

# OPERATIONAL CIRCULAR

15 MARCH 2022



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Dear Intermediary

## BUSINESS INTERRUPTION – PUBLIC UTILITIES / PUBLIC TELECOMMUNICATIONS (EXTENDED COVER)

The purpose of this circular is to advise of some coverage changes that impact your clients. The changes affect the **Business Interruption Section**, and the following coverages are impacted:

- Public telecommunications – extended cover; and
- Public utilities – extended cover.

### Countries affected

The changes are applicable for both South Africa and Namibia.

### Background

Following the COVID-19 pandemic, which impacted most countries worldwide, international support for covers that do not follow “Defined events” is no longer available. Contagious and infectious disease cover, for example, did not require a material damage peril to operate (e.g. fire, lightning or explosion) and is therefore deemed “non-damage” (or non-physical-damage).

“Defined events” are perils such as fire, lightning, explosion, special perils (e.g. storm) and malicious damage. These perils are usually found in the material damage sections, such as the Fire, Buildings combined and Office contents sections. “Extended cover” as seen in [Public utilities – extended cover](#) and [Public telecommunication – extended cover](#), provides for perils **much wider** than “Defined events” mentioned above. They offer “**failure**” or “**partial failure**”, which incorporates cover that has a very wide range of possibilities and levels of additional risk for insurers and reinsurers.

Although this cover has been in existence for many years, there are increasing concerns that power supply and various associated utilities could fail resulting in large scale losses. With these concerns in mind, reinsurers have withdrawn their support for business interruption covers that provide for “non-damage” (or non-physical damage) extensions, such as the “Extended covers” referred to in this circular.

This systemic risk we face, could have a catastrophic impact on our industry without reinsurer support, so providing this cover would be **unsustainable**.

### Actions to follow

The extensions will no longer be available for **new business and renewals, effective from 1 July 2022**. This means we have to undertake certain actions to achieve this:

- Adjust Santam systems to ensure compliance.
- Request that third party system providers accordingly adjust their systems in a similar way.

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- Amend all Santam policy wordings (incl. any endorsements).
- Assist you to amend bespoke policy wordings - if you are using such wordings (incl. any endorsements).
- Amend any existing endorsements that refer to the extensions in question (Clauses 1956, 2218 and 2219).
- Remove some existing endorsements for the extensions in question (Clauses 1092, 1843 and 2138).
- Advise clients in their renewal letter of changes that occur for renewals on and after 1 July 2022.
- We will continue to communicate, liaise and assist you during the process.
- Ensure we meet legal requirements, such as adequate notice periods to you and your clients.

## Products affected

These changes affect all products that have a Business Interruption section. This refers to all products that exist in the following areas:

- Santam issued policies;
- Broker or Administrator issued policies.

In summary, the following wordings will be changed:

- a) PolicyCentre (PC)(All products)
- b) Mainframe (MF)(All products)
- c) Santam Assets All Risks
- d) Broker bespoke wordings (incl. Assets All Risks derivatives)
- e) Additional Wording Components (AWC's) and Mainframe (MF) equivalents
- f) Policies within Segment Solutions (our segment specialists), such as H&L and Privé, current wordings (incl. any bespoke broker wordings).

## Systems impact

There is a definite impact on systems, which can be summarised as follows:

- Prevention of new business from 1 July 2022.
- Removal of cover from renewals starting 1 July 2022 and onwards.

There are various systems that are affected:

- Santam systems (PolicyCentre (PC) and Mainframe (MF))
- Santam Webe (quotation system)
- Santam Offline quote systems (e.g. Agri)
- Outsource broker systems (third party, own or administrator systems)
- Any other third-party system providers.

More detailed communications and liaison with you regarding your systems will take place to ensure we achieve the required target deadlines for implementation. Our team is working on detailed plans that will be shared with you in the near future.

## Impact on premiums

In terms of quotations effective from 1 July 2022, the cover for these extensions will no longer be available, so no premiums can be raised. For renewals, where the extension was being charged for, this premium component will fall

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away, since the cover is cancelled at the renewal date. The perils-based (“Insured perils”) version will replace the previous “Extended cover” version, in instances where the “Extended Cover” version included the “Insured perils” cover, and a new premium will be calculated, which will be less than the original premium that included the extended cover. Renewal premium adjustments will also apply as per our standard practice.

## **Impact on wording, clauses or endorsements**

The impact on our various contractual wordings is dependent on how such wording is arranged or constructed. Most wordings are similar for these extensions, so removing them from the contract is fairly simple.

These extensions need to be removed and any other references to the extensions within the policy wording need to be adjusted. We will work closely with you to manage these changes, where products are bespoke. Our own Santam wordings will be similarly amended.

All endorsements, Additional Wording Components (AWC’s), extensions and clauses that exist, will also be amended accordingly. Previous endorsements that refer to the extensions in question (e.g. Clause 2218) will also be amended, so as to remove reference to the cover.

Wordings that only offer the “extended” coverage, will require amendment to comply with the perils-based version and we will assist you to achieve this product change, if this is applicable to you.

Please feel free to contact your Relationship Manager or the Commercial Contact Centre should you have any queries with regards to this circular.