Bulletin

Newsletter of the South African Insurance Association

SAIA - ☎ (011) 726 5381 November 2013 - Issue No. 11/13

1. TRANSFORMATION & SOCIAL RISKS

1.1 South African Insurance Association (SAIA) Appoints New Chairman

The South African Insurance Association (SAIA) has appointed Mr Themba Gamedze as the new Chairman of the SAIA. Mr Gamedze assumed this new role on 1 October 2013.

Gamedze is currently the Chief Executive: Strategic Projects at the Sanlam Group. He also serves as independent director on a number of boards, including those of Santam and Credit Guarantee in the short-term insurance sector as well as boards within the Sanlam Group. Both Santam and Credit Guarantee are members of the SAIA.

Gamedze is an actuary by profession and a Fellow of the Actuarial Society of South Africa. During the last five years he has assisted the Actuarial Society of South Africa by providing leadership, first as President-Elect and currently as President of this prestigious society. Gamedze was also the Founding President of the Association of South African Black Actuarial Professionals.

Apart from several positions at Sanlam since 2003, Gamedze previously worked at HSBC South Africa as an investment analyst focusing on the insurance sector, and as a derivative structured product executive at both HSBC and the South African Merchant Bank AMB Capital. He also spent some time in his career at the Liberty Group, Metropolitan Life and Munich Re.

Gamedze read Pure Mathematics at the University of Warwick, Coventry, in the United Kingdom of England, and obtained a BA Honours in 1980 and an MSc in 1982.

The SAIA Board also announced the appointment of Mr Terry Ray of SCOR Africa Limited as Deputy Chairman.

The SAIA is proud to have Mr Gamedze as our new Chairman.

☞ **Further information: Lelo Ntshalintshali**
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1.2 SAIA Appoints a New Transformation and Social Risks Executive

The South African Insurance Association (SAIA) recently announced the appointment of Ms Leila Moonda as the General Manager responsible for the newly formed Transformation and Social Risks portfolio. Her appointment was effective, 1 November 2013.

Leila is joining the SAIA for the second time, having previously held the position of Transformation Manager, responsible for the BEE strategy and implementation of the industry's BEE initiatives. She is the co-founder of the BEE institute and in her capacity as the Institute's CEO, she assisted many companies with their BEE scorecards, strategies and other Financial Sector Code related issues.

The SAIA welcomes Leila and we believe she will be of great value to our team.

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1.3 SAIA Consumer Education Initiative 2013/14

Radio Financial Literacy Project

With the contract for the Radio Financial Literacy project recently signed-off, pre-production preparations are now underway for the 26 episode financial literacy drama series. Scheduling has also been finalised with the SABC for broadcast of the series on Umhlobo Wenene, Munghana Lonene and Ligwalalgwala FM radio stations. The drama series will be in the respective languages of the stations target audience – Xhosa, Xitsonga and Siswati respectively. Broadcasting is envisaged to begin in March 2014.

Edutainment Comedy Series Project

The edutainment comedy series 'Next of next week' is currently in pre-production with the writing of scripts having been finalised and approved by the SAIA. The pre-production phase will be completed in early December and filming is scheduled for the second week of January 2014.

The Soul City Project

The Soul City telenovela project contract has not been signed-off yet. It is envisaged that this will be done during the month of December. Due to SABC scheduling reasons, it was agreed that the broadcast of the series will be done in August 2014.

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2 INSURANCE RISKS

2.1 Finance and Insurance Vehicle System (FIVS)

Following a robust decision making process around the practicalities of implementing FIVS given our current insurance industry challenges, the FIVS Steering Committee approved a way forward which seeks to focus on vehicle data improvement and participation in the Insurance Data System (IDS) as its first milestone.

Insurers have been invited to participate in a joint IDS and FIVS data task team which aim to align both project's vehicle data requirements as well as identify more practical means to assist insurers to improve data with little disruption to current policy inception processes. Ultimately it is the expectation that this data task team will provide an output which will be grounds for motivating that a minimum vehicle data set be written into the SAIA code of conduct. Should your company wish to be part of this task team please refer to the contact details below.

The project will also be investigating the development of an industry salvage database as mentioned in the SAIA motor salvage code of conduct. A handful of solution providers have indicated their willingness to provide a proposal to be considered by the project.

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2.2 Green Geyser Replacement Program (GGRP)

SAIA continues to wait for a decision from the Economic Development Department (EDD) regarding funding to support the go-ahead of a national green geyser insurance pilot. It is encouraging to hear that an internal analysis and brief thereof currently sits with the Director General of the EDD and so there is still hope that the project will form part of the 2014 budget.

The budget window is closing swiftly and the GGRP steering committee has started considering options should funds not be granted by the government. The Steerco was not opposed to proceeding without funding although there was a common agreement that to make a material impact on energy savings, voluntary industry support would be needed. The project will also search for possible alternative funding avenues to support the project.

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2.3 Agricultural Risk and Crop Insurance (AGRI)

Andisa Agri, who was contracted by the Department of Agriculture, Forestry and Fisheries (DAFF) to conduct an agricultural insurance study and propose a sustainable crop insurance model in SA, has submitted their final draft report to involved stakeholders.

Andisa Agri have suggested either a stop loss facility to be provided by government beyond a certain claims ratio, a subsidised premium on insurance products paid into a Public Private Partnership (PPP) insurance pool or a combination of the two. The level of support would need to be determined by Treasury's appetite to assist the industry. They have also encouraged the establishment of an Income Equalisation Deposit (IED) scheme as a complimentary instrument to support farmers. This would, for example, allow farmers to sell cattle, tax free, during dry seasons and rebuy when grazing was able to support greater numbers again.

All agree that a PPP should support farmers that produce agricultural products for the market only. Approximately 15 000 emerging farmers (including crop and livestock) are estimated to fall in this category. This should be compared to the current coverage of about 5 000 commercial farmers by Multi-Peril Crop Insurance (MPCI) (17% of the market). Emerging farmers would also need to be supported by index products to reduce transactional costs as well as cater for a lack of specific yield data.

There are a handful of areas that need to be discussed more closely in order to obtain alignment. The SAIA Steering Committee feels, in contrary to Andisa Agri's proposal for example, that hail cover is self-sustainable and need not form part of a state supported PPP like MPCI products. There is also a question regarding whether or not a PPP should be involved with underwriting and developing standardised products.

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2.4 Acid Mine Water Study

After a change of structure within SAIA this project will now also form part of the insurance risks portfolio.

The project will now be driven by a dedicated project manager from within SAIA and as such it is expected that this important issue will gain momentum during the course of 2014. A circular has been sent out inviting insurers to reconfirm their participation in the project and this will also be distributed to the current committee distribution list.

The approach, which will need to be confirmed at a kick-off meeting in early 2014, will aim to establish which classes of insurance will be affected in order to inform a research specification and subsequently the modelling of the risk to insurers.

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3 GOVERNANCE RISKS

3.1 Treating Customers Fairly ("TCF")

At the FSB's Insurance Regulatory Conference 2013 held in Pretoria on 31 October 2013, the FSB again confirmed its intention to embed TCF in the insurance regulatory framework though various existing regulatory initiatives. In addition the presentation by Ms Leanne Jackson, Head of the FSB's TCF department also gave an overview of future initiatives envisaged by the FSB.

The TCF approach will be the primary framework that the new market conduct regulator under the 'Twin Peaks'-Model of regulation will use to fulfil its mandate to *"promote the fair treatment of financial services customers*", which is one of the four National Treasury (NT) policy priorities in terms of the NT policy document entitled *"A safer financial sector to serve South Africa better".*

This is expected to be reflected in the future Twin Peaks legislation, but in view of the FSB's TCF department this is already being implemented through embedding TCF in existing subordinate measures and through monitoring the industry's TCF readiness and delivery through on-site and off-site supervision of conduct of business.

The FSB reemphasised that there will not be a single *"TCF implementation date",* and that members can expect the following actions in its current approach to supervision:

- Reviewing regulated entities' TCF implementation progress during on-site visits
- Testing of Board and Executive Management's insight into identified conduct risks and mitigation measures
- Reviewing of product approval processes for TCF alignment
- Challenging 'misleading' claims or slogans used in advertising material
- Challenging charging structures and their impact on customer expectations
- Challenging conflict risks in certain distribution models
- Querying processes around guarantee review dates
- Querying the extent and the application of excesses, exclusions, pre-existing conditions
- Querying the transparency of implications of "add-on" features to insurance products.

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3.2 Quarterly Insurance Conduct of Business Return

The financial services regulatory framework in South Africa is under review by the National Treasury (NT) and in the process of moving to a ‘Twin Peaks’ Model of regulation, with the prudential regulator to be vested in the South African Reserve Bank (SARB), and the market conduct regulator falling within the jurisdiction of the Financial Services Board (FSB), which is the existing prudential and market conduct regulator for insurers.

On 31 October 2013 the Registrar of Long - and Short-Term Insurance at the FSB issued a letter to industry associations, confirming its intention to introduce a quarterly conduct of business return (“CBR”) which all long-term and short-term insurers will be required to submit on a quarterly basis to the FSB. This reporting will be in addition to the existing short term annual returns to the Regulator, which are mainly prudential reporting. Along with the letter, the FSB circulated the draft reporting template and a guideline document on the proposed completion of the CBR for industry comment by 31 January 2014.

In order to formulate comments addressing the appropriateness and completeness of the CBR and the supporting guidance manual as well as addressing the specific comments requested in the letter, SAIA will be facilitating a workshop on Thursday, 5 December 2013 to obtain industry input in order to submit meaningful comments on the proposed reporting templates by the deadline.

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3.3 Protection of Personal Information Act No. 4 of 2013 (POPI)

POPI has been enacted in the Government Gazette, dated 26 November 2013 and shall be promulgated in the Government Gazette on a date to be determined by the President.

POPI protects personal information by restricting how it can be collected, used and stored by a company, organization or person taking into account, *inter alia* the following:

- Processing of information must be done lawfully and in a manner that does not infringe the privacy of the individual. Personal information can only be processed if the processing is adequate, relevant and not excessive, given the purpose for which it is to be used;
- Consent must be obtained directly from the individual unless it is public information;
- Personal information must only be collected for a specific purpose and the individuals must be aware of this. Records must not be kept for longer than necessary to achieve the purpose for which it was collected;
- The holder of the data must take reasonably practicable steps to ensure that personal information is complete, accurate, not misleading and updated when necessary. All the while upholding this, taking into account the purpose for which the information was initially collected.

Organisations will have one year from the commencement date of the Act to comply. POPI not only affects companies and public bodies in South Africa, but also companies domiciled outside of South Africa.

Short-term insurers must ensure that they have adequate security protocols and staff to oversee the gathering, securing and appropriate use of personal information.

The implications of the Act for direct marketing are considerable as it effectively outlaws the transmission of direct marketing messages prior to receiving express consent from the recipient.

Direct marketers procuring data from third party data sources require the consent of the Information Regulator. In addition, the third party data source also requires consent from the Information Regulator.

The Act also provides for the issue of Codes of Conduct. The SAIA shall shortly be inviting members to participate in a working group to draft a Code of Conduct for the short-term industry.

The Act affects all businesses, not only those with a focus on direct marketing, therefore it is absolutely essential for companies to ensure that they fully understand the impact and how best for their individual structure to comply with the Act, in order to avoid prosecution or a fine.

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3.4 Solvency Assessment and Management (SAM)

SAM 2013 Year- Done and Dusted

If one was to use a single word that could aptly describe the 2013 year from a Solvency Assessment and Management (SAM) developmental perspective, it would probably depend on which side of the fence stakeholders were positioned. However most would agree that 2013 was certainly a roller coaster year filled with numerous twists and turns as the design of the new proposed SAM regime forged ahead.

The announcement by the Financial Services Board (FSB) in March 2013 that the SAM implementation date was to be moved out to 1 January 2016 surprised a number of stakeholders and set the tone for a bumpy 2013 year. SAM timelines both from the Industry's and Regulator's perspective required some pragmatic adjustment to ensure that the current positive momentum generated by all SAM stakeholders remained intact.

The FSB's Pillar II Readiness Review Report released in 2013 provided some useful insight as to the state of the industry's preparation for the SAM Pillar II Governance and Risk Management requirements. The ORSA design process took the illustrious top spot when it came to the area that industry was found wanting the most.

The third and final South African Quantitative Impact Study (SA QIS3) is well and truly underway and upon completion will herald the beginning of a new era for insurers and reinsurers in calculating their solvency capital requirement as from 1 January 2016.

The Economic Impact Study also found some much needed rhythm and traction in 2013. Probing economic questions and the best interest of the country are at the heart of the SAM Economic Impact Study. Results of this impact study are eagerly anticipated by industry towards the second quarter of 2014.

The long awaited Insurance laws Amendment Bill (ILAB) was perhaps the final unexpected twist in the 2013 SAM roller coaster track, with the announcement in October 2013 by the FSB that the ILAB would not be finalised and implemented by the beginning of 2014.

In keeping with the theme park analogy, if 2013 can be compared to a roller coaster ride from a SAM perspective then 2014 could be equated to a ride known as the Tower of Terror at a popular South African theme park. A sheer drop straight into a plethora of new SAM legislation awaits industry, much like the Tower of Terror ride, where a coco pan is slowly and gently taken 50 meters above the ground to ultimately face a 90 degree perpendicular drop into a pit of darkness below, testing a rider's nerve, bravery and stomach of course.

Perhaps the analogy used is slightly extreme however the reality of a considerably challenging year awaits the insurance industry in 2014 as the SAM legislation *must* be finalised.

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In 2014 the following milestones should be achieved in order to contribute towards a soft landing when the new proposed SAM regime goes live in 2016:

- The Insurance Laws Amendment Bill (ILAB) requires finality and an implementation strategy by the FSB by the middle of 2014
- The Primary SAM Legislation (The Insurance Bill) needs to be completed and submitted to Parliament before the end of 2014
- The Subordinate SAM Legislation also requires refinement and completion in conjunction with the Primary SAM Legislation
- The SAM Tax Basis and the process required to change the Tax law must be properly concluded in 2014
- The Light Parallel Run should take place in accordance with that which was communicated in the FSB SAM 2013 Update
- The Pillar III Quantitative Reporting Templates (QRTs) require finality early in 2014 in order to allow sufficient time for insurers and reinsurers to effectively prepare for these new demanding templates
- The results of the third and final South African Quantitative Impact Study (SA QIS3) should be duly considered and any concerns facing the insurance industry should be adequately addressed

The 2013 SAM roller coaster year is certainly over and the time for the insurance industry to boldly take the plunge into the final SAM design phase has dawned. The 2014 year will indeed be the *last opportunity* that the insurance industry will have to actively influence the design of the SAM Primary legislation before this follows the Parliamentary process towards becoming the new law.

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4 OTHER INDUSTRY RELATED NEWS

4.1 SA QIS 3: What can the short- term industry expect?

October 2013 saw the Financial Services Board (FSB) issue its third and final Quantitative Impact Study (SA QIS 3). This represents a significant step in moving from the development phase to the implementation of SAM. It is therefore not surprising to note that SA QIS 3 is compulsory for all insurers and insurance groups and will require formal sign-off by your public officer. It is also interesting to note that the FSB has stated that evidence that your board was involved, or at the least noted the submission, would be preferable.

So what does QIS 3 hold from a short-term insurers perspective? It is pleasing that the FSB (via its SAM Task Groups) have performed a significant amount of work to address feedback/comments received via the qualitative questionnaires submitted as part of SA QIS 1 and QIS 2. Most notably the premium and reserve risk charges under the Non-Life Underwriting Risk Module, which forms the main component of the Solvency Capital Requirement (SCR) for short-term insurers, have been re-calibrated to reflect South African market experience – QIS 2 was based on the European Solvency II parameters. This is good news, particularly for insurers with large motor (both personal and commercial lines) and liability books, as the risk charges applied to these lines of business have reduced. Conversely, the premium and reserve risk charge for writing commercial property business has increased. Refinements have also been made to the Catastrophe Risk component of the SCR based on expert input and involvement.

The other significant change for short-term insurers relates to 'segmentation'. In the context of insurance, the term segmentation refers to the grouping of business into homogenous classes. The revised segmentation in QIS 3 is targeted at aligning the Pillar I requirements with the proposed authorisation classes of business as outlined in the FSB's Discussion Document on this topic.

Direct insurers will be required to segment into 15 classes of business as opposed to the seven appearing in QIS 2. This change provides greater opportunity to realise potential positive diversification benefits, aligns more closely with Solvency II directive requirements and results in improved risk management and policyholder protection.

The increased granularity may result in significant practical implications. However will insurers be required to update their systems and processes to align with the revised segmentation requirements? It is certainly an area where one can expect to see hot debate and perhaps further revisions between QIS 3 and the finalisation of the SAM requirements. Insurers are encouraged to provide feedback to the FSB on this area as part of their qualitative submission.

With the FSB having bedded down a number of key areas in QIS 3, as well as having addressed the calibration issues in respect of the Non-Life Underwriting Risk Module, this provides an opportunity for insurers to focus on key aspects in relation to their SAM Pillar I preparations. A few such aspects are outlined below:

- The approach to determining the operational risk charge for the SCR calculation is unchanged. Is this charge, which is based on expenses and premium volume (both of which have been shown to be low indicators of an insurer having low or high risk of operational losses) appropriate for my business and how will I demonstrate this under my ORSA?
- Are the risk charges, as determined using average industry experience for premium and reserve risk, appropriate for my business?
- The challenges of pursuing an internal model are significant and well understood in industry. However, as a niche insurer or an insurer with stringent underwriting and claims processes, is it worth investigating the less onerous option of applying for the use of user-specified parameters to obtain capital savings?
- What approximations/simplifications do I make as part of my QIS 3 calculations and will these be appropriate and justifiable upon full implementation?

- How are different lines of business contributing to capital resources and capital requirements, taking into consideration the diversification benefits obtained?

All in all, QIS 3 is a timely reminder of the closeness of SAM going live. With the refinements made, it certainly provides insurers with the best picture yet of what their SAM balance sheet may look like under this proposed new solvency regime. It is also a reminder that significant work remains to be done if they are not only to comply, but to maximise the value derived from this new regime.

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5 CIRCULARS

The following circulars were issued during the month of October 2013: (Number of circular, title, date issued and contact person)

SAIA

SG Circulars

SG2013/090 Initiation to Submit Comments National Credit Regulation (NCR) Revised Draft Affordability Assessment Guide
Contact: Prisca Masuku

SG2013/091 SAIA Submission on Debarment Guide
Contact: Prisca Masuku

SG2013/092 Appointment of New Saia Chairman
Contact: Elaine Johns

SG2013/093 Invitation to 2013 South African Chamber of Commerce (SACCI) Annual Convention
Contact: Elaine Johns

SG2014/094 Appointment of Saia Deputy Chair
Contact: Elaine Johns

SG2013/095 Credit Intermediary List and Cancelation List
Contact: Princess Mlambo

SG2013/096 Proposed Amendments to the Omnibus Bill 2012, Submitted to the Parliament
Contact: Promise Mhlanga

SG2013/098 Update on Vat Binding General Ruling 14
Contact: Candy Lucas

SG2013/099 FSB Information Letter 8 of 2013 applications requiring approval by 31 December 2013
Contact: Prisca Masuku

SG2013/100 FSB SAM Newsletter 12
Contact: Tamara Jansen

AMUSA

AM2013/012 Casualty Advice
Contact: Candy Lucas

AM2013/013 Amusa Marine Day
Contact: Candy Lucas

SAIA Managing Directors

MD2013/030 Appointment of New SAIA Chairman
Contact: Elaine Johns

MD2013/031 Appointment of New SAIA Deputy Chair
Contact: Elaine Johns
MD2013/032 Proposed Amendments to the Omnibus Bill 2012, Submitted to Parliament
Contact: Promise Mhlanga

MD2013/033 South African Quantitative Impact Study (SA QIS3) Announced
Contact: Tamara Jansen

MD2013/034 FSB Information 8 of 2013 Applications Requiring Approval by 31 December 2013
Contact: Prisca Masuku

MD2013/035 Insurance Laws Amendment Bill (ILAB) Update Delayed October 2013
Contact: Tamara Jansen

MD2013/036 SAIA Telephone Lines
Contact: Elaine Johns

Motor

MT2013/034 Amendment of the National Road Traffic Regulation
Contact: Riana Mulder

MT2013/035 Harmonization of Third Party Motor Vehicle Insurance Scheme
Contact: Riana Mulder

MT2013/036 South African Police Services (SAPS) Request on Vehicle Fraud within the Short Term Insurance Industry
Contact: Marina Adonis

MT2013/037 Publication for Comment: Of the Tariffs on Government Gazette No's. 36911, 36912
Contact: Marina Adonis

Samia

SM2013/004 Samia Year-End Lunch
Contact: Candy Lucas

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IMPORTANT NOTICE

Should you know someone, who is not a SAIA member, who might be interested in receiving the SAIA Bulletin let them contact Tessa Kerspuy, SAIA Graduate: Communications and Stakeholder Relations.

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