Deloitte Insurance Industry Regulatory and Actuarial Update

February 2023

Our Actuarial & Insurance Solutions (AIS) team are pleased to present you with our first insurance industry update of 2023.

This update includes a summary of the Life and Non-Life Insurance Industry Experience over the last year as reported by the PA as well as some interesting articles and talks around climate risk, investment management outlook and SAM interpretations. This update also provides you with various reminders and updates including the recently published APN 113 and the FSCA decision to declare crypto assets a financial product.

We hope you had a restful break and we look forward to sharing more valuable insights with you throughout the year.

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Life & Non-life Insurance Industry Experience 2021-2022

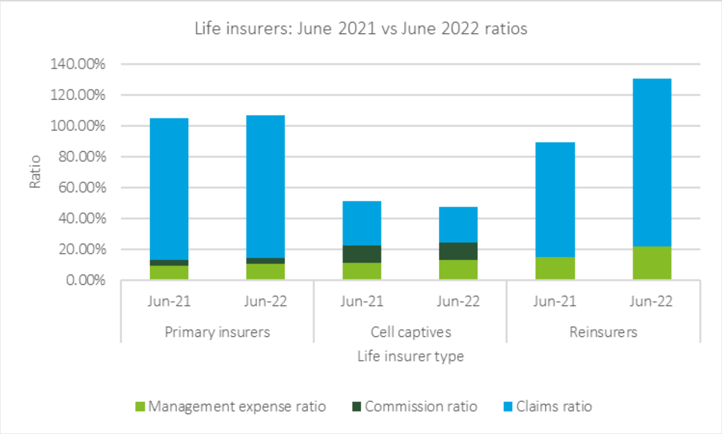
The Prudential Authority (PA) published Insurance Special Reports which contain an analysis of the industry based on the June 2021 – June 2022 results.

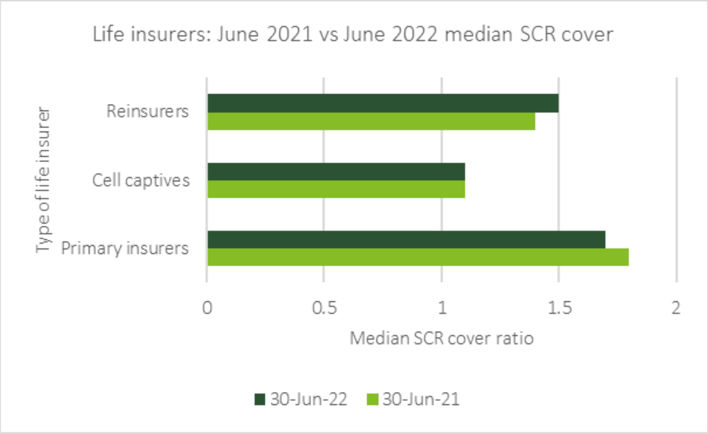
Some of the key Life Insurance experience features can be seen in the charts. In summary:

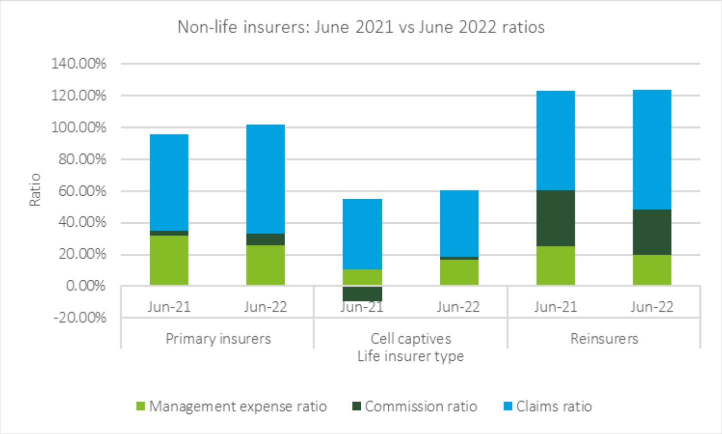
- The number of Life primary insurers has increased from 58 to 60 from 2021 to 2022.
- The average claims ratio remained broadly unchanged from 2021 to 2022 whilst the average commission and expense ratios for primary Life insurers have increased slightly from 2021 to 2022. These ratios are expressed as a percentage of net written premium over the period.
- The median SCR cover ratio and MCR cover ratio decreased from 2021 to 2022 for Life primary insurers.

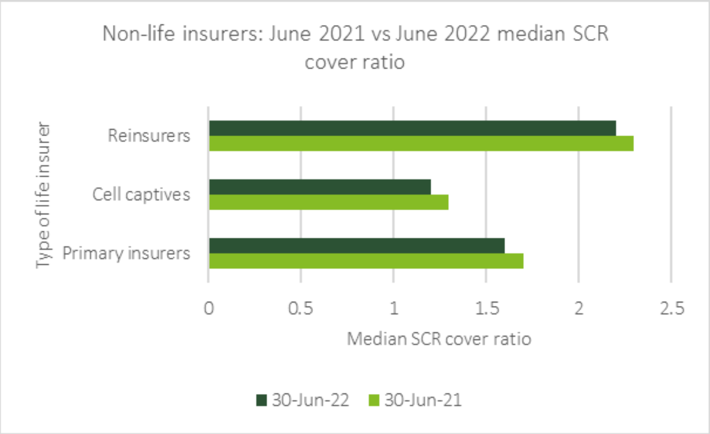
Some of the key Non-life Insurance experience features can be seen in the charts. In summary:

- The number of Non-life primary insurers has increased from 58 to 61 from 2021 to 2022.
- The average claims and commission ratios increased from 2021 to 2022 for primary Non-life insurers, while the expense ratios decreased. These ratios are expressed as a percentage of net written premium over the period.
- The median SCR cover ratio and MCR cover ratio decreased from 2021 to 2022 for Non-life primary insurers.









For more information refer to the PA published Insurance Special Reports namely "Selected South African insurance sector June 2022"

CLIMATE RISK: Insights for a short-term insurer to consider

Insurers (especially non-life insurers) are uniquely positioned to make a real impact when it comes to climate change. Jeanine Wilson, Actuary at Deloitte, recently presented on this topic at the 2022 Actuarial Society of South Africa (ASSA) Convention. The recording of her presentation is available below.

Recent market events

Climate change is real and upon us, weather patterns are changing and extreme weather events are becoming more prevalent. Local examples include the KwaZulu Natal floods in April 2022, Knysna fires in June 2017 and Western and Eastern Cape droughts.

Climate risk is made up of the following sub-risks

- Physical risk
- Transition risk
- Liability risk

ORSA considerations

- **Few** insurers have a climate risk **scenario** in their ORSA
- Scenarios often focus on **physical risks only** if captured in the ORSA
- Expect the **regulator** to want to see **progress** – the ORSA may be best place to capture this

Climate Risk: Insights for Short Term Insurers to Consider

For more details and an explanation of these concepts, view the full presentation here.

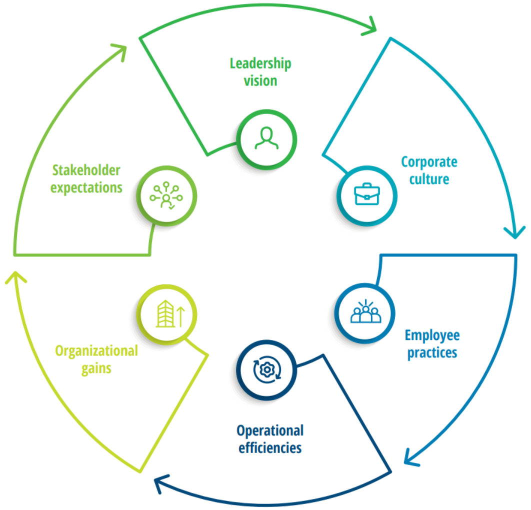
Investment Management Outlook

The virtuous cycle

For the last two years, investment management firms have driven success in a virtuous cycle that connects effective leadership and vision with operating results. In the face of market challenges and changing client expectations, how can leaders keep these cycles turning in the year ahead?

Deloitte leaders drafted a report which explores how investment management firms may strategically invest in technology and talent to positively impact the client experience and drive greater profits. The report also outlines the important role that leadership can play to achieve transformative results and gain a competitive advantage, and how all these efforts, and more, connect in a virtuous cycle of success.

Many investment management firms are driving success in a virtuous cycle



Source: Deloitte Center for Financial Services analysis.

For further reading please click on the image link above.

The launch of APN 113

ASSA has launched Advisory Practice Note (APN) 113 – Expenses for SAM.

This APN is effective 1 December 2022 and outlines considerations with respect to expenses for members calculating or reviewing life insurance Technical Provisions and Solvency Capital Requirements for regulatory reporting under the Prudential Standards required by the Insurance Act (2017).

Make sure to download and read it here: [APN 113]

2023 Insurance Industry Outlook

Global insurance industry at a crossroads to shaping long-term success

This year's **Insurance Industry Outlook 2023** pulled together by Deloitte is set against the backdrop of an industry that has over the last few years, demonstrated remarkable flexibility and resilience in overcoming a host of obstacles, especially the impact of the pandemic and the economic fallout from the Russia-Ukraine conflict. Systems and capabilities were improved, while agile talent and technology strategies paid off. But is the industry ready for emerging challenges heading into 2023 (and beyond)?

The road ahead is dotted with multiple hurdles—rising inflation, interest rates, and loss costs; the looming threats of recession, climate change, and geopolitical upheaval; and competition from InsurTechs and even noninsurance entities such as e-tailers and manufacturers, to name a few. This is no time for carriers to be satisfied with the adaptations they've had to make.

To access the full publication, please follow this [link.]

Crypto Assets – a financial product?

Can we expect to do our Pick 'n Pay monthly grocery shop using our Crypto assets soon?

Following its initial proposal on 20 November 2020, the Financial Sector Conduct Authority (FSCA) has declared crypto assets to be a financial product in terms of section 1(h) of the Financial Advisory and Intermediary Services Act (FAIS Act), with effect from 19 October 2022 (Declaration).

The Declaration comes at an opportune time when South Africa is grappling with a potential grey-listing. The lack of crypto asset regulation was identified as a major anti-money laundering and counter-financing terrorism (AML/CFT) deficiency by the Financial Action Task Force (FATF).

The Financial Sector Conduct Authority (FSCA) has published the first of what will be a series of regulations to manage crypto assets and their providers.

To minimise potential disruptions to the operations of prospective crypto asset FSPs, the FSCA has formulated a comprehensive exemption framework published in FSCA FAIS Notice 90 of 2022 (Exemption).

In terms of the Exemption, existing crypto asset providers are currently exempt from having to apply as a FSP under FAIS, provided that the crypto asset provider applies for a FSP licence during the designated six-month application period, which will run from 1 June 2023 to 30 November 2023.

The FSCA has also published a draft for comment dealing with certain exemptions for crypto asset FSPs. Members of the public may comment on this draft by 1 December 2022.

For further information visit the FSCA website.

SAM Interpretation Series

Treatment of Instruments within Market Risk

With just over 4 years into insurers reporting under the Solvency Assessment and Management (SAM) framework, many insurers have changed gear from implementation to capital optimisation. This naturally results in different interpretations of the Financial Soundness Standards for Insurers (FSIs) emerging. With uncertainty on how to treat specific investment instruments within market risk, it becomes necessary to delve a bit deeper into different treatments observed.

The fact that certain financial instruments are not explicitly referred to within the FSIs has led insurers to adopt various interpretations in the treatment of these instruments within market risks. Deloitte published a paper that specifically considers the interpretations that have emerged in the treatment of FDs, NCDs and FRNs.

For further reading click on this link.