Introduction to the Insurance Bill

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national treasury
Department:
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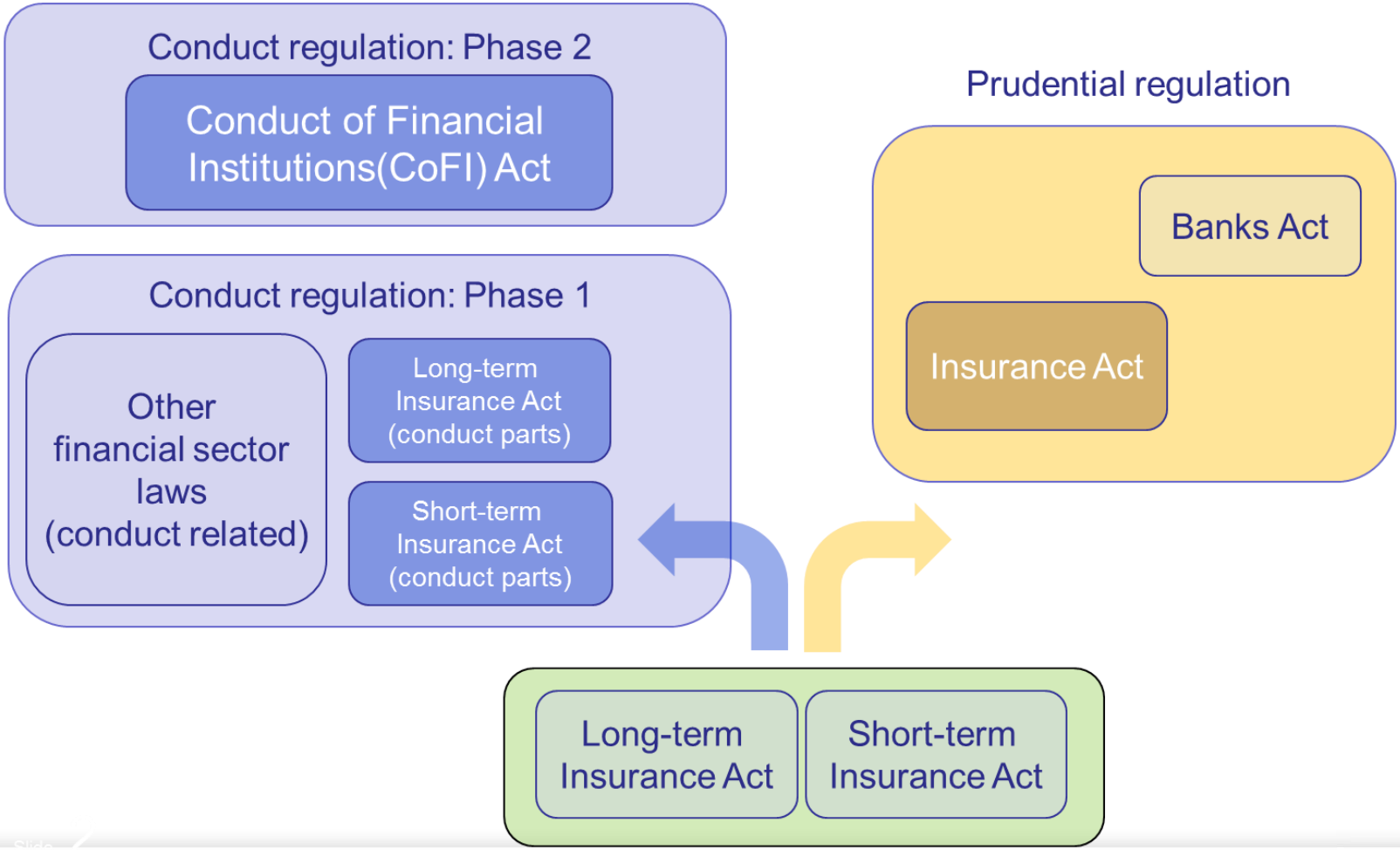
Twin Peaks Reforms – how Insurance Act fits in



Background

- Builds on the Twin Peaks model of financial regulation envisaged in the FSRB in respect of prudential supervision
- Provides a consolidated legal framework for the prudential supervision of insurers as envisaged in the FSRB
- Gives effect to the mandate & functions of the PA as articulated in the FSRB

Objectives of Insurance Bill

- Builds on objectives of FSRB
- Insurance Bill will:
  - Promote financial inclusion & financial transformation through the introduction of a microinsurance regulatory framework
  - Enhance safety and soundness of insurers through introducing a new Solvency Assessment and Management (SAM) regime
  - Help maintain financial stability through introducing a framework for insurance group supervision
  - Facilitate alignment with international standards (adapted to South African circumstances) in accordance with South Africa's G20 commitments

Financial Inclusion & Financial Transformation

- Promote financial inclusion & transformation through introduction of a microinsurance regulatory framework
  - Gives effect to the National Treasury's Microinsurance Policy Document released in July 2011
  - Facilitates formalisation of currently informal providers
  - Lowers barriers to entry, to encourage broader participation in the market
  - Allows for lower minimum regulatory capital requirements for microinsurers, while introducing proportionate conduct standards to adequately protect policyholders

Safety & soundness of insurers

- Enhance safety and soundness of insurers through introducing a new Solvency Assessment and Management (SAM) regime
  - SAM introduces a forward-looking risk-based approach to solvency, by aligning the capital requirements with the underlying risks of an insurer
  - SAM is principles-based regulation based on an economic balance sheet, and utilises a three pillar structure of capital adequacy (Pillar 1), systems of governance (Pillar 2) & reporting requirements (Pillar 3)
  - Encourages insurers to adopt more sophisticated risk monitoring and risk management tools

Financial stability

- Help maintain financial stability through introducing a framework for insurance group supervision
  - Consolidated group supervision allows for identification of risks across groups (such as an insurer's exposure to other group entities through intra-group loans), which can pose risks to policyholders as well as overall financial stability
  - A significant number of SA licensed insurers are currently operating within a group structure, reflective of concentrated and highly-interconnected nature of SA financial system
  - SAM will apply requirements (capital adequacy, governance & reporting) at both individual insurer level and at insurance group level

International standards

- Facilitate alignment with international standards (adapted to South African circumstances) in accordance with South Africa's G20 commitments
  - The international standard-setting body for insurance supervision is the International Association of Insurance Supervisors (IAIS), which issues Insurance Core Principles (ICPs) with which all jurisdictions must comply
  - The 2014 IMF/World Bank Financial Sector Assessment Program (FSAP) identified areas where SA insurance regulation needed to be aligned with the ICPs
  - The implementation of SAM and insurance group supervision will largely address these gaps, but there are other provisions in the Bill that also help align to the ICPs

Consultation process

- Bill has been in development for a 7 year period, through a consultative approach
  - SAM consultation structures set-up in late 2009 - SAM Steering Committee & Sub-committees and Working Groups
  - Includes FSB, SARB, NT, SARS, industry associations (ASISA, SAIA), professional bodies (ASSA) and industry experts
  - Since 2009, more than 117 discussion documents & position papers published on various components of the framework
  - 3 Quantitative Impact Studies (QISs) to test Pillar I proposals
  - A Pillar II (governance) readiness review plus a follow-up study
  - An Economic Impact Study
  - A Socio Economic Impact Study done in consultation with & in accordance with guidance by Presidency

Implementation readiness

- Pilot testing of SAM commenced in July 2014, to test insurers' readiness for implementation and to smooth transition
  - July 2014: "Light parallel run" – initial testing of SAM preparedness
  - January 2015 to present: "Comprehensive parallel run" (CPR)
  - CPR reporting on a SAM basis is done quarterly (unaudited) and annually (audited since beginning of 2016)
  - CPR reporting in parallel to reporting on current statutory basis
  - Insurers now well-prepared and eager to move to SAM basis

- Bill constitutes framework legislation – technical requirements are addressed in Prudential Standards

Bill overview

- Chapter 1: Interpretation & objective of Bill
- Chapter 2: Overarching framework for conducting insurance business & insurance group business
- Chapter 3: Key persons & significant owners
- Chapter 4: Licensing
- Chapter 5: Governance
- Chapter 6: Financial soundness
- Chapter 7: Reporting & public disclosure requirements
- Chapter 8: Transfer of business & significant transactions
- Chapter 9: Resolution
- Chapter 10: Administration of the Bill
- Chapter 11: General provisions