markets in terms of the potential impact
- The impact of a selected global event in terms of the potential impact on South Africa

SO1 AC1: Three global financial indicators are tracked over a period of six months and the changes are recorded graphically.

Some global financial indicators include: Output, prices and jobs, The Economist commodity-price index, The Economist poll of forecasters, Trade, exchange rates, budget balances and interest rates, Markets, The Economist commodity-price index, Money and interest rates, Foreign reserves, Retail sales, producer prices, wages and exchange rates.

Global Economic Outlook 2013, May 2013 update

The global economy has yet to shake off the fallout from the crisis of 2008-2009. Global growth dropped to almost 3 percent in 2012, which indicates that about a half a percentage point has been shaved off the long-term trend since the crisis emerged. This slowing trend will likely continue. Mature economies are still healing the scars of the 2008-2009 crisis. But unlike in 2010 and 2011, emerging markets did not pick up the slack in 2012, and won't do so in 2013. Uncertainty across the regions – from the post-election 'fiscal debate' question in the U.S. to the Chinese leadership transition and reforms in the Euro Area – will continue to have global impacts in sluggish trade and tepid foreign direct investment.

Main results:
Across the advanced economies, the Outlook predicts 1.2 percent growth in 2013, compared to 1.1 percent in 2012. The slight uptick is largely due to Europe, which is expected to return to very slow growth of 0.3 percent after the -0.2 percent contraction in 2012. U.S. growth is expected to fall from 2.2 percent in 2012 to 1.6

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percent in 2013.
In the medium-term, the outlook expects the U.S. and other advanced economies to go some ways toward closing large output gaps – that is, the difference between current output and the level of output an economy can produce in a noninflationary way, given the size of its labour force and its potential to invest in and create technological progress. The current output gap is a result of weak demand due to the 2008-2009 crisis. This development should allow the U.S. to average 2.3 percent annual growth during 2013-2018 before falling to 2.0 percent in 2019-2025. In the same two periods, Japan is expected to grow at 0.9 percent per annum.
A more significant slowdown is expected for less mature economies over the next year – and beyond. Overall, growth in developing and emerging economies is projected to drop from 5.5 percent in 2012 to 5.0 percent in 2013, with growth falling in China from 7.8 to 7.5 percent and in India from 5.5 to 4.7 percent. From 2019-2025 emerging and developing countries are projected to grow at 3.3 percent.
The long-term global slowdown we project to 2025 will be driven largely by structural transformations in the emerging economies. As China, India, Brazil, and others mature from rapid, investment-intensive 'catch-up' growth to a more balanced model, the structural 'speed limits' of their economies are likely to decline, bringing down global growth despite the recovery we expect in advanced economies after 2013.

- **International indices**

Dow Jones Industrial Average (DJIA) - The DJIA is composed of 30 widely traded blue chip shares (large, well-established companies that are leaders in their respective industries) on the New York Stock Exchange.

S&P 500 - The S&P 500 index tracks over 70% of all U.S. equity and therefore provides a good indication of the performance of the overall US equity market. The S&P 500 is a market-weighted index and companies are selected based on their market size, liquidity, and sector.

FTSE 100 (pronounced "footsie") - This is the top 100 companies listed on the FTSE (Financial Times Securities Exchange) in the UK, and is used as an indication of the performance of the London Stock exchange.

NASDAQ Composite Index - The NASDAQ tracks all of the 5000+ stocks listed on the NASDAQ (once an acronym for the National Association of Securities Dealers Automated Quotation system). A large proportion of the companies listed on the NASDAQ are technology stocks, making it less representative of the market as a whole.

DAX 30 – the 30 largest shares listed on the German stock exchange, being representative of the performance of the German stock market.

CAC 40 - the 40 largest shares listed on the Paris stock exchange, being representative of the performance of the stock market in France.

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SO1 AC2: The expected effect of changes in three global financial indicators on the Financial Markets is explained with examples

Money Supply
The money supply is regarded as being relevant. One view is that many economic problems, including inflation, can be traced to excess in money supply, although others doubt this. Most, however, probably feel that the supply of money affects the fixed interest market more directly than the general equity market.

Balance of Payments
South Africa trades internationally, therefore the balance of payments figures are of great importance. Trade depends on imports and exports and, while internal policies can influence both, external influences, such as a recession in other parts of the world, and particularly the state of the economy of the USA, have significant effect.

Commodity prices
The balance of payments and the economic welfare of South Africa are greatly impacted by the gold price. The world prices of platinum, diamonds and other minerals that are exported, such as coal, also have a significant effect, while the importance of the oil price is not to be forgotten. Commodity prices and their effect on the general economy can have an impact on interest rate decisions.

The Consumer Price Index
The Consumer Price Index shows the movement of retail prices and is the measure used for inflation. There is typically quite a strong correlation between the rate of inflation and interest rates, since interest rates are often raised in order to dampen inflationary pressures in the market.

Currencies
The stability of the rand against major international currency also has a direct effect on our market. A foreign investor would require a currency to be stable to obtain maximum benefit from the return received in Rands.

International Indicators - End of Day		
DOW JONES INDUSTRIA	10255.28	
S&P 500 INDEX	1102.83	
NASDAQ COMP INDEX	2303.03	
NIKKEI 225	9914.19	

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SO1 AC3: Three domestic financial indicators are tracked over a period of six months and the changes are recorded graphically

South Africa is the economic powerhouse of Africa, leading the continent in industrial output and mineral production and generating a large proportion of Africa's electricity.

The country has abundant natural resources, well-developed financial, legal, communications, energy and transport sectors, a stock exchange ranked among the top 20 in the world, and a modern infrastructure supporting efficient distribution of goods throughout the southern African region.

The country's financial systems are sophisticated and robust. The banking regulations rank with the best in the world, and the sector has long been rated among the top 10 globally.

Not only is South Africa itself an important emerging economy, it is also the gateway to other African markets. The country plays a significant role in supplying energy, relief aid, transport, communications and investment on the continent. Its well-developed road and rail links provide the platform and infrastructure for ground transportation deep into Africa.

GDP (Gross Domestic Product)
The Gross Domestic Product (GDP) in South Africa expanded 0.90 percent in the first quarter of 2013 over the previous quarter. GDP Growth Rate in South Africa is reported by the Statistics South Africa.
Historically, from 1993 until 2013, South Africa GDP Growth Rate averaged 3.19 Percent reaching an all-time high of 7.60 Percent in March of 1996 and a record low of -6.30 Percent in March of 2009.
South Africa export-based economy is the largest and most developed in Africa. The country is rich in natural resources and is a leading producer of platinum, gold, chromium and iron.
From 2002 to 2008, South Africa grew at an average of 4.5 percent year-on-year, its fastest expansion since the establishment of democracy in 1994.

However, in recent years, successive governments have failed to address structural problems such as the widening gap between rich and poor, low-skilled labour force, high unemployment rate, deteriorating infrastructure, high corruption and crime rates. As a result, since the recession in 2008, South Africa growth has been sluggish and below African average.

This page includes a chart with historical data for South Africa GDP Growth Rate.

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South Africa's inflation rate (CPIX)

The inflation rate in South Africa was recorded at 5.90 percent in April of 2013. Inflation Rate in South Africa is reported by the Statistics South Africa.

Historically, from 1968 until 2013, South Africa Inflation Rate averaged 9.53 Percent reaching an all-time high of 20.90 Percent in January of 1986 and a record low of 0.20 Percent in January of 2004. In South Africa, the most important categories in the consumer price index are Housing and Utilities (24.5 percent of total weight), Transport (16.4 percent of total weight) and Food and Non-Alcoholic Beverages (15.4 percent of total weight). Others include: Miscellaneous Goods and Services such as personal care, insurance and finance (14.7 percent); Alcoholic Beverages and Tobacco (5.4 percent); Household Contents, Equipment and Maintenance (4.8 percent); Recreation and culture (4.1 percent); Clothing and Footwear (4.1 percent).

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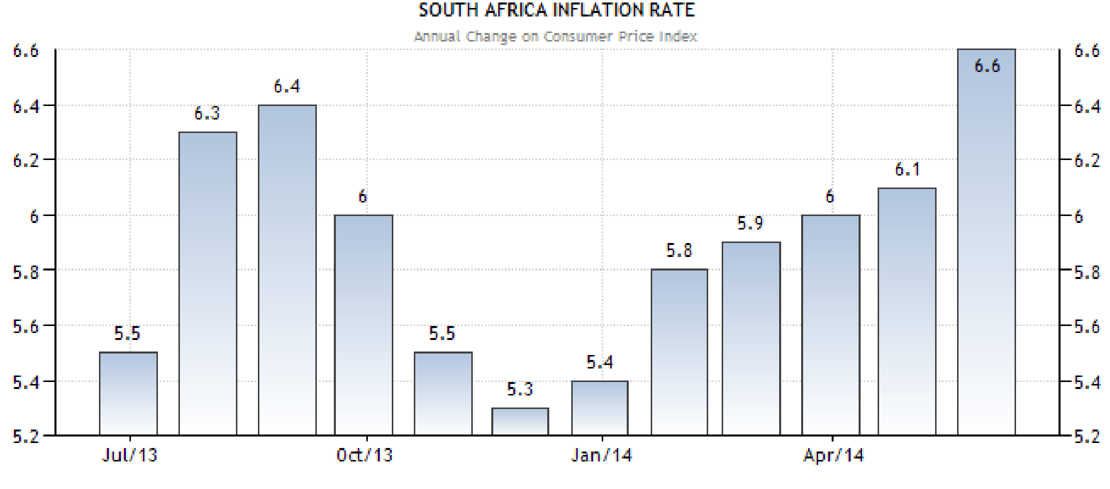
The smallest components are Restaurants and Hotels at 3.5 percent; Education at 3 percent; Communication at 2.6 percent; and Health at 1.5 percent. The CPI basket was revised in January of 2013.

This page includes a chart with historical data for South Africa Inflation Rate.

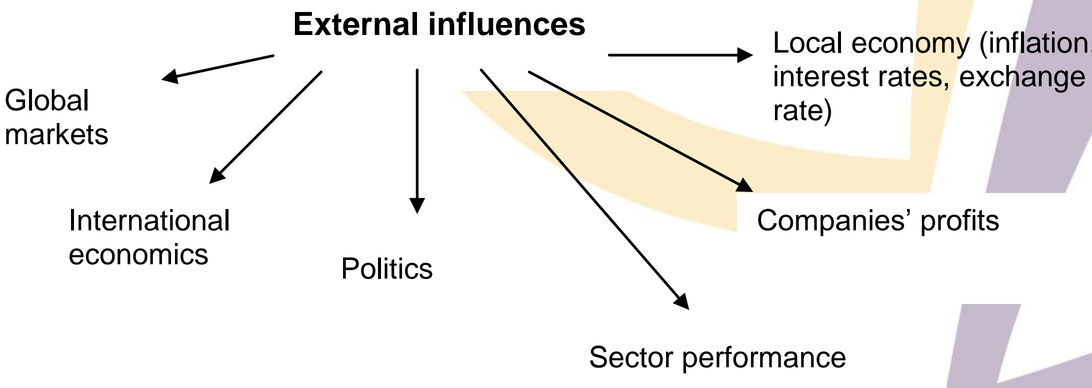


(Data source: Trading Economics)

SO1 AC4: The expected effect of changes in three domestic indicators on the Financial Markets is explained with examples

Having insight into the structure of the collective investment industry and the various underlying financial instruments, it is understandable that it does not function in isolation. There are various external events, which impact on the perception of collective investment schemes, their structure, performance and choice as an investment option.

In addition, the underlying financial instruments of collective investment portfolios (whether shares, bonds or money market) also react to changes in economic, political, market and company specific conditions.



The media is making investors increasingly aware of events, both local, and global that could potentially impact on the performance, structure and popularity of collective investment scheme portfolios as an investment option. Examples of such readily available media are the “Personal Finance” section of Saturday newspaper and the Sunday “Business Times” newspaper supplements, which most existing and potential investors have easy access to.

It is imperative for those working in the investment industry to keep abreast of developments and potential changes in the industry in order to be able to respond to client’s queries and/or concerns and to continue to grow their industry knowledge over time by building on the knowledge and skills they have already gained.

Global Markets
Movements on the overseas stock exchanges have a knock-on effect in our local market. The frequently used saying “when the US sneezes the rest of the world catches a cold”.

International Economics
Economic growth, interest rates and inflation will all impact on the local economy, company profits and therefore stock market performance. For e.g. if global growth declines, there will less demand for South African exports, which will negatively impact on local companies’ earnings, thereby affecting their share price. Lower exports will also cause the rand to weaken, which will make imported goods more expensive, thus causing a rise in inflation, which could in turn lead to a rise in interest rates.

Politics
Political uncertainty in South Africa and the SADC will increase the risk associated with investing in our market. This could cause an outflow of foreign money or decline in foreign investment inflows, which will adversely affect the local market.

Sector Performance
Sector specific performance will affect those portfolios investing in that particular sector, for e.g., a rise in the gold price, will positively impact gold shares and thereby improve the performance of a gold fund.

Companies’ Profits
A company’s share price is an indication of the future earnings potential of the company. Higher profits should therefore translate into a higher share price for the company, although market and sector specific performance can cause short-term fluctuations in the share price.

Local Economy
Local inflation, interest rates, the rand exchange rate, etc. all impact on company performance and therefore share prices, which will in turn impact on Collective Investment scheme portfolios.

As events in the Social Environment occur, the insurance industry is faced with a need to act positively to deal with the outcomes of such events.

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New underwriting criteria are set, reinsurance needs are more closely realised, risk control becomes more important, and product offerings are amended to provide cover that relies on the principles of insurance in terms of potential exposure.

Faced with events in the Social environment, the insurance industry will be affected as follows:

- The financial requirements of insured losses would need to be met, often at great expense and effort by insurers
- Reinsurance protection would be reassessed, perhaps reduced. Acceptance criteria are tightened, and there is a closer watch on rating, risk assessment and the risk management requirements on the part of the insured.
- More intense statistics collection and investigation is implemented.
- Emergency operational requirements are implemented to perform the additional tasks – e.g. temporary staff, mobile claims settling units, customer service lines.
- Survey activities are more closely scrutinised and more rigorously followed.
- Claims history becomes more important to insurers at the risk offering stage.
- Product offerings may be altered; resulting in reduced cover, or even excluded cover.
- Greater market networking takes place, as unified and effective procedures for dealing with future events are implemented.
- More intensive research results, to plan and prepare for future events, and to lessen their impact wherever possible.

Political Environment:
Political events are those that affect the State, or its government, and these events have a wide impact on the insurance industry. Often the insurance industry is nationalised by governments, which means that the government acts as the risk carrier, under the name of a national insurer.

Countries in Southern Africa that have nationalised the industry include Lesotho and Swaziland. All countries have legislated regulations that govern the insurance industry; such the Short Term and Long Term Insurance Acts in South Africa.

Political disagreements often lead to wars (see above) but in many instances also lead to the imposition of economic sanctions on a nation that is deemed to follow political ideals that conflict with more powerful nations' ideology. In recent years, these sanctions have affected South Africa and Zimbabwe, Cuba, Iraq, Taiwan, China and others to varying degrees.

The impact on the economic environment and particularly insurance, is that trade curtailments reduce the need for insurance cover, particularly for Marine cover and export and import risks. Conversely, insurance *needs are enlarged*, when carriers are refused overfly rights and had to make longer journeys to reach destinations.

Sanctions also affect the economy of the country they are imposed on as a whole. Without international trade opportunities being available, gross revenues are reduced, and these impacts again include the knock-on effect to insurance.

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Mostly, however the people of the nations are the ones who suffer most. Deprivation, poverty and suffering are increased by these factors, and so political events also affect the economy.

SO1 AC5: Three global, legal, political and/or socio-economic events that could impact on the Financial Markets are selected and analysed in terms of the potential impact

Events in the SADC

As an emerging market, South Africa is affected by other emerging markets, especially in the SADC (Southern African Developing Communities) due to their close proximity and fears their issues will spread over their borders into ours. This potentially affects sentiment towards South Africa as an investment option. The contagion effect of news of instability in the SADC can negatively influence our markets, and thus Collective Investment Scheme performance.

Socio-economic events, for e.g. AIDS, famine, plague

Natural disasters, for e.g. floods and droughts

Political issues, such as the state of affairs in Zimbabwe at present.

Elections in Zimbabwe: Fighting Bullets With Ballots

By Douglas Mwonzora: Feb 2013

The cells at Harare central police station are packed from wall to wall with political prisoners. Men and women walk barefoot on floors dirtied with human waste. The smell is unbearable. These are the "lucky ones." Other victims of ZANU-PF political violence and intimidation are beaten, tortured, and killed -- their bodies abandoned in deserted fields. As the Secretary for Information and Publicity of the Movement for Democratic Change (MDC), I receive phone calls daily informing me of arrests of MDC supporters and missing persons who are members of our Party. These calls are nothing new. For 33 years, Zimbabweans have born the scars of Robert Mugabe's dictatorial ZANU PF regime. We have been kidnapped, robbed, beaten, tortured, and many of our brothers, sisters, and children have been killed. But we are not broken and our resolve has never been stronger. We know now, more than ever, is our time to enact real change and bring freedom and democracy to this troubled nation.

In 2013, Zimbabweans will again go to the polls. The violence already being carried out by

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Robert Mugabe's ruling ZANU PF party, harkens back to the atrocities that occurred when MDC President Morgan Tsvangirai won the 2008 presidential election. Refusing to accept the outcome, Mugabe's vote rigging efforts successfully forced a run-off election. To stop the subsequent brutal and widespread ZANU PF politically motivated violence, Dr. Tsvangirai withdrew from the run-off election.

Unlike the more discernible strategies of tyrants such as Muammar Gaddafi in Libya and Hosni Mubarak in Egypt, Robert Mugabe's reign of terror veils outright dictatorship under the guise of democracy. In spite of a ruling party that has demonstrated time and again its willingness to carry out violence to retain power, Zimbabweans are committed to the power of the vote. My country represents one of the only places in the world where democracy stands a real chance at overcoming authoritarianism without violent disposition of the regime -- yet the world has turned a blind eye to our struggle.

In the past two weeks alone, we have observed clear signs that the ZANU PF regime is intent on suppressing Zimbabwe's democratic transition. In our capital city of Harare, 19 MDC activists were arrested during a door-to-door voter registration campaign. Police also detained two journalists from the *Zimbabwe Independent* on allegations of publishing falsehoods after reporting on alleged private talks between Prime Minister Tsvangirai and the country's security chiefs. In Matabeleland South, security agents raided my party's offices and impounded 15 motorbikes used for campaign and voter registration activities. In a separate incident, MDC's youth leader Solomon Madzore was jailed for allegedly referring to Robert Mugabe as a "limping donkey." On Tuesday, Ndomupeyi Matshoba, an MDC Youth Assembly member in Harare was attacked and suffered cuts and bruises to her face while out working on election activities. The list goes on and on.
After three decades of corrupt cronies and catastrophic government policies that have turned the breadbasket of Africa into a nation unable to feed its own people, Zimbabweans have had enough. The time for change is now. The stakes couldn't be higher. This may be our last chance to free ourselves from tyranny through democratic means.

The people of Zimbabwe are fighting guns with ballots, and democratic nations around the globe neglect to take notice. Many in Zimbabwe hope that the road to elections and the transition to a new, more democratic country will stand as an example of freedom peacefully overcoming oppression, but we need support from the democratic leaders of the world. On Election Day, we are confident that the people of Zimbabwe will vote for change, but we cannot underestimate the will of Mugabe's regime to commit voter fraud, inflict violence, exercise intimidation tactics, and rig the election outcome. All we hope for is a free and fair election, where the people of Zimbabwe can choose their future without the fear of dying for their vote. We can only enact change if democratic nations pledge to monitor the political environment in Zimbabwe and help us ensure a free and fair poll. Even muffled by state-controlled media and government controlled communications, the voice of the people continues to grow louder. Together -- and with the help of democratic nations across the globe -- we can ensure free and fair elections and a peaceful step forward on Zimbabwe's path toward freedom and democracy.

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Zuma spotlights youth unemployment

June 2 2013 at 12:47pm
By SAPA

REUTERS

Johannesburg - The government and its social partners are addressing the problem of youth unemployment, President Jacob Zuma said.

“The latest studies showed that almost three quarters, or 72 percent of South Africa’s unemployed, are younger than 34,” he said in a speech prepared for delivery at the International Co-operation Agency TICAD V seminar in Japan on Saturday.

In the next 20 years, South Africa would have more than 14 million young people between the ages of 15 and 29, and this would reach 15.1 million in 2021, he said.

The effects of decades of racial exclusion were still evident in both employment levels and income differentials.

“The system of apartheid also created a serious skills deficit in our economy.”

Zuma said South Africa was also host to large numbers of young people from Africa.

He said youth unemployment featured “prominently” in the National Development Plan.

“We have developed a number of sectoral strategies especially focusing on skills development to meet these challenges.

“The National Development Plan is our blueprint document that will guide us through this challenging task.”

He said Southern African Development Community region ministers responsible for youth matters were meeting in Swaziland to address youth issues, including unemployment. – Sapa

SO1 AC6: The impact of a selected global event is interpreted in terms of the potential impact on South Africa.

Research on a global event and explain how it can impact on the South African economy.

Fear spreads, borders close as Ebola restricts travel in West Africa

By CHRISTINE MAI-DUC

Concerns over Ebola are prompting a growing number of African countries to tamp down on travel, a move the World Health Organization says could worsen the outbreak.

South Africa announced Thursday that all noncitizens traveling there from three of the virus- stricken countries will be turned away, and that South African citizens arriving from the “high-risk” countries of Guinea, Liberia and Sierra Leone will be subject to strict screening, including temperature checks.

A fourth nation affected, Nigeria, was listed by South Africa as a “medium-risk” country, along with Kenya and Ethiopia, which have had no reported cases of Ebola, but which South African officials said were major hubs of travel to the area.

“Even though the outbreak has been limited to these countries in West Africa, the spread to other countries needs to be contained,” the South African Cabinet said in a statement released Thursday. Officials said they remain “committed to ensuring the health and well-being of all our citizens.”

Permanent residents living in South Africa and traveling back from those countries will not be allowed in, according to the statement. Exceptions could be made if the travel is considered “absolutely essential,” officials said. South Africans are also being asked to delay all but the most essential travel to Ebola-affected countries.

South Africa is the latest in a growing list of African countries that have announced travel restrictions because of fears over Ebola’s spread.

This week, the government of Kenya announced that it was closing its borders to all travelers coming from the three countries, except for health professionals and returning Kenyan citizens. Anyone returning to Kenya from Sierra Leone, Guinea

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and Liberia would be subject to “extensive screening and close monitoring,” officials said.

The World Health Organization has urged countries dealing with the Ebola outbreak to conduct thorough exit screening at airports and other borders, but has not issued any wide-scale travel advisories.

One WHO spokesman says such restrictions could negatively affect the battle against Ebola that’s already underway in those countries.

“Travel restrictions don’t stop a virus,” the WHO's Gregory Hartl told the Los Angeles Times by phone. “If airlines stop flying to West Africa, we can’t get the people that we need to combat this outbreak, and we can’t get the food and the fuel and other supplies that people there need to survive.”

Hartl says WHO officials have experienced problems traveling in and out of the area as they struggle to contain the disease, and that countries instituting such bans could be creating a “humanitarian emergency” by restricting movement.

Senegal, Gambia, Nigeria and the Ivory Coast also limited travel from the region early in the Ebola outbreak, and Kenya Airways, British Airways and African airlines ASKY and Arik Air have all suspended flights to some of the affected countries.

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Aftermath: The MH17 Tragedy

As global aviation body IATA puts responsibility for airspace risk assessment on governments, analysts say urgent action is needed.

By

Aarti Nagraj
August 2, 2014

The tragic shooting down of Malaysia Airlines flight MH17 over Ukraine on July 17, which killed all the 298 people on board, has shocked the airline community and brought sharp international focus on the issue of flying over conflict zones.

Bound for Kuala Lumpur from Amsterdam, a ground-to-air missile hit the airline when it was flying over war-hit Eastern Ukraine, where pro-Russian rebels are battling the Ukrainian government.

Airlines across the world including Dubai-based Emirates and German flag carrier Lufthansa have called for a summit to discuss and review risk assessment for airspace.

Tim Clark, president of Emirates, told Reuters: “The international airline community needs to respond as an entity, saying this is absolutely not acceptable and outrageous, and that it won’t tolerate being targeted in internecine regional conflicts that have nothing to do with airlines.

“If you go east to west or vice-versa between Europe and Asia, you are likely to run into areas of conflict,” he said.

“We have traditionally been able to manage this. Now I think there will have to be new protocols and it will be up to International Civil Aviation Organisation (ICAO) and International Air Transport Association (IATA) and the aviation community to sort out what the protocols have to be.”

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Addressing the issue, IATA Director General and CEO Tony Tyler said in statement that the incident was “an attack against the air transport system which is an instrument of peace.”

He said that governments and air navigation service providers inform airlines about the routes that they can fly and outline the restrictions, with carriers complying with that guidance.
“Malaysia Airlines was a clearly identified commercial jet. And it was shot down – in complete violation of international laws, standards and conventions – while broadcasting its identity and presence on an open and busy air corridor at an altitude that was deemed to be safe.

“Governments will need to take the lead in reviewing how airspace risk assessments are made. And the industry will do all that it can to support governments, through ICAO, in the difficult work that lies ahead.”

He also called for a quick investigation into the attack adding that: “No effort should be spared in ensuing that this outrage is not repeated.”

While global aviation bodies such as IATA and ICAO could orchestrate international policy on flying rules over war zones or hotspots, the main challenge lies in identifying and establishing what exactly a threat is, explained Saj Ahmad, aviation analyst at StrategicAero Research.

“What one airline deems a threat may not apply to another. Iraq is a great example. Plenty of flights in and out of the country as well as over it – not everyone will sing from the same hymn sheet,” he said.

As an immediate aftermath, Ahmad says he doesn’t expect to see any major decision emerging from the aviation sector. “Beyond a quickly hashed-together summit, I don’t see any sort of industry- leading initiative that will fundamentally change the way airlines fly around active theatres of war except avoiding such air space altogether and a bunch of terse words condemning those responsible for the downing of MH17,” he said.

However, he urged governments and the aviation sector to come up with strong measures to prevent such an incident from ever recurring.

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"It is a huge tragedy that has happened and an even bigger tragedy that it has taken the likes of MH17 to happen before people and airlines sprang into action."

Ahmad said the incident was a collective failure of governments, airlines and air space operators who knew what risks are involved yet did nothing to protect airlines and airplanes from flying into areas where the risk of something devastating could be propagated.

"We have to take stock of the MH17 disaster and learn – this sort of occurrence simply cannot and must not ever happen again. It would be a travesty and a slur for all the innocents that perished on MH17."

WHAT NEXT FOR MALAYSIA AIRLINES?

The MH17 tragedy comes just months after another Malaysia Airlines flight, MH370, disappeared off Malaysia's east coast in March. The flight from Kuala Lumpur to Beijing, with 239 passengers and crew aboard, vanished from radars less than an hour after take-off on March 8.

Massive international search efforts have yielded no results so far and no trace of the flight has been found. Although unrelated, the twin disasters, occurring so close to each other, have raised serious questions about the future of the airline.

"In the short term and as we witnessed with the events after MH370, Malaysia Airlines will take a massive financial hit," said Ahmad.

"Just by association, people will not want to fly them and will take their business elsewhere. The airline isn't to blame but it is their branding which people see first," stated Ahmad.
"Longer term, Malaysia Airlines needs to move beyond this by possibly rebranding or perhaps look to launch some new campaign to get public support behind it – this could have happened to any airline.

Ahmad pointed out that Malaysia Airlines is already a financial train wreck and it's not clear whether the government wants to support such a tainted business.

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"That said, if they can get through this and survive, the challenge will be how they reinvigorate their image when they've suffered two major disasters just six months apart."

Module 2

Analyse issues related to corporate governance and ethics

This Module deals with:

- Positive examples of corporate governance and ethics from the media and an opinion on the merits of each case
- Negative examples of corporate governance and ethics from the media and an opinion on the merits of each case

SO2 AC1: Positive examples of corporate governance and ethics are identified from the media and an opinion is expressed and substantiated on the merits of each case.

Corporate governance is the set of processes, customs, policies, laws, and institutions affecting the way a corporation (or company) is directed, administered or controlled.

Corporate governance also includes the relationships among the many stakeholders involved and the goals for which the corporation is governed. The principal stakeholders are the shareholders, management, and the board of directors. Other stakeholders include employees, customers, creditors, suppliers, regulators, and the community at large.

Corporate governance is a multi-faceted subject. An important theme of corporate governance is to ensure the accountability of certain individuals in an organization through mechanisms that try to reduce or eliminate the principal-agent problem. A related but separate thread of discussions focuses on the impact of a corporate governance system in economic efficiency, with a strong emphasis on shareholders' welfare. There are yet other aspects to the corporate governance subject, such as the stakeholder view and the corporate governance models around the world.

Research on positive corporate governance and ethics reported in the media.

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SO2 AC2: Negative examples of corporate governance and ethics are identified from the media and an opinion is expressed and substantiated on the merits of each case.

Mis-selling cases highlight argument for catch-all ombud

May 26 2013 at 12:25pm
By Bruce Cameron

Colin Daniel

Life assurance companies should not wash their hands of responsibility for the bad advice provided by brokers who sell their products.

The argument for a single complaints office for the financial services industry has been strengthened over the past few weeks by two determinations by the Financial Advisory and Intermediary Services (FAIS) Act ombud, Noluntu Bam.

Both determinations – one of which, involving Momentum, was published in Personal Finance two weeks ago and the other, involving Sanlam, is described below – centre on the confiscatory penalties levied by life assurance companies when the conditions of your policy contract are altered, even when the change is caused by no fault of your own.

This “no fault” problem is no better illustrated than by these two determinations. In both cases, the policyholders were slammed with penalties as a consequence of mis-selling (to put it politely) by financial advisers.

In the latest determination, Frikkie Loots, of Klerksdorp, in 2007 asked his adviser, Cornelius Christoffel Bothma, of Christo Bothma Finansiële Dienste, to transfer three old-generation Sanlam retirement annuity (RA) policies to the new-generation Stratus platform.

Instead, Bothma made the RAs paid-up, which means no further contributions would be paid on them. As a result, Sanlam applied a penalty of R4 051 on two of the three RAs, because making them paid-up constituted an alteration to the contract terms.

Bothma then created a new RA, on which he was paid a commission of R14 043.

The cost of transferring the three RAs to Stratus would have been R550 for each RA with no penalties and no commission. This means that Loots would have been R18 094 better off if Bothma had followed his instructions.

Not only has Bam ordered Bothma to repay the money to Loots, but in November last year, the

Financial Services Board (FSB), at the request of Sanlam and after an investigation, debarred Bothma from rendering financial services and deregistered his company for offences that did not involve Loots.

The FSB found that Bothma had cancelled the policies of a number of his clients, who then incurred penalties, and then sold them new policies on which he earned a commission.

Strangely, according to Sanlam, Loots first took his complaint to Judge Brian Galgut, the Ombudsman for Long-term Insurance, whose office referred it to Bam, "because the complaint was about advice, and an independent broker was involved".

In the Momentum case, two South African brothers working in Dubai, Warrick and Gerald Port, were slammed with a combined penalty of R1 million when they corrected the "mis-selling" of their adviser, Jacobus Geldenhuis, of Fugio Financial Services in Kempton Park.

The brothers approached Geldenhuis in 2007 intending to invest lump sums of more than R1.2 million and R1.5 million respectively. What Geldenhuis signed them up for, but to which they never agreed, were endowment policies with recurring premiums of more than R1 million a year for 10 years.

Geldenhuis, who, by his own admission, perpetrated the fraud, walked away with R782 260 in commissions.

Bam ordered Geldenhuis to repay the penalty to the brothers.

To complicate matters, after Personal Finance took up the issue, Momentum effectively reduced the penalties by about R800 000 after it discovered a mistake in the calculations – this was despite repeated queries by Bam about the penalty calculations.

Behind all this is a concerning question – one that is raised in government's Twin Peaks strategy for the future regulation of the financial services industry to ensure its sustainability.

In simple terms, the Twin Peaks strategy will place the systemic control of the financial services industry under the Reserve Bank, while the FSB will regulate market conduct. This means the Reserve Bank will be responsible for ensuring that financial services companies do not go bankrupt, while the FSB will ensure that companies treat you properly – and this could include establishing a single dispute-resolution structure.

To return to the two determinations, the question must be asked whether the complainants were actually referred to the correct dispute-resolution office.

Momentum encouraged the Ports to take their complaint to Bam; and Judge Galgut referred Loots's complaint to Bam.

In my view, the complaints should, in the first instance, have been dealt with by Judge Galgut. This is because the policies were contracts between the life com-panies and the complainants, not between the complainants and the commission-driven advisers.

Judge Galgut confirmed last week that his office would have entertained the complaints by the Port brothers.

His office could have decided whether fraud was involved and therefore whether the policies were void, and whether the life assurance companies should compensate the complainants. The compensation could include repaying the penalties, as well as the investment returns lost because of them.

This week, Gerald Port told me that, when he discovered the mis-selling, "I was certainly not able to get any response from Momentum, other than 'it is your issue, between yourself and your

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adviser, Mr Geldenhuis'. How was I ever to be able to take on Momentum?"

In my view, if both Momentum and Sanlam really cared about policyholders, who are their customers, they would have:

* Cancelled the policies as soon as the mis-selling was discovered;

* Put the policyholders in the position in which they would have been if the mis-selling had not been committed; and

* Sued the financial advisers for the losses they suffered. This amount would include the companies' costs in issuing the policies and the commissions.

Life companies cannot simply play Pontius Pilate and wash their hands, as they are wont to do, of any responsibility because the advice was given by an independent financial adviser.

The life assurance industry created the perverse system of paying upfront commissions, which encourages mis-selling; the life companies enter into contracts with the advisers who sell their products; and the life assurance contracts are between the companies and the policyholders.

The sooner upfront commissions are banned, the better – and, along with them, all the confiscatory penalties levied by life companies, particularly when they are based on events that are not the policyholder's fault.

If a single dispute-resolution office had been in existence, all the issues raised in the Sanlam and Momentum determinations could have been dealt with properly, and the blame could have been attributed correctly.

Regulator probes Liberty Medical Scheme's trustees

June 2 2013 at 12:15pm
By Laura du Preez

The Council for Medical Schemes says it is investigating whether the trustees of Liberty Medical Scheme are fit to remain on the board after the North Gauteng High Court this week found that a payment they made to a former trustee was illegal.

The former trustee, Advocate Boyce Mkhize, was ordered to repay almost R1.7 million that he received from the scheme in an illegal settlement agreement.

He was also ordered to pay the costs of the court application, which was brought by the regulator of medical schemes and a member of Liberty Medical Scheme.

In addition, the chairman of the scheme's board of trustees, Dan Pienaar, who was the subject of an investigation by the Council for Medical Schemes into his fitness and propriety to serve as a trustee, resigned from the board this week.

The Council for Medical Schemes has been addressing governance problems at Liberty Medical Scheme since October 2010, when complaints were laid against Pienaar and the former chairman of the board of trustees, Larry Jacques, the council said in a statement on the court ruling this week.

The High Court found that the scheme's decision in May 2011 to pay Mkhize R962 500 to resign from the board of trustees one month before his term of office was about to end contravened the rules of the scheme.

It also found that the R700 000 that the trustees paid Mkhize in May 2011 to agree not to disclose confidential information about Liberty Medical Scheme to be in contravention of the scheme's rules.

When the payments first came to the attention of the Council for Medical Schemes later in 2011, it directed the scheme to recover the money from Mkhize, but the trustees and Mkhize refused to comply.

The council and the Registrar of Medical Schemes then approached the High Court last year.

According to the court judgment, Liberty Medical Scheme amalgamated with Medicover Medical Scheme on January 1, 2010.

The respective boards of trustees of Liberty and Medicover agreed that five trustees from each board would make up the new board, but that the board would be reduced to a more "manageable" eight trustees during 2010 and to seven in 2011.

The boards of the two schemes also agreed that trustees would be encouraged to resign voluntarily in order to reduce the size of the new board and, where they did not resign, the new board would vote in secret on which trustees should resign. This decision was made a rule of the amalgamated scheme.

According to the judgment, Liberty Medical Scheme defended its actions saying that the termination agreement and restraint-of-trade payment were concluded amid acrimony and a severe breakdown in relations between Mkhize and the rest of the amalgamated board.

The scheme asked the court to view the payment to Mkhize as a "compromise agreement" with which the court should not interfere, the judgment says.

The trustees told the court that Mkhize had had sight of information about Liberty Medical Scheme that they did not want disclosed to competitors and for this reason they paid Mkhize to keep the information confidential.

But Judge Fayeeza Kathree-Setiloane found that the scheme did not have the power to act outside the ambit and confines of its rules.

She says that, in its rules, Liberty links the remuneration of trustees to the performance of their duties. When trustees are not performing these duties, they are not entitled to professional fees.

The payment to Mkhize could not be viewed as a settlement or compromise, because there had not been any dispute to settle, Judge Kathree-Setiloane says.

Liberty Medical Scheme was obliged by its rules to hold a ballot once it became clear that Mkhize would not resign, she says.

There had been only a month until the end of what the scheme's lawyers regarded as Mkhize's term of office; therefore, it would have been prudent for the trustees to have waited out that period, Judge Kathree-Setiloane says.

"The payment has all the hallmarks of the conduct of a supine board succumbing to the demands of a trustee who self-confessedly would have resigned only on the terms of the agreement, or on better terms, despite the fact that he could simply have been voted out by the board in terms of [its rules]," she says.

On the restraint-of-trade agreement, Judge Kathree-Setiloane says Mkhize had a fiduciary obligation not to disclose the scheme's confidential information, and that obligation continued after his services were terminated.

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The Council for Medical Schemes's statement notes that the scheme's trustees are the highest-paid in the industry, and their average remuneration rose from R412 000 in 2010 to R703 000 in 2011.

Despite its governance problems, the scheme is financially sound, with reserves of 27.9 percent of contributions, which is above the 25 percent required by law.

Module 3

Analyse corporate events and the potential impact on the Financial Services industry

This Module deals with:

- Three typical current events with reference their potential impact on the Financial Services sector
- Three typical current events with reference to how each could impact on a specific organisation

SO3 AC1: Three typical current events are identified and discussed with reference their potential impact on the Financial Services sector.

ARTICLE 1:
SA's financial services sector sheltered from direct impact of credit crisis

By: Esmarie Swanepoel
23rd February 2009

The credit crunch and the regulatory response to the global crisis were the main risks that the South African financial services sector would face this year, auditing and business advisory firm Ernst & Young (E&Y) said on Monday.

"The common highest ranked risk across the financial services sector stems from the credit crunch, owing to its extraordinary and direct impact, as well as its unpredictable evolution," said E&Y lead financial services director **Emilio Pera.**

The second corresponding risk factor, which occurred within three segments of the financial services sector – insurance, banking, and asset management – was the regulatory response to the current crisis, he added at a briefing in Johannesburg.

Pera said that the regulatory response to the crisis could affect the competitive environment of the industry.

"The nationalisation of a number of banks would have been hard to imagine months previously. The regulatory backlash may extend beyond banking into insurance and asset management."

Despite the threat of the credit crunch, the impacts of the economic downturn on the

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South African banks have been less severe than international markets. Pera said that most local banks have performed well, and only those with a larger international exposure have felt a slightly more severe impact on their share prices.

“I suppose that that demonstrates that South Africa has been protected from the direct impact of the global credit crisis, although the indirect impact is flowing through to our economy.”

Pera said that it was unlikely that the South African financial services industry would see a regulation change within the short-term.

“What came through is that we have quite a robust regulatory environment. However, over the longer term, the international changes in regulation will obviously filter through to the local banks and to the local financial institutions.”

Other risks included a deepening recession, and managing talent, he noted.

Managing talent has always been critical in South Africa, and Pera added that South Africa had a relatively small pile of strong talent, especially at executive level.

“But because of the global economy, a lot of skills and resources are becoming available globally, and there is now less opportunity to move outside the South African market, where we have been relatively protected.”

Another issue affecting the South African banking sector was cost cutting. This issue has not been as prominent in the global banking markets, said Pera, as the global industry was more focused on mitigating revenue collapse.

“South African banks are not under that much pressure as far as the revenue side is concerned, so we are focusing on the cost cutting [side].”

However, Pera noted that the international banking industry had learnt some lessons, which the South African industry could take to heart.

“There are many lessons to be learnt from the events unfolding in the financial industry, the vital importance of managing for liquidity, the need to institutionalise an appropriate risk culture, and the imperative never again to let good times lead to complacency.”

Edited by: Mariaan Webb

ARTICLE 2:

The financial services sector introduces an economic empowerment charter

The Black Economic Empowerment (BEE) charter was finally published on 17th October 2003, after more than a year of discussions.

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It was developed by the financial services sector as a whole, representing banks, long and short-term insurers, black professionals and black business, unit trusts, fund managers and brokerage firms.
Though voluntary it has been agreed unanimously by 10 industry associations: the Banking Council, the Life Offices' Association, the South African Insurance Association, the Association of Black Securities and Investment Professionals (which also represents the Black Business Council), the Association of Collective Investments, the Investment Management Association of SA, the Institute of Retirement Funds, the JSE Securities Exchange SA, the Foreign Bankers Association of SA, and the South African Reinsurance Offices' Association.
The Bond Exchange of South Africa has also signed it. Foreign-owned financial institutions are subject to the provisions of the charter insofar as their South African operations are concerned, with some exemptions allowed.

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, underpin sound business practice, and maintain the strength and stability of the financial sector.
As Peter Moyo, head of the Life Offices' Association (LOA), explains, "The negotiations (predominantly within the sector, but including representatives of government and labour) 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."
Comments Adam Samie of the South African Insurance Association (SAIA), "The publication of the charter is one of the most momentous events for the financial services sector and for the people of South Africa. It endeavours to promote transformation through a series of key interventions, the development of human capital being amongst the most important."
He adds that the insurance industry will rely strongly on the support of the Insurance Sector Education and Training Authority (INSETA) meeting the challenge to develop human capital.

Comments Nelius Volschenk, Chief Executive Officer of INSETA, "We are well positioned to play a key role in supporting the insurance sector with the implementation of the charter through our services and funding of innovative training and skills development projects.
"Indeed, we have identified the charter as one of the main drivers of our Business Plan for years to come. We will align our Sector Skills Plan and employer training plans to accommodate requirements of the charter.
"Whilst it presents a significant challenge to the financial services sector, it also represents an excellent opportunity for the development of its workforce," he adds, "especially for previously disadvantaged individuals."
Modise Motloba, president of the Association of Black Securities and Investment Professionals (ABSIP), says, "It is a groundbreaking, empowering and transformational commitment, which we believe will have a significant impact not only in the financial sector but on South African society as a whole."
Explains Old Mutual Managing Director Roddy Sparks, "The charter takes a long, hard, realistic look at our industry, and acknowledges the role we have in the

rebuilding our society. It accepts our current shortcomings but provides tough yet attainable targets toward contributing to South Africa's sustainable transformation and economic growth. As such it will add to local and international confidence in our industry."

Myles Ruck, Liberty's Chief Executive, comments, "Unless all South Africans are able to participate in the economy, we cannot achieve our full national economic potential. Although the short-term goals will undoubtedly be challenging, it makes good long-term business sense for Liberty, the financial sector, and the nation as a whole."

The Life Offices' Association (LOA) notes that pension fund trustees, fund managers and consultants play a critical role in influencing the flow of funds. Initiatives will therefore be developed to enhance their understanding of investments in BEE transactions.

Gerhard Joubert, executive director of the LOA, says there are four main issues concerning long-term insurance products for people in the low-income segment: physical access, product features, education based selling and affordability. While vitally important in terms of the charter the association believes that these can only be measured in a meaningful way at an industry rather than a company level. "It should be kept in mind that the purpose of the charter is to bring transformation in the sector, and not to change business models," he points out.
He adds that the commitment to sound business practice, including the recognition of the insurance industry's right to underwrite, means that the transformation will happen in a sustainable manner.

Targets of the charter
The targets of the charter come into effect on 1st January 2004, and remain in place until the end of December 2014. Companies will publish annual BEE reports, including audited scorecards, with the 2004 due 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, 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.

Targets, however, must be achieved within the bounds of sound business practice. In other words, without growth and development of the financial sector, any implementation of black economic empowerment will falter.
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. The latter 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 main thrust of the charter is to foster:
-The employment, training and promotion of black people;

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-Improvement of access to financial services by poor people;
-Targeted investments in projects that address backlogs, underdevelopment and support job creation, including low-cost housing, small and medium black businesses, and agriculture;
-Support for education, skills development and various 'learnership' programmes. For example, 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. In addition to the existing skills levy of 1% of payroll, signatories will commit to a further 1,5% of payroll toward promoting black skills in the sector; and, -
-The procurement of services and goods from black businesses to reach 50% of the value of all procurement spend from BEE accredited companies by 2008, and 70% by 2014.

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 potential economic and social impact will be 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 targets for employment equity are:
-25% black representation at executive level by 2008 (4% black women)
-20-25% black representation at senior level by 2008 (4% black women)
-30% black representation at middle level by 2008 (10% black women)
-40-50% black representation at junior level by 2008 (15% black women)
-33% representation at board level by 2008 (11% black women)

Other initiatives will foster access to financial services by those people in the LSM 1-5 category for life assurance products and services, collective investments, short term risk insurance and banking services. This could reach up to 80% of people in this category. There is a provision of 0.2% of the post tax operating profits of the sector for consumer education. Signatories have also committed to spending 0, 5% per annum of post-tax operating profits on black groups with a strong developmental and transformational approach.
Implementation of the charter is to 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.

Electronic copies of the Charter are available from the offices of the South African Insurance Association, or may be downloaded from the Internet at the link http://fsc.cmcnetworks.net.

SO3 AC2: Three typical current events are identified and discussed with reference to how each could impact on a specific organisation.

Research on three typical current events and identify and discuss how each could impact on an insurance company.

Quake raises insurance questions

By: Matthew le Cordeur and Sapa
2014-08-06 18:22

Cape Town - The 5.5 magnitude earthquake centered in the North West province raises questions about whether the insurance industry is prepared to deal with natural disasters, an insurance company said on Wednesday.
"The tremor... provides a wake-up call to the insurance industry about the need to prepare effectively for large scale disasters," MUA Insurance Acceptance managing director Christelle Fourie said in a statement.
She said most insurance companies only cover earthquakes caused by natural disasters and not caused by mining activity. "People should check their cover as they might not have full cover," she said. "This is a wake up call for insurance companies and holders. "
One person was killed and 34 injured when the earthquake hit shortly after midday on Tuesday, causing scares in mining operations and evacuations in parts of the country.
People in Gauteng, KwaZulu-Natal, Free State, and the Northern Cape reported feeling the quake, as did people in neighbouring Mozambique and Botswana.
In 2012, the Catdat Damaging Earthquake Database found that only 7.5% of earthquake-related losses were covered by insurance companies.
The database by Wills Research Network compiles information on global "catastrophes".
Fourie said the Catdat statistics raised important questions over the preparedness of insurance companies to help the rebuilding process.
"While it has yet to be proven that earthquakes are related to climate change, insurance and reinsurance companies have been among the first companies to start feeling the effects of natural disasters in the form of increased payouts related to severe weather events like floods and storms," she said.
"In South Africa, most insurance companies are aware of the implications of climate change but more does need to be done in order to better understand its full impact.
Fourie said South Africa had become "relaxed" about disaster risks.
"Due to the fact that South Africa is not a country with a recent history of extreme natural disasters, we have become somewhat relaxed about disaster risks, let alone the possibility of loss accumulation.

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"Part of the problem is that the memory of an extreme natural disaster lasts for only one generation. If it survives, it does so
merely as anecdote."
Fourie gave an example of the earthquake in Ceres, in the Western Cape, in 1969. It measured 6.3 on the Richter scale
and destroyed many buildings and resulted in fatalities.
"Because this occurred four decades ago, it becomes easier for us to behave as if we are immune to the possibility of
being hit again," she said.
Seismology experts say South Africa's potential for earthquake damage comes in the form of natural seismic activity,
mining-related events from deep underground mining, and earthquakes that occur outside our borders but are
nevertheless strong enough to create some kind of effect.
"While the risk facing South Africa is certainly not as significant as a number of other regions, the insurance industry is
aware of earthquake risk and has factored it into premiums," said Fourie.
"But it might take a larger, seismic event, to test just how seriously it is rising to the challenge."
She said 2013 was a terrible year for most insurance companies. "In 2012 we had a massive hail storm and then six
months later we had another one," she said. "It was the first time in 10 years that we dealt with a natural disaster. It is
important to understand that insurance companies do have protection for catastrophic effects. They can afford to withstand
a earthquake and there will be money to pay."
Fourie also questioned whether South Africa's emergency services were prepared for major natural disasters. "Insurance
companies have more of a noble purpose than most people are prepared to admit as they are in there first to rebuild
communities damaged from natural disasters."
Fourie said she decided to speak out about the subject to start a general conversation about South Africa's preparedness.
- Fin24.

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Module 4

Identify commentators and analysts in the industry and the potential impact of their opinions on the market

This Module deals with:

- Regular contributors to financial columns and an opinion on the credibility of each commentator or analyst
- A commentary analysed to identify comments for and against an issue
- The potential impact of the commentator's opinion on the Market for three selected events
- A substantiated opinion on the validity of a commentary based on comparison with similar commentaries and the credibility of the writer
- An issue tracked over a period of three months and an indication of changes in opinion on the issue during that period

SO4 AC1: Regular contributors to financial columns are named and an opinion is expressed and substantiated on the credibility of each commentator or analyst.

***Business Day* editor** Peter Bruce, in his column in Monday's newspaper, had a remarkable go at First National Bank CEO Michael Jordaan.

Jordaan had sent a note to the bank's staff headlined "Do we really need newspapers?" in which he'd questioned the need for the company to continue spending good money on newspaper subscriptions. "We think we should simply stop subscribing to newspapers," Jordaan wrote.

Bruce fired back, accusing Jordaan of putting a knife in journalism's back, and took particular exception to the FNB CEO's statement that all the news is available for free online. "Of course it is, but how did it get there? I'll tell you. It was written and edited by journalists who earn salaries working for newspapers.
"You can be indifferent to the future of newspapers, but not about journalism," he wrote.
Bruce's column came just days after I sat down with him in his Rosebank, Johannesburg office to talk about the future of the newspaper industry.

There's no doubt that Bruce is passionate to his very core about newspapers and, though concerned about the future of quality journalism, makes it clear he has no doubt that newspapers are not going anywhere. It's not a view shared by all of his colleagues.

When I suggest to Bruce that no-one under 30 will ever regularly buy a newspaper, he says I'm dead wrong. "Young people always say they'll never read a newspaper, until they start," he says.
Bruce says that what concerns him much more than the Internet — at least for the time being — is the worldwide economic crisis and what it's doing to advertising revenues.

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"It's difficult to separate the effect of the Internet on newspapers and the effect of the financial crisis. But I suspect you may find the economic crisis is having a far more potent effect."
At *Business Day*, Bruce says he feels the financial crisis "far more acutely than the Internet". *Business Day* has retrenched staff in recent months and cut costs to the bone — and other newspapers are doing the same.

"It may be the wrong response, I don't know, but I feel the Internet is something I can do something about, whereas I can't do anything about the financial crisis," Bruce says glumly.
He says it's too easy to blame the online world for the financial ill health of the newspaper industry, especially in the US. "Papers there have failed not because of the Internet," he says. "They've failed because they've been too leveraged in a really bad economy."
Bruce says he used to fear the online world but that's changed. *Business Day*'s website recently got a makeover and Bruce says he's become "excited" about what can be done on the Web. "There are stacks of room for newspapers and the Web to live together, really beneficially."

He says newsprint has a long future ahead of it, but admits he's "deeply concerned" about what the Internet means for the future of quality journalism.
He's worried that free online content is going to undermine quality content. Good journalism, he says, is expensive. Newspapers have been able to support these costs because advertising is expensive, he says.

It's not clear to Bruce whether online advertising models can pay for the sort of quality journalism people expect from newspapers.

That probably means people are going to have to fork out more for newspapers, to pay for the journalism and to offset a decline in advertising as readers go online. It could prove to be a vicious circle.
In recent years, *Business Day* has been pushing up its cover price, far in excess of the inflation rate. The paper costs R9,50/copy, compared to R5 for *The Star*, the Johannesburg daily.
"We should be selling *Business Day* for about R16, 50."
But BDFM, *Business Day*'s publisher, has had to put a brake on the price increases because of the economic crisis. "I'd want to be selling the paper for R12 right now, but in this climate I just can't do that."

Going the way of the vinyl record?

Ray Hartley, editor of *The Times*, is not nearly as bullish on the future of print as Bruce. He says newspapers will eventually go the way of vinyl. They'll still exist, but it won't be the main way people get their daily news content.
"There's a new generation of consumers who just don't get newspapers," Hartley says. "Why would I want to read the news the next morning? It's yesterday's news."
He says for people who have grown up reading newspapers — and here I assume he means people over a certain age — there is some "residual loyalty" to them. "But youngsters nowadays couldn't give a stuff, frankly, where they get their information from as long as they get it before their friends so they can share it with them."

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The Times editor Ray Hartley

Hartley says *The Times*, which is the daily sister paper to the *Sunday Times* – both newspapers are owned by JSE-listed media group Avusa – has already stopped thinking about itself as a newspaper. Instead, it is a producer of content that is then served through a variety of channels.

“The amount of time people spend reading newspapers has declined dramatically but the amount of time people spend consuming news across all platforms has expanded dramatically,” Hartley says. “The news business is booming; it’s just not booming in newspapers.

“At *The Times*, we’ve tried to create a particular personality for the paper that is not just news,” says Hartley. “It’s not just about news and information anymore. It’s about the social exchangeability of that news. We don’t talk about readership anymore; we talk about audience, about social currency.”

Hartley has been one of the country’s biggest proponents of technology in print media. He was the first newspaper editor in SA (that I’m aware of) to introduce a fully integrated newsroom, where journalists are expected to produce material not only for the newspaper, but also for the Web.

When Avusa launched *The Times* in 2007, its journalists were told they were expected to write not only for the paper and the website but also to produce multimedia content, including video material and podcasts.

Unlike Bruce, Hartley believes it is inevitable that people will migrate in large numbers from newsprint. It’s just a question of when. The challenge for editors, he says, is ensuring that when readers of their newspapers desert them for the Web those readers don’t go to a website operated by a competitor.

Hartley says SA newspaper editors and publishers are fortunate in that they have been given a period of grace because of the country’s high telecommunications costs. They can learn from the US experience. Whether they will is another matter.

A number of people have remarked to me in recent weeks that newspaper editors can be thankful for former communications minister Ivy Matsepe-Casaburri. Thanks to her blunders in telecoms policy formulation, SA is years behind in broadband penetration, they say.

"We're actually in a very fortunate position because we have seen what happens in other markets when broadband becomes ubiquitous," says Hartley. "People became disloyal to print.

"These are the golden years [in SA print media]," he says. "Now's the time to worry about the Internet, not once your audience has already left you. [Editors] need to plan now and build their infrastructure around digital platforms. The wolf will be at the door soon enough."

Wolf at the door

Mail & Guardian editor Nic Dawes thinks that proverbial wolf is already at the door, especially at newspapers that appeal to SA's small pool of high-income earners.

"I think people have underestimated the extent to which there has already been an impact," Dawes says. "It hasn't so much driven down circulations yet, but it has put a ceiling on growth in some areas of the market."

Though the *Mail & Guardian* has demonstrated a healthy increase in its print circulation in recent years, Dawes says that without the Internet, "our growth would have been stronger still".

The *Mail & Guardian* was the first big newspaper in SA to launch an online edition. It pioneered the space in many respects but has fallen behind in visitor numbers in recent years. Part of the reason for this was a poorly thought-through agreement with Naspers. But that's an entire story on its own.
Dawes, who took over earlier this year as editor of the *Mail & Guardian* from Ferial Haffajee, who now edits *City Press*, has big plans for the newspaper's website.

Mail & Guardian editor Nic Dawes
He says the Mail & Guardian Online has given up trying to compete head-on with the likes of Media24's News24 and the Independent Group's Independent Online, or IOL. Both of these sites tend to use mainly Sapa, Reuters and other wire copy without adding much editorial value.

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"We've been doing the wrong thing trying to compete in commodity news," Dawes says. "Simply chucking up wire copy under our brand is not good enough."
Dawes says he wants to use the Web to provoke more conversations with readers. "In the paper, we leave a lot of stuff out, but on the Web, stupidly, we've been trying to post everything. That's going to change."
Dawes says he is under no illusion that the Internet will eventually hit the *Mail & Guardian*'s print circulation, but says it's not going to happen immediately.
"Newspaper circulations have been growing worldwide, except at the top end of the market where there is stagnation and decline."
Though the *Mail & Guardian*'s print circulation is still growing — it's selling about 50 000 copies a week — it targets the high-end of the market that is most likely to switch first to the Internet for news.

What about the suggestion that people under 30, especially those with money, will never become regular newspaper buyers? "I think that's *kak*," Dawes says. "Relevance is important in newspapers. If you make newspapers relevant to people, they'll read them. Print is a great interface. There's still a lot of good about it."
Because the Internet has proved to be such as disruptive force, people "tend to speak about it in apocalyptic terms", says Dawes, "but the real fundamentals are still there: content is still king, and advertising still works."

What about mobile?

All three of the newspaper editors I interviewed for this article – Bruce, Hartley and Dawes – agree that mobile phones could prove to be even more disruptive to the news business than the computer-based Web.
Dawes says unlimited data plans on cellphones, coupled with one particular handset — the Apple iPhone — have driven up readership for *The Guardian*'s online edition in the UK. And people are reading *The Guardian* online at times that perhaps they didn't before — on the Tube, or the bus.

He says the same trend in mobile news consumption will eventually reach SA, but it'll take a long time. Bandwidth prices will have to fall further, and the price of large-screen cellular handsets will have to fall dramatically.

Perhaps young *Daily Sun* readers will be getting their daily gossip fix on their cellphones, instead of from the newspaper, in as little as five years, Dawes says.

Hartley agrees that news delivered via mobile phones could eventually become big business for media companies. But he says no-one has figured out the right model yet. There's no doubt in his mind, though, that South Africans will take to news on their mobiles like ducks to water.
"If technology is within the financial grasp of South Africans, they have shown they are early adopters. We've seen this with cellphones. The only thing holding them back is cost."
Cellphones also excite Bruce. "We could talk to readers on their phones all day long. But if it's going to be quality content, someone will have to pay for it."

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Will they pay?
And therein lies the biggest debate. Who is going to pay for quality journalism? Or does the digital world simply mean that quality journalism will suffer?

The debate over whether users should pay for content online has surfaced for the umpteenth time, this time around thanks to News Corp's Rupert Murdoch, who has said he will put up pay walls on News Corp's newspaper websites.
Many of his peers have said that horse has already bolted, that people will simply find another source for the content, where they don't have to pay. I'm inclined to agree. I'm far from convinced Murdoch will get it right, especially not with his less high-brow websites.

Hartley says newspapers can only charge for content online if it is unique and has value. If the information can be found elsewhere, online newspapers that charge for content will simply lose their audiences. *The Wall Street Journal* arguably has that content, and, until recently, charged for some of it and was relatively successful in doing so. But how many newspapers produce content that has as much value as the *Journal*? I'd argue, very few.

Hartley thinks newspapers may get away with charging for some content, but concedes that newspapers will still have give away their big stories to attract audiences. And newspaper groups can't get together to agree to throw up pay walls because they'd be hauled before the competition authorities for collusion.

Dawes has a different view on the subject. He believes content has basically been free anyway given that newspapers have cost so little. "They're so cheap, they may as well be free. To insist people are suddenly getting content for free that they've traditionally been paying for is rubbish."
Newspapers would be crazy to throw up pay walls around all their content, Dawes says. Their journalists would resign and start rival products online that are twice as good.

"The real trouble for newspapers is not that people pay or doesn't pay for content; it's that they don't pay for the whole package. The paper becomes disaggregated."

One journalist who embraced the Web in its early days, Alec Hogg, believes the changes sweeping the newspaper industry are inevitable. "It's finally online's time," he tells me over coffee at Melrose Arch, north of Johannesburg.

Hogg, who founded Moneyweb after years in the print media, says the business model for newspapers is in grave doubt. "When the *Boston Globe* closes, when the *LA Times* goes into receivership, there's a message there. I love newspapers. I grew up with them. But the reality is that we in the media business sometimes misunderstand how people consume us."

Hogg points his finger around the coffee shop. "Who here is reading a newspaper?" he asks me. "Ten years ago, most of them would be have been reading a paper. Not anymore."

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I look around. Obviously, many people are in conversation. But of those sitting on their own, a few have laptops open. And a few are fiddling with their phones. But reading a newspaper? Not one. — *Duncan McLeod, TechCentral*

SO4 AC2: A commentary is analysed to identify comments for and against an issue.

Responses for "SA editors mull the future of newspapers in a digital world"

1. *Leon* says:
   18 September 2009 at 12:50 am
   If you think of a newspaper as a vehicle for attracting advertising, then yes, it is finished. Even online, newspapers can't cut the cheese with ad sales. Subscription models won't work. Because the lifeblood of an online news platform is linkability, and subscription builds fences around your content.
   A massive shift in thinking about news gathering as a business is required.
   Here is one possible shift: [http://blog.leonjacobs.com/?p=195]
   Turn newspapers into movements. Become a brand that people want to own. Create merchandise. Turn journalists into rock stars. Have a strong point of view. Be the focus point of a tribe. This will create new revenue streams previously unheard of for newspapers.

2. *Dwayne Bailey* says:
   18 September 2009 at 7:25 am
   I hope FNB is counting the costs of all their staff saying, "Just catching up on the news, boss" as they update their facebook account! I still like the idea of taking a newspaper, sitting down and reading. I think getting your staff to do that is a great way to wind down and de-stress.
   But maybe FNB is just trying to save some money so that they can reduce service fees to their clients Hahahahaha…. yeah right.
   I grew up with newspapers so I guess it's a learnt behaviour (In fact I still have this strange behaviour that I never read anything on the front page). I read a lot of news online and it made me think of my online behaviour:
   1) If its not free I don't read it
   2) If I need to register for free I don't read it
   3) If I want to read it and its not free I try to search for the information and get it for free
   4) I block all adds, so I don't even give back to the news outlet.
   I was going to say I was sorry about pint 4 but then realised I'm not since I hate getting 20 adds on a page that rotate and flash at me, be gone. I turned off my add blocking for IOL to test what it's like, I turned blocking right back on again as it was such a horrible experience with all those adds.

   At some stage it will simply be unprofitable to print as my guess is that those costs will keep going up. With devices like the Kindle and such maybe people can tie down content. Or perhaps newspapers that charge 10c for an article instead of R16 for a newspaper might find me willing to pay for locked down content simply because the price is so low. But the next generation won't care

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for 10c is my guess unless you deliver on a platform where they already pay, i.e. the cellphone.

3. Mark says:
   18 September 2009 at 7:57 am
   Very interesting article. I don't think people will pay for online news – publishers must find new business models. No one pays for Radio/TV news. Why should we pay for online news? By the way, why only talk to these three editors? What about the Daily Sun, Beeld or the Sowetan. These are some of the main papers around. Their decision would have a way bigger impact compared to the small M&G and Business Day. Elitist anyone? If the M&G only sells 50k copies a week, the wouldn't ever get enough people online to pay for their product.
4. *Editor* says:
   18 September 2009 at 8:24 am
   Time pressures meant I kept my interviews to these three editors for now, Mark. But this is such a fascinating subject that I'll be doing further articles on it into the future. And the editors of the Daily Sun and Sowetan are top of the list for my next interviews — perhaps drilling down into more detail with them on the impact of cellphones…

5. *matthewbuckland.com » Oh Peter! You're just being sentimental* says:
   18 September 2009 at 10:51 am
   [...] If you're new here, you may want to subscribe to my blog and get updates either via email or via RSS. Thanks for visiting!Duncan McCleod, former associate editor of the Financial Mail, recently burst onto the scene with a great new addition to my regular daily reads. On his new Techcentral site there have been two articles that caught my attention — the first being a fiery piece by former Vodacom CEO Allan Knott-Craig, and now an interview with respected local newspaper editors: SA editors mull the future of newspapers in a digital world. [...]

6. *justinspratt* says:
   18 September 2009 at 11:04 am
   brilliant, brilliant stuff.

7. Peter Bruce says:
   18 September 2009 at 11:40 am
   Nice piece Duncan. I guess one extra thought now I read it, is that obviously newspapers cannot survive into infinity. The difficulty is when commentators try to predict exactly when the last newspaper drops onto the last driveway. I think Alec H is being optimistic (pessimistic perhaps) when he talks about "When the Boston Globe closes, when the LA Times goes into receivership…". I'll bet you both survive this financial crisis. In fact, once the recession passes, so will debates about the end of newspapers. There will be an end but let's agree we don't know what it looks like yet or what the cause will be.

8. Andrew says:
   18 September 2009 at 11:58 am
   The issue to worry about is not newspapers but the quality of the content. Nobody reads junk, free or not, it just happens that the Internet news sites count a hit as a read whether or not the surfer read the article or clicked away. If Web news sites they ever start charging they will quickly be in the same position as newspapers because they churn out crap.

9. *Sue Grant* says:
   18 September 2009 at 2:55 pm
   Great piece and really nice comments. I am really enjoying your new venture Duncan.

10. *David Bullard* says:
    21 September 2009 at 8:42 am
    What is likely to happen is this. The “rainmaker” writers will be in great demand and a bidding war will start to attract them to new sites. Meanwhile, it will be easy to measure who is read and who is not and, therefore, who attracts the advertising. This means that individuals will have to be rewarded properly (unlike newspapers). I now write for three websites and they all pay substantially more than newspapers are prepared to pay for the same copy. One column is sponsored by Outsurance and the other two are in negotiation. If a deal is signed I will share substantially in the revenue. That makes sound busines sense to me. Last week’s column on Moneyweb got 90 comments and the top rating is over 300 comments. So the message is….buy the best writers, attract more readers and attract more advertising. Simple innit?

11. *Paul Jacobson* says:
    21 September 2009 at 3:01 pm
    Great piece as usual Duncan! I believe that news publishers need to distinguish between physical newspapers and journalism. I don’t see paper newspapers having much of a future although I do believe in supporting quality journalism. There is a lot of free news content online but that is frequently free to readers by virtue of an innovative revenue model.
    Your revenue model isn’t novel but it seems to be working at the end result is that I can access great content on your site, essentially for free. Ideally I would like to pick up my news in my feed reader via full feeds, not truncated feeds, and that may involve some sort of subscription. I am ok with that. I already pay to receive two magazines and I’d pay to receive great news content on a variety of flexible devices. RSS may be just the right tool for that.

12. donovan says:
    23 September 2009 at 12:15 pm
    Killing the messenger, Mr Bruce?

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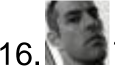
13. Alan says:
26 September 2009 at 7:59 am
herewith an essay written in 2008 by Clay Shirky:
Back in 1993, the Knight-Ridder newspaper chain began investigating piracy of Dave Barry’s popular column, which was published by the Miami Herald and syndicated widely. In the course of tracking down the sources of unlicensed distribution, they found many things, including the copying of his column to alt.fan.dave_barry on usenet; a 2000-person strong mailing list also reading pirated versions; and a teenager in the Midwest who was doing some of the copying himself, because he loved Barry’s work so much he wanted everybody to be able to read it.
One of the people I was hanging around with online back then was Gordy Thompson, who managed internet services at the New York Times. I remember Thompson saying something to the effect of “When a 14 year old kid can blow up your business in his spare time, not because he hates you but because he loves you, then you got a problem.” I think about that conversation a lot these days.
The problem newspapers face isn’t that they didn’t see the internet coming. They not only saw it miles off, they figured out early on that they needed a plan to deal with it, and during the early 90s they came up with not just one plan but several. One was to partner with companies like America Online, a fast-growing subscription service that was less chaotic than the open internet. Another plan was to educate the public about the behaviors required of them by copyright law. New payment models such as micropayments were proposed. Alternatively, they could pursue the profit margins enjoyed by radio and TV, if they became purely ad-supported. Still another plan was to convince tech firms to make their hardware and software less capable of sharing, or to partner with the businesses running data networks to achieve the same goal. Then there was the nuclear option: sue copyright infringers directly, making an example of them.
Continue reading:
http://www.shirky.com/weblog/2009/03/newspapers-and-thinking-the-unthinkable/

14. *halicon* says:
3 October 2009 at 10:09 am
I would rather seek sincerity in news, where obviously old and archaic methods of delivering news are fast falling short of today’s emotional requirements. I don’t want to tell my friend to buy the newspaper over MSN but rather send him a link.
Also daily newspapers work off sensationalism and looking at certain daily publications in South Africa whom I lost all respect for during the Mbeki-Zuma struggle should reconsider where exactly their professionalism lays.
Also when online newspapers defeat ctrl-c ctrl-v and me emailing bought for content to 20 friends for free?

15. *Let's get sentimental: the readers deserve it | Grubstreet* says:

5 October 2009 at 10:00 am
[...] This was followed by an interview with former Financial Mail journalist Duncan McLeod on his new website, TechCentral. [...]

16.  *Tim Gregory* says:
21 October 2009 at 12:58 pm
Excellent post, and a great balanced view of the continuum of opinion online regarding the future of newspapers.
From the perspectives given in this article, I would say that Ray Hartley really 'gets it' in a more profound way than his contemporaries interviewed in this piece, and his climbing online traffic is testament to this.
I work for a Media24 company and attended a conference recently where we were addressed by the head of the World Association of Newspapers.
I was shocked and appalled at the directions in which they were thinking.
http://tim-gregory.com/2009/07/shaping-the-future-of-the-newspaper/
Ray's thinking is way more progressive than most other news publishers.

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