



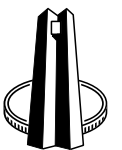
# **Prudential Authority South Africa**

## **Insurance Supervision Training Bank of Jamaica**

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September 2025

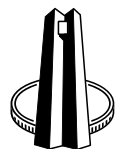
Presenter: Faizel Jeena



**SOUTH AFRICAN RESERVE BANK**  
Prudential Authority

# Agenda

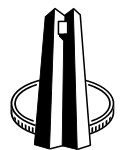
1. Introduction and general environment
2. Risk Types
3. Supervisory Framework
4. Quantitative and Qualitative tools
5. Supplementary tools
6. Breakaway session – teamwork & feedback
7. Closing





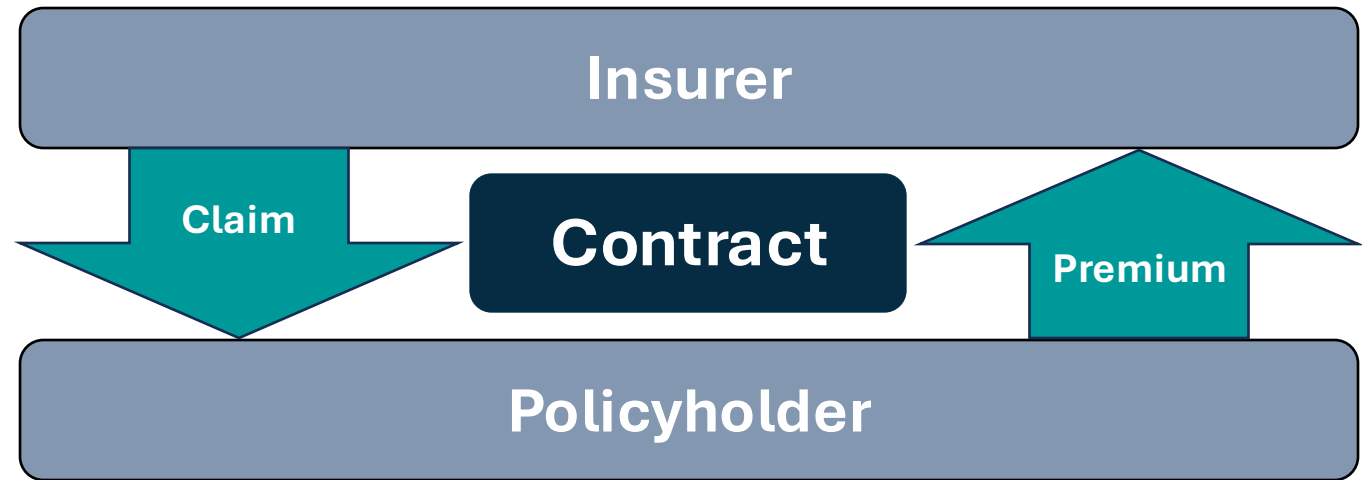
# Introduction and general environment

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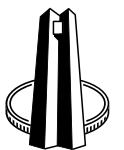


# Insurance

- What is Insurance?



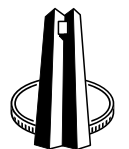
- Insurers take on risk of financial loss due to insured events in exchange for a premium(s)
- Pooling of risk is fundamental to insurance business viability
- Premiums should cover outgo:
  - Claim/benefit payments
  - Operational expenses
  - Profit margins
- Profitability is driven by underwriting profits and investment income
- Annual profitability highly dependent on claims volatility and investment performance
- Actuaries, statisticians, underwriters and other professionals provide expertise
- Insurance business subject to regulation



# Insurance Business Models

Difference between life and non-life insurance:

- Purpose
- Coverage
- Benefits
- Premiums



# Insurer Types

## Primary

Typically licensed to conduct only insurance business

## Cell Captive

Only conducts insurance business through cell structures



## Reinsurer

Licensed to conduct only reinsurance business (insure the insurers)

## Microinsurer

Only conducts microinsurance business in specified classes

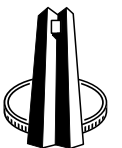
## Linked

Policy obligations not fully/partially guaranteed and determined by reference to the value of a specified asset



## Captive

Only insures first party risks (self insurance)





# Insurance Distribution

## Insurance Product Distribution Channels

Direct marketing and sales

In-house insurance agents

Independent brokers / intermediaries

Financial advisors or planners (mainly life insurance)

Online aggregators and marketplaces

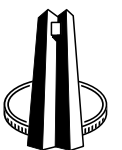
Banks and financial institutions (bancassurance)

Affinity groups and partnerships

Digital sales channels

### Channels cater to different:

- Sales methods
- Target markets
- Complexity of products
- Level of underwriting



# Non-life Insurance – Classes of business

Class	Sub-class
1. Motor	a. Personal lines b. Commercial lines
2. Property	a. Personal lines b. Commercial lines
3. Agriculture	a. Personal lines b. Commercial lines
4. Engineering	
5. Marine	a. Personal lines b. Commercial lines
6. Aviation	a. Personal lines b. Commercial lines
7. Transport	a. Personal lines b. Commercial lines
8. Rail	
9. Legal Expense	a. Personal lines b. Commercial lines
10. Liability	a. Directors and officers b. Employer liability c. Product liability d. Professional indemnity e. Public liability f. Aviation

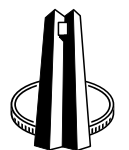
Class	Sub-class
10. Liability	g. Engineering h. Marine i. Motor j. Rail k. Transport l. Personal m. Other
11. Consumer Credit	a. Personal lines b. Commercial lines
12. Trade Credit	
13. Guarantee	
14. Accident and Health	a. Individual - Personal lines b. Individual - Commercial lines c. Group
15. Travel	a. Individual - Personal lines b. Individual - Commercial lines c. Group
16. Miscellaneous	a. Personal lines b. Commercial lines
17. Reinsurance	a. Proportional – in class or sub-class above b. Non-proportional – in class or sub-class above



# Life Insurance – Classes of business

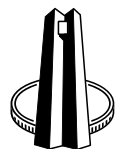
Class	Sub-class
1. Risk	<ul style="list-style-type: none"> <li>a. Individual Death</li> <li>b. Individual Health</li> <li>c. Individual Disability - lump sum</li> <li>d. Individual Disability - recurring payment</li> <li>e. Group Death</li> <li>f. Group Health</li> <li>g. Group Disability - lump sum</li> <li>h. Group Disability - recurring payment</li> </ul>
2. Fund Risk	<ul style="list-style-type: none"> <li>a. Death</li> <li>b. Disability - lump sum</li> <li>c. Disability - recurring payment</li> </ul>
3. Credit Life	
4. Funeral	<ul style="list-style-type: none"> <li>a. Individual</li> <li>b. Group</li> </ul>
5. Life Annuities	<ul style="list-style-type: none"> <li>a. Guaranteed (fully or partially)</li> <li>b. Market related</li> <li>c. With discretionary participation features</li> </ul>

Class	Sub-class
6. Individual Investment	<ul style="list-style-type: none"> <li>a. Guaranteed (fully or partially)</li> <li>b. Market related</li> <li>c. Linked</li> <li>d. With discretionary participation features</li> </ul>
7. Fund Investment	<ul style="list-style-type: none"> <li>a. Guaranteed (fully or partially)</li> <li>b. Market related</li> <li>c. Linked</li> <li>d. With discretionary participation features</li> </ul>
8. Income Drawdown	<ul style="list-style-type: none"> <li>a. Guaranteed (fully or partially)</li> <li>b. Market related</li> <li>c. Linked</li> <li>d. With discretionary participation features</li> </ul>
9. Reinsurance	<ul style="list-style-type: none"> <li>a. Proportional – in class or sub-class above</li> <li>b. Non-proportional – in class or sub-class above</li> </ul>

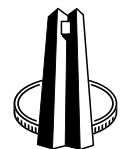
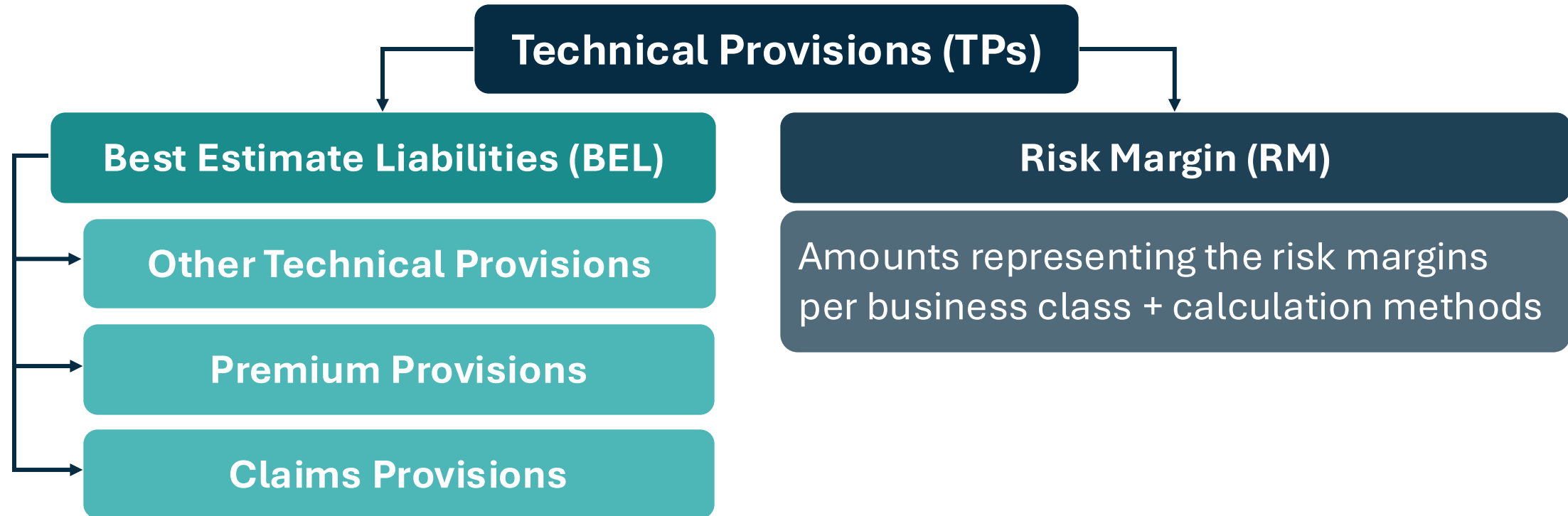


# Example: Non-life Insurer Balance Sheet

Assets (R'million)		
Total Investments	112	Composition
Government Bonds	28	25%
Corporate Bonds	33	29%
Equity	16	14%
Cash and Deposits	32	29%
Other Investments	3	2%
Reinsurance Recoverables	27	
Other Assets	8	
<b>Total Assets</b>	<b>146</b>	
Liabilities (R'million)		
Gross Technical Provisions	56	
Best Estimate Liabilities	54	
Premium Provisions	12	
Claims Provisions	43	
Outstanding Claims Reserves	36	
Incurred But Not yet Reported	6	
Risk Margin	2	
Reinsurance Liability	16	
Net Technical Provisions	40	
Other Liabilities	6	
<b>Total Liabilities</b>	<b>62</b>	
<b>Own Funds</b>	<b>84</b>	

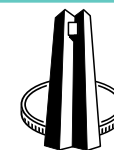
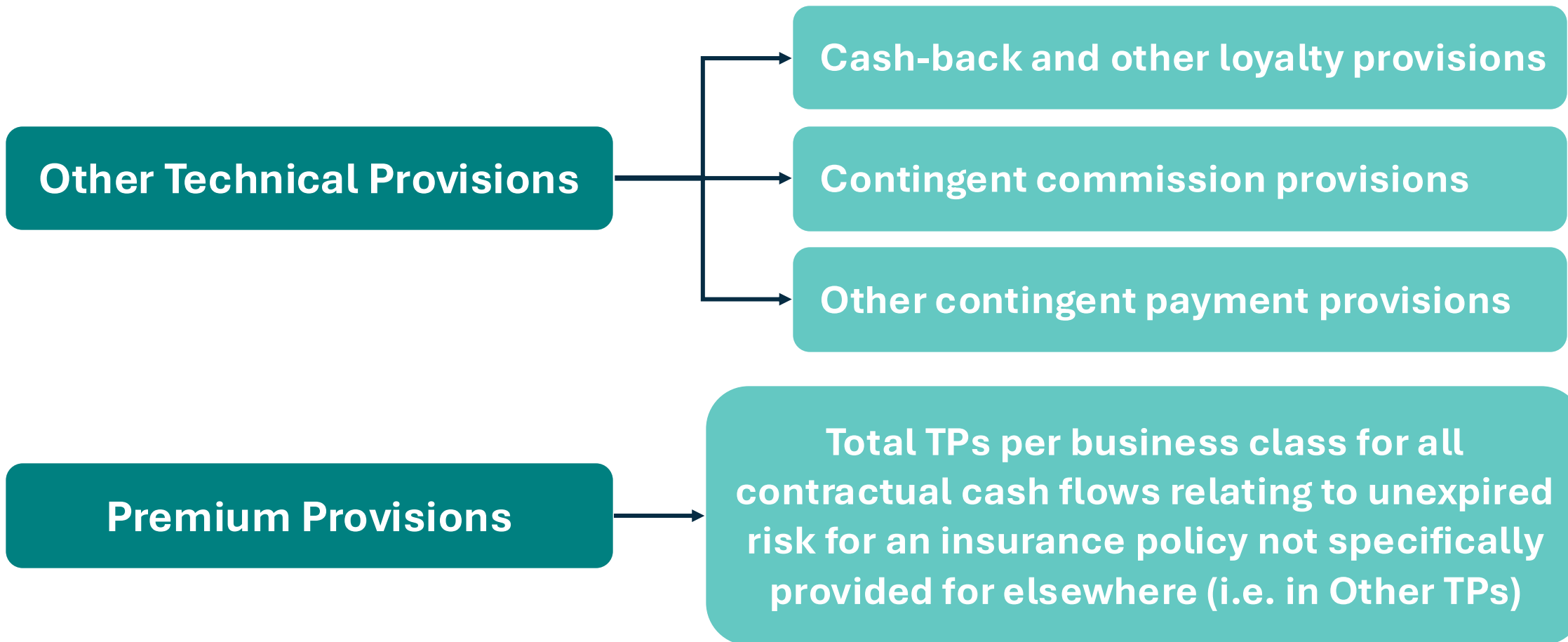


# Non-life Technical Provision Components

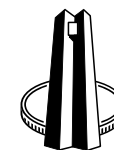
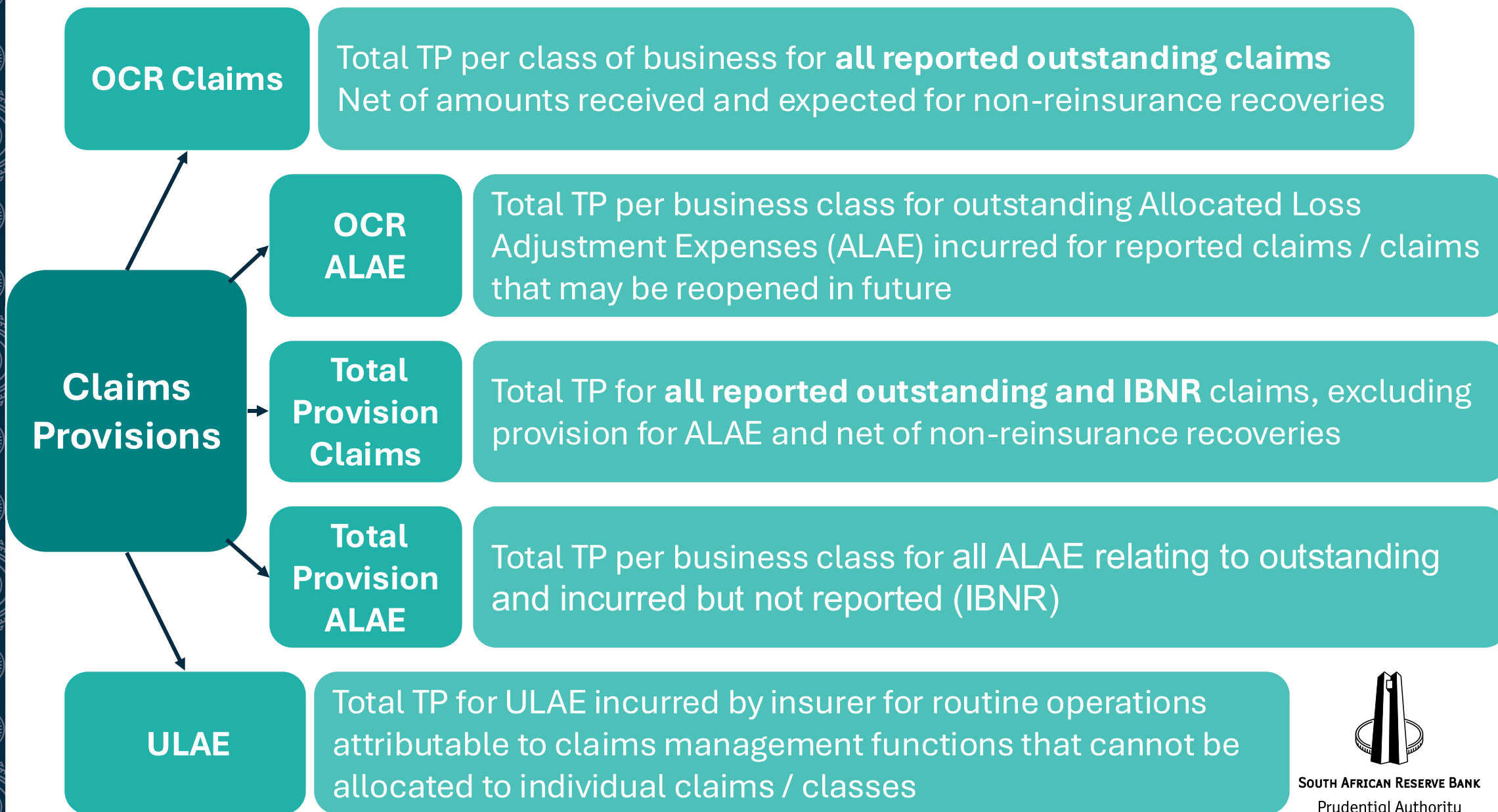




# Non-life Technical Provision Components

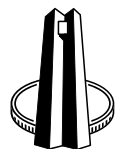


# Non-life Technical Provision Components



# Example: Non-life Income Statement

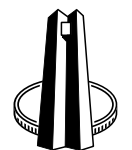
Premiums written	120
Movement in premium provisions	27
<b>Earned premiums</b>	<b>93</b>
Claims paid	(40)
Movement in claims provisions	(20)
<b>Claims incurred</b>	<b>(60)</b>
Commission paid	(10)
Operating expenses	(20)
<b>Underwriting result: profit/(loss)</b>	<b>3</b>
Investment income	5
<b>Profit/loss (pre-tax)</b>	<b>8</b>



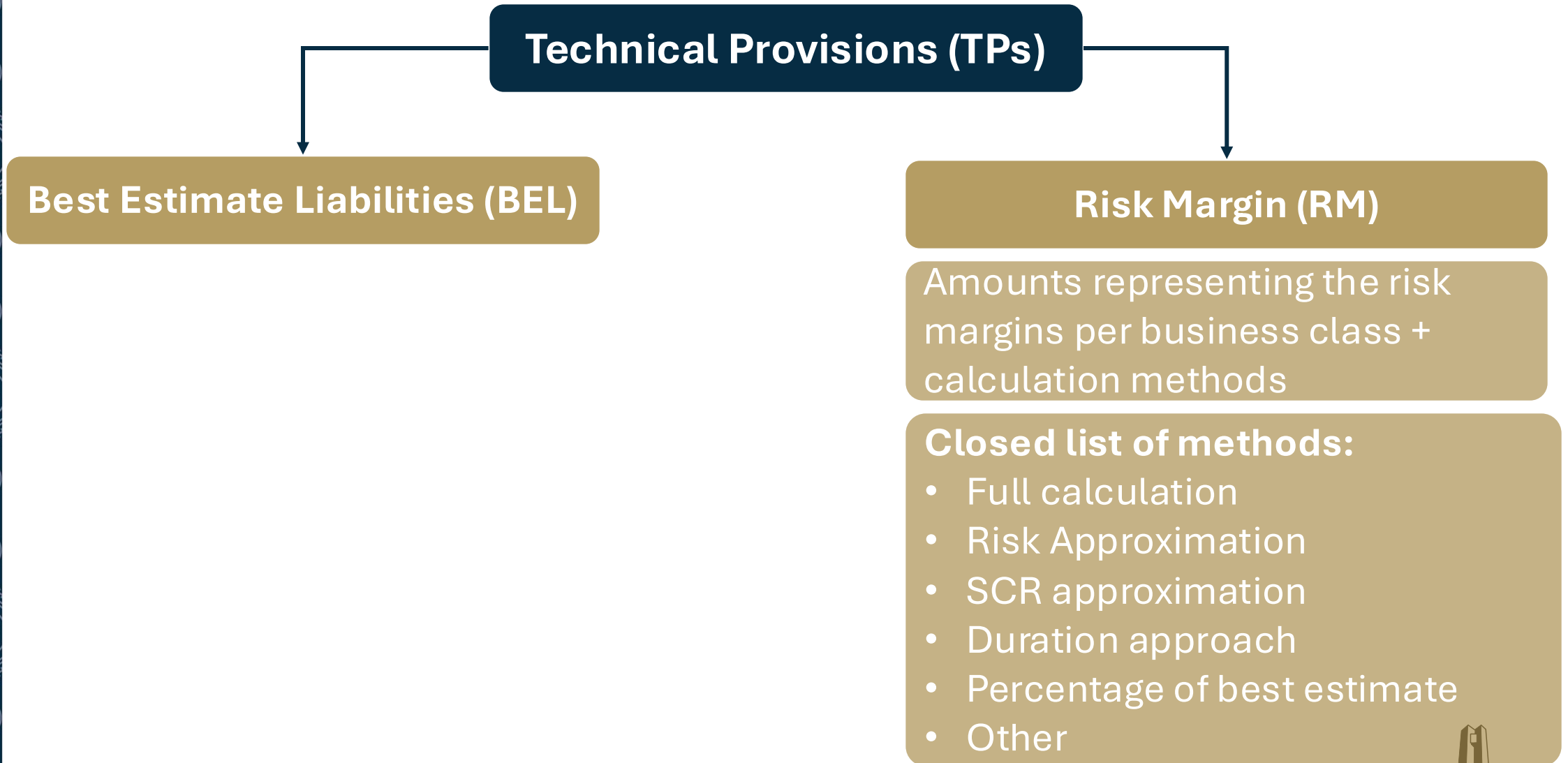


# Example: Life Insurer Balance Sheet

Assets (R'million)		
Total Investments	160	Composition
Government Bonds	16	10%
Corporate Bonds	11	7%
Equity	90	56%
Cash and Deposits	16	10%
Other Investments	27	17%
Reinsurance Recoverables	1	
Other Assets	11	
<b>Total Assets</b>	<b>172</b>	
Liabilities (R'million)		
Gross Technical Provisions	121	
Best Estimate Liabilities	119	
Risk Margin	2	
Reinsurance Liability	1	
Net Technical Provisions	120	
Other Liabilities	8	
<b>Total Liabilities</b>	<b>129</b>	
<b>Own Funds</b>	<b>43</b>	

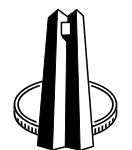


# Life Technical Provision Components



# Example: Life Income Statement

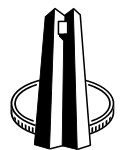
Premiums written	46
Investment income	18
Movement in reserves	(41)
Benefit payments	(8)
Expenses	(3)
Commission	(6)
<hr/>	
Profit / loss (pre-tax)	6
Tax payable	(2)
<hr/>	
Profit / loss (post-tax)	4
Dividends to shareholders	(1)
<hr/>	
Transfer to balance sheet “shareholders’ retained profit”	3





# Risk Types

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# Insurance Risk Types

## Market Risk

Risk of loss due to **market price movements** affecting the value of an insurer's assets and liabilities

## Underwriting Risk

Risk of loss arising from a non-life or a life insurance obligation

## Liquidity Risk

Risk of not being able to buy or sell an asset **quickly** enough to prevent a loss or to meet financial obligations

## Operational Risk

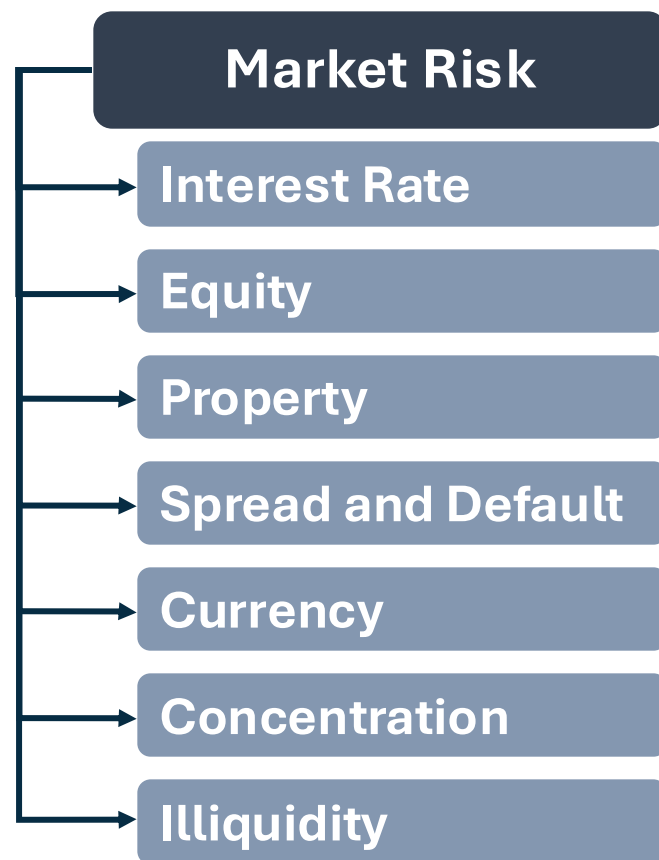
Risk of loss arising from **inadequate or failed** internal **processes, people and systems**, or from external events

## Credit Risk

Risk that a borrower will **default** on their debt obligations, leading to financial loss for lender

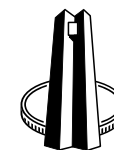


# Market Risk



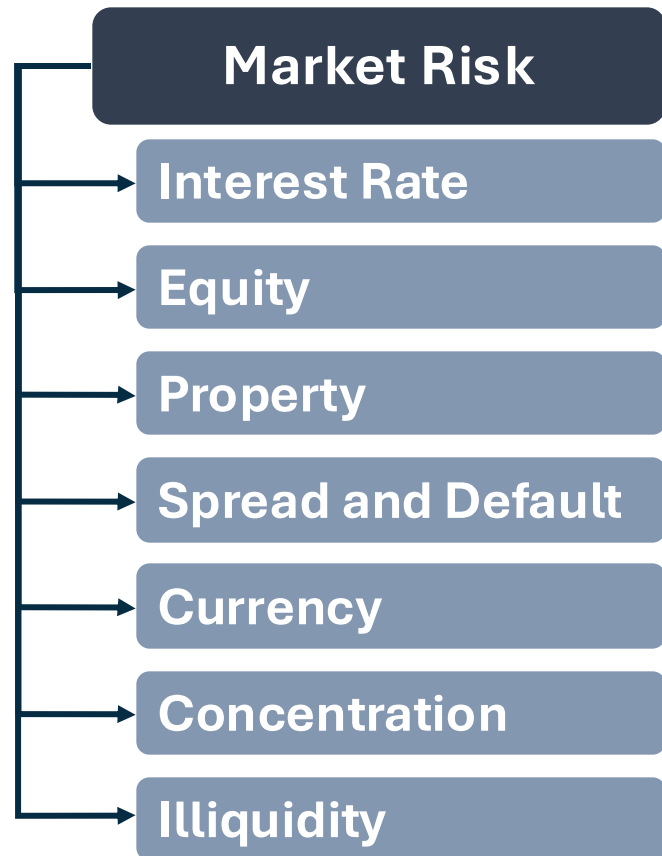
Effective risk management framework facilitated through:

- Internal market risk management policies and practices
- Product design – with-profits life policies can lead to higher risk investments
- Valuation principles – mark-to-market & mark-to-model
- Assuming outright market risk
- Matching
- Hedging

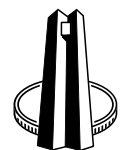




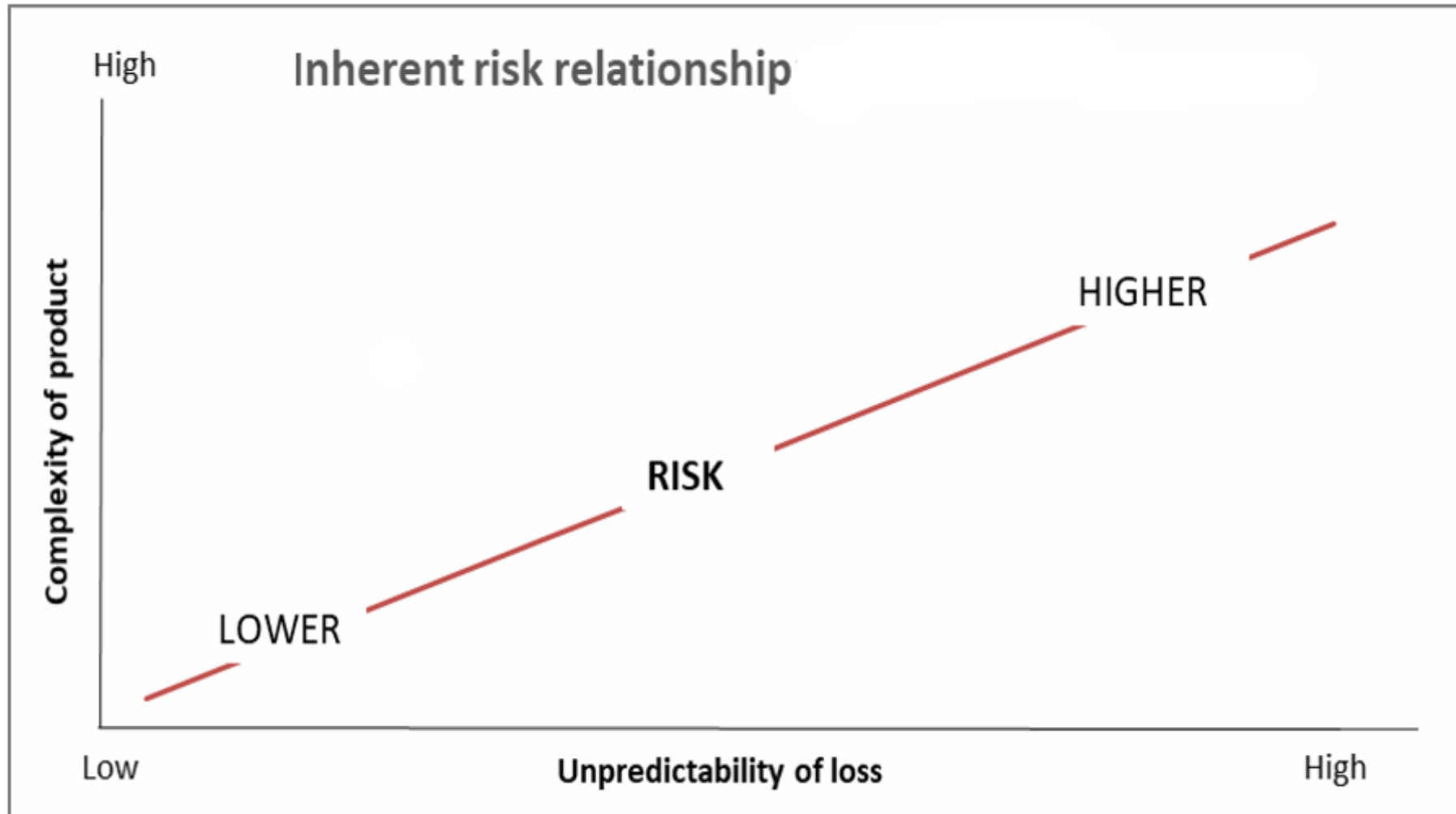
# Market Risk



- Main drivers of market risk:
  - Exposure to financial instruments and participations
  - Interest rate movements
  - Value of investment guarantees
  - Long-term policyholder asset / liability mismatch risk (life insurers)
- Assets forming the group's capital base including currency risks on capital invested overseas
- Assets backing liabilities other than policyholder liabilities



# Underwriting Risk



# Underwriting Risk

## Underwriting Risk

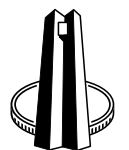
Risk of loss arising from insurance obligations

### Life Underwriting Risks

- Mortality risk
- Longevity risk
- Disability/morbidity risk
- Lapse risk
- Expense risk
- Catastrophe risk
- Retrenchment risk

### Non-Life Underwriting Risks

- Premium and reserve risk
- Lapse risk
- Catastrophe risk

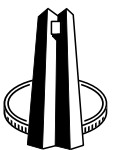


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# Underwriting Risk - Non-life Insurance

## Premium risk

- Risk of fluctuations in timing, frequency, and severity of insured events
- Relates to policies to be written / renewed during the period, and to unexpired risks on existing policies
- Includes risk:
  - That premium provisions insufficient to pay claims / need to be increased
  - Arising from volatile expense payments





# Underwriting Risk - Non-life Insurance

## Reserve risk

- Risk of fluctuations in timing and amount of claim settlements, including risk that claims provisions insufficient to cover claims from expired risk period
- Uncertainty of provisions generally higher for new portfolios as complete settlement patterns not yet available
- Insurance classes with significant settlement delays (long-tail) typically have higher reserve risk
  - More scope for claims to be settled at amounts higher than reserved for due to factors such as inflation, uncertainty in actual claim amounts
  - Liability class is a typical example
- Relatively lower reserve risk for classes with short settlement delays (short-tail)



# Underwriting Risk - Non-life Insurance

## Catastrophe (CAT) risk

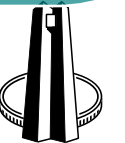
- Risk of loss associated with CAT events
- Relatively higher uncertainty due to lack of credible data and associated modelling complexities
- Typically the most significant on a gross basis for certain insurance classes e.g., Property
- Much lower on a net basis, if insurers are able to put in place appropriate reinsurance arrangements
- Insurers cede most of their CAT exposure to reinsurers
  - Limited appetite to retain this on their balance sheet
  - Cost and availability of cover may be a challenge at times, resulting in insurers retaining higher CAT exposures than ideally desired



# Underwriting Risk - Non-life Insurance

## Catastrophe (CAT) risk

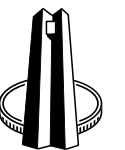
- CAT events typically result in insured losses on many policies, and affect multiple insurers simultaneously
- Other eligible risk mitigation instruments may also be utilised to manage CAT risk, depending on applicable local regulations
- Insurability of perils associated with Climate Change, such as floods, presenting a particular challenge as even reinsurers may have limited appetite and capacity to take on these risks
- International reinsurers and Lloyd's provide most of the reinsurance cover



# Underwriting Risk - Non-life Insurance

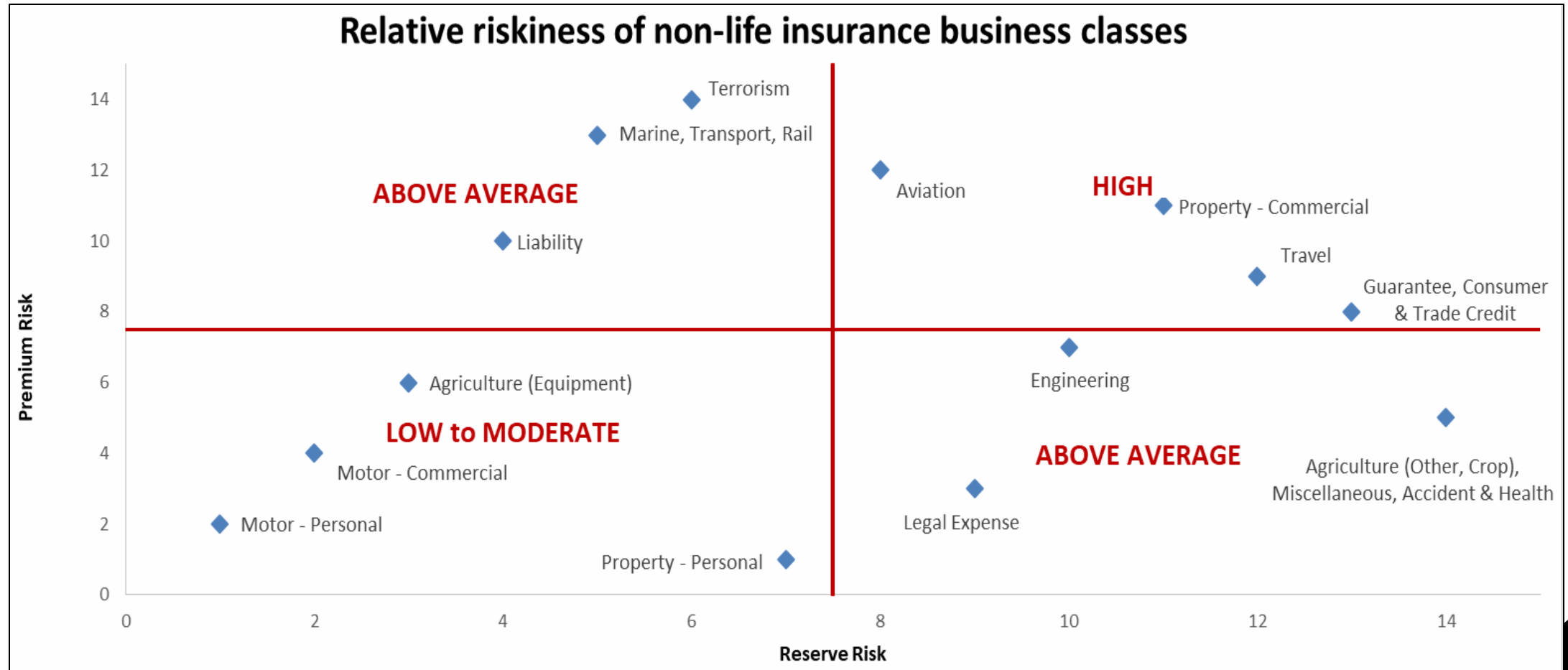
## Lapse risk

- Non-life policies typically have short contract boundaries, making lapse risk immaterial from a solvency perspective
- Lapse risk a key risk in terms of profitability, as cost of acquiring new business is typically higher than cost of servicing existing business





# Underwriting Risk - Non-life Insurance



# Underwriting Risk - Life Insurance

## Longevity Risk

- The risk of loss from changes in the level, trend, or volatility of mortality rates.
- Whereby a decrease in mortality rates leads to an increase in the applicable technical provisions for liabilities subject to longevity risk.

## Mortality Risk

- The risk of loss from changes in the level, trend, or volatility of mortality rates.
- Whereby an increase in mortality rates leads to an increase in the applicable technical provisions for liabilities subject to mortality risk.



# Underwriting Risk - Life Insurance

## Lapse Risk

- The risk of loss due to a change in the expected exercise rates of contractual options, including:
  - Options that allow for the insurance cover to be fully or **partly terminated, decreased, restricted or suspended**.
  - Options that allow for the full or partial establishment, **renewal, increase, extension or resumption** of insurance cover.
  - Options that allow for the **non-payment of premiums**.

## Disability / Morbidity Risk

- The risk of loss due to changes in the level, trend or volatility of disability-morbidity rates.

# Underwriting Risk - Life Insurance

## Expenses Risk

- The risk of variations in the expenses incurred in servicing insurance obligations, including the risk from the growth in expenses over and above that of inflation.
- Expenses can be:
  - Fixed Expenses
  - Variable Expenses

## Retrenchment Risk

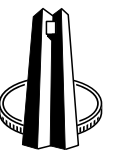
- The risk of loss from changes in the level, trend or volatility of retrenchment inception rates.
- This risk arises when the actual retrenchment rate is worse than expected, for example during an economic recession when rates of unemployment increase.



# Underwriting Risk - Life Insurance

## Catastrophe Risk

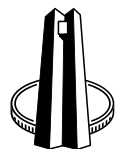
- The risk of loss from extreme or irregular events whose effects are not sufficiently captured by the other risk components of life underwriting risk.
- Life catastrophe risk is mainly associated with products where an insurer guarantees to make a payment when a policyholder dies, suffers disability or critical illness.
- Examples of catastrophe risk in the context of life insurance include pandemic events or nuclear disasters.



# Underwriting Risk Management

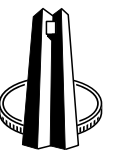
Effective risk management framework facilitated through:

- Reinsurance
  - Reinsurers provide insurance cover to insurers
  - Retrocessionaires provide reinsurance cover to reinsurers
  - Reinsurance is one of the key risk management tools for insurers
  - Primarily used by non-life insurers to manage underwriting risk
  - Other key benefits:
    - Increase capacity
    - Support entry into a new class or sub-class of business
    - Gain access to reinsurers' expertise
    - Diversify risk and reduce regulatory capital requirements



# Reinsurance

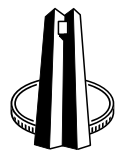
- Facultative
- Treaty
- Proportional vs Non- Proportional



# Underwriting Risk Management

Other risk management tools:

- Price Management
- Policy Underwriting
- Claims Management
- Product Design
- Managing the distribution process and customer relationship
- Managing other counterparties
- Enterprise risk management
- Diversification – geographically and across classes of business
- Other internal processes

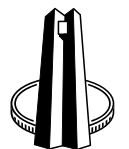




# Liquidity Risk

Effective risk management framework facilitated through:

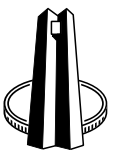
- Identification of material liquidity risk drivers
- Stress testing
- High-quality liquid assets
- Contingency funding planning
- Risk appetite and risk limits
- Comprehensive liquidity risk reporting



# Liquidity Risk

Understanding elements of liquidity risk of insurers:

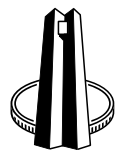
- Insufficient liquidity can cause failure in insurers that are otherwise solvent
- Liquidity risk mainly managed in 2 portfolios – shareholder and policyholder
- Shareholder portfolio liquidity risk – e.g. unexpected shareholder redemptions / dividend payouts, guaranteed benefits / minimum surrender values
- Policyholder liquidity risk – linked products
- Non-core insurance activities can increase liquidity risk e.g. derivative contracts and securities lending transactions



# Operational Risk

Effective risk management framework facilitated through:

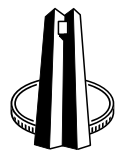
- Tone from the top
- Effective and robust governance structures
- Clear and defined policies and frameworks
- Risk management process



# Operational Risk

Understanding elements of operational risks of insurers:

- Requirement to hold operational risk capital
- Reporting of operational risk events & losses
- Change management processes
- Operational resilience and business continuity
- Documented and automated processes
- Third-party risk management
- Reliance on IT systems and need for strategic IT capabilities
- Awareness and monitoring of cyber threats

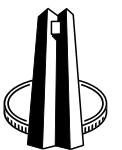




# Credit Risk

Effective risk management framework facilitated through:

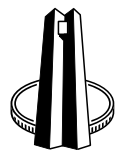
- Internal credit risk management policies and practices – including for inter-company lending / financial assistance / guarantees
- Credit risk management of lending portfolios, investments and reinsurers
- Impairment testing and provisioning models
- Key Risk Indicators - e.g. risk appetite limits
- Credit ratings processes



# Credit Risk

Understanding elements of credit risk in insurers:

- Spread & Default risk and Concentration risk
- Reporting requirements – Solo insurer & Group returns
- Inter-company lending, financial assistance and guarantees
- Watchlist observations – Top 5 life & non-life insurers
- Credit board packs observations – Top 5 life & non-life insurers
- Supervisory Colleges and Credit Risk Prudential Meetings
- Debt Sustainability – Banks, Sovereigns, PSEs & Corporates



# Risk to Capital Requirement

## SAM Solvency Capital Requirement (SCR)

**BSCR**

**Operational Risk**

**LACDT**

**Participations**

**Market Risk**

Interest Rate

Equity

Property

Spread and Default

Currency

Concentration

Illiquidity

**Life Underwriting Risk**

Mortality

Longevity

Disability / morbidity

Lapse

Expenses

Catastrophe

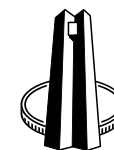
Retrenchment

**Non-life Underwriting Risk**

Premium and Reserve

Lapse

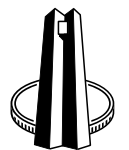
Catastrophe



**SOUTH AFRICAN RESERVE BANK**  
Prudential Authority

# Insurance Supervision

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# What is insurance supervision and regulation?

## Insurance Supervision

- Process of monitoring insurers' adherence to insurance regulations
- Ensure insurance market safe, fair, and stable for policyholders

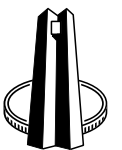


## Insurance Regulation

- Setting rules and guidelines to govern operation of insurers
- Protects consumers and investors
- Ensure financially stable insurers



**Purpose:** Ensure financial institutions operating in the financial system are inherently safe and sound



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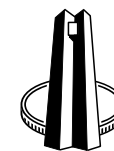
# Why is insurance supervision necessary?

- **Policyholder protection** - ensure financial stability and solvency of insurers
- **Financial safety and soundness of insurers** - promoted and enhanced
- **Support financial stability** - monitor and manage insurance sector risks
- **Risk management** - monitor and assess insurance risks and business models, requiring implementation of adequate risk mitigation strategies
- **Market integrity** - prevent fraud, market manipulation and unfair practices
- **Consumer protection** - promoting fair industry practices



# Why do insurers fail?

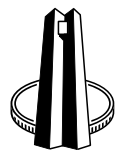
- **Mainly:** poor corporate governance and management practices
- Regulatory non-compliance
- Poor or inadequate:
  - Risk management (risk concentrations, excessive risk, no action taken)
  - Underwriting or pricing practices (mispricing risks)
  - Investment strategies (asset liability mismatch)
  - Liquidity management
  - Reinsurance management (inadequate / misinterpreted cover)
  - Capital management leading to insolvency if claims > assets
- Catastrophic events
- Operational risks (fraudulent activities, old systems, lack of processes)
- Due to emerging risks that were not identified timeously / mitigated



# Insurance landscape - IAIS



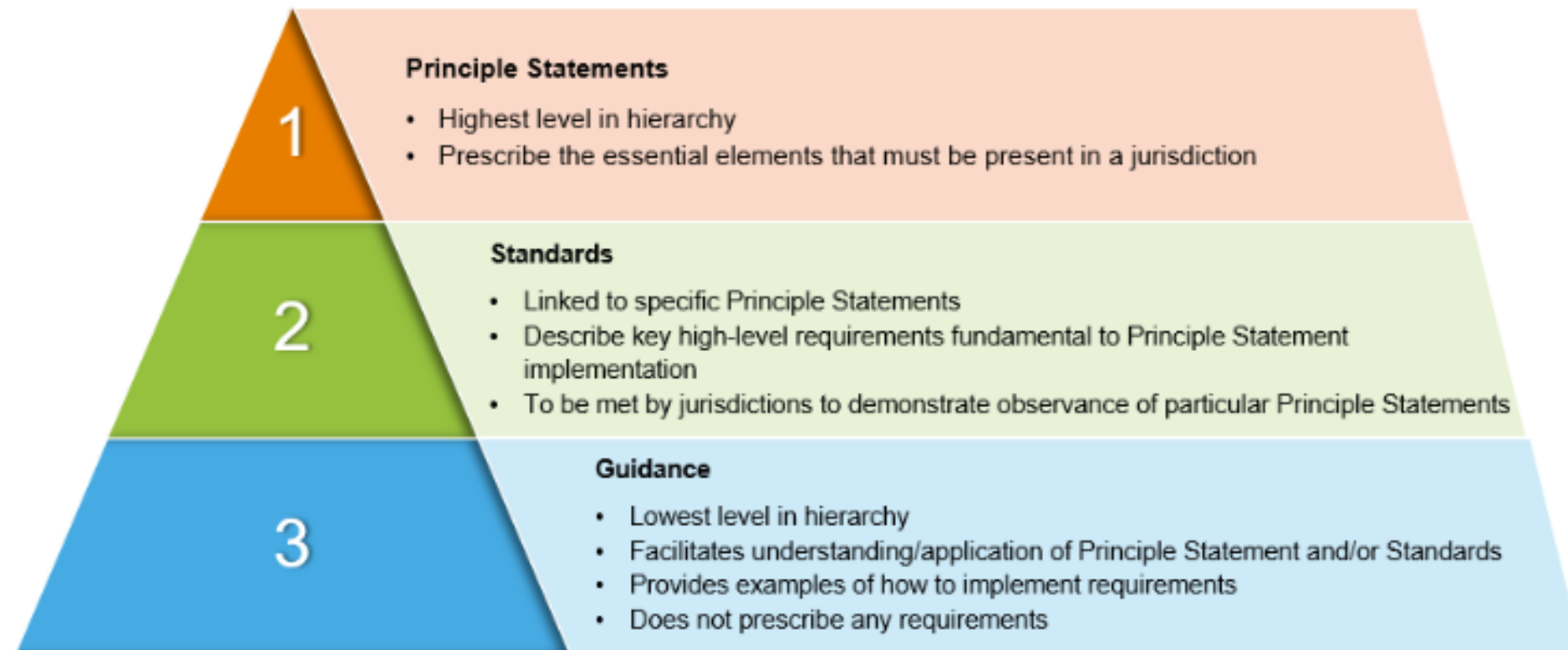
- Global standard-setting body - develop and assist with implementation of **principles, standards and guidance** for insurance sector supervision
- **Mission:**
  - Promote effective and globally consistent supervision of insurance industry
  - Develop and maintain fair, safe and stable insurance markets for policyholders
  - Contribute to global financial stability
- Forward-looking role - identify key insurance trends and
- Supports members in addressing emerging risks and challenges
- Established in 1994 as a voluntary membership organisation of insurance supervisors (200+ jurisdictions),  $\pm$  97% of world's insurance premiums
- Hosted by Bank for International Settlements (BIS) in Basel, Switzerland
- Responsible for issuing Insurance Core Principles (ICPs)



# Insurance landscape – ICPs

- **Insurance Core Principles:** Globally accepted framework for insurance supervision
- Consist of Principle Statements, Standards and Guidance

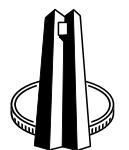
## Structure and scope of the ICPs





# Insurance landscape – ICPs

- Promote **consistently high supervisory standards** in IALS member jurisdictions
- Robust supervisory system essential - protect policyholders and ensure financial system stability and should address **all** insurance sector risks
- ICPs updated regularly (Dec 2024) – to reflect insurance market developments
- **ComFrame** - Common Framework for supervision of internationally active insurance groups (IAIGs) that builds on ICPs
- Form supervisory standards / guidance for effective group-wide supervision of IAIGs
- Comprehensive, outcome-oriented framework - provides qualitative and quantitative supervisory requirements tailored to activities and size of IAIGs





# Insurance landscape – ICPs

**Introduction and Assessment Methodology**

**ICP 1 Objectives, powers and responsibilities of the supervisor**

**ICP 2 Supervisor**

**ICP 3 Information sharing and confidentiality requirements**

**ICP 4 Licensing**

**ICP 5 Suitability of persons**

**ICP 6 Changes of control and portfolio transfers**

**ICP 7 Corporate Governance**

**ICP 8 Risk Management and Internal Controls**

**ICP 9 Supervisory review and reporting**

**ICP 10 Preventive measures, corrective measures and sanctions**

**ICP 11 Enforcement**

**ICP 12 Exit from the market and resolution**

**ICP 13 Reinsurance and Other Forms of Risk Transfer**

**ICP 14 Valuation**

**ICP 15 Investments**

**ICP 16 Enterprise Risk Management for Solvency Purposes**

**ICP 17 Capital Adequacy**

**ICP 18 Intermediaries**

**ICP 19 Conduct of Business**

**ICP 20 Public Disclosure**

**ICP 21 Countering Fraud in Insurance**

**ICP 22 Anti-Money Laundering and Combating the Financing of Terrorism**

**ICP 23 Group-wide Supervision**

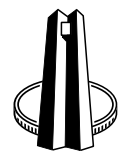
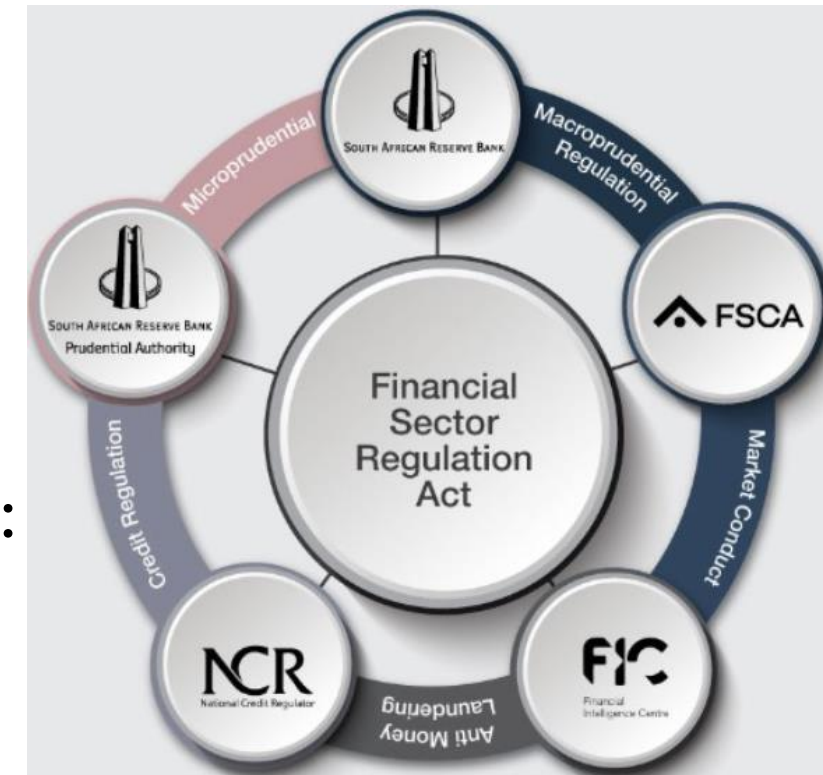
**ICP 24 Macroprudential Supervision**

**ICP 25 Supervisory Cooperation and Coordination**

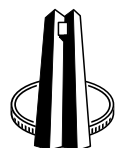
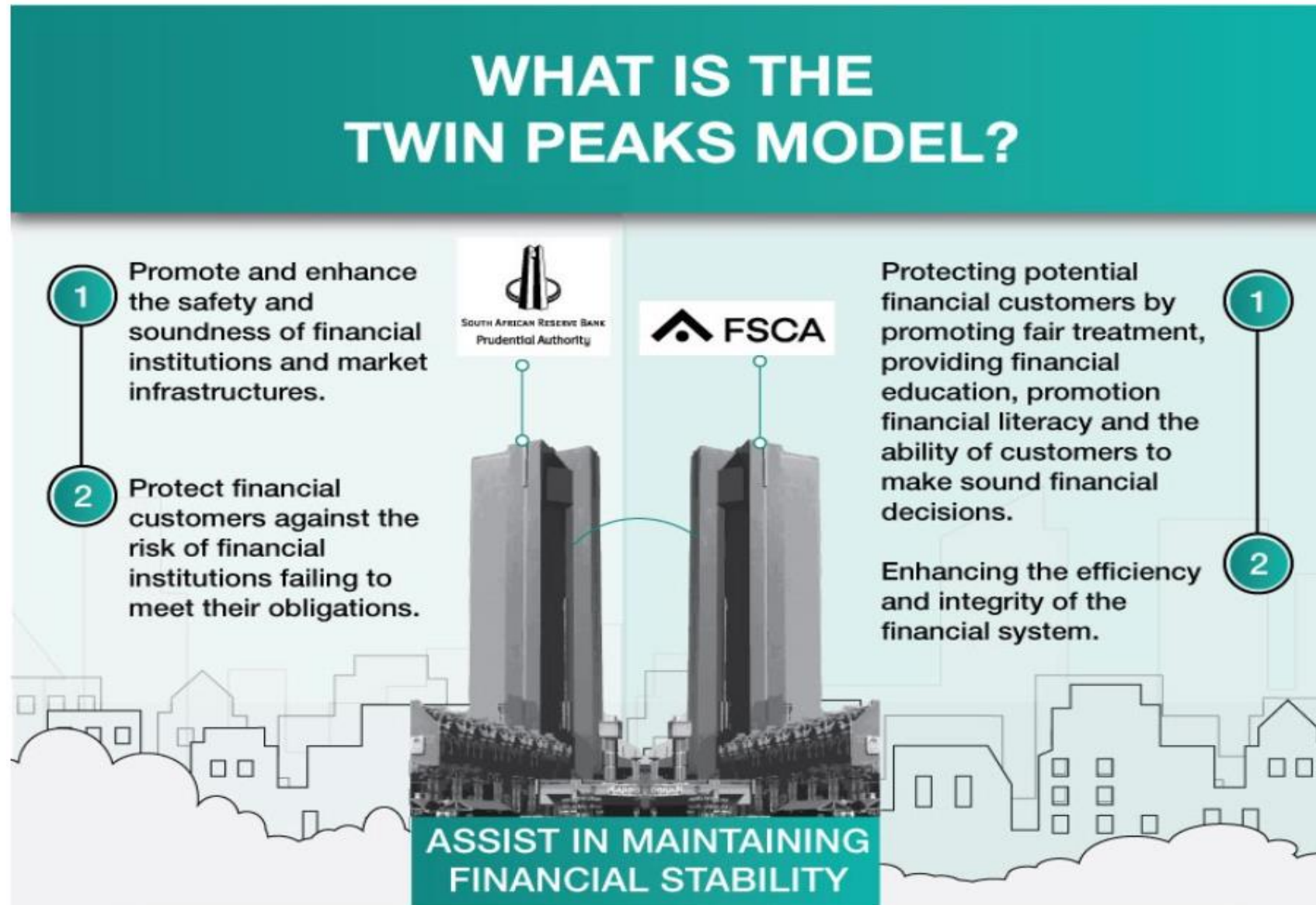


# Prudential Regulation in South Africa

- **Twin Peaks** model: Reformed regulatory and supervisory system
- Financial Sector Regulation Act (**FSRA**) signed into law in 2017
- Requires PA to be **pre-emptive, outcomes focused** and implement a **risk-based** approach
- FSR Act - **3 main changes to financial regulation:**
  - 1. Explicit mandate for SARB** - financial stability
  - 2. Prudential Authority (PA)** established as a prudential regulator
  - 3. Financial Sector Conduct Authority (FSCA)** established as a market conduct regulator



# Prudential Regulation in South Africa










# Prudential Regulation in South Africa



# Legislative supervisory framework

Banks	Insurance	Market Infrastructures	Mutual banks	Co-operative financial institutions (CFIs) and co-operative banks
 <ul style="list-style-type: none"> <li>• Banks Act 94 of 1990 (Banks Act)</li> <li>• Banks regulations</li> <li>• Basel Committee on Banking Supervision – 29 Core Principles (Basel II, Basel 2.5 and Basel III Frameworks)</li> <li>• Resolution Framework</li> <li>• Companies Act 71 of 2008 (Companies Act)</li> </ul>	 <ul style="list-style-type: none"> <li>• Insurance Act 18 of 2017</li> <li>• Insurance standards</li> <li>• International Association of Insurance Supervisors – Core Principles</li> <li>• Solvency II (SAM)</li> <li>• Companies Act</li> </ul>	 <ul style="list-style-type: none"> <li>• Financial Markets Act 19 of 2012 (FMA)</li> <li>• FMA Regulations</li> <li>• Committee Principles for Financial Market Infrastructures</li> <li>• Companies Act</li> </ul>	 <ul style="list-style-type: none"> <li>• Mutual Banks Act 124 of 1993 (Mutual Banks Act)</li> <li>• Prudential standards for Mutual banks – to be developed</li> <li>• Companies Act</li> </ul>	 <ul style="list-style-type: none"> <li>• Co-operative Banks Act 40 of 2007 (Co-operative Banks Act)</li> <li>• Transitional arrangements for CFIs</li> <li>• Transitional standard for co-operative banks</li> <li>• Co-operatives Act 14 of 2005</li> </ul>



# Regulatory / Supervisory framework

## Insurance Act 18 of 2017

Provides legal framework for prudential regulation  
and supervision of insurance business

2 No. 41388

GOVERNMENT GAZETTE, 18 JANUARY 2018

Act No. 18 of 2017

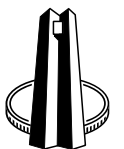
Insurance Act, 2017

\_\_\_\_\_  
(English text signed by the President)  
(Assented to 17 January 2018)  
\_\_\_\_\_

## ACT

To provide for a legal framework for the prudential regulation and supervision of insurance business in the Republic that is consistent with the Constitution of the Republic of South Africa, 1996, and promotes the maintenance of a fair, safe and stable insurance market; to introduce a legal framework for microinsurance to promote financial inclusion; to replace certain parts of the Long-term Insurance Act, 1998, and the Short-term Insurance Act, 1998; and to provide for matters connected therewith.

Underpins Solvency Assessment and Management (SAM) framework  
A **risk** based supervisory regime for prudential regulation



SOUTH AFRICAN RESERVE BANK  
Prudential Authority

# Regulatory / Supervisory framework

## PA Prudential Standards

1 July 2018

### Financial Soundness standards (FS)

Branches of Foreign Reinsurers (FSB)  
Insurance Groups (FSG)

#### **Insurers (FSI)**

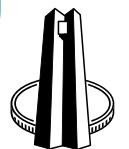
Lloyd's (FSL)  
Microinsurers (FSM)

### Governance and Operational standards (GO)

Branches of Foreign Reinsurers (GOB)  
Insurance Groups (GOG)

#### **Insurers (GOI)**

Lloyd's (GOL)  
Microinsurers (GOM)



# Regulatory / Supervisory framework

## SAM Framework

### Pillar I

#### Financial Soundness/ Quantitative Capital Requirements

- Technical Provisions (TPs)
- Solvency Capital Requirement (SCR)
- Investment rules

### Pillar II

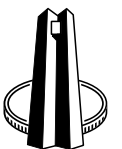
#### Governance and Risk Management Requirements

- Internal control and risk management principles
- Own Risk and Solvency Assessment (ORSA)
- Supervisory review process

### Pillar III

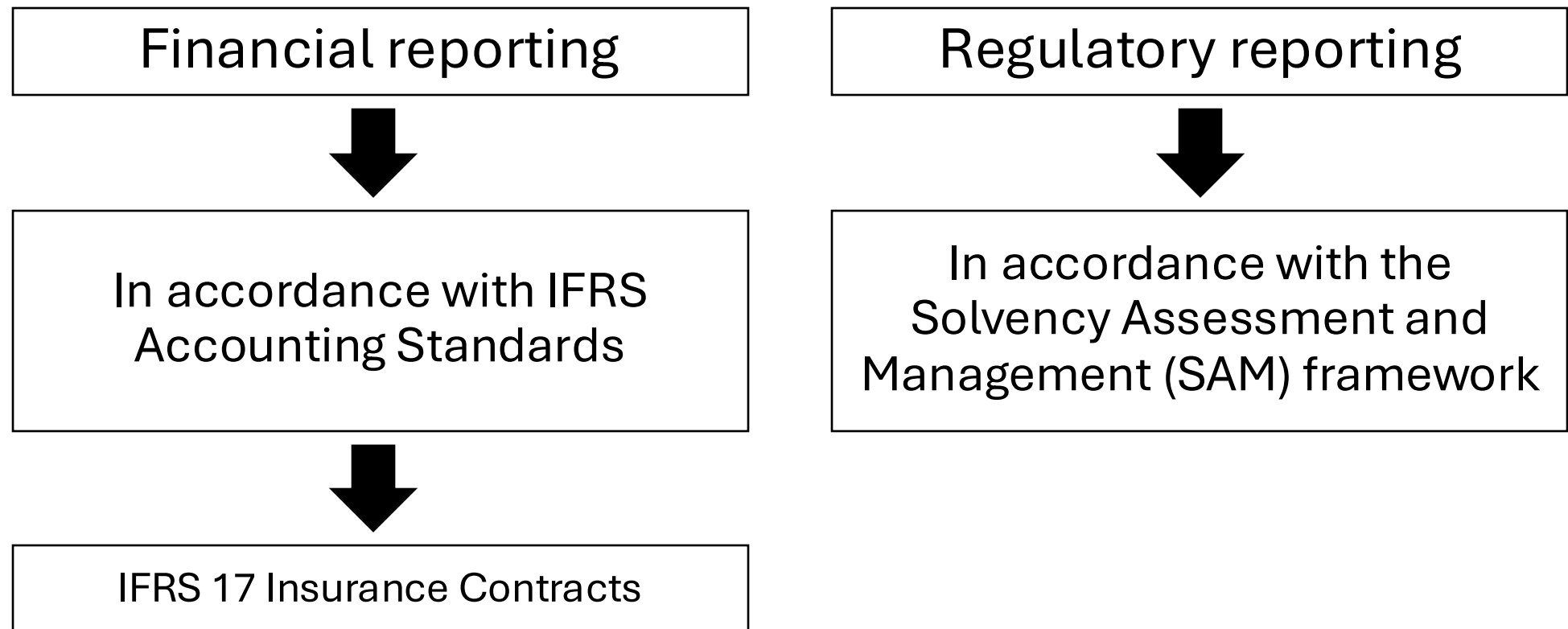
#### Reporting and Disclosure Requirements

- Transparency
- Disclosure



# Accounting Standards & Reporting Requirements

## Financial reporting vs Regulatory reporting



# Accounting Standards & Reporting Requirements

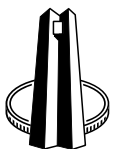
## The impact of IFRS 17 on Prudential Supervision

### The impact of IFRS 17 on financial reporting:

- New disclosure requirements had a significant impact.
- Data requirements and data integration challenges.

### The impact of IFRS 17 on regulatory reporting:

- Limited adjustments to prudential supervision practices.
- No changes to risk profiles of insurers.

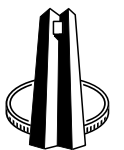




# Accounting Standards & Reporting Requirements

## Audit Requirements for Insurers

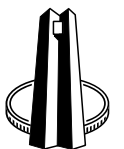
- Sets out the information for supervisory purposes that insurers must have audited, reviewed and reported on by their auditors.
- Prescribes the period within which audited annual financial statements and audited information must be submitted to the PA



# Accounting Standards & Reporting Requirements

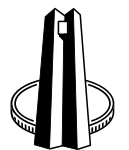
Effective communication and collaboration with stakeholders

- External stakeholders
  - South African Institute of Chartered Accountants (SAICA)
  - The Independent Regulatory Board for Auditor (IRBA)
  - External audit firms (e.g. Deloitte, KPMG, EY, PwC etc.)
- International stakeholders
  - International Association of Insurance Supervisors (IAIS)

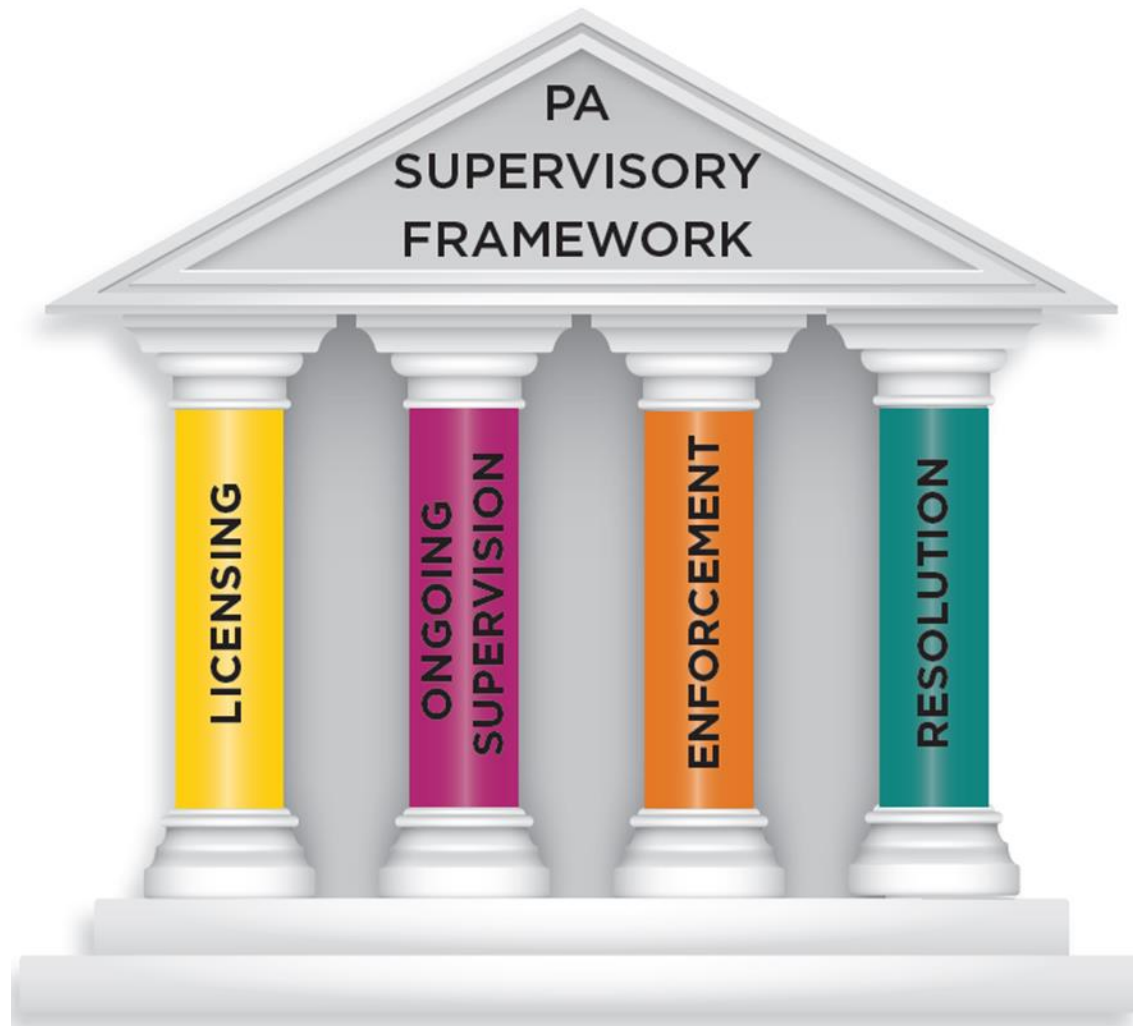


# PA Supervisory Framework

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# Supervisory Framework



Pre-emptive

Risk based

## Outcomes focused

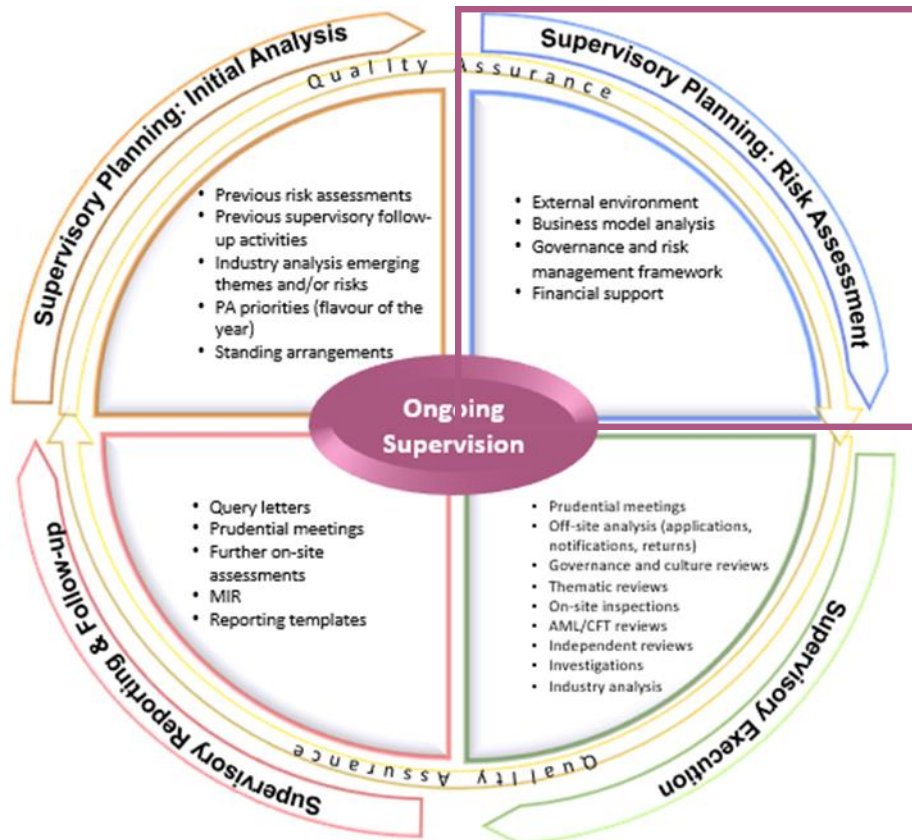
The framework provides guidance to prudential supervisors ensuring that their decisions do not significantly deviate from the PA principles. It further

- provides a structure and systematic approach to implementing the PA's prudential requirements;
- sets a “baseline” level of supervisory activity; and
- serves as the basis for determining the most effective and efficient allocation of prudential activities and resources.





# Supervisory Planning: Risk Assessment

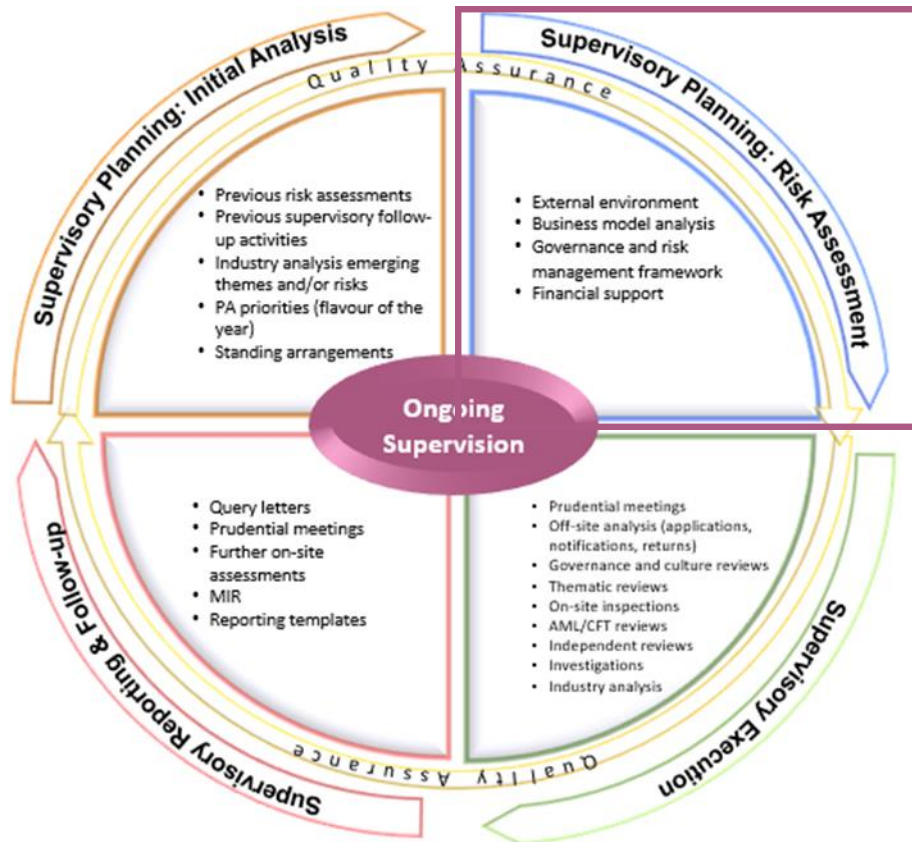


- The risk framework is a tool developed to provide guidance for the Prudential Authority (PA) to execute its approach to supervision.
- A risk-based approach for the PA is to focus the PA's supervisory resources in areas that pose the greatest risks to the achievement of the prudential objectives (i.e. a safe and sound financial sector).
- As part the PA's supervisory planning, the activities within the initial phase inform the risk assessment to be conducted in order to inform the supervisory interactions to be followed, channelling the PA's resources where most required.





# Supervisory Planning: Risk Assessment



The Risk Framework aims to:

- assess risks and probability of a financial institution being unable to fulfil its obligations;
- assess the impact that probability will have on the safety and soundness of the financial system;
- determine the intensity of supervision that should be applied on the basis of the assessed probability and impact.





# PA Risk Framework

Institution type: Insurance

Institution: 0

Level: Solo

Date:

08 April 2024

Description		Significant Weight	Risk areas (Inherent Risk assessment)									Quality of Management								Residual Risk	Direction of Residual Risk	Financial Support				Probability of inability to meet obligations				
			Insurance Risk	Credit Risk	Operational Risk	Market risk	Money laundering/ Terrorist Financing Risk	Compliance & Regulatory Risk	Strategy Risk	Additional risk1	Additional risk2	Operational Management	Actuarial function	Risk Management	Compliance	Internal Audit	Executive/ Senior Management	Board of Directors	Capital			Earnings	Liquidity	Parental support						
List significant business activities	Retail excluding credit life and funeral	0%	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0													
	Credit life and funeral (Bancassurance)	0%	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0													
	Insurer X Corporate	0%	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0													
	Investments	0%	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0													
	Non-Insurance Business	0%	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0													
Overall rating			Overall Inherent risk rating									Overall Quality of Management								Overall Residual Risk	Direction									
Inherent Risk rating:		0%	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0													
Direction of Financial support:																														
External Environment impact		Prevailing	Outlook																											
Macro-economic conditions		0	0%																											
Industry trends and risks		0	0%																											

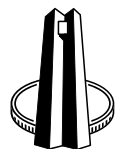
PLACEHOLDER: Climate Risk/ Sustainable finance

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0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0								
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R-	##	##	##	##	##	##	##	##	##	##	##	##	##	##	##	##	##			0	0	0	0		

PLACEHOLDER: Climate Risk/ Sustainable finance

# GOI 3 – Risk Management and Internal Controls

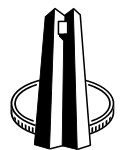
- Risk Management Strategy, Policies & Procedures and Tools
- Internal Controls
- Risk Governance
  - General Requirements of Control Functions
  - Heads of Control Functions
    - Risk Management Function
    - Compliance Function
    - Internal Audit Function
    - Actuarial Function





# Quantitative and Qualitative tools

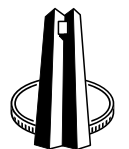
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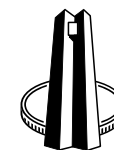
# Ongoing Supervision

- The Ongoing Supervision process is mainly concerned with promoting and enhancing the safety and soundness of financial institutions.
- For an insurer to be financially sound, it must hold an appropriate level and quality of own funds, as defined in the FSIs.
- Financial soundness of insurers is measured by the excess of own funds over the capital required.
- Insurers are required to submit various regulatory returns and reports as part of the PA's reporting requirements
- Regulatory submissions facilitate the ongoing assessment of the risks faced by insurers, and overall financial soundness



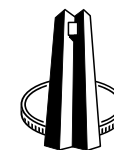
# Sources of data

Item	Frequency of submission
Annual Quantitative Reporting Template	Annually
Annual Qualitative Reporting Template	Annually
Quarterly Quantitative Reporting Template	Quarterly
ORSA report	Annually
Head of Actuarial Function Report	On request
Insurer Reserving Report	On request
External Audit Report	On request



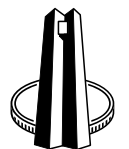
# Summary of supervisory activities

Item	Sector	Frequency of assessment
Insurer watchlists	Insurer-specific	Monthly
Quarterly industry-wide analysis	Industry-wide	Quarterly
Risk Assessment Document	Insurer-specific	Annually
Annual industry-wide analysis	Industry-wide	Annually
ORSA reviews	Insurer-specific	Annually
Stress testing		



# Insurer watchlist

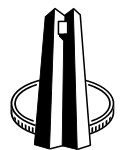
- Highlights insurers deemed to have elevated risk profiles based on the following key areas:
  - Capital Risk
  - Insurance Risk
  - Market Risk
  - Profitability
  - Governance issues
- Assessment is based on insurers' quarterly submissions, and any other available information deemed relevant
- Intensified supervisory focus on insurers put on the watchlist





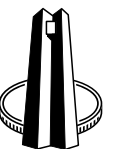
# Quarterly industry analysis

- Focused on aggregated quantitative data submitted by insurers quarterly, with the following areas being monitored:
  - Solvency levels
  - Underwriting results
  - Utilisation of reinsurance and retrocession cover
- Assessment will consist of identifying reasons for the quarter-on-quarter movements in reported results
- Insurers reporting results that are out of sync with their peers interrogated
- Findings presented internally to the whole organisation to highlight key industry trends and developments



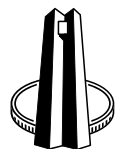
# Risk Assessment Document (RAD)

- Liquidity Risk
- Credit Risk
- Market Risk
- Operational Risk
- Insurance Risk
- Liabilities
- Capital
- Earnings



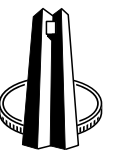
# Annual industry analysis

- Similar to the quarterly industry analysis, but based on annual returns.
- Outcomes of the analysis presented to industry participants
- Presentation published on the SARB's website for public consumption.
- Some of the market participants utilise the findings in their assumption-setting processes.



# GOI 3.1 – Own Risk and Solvency Assessment (ORSA)

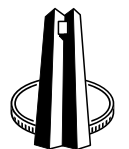
- ORSA Policy
- Matters an ORSA must address
- Embedding ORSA in decision making
- Verification Requirements of ORSA
- Reporting Requirements of ORSA





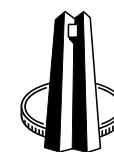
# ORSA off-site reviews

- An insurer's submitted ORSA reports would be assessed as part of off-site analysis.
- Results of the assessment can be used as input to other supervisory activities, such as supplementing insurer watchlist assessments.



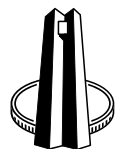
# ORSA off-site reviews: Areas of focus

Focus area	Description of assessment
Capital Requirement	<ul style="list-style-type: none"><li>• Qualitative assessment of the appropriateness of the methods used in determining required regulatory capital</li><li>• Quantitative assessment of insurer's current solvency level and comparison to benchmarks such as insurer-defined internal target, peers and previous projections</li></ul>
Insurance Risk	Qualitative assessment of insurer's identified risks
Projections	Quantitative assessment of key variables such as Own Funds, SCR and SCR Cover ratios through <ul style="list-style-type: none"><li>• Assessing reasonability of projection ratios and assumptions</li><li>• Actual versus expected analysis of historic projections</li></ul>
Stress tests and scenario analysis	Qualitative assessment of stresses and scenarios tested
Reinsurance	Qualitative assessment of reinsurance strategy as well as changes therein
Compliance with relevant standards	Qualitative assessment of whether ORSA report complies with relevant standards



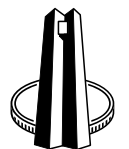
# Stress Testing

- Involves practices to measure and assess the vulnerability of financial institutions, or an entire financial system under a set of hypothetical but plausible events or scenarios
- Following the global financial crisis, stress tests have evolved from being internal risk management tools to vital supervisory tools for regulators
- During the crisis, stress tests were used to identify and quantify capital shortfalls and to enhance discipline in the financial sector
- Typically evaluate two aspects of a financial institution's performance: Solvency and Liquidity



# Typology of Stress Testing

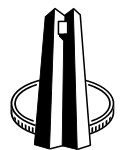
- Various types of stress testing programs for insurers
- Micro-prudential stress testing:
  - Own Risk Solvency Assessment (ORSA)
- Macroprudential stress testing:
  - Designed to provide a system-wide perspective compared to entity-specific resilience
- Internal stress testing:
  - Performed by insurers as part of internal risk management
  - No involvement of the supervisors





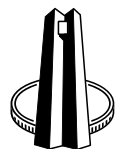
# Importance of Stress Testing of insurers

- Supports the supervisory assessment of the current risk environment and the resilience of the insurance sector
- Helps supervisors with gaining better understanding of the level contagion risk present in the financial sector
- An integral tool that provides the board and management of an insurer with a clear understanding of the risks facing the insurer and the level of available financial resources to deal with those risks
- Provide management and supervisors with an opportunity to plan mitigating and remedial actions in advance



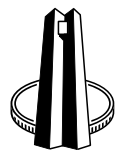
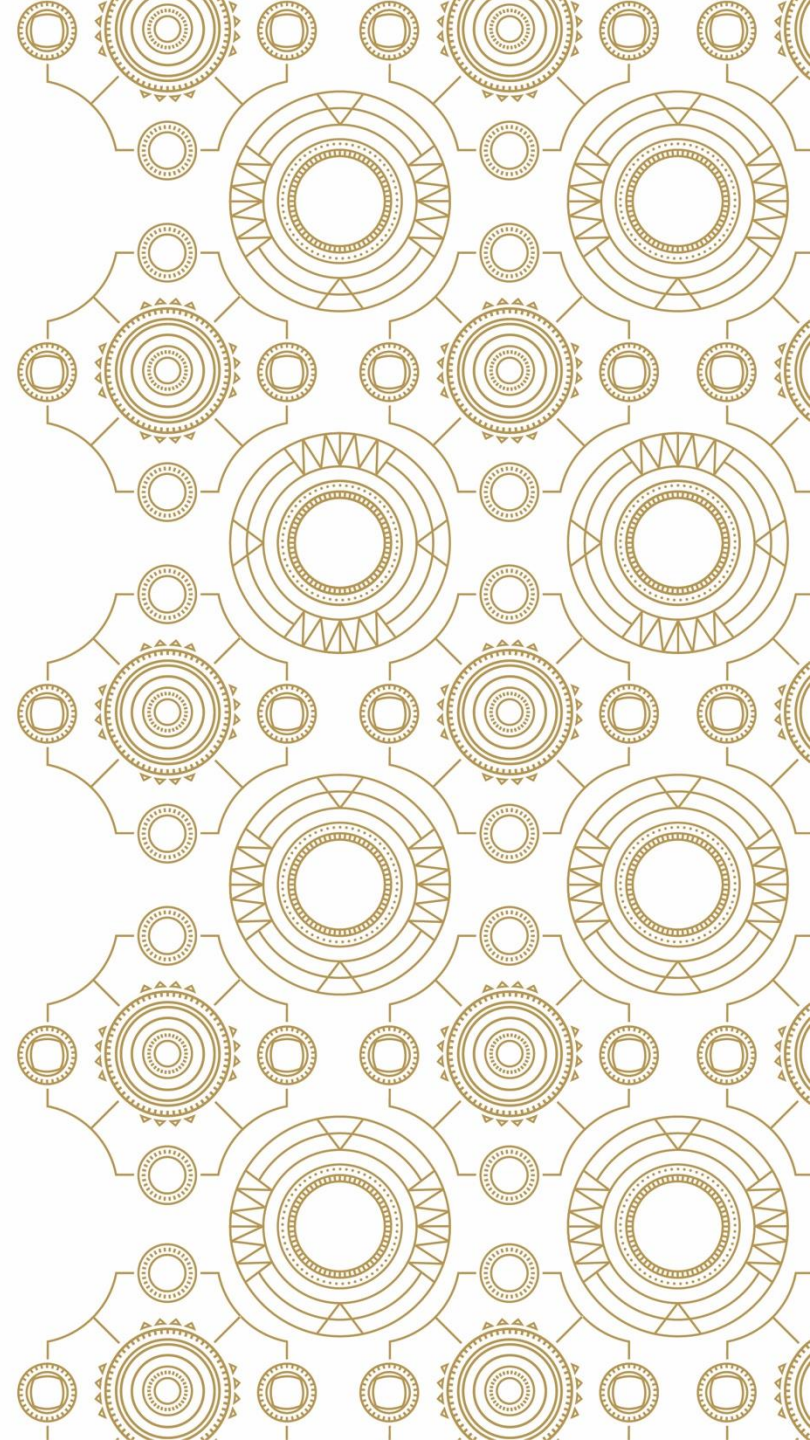
# The South African Perspective

- South African insurers – stress testing part of ORSA process
- 2020: an exploratory sensitivity stress testing exercise was conducted for both life and non-life insurers
  - Focused mainly on assessing the resilience of the sector to a set of single factor sensitivity shocks.
- 2023/24: a fully-fledged insurance common scenario stress testing was conducted covering
  - Single factor sensitivity shocks
  - Macroeconomic scenarios over a three-year horizon
- Insurance stress tests done from a bottom-up perspective only



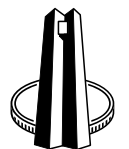
# Supplementary tools

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# Prudential Meetings

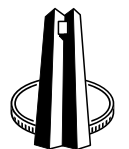
- Prudential Meetings
- On-site Inspections
- Thematic Reviews
- Appointment of Independent Reviewer
- Flavour of the Year topics





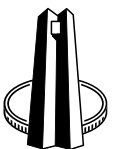
# Prudential Meetings

- Supervisory tool informed by the institution's inherent risks, the quality of management and other factors that may pose prudential risks to the entity.
- Held with the Board of directors, executive management, heads of control functions, and the external auditors of the regulated financial institutions.
- Risk assessment determines the number and type of meetings to be held with the supervised institutions.
- Joint meetings, including the Financial Sector Conduct Authority, were there are shared objectives and outcomes from a prudential and market conduct perspective.



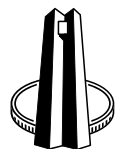
# Prudential Meetings: Board Meeting

- The Board supervised institution's governing body that takes primary accountability for the governance and performance of the institution.
- Purpose of meeting is for the PA to discuss
  - Execution of institution's strategy;
  - The institution's response to emerging risks within the economy and industry;
  - Material acquisitions or disposals;
  - Topical issues or risks as directed by the PA though flavour of the year topics.
  - Regulatory and supervisory matters affecting the overall risk profile of the institution



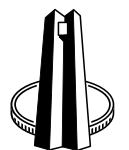
# Prudential Meetings: CEO Meetings

- Purpose is for the CEO to discuss , inter alia:
  - Updates on key risk areas.
  - Overview of any changes in respect of executive management and organisational structures .
  - Business update.
  - Financial performance.



# Prudential Meetings: Trilateral Meetings

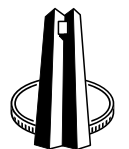
- Held with the supervised institution's audit committee, internal as well as external auditors following the submission of the external and internal auditors' reports.
- Purpose of trilateral meetings is for the PA to, inter alia:
  - Understand the effectiveness and efficiency of the institutions' internal controls and assurance structures;
  - Assess whether the auditing coverage is sufficient to address the areas where the PA will place regulatory reliance;
  - Interrogate key findings identified and how the institution is addressing these;
  - Highlight concerns stemming from the auditors' reports; and
  - Discuss any other key information that the audit committee should be aware of, particularly which affects the assurance structures and the effectiveness thereof.





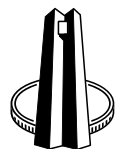
# Prudential Meetings: Bilateral Meetings

- Held with the supervised institution's external auditors prior to the commencement of the audit.
- Purpose of bilateral meetings is for the PA to, inter alia:
  - Discuss with the external auditors on the audit approach, level of materiality, key audit matters;
  - Inform the auditors of any risks that may have come to the attention of the PA while conducting its supervisory activities;
- PA may request the auditors to focus on a particular area of the business during the upcoming audit.



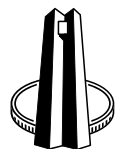
# Prudential Meetings: Internal Audit

- Held to assess the internal audit function's in providing the Board with independent assurance.
- Objective of the discussion is for the PA to, inter alia:
  - Assess the work that has been performed by internal audit;
  - Interrogate of the audit plan, resources and succession within the internal audit function and the relationship with the respective stakeholders.
- PA also considers the applicable requirements in terms of respective financial sector laws, the Companies Act, 2008 as well as governance frameworks such as the King IV where applicable .



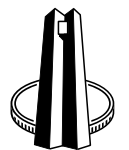
# Onsite : Own Risk and Solvency Assessment

- Purpose of the Onsite is for the PA to discuss:
  - Overview of the ORSA Process;
  - Risk Identification Process;
  - Budgeting and Forecasting;
  - Risk Management;
  - Capital Management and
  - Stress Testing and Scenario Analysis.



# Onsite : Technical Provisions

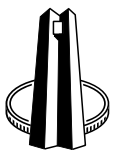
- Assess insurer insurers' Technical Provisions and calculation methods to ensure compliance with Prudential Standards .
- Areas of assessment include:
  - Data and Systems;
  - Assumptions;
  - Methodology;
  - HAF's Review and Sign-off;
  - External Audit Review;





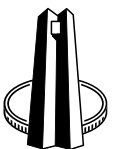
# Thematic Reviews

- To ascertain the level of consistency across the industry in how prudential requirements are applied, as well as assess how risks are managed.
- To assist financial institutions in interpreting and implementing prudential requirements,
- Formats include :
  - Questionnaires, templates, surveys
  - Fire drills used to test specific functions
  - Periodic horizontal reviews on specific topics and emerging risks
- Onsite and onsite Analysis
- Reporting and Follow up



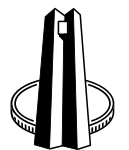
# Appointment of Independent Reviewer

- Areas requiring further assessment or inspection.
- Assessments are empowered through the following sector legislation.
- Costs of appointing an independent reviewer are borne by the financial institution.
- Suitability of Independent Reviewer
- Reporting



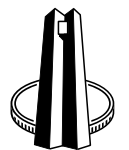
# Flavour of the Year

- Topics relate to emerging risks, concerns, topical international concepts, and/or regulatory changes that are either in the horizon or necessitate a high-level assessment of its impact at an industry and institution level.
- Important to ascertain the relevance and impact an identified flavour of the year topic has on the institutions, which may either be at a sector or industry level
- Can evolve into a more detailed thematic review, either in the same calendar or in subsequent years, depending on the outcome of the high-level assessment or developments within the industry



# Breakaway session – teamwork & feedback

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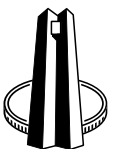




# CASE STUDY – PART 1

In your breakaway groups, read part 1 of the case study on the fictitious insurance company BLAP and answer the following questions (45 min)

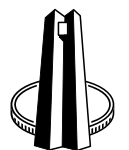
- 1) What supervisory complexities may arise due to the BLAP ownership structure?
- 2) Considering the nature, scale and complexity of BLAP, design a 1-year supervision plan outlining what engagements your team will conduct with BLAP and its representatives?
- 3) What metrics would your team track in your supervision of BLAP Ltd?



# CASE STUDY – PART 2

In your breakaway groups, read part 2 of the BLAP case study and answer the following questions (45 min)

- 1) Suggest the submissions and documentation you would require GenCO to provide your team in assessing this application
- 2) If you were completing a risk matrix for both BLAP and BIP, what main risks would you capture? Suggest mitigation techniques you may recommend to the entities as the supervisor?
- 3) How would you expect the board composition and governance structures to change for both GenCo Group and BLAP considering the acquisition?
- 4) How would your team's supervision plans change for both the GenCo Group and BLAP?



# Personal observations

Banks vs insurers

Return frequency

Risk management

Governance

Supervision cultures

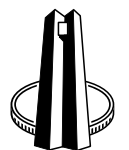
Standard setting

Reserving (black box)- Role of HAF

Team default to governance

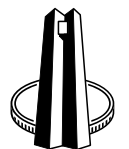
Litigation

Prudential vs conduct tension



# Closing

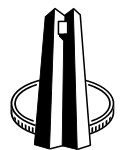
1. Introduction and general environment
2. Risk Types
3. Supervisory Framework
4. Quantitative and Qualitative tools
5. Supplementary tools
6. Breakaway session – teamwork & feedback
7. Closing





# Further Learning

- Financial Stability Institute (FSI) of the Bank for International Settlement (BIS).
  - FSI Connect e- learning platform
- International Association of Insurance Supervisors (IAIS)
  - The Insurance Core Principles form the globally accepted framework for insurance supervision.
  - The Insurance Capital Standards has been developed as a consolidated group-wide capital standard for IAIGs
  - IAIS Holistic Framework for the assessment and mitigation of systemic risk in the insurance sector.
- International Monetary Fund (IMF) –Training Sessions
  - Core Elements of Insurance Supervision
- The European Insurance and Occupational Pensions Authority (EIOPA)
  - Training sessions on insurance supervision
- Toronto Centre Programs





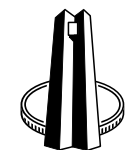
# THANK YOU

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**SOUTH AFRICAN RESERVE BANK**  
Prudential Authority

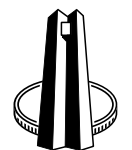
# Additional Slides



# Supervisors' Indicators of Success

## ICP 2 Supervisor

*“The supervisor is operationally **independent, accountable and transparent** in the exercise of its responsibilities and powers, and has **adequate resources** to discharge its responsibilities.”*



# Supervisors' Indicators of Success

## Independence

- Operational independence
- Free from Industry or government Interference

## Accountability

- A well-defined internal governance structure and strong internal governance processes support the accountability and integrity

## Transparency

- The supervisor must be transparent to the public, supervised entities and the government about how it exercises its responsibilities

## Sufficient Resources

- Having sufficient resources (this includes human, technological and financial resources) enables the supervisor to conduct effective supervision.

Source: IAIS <https://www.iais.org/uploads/2025/01/IAIS-ICPs-and-ComFrame-adopted-in-December-2024.pdf>



# Additional Indicators

## Adapt quickly to changing environment

- Closer scrutiny of business continuity plans, operational resilience and cyber security controls
- Respond quickly to emerging risks
- Supervisory transition to remote work

## Adequate levels of capital by supervised entities

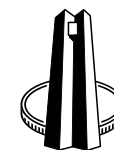
- This contributes to financial stability.
- Quality of capital, risk management practices, and internal controls must be assessed

## Risk-Based Supervision

- The four pillars of supervision
- Increased monitoring particularly on insurers that pose the greatest risk to policyholders.
- Efficient Enforcement action

## Regulatory framework must be clear and well defined

- This leads to transparency and provides certainty for insurance participants



# Additional Indicators

## Foster Collaboration

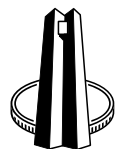
- Collaborative forums between organs of state and other regulators
- This allows the exchange of knowledge

## Transformation, Financial Inclusion and Competition

- This is critical for growth and sustainability
- For example, embed the regulatory framework for microinsurers in order to support financial inclusion

## Proper Support Structures

- Educating to ensure the ongoing health and wellbeing of supervisory teams is critical to maintaining effective supervisory oversight



# The IAIS has set out 5 Preconditions for Effective Insurance Supervision

The preconditions include the following:



*sound and sustainable macroeconomic and financial sector policies;*



*a well-developed public infrastructure;*



*effective market discipline in financial markets;*

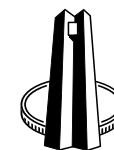


*mechanisms for providing an appropriate level of protection;*



*and efficient financial markets.*

Source: IAIS <https://www.iais.org/uploads/2025/01/IAIS-ICPs-and-ComFrame-adopted-in-December-2024.pdf>



# The 5 Preconditions in Detail



## Sound and sustainable macroeconomic and financial sector policies

- This contributes to a stable financial system.
- Although this is not within the mandate of supervisors, they must be able to react if existing policies are viewed to undermine the financial system.



## Well-developed public infrastructure

- If the public infrastructure is not well developed, it can contribute to the weakening of financial systems.



## Effective Market Discipline

- Market participants' assessments of an insurer's risk profile supplement the work of prudential supervisors.
- This provides adequate flows of information to market participants



## Mechanisms for providing an appropriate level of policyholder protection

- Each jurisdiction must be able to decide the appropriate level of policyholder protection - this is a policy question.
- These mechanisms must be transparent and carefully designed to limit moral hazard.



## Efficient financial markets

- Leads to investment and risk management opportunities for insurers.
- Inefficiencies lead to ineffective assessments of financial and risk positions of insurers

