SAIA

SOUTH AFRICAN INSURANCE ASSOCIATION

BULLETIN

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

May 2022

CONTENTS

1 From the Desk of the CEO

As the cold begins to bite, load-shedding continues to be the story of our lives in South Africa. For more than 14 years, electricity generation and supply have been interruptive to both the business fraternity and domestic consumers, but most importantly, a major concern for the insurance industry. The fluctuating electricity supply stages implemented by Eskom from time to time speak to heightened unpredictability and uncertainty, making a national grid failure a possibility. The world has seen national or regional grid failures in several countries, where the entire grid collapses, plunging the entire country or region into darkness without warning.

Such a severe power supply disruption will bring the whole of South Africa almost to an abrupt standstill. Energy generation experts and academics have said alternative energy through solar and wind farms will fall far short of bringing us back to life at a drop of a coin. Good examples of countries that have experienced such an immediate nationwide interruption include India which plunged 620 million people (50% of the country's population) into darkness on 30 and 31 July 2012. Similarly, in 2009 an estimated 60 million Brazilians (nearly 30%) of the country's population, were plunged into darkness after an apparent transmission problem with power from the Itaipu dam. This serves to inform us that this is possible in SA, and the realisation of this risk has become even more imminent in recent years.

There is little doubt that in the last few years, the non-life insurance industry has continued to battle increasing risks, some of which are natural causes as witnessed in KwaZulu-Natal in the last two months. From 11 to 13 April 2022, Kwa-Zulu Natal received over 300mm of rain in a 24-hour period causing extensive damage to domestic and commercial property, as well as infrastructure. The rapid fall of rainfall we recently witnessed across South Africa, and the failure by municipalities to effectively maintain and upgrade, where needed, stormwater drainages and other related infrastructure are issues that have been lamented by the insurance fraternity for years. Should this trend continue unabated, the likelihood of seeing cities and some urban centres drown in stormwater remains high, increasing the risk for insurers in the process.

SAIA has welcomed the launch and publishing of the Financial Sector Transformation Council's (FSTC) State of Transformation Annual Report as Amalgamated for 2018/19 and 2019/20 financial periods. The report points to several challenges within the sector, and SAIA concurs and further acknowledges that more still needs to be done by the sector to drive transformation in areas including Ownership, Management Control, Skills Development and Access to Financial Services. There is no doubt that contributions by the smaller players in the sector certainly need to be accelerated. Indeed, the pace of transformation as broadly defined remained slower than the financial sector planned. However, it is pleasing to note that the sector has continued to make positive strides in advancing transformation in several areas. Please do see our Media Release on the SAIA website relating to transformation.

Viviene Pearson
Chief Executive Office

2 Insurance Risks

2.1 IUMI major claims database

The Facts and Figures Committee of the International Union of Marine Insurers (IUMI) has continued with its successful initiative of creating and maintaining a major claims database with the objective of collecting hull and cargo claims data for major losses.

From the outset, IUMI partnered with a trusted third party, Boston Consulting Group, as the holder of the database to ensure confidentiality and a smooth process. In this regard, a non-disclosure agreement between IUMI and BCG has been signed.

Members are requested to provide data from 2013, while those who have already submitted data in the past are requested to please advise if the new data should replace or amend previous data submissions. Please kindly share this information together with your data submission.

The threshold has remained unchanged:

- Threshold: US$ 250k for Hull and Cargo (100% of the gross loss figure).
- Loss amount: Cumulated paid claims plus outstanding reserves at the time of data collection (for some this will be an estimated number). The figure should reflect the 100% gross amount of the claim, including all related costs (e.g., expenses for loss adjusters). If unable to report 100%, please state the absolute figure and the share/percentage covered in the template.

IUMI aims to further advance the data analysis and to publish statistically significant reports for cargo and hull business this September.

In 2021, twenty-five (25) member associations submitted hull and/or cargo loss data and the outcomes of the project were published in IUMI's 2021 Stats Report. IUMI would like to thank all participating members for their time and effort to reach this stage.

Please submit the data to Kindlein.Sebastian@bcg.com and bohrmann.juergen@bcg.com from BCG by Wednesday, June 15, 2022. This will enable BCG to work on the draft analysis together with the Facts & Figures Committee prior to publication.

In addition, please may members also advise Kabelo Paile at kabelo@saia.co.za once the data has been submitted to BCG.

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

3 SAIA News

3.1 The University of KwaZulu-Natal and INSETA launch business rescue short course

Course Title: Business Rescue Turnaround and Sustainability Short-Course.

The University of KwaZulu-Natal (UKZN), in collaboration with INSETA, is inviting interested parties to participate in the Business Rescue Turnaround and Sustainability Short Course. The programme will start in June 2022 and will run for three weeks to the end of June 2022.

Interested parties are required to apply by the 7th of June 2022. Priority will be placed on all businesses that are insurance-related, but participants must commit to putting time aside to participate in the course activities and complete the course. Only a limited number of participants will be selected and recommended by the UKZN to participate after going through an application process.

Upon successful completion, the participants will receive a certificate of attendance. The following document is attached for your attention: 1. Business Rescue Turnaround and Sustainability Short-Course.

Please click here to apply.

For inquiries e-mail: UKZN Ms. Nonzuzo Ngwenya at bru@ukzn@ac.za or INSETA Ms. Mapula Nchabeleng at mapulan@inseta.org.za

This article was written by Nicol Champaud, SAIA Manager: Human Resources. For more information, contact: Nicol@saia.co.za

4 Industry News

4.1 Premium Collections

The collections industry has undergone many changes and there is more set to come over the next 12 months. Three of the biggest focus areas for the last couple of months have been Debicheck, Exemption Notice as well as the improvement in the debit order dispute process also known as the debit order abuse project.

The DebiCheck solution was created to combat fraud in the early debit order collection system. This was introduced to replace the NAEDO (Non-Authenticated Early Debit orders) collection method. The main feature of DebiCheck in relation to NAEDO was that there would be a mandate approved by the client attached to each collection that would be accessible by all the banks and the latest version of this mandate was housed outside of the organisations that collected data during their sales process. After many years of engaging with the entire industry, the project went live in 2017.

In May 2021, no new NAEDO transactions were allowed and in October 2021 NEADO was sun-setted and existing transactions moved to Debicheck, RMS (Registered Mandate Service), or EFT. The process of mandate still needs improving as it does not fully cater for the non-face-to-face community. The entire system is not without issues and the user community together with the banks need to work together on improving the Debicheck process. There is still potential financial risk and the enhancements need to be driven and issues escalated if we are all to benefit.

On 17 April 2020, the Financial Sector Conduct Authority (FSCA) published the Draft Exemption for public consultation. It was aimed at facilitating the payment of remuneration to brokers where premiums are collected directly into the account of the insurer, and the technology/systems of the Broker being in the position to enable the direct collection method. The Financial Sector Conduct Authority (FSCA) has not effected the changes on the exemption that was issued and the process remains the same for now.

Debit order abuse is still a significant issue in our industry and has knock-on effects in terms of claims and income management. Even though Debicheck aims to combat the fraud aspect in the payment system it was also clear that there is an imbalance in the current rules in the debit order dispute process. Through a collaborative proof of concept run in 2021, it was identified that there was an aspect of cash management as well as disregard for agreed mandates. This has resulted in the review of the dispute window as well as the alignment of rules across collection methods. Good progress is being made but the cash management issue remains. There has been a slight but not material improvement in the numbers reported by our members.

Something to look forward to in the coming months is the creation of the PIB (Payments Industry Body). The design is underway, and this body aims to achieve and maintain interoperability, through collaboration, and inclusion to improve the NPS (National Payment System). The intention is to fulfil the Vision 2025 and other policy goals set out by the SARB for the national payment system. As the initiative's milestones are delivered, we should see a noticeable improvement in the collections space. We will need to continue to engage and drive the outcomes with all parties to ensure our needs are taken into account and the solutions delivered are fair and balanced.

This article was written by Waheed Isaacs, Premium Collections Forum Chair. For more information, contact: Waheed.Isaacs@santam.co.za

4.2 Durban Floods and Engineering Insurance

Kwa-Zulu Natal has for some time been a competitive market for Engineering Insurers. Of recent, there has been a relative uptick in activity in the engineering and construction space in the region. There are currently large water infrastructure projects as well as road development projects and upgrades on the go. Infrastructure projects are essential for building a foundation on which the economy can begin its recovery and Durban had started showing real signs of life in this area.

In addition to the infrastructure projects, large residential and commercial projects were underway, all ultimately contributing to the fragile economy.

From 11 to 13 April 2022, the Kwa-Zulu Natal area received over 300mm of rain in a 24-hour period. Despite the unimaginable sorrow of the loss of over 400 lives, the downpour caused extensive damage to existing infrastructure as well as many projects being undertaken in the region. The Kwa-Zulu Natal local government has indicated that R1.9bn will be needed for repairs following the floods, R900m of which has been earmarked for Transnet and Prasa repairs alone.

The rail infrastructure is essential for providing passage for goods from the Durban port to the inland areas and is, therefore, a priority. Damage to projects under construction has been pegged to exceed well over R2bn, incomplete water projects and road construction making up the bulk of the damages. Engineering insurers have now been presented with the opportunity to respond quickly to the assessment and settlement of claims, to ensure that the progress achieved in the region to date can continue.

In the aftermath of such an event, we, as a country and insurance industry can take away some key observations. The first key take away is that the state of infrastructure was, in most cases, in a poor condition prior to the floods. Coupled with the rapid urbanisation in the region over the last decade, this seemed to compound the damage caused by the heavy rains. Engineering insurers need to be aware of pre-existing damage and infrastructure disrepair when considering repair and upgrade project risk. The second key take away is that there will be a heavy reliance on insurance as the province starts to rebuild. History has shown that the rains experienced in April, whilst bad, were not an absolute anomaly.

Numerous floods and adverse weather events have occurred in the region with one of the earliest being recorded as far back as April 1848, when 650mm of rain fell over a short period of time and redirected the Mgeni River Course. Recorded events like this have been noted with some regularity since then. With this in mind, and the heavy costs incurred with the latest event, could it result in a different consideration being applied to the risk appetite in this region? A hardening of the market wouldn't be unwarranted, but it seems this will be determined by the ultimate loss and reinsurance capacity allocation consideration once the waters have subsided and the market has settled.

The people of South Africa are resilient and have withstood a lot of adversity in recent times – Covid-19, looting, and now adverse weather all the while, whilst trying to revive and rebuild the economy. The current state of affairs requires that we double down and continue the hard work. The South African Engineering Insurance market is willing and able to stand by and support the rebuilding of Durban as it remains a key region and city in this beautiful country of South Africa.

This article was written by Chris Charlton, South African Association of Engineering Insurers (SAAEI) EXCO. For more information, contact: chris@consort.co.za

5 SAIA Circulars – May 2022

MD Circulars May 2022		
***Zero MD circulars were circulated in May 2022.**		
SG Circulars – May 2022		
SG-2022-049	The Insurance Sector Education and Training Authority (INSETA) MIS Skills Module	03.05.22
SG-2022-050	Financial Sector Conduct Authority (FSCA) - FSCA Communication 4 of 2022 Exemption of Particular Persons from Compliance with Certain Competency Requirements, No 2 of 2022	05.05.22
SG-2022-051	The Insurance Sector Education and Training Authority (INSETA) Mandatory Grant Application Request for Extension 2022	05.05.22
SG-2022-052	SAIA Update: Tax Impact of IFRS17 on Insurers	12.05.22
SG-2022-053	Invitation to Participate in the Industry Data Collation Initiative – Employment Equity and Management Control	18.05.22
SG-2022-054	University of KwaZulu-Natal (UKZN) and Insurance Sector Education & Training Authority (INSETA) Business Rescue Turnaround and Sustainability Short-Course	27.05.22
SG-2022-055	Invitation to submit written Comments to the Parliamentary Finance Standing Committee: Financial Sector and Deposit Insurance Levies Bill (Administration) and Deposit Insurance Premiums Bill	30.05.22

IMPORTANT NOTICE
For information on the SAIA bulletin or content published herein
Contact Livhuwani Mutheiwana, Corporate Affairs Administrator
✉ **E-mail: Livhuwani@saia.co.za** ☎ **Tel: (011) 726 5381**
🖶 **Fax: 086 647 2275**
www.saia.co.za