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1. IMAGE & REPUTATION

1.1 Consumer Education Projects 2011/2012

The Community Radio Project

The Community Radio Project is making good progress; we have secured a slot to air "Financial Freedom" on the SABC Radio Thobela FM on Saturday mornings at 09:30 am. This is a good time as community members will be available to listen. The provisional broadcast date will begin on Saturday, 29 October 2011. The full broadcast schedule will be communicated as soon as it is available.

The Teacher Development Project

The Teacher Development Project was put on hold due to a meeting that we had with the Department of Basic Education (DBE). This resulted in us having to reconsider our intervention in the Economic and Management Science (EMS) Project.

The DBE is currently implementing a Curriculum and Assessment Policy Statement (CAPS) Action Plan 2014. The EMS related project will only be relevant in 2014. The DBE acknowledged our projects and initiatives over the years, and see it as a good programme. However they expressed their urgent need for an intervention in the Accounting area because of the problematic pass rate of the Accounting Subject. The DBE requested that we assist them with a Teacher Development and Financial Literacy Project in Accounting for 2011/2012 and consider similar projects for EMS subjects at the appropriate time (2013/2014).

The above proposal is currently being considered by the SAIA Consumer Education Committee for their recommendations and approval, after which the approval of the SAIA Image and Reputation Board Committee will be obtained before implementing the proposed new direction.

Community Awareness Project

The Community Awareness Project approval has been confirmed by the Financial Services Board (FSB) Audit Committee regarding their monetary contribution to this project.

This project will be delivered by Comutanet, a Division of Primedia, who will target the communities in densely populated urban areas to highlight the benefits of establishing and maintaining a stable and healthy financial life style. The media vehicles that have been proven to be most effective are, Rank TV, Comuta Radio, Star Music CDs and Outdoor Broadcast Units.

The project is scheduled to start during the fourth quarter of 2011 or early 2012.

 **Further information : Reginald Charles**

 reginald@saia.co.za

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1.2 SAIA Consumer Education Task Team

The need to create a direct link between the SAIA Consumer Education Initiative and the update of the relevant products was identified.

In addition, we at The SAIA believe all SAIA members could maximise their contributions to Consumer Education by linking marketing and/or other corporate social investments (CSI) type activities to the SAIA Consumer Education Initiatives.

We extended an invitation to the relevant stakeholders for a workshop where the Consumer Education Task Team will provide the representatives with possible opportunities to participate in the different programmes that will be presented by the respective Service Providers.

We requested SAIA members to assign representatives from the following areas to attend: Product developers in the Microinsurance/Access space in your business Strategy department in the Microinsurance/Access space in your business Distribution in the Microinsurance/Access space in your business CSI.

Marketing

The workshop date will be communicated as soon as the nominations from members are received.

 **Further information : Reginald Charles**
 reginald@saia.co.za

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1.3 Microinsurance

The SAIA Microinsurance Committee met on 13 September 2011 to hold a workshop on distribution models in the microinsurance/access space. A presentation on different distribution models in South Africa as well as other countries, and their success and/or failures was given by the Centre for Financial Regulation and Inclusion (cenfri) served as a starting point for the discussion on distribution issues around products aimed at the low income market. Several areas to be considered for potential industry collaboration were identified for further discussion. The next meeting of The SAIA Microinsurance Committee is scheduled for 5 October 2011 and the topic will then be discussed.

 **Further information : Viviene Pearson**
 viviene@saia.co.za

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1.4 Functions planned for 2011

Listed below are the dates for The South African Insurance Association (SAIA) functions that will take place in 2011. This is a standard section in the SAIA Bulletin. Please note that the dates are subject to change. Changes will be marked in colour.

- SAIA Consumer Education Report Back Function – To be advised
- SAIA Committee Lunch – 20 October 2011
- SAIA/FIA Board Liaison Meeting & Lunch – 24 November 2011

 **Further information : Viviene Pearson**
 viviene@saia.co.za

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1.5 Sustainability

Building a resilient short-term insurance industry in South Africa

The Strategic Risk Forum (the Forum) of Strategic Leaders and Risk Experts has held their first think tank meeting to address the objectives of the Forum to prioritise the high level strategic initiatives that they would recommend for collaboration involving all the relevant stakeholders across the industry to address the top 10 Environmental, Social and Governance (ESG) Risks facing the short-term insurance industry into the future.

The significance of the short-term insurance industry to the South African economy is supported by the participation of the Financial Services Board (FSB) Representatives, National Treasury Representatives and the recent agreement of the National Planning Commission to send a representative from their office to the next Forum meeting in November.

The definition of sustainability used by the Forum is: The ability of the short-term insurance industry to remain relevant, inspire confidence in stakeholders, offer products and solutions within the South African market in such a way that we promote and not harm our environment or our communities.

The top 10 ESG risks have been clustered below. The thinking that underpins the ESG Risks will be distributed through The SAIA and the Financial Intermediaries Association (FIA) as part of a communications and awareness campaign that will be launched in October.

Environmental Risks	Social Risks	Governance Risks
<ul style="list-style-type: none">How we manage our impact on the environment	<ul style="list-style-type: none">Dual economies	<ul style="list-style-type: none">Information Management
<ul style="list-style-type: none">Lack of investment and maintenance of infrastructure	<ul style="list-style-type: none">Increased crime and corruption	<ul style="list-style-type: none">Image and reputation
	<ul style="list-style-type: none">Lack of transformation	<ul style="list-style-type: none">Legislative & regulatory capacity
	<ul style="list-style-type: none">No real market growth	
	<ul style="list-style-type: none">Skills depth and shortage	

The Forum emphasised a sense of urgency to act to address 5 areas of significance to the industry, which includes our human capital challenges within the industry and to strategically review the training & development practices across the industry, to implement strategic initiatives to transformation of our supply chain, to understand, review and build a landscape of resilience with regards to insurable perils and explore an industry venture that facilitates a community based approach to utilising insurance principles and risk mitigation assistance in insurable events.

 **Further information : Debbie Donaldson**
 debbie@saia.co.za

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1.6 Renewable energy is here to stay and is a must for the South African economy

With up to 70% of household claims being attributed to electric geyser replacements, and with approximately two thirds of the geysers being installed per annum being managed through the short-term insurance industry replacement programs, the short-term insurance industry has the single greatest impact on the ability to address the utilisation of Solar Water Heaters (SWH), or heat pumps, to assist in driving the national agenda of placing 1 million geysers into homes across the country by 2014.

However, despite many pilots being run by individual companies since 2007/8 there has been no real shift by consumers to take up energy savings devices and this relates to numerous issues. To mention but a few: the difference in upfront costs to replace a geyser (despite the payback period being 3 – 4 years given the rising costs of electricity), some home structures do not support the solar panels, it takes longer to fit than an electric geyser. These geysers require maintenance and the Teljoy case left a bad taste in consumer's mouths.

The SAIA is bringing together not only our industry leaders but also appealing to the specialised expertise of Eskom, suppliers, manufactures and government bodies to assist in trying to address the collective movement of replacement policies for geysers based on the full participation of the industry. Given the political will of the government in this regard, legislation governing new buildings will be enforceable at the start of 2012 to ensure that SWH and heat pumps are installed instead of electric geysers. Should this determination prevail it will strengthen the business case of our market to finding ways to support the utilisation of the "green industries" development within South Africa.

To participate and contribute please contact Debbie@saia.co.za

 **Further information : Debbie Donaldson**
 debbie@saia.co.za

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2. LEGISLATION & REGULATION

2.1 The State v Clifford Joseph Hendricks - "The Dräger Case"

Judge Nathan Erasmus of the Western Cape High court acquitted the accused Mr Clifford Joseph Hendricks on a charge of contravening the sections of the National Road Traffic Act 93 of 1996 (the Act) and the Regulations thereto specifically relating to driving under the influence of intoxicating substances, or drunken driving if you will. Judge Erasmus's decision to acquit the accused found its basis in inherent problems and concerns in the Dräger breathalyser test performed upon the accused. The Dräger test had found the accused to be approximately four times over the alcohol levels allowed by the Act.

The deciding factor in Judge Erasmus' finding was that there was no proof that the operator of the test performed on the accused was actually properly qualified and certificated to perform the test. Judge Erasmus also found that there were other inconsistencies in the way that the machine operated in that factors such as body temperature or the presence of dentures could influence the outcome of the test.

As a result of this finding the Western Cape National Prosecuting Authority (NPA) has issued a statement that it will withdraw all pending cases of drunken driving that relied on evidence presented by the Dräger test.

The SAIA will be distributing circulars to its members on the possible impact that this decision may hold for the industry.

☞ **Further information :** Denzil Ohlson
✉ denzil@saia.co.za

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2.2 Protection of Personal Information Bill, 2009

The Portfolio Committee has formed a sub-committee comprising of representatives from the different political parties of South Africa to discuss and deliberate on matters relating to the Protection of Personal Information Bill of 2009 (POPI). The subcommittee met on 19 September 2011 and feedback to the Portfolio Committee is to follow soon.

The purpose of the POPI is to give legislative weight and effect to the right to privacy as enshrined in Section 14 of the Constitution of South Africa, in that the right to privacy includes a right to protection against the unlawful collection, retention, dissemination and use of personal information.

Personal information in this context means any information relating to a person, for example, (and not limited to), names, identification numbers, contact details, educational history, medical history, marital status, financial status, history of financial transactions etc.

The Bill sets out eight principles which are to be followed in the processing and distribution of such information, namely:

- Accountability
- Processing Limitation
- Purpose Specification
- Information Quality
- Openness
- Security Safeguards
- Data subject participation

The Bill provides for the creation of the “Information Protection Commission” for the purpose of the enforcement of the provisions of the Bill and the receipt and investigation of complaints. The Commission is further envisaged to have the power to make exceptions to the protection of personal information in certain instances where the processing of such information is in the public interest.

POPI is not to be confused with the Protection of Information Bill that has attracted much attention and debate recently.

☞ **Further information :** Denzil Ohlson
✉ denzil@saia.co.za

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2.3 Solvency Assessment and Management (SAM) Initiative Interim Measures

The Financial Services Board (FSB) published the following documentation on the 30 August 2011 in relation to the interim measures for Insurance Groups, and Governance, Risk Management and Internal Controls:

- Discussion Document 1(v 8);
- Discussion Document 81 (v 2); and
- The Insurance Laws Amendment Bill, 2012.

These documents are open for public commentary to the FSB until the 30 September 2011.

These interim measures form a part of Pillar 2 of the SAM framework. The two discussion documents provide for the principles, detail and theory required for the interim measures relating to insurance groups, governance, risk management and internal controls, while the Insurance Laws Amendment Bill, 2012 (the Bill) seeks to give legislative effect and practical implementation to the principles outlined in the two discussion documents.

A SAM workshop involving representatives from our members is currently finalising their commentary on the Bill to be submitted to the FSB by 30 September 2011. Such commentary will be circulated to the members of SAIA thereafter.

 **Further information : Denzil Ohlson**
 denzil@saia.co.za

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3. MOTOR

3.1 Certification of Alternative Parts

The SAIA has gathered enough information through discussions with relevant role players, a trip by an industry Task Team to the East to visit relevant factories, as well as brainstorming within the industry to be in a position to put forward a new simplified business model for the certification of alternative motor vehicle parts in South Africa in order to address the quality and the cost of motor parts with an ultimate view to make a substantial contribution towards addressing the sustainability of affordable comprehensive motor insurance.

This proposed business model will be presented to SAIA members at a meeting on Wednesday, 28 September 2011. The proposed business model will also be discussed with other relevant role players as soon as SAIA members have confirmed their support for the new proposed way forward. This proposed business model will then be submitted for approval through the relevant SAIA structures, including the SAIA Board Committee: Motor and finally the SAIA Board.

 **Further information : Vivienne Pearson**
 vivienne@saia.co.za

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3.2 Gauteng Tow Truck Technical Committee Update

All the focus groups were completed and the Department of Roads and Transport in Gauteng tabled the first draft of the Research Report at the last meeting which took place on 21 September 2011.

The Department of Roads and Transport undertook to provide all stakeholders participating in this process with the written Research Report to enable everyone to study the document and to provide input and questions within ten (10) days after receipt of the Report.

The SAIA will keep our members informed on progress going forward.

✉ **Further information : Dawie Buys**

✉ dawie@saia.co.za

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3.3 Frequently asked insurer questions regarding Microdotting

Question 1

The dotting of vehicles is likely to reduce the frequency of “chop shop” type thefts whereby syndicates strip vehicles and sell the parts to the second hand market as “legitimate parts”. This would mean that the availability of used parts is likely to be affected if panel shops are buying second hand parts from these outlets – could this impact on the cost of repairs?

Answer

Panel shops will be forced to check that second hand parts fitted to insured vehicles as replacement parts are legitimate. Microdotting will facilitate this process and a microdot number can be checked within half a second through the database of the relevant Service Provider.

The process is also governed by the second hand goods act which is currently coming into effect. The onus of proof is placed on the purchaser to determine if the item is stolen or not. If a part is purchased from a chop-shop and fitted to a vehicle and the same part is traced back to a stolen vehicle, the panel shop will be investigated and could be closed down by the South African Police Services (SAPS) vehicle unit. Panel shops will become cautious as to where they buy their parts from in the future and microdotting serves as the deterrent in this case. Insurers will also feel comforted that parts replaced on vehicles come from legitimate sources. (Refer to Question 7 for additional information)

Question 2

What happens if an insured vehicle is stopped at a road-block and, for example, the one fender has dots belonging to a stolen vehicle (assuming that the rest of the vehicle’s dotting is legit)? How will the database link different dots to the same owner? Will the entire vehicle be impounded? If so, we would need to specifically exclude this type of risk under our policy. Where would this leave the banks that have financed such vehicles?

Answer

The Service Provider’s database can facilitate multiple microdot numbers linked to one vehicle’s VIN number. If a stolen part is fitted to an insured vehicle the vehicle is at risk if a law enforcement officer discovers the same. However, if the part was fitted by a panel shop, on the insurers approved panel, there is serious recourse to the panel shop. The law enforcement officer will have the power to arrest the panel shop owner for dealing in stolen goods. The panel shop will also be in contravention of the second hand goods act. This potential problem would need to be communicated to insurance assessors’ who will highlight the potential risk to the panel shop and insurer.

Question 3

Will we need to have access to a database that has records of all stolen/hi-jacked/written off vehicles and their dot serial numbers? If so, what are the costs and Information Technology (IT) process associated with this?

Answer

Yes. The service provider's database will be accessible to all insurers. On fitment of the microdot solution a full insurance inspection is completed and mandated via the fitment policy and procedure. Thereafter any movement on the vehicle, in terms of theft, is recorded into the "HOT DOT" register. The sharing of hot dot information is not limited to only law enforcement agencies but also insurers, investigators, consumers, panel beaters, second hand dealers and anyone who has an internet connection. Further to the above most service providers will provide full details of all fitments to TransUnion HPI and Unicode. This includes Vehicle Identification Number (VIN), make, model, engine number, registration number and microdot number. This is a free service.

Question 4

Will verifying the dots and whether or not the dots belong to a stolen vehicle (or previously "uneconomical code 2 vehicle"), become part of a pre-inspection and underwriting processes?

Answer

Yes. As part of most service providers' fitment processes, all vehicles are inspected and photographed prior to the vehicle microdot fitment. It is for this reason that fitment technicians are referred to as verification technicians. If a competitor microdot is noted on the vehicle the same is captured into the database and linked to the VIN number. The fitment and verification process can easily be used and incorporated into the insurer policy underwriting process. Further to this, the back end verification will ascertain if the vehicle is a code 2.

Question 5

Will the vehicle owner/insurer be required to dot new parts that are fitted to a vehicle during a repair – if so, who is liable for the costs?

Answer

It is advised that if a motor vehicle is involved in an accident where more than 20% of the vehicle components are damaged, the vehicle parts be re-applied with microdots. The new microdot number and existing microdot number are then noted against the vehicle's VIN number in the database. The TransUnion HPI and Unicode systems are thereafter updated accordingly.

Question 6

Could the dotting of vehicles have an adverse impact on salvage sale proceeds?

Answer

No. On the contrary. The microdotting process will increase the salvage component of a stolen or hijacked vehicle. The law enforcement agencies are able to identify the original owner quicker and return the vehicle to them timeously. This prevents vehicles sitting in South African Police (SAP13) stores and reducing in value due to decay and ultimately

being destroyed due to the fact that the original owner cannot be identified. The microdot is indisputable proof of ownership and the SAPS would prefer to return the vehicle as soon as possible to the legitimate owner instead of storing the vehicle. In 99% of these cases the insurers in South Africa are the owners as they have paid out the claim.

Question 7

The dotting of components could prevent repairers from fitting used parts where they have quoted for new parts (they can be caught out much easier) – will this “loss of profit” now manifest elsewhere in the repair cost?

Answer

No. The ill practice of dishonest panel shops fitting stolen parts to motor vehicles will be curbed and add credibility to the insurers. The last thing a client wants is to have stolen parts fitted to their vehicle for which an insurer paid for. The proactive component of this is that panel shops will not buy stolen parts anymore and this will cut off the demand and reduce the amounts of “chop shops” substantially. The panel shop may look at alternative means to shift the “stolen parts profit” but this can be managed through the assessing component of the claims process. (Refer to question 1 for more details).

Question 8

What is the best method of coding a microdot? Is it a VIN number or Personal Identification (PIN) Number?

Answer

There are two methods of coding a microdot in terms of the South African National Standards (SANS) 534 – 1 (2008), VIN and PIN numbers. The document allows for either method.

Second-hand parts: Due to the lifespan of microdot technology, which is the lifespan of the motor vehicle, there may be some confusion down the line when second-hand parts are being used as replacement parts on motor vehicles. For example, insurers allow second-hand parts as replacement parts on motor vehicles by panel shops. If a second-hand part has a VIN number which is not related to the vehicle on which the part is being fitted, this may cause confusion when an inexperienced law enforcement officer stops the said vehicle in a road block. It may even lead to the insurer’s client being unnecessarily arrested. In order not to cause any confusion in terms of second-hand parts, it is recommended PIN numbers are used as the preferred coding on microdots. There can be no confusion as the PIN number may be transferred to the new vehicle without any hassle and effectively legitimises the second-hand part. If the PIN number on the second-hand part was initially stolen, this transfer will not be possible. (Please see question number 7 above).

Question 9

Are there a sufficient number of parts marked on motor vehicles?

Answer

The compulsory positions of marking a motor vehicle is governed in terms of the SANS 534-1. All the major “high risk” parts are covered within the engine compartment, bonnet and boot to mention but a few. The minimum numbers of microdots prescribed in terms of the South African National Standard are 10,000. Some service provider’s microdot systems may well exceed the minimum prescribed numbers. This ensures that the vehicle

is applied with sufficient microdots on all the various compulsory parts as well as other parts.

Question 10

What is the cost of microdotting a vehicle and who pays for it?

Answer

The normal price of microdotting a vehicle is between R699-00 and R1, 999-00 depending on the supplier.

Pricing may differ depending on the insurer's loss ratios and book retention. Insurers can decide to pass on the cost if so desired and depending on their own business model.

Question 11

Are law enforcement officers and investigators actively policing microdotted motor vehicles and assets? Are they effectively equipped to do the same?

Answer

The SAPS embarked on a "proof of concept" as far back as five years ago with the microdotting of a high risk vehicle: the Toyota Quantum. Theft and hijacking on these vehicles was reduced by as much as 70% which can only be attributed to the fact that they were microdotted. Since then there are countless success cases of convictions and chop-shop arrests due to microdotting. The police view microdots as a valuable investigative tool and also as the most proactive means of preventing thefts and hijacking. Further to this and instead of destroying 2.4 billion rand worth of motor vehicles that couldn't be identified, ownership can now be traced through microdots. Insurers benefit the most from the positive identification as vehicles are now salvaged on their return. This was previously not the case.

All detectives in the vehicle theft and investigative units are equipped with inexpensive hand held microscopes to investigate microdotted vehicles. For the past two years the police college has trained all new recruits on microdot technology. This proves the commitment of the SAPS to the technology.

Acknowledgement: With kind acknowledgement to Mr Mike Dix of Recoveri Tag What's Yours (Pty) Ltd.

 **Further information : Dawie Buys**
 dawie@saia.co.za

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3.4 Road Accident Fund (RAF)

The government recently announced that it is their intention to establish a new accident claims body, a move that is likely to result in the scrapping of the cash-strapped Road Accident Fund (RAF).

The cabinet already approved the new policy document which would see the new scheme being governed along social security principles and operate on a "no-fault basis". It was confirmed that the proposed scheme was part of government's wide-ranging social security

system reform initiative and would mark a departure from a system based on financial compensation.

A spokesman of the Department of Transport (DoT) confirmed that the fuel levy, which is currently used to finance RAF, would be used as the primary source of funding the scheme.

It was furthermore confirmed that the actual setup costs to get the scheme up and running will be determined once implementation planning starts.

The Minister of Transport is on record that the current deficit of RAF had exceeded R42 billion and that inadequate funding was making it impossible for the fund to settle its claims backlog.

The Deputy Director of the DoT said that the RAF would indeed be restructured so that it could be a proper benefit system and administrator. She also said that the DoT is not looking at immediate implementation as they will need to go through the whole legislative process to actually change the legal dispensation from a fault-based system towards a no-fault system, adding that the new system would not apply to already existing RAF claims.

A Senior Economist stated that it would take up to seven years for Government to scrap RAF.

🔍 **Further information : Dawie Buys**

✉ dawie@saia.co.za

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4. TRANSFORMATION

4.1 Financial Sector Charter (FSC)

Following a meeting of the Ministers of Finance and Trade & Industry and the Financial Sector Charter (FSC) Council board on 30 July 2010 it was agreed to gazette the Financial Sector Charter as a three phase process.

Phase 1: Phase 1 specifically excluded Access to Financial Services, Empowerment Financing, Enterprise Development and some aspects of the measurement of Black ownership (primarily the concept of “Once Empowered Always Empowered”).

Agreement has been reached on a Phase 1 Draft Financial Sector Code document and this was submitted to Treasury on 18 October 2010 and gazetted for public comment under section 9(1) of the DTI Generic Codes on 10 December 2010.

The period for public comment ended on 26 February 2011 and the DTI, in participation with a technical sub-committee of the FSC Gazetting committee, have collated and considering the comments received.

Phase 2: Phase 2 aims to achieve consensus on all remaining issues after which a final version of the Draft Financial Sector Code will be published for public comment.

The major matters to be discussed and agreed during this phase comprise:

- Access to financial products (incorporating Consumer Education)
- Empowerment financing and enterprise development
- Ownership – the issue of “Once empowered always empowered”

- Establishment of revised levels for designated investments to be applied to Empowerment Financing
- Targets

After consideration of public comments, the Minister of Trade and Industry will be asked to gazette the Draft Financial Sector Code under Section 9(1) of the Commission on Government Procurement (CoGP) as a binding Code on the Financial Sector.

Phase 3: It is currently anticipated that gazetting of the final FSC code will take place during the second half of 2011, assuming that agreement on the current areas of discussion under Phase 2 can be achieved.

Current Position

The timetable for completion of phase 2 of the gazetting process has been revised and aims to reach finalisation of the process and submission of a draft Financial Sector Charter document to the Minister during September 2011 / October 2011.

The current status on the Phase 2 issues is as follows:

i. Access to financial services and consumer education

The issue of qualifying product standards and consumer education standards will be debated following the gazetting of the FSC Code.

ii. Access:

It is proposed that each industry sector adopts access principles that are best suited to the particular sector. For the short-term insurance sector the following has been proposed and has received approval in principle by the FSC Gazetting committee:

- The target market be expanded to encompass LSM 1 to 7 segments.
- The target market will be identified and targets set based on a maximum insured amount for each identified short-term insurance type.
- The sector target for access will be established based on a percentage market penetration for each short-term insurance type.

The issue of qualifying product standards and consumer education standards will be debated following the gazetting of the FSC Code. It is proposed that the implementation of the Access section of the FSC Code would be deferred until these standards have been finalised.

iii. Consumer education:

- The target for consumer education spent has been increased from 0.2% to 0.4% of post tax profit.
- The definition of permissible consumer education has been extended to include education that supports the general aims of the Charter and thus will be expanded to include specific (none branded) product education beyond homeowners and householders insurance.
- The current 80:20 restriction in favour of consumer education spend in the form of community workshops will be reviewed as part of the product standards exercise that will follow the gazetting of the FSC.

The National Treasury Policy Statement on Microinsurance has been finalised and was issued for public comment in July 2011.

iv. Enterprise Development and Empowerment Financing

The original Financial Sector Charter included Enterprise Development as part of Procurement with Empowerment Financing as a separate section of the Charter. In order to achieve its Empowerment Financing targets the short-term insurance industry was largely dependent on the banking and investment sectors originating investment structures into which the short-term insurance companies could invest.

In the revised Code, it is recommended that Enterprise Development and Empowerment Financing be combined and that the short-term insurance industry be given the choice of meeting its target requirements in this section through a combination Enterprise Development and / or Empowerment Financing.

v. Ownership – “Once Empowered Always Empowered”

The Ownership concept of “Once Empowered Always Empowered” formed a cornerstone of the original Financial Sector Charter. The Banking Association wished to retain this concept in the Code while the Labour and Community constituencies originally required this provision to be omitted from the Code.

Following extensive discussion on this issue, agreement has been reached, within the Council Gazetting Committee, which aligns substantially to the mandated position granted to the Trade Associations in their April 2011 position paper.

vi. Designated investments

The level of Designated Investments applied to each participant subject to the Financial Sector Code requires to be updated and research in this regard has been completed and a proposal has been tabled for agreement of the FSC Gazetting committee.

Targets

Progress has been made on the determination of revised targets for each section of the Code.

 **Further information : Gary Benton**
 gbenton@telkomsa.net

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5. SOLVENCY ASSESSMENT AND MANAGEMENT (SAM) INITIATIVE

Ensuring Sufficient Eligible Capital Resources

One of the first discussion documents approved for industry comments is Discussion Document 26 (version 5); “the classification and eligibility of capital resources”. Capital resources consist out of basic own funds, which consist of the excess of assets over liabilities and subordinated liabilities and ancillary own funds, which consist of items other than basic own funds which can be called up to absorb losses such as unpaid share capital or initial funds that have not been called up; letters of credit and guarantees and other legally binding commitments received by insurance and reinsurance companies.

The primary purpose of capital resources from a regulatory perspective is to act as a shock absorber against adverse losses and to ensure that the insurer and reinsurer are able to meet its obligations to policyholders when they are due. From a macro-economic perspective, requiring the insurer and reinsurer to maintain adequate capital in terms of both quantity and quality, enhances the safety and soundness of the insurance sector and the financial system as a whole.

The document does not focus on issues relating to matters of valuation, rather it outlines the methodology whereby capital resources are classified in order to determine eligible own funds, which are as follow:

- An assessment of the quality (characteristics) of the capital instruments comprising the total amount of capital resources
- Creating a list of capital elements that comply with the requirements.
- On the basis of the assessment, a determination of the capital resources eligible to meet regulatory capital requirements.
- Recommending approval guidelines for capital elements not listed in this Discussion Document.

The Discussion Document recommends that the capital resources are classified into three tiers, based on whether they are basic or ancillary own fund items and to the extent to which they possess the proposed characteristics, which are:

Characteristics	Guide
a. Loss absorbency	The item is available, or can be called up on demand, to fully absorb losses on a going-concern basis, as well as in the case of winding-up.
b. Subordination	In the case of winding-up, the total amount of the item is available to absorb losses and the repayment of the item is refused to its holder until all other obligations, including insurance and reinsurance obligations towards policyholders and beneficiaries of insurance and reinsurance have been met.
c. Sufficient duration	When assessing the extent to which own-fund items possess the characteristics of permanent availability and subordination currently and in the future, due consideration shall be given to the duration of the item, in particular whether the item is dated or not. Where an own-fund is dated, the relative duration of the items as compared to the duration of the insurance and reinsurance obligations shall be considered.
d. Free from requirements and incentives to redeem	Whether the item is free from requirements or incentives to redeem the nominal sum.
e. Free from mandatory costs	Whether the item is free from mandatory fixed charges.
f. Absence of encumbrances	Whether the item is clear of encumbrances.

Divided into three tiers and between basic own funds and ancillary own funds the results are as follow:

	Basic Own Funds	Ancillary Own Funds
Tier 1	Substantially possess characteristics of (a) and (b), taking inconsideration (c), (d), (e) and (f).	Not allowed
Tier 2	Substantially possess characteristics of (b), taking inconsideration (c), (d), (e) and (f).	Substantially possess characteristics of (a) and (b), taking inconsideration (c), (d), (e) and (f).
Tier 3	If not Tier 1 or Tier 2	If not Tier 2

It is recommended that the division of the Tiers follow the advice coming from the EU as illustrated below:

	Recommended Tiers
SCR	<ul style="list-style-type: none"> • Tier 1 > Tier 2 > Tier 3 • Tier 1 > 50% of total Eligible own funds • Tier 3 < 15% of total Eligible own funds
MCR	<ul style="list-style-type: none"> • Tier 1 > Basic own funds Tier 2 • Tier 1 > 80% of total Eligible basic own funds • No Tier 3

Tier 1 should contain the highest quality of capital resources which fully absorb losses and enable an insurer and reinsurer to continue as a going concern. To be classified as Tier 1, capital instruments must be fully paid in. For inclusion in own funds, there should be certain minimum qualitative requirements. In particular, Tier 3 basic own funds should contribute toward avoiding insolvency as well as toward avoiding the acceleration towards insolvency.

Based on the assessment guides above capital instruments can be grouped as such:

Basic Own Fund	Ancillary Own Funds
Tier 1 requirements <ul style="list-style-type: none"> • Paid in ordinary share capital • Paid in equivalent of ordinary share capital of mutual undertakings • Other paid in capital instruments, including preference shares that absorb losses first or rank pari passu, in going concern, with capital instruments that absorb losses first. <ul style="list-style-type: none"> ▪ Instruments that automatically covert to ordinary share capital, or to the equivalent of ordinary share capital of mutual undertakings, as and when the undertakings needs to absorb losses, and in any case when the undertaking breaches the SCR. ▪ Instruments subject to write down as long as losses persist, as and when the undertaking needs to absorb 	Tier 2 requirements <ul style="list-style-type: none"> • Ordinary share capital callable on demand. • Equivalent of ordinary share capital, callable on demand, of mutual undertakings. • Supplementary member calls of mutual undertakings, within the next twelve months, that can be made on demand, where the call generates Tier 1 own funds and is clear of encumbrances. • Letters of credit and guarantees which are held in trust for the benefit of insurance creditors. • Other capital instruments, callable on demand, that absorb losses first or rank pari passu, in going concern, with capital instruments that absorb losses first. <ul style="list-style-type: none"> ▪ Instruments that automatically

Basic Own Fund	Ancillary Own Funds
<p>losses, and in any case when the undertaking breaches its SCR.</p> <ul style="list-style-type: none"> • Reserves, to the extent that they are available to absorb losses at any time arising from any segment of liabilities or from any risks, including: <ul style="list-style-type: none"> ▪ retained earnings ▪ surplus funds ▪ revaluation reserves ▪ other reserves • Paid in subordinated mutual member accounts 	<p>convert to ordinary share capital, or to the equivalent of ordinary share capital of mutual undertakings, as and when the undertaking needs to absorb losses, and in any case when the undertaking breaches its SCR.</p> <ul style="list-style-type: none"> ▪ Instruments subject to write down as long as losses persist, as and when the undertaking needs to absorb losses, and in any case when the undertaking breaches its SCR.
<p>Tier 2 requirements</p> <ul style="list-style-type: none"> • Called up ordinary share capital • Other called up capital instruments that absorb losses first or rank pari passu, in going concern, with capital instruments that absorb losses first. • Other capital instruments, including preference shares that do not have the conversion features required for Tier 1 but that display the features below. • Other capital instruments, including preference shares, not subject to write down as long as losses persist, but that display the features below. 	<p>Tier 3 requirements</p> <ul style="list-style-type: none"> • Callable preference shares classified in Tier 2 or Tier 3 • Other callable capital instruments classified in Tier 2 or Tier 3
<p>Tier 3 requirements</p> <ul style="list-style-type: none"> • Other capital instruments, including preference shares, that do not display the features required for Tier 1 or Tier 2. • Deferred tax assets, [if not excluded from own funds] 	

A number of valid reasons exist for the Discussion Document to consider alignment with the banking industry to ensure an effective and sustainable financial services industry. Based on the above insurers and reinsurers should carefully consider their future capital plans.

 **Further information : Nico Esterhuizen**

 nico@saia.co.za

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6. SHORT-TERM INSURANCE DATA EXCHANGE (STRIDE)

STRIDE Update

We are very happy to announce the tremendous progress made in the creation of the SA ACORD Messaging Library (AML) data standard. With the dedication of the ACORD Working Group and the ACORD team, we managed to complete the outstanding work on claims and bordereaux specification during the last face-to-face visits in September. We

are confident that the latest release will be voted to Candidate Recommendation stage ready for testing.

This enables STRIDE and Astute to remain within their projected development times and on track for delivery in April 2012.

The focus of the SA Working Group has now changed to a more technical view in creating the technical implementation guide to handle the messaging patterns. Another element that the Working Group will focus on is the creation of the generic business rules applicable to the South African short term market that can be included in the ACORD Testing and Certification Facility (TCF). As you can imagine, this is a very important part of the process and a lot of effort will go in to this piece of work.

ACORD will conduct their last face-to-face meetings for 2011 in October; members are encouraged to send the appropriate resources to these meetings to ensure that their interests are taken into account.

A significant portion of internal STRIDE development projects will deal with the mapping of data to the ACORD standard; the technical implementation guide will greatly assist in this process whilst the TCF facility will enable an efficient testing and implementation process. It is for these reasons that it is imperative that we don't lose momentum now, and ensure that the right resources are made available to provide relevant input into the process.

Well done to the SA ACORD Working Group for the excellent work, time and dedication that went into this process to date.

☛ **Further information : Jenny Theunissen**
jenny@stridesa.co.za or visit the website at www.stridesa.co.za

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7. PRESS CLIPPINGS

7.1 Press Clippings: August 2011

Publication	Person/DN	Subject
Cover August 2011	# 87886 *SAIA	In search of Sustainability
	# 87887 *SAIA	South African Insurance Crime Bureau (SAICB): Combating crime and fraud in the insurance industry
	# 87888 *Suzette	Department of Mineral Resource (DMR): SAIA welcomes the lifting of the moratorium on insurance guarantees for mining rehabilitation
RiskSA August 2011	# 87925 *Ronnie	Donation: SAIA supports Business Against Crime South Africa (BACSA) with R1.8 million Donation
	# 87926	Microinsurance in South Africa
	# 87927	The Consumer Protection Act (CPA) and the insurance industry
Insurance Times & Investments August 2011	# 87884 *Suzette	Short-term insurance: Local rules – Obtaining cover offshore
	# 87885	Short-Term Insurance Data Exchange (STRIDE):

Publication	Person/DN	Subject
	*SAIA	Connecting insurers and brokers
Business Day 2/8/2011	# 87559	Piracy boosts insurance costs of trade
Business Day 4/8/2011	# 87561	'Aim solar geyser rebate at high-pressure units'
	# 87560	Davies to introduce renewable energy quota for new buildings
Insurance Chat 9/8/2011	# 87617 *SAIA	What is the South African Special Risks Insurance Association (SASRIA) and how does it help protect from riots?
Business Day 10/8/2011	# 87618	Black Management Forum's withdrawal seems to have backfired, Business Unity South Africa (BUSA) reforms may get members to stay
FAnews 11/8/2011	# 87684 *Viviene	A triple boost for motor insurance profits
Gotravel24.com 11/8/2011	# 87690 *SAIA	Travel insurance: Cancellation or Curtailment policy
Business Day 12/8/2011	# 87694	Cosatu 'opposed to multi-payer system' for National Health Insurance (NHI)
Business Day 12/8/2011	# 87695	Tax hike is last resort to fund National Health Insurance (NHI) - Gordhan
FAnews 16/8/2011	# 87786 *SAIA	Microdot technology could increase car theft recovery rate
Business Report 17/8/2011	# 87775	BUSA to watch summit called to set black business roadmap
Business Day 22/8/2011	# 87817 *Debbie	Sustainable Insurance: Insurers to collaborate to manage SA's big risks
Citizen 24/8/2011	# 87903	Treasury mulls pushing banks to pay for deposit insurance
Business Day 25/8/2011	# 87904	State of the Market: Insurers now uncertain after good half year
Cover 24/8/2011	# 87923 *SAIA	SAIA Code of Conduct: Mutual & Federal leads the way in personal insurance policies with allsure
Business Day 30/8/2011	# 88007 *Dawie	Mortgage insurance plan 'is timely'
Daily News 31/8/2011	# 88043	Motor Insurance Industry: Tips: how to prevent car theft
IOL 31/8/2011	# 88044 *Dawie	Motor Insurance Industry: Tips: how to prevent car theft

 **Further information : Sonja Etsebeth**
 sonja@saia.co.za

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8. CIRCULARS

The following circulars were issued during the month of August 2011: (Number of circular, title, date issued and contact person)

8.1 SAIA General

SG 2011/061	Regulation 4, Section 45 of the Short-term Insurance (Act 53 of 1998) Register to the Status of the Credit Intermediaries (1/8/2011) Contact: Princess Mlambo
SG 2011/062	Invitation: INSETA Technical Working Group with a view of completing the sector occupational profile (4/8/2011) Contact: Suzette Strydom
SG 2011/063	Submission of Commentary on Draft Information Letter 1/2011 (ST) to the FSB (8/8/2011) Contact: Denzil Ohlson
SG 2011/064	FSB Directive 156.A.i (ST) – Compliance with Section 45 of the Short-term Act 53 of 1998 under Section 70, and response from the Registrar of Short-term Insurance (16/8/2011) Contact: Barry Scott
SG 2011/065	Invitation To Comment: Green Paper on National Health Insurance in South Africa (17/8/2011) Contact: Denzil Ohlson
SG 2011/066	Invitation to comment: Draft Credit Rating Services Bill (18/8/2011) Contact: Denzil Ohlson
SG 2011/067	Financial Services Board Special Report on the Results of the Short-Term Insurance Industry (25/8/2011) Contact: Sonja Etsebeth
SG 2011/068	Discovery Insure Limited (25/8/2011) Contact: Sonja Etsebeth
SG 2011/069	Invitation to Comment: Road Accident Fund Amendment Bill, 2011 (25/8/2011) Contact: Denzil Ohlson
SG 2011/070	Invitation to Comment: Outsourcing Draft Directive 159.A.i (25/8/2011) Contact: Denzil Ohlson

8.2 AMUSA

AM 2011/069	Piracy Advice: "ALBEDO" (1/8/2011) Contact: Elsebe Vetten
AM 2011/070	Casualty Advice : "FEDERAL ST.LAURENT" (8/8/2011) Contact : Elsebe Vetten
AM 2011/071	Casualty Advice : "ANGEL 1" (12/8/2011) Contact : Elsebe Vetten
AM 2011/072	Piracy Advice : "FAIRCHEM BOGEY" (25/8/2011) Contact : Elsebe Vetten
AM 2011/073	Casualty Advice : "EMS TRADER" (25/8/2011) Contact : Elsebe Vetten

8.3 SAIA Managing Directors

MD 2011/032	Solvency and Assessment Mangement Update (17/8/2011) Contact : Nico Esterhuizen
MD 2011/033	Update on Confirmation of the South African Revenue Services (SARS) Value Added Tax (VAT) Rulings and an Invitation to Participate on the SAIA Vat Task Team (23/8/2011) Contact : Charles Hitchcock
MD 2011/034	Feedback following an Invitation to SAIA Members Regarding the Interaction and Challenges Faced between the SAIA Members and the FSB (30/8/2011) Contact : Suzette Strydom

☞ Further information on all of the above-mentioned circulars : Sonja Etsebeth

✉ sonja@saia.co.za

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IMPORTANT NOTICE

Should you know someone, who is not a SAIA member, who might be interested in receiving the SAIA Bulletin, let them contact Vivienne Pearson at SAIA.

✉ E-mail: viviene@saia.co.za ☎ Tel: (011) 726 5381

☎ Fax: (011) 726 5352

www.saia.co.za



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