SAIA

SOUTH AFRICAN INSURANCE ASSOCIATION

BULLETIN

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

JULY 2020

CONTENTS

1 From the Desk of the CEO

July 2020 effectively marked the fourth lock-down month for South Africa. Our minds have gone through a myriad of cycles, from frustration, despair, a state of indifference to hope. Our President, Cyril Ramaphosa, and the government have led the country into unchartered territory, a trial and error period that has seen the whole world suffer, losing thousands of people daily to the COVID-19 pandemic. By the end of July 2020, South Africa had about half a million COVID-19 positive cases, with about 330 000 recoveries, and about 8 000 deaths. The impact of the pandemic on the South African economy and the loss of lives has been devastating, mirroring what is happening in the rest of the world.

In a recent statement, Business for South Africa (B4SA) stated that South African businesses were already in distress, and it now expects about 1.5 million further job losses by the end of the year, adding on to the already debilitating socio-economic challenges. It is therefore evident that globally, no country was prepared for such an onslaught on their respective economies or the ensuing loss of lives. As an industry body, SAIA, has taken steps to create an industry spear-headed "Think Tank" initiative whose main purpose is to explore how the non-life insurance industry, in collaboration with the Financial Sector Conduct Authority (FSCA), Prudential Authority (PA) and possibly the government, could assist the nation to be better prepared for risks such as the COVID-19 pandemic and any other such uninsurable risks (i.e. risks that cannot be sustainably insured by the insurance industry) - catastrophe risk insurance programmes, which have the potential for catastrophic consequences to South Africa.

In May 2020, efforts were made to collate information from SAIA members that demonstrated the support rendered by the non-life insurance industry to the government, SMMEs and policyholders during this challenging COVID-19 pandemic. By the end of May 2020, SAIA members had contributed a significant 1.7Bn into our society through several initiatives that assist policyholders, businesses, as well as to contributions to the Solidarity Fund. Additional information received, revealed that support to personal and commercial lines policyholders has continued to grow. Premium relief, discounts and deferrals were amongst efforts to support policyholders. SAIA members continue to render their support to the communities within which they operate.

On 22 July 2020, the Department of Transport issued a Directive to extend the validity of learner's licences, driving licence cards, temporary driving licences and professional driving permits. The Directive providers that all learner's licences, driving licence cards, temporary driving licences, professional driving permits that expire between 26 March 2020 and 31 August 2020 are deemed to be valid and their validity period is extended for a further grace period ending on 31 January 2021.

In closing, I would like to congratulate the newly elected SAIA Board which was elected at the first ever virtual SAIA AGM which was held on 23 July 2020. I would like to take this opportunity to thank the previous SAIA Board for its diligence and guidance throughout the challenges and triumphs faced during the year 2019/20, while also extending my welcome to the new Board.

Viviene Pearson
SAIA Chief Executive

2 Insurance Risks

2.1 SAIA moves to form an Industry Think Tank on Potential Future Solutions for Pandemics and other Uninsurable Risks

The impact of COVID-19 on the South African economy and the loss of lives has been devastating, similar to the rest of the world. Some of these economic effects can be seen in the demand for South Africa's export which has grossly deviated from its normal measure; total wage earnings are down by approximately 30% and busines gross operating surpluses are down by close to 40%. It is evident that globally, against COVID-19, no country was prepared for such an onslaught on their respective economies or the ensuing loss of lives.

SAIA, as the representative body of the non-life insurance industry, mandated to represent the industry to all relevant stakeholders and to ensure a sustainable, and dynamic industry, has taken steps in creating an industry speared "Think Tank" initiative. The main purpose is to explore how the non-life insurance industry, in collaboration with the Financial Sector Conduct Authority (FSCA) Prudential Authority (PA) and potentially the government, could assist the nation to be better prepared for risks such as the COVID-19 pandemic and any other such uninsurable risks (i.e. risks that cannot be sustainably insured by the insurance industry) - catastrophe risk insurance programmes, that have the potential for catastrophic consequences to South Africa.

SAIA, in this initiative, is encouraged with the work that other international jurisdictions have done and are looking at similar catastrophe risk insurance programmes, with a specific focus on plausible solutions, with their respective governments, to create pandemic mitigating measures.

A collated international view of these similar initiatives can be found in the Economic Co-operation and Development (OECD) COVID-19 survey information which includes a broad view of catastrophe insurance programmes, including pandemic business interruption insurance - OECD survey link: http://www.oecd.org/coronavirus/policy-responses/responding-to-the-covid-19-and-pandemic-protection-gap-in-insurance-35e74736/.

In the OECD survey report, of note is the section on "Responding to the COVID-19 and pandemic protection gap in insurance", where the report provides an overview of how business interruption insurance against pandemic risk could be provided with support from governments, and some of the challenges and considerations necessary for establishing such a programme. This also critically includes a longer-term policy (i.e. government policy) response to the pandemic business interruption (BI) protection gap where policymakers are beginning to examine longer-term solutions to the BI protection gaps.

In the United States for instance, members of the House Financial Services Committee are beginning to explore the possibility of establishing a Federal Pandemic Risk Reinsurance Programme that would operate in a similar way as the Terrorism Risk Insurance Programme by providing a federal backstop for insured business interruption losses above a certain threshold due to public health emergencies (pandemics and infectious disease outbreaks). In France and the United Kingdom, working groups have been established to examine possible solutions to providing insurance for future pandemics.

SAIA also anchors on its members and the international insurance industry's significant experiences in establishing catastrophe risk insurance programmes to respond to catastrophe perils, which may provide some lessons for responding to the COVID-19 pandemic risk although noted is that pandemics will present different risks and challenges, such as how to risk model for pandemic risks.

The SAIA initiative will need all hands-on deck, as any potential future solutions will need a partnership with government, the Financial Sector Conduct Authority (FSCA) and the Prudential Authority (PA). Therefore, the think tank will need to be comprised of non-life insurance industry experts (both local and international), government, regulators and possibly academics who have done similar studies before to provide strategic input into this critical initiative.

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

2.2 Education on the non-life insurance industry's continued fight against insurance crime and fraud

The South African Insurance Association ("SAIA") is the industry representative body for the non-life (short-term) insurance industry and its core functions include the representation of its members' interests to the relevant stakeholders, and these include the government, regulators, the public as well as the media. For the month of July 2020, we would like to use this platform, and this article to educate our stakeholders on how, and why the non-life insurance industry fights against insurance crime and fraud.

Insurance crime and fraud is generally defined as any act committed to defraud an insurance process. This is now a global phenomenon experienced by all insurance industries or sub-sectors. It normally occurs when a claimant or policyholder attempts to obtain some financial gain or benefit or advantage by instituting a false claim with an insurance company.

South Africa's insurance fraud figures are in line with international trends and statistics which estimated that in 2018, fraudulent claims in the South African insurance industry amounted to as much as 32% of all claims submitted in the year. In the USA, the Federal Bureau of Investigation (FBI) estimates that insurance fraud costs more than US$40 billion per year.

Insurance fraud comes in diverse types and forms affecting all areas of insurance. These also differ in their range of severity, from slightly exaggerated claims by policyholders and service providers to crime syndicates which stage accidents and steal salvage vehicle documentation.

All these illegal activities culminate in increased insurance premiums for policyholders and jeopardises the viability and the sustainability of certain insurance classes. Therefore, when faced with such challenges, insurers have little choice but to close down on that class of insurance or to apply specific - per individual policyholder - risk profiles, plus an additional general increase in premiums based on how that book of insurance has been operating. However, several factors are taken into consideration including losses suffered due to insurance crime and fraud hidden behind the claims that are logged on that class of insurance. For instance, in the USA, insurance fraud costs the average U.S. family between $400 and $700 per year, transposed to Rands, that is close to R7,000 to R12,000 per family.

Who commits insurance crime and fraud?

Organised criminals (syndicates) who steal large sums through fraudulent business activities, professionals and technicians who inflate service costs or charge for services not rendered, and ordinary people who want to cover their deductible or first amount payable on a claim or view filing a claim as an opportunity to make extra money.

Which classes of insurance are more susceptible to insurance crime and fraud?

Industries more susceptible to insurance crime and fraud are the healthcare insurance industry, workers compensation, and more relevant to the non-life insurance industry, is motor or vehicle insurance.

Motor insurance fraud range from misrepresenting facts on insurance applications, inflating insurance claims, staging accidents, submitting claim forms for injuries or damages that never occurred to insuring cloned cars with the sole purpose of committing an insurance crime or fraud. The latter is usually an organised crime or syndicate's modus operandi and the industry has suffered many losses due to this.

What burden does the insurance industry bear when there is an insurance crime or fraud?

The burden the insurance industry bears in insurance crime and fraud, other than the fraudulent amount that is paid to unwarranted claims, is the process that the insurer needs to follow to prove that the claim is fraudulent. This is a very costly exercise in manhours, and resources used to acquire the necessary proof of the fraudulent claim as the onus to prove that a claim is fraudulent is on the insurer.

What mechanisms does the non-life insurance industry use to combat insurance crime and fraud?

SAIA, as the representative body of the non-life insurance industry, has a mandate to identify existing and emerging risks with a potential to negatively impact the sustainability of the non-life insurance industry. Therefore, it has over its years, created several mechanisms to mitigate the risks associated with insurance crime and fraud. These have been in the form of projects, industry initiatives and or the establishment of entities with the sole purpose of combating insurance crime and fraud. The association has also created alliances with key strategic stakeholders in the crime combating space that allows for the same purpose.

Here are some of SAIA's strategic stakeholders and initiatives that assists in combating insurance crime and fraud:

- **The Insurance Crime Bureau (ICB)**

The Insurance Crime Bureau (ICB) was formulated in 2008, to address the rise of organised fraudsters who use insurance as a way of making money, by detecting and preventing such crimes from occurring as well as acting as the mediator for all insurance companies to work together in dealing with the problem.

The ICB has over the years made a significant impact on the insurance industry (life and non-life) and the South African society at large. The ICB has achieved this through bringing together the collective resources of insurance companies, law enforcement agencies and other stakeholders to facilitate the detection, prevention, and mitigation of insurance crimes as well as assist in the prosecution of repeat offenders and fraudsters.

For more information see: www.saicb.co.za

- **Business Against Crime South Africa (BACSA)**

BACSA was established by business in 1996 in response to a request from the then President of South Africa, Mr Nelson Mandela, who invited business to join hands with government in the fight against crime. It is a special purpose vehicle, with the sole mandate to engage and give support to government on crime-related matters.

The non-life insurance industry are contributors towards the sustainability of BACSA as an organisation as its existence is critical to the industry's plight to combat insurance crime and fraud. Technology such as microdot technology, of which South African Bureau of Standards (SABS) standards and subsequent application by the motor manufacturing industry were project managed by BACSA on behalf of the non-life insurance industry, is an example of BACSA's value add to the industry as a strategic stakeholder.

Microdot Technology is a process of spraying thousands of microscopic dots onto vehicles or other assets to provide a unique identification. Microdot Technology is used to combat vehicle theft and has also been used in the recovery of vehicles which have been stolen.

BACSA's role in crime combating, is critical to the non-life insurance industry as it also assists the policing and investigative parts in government at a national and provincial level, and now more so under the ambit of Business Leadership South Africa (BLSA) in 2020 which further augments its strategic purpose.

For more information see: www.bac.org.za

- **Vehicle Salvage Database (VSD)**

The Vehicle Salvage Database (VSD) is an initiative put in place by SAIA to combat salvage fraud and in general, stemming from the motor industry's susceptibility to insurance crime and fraud.

Salvage fraud involves vehicles damaged by for instance a storm or flooding and thus written off as salvage but later appear in used car lots and auction sales. Unscrupulous sellers may switch or clone manufacturers' serial number plates and put them on a flooded vehicle that has been repaired, in the USA this is called ''title washing''.

Through this project the SAIA members share vehicle salvage records to fight vehicle related crime and cloning. This is managed by the ICB on behalf of SAIA members.

Reference is made of the SAIA VSD education article https://www.saia.co.za/saia-news/2020/05/25/vehicle-salvage-data/.

- **Licence Plate Recognition 4 South Africa (LPR4SA)**

License Plate Recognition (LRP) or Automatic Number Plate Recognition (ANPR) started as a SAIA project to combat motor insurance crime and fraud.

This project was in collaboration with government and other stakeholders, to combat the illegal practice of meddling with number plates to evade traffic offences and/or in many cases a part of vehicles being used in criminal activities.

With the Automatic Number Plate Recognition (ANPR) technology, it enables traffic officers to identify duplicate, cloned, and invalid number plates while the car is in motion, and traffic officers are then alerted when there is an infringement.

Licence Plate Recognition 4 South Africa (LPR4SA) is in the process of being registered as an autonomous business, currently fully funded by SAIA members. The newly established entity provides for a more sustainable business model with a value proposition that serves to combat crime and insurance crime and fraud to the benefit of the country.

The work that is being done under the LPR initiative, can be found under the ICB website www.saicb.co.za. LPR4SA will due course establish its own website.

How can you HELP us fight insurance crime and fraud?

We would like to urge the public to report suspected fraudulent activities safely and anonymously, or suspected insurance crimes, through the toll-free Insurance Fraud line **0860 002 526 or SMS 32269** or email insurance@fraudline.co.za. We thank you in advance for your support.

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

2.3 Transport Minister extends validity of some expired licences

On 22 July 2020, the Department of Transport (DoT) issued a Directive to extend the validity of learner's licences, driving licence cards, temporary driving licences and professional driving permits.

The Directive provides that all learner's licences, driving licence cards, temporary driving licences and professional driving permits that expire between 26 March 2020 and 31 August 2020 are deemed to be valid and their validity period is extended for a further grace period ending on 31 January 2021.

The Directive also provides that all motor vehicle licence discs, temporary permits and roadworthy certificates that expired during the period that commenced from 26 March 2020 up to and including 31 May 2020 are deemed to be valid and their validity period is extended for a further grace period ending on 31 August 2020 and that motor trade number licences that expired during the period that commenced from 26 March 2020 up to and including 31 May 2020 to be deemed valid and to be extended for a further grace period ending on 30 November 2020.

SAIA welcomes this announcement by the DoT as the non-life insurance industry has been inundated with worried policyholders with regards to whether their expired driver's or vehicle licenses will jeopardise their insurance covers. This provides certainty to both the insurer and its policyholders, and therefore alleviates any doubt from the policyholders concerning this.

However, SAIA would also like to further enlighten potential customers and policyholders on some of the things that could possibly invalidate an insurance motor claim:

1. **Providing incorrect or false information of who the regular driver is when incepting cover**

Insurers enact an insurance policy (contract of insurance) based on the risk profiling of the regular driver. Risk profiling takes the following into account: the claims history of the regular driver; the age of the driver; the driver's driving experience or how long they have had their driver's license; what the vehicle will be used for e.g. might be a factor of the occupation of the driver for example as a sales representative most likely more on the road versus an administrator in the office etc.

Also, there is a need for policyholders to know that if the motor policy is on a nominated or named driver basis, that means cover is only enacted for that driver to drive the insured vehicle. Therefore, if a loss occurs, the policy might not respond if driven by a non-nominated driver.

It is critical that there is full disclosure to the insurer or broker when enacting an insurance policy as material misrepresentations could invalidate the policy and the policyholder may suffer serious losses.

2. Disclosing vehicle usage (Private or Business use)

As demonstrated above, certain factors either increases or decreases the likelihood of risks insured occurring e.g. motor accidents. For instance, as a sales representative, the risk is considered materially higher for a motor accident or being hijacked given the amount of time spent on the road, versus being an office administrator who is mostly bound in the office and using the car mostly for going to and from work.

SAIA would therefore like to encourage policyholders not to hesitate to liaise with their brokers and/or insurers should they have any concerns regarding their insurance policies.

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

3 Governance

3.1 SAIA Member Efforts to Address Challenges Presented by COVID-19

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 amongst the sectors of the economy that recognising amongst other things, the socio-economic impact of COVID-19, made a decision to support the economy and resolved to direct individual and collective efforts to address some of the challenges that the COVID-19 pandemic has presented such as the resultant economic hardship for consumers, businesses, and communities in spite of the impact that the pandemic had on the industry.

When information in respect of the non-life insurance industry's efforts was collated in May 2020, a significant demonstration of the industry's collaboration with government, in-house business initiatives such as policyholder assistance, support to businesses and communities in which they operate, and contributions to the Solidarity Fund was noted.

Recently, the South African Insurance Association (SAIA) requested its members to provide further information on additional contributions and efforts in response to the growing challenges due to the pandemic.

The additional information received, revealed that support to personal and commercial lines policyholders has continued to grow. Premium relief, discounts and deferrals formed the majority of efforts to support policyholders.

Certain grant structures have been provided to workers such as tow truck operators and motor body repairers (MBRs). The Solidarity Fund has also received support through several donations and some insurers have set up employee voluntary contribution funds to additionally contribute to the Solidarity Fund.

The industry has also contributed to various other causes such as the supply of masks, food parcels and various corporate social investment contributions mainly to assist frontline workers with personal protective equipment and support vulnerable communities with sanitation, water, and food requirements.

SAIA commends the efforts of the industry and recognises the positive impact that this has had on the South African economy.

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

4 Transformation

4.1 Financial Sector Code (FSC) Review Update

The Financial Sector Transformation Council (FSTC) has resumed with the FSC Review, following the delay as a result of the COVID-19 outbreak and the subsequent call for a national lockdown by President Cyril Ramaphosa. The review process is still at the review sub-committee stage, with some of the sub-committees preparing to submit the recommendations to the FSTC Reporting Working Committee (RWC).

Below is the high-level summary feedback from different sub-committees:

- **Feedback on the review of Ownership**

The sub-committee is still deliberating on the scorecard principles, including the recognition of Black ownership once the Black shareholders have exited and the appropriate methodology for recognition of mandated investment on the scorecards. The business constituency has created a task team to come up with the consolidated position paper, including a detailed analysis and recommendations on certain principles contained in the scorecards.

- **Feedback on the review of Management Control and Skills Development**

The sub-committee is in the process of consolidating the proposals for final discussions before submission to the FSTC Reporting Working Committee. Business constituency participants have been meeting regularly to consolidate the position papers and agree on principles that will impact the sectors equally.

- **Feedback on the review of Preferential Procurement and ESD**

The sub-committee is still at the deliberation stage and SAIA is in the process of revising the industry position before submission to the FSTC. Therefore, SAIA engaged with members by conducting an industry workshop on the areas that need to be revised and will submit to the FSTC once the SAIA Board has approved all proposals.

- **Feedback on the Review of the SED and Consumer Education Element**

The FSTC Sub-Committee responsible for the review of the Socio-Economic Development and Consumer Education Element is nearing the finalisation of its collaboration. All submissions have been consolidated into one document which are now being reviewed at FSTC as well as by the Trade Associations separately.

Some of the recent submissions to be noted by the Committee are:

- The replacement of the Fundisa Fund in the FSC with an alternative programme.
- The review of the Guidance Note on Consumer Education: GN500.

- **Feedback on the review of Access to Financial Services and Products Element**

The SAIA Industry position paper and recommendations to the changes on the Access Element was discussed at the FSC Access Sub-committee and has now been submitted to the RWC, in order to accelerate the conclusion of the review process, since the current industry targets have long expired.

Included in the proposal to be considered by the RWC are:

- The recommendation to change the Access Products target from industry-based targets to targets that are linked directly to the measured entity's total number of the relevant policy book.
- Aligning the target market determination process in line with the nature of the non-life insurance product (drivers for the need for policy covers – insurable interests).

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

4.2 The Fundisa Retail Fund

For a number of years now, the Financial Sector has enjoyed two additional B-BBEE Points on their scorecards for contributing to the Fundisa Retail Fund under the Consumer Education scorecard. The Fundisa Fund, administered by the Association for Savings and Investments of South Africa (ASISA), is a unit trust created with a special focus to encourage families from low income households (R180 000 p.a. or less), to save towards tertiary education costs of children from these families.

Following the introduction of free higher education for students from households with an annual income of R350 000 or less by the South African government, it was decided that the Fundisa Fund will be closed from new investors with effect from February 2018. Participants at the Financial Sector Code Review meetings expressed a need for an alternative to the Fundisa Retail Fund to be made available in the Code for future participation by the Sector.

The Associations representing the banks, life and non-life insurers met during the months of July and August to come up with a criteria for an alternative programme.

The programme, it was agreed, should cater for the needs of both the lower income and missing middle households, with an annual income of between R0 and R600 000, as stipulated by the Department of Basic Education (DBE), linked to the CPI.

The proposed criteria which will be presented at the Financial Sector Transformation Council's sub-Committee on the Review of the Socio-Economic Development and Consumer Education scorecard, are as follows:

Financial contributions may be made to a Programme that provides financial assistance to students who:

- Come from households with an annual combined income of between R0 and R600 000 (lower income and the missing middle).
- Are pursuing studies in educational disciplines / qualifications that will feed into the Critical Skills list, as gazetted by the South African Government and updated from time to time.
- Are studying in Public or Private institutions of higher education (including universities, TVET colleges, etc.) registered in South Africa; or
- Are studying high school subjects that lead to qualifications that will satisfy the Critical Skills list of South Africa; and
- Targeting predominantly students from previously disadvantaged backgrounds, as described in the Financial Sector Code.

Attached herewith is the note from ASISA on the discontinuation of the Fundisa Retail Fund (#131023).

PDF
Fundisa Fund -
Note to FSTC Nov 2(

SAIA members are welcome to provide their suggestions and input by writing to Ms. Zanele Gigaba – zanele@saia.co.za.

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

4.3 Treating Suppliers Fairly Framework

During 2020, the industry met on two occasions to contribute towards the drafting of the Treating Suppliers Fairly Framework. The Framework, a response to concerns from companies and organisations in the industry's supply chain, has undergone various modifications since 2016.

In 2016 and 2017, a guideline document was created by SAIA in collaboration with the industry and associations representing suppliers to the industry. This document was flagged as anti-competitive on legal review, based on the fact that it leaned towards prescribing operational processes to members. In 2019, after engaging with associations representing suppliers to the industry and analysing complaints tabled at forum meetings, the concept of Treating Suppliers Fairly was then considered.

The two workshops held during this year have assisted SAIA in putting the Framework together. The document has also been presented to the Property Transformation and Sustainability Forum (PTSF), the SAIA Procurement & ESD Committee, the SAIA

Transformation Steering Committee and the SAIA Board Committee on Transformation (part 1 only).

It is envisioned that the final document will be incorporated into the SAIA Code of Conduct once reviewed and approved by the SAIA Board.

Attached herewith please find the Draft Paper on the Treating Suppliers Fairly Framework (#131192).

PDF
Treating Suppliers
Fairly Framework - D

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

5 Operations

5.1 Update on the status of Intermediaries Guarantee Facility Limited (IGF) and on the guarantees issued by IGF Limited, and cancelled on 31 March 2019

Intermediaries Guarantee Facility Limited (IGF Ltd.) is a registered non-life insurer established in 1989, with a restricted licence to issue demand guarantees only (in terms of prescribed statutory wording) to independent intermediaries (guarantee holders) receiving and holding premiums on behalf of short-term insurers under the now-repealed section 45 of the Short-term Insurance Act, 1998 (STIA) and its Regulations. IGF Ltd is 100% reinsured in terms of a Quota Share Agreement with certain registered South African short-term insurers (reinsurers). IGF Ltd ceased to issue demand guarantees and cancelled all existing guarantees on 31 March 2019, in terms of a dispensation granted by the Regulators, and is currently in the three-year prescription period on potential claims under those guarantees until 31 March 2022, when the company can be formally wound-up and deregistered.

The current status

IGF Ltd is well governed, with a unitary Board of six Directors in place (in compliance with the Memorandum of Incorporation), one of whom is executive and five non-executive, all very hands-on.

All IGF Ltd's Directors are current and semi-retired senior business persons in the non-life insurance industry, appointed to the Board by IGF Ltd's shareholders and reinsurers. IGF Ltd has a duly appointed Audit & Risk Committee, which is chaired by a non-executive Director, who is a CA. The Audit & Risk Committee meets at least twice a year and the Board meets monthly, with the company's Key Risk Register a standing item on the Board's agenda. The Annual Financial Statements for the financial year ending 31 December 2019 were approved by the Board on 23 April 2020 and the Audit letter signed off, with a clean audit. The company's Annual General Meeting took place on 23 July 2020.

IGF Ltd's administration is outsourced to SAIA in terms of a formal outsourcing agreement.

Ordinarily, since IGF Ltd is a registered insurer, it would be obliged to convert its licence in terms of the requirements of the Insurance Act, 2017 (the Insurance Act).However, since IGF

Ltd is in winding-up, with no actual run-off business as it ceased issuing guarantees on 31 March 2019, and has ceased trading, the Board submitted to the Regulators that they apply a "proportional", "narrow" conversion process (in terms of volume, depth and quantity of requirements and information required). Consequently, IGF Ltd is currently in discussions with the Prudential Authority (who is in turn liaising with the Financial Sector Conduct Authority) regarding the agreed withdrawal in terms of section 29(1)(b)(iii) of the Insurance Act, read with section 122 of the Financial Sector Regulation Act, 2017, of the insurance licence of IGF Ltd, including delivery of the orderly resolution of the company to 31 March 2022, including the handling of any claim under a guarantee during the prescription period.

IGF Ltd therefore will not need to convert its insurance licence in compliance with the requirements of the Insurance Act.

Prescription

The withdrawal of IGF Ltd's insurance licence will not affect the prescription period of three years on claims that arose prior to termination of a guarantee and attaches to all guarantees that were terminated in terms of a dispensation granted by the Regulators on 31 March 2019. This prescription period applies by operation of law and is contained in the statutory demand guarantee wording prescribed in Form RV6 under the STIA. (For your convenience, a copy of the statutory guarantee Form RV6, is attached to this communication, as Annexure A.) This prescription period will remain in place uninterrupted until 31 March 2022, when liability for any potential claim under all the guarantees that were terminated on 31 March 2019, officially prescribes.

IGF Ltd cannot be finally wound-up and deregistered until this prescription period to 31 March 2022 has elapsed. IGF Ltd will consequently remain in winding-up until 31 March 2022. After this, the formal deregistration of the company can commence.

Claims and IGF Ltd claims process

Should there be any claims arising under the guarantees during this prescription period, as a result of premiums due up to and including 31 March 2019 not having been received by insurers to whom these premiums were due from the guarantee holder-independent intermediary collecting such premiums, such claims will be handled by IGF Ltd's Board of Directors, who will establish a Claims Committee as a sub-committee of the Board for this purpose.

Claims handling process, claims notification and requirements

The guarantee is a "demand guarantee issued by IGF Ltd to The South African Insurance Association [SAIA] for the benefit of insurers" (to quote the opening lines of the statutory wording – see Annexure A). Consequently, any insurers claiming under a particular IGF Ltd guarantee needs to initiate and pursue their claims through SAIA, as follows:

1. Advise SAIA by email addressed to SAIA's Chief Executive Officer, Ms Viviene Pearson, at **viviene@saia.co.za**, of their claim, quoting the guarantee number and name of the relevant independent intermediary-guarantee holder, and stating that such independent intermediary-guarantee holder concerned had failed to pay premiums received by it over to that insurer by the regulated due date, and the relevant time period.

2. The above email should be accompanied by signed affidavits of the Chief Executive Officers (CEOs) of such claiming insurers to this effect, supported by: - certified statements of account of amounts due but not received;

   - a letter from the external auditors of such claiming insurers regarding the non- receipt of the premiums; and
   - copies of all demands made by such insurers to the defaulting independent intermediary-guarantee holder to comply.

3. Original affidavits and hard copies of the supporting documents should be lodged by hand by such insurers with SAIA at the following physical address:

   South African Insurance Association (SAIA)
   Ground Floor, Willowbrook House, Lake Drive
   Constantia Office Park, cnr 14^{th} Avenue and Hendrik Potgieter Street
   Weltevreden Park
   1709

SAIA's Chief Executive Officer will immediately lodge the requisite written demand, both by email and by hand, with the Board of IGF Ltd, care of IGF Ltd.'s Managing Director, Mr Charles Hitchcock, copying the CEOs of the claiming insurers on such notice to IGF Ltd. Such written demand shall be for payment of a specified amount, not being more than the guarantee amount.

SAIA will also immediately notify all its members and non-member insurers of such claim by MD Circular, to ensure that all affected insurers have an opportunity to claim under the relevant guarantee. Such notice shall lie open for a period of 12 months from the date of the notice to ensure that all putative claiming insurers are included in SAIA's written demand.

Claim assessment, finalisation and payment

1. As stated, the assessment of any claims contained in SAIA's written demand will be performed by IGF Ltd's Board of Directors, through the specialised sub-committee of the Board established for this purpose. Such Claims sub-committee will oversee the registration and investigation of any claims submitted, and consider the claims submitted for validity and quantum before recommending same to the Board for rejection (for example, but not limited to: the claim being outside the three-year prescription period and hence already prescribed, or no valid guarantee being in place), or for approval and payment. The sub-committee will also oversee the finalisation of payment and recovery from IGF Ltd's reinsurers. As stated, all guarantees are 100% reinsured.

2. If the aggregate of the claims received by SAIA in response to its notice exceeds the guarantee amount, then payment of the guarantee amount will be apportioned between the claiming insurers on the basis outlined in paragraph 3.1 of the statutory guarantee (see Annexure A).

3. Following assessment and authorisation to pay any claims, in compliance with paragraph 6.2 of the statutory guarantee, IGF Ltd will effect payment of the guarantee amount to SAIA, copying the CEOs of the relevant insurers. With the help of IGF Ltd's Managing Director, SAIA will apportion the guarantee amount between the claiming insurers in terms of paragraph 3 of the guarantee (see Annexure A).

4. Once IGF Ltd has paid the guarantee amount to SAIA, IGF Ltd will recover the guarantee amount paid from its reinsurers in terms of their agreed quota share percentages.

5. Payment of the guarantee amount to SAIA will constitute final discharge of IGF Ltd's obligations under the guarantee concerned to SAIA and the relevant claiming insurers.

Process for the return of collateral to independent intermediary-guarantee holders

The return of collateral security lodged by individual independent intermediaries to secure the issue of their respective guarantees at the time of issue, is being considered for release by IGF Ltd's Board on a case by case basis, both routinely as part of IGF Ltd's winding-up process, and on application by any independent intermediary-guarantee holder for the return of its collateral held.

We trust that you find the above explanations and instructions comprehensive and in order. Should you have any queries or require anything further, kindly contact Mr Charles Hitchcock for assistance.

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

6 Industry News

6.1 IUMI Joins Hands with the World Maritime University (WMU)

Earlier in 2020, the International Union of Marine Insurance (IUMI) signed a Memorandum of Understanding (MoU) with the World Maritime University (WMU), an institution established within the framework of the International Maritime Organization (IMO). The MOU forms part of IUMI's education programme and aims to deliver the highest standards in marine insurance education.

The WMU's Marine Insurance Law & Practice Postgraduate Diploma programme has been of interest to marine underwriters. The course consists of five modules and offers an outstanding academic foundation for professionals in the marine insurance industry to develop their expertise and careers. It is also suitable for professionals who are planning to move into the field of marine insurance. Three IUMI appointees serve as module leaders and support the students with expert advice and guidance. Enrolment for the 2020 academic year which begins in September is now open.

As part of the MOU, IUMI offers a bursary for the Marine Insurance Law & Practice Postgraduate Diploma programme worth 8,750 USD to candidates who successfully pass the IUMI online tutorial exam (either hull or cargo).

Regard to our online tutorials please be advised that a discount for bulk sales is now available:
- Buyers of 5-9 IUMI online tutorials = 10% discount
- Buyers of 10 or more IUMI online tutorials = 20% discount

The discount is applicable to buyers from one company as well as to five or more members of the same IUMI member association.

For more information, please contact Ms Hendrike Kühl, IUMI Policy Director on [hendrike.kuehl@iumi.com.](mailto:hendrike.kuehl@iumi.com)

6.2 Casualty Advice – MSC Palak

The Association of Marine Underwriters in South Africa (AMUSA) received reports that fully cellular container vessel, MSC PALAK, had experienced a loss overboard of at least 23 containers whilst at anchor at Algoa Bay, near Port Elizabeth, South Africa on 14 July 2020.

The vessel is reported to have moved to anchor at Algoa Bay to shelter from a storm that affected the area on 13 and 14 July 2020. The South African Maritime Safety Authority report that swells up to approximately 3.5 metres were recorded in Algoa Bay during the storm.

Besides the lost containers, there is likely also to be damage to some cargoes on board. Recovery action may arise if container securing provisions on board the vessel may be found to have been inadequate.

Shipowners are currently liaising with the local authorities to locate and retrieve the containers lost overboard but the contents of the affected containers are not yet known.

In addition to the eSurvey facility, we currently have local surveyors on hand to arrange inspection of any cargo affected by this incident and we recommend that you contact the Cargo Casualty Management on email: wkwcasualtyreports@wkwebster.com urgently if you are concerned with any cargo stowed on board this vessel so that they can immediately start taking steps to protect your interests.

For more information, please contact SAIA Senior Secretariat, Promise Mhlanga at promise@saia.co.za.

6.3 Impact of Coronavirus on Engineering Insurance in South Africa

At the time of writing, there are close to a million coronavirus (COVID-19) reported cases and 17,682 deaths in Africa and South Africa has the lion share of the reported cases. The human and economic toll of the virus is undeniable, although the magnitude and scope of the impact is yet to be seen, but one thing for sure, there is significant impact on every aspect of humanity. The engineering insurance is not exempted from the virus and the article briefly discuss the salient points.

Construction Policies

Prior to the outbreak of the coronavirus (COVID-19), predictions pointed to an acceleration in the pace of growth in the global construction industry from 2,6% in 2019 to 3.1% in 2020. However, given the severe disruption in China and other leading economies worldwide following the outbreak, the forecast for growth in 2020 has now been revised down to 0.5%2. In South Africa (SA), construction registered its 7th consecutive quarter of economic decline, slipping by 4,7%. This was due to decreased activity relating to construction works as well as the construction of residential and non-residential buildings[3]. Given the already depressed state of the SA construction sector, the COVID-19 pandemic exacerbated the situation and will result into the following:

- Increasing disruption to labour (retrenchments), increasing material cost (dollar base items) and disruption of transportation supply lines as country borders remain close.

- Increase in commercial disputes, litigation and claims between principal and contractor as construction delays become a norm due to halting/cessation of project by lockdown.
- Increased costs to resume construction work after lockdown owing to requirements of COVID-19 safety onsite i.e. social distancing limiting number of people onsite, Personal Protective Equipment, re-shutdown cost if an employee test positive for the virus, etc.
- Decreased investor confidence leading to funding issues/cancellation of projects e.g. oil & gas (low oil prices), residential or commercial developments.
- Delays in tender awards, delays in permit/development/site approvals.

Machinery Breakdown Policies

In Africa, most of the key machinery (turbine, compressor, gearbox, transformer) in industrial plants is imported. Given the global restriction caused by the COVID-19 pandemic, the following challenges are expected:

- Deferment of planned maintenance activities on operational plants because of the inability of Original Equipment Manufacturers (OEMs) or maintenance providers to send personal to the plant.
- In the event of equipment breakdown, the unavailability or long delay of the replacement part due to lockdown restrictions resulting to longer plant outage.
- Inability to send risk surveyors to site to assess quality of the risk and more concerning, the inability to send loss adjusters in the event of claim due travel restrictions.

COVID-19 impact on engineering insurance

In Sub Saharan Africa, the majority of the engineering policies have a physical damage claim proviso and to a limited extent is infectious disease or pandemics an extension to the policy, and in those cases, there is a sublimit. Therefore, an expectation is towards a lower insurance burden attributable to COVID-19 on the engineering insurance. What is potentially of greater importance for this class is how the outbreak will impact future economic growth and construction industry activity and its resulting changes to insurance premium volumes[1]

Reference list

(1) Willis Towers Watson, Scenario Analysis of the Covid-19 Pandemic, Edition 1, 1 May 2020

(2) Global Data's report, Global Construction Outlook to 2024 (including Covid-19 Impact Analysis), March 2020

(3) Statssa, Economic Growth, GDP falls by 2%, 30 June 2020

For more information, please contact Philani Mbatha, Senior Underwriter at Munich Re/ Chairman of the South African Association of Engineering Insurers (SAAEI) at PMbatha@munichre.com.

7 SAIA Circular – July 2020

MD Circulars – July 2020		
MD-2020-033	Pandemic and other Uninsurable Risks - Call for Nominations	08-07-2020
MD-2020-034	Financial Conduct Authority (FCA) Business Interruption (BI) Insurance skeleton Argument	17-07-2020
MD-2020-035	SAIA Board of Directors	27-07-2020
SG Circulars – July 2020		
SG--2020-094	Amendments to the Fit and Proper Requirements	01-07-2020
SG-2020-095	Invitation to The ASISA Consumer Financial Education (CFE) Practitioner Blitzcamp	03-07-2020
SG-2020-096	Ensuring appropriate CFE initiatives	07-07-2020
SG-2020-097	Business Interruption Insurance Judgement – Café Chameleon CC vs Guardrisk	08-07-2020
SG-2020-098	Amendments to Alert Level 3 Lockdown Regulations.	16-07-2020
SG-2020-099	Invitation to Comment on Draft Guidance Notice Non-Life Underwriting Risk Capital Requirements.	16-07-2020
SG-2020-100	FSCA Stance on Business Interruption Insurance Cover	16-07-2020
SG-2020-101	Information Regulator (IR) Invitation to Comment on Draft Guidelines on The Registration of Information Officers (Draft Guidelines)	24-07-2020
SG-2020-102	The Minister of Transport COVID-19: Public Transport Services Directive	27-07-2020
SG-2020-103	Financial Sector Conduct Authority (FSCA) Latest Stance on Business Interruption (BI) Insurance Cover	29-07-2020
SG-2020-104	DHET / INSETA Employer Survey Questionnaire	30-07-2020
SG-2020-105	Update on the Status of Intermediaries Guarantee Facility Limited and on the Guarantees Issued by Intermediaries Guarantee Facility Limited, and Cancelled on 31 March 2019	31-07-2020
SG-2020-106	PA Communication regarding Constantia Insurance	31-07-2020

IMPORTANT NOTICE
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