



# SAIA

SOUTH AFRICAN INSURANCE ASSOCIATION

## BULLETIN

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## **1. From the Desk of the Chief Executive**

The sustainability of affordable motor insurance has once again been the topic of discussion recently as a result of the current financial pressure experienced by South African consumers. The rise in interest rates will ultimately lead to an increase in premiums and presents the risk of consumers seeking cheaper insurance options or choosing to lapse their policies. We are very much aware of our motor insurance members' attempts to minimise the impact on customers, and would like to commend those members who are taking a proactive approach to inform consumers of the factors that lead to an increase in premiums and to educate them on the importance of short-term insurance. Informing policy holders of alternative ways to reduce a premiums such as adding on extra security features to a vehicle or to consider third party cover in cases where comprehensive cover is unaffordable, is a part of this process. We encourage all our motor insurance members to follow this process in the interest of addressing any potential negative perceptions, and reputational risks for the industry

The value of short-term insurance during these volatile times cannot be emphasised enough as a means to protect consumers against risk. In addition, the importance of the short-term insurance industry's contribution to the economy should be emphasized. SAIA and the FIA released a joint media statement to the media during the second week of May 2016 to create further awareness regarding the value of short-term insurance and the short-term insurance industry as part of our joint and collaborative initiative to promote the short-term insurance industry.

SAIA continues to look at innovative ways to educate consumers about short-term insurance and to change perceptions of insurance as a grudge purchase. One such project is the SAIA Next of Next Week Comedy series that addresses a number of issues broadly categorised into three main topics namely insurance, savings and investment. The series has been well received and filming for season three started in May 2016.

Since inception in 2004, the SAIA Consumer Education initiative has been very successful and has been used as a case study internationally, of which we are very proud. SAIA members have committed almost R116 million to uplifting the financial education and skills in South Africa to date. We thank all members for their continued support on this important initiative.

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## **2. TRANSFORMATION AND GOVERNANCE RISKS**

### **2.1 Consumer Education Update**

#### **Schools Financial Capability Project: Managing My Finances (10-12)**

The teacher development workshops have been finalised, with the last workshop held on 14 April 2016. Forty-four workshops were held across the country, with more than 800 teachers undergoing training to enable them to teach financial literacy in their classrooms.

#### **Next of Next Week (NONW) Industrial Theatre**

The Next of Next Week (NONW) Industrial theatre shows kicked off on 16 May 2016. Twenty-seven locations have been selected for the shows across the country, targeting the low-income market. Some of the shows will also be conducted in Technical Vocational Education Training (TVET) colleges to promote financial literacy amongst college students.

#### **Next of Next Week TV Comedy series**

Filming for the Next of Next Week Comedy series started in early May in Johannesburg. Due to the popularity of the last two seasons' comedy series, episodes for season three will be extended from five minutes to 28 minute episodes. The six episode sitcom will be broadcast on eTV at the end of July or beginning August 2016.

#### **Financial Sector Code (FSC)**

The FSC has been gazetted for public comment until 16 May 2016. Final gazetting is expected at the end of June or early July, with the revised FSC becoming effective on the date of final gazetting.

#### **Access Standards**

The SAIA is in the process of revising the Access Standards to allow members flexibility in designing products for the low-income market. The Access Standards will come into effect on the same date the revised FSC becomes effective.

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## **2.2 The Financial Advisory and Intermediary Services Act, 2002 (“FAIS ACT”)**

THE PROPOSED AMENDMENTS TO THE QUALIFICATIONS, EXPERIENCE AND CRITERIA FOR APPROVAL AS COMPLIANCE OFFICER, AND THE EXEMPTION IN RESPECT OF SERVICES UNDER SUPERVISION RENDERED BY COMPLIANCE OFFICERS.

On 14 April 2016, The Registrar of the Financial Services Providers (“The Registrar”), published for public comment, the proposed amendments to the Notice on Qualifications, Experience and Criteria for approval as a Compliance Officer, 2010 as published by Board Notice 127 of 2010 in Government Gazette No 33537 of 9 September 2010.

The purpose of the proposed amendments to the qualifications, experience and criteria for compliance officers, is to ensure that compliance officers are competent to perform compliance functions. It is not the intention of the Regulator to determine a regulatory examination. The Financial Services Board (“FSB”) seeks to achieve this outcome through the implementation of a new competency framework for compliance officers, which is currently under development by the FSB.

The consequences of the proposed amendments are briefly discussed hereunder:

### 1. Regulatory Examination Requirements:

- Compliance officers will be required to successfully complete the first level regulatory examination applicable to the financial service provider (FSP) in respect of which he/she intends to render compliance services, whilst approved compliance officers, will be afforded the opportunity to successfully complete the regulatory examinations, within a period of six months after the commencement of the proposed amendments.
- Paragraph 9 (3) of the Board Notice 127 of 2010, which provided that compliance officers’ licenses would lapse after the expiration of twenty –four (24) months from the date of approval, in the absence of a reapplication for approval prior to expiration, has been deleted in order to remove the administrative burden on the affected individuals. The FSB is of the view that less burdensome methods are available to achieve the desired outcome.

### 2. Proposed amendments to the Exemption

- In terms of the proposed amendments, a supervisee who does not meet the required experience and regulatory examination requirements on approval may render compliance



services under supervision, whilst obtaining the necessary. The proposed amendments seek to reduce the period which a compliance officer works under supervision, from three years to two years, in order to ensure alignment with a similar exemption granted to representatives rendering services under supervision.

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## **2.3 Solvency Assessment and Management**

### **Updated Comprehensive Parallel Run 2016**

The updated Comprehensive Parallel Run (CPR) exercise taking place in 2016 will allow a final opportunity for insurers and the FSB to establish and test resources, processes and systems ahead of full SAM implementation. The updated CPR encompasses the vast majority of what is anticipated to be the components and requirements of the final SAM framework.

The Updated CPR Technical Specification and supporting documents were issued to the Insurance Industry on 1 April 2016, and can be found on the FSB's website ([www.fsb.co.za](http://www.fsb.co.za)). These technical specifications incorporate the latest changes and corrections to the 2015 CPR technical specifications and SA QIS3.

There are a few outstanding aspects of the SAM technical specifications that remain under consideration and are expected to be finalised by July 2016. Accordingly, the FSB plans one more update to the technical specifications in the second half of 2016. Further details pertaining to these outstanding aspects will be communicated in a 2016 FSB SAM Update document, expected to be issued in due course.

Although the Updated CPR calculations are largely based on the SA QIS3 exercise, there are some further changes that have been made to reflect results coming from SA QIS3 and the first CPR submissions, the latest position of the SAM Governance structure and the expectations from the FSB.



For the updated CPR, insurers are required to produce all the quarterly and annual quantitative, qualitative and group reporting as expected when the SAM framework is fully implemented. The reporting will be augmented with an Updated Mock ORSA report.

### **Updated MOCK ORSA**

Included in the Updated Comprehensive Parallel Run Technical Specification document is information and guidance pertaining to the requirements for the 2016 Updated Mock ORSA.

The objectives specific to the Updated Mock ORSA are to:

- Assist in insurers' journey towards SAM readiness by taking stock of progress on ORSA developments against SAM requirements and guidance;
- Assist in building the FSB's supervisory capabilities with respect to analysing ORSA supervisory reports;
- Assist the FSB in identifying the industry's overall readiness for SAM (specifically the ORSA) and identify development trends at a macro level; and
- Assist the FSB in their assessment of where insurance groups can apply for exemptions from the requirement to submit ORSA supervisory reports at solo entity levels.

It is not the purpose of the Updated Mock ORSA to apply any additional regulatory capital requirements.

Insurers / insurance groups should choose their own effective dates for the ORSA in line with their respective business planning cycles. For the purposes of the Updated Mock ORSA, insurers / insurance groups are however required to submit the information to the FSB by no later than 30 September 2016. Insurers / insurance groups may apply to the FSB to submit the Updated Mock ORSA at a later date, but not later than 30 November 2016.

The scope of the Updated Mock ORSA includes both solo insurers and insurance groups. For insurance groups intending to apply for exemption to perform only a group-wide ORSA report (and thus not to submit supervisory ORSA reports for solo entities within the group), the Updated Mock ORSA supervisory report can be produced on the assumption that such exemption has been granted. There will be no formal exemption approval process as part of the Updated Mock ORSA.



The FSB expects that insurers continue to improve on their previous Mock ORSA submissions. To this effect the FSB will be engaging with insurers to provide individual feedback and guidance relating to their 2015 Mock ORSA submissions, early in the second quarter of 2016.

SAIA members are encouraged to refer to FSB SAM Newsletter 17 and to consider the key findings by the FSB pertaining to the 2015 Mock ORSA submissions, in preparing their Updated Mock ORSA documentation and policies.

*(Most of the information above has been extracted from the Updated Comprehensive Parallel Run Technical Specification Document released to the Insurance Industry on 1 April 2016)*

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### **3. SAIA NEWS**

#### **3.1 SAIA Events in 2016**

##### **The SAIA AGM and Cocktail Function**

\*Please save the date - The 2016 SAIA Annual General Meeting and Cocktail Function will be held on 20 July, 2016 at the Johannesburg Country Club in Auckland Park.

##### **The CEO Round Table**

For the second year running, the SAIA will host a Round Table for all member company Chief Executives and Managing Directors to discuss issues affecting the industry. The Round Table will take place on the 8 September, 2016 at The Wanderers Club, 21 North Street in Illovo.

##### **The SAIA Indaba**

The SAIA will be hosting its inaugural SAIA Indaba on 20 October, 2016. This event will be held at The Wanderers Club, 21 North Street in Illovo. More details to follow.

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### **3.2 Establishment of SAIA Forums**

In implementing the SAIA's participative model, the SAIA has established Forums to address various relevant and sub-sector specific challenges.

The role of the SAIA is to provide secretarial services to the Forums whilst allowing members to directly identify and address challenges affecting the industry in specialised lines of business with various stakeholders.

Each Forum has elected a Chairperson who will represent the Forum within the mandate of such Forums' Terms of Reference in engaging with all stakeholders, including but not limited to, the Financial Services Board and the National Treasury. Each Chairperson will be co-opted to the relevant SAIA Board Committees and will attend the SAIA Board Committee meetings to provide feedback when requested or to obtain a mandate if necessary. The Chairpersons will also be responsible for drafting Board Reports to the relevant SAIA Board Committees and drafting industry submissions with the assistance of members of the respective Forums.

The SAIA engaged with members and requested nominations for representation at the Forums whereafter the SAIA established six Forums reporting to the SAIA Board Committee: Governance Risks.

The Forums are as follows:

- SAIA Consumer Credit Insurance Forum;
- SAIA Premium Collections Forum;
- SAIA Cell Captives Insurance Forum;
- SAIA Legal Expenses Insurance Forum;
- SAIA Travel Insurance Forum; and
- SAIA Health Insurance Forum

The SAIA is in the process of establishing two Forums that will report to the SAIA Board Committee: Insurance Risks, namely:

- SAIA Agricultural Risk and Crop Insurance Forum; and
- SAIA Mega Infrastructure Projects Forum



SAIA members will be requested to submit nominations for representation for the two Forums above in due course.

The Association for Marine Underwriters South Africa (AMUSA) and the South African Machinery Insurers' Association (SAMIA) have also been converted into Forums although they do not operate under the SAIA mandate which is applicable to the other SAIA Forums.

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## **4. INDUSTRY NEWS**

### **4.1 Big data, big solution: SA showcases world- class insurance solution through IDS benefits by Robin Wagner, Vice President: International Insurance, TransUnion**

News that the UK insurance industry is prioritising big data in 2016 will not leave the South African insurance industry on the hop. Thanks to the Insurance Data System (IDS) created by risk and information solution provider TransUnion, under the guidance of the South African Insurance Association (SAIA), our local short-term insurance industry can offer big data functionality that is of a world-beating standard.

#### **Where IDS began**

IDS was conceived in 2001 to house information for the insurance industry and combat insurance-based fraud, as well as offering beneficial insights. The data collected in this comprehensive database includes information from the majority of the country's personal lines claims, and policy information from various members within the short-term insurance industry.

We live in a data-driven world, making it crucial for businesses to harness information and use it to their benefit. The information in the IDS allows critical variables to be used for analysis, including credit data and previous coverage, for example insurance policy duration and breakages in coverage linked to an individual. Among other noteworthy uses, this has been beneficial to the SA Insurance Crime Bureau for the identification of fraud patterns, fraud indicators and fraud syndicates.



### **Adding even more value**

In 2012 an updated version was launched, which included a new layout for the submission of data, streamlining the process. Today, there is a 95% participation from IDS members submitting information on a daily basis.

This granular view of claims – both current and historic (up to 7 years) – provides insight into claims behaviour, where claims are higher or lower in the country and the potential causes. The data, at an aggregated level, can inform policy, drive strategies and provide insurers with the insight they need to achieve a competitive advantage through improved customer service, smarter product development, risk pricing and selection and so forth.

### **A more in-depth look at fraud**

During tough economic times, fraud incidents are sure to increase. For example, according to recent insights from IDS, it was noted that close to 0.5% of all claims in 2015 were from individuals recorded as deceased for more than a month.

There are a number of plausible explanations for this, including the partner of a deceased individual holding onto a policy in the deceased's name to minimise admin. However, there are also apparent cases of fraud, whereby a policy is opened with a false ID number with the intention of submitting fraudulent claims. The statistic of 0.5% may seem small; however, this can potentially result in an estimated R470 million in fraudulent claims.

### **Information is power**

These examples all provide a clear indication of how IDS can benefit the insurance industry by providing greater insight into risk selection and pricing. The increased submission of data to IDS provides even more information for analysing, and TransUnion's access to other data sets, such as public records from Home Affairs for the validation of information, essentially offers the insurance industry richer, more accurate data to improve its analytical ability. Credit data is also added to the mix as an additional resource to qualify the integrity of the data, answering such important questions as does this individual exist, is this the correct address / telephone number, and so on.

By virtue of its data access, TransUnion provides quality data and data with integrity. Additional data sets provide additional value to the insurance industry as a whole, allowing the industry to



monitor potential claim threats or changes as well as monitor fraudulent activity, and improve customer services.

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#### **4.2 Regular Monitoring of VESA Members Ensures Quality Installations**

“In a recent website survey, workmanship and integrity of mechanics and installers in South Africa were questioned.”

For the past 29 years, VESA has successfully performed its role through constantly ensuring that vehicle security product and installation standards are maintained high amongst the VESA members. Once again VESA has received positive feedback from the public in respect of the random vehicle inspections that the VESA technical inspectors have been doing, aimed at identifying poor quality installations and correcting them in the fitment of vehicle security devices. This service is free of charge and available to all insurance clients who are in possession of a VESA Certificate for their security device. These continuous random inspections have proven to be a success in creating awareness of the role and function provided by VESA to both the general public and insured market.

We commend VESA’s professional technical inspectors across the country that have proven their value in ensuring high quality VESA Certified installations to the benefit of the consumer.

##### **Why clients should consider utilising VESA installation centres:**

- Regularly evaluated and visited by VESA Technical Inspectors to ensure compliance.
- Technical staff is fully trained and are registered on the VESA database.
- VESA specifications training courses are available every month to technical staff.
- Stringent specifications regarding the use of correct tools and installation techniques and workmanship are implemented and monitored.
- More stringent disciplinary action against VESA members have been implemented and applied over the years, of which a lot of members have lost their membership due to non-compliance.
- Only VESA members can issue VESA Certificates for insurance purposes.



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- Insurance company and clients policy number gets captured on the VESA Certificate.
- Only VESA members can offer you the Mobility Club services. These services include: roadside assistance, emergency response facilitation, and keyfind vehicle key recovery services and much more.

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. Another benefit is that the manufacturers are re-evaluated annually for consistency and viability and installers who provide the installations services are also trained and monitored for consistent quality installations.

The VESA Certificate is used as proof of the installation, confirms the vehicle’s existence and confirms the condition and extras fitted in the vehicle at time of inspection. The historical database of issued VESA Certificates remains the insurer’s most reliable evidence of vehicle and security fitment statuses, in the event of vehicle theft crime.

#### **How to obtain VESA members information:**

- Contact the VESA Offices
- View VESA approved installers under <http://www.vesa.co.za/LocateDealer.aspx>.
- View tested and approved product suppliers/ products under:  
<http://www.vesa.co.za/ProductsAndManufacturers.aspx>

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