



SAIA
 Newsletter of the
 South African Insurance Association
Bulletin

SAIA - ☎ (011) 726 5381

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September 2014

1 INSURANCE RISKS

1.1 Green Geyser Replacement Project

SAIA's Green Geyser Replacement Project (GGRP) Steering committee will be meeting at the end of October.

Earlier this month the Deputy Director General of the Department of Energy (DOE), Mr Ompi Aphone hosted an encouraging meeting with SAIA and was subsequently asked to present to the SAIA project team at the Steering Committee meeting.

The project team believes having the latest feedback from the DOE and information regarding alternative funding models that it will be in a good position to consider the projects future.

1.2 Acid Mine Water Study

The project team recently completed a research summary having received available studies from experts to establish clarity around whether or not the three risk areas namely; an increase in seismic activity, localised flooding of Acid Mine Water (AMW) and a potential increase in the occurrence of sinkholes are in fact risks worthy of closer inspection.

The project team identified that the industry's focus should be solely on the changing seismic environment going forward and recommended the closure of the AMW project and the establishment of a more focused earthquake committee.

SAIA has therefore distributed a circular to all members to participate on an earthquake committee and will be hosting a kick-off meeting shortly. The committee will aim to define a best practise in earthquake modelling methodology and also establish relationships which will give insurers regular access to seismic data.

1.3 Agricultural Risk and Crop Insurance

There has been no further progress on this project since the previous bulletin as the project team is awaiting feedback from its submission.

The SAIA project team consolidated and presented its last round of feedback to the state supported insurance scheme before the document is published for public comment.

The project is thus in a waiting phase as the Department of Agriculture (DAFF) and Treasury prepares the document internally before it is distributed for public comment.

1.4 Finance and Insurance Vehicle System

The SAIA Board recently ratified the SAIA Insurance Risks Board Committee's decision to incorporate the Memorandum of Understanding (MOU) on vehicle data improvement and sharing into the SAIA Code of Conduct. This will lay a sturdy platform for the coming stages of FIVS and its focus on crime detection, road safety, salvage management and business process improvement among other things.

The SAIA Board also ratified that the project's proposed solution provider develop an industry motor salvage database and so the project will now be working on detailing an implementation plan as well as prepare the MOU for inclusion into the SAIA Code of Conduct.

1.5 Earthquake Committee

SAIA's Acid Mine Water (AMW) project recently identified that an industry focus on the changing seismic environment is warranted and thus the establishment of a more focused earthquake committee was suggested.

SAIA has therefore distributed a circular to all members to participate on this earthquake committee and will be hosting a kick-off meeting shortly.

The committee will aim to define a best practise in earthquake modelling methodology and also establish relationships which will give insurers regular access to seismic data.

Should your company like to be represented on this committee then please forward your details to Ben Webbstock.

☞ **For further information contact: Ben Webbstock**
✉ Ben@saia.co.za

2 GOVERNANCE RISKS

2.1 SAM: Status Update

The Third and Final South African Quantitative Impact Study (SA QIS3)

The Financial Services Board (FSB) has indicated that they intend to release the SA QIS3 Report to the public towards the middle of October 2014. Early indications are that the overall results seem to be in line with the results of the SA QIS2 exercise, with a slight improvement shown in the number of short-term insurers meeting the Solvency Capital Requirement (SCR) when compared to the results of SA QIS2.

The SAIA SAM Project Support Office (PSO) will wait for the official public release of the SA QIS3 report and based on an analysis of the results will formulate a strategy to address any concerns and the way forward with the FSB.

Internal Model Approval Process

The FSB expects to release a "*Lessons learnt from the IMAP*" document shortly. This document will provide a useful guide to those insurers and reinsurers that intend to apply for the use of an internal model in the third open-end window period.

Draft SAM Legislation

Primary Legislation (Insurance Bill)

An important factor responsible for deferring the release of the draft SAM Primary Legislation (Insurance Bill) is the timing of the release of the next public version of the Twin Peaks Bill for comment.

The Twin Peaks Bill contains a number of overarching regulatory elements that will impact the Insurance Bill and as such requires finalisation before the Insurance Bill can be released, thereby avoiding any potential contradictions and regulatory uncertainty. Hence the draft Insurance Bill will only be released by the FSB once the Twin Peaks Bill has been released for public comment which is expected to occur within the final quarter of 2014.

The Insurance Bill is expected to be tabled in Parliament in the first quarter of 2015.

Subordinate Legislation

In like manner, the FSB intends to release the draft SAM Subordinate Legislation for public comment along with the release of the draft Insurance Bill, which as mentioned will occur after the public release of the Twin Peaks Bill.

Interim Measures - Board Notice: Governance and Risk Management

The Board Notice (BN) to replace the Insurance Laws Amendment Bill (ILAB) is expected to be released for public comment towards the end of September 2014. The BN will also include further details regarding the prescribed rules as alluded to in the previous drafts of the ILAB.

The supervision of insurance groups will however not be included and addressed by the BN but rather through inclusion in the Twin Peaks Legislation. It is expected that the Twin Peaks Legislation will be in place later in 2015.

NB - The BN is expected to be finalised by November 2014 and should take effect from 1 January 2015.

SAM Pillar II Readiness Review Follow-up exercise

As at the date of the FSB SAM Steering Committee meeting, 12 September 2014, the FSB still had four insurer interviews left to conduct before finalising their findings in the form of a report. It is the intention of the FSB to release the Pillar II Readiness Review Follow-Up Report to co-inside with the release of the SA QIS3 report. The results of the Pillar II Readiness Review Follow-Up survey will inform the Mock ORSA exercise as part of the Comprehensive Parallel Run taking place in 2015.

Segmentation (Discussion Document 29)

The Discussion Document addressing Segmentation was also considered at the FSB SAM Steering Committee meeting and approved for public comment. The Discussion Document includes both authorisation classes of business as well as segmentation to be used as part of the SAM reporting requirements.

The Discussion Document is comprehensive in nature and has a strong alignment with the reporting classes that will be required by the Market Conduct Supervisor as part of the Conduct of Business Returns (COB).

A practical challenge facing the FSB, of which they are acutely aware, is the process to ensure that the “new licenses” that will be required under SAM, are expeditiously addressed and adequately dealt with by the time SAM goes live on 1 January 2016.

SAM Light Parallel Run (LPR)

The FSB will be releasing a second set of LPR reporting templates shortly with the inclusion of a few adjustments and tweaks from the first set of templates.

Given the limited time remaining in which to prepare for the second set of LPR templates, the new segmentation will not be included as part of the second submission. The FSB did however encourage those insurers who were able to adjust their templates and include the new segmentation as per the approved Discussion Document to do so.

Tax Basis

A number of urgent meetings and discussions are underway within the SAM structures to ensure that the tax basis is ready in time for the SAM go live date. The current proposed tax basis for Non-Life insurers is the SAM regulatory basis.

Reinsurance Regulatory Review

The FSB indicated that the report concerning the policy decision around reinsurance, for inclusion in the Insurance Bill, is anticipated to be available for public comment in October 2014. The policy document is currently being condensed from its present size in order to set out the recommendations in a manner that is simpler and easier to comprehend than the current format.

Quantitative Reporting Templates (QRTs)

The **full suite** of the draft Quantitative Reporting Templates (QRTs) were approved for public comment at the FSB SAM Steering Committee meeting held on 12 September 2014. These templates along with Discussion Document 29 entitled Authorisation classes of Business under SAM are expected to be released for public comment shortly.

The new draft QRTs include materiality thresholds which will reduce the number of templates and cells requiring completion if insurers and reinsurers fall within these limits. External Audit requirements as well as Quarterly Reporting applicable to certain of the QRTs have also been suggested and set out as part of the full QRTs suite that will be issued for public comment.

The PSO will be hosting a workshop in order to provide comments to the FSB pertaining to these new draft QRTs.

Cell Captive Review

The FSB indicated that the industry can expect a document on the Cell Captive Review towards the end of October 2014. The prudential thinking emanating from within the SAM environment will be included as part of the Cell Captive document that will be issued for public comment. The SAIA will call for a workshop to address this document once released for public comment.

Discussion Documents, Position Papers and Final Position Papers

The following Discussion Documents and Position Papers were approved for public comment at the FSB SAM Steering Committee meeting held on 12 September 2014:

Discussion Documents

Discussion Document Number	Title	Date approved
29	Discussion Document 29 (v 6) titled "Authorisation and reporting classes of business under SAM"	12 September 2014
93	Discussion Document 93 (v 3.1) titled "Group Governance" (<i>To be read with DD 71</i>)	12 September 2014
112	Discussion Document 112 (v 1.2) titled "Loss-absorbing capacity of deferred taxes"	12 September 2014
113	Discussion Document 113 (v 2) titled "The calculation of tax in technical provisions"	12 September 2014

The PSO will call for a **combined workshop** in order to scrutinise and generate industry comments on the following:

- The Board Notice to replace the ILAB
- Discussion Document 93: Group Governance
- Position Paper 71: System of Governance

Position Papers

Position Paper Number	Title	Date approved
45	Discussion Document 45 (v 2.1) titled "Currency Risk"	12 September 2014
48	Discussion Document 48 (v 3.2) titled "SCR Standard Formula: Correlations"	12 September 2014
61	Discussion Document 61 (v 4.5) titled "SCR Standard Formula: Operational Risk"	12 September 2014
70	Discussion Document 70 (v 2.1) titled "Property Risk"	12 September 2014
75	Discussion Document 75 (v 4.2) titled "Treatment of risk-mitigation techniques in the SCR"	12 September 2014
83	Position Paper 83 (v 5.1) titled "The role of the Statutory Actuary"	12 September 2014
105	Discussion Document 105 (v 2.2) titled "Market Risk Structure & Correlations"	12 September 2014

Final Position Papers

The following Final Position Papers were accepted at the meeting:

Final Position Paper Number	Title	Date accepted
89	Position Paper 89 (v 2.2) titled "Calculation of SCR on total balance sheet"	12 September 2014
103	Position Paper 103 (v 4) "The treatment of New Business in Internal Models under SAM"	12 September 2014

Conclusion

The remaining three months of 2014 will certainly be demanding and require active industry involvement in the allocated public commentary periods, in order to provide the FSB with useful industry views and insight pertaining to the draft SAM legislation.

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2.2 Recent Financial Advisory and Intermediary Services (“FAIS”) Act Developments

Proposed Guidance Note on the interpretation and application of Section 13(1)(c) of the FAIS Act

Section 186(d) of the Financial Services Law General Amendment Act (“Omnibus Act”) which amends Section 13 (1)(c) of the FAIS Act, provides that a representative can only contract or render financial services in the name of the Financial Services Provider (“FSP”), of which that person is a representative, for the rendering of financial services (advice and/or intermediary services).

Following feedback from the SAIA and the industry at large, regarding the practical implications of Section 13 (1)(c), the Financial Services Board (“FSB”) issued an Exemption for all FSPs and representatives, including juristic representatives, from Section 13(1) (c) until 28 February 2015.

The FSB thereafter issued a Proposed Guidance Note on the interpretation and application of Section 13 (1)(c) on 11 September 2014, inviting comments from the industry.

Although the FAIS Act codifies the common law principles of agency insofar as it relates to the relationship between a FSP and its representatives, it also prescribes additional requirements applicable to that relationship. The Proposed Guidance Note, *inter alia*, refers to collection of premiums, Intermediaries Guarantee Fund guarantees, contracts with product suppliers, mandates with clients, binder agreements, business documentation and advertising.

The SAIA has embarked on a consultation process with its members in order to formulate a submission to the FSB by the due date of 13 October 2014.

2.3 Proposed Amendment to the FAIS General Code of Conduct

The Financial Services Board (FSB) issued an Invitation to Comment on the Proposed Amendment to the General Code of Conduct (“the Code”) for Authorised FSPs and Representatives, 2003 on 1 September 2014.

The purpose of the amendment is to prohibit a FSP or representative from offering or receiving a sign-on bonus.

The FSB will “...continue to review sign-on bonus arrangements that have been entered into and will take appropriate regulatory action where this has resulted in evidence of incentive-driven churn.”

The SAIA invited comments from its members and formulated a submission to the FSB by the due date of 16 September 2014

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3 INDUSTRY NEWS

3.1 Cross Border Insurance Cover

The engineering and construction industry was particularly hard hit when the infrastructure development boom leading up to the 2010 FIFA World Cup was followed by a global recession. The contraction in construction opportunities resulted in a shrinkage in margins and an increase in competition thereby compelling local construction companies to leverage and supply their

engineering skills into Africa and other emerging markets. A benefit of this expansion is the growth potential in the corporate-commercial insurance market segment for clients with Cross Border insurance needs. On the other hand a business venture into foreign territories inherently increases the compliance risk associated with unfamiliar legal and tax systems and regulations.

Cross border and worldwide cover for Multinational Companies is traditionally fulfilled by Global Insurers through a single “broad form” master policy. The policy provides cover to the parent and its subsidiaries/affiliates located across the world to fill gaps in the local policies through features known as Difference in Condition or Difference in Limits (DIC/DIL). However, this established standard insurance practice may no longer withstand regulatory compliance on the basis that it overlooks the obligation of the insurer, broker or insured to remit payment of applicable taxes and fees that may be due in jurisdictions where the risk is located.

Whereas some countries permit local residents to buy insurance from any insurer they choose, many countries prohibit “non-admitted” insurance for a risk located within their jurisdiction where the insurer is not licensed or authorised. For many years companies have often overlooked – wittingly or unwittingly - these “admitted” insurance requirements, relying simply on their global policy to protect them. In some countries such policies are treated as void, still going as far as to subject claim settlements with actions of confiscation and with criminal penalties levied against the recipient of such ‘out of jurisdiction’ payment. In the absence of any global regulation of insurance or a consistent international application of insurance laws, countries, states, provinces and territories around the world vary in how they regulate the placement of foreign, “non-admitted” insurance to cover their local risks.

With the forces of globalisation at play and where local markets respond with some degree of protectionism and localisation we find a renewed attention and awareness all round on corporate governance, prohibition of “non-admitted” insurance/re-insurance, and close scrutiny and tax audits on foreign corporations and insurers. Many countries are now imposing fines, penalties and taxes on foreign companies that are in breach of their “admitted” insurance requirements, and they are becoming more strict and astute at enforcing the rules and closing any perceived loop-holes.

Despite the lack of clarity on local tax and insurance regulation, buyers of insurance, in the spirit of good corporate governance and enterprise-wide risk management, expect a high degree of compliance - contract certainty, claims payment, tax transparency and the avoidance of penalties and fines. A ‘Cross-Border’ compliant insurance program helps to ensure that all parties involved in the insurance solution are not subject to penalties and fines resulting in undue monetary costs, coverage restrictions and potential (brand) reputational damage. It is thus an imperative for multinational insurers and in fact all located along the insurance supply chain to review the local laws, contracts and conditions where the risk is located. In an effort to provide a Cross Border service to Insureds, some insurers have already structured global programmes via established partners and networks in the various local countries.

Notwithstanding the above, what has to be the guiding principle to all solutions secured and what we are seeing is a mindset of “if it’s not compliant – we cannot provide cover”.

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4 INDUSTRY EVENTS

4.1 35TH Annual Crime Stoppers International Conference

Crime Stoppers, an international body that successfully assists police in 28 countries and helps solve crime will host their annual international conference in South Africa from 12 – 15 October, at the

Cape Town International Convention Centre (CTICC) in Cape Town. Crime Line is the local host organization in association with SAPS.

Similarly the objectives of Crime Line and those of the South African Insurance Crime Bureau (SAICB) makes the involvement of the SAICB and the insurance industry at this event of considerable importance. The SAICB will present at the conference on 13 October 2014.

For more information about the conference visit www.crimestoppers-conference2014.com. Please send your queries and registration forms to Ingrid Hansen at Ingrid.Hansen@mci-group.com Registrations of 10 and more receive a group discount of 10%.

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IMPORTANT NOTICE

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