Agenda

- Industry information
- Financial Soundness
- Governance
- Financial Stability
- Supervisory focus 2017
Industry information
Number of registered insurers as at 31 October 2016:

<table>
<thead>
<tr>
<th>Long-term:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary</td>
<td>75</td>
</tr>
<tr>
<td>Reinsurers</td>
<td>7</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>82</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Short-term:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary</td>
<td>92</td>
</tr>
<tr>
<td>Reinsurers</td>
<td>7</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>99</strong></td>
</tr>
</tbody>
</table>
## Industry information

### Number of insurers deregistered 2016:

<table>
<thead>
<tr>
<th>Type</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-term</td>
<td>3</td>
</tr>
<tr>
<td>Short-term</td>
<td>2</td>
</tr>
</tbody>
</table>

### Number of new licences issued 2016:

<table>
<thead>
<tr>
<th>Type</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-term</td>
<td>0</td>
</tr>
<tr>
<td>Short-term</td>
<td>1</td>
</tr>
</tbody>
</table>
## Industry information

### Number of transfers 2016:

<table>
<thead>
<tr>
<th></th>
<th>Received in 2015 but considered/finalised in 2016</th>
<th>Received in 2016</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finalised</td>
<td>5</td>
<td>3</td>
<td>8</td>
</tr>
<tr>
<td>Pending</td>
<td>1</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Expected</td>
<td>-</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>6</strong></td>
<td><strong>10</strong></td>
<td><strong>16</strong></td>
</tr>
</tbody>
</table>
Financial soundness
Financial Soundness - LT

- Claims (Rand amount as % of Net Premiums)
- Lapses (No of lapses as % of New Policies)
- Surrenders (No of surrenders as % of New Policies)
Financial Services Board

Financial Soundness - LT

- Total Assets
- Total Liabilities
- CAR Cover
Financial Soundness

- SAM perspective:
  - Consideration given to SAM numbers in assessment of applications
  - Engaging with insurers/insurance groups that are not meeting SCR
  - Busy with an exercise where we have noted significant movements in numbers from quarter to quarter
  - CPR submissions (QRT, QRR and ORSA) taken into consideration in our risk assessments and supervisory activities
Governance
Governance in general

- Assessed and approved most applications in terms of BN158
- Focus has been on assessing effectiveness of governance structures
- Still some concern around outsourcing of some governance structures:
  - Control functions (will assess)
  - Senior management (to be discussed further)
Senior management

• Identified various models with:
  • BN158 applications
  • During on-site visits
  • Engagement with insurers

• Some reasons why insurers do this:
  • Pension fund purposes
  • Effective use of resources throughout the group
  • Tax management purposes
  • Cost efficiencies
  • Business is managed differently than the legal entities
Senior management

Example 1:

- BC
  - Bank
    - Employees
    - KPI (Dedicated)
  - INS Gr
    - INS

Example 2:

- BC
  - Bank
  - INS Gr
    - LT
    - ST

Employed at Group level
Senior management

Example 3:

NOHC

LT  ↔  ST

Example 4:

NOHC

LT  →  ST

NOHC  ←  ST
Senior management

Example 5:

- NOHC
  - ST
  - LT
  - Other regulated entity
    - Administrators
    - Broker
    - Asset Manager

Example 6:

- NOHC
  - LT1
  - LT2
Senior management

- Regulatory concerns:
  - Conflicts of interest
  - Delegation of responsibilities by board of directors
  - Board’s actual oversight/influence over these senior management
  - Regulatory arbitrage/circumvention of regulatory requirements
  - Potential tax management
  - No dedicated accountability within the insurer
  - Use of other regulated entities
  - Key man dependencies
Senior management

Discussion Document to highlight the following:

- Responsibilities of the insurer as set out in local and international standards/best practices
- Responsibilities of senior management as set out in local and international standards/best practices
- Examples of outsourcing of senior management models in the South African insurance industry
- FSB Supervisory concerns
- Proposed way forward

DD will lay the foundation for insurers to engage with FSB
Financial stability
<table>
<thead>
<tr>
<th>Scenario Assumptions</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nominal Yield Cure</td>
<td>10%</td>
<td>40%</td>
</tr>
<tr>
<td>Prime Rate</td>
<td>11.25%</td>
<td>14.50%</td>
</tr>
<tr>
<td>Inflation</td>
<td>6%</td>
<td>9%</td>
</tr>
<tr>
<td>Exchange Rates</td>
<td>20.00%</td>
<td>20.00%</td>
</tr>
<tr>
<td>RSA Equity Markets</td>
<td>20%</td>
<td>40%</td>
</tr>
<tr>
<td>Property Values</td>
<td>15.00%</td>
<td>19.00%</td>
</tr>
<tr>
<td>Lapses / Withdrawals</td>
<td>2%</td>
<td>20%</td>
</tr>
<tr>
<td>New Business Volumes</td>
<td>10.00%</td>
<td>20.00%</td>
</tr>
<tr>
<td>Value of New Business</td>
<td>19%</td>
<td>30%</td>
</tr>
</tbody>
</table>
Summary – Impact

- Groups indicated resilience in terms of Solvency and Liquidity
- Biggest impact on earnings and embedded value

% Change in Solvency Cover

<table>
<thead>
<tr>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>-20.0%</td>
<td>-15.0%</td>
<td>-10.0%</td>
<td>-5.0%</td>
<td>0.0%</td>
</tr>
</tbody>
</table>
Common Management Actions

- Diligent cost management
- Review of risk appetite for credit risk and counterparties
- Reduction in dividends
- Exclusive communication and advice to clients who are most significantly impacted
- Timing and extent of capital transactions such as acquisitions
- Buy protection on credit exposures
- Put hedges in place or extend hedging periods
- Contingency liquidity plans i.e. revolving credit facilities
Impacts on SAM

- Own Funds
  - Direct impact
  - Indirect impact

- SCR
  - Direct impact
  - Indirect impact
Impacts on Own Funds

• Direct Impact
  • Market values of government bonds change as a result of the downgrade

• Indirect Impact
  • Market values of equities, currency and property change due to changes to the economic environment
  • Technical provisions – change in economic assumptions and lapse assumptions
Impacts on SCR

• Direct Impact
  • Certain sub-modules are directly linked to the credit quality step of an instrument or issuer
    ▪ Spread / Credit Risk module
    ▪ Concentration Risk module

• Indirect Impact
  • Capital requirements change because of changes in the values of the assets and liabilities underlying the calculations
  • FSB does not foresee changing the FSIs to accommodate a sovereign downgrade
  • FSB will consider exemptions on application on a case-by-case basis – solvency needs
Joint SARB/FSB/ASISA Working group to consider potential stress scenarios

- Representation from SARB includes:
  - Bank Supervision Department
  - Financial Stability Department
  - Financial Markets Department

- Specific discussion around liquidity risk for insurers and interconnectedness with the banking sector
Supervisory focus 2017
Outsourcing in general:
- FSB internal database
- Concentration risks
- Oversight

Business model analysis
- Sources of profits
- Concentration risks particularly around distribution channels

SAM
- Quality of capital resources
- Management actions

Intragroup arrangements and transactions