**Report of the Standing Committee on Finance on the Oversight Visit to the South African Special Risk Insurance Association (SASRIA), dated 01 June 2022**

1. **INTRODUCTION**
   1. The Standing Committee on Finance (the Committee) undertook an oversight visit to the South African Special Risk Insurance Association (SASRIA) on 20 April 2022 in Gauteng.
   2. The main purpose of the visit to SASRIA was to get a briefing on their annual report and strategic and annual performance plans and the implementation of the audit action plans, the impact of the July unrest on SASRIA and to meet staff/union representatives to discuss labour related issues.

1. **DELEGATION**

*Parliamentary Delegation*

* 1. The Committee delegation comprised of the following members: Mr MJ Maswanganyi (Chairperson of the Committee, ANC), Ms P Abraham (ANC), Ms D Mabiletsa (ANC), Mr G Skosana (ANC), Ms Z Nkomo (ANC), Mr IK Morolong (ANC), Dr D George (DA), and Inkosi E Buthelezi (IFP). The delegation was accompanied by the following parliamentary officials: Mr A Wicomb (Committee Secretary), Mr T Bottoman (Committee Assistant) and Dr Z Hlophe (Content Advisor).

*SASRIA Delegation*

* 1. The SASRIA delegation comprised of: Mr M Ngoasheng (Chairperson of the Board), Mr C Masondo (Outgoing CEO), Mr M Tyikwe (Incoming CEO), Ms B Mthiyane (Finance Director), Ms T Chocho (Executive Manager: Human Capital), Ms F Benjamin (Executive Manager: Insurance Operations), Mr M Mavuso (Executive Manager: Governance), Mr M Dladla (Executive Manager: Stakeholder Engagement) and Ms D Legodi (Manager: Secretariat)

1. **OVERVIEW OF SASRIA**
   1. SASRIA faces liquidity and solvency risks due to the July 2021 riots in KZN and parts of Gauteng. The delayed submission of their annual report was as a result of the following factors:
      1. SASRIA was not able to submit the 2021 integrated report, audited annual financial statements for the financial year ended 31 March 2021 due to an outstanding audit opinion as a result of material uncertainties surrounding the going concern status of the company;
      2. SASRIA provided an external auditor with the supporting evidence that supports the going concern status of the company for assessment;
      3. The external auditor confirmed that the letter from the Prudential Authority is appropriate and advised that there will be internal deliberations regarding the outstanding funding commitment letter. As of the date of this letter, the external auditor has not expressed an audit opinion on the annual financial statements of SASRIA for the period ended 31 March 2021;
      4. The National Treasury transferred funds to SASRIA and the auditors confirmed that they were able to finalize the audit opinion by end of February 2022 due to the fact that with this financial injection SASRIA has achieved accounting solvency in terms of the Companies Act, 2008.
2. **ANNUAL REPORT, STRATEGIC AND ANNUAL PERFORMANCE PLAN PRESENTATION**
   1. SASRIA received an unqualified audit opinion for the financial year. Some key highlights of the 2021 Financial Statements include the following: R2.786b gross written premium; R1.249b net underwriting results; R1.503b profit after tax; R352m claims incurred; R806m investment income; R102m dividend paid; R8.358b equity; 21.6% return on equity; 73.3% achievement of KPI’s; R9.584b assets under management; Unqualified audit opinion; R2.786b gross written premiums; R352m claims paid; R1.043b cost of other services; and R806m investment income.
   2. The total value distributed for the financial year included: R124m employee compensation; R102m shareholder dividend; R41m capital spend on infrastructure; R2.197b total value distributed; R32m socio-economic development; R539m income tax; and R1.359b retained income before transfer to reserves.
   3. Key performance indicators not achieved for the reporting period included:

Table 1: Annual Performance Indicators (Not achieved)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Strategic Focus Area (SFA)** | **Key Performance Area** | **2020/21** | | **Notes/ Explanation** |
| Actual | Target |
| Sustainability – good corporate governance. | No irregular, fruitless and wasteful expenditure. | Actual fruitless and wasteful expenditure: R26 million. Irregular expenditure: R804 000. | Zero irregular, fruitless and wasteful expenditure. | Target not met.  The fruitless and wasteful expenditure relates mainly to penalties and interest levied by SARS for various tax-related transgressions. In August 2021, SARS remitted interest and penalties to the value of R17.5 million from the R26 million fruitless and wasteful expenditure. |
| Sustainability – sound corporate governance. | Submit all PFMA submissions within the stipulated deadlines. | Not achieved. | Submit all PFMA submissions within the stipulated deadlines. | The Annual Procurement Plan was submitted after the stipulated PFMA deadline. |
| Socio-economic impact – capacity building in the financial sector. | Score achieved relating to the Financial Sector Code for skills development. | Not achieved. Actual performance: 16.95 out of 25. | 23 out of 25. | The performance was impacted by the lockdown as this limited the availability of training programmes. |

1. **IMPACT OF THE JULY 2021 UNREST**
   1. The total claims incurred for the unrest sits at a total of R37.14b as at 19 April 2022. R22.52b had been settled, which represents a total of 8 853 claims. R14.62b, representing a total of just over 17 000 claims, remain outstanding.
   2. In terms of liquidity, the cash injection from National Treasury in January and increase in premium flows ensured that there is no immediate liquidity challenge. The financial sustainability projections indicate that the business will be profitable by the 2022/23 financial year.
   3. Sustainability concerns remain, and if any event the magnitude of the July unrest was to happen; SASRIA cautioned that it would not survive as a business.
   4. The stakeholder management component developed a media strategy that is yielding positive results. SASRIA maintains it has good relationships with all its stakeholders which include clients, brokers, National Treasury and the regulators.
   5. SASRIA will seek to implement risk mitigation initiatives as well as new underwriting initiatives. A new re-insurance structure was implemented in August 2021, new rates implemented in February 2022, and a new MOI was approved by the Minister of Finance and awaiting Prudential Authority approval.
2. **STAFF, UNION AND LABOUR ISSUES**
   1. SASRIA has a total staff compliment of 117 employees with a staff turnover rate of 9.9%. SASRIA is not unionised. The total vacancy rate stands at 3.42%. The risk of losing critical skills remains a concern. The climate survey conducted in 2020 showed an improvement in the mood in the company. This can be attributed to employees’ receptiveness to their employee value proposition, which is based on opportunities, benefits and rewards.
   2. SASRIA aims to develop and acquire skills to implement the new strategy and to foster a climate where talent can thrive and to remove engagement barriers. It enables career planning and development for performance, engagement and retention. Staff embraced remote working as the new normal, and continue doing so.
3. **COMMITTEE OBSERVATIONS AND RECOMMENDATIONS**
   1. The Committee notes that SASRIA has faced enormous challenges of liquidity and solvency as a result of the July 2021 riots in parts of KZN and Gauteng provinces. This led to SASRIA being unable to submit is its 2021 Integrated Report and Audited Annual Financial Statements for the year ended on 31 March 2021 as a result of material uncertainties surrounding its going concern status.
   2. The Committee welcomes that SASRIA received support from the fiscus (R22bn) in order to deal with claims arising from the July 2021 riots. SASRIA also received payments of R9.5bn from its reinsurers. The National Treasury transferred funds to SASRIA and its external auditors confirmed that they were able to finalize the audit opinion by end of February 2022 due to the fact that with this financial injection SASRIA had achieved accounting solvency in terms of the Companies Act, 2008.
   3. SASRIA incurred claims of R37.14bn as a result of the July unrests. When the Committee met SASRIA in April 2022, it reported that it had paid out claims of about R22.52bn to about 8853 claimants and had outstanding claims of R14.62bn of more than 17000 claimants. The Committee commends SASRIA for the manner in which it handled the whole situation, including announcing timeously that it will accept its liabilities, thus assuring the markets. The Committee calls for the expedited resolution of the valid outstanding claims, especially affording some special assistance to insured smaller businesses who may struggle with quantifying their claims.
   4. The Committee believes that there needs to be a wider public awareness campaign by SASRIA in ensuring that small businesses, and households in general, understand the value of its insurance cover as a monopoly provider of such type of insurance.
   5. The Committee notes though that while the cash injection from National Treasury in January and increase in premium flows ensured that there is no immediate liquidity challenge, and that SASRIA’s financial projections indicate that it will be profitable by 2022/23 financial year, there remains concerns about the sustainability of SASRIA should an event of the magnitude of the July riots occur again.
   6. The Committee notes that the political risk in South Africa remain high and this has affected the reinsurance risk premium for SASRIA, as premiums for reinsurance have grown by 1000% following the July unrests.
   7. Despite the calamity of the July unrests, the Committee notes that SASRIA appears to be managed and governed very effectively and efficiently. Some of its performance highlights are that over the past 10 years, SASRIA has paid a dividend of over R11.1bn to the shareholder, the South African government. In 2020/21, SASRIA collected gross premiums of R2.786bn versus R2.417bn the previous year. It also made investment income of R806mn as opposed to R257mn in 2019/20. SASRIA has also achieved unqualified audit opinions for several years, although with findings in some years.
   8. The Committee was particularly impressed by the succession planning and handover of the outgoing CEO to the incoming CEO. The Committee believes that other state organs can learn something from this on filling strategic positions timeously.

**Report to be considered.**

The DA reserved its position.