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Lireas Holdings

Driving the change that South Africa needs to grow

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Valerie Hayter, Lireas MD



Isaac Chindotana, a portfolio
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While South Africa is the economic powerhouse of the African continent, its economy is severely constricted by challenges which as much define the country as frustrates it. But while many companies and individuals prefer to take a ‘from the looking glass’ approach

whereby they feel they cannot contribute to the solution of these challenges; Lireas Holdings is growing its unique business model which truly embraces Mahatma Gandhi's teaching of being the change that we seek in the world.

After South Africa became a democratic country in 1994, it inherited a legacy of a poor education system left behind by the Apartheid government. The net result of this is a growing problem of unemployment which is proving to be a thorn in the side of the country's economic development. While the industry is under economic pressure and has seen a number of prospective business models which have all stated that they are world class, Lireas has proven over the 25 years that the company has been in the industry that proving that a model is world class as opposed to just advertising as much is the true secret to lasting success.

Playing a role in business development

There is a definite need for small business development in the country if it is going to create employment and allow the country to become competitive on the international stage. Lireas is the epitome of this. Valerie Hayter, Lireas MD, pointed out to the *FANews* that the company has a successful history of small business development.

“Our model is unique in that we believe in empowering people. When Lireas invests in an underwriting agency, we like our partners to have a shareholding in the business. It also ensures that there is alignment of interests. This will then give them full access to all of the benefits our group offers as well and giving the owners an incentive to grow the company profitably,” says Hayter.

She added that Lireas has started over 40 underwriting management agencies (UMA) of which only four were not successful. This is a very proud record bearing in mind the relatively high failure rate for start-up businesses. “Lireas group companies currently employ over 500 people. If one takes into account all the businesses we started and that are still operating, that number increases to well over 1000 people. Lireas has therefore played a major role in job creation and will continue to,” says Hayter.

Market consolidation

Although Hayter is optimistic about the future of the industry, the reality is that the South African economy is very constricted and faces significant challenges. This makes the establishment of new companies difficult, but it opens the door for other opportunities.

Isaac Chindotana, a portfolio manager at Lireas, says that the industry can expect a lot more mergers and acquisitions (M&A) as companies look to consolidate with bigger partners.

“Over the past three years, Lireas has started or acquired an average of one or two companies a year. There is a lot of space for M&A activity but a lot of this activity goes unreported. Market conditions are conducive for companies to come together so we expect increased activity on that front”.

Hayter expands on this by explaining that the context of the market has changed significantly since she joined Lireas 12 years ago.

“In the past, the barriers to entry for underwriting managers were very low. However, it is becoming increasingly difficult to overcome these barriers. And this is a testament to the regulatory environment which will only become more onerous with the introduction of Solvency Assessment and Management (SAM). This may mean that smaller companies will have decreased access to capital and will find it difficult to keep business costs down,” says Hayter who added that the past 12 years have been kind to the insurance industry and perhaps allowed some mediocre companies to make reasonable profits, “Don’t expect this in the future.”

African expansion?

The fact that the market is going to become increasingly constricted also poses a problem to larger companies who now have all of this capacity, yet limited markets to offer them to.

“The South African market has well over 200 UMA’s which is far too many in my opinion. Large insurers need to look for new markets and it is becoming increasingly hard to ignore Africa. Statistics show that by 2050, 25% of the world’s population will be found in Africa,” says Hayter who adds that Lireas is looking at its own African expansion strategy.

However, Africa poses its own challenges. The continent has a legacy of being poverty stricken and it is one thing saying that 25% of the world’s population will be in Africa, but how many of this 25% will ever be in a position to afford insurance.

Yet, Africa is growing. South Africa recently joined the BRICS block (a block of developing countries who along with South Africa includes Brazil, Russia, India and China), and of the countries which make up BRICS, only South Africa is growing and this growth is perpetuating throughout the continent.

But even through the challenges that Africa has, there will always be the need to protect assets and this is where insurance comes in. What is vital to point out though is that the rest of Africa is vastly different to South Africa culturally.

“This is why we are by no means ignoring the local market. Lireas remains committed to building our group and providing the South African market with the best products possible via our underwriting managers. We can take this success and specialised knowledge into Africa,” says Hayter.

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