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Deloitte Insurance Industry Regulatory and Actuarial Update

March 2024

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

This issue includes summaries of recent communications from the Prudential Authority regarding government bond curve data and a new standard on IT, Governance and Risk Management.

Further topics covered include considerations regarding the end of JIBAR, the non-life insurance industry experience released in 2023 as well as recent developments and trends affecting the insurance market as summarised in our Deloitte Global Insurance Outlook.

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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Prudential Authority Government Bond Curve Review

The Prudential Authority (PA) has published a Position Paper following a review of the constituent data set and the construction methodology underlying the PA government bond curve.

Key Outcomes

Constituent selection

Although the general instrument selection criteria remains the same (mostly using GOVI bond instruments that make up the JSE GOVI bond index), instruments that are close to maturity are now being excluded as curve constituents.

Curve construction and interpolation

The curve has previously used linear interpolation and will continue to do so going forward, mostly due to simplicity. More sophisticated interpolation methods like monotone convex interpolation, cubic spline, Nelson-Siegel, etc. were considered and rejected despite generally resulting in more stable forward rates.

Ultimate forward rate (UFR) revision

This was where the most material change was implemented.

- To determine the rate, the PA will adopt a method based on an adjustment of the method used by the European Insurance Regulator. The nominal UFR in calendar year t = the EIOPA real expected short-term rate (published in calendar year t-1) + the midpoint of SA’s inflation target range (4.5%).
- For 2023, the EIOPA real rate was 1.4% which means that the calculated UFR rate for 2023 in South Africa would have been 5.9%.
- The convergence term of the UFR will change from 150 years to 120 years
- The implementation of the revised UFR methodology will commence in January 2024 (with effect from February 2024).

Next Steps

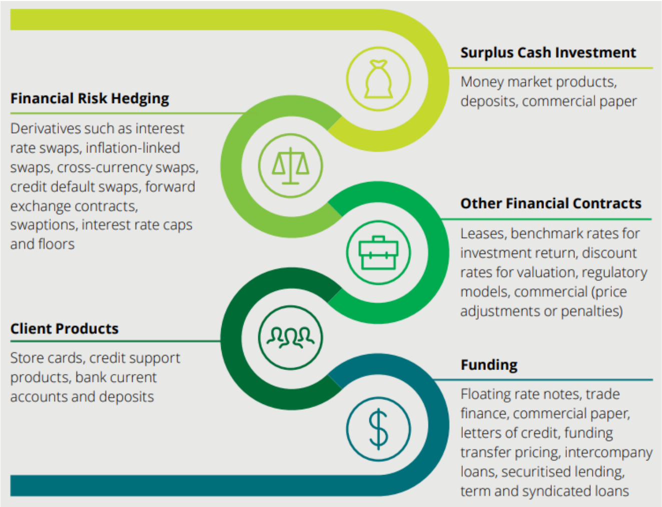
Over time, further work will be considered on the part of the curve at shorter durations. This will be done in conjunction with a review of whether Treasury bills should be included as constituents.

For further reading find the full position paper on the reserve bank website under PA publications: [here.]

The End of JIBAR is Nearing

The Johannesburg Interbank Average Rate (JIBAR) has been the benchmark interest rate in South African institutional financial markets since the 1990s. But now change is coming. A new reference rate has been identified to replace JIBAR, in line with global best practice.

Instrument types impacted by the introduction of a new benchmark.



Source: Deloitte research

Overview

JIBAR has been the most prominent benchmark interest rate in South Africa for many years. Almost every interest rate bearing product or derivative has some reference or exposure to JIBAR.

In light of keeping up with global best practice standards, where rates such as LIBOR (London Interbank Offered Rate) have had their sustainability and reliability brought into question as per the LIBOR Scandal. The South African Reserve Bank (SARB) has endorsed ZARONIA (South African Overnight Index Average) as the replacement rate for JIBAR.

JIBAR vs ZARONIA

Where JIBAR performs as a forward-looking polled rate, ZARONIA acts as a retrospective actual overnight deposit rates measure. The impacts of the transition are expected to affect the operations and risk management of corporates. The time to act is now to ensure that organisations are ready for this transition.

Transition impact

The figure to the left illustrates the areas that are expected to be impacted by the transition.

This Deloitte publication provides treasurers with guidance to steer their organisations through this transition, while minimising disruptions to the management of the derivative and debt portfolios.

For further insights, please click [here](#) or reach out to our team.

This year's Global Insurance Industry Outlook pulled together by Deloitte considers the recent developments, trends and factors that outline the performance of the insurance industry as we head into the new year.

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

Key themes

The escalating frequency and severity of global risks (from climate change to cybercrime) has increased the focus on the insurance industry's capacity and readiness to react as society's "financial safety nets."

Most insurers are realising that reacting to risks may not be good enough and are undertaking transformation efforts aimed at preventing losses from happening in the first place.

The shift to a more customer-centric business model will likely require advanced technology adoption and modification of company culture to help minimise isolated interactions, enhance collaboration among employees, and increase accessibility of customer data – but skill sets may need to be augmented.

Merger and acquisition (M&A) activity has been on a decline since Q2 2022 mainly due to macroeconomic factors. However, as increases in interest rates and inflation ease, pent-up activity may drive an upsurge in deals in 2024. Insurance technology companies (InsurTechs) remain front and centre of acquisition activity.

A fundamental mission underlying much of this change is that the industry's role is pivoting to that of a sustainability ambassador, influencing and propelling purpose-driven decisions and strategies of clients across industries to create a better workplace, marketplace, and society.

Information Technology, Governance and Risk Management

On 15 November 2023, the PA and FSCA (the Authorities) published a Joint Standard 1 of 2023 – Information Technology (IT) Governance and Risk Management on their respective websites. The Joint Standard is effective from 15 November 2024.

This Joint Standard applies to financial institutions such as Banks/Insurance companies and other institutions in the financial sector, including:

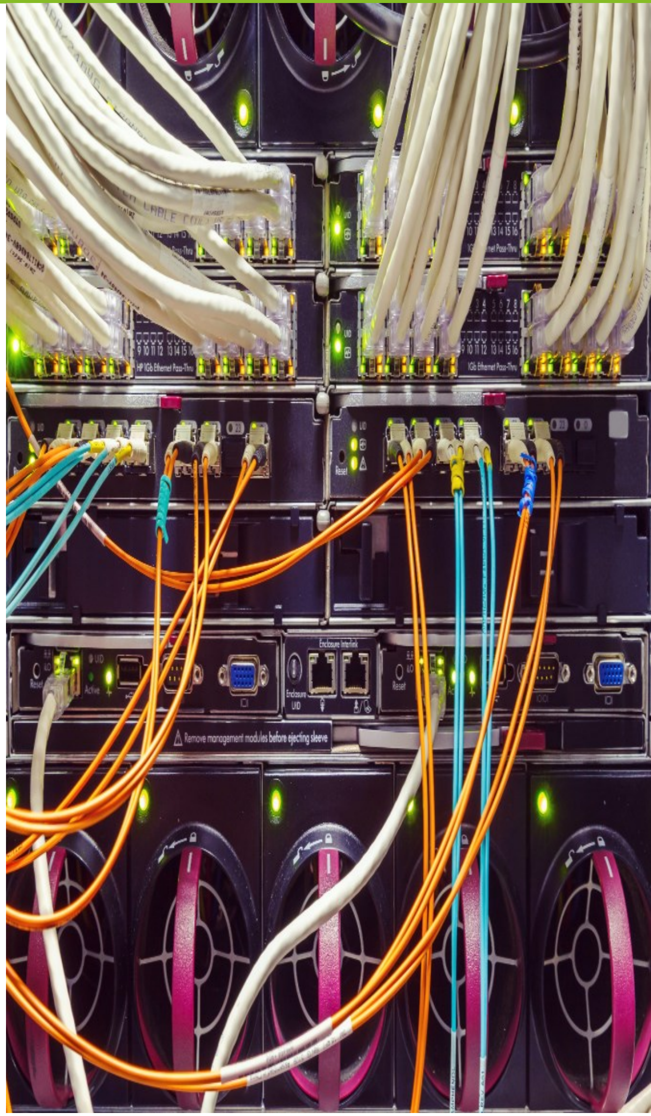
a) A financial product provider.
b) A financial service provider.
c) A market infrastructure.
d) A holding company of a financial conglomerate; or
e) A person licensed or required to be licensed in terms of a financial sector law.

The joint standard provides minimum requirements and principles for the sound practices and processes of IT governance and risk management, that must be implemented to reflect the nature, size, complexity and risk profile of a financial institution.

For further reading on this development, please click [here.](#)

The document sets requirements for the following:

1) Roles and responsibilities
2) IT Strategy
3) Application
4) IT risk management framework
5) Oversight of IT risk management
6) IT Operations
7) Handling of sensitive or confidential information
8) Risks associated with financial products and financial services.
9) IT programme and/or project management
10) IT resilience and business continuity
11) IT assurance
12) Notification and reporting requirements and
13) Governance requirements

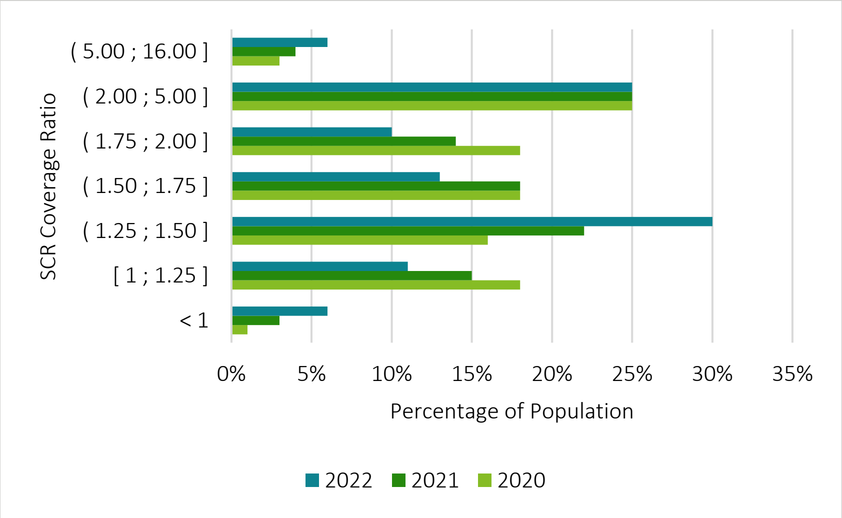


Non-Life Industry Experience Released in 2023

Non-Life Insurance Industry Premiums 2021 vs 2022

	2021 (R'bn)	2022 (R'bn)	Change (%)
Total Industry GWP	177.30	196.00	10.60%
Reinsurer	18.70	23.40	25.00%
Inwards Reinsurer	11.40	12.30	7.50%
Direct Insurer	147.10	160.30	9.00%
Total Industry NWP	110.90	121.50	9.60%
NWP/GWP	*62.50%*	*62.00%*	

SCR Coverage Ratio Distribution



The Prudential Authority (PA) published and presented a Non-Life Insurance Experience Report based on the annual quantitative reporting templates submitted to the PA during 2022.

The Non-Life Insurance Industry has shown growth over the years 2021 to 2022 with Gross Written Premium (GWP) growing by 10.60% rendering the industry worth R196 billion for the financial year 2022.

Reinsurance take up in the market has remained relatively stable resulting in a Net to Gross Written Premium ratio of 62.00% in 2022 compared to 62.50% in 2021.

The key focus areas over 2022 included: COVID-19, KZN riots, loadshedding, adverse weather and market volatility (particularly due to high inflation and rising interest rates).

The underwriting results for primary insurers, cell captives and captives have been positive for the past three years (2020 to 2022) with the reinsurers experiencing negative underwriting results. Furthermore, incurred claims ratios were on average higher in 2022 than the prior year.

The proportion of insurers with a coverage of less than 1X SCR has increased from 3% last year to 6% this year which may indicate more strain across the industry as a result of the key focus areas as noted above. See chart on the left.

For further information, access the slide deck [here](#).
The full presentation can also be viewed [here](#) (password: Ebz&2i#E).