FROM THE DESK OF THE CHIEF EXECUTIVE

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From the desk of the Chief Executive

As we entered the final quarter of 2016 and look back at the year gone by, there was one very significant event on the financial calendar that requires mention: the Medium-Term Budget Policy Statement (MTBPS). On October 26, the Minister of Finance, Pravin Gordhan, addressed the nation which waited in anticipation for solutions to the myriad economic and social challenges facing the country.

And while the Minister proclaimed that “our long walk is not yet over”, some would argue it has hardly yet begun.

Slowing global growth has affected investment and trade in many developing economies including ours. This, combined with our own political and social headwinds has resulted in South Africa’s economic growth forecast for 2016 being revised downward to just 0.5 percent, from 0.9 percent in February. The prediction is that it will rise to 1.7 percent in 2017. These are dismal figures for an emerging economy.

From an insurance perspective, while insurers may not have experienced high claim events so far in 2016, this year's poor economic growth, overall decline in the value of the rand and increasing vehicle crime such as hijackings, have increased costs for both insurers and consumers.

Given these challenges, SAIA stands firm that we require more action and less talk. Improving consumer and investor confidence is critical to turning the ship around. If we do the right things to support investment and international confidence it will hasten local economic recovery.

I encourage all our members to take confidence from the fact that we are playing an increasingly key role in the financial services industry. We have taken a significant step up in 2016 and going forward, our voice will continue to grow in strength. Increased contact and partnerships with industry bodies and other important stakeholders, such as ASISA (Association of Savings and Investment South Africa), and National Treasury will see us extend our reach with a long-term view of becoming a part of the solutions for the challenges the industry, the financial sector and the country face.

The SAIA members are also looking at remaining relevant to consumers by using innovation and Fintech developments to improve the nature and distribution of products as well as enhance communication with clients, making insurance more relevant and accessible.
As an industry body and a key player in the financial sector, we would like to play our role in improving the levels of financial inclusion and bring many more South Africans into the insurance net.

I am positive that SAIA and its members will continue to think outside of the box and look at how we can serve a broader market.

We look forward to growth in 2017.

Viviene

1 TRANFORMATION AND GOVERNANCE RISKS

1.1 Solvency Assessment and Management (“SAM”)

Insurance Bill
The Insurance Bill, 2016 is still to be considered by Parliament following the parliamentary process on the Financial Sector Regulation Bill.

Due to the delay in the parliamentary process, the Financial Services Board (FSB) has confirmed that the original SAM “go live” date of 1\textsuperscript{st} January 2017 is no longer attainable and that a more realistic SAM “go live” date is 1\textsuperscript{st} July 2017.

Reinsurance Regulatory Review
The Reinsurance Regulatory Review final proposals were published by the FSB in a Position Paper on 8\textsuperscript{th} September 2016. The SAIA will engage with its members in respect of any concerns thereon and liaise with the FSB accordingly.
Taxation Laws Amendment Bill, 2016 (TLAB)

Following the National Treasury’s (NT) and the South African Revenue Service’s publication of the Taxation Laws Amendment Bill, 2016 (TLAB), the SAIA requested comments from its members on the TLAB and a submission was made on 9th August 2016.

A further meeting was held by the NT on 1st September 2016 to engage with both long and short-term insurers on submissions made. The SAIA attended this meeting and followed up with a further written submission to the NT on the proposed wording for the amendment to section 28(3) of the Income Tax Act which deals with the tax treatment of cell captive insurers and cells.

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1.2 Update On The Financial Sector Regulation Bill

An update on the Financial Sector Regulation Bill has been published on the 21st of October 2016, following deliberations on the July 2016 version of the FSR Bill together with a comments matrix on issues raised in the Standing Committee on Finance (“the SCOF”) meetings, as well as a track change-version (relative to the July 2016 version) of the Bill, for ease of reference and guidance only.

Further considerations on the Bill are anticipated to take place in November 2016 and will be timeously communicated by the SCOF. A SAIA General Circular SG 2016/043: Update on the FSR Bill, together with the relevant attachments, was circulated to our members on the 24th of October 2016, inviting members to submit comments and/or concerns on the Bill, if any, to the writer via e-mail on aatika@saia.co.za to facilitate further engagements if necessary.

FINANCIAL ADVISORY AND INTERMEDIARY SERVICES ACT, 2002: THE FAIS ACT-INVITATION TO COMMENT ON THE DRAFT PROPOSED AMENDMENTS TO THE FIT AND PROPER REQUIREMENTS FOR FINANCIAL SERVICES PROVIDERS AND REPRESENTATIVES, 2016

The invitation to comment on the proposed amendments to the Fit and Proper Requirements for Financial Services Providers and Representatives, was published by the Deputy Registrar of...
Financial Services Providers for public comment, on the 21st of October 2016. In addition the Financial Services Board published a regulatory response matrix to public comments received on the proposed amendments published on the 17th December 2015. The closing date for the submission of comments is the 15th of December 2016.

The SAIA will be drafting an industry submission. As such members were requested to submit written comments on the proposed amendments electronically to aatika@saia.co.za by no later than 12H00 on Monday, the 21st of November 2016, to facilitate a timeous submission.

2 INSURANCE RISKS

2.1 An Update On Some Of The Projects In The SAIA Insurance Risks Department

2.1.1 Agricultural Insurance

The complexity of commercial farming is often not well understood, including by those involved as stakeholders in the wider agricultural industry.

It is for this reason that SAIA sponsored an event for delegates attending a workshop of the World Bank Group’s Global Index Insurance Facility (GIIF) to a commercial farm near Delmas, in the Mpumalanga Province. At the farm, known as “Buiteplaas”, delegates were afforded the opportunity to harvest fresh peas and taught how complex and precise the harvesting process is. The farm owner and various farm managers also provided the delegates with insight on the intricacies of agricultural management including the importance of soil analysis, preparation and control.

These delegates from all over Africa, including South Africa, attended a technical workshop, held in Johannesburg on 13 – 14 October 2016 on operationalising agriculture index insurance. The training provided participants with an overview of index insurance concepts and products. It also provided an opportunity to learn more about contact design, emerging regulatory issues, pricing and reinsurance, distribution options, educational requirements, as well as other innovations in the field of index insurance.
Index-based insurance products for agriculture represent an attractive approach for managing weather risk, especially for developing farmers. Programmes conducted in several developing countries have proven the feasibility and affordability of such products. Weather impacts all aspects of the agricultural supply chain, particularly in economies based on rain-fed agriculture. Even with the introduction of new crop varieties, production technology and new management practices that offer the potential to increase yields and improve resistance to weather perils, the majority of agriculture in most developing countries remains highly susceptible to extreme, uncontrollable weather events that can severely impact both quality and yield of a crop.

Such events in a South African context include insufficient rainfall and extreme temperatures. The effects of weather risk are felt most acutely by vulnerable agricultural households including developing farmers and also by many commercial farming ventures.

SAIA remains committed to the development of insurance solutions and mechanisms that are sustainable for the short-term insurance industry, and affordable and valuable to commercial farmers, especially multi-peril crop insurance and developing (smallholder) farmers. This will contribute considerably to national food stability, financial inclusion and economic transformation, including job creation.
3 STAKEHOLDER RELATIONS AND COMMUNICATION

3.1 SAIA Committee Lunch Awards: Nomination Process and Winners

There are a number of committees and forums at SAIA that requires commitment and hard work from all who sit on these committees.

In nominating individuals for the SAIA Chairperson of the year and Member of the year - the SAIA management team looked at the various committees at SAIA and identify individuals who are not only members of these committees just by attendance, but who have shown commitment and have gone the extra mile in helping address issues that the SAIA and the industry is dealing with. The number of committee meetings the individual attends; if they sit in other committees, workgroups or task teams and if they have done additional work for the committee they represent is also considered in the selection process.

At this year's committee lunch which took place on 27 October, the award winners were announced under the following categories:

Chairperson of the year was awarded to Mr. Steve Smith. Steve is the chairman of the SAIA Legal and Compliance Committee. He has served on the committee for many years and has served as chair previously.
He is extremely dedicated to the committee and the industry at large. His knowledge and passion has bode him well in his current position as Chair and he always endeavors to make a difference where he can. Steve also takes initiative on regulatory and legislative matters.

Committee member of the year was awarded to Mr Roy Stephen. Roy is a committed and detailed orientated member of a number of SAIA committees and forums. He has a talent for spotting potential challenges and greatly contributes to the work of the SAIA.

Mr Jack Smit was awarded the special recognition award. Jack has supported SAIA and in particular the nuclear pools for many years with his special in depth knowledge and experience of insurance and engineering. He is ever willing to impart knowledge and is a true gentleman.

The SAIA congratulates all the award winners.

3.2 SAIA media releases: September & October

- SAIA adds its voice to concerns of a potential credit rating downgrade and the state of the economy: http://www.saia.co.za/info-center/saia-news/2016/10/06/potential-cred/

- SAIA calls for conscious good driving habits during Transport Month: http://www.saia.co.za/info-center/saia-news/2016/10/06/transport-month/


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4 SAIA NEWS

4.1 The International Union of Marine Insurance (IUMI) Annual International Conference 2018 Sponsorship Event

IUMI Annual International Conference 2018 – Cape Town

The International Union of Marine Insurance (IUMI) Annual International Conference will for the first time in its 148 year history be hosted on African soil. This will be in the beautiful city of Cape Town in 2018. The honour of hosting this prestigious four-day conference was awarded to the South African Insurance Association (SAIA) and its division Association of Marine Underwriters of South Africa (AMUSA), with the approval of the SAIA Board.

About IUMI

IUMI is a professional body, which is run by and for its members. It represents national and international marine insurers and considers issues of interest to the worldwide marine insurance industry. IUMI was established in 1870, and maintains a worldwide communication network. It is a platform from which views and ideas on matters of marine insurance and reinsurance are disseminated to all interested parties, which also include the shipping industry, surveyors and international law offices.

IUMI’s primary objective is "To present, safeguard and develop insurers’ interests in marine and transport insurance". It advances the interests of marine insurance business by facilitating co-operation between national markets, disseminating information relating to marine insurance and marine technology and also by promoting co-operation with other international governmental and non-governmental marine organisations and associations.

Showcasing SA Marine Insurance Industry

The SAIA embraces the opportunity to host the IUMI 2018 Conference and to showcase the South African marine insurance industry as well as South Africa, to the global market. This event will expose the local market to the international marine world and will be an excellent chance to network in a truly global sense. The conference attracts between 500 - 750 delegates each year with a further third added to this number as accompanying partners.
IUMI 2018 Conference Sponsorship Opportunities

The IUMI conference is the world's biggest international marine insurance forum and therefore provides a prestigious sponsorship opportunity. The South African marine insurance industry is invited to take up sponsorship and exhibition opportunities that have been made available for the 2018 IUMI Conference in Cape Town. A sponsorship event will be held on Tuesday, 29 November 2016 at the Johannesburg Country Club in Auckland Park, to give the local marine insurance industry more insight on the opportunities and to obtain further information about the conference and available sponsorship packages.

For more information contact Viviene Pearson
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4.2 Intermediaries Guarantee Facility Limited (IGF) and then what?

With the expected, 1 July 2017, extinction of the Section 45, Regulation 4, guarantee requirement for credit intermediaries looming large, the question is, what now? For many years credit intermediaries' financial statements have been subjected to the underwriting rules of Intermediaries Guarantee Facility Limited (IGF) in order to obtain the required statutory Section 45 guarantee – credit intermediaries are required by law to hold a Section 45 guarantee calculated as the resultant of multiplying last year’s short term premiums collected, net of VAT and Commission, by 30%.

Currently only IGF and a registered Commercial bank in the RSA may issue a Section 45 guarantee to a credit intermediary. The underwriting process that the credit intermediary is subjected to is not a bad thing – there was a time a few years back when this process helped to lift the financial strength of short term insurance credit intermediaries across the board as financial strength and earnings are linked to the quantum of the guarantee that may be issued to the intermediary. If either financial strength or earnings are insufficient, collateral security is requested by IGF in order to be in a position to issue the requisite guarantee.

With short term insurers able to claim from the fund following non-payment of the short term premiums by the intermediary, it is the short term insurers that will shortly be pressed to pro-actively apply enhanced credit management techniques in order to achieve the same level of comfort as before.
A further concern expressed by several insurers in the industry is the mismatch of the current maximum guarantee issued under Section 45 i.e. R100 million and the amounts collected monthly, by of the larger intermediaries and collection agents, resulting in a massive exposure to the whole industry.

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5 INDUSTRY NEWS

5.1 Vital priorities in the insurance industry: Addressing fraud and fostering customer service. By Jonathan Lewarne, Senior Director: Insurance Business Development at TransUnion

There is a critical balance that needs to be attained between combating fraud across the lifecycle of a policy, and providing a positive customer experience at all times.

Both are essential and yet made more difficult by the fact that insurance fraud in particular is not just growing, it is doing so faster than ever before. Indeed, there are 10 000 fraud rings currently operating in the United States alone, costing its economy a staggering $40 billion every year due to non-health insurance related incidents.

Fraud uncovered

While it may be tempting to lump insurance fraud under one broad umbrella, there are actually two different types of fraudulent activity. The first of these is soft fraud, which tends to be opportunistic in nature, involving claimants who will pad an otherwise legitimate claim. This can range from hiding a deductible to running up medical bills in hopes of inflating pain and suffering awards. In some cases, claimants will go so far as to obtain needless surgeries in order to maximise the value of their claim.

The second type of fraud, called hard fraud, involves the staging of an accident or other form of a claim. It is intentional and well planned, and most alarmingly, often has connections to organised crime.
For those who think insurance fraud is relatively harmless as compared with more serious crimes, this needs to be viewed in context. At present, insurance fraud counts as the largest criminal enterprise in the United States after drug trafficking. No less important to note is that fraud not only affects insurers, it also has a deleterious impact on honest customers as well, as it slows down legitimate insurance claims and increases premiums for all.

Lives and livelihoods
In the case of auto insurance claims, it can go so far as to jeopardise innocent people's lives, due to fraudsters staging or even inducing accidents. As if this wasn’t enough, fraudsters are not only becoming more extreme by staging deaths, but also more innovative. For example, there are now crash-and-buy scams, in which insurance policies are purchased after a crash, and ‘ghost brokers’ who trick young drivers by selling false policies online, over the telephone, and even in person.

Clearly, fraud is a pressing issue that demands a serious response, as it needs to be caught and addressed at every turn. However, being thorough in checking claims so as to mitigate against fraud needs to be balanced with being customer centric, in order to remain competitive.

While great service is always a terrific differentiator between two suppliers irrespective of industry, there is another reason why insurance companies need to keep it a high priority. It has been proven that insurance companies that can offer customers a superlative experience when signing on for new policies not only have better retention, but also have to contend with less new customers 'shopping', or going to their competitors for alternative offers.

Thus, for an insurance company today, neither the critical imperative of combating fraud nor the need for providing flawless customer service can afford to be ignored.

About TransUnion (NYSE: TRU)
Information is a powerful thing. At TransUnion, we realise that. We are dedicated to finding innovative ways information can be used to help individuals make better and smarter decisions.

We help uncover unique stories, trends and insights behind each data point, using historical information as well as alternative data sources. This allows a variety of markets and businesses to better manage risk and consumers to better manage their credit, personal information and identity. Today, TransUnion has a global presence in more than 30 countries and a leading presence in several international markets across North America, Africa, Latin America and Asia. Through the power of information, TransUnion is working to build stronger economies and families and safer communities worldwide.
We call this Information for Good.

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5.2 **Annual Contract Works Insurance and Cancellation**

Construction Contractors are normally contractually obliged to arrange certain insurance covers of which the insurance of the contract works and the associated public liability are the most important.

To ensure continuity of cover and peace of mind it is common practice for a contractor to arrange a blanket annual contract works policy to cover all contracts which fall within a pre-arranged contract value limitation and construction period.

In the continuous quest for lower premiums brokers regularly tend to change underwriters to obtain a saving in premium, without realising what the implications may be for the Insured regarding “work in progress”.

Most underwriters’ operative clause states that insured contracts are those contracts commenced by the contractor during the period of insurance. Therefore all contracts commenced prior to the inception (work in progress) falls outside the scope of the cover afforded by the replacement policy. At best some underwriters will only insure the future work of an existing contract excluding all work already carried out.

There are a number of cancellation and non-renewal clauses in the market that can be summarised as follows:

- Outright cancellation and a clear cut off.
- Cancellation for new contracts and an automatic run off for work in progress.
- Cancelation with run off at the Insured’s request.
- Cancellation and run off only by invitation of the Insurer.
All of these clauses will have a financial impact for the Insured, which is not fully explained to the insured, whether being an additional premium for the run off cover, with the existing insurer to ensure continuity in cover, or run on cover for future work on existing sites with the new underwriter and in the latter instance an uninsured portion of the work already completed.

Unfortunately not all brokers are aware of the implications to change underwriters at renewal without addressing the issues around work in progress and the continuity of cover which only becomes apparent at the time of a loss and the consequent rejection of a claim.

It is therefore of the utmost importance that the broker acquaint himself with the cancellation conditions of the expiring policy before advising his client to change underwriters in order to ensure that there is an uninterrupted continuation of insurance cover following the transition.

Specific contract policies normally do not have a cancellation clause other than for non-payment of the premium. However some brokers utilise an annual contract works policy to insure a specific contract, mainly to obtain the benefit to pay the premium monthly.

The risk attached to this practice is that should the insurer for whatever reason terminate the policy midterm the contractor may find himself without insurance cover for a partial completed contract and for which he may not be able to obtain substitute insurance.

Brokers should think twice in the pursuit to obtain lower premiums and always consider what is in the best interest of the insured and not what is the most convenient.

Kobus van Niekerk.
FCII. Chartered Insurer.

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5.3 The Motor Vehicle Security Association of South Africa (VESA)

For 29 years, VESA lived with the hope that it will save the insurance industry millions of rands by providing quality vehicle security devices for their policy holders. VESA saved Mr. Policy holder thousands of rands by providing him a VESA Certificate when he thought there was no such
available. VESA saved Underwriters A-Z millions of rands by ensuring that unworthy products not be approved by the VESA test house (ABS) because the product originally tested was either unsafe to use, or that it claimed to provide a service which it couldn’t. This in turn saved Mr. Vehicle Manufacturer millions of rands on preventing warrantees from being breached.

With VESA being incorporated into short-term insurance policies, the insurer is protected by not having to pay out a vehicle theft claim, should the insured’s vehicle not have met with the criteria of being fitted with a “VESA Approved” vehicle security device.

**How does VESA benefit you and me?**

- Humanly we expect that when we purchase a (or any) product that conforms to certain standards as set by an accredited standards body or regulatory institute. In the vehicle security industry, not all offered vehicle security devices are approved or meets these standards.

- VESA supports the industry as non-profit organisation, representing its members through the test and approval of telematics and other vehicle security products such as alarm/immobilisers, gearlocks, wheel locks, microdotting and much more. VESA has tested vehicle security devices that not only perform well in South Africa but also on an international level. Its manufacturing members are proud to provide consumers with vehicle security devices that not only manage and reduce security risks but also help manage safety risks.

- The installers are benefiting by providing the assurance to their clients that the vehicle security devices installed, are quality products, driven by the requirements the manufacturer is expected to implement to be a VESA member and also having to be re-evaluated and audited on an annual basis by VESA and ABS.

- The insurance industry benefits largely from having the ease of mind that when they include “VESA Approved Security Device” into their policy wording, that the vehicle security device fitted to the client’s vehicle, is approved and tested, the manufacturers are re-evaluated annually for consistency and viability and that the installers who provide the installations services are trained and monitored for consistent quality installations.
The VESA Certificate is used as proof of the installation, confirmation of the vehicle’s existence and confirm the condition and extras fitted in the vehicle at time of inspection. The historical database of issued VESA Certificates remains the insurer’s strongest evidence in the event of vehicle theft crime.

By supporting VESA you will ensure that VESA remains the assurance to the insurer, the consumer and the South African vehicle security industry.

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