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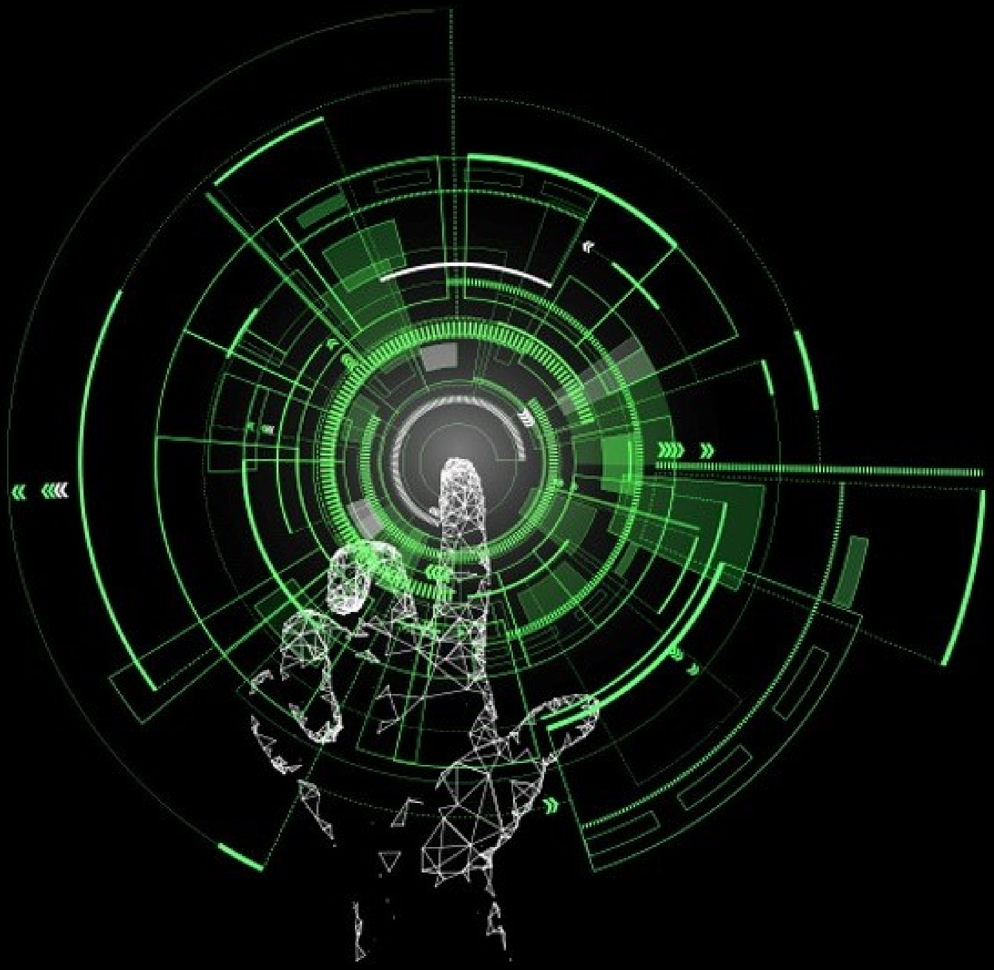

Deloitte Insurance Industry Regulatory and Actuarial Update

Third and Final Update of 2021

December 2021

During July 2021, the FSCA published proposed changes to the Policyholder Protection Rules (PPRs) on both the Long Term and Short Term Insurance Acts.

Comments to these proposed changes closed during September 2021 and the Authority is currently considering all submissions received to make the necessary changes to the PPRs. It is expected that the final changes to the PPRs will only be published in 2022 and that these amendments may lead to more transparency on products and procedures. However, the associated system and process changes will lead to additional costs to be incurred by insurers which might ultimately impact on policyholders.

As a quick overview, some of the proposed amendments included:

- Amendments to the definitions in both the Short Term and Long Term PPRs
- Addition of the word "System" to rule 1.4 such that the insurer will not only be required to have policies and procedures to achieve the fair treatment of policyholders, but also the necessary systems
- Enhancements to Rule 2 of the PPRs to address concerns about inappropriate product design picked up through supervisory oversight and analysis of the Conduct of Business Returns ("CBRs")
- Amendments to clarify the wording that no administration fees are allowed – before or after inception of a policy
- A proposed addition to the disclosure requirements applicable before a policy is entered into, in relation to bundled products
- Enhanced governance around product development and product supplier accountability for the design of products, regardless of chosen distribution model
- A regular review of product performance is suggested, to ensure that products remain suitable to the target market.
- Requirements for a claims management framework is expanded to provide for processes and procedures to ensure reasonable time is allowed for policyholders to institute claims

For further details on the proposed amendments, please click here.

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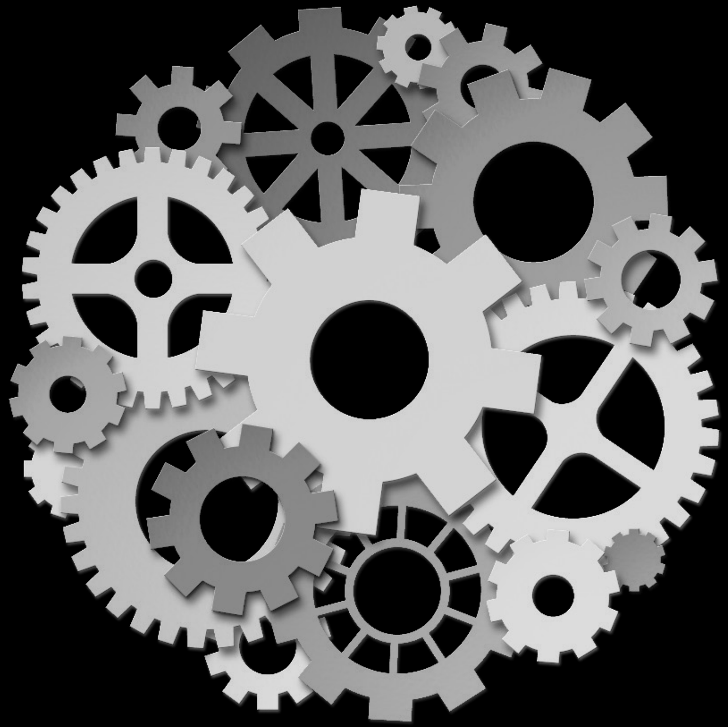
Liquidity Risk Management Update

Liquidity risk is receiving significantly increased attention internationally and the South Africa regulator is similarly elevating this topic in terms of its supervisory focus for the industry. Insurers need to maintain adequate liquidity to meet expected and unexpected payment obligations and funding needs. Past experience has shown that even solvent insurers may experience financial distress if liquidity is not managed prudently. Local insurers can expect to see specific engagement from the regulator in this regard, as it implements increased regulatory oversight.

The Prudential Authority recently issued a draft guidance on liquidity risk management for insurers. This guidance note sets out practices and guidelines aimed at assisting insurers in complying with the requirements of GOI 3 (Risk management and internal controls for insurers) and GOI 3.1 (Own Risk and Solvency Assessment for Insurers) as these standards apply to liquidity risk management for insurers.

We urge you to read the full regulatory guidance note to understand the potential implications for your business here.



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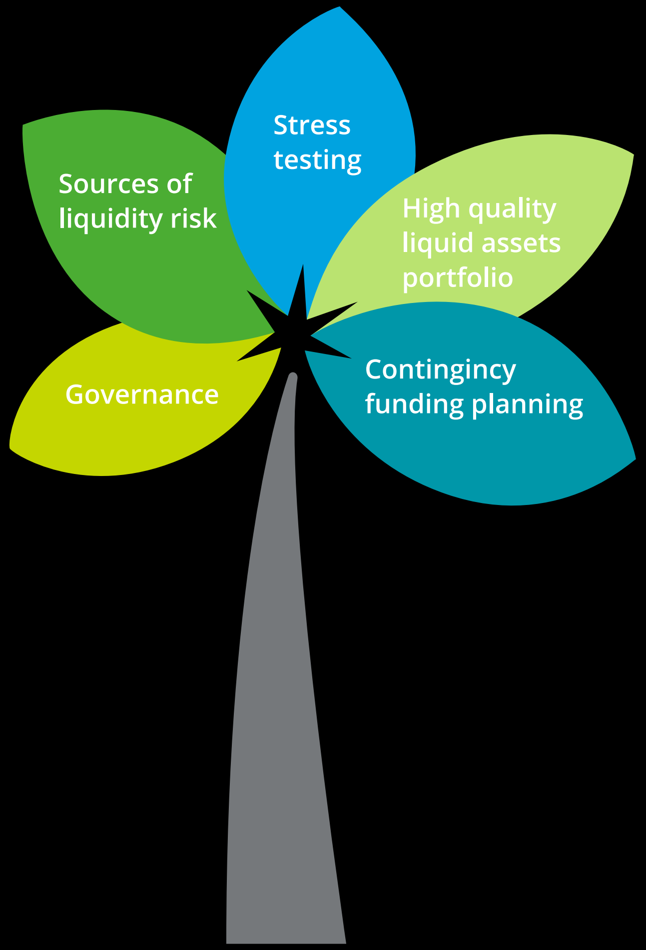
The guidance note addresses various components of liquidity risk management



Governance

An insurer should have an adequate governance system for liquidity risk, which supports identification, assessment, management, reporting, and planning of risk mitigating decision making.

Sources of liquidity risk

The insurer should understand the sources of liquidity risk it is exposed to and the implications of these risks on its liquidity position both under normal and stressed conditions.

Stress Testing

An insurer's stress tests should include a range of severe but plausible scenarios, covering short term and protracted macroeconomic, sector wide and idiosyncratic events and a combination thereof that reflects appropriately its business's distinctive features.

High quality liquid assets portfolio

- An insurer should hold a portfolio of high quality liquid assets to cover any liquidity gap at a particular time horizon both in benign and stressed conditions.
- All assets within the portfolio should be documented at the appropriate level of granularity.

Contingency funding planning

The insurers should conduct contingency funding planning to respond to liquidity stress events to assist the insurer in addressing stress situations where its liquid assets are insufficient or unexpectedly become illiquid.

Reporting to the PA

- The insurer should prepare a liquidity risk management report as part of the ORSA record.
- Insurers should have tools in place to report the ratio of the high quality liquid assets portfolio to net stressed cash outflows , the Insurance Liquidity Ratio (ILR), under each time horizon, as produced by the stress test(s).

The Deloitte Center for Financial Services conducted a global survey among 424 senior insurance executives in finance, talent, technology and marketing about equally split between property-casualty and life and annuity insurers.

Survey respondents were asked to share their opinions on how their organisations have adapted to the various impacts of the pandemic on their workforce, operations, technology, product and marketing strategies as well as corporate culture. We also asked about their investment priorities and anticipated structural changes in the year ahead as they pivot from recovery to long-term growth.

Respondents were equally distributed among three regions: North America, Europe and Asia-Pacific and included insurance companies with at least US$1 billion in 2020 revenue.

The following key themes emerged from the survey. To read the full report, please click on this link.

Despite lingering concerns about COVID-19 variants, most insurers expect an accelerating economic recovery and additional digital technology investments to generate significant growth in 2022.

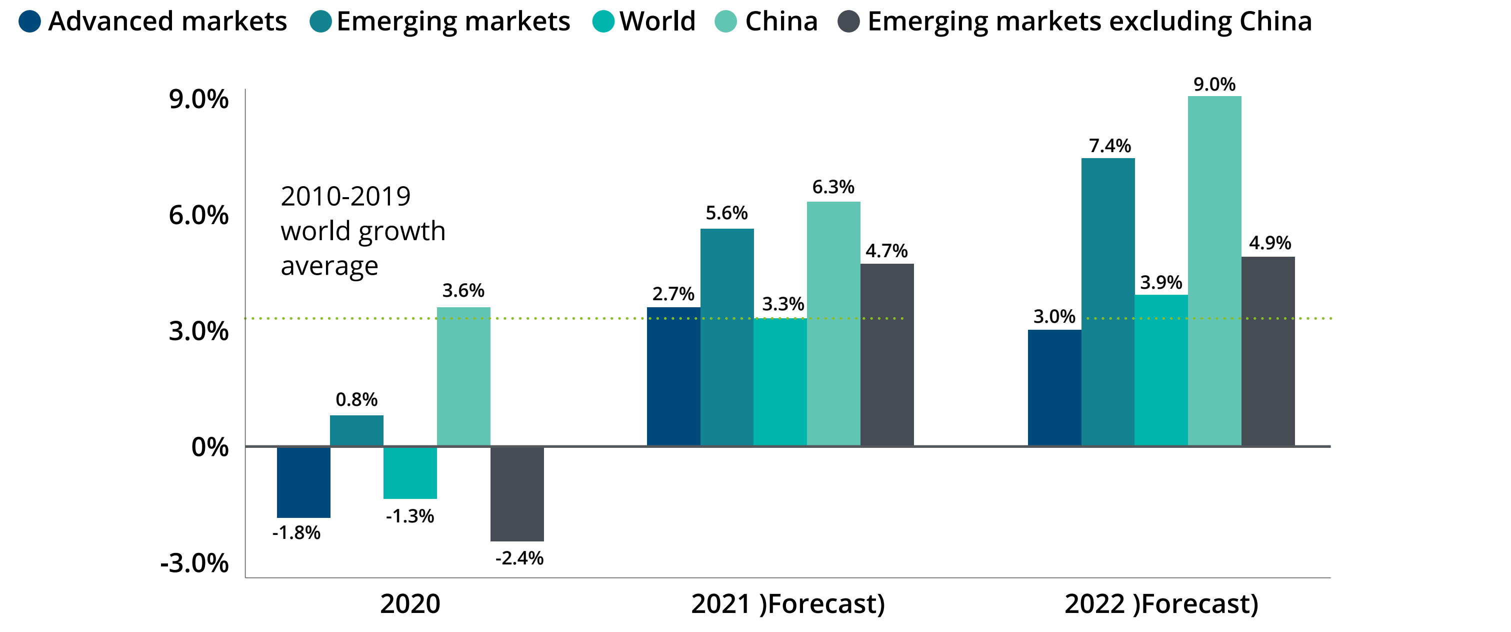
Our research also identified multiple challenges for insurance leaders to tackle next year beyond ongoing efforts to adapt to the pandemic's aftermath. These range from economic hurdles such as inflation; to sustainability concerns including climate risk, diversity, and financial inclusion; to new regulations; to rapidly evolving consumer product and purchase preferences.

Future-of-work considerations have also multiplied as carriers seek to create flexible return-to-office strategies while simultaneously struggling to retain and recruit high-level talent during what might be the world's most competitive job market—particularly for those with advanced technology and data skills.

Insurers are increasingly dependent on emerging technologies and data sources to drive efficiency, enhance cybersecurity, and expand capabilities across the organization. However, most should also focus on improving customer experience by both streamlining processes with automation, as well as providing customized service where needed and preferred.

Among the 424 insurance respondents surveyed, about one third expect revenue to be significantly better next year. This positive outlook lines up well with industry wide forecasts for both sides of the industry. Overall, the industry appears poised for significant growth and a much stringer financial performance in 2022.

Premium growth expectations in the various markets:



Source: Swiss Re Institute, "In 5 charts: World insurance outlook post-COVID-19," July 14, 2021,

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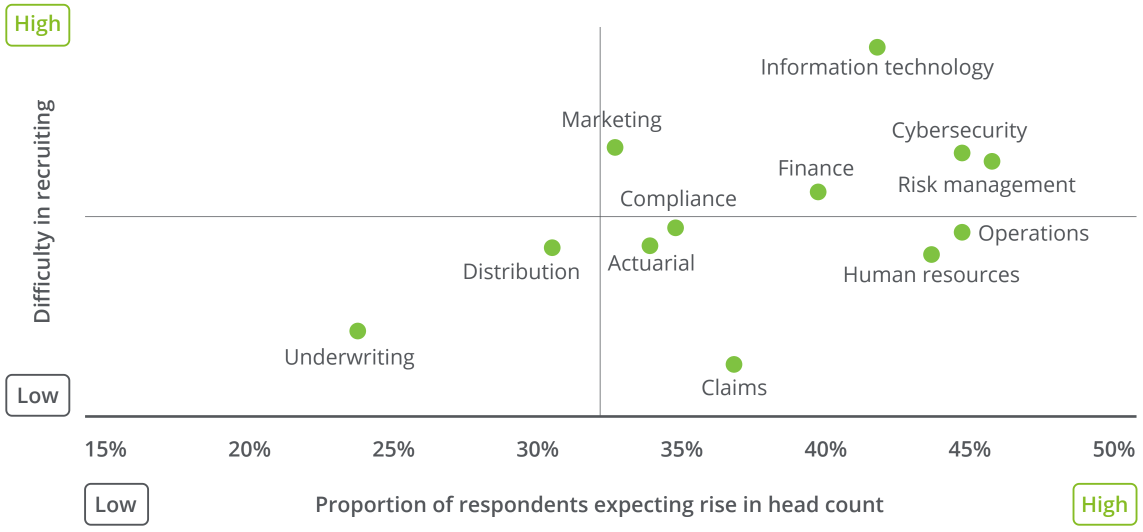
At least one third of Deloitte's global survey respondents expect to increase head count in most of their functional areas in 2022. The survey found that 43% of insurance talent respondents feel it's getting harder to find skilled candidates in a number of functional areas – with information technology topping the list in terms of degree of recruiting difficulty.

The following graph displays the recruitment challenges that insurers can face in several key areas:



Source: The Deloitte Center for Financial Services 2022 Insurance Outlook Survey.

Another topic that is rapidly gaining momentum, both globally and locally, is that of climate risk. The regulator has put their weight and intent behind this and recently issued a climate risk survey during October 2021 to examine the responses of regulated financial institutions to specific climate risk issues of supervisory focus. The data obtained from this survey will inform the PA's supervisory and regulatory approach to the topic of climate risk with the objective of driving the PA's prioritisation of its climate-related risk initiatives. A summary of the results from the survey are set out below. It is clear that climate risk is set to feature as a rising priority on the boards of South African insurers in the near future, with the industry still having a great deal of ground to cover in this regard.

For further reading, please click here.

71% believe climate-related risks could materially impact their business	90% of those that believe climaterelated risk will materially impact their business are taking steps to better understand these impacts	41% discussed climate-related risks at board level
51% included climate-related aspects in business strategy	59% considered climate-related risks within their risk management framework	45% report internally 28% publicly disclose
95% believe their actions/efforts might contribute to reducing the effects of climate change	38% plan to become carbon neutral	67% believe efforts to reduce climate change might hurt the economy

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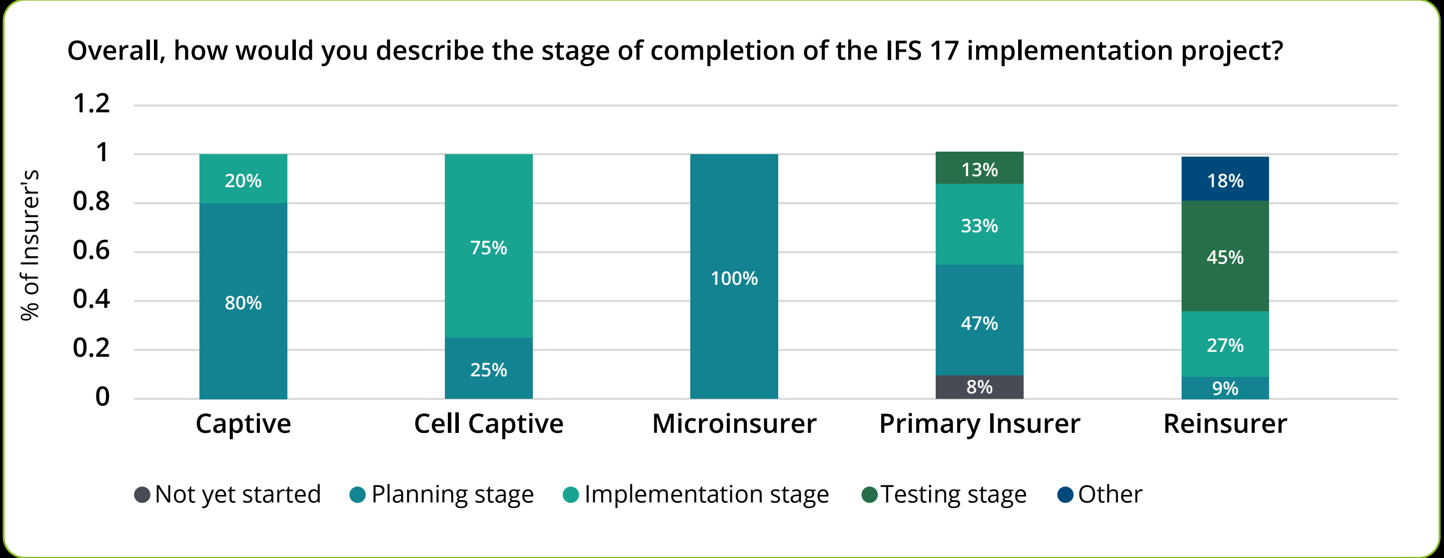
Overview

The PA recently sent out an IFRS 17 Insurance Contracts Survey with a reference date of 31 May 2021 Out of 102 insurers that received the survey, 89 insurers responded to the survey. To better understand the various insurer's progress, a series of questions was sent out in the survey. According to the results from the survey, the majority of insurers are either in the planning or implementation stages of their IFRS 17 projects Reinsurers and composite insurers seem to be ahead of the other types of insurers with 45 and 60 of their work in the already in the testing stages.



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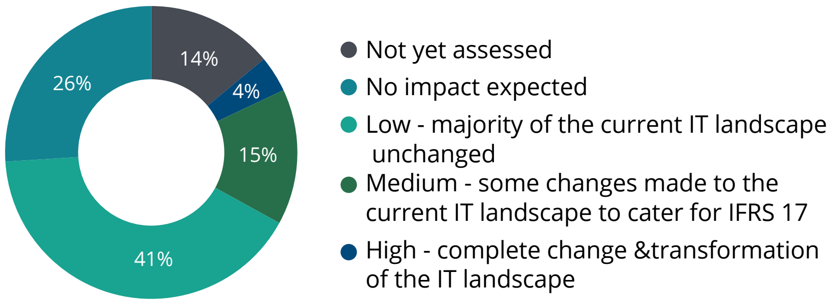
Overview (Continued)

In terms of measuring the percentage of completion by reference to the budgeted project hours per insurer, the survey resulted in showing that most insurers are not even half way done with their projects and again it was found that the composite insurer class and reinsurers are above the average insurer.

It was further shown that around 67 of insurers expect a medium to high impact on their IT systems due to their IFRS 17 implementation. This means that they expect some to complete changes to their current IT systems. From the results of the survey we see that insurers are expecting that a lot of effort will have to go in to getting their systems and technology up to par.

How would you rate the expected impact of IFRS 17 on IT systems?



When the insurers were asked about the impact of IFRS 17 on their profit emergence it was found that 36 of insurers have not assessed the impact of IFRS 17 on their profit emergence at all Importantly, insurers expect to see around 71 of low to medium impact on the people in their companies. This is an important result that insurers should take into consideration with their IFRS 17 implementation.

For data and IT the survey showed that for those who have already made a decision with regards to IT solutions, the majority of life insurers have decided to use in house solutions whereas the majority of composite and non life insurers have decided to go with a combination of in house and off the shelf vendor IT solutions.

It can be concluded that there is still a large amount of work that needs to be completed for insurers in South Africa to implement IFRS 17 into their business in order to meet the 2023 deadline. This is definitely something that large corporations need to keep in mind in the upcoming year.

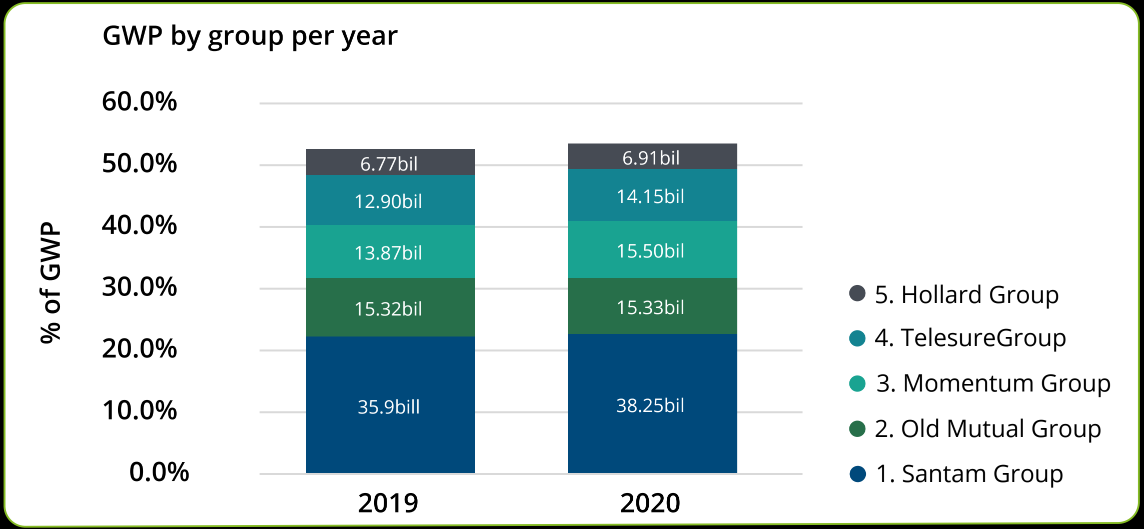
To see the full digest of results please contact us directly on the details provided at the beginning of this document.

When looking back at the preceding year it is fascinating to look at the key financial indicators and the way in which they have reacted to the market. The Prudential Authority (PA) recently published feedback on the Non-Life Insurance Industry Experience during 2020.

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

- The total industry Gross Written Premium (GWP) in the market share of the Top 5 group insurers
- The SCR cover ratios for 72 insurers including 54 primary insurers, 5 captive insurers, 6 cell captive insurers and 7 reinsurers during 2020.
- The net earned premium (NEP) per line of business
- The claims ratios per line of business

To see the full digest of results please contact us directly on the details provided at the beginning of this document.



From the above graph it is interesting to see that the top 5 Insurer Groups by market share account for 52.5% in 2019 and 53.6% in 2020 of the total GWP of all non-life insurers. We further see that in terms of GWP, Santam Group makes up the largest proportion accounting for R36.97 billion out of R161.30 billion of total GWP in 2019. In 2020, consistently with 2019, Santam Group accounts for the largest proportion of total GWP. This equates to R38.25 billion of the R168.50 billion total GWP for non-life insurers.

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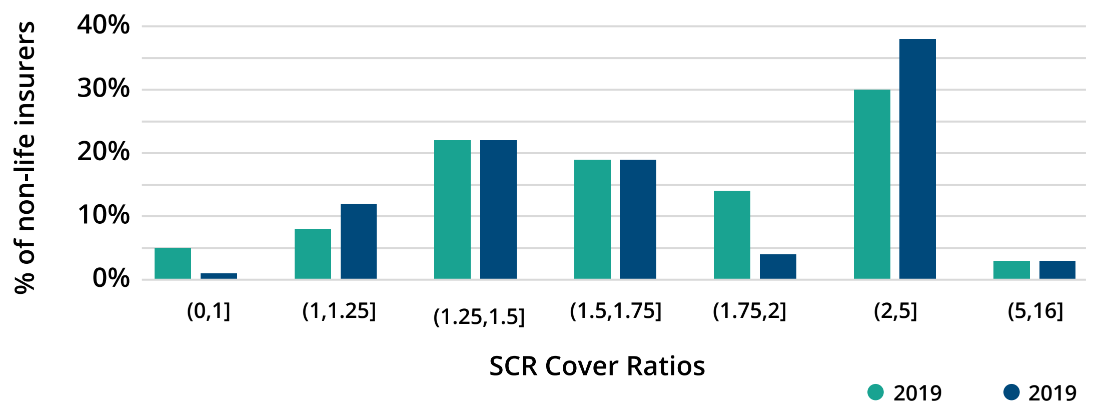
Non-Life Insurance Industry Experience Feedback issued by the PA (continued)

Another metric of interest is the SCR cover ratio. It can be observed that the majority of insurers in the non-life sector have reliably had a cover ratio that is less than or equal to 5 but greater than 2 in both 2019 and 2020. It is further no surprise that there have been a small number of insurers who have seen their cover ratio drop below 1. Although this is of concern, we see that the percentage of those thar range between (0,1] has decreased from 2019 to 2020. Other interesting results can be seen from the graph below.

The % of non-life insurers with various SCR Cover Ratios



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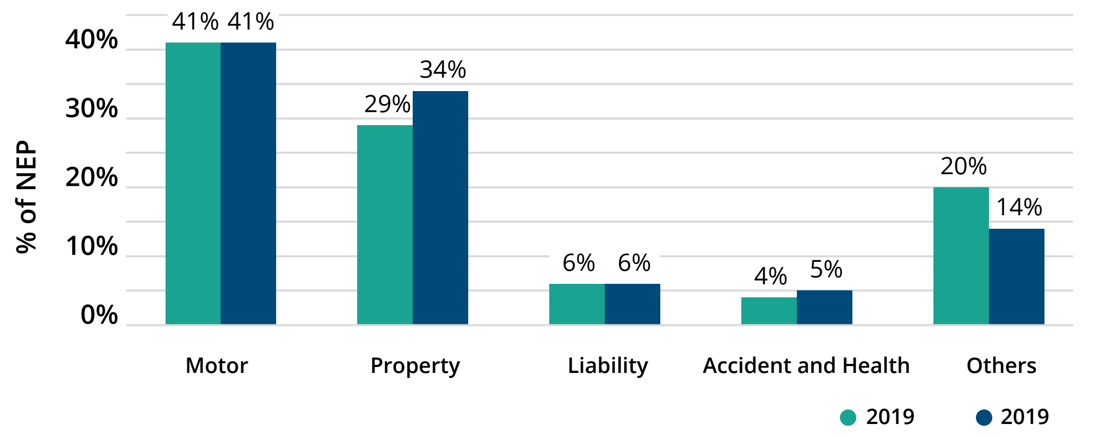
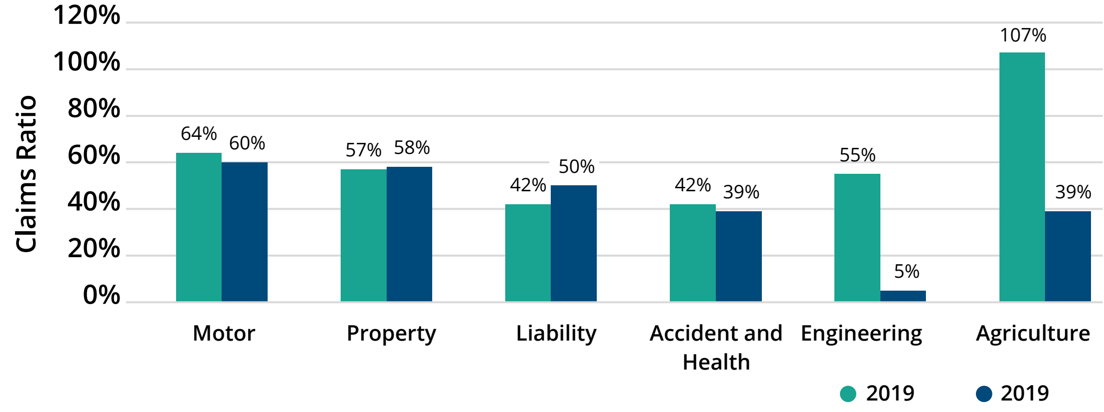
Share of net earned premium per line of business



Motor continues to be the largest lines of non-life business, remaining at a consistent 41% of market NEP from 2019 to 2020. It is followed by the property line of business with a share of total NEP at 29% in 2019 which increased to 34% in 2020.

The claims ratio per line of business



From the graph on the left, the claims ratios seem to be relatively steady from 2019 to 2020, with the exception of the engineering and agriculture lines of business.

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