BULLETIN

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

AUGUST 2020

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1 From the Desk of the CEO

Over the past few months, we have come to see that our survival, whether it be as business, society, or economically is fundamentally rooted in our ability to remain resilient when faced with challenging times. The Coronavirus pandemic continues to plague our nation as infections continue, albeit at a much slower rate than that experienced in the second quarter of the year. On 15 August, our nation was greeted with the news that lifted the spirit of the business community and provided the much-needed hope as the State President, Cyril Ramaphosa, announced that we are moving to alert level 2 of the National Lockdown. The entire nation has now been left to grapple with the aftermath of an economy strained by massive job losses and extensive business disruptions which have, in many instances, led others to collapse.

Throughout all these challenges, the non-life insurance industry has not been spared. Like all other sectors of the economy, our industry has bravely faced its challenges, carefully navigating the rapids and every bend. Despite all the challenges, SAIA members had voluntarily contributed back into the community about R1.7bn through various premium relief, deferral, holiday, and discount arrangements in both personal and commercial lines insurance business classes by the end of July 2020. Some of our members have been involved in several masks and food parcels supply initiatives, including targeted corporate social investment contributions mainly to assist frontline workers with personal protective equipment and support vulnerable communities with sanitation, water, and food requirements.

There is no doubt that the industry still faces many other challenges including Business Interruption insurance, which remains a contentious issue within the sector and will need legal certainty as agreed among the industry, the Financial Sector Conduct Authority, and the Prudential Authority. We hope that post the test cases that will be going through the courts locally and internationally, the insurance sector will, at least, have legal certainty regards the interpretation of the Business Interruption insurance contracts. However, many of our members most affected by contingent business interruption (CBI) claims have agreed to give interim relief to policyholders in different forms and within the agreed guidelines of the regulators, pending the legal certainty to be obtained. In addition, insurers are paying valid claims and will continue to do so.

While it is true that Business Interruption insurance has kept the industry awake in the last few months, it goes without saying that there are many other risks the world and the industry are facing, including cyber risks, disruptive technology, and natural disasters as a result of climate change risks, which may have a significant impact on agriculture leading to food insecurity or shortages, and the built environment, amongst others. The establishment of economically, environmentally, and socially integrated and sustainable built environments, is one of the most important factors that contribute to the resilience of world-class cities and provide for the future needs of their growing populations. As an industry body, we remain acutely aware of all these possible future challenges and continuously factor them into our scenario planning exercises. I am glad to say that we have moved a step further in this space by establishing a Future Risks Think Tank which includes senior industry experts, regulator representatives, government departments, and academics.

The updated SAIA Code of Conduct will be tabled for approval at the SAIA Board meeting on 3 September 2020. The revised Code has been aligned with updated legislation and has been modified as a principals-based guideline to the non-life insurance industry. The Transformation section of the Code was uplifted and tabled for early approval at a previous Board meeting to allow for the implementation of the important reporting requirements contained in that section.

Viviene Pearson
SAIA Chief Executive

2 Insurance Risks

2.1 Impact of Climate Change and the Lack of Infrastructure Development and Maintenance

Climate change is a very complex and challenging issue, affecting humans, animals and the environment. In the last few years, climate change has resulted in the prevalence and severity of extreme weather such as heatwaves, cold waves, storms, floods and droughts. The lack of infrastructure development and maintenance has exacerbated its effects resulting in the loss of both human life and damage to property, with an adverse impact on the non-life insurance industry.

These rapid changes in weather patterns have created several socio-economic challenges that impact social living norms in both rural and urban areas and has prompted businesses to modify their business models. Globally, governments, business and non-governmental organisations have been active for decades attempting to devise diverse, preventative and adaptation strategies to mitigate the risks associated with these changes. An Adaptation Strategy is a framework for managing future climate risk, prioritising and coordinating action. For an Adaptation Strategy to be effective, it must result in climate risk being considered as a normal part of decision-making.

At national level, the South African government is acutely aware of the risks that have arisen due to climate change and actively collaborates with global players in finding solutions and processes through which these risks could be managed. However, the speed at which adaptation strategies are cascaded and implemented has been slow, therefore increasingly endangering communities, threatening the sustainability of businesses and creating systematic risks for the non-life insurance industry which insures respective individual or personal and commercial properties.

It is acknowledged that it is the fundamental responsibility of the national government to create frameworks and facilitate platforms that promote dialogue and drive action on climate change issues, but it will take the entire public sector value chain to ensure that the country has responsive adaptation strategies to protect all life forms and property in South Africa against climate change events.

At national government level, the Department of Environmental Affairs (DEA) adopted the National Climate Change Response Policy (NCCRP) that highlighted its role in responding to climate change in 2011. This included taking a lead in informing all relevant stakeholders about the policy and how it will be implemented. The provincial government is responsible for social services such as education, health and social development; economic functions such as agriculture and roads; and provincial governance and administration which includes local government (i.e. municipalities) and human settlements. Therefore, it is the provincial government that is responsible for assessing the climate change risk and identifying respective vulnerabilities in the provinces and support the local government in creating the necessary responsive adaptation strategies.

A study conducted in 2012 revealed that in many countries including South Africa, there is a lack of assessable climate change information. Therefore, climate change information still needs to be effectively communicated at the subnational levels so that government officials have a clear understanding of the factors driving vulnerability and the possible adaptation and mitigation measures. Given that municipalities are the organs of government that are closer to the citizens, they, therefore, are instrumental in assessing and addressing the challenges posed by climate change over and above fulfilling their mandate of providing basic services.

The establishment of economically, environmentally, and socially integrated and sustainable built environments, is one of the most important factors which will contribute to the resilience of South African communities and provide for the future needs of its growing population. It is therefore critical that municipalities are equipped and trained to understand the essential components of the built environment to enable them to maintain and build resilient cities. This would therefore include creating the necessary structures and processes to efficiently and effectively develop and maintain city infrastructures, including the effective monitoring of adherence to city building regulations such as the Occupational Health and Safety Act of 1994.

It is evident that municipalities are struggling at the moment, be it due to a lack of capacity and/or capability and/or resources to enforce regulations and therefore monitor the state of city infrastructure. This, unfortunately, due to the millions of Rands in losses already suffered by the non-life insurance industry in fire and/or weather-related claims, some exacerbated by a lack of infrastructure development and maintenance such as clogged storm drains, might render these classes of insurance uninsurable if corrective measures are not instituted in municipalities. The non-life insurance industry has demonstrated through initiatives such as the Partnership for Risk and Resilience" (P4RR) programme, spearheaded by a member of the South African Insurance Association (SAIA), the trade association of the non-life insurance industry, much work can be done to support municipalities in this endeavour.

It is therefore imperative that climate change considerations are integrated into the municipalities' built environment (i.e. infrastructure development and maintenance) strategies to minimise incidents such as fire, the sick building syndrome (SBS*), roof and storm-water drainage issues, cladding and exterior façade deterioration, issues with building foundations and topsoil erosion among a host of other issues.

The effects of these rapid weather changes can be seen and experienced through the devastation caused by major natural disasters such as those that occurred in 2017, which included the Knysna forest fires, Durban floods, and the Gauteng hailstorms. All these had a severe negative impact on the sustainability of South Africa's non-life insurance industry as billions of Rands had to be paid out in claims to the affected policyholders.

The South African Risk and Vulnerability Atlas (2017) by the Council for Scientific and Industrial Research (CSIR) in collaboration with the Department of Science and Technology outlines some of the critical factors that constrain the adaptive capacity of local governments. One of the factors is a lack of budgeting for the implementation of climate change projects with an assumption that they will be integrated into existing budgets. This points to two possible scenarios: a lack of understanding of the magnitude or scale of the impact of climate change on communities and businesses or a need for clearer guidelines and communication from the national government.

The Risk and Vulnerability Atlas also points to a fundamental lack of skilled capacity to interpret policies and climate information within local government, leading to a deficiency in political buy-in and a real risk of council resolutions going against expert recommendations. Climate change seems to have been relegated to lower levels of prioritisation since there are no consequences for non-compliance. It is important that local governments enter into meaningful and effective partnerships with the private sector, civil society and universities with an aim of receiving assistance with the generation of local-level information and the implementation of climate change response projects to improve the resilience and sustainability of the communities and businesses they serve, as well as that of the non-life insurance industry.

**Sick building syndrome (SBS) is a medical condition where people in a building suffer from symptoms of illness or feel unwell for as a result of inadequate ventilation, deteriorating fiberglass duct liners, chemical contaminants from indoor or outdoor sources, and biological contaminants. Other suggested factors are bacteria, molds, pollen, and viruses are types of biological contaminants" which can cause SBS.*

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

2.2 Invitation: Climate Change Workshop

Climate change and its impact on insurance has been the centre of discussion through numerous forums for some time and is listed as the top emerging risk locally and globally. At the request of the South African Reserve Bank (SARB), SAIA recently collected information from members on emerging risks, and Climate Change is recorded as the lead emerging risk.

To address climate change holistically, it is necessary to take into account the impact of the pending Climate-related Financial Disclosure requirements to the insurance industry. SAIA together with ASISA, BASA, FSCA, NT and SABRIC, participate in a sub-committee of the SARB Task Force on Climate-related Financial Disclosures (TCFD). In participating in this subcommittee, SAIA can inform members of pending regulatory elements before regulation is issued and is also given the opportunity to make certain the regulation is appropriate for the non-life insurance industry.

In his annual report, the SAIA Chairman highlights the impact of infrastructure damage in recent years due to rapid changes in weather-related events. From recent flooding in KwaZulu- Natal (KZN) and Gauteng, the drought (particularly the Western Cape water crisis), the building of and maintaining resilient cities is critical to SAIA members. To ensure the sustainability of the non-life insurance industry it is necessary to collaborate with local governments and municipalities to reduce the impact of these risks. The SAIA Property Protection Steering Committee provides structures to support building and maintaining resilient cities through various projects.

As climate change continues to pose significant risks to SAIA members it has become critical to collectively address the changing landscape resulting from climate change. SAIA will be hosting a virtual workshop to "*work through*" the Principles for Sustainable Insurance in relation to underwriting guidelines and developments within the Task Force on Climate-related Financial Disclosures (TCFD).

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

3 Transformation

3.1 Results of the FinScope SA Study for 2019

The SAIA participated on behalf of its members in the FinScope SA study for 2019, conducted by FinMark Trust.

The purpose of the study is to ascertain levels of financial inclusion across the adult population in South Africa and to obtain their perceptions of the Financial Sector. The study could assist the industry in identifying target markets and designing appropriate products for the market.

FinMark Trust for the past two years has gone a step further, by analysing the data specifically for the non-life insurance industry.

The focus of the 2020 FinScope SA Study, is on Small and Medium Enterprises (SMMEs). The research project will be kicking off in due course with the easing of the lockdown restrictions.

Please follow the link below to find the results of the FinScope SA Study, for the year 2019. A workshop will be arranged with FinMark Trust to present the results in more detail.
https://www.saia.co.za/info-center/saia-documents/general-articles/

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

3.2 Financial Sector Code (FSC) Review Update

The Financial Sector Transformation Council (FSTC) is continuing with the FSC Review. However, it has been noted that the process has been very slow with some of the sub-committees not being close to concluding their deliberations on constituencies' position papers and agreeing to the consolidated recommendations for submission to FSTC's Reporting Working Committee (RWC).

In the recent RWC meeting, it was therefore agreed that all subcommittees should compile reports on their progress and the review process should now be escalated to the RWC, irrespective of their completion status at the subcommittee level.

With regards to the non-Life insurance Access Products, the industry position paper was submitted to the RWC for consideration and was approved on the 18th of August. SAIA will therefore be inviting members to participate in the workshops that will review the Access Standards (Guidance Note GN:703) in accordance with the approved recommended amendments to Statement 703 scorecard.

Other engagements have included the sector engagements on elements such as Management Control, Ownership and Consumer education to compile consolidated business constituency position papers.

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

3.3 Update on The Sector Position Paper to the DoEL on its Proposal to Set Sector Specific Targets

The sector task team consisting of representatives from ASISA, BASA, IBA and SAIA has concluded the collation of the sector EEA4 Report data and compiled an industry position paper for submission to the Department of Employment and Labour (DoEL). The paper that proposes some deviations to the DoEL's proposed Financial Sector EE targets is currently going through the mandating process within the sector industries before it is submitted to the DoEL.

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

4 Governance

4.1 Update – Additional SAIA member Contributions to Address Covid-19 Challenges

Since the reporting of the first case of COVID-19 in South Africa and the pronouncement of the spread of the virus being declared a national disaster, that led to President Cyril Ramaphosa to place the country on a national lockdown, various sectors of the economy have come together to address the challenges presented by COVID-19.

The non-life insurance industry is among the South African business sectors that quickly recognised the magnitude of the socio-economic challenges faced by the government and the people of South Africa. This prompted the industry to come up with several ways through which it could support the government and the people of South Africa as a collective and as individual companies. South African consumers were faced with insurmountable economic hardships, businesses were struggling with some of them shutting down, and communities were under restrictive laws (Disaster Management Act) which limited their economic activities and confined them to their homes with little to no income at all.

As an industry body, we are glad to say by the end of July 2020, the non-life industry had voluntarily contributed about R1.7bn through various premium relief, deferral, holiday and discount arrangements in both personal and commercial lines insurance business classes. Some of our members have been involved in several masks and food parcels supply initiatives, including targeted corporate social investment contributions mainly to assist frontline workers with personal protective equipment and support vulnerable communities with sanitation, water, and food requirements.

This article was written by Mashudu Mabogo, SAIA Legal Specialist. For more information, please contact Mashudu@saia.co.za.

4.2 Industry update on developments for insurers conducting the business of a medical scheme

Following the responses of the impacted industries on the release of Circular 80 and 82 of 2019 by the Council of Medical Schemes (CMS), further developments have been taking place in order for the CMS to find a more suitable solution for managing the demarcated products, as they are currently offered on exemption basis and not formally regulated by the CMS.

The developments included extensive stakeholder engagements, which resulted in the CMS's decision to set up formal advisory task teams to assist the CMS in formulating the appropriate regulatory framework for these demarcated products.

As such, the CMS has issued Circular 56 of 2020, which provides for the extension of the exemption period for entities offering the demarcated products by a further year ending March 2022, while the CMS continues to facilitate engagements on the suitable future solution.

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

5 Operations

5.1 SAIA Code of Conduct – Review for Board approval on 3 September 2020

The updated SAIA Code of Conduct will be tabled at the SAIA Board meeting on 3 September 2020, for consideration and approval. Once approved the Code will replace the current version of the Code, resulting in alignment with the updated legislation. The SAIA Salvage Code has similarly been updated in a separate process to that of the rest of the Code and it is expected that the Salvage section will be approved at the SAIA Board meeting mentioned above.

The Transformation section of the Code was uplifted and tabled for early approval at a previous Board meeting to allow for the implementation of the important reporting requirements, contained in that section.

There will be awareness creation around the updated SAIA Code of Conduct once it has been approved by the Board.

5.2 Reinsurance VAT matters update

Following receipt of the VAT opinion and feedback received from various workgroup members thereon, Mr. Badenhorst (CDH), at the workgroup's request, compiled a position paper. Feedback on this position paper was requested from the workgroup by Friday, 10 July 2020.

This position paper formed the basis of a discussion between the workgroup leads and the members that had commented on 31 July 2020, to agree on several matters as well as on how it should be circulated across SAIA and South African Reinsurance Brokers Association (SARBA) members with a view to agreeing on a standard industry-wide approach that will also be used to support an application to SARS for a "binding class ruling" (BCR).

A BCR is different from a binding general ruling (BGR) as set out by Mr. Badenhorst as follows: *"the application will be submitted to the VAT Rulings Department, who are in the VAT policy division and who will attend to the ruling application upon submission thereof .*

Mr Badenhorst further advised that whilst the process for a BCR was simpler and more likely to be agreed, the application needed to be made by a principal applicant/s who needed to be named. He went on to say: *"From a practical perspective, I would suggest that SAIA and SARBA apply as the principal applicants on behalf of all their members from time to time for the binding class ruling, and that with the application, both institutions provide a list of all its current members, and SAIA / SARBA give an undertaking to provide SARS with an updated list of members on an annual basis. This will eliminate the requirement to obtain specific consent and approval from each single member to be added to the ruling. SAIA and SARBA will however have to check whether they could unilaterally apply for such a ruling on behalf of* *their members without the specific consent of each member. To obtain the consent of each individual member may delay the application."*

This approach was accepted by SAIA, but it was noted that SARBA does not represent all reinsurance brokers who would therefore need to be canvassed individually in order to be individually included as principal applicants in their own right.

The following was agreed at the meeting on 31 July 2020:

1. Mr. Badenhorst should be retained to assist SAIA in preparing and submitting the application.

2. An application for a BCR would be made as opposed to a BGR that would most likely be more difficult to achieve and will take longer. The application would be made by SAIA on behalf of all members and individual reinsurance brokers who elected to participate.

3. To circulate the above more broadly to SAIA and SARBA members to provide an opportunity to comment on the approach and in particular acceptance that SAIA acts on behalf of all members in its submissions and application. In this regard it was noted that the issues and required ruling directly affect all SAIA reinsurer members, SAIA insurer members are all affected in their capacity as cedants. A SG Circular, 2020 – 115, was circulated to all SAIA members on 19 August 2020, in this regard.

4. An industry-wide circulation should be developed that will include practice notes on the SARB matter and Issues 1 and 7 of the VAT opinion that confirms current industry practice.

A timeline of 1 month, from 31 July 2020, was proposed and agreed for circulation to SAIA and SARBA and to obtain buy-in for the BCR application.

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

6 SAIA Circular – August 2020

MD Circulars – August 2020		
MD-2020-036	Timeframe for input on FSCA letter re CBI Insurance–Proposed way forward	13-08-2020
MD-2020-037	Climate Change Workshop Invitation	19-08-2020
MD-2020-038	SAIA / SARS engagement Impact of COVID-19 on the Industry and Fiscus.	20-08-2020
SG Circulars – August 2020		
SG--2020-107	Request for The Last Contribution for The Management of The Vehicle Security System List (VSS List)	04-08-2020
SG-2020-108	Amendment to The Regulations in Terms of The Financial Sector Regulation Act.	07-08-2020
SG-2020-109	The Review of Industry Procurement Targets	07-08-2020
SG-2020-110	Invitation to Comment on Draft Conduct Standard for Cell Captive Arrangements	11-08-2020
SG-2020-111	Climate Change Risk Management Capacity Building Needs Survey	12-08-2020
SG-2020-112	Update on Contingent Business Interruption Insurance Cover	13-08-2020
SG-2020-113	An Update - Additional SAIA Member Efforts to Address Challenges Presented by COVID-19	14-08-2020
SG-2020-114	Update on Insurers Conducting Medical Scheme Business	19-08-2020
SG-2020-115	VAT on Certain Reinsurance Transactions for Comment	19-08-2020
SG-2020-116	Alert Level 2 Lockdown Regulations	19-08-2020
SG-2020-117	Survey on Payroll Deductions	21-08-2020
SG-2020-118	Levies on Financial Institutions	21-08-2020
SG-2020-119	Prepopulated Records of Advice	21-08-2020
SG-2020-120	FSCA FAIS Notice 68 Of 2020	24-08-2020
SG-2020-121	FSCA FAIS Notice 69 Of 2020	24-08-2020
SG-2020-122	ECSA Competency Registration: Rational Fire Designer	26-08-2020

IMPORTANT NOTICE
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