



SAIA

SOUTH AFRICAN INSURANCE ASSOCIATION

BULLETIN

PROMOTING A TRUSTED & SUSTAINABLE
NON-LIFE INSURANCE INDUSTRY
FOR SOUTH AFRICA

SEPTEMBER 2020

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1 From the Desk of the CEO

South Africans were elated by President Cyril Ramaphosa's address on 16 September 2020, announcing that our nation would effectively be shifting gears to Alert Level 1 at midnight on Sunday 20 September. This announcement, which had long been anticipated by business, gave rise to a new glimmer of hope as preparations to further open many other economic sectors which had been restricted began in earnest. It was indeed music to the ears of our fellow hospitality and tourism industry counterparts who have suffered immensely during the lockdown that began at the end of March 2020.

In the previous edition of this Bulletin (August 2020), we wrote extensively about the effects of climate change and how everyone, including national and local governments, private entities as well as municipalities could play a role that could limit the effects of climate change through the adoption of environmentally sound strategies. It is indeed encouraging to note that following the commitments made in the State of the Nation Address in February 2020, the government has now gazetted ministerial determinations that will enable the development of more than 11 800 megawatts (MW) of additional power generation. SA currently has in the region of 30 000 MW of electricity on the national grid each day. This is a positive signal to move ahead with one of the key reforms which will see additional energy procured from diverse sources like solar, wind, and gas which is needed to unlock economic growth, while also reducing carbon emissions.

SAIA and its members continue to be concerned about the state of fire risk compliance and level of expertise at South Africa's 278 municipalities. Fire risks are one of SAIA's key focus areas where the association, in collaboration with the Fire Protection Association of South Africa (FPASA), have recently agreed on a partnership that will see FPASA conducting a number of projects funded by SAIA members over the next few years. These projects are aimed at developing resources and strategies that could mitigate fire risks in South Africa's built environment.

I am pleased to also announce that significant progress has been made on the Agricultural Insurance Index project so far with the two-member companies representing SAIA to pilot index insurance, Santam and the Land Bank Insurance Company (LBIC), having made applications to pilot index insurance within the intergovernmental FinTech innovation hub (regulatory sandbox), to test different index offerings. Since this is a new product offering proposed for smallholder farmers in South Africa, the two members have both received an in-principle approval, whilst they go through a vetting process. This vetting process is envisioned to be completed sometime in October 2020, after which the test or pilot index insurance will be run for 12 months into 2021.

After a rather lengthy process, which included the re-engagement of its members on the industry position, the SAIA Board has approved the proposed industry amendments to Statement FS 400 (Preferential Procurement and Enterprise and Supplier Development) of the Financial Sector Code. This is a significant milestone for our sector which is also represented by the Financial Sector Transformation Council (FSTC), as these proposals are aimed at the acceleration of transformation in the financial sector.

In conclusion, I would like to urge all South Africans to continue being cautious, always wear your masks, wash your hands regularly, and maintain the recommended social distancing. A resurgence of COVID-19 positive cases would certainly devastate our economy further.

Viviene Pearson
SAIA Chief Executive

2 Insurance Risks

2.1 Managing Fire Risks in SA's Built Environment

Academics define the built environment as a combination of built structures and modified landscapes that support human life and livelihoods. These built structures are sensitive to external factors such as fires that have the potential of destroying them, alongside human and animal life. The South African Insurance Association (SAIA) is concerned about the state of compliance and level of fire specialist competency at South Africa's 278 municipalities. Property fire risks is one of SAIA's key focus areas where the association, in collaboration with the Fire Protection Association of South Africa (FPASA), continue to develop strategies that could mitigate property fire risks in South Africa's built environment. For instance, the provision of education services on fire risk management to some of the smaller municipalities at no cost to the respective municipalities in coalition with the National Disaster Management Centre (NDMC). Currently, economic losses due to fire in the built environment equate to R15 million per day.

Fire risk remains one of the major factors capable of consuming the built environment in a short space of time, resulting in losses that could easily be in hundreds of millions of Rands. Fire is an extreme loading condition that must be considered in the design of buildings. Upon initial ignition, building fires are typically small, localised and can be dealt with efficiently by active and functional protection systems, such as sprinkler systems and fire extinguishers. However, where there is adequate fuel, ventilation, and lack (or failure) of active protection systems, the seemingly contained fire may flashover and develop into an extreme fire loading scenario with terrible consequences.

The protection of buildings through the proactive prevention of fire outbreaks is of paramount importance, not only for the building occupants, owners, and the local government but also for the sustainability of the non-life insurance industry that insures the properties. A sobering consideration is the tragic incident that claimed the lives of three dedicated City of Johannesburg servicemen who battled, alongside their crews, a building fire that started on the 23rd floor of the Bank of Lisbon building in 2018. According to the Occupational Health and Safety regulations, building compliance must be a minimum of 85%. However, Engineering News reported that there were claims that the building was only 21% compliant, which again compounds the causes of concern from the non-life insurance industry.

Another notably international unfortunate fire incident took place in June 2017, when a fire broke out in the 24-story Grenfell Tower block of flats in West London, claiming the lives of about 72 people. The fire has been referred to as the deadliest structural fire in the United Kingdom since the 1988 Piper Alpha disaster and the worst UK residential fire since the Second World War. The London Fire Brigade has been subjected to severe scrutiny and heavily criticised for "serious shortcomings" and "systemic" failures in its handling of the Grenfell Tower fire. One of the major concerns stems from the building materials or cladding material used in the building, and this is the material that is largely used across scores of councils in the built environment in the UK that has the potential to catch and retain fires.

The Insurance Information Institute in the United States of America estimated fire losses to be in excess of US\$45bn in 2018 alone. The National Fire Protection Association (NFPA) reports that there were 499 000 structure fires in the United States in 2018 resulting in an average loss of US\$22bn. The quantification of these costs provides a metric for understanding the social and economic impact of fire, which can be useful for assessing and influencing fire prevention and protection in South Africa.

While enforcement of building regulations and local municipality by-laws is of great importance in the sustainability of the built environment, a spotlight has been cast on the structural safety and design of buildings globally. Researchers and engineers in the field of extreme loading on structures (i.e. earthquake, hurricane, tsunami) are developing performance-based design approaches as an alternative to the current prescriptive methodologies. This mind-set shift to engineering design will allow building owners to specify additional building performance objectives. These will not only be for the structural and non-structural performance of the building but also include environmental impacts throughout the life of the building. In the South African context, it is vital that building regulations are amended to include performance objectives that require standards and conditions that improve the preventative measures, including saving the building and its contents.

Global standards now dictate that buildings require sprinkler systems above certain occupancies and floor areas. Building owners can increase the fire protection of their buildings by improving the fire resistance of the structure. Building protection comes in two forms; active and passive protection with the former using building sprinklers, fire alarms, and emergency lighting, while the latter being applied to the individual structural members of the building applied during its design, for instance, the incorporation of fire-proof ducts and cabling, thermal insulation, fire-resistant glazing, and fire-retarding wall coatings.

All buildings across South Africa must comply with the National Building Regulations and Building Standards Act No 103 of 1977, as set out in Sans 10400 T; Sans 10287 and Sans 10139, besides others. Since local governments are closer to the communities they serve in the built environment, they are directly responsible for the implementation and enforcement of these regulations, in concert with their own local municipal emergency service or fire brigade by-laws as may be applicable. However, current national standards on sprinkler systems are outdated, adding to the pressure on insurers and the international reinsurance market. SANS10287 was put out for public comment in May, closed off in August and it is anticipated the updated version will be released in December 2020.

The need for greater collaboration among fire, electrical and civil engineers, architects, municipalities, provincial and national governments, community, business, and academics in a bid to ensure that building design and the materials used to place the safety of the occupants and the sustainability of the built environment first can never be downplayed. Sustainability, as it relates to structural fire engineering, must ensure that effort is made to reduce the embodied carbon and energy of buildings by optimising the use of fire protection systems and fire suppressive construction materials to achieve the required fire resistance ratings on buildings. Structural fire engineering research typically focuses on life safety, property loss, and continuity of business, while also minimising any possible significant impact of fire on the surrounding environment. South Africa is however behind in this aspect since fire engineering is not currently accommodated in the engineering profession; a key weakness in addressing the risk of fire in the built environment.

SAIA and FPASA will continue to work alongside those municipalities willing to take advantage of the risk management training opportunities available to them at no cost through a Memorandum of Understanding (MoU) that exists between the association and COGTA.

Read the Draft White Paper on Fire Services: <https://saia.co.za/index.php?id=2206>

This article was written by Susan Walls, SAIA Insurance Technical Advisor. For more information, please contact Susan@saia.co.za.

2.2 SAIA Property Protection Steering Committee – Update

Following the SAIA Board's approval of two of the six projects proposed by the SAIA Board Committee: Insurance Risks, as recommended by the SAIA Property Protection Steering Committee, where the Fire Protection Association of South Africa (FPASA) is identified as the designated implementation partner, the two approved projects are to be implemented in the 2020/21 period.

SAIA views these key areas of business, property, or the built environment, as one area that needs the attention of all parties, including national and local government intervention, the private sector as well as municipalities. For now, the two projects at the top of SAIA's six projects include the adoption of and the alignment of the National and International Codes/Standards relevant to the industry, including the sprinkler system standards, recently revised with the assistance of the FPASA among many others.

There would be a need to revise these standards constantly on a 3-5-year interval to ensure that they are continuously relevant and applicable to the South African (SA) environment and to improve the regulatory environment pertinent to fire risk prevention. Where such codes do not exist in the SA, it is the responsibility of the FPASA to find suitable codes in the international space, and then propose these for adoption at the South African SABS locally, with localised modification of the code, if need be.

The second project is the Fire Brigade classification services. This will include monitoring the data supplied by municipalities on their readings on fire water pressures and flows at fire hydrants, i.e. audit the daily metered information from municipalities. Insurers and municipalities (together with society at large) must have a reliable source of information on the state of the Fire Brigades. This is particularly with regards to fire equipment, response times, water availability to fight fires, the water pressure and flow of water supplies, etc.

This project will also include the classification of every single brigade in SA (starting with the metros then districts and finally local municipalities) which will allow insurers, reinsurers, and government officials to understand the risk and for municipalities to determine the needs in each of their areas to better motivate for adequate budget from parliament. It will also ensure that insurers can be more well-informed when insuring certain areas and adding on more realistic risk recommendations on potential insured clients depending on the Fire Brigades' ability to sufficiently address a fire risk.

This article was written by Pamela Ramagaga, SAIA GM Insurance Risks. For more information, please contact: Pamela@saia.co.za.

2.3 Agricultural Insurance Project - Status Update

Significant progress has been made on this project so far. The two companies representing SAIA to pilot index insurance, Santam and the Land Bank Insurance Company (LBIC), have made applications to pilot index insurance within the intergovernmental FinTech innovation hub (regulatory sandbox), to test different index offerings.

Since this is a new product offering proposed for smallholder farmers in South Africa, they have both received an in-principle approval, whilst they go through a vetting process. This vetting process is envisioned to be completed sometime in September/October 2020, after which the test or pilot index insurance could be run for a period of 6 to possibly 12 months into 2021.

The Agriculture Steercom has approved the recommendation from the Agriculture Forum (technical committee) to procure the services of a technical project manager(s) on a temporary or contract basis to inform on the Business Form, and the structure envisioned to underwrite index insurance, including the distribution model to support it subject to approval to test or pilot index and on the funding requested from the Agri Forum members.

It is encouraging to note the interest of other government departments in the index insurance product offering. This includes the recent application by the Department of Agriculture, Land Reform and Rural Development's (DALRRD) to the Small Enterprise Finance Agency (SEFA) to pilot index insurance with SAIA. Requested or the application is for a percentage (%) or a portion of the European Union donated funds to South Africa, to fund Small Medium Micro Enterprise (SMME) innovation projects. This application was submitted in July 2020, SAIA awaits confirmation from the DARLLD if the application has been successful.

SAIA currently awaits the outcome of the regulatory sandbox on whether to pilot the index insurance, and all our members participating in the project will be informed as soon as we are notified of both the applicant's outcome.

This article was written by Pamela Ramagaga, SAIA GM Insurance Risks. For more information, please contact: Pamela@saia.co.za.

2.4 Insurance Database System welcomes new Executive Committee

As a result of an identified strategic gap in the operations of the Insurance Database System (IDS), the SAIA Board Committee: Insurance Risks recommended to the SAIA Board, which was approved, the formalisation of a new structure, the IDS Executive Committee.

This new governance structure is envisioned to better support the IDS Steering Committee strategically, and the SAIA Board Committee: Insurance Risks in terms of the decisions that need to be highlighted further in the SAIA structures and to members. Currently, the most crucial decision is the finalisation of the IDS 10-year strategy. The criteria of nominees requested to participate in this new structure are at an executive level such as a CIO.

This article was written by Pamela Ramagaga, SAIA GM Insurance Risks. For more information, please contact: Pamela@saia.co.za.

3 Transformation

3.1 Revised Consumer Education Strategy

In the last few months, the SAIA Transformation Department has been working closely with the SAIA Financial Inclusion and the SAIA Transformation Steering Committees to review and revise the SAIA Consumer Education Strategy as was requested by the Board Committee: Transformation. The process also included the engagement of SAIA members through an industry workshop for input and direction to refine the target beneficiary market segment and focus areas, thereby improving the delivery of the SAIA Consumer Education programmes.

The engagements have resulted in a change in strategy to focus more on core insurance related consumer education initiatives that target young adults, South African households in general and SMME's. It was further recommended that while Financial Literacy is important, it should be delivered as a collaborative effort between sector players. The revised strategy has been presented to and approved by both the SAIA Board Committee: Transformation and the SAIA Board.

SAIA will be hosting the virtual member engagement to provide feedback on the 2019/2020 programmes and present the revised strategy as approved by the SAIA Board. Service Providers that delivered the 2019 & 2020 projects will be available to network with members and make brief presentations on their projects. The Member Engagement will be taking place on 7 October 2020. For further information on the event, please contact Ms. Lebohang Tsotetsi – lebohang@saia.co.za.

SAIA is also in the process of conducting a Request for Proposal for the 2021 initiatives to be presented in the relevant SAIA Committees for input and the SAIA Board for final approval.

This article was written by Zanele Gigaba, SAIA Transformation Manager. For more information, please contact: Zanele@saia.co.za.

3.2 SAIA Consumer Education Projects 2020

The SAIA Consumer Education Fund is soon approaching the end of the project year 2020 and has managed to implement initiatives targeted at young adults, adults and small micro and medium enterprises (SMMEs) through various platforms reaching an estimated total of 860 000 beneficiaries. Three of the projects have been completed, allowing SAIA to initiate the project monitoring and evaluation process which will be finalised during the first quarter of 2021. As a result of the national regulations in response to the COVID-19 pandemic, SAIA has extended its Consumer Education Radio Programme till the end of 2020 to continue providing the much sought-after non-life insurance advice to a wider populace and geographies. SAIA further invites its member organisations to participate or contribute towards the Consumer Education projects for the year 2021.

For further enquires kindly contact Ms. Zoleka Hlomuka at Zoleka@saia.co.za.

This article was written by Zanele Gigaba, SAIA Transformation Manager. For more information, please contact: Zanele@saia.co.za.

3.3 FSC Review – Preferential Procurement

The SAIA Board has approved the proposed industry amendments to Statement FS 400 (Preferential Procurement and Enterprise and Supplier Development) of the Financial Sector Code (FSC) after re-engaging its members on the industry position. This has been a lengthy process since the beginning of the Financial Sector Code review process, whereby sector stakeholders as represented by the Financial Sector Transformation Council (FSTC) Constituencies are required to make submissions on proposals that are aimed at accelerating the transformation of the Financial Sector.

SAIA has therefore complied with an industry position paper following several member engagements which were recently approved by the SAIA Board. Included in the proposed amendments are the following:

- Separation of the non-life insurance Statement FS 400 scorecard from the “other” category.
- Introduction of a sub-score category that seeks to advance core procurement transformation in the industry; and
- Introduction of a sub-score category that recognises non-recoverable contributions for enterprise and supplier development initiatives.

The approved industry position paper and recommended amendments will be submitted to the FSTC for deliberation and input from other FSTC constituencies, before being submitted as the recommended amendments for endorsement by National Treasury and approved by the Department of Trade, Industry and Competition (dtic) for gazetting.

This article was written by Themba Palagangwe, SAIA GM Governance and Transformation. For more information, please contact: Themba@saia.co.za.

3.4 SAIA Member Employment Equity Report

During the first half of 2020, SAIA conducted an analysis and produced a report of the non-life insurance industry Employment Equity (EE) performance for 2017, 2018 and 2019. The report was prepared following the request for SAIA members to submit EEA2 reports for the purpose of the financial sector determining its EE performance baseline that would be used to inform the sector position paper to be submitted to the Department of Employment and Labour (DoEL).

SAIA received responses from 40 members, with all the large industry players having submitted. This equated to submissions of 29 EEA2 reports, as some of the members reported in company groups that submitted their consolidated reports to SAIA, the Banking Association South Africa (BASA) or the Association for Savings and Investments South Africa (ASISA).

The Financial Sector concluded the consolidation of the sector reports and compiled a draft sector position paper which was approved by the industry bodies represented and has been submitted to the DoEL.

This article was written by Themba Palagangwe, SAIA GM Governance and Transformation. For more information, please contact: Themba@saia.co.za.

3.5 Treating Suppliers Fairly Framework

Over the past few months, SAIA conducted two workshops with its members in a bid to develop the Treating Suppliers Fairly Framework. The framework concept came about after consultations with associations representing various motor and property suppliers to the non-life insurance industry.

The purpose of the framework is to create principle-based guidelines that can be adopted by SAIA members when engaging with their suppliers. These could assist the industry in ensuring that their processes and procedures are transparent and do not unfairly prejudice suppliers.

The framework has been presented to the SAIA Property Transformation and Sustainability Forum (PTSF), the SAIA Procurement & ESD Committee, the SAIA Transformation Steering Committee, and the SAIA Board Committee: Transformation; and input from these committees have been considered. The Framework was then taken through the SAIA Board which has in essence approved it and it is to be incorporated into the newly revamped SAIA Code of Conduct.

This article was written by Zanele Gigaba, SAIA Transformation Manager. For more information, please contact: Zanele@saia.co.za.

4 Industry News

4.1 Changes in Engineering Insurance

Engineering Insurance has its roots back in the First Industrial Revolution. The advent of machine manufacturing brought with it the emergence of new risks that needed to be mitigated and transferred. We now find ourselves well into the 4th Industrial Revolution (4IR) or as it is sometimes referred to, Industry 4.0. The fourth IR is characterized by the merge of the physical and digital world. Technology has advanced at a rapid rate and is disrupting many industries. Insurance is one such industry that is set for disruption. Technology however should be viewed as an enabler that allows an industry to become relevant and efficient in the current times. There have been numerous technological advancements in the engineering space that have given the associated insurance industry the opportunity to understand risk better and potentially reduce claims delays and costs.

Data

Data has, for a long time, been relied upon by Insurers to determine risk profiles and appropriate pricing for risk. Data however has transitioned from descriptive to predictive which ultimately means that data is used to predict the likely outcomes of the situations before they occur. This has huge implications for insurers as claims scenarios can be modeled and risks priced with more accuracy than previously. From an engineering perspective, continuous monitoring of machinery through the use of sensors can alert the users of potential problems before an actual loss event takes place. The closer an Insurer can get to the available data, the more meaningful the insights that can be derived. For example, where a project is being constructed and the contractor has adopted the concept of a digital twin, through the use of Building Information Modeling (BIM), the Insurer, if given access to the data, can at any point in the lifespan of the project, determine how the project is interacting with its surroundings, how the project is progressing and what the real-time exposure is at any point in time. This allows the insurer to rate and monitor the associated risks with far more accuracy. Claims, likewise, can also be assessed and settled more efficiently through the use and interpretation of data. Traditionally, this would have only been possible with time-consuming site surveys and on-site claims assessments.

Smart Contracts

Blockchain technology and Smart Contracts are also set to have a big influence in the Engineering Insurance space. Blockchain is the technology that drives Bitcoin. Blockchain uses a decentralized ledger system to verify and record transactions. This ledger is accessible to each party involved in the transaction according to their role, thereby creating a transparent record that is verified and approved by all involved. This technology has transitioned into the contract space and is being used to create smart contracts. Smart contracts are contracts where each party to the contract has the ability to amend and verify changes to a contract in real-time. This removes the subjective interpretation of contracts and assists in contract performance. Engineering Insurance is heavily reliant on underlying contracts. Contract conditions determine insured parties, length of covers, size of cover required as well as any special extensions needed. The insurance contract is modeled on the requirements of the contract. Smart contracts, driven by blockchain, allow seamless contracts and insurance contracts to be constructed that more closely mirror each other. Smart contracts allow each party (Insured, Intermediary, Insurer) to amend and verify the contract and changes to the contract in real-time. With a smart contract in place, changes to the underlying contract can be mirrored with changes to the insurance in real-time. Smart contracts will increase the efficiency of the engineering insurance industry, improve transparency, and dramatically

increase claims settlement. With the ever-increasing supply chain complexities associated with engineering risks, blockchain and smart contracts provide an opportunity for insurers to provide a product that is relevant and fit for purpose.

The advancement in technology in the engineering space is presenting the associated insurance industry with the opportunity to evolve and provide its clients with new products and innovative solutions to the risks present. As the 4th Industrial Revolution continues to drive change and disruption, Engineering Insurance will adapt and ultimately remain a necessity for the advancement of development.

This article was written by Chris Charlton, on behalf of the South African Association of Engineering Insurers (SAAEI), a division of SAIA. For more information, please contact: chris@consort.co.za.

5 SAIA Circular – September 2020

MD Circulars – September 2020		
MD-2020-039	SAIA / IPO Engagement – Pandemic cover Film industry.	08-09-2020
MD-2020-040	Property Protection Committee.	08-09-2020
MD-2020-041	Invitation to accompany SAIA to Present at National Treasury.	10-09-2020
MD-2020-042	CBI Cover Legal Certainty.	16-09-2020
MD-2020-043	FCA Test Case Results on BI claims.	16-09-2020
MD-2020-044	SAIA Member Declaration Form to establish Member Market Share for invoicing purposes.	23-09-2020
SG Circulars – September 2020		
SG--2020-123	SA Financial Ombud System Diagnostic.	02-09-2020
SG-2020-124	Memorandum of Understanding concluded between the PA & FSCA.	08-09-2020
SG-2020-125	SAIA Consumer Education 2019 Fund Report.	01-09-2020
SG-2020-126	SAIA Consumer Education Fund Request for Contributions for 2020/21 Project Year.	11-09-2020
SG-2020-127	Employer Interim Reconciliation Submission.	14-09-2020
SG-2020-128	Notice to Stakeholders - Relaxation of 4587 validations.	15-09-2020
SG-2020-129	COVID 19 UIF TERS Benefits Regulatory Update.	17-09-2020
SG-2020-130	Notification of the intention to terminate a group scheme policy.	18-09-2020
SG-2020-131	Invitation to participate in the SAIA Consumer Education Member Engagement Event.	21-09-2020
SG-2020-132	Invitation to comment on Draft Notice FSI 2.2 Iterative Approach.	22-09-2020
SG-2020-133	SAIA Member Employment Equity (EEA2) Reports Analysis: 2017 - 2019	30-09-2020
SG-2020-134	National Treasury (NT) Invitation to Comment On 2nd Round of The Conduct of Financial Institutions (COFI) Bill	30-09-2020

IMPORTANT NOTICE

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