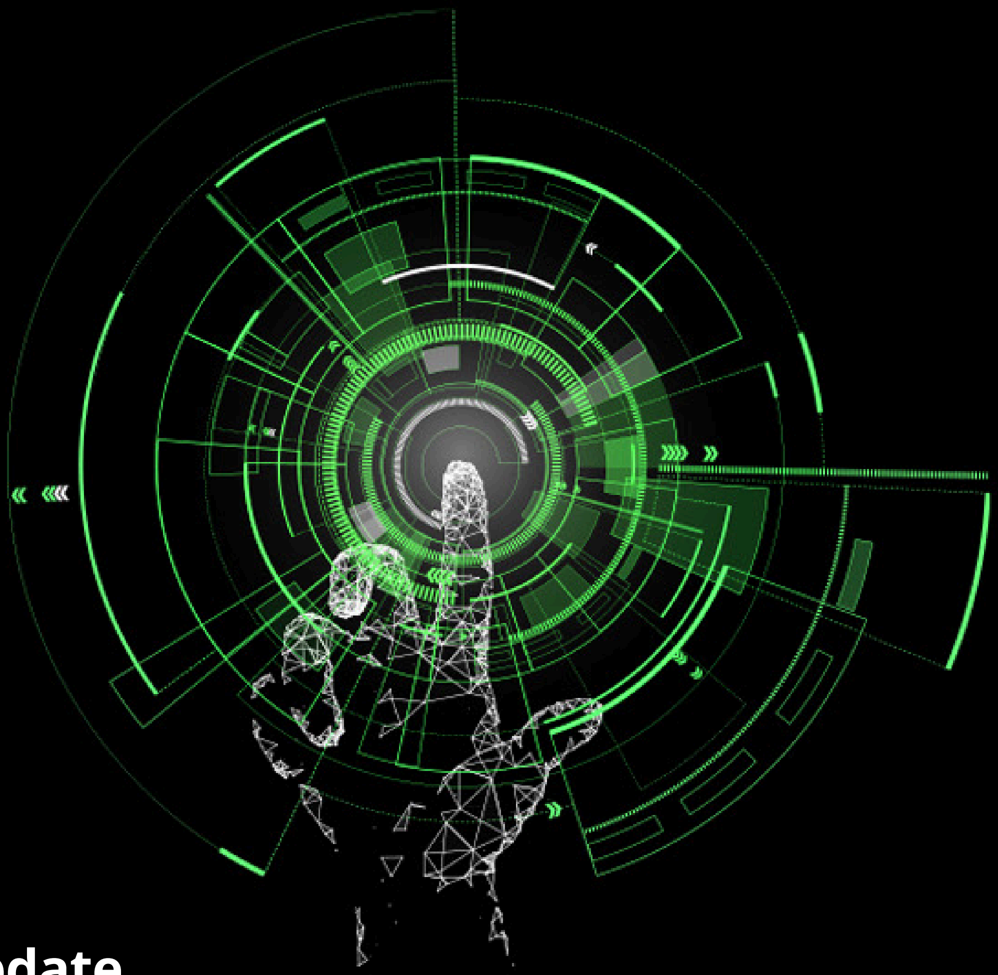
Deloitte.



Deloitte Insurance Industry Regulatory and Actuarial Update

Second update of 2021

August 2021

CONTENTS

Proposed Statutory Actuarial role in IFRS 17

The actuarial and audit professions would need to cooperate to develop a suitable statutory framework for the auditors and actuaries.

The Actuarial Association of Europe, (AAE) believes that actuaries should have a defined statutory role in preparing and auditing the accounts under IFRS 17. They have proposed the statutory role of the "Reporting Actuary".

The IFRS 17 principle-based standard leaves a fair amount up for interpretation, and results in inconsistencies in assumptions and methodologies between entities. Actuaries are integral to the preparation of the IFRS 17 accounts, and this role will assist with harmonising approaches.
The AAE has proposed that the Reporting Actuary would be required to prepare an internal actuarial report to the board to support the financial statements.

The actuarial and audit professions would need to cooperate to develop a suitable statutory framework for the auditors and actuaries.

As Deloitte, our experience is that this is, to some extent and for some insurers, already done in South Africa. However the role is not properly formalised, and the approaches we see are inconsistent between insurers.

We believe that the role of the HAF (Head of Actuarial Function), will also be critical in this regard under IFRS 17.

Jaco van der Merwe
Director

Direct: 27 11 209 8163
Mobile: 27 82 682 3270
Email: javandermerwe@deloitte.co.za

The FSCA's current position on Contingent Business Interruption (CBI) Insurance

Due to COVID-19 and the impact this pandemic has had on businesses and their ability to operate, there has been an intensified industry focus on certain aspects of CBI insurance cover as well as the expectations of non-life insurers and policyholders with regards to CBI claims.

In response, the FSCA released a statement in earlier in 2021 outlining their position on CBI Insurance. A summary of the FSCA's document is set out below.
For further reading, please click here: link

Position regarding legal certainty

- Insurers have confirmed that legal certainty has been obtained.
- Past and current claims decisions have been reviewed to be in line with the recent court judgments.

Time processes and claims requirements

- Following some complaints, the FCSA reminds insurers of their guidance issued in regard to complaints in FSCA COMMUNICATION 34 OF 2020 (INS) and to finalise these claims as rapidly as possible.
- Insurers must ensure that policyholders do not face unreasonable post-sale barriers to submit CBI claims.
- THE FCSA suggested that insurers host a set of 'Frequently Asked Questions' (FAQ's) related to CBI claims on their websites.
- Some policyholders only sent claims notifications without supporting information. Policyholders were thus urged to liaise with their brokers and contact their insurers urgently with the necessary information.

The Trends Clause

- The FSCA and the PA also engaged the non-life insurance industry regarding the "trends clause".
- The FSCA stressed that insurers should not factor in adjustments on losses for circumstances which are part and parcel of the "composite insured peril" i.e. Covid-19 combined with the government's response to it.

Indemnity period

- According to the LCSA, the ongoing legal dispute regarding the indemnity period should not affect the majority of CBI claims that have been lodged.

Interim Payments

- Interim relief payments would be made to policyholders, while legal certainty was being obtained from the courts. The FCSA supported this.
- In some cases, policyholders accepted the interim relief payments from insurers on a "full and final" basis, and so would not be entitled to any additional payment from the insurer.

Reinsurers

- Following the court judgements, affect insurers were in discussion with their reinsurers about recovering some of the losses from their reinsurance programs.

Proscription and time barring clauses

- Some CBI policies contain time barring clauses. The FCSA thus reminded policyholders to submit all valid claims as soon as possible to prevent the proscription of their claims.

Conclusion

- The FSCA indicated it was pleased about the transparent and responsible manner in which insurers had engaged with it, and encouraged the speedy resolution of outstanding valid CBI claims.

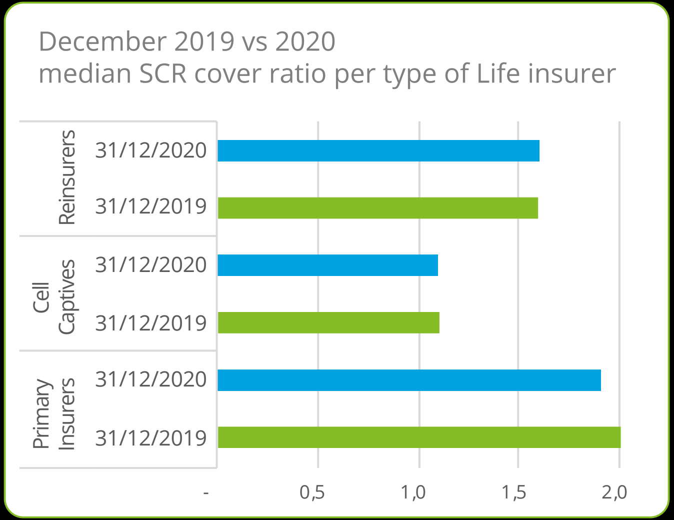
For the full FCSA letter please click here: link

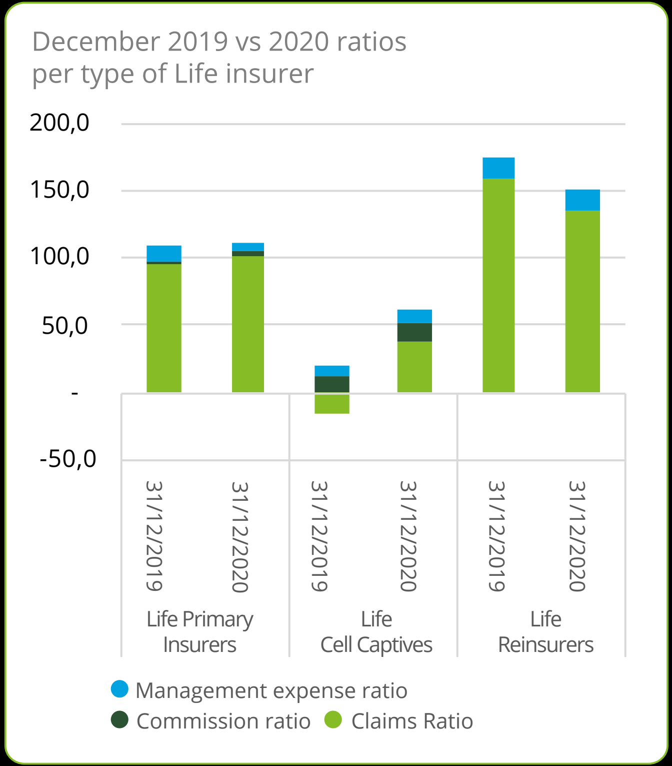
CONTENTS

The Prudential Authority (PA) published Insurance Special Reports which contain an analysis of the industry based on the 2019 – 2020 results.

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

- The number of Life primary insurers has decreased from 70 to 60 from 2019 to 2020
- The average claims ratio increased from 2019 to 2020 whilst the average commission and expense ratios for primary Life insurers decreased from 2019 to 2020. These ratios are expressed as a percentage of net written premium over the period.
- The median SCR cover ratio decreased from 2019 to 2020 and the median MCR cover ratio increased for primary Life insurers.

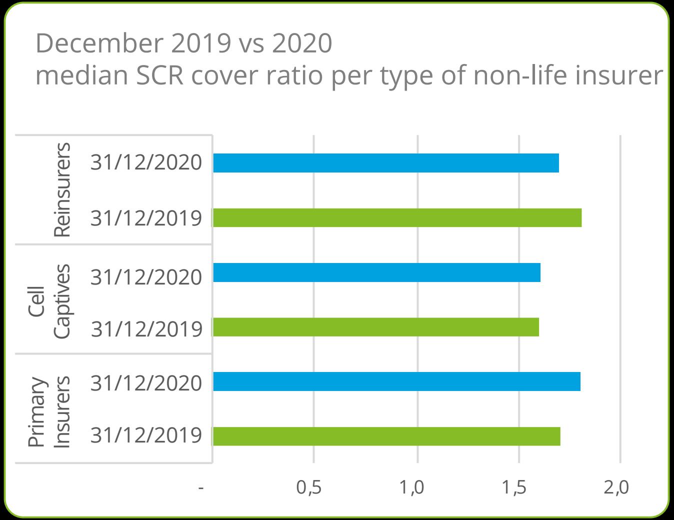


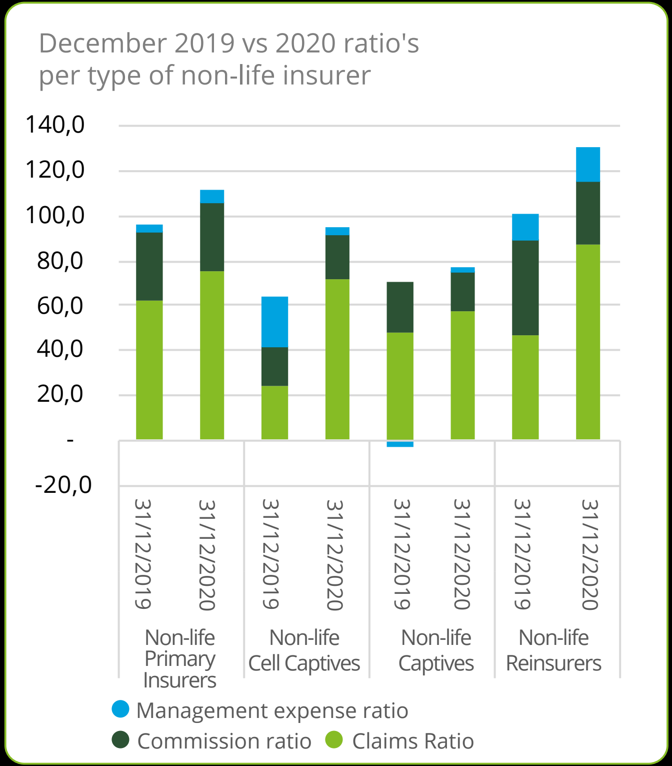


CONTENTS

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

- The number of Non-life primary insurers has decreased from 66 to 59 from 2019 to 2020
- The average claims, commission and expense ratios increased from 2019 to 2020 for primary Non-life insurers. These ratios are expressed as a percentage of net written premium over the period.
- The median SCR cover ratio and MCR cover ratio increased from 2019 to 2020 for Non-life primary insurers.





CONTENTS

Overview

- Over the last year, many insurers have received their microinsurance license and are now able to write microinsurance business. It is important to note that micro insurers have their own set of Financial Soundness requirements, known as FSMs. This note provides a high level summary of some of the main aspects for insurers to note and consider from the FSMs.

An SCR is not calculated

- The concept of capital required by a microinsurer for financial soundness purposes is applied as the prescribed Minimum Capital Requirement (MCR), which is the absolute minimum level of eligible own funds that the Prudential Authority considers necessary to protect policyholders.
- The MCR, which is designed to be a relatively simple measure, has two elements:
  A 15% of the greater of the amount of net written premiums in respect of policies entered into:
    - 12 months preceding the current reporting date; or
    - 12 months preceding the previous reporting date.

  B An absolute floor, the Absolute Minimum Capital Requirement (AMCR), which is R4 million.

Asset spreading requirements

- A microinsurer may only invest in cash, cash equivalents and investment funds restricted to money market funds, unless they have applied to the Prudential Authority and received permission to invest some of its assets in other instruments.
- For investments in cash, cash equivalents and investment funds restricted to money market funds, only 25% of the total liability (net of reinsurance) and capital requirements invested in any one financial institution will be recognised as assets for the purpose of determining eligible own funds. A microinsurer may apply to the Prudential Authority for a change in the maximum limit, which will be assessed on a case-by-case basis.

IBNR reserve calculated using a percentage of premium

- The IBNR is the amount which the microinsurer estimates will become payable in respect of claims that have been incurred but have not been reported to the microinsurer.
- The IBNR is at least 7% (or such other percentage or method as the Prudential Authority may approve or require) of the total amount of all the premiums payable to the microinsurer under policies entered into by it in the 12 months preceding the date on which the amount is calculated, net of reinsurance.

Deloitte.

For more on Deloitte Insurance Solutions please visit www.deloitte.com