



07 September 2021

**BRIEFING BY THE SOUTH AFRICAN SPECIAL RISK INSURANCE ASSOCIATION ON THE
SECOND SPECIAL APPROPRIATION BILL**

1. Introduction

The brief provides pertinent issues and questions for consideration in engaging the South African Special Risk Insurance Association (SASRIA) on its mandate and allocation made in the Second Special Appropriation Bill [B17 – 2021]. This brief is prepared for the Standing Committee on Appropriations (SCOA).

2. Background

The South African Special Risk Insurance Association (SASRIA) is a public enterprise listed under schedule 3B of the Public Finance Management Act (No. 1 of 1999). SASRIA is a non-life insurance company that provides cover for damage caused by special risks such as politically motivated malicious acts, riots, strikes, terrorism and public disorders. In order to be insured against these specialist risks, a policyholder must have an underlying policy in force that includes SASRIA cover at the time that of event that gave rise to a loss.

During the 2020 financial year, SASRIA remarkably improved its profitability by turning out profit after tax of R333 million, compared to a loss of R1.4 million in the previous year. Gross written premium collected increased by 11% to R2.4 billion (2019: R2.1 billion), while insurance claims paid out declined by 37% to R992 million (2019: R1.5 billion). Retained earnings saw a steady increase to R6.9 billion (2019: R6.6 billion) and total assets under management remained strong at R8.5 billion (2019: R8.1 billion).

Table 1: Summarised financial position of SASRIA as at 31 March 2020

R' million	FY2020	FY2019
Gross written premiums	2 417	2 169
Financial Assets	4 190	3 842
<i>Investment Income</i>	257	271
Profit after tax	332.8	- 1.383
Cash and cash equivalents	4 252	4 162
Retained Earnings	6 958	6 625
Claims Payout	992	1 578
Total Liabilities	1 963	1 847
Assets under management (AUM)	8 528	8 111



The July 2021 events of public disorder, riots and civil unrest across Kwazulu-Natal and Gauteng led to extensive damage and destruction of property. Early estimates by SASRIA is that claims emanating from these events could be upwards of R20 billion and the entity will require a capital injection of R15 billion. The Second Special Appropriation Bill provides a capital injection of R3.9 billion to SASRIA should it exceed its limits.

Reinsurance can easily be defined as “insurance for insurers”. Reinsurance is cover purchased by an insurance company to mitigate its risks and obligations to pay large claims and assists the insurer mitigate its risk by absorbing some of the losses.

Issues for consideration

- What is the quantum of funding available in SASRIA’s balance sheet that can be utilised to cover claims?
- The availability of reinsurance cover to pay larger claims and mitigate the risk of bankruptcy or insolvency of SASRIA.
- Liquidity of investments (financial assets) in SASRIA balance sheet – can SASRIA liquidate or sell some of these assets to free up cash reserves so that they can settle claims?
- Ability of SASRIA to meet the minimum required level of solvency, capital and liquidity in light of deteriorating economy and lingering effects of the impact of COVID in the insurance sector.

3. Questions for consideration

- What is meant by “cover is non-refuseable and non-cancellable”
- South Africa has a distinctively divided insurance sector – with a well-served corporate and retail sector and underserved SMME sector
 - What proportion of policyholder covered by SASRIA constitute SMMEs?
 - What proportion of policyholders are black, women and youth?
 - If there is low uptake of SASRIA cover within these demographics – what interventions has SASRIA undertaken to penetrate this market and increase uptake of insurance within this vulnerable sector?
- Slide 7, presents a graphical representation of the number and rand value of claims
 - Can SASRIA provide granularity as to the proportion (number and rand value) of claims is instituted by SMMEs, large corporates and retailers?
 - Black townships – which are South Africa’s biggest and fastest growing retail market – were the worst affected by the destruction, what proportion of these claims represents claims emanating from black townships?
- The sheer number of claims emanating from the July 2021 unrest is larger than any event/incident that SASRIA has experienced – how has the entity enhanced its capacity to ensure claims are settled expeditiously to ensure that businesses are able to restart operations with minimal disruptions and employees are back at work and earning an income?
 - To date, what is the number of claims that have been settled and how much has been paid out?



- What is the average turnaround time for settlement of a claim? How is SASRIA allowing for flexibility within its operating model to ensure fast turnaround and settlement in cases of largescale catastrophe?
- During 2019 SASRIA had an 8.8% increase in gross written premiums and a significant rise in claims payout from R663 million in 2018 to R1.6 billion in 2019 (slide 13) and incurred a loss of R72.5 million
 - What gave rise to this sharp increase in payouts and SASRIA incurring a loss?
- In terms of SASRIA's own risk and solvency assessment, what is the size of catastrophe – in rand value – the entity can sustain without exposure to substantial solvency risk?
- Slide 20, SASRIA has R3.3 billion in cash and R6.3 billion in financial assets as at 31 March 2021
 - How liquid are these investments in financial assets? Can SASRIA liquidate its positions in these investments to generate much needed cash to settle the sharp increase in claims?
- Who are SASRIA's reinsurers and how much funding is SASRIA expecting to receive from its reinsurance programme? Has any of that funding been receive to allow the entity to urgently respond to increase claims without facing liquidity constraints?
- What is the number of SASRIA claims that have been reported or referred to the Insurance Ombudsman?
 - Of these, what is the number of complaints related to incidents of non-payment of claims and/or claims not paid on time?
- Many people view insurance as a “grudge” purchase – is the envisioned premium rate increase a feasible prospect if people have been largely excluded from cover owing to issues of affordability?
 - Is current price elasticity for insurance within acceptable norms that any increase in the price will not adversely affect uptake of insurance cover?
- Currently SASRIA is the only specialist risk insurer and violent protests have become endemic across South Africa and the momentum seems to be increasing – does SASRIA foresee any new players entering the market or is there legislation that prevents other insurers from being in direct competition with SASRIA?
- Slide 26, SASRIA notes that Solvency Capital Ratio (SCR) is below 100% and the entity will need further capital injections to bring the SCR to level above 100%.
 - What is SASRIA's current solvency capital ratio (SCR) and it is in term of financial regulation by the Prudential Authority or any other legislation that cover must be in excess of 100%?
- Has SASRIA undertaken a review of the its business to streamline operations and implement cost savings to increase operating profit and improve solvency?
- The agricultural sector was also affected by the July 2021 unrests, with fields burnt, theft of livestock, burnt warehouses or farmers not able to transport produce to markets
 - What cover does SASRIA offer to the agricultural sector?
 - Now it's almost planting season – how is SASRIA prioritising claims from the agricultural sector to ensure minimal disruptions to the planting season and safeguard food security?

4. Conclusion

SASRIA is an important institution for economic stability as it enables businesses to restore their liquidity or operations quickly and efficiently after experiencing loss or damage due to special risk event, thus preventing significant job losses maintaining livelihoods. The severity and frequency of these insured events occurring create risk in the stabilisation of the entity's liquidity and solvency and could further pose significant risk to the fiscus.



References

National Treasury, 2021a. *Second Special Appropriation Bill [B17 – 2021]*

SASRIA SOC Ltd, 2020. *2020 Integrated Report*

SASRIA SOC Ltd, 2021. *Parliamentary Committee presentation, 8 September 2021*, Submitted to the Standing Committee on Appropriations, Cape Town: Parliament of the Republic of South Africa