SAIA

SOUTH AFRICAN INSURANCE ASSOCIATION

BULLETIN

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

APRIL 2021

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1 From the Desk of the CEO

During April we celebrated Earth Day and our President, Mr Cyril Ramaphosa, joined some more than 40 world leaders at a climate summit convened by US President, Mr Joe Biden, to discuss the global climate change effort in the run-up to the next international climate conference taking place in Glasgow, Scotland in November 2021. Reporting back, the President stated that indeed there was a common appreciation at the summit that there was a need for the international community to dramatically scale-up efforts, raise levels of ambition, and support other developing countries with the means to implement climate actions.

Tackling climate change is not only a national priority for South Africa but stretches way beyond our borders. The impact of climate change on the sustainability of commercial and subsistence farming has been immense globally. Even though the coming of the rains in 2020 broke a seven-year drought streak, it caused a lot of damage to infrastructure, widespread crop failure and negatively impacted several farming activities. The non-life insurance industry is impacted badly by these sudden changes in weather patterns that destroys crops and infrastructure due to excessive rainfalls, while prolonged dry spells that usher drought periods have also never been good for any nation with an economy to run.

Indeed, SAIA members and their African counterparts in the non-life insurance and reinsurance space have a key role to play in promoting economic, social, and environmental sustainability - in other words, sustainable development. It is in this spirit that on 21 April 2021, SAIA, under the auspices of the United Nations Environment Programme's Principles for Sustainable Insurance Initiative (PSI), also signed the Nairobi Declaration committing to support the achievement of the UN Sustainable Development Goals (SDGs).

In March 2021, the Council for Scientific and Industrial Research (CSIR) released an extremely interesting document titled Statistics of Utility-scale Power Generation in South Africa that quantifies electricity costs and the cost of load shedding for the whole of South Africa. The report shows that electricity production has dropped by 4.3% in the 10 years between 2010 and 2019, and by 8.8% between 2010 and 2020 resulting in annual average reductions of 0.5% (2010 and 2019) and 0.9% (2010 and 2020). It further points to 859 hours of load shedding in 2020, seemingly the most intense South Africa has experienced yet.

In 2020, the same report estimated that the total economic impact of load shedding in South Africa over the past 10 years could be as high as R338 billion. There is no doubt that South Africa urgently needs to secure additional power supply. South Africa faces a 4000-megawatt (MW) power shortfall, which was confirmed by Eskom in March 2021, adding that this will be case for the next 5 years.

This is one space that has been weighing on the minds of non-life insurers for many years, with renewed attention for the better part of the first quarter of 2021. As non-life insurers, it is our specialty and duty to strategically foresee future risks and possibly explore such possible challenges which may befall our fragile economy with all relevant stakeholders. Given our circumstances as South Africa, the possibility of a prolonged power grid failure is a significant risk that has not escaped our minds and discussions as non-life insurers. Whilst limited insurance cover is available for losses due to sporadic power outages and/or load shedding, grid failure is not an insurable risk. It is our hope that the non-life insurance industry and the relevant stakeholders will explore this space further in the coming months or years to map out the best possible way to handle it, should it occur.

Viviene Pearson
SAIA Chief Executive

2 Insurance Risks

2.1 2021 Easter Road Crashes Preliminary Report

On 08 April 2021, Transport Minister Fikile Mbalula released the 2021 Easter period road crashes preliminary report, indicating an increase in fatal crashes. A total of 189 fatal crashes resulting in 235 fatalities were recorded, a significant increase compared with the 2020 and 2019 reports which stood at 28 and 171, respectively.

In his speech, the minister emphasised that the department did not only consider the traffic increase that occurred during the period, but also the circumstances in which the crashes occurred. He highlighted that the Thursday before Good Friday had zero fatalities recorded, but fatal crashes spiked on Good Friday between 18:00 and 22:00 where the expectation would normally be that most people would have already settled into the Easter festivities.

Pedestrians remained the most impacted accounting for 35% of fatalities.

The Minister also highlighted increased efforts in tightening law enforcement during the peak season where there were more traffic officers deployed at roadblocks to increase police visibility.

Road Safety remains one of the core pillars of SAIA's strategy and the organisation continuously strives to drive projects aimed at decreasing road fatalities in South Africa. Through the Business for Road Safety Forum, a SAIA initiated initiative, associations within the Motor ecosystems are in the process of rolling out nationwide road safety projects. The forum aims to drive collaborative projects to increase community reach for road safety awareness. These projects are targeted at schools and pedestrians.

This article was written by Katlego Bolsiek, SAIA Insurance Risks Manager. For more information contact: Katlego@saia.co.za.

2.2 Creation of an Escalation Process for Complex Matters of the Code of Motor Salvage

In April 2020, SAIA together with the Code of Motor Salvage Technical Guidelines Task Team, has at the request of the Salvage Database Governance Committee developed an escalation process to assist assessors (both internal and external) and salvage agents to refer complex matters on the Code of Motor Salvage to the Technical Guidelines Task Team.

The objectives of this new process include creating a uniformed approach and standardisation by assessors and salvage agents when handling complex motor salvage matters and its relevant documentation. SAIA will therefore coordinate the engagements between motor members and the Code of Motor Salvage Technical Task Team. The Task Team will provide guidance on an on-going basis regarding all referrals on complex matters on the Code of Motor Salvage.

Assessors and salvage agents who handle motor salvage on behalf of SAIA motor insurers are encouraged to use the platform by sending complex enquiries to the email address: salvagecodeenquiries@saia.co.za.

This article was written by Zakes Sondiyazi, SAIA Insurance Risks Manager. For more information contact: Zakes@saia.co.za.

2.3 The Sustainability of the Agricultural Sector and Food Security

The Government of South Africa (GoSA) has prioritised the growth of the Agricultural sector for the sustainability of the sector and to safeguard food security for the country.

There is little doubt that climate change remains one major issue that is jeopardising the sustainability of the Agricultural sector in South Africa. As a region, Southern Africa has historically been at high risk of drought. Drought actually began in late October 2018 and has continued to negatively impact food security in the region. As of mid-August 2019, drought was classified as a Level 2 Red Class event by the Global Disaster Alert and Coordination System. By 12 December 2019, it was reclassified, and reduced to Level -1.7, Orange Class. However, as of September 2020, drought was again reclassified to a Level 2, Red Class event, as it continued into early 2021.

The significance of these classification exercises is that an orange class event is referred to as a drought with relevant impacts to the economy or assets, but not to people, hence not life threatening. The red class event is a drought like the orange class, plus very severe or life-threatening impacts to people, including famine or starvation (Wikipedia, 2021).

In recent years, increasing financial pressures such as fuel, electricity and fertiliser price hikes have motivated farmers to find other ways to reduce costs and manage their risks. The cost of drought insurance has also been untenable for farmers due to the hefty losses suffered in the agricultural sector because of drought, resulting in high reinsurance costs to insurers offering drought insurance. All these combined factors have seen a decrease in farmers taking out drought insurance which puts farmers' sustainability at even greater risk.

Almost 10 years ago, the South African Insurance Association provided the GoSA with a proposal to support commercial farmers to make drought insurance affordable. In 2019 another proposal was provided to GoSA to support both commercial and emerging farmers to make drought insurance more affordable. The emerging farmer solution included a new product offering in South Africa, Index Insurance, a parametric risk solution which is globally recognised as a more appropriate and affordable product offering for the emerging market. However, since Index Insurance is a new product offering in South Africa, it has not yet been authorised by the insurance regulators as an insurance product. It is still undergoing a testing phase after which a decision will be made of whether to allow it to be underwritten in the South African insurance industry, or not.

In 2020, SAIA reached a milestone by having two of its members, Land Bank Insurance Company (LBIC) and Santam, being accepted within the Intergovernmental Fintech Working Group (IFWG), regulatory sandbox, to pilot Index Insurance. The IFWG is an intergovernmental initiative which includes, to mention a few, the National Treasury (NT), South African Reserve Bank (SARB), South African Revenue Services (SARS), the Financial Sector Conduct Authority (FSCA), the Prudential Authority (PA), the National Credit Regulator (NCR) and the Competition Commission. This regulatory sandbox was launched early in 2020.

Within this regulatory sandbox, the pilot for Index Insurance is scheduled to start **1 July 2021** and run for 12 months (two consecutive 6 months). To be tested for grain crop is Area Yield and Soil Moisture, and for livestock will be testing the normalised difference vegetation index (NDVI) which utilises satellite information to assess whether the geographic target area being observed contains enough live green vegetation, and enough pasture for livestock.

SAIA, its members and regulators will continue to collaborate and cooperate with the farming community and relevant stakeholders to improve the risk profiling of the country and initiate measures towards the sustainability of the industry, which includes continuously working towards ensuring that drought remains an insurable risk for South Africa.

Source:

Wikipedia. (2021, Aprl 22). https://en.wikipedia.org. Retrieved from Wikipedia: https://en.wikipedia.org/wiki/2018%E2%80%932021_Southern_African_drought

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

3 Transformation

3.1 Update on the Financial Sector Code Review

The financial Sector Transformation Council has resumed with the review of the Financial Sector Code (FSC), with sub-committees being given up to end of May 2021 to finalise their deliberations and submit the reports to the Reporting Working Committees. SAIA has continued to represent the industry based on the position papers, as approved by the SAIA Board. It is anticipated that the process would be concluded by the end of the year, subject to the submission and review of the proposed changes by the Department of Trade, Industry and Competition (the dtic).

3.2 Submission of B-BBEE Reports for the Financial Sector Transformation Council (FSTC) Annual Review

In accordance with Statement FS-000, par. 8.5 of the Financial Sector Code, the Financial Sector Transformation Council (FSTC) is in the process of collating B-BBEE Certificates and Reports for the 2019/20 Annual Review. All financial institutions are required to submit the required information to the FSTC by 21 May 2021. Reporting entities may be required to provide additional information for qualitative reporting.

It is important that financial entities adhere to this requirement for the sector to determine and report on its progress on transformation. Non-submission of the reports to the FSTC will also have a negative impact on the reporting entity, with a penalty of having the entity's B-BBEE performance being discounted one level down.

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

3.3 1st Quarter SAIA Consumer Education Project Update

- **Know Your Cash Programme**

The Know Your Cash (KYC) Programme is one of the SAIA consumer education initiatives targeted at young adults in tertiary institutions. Its objectives are to equip these young adults with financial literacy and knowledge of the financial sector, its products and services offered by the sector. The initiative includes various campaigns conducted through digital media, face-to-face, as well as broadcast platforms, including radio interviews on platforms such as YFM.

The first quarter of the project successfully rounded off on 23 March 2021, after having reached over 5 000 young adults aged between 18 – 35 years.

- **The SAIA Consumer Financial Education Radio Programme**

The Consumer Financial Education (CFE) Radio Programme is a consumer financial literacy initiative targeted at South African households. Its aim is to empower consumers with the necessary skills and confidence to make informed financial choices, and to take effective action to improve their financial well-being.

The programme includes discussions and interviews on community and regional radio stations with insurance experts on topics such as risk management, consumer rights, policy management, claims processing and the financial sector including its products and services with a further aim of positioning insurance as a risk-mitigating tool which provides a safety net and protects personal assets when unfortunate events occur.

The programme also encourages interactive sessions with listeners who are encouraged to call in and ask questions. The project timeline is from 1 March 2021 to 30 October 2021. It is expected to reach over one million listeners nationally, across ten (10) radio stations.

- **Building Resilient Businesses Programme**

The Building Resilient Businesses (BRB) Programme was developed to assist Small, Micro and Medium Enterprises (SMME's) improve their capabilities and understanding of resilience and sustainability.

The programme includes an array of business enhancing mechanisms such as workshops, seminars, business expos and presentations. These interactions include exploring topics and creating awareness on financial literacy, managing business risks and the availability of appropriate business insurance products which assist in transferring the risks associated with SMMEs.

The programmes implemented reached an estimated 50 SMMEs in the first quarter of 2021.

This article was written by Lebohang Tsotetsi, SAIA Transformation Projects Coordinator. For more information, please contact: Lebohang@saia.co.za.

4 Operations

4.1 SAIA Code of Conduct: Latest Developments

Following the SAIA Board approval of the latest changes to the SAIA Code of Conduct on 17 March 2021, the updated Code was circulated to members under cover of SAIA MD Circular MD2021-003, on Monday, 29 March 2021.

Changes to the following Page numbers and sections are highlighted for ease of reference:

Page 21, section 13.2; Page29, section14.28; Page30, section 15.5; Page31, section 15.9; Page 32, section 15.13; Page 33, section 15.16; Page34, section 15.22; Page 38, section 19.4 and Page 39, section 19.7.

The latest request for SAIA Code of Conduct Certificates of Compliance from SAIA members, based on the old Code, was made under cover of MD Circular 2021-002 on the 1 March 2021, for submission by Wednesday, 31 March 2021 and subsequently extended to Friday, 30 April 2021 at the request of several members. The relevant period, based on the old Code, is 1 April 2019 to 3 September 2020.

Once the above certificates have been submitted there will be a further request for submission based on the updated Code, from 4 September 2020 to 31 March 2021.

The above Certificates of Compliance are for the first time to be completed and submitted via an electronic platform, with the objective of updating the process for ease of use. The take up has been better than usual and various comments and queries have been received which SAIA will address at planned workshops in the near future.

The objective of the workshops will be to create awareness around the Code, promote inclusivity and the participation and design of future Certificates of Compliance to enhance the feedback received from members and facilitate improved management of adherence to the Code.

This article was written by Charles Hitchcock, SAIA Chief Operations Officer. For more information contact: Charles@saia.co.za.

5 Industry News

5.1 Earth Day: Working to Insure our Children's Future

Earlier this year, the President of the Global Federation of Insurance Associations (GFIA) Don Forgeron commented on the G20 statement that a key issue facing the global economy is climate change.

"As underwriters of natural catastrophe risks, insurers are acutely aware of the risks posed by climate change," said Forgeron. "Natural catastrophes already have the potential to cause hundreds of billions of dollars of damage in a single year, and climate change could make this even worse."

Ms Pamela Ramagaga, GM: Insurance Risks at the South African Insurance Association (SAIA), attended a recent GFIA webinar where again, it was highlighted how crucial the insurance contribution was to resilience. Ramagaga said the Build (Back) Better programme was an excellent example of how insurers could support the shift towards a more resilient and sustainable society. SAIA is a member of the GFIA and is fully supportive with regards to highlighting climate risk as one of the top risks.

"We can support this initiative by adopting measures, such as providing information and recommendations to public authorities regarding implementing better building standards," said Ramagaga.

"South Africa is not immune to the dangers of climate change—or that of the climate change denialists—and SAIA welcomed the GFIA's proposal for a Working Group to develop recommendations promoting resilience."

SAIA has been working with several stakeholders in South Africa investigating how a climate change regulatory mechanism could be developed and implemented, and therefore extensive work by the non-life insurance industry is being done in the background. The Task Force for Climate-related Financial Disclosures (TCFD) are not yet a requirement from the Prudential Authority, but SAIA is already involved in this within the National Treasury sub-committee that deals with this risk.

As was pointed out by Forgeron, the insurance sector must be proactive in minimising the effects of climate change through collaborative efforts of the public and private sectors. Our industry must play a part, he said, "in providing its expertise to public authorities on how to best shape adaptation efforts and as a bearer of natural catastrophe risk".

Additional methods of promoting resilience would be by acknowledging climate issues and improving and building regulations, such as encouraging using green methods and materials in construction and promoting long-term sustainable investment in infrastructure projects.

Other tools would look at Compensatory Disaster Risk Management. This would involve a mix of different financing instruments, including the insurance and reinsurance sectors, to deal with the residual risks that impact the social and economic resilience of individuals and societies.

According to a recent report published by the Deloitte Centre for Financial Services, *Climate Risk: Regulators sharpen their focus*, the increase in "extreme weather-related events" has put climate-related risks for insurers under the regulatory microscope.

The UK's insurance regulator—Prudential Regulatory Authority—in seeking greater financial resilience, placed climate risk on insurers' stress tests, while one United States regulator stated, "damage from climate change could end up being as severe as the fallout from the mortgage crisis triggering the 2008 financial crisis".

Understandably, regulators are concerned. After all, consumer protection is their responsibility. Consumers, who are increasingly aware and responsive to the perils of climate change, are worried about the affordability and availability of their premiums, which may be constrained either due to escalating insurance costs and restricted or zero-coverage in certain areas. The task falls on the insurance industry to implement climate change risk management strategies and standardised disclosures - provide more information - to address it.

On Earth Day, we should reflect on what we can do as an industry in the face of climate change. The Deloitte report lists several "opportunities" to address our readiness for long-term climate risk. First, organisations must raise awareness of climate change and its risk and incorporate sustainability performance into the corporate culture. Second, we need to educate our consumers and encourage them to take proactive steps towards mitigating climate change. Thirdly, to do this requires collaboration between government, regulators, and other stakeholders to make sustainability a critical factor when developing "preventative and adaptive" policies that support a climate-resilient future.

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

5.2 Using a Behavioural Science Approach to Curb the Spread of COVID-19

COVID-19 is a pandemic of which the origination, treatment and vaccination remains uncertain. As coronavirus opportunistically spreads from human-to-humans the only known methods to prevent the transmission are physical distancing, not touching your mouth and face, wearing of facemasks and frequent hand washing or sanitising.

As we live through level 3 lockdown, our leaders continually implore that it is our behaviour that will ultimately aid or diminish the spread.

Why not touch our face? We constantly touch surfaces contaminated with pathogens such as coronavirus which are picked up by our hands.

These pathogens enter our body through mucous membranes on our face providing the pathways to our throat and lungs. Face touching is an action that crosses all cultures.

What method or technique can we use to stop this, how long will this take and are there any implementation suggestions? The touching of the face is a difficult human behaviour to change. A 2015 study cited in the American Journal of Infection Control, showed that people, on average, touch their faces 20 times an hour.

As the INSETA Research Chair, I am reminded that our sector is a leader in operationalising behavioural science theories such as the Nudge Theory. The Behavioural Insights Team (BIT) a part of the British cabinet made some interesting suggestions to help influence each other's behaviour using Nudge theory which may be deployed. The Nudge theory won the Nobel prize for its creator Richard Thales who I recommend and remain an avowed devotee off.

Does Nudge work? Nudge Theory is already being used by governments to inculcate better habits – through subtle nudges through praise, reward or embarrassment as opposed to force or threat. If enough people do something, one feels guilty or odd if one does not conform.

The literature suggests that the behavioural change, is often, though not always, successful. Think smoking. It usually takes between 21 days and 66 days to change a habit. Maxwell Maltz a 1950's plastic surgeon noticed the intriguing pattern that it took his patient about 21 days to get used to seeing their new post-operative faces. Phillippa Lally, led a systematic 2009 study and determined that it took at least 66 days for a new habit forming or breaking behavior become automatic.

The touching of the face is a human habit that therefore requires other means to persuade behavioural change. Face shields are probably the most obvious. However, these are unwieldly, require sanitisation and make working difficult and reports describe people who diligently wear masks only to remove them for a quick rub.

The BIT suggested that habits changing may also be reinforced through creating and adding alternative "habitual actions" to stop or greatly reduce hand-or-mouth touching. This includes drumming fingers on legs, playing with a substitute object such as squeezing a stress ball.

Another suggestion to use in groups or families is to ask associates to shout "face" or something else every time they are about to reach up for a quick touch or rub. A second one is to fold your arms in a locked position and grabbing your biceps to avoid the hands slipping free and heading upwards.

I add the third which is that we start putting our hands in our pockets as winter emerges. To use our computers hands-free, try experimenting with Virtual Assistants such as Siri, Cortana, Alexa or Google Assistant. It is quite rewarding and you, being at home, will not disturb anyone!

This can be a cheap highly effective method to make a meaningful impact. Let's try it.

INSETA Chief Executive Officer – Ms Gugu Mkhize, *written for and behalf of the INSETA - Dr Colin Thakur is the INSETA Research Chair in Digitalization at the Durban University of Technology. For more information contact: SaloshneeG@inseta.org.za.*

6 SAIA Circulars - April 2021

MD Circulars - April 2021		
MD-2021-005	Financial Sector Reporting for 2019-20 – Notice of submission of B-BBEE Reports.	14.04.21
MD-2021-006	National Treasury Media Announcement: Appointment of New Commissioner of the FSCA.	23.04.21
SG Circulars - April 2021		
SG-2021-043	Prudential Authority (PA) Prudential Communication 4 of 2021 Public Disclosure of South African Internationally Active Insurance Groups (IAIGS).	08.04.21
SG-2021-044	Information Regulator (IR) Protection of Personal Information Act, 2013 (POPIA) – Effective Date of Restriction Placed on the Processing of Information.	08.04.21
SG-2021-045	Prudential Authority (PA) Guidance Notice 2 of 2021 – FSI 4.3 Prudential Standard FSI 4.3 Non-Life Underwriting Risk Capital Requirements (Prudential Standard FSI 4.3).	12.04.21
SG-2021-046	SARS Correspondence: 2021 Employer Filing Season.	16.04.21
SG-2021-047	SARS Correspondence: SARS' Website "Like for Like" Platform Replacement.	16.04.21
SG-2021-048	Information Regulator (IR) Guidance Note for Information Officers and Deputy Information Officers.	16.04.21
SG-2021-049	SARS Correspondence: Customs Registration, Licensing and Accreditation.	19.04.21
SG-2021-050	INSETA Rural Learnership Funding.	19.04.21
SG-2021-051	Department of Justice and Constitutional Development (The Department) Promotion of Access to Information Act, 2000 (Act 2 Of 2000) (PAIA) - Regulations Relating to the PAIA.	29.04.21
SG-2021-052	South African Reserve Bank (SARB) Modernisation of the National Payment System (NPS) with the Authenticated Collections (AC)/Debicheck Project.	30.04.21
SG-2021-053	Competition Commission (Commission) Aftermarket Impact on Stakeholders and Frequently Asked Questions (FAQS).	30.04.21

IMPORTANT NOTICE
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