Deloitte Insurance Industry Regulatory and Actuarial Update

December 2024

Our Actuarial & Insurance Solutions (AIS) team are pleased to present you with our last insurance industry update of 2024.

This issue includes summaries of recent communications from the Prudential Authority regarding insurance industry experience, liquidity risk, cyber security and cyber resilience as well as some interesting articles regarding microinsurance and developments and trends affecting the insurance market as outlined in our Deloitte Africa Insurance Outlook.

We trust you will have a restful break, and we look forward to sharing more valuable insights with you next year.

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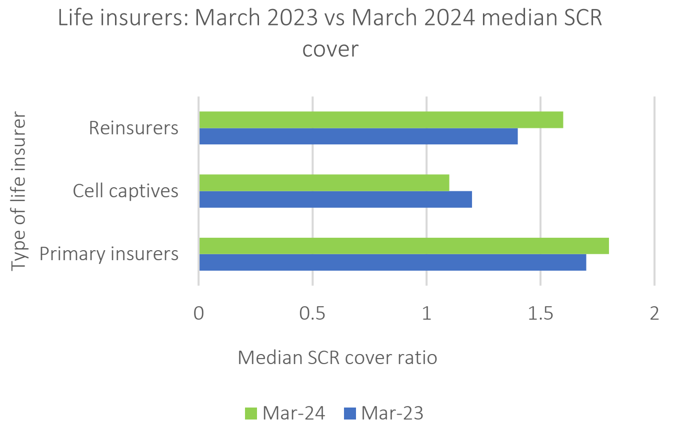
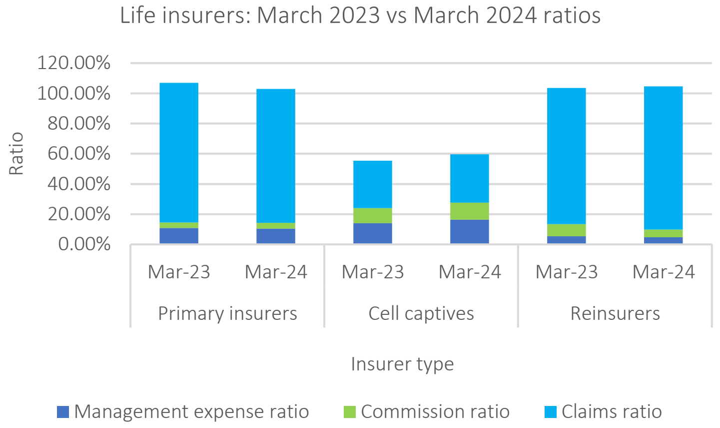
Life & Non-life Insurance Industry Experience 2023-2024

The Prudential Authority (PA) published Insurance Special Reports which contain an analysis of the industry based on the March 2023 – March 2024 results.

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

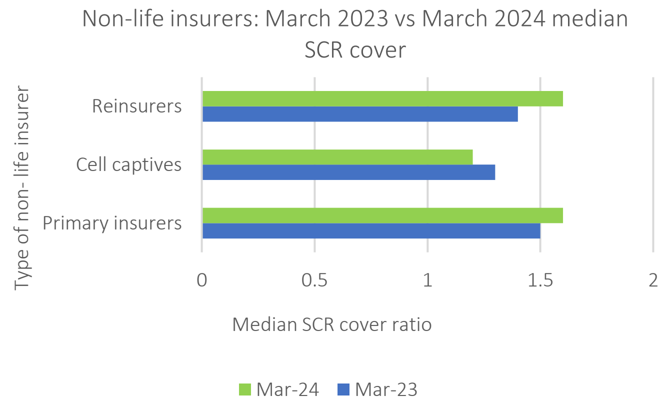
- The number of Life primary insurers has decreased from 61 to 60 from 2023 to 2024.
- The average commission ratio remained unchanged while the average claims and expense ratios decreased from 2023 to 2024 for primary Life insurers. These ratios are expressed as a percentage of net written premium over the period.
- The median SCR cover ratio and MCR cover ratio increased from 2023 to 2024 for Life primary insurers.

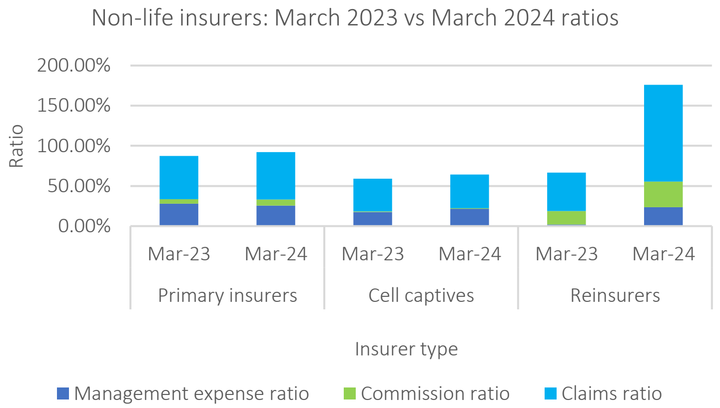




Some of the key **Non-life Insurance** experience features can be seen in the charts. In summary:

- The number of Non-life primary insurers has remained constant at 56 from 2023 to 2024.
- The average claims and commission ratios increased while the average expense ratio decreased from 2023 to 2024 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 2023 to 2024 for Non-life primary insurers.





For more information refer to the PA published Insurance Special Reports namely "Selected South African insurance sector March 2024" or click [*here.*]

Prudential Authority: Liquidity Risk Update

On the 28th of May 2024 the Prudential Authority published proposed amendments to the FSI 6 Standard and a Guidance Note on liquidity risk management for insurers. The industry was requested to give feedback and comments by the end of July 2024 and the amendments to FSI 6 is yet to be finalised.

Key aspects of the draft prudential Standard amendments

Annual liquidity risk reporting to the PA
Insurers will be required to prepare and submit a detailed liquidity risk report to the PA annually along with their Own Risk and Solvency Assessment (ORSA) report.

Liquidity risk appetite
Insurers must develop a liquidity risk appetite statement. Critically, all sources of liquidity risk should be identified, including (but not limited to) those risks arising from derivatives, securities finance transactions, reinsurance arrangements, customer behaviour, insurable events, FX convertibility, wholesale funding availability, and off-balance sheet structures.

Contingency funding plan (CFP)
A CFP is a blueprint which outlines strategies and possible actions for securing emergency funding during a liquidity crisis. A CFP is required for liquidity risk management and must be approved by the Board or approved sub-committee.

Liquidity stresses
Insurers must develop idiosyncratic stresses and use these to conduct stress testing to determine liquidity risk vulnerabilities. Current liquidity risk measures are based on solvency stresses and do not require the insurer to have specific liquidity stress scenarios.

Insurance liquidity ratio (ILR)
The proposed prudential Standard incorporates the updated liquidity risk metric, ILR, which is aligned with the new liquidity risk return, to be reported to the PA on monthly basis.

High quality liquid asset (HQLA) portfolio construction
The proposed prudential Standard prescribes assets that may be used in the quantification of the HQLA, the numerator of the ILR, including applicable haircuts or discount rates that should be applied to the respective asset market values.

For further reading see the Deloitte presentation [here.]

Cybersecurity & Cyber Resilience Requirements

On 17 May 2024, Prudential Authority and Financial Sector Conduct Authorities (the Authorities) published a communication around the final Joint Standard 2 of 2024 on Cybersecurity and Cyber Resilience (Joint Standard) on their respective websites.

Summary:

- The Joint Standard sets out the requirements for sound practices and processes relating to cybersecurity and cyber resilience for financial institutions.
- This Joint Standard applies to financial institutions, that is a bank, insurer or a controlling company.
- The Standard outlines governance, roles and responsibilities, strategy, framework, as well as regulatory reporting requirements for risks relating to cybersecurity and cyber resilience.

Call to action:

The Joint Standard is envisaged to commence on 1 June 2025. The Authorities urge the industry to prepare for its implementation.

To access the communication from the PA and the published joint Standard, click [here](#).

Micro-wave: Hello Microinsurance

The Microinsurance industry is growing – a possible opportunity?

Over the past 4 years there has been a sharp increase in the number of microinsurance licenses in South Africa. Many believe there is a possible opportunity in the microinsurance space due to the following:

Majority of the population in South Africa cannot afford traditional insurance products

Microinsurers have a significant market to tap into

By providing affordable insurance products, insurers are making a positive impact on society which ties in with their social responsibility

Non-Life and Life insurers have an opportunity to construct hybrid products which gives them access to their opposite market

Some of the biggest benefits of have a microinsurance license include:

- Capital requirements - lower capital requirements, notably a lower minimum capital requirement, will apply, as well as a separate category of microinsurance intermediaries in the FAIS Fit and Proper Determination.
- Expenses – less expenses incurred compared to traditional insurance.
- Governance - less governance requirements compared to a traditional insurer.

For further insights please reach out to our team.

2024/25 Africa Insurance Outlook

The African insurance industry is undergoing a transformative period, influenced by changing economic landscapes, rapid technological advancements and regulatory reforms. This year’s Africa Insurance Outlook pulled together by Deloitte provides an in-depth analysis of these critical developments and emerging trends across the continent.

Key themes

South Africa's major insurers have adapted to high interest rates and inflation through market expansion and digital platforms, while IFRS 17 has improved financial reporting without significant capital effects.

East Africa's insurance market, particularly in Kenya and Tanzania, is expanding through digital transformation and innovative products to enhance insurance accessibility.

Effective liquidity risk management is essential in South Africa, driven by regulatory changes requiring strong stress-testing and governance frameworks.

Digital transformation, including Insurtech and generative AI, is redefining the insurance sector, creating innovation opportunities alongside ethical and regulatory challenges, indicating a positive future for the industry.

For further reading please click on the image [link](#) above.

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