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# Deloitte Insurance Industry Regulatory and Actuarial Update

## August 2022

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

This update includes a summary of the updated Audit requirements as well as the annual Succession Planning ('flavour of the year') note published by the Prudential Authority earlier this year. An update on the Implementation of Cross Sectoral Conduct of Business Return published by the FSCA has been included in this publication. We have also included some interesting reads around IFRS 17 external audit readiness, climate risk considerations and the future of small business insurance. And finally, we've also included a link to the information packed and thought-provoking, Africa Insurance Outlook for 2022 compiled by Deloitte South Africa.

We hope you find this update useful and we look forward to sharing more valuable insights with you over the remainder of the year.


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# Updated Prudential Standards for Audit Requirements

The Prudential Authority (PA) has issued updated Prudential Standards for Audit Requirements for insurers, insurance groups, microinsurers, Lloyd's and branches of foreign reinsurers. The Prudential Standards for Audit Requirements came into effect on 1 January 2022.

Objectives of the Standard:

- Set out the information that must be audited, reviewed and reported on for supervisory purposes by the auditors, to promote the credibility of information with the PA, policyholders and stakeholders of the insurer.
- Set out the period within which insurers must submit their audited annual financial statements to the PA and disclose them to the public i.e. within four months after financial year-end.

Audit Requirements:

- An insurer's board of directors is required to take responsibility for ensuring that the insurer complies with the principles and requirements set out in the Prudential Standards for Audit Requirements on a continuous basis.
- Insurers are required to be audited annually as per section 47(1a) of the Insurance Act.
- In addition to the standard audit requirements, insurers are also required to annually provide a report with regard to specified information on the insurer in terms of the International Standard on Review Engagements (ISRE) 2410: this includes items such as investments, non-life TPs of foreign business, reinsurance provider details.
- Auditors are required to ensure that the information contained in the annual QRT is complete, accurate and reasonably reflects the information on the management accounts and the annual financial statements.
- Auditors must also ensure that the information contained in the annual QRT is prepared using the same accounting policies or regulatory framework as those applied in the management and statutory accounts.

The PA has further issued a Guidance Notice on Audit Requirements (AR GN) that provides references to the sections of the annual QRT that should be audited or reviewed to demonstrate adherence to the requirements which can be found here.

Separate Prudential Standards for Audit Requirements have been issued for: insurers, insurance groups, micro insurers, Lloyd's and branches of foreign reinsurers and can be found here.

# Implementation of Cross Sectoral Conduct of Business Return (Omni-CBR)

The Financial Sector Conduct Authority (FSCA) is the market conduct regulator of all licensed financial institutions in South Africa, and it monitors the fairness and appropriateness of the financial services offered to the financial customers. To achieve its mandate FSCA has published the Cross Sectoral Conduct of Business Return (Omni- CBR) as part of its offsite tool kit to drive evidence and data based supervision.

*For further reading on Omni-CBR developments, please click [here](#).*

### Role of Omni-CBR

- Omni-CBR will form part of the offsite tool kit that will be used to facilitate the cross sectoral reporting on key conduct indicators that will be tracked by the financial entities.
- It will enable the FSCA to proactively monitor the fairness of client outcomes across the financial institutions.
- It will provide the FSCA with a meaningful and comparable dataset that can be used to monitor trends developing in the financial sector.
- It will replace the Conduct of Business return (CBR) which was previously used to monitor insurance companies only. Omni-CBR changes the scope of entities being monitored to include all financial institutions.

### Developments

- The roadmap published on 8 June 2022 provides an overview of the development on Omni-CBR and the implementation processes that will be followed.
- A number of workshops will be held prior to the implementation to allow the industry to provide comments.
- The FSCA is taking a multi-year consultation and implementation process approach that will be stretched over a four year period.

### Financial institutions that will be affected by OMNI-CBR

- Banks
- Insurers and Microinsurers
- Investment Providers
- Financial Services Providers
- Co-operative Financial Institutions
- Retirement Funds and Retirement Fund Benefit Administrators

### Roll-out and implementation phases

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**Consultation on terminology and data requirements**
- Webinars to explain Omni-CBR and roll out plan
- Industry engagement workshops
- Written comments

**Phase 2 (2023)**

**Assessment of systems and operational impact**
- Pilot reporting to assess systems
- Alignment with FSCA systems

**Phase 3 (2024)**

**Two-year transitional reporting**
- Reporting on best effort basis
- Proportional phasing-in
- Two-year transition period

**Phase 4 (2026)**

**Steady state post Conduct of Financial Institutions (COFI) final implementation**
- Full and final reporting across all sectors on quarterly basis

# Flavour of the year - Succession Planning

- Annually, the Prudential Authority (PA) considers whether any current developments affecting licensed insurance entities at an industry level are of such significance that additional focus from a supervisory perspective would be required. The PA has determined that for 2022 the flavour of the year topic will be **"Succession Planning".**
- This is set out in the PA's [Communication 6](#) of March 2022.

- It is important for the PA to assess and determine that licensed insurance entities have robust, adequate and efficient succession plans, practices and policies in place, that will result in successors that are fit and proper and are eligible in terms of relevant legislation.

- The PA will continue to closely monitor the succession planning of the insurer as part of its ongoing supervision.

Some of the specific requirements of the PA's communication are set out below:

- The chairperson of the board (or equivalent) is required to make a presentation, no longer than 75 minutes, to the PA during the PA's planned supervisory meetings with the board. The presentation should focus on the steps that have been or will be taken by the insurer to ensure the strategy and process on succession planning is implemented effectively.
- Insurers will be required to furnish the PA with certain documents and/or information on succession planning in preparation for the meeting with the board. A copy of the presentation should be sent to the PA at least three weeks before the board meeting.
- A detailed list of over 20 areas to be covered, as a minimum, is set out in Communication 6. This covers broad matters such as (but not limited to):

*Talent management*

*Governance*

*Succession strategies*

*Succession plans & related risk mitigations*

*Assessments across all levels: key persons, senior management, board members & executives*

*Plans for continuity, training, skills assessments, mentorship & development*

*Transformation & scarce skills shortages*

*Retirement & attrition*

*Talent attraction & acquisition*

*Related key metrics used*

# Are you ready for IFRS 17 External Audit?

The adoption date of the new financial reporting standard for insurance contracts (IFRS 17) is drawing near: 1 January 2023.

As insurers start entering the home stretch, we expect many will be ramping up their engagement with external audit.

Management need to take steps to ensure that documentation and evidence of implementation and transition activities, as well as new processes and controls to address new risks and changes to financial reporting stand up to external audit scrutiny.

Our IFRS 17 experts have compiled a document to help you by highlighting some of the key challenges and considerations faced in preparing for your first formal audit under IFRS 17.

*For further reading please click on the image link below*


## Areas at risk of material misstatement under IFRS 17

- Actuarial models and the assumptions underpinning these models
- Data volume and granularity
- Information technology changes
- Interim transition solutions
- Complex and voluminous disclosures prepared within pressurised timelines

## What can management do to prepare for an IFRS 17 external audit?

- Engage early with external audit to enable progressive and continuous assurance
- Apply an "if it's not documented, it's not done" rule
- Prioritise the enhancement, design, and implementation of manual and automated internal controls
- Bed down management's view of materiality
- Optimise IFS 17 implementation testing strategies

# Risk Assessment - Climate Change

The impact of climate change is rapidly growing as an area of interest for the insurance sector as it imposes risks that will have to be considered in the context of pricing, reserving, capital management, investments and risk management.

## Risks arising from climate change

The risks arising from climate change specific to non-life insurance can be categorised into 3 groups:

### Physical risk

- Physical risks may arise from the impact of climate change due to catastrophic events, such as infrastructure damages caused by floods or bushfires and damage to crops caused by drought.

### Transition risk

- Transition risks arise from governmental, regulatory and society action to combat the impact of climate change. These risks are related to transition to a lower carbon economy or to help the world adapt to the impact of climate change

### Liability risk

- Liability risks arise from third parties claiming compensation for the damage caused by climate change. For example the risk may arise from legal actions being taken against a company for the damage caused by greenhouse gas emissions.

Note that these risks may result in additional strategic, underwriting and reputation risks as well.

## Developments

- There is an increase in demand for insurance companies to disclose the impact of climate risks in their own risk assessments as well as the actions taken to mitigate these risks.
- The International Association of Insurance Supervisors (IAIS) developed a common framework for Supervision of Internationally Active Insurance Groups (ComFrame) which adopted the Insurance Core Principles (ICPs). The ICPs provides a basis for companies to monitor emerging risks that insurers may face, such as those arising from climate change.
- The Task Force on Climate Related Financial Disclosure (TCFD) issued recommendations on how companies can develop more effective climate-related disclosure. See recommendations published on the TCFD page online.
- South Africa's National Treasury's issued a first edition on green finance taxonomy in March 2022. This document sets out the results of the work to date in developing the South African Green Finance Taxonomy for environmentally sustainable economic activities. Click here for further reading.

# The Future of Small Business Insurance

Small business insurance has been one of the most talked-about areas of insurance over the past five years. While talk has been high, action has been low from most incumbent insurers. Small businesses are changing their business models to align with evolving consumer behaviours and heightened risk awareness caused by the pandemic.

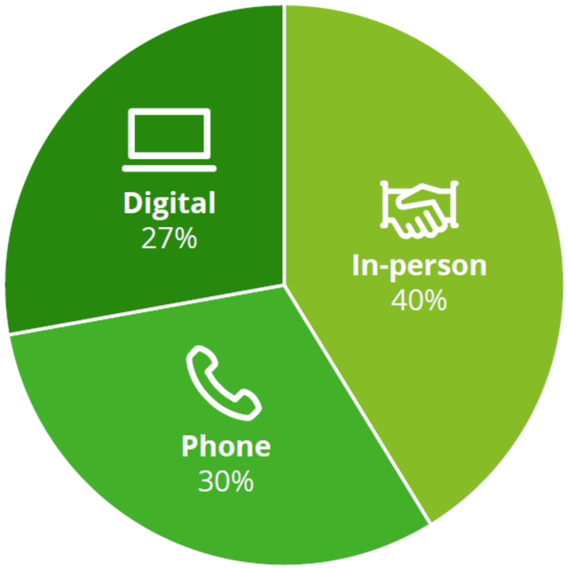
To help answer how insurers can explore the small business insurance market, Deloitte surveyed 5 300 SMEs from 14 countries to understand their views about insurance.

Research revealed six key findings:

- Strong demand globally for more insurance
- Trust remains strong
- Demand for non-insurance services: SMEs want Cover+
- Advice is more important than price
- Interest in engaging with "non-traditional' insurance distributors
- Engagement preferences vary widely

This survey also revealed some interesting insights around the preferred methods of purchasing business insurance:

**Preferred channel for purchasing business insurance**




**98%** of SMEs trust their insurer or intermediary the same or more than before the pandemic[4]

**92%** of SMEs surveyed would buy insurance from a player other than an insurer or intermediary

*To access the full publication, please click [here]*

# 2022 Africa Insurance Outlook

## Navigating the insurance landscape

This year's **Africa Insurance Outlook 2022** pulled together by Deloitte is set against the backdrop of an industry that has proven resilient in the 2nd year of the Covid-19 pandemic. The publication reflects on the past year and shares some of our perspectives on trends that will shape the African insurance industry in the coming year. We have also witnessed digital distribution picking up, with insurers having to understand their clients now more than ever before.

This publication focuses on themes such as *business, customer and digital transformation, governance and risk* as well as *financial reporting priorities* in the industry.

*To access the full publication, please follow this link.*