



SAIA

ANNUAL REVIEW 2010

FOUNDATIONS FOR
THE FUTURE



SAIA Vision & Mission

Vision

To promote and represent the interests of the short-term insurance industry, while leading and enhancing the efforts of the industry to become recognised and trusted as an important contributor to the South African economy and society.

Mission

- Encouraging fair and ethical treatment of consumers of short-term insurance products
- Representing the short-term insurance industry with all stakeholders, at all levels, in such a way that these stakeholders have trust and confidence in the industry
- Creating an environment in which the members of our industry can share information, debate important, relevant issues and create a common vision for the short-term insurance industry
- Creating opportunities for the industry to continue with and embark on initiatives that will enhance its image and reputation among all stakeholders
- Promoting an understanding of short-term insurance among all stakeholders
- Promoting awareness of the industry and its contribution to society and the South African economy



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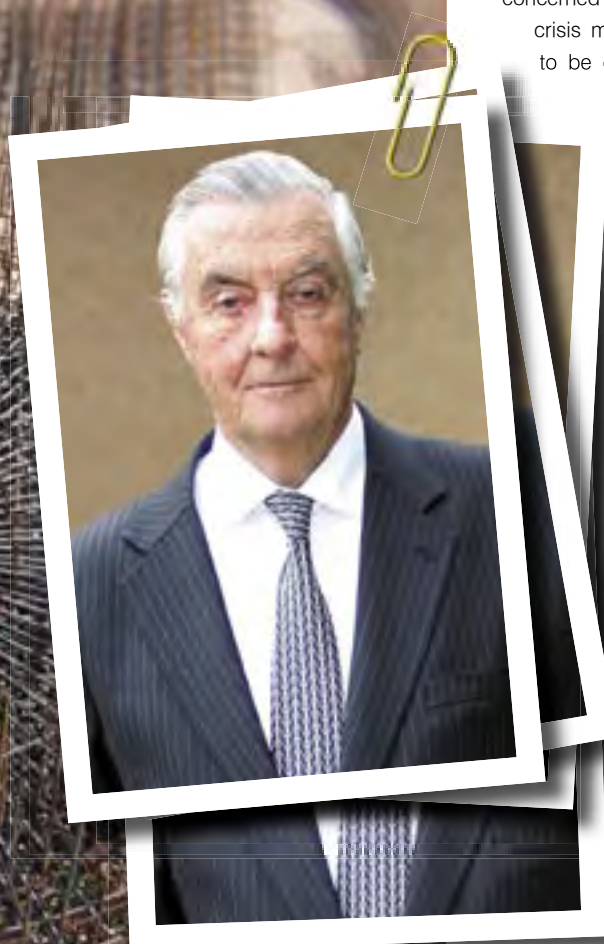
Introduction

The South African Insurance Association has put in place many new initiatives during the year under review. The SAIA team believes that these initiatives will form a solid foundation for the sustainable viability of the short-term insurance industry. In the same way, we believe that the 2010 FIFA Soccer World Cup will lay solid foundations for the future success of our country. Therefore, the SAIA team is in the spirit of the World Cup and infuse everything we do with the energy, enthusiasm and vibrancy of this exciting event.

The theme for the 2010 SAIA Annual Review is “Foundations for the future” to reflect the importance of the SAIA’s undertakings.

Chairman's Report

Ronnie Napier
Chairperson:
SAIA Board



The 2009/2010 year under review has come to an end with signs of the global credit crunch easing and the South African economy appearing to be lifting slowly out of the recession that we have experienced ever since the collapse of Lehman Brothers in September 2008. It would be reassuring to think that the global crisis is over. However, the worries about sovereign debt in mainly Euro-zone countries remain a black cloud on the global economic horizon. These concerns need to be dealt with by way of a credible bailout loan package for the countries that investors are concerned about, failing which, the global credit crisis may not yet be over, as there appears to be considerable investor uncertainty over the entire European Union, which is putting the currency under significant pressure. Some commentators are even predicting the demise of the Euro.

Any continuing uncertainty would clearly have economic consequences for South Africa and delay economic recovery in this country, despite the recent favourable economic news and the largely beneficial impact of the 2010 FIFA World Cup. Let us hope that the financial regulators and central banks around the world will continue to work together to deal with this major confidence crisis in the European countries so that the recovery that has taken place thus far in the global economy will have laid a real foundation for our economic future. If that does not happen, then we would face the real possibility of a “double-dip” recession that could have serious consequences.

The action taken by those responsible for global financial security will lay the foundation for the future of the economies around the world for the foreseeable future, which leads me on to say that the SAIA theme chosen for this year's review is “Foundations for the Future” and it is a timely one as there are a number of initiatives that SAIA is dealing with right now that are vital for the future of the short-term insurance industry. How these issues are dealt with will set the scene

for development in many areas of our industry for the next few years. Barry Scott, our Chief Executive, and his able management team have set out the details in their sections of this review in the many areas that SAIA has been working on. I will, therefore, focus on an overview of these areas and comment on those aspects that I see as the most important foundations for the future of our industry.



As a result of the strategic planning sessions that took place in 2006 and 2007, the SAIA Board established certain key strategic areas that needed to be addressed by the SAIA for the benefit of the industry. From the initial four strategic areas, which were originally identified, an additional two strategic areas were subsequently added to the list of priorities. However, since then three new important projects have been identified, which will need to be dealt with in the immediate future. I will confine my comments to the most important of these areas.

Image & Reputation

During the year, a fresh publicity campaign was launched in the press focusing on certain positive aspects for our customers, and we have had very good feedback on this campaign. In addition, and most importantly, the Code of Good Business Practice that we have been operating under for many years has now been completely rewritten and we now have a very comprehensive Code of Conduct as a result of a great deal of work by management and members of the Code of Conduct Task Team. The new code goes way beyond the earlier codes that members have lived by, and I believe that this is an important step forward for the SAIA. There is no doubt that the new code is the mechanism through which self-regulation can now be effectively implemented by our members. I must

stress that all of our members participated willingly and vigorously in the debate to finalise the code and to find the right balance between a code that seeks to take the relationship between insurers and their policy holders to new levels and is at the same time a practical one that our members can operate by. It is important to note that the code sets standards for ethical business and policy-holder relationships through voluntary self-regulation that will help to ensure that the spirit of the code is followed.

This code is also a living document that will be reviewed on a regular basis to see whether it can be improved from time to time. Since the code is essentially a document that our members all contributed towards and ultimately signed off on, it is a code that belongs to all our members, and it is already in place.

I must congratulate Vivienne Pearson and her team for managing this process in an extremely able and conscientious way and for having completed the task within a time-line that I did not think was possible.

Motor

The issue of Motor Insurance was, somewhat surprisingly, only added to our list of key strategic areas in the latter half of 2008. Since then we have developed a strategy that was adopted by the SAIA Board earlier this year and which seeks to get to grips with the causes of the problems that we are experiencing with road safety in South Africa, leading to extremely high claims for our members. The statistics are reasonably well known and in my opinion totally shocking. At present, approximately 40 people a day are being killed on our roads which means that the annual figure is 14 000. Of that number approximately one-third are pedestrians and this is not surprising when the experts tell us that a car moving at 70 kilometres per hour has the energy equivalent of 40 bullets. If a pedestrian is hit by a car doing 70 kilometres per hour, death is a near certainty.

This statistic alone does not tell the story of the much greater numbers that are left permanently maimed or seriously injured, and the huge cost that this presents the country.

Motor is the largest class of business for the SAIA members and more than half of all the claims paid out by the industry relate to motor claims. The SAIA Board and all our members, that write motor insurance, are hoping that the development of our strategy, and our intention to work with other Governmental and non-Governmental Associations that are trying to assist in the reduction of the present carnage on our roads, will soon start to have a positive effect. In my opinion, it is the most important

area that we are dealing with and we must make a difference, not only for our members and policy-holders, but also for the whole of South Africa. Because of the importance of this strategic area, Vivienne Pearson was recently appointed SAIA Manager: Motor, and we wish her well in this vital task. She is certainly passionate about making a difference on our roads.

Legislation & Regulation

Last year I reported that the regulations under the Insurance Laws Amendment Act of 2008 had still not been finalised although they were being awaited. During the year under review, a great deal of work has been done on those regulations by the SAIA Board Committee: Legislation & Regulation, managed by Refilwe Moletsane, SAIA Deputy Executive. However, the regulations under the Insurance Laws Amendment Act, although having been thoroughly debated by the sub-committee, have still not been generally released for comment. So this process still has a long way to go before completion. The same position also applies to the regulations on the medical schemes' demarcation where delays have taken place in the consultative process between the Financial Services Board (FSB) and the National Treasury.

Both of these areas are vitally important for our members, so we are anxious to further the negotiations so that the consequences can be understood by the industry and then dealt with. Karen Naidoo, SAIA Manager: Legislation & Regulation, who joined us during the year, will now have the responsibility of dealing with these issues.

This area of our activities will be an extremely busy one during this year but the SAIA Management and our ever-willing committee members are geared to handle the task.

Solvency Assessment and Management

Towards the end of last year, the FSB informed us that it proposed to develop new solvency rules based on the principles of the Solvency II Directive adopted by the European Parliament. The FSB has called this project the Solvency Assessment and Management Initiative and has proposed to have the legislation in place by 1 January 2014. We have recently been informed that the process will also include rewriting the Insurance Act. Clearly then, this project will be a massive one and will place considerable strain on our management and our members. For this reason, the SAIA Board has approved the appointment of a project manager who will be responsible for the project and we are hoping to make an appointment as soon as possible. The important issue regarding the Solvency Assessment and Management Project is that it

will need to be adapted to South African conditions and will therefore involve complicated and difficult negotiations, as we do not believe that an European Union directive can simply be foisted on the South African market without modification.

There are a number of other issues that the SAIA and its working committees are addressing, including transformation, the South African Pool for the Insurance of Nuclear Risks, the position of reinsurers in the South African market, a new Industry Data Sharing Initiative and lastly, but most importantly, the area of Systemic Risk and Environmental Issues all of which we are heavily involved in.

As can be seen by this brief overview, there is a massive amount of work that will pose a real challenge for me, the SAIA Board, our management and all of our members who give unstintingly of their time and expertise in order to ensure that our voice is heard by the regulator and other Government departments. As I have said, there is a very big task ahead to deal with these various issues but I believe the foundations have been laid and we look forward to the challenge that faces us.

Ronnie Napier
Chairperson: SAIA Board



Chief Executive's Report

Barry Scott
SAIA Chief Executive



At the time of writing this report, we have just less than 60 days to go to the kick-off of the 2010 FIFA Soccer World Cup, being held for the first time on the African continent. While, hopefully, there will be no major insurance issues arising from the event, all business will be affected in one way or another. It will be difficult to move around the cities, and keeping staff focused on the job at hand will be challenging. Nevertheless, we at the SAIA will be joining in the excitement of the event, which in all likelihood will happen in our country only once in our lifetime. It is likely that Government will virtually down tools during this period, so there won't be much new emanating from that source for us to consider. However, given our workload and the number of new tasks we have assumed, there will be no time to slack off, so the SAIA will remain hard at work.

It has become our custom to create a theme for the SAIA's Annual Reviews. We try to make these themes symbolic of where we believe SAIA is in terms of its development and the position in which the short-term insurance market finds itself. This year we have chosen the theme "Foundations for the future". This theme was chosen because we believe that of late we have become involved in issues and initiatives that will lay the cornerstone for the future of the short-term insurance industry. Although the market is tough, it is an exciting time for those who represent and promote our industry, and the association has much work to do.

Key Strategic Areas

During 2006 and in early 2007, the SAIA's Board conducted two strategy-planning sessions, which resulted in a realignment of the SAIA Key Strategic Areas. It was agreed that the SAIA would focus on those Key Strategic Areas, and find an exit strategy for areas not considered key.

Initial Key Strategic Areas

The initial Key Strategic Areas, adopted by the Board at its meeting on 3 April 2007, were:

- Image & Reputation
- Legislation & Regulation
- Operations; the Intermediaries Guarantee Facility (a short-term insurance company issuing credit guarantees), the South African Pool for the Insurance of Nuclear Risks (an insurance pool providing capacity for insuring nuclear risks at Koeberg and Pelindaba, and the Insurance Data System)
- Transformation

In due course two new Key Strategic Areas were added, namely:

- Motor Insurance
- Reinsurers

During 2009 the SAIA picked up three new projects, all of which the SAIA Board has agreed are Key Strategic Areas for the industry as their impact on the industry over the next five years will be significant.

They are:

- South African Insurance Industry Data Sharing Initiative
- Solvency Assessment and Management (SAM) initiative of the Financial Services Board (FSB)
- Sustainability / Systemic Risk Issues / Environmental Issues

Previously, the crime portfolio had been considered key, but following a SAIA Board decision, the South African Insurance Crime Bureau (SAICB) was created and most crime issues were moved to the new institution. The SAIA does, however, still deal with some crime advocacy issues.

Transformation

The transformation portfolio has become a frustrating one.

Despite enormous efforts on the part of all involved, I regret to say that the various constituencies of the Financial Sector Charter (FSC) Council have failed to reach consensus on the outstanding issues regarding the ownership pillar. This is despite the Ministers of Finance and Trade & Industry urging all to find solutions, and the attempts of two separate facilitators.

At the time of writing, I believe that the FSC Council constituencies will not reach consensus on outstanding issues and that the ministers will have to make a call regarding the way forward.

The bottom line is that we do not have a charter gazetted as a sector code, the default Department of Trade and

Industry (DTI) Codes therefore apply to the industry, and the elements that make the FSC unique among charters are in danger of being consigned to the scrap heap. This will be a disaster for all involved, because these elements, which the financial sector can uniquely address, have been enabling fundamental transformation in the lives of all South Africans. Here I am talking about the developments in products aimed at extending the range of financial products to encompass a far larger segment of our population, the efforts to extend financial literacy education to more South Africans, and the efforts aimed at empowerment financing.

I, among many, hope that whatever the outcome, the gains made in these areas are not lost and that whether the FSC is gazetted or not, we can find a way to continue with the development of access products and with our consumer education initiatives.

During the period under review, the SAIA did successfully conclude its work on developing a proposal for enterprise development. This proposal details the steps required to establish a programme to assist in the development of black-owned motor body repairers. This would allow insurers and other institutions to channel funding into a programme to ensure that they obtain the necessary credits for enterprise development in terms of the FSC. In addition, the programme would assist insurers to create a base of suitably qualified black-owned service providers to assist in the procurement area. Following the conclusion of the phase of this project, which has seen the completion of the development of this proposal, the SAIA Board has recognised that it is not the core business of insurers or the SAIA to be involved in the development of motor industry service providers. As such, the SAIA is seeking to find partners within the motor sector that could take over the role of championing this project.

The SAIA has continued with its successful consumer education programme. This is the sixth year of this programme and to date, together with our partners, we have collectively spent over R53 million.



Further information on this programme is contained in the Image & Reputation section of this report.

The SAIA Manager: Transformation resigned during the course of 2009, and the SAIA Board has taken the decision to place the appointment of a replacement on hold until the future of the FSC is more certain.

Given the lack of positive outcomes in the Transformation portfolio, we have not included a separate section for Transformation in this Annual Review.



Image & Reputation

The Image & Reputation team has been hard at work to ensure that the industry is represented in the best possible way. We have launched a new targeted publicity campaign, which has led to a new focus on the positive aspects of the industry in the press.

However, the greatest impact in this area has been the launch of our new Code of Conduct. Our previous Code of Good Business Practice was seen to be somewhat ineffective in achieving its objects. During the course of last year the SAIA Board decided that it was time to develop a code that was far more all-encompassing, thereby setting the industry more firmly along the path of self-regulation. Given that the new code is so much more substantial than the one it has replaced, the Board has agreed that the new code will run for at least a year, after which it will be reviewed.

This portfolio has been ably managed by our former Manager: Image & Reputation, Vivienne Pearson, with the valuable assistance by our Public Relations Officer, Adèle Joubert. Vivienne has recently been appointed as our Manager: Motor, and we are actively seeking to replace her in the important Image & Reputation portfolio.

More details on the activities in this area are covered in the Image & Reputation section of this Annual Review.

Legislation & Regulation

For many years now the Legislation & Regulation portfolio has been extremely active. The year under review was no exception.

At the time of writing, the regulations governed by the Insurance Laws Amendment Act have still not been released for comment by the Financial Services Board (FSB), despite many people, including industry representatives, having been hard at work. It is anticipated that the impact of the new binder regulations could have far-reaching consequences for the industry, so these are eagerly awaited. The regulations on the medical schemes' demarcation side seem even more distant, with delays in the process of consultation through National Treasury.

Under the Legislation & Regulation section of this Annual Review full coverage is given to the many pieces of legislation that we have reviewed.

The Legislation & Regulation portfolio was managed by my Deputy Executive, Refilwe Moletsane. With the appointment of our new Manager: Legislation & Regulation, Karen Naidoo, during the course of the period under review, many of the matters have been passed on to her.

I am sure that this area of our business is going to remain extremely busy for the foreseeable future and Karen and our willing supporters from the ranks of our insurance member companies are not going to have an easy time.

Finance & Operations

The areas of operation that were previously managed by the SAIA remain under our control, namely the insurance company Intermediaries Guarantee Facility (IGF), the South African Pool for the Insurance of Nuclear Risks (SANP), and the Insurance Data System (IDS). The nuclear pools side has seen a major change with the creation of a separate legal entity to perform the administration of the pools, called the South African Nuclear Pool Administrators (Pty) Ltd.

Charles Hitchcock, our Manager: Finance & Operations is responsible for these operational areas.

Motor

In my Chief Executive's Report contained in last year's SAIA Annual Review, I spent quite some time raising

concerns about road safety issues. These issues are still very much in the spotlight, with the road safety situation not having improved at all over the period, in fact in the eyes of many the situation has become more dire.

In light of motor insurance being the largest class of business, with the highest cost of claims – at times proving problematic for many of our members – the SAIA Board agreed at its meeting of 20 August 2008 to add Motor as a Key Strategic Area.

In reality, even though Motor was not originally identified as a Key Strategic Area, the SAIA had continued to focus on motor insurance, and many of our activities were motor related.

For example, we have for the past seven years supported the activities of Business Against Crime South Africa (BACSA) with a substantial annual donation, which reached R1.7 million in the current year. We have also been involved with BACSA in many of its initiatives.

Recognising the increased focus on motor insurance, the SAIA has developed a strategy specifically to deal with motor insurance. This strategy, which was adopted by the SAIA Board at its March 2010 meeting, seeks to address the causes of claims which result in the greatest losses to the industry, namely those of road safety. While incidences of vehicle theft have been greatly reduced over the years, there is no room for complacency concerning crime. The combating of vehicle crime will remain a key focus for us.

The Motor portfolio was managed by Refilwe Moletsane, along with her other duties. With the increased importance placed on this portfolio, the Board recognised that it was not possible to continue to manage this in a part-time capacity, so in order for the SAIA to properly address this important area, the Board has approved the appointment of a SAIA Manager: Motor. Vivienne Pearson, previously our Manager: Image & Reputation, has moved into this position.

Reinsurers

The SAIA is fairly unique among insurance associations in that the reinsurers active in the market are members of the association. In many other markets this is not the case.

Previously, although reinsurers were members of the SAIA, they were also members of the South African Reinsurance Offices Association (SAROA). Following the demise of SAROA, the SAIA Board agreed on 7 April 2009 to add Reinsurers as a Key Strategic Area.

Work being done in this area focuses on issues that are specific to reinsurers in the market, and we are busy developing a strategy paper that will address reinsurers' concerns. The reinsurers have also been heavily involved in the new investigation into fire and emergency services.

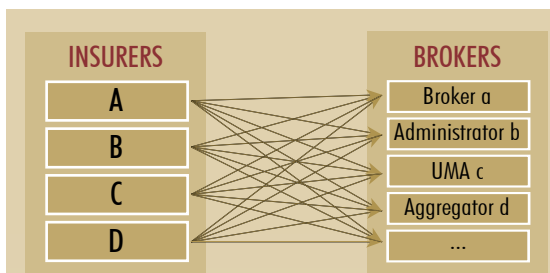
As this is a fairly new committee, still finding its feet, we have not included a separate section in this Annual Review for the Reinsurers portfolio.

South African Short-term Insurance Industry Data Sharing Initiative

The Insurance Laws Amendment Act requires that insurers have access to their clients' data. Currently, not all insurers have access to full sets of data. This is specifically true where insurers use brokers with binders, or where there are large administration houses involved in processing policy information.

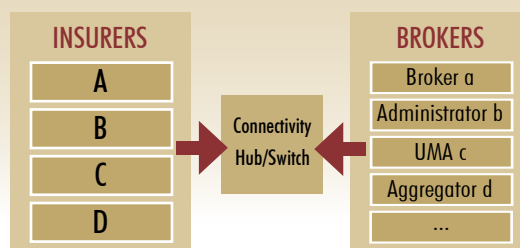
Therefore, the SAIA and the Financial Intermediaries Association (FIA) have embarked on an endeavour to tackle the significant challenge of data sharing between the insurers, brokers and other providers, that if not resolved will lead to a significant increase in cost and possible non-conformance to the envisaged new legislation.

Present forms of data sharing are time consuming, costly and ineffective. (See current model below).



The project proposes a model to streamline inter-connectivity between the parties via a data exchange capability (hub or switch) in order to improve the speed, accuracy and effectiveness of data interchange, thereby reducing operational costs.

The proposed future model is shown below:





The mission statement for the project is 'A connected insurance market place that enables informed risk taking and ensures sustainability'.

To ensure best practice, the project has adopted the Acord global standard for use in defining the data interchanges.

I have been responsible for this project, however with the increased momentum and workload on the project the SAIA Board and the Financial Intermediaries Association (FIA) have approved the appointment of a programme manager. The cost of the person will be jointly shared by the SAIA and the FIA.

Solvency Assessment and Management Initiative of the Financial Services Board

During November 2009, the Financial Services Board (FSB) advised the SAIA that it was in the process of developing a new solvency regime for the South African short- and long-term insurance industries, to be in line with international standards. This new regime will be called Solvency Assessment and Management (SAM).

The short-term insurance industry had already been involved in working with the FSB towards a revised capital regime for the short-term insurance industry, under the Financial Condition Reporting (FCR) banner. The FSB has advised that this work on FCR will be superseded by and incorporated into the SAM project.

The basis of the SAM regime will be the principles of the Solvency II directive, as adopted by the European parliament. This will be adapted to South Africa's specific circumstances where necessary.

As an overarching principle, the recommendations arising from the SAM project should meet the requirements of a

third country equivalence assessment under Solvency II. The Solvency II directive was adopted by the European parliament on 22 April 2009 and endorsed by the Council of Ministers on 5 May 2009, thereby concluding the legislative process for adoption. The implementation date for European Union (EU) countries is October 2012.

The FSB aims to promote the soundness of insurance companies through the effective application of international regulatory and supervisory standards. In line with this objective, the FSB aims to introduce a solvency regime along the principles set out in the new Solvency II directive shortly after the date of Solvency II implementation in the EU.

Solvency II is based on three pillars:

- Pillar I – Quantitative requirements, dealing with such issues as the valuation of assets and liabilities and the setting of capital requirements (This can be based on a standardised model prescribed by the supervisor or an insurer's own internal model, approved by the supervisor)
- Pillar II – Qualitative requirements, including standards and guidance on governance, internal controls, risk management and supervisory processes
- Pillar III – Reporting and disclosure

Recognising the importance of this project, the SAIA Board has approved the appointment of a project manager to run this.

Sustainability / Systemic Risk / Environmental Issues

The area of Sustainability / Systemic Risk / Environmental Issues is the latest key strategic area to be added by our Board.

While the SAIA has not specifically run a project such as this before, much of the work we have been doing over many years could be considered as part of an initiative to ensure the sustainability of the short-term insurance industry. Examples include the work done to prevent vehicle crime, the work done to create a transformed industry through the Financial Sector Charter, the work done on consumer education and micro-insurance, the initiatives investigating the state of the fire and emergency services, the two data sharing initiatives, and the preparatory work for the Solvency Assessment and Management initiative of the Financial Services Board.

Nevertheless, the Board has agreed that we need to adopt a more formal approach to these issues, so during the course of 2010 we will be working towards creating a strategy to be presented to our Board.

State of the market

Over the last two years, copious volumes have been written about the worldwide financial sector crisis, with its repercussions still dominating global financial markets.

The South African financial sector has been left relatively untouched by the meltdown in foreign markets, and while the performance of equities during 2008 impacted on the bottom line of some of our members, we did not see a headlong rush to government to seek bailout funding. The solvency of short-term insurers, which showed a dip in 2008, has returned to long-term levels and has remained good.

On the positive side, our member companies are well capitalised with sound solvency margins, so there has been no panic among insurers, just relief that they have been able to ride out the storm.

Each year, with the permission of the Financial Services Board (FSB), we reproduce data from this body's latest industry report, this year it is the 'Special report on the results of the short-term insurance industry for the period ended December 2009'.

An analysis of these results for typical insurers shows that while the cycle has turned down over the last few years and results are off the record peak of 2004, the industry's performance is still some way ahead of the long-term cycle that has in many years past seen the industry struggle to make an underwriting profit. However, the downward trend of the last few years has continued, and margins are now getting close to previous long-term levels. As a result, insurers are looking for a turnaround in their underwriting results.

The position of cell-captive insurers is still positive with premiums remaining strong, albeit without the growth shown in previous years. Profitability remains strong.

Overall, the position for niche insurers is extremely positive with strong premium growth for several years, with solid profits. However, it must be noted that the reporting element of the FSB covers many classes of business, and that some of the pockets within this broad category have shown signs of stress, particularly caused by the state of the economy.

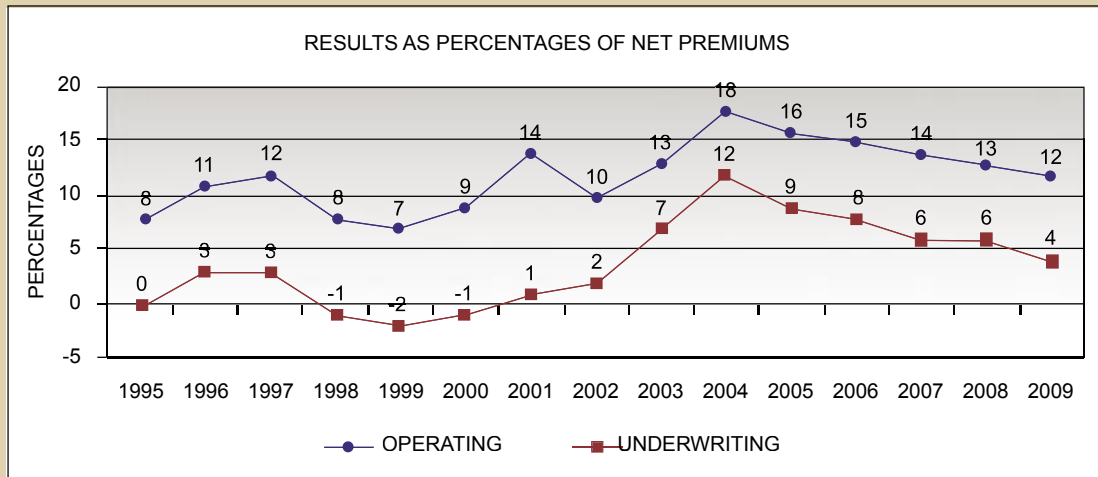
■ Typical insurers

Industry results – Typical insurers (typical insurers, for the purpose of this report, are those insurers who offer most types of policies to, mostly, the general public).

The table below sets out combined statistics (net after reinsurance) for typical insurers for the calendar years 2004 to 2009. The figures are unaudited.

	2004	2005	2006	2007	2008	2009
Net premiums R'm	24 211	26 828	31 093	34 351	37 556	39 512
Underwriting profit/(loss) R'm	2 932	2 542	2 482	2 169	2 327	1 722
Underwriting and investment income R'm	4 303	4 304	4 588	4 851	5 064	4 741
Claims (as % of earned premiums)	59	63	65	66	66	67
As % of net written premiums:						
Management expenses and commission	26	26	25	27	27	28
Underwriting profit/(loss)	12	9	8	6	6	4
Underwriting and investment income	18	16	15	14	13	12
Net premium increase (year on year)	22	11	16	10	9	5
Surplus asset ratio (median)	37	40	42	43	40	43

The following graph indicates how underwriting and operating (including investment income) results of the typical insurers have fluctuated over the past fifteen years.



Five of the twenty-five insurance companies classified as typical insurers reported an underwriting loss for the year ended December 2009 compared with four (of twenty-five) who reported an underwriting loss for the nine months ended September 2009.

Four of the twenty-five insurance companies reported an operating loss for the year ended December 2009 compared with three (of twenty-five) for the nine months ended September 2009.

Statutory surplus asset ratios

The following table indicates the spread of the statutory solvency percentages of the typical insurance companies.

Number of insurers						
	December 2004	December 2005	December 2006	December 2007	December 2008	December 2009
Below 15%	1	0	0	0	1	0
Between 15% and 20%	0	1	0	1	1	0
Between 20% and 25%	0	1	3	0	1	2
Between 25% and 30%	3	3	3	6	2	1
Between 30% and 40%	8	5	4	2	8	7
Between 40% and 50%	1	2	4	5	4	5
Between 50% and 100%	5	6	4	5	4	8
Above 100%	1	1	3	3	3	2



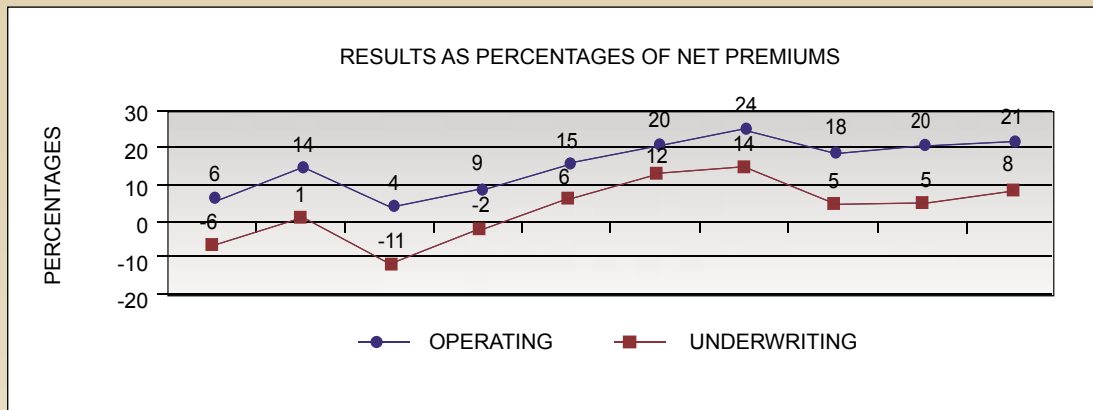
■ Cell-captive insurers

Industry results – Cell-captive insurers (cell-captive insurers, for the purpose of this report, are those insurers who offer insurance structures on a cell-ownership basis for first party and third party cell owners).

The table below sets out combined statistics (net after reinsurance) for cell-captive insurers for the calendar years 2004 to 2009. The figures are unaudited.

	2004	2005	2006	2007	2008	2009
Net premiums R'm	3 486	4 239	4 144	4 511	5 460	5 368
Underwriting profit/(loss) R'm	220	529	568	224	295	410
Underwriting and investment income R'm	506	857	980	810	1 079	1 150
Claims (as % of earned premiums)	56	52	52	62	67	62
As % of net written premiums:						
Management expenses and commission	34	28	31	33	25	27
Underwriting profit/(loss)	6	12	14	5	5	8
Underwriting and investment income	15	20	24	18	20	21
Surplus asset ratio (median)	46	56	59	60	56	64

The following graph indicates how underwriting and operating (including investment income) results of the cell-captive insurers have fluctuated over the past ten years.



Of the eleven operational cell-captive insurers, one has reported an underwriting loss and none an operating loss for the year ended December 2009 compared with two of eleven who reported an underwriting loss and an operating loss for the nine months ended September 2009.



The following table indicates the spread of the statutory solvency percentages of the cell-captive insurance companies.

	Number of insurers					
	December 2004	December 2005	December 2006	December 2007	December 2008	December 2009
Below 15%	0	0	0	0	1	0
Between 15% and 20%	0	0	0	0	0	0
Between 20% and 25%	0	1	0	2	1	1
Between 25% and 30%	3	0	1	0	1	1
Between 30% and 40%	0	2	1	2	2	2
Between 40% and 50%	4	0	1	1	0	1
Between 50% and 100%	1	6	4	2	3	2
Above 100%	1	0	2	3	2	4

■ Niche insurers

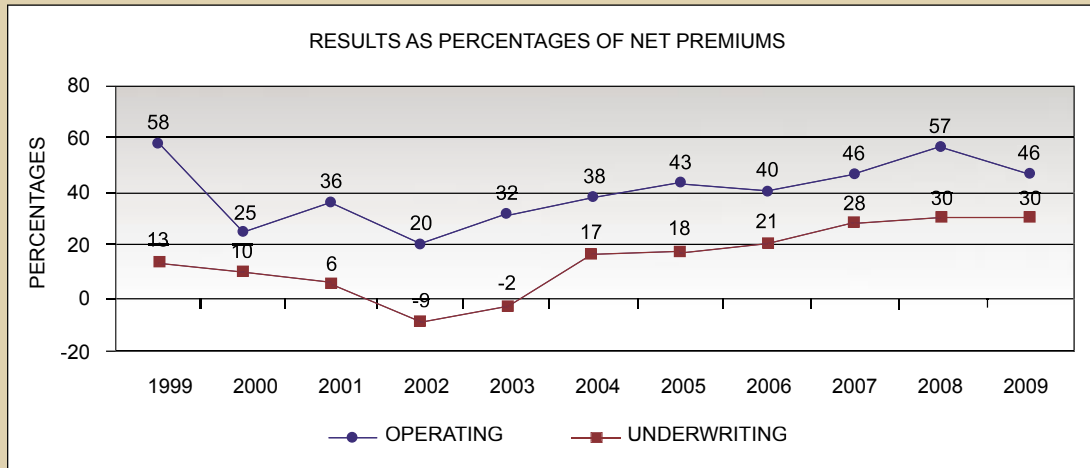
Industry results – Niche insurers (niche insurers, for the purpose of this report, are those insurers who offer, mostly, specialised cover only, in certain niche markets).

The table below sets out combined statistics (net after reinsurance) for niche insurers for the calendar years 2004 to 2009. The figures are unaudited.

	2004	2005	2006	2007	2008	2009
Net premiums R'm	2 808	2 497	3 293	3 872	4 976	5 712
Underwriting profit/(loss) R'm	477	444	699	1 078	1 514	1 723
Underwriting and investment income R'm	1 067	1 081	1 308	1 779	2 839	2 617
Claims (as % of earned premiums)	55	51	48	43	40	41
As % of net written premiums:						
Management expenses and commission	25	29	28	27	27	29
Underwriting profit/(loss)	17	18	21	28	30	30
Underwriting and investment income	38	43	40	46	57	46
Surplus asset ratio (median)	163	117	120	72	77	58



The following graph indicates how underwriting and operating (including investment income) results of the niche insurers have fluctuated over the past ten years.



Seventeen of the thirty-four operational niche insurers have reported underwriting losses for the year ended December 2009 and eight have reported operating losses compared with fifteen of the thirty-four operational niche insurers who reported underwriting losses for the nine months ended September 2009 and eight who reported operating losses.

The following table indicates the spread of the statutory solvency percentages of the niche insurance companies.

	Number of insurers					
	December 2004	December 2005	December 2006	December 2007	December 2008	December 2009
Below 15%	0	1	0	0	0	1
Between 15% and 20%	1	0	1	0	1	1
Between 20% and 25%	1	0	0	1	2	1
Between 25% and 30%	0	0	0	1	0	2
Between 30% and 40%	2	0	3	2	4	5
Between 40% and 50%	2	3	3	5	4	3
Between 50% and 100%	5	9	6	10	9	8
Above 100%	17	17	19	14	13	13



■ Reinsurers

Industry results – Reinsurers (reinsurers, for the purpose of this report, are those insurers who offer specialised cover, only to primary insurers).

Table 1 on the right sets out combined statistics (net after reinsurance) for reinsurers for the calendar years 2007 and 2009. The figures are unaudited.

Five of the eight operational reinsurers have reported underwriting losses for the year ended December 2009 and none have reported operating losses compared with six of the eight operational reinsurers who reported underwriting losses for the nine months ended September 2009 and none who reported operating losses.

Table 2 on the right indicates the spread of the statutory solvency percentages of the reinsurance companies.

Appreciation

Since his re-appointment as SAIA Chairman, Ronnie Napier has fitted into the role as easily as if he had never vacated the position. I appreciate his support, both to the association and to me personally.

The job of an insurance company Chief Executive is not an easy one. Despite this, our member companies' Chief Executives have found the time to serve on our Board and its committees. For this, we are extremely grateful. Without their guidance we would have no sounding board against which to verify our efforts.

The SAIA is a small organisation that endeavours to make a big difference. For the most part it's successful, and this success is in no small part due to the efforts of the many employees of our member companies who give willingly of their time. For this we are also truly grateful.

During 2008 we implemented a new strategic focus for the SAIA. This involved setting up new Board committees and creating new strategies for the different Key Strategic Areas. During the year under review, the Key Strategic Areas expanded and we once again suffered from staff shortages, which put immense pressure on the members of the SAIA team. I am happy to report that the team was not found wanting and that the vast majority of the objectives were met.

TABEL 1	2007	2008	2009
Net premiums R'm	1 899	2 388	2 314
Underwriting profit/(loss) R'm	192	37	55
Underwriting and investment income R'm	651	492	464
Claims (as % of earned premiums)	458	64	66
As % of net written premiums:			
Management expenses and commission	30	34	31
Underwriting profit/(loss)	10	2	2
Underwriting and investment income	34	21	20
Surplus asset ratio (median)	146	149	243

TABEL 2	Number of insurers		
	December 2007	December 2008	December 2009
Below 15%	0	0	0
Between 15% and 20%	0	0	0
Between 20% and 25%	0	0	0
Between 25% and 30%	0	0	0
Between 30% and 40%	0	1	0
Between 40% and 50%	0	0	1
Between 50% and 100%	3	2	2
Above 100%	4	4	5

Here I must mention that the SAIA has two unsung heroes: Our Manager: Information & Office Administration, Sonja Etsebeth, who performs sterling work ensuring that the office environment is suitable for our activities. This includes managing SAIA's information technology infrastructure, no mean feat given the number of documents we receive and circulars we send.

Recently appointed as our Committee Coordinator, Elsebe Vetten is responsible for co-ordinating the activities of our Board and all the Board Committees. It is not easy to find time in the diaries of our member companies' Chief Executives to attend the SAIA meetings. These ladies, together with our office administration staff, make it possible for our issues managers to perform their duties without being burdened with an enormous additional administration load.

To each and every SAIA member, I express my sincere appreciation for the collective role played to ensure a successful year for the SAIA.

Barry Scott
SAIA Chief Executive

SAIA Key Priority Areas

Image & Reputation

Vivienne Pearson
SAIA Manager:
Image & Reputation



Image & Reputation is one of the SAIA's Key Strategic Areas, as it has been for the past four years. In this period under review, a lot of work has gone into this important area. The main areas of activity will be explored in the next few pages.

SAIA Board Committee: Image & Reputation

As reported in the previous SAIA Annual Review, the SAIA Board Committee: Image & Reputation started the year on an interesting and important note with a brainstorming session that resulted in a new – and quite different – Image & Reputation Strategy for the industry and the SAIA in the 2010 reporting year. The final strategy was approved by this Board Committee and the SAIA Board at subsequent meetings.

The key elements of this strategy are currently in various stages of implementation, under the supervision of the Board Committee and the SAIA Board and will be discussed in the rest of this section of the SAIA Annual Review 2010.

It is quite evident that this strategy and all its elements will contribute greatly to building a strong reputation for the industry and the SAIA in the future.

Note of thanks

The SAIA would like to thank the members of the SAIA Board Committee: Image & Reputation, including the SAIA Board members as well as the specially co-opted members, for their positive and valuable input into and support of image and reputation issues.

SAIA Image & Reputation Strategy

The SAIA Image & Reputation department has aligned its activities to the SAIA Board-approved Image & Reputation Strategy.

Self-regulated industry: SAIA Code of Conduct

After the SAIA Board Committee: Image & Reputation, and the SAIA Board, decided that effective self-regulation was indeed necessary for the industry, and that a more comprehensive and detailed SAIA Code of Conduct (code) should be drafted to assist in this process, it was only the beginning of a very interesting – albeit difficult – process. This required insurers of different shapes and sizes, with different consumer bases, products, and business practices, participating in a process to agree on guidelines for the entire industry. Add to the mix other individuals with very different perspectives such as the Ombudsman for Short-term Insurance, representatives of the Financial Intermediaries Association (FIA) and the Institute for Loss Adjusters (ILA), and the process was guaranteed to be interesting. This had to be followed by a debate on the 'what's', 'why's', and 'how's' with members who were not intimately involved in the drafting process, before the new code could be launched.

However, after this intensive process, the new code was approved by the SAIA Board on 18 November 2009, distributed to members for comment, work-shopped with members on 23 February 2010 and formally released to members on 16 March 2010 and to the public on 29 April 2010.

The new code is quite aspirational, yet hopefully not impractical, and something that the industry can be proud of. The seriousness with which many of our members are currently tackling compliance with this code, is a testament to an industry that is prepared to act responsibly, fairly and ethically. This all bodes well for a solid self-regulatory environment in the future.

The new code has been in force since 16 March 2010 and will be reviewed after the first year in order to address any issues that may surface during its first year of application.

Note of thanks

The SAIA would like to thank the members of the Task Team for the SAIA Code of Conduct for their invaluable contribution to the drafting of an excellent Code that has been accepted and supported by the whole industry.



Stakeholder Relationship Campaign

The SAIA will have limited success if we do not have strong relationships with our stakeholders. A SAIA Stakeholder Relationship Campaign is therefore another key element of the SAIA Image & Reputation Strategy that will always receive special attention.

In the previous SAIA Annual Review, it was reported that the SAIA had identified two key areas where we needed to intensify efforts, i.e. the areas of Government and media relationships.

Specific strategy and implementation plans for these two areas were implemented in the period under review, which included all members of the SAIA's management team. I believe that we have achieved considerable success in this regard, but that due to the extremely busy diaries of the SAIA managers, this approach has not been as successful as it might have been. The SAIA Image & Reputation department has subsequently put together a slightly amended version of the implementation plan in order to encourage even more success in this regard.

Part of the SAIA Stakeholder Relationship Campaign is to initiate, build and enhance relationships with relevant stakeholders through the active participation and involvement in various committees, meetings and other activities. This method has always proved extremely successful and assists greatly in building credibility for the SAIA and the industry it represents.

The SAIA therefore participates in many committees and initiatives outside of its own immediate mandate, among others:

- The Policy Board for Financial Services and Regulation
- The Financial Services Board (FSB) FAIS structures
- The FSB Insurance Laws Amendment Act structures
- The FSB consumer education structures
- Insurance Sector Education and Training Authority (INSETA) Council
- Board of the Ombudsman for Short-term Insurance (OSTI)
- Board of the Insurance Institute of Southern Africa (IISA)
- Board of the Financial Sector Charter Council
- Council of Business Unity South Africa (BUSA)
- Business Against Crime South Africa Violent and Organised Crime Work Group
- South African Insurance Crime Bureau Board and Committees



- The annual SAIA Johannesburg media lunch took place on 17 November 2009
- The internal launch of the new SAIA Code of Conduct took place on 16 March 2010 at the Johannesburg Country Club in Woodmead
- A media conference was held on 29 April 2010 at the Johannesburg Country Club in Auckland Park to launch the new SAIA Code of Conduct externally

Industry initiatives

Industry initiatives represent another key area for an enhanced image and reputation of the industry. The industry continued to show its willingness to become involved in initiatives to improve the well-being of its consumers and society as a whole in a quest to earn a reputation of involvement and caring in addition to addressing serious issues of concern to the industry, the economy and society as a whole. Issues of concern for the industry included crime-combating initiatives, consumer education initiatives, road safety initiatives, and more in the period under review.

Industry initiatives: Crime-combating initiatives

A sustained reduction in crime is not only in the interest of the country in general, but is also quite crucial for an industry that is in the business of insuring assets. The SAIA believes that sustained efforts pertaining to combating motor vehicle crime have assisted in the overall general reduction in this type of crime of about 50% since 2002. It is believed that continued attention to this area is in the interest of all. In addition, business and household robberies, as well as hijackings, have shown unacceptable increasing trends in recent times. This has led to a SAIA Board decision in February 2010 to approve the eighth annual donation of R1.7 million to Business Against Crime South Africa (BACSA) to be used to support BACSA's invaluable crime-combating efforts, in conjunction with the relevant authorities. This donation was borne by all the SAIA members for the first time, setting a strong foundation for a future with reduced crime levels. In the past, because efforts were directed at combating motor-vehicle crime, the annual BACSA donation was borne only by the SAIA's motor insurance members.



Industry events

The SAIA's public relations campaign, which includes industry events, has always been successful, and the period under review was no different. The following events were highlights of the year:

- A media conference took place on 14 May 2009 where the SAIA handed over its 7th annual donation to Business Against Crime South Africa (BACSA) at the Wanderers Club in Illovo
- The SAIA Annual General Meeting (AGM) and Cocktail Function took place on 22 July 2009 at the Johannesburg Country Club in Auckland Park
- The SAIA Lunch for Personal Assistants of our member company CEOs took place on 18 September 2009
- The SAIA, in partnership with Business Against Crime South Africa (BACSA) and the Johannesburg Metro Police Department (JMPD), officially opened the 2nd Alcohol Testing Centre In Randburg, Gauteng on 29 September 2009
- The annual SAIA Financial Sector Charter (FSC) Consumer Education Projects Report Back took place on 27 October 2009 at the Johannesburg Country Club in Auckland Park
- The SAIA Board / FSB / National Treasury Liaison Lunch took place on 10 November 2009 at Leriba Lodge in Centurion
- The SAIA Committee Lunch took place on 13 November 2009 at the Randpark Golf Club
- The annual SAIA Cape Town media lunch took place on 16 November 2009

Industry initiatives: Road safety

The untenable situation regarding high accident figures has become a cause for greater concern for the industry and the SAIA. In fact, in 2009 the sustainability of motor insurance was investigated, which resulted in a strategy for sustainable motor insurance, which was recently endorsed by the SAIA Board. In line with this important industry concern, and while work was being done on the overall strategy, the SAIA initiated efforts in the road safety arena in an attempt to begin making a difference.

The highlight of our 2009 activities in this regard was the opening of the Randburg Alcohol Testing Centre on 29

September 2009. This centre came to life as a direct result of the SAIA's R500 000 donation to this road safety initiative as part of BACSA's annual donation in 2008/9.

This was a joint project between the SAIA, BACSA and the Johannesburg Metropolitan Police Service.

The SAIA members have found that alcohol played a role in many road accidents. The Randburg Alcohol Testing Centre was the second of its kind in Gauteng, and a targeted publicity campaign was launched with attendant anti-drunk driving educational messaging by the SAIA, JMPD and BACSA.

Industry initiatives: Consumer Education

The SAIA is still doing ground-breaking work in the area of consumer financial education.

SAIA Consumer Education Strategy

The SAIA Consumer Education Strategy was first introduced in 2009, and in terms of this strategy all the SAIA members – barring those who are exempted in terms of the access pillar of the Financial Sector Charter (Charter) – had to pool (in terms of the Charter requirements and the SAIA strategy) at least half of the required 0.2% of their after-tax profits to be used for the SAIA consumer education projects. In this way, the SAIA members contributed a total of R4 000 000 in 2009 alone. These funds were augmented by a contribution of R1.6 million by the Financial Services Board (FSB) and R1 million by Sanlam. The funds were spent on three worthy foundation consumer education projects, as amplified below.

Foundation Consumer Education Initiative (Previously known as the Financial Sector Charter (FSC) Consumer Education Initiative)

In terms of the SAIA's collaborative approach to consumer education, the association has always believed that there should be continuity of projects to ensure sustainable success and significant impact. Therefore, after thorough investigation of nine proposals received from different service providers, it was decided that the existing projects should continue during the period under review.

With the aim of improving access to and creating a footprint for insurance products in the lower-income market and keeping in mind that a foundation has been laid over the past six years during which the SAIA provided general financial literacy consumer education in this market, and after taking into account recent research findings, it was decided to include more insurance messages in the 2009/10 SAIA Foundation Consumer Education Initiative to build on the existing general financial literacy messages. The projects include:

- **Grades 10-12 SAIA / Financial Services Board (FSB) Teacher Development Workshops**

The Bright Media teacher development school-based project reaches teachers (current consumers of short-term insurance products) and learners (potential consumers of short-term insurance products) as well as communities (as teachers are seen as leaders and credible sources of information in communities).



Adèle Joubert
SAIA Public Relations Officer

The Department of Education (DOE) supports and co-brands the three high-quality, curriculum-aligned booklets that are placed in quality dust-resistant files. These resources are aligned to mathematical literacy, a new and compulsory subject for all who do not do pure mathematics.

■ A SAIA / FSB Commuter Awareness Project

The ComutaNet commuter awareness campaign focuses on reaching commuters over all nine provinces through a variety of different delivery mechanisms, such as Rank TV, Star Radio, Commuter FM, Star Music, roving stage trailers and kiosks / gazebos.

■ SAIA Community Workshops

Inzala provides community members and retrenched people with basic financial literacy and generic insurance training, using their existing networks within the community and labour constituencies to arrange eight-hour, in-depth community- and workplace-based workshops. It is conducted in the official languages according to learner preference.

Consumer Education 2008/9 Report Back function

The SAIA reported back on its 2008/9 FSC consumer education projects at a report-back function for members, the media and other stakeholders at the Johannesburg Country Club on 27 October 2009. This function was well attended by members and other stakeholders and some publicity was received through this initiative in the industry media.

Financial Education Fund (FEF) Grant Project

The SAIA was delighted to receive final approval of its application for a grant of approximately £250 000 for a consumer education project using radio in South Africa to convey financial literacy messages to consumers.

This project is not linked to the Financial Sector Charter (Charter) requirements and will follow the SAIA guidelines. The radio stations selected include four radio stations using indigenous South African languages and one control radio station where there will be no broadcast of our message in order to test the success of the project. The audiences of these radio stations are spread across all LSMs with a concentration on lower and middle LSMs up to LSM 6/7. The messages will be conveyed via a radio soap opera through several episodes.

The SAIA intends to use this project as an example of how effective the media is to convey consumer education and it includes a strong research element. The results should guide us when selecting future projects and could assist us to improve our projects, especially when monitoring and evaluating certain parts of our projects. They could also assist when renegotiating certain issues of concern with the Charter Council should the Financial Sector Charter (Charter) be gazetted.

We invited our member companies with products suitable for the lower income market (LSMs 1 – 7) to participate in this project. Participation will include providing a call centre number before and after relevant episodes, inviting listeners to contact companies to find out more about specific products, as well as measuring interest in and finally uptake of these products based on the radio programme. This information will ultimately be shared with the SAIA. The aim is to test whether increased uptake of products is experienced when information about such products is linked to consumer financial education.

A workshop to discuss the content of the programme took place on 15 October 2009 and formed the basis of the storyline which is being developed as this report is being written. Airtime has been booked with the South African Broadcasting Corporation (SABC), the baseline survey questionnaire is complete, and the implementation of this project is gaining momentum. We are looking forward to reporting on the end result of this project in next year's Annual Review, as the project will be in its final stages by then.

The International Labour Organisation (ILO) review project

During this period under review the SAIA was approached by the International Labour Organisation (ILO), which expressed interest in funding a research project to review the SAIA Consumer Education Strategy and projects with a view to assisting the SAIA in assessing and improving the consumer education projects implemented from 2004 to 2009, as well as their potential impact. The ILO also wished to put the SAIA approach, as embodied in our new Consumer Education Strategy, under the microscope to see whether there could be lessons, tips or ideas for others around the world.

I am pleased to report that all indications are that the ILO and its research provider – the Centre for Financial Regulation and Inclusion (CENFRI) – were impressed with the SAIA approach, strategy and projects and reported that they would be writing a case study that will serve as an example of international best practice. The case study will be published and promoted by the ILO all over the world, in addition to a report with their findings and suggestions for potential improvements to the SAIA.

The initial informal report of the ILO's findings on the success of the SAIA strategy is extremely favourable and it seems as if the SAIA and our industry will receive excellent recognition for its efforts in this important area. More about this will be included in the next SAIA Annual Review, as the final report from the ILO is expected in June of 2010.

Consumer Education for Current Policyholders

The SAIA does not have funding for consumer education targeted at current policyholders, even though we believe that this is an important area. Nevertheless, the SAIA did achieve some gains in this area in the period under review when it wrote, published and printed a consumer education pamphlet on consumer credit insurance, an area of concern for many stakeholders, including the Financial Service Board, National Treasury, the media and the industry.

Note of thanks

We wish to express our gratitude to the SAIA Consumer Education Committee, including its longstanding Chair, Michael McCann, and its totally committed and enthusiastic members (old and new) who, through their continued hard work, commitment, passion, input and effort, assisted in making this past year another very successful one for consumer education in our industry.

Targeted Publicity Campaign

Although SAIA's traditional and quite successful publicity campaign continued during the period under review, it was felt that more was needed in this regard. In order to take the "next step" and create enough publicity for the industry's very valuable initiatives, a targeted approach was required. The fact that the SAIA has traditionally not had funding for consumer education messaging beyond the low-income market, also needed to be addressed.

When the SAIA Board therefore approved the new SAIA Image & Reputation Strategy, which included a targeted publicity key element, the SAIA had to motivate a budget for this area to the SAIA Board.

I am happy to report that the SAIA Board approved a limited budget as a first step towards targeted publicity

in 2010 and approval was received for the SAIA to spend the remainder of the Proudly Insurance funds (originally aimed at improving the image and reputation of the insurance industry) for a limited 2009 targeted publicity campaign.

The targeted publicity campaign for 2009 was implemented successfully and was well received.

This educational media campaign ran ahead of the holiday period in 2009 and included the following aspects: advertorials, an educational survey and a radio campaign with educational messages and tips on short-term insurance.

The campaign was aimed at current policyholders as a lot of money is spent by the industry on awareness creation and consumer education in the low-income market,

through the SAIA Foundation Consumer Education Initiative (previously known as the Financial Sector Charter Consumer Education Initiative).

A 2010 campaign proposal was approved by the SAIA Board and will be implemented during the remainder of 2010. This campaign will mainly focus on the new SAIA Code of Conduct in order to create public awareness about the industry's self-regulatory initiative. A full report on this campaign will be included in the next SAIA Annual Review.

Information Sharing

As part of the new SAIA Image & Reputation Campaign, it was felt that communication with relevant stakeholders, including the media, Government, the public and others should be enabled by SAIA members sharing information with their representative body on a regular basis in order to identify trends and to address and communicate these proactively.

In the period under review, the foundation was laid for this project by:

- Including this information-sharing requirement in the new SAIA Code of Conduct;
- Identifying needs with regards to information sharing; and
- Designing a first draft information sharing template for members.

Further work is needed on this aspect of the SAIA Image & Reputation Strategy in the year ahead in order to implement the information-sharing requirement and gain maximum benefit from it.

Sustainability of Insurance

One of the new areas that SAIA identified as an area to address in the future in this period under review is the "Sustainability of Insurance". This area includes the systemic risk factors that could influence sustainability, including environmental, social and governance (ESG) factors. The SAIA Board elevated this area as a Key Strategic Area for the SAIA at its meeting held on 23 February 2010, following the drafting of a strategic overview document by the SAIA that investigated the areas of concern, as well as the potential role of the industry and the SAIA.

The foundation for addressing this huge and important area was thus laid during this period under review. The first steps in addressing this area include creating a discussion forum to identify and consider relevant issues, creating awareness about these issues in the industry

and initiating discussion with Government in this arena. All of the above were initiated in the period under review.

This key priority area includes all three the ESG factors, as mentioned above. However, since the SAIA is currently paying attention to many of the social and governance risk factors through various initiatives, special attention will be given to those areas that we are not addressing yet, including environmental risk factors.

The Insurance Conference 2010

In 2009 the SAIA was invited to jointly host the Insurance Conference 2010 with the Insurance Institute of South Africa (IISA) and the Financial Intermediaries Association (FIA). This conference will replace the traditional annual IISA Conference. It is quite likely that a joint conference will continue in the future. This conference is planned for the end of May 2010, to be held at Sun City, and will include general topics, insurer specific topics, and broker specific topics.

The joint SAIA, IISA, FIA organising committee commenced with the activities related to arranging the conference, with the theme "Rising to the Challenge", and at the time of writing this update arrangements are all but finalised.

Viviene Pearson
SAIA Manager: Image & Reputation



Legislation & Regulation

Karen Naidoo
SAIA Manager: Legislation
& Regulation



When checking the meaning of the word “foundation”, one is likely to come across the following words: base, basis, groundwork and underpinning.

The theme “Foundations for the future” could not be more apt for the SAIA Legislation & Regulation department as it exemplifies all the above words into the Legal and Compliance Committee. Consisting of over 25 members, this is SAIA’s largest active committee, which meets monthly to discuss pertinent issues and objectives agreed by the SAIA Board Committee: Legislation & Regulation.

The SAIA Board Committee: Legislation and Regulation review

The SAIA Board Committee approved the following objectives for the period under review:

Topic	Summary objectives
Insurance Laws Amendment Act - Binder Agreement	Participate in the development of regulatory policy proposal and drafting of regulations.
Insurance Laws Amendment Act - Data Connectivity	Participate in the scoping and development of the project plan leading to the establishment of a structured standardised model for an industry data switch.
Insurance Laws Amendment Act - Demarcation	Participate in the process of setting out a clear and detailed policy framework for regulation, taking into account the policy objectives of Government.
Financial Advisory and Intermediary Services Act (FAIS)	Participate in the Financial Services Board FAIS Advisory Committee. Contribute to the drafting of policy in terms of Fit and Proper Requirements and Compliance Officer reporting requirements.
Ombudsman for Short-term Insurance (OSTI)	Facilitate effective working relations between SAIA and OSTI. Contribute to the proposed OSTI Appeal Mechanism process.
Consumer Credit Insurance Enquiry	Synchronise perspectives within SAIA, following recommendations of the Consumer Credit Insurance Panel of Enquiry.
Other legislation	Participate in terms of providing a short-term insurance view on the impact of impending legislation on the short-term insurance industry.
Micro-insurance	Participate in the scope of the development of policy and a development of a regulatory regime for micro-insurance.

Insurance Laws Amendment Act: Binder Agreements

In 2008, the SAIA led a team that participated in the review of the Insurance Laws Amendment Act (ILAA). Section 48(A) of the ILAA deals with binder agreements between insurers and third parties. Third parties are regarded as independent intermediaries and their associated structures, such as administrators. In terms of this section, an insurance company is permitted, through a written agreement with a third party to, among other things, enter into, vary or renew a short-term policy. The Regulator recognised that the objectives of the ILAA can only be met through regulations. The Regulator further recognised the role played by the SAIA in representing the short-term insurance industry and invited the association to participate in drafting the regulations.

The task of aligning the Regulator's objectives while trying to maintain business creativity and innovation is onerous and requires in-depth knowledge of the application of incumbent short-term insurance partnerships between insurers and third parties. The SAIA participates actively in the Insurance Laws Amendment Act Binder Workgroup established by the Financial Services Board (FSB) with the purpose of ensuring that all stakeholders are adequately represented in the development of the binder regulations. During the previous months, the SAIA members have devotedly given up time and resources to engage with the FSB in discussions and negotiations on the content of the binder regulations.

These regulations will ensure the recognition of the various classes of binder agreements and the manner in which the binder intermediaries will be regulated. The ILAA Binder Workgroup will be instrumental in resolving issues concerning potential conflicts of interest that could exist between an insurer and a third party. Hence, the workgroup will be instrumental in drafting the terms of reference for the binder regulations and developing regulatory policy proposals that could potentially amend the platform of existing business structures between insurers and associated parties.

It is anticipated that the industry will peruse binder regulations before the end of 2010 with sufficient allowance for the industry to comment on the regulations before they are submitted to the minister for sign-off.

Section 48(A) 5 (c) is an essential component of Section 48 (A) in terms of binder agreements. This section relates to the ownership of any information and documentation relating to the policies contemplated in the agreement. It is a requirement of the ILAA that, as the owner of such information, the short-term insurer is entitled to access

the information relating to consumer data, which must "upon termination" be returned to the short-term insurer.

The question regarding the legal owner of the client will in all likelihood be resolved in the binder regulations. However, Section 48(A) 5(c) still places a responsibility on the binder parties to ensure that information can be exchanged and shared through a data switch enabling the seamless transfer of data.

Insurance Laws Amendment Act: Data Connectivity

Following the decision taken by the SAIA Board to pursue the Data Connectivity Project, the SAIA established a SAIA Data Connectivity Committee, consisting of a Steering Committee and two sub-committees, each focusing on business and technical imperatives respectively. This group researched the viability of a data connectivity tool that will allow all parties to the insurance transaction to have access to the necessary consumer data.

The Steering Committee consists of members of SAIA and of the Financial Intermediaries Association (FIA). The Business Sub-committee is responsible for scoping the project and determining the industry business needs, and the Technical Sub-committee's role is to script a technical solution that will meet the business requirements. The task of the Steering Committee is to ensure alignment with the ILAA while mobilising support from the Financial Services Board (FSB).

At the time of writing, the industry has made significant progress through the Data Connectivity Committee.

Support from the FSB has been obtained, and Acord has been identified as the diagnostic tool that will meet the requirements of the project and fulfil the obligations of the ILAA.

Acord is an internationally recognised and utilised insurance data sharing facility that will require localisation of the system before it can be incorporated into the South African short-term insurance sector.

During the first phase, membership of Acord is required to kick off the project. The SAIA Board settled on SAIA's membership of Acord over and above the four insurance companies and the four brokers who also needed to become members of Acord.

The FSB is in favour of an industry switch that will allow for the transmission of consumer data between all the parties of an insurance transaction. The binder regulations are likely to define the type of information that must

be shared. With the Consumer Protection Act and the Protection of Personal Information Bill on our doorstep, it is anticipated that the binder will strictly regulate the transmission of consumer data.

Insurance Laws Amendment Act: Demarcation of Health Policies and Medical Scheme Products

The process of engagement around the drafting of regulations for the demarcation of health policies and medical scheme products yielded minimal success in 2009.

In the first quarter of 2009, National Treasury appointed a consultant to undertake, among other objectives, research and report on the potential role of voluntary health policies in tandem with the current voluntary medical schemes and a future national mandatory health system. Furthermore, to design and carry out a study that will provide definitive evidence of whether the products sold by the short-term insurance industry have undermined or have the potential to undermine the medical schemes environment.

In assisting with the process of the research, the SAIA and the Association for Savings and Investment South Africa (ASISA) supplied demographic data on policyholders, which was intended to be used as guidance in unpacking issues of underwriting, marketing and selling of products in the market. A review of the data submitted was undertaken and sadly the treasury

consultant resigned in the last quarter of 2009 prior to submitting the report.

The process suffered a huge setback but was swiftly resuscitated by National Treasury, together with the industry associations.

Progress in the workgroup has resulted in numerous consultations, which also included a review of the data previously submitted by the associations. The responsibility of the review was undertaken by the SAIA, ASISA and the Council of Medical Schemes (CMS). At the time of writing, the industry associations had already considered the information and had separately reached a conclusion that:

- The combined information was useful but could not be used as the sole basis for decision-making in terms of the proposed regulations
- The compilation of more detailed data from CMS, SAIA and ASISA would probably not achieve this objective either
- An independent qualitative survey should be undertaken

It is envisaged that this will still be a long, drawn out affair and that the process of engagement will continue for the better part of 2010.

The SAIA wishes to thank all those who participated actively in making a significant contribution to the ILAA input.

Financial Advisory and Intermediary Services (FAIS) Act

New entrants to the industry post 2009 were confronted by tough Financial Advisory and Intermediary Services (FAIS) fit and proper requirements. This followed the implementation of the proposed changes with effect from 1 January 2009. These changes brought with them tougher fit and proper requirements and requires insurance representatives to possess a complete qualification as opposed to the previous dispensation allowed candidates entry into the short-term insurance industry based on 30 credits for personal lines and 60 credits for commercial lines.

While the new requirements might seem onerous and a potential barrier to entry, the benefits of the stricter requirements will be reaped by the consumer and will improve the image and reputation of the insurance industry. The amendments to the FAIS Act laid the foundation for the short-term insurance industry to improve its image and reputation by ensuring improved quality service to the consumer and creating a platform to professionalise the service offering to the consumer.

Through the introduction of continuous professional development, the amendments also recognise the need for continuous human capital development as well as previous experience.

The new developments are welcomed by the SAIA as well as by members although it is acknowledged that in some sectors these amendments will potentially create a barrier to the provision of insurance products. Specifically, industries such as the retail sector as well as the micro-insurance sector will be impacted. The SAIA and the affected retail sectors have opened up a process of engagement with the FSB intended to ensure that compliance is achieved without prejudicing certain individuals in the sector.

The Ombudsman for Short-term Insurance

The office of the Ombudsman for Short-term Insurance (OSTI), which was established in 1989, offers the consumer a free dispute-resolution mechanism. This office has been granted recognition in terms of Section 11 (4) (a) of the Financial Services Ombud Schemes Act and is guided by the rules of equity.

The Ombudsman does not represent any party but does ensure that rulings are binding on the insurer. The Ombudsman resolves disputes using the criteria of the law and proper insurance practice, which includes fair dealing and equity. Currently, a ruling made by the Ombudsman cannot be appealed by either party although the parties have a right to petition the courts for recourse.

According to the Ombudsman's Terms of Reference, the Ombudsman enjoys independent jurisdiction as recognised by the Financial Services Ombud Schemes (FSOS) Council established under the FSOS Act. Other voluntary Ombud schemes recognised and established under this act have introduced appeal processes to the existing system granting the parties leave to appeal a ruling made by the Ombudsman.

The SAIA and the office of the OSTI have continued to enjoy a cordial relationship. In 2009, the SAIA members agreed to engage the OSTI in support of an appeal process for the OSTI's Office. Through the SAIA Legal and Compliance Committee, the foundation was laid for the introduction of an appeal process. This resulted in the establishment of the OSTI Appeal Process Workgroup, which has put together a consultative paper in support of the view for an appeal process for the OSTI's office. Research was conducted into other financial services Ombudsman schemes – for example the Ombudsman for Banking Services and the Ombud for Financial Services Providers – to determine the relevancy and applicability of an appeal process.

The paper was presented to the OSTI Board in October 2009 and it was agreed to obtain an independent view on the matter. The Board decided to appoint a consultant, an industry expert and retired Judge Peet Nienaber, who was also the former Long-term Insurance Ombudsman, to write a paper for a moot appeal process for the Ombudsman office.

At the time of writing this review, the second and final draft of the paper was submitted to the OSTI Board for circulation and comment among the OSTI Board members. The paper makes reference to the other financial Ombudsman schemes and highlights the need for an appeal process. The following salient points were discussed in the paper:

- Concerns expressed by the OSTI office about the practical implications of the implementation of an appeal mechanism
- The general policy of Ombudsman schemes in South Africa
- The advantages of an appeal mechanism process
- A review of performance of the appeal mechanism processes in other Ombudsman offices
- A proposed resource structure (cost and human capital)

All the SAIA members are required to subscribe to the office of the Short-term Insurance Ombudsman. An appeal process will supplement the consumer values espoused by the Ombudsman, while enhancing the reputation of the OSTI office in the industry.

The next step requires a response from the OSTI's office to the proposal. A combined proposal consisting of the objective paper written by the consultant and OSTI's response to the paper will be submitted to the Financial Services Board and the FSOS Council for review before the industry gets an opportunity to review the document.

The SAIA is grateful for the input and the passionate contribution by its members for laying the foundation for a process that is likely to improve the consumer's experience of the short-term insurance industry as well as the insurer's experience of the OSTI's office.



Other legislation

The SAIA also closely monitored and gave input into the following legal developments during the year under review:

■ Protection of Personal Information Bill

On 26 August 2009, the Protection of Personal Information Bill was published in the Government Gazette. The purpose of the Bill is to give effect to the constitutional right to privacy, to regulate the manner in which personal information may be processed, to provide persons with rights and remedies to protect their personal information from processing that is not in accordance with the Bill, and to establish an information protection regulator who will ensure enforcement of the Bill.

Accordingly, the Bill is expected to promote the protection of personal information processed by public and private bodies. The Bill will also introduce information-protection principles, will provide for the rights of persons who receive unsolicited electronic communication (spam) and automated decision-making and will regulate the flow of information across the borders of South Africa.

In its current form, the Bill has a huge cost impact on the insurance sector. Information technology (IT) systems, the training of staff and processes will be re-engineered to accommodate the requirements of the Bill.

Public hearings were held where comments from various industries were delivered to the Portfolio Committee: Justice and Constitutional Development. The SAIA, with the assistance of members, attended the public hearings and presented the short-term industry's comments to the Portfolio Committee. The committee is currently deliberating on the comments before they will be sent to the minister for approval.

The SAIA Protection of Personal Information Workgroup continues to meet every monthly to discuss the developments of this legislation as well as the impact of the Bill on the data sharing project, as well as the impact of the Bill on other SAIA projects that involve the transmission, storage or sharing of consumer data.

While we support the advent of the Bill, we are also mindful that the traditional methods of conducting insurance business or any business will have to be reviewed to accommodate the disclosure and transparency requirements of the data subject (consumer). Read together with the Consumer Protection Act, the Protection of Personal Information Bill is Government's way of becoming more consumer-centric.

■ The Consumer Protection Bill

Following in the footsteps of most First World countries, in April 2009 South Africa promulgated the Consumer Protection Act (CPA) aimed at protecting the constitutional rights of the consumer against unfair business practices.

The Department of Trade and Industry (DTI) plans to have the regulations for the CPA drafted by end April 2010. In terms of Section 10 of Schedule 2 of the Act, the Long- and Short-term Insurance Acts are exempt from compliance with the Act, subject to the alignment of the sector laws with the Act. The exemption does not entirely exonerate the insurance industry from compliance; instead it imposes a responsibility on the insurance industry to ensure that systems are in place to accommodate the spirit and aims of the Act. The SAIA has been working closely with the DTI to ensure that the practices of the short-term insurance industry are considered during the drafting of the regulations and any further policy with regards to this legislation. The insurance industry (short and long term) has been granted 18 months from the general effective date to align the sector laws to the Act.

The SAIA has established the Consumer Protection Act Workgroup, which meets monthly to unravel the impact of the Act on the industry and to identify possible solutions for the implementation of the Act. The workgroup is working on a gap analysis that will highlight the areas where compliance is required prior to the implementation of the Act.

■ Second Hand Goods Act

This piece of legislation, which is managed by the South African Police Service, aims to reduce criminal activity in dealing with second-hand goods. In the previous Annual Review, it was reported that the SAIA would be applying for an industry exemption from the Act on the basis that the short-term insurance industry does not deal in second-hand goods. Following numerous discussions with Business Against Crime South Africa and the South African Police Service, it is agreed that the application for exemption would be granted in favour of the short-term insurance industry.

■ Competition Laws Amendment Bill

On 28 August 2009, the Competition Amendment Act was signed into law. The Amendment Act aims to amend a number of existing provisions while also introducing new provisions to the act.

The Act amends the provision in the Competition Act which establishes concurrent jurisdiction between the Competition Commission and industry specific regulators in order

to clarify and provide certainty regarding the authority of the commission and industry regulators respectively.

The amendment provides that the details of the administrative manner in which the concurrent jurisdiction is to be exercised are to be determined by an agreement between the commission and the relevant industry regulator. The issues regarding concurrent jurisdiction are dealt with by the Financial Services Board.

The SAIA Competition Laws Workgroup is monitoring the developments under this piece of legislation. The SAIA is also alert to any insurance practice that could be deemed to be anti-competitive behaviour as defined in terms of the act.

■ Micro-insurance

Micro-insurance is an important area for our industry, but in which nothing much happened during the period under review at an industry level.

National Treasury, together with the Centre for Financial Regulation and Inclusion (CENFRI), which was appointed by National Treasury to work on this, consulted with the SAIA on the industry comments submitted in 2008 on the National Treasury Discussion Paper on Micro-insurance Regulation in South Africa. We are expecting a second draft of this discussion paper by the end of 2010.

In addition, the SAIA continued with its efforts to convince the Financial Service Board (FSB) to create a less onerous category within the Financial Advisory and Intermediary Services (FAIS) Act legislation for entry-level business in order to make it easier for our members to participate in this area. However, at the time of writing, these efforts have not yet been successful as the FSB has embarked on a process to consider a similar category for all sectors. We are hoping for progress in this regard soon.

Other than the above, the uncertainty regarding the future of the Financial Sector Charter was not conducive to anything new happening in the access arena, and the FSC access group did not meet once during the year under review. The SAIA considered requests from the industry to discuss issues concerning micro-insurance and access, and arranged a micro-insurance meeting to discuss the way forward.

Conclusion

Reflecting on the projects of the past year, it is apparent that the foundations have been laid for significant developments in the Legislation & Regulation arena. Towards the end of 2010, the insurance industry will have



sight of the new Insurance Laws Amendment Act (ILAA) binder regulations, and the industry will be closer to implementing a data switch for the transfer of information, the Consumer Protection Act will come into force in its entirety with certain sections being implemented in April 2010, a decision on the Short-term Insurance Ombudsman appeal process will be finalised, the question about fit and proper requirements for access products, together with the demarcation of health policies will be finalised and all of this as a result of the work that was initiated in the year under review.

Developments are fraught with challenges and opportunities. Huge costs are normally associated with regulatory compliance, often creating barriers to entry and forcing companies to compromise on compliance. Legacy shows that the year ahead will prove to be another challenging one for the short-term insurance industry. Our members are faced with different levels of competition as the economy slowly extricates itself from a recessionary period. Through our members' perseverance and determination, the short-term insurance industry can transform into an innovative, yet sustainable consumer-friendly industry.

The foundations have been laid by various Government departments to ensure that the year ahead is geared for developments in the consumer space. Laying the foundation of any great structure is the most difficult task, but like a great leader once said: "If you feel like you're going through hell, keep going..." The Legislation & Regulation team wishes to thank the SAIA members for their perseverance and determination in meeting the objectives of the SAIA Legislation & Regulation Board Committee.

Karen Naidoo
SAIA Manager: Legislation & Regulation

Motor

Refilwe Moletsane
SAIA Deputy Executive

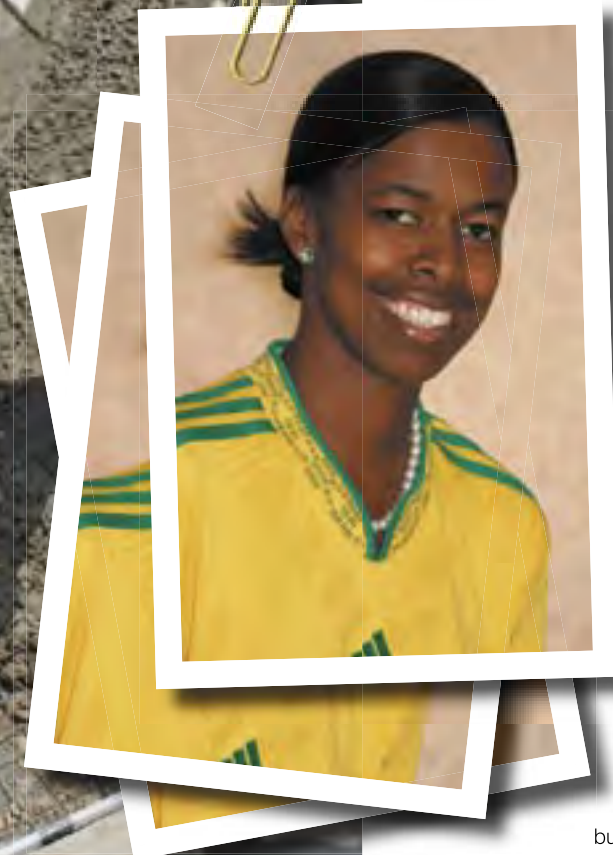
The New Motor Strategy

The industry's motor comprehensive class of business, which remains the largest class of business, came under considerable financial pressure during the period under review. The impact of the worst financial crisis was evident in the fluctuation of the persistency ratio of motor comprehensive premiums, the cancellation of motor comprehensive policies (with the aim of securing cheaper premiums elsewhere) and significantly on the cost of motor vehicle repairs. It is believed that the increase in job losses was a major contributing factor.

This situation was further exacerbated by the challenges highlighted by the National Association of Automobile South Africa, including the uncompetitive nature of the local motor industry. In addition, there was a proposal to increase the

local content in locally produced vehicles from about 35 percent to 70 percent, which is directly correlated to the industry's average cost of repairs. The significant decline in the new and secondhand vehicle sales also contributed to the decline on the premium growth of some of the insurance industry's motor comprehensive portfolios.

Frequency of vehicle accidents remained a huge challenge. A commonly asked question in the latter part of 2008 and in 2009 was whether the industry has the ability to appropriately rate the risk exposure in the motor class of business. Influencing factors such as the lack of adherence to the rules of the road, the increased number of unlicensed and inexperienced drivers on our roads, the influx of imported vehicles, the lack of



spare parts for such vehicles and the increase in the price of spares have remained beyond the industry's control.

Having accepted in 2008/2009 that the industry's Motor portfolio was facing challenges, in 2009, the SAIA focused on broad motor-related issues that culminated in the formulation of the SAIA Motor Strategy document. Some of the issues mentioned in the preceding paragraph as factors affecting the sustainability and affordability of comprehensive insurance were carefully considered during the formulation of the strategy. It was acknowledged by the SAIA Motor Board Committee that the broader implications of the issues, and what was considered to be of essence, required a collaborative effort to be achieved at industry level, Government level, private and business level and motorist and pedestrian level.

This strategy, which is aimed at providing the South African motorist and road-user with affordable insurance cover and education in safe road practice, was approved by the SAIA Board on 23 February 2010. The strategy outlines the seven key pillars of focus and addresses how the SAIA and its key stakeholders can contribute and positively influence the risk components related to the motor comprehensive value chain. While it should be noted that some of the key deliverables will largely depend on the collaborative effort of all relevant stakeholders, the implementation of the strategy will be driven under the leadership of the SAIA.

The seven key pillars of focus are:

- improved driver behaviour;
- minimising vehicle-related risk factors;
- improved road conditions;
- reduction in vehicle crime;
- implementation of industry supply chain standards and codes of practice;
- maximisation of access to data and processes that will drive efficiencies in the insurance industry; and
- implementation of measurable deliverables with stakeholders.

Work is currently under way in respect of some of the elements identified regarding the key pillars, minimising vehicle-related risk factors and implementing industry supply chain standards.

Compulsory Third Party Motor Property Insurance

Significant progress on the development of the proposal for the introduction of compulsory third party motor property insurance was made in 2009. With the current estimation of uninsured vehicles at 65%, it is acknowl-



edged that a pool of current insured vehicles will not be sustainable if the balance of uninsured vehicles is not brought into the fold. It is noted, in terms of Article 6.8 of the SADC protocol on transport that member states are required to investigate mechanisms for the creation of a harmonised system of third party insurance in the region. There is no reason why South Africa as a key member should not play a major role in this endeavour.

In the latter part of 2009, the SAIA and the Road Traffic Management Corporation (RTMC) agreed on key deliverables leading up to implementation of the proposal including:

■ Phase 1

The formulation of the motivation document which includes, but is not limited to, the purpose of the recommended introduction of a compulsory third party motor vehicle insurance in South Africa. At the time of writing this report, the SAIA had submitted the first draft for consideration.

■ Phase 2

Preparation work that needs to be done for the development of procedures, processes, systems and responsibilities with regard to an acceptable and affordable compulsory third party motor vehicle insurance scheme.

■ Phase 3

The development of a discussion document and the legislation to support the introduction of this compulsory insurance will be conducted.

The formulation of this proposal has come with its challenges, which include the lack of adequate insurance data to enable the determination of key elements to be

considered in the formulation of cover and an affordable premium. To this end the SAIA and RTMC have agreed to collaborate. It is worth noting that the proposal is not for the driver's legal liability for injuries caused to third parties (including passengers) but is intended to cover only damage caused to third parties' property resulting from the use of a vehicle on a road.

It is envisaged that the development of phase two will be undertaken during the third quarter of 2010, and timelines for phase three will be influenced by the milestones achieved under phase two.

Indemnification costs

Another key element identified in the strategy, which impacts on vehicle related risk factors, is indemnification costs. The unavoidable escalation in the cost of repairs has imposed a need to consider quality, safe, low-cost alternative parts. As per Audatex statistics, insurers spend approximately R10 billion on motor vehicle accident replacement parts annually, and approximately 75% of all motor claims are accident related. Roughly, 60% of the cost per claim is parts related. Some motor books of business have remained as loss leaders for most insurance companies in our membership. To this end, the SAIA is exploring avenues that have, thus far, involved the exchange of information on the cost of common parts used. Furthermore, key relevant stakeholders have been identified who will be consulted at the appropriate time.

It is acknowledged in insurance circles that the use of quality alternative parts will at some point become critical for this industry and hence the need for the process of engagement that is currently underway.

Road safety

Road safety (the core of the strategy document) involves various factors that will require the SAIA to facilitate a process of unlocking systemic blockages. Some of the key deliverables will remain beyond the industry's control, such as the revision of driver licence education by

the Road Traffic Management Corporation (RTMC). The process of engagement between the industry and the RTMC to address issues regarding inexperienced drivers and improved enforcement in line with the Administrative Adjudication of Road Traffic Offences (AARTO) Act, is still in its infancy.



Road Accident Fund Amendment Act 2008

The uncertainty relating to implications of the Road Accident Fund (RAF) Amendment Act 2008 continues. Following the abolishment of the common law right to sue, Cabinet approved the introduction of a no-fault system of road accident insurance. However, the relevant enabling legislation has only recently been published for public comment.

The constitutionality of the removal of the common law right to sue, in terms of the RAF Act, was challenged in the North Gauteng High Court in Pretoria by The South African Association of Personal Injury Lawyers (Saapil) and the Law Society of SA and the case was subsequently dismissed.

At the time of writing The SA Association of Personal Injury Lawyers (Saapil) and the Law Society of SA were preparing to file an appeal in the Constitutional Court against a ruling in the North Gauteng High Court upholding the Road Accident Fund (RAF) Amendment Act of 2008, which limits the damages that accident victims may claim and prevents an aggrieved party from suing the vehicle driver.

The SAIA will continue to monitor the process and until the matter has passed through all the legal processes, a degree of uncertainty and possible financial implications for the industry will remain.

Conclusion

There are still many challenges facing the industry and no doubt new issues will arise. To this end, it is hoped that the SAIA motor strategic document, which will address some of the issues affecting the sustainability and affordability of motor insurance, will soon be implemented aggressively with the appointment of the new SAIA Manager: Motor.

The SAIA is also looking forward to continuing its valuable relationship with the Business Against Crime South Africa in implementing its new motor strategic imperatives.

The SAIA wishes to extend its gratitude to the SAIA Board Committee: Motor, the SAIA Motor Committee and the Personal Lines Committee as well as the various workgroup members, for their commitment and dedication.

Refilwe Moletsane
SAIA Deputy Executive

Finance & Operations

Charles Hitchcock
SAIA Manager: Finance & Operations



Intermediaries Guarantee Facility Limited

The Intermediaries Guarantee Facility Limited (IGF Ltd) continues to provide Section 45 guarantees to intermediaries collecting premiums.

Although there was an increase in the number of policies sold to motor dealers and an increased interest from motor dealers and others, there are still many intermediaries who are collecting premiums but who are not compliant with the provisions of Section 45, Regulation 4, of the Short-Term Insurance Act.

It is hoped that the provisions of Financial Advisory and Intermediary Services Act (FAIS) and other initiatives to encourage compliance by the Regulator will improve compliance in the future.

IGF Ltd will shortly embark on an internal review of operations with a view to improving service delivery to all stakeholders and renewing commitment by staff and management to these two very important areas.

We thank the intermediaries for their support during the year.

A word of thanks to the Chairman, the Board of Directors, and the Underwriting Committee of IGF for their hard work, support and commitment during the past year.

I wish to express my special appreciation to Mr. Nick Beyers who retired from the IGF Board effective 3 March 2009 after many years of service to IGF Ltd and the industry.

South African Pool for the Insurance of Nuclear Risks

■ Introduction

The South African Pool for the Insurance of Nuclear Risks (SANP) has embraced renewal by appointing a new administrator, the South African Nuclear Pool Administrators (SANPA). Previously, the SAIA acted as an administrator for the SANP

The step was taken with the two main objectives of securing capacity and enhancing the risk management of the SANP going forward.

The objectives were achieved by incorporating a private company to administer the activities of the SANP.

■ **The process**

The effective start of operations by the new administrator is 1 January 2010. With the incorporation complete, the real work lies ahead with the implementation of systems and governance procedures that will satisfy the needs of all stakeholders.

■ **Renewals**

The renewals for Eskom (Koeberg) and NECSA (Pelindaba) for the 2009/2010 period were successful except for the loss of business on the Koeberg terrorism account, where the pricing of the risk resulted in the Pools writing 10% with EMANI taking up 90% (previously: 70% and 30%).

It is envisaged that renewals for the 2010/2011 period will take place as contracts expire, save for an improvement in the portion written by the Pools of the Koeberg terrorism account.

It is worth noting that, during the 2009/2010 period, there has been a marked increase in additional business from NECSA (Pelindaba) written due to an internal review of risk by NECSA.

A special thanks to Mr Jack Smit (independent consultant to SANP) and Mr Mark Tetley (lead insurer for SANP) for their work and commitment in bringing in the new business.

A special thanks to all stakeholders including the Regulator for assisting with the FAIS exemption for SANPA, Lloyds for assisting with SANPA obtaining coverholder status and again to Messrs. Jack Smit and Mark Tetley for their unfailing commitment.

Charles Hitchcock
SAIA Manager: Finance & Operations





SAIA Committees

Elsebe Vetten
SAIA Committee Coordinator

The following committees were active during the review period:

Volunteered members

Financial Sector Charter (FSC) Access Committee
FSC Enterprise Development Committee
FSC Procurement Committee
FSC Steering Committee
SAIA Agricultural Technical Committee
SAIA Commercial Technical Committee
SAIA Consumer Education Committee
SAIA/Financial Intermediaries Association (FIA) Data
Connectivity Steering Committee
SAIA Finance Committee
SAIA Human Resource Committee
SAIA Insurance Data Sharing (IDS) Combined Claims &
Underwriting Committee
SAIA IDS Steering Committee
SAIA Knock-for-Knock Committee
SAIA Legal & Compliance Committee
SAIA Motor Advisory (closed)
SAIA Motor Committee
SAIA Motor Committee
SAIA Motor and Personal Lines Committee (closed)
SAIA Personal Lines Committee
SAIA Motor Supplier Transformation Committee
SAIA Personal Lines Committee
SAIA Non-Registered Insurers' Committee
SAIA Trucks Committee

Elected members

Audit Committee (SAIA and Intermediary Guarantee
Facility)
Intermediary Guarantee Facility (IGF) Board Committee
IGF Underwriting Committee
Nuclear Management Committee
SAIA Board
SAIA Board Committee: Image & Reputation
SAIA Board Committee: Legislation & Regulation
SAIA Board Committee: Motor
SAIA Board Committee: Reinsurers
SAIA Board Committee: Transformation
SAIA Executive Committee
SAIA Remuneration Committee
The Association for Marine Underwriters in South Africa
(AMUSA) Executive Committee
The South African Machinery Insurance Association
(SAMIA) Executive Committee

SAIA would like to thank each member of our committees. We rely heavily on the knowledge and skills of these member representatives in order to provide a service that our members can continue to be proud of. Each SAIA committee member has a role to play in helping SAIA reach the goals of our key strategic focus areas and the value each member adds to assist SAIA to successfully address industry issues does not go unnoticed.





SAIA Divisions

The South African Machinery Insurers Association

Trevor Kerst
Chairperson: SAMIA

I am pleased to report that the South African Machinery Insurers Association (SAMIA) enjoyed another fruitful and interesting year with many topics of interest discussed.

The market

During the period under review and in line with worldwide trends, the engineering sector of the insurance market in South Africa experienced tougher trading conditions. In a similar vein to the prior year, new construction projects taking place were on the decline. Additionally, cancellations of existing or proposed projects increased.

Considering the market premium reflected below, it must be borne in mind that these are the 2008 figures which still reflect a healthy growth over 2007. The statistics for 2009 are still in the process of being compiled for submission to the International Machinery Insurers' Association (IMIA) later in the year.

The gross market premium for 2008 was R2, 04 billion reflecting a growth of 20% over 2007. The total claims for 2008 increased by 56% over 2007 to R948, 9 million. This results in an overall loss ratio for 2008 of 46%. Whilst the loss ratio is still acceptable, the trend is concerning compared to the 36% loss ratio for 2007, a decline of 10 points.

Moving to individual classes of business, the construction sector again showed the most activity with the premium growing from R630, 5 million in 2007 to R856, 7 million in 2008. The loss ratio for this business declined from 31% in 2007 to 37% in 2008, again a negative trend. The only classes of business reflecting a loss in 2008 were those of machinery breakdown and the associated machinery loss of profits. A couple of claims relating to compressors and turbines in the fertilizer industry contributed significantly to this adverse result.

Training

Plans are in progress to host a training course on construction and plant insurance later in the year. Requests have also been received to host courses in Johannesburg and this is under consideration for next year.

Certain committee members are working on a paper regarding the shortage of skills in the plant operator and construction arena.

Discussion topics

During the course of the year several interesting lunch-time presentations were conducted. These included:

- Paramount Construction – unusual bridge construction
- Global warming (courtesy of Roy O' Connor; Munich Re)
- Contractors Plant Hire Association (CPHA) conditions

Numerous discussions were also held with the South African Special Risks Insurance Association (SASRIA) concerning requirements and how they relate to the engineering classes.

IMIA Conference

A personal highlight of the year was having the honour of attending the International Machinery Insurers' Association (IMIA) conference held in Istanbul, Turkey.

Some of the papers presented were:

- Mining industry – engineering insurance exposure
- New challenges for wind energy
- Waste to energy – construction / erection and operation

- Advance loss of profits claim adjustment issues
- Combustion turbines – critical losses and trends
- Tunnel boring machines

The papers presented were of a very high standard and definitely worth a read.

Additionally, breakaway discussions were held covering the following topics:

- Coverage of refractories and catalysts
- Policy leaders and following markets
- New markets for inherent defects insurance (IDI)
- Project and Machinery insurance – clarification of various specific testing periods and their allocation to erection, testing or operational/maintenance phase
- CO² emission trading and BI insurance

Social

The industry golf day held at Killarney attracted a record number of entrants and was enjoyed by all. Thanks go to Mr Andrew Charlton for the organisation of this successful event.

SAMIA cannot function without a dedicated committee and to this end, I would like to thank all the committee members for their continued assistance and support throughout the year.

Trevor Kerst
Chairperson: SAMIA



SAIA Divisions

The Association of Marine Underwriters of South Africa

Paul March
Chairperson: AMUSA

During the period under review the Association of Marine Underwriters of South Africa (AMUSA) Committee met eleven times.

Coastal correspondents

AMUSA has three coastal correspondents who report on a quarterly basis from Cape Town, Durban and Port Elizabeth (PE). Each correspondent committee consists of marine surveyors and underwriters.

In the reporting period, Cape Town advised us on the running aground of the "Seli 1".

Port Elizabeth had the first commercial vessel discharging at the new Ngqura Port and provided details on the October storm that blew through the marinas in the PE harbour. Total estimates are now over R4 million.

The Durban correspondent has brought to light the ongoing problems surveyors have with accessing various terminals within the port area. AMUSA is looking to assist on this issue but it will be an ongoing battle.

Liaison with surveyors

Every two months the AMUSA/Surveyors/Financial Intermediaries Association (FIA) Liaison Committee meets. This committee consists of representatives from AMUSA, FIA, local surveyors and Transnet Freight Rail (TFR). The input from the surveyors and the TFR representative is

invaluable and I would recommend the minutes as a useful source of information on what is going on out there beyond your desk. I would like to add my special thanks to the surveyors who find time in their hectic schedules to regularly attend these meetings

Statistics

A new committee was formed in the period under review, and Mr. Mark Caietta, the current Chair, has been busy chasing underwriters for figures and should produce meaningful statistics for the marine market. Only combined market figures will be released to ensure that individuals' information remains confidential.

AMUSA is attempting to follow the practices used to great effect by the International Union of Maritime Insurance (IUMI) at its annual conference. Sadly, however, response to date has been sporadic.

Education

AMUSA was co-opted to the IISA sub-committee on continuous professional development (CPD) and hopefully our input (a marine underwriter's view) has made this process more sensible and palatable for the general insurance population.

In terms of the new RE 1 and RE 2 exams, AMUSA has not been consulted in any form whatsoever. I would caution those taking the exams to beware of any marine questions. AMUSA is not responsible for the content or the reliability of the information.

Commercial hull

The market has been stable in the period under review, with few signs of the premium chasing that has dogged this market in the past. And more pleasing, there is evidence that underwriters are not offering the infamous machinery damage extension.

Maritime Hijack aka Piracy

The incidents of piracy attacks in the Gulf of Aden are still being reported at high levels. Due to the fact that South Africa's trade partners are mainly United Kingdom (UK), Europe, and the United States of America (USA), local underwriters have a limited exposure to this problem.

However, the potential to be involved in a piracy incident should not be underestimated. I feel it is only a matter of time before a local insurer is forced to pay, via general average, for the release of its insured's cargo.

On a related issue, the legality of ransom payments in South African law is still being heavily researched as legal opinion is currently divided.

Technical

During the period under review and again related to the problems of piracy, AMUSA went to the South African Maritime Safety Authority (SAMSA) for clarification on the legality of carrying arms aboard ship. SAMSA has confirmed that South African law prohibits vessels from the carrying of arms within South African waters.

Small craft

The introduction of the South African Maritime Safety Authority (SAMSA) safety regulations for boats and boat owners is starting to have an effect. In terms of the legislation, boats have to have an up-to-date buoyancy certificate and the owners have to have passed a skipper's exam. The potential for legislative compliance issues and related fraudulent claims should not be ignored.

International Union of Marine Insurance (IUMI)

I am proud to announce that South Africa has been confirmed as the International Union of Marine Insurance (IUMI) host country for the union's 2018 conference. This will be the first time in the 135-year history of IUMI that the event will take place in Africa. The SAIA has been quick to confirm its support and backing, and Cape Town, with its long maritime history and world-class convention centre, has been confirmed as the host city.

The 2009 IUMI conference was held in Bruges, Belgium, and South Africa fielded seven delegates. Encouragingly, it looks like this number will increase for the 2010 conference in Zurich.

Appreciation

Finally, I wish to thank the Executive Committee for its support and input.

Thanks to Barry Scott and Elsebe Vetten and all the other SAIA members for their assistance and support during the year.

I would like to take this opportunity to wish Mr. Frank Ponnen calm waters and clear sailing for his up-coming tenure as Chairman of the Executive Committee.

Paul March
Chairperson: AMUSA

SAIA Board

Chairman

Ronnie Napier

Deputy Chairman

Mike Truter

Credit Guarantee Insurance Corporation of Africa Limited

Adam Samie

Lion of Africa Insurance Company Limited

Board Members

Achim Klennert

Alternate: Randolph Moses

Hannover Reinsurance Africa Limited

Angela Mhlanga

Compass Insurance Company Limited

Barry Scott

The South African Insurance Association

Charles Hitchcock

The South African Insurance Association

Denise Shaw

Standard Insurance Limited

Guy Munnoch

Zurich Insurance Company SA Limited

Herman Schoeman

Guardrisk Insurance Company Limited

Ian Kirk

Alternate: Shehnaz Somers

Santam Limited

John Sibanda

Alternate: Amit Khilosia

Lloyd's South Africa Pty Limited

Junior Ngulube

Alternate: Baravand Madhav

Munich Reinsurance Company of Africa Limited

Keith Kennedy

Alternate: Sedick Isaacs

Mutual & Federal Insurance Company Limited

Mike Durek

Alternate: Victor Martindale

ACE Insurance Limited

Nash Omar

Alternate: Carel Nolte

Etana Insurance Company Limited

Nic Kohler

Alternate: Gail Walters

Hollard Insurance Company Limited (The)

Refilwe Moletsane

The South African Insurance Association

Tom Creamer

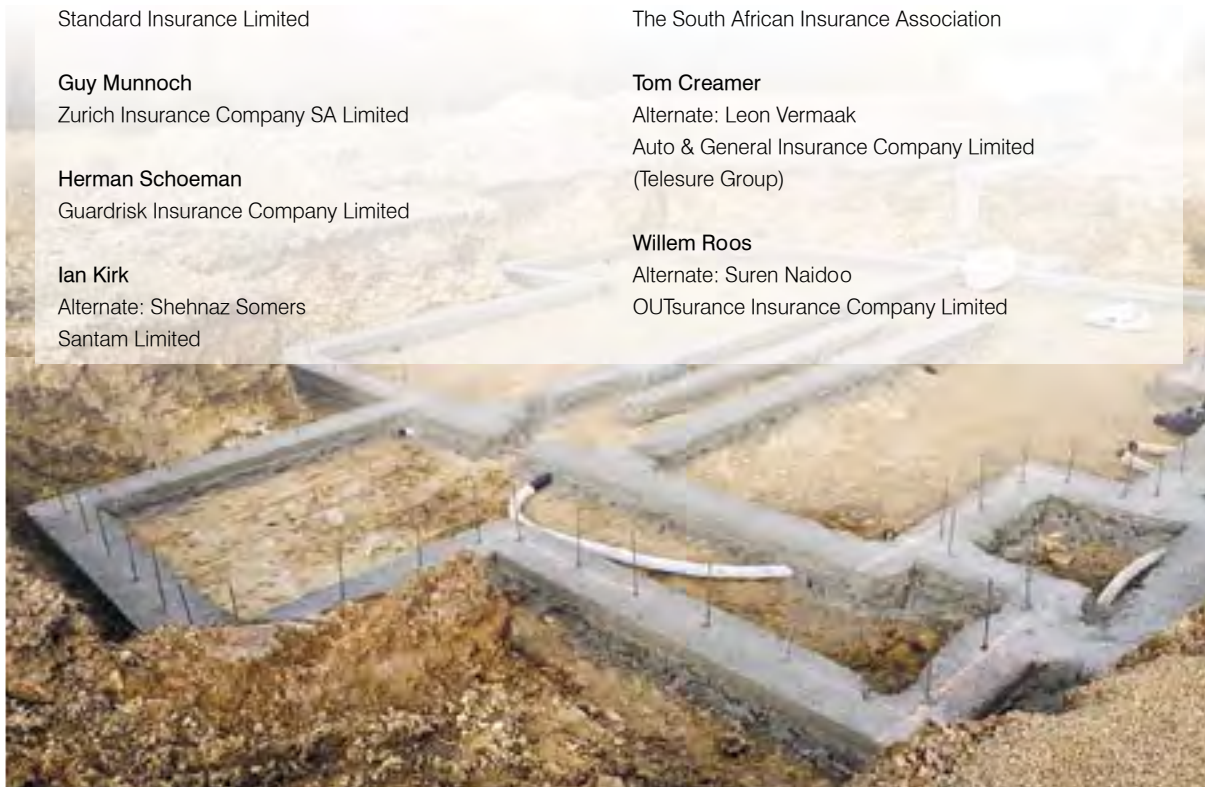
Alternate: Leon Vermaak

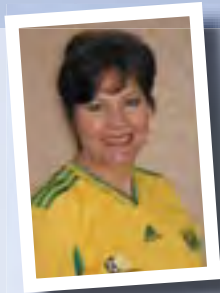
Auto & General Insurance Company Limited
(Telesure Group)

Willem Roos

Alternate: Suren Naidoo

OUTsurance Insurance Company Limited





SAIA Members

Sonja Etsebeth

SAIA Manager: Information & Office Administration

ABSA Insurance Company Limited
ACE Insurance Limited
African Reinsurance Corporation (South Africa) Limited
Alexander Forbes Insurance Company Limited
Allianz Insurance Limited
Auto & General Insurance Company Limited
Centriq Insurance Company Limited
Chartis South Africa Limited
Coface South Africa Insurance Company Limited
Compass Insurance Company Limited
Constantia Insurance Company Limited
Credit Guarantee Insurance Corporation of Africa Limited
Dial Direct Insurance Limited
Emerald Insurance Company Limited
Enpet Africa Insurance Limited
Escap Limited
Etana Insurance Company Limited
Flagstone Reinsurance Africa Limited
General Reinsurance Africa Limited
Guardrisk Insurance Company Limited
Hannover Reinsurance Africa Limited
HDI Gerling Insurance of South Africa Limited
Hollard Insurance Company Limited (The)
Indequity Specialised Insurance Limited
Intermediaries Guarantee Facility Limited
JDG Micro Insurance Limited
Kingfisher Insurance Company Limited
Legal Expenses Insurance Southern Africa Limited
(Legalwise)

Lion of Africa Insurance Company Limited
Lloyd's South Africa Pty Limited
Lombard Insurance Company Limited
McSure Limited
Momentum Short-Term Insurance Company Limited
Monarch Insurance Company Limited
Munich Reinsurance Company of Africa Limited
Mutual & Federal Insurance Company Limited
Natsure Limited
Nedgroup Insurance Company Limited
New National Assurance Company Limited
Oakhurst Insurance Company Limited
OUTsure Insurance Company Limited
PinnAfrica Insurance Limited (Cardif-Pinnacle)
Regent Insurance Company Limited
Relyant Insurance Company Limited
Renesa Insurance Company Limited
RMB Specialised Lines Limited
SAFIRE Insurance Company Limited
Santam Limited
SASRIA Limited
SaXum Insurance Limited
Scor Africa Limited
Standard Insurance Limited
Unitrans Insurance Limited
Unity Insurance Limited
Zurich Insurance Company SA Limited
Zurich Insurance Risk Financing Limited

SAIA Staff

Front (left to right):

Karen Naidoo - Manager: Legislation & Regulation; **Busi Ndhlovu** - Receptionist; **Adelaide Motsuenyane** - Personal Assistant to Refilwe Moletsane and Karen Naidoo; **Princess Mlambo** - IGF Supervisor; **Elsebe Vetten** - Committee Coordinator; **Itumeleng Tabane** - IGF Consultant.

Middle (left to right):

Dorothy Petersen - Library Assistant; **Vivienne Pearson** - Manager: Image & Reputation (newly appointed as the SAIA Manager: Motor); **Charles Hitchcock** - Manager: Finance & Operations; **Barry Scott** - Chief Executive; **Sonja Etsebeth** - Manager: Information & Office Administration; **Refilwe Moletsane** - Deputy Executive; **Godfrey Nyangwa** - Printer.

Back (left to right):

Amanda Oosthuis - Personal Assistant to Vivienne Pearson and Adèle Joubert; **Cheryl Wilkinson** - Personal Assistant to Barry Scott and Charles Hitchcock; **David Booysen** - Driver / Messenger; **Naomi Engelbrecht** - IGF Consultant; **Adèle Joubert** - Public Relations Officer; **Flora Rorke** - Personal Assistant to Vivienne Pearson; **Tilly Welgemoed** - Accountant.





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