SAIA

Newsletter of the South African Insurance Association

Bulletin

SAIA - ☎ (011) 726 5381

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1.0 LATEST NEWS

1.1 Special Report on the results of the short-term insurance industry

Industry results - Typical insurers (typical insurers, for the purpose of this report, are those insurers who offer most types of policies to, mostly, the general public).

The table below sets out combined statistics (net after reinsurance) for typical insurers for the calendar years 2007 to 2011 and for the first six months of 2012 as well as comparative figures for the first six months of 2011. The figures are **unaudited**.

	2007	**2008**	**2009**	**2010**	**2011[1]**	**6 months June 2011**	**6 months June 2012**
Net premiums R'm	34 351	37 556	39 512	42 337	45 813	22 787	22 709
Underwriting profit/(loss) R'm	2 169	2 327	1 722	3 696	4 463	2 210	2 345
Underwriting and investment income R'm	4 851	5 064	4 741	6 331	7 176	3667	3 934
Claims (as % of earned premiums)	66	66	67	61	58	57	60
As % of net written premiums:							
Management Expenses and Commission	27	27	28	31	32	34	31
Underwriting profit/(loss)	6	6	4	9	10	10	10
Underwriting and investment income	14	13	12	15	16	16	17
Net premium increase (year to year)	10	9	5	7	8	14	(0.3)[2]
Surplus asset ratio (median)	43	40	43	38	43	39	52
CAR cover (median)	[redacted]						1.9

[1] During 2011, there was reclassification of companies as a result four niche insurers were moved to typical.
[2] This negative growth is due to significant reduction in premium retention by some companies.

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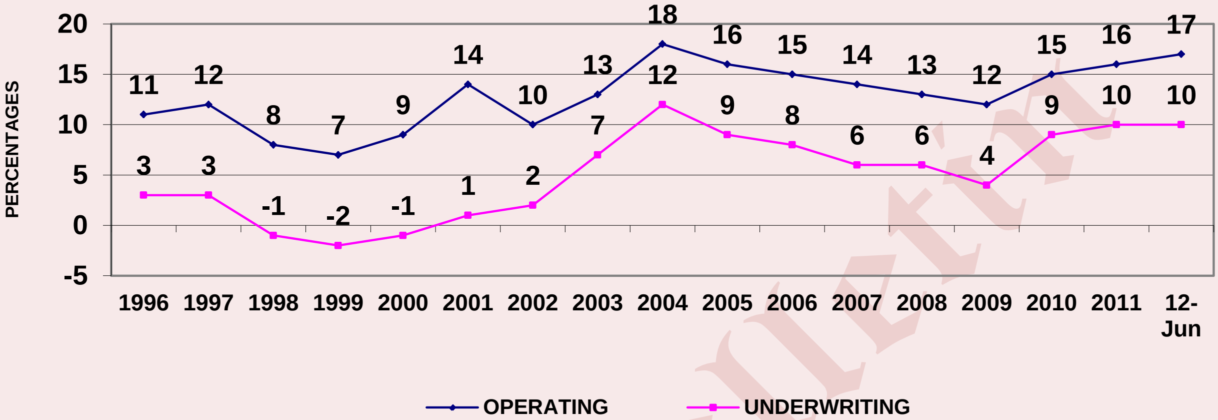
The following graph indicates how underwriting and operating (including investment income) results of the typical insurers have fluctuated over the past sixteen years and second quarter of 2012.

RESULTS AS PERCENTAGES OF NET PREMIUMS



Eight of the thirty-one insurance companies classified as typical insurers reported an underwriting loss for the six months ended June 2012 compared with ten of the thirty insurance companies who reported an underwriting loss for the three months ended March 2012.

Three of the thirty-one insurance companies reported an operating loss for the six months ended June 2012 compared with five of the thirty insurance companies for the three months ended March 2012.

Statutory surplus asset ratios

The following table indicates the spread of the statutory solvency percentages of the typical insurance companies.

	Number of insurers					
	December 2007	December 2008	December 2009	December 2010	December 2011	June 2012
Below 15%	0	1	0	0	0	0
Between 15% and 20%	1	1	0	1	1	0
Between 20% and 25%	0	1	2	1	0	0
Between 25% and 30%	6	2	1	2	2	0
Between 30% and 40%	2	8	7	11	10	5
Between 40% and 50%	5	4	5	6	9	9
Between 50% and 100%	5	4	8	5	5	15
Above 100%	3	3	2	3	3	2

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CAR cover ratio	Number of insurers			
	March 2012	June 2012	September 2012	December 2012
Covered 0-1 times	1	0		
Covered 1-2 times	17	18		
Covered 2-5 times	12	13		
Covered 5-10 times	0	0		
Covered 10+ times	0	0		

Industry results - Cell captive insurers (cell captive insurers, for the purpose of this report, are those insurers who offer insurance structures on a cell ownership basis for first party and third party cell owners).

The table below sets out combined statistics (net after reinsurance) for cell captive insurers for the calendar years 2007 to 2011 and for the first six months of 2012 as well as comparative figures for the first six months of 2011. The figures are **unaudited**.

	2007	2008	2009	2010	2011	6 months June 2011	6 months June 2012
Net premiums R'm	4 511	5 460	5 368	6 318	6 957	3 890	4 275
Underwriting profit/(loss) R'm	224	295	410	962	174	719	621
Underwriting and investment income R'm	810	1 079	1 150	1 579	732	1 010	907
Claims (as % of earned premiums)	62	67	62	50	61	39	48
As % of net written premiums:							
Management Expenses and Commission	33	25	27	33	31	29	26
Underwriting profit/(loss)	5	5	8	16	2	18	15
Underwriting and investment income	18	20	21	20	11	26	21
Surplus asset ratio (median)	60	56	64	82	98	56	90
CAR cover (median)	[redacted]						2.1

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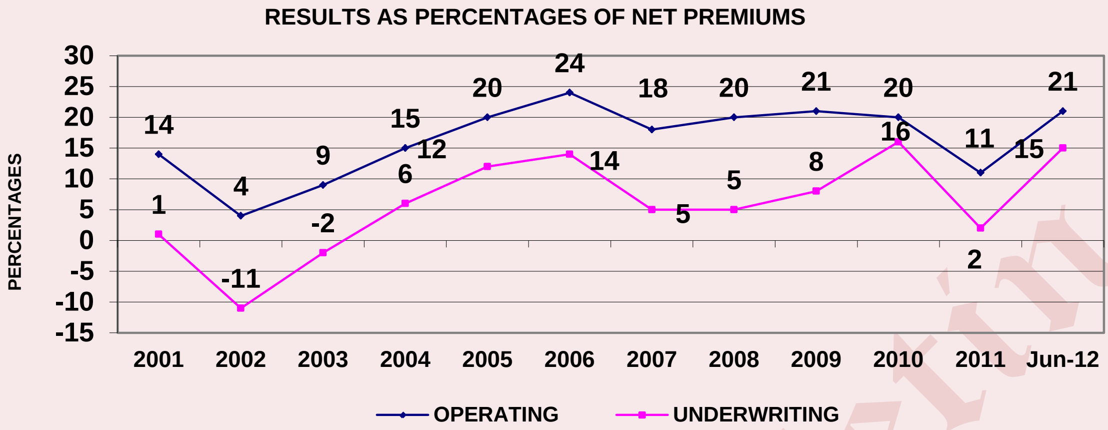
The following graph indicates how underwriting and operating (including investment income) results of the cell captive insurers have fluctuated over the past eleven years and the second quarter of 2012.



Of the nine operational cell captive insurers, two have reported underwriting losses and one reported an operating loss for the six months ended June 2012 compared with three of nine who reported underwriting losses and one reported an operating loss for the three months ended March 2012.

The following table indicates the spread of the statutory solvency percentages of the cell captive insurance companies.

	Number of insurers					
	December 2007	December 2008	December 2009	December 2010	December 2011	June 2012
Below 15%	0	1	0	0	0	0
Between 15% and 20%	0	0	0	0	1	0
Between 20% and 25%	2	1	1	0	0	0
Between 25% and 30%	0	1	1	2	2	0
Between 30% and 40%	2	2	2	2	0	2
Between 40% and 50%	1	0	1	0	1	1
Between 50% and 100%	2	3	2	3	1	1
Above 100%	3	2	4	3	4	5

CAR cover ratio	Number of insurers			
	March 2012	June 2012	September 2012	December 2012
Covered 0-1 times	0	0		
Covered 1-2 times	5	4		
Covered 2-5 times	3	3		
Covered 5-10 times	1	1		
Covered 10+ times	0	1		

Industry results - Captive insurers (captive insurers, for the purpose of this report, are those insurers who offer cover of the risks of the owners' company or companies only).

The table below sets out combined statistics (net after reinsurance) for captive insurers for the calendar years 2007 to 2011 and for the first six months of 2012 as well as comparative figures for the first six months of 2011. The figures are **unaudited**.

	2007	**2008**	**2009**	**2010**	**2011**	**6 months June 2011**	**6 months June 2012**
Net premiums R'm	200	185	329	395	328	195	220
Underwriting profit/(loss) R'm	26	34	80	169	77	109	173
Underwriting and investment income R'm	125	152	212	280	162	156	231
Claims (as % of earned premiums)	84	79	74	52	67	26	23
As % of net written premiums:							
Management Expenses and Commission	2	4	2	(6)	3	6	(3)
Underwriting profit/(loss)	13	18	24	42	24	56	78
Underwriting and investment income	62	82	64	70	49	80	105
Surplus asset ratio (median)	435	334	402	377	383	374	553
CAR cover (median)	[redacted]						9.8

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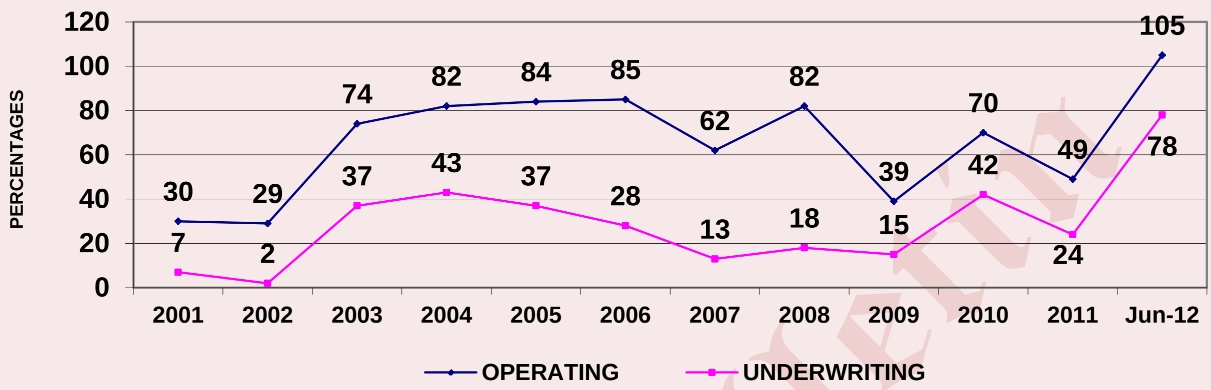
The following graph indicates how underwriting and operating (including investment income) results of the captive insurers have fluctuated over the past eleven years and the second quarter of 2012.

RESULTS AS PERCENTAGES OF NET PREMIUMS



Two of the eleven captive insurers have reported underwriting losses and two operating losses for the six months ended June 2012 compared with three of the ten captive insurers who reported underwriting losses and one an operating loss for the three months ended March 2012.

The following table indicates the spread of the statutory solvency percentages of the captive insurance companies.

	Number of insurers					
	December 2007	December 2008	December 2009	December 2010	December 2011	June 2012
Below 15%	0	0	0	0	0	0
Between 15% and 20%	0	0	0	0	0	0
Between 20% and 25%	0	0	0	0	0	0
Between 25% and 30%	0	0	0	0	0	0
Between 30% and 40%	0	0	0	0	0	0
Between 40% and 50%	0	0	0	0	0	0
Between 50% and 100%	0	0	0	0	0	0
Above 100%	10	11	10	10	10	11

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CAR cover ratio	Number of insurers			
	March 2012	June 2012	September 2012	December 2012
Covered 0-1 times	0	0		
Covered 1-2 times	0	0		
Covered 2-5 times	3	3		
Covered 5-10 times	5	3		
Covered 10+ times	2	5		

Industry results - Niche insurers (niche insurers, for the purpose of this report, are those insurers who offer, mostly, specialised cover only, in certain niche markets).

The table below sets out combined statistics (net after reinsurance) for niche insurers for the calendar years 2007 to 2011 and for the first six months of 2012 as well as comparative figures for the first six months of 2011. The figures are **unaudited**.

	2007	2008	2009	2010	2011[3]	6 months June 2011	6 months June 2012
Net premiums R'm	3 872	4 976	5 712	6 465	7 185	3 420	4 257
Underwriting profit/(loss) R'm	1 078	1 514	1 723	1 006	2 097	1 289	1 504
Underwriting and investment income R'm	1 779	2 839	2 617	2 238	3 082	1 673	2 110
Claims (as % of earned premiums)	43	40	41	46	36	31	36
As % of net written premiums:							
Management Expenses and Commission	27	27	29	30	26	25	29
Underwriting profit/(loss)	28	30	30	16	29	38	35
Underwriting and investment income	46	57	46	35	43	49	50
Surplus asset ratio (median)	72	77	58	95	135	125	117
CAR cover (median)	[redacted]						2.4

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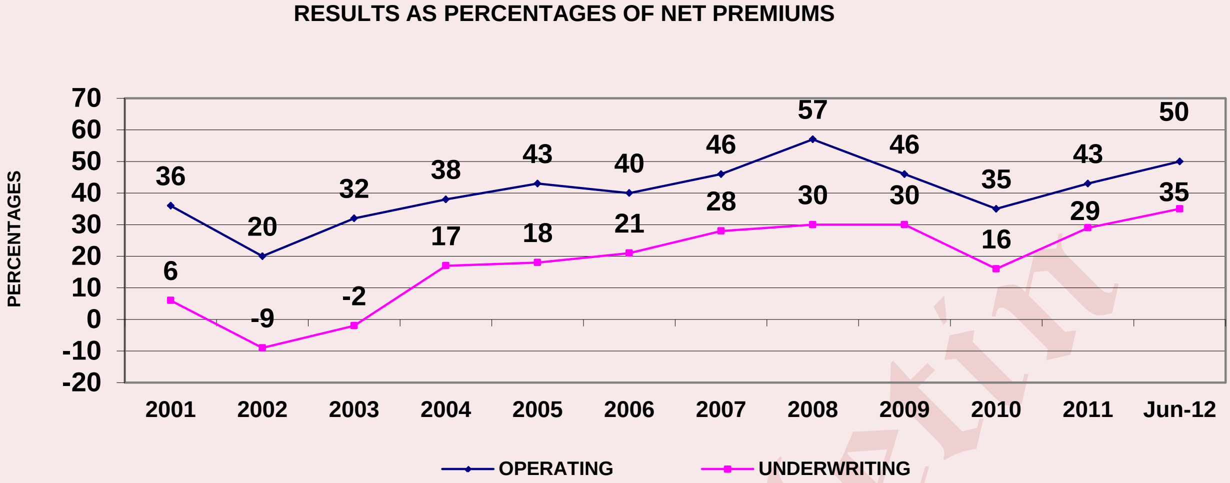
[3] In March 2011, there was reclassification of companies as a result four niche insurers were moved to typical.

The following graph indicates how underwriting and operating (including investment income) results of the niche insurers have fluctuated over the past eleven years and the second quarter of 2012.



Eight of the thirty-one operational niche insurers have reported underwriting losses for the six months ended June 2012 and four have reported operating losses compared with nine who reported underwriting losses for the three months ended March 2012 and eight who reported operating losses.

The following table indicates the spread of the statutory solvency percentages of the niche insurance companies.

	Number of insurers					
	December 2007	December 2008	December 2009	December 2010	December 2011	June 2012
Below 15%	0	0	1	0	0	0
Between 15% and 20%	0	1	1	4	5	0
Between 20% and 25%	1	2	1	1	1	0
Between 25% and 30%	1	0	2	1	2	0
Between 30% and 40%	2	4	5	5	3	1
Between 40% and 50%	5	4	3	1	1	0
Between 50% and 100%	10	9	8	5	6	10
Above 100%	14	13	13	13	13	20

CAR cover ratio	Number of insurers			
	March 2012	June 2012	September 2012	December 2012
Covered 0-1 times	0	1		
Covered 1-2 times	17	11		
Covered 2-5 times	6	7		
Covered 5-10 times	5	7		
Covered 10+ times	3	4		

Industry results – Re-insurers (re-insurers, for the purpose of this report, are those insurers who offer specialised cover, only to primary insurers).

The table below sets out combined statistics (net after reinsurance) for re-insurers for the calendar years 2008 and 2010 and for the first six months of 2012 as well as comparative figures for the first six months of 2011. The figures are **unaudited**.

	2008	**2009**	**2010**	**2011**	**6 months June 2011**	**6 months June 2012**
Net premiums R'm	2 388	2 314	2 170	2 291	1 129	1 206
Underwriting profit/(loss) R'm	37	55	205	87	2	(55)
Underwriting and investment income R'm	492	464	507	389	150	115
Claims (as % of earned premiums)	64	66	56	61	65	68
As % of net written premiums:						
Management Expenses and Commission	34	31	32	34	35	36
Underwriting profit/(loss)	2	2	9	4	0	(5)
Underwriting and investment income	21	20	23	17	13	10
Surplus asset ratio (median)	149	243	93	65	53	75
CAR cover (median)	[redacted]					3.2

Four of the six operational re-insurers have reported underwriting losses and three operating losses for the six months ended June 2012 compared with four of the six operational re-insurers who reported underwriting losses and three operating losses for the three months ended March 2012.

The following table indicates the spread of the statutory solvency percentages of the re-insurance companies.

	Number of reinsurers				
	December 2008	**December 2009**	**December 2010**	**December 2011**	**June 2012**
Below 15%	0	0	0	0	0
Between 15% and 20%	0	0	1	1	0
Between 20% and 25%	0	0	0	0	0
Between 25% and 30%	0	0	0	0	0
Between 30% and 40%	1	0	0	0	0
Between 40% and 50%	0	1	1	0	0
Between 50% and 100%	2	2	2	3	3
Above 100%	4	5	2	2	3

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CAR cover ratio	Number of insurers			
	March 2012	June 2012	September 2012	December 2012
Covered 0-1 times	0	0		
Covered 1-2 times	0	2		
Covered 2-5 times	3	2		
Covered 5-10 times	2	2		
Covered 10+ times	1	0		

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1.2 The direct distribution dilemma – why success has alluded some insurers

Today's customers demand more choice, flexibility and value, and prefer doing business across multiple channels. Insurance buyers are becoming more comfortable with online and direct channels. Many insurers recognise this opportunity but have failed to take the necessary strategic approach to grow this channel.

Insurer's attitudes towards the direct channel

Over the last couple of years, the size of the customer segment that prefers intermediaries as its primary means to buy insurance has diminished. In the United States the percentage of customers preferring the direct channel has grown from 4% in 2004 to more than 30% in 2010. Insurers' attitudes towards the direct channel generally fall under one of the following three categories:

Innovate: searching for growth

These leaders invest in ways to use information more advantageously. They bring innovative solutions to the market and lead the direct-to-consumer market.

Catch up: Needing a clear strategy

Some insurers are concerned about upsetting their intermediaries in spite of the eroding value of the channel. These insurers often approach the direct channel by catching up to the competition rather than differentiating their value proposition.

Waiting it out: believing old approaches will prevail

These insurers continue to depend on the personal relationships between their intermediaries and customers to win in the market.

What experience has taught: eight key lessons

1. Be deliberate - companies need to be decisive about the direction and commitment to direct distribution. They need to understand the target segments and define the value propositions that will differentiate them from the competition and let that drive decisions on brand, product and operating model.
2. Make "simple, fast and accurate" a core requirement - customers want simple and intuitive ways to assess their protection needs, answer the least number of questions, easily understand products and obtain a quote in next to no time.

3. Product simplicity - product architecture needs to be simple to reduce the number of questions, trailing documents and on-boarding requirements. There are no intermediaries to help customers with product/pricing complexities.
4. Design for multi-channel from the beginning - the business design must address how customers can seamlessly navigate across multiple channels, how information and interactions can transition from online to call centre etc.
5. Build digital marketing as a core competency - insurers need to drive quality leads to their website and call centres. Digital marketing, social media, mobile, and affinity are some of the strategies successful direct marketers leverage.
6. Create pricing sophistication - although insurers cannot compete on price alone, they still have to offer competitive pricing as part of their total value propositions. Their ability to create granular and differentiated risk segmentation based on unique customer data will drive their success.
7. Improve customer confidence in the purchase process - customers often obtain quotes online but still buy through a call centre. Insurers need to find innovative ways to personalise the buying experience.
8. Test and learn before scaling - the direct channel provides an information-rich environment that allows companies to test new features and offers, and quickly adjust to consumer reactions.

Conclusion

At a time when technology-driven innovations are giving consumers more insight into and control over their purchases, insurers cannot afford to be left behind. Consumers are demanding more choices, competitive prices, better service and different ways of doing business. They should aggressively build a multi-channel sales and delivery model that allows them to compete and grow in the market.

1.3 SAADP and INSETA addresses lack of female black actuaries

There is an urgent need for more black female actuaries in South Africa. To coincide with Women's Day, the South African Actuaries Development Programme (SAADP), supported by the Insurance Sector Education and Training Authority (INSETA) recently held a networking high tea to celebrate the young female actuarial students in the programme, who are helping to keep the critical skills gap.

SAADP CEO Nokwanda Mkhize with top actuarial women learners Kelebogile Setlatjile (left) and Fhatuwani Nemakhavhani (right).

Despite the fact that the actuarial profession is central to the financial wellbeing of millions of South Africans, a recent research report conducted by the Actuarial Society of South Africa shows that the profession is not nearly representative of the diverse population groups of South Africa.

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The number of actuaries remains relatively small, with only 910 members and 1 305 student members in the South African Actuarial Society in 2010. Only 15% are women.

Speaking at the event, SAADP Executive Director Nokwanda Mkhize said: “There is a significant lack of actuaries in South Africa; further, a lack of black actuaries, and then even fewer female black actuaries. The entry barriers are incredibly high, and the challenges that these young women face are immense.

Surviving university life, passing exams and getting jobs in businesses that support graduates to write their remaining professional courses are all big challenges. As women, we face even greater pressures from society. We have to show students that what they are undertaking as a career carries significant weight, has the potential for far-reaching impact, and importantly – that they do not feel weighed down by this responsibility.”

Actuarial employers face the demands of the employment equity legislation as well as specific targets for the participation of black women in the financial services industry as set out by the Financial Services Charter. But the Talent pool is too small to satisfy the need. CEO of INSETA, Sandra Dunn, said that “while the number is improving, still more needs to be done”.

The goals of SAADP to produce more qualified black actuaries in South Africa is in perfect alignment with INSETA’s policy of transformation, and it is integral that as much support as possible is given to initiatives such as this which highlights difficulties facing female black actuaries, and offers support.”

INSETA helps finance the SAADP, which sees high-potential university students from second year and up receiving financial and motivational support to gain their actuarial science qualifications. The SAADP High Tea 2012, held on Saturday, 4 August offered female black actuarial students a platform of information sharing with working female actuaries.

Events like this are of key importance to the development of black female talent because financial aid, while a crucial enabler is not sufficient on its own; social support is vital as well.

“The standards of entry to study actuarial science are incredibly high, and the work intense. But once accepted learners are suddenly left to their own devices, and many cannot cope – especially those from disadvantaged backgrounds who are not used to the environment shift. This is where the SAADP comes in; they offer the exact support these students need. The organization identifies needs, monitors and provides assistance, ensuring support to, and success of the learner,” says Dunn.

With the right kind of support, such as INSETA and SAADP offer, more young black women could find themselves making major contributions to society in actuarial professions.

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1.4 CPD Draft 2012 Board Notice Workshop

According to the FAIS requirements, CPD must have started for many individuals but the FSB will not take action as an exemption notice will only be published for comment with this Draft Board Notice in the last week of August

Key elements in the new Draft Board Notice

The purpose of CPD is to keep your knowledge current. Individuals are to default to the highest number of hours that apply to them across the product categories registered.

The FSB wants to make CPD widely acceptable and accessible; therefore the Professional Body is only one avenue and will not limit the provision for CPD. The CPD Provider applications are open to employers, compliance practices, training providers and product suppliers, even sole proprietors if they can meet the requirements. The FSB may limit the provider status later, but this is the approach for now.

The FSB would like to avoid duplication of CPD activities, and will therefore not automatically accept all activities completed. Providers will need to do a bulk upload, but the FSB will also upload individual activities based on an individual application form 3 and record against the individuals' ID numbers.

This Draft Board Notice provides definitions of what the FSB views as the different types of activities. These are:

- **Conference** (includes a seminar) must allow for discussion and sharing of ideas from presented topics;
- **Course** must include structured content;
- **Workshop** - means a structured event led by an instructor and discussion of the ideas and information
- **CPD activity** (must be verifiable);
- Co-**authored** or authoring of articles in magazine, newsletters or peer reviewed articles;
- **Published books**;
- Delivery of **presentation**, or lecturing of courses or workshop;
- Radio and television **interviews;**
- Any other activity with the aim of enabling the individual to maintain capabilities to render financial services *(not sure if this should stay) e.g learning of software programmes, industry committee participation*

It is the FSB's preference to not define too much around requirements for the recognition of a CPD programme or activity as this may lead to activities being precluded from recognition as the definitions will be too narrow.

Other definitions include:

- **Proof of attendance or completion** - means any document that confirms the attendance of completion of a CPD programme or activity
- **Self-certification** - means a signed declaration by the individual
- **Verifiable** - means submission of proof of attendance or completion of a CPD programme or CPD activity by means of proof of attendance or completion
- **Cycle** - means a 12 month period starting on 1 July and ending on the 30 June

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Completion – means that the candidate must be successful. CPD cannot be awarded if a qualification or exam is failed or recognized for participation, and it does not have to be a recognized qualification.

The FSB has decided to stay with CPD hours, as reference to points would become too complicated.

International programmes are also recognized for CPD purposes by the FSB.

Purpose of CPD

The purpose of CPD is to develop and maintain:

- The required knowledge and skill
- Professional competence
- Code of conduct
- Awareness of development of all industry and legislative changes

The FSB will publish a list of approved CPD providers in a Government Gazettes as well as a searchable list on the FSB's website.

Duties of CPD Providers

- Comply with honesty and integrity requirement
- Verify the identity of individuals attending or completing the CPD providers activity and or programme and retain record of verification
- Quarterly update to the FSB in the manner prescribed form and manner
- Verify the update was successful
- Establish and maintain a complaint resolution system
- Keep records for a minimum of 3 years
- Immediately report to FSB any fraudulent activity or dishonesty relating to CPD
- Making records available within 7 days of the registrar's request (will only happen in the event of a dispute)

Lapsing of approval – It is where a provider has failed to provide a recognized activity within a period of 24 months i.e. dormant for 2 years, or requests registrar to remove their name from the list of CPD providers.

The CPD Provider can be debarred if the FSB withdraws the approval for a period prescribed by the FSB from reapplying for CPD recognition.

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2.0 IMAGE & REPUTATION

2.1 Consumer Education Initiative 2011/12

Lelo Ntshalintshali, SAIA Manager: Stakeholder Relations

We have reached the completion of the Teacher Development (iCount, Grade 10) and Consumer Awareness projects. The service providers forwarded their final evaluation reports and Grant Thornton, the external independent auditors, supplied a satisfactory audit report for both service providers.

The final Thobela FM Radio drama episode was aired on Sunday, 5 August 2012. The financial drama series was a success and very popular with the listeners in the Limpopo, where Thobela has a listenership of more than 3 million people. The service provider will prepare the feedback report and submit it to the SAIA by 31 August 2012. A full audit by Grant Thornton will be undertaken starting in the first week of September 2012.

We wish to thank the supporting teams, committees and especially the Sepedi speaking insurance experts for their valuable time and for sharing their knowledge with the listeners. A full Consumer Education feedback report will be compiled and distributed to all SAIA members.

Consumer Education Initiative 2012/13

The allocation of funds has been finalised for the 2012/13 Consumer Education Initiative projects as approved by the Consumer Education Committee. The projects have also been endorsed by the Environmental and Social Board Committee, allowing for commencement of the contracting process with the service provider, Bright Media. Work on the projects will begin in September when all contracts have been finalised. The approved projects are as follows:

- The Teacher Development Project (iCount) – This is a continuation of last year's project as per our commitment to the Department of Basic Education.

- Revision of Managing your Money resources in line with the Curriculum Assessment Policy Statement (CAPS) to be introduced in schools in 2013 – This is an update of our mathematics literacy project of the past 5 year's material, to keep it relevant.

- Radio Project – This is a continuation of our successful financial education drama series, and is part of the national rollout. The drama series will be broadcast on Ukhozi FM and RSG radio stations, in Zulu and Afrikaans respectively. The drama will also be produced in English for use in community stations.

The Financial Services Board (FSB) will partner with us on both the Managing Your Money and Radio Projects, contributing R400 000 and R500 000 respectively. The FSB had also requested a contribution to its Money in Action project, which we agreed to consider should there be surplus funds available.

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There is an amount of R677 661.61 left over from the Teacher Development and Managing Your Money Projects which we have therefore pledged to the FSB Money in Action Project, as per the decision of the Consumer Education Committee.

☞ **Further information : Lelo Ntshalintshali**
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2.2 Functions planned for 2012

Listed below are some of the available dates for the South African Insurance Association (SAIA) events for 2012. This is a standard section in the SAIA Bulletin.

Please note that the dates are subject to change. Changes will be marked in colour.

- SAIA/FIA Board Liaison Lunch – 15 November 2012

☞ **Further information : Lelo Ntshalintshali**
✉ **lelo@saia.co.za**

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3.0 SUSTAINABILITY

3.1 SAIA Green Geyser Replacement Programme (GGRP)

The majority of participating insurers expressed their interest to proceed to phase 3 (preparation for a pilot) pending success with government.

The SAIA board approved the following:

1. To lobby with government on a short-term insurance specific rebate proposal to support maximizing the potential of consumer uptake.
2. To support the establishment of regulation to drive green geyser replacements by 2017 when including but not limited to a revised rebate structure, a technology enabled release of the rebate funds and so forth.

Meetings have been held with the government Solar Water Heater Project Steering Committee (SWH PSC) and a subcommittee has been formed by government which includes SAIA to further understand the proposal and begin negotiations around it.

☞ **Further information : Ben Webbstock**
🖂 ben@saia.co.za

3.2 Business must bridge the unemployment gap

The total unemployment rate for 15–24 year olds, according to the Development Bank of South Africa's 2011 research, is 59.6%. The only way to tackle this crisis is for companies to take on first time employees, in numbers.

But despite growing numbers of entry-level job vacancies employers are reluctant to employ first-time young work seekers. Employers think it's risky to take on first timers – they believe that a deficit in skills and work-preparedness, combined with psycho-social challenges are too time consuming and costly to manage.

On the other hand, we have millions of young work seekers, particularly from disadvantaged backgrounds, who have been let down by inadequate education, leaving them with skills gaps that create a barrier to accessing and retaining formal employment.

Many of these young people have fantastic potential and the right attributes to succeed if they can be matched to the right opportunity and be given the bridging they need to succeed in the workplace.

So if we can address the risks faced by employers we can create a sustained virtuous cycle of youth employment and growth.

Harambee is addressing these risks while at the same time creating an alternative pool of talent from which corporate SA can employ with confidence.

Harambee's sourcing and rigorous assessment process matches young work seekers to specific jobs and employers, and puts the potential employees through a bridging programme workplace.

Harambee was born out of local big brands, Hollard, Clientele, Telesure, Direct Axis, and Nando's but is now an independent entity working with a growing number of employers. Harambee has already placed over 500 candidates in formal entry-level employment. It's been a year since the first graduates were placed and to date, 92% of them have retained their jobs. So Harambee is proving to be a win-win solution for graduates and employers.

Harambee offers an opportunity to do collectively, what individual businesses will be challenged to do on scale by themselves – grow the pool of young work-ready talent. Harambee offers busnesses efficient delivery of a business imperative: sourcing good people at a competitive rate.

Harambee is an example of how big business can become involved in the youth employment challenge – in a way that is good for business and good for society. Businesses need to become involved in addressing youth employment, this is not just the problem of government; it is a national crisis that requires immediate action from both the public and private sector.

For more information, visit the Harambee website at www.harambee.co.za

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3.3 Human Capital Development

The insurance sector has an investment in addressing youth unemployment as it is one of our top 10 social risks facing our industry. It has a critical impact on social stability and as such the SAIA and the FIa are proactively seeking ways to attract the youth to an insurance career. The Harambee program was introduced to our industry in 2011 through the Strategic Risk Forum.

Harambee has a tested model that helps bridge matriculants coming into business in call centre environments. Please refer to article **3.2** above.

Two Woking Groups have been created for this project. The Qualifications work group will focus on:

- The provision of a set of professional standards that our industry will commit to aligning with
- Provide an analysis of current qualifications in the short-term insurance industry
- Analyse the gaps in curriculum content against critical and scarce skills in the industry
- Analyse the current qualifications in the short-term insurance industry
- Map findings from industry against professional standards criteria to ensure alignment or recommendations for adaptation
- Design a new entrant's pack for the insurance market

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The Research work group is to research, analyse and collate industry information from member companies of representative bodies. Research topics have been established as listed below:

First Level Research:	**Second Level Research:**
1. Professional Designations	5. Number of people in industry with Completed Qualifications vs. Part Qualifications and/or credits
2. Age Profile	6. From point 4b a further analysis is required from the top 3 or 5 areas to show occupational group, preferred method of delivery and proposed NQF Level required
3. No of people in Regulatory Roles a) Regulatory exams completed b) Qualification status c) Professional Designation d) No of Key Individuals e) No of Representatives	- Deliverable points 5 & 6 by 31 March 2013
4. No of people in industry a. Geographically b. Area of Specialty c. other areas of speciality	**Key Strategic Areas** –labour market profile of the sector, factors driving change analyse skills supply and demand as well as Scarce and Critical Skills, Social
- Deliverable points 1 – 4 by 31 October 2012	

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3.4 SAIA Vehicle Information Review (VIR)

SAIA was recently invited to the National Motor Finance Association (NMFA) conference with the view to present the project intent and solicit participation from key stakeholders in attendance.

A number of stakeholders have already expressed interest to participate after previous calls for action and will be contacted shortly to confirm their participation by the SAIA office (which has agreed to project manage the initial stages of the project.)

It is expected that a project inception workshop will be held in September to introduce the project comprehensively to all participants in the two working streams (business and technical stream), refine the project concept and contribute to establishing deliverables.

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4.0 LEGISLATION & REGULATION

Governance Risks

4.1 Financial Services Laws General Amendment Bill (“FSLGAB”)

Suzette Strydom, SAIA GM: Technical

The process for the adoption of the FSLGAB (“Omnibus Bill”) is currently underway prior to the October 2012 deadline confirmed in the Consumer Protection Act (“CPA”) for the insurance laws (Short-term Insurance Act (“STIA”) and Long-term Insurance Act (“LTIA”)) to align with the ambit of the CPA.

It is expected that the Omnibus Bill will be enacted before the October 2012 deadline resulting in a carve-out of the insurance industry from the ambit of the CPA. In addition, it is expected that the Omnibus Bill will confirm the repeal of the Advisory Committees to improve the quality of the consultation process as part of the move towards a twin peak model of regulation.

The twin peak model of regulation will bring about a market conduct regulator and a prudential regulator for the financial services sector. Furthermore, the Omnibus Bill will align the financial sector legislation with the Companies Act, 2008.

4.2 Short-Term Insurance Act (“STIA”)

Binder Regulations

The Road shows that have been scheduled with a view to create an understanding, awareness and responsible adoption of the Binder Regulations is well underway. The last two Road shows will take place in Cape Town on 05 September 2012 at the Old Mutual’s Mutual Park, Jan Smuts Drive, Pinelands, from 11:00 – 14:00 and in Pretoria on 18 September 2012 at the CSIR, Meiring Naude Road, Brummeria, Pretoria from 11:00 – 14:00.

Details and bookings for the Binder Regulation Road Shows are available on the website of the FSB namely www.fsb.co.za. It is anticipated that the onsite visits by the FSB will begin in all earnest in January 2013 being the full implementation date for all agreements to align with the Binder Regulations. A survey by the FSB on the Binder Regulations is expected shortly. The FSB has confirmed that the deadline namely 1 January 2013 for all agreements to align with the Binder Regulations will not be postponed.

4.3 FAIS Act

Regulatory exams (RE)

The FSB has invited individuals that failed to write the RE1 and 5 by the deadline of 30 June 2012 to come forward and state their case to the Regulator and submit supporting documentation confirming the reasons for failure to write the exams by the deadline.

The deadline for re writes is 30 September 2012.

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4.4 Treating Customers Fairly ("TCF")

The FSB has released the self-assessment on its website in a series of spread sheets including a rating scale from 0 – 4.

The purpose in developing a self-assessment tool has been confirmed namely:

- To provide the financial services industry with insight on TCF readiness through management behaviours and monitoring, and
- To provide high level indications to industry of the kinds of factors that the FSB may in future take into account in monitoring and assessing TCF delivery.

Despite the confirmation that the TCF self-assessment is not a compulsory exercise, the SAIA strongly encourage all regulated financial institutions to use the self-assessment tool as a guide in assessing TCF readiness and the development of their own self-assessment tool.

The next steps include a baseline exercise that will be conducted by the FSB. This baseline exercise will entail the completion and submission of the self-assessment tool questionnaire to the FSB by a broad sample of identified regulated institutions. Thereafter the FSB will undertake interviews with some of the institutions that participated in the baseline exercise with aggregated results of the baseline exercise that will be made publically available.

The self-assessment is available on the website of the FSB namely www.fsb.co.za.

4.5 SAIA Code of Conduct and Salvage Code

The SAIA Board approved the revised SAIA Code of Conduct effective from the 24^{th} of July 2012.

At a recent meeting the SAIA held with the National Treasury, the department expressed some concerns about the Code's appeal process and the sanctions paired with the findings.

During the next few months, the SAIA will be embarking on the following path:

- Revisiting the Code of Conduct's appeals process
- The Complaints Committee will be drafting new sanctions guidelines which will be presented to the Board for approval

Also, please note that as from January 2013, compliance reporting will be done against this new revised SAIA Code of Conduct.

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5.0 STRIDE

5.1 STRIDE Integration

STRIDE is the short-term insurance industry data exchange facility that allows participants, such as brokers, agents, system providers and insurers, to share their policy and related information among one another in a standardised format.

The STRIDE Switch eliminates the need for participants to have multiple links to other participants by making a centralised point available for participants to connect to. This allows participants to share policy data and information more easily without the need for investing in large communication infrastructures or multiple communication links.

The STRIDE switch was designed to cater specifically for the SA ACORD AML standard to standardize the information and/or data that flow through it. The South African ACORD Messaging Library (SA ACORD AML) is a message structure by which participants have agreed how data will be shared as well as the format of such data. The SA ACORD AML will be a standard in which policy and related information and data can be communicated.

Integration to the switch includes the technical development and transition by participants to communicate with the STRIDE Switch by sending and receiving the defined encrypted message types over a secured line and includes the technical integration, user acceptance testing and certification.

STRIDE Certification is the method whereby all participants pass through rigorous testing to be certified to use the STRIDE Switch and to communicate effectively with other participants.

The STRIDE Testing and Certification Facility is an automated facility created by Astute to allow a participant to test the receiving and/or sending of the messages with the STRIDE Switch, and the STRIDE TCF by themselves. It acts as a dummy participant, sending and responding to messages it receives. In addition it also generates a report, called a certification outcome report, which identifies if a participant's messages has passed or failed the certification tests.

Visit our website at www.stridesa.co.za.

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6.0 SOLVENCY ASSESSMENT AND MANAGEMENT (SAM) INITIATIVE

6.1 Defining Boundary Risk - What constitutes an operational risk?

Although boundary risks in banking are a problem, it could argued insurers face an even more difficult challenge of classifying insurance risk and operational risk, writes Mike Finlay, CEO of RiskBusiness International

Insurance can be defined as a contract (policy) under which an individual or entity (the "insured") receives a promise of compensation or financial protection or reimbursement (collectively, the "claim amount") against specific (potential) future losses (the "insured event") from an insurance company (the "insurer"), usually in exchange for periodic payment (the "premium").

The amount of the premium is determined by the insurer's expectations of the likelihood and frequency of occurrence of the insured event and the severity or potential settlement value of the claim amount.

While insurance can be obtained against expected future events, such as death cover, which is certain, those aspects of insurance that deal with potential future losses typically relate to what many would define as operational risk – the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

So, insurers accept as their primary business risk what is often referred to as insurance risk, underwriting risk or peril risk, namely pooling various perils across multiple parties with the objective that the total claim amount arising across the pool of insurance is less that the total premium amount charged.

But, in doing so, just as with any other business activity, the insurer is exposed to its own operational risk – the risk of unexpected losses arising from errors, data problems, system issues, fraud, contractual disputes, staff problems, natural disasters, malicious acts, etc. And, with the same kind of losses being both the subject of what is being insured and in performing the act of insurance, unsurprisingly, many insurers have considerable difficulty in resolving boundary issues and correctly recording and managing their own internal operational risk events.

For example, when performing the risk analysis on a prospective policy to be underwritten, the actuary identifies some certain conditions that are considered unacceptable risk and which are to be excluded from the policy. After excluding these conditions, a premium is calculated and the file forwarded to the policy documentation and issuance department for processing. The clerk preparing the policy contract erroneously fails to document the excluded risks, the policy document is authorised and issued to the insured person who pays the premium due.

An insured event occurs and the insured files a claim against the insurer however, the insured event is one which the actuary had specified should be excluded. Contractually, the insurer is bound by the issued policy and has to settle, incurring its own financial loss. As this loss is directly due to the clerk's error, it should be classified as an operational loss, however in many cases it will simply be recorded as a (perhaps abnormal) claim settlement.

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Caroline Coombe, Head of ORIC, the leading international loss data consortium for the insurance and asset management sector, recognises this problem: “Claims often arise from operational risk events, yet are frequently classified as insurance risk losses. This could mean you miss the opportunity to minimise your firm’s exposure to an avoidable loss.”

Evidence can be found in a discussion with risk managers at virtually any insurer who typically have far fewer operational loss events in their internal databases than would be found in the database of a comparably sized bank, which is unusual – after all, insurers use systems, have processes and employ staff to deliver their insurance services and are exposed to risks from external factors, such as external fraud (think of fraudulent insurance claims), hacking and natural disasters or accidents, just as any bank would be – so why would the number of operational risk events be substantially different?

“From a capital perspective, the challenge is to avoid double-counting because you’ve failed to clearly differentiate insurance risk from operational risk, while from a risk management perspective, it is all about identifying and remedying the control failures which lead to such events. There is no agreed methodology for dealing with these boundary issues; this creates the issue of under or over reporting and will hinder comparative benchmarking amongst peers,” adds Coombe.

A senior vice president and actuary for a major London Market insurer agrees: “The issue is that underwriting is a complex process with some elements that are objective and easily controlled, and others that are subjective or hard to control. Add to that, the self-interest behaviour of the insured, the vagaries of competition, the difficulty in “proving” things where there is room for interpretation and that people are typically defensive. The result is a situation where boundary issues are legion.

Perhaps the best way through is to think in terms of ‘lessons learned’: If there was a lesson to be learned that changed future behaviour, then an operational risk event occurred and classification should be possible”. This view clearly highlights one of the key issues – the attitudes of people involved in the process. If the clerk (and the clerk’s supervisor and the supervisor’s manager and the divisional director) can get away with committing an error and seeing the consequences treated as “business as usual”, why not just do that?

Until such time as the consequences are placed in the profit and loss of the individual and entity causing the financial loss, there is no incentive to change. And until the regulatory capital regime recognises the fundamental implications of operational risk within the insurer’s activities and operations, there is no pressure to start to incentivise change.

Coombe adds: “Quantifying the loss arising from an operational risk event, which either gave rise to a claim or forced the insurer to settle the claim, can be difficult without access to external data. Until insurers have comparable data which highlights operational risk failings, management will continue to write operational risk events off as business as usual insurance losses.

ORIC is an ideal resource to increase risk awareness and to inform risk quantification and modelling, hence addressing the cost of regulatory capital for those going down the internal model route. ORIC is at the forefront of developing industry practice on difficult issues around operational risk such as risk event classification, scaling and bench-marking.”

Every claims process starts by asking a few questions, such as is the policy valid and paid up, is the insured event included in the cover provided, are there factors in the claim which would preclude it being an insurable event, etc.

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These questions are asked however from an operations processing perspective, so perhaps every claims process could be extended to also ask a few operational risk specific questions, such as is the policy as was intended, is our (the insurer's) liability what we expected it to be, is the claim bona fide and fair-valued, etc – seeking to identify where the claim settlement is more than what it should be – namely, the operational risk events.

The above article has been made available to us courtesy of the Editor of The Risk Universe publication, Issue 5, May 2012. www.riskuniverse.com

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7.0 PRESS CLIPPINGS

7.1 Press Clippings: July 2012

Publication	Person/DN	Subject
Cover 1 July 2012	# 104866 *Suzette	▪ **Treating Customers Fairly (TCF)** will gain momentum in 2012
	# 104867	▪ **Brokers** liable to pay the insured's average – we really cannot go on like this!
	# 104868	▪ **Section 45 of the Short-Term Insurance Act, 1998**: Payment of insurance premiums in advance
	# 104869	▪ **South African Insurance Crime Bureau (SAICB):** Rising SA insurance fraud having knock-on effect on consumers' pockets
Risksa July 2012	# 104871	▪ **Motor Industry:** Increase drinking age to decrease motor premiums
	# 104872	▪ **Drunk Driving:** No Wriggle Room for unlawful drivers
The Mercury 11/7/2012	# 104299	**National Road Traffic Act** : New rules for new drivers
Star 11/7/2012	# 104300	**National Road Traffic Act**: Shock for holders of new driving licences
Mail & Guardian 13/7/2012	# 104333 *Dawie	**Motor Insurance Industry:** Hijacking claims are down
Citizen 15/7/2012	# 104341	**The National Consumer Commission :** Medical schemes discriminate : Commission
IOL 16/7/2012	# 104342 *Suzette	**SAIA Code of Conduct:** Credit Records: About-turn on insurance for customers with debt
Star 16/7/2012	# 104332 *Suzette	**SAIA Code of Conduct:** Credit Records: About-turn on insurance for customers with debt

RiskSa 17/7/2012	# 104378	**Motor Insurance Industry**: Vehicle tracking lowers hijackings, not premiums
Cape Times 17/7/2012	# 104523	**Drunken Driving:** Plan test blood at road blacks
Legalbrief Today 18/7/2012	# 104645	**Legislation: Consumer Protection Act (CPA):** Medical Schemes – a difficulty in two Acts
Moneyweb 19/7/2012	# 104641	**Motor Insurance**: Should gender be a rating factor in insurance premiums?
Business Report 24/7/2012	# 104853	**National Consumer Commission**: Attorneys warn against consumer watchdog tackling medical aids
Business Report 25/7/2012	# 104854	▪ **Road Accident Fund (RAF)** may fold unless bill to limit claims is passed
Business Day 25/7/2012	# 104855	**Zurich'**s new boss is going after growth
Insurance Gateway 25/7/2012	# 104533	**FAIS ACT:** Financial Services Board (FSB) to deal more harshly with non-compliance
FAnews 25/7/2012	# 104527 *Barry	The **SAIA** elects three new directors: Donates R2m to fight against crime
Cover 25/7/2012	# 104528 *Barry	**SAIA**'s warm welcome
Insurance Gateway 25/7/2012	# 104532 # 104535 *Barry	▪ Financial services industry must deal with **money laundering** ▪ The SAIA elects three new directors; Donates R2m to fight against crime
FAnews 26/7/2012	# 104647 *SAIA	**The Short-term Insurance Data Exchange (STRIDE):** Short-term insurance data sharing like it was meant to be
Business Day 25/7/2012	# 104856	**Setas** under fire for not providing certificates
Beeld 27/7/2012	# 104858	**E-tol:** Jeff weet nie van koste:
Business Report 31/7/2012	# 104859	**Green Building Council** leads infrastructural thinking
Business Day 30/7/2012	# 104861	Bank starts **solar geyser** project
Business Day 31/7/2012	# 104862	**Medical Schemes Act:** Medical aids cry foul over benefits law
Business Report 31/7/2012	# 104863	Minister warns of soaring health costs: '**Medical schemes** must negotiate prices'
Business Report 31/7/2012	# 104865	Resistance to **nuclear** energy is warranted
Star 31/7/2012	# 104860	**Stolen Vehicle Recovery**: Vehicle Tracking : 'Big Four' on track to protecting country's vehicles

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8.0 CIRCULARS

The following circulars were issued during the month of July 2012: (Number of circular, title, date issued and contact person)

8.1 SAIA

SG 2012/065 Regulation 4, Section 45 of the Short-term Insurance (Act 53 of 1998) Register of the Status of Credit Intermediaries (2/7/2012)
Contact: Princess Mlambo

SG 2012/066 FSB Information Letter 4/2012 for Long-Term and Short-Term Insurance regarding the general approval for the amendment of certain provision in the memorandum of incorporation of insurers (9/7/2012
Contact: Barry Scott

SG 2012/067 SAMIA Golf Day – 5 September 2012 (9/7/2012)
Contact: Charles Hitchcock

SG 2012/068 Application for Re-CONFIRMATION of VAT rulings by the Industry (13/7/2012)
Contact: Charles Hitchcock

SG 2012/069 FSB Notification form regarding the outstanding of a control, Management or material function under paragraph 8 of Directive 159.A.I of the Long-Term and Short-Term Insurance Act (17/7/2012)
Contact: Barry Scott

SG 2012/070 Invitation: Financial Services Board ("FSB") Binder Regulation implementation Road Show (17/7/2012)
Contact: Suzette Strydom

SG 2012/071 FSB Information Letter 3/2012 for Long-Term and Short- Term Insurance regarding market practices relating to payment of fees (20/7/2012)
Contact: Barry Scott

SG 2012/072 Guidelines: Financial Sector Charter VS BBBEE codes – How to deal with cash Claims and Broker Commissions (23/7/2012)
Contact: Viviene Pearson

SG 2012/073 Election of the new SAIA Board: SAIA AGM 24 July 2012 (27/7/2012)
Contact: Charles Hitchcock

SG 2012/074 Establishment of a Central SAIA Short-Term Insurance Tax Sub- Committee (26/7/2012)
Contact: Charles Hitchcock

SG 2012/075 National Treasury 2012 Draft Tax Administration Amendment Bill and Explanatory Memorandum for comment (27/7/2012)
Contact: Charles Hitchcock

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8.2 AMUSA

AM 2012/037 Casualty Advice : ‘SST’ (2/7/2012)
Contact : Elsebe Vetten

AM 2012/038 Casualty Advice : ‘‘SEA WIND’’ (2/7/2012)
Contact : Elsebe Vetten

AM 2012/039 Re- Flagging of Iranian Vessels (4/7/2012)
Contact : Elsebe Vetten

AM 2012/040 Overage Premium Agreement With Maritime Carrier Shipping (MACS) (12/7/2012)
Contact : Elsebe Vetten

AM 2012/041 MSC Sola Docks in Durban (12/7/2012)
Contact :Elsebe Vetten

AM 2012/042 Durban Container Struck by High Winds (16/7/2012)
Contact : Elsebe Vetten

AM 2012/043 Casualty Advice : ‘‘MSC FLAMINIA’’ (16/7/2012)
Contact : Elsebe Vetten

AM 2012/044 Join Cargo Committee E-Alert IACS Procedure for Assigning Date of Build (18/7/2012)
Contact : Elsebe Vetten

AM 2012/045 South African asks Iran to Insure it Crude Oil Cargoes (20/7/2012)
Contact : Elsebe Vetten

AM 2012/046 Ferry Sinking off Zanzibar (20/7/2012)
Contact : Elsebe Vetten

AM 2012/047 Hawks to take on Pirates (20/7/2012)
Contact : Elsebe Vetten

AM 2012/048 Iran Offers to Insure Foreign Ships to Skirt EU Ban (20/7/2012)
Contact : Elsebe Vetten

AM 2012/049 Maritime Law Society Invitation to Présentation by Professor Robert Vivian on ‘Insurance Contracts and Ransom Payment’ (20/7/2012)
Contact : Elsebe Vetten

AM 2012/050 Casualty advice ‘‘ARKTOS’’ (20/7/2012)
Contact : Elsebe Vetten

AM 2012/051 Updated Casualty Advice ‘‘MSC Flaminia’’ (20/7/2012)
Contact : Elsebe Vetten

AM 2012/052 United States Increases Sanctions Against the Government of Iran and its Proliferation Networks (23/7/2012
Contact : Elsebe Vetten

AM 2012/053 US Urges Nations to Watch Iranians Shipping Vessels (23/7/2012)
Contact : Elsebe Vetten

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8.3 IGF

IG 2012/004 Bordereau for 2ND Quarter (4/7/2012)
Contact : Tilly Welgemoed

8.4 SAIA Managing Directors

MD 2012/014 Application for Re- Confirmation of VAT Rulings by the Industry (13/7/2012)
Contact : Charles Hitchcock

MD 2012/015 Revised SAIA Code of Conduct and Motor Salvage Code Including Attachments (27/7/2012)
Contact : Suzette Strydom

8.5 Motor

MT 2012/013 Sambra Legal Status Re: Motor Vehicle Body Repairer Industry (6/7/2012)
Contact: Barry Scott

MT 2012/014 National Road Traffic Amendment Bill, 2012 (23/7/2012)
Contact: Dawie Buys

MT 2012/015 Information on Procurement Spend in the Motor Body Repair (MBR) Environment (27/7/2012)
Contact: Viviene Pearson

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IMPORTANT NOTICE

Should you know someone, who is not a SAIA member, who might be interested in receiving the SAIA Bulletin let them contact Kwanele Sibanda, FCMI at SAIA.

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