



South African Insurance Association

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Chairman's notes: SAIA Annual General Meeting & Cocktail Function 2010

Good evening colleagues and friends

It is heart warming to once again address you in my capacity as the SAIA Chairman tonight. I would like to welcome you all here at our 2010 Cocktail Function.

The new Board

As per our tradition, the Annual General Meeting of the SAIA took place earlier this evening. The important matters on the agenda of this meeting included, of course, the election of the new SAIA Board. I would like to take this opportunity to congratulate those Board members who had been re-elected, and extend a special word of welcome to those who were elected for the first time. The new SAIA Board members are: (To be provided after the AGM)

Congratulations to you all and may you thoroughly enjoy your important responsibilities as Board members of our busy Association.

Laying foundations for the future

Tonight, we also launch the 2010 SAIA Annual Review. You are welcome to take a copy of this publication home upon your departure tonight.

It has become our custom to create a theme for the SAIA's Annual Reviews. We try to make these themes symbolic of where we believe the SAIA is in terms of its development and the position in which the short-term insurance market finds itself. This year we have chosen the theme "Laying foundations for the future". This theme was chosen because we believe that, of late, the SAIA has become involved in issues and initiatives that will lay the cornerstone for the future of the short-term insurance industry.

Only recently, the SAIA created and accepted a new SAIA Code of Conduct, a new SAIA Motor Strategy to help protect the sustainability of the largest class of insurance business and put into place a new SAIA Consumer Education Strategy that enables the industry to continue to make an impact with its widely acknowledged collaborative consumer education initiative with or without the Financial Sector Charter being gazetted. We have also been awarded two international grants for consumer education to use as a case study and an example of good practice.



Directors: RS Napier (Chairman), MC Truter (Deputy Chairman), TJ Creamer, MR Durek+, CW Hitchcock, S Isaacs*, K Kennedy, A Khilisia*, IM Kirk++, A Klennert+, NG Kohler, BN Madhav*, V Martindale*, AL Mhlanga, RJ Moletsane, HR Moses*, GRC Munnoch✚, S Naidoo*, JJ Ngulube, C Nolte*, N Omar, WT Roos, MA Samie, SH Schoeman, B Scott, D Shaw, J Sibanda, S Somers*, L Vermaak*, PG Walters*

*Alternates, + German, ++ Irish, ✚ British

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In addition to positioning itself to ensure the long-term sustainability of the industry, the SAIA is also in the early stages of establishing an industry approach on Data Sharing as required in terms of the Insurance Laws Amendment Act, and in launching a South African version of the European Solvency II Solvency Assessment and Management regime, as intended by the Financial Services Board, to promote the soundness of insurance companies through the effective application of international regulatory and supervisory standards.

Although the market is tough, it is an exciting time for those who represent and promote our industry, and the association has much work to do going forward.

With the aim to ensure sustainable success in future, the SAIA Board amended the SAIA Key Strategic Areas, which now include: Image & Reputation, Legislation & Regulation, Operations, Transformation, Motor, Reinsurers, Short-term Re-insurers Industry Data Exchange (STRIDE) and Sustainability which includes systemic risk and environmental issues.

The SAIA Key Strategic Areas are focused to effectively address the challenges faced by the industry at present. They are:

Transformation

The various constituencies of the Financial Sector Charter Council have failed to reach consensus on the outstanding issues regarding the ownership pillar of the Charter.

Because we do not have a Charter gazetted as a sector code, the default Department of Trade and Industry Codes apply to the industry, and the elements that make the FSC unique among charters are in danger of being consigned to the scrap heap.

This will be a disaster for all involved, because these elements, which the financial sector can uniquely address, have been enabling fundamental transformation in the lives of all South Africans. Here I am talking about the developments in products aimed at extending the range of financial products to encompass a far larger segment of our population, the efforts to extend financial literacy education to more South Africans, and the efforts aimed at empowerment financing.

I, among many, hope that whatever the outcome, the gains made in these areas are not lost and that whether the FSC is gazetted or not, we can find a way to continue with the development of access products and with our consumer education initiatives.

The SAIA successfully developed a proposal for enterprise development which details the steps required to establish a programme to assist in the development of black-owned motor body repairers. This would allow insurers and other institutions to channel funding into a programme to ensure that they obtain the necessary credits for enterprise development in terms of the FSC. In addition, the programme would assist insurers to create a base of suitably qualified black-owned service providers to assist in the procurement area. Subsequently, the SAIA Board has recognised that it is not the core business of insurers or the SAIA to be involved in the development of motor industry service providers. As such, the SAIA is seeking to find partners within the motor sector that could take over the role of championing this project.

The SAIA has continued with its successful consumer education programme. This is the sixth year of this programme and to date, together with our partners, we have collectively spent over R53 million.

The SAIA Manager: Transformation resigned during the course of 2009, and the SAIA Board has taken the decision to place the appointment of a replacement on hold until the future of the FSC is more certain.

Image & Reputation

The Image & Reputation team has been hard at work to ensure that the industry is represented in the best possible way. We have launched a new targeted publicity campaign, which has led to a new focus on the positive aspects of the industry in the press.

However, the greatest impact in this area has been the launch of our new Code of Conduct. Our previous Code of Good Business Practice was seen to be somewhat ineffective in achieving its objects. During the course of last year the SAIA Board decided that it was time to develop a Code that was far more all-encompassing, thereby setting the industry more firmly along the path of self-regulation. Given that the new Code is so much more substantial than the one it has replaced, the Board has agreed that the new Code will run for at least a year, after which it will be reviewed.

Legislation & Regulation

For many years now the Legislation & Regulation portfolio has been extremely active.

The regulations governed by the Insurance Laws Amendment Act have still not been released for comment by the Financial Services Board, despite many people, including industry representatives, having been hard at work. It is anticipated that the impact of the new binder regulations could have far-reaching consequences for the industry, so these are eagerly awaited. The same position also applies to the regulations on the medical schemes' demarcation where delays have taken place in the consultative process between the FSB and the National Treasury.

Both of these areas are vitally important for our members, so we are anxious to further the negotiations so that the consequences can be understood by the industry and then dealt with.

Finance & Operations

The areas of operation that were previously managed by the SAIA remain under our control, namely the insurance company Intermediaries Guarantee Facility (IGF), the South African Pool for the Insurance of Nuclear Risks (SANP), and the Insurance Data System (IDS). The nuclear pools side has seen a major change with the creation of a separate legal entity to perform the administration of the pools, called the South African Nuclear Pool Administrators (Pty) Ltd.

Motor

Road safety issues are still very much in the spotlight and in the eyes of many, the situation has become more dire over the last few years. The statistics are reasonably well known and in my opinion totally shocking. At present, approximately 40 people a day are being killed on our roads which means that the annual figure is 14 000. Of that number approximately one-third are pedestrians and this is not surprising when the experts tell us that a car moving at 70 kilometres per hour has the energy equivalent of 40 bullets. If a pedestrian is hit by a car doing 70 kilometres per hour, death is a near certainty. This statistic alone does not tell the story of the much greater numbers that are left permanently maimed or seriously injured, and the huge cost this represents for the country.

In light of motor insurance being the largest class of business, with the highest cost of claims – at times proving problematic for many of our members – Motor insurance was added as a Key Strategic Area, although, in the past, many of our activities were already motor-related.

For example, we have for the past seven years supported the activities of Business Against Crime South Africa with a substantial annual donation, which reached R1.7 million this year. We have also been involved with Business Against Crime South Africa in many of its initiatives.

The new SAIA Motor Insurance Strategy specifically seeks to address the causes of claims which result in the greatest losses to the industry, namely those of road safety. Whilst incidences of vehicle theft have been greatly reduced over the years, there is no room for complacency concerning crime. The combating of vehicle crime will remain a key focus for us.

The SAIA Board and all our members, that write motor insurance, are hoping that the development of our strategy and our intention to work with other Governmental and non-Governmental Associations that are trying to assist in the reduction of the present carnage on our roads will soon start to have a positive effect.

Reinsurers

The SAIA is fairly unique among insurance associations in that the reinsurers active in the market are members of the association. In many other markets this is not the case.

Previously, although reinsurers were members of the SAIA, they were also members of the South African Reinsurance Offices Association (SAROA). Following the demise of SAROA, the SAIA Board agreed on to add Reinsurers as a Key Strategic Area.

Work being done in this area focuses on issues that are specific to reinsurers in the market.

The reinsurers have also been heavily involved in the new investigation into fire and emergency services.

Short-term Re-Insurance Industry Data Exchange

The Insurance Laws Amendment Act requires that insurers have access to their clients' data. Currently, not all insurers have access to full sets of data. This is specifically true where insurers use brokers with binders, or where large administration houses are involved in processing policy information.

Therefore, the SAIA and the Financial Intermediaries Association (FIA) have embarked on an endeavour to tackle the significant challenge of data sharing between the insurers, brokers and other providers that, if not resolved, will lead to a significant increase in cost and possible non-conformance with the envisaged new legislation.

Solvency Assessment and Management Initiative of the Financial Services Board

During the end of last year, the Financial Services Board advised the SAIA that it was in the process of developing a new solvency regime for the South African short- and long-term insurance industries, to be aligned with international standards. This new regime will be called Solvency Assessment and Management (SAM).

The short-term insurance industry had already been involved in working with the FSB towards a revised capital regime for the short-term insurance industry, under the Financial Condition Reporting (FCR) banner. The FSB has advised that this work on FCR will be superseded by and incorporated into the SAM project.

The basis of the SAM regime will be the principles of the Solvency II directive, as adopted by the European parliament. This will be adapted to South Africa's specific circumstances where necessary.

As an overarching principle, the recommendations arising from the SAM project should meet the requirements of a third country equivalence assessment under Solvency II.

The Solvency II directive was adopted by the European parliament in April 2009 and endorsed by the Council of Ministers in May 2009, thereby concluding the legislative process for adoption. The implementation date for EU countries is October 2012.

The FSB aims to promote the soundness of insurance companies through the effective application of international regulatory and supervisory standards. In line with this objective, the FSB aims to introduce a solvency regime along the principles set out in the new Solvency II directive shortly after the date of Solvency II implementation in the EU.

Recognising the importance of this project, the SAIA Board has approved the appointment of a Project Manager to run this.

Sustainability / systemic risk / environmental issues

The area of Sustainability of Short-term Insurance is the newest and latest SAIA Key Strategic Area to be added by our Board.

While the SAIA has not specifically run a project such as this before, much of the work we have been doing over many years could be considered as part of an initiative to ensure the

sustainability of the short-term insurance industry. Examples include the work done to prevent vehicle crime, the work done to create a transformed industry through the Financial Sector Charter, the work done on consumer education and micro-insurance, the initiatives investigating the state of the fire and emergency services, the two data sharing initiatives, and the preparatory work for the Solvency Assessment and Management initiative of the Financial Services Board.

A consultant has been appointed and will create a strategy to be presented to our Board on what should be our way forward.

Appreciation

I believe that SAIA, although a small organisation, has a huge role to play to promote and represent the interests of the short-term insurance industry, while leading and enhancing the efforts of the industry to become recognised and trusted as an important contributor to the South African economy and society.

To ensure the sustainable success of the short-term insurance industry in general and its member companies in particular, SAIA heavily relies on the knowledge and skills of its member representatives in order to provide a service that its members can continue to be proud of. Each SAIA committee member has a role to play in helping SAIA reach the goals of our key strategic focus areas and the value each member adds to assist SAIA to successfully address industry issues does not go unnoticed.

I would like to thank Barry Scott and his team who serve the needs of the industry often under extremely trying and difficult conditions. Without their contribution the SAIA would have been unable to execute its huge task so professionally.

Lastly, I would like to extend my thanks to the SAIA members who are the blood in the SAIA veins without which we would not be able to deliver any functions and to each one of the former SAIA Board members for their commitment, time, and effort during this past year.

In closing

I am looking forward to serve our industry as SAIA Chair again and I wish the SAIA and each one of its member companies all the best for the year ahead. Let us all enjoy the evening.