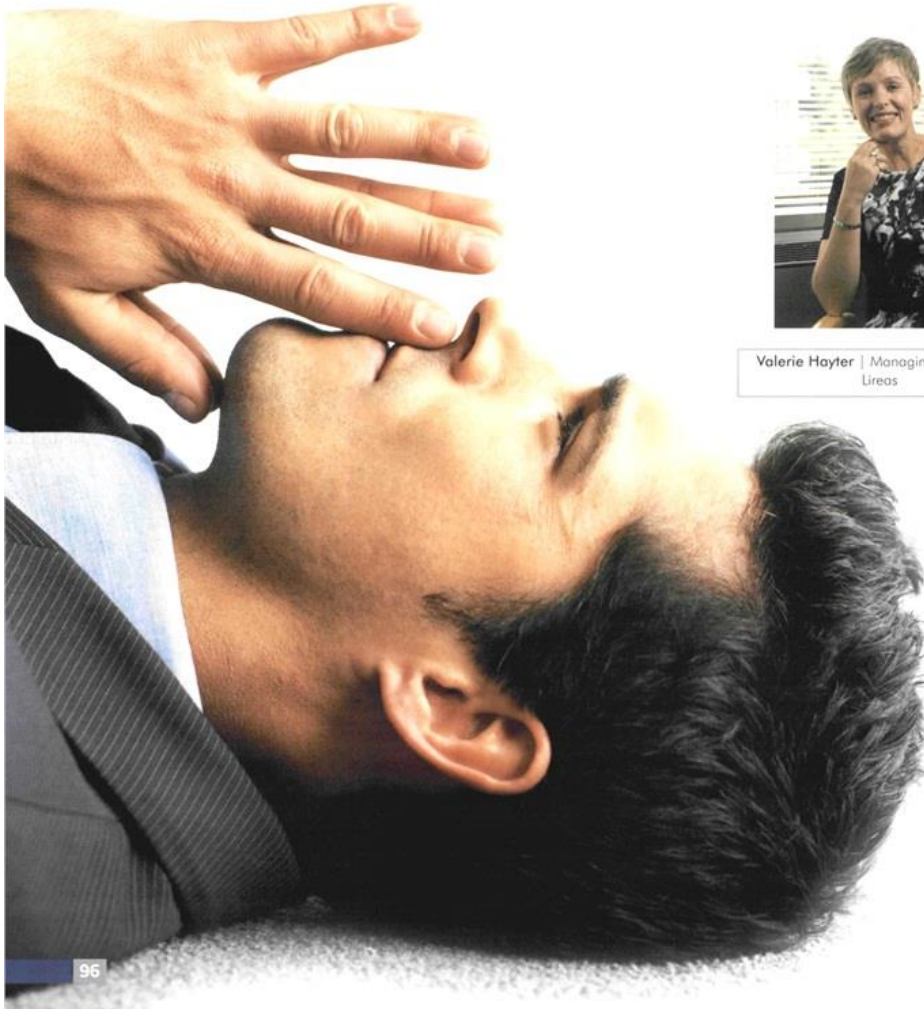


SURVIVAL OF THE SMARTEST:

THE SUSTAINABILITY OF THE UMA MODEL



Valerie Hayter | Managing director of Lireas

“UMAs have been a part of the South African insurance landscape since the late 1980s and we believe that they presently directly employ over 3 000 employees.”

Most underwriting management agencies (UMA) generally fall into the SME space, which is often hard hit in tough economic times. UMA profitability has been under pressure over the past few years due to a combination of factors, yet it is critical for the insurance industry that well-run, value-adding UMAs remain sustainable. How, then, should a UMA owner weather the current economic climate?

Valerie Hayter, managing director of Lireas, the strategic investment company of Hannover Re Group Africa, says, “UMAs are known for their innovative business practices, efficiency in servicing their customers and also for creating employment. In many respects, you can compare a UMA and an insurer to a big ship versus a speed boat. They both operate in the same environment but with great differences in capability, capacity and speed. By its nature, a UMA is a simpler and less corporate animal, which means that it can be run more efficiently and at arguably lower running expenses, while still being well placed to provide innovative, value-adding and tailor-made products and services to consumers via its brokers.”

It has been reported that UMAs administrate 20 per cent of the total gross written premium in the South African short-term insurance industry and this, says Hayter, implies that their value cannot be over-emphasised.

She clarifies, “UMAs have been a part of the South African insurance landscape since the late 1980s and we believe that they presently directly employ over 3 000 employees. If we were to include the other service providers in the value chain, where employment opportunities have been created out of the entrepreneurial nature of UMAs, the value to the economy and society in general is even greater.”

Hayter says it is ironic that many owners of UMAs are currently facing a difficult task in a very harsh, unfriendly and uncertain environment when they should really be credited and supported for the value they have brought to the industry over the years:

“The biggest challenge is the rising cost of doing business in an increasingly competitive market, characterised by very soft rates. More stringent compliance and regulatory requirements have also added to the cost of running niche insurance businesses such as UMAs. The introduction of binder regulations,

which has created an uneven playing field against UMAs, poses the most significant test for the sustainability of the UMA yet. The more commoditised UMAs have felt the pressure a lot more than the specialised ones, as the barriers to entry by competitors in the ‘general’ lines of business are lower. The UMAs offering the more technical and specialised products and services are better able to weather the storm. Some UMAs have had to merge with others or be absorbed into larger insurance companies, to leverage off the income and cost synergies of combined entities to ensure their survival.”

She says UMAs are attractive businesses to insurers and that, to a large extent, their expertise and specialisation are seen as a big competitive advantage to many insurance companies, hence an increasing trend by some insurers to hunt for and acquire UMAs into their businesses as product houses or divisions under their brand and direction.

“The large insurance companies have the financial capacity to lure UMAs into their businesses, although in my opinion this tends to take away the advantages of market specialisation and speed that have been

synonymous with UMAs for decades. Dissolution of the UMA in this way also takes away the entrepreneurial flair so desperately needed not only in the insurance industry, but in the South African economy as a whole. I hope that the trend will stabilise in the medium term.”

Against the current background, she provides the following advice. “UMA owners need to face the challenges head-on, dig deeper for solutions, investigate new ways of solving problems and doing their business, embrace legislation and establish smart, strategic partnerships that will harness and unlock the power of synergies in consultation with their distribution partners.”

“The future is increasingly being driven by consumerism and technology as opposed to what the market can offer. Only the smarter, faster and more responsive UMAs who add real value in the market will survive,” concludes Hayter.

