Actuarial & Insurance Solutions

Industry Update

September 2017

These are the latest key regulatory developments in the Insurance Industry

Deloitte.

Financial Sector Regulation Act signed into law

The Financial Sector Regulation Act (referred to as "Twin Peaks") was signed into law by the President on 21 August 2017.

The Twin Peaks system has been designed to address perceived weaknesses in the current system of regulatory supervision following the Global Financial Crisis in 2008. Therefore, the objective of the system is to make the financial sector safer and to better protect financial customers in South Africa.

Two new supervisory bodies or regulators will be established:

Prudential Authority (PA) *(housed in the SARB)*	**Financial Sector Conduct Authority (FSCA)** *(FSB to be transformed into FSCA)*
✓ Prudential regulation and supervision of Financial Institutions, Market Infrastructure and Financial Conglomerates	✓ Enhance and support efficiency and integrity if financial markets ✓ Protect customers of financial institutions ✓ Promoting financial education and literacy

FICA

The Financial Intelligence Centre Amendment (FICA) Act was signed into law by the President on 26 April 2017. The determination of the commencement date is to be decided by the Minister of Finance.

The implementation of different provisions of the Act will start on different dates: 13 June 2017, 2 October 2017 and dates to be determined after 2 October 2017 (but expected to be no later than the end of 2018).

FICA currently places onerous obligations on accountable institutions (which includes banks, money remitters, long-term insurers and persons who carry on "the business of a bank" under the Banks Act, 1990). Essentially, these obligations can be divided into three categories:

- Identification and verification
- Recordkeeping
- Reporting

Short-term insurers, credit providers and virtual currency exchanges do not constitute accountable institutions under FICA and are thus not obliged to identify and verify clients. These entities are also not obliged to keep the records of clients, proxies, transactions and the like under FICA. They are, however, obliged to report suspicious and unusual activities and will have a number of additional obligations under the Bill.

Insurance Prudential Standards

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On 15 August 2017, the FSB released a new set of Insurance Prudential Standards.

Status:	Released:	Comments due by:
Informal Public Comment	**15 August**	**15 October**

Key Changes to Financial Standards for Insurers (FSIs)

An Infrastructure Asset class has been added to the asset categories, affecting Market Risk.	SCR
Up to 15% of participations in financial and credit institutions is now allowed to be included in Tier 1 BOF.	BOF
The 15% of participations that do not get deducted from BOF should attract a capital charge.	SCR
When using the Factor based method to calculate the Catastrophe Risk charge, there has been a change in the grouping of non-proportional reinsurance classes. The implication is less diversification between different perils and classes.	SCR
A clarification of the Catastrophe Risk exposure measure relating to inwards non-proportional reinsurance has been added. The impact on SCR depends on the previous interpretation made by the insurer but the SCR is likely to reduce.	SCR
The condition whereby material assets need a CQS higher than 8 to apply an Illiquidity Premium for Life Annuity Policies has been removed	TP
The calculation of Operational Risk relating to investment insurance business has changed	SCR
Non-Life Insurers and Reinsurers are now included in the scope of FSI 6 - Liquidity Assessment. This encompass calculating a Liquidity Shortfall Indicator. The indicator has no impact on any Pillar 1 capital requirement, however the calculation will provide the PA with an indication of the size of the liquidity risk that should be taken into consideration in the Pillar 2 assessment.	
Mortality and Morbidity Catastrophe Risk shocks are applied for 3 months instead of 1 month at a different rate	SCR

Key Changes to Financial Standards for Groups (FSGs)

Negative OF of entities excluded from the Group capital adequacy calculations (on the basis of immateriality) should be added to Group Own Funds rather than Group SCR.

A provision for transition is introduced for existing hybrid capital instruments and subordinated liabilities issued prior to commencement date of the Standard. These may be regarded as fungible and/or transferable until the instrument or liability is varied, renewed or expires.

Banks and credit institutions as well as regulated financial institutions other than banks, credit institutions or insurers, need to apply Basel III to determine OF and SCR.

An option has been added to apply to the PA to use another valuation method for OF and SCR for non-regulated entities.

The Standard is more specific about how much non-fungible or non-transferable OF can be recognised.

The list of non-fungible OF has been expanded to include encumbered assets.

To determine Group Eligible Own Funds (EOF), the available Group OF must comply in aggregate with eligibility limits. (Previously Group EOF should have complied with limits in relation to tiering at solo level).

Governance Standards for Groups (GOGs)

Governance Standards for Groups (GOG) have been published for the first time. Subject to variations noted in GOG, GOI also applies to controlling companies of insurance groups.

Key Changes to Governance Standards for Insurers (GOIs)

The Head of Actuarial Function (HAC) must, in addition to performance reviews by the board or relevant board committee, be subject to an independent peer review at least every three years.

Heads of control functions must have appropriate segregation of duties from operational business line responsibilities. The board must ensure that the segregation is observed.

The wording regarding the responsibilities of the HAC was streamlined e.g. the HAC should express an opinion on relevant matters, instead of "ensuring", "assessing", "comparing", "attesting", etc.

The HAC no longer has to certify the adequacy, reasonableness and/or fairness of premiums upon request by the PA, however the scope of the responsibilities of the HAC remains substantial.

Guidance Note (GN) 2.2 – Protection of Whistle blowers has been removed. References to an insurer's Whistle blower Policy has also been removed.

GOI 3.3 – Reinsurance and Other Forms of Risk Transfer by Insurers no longer applies to reinsurance arrangements entered into respect of linked insurance obligations.

Public Disclosure Standard (PDI)

The FSB has released a Public Disclosure Standard (PDI 1) which was not issued previously. This standard sets out the principles underlying the reporting in the Quantitative Reporting Template (QRT) and Qualitative Regulatory Return (QRR). It covers the following areas:

- ✓ Business Profile
- ✓ Financial Performance
- ✓ Financial Soundness
- ✓ Risk Exposure and Risk Management
- ✓ Governance Framework

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