

Introductory Presentation

GLOPAC 2019 Tokyo, Japan. October 2019

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South African Reserve Bank

Prudential Authority

Who is the Prudential Authority (PA)

- Established on 1 April 2018
- Established in terms of the Financial Sector Regulation Act of 2017 (FSR Act)
- Took over the prudential supervision of insurance companies from the then Financial Services Board (FSB), now the Financial Sector Conduct Authority (FSCA)
- The take over of the supervision responsibilities from the then FSB was as a result of the adoption of the Twin Peaks model of regulation
- The PA is a juristic person operating within the administration of the SARB

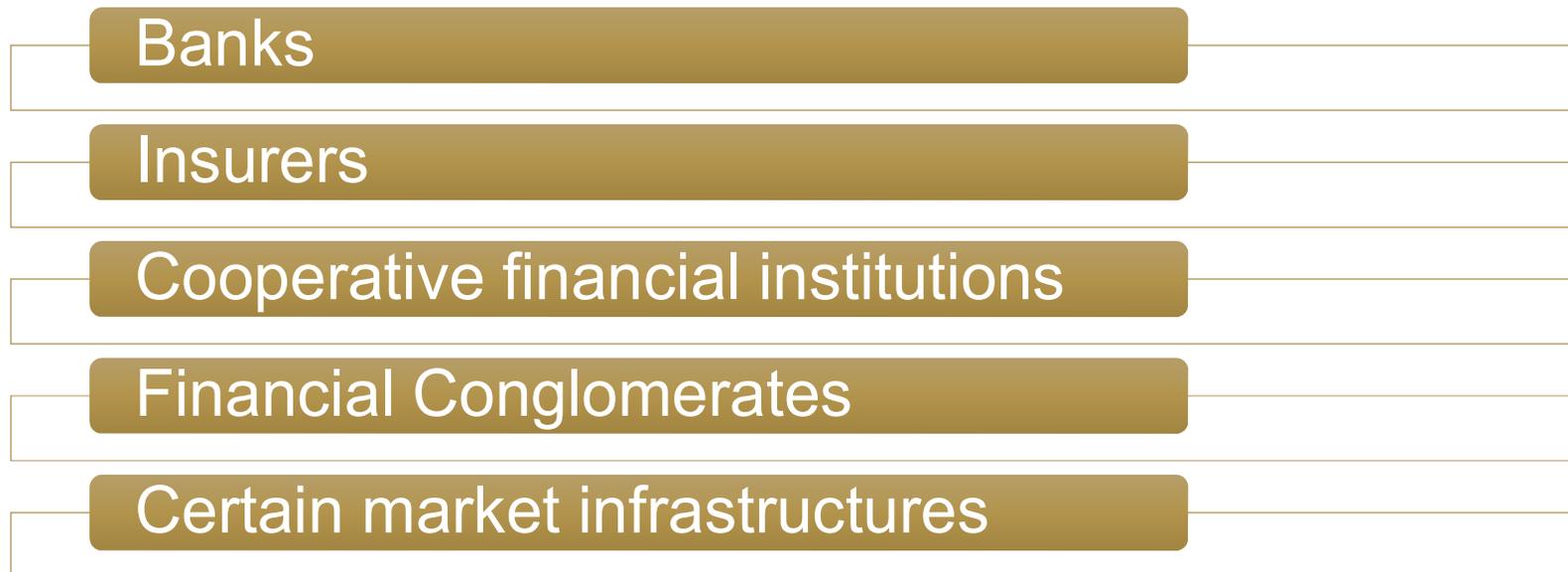
Establishment and mandate

Where the journey started



Establishment and mandate

Mandate of the PA



Objectives Of the PA

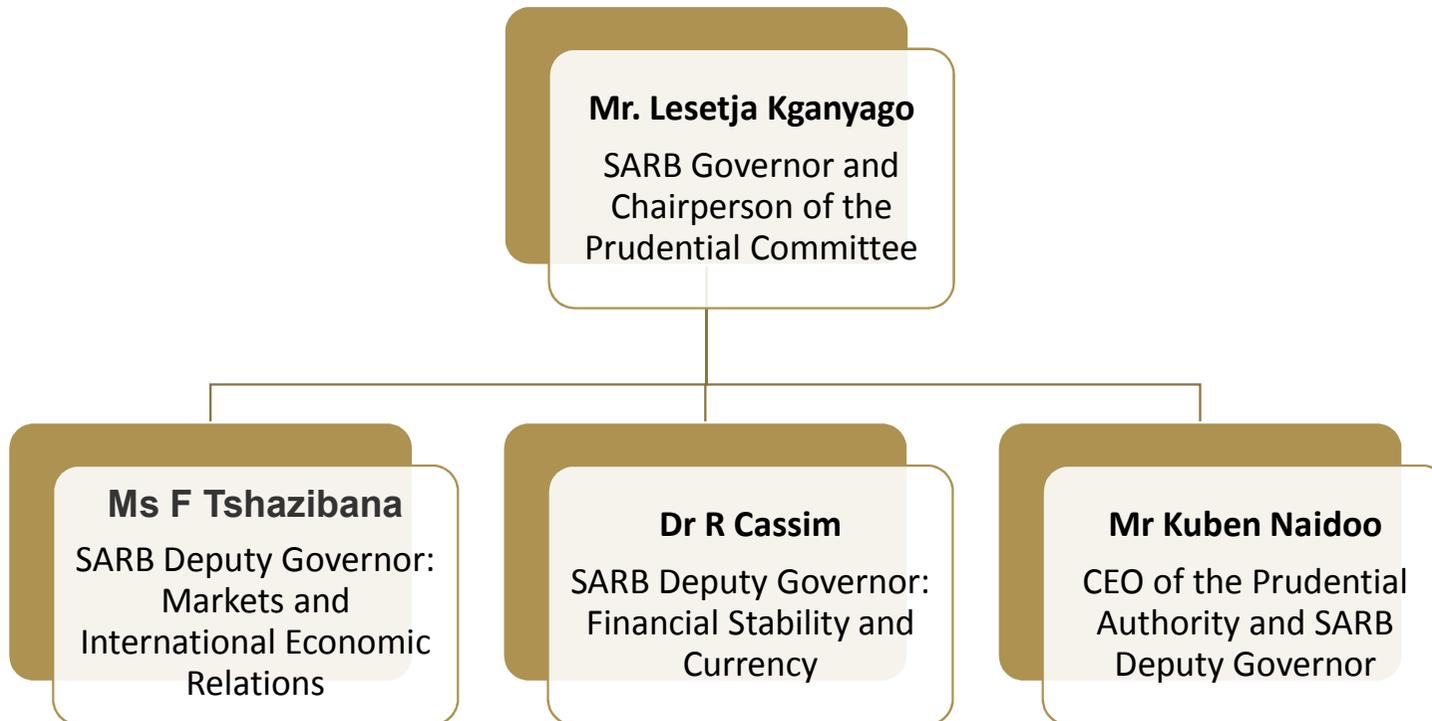


Structure of the PA and PA Committee



Structure of the PA and PA Committee

PA Committee



Structure of the PA and PA Committee

Current senior management structure and the four departments



Registered insurance entities in SA

Two insurers, Life and Non-life were placed under provisional liquidation

| | Dec 2018 | Jun 2019 |
|---------------------------|------------|------------|
| Total | 169 | 170 |
| Life primary insurers | 65 | 66 |
| Life cell captives | 6 | 6 |
| Life microinsurer | 0 | 1 |
| Non-life primary insurers | 70 | 68 |
| Non-life cell captives | 8 | 10 |
| Non-life captives | 9 | 8 |
| Professional reinsurers | 9 | 9 |
| Composite reinsurers | 5 | 5 |
| Life reinsurers | 2 | 2 |
| Non-life reinsurers | 2 | 2 |
| Other | 2 | 2 |

Industry Overview: Selected Data

Life insurance: Primary insurers

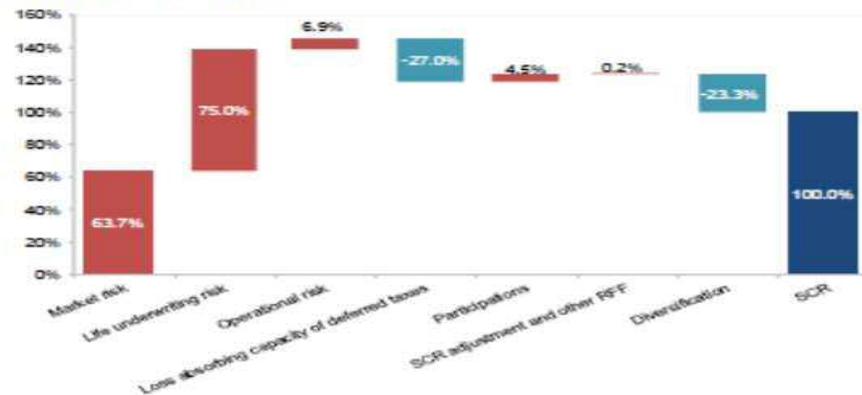
| Balance sheet | *Dec 2018 R'mil | Jun 2019 R'mil | 6 Monthly % growth |
|-------------------------------------------|--------------------|-------------------|-----------------------|
| Total assets | 2,993,498 | 3,147,063 | 6.1 |
| <i>Of which:</i> | | | |
| Total investments | 2,781,454 | 2,929,260 | 5.3 |
| Government bonds | 202,087 | 214,808 | 6.3 |
| Corporate bonds | 242,916 | 240,017 | -1.2 |
| Equity | 488,493 | 505,510 | 3.5 |
| Investment funds | 1,482,399 | 1,576,878 | 6.4 |
| Structured notes | 40,860 | 46,940 | 14.9 |
| Collateralised securities | 16,345 | 16,427 | 0.5 |
| Cash and deposits | 198,277 | 215,160 | 8.5 |
| Mortgages and loans | 72,689 | 75,881 | 4.4 |
| Property | 37,389 | 37,640 | 0.7 |
| Total reinsurance recoverables/ (payable) | 11,737 | 6,892 | -41.3 |
| Derivatives | 4,435 | 5,462 | 23.2 |
| Owner occupied property | 7,426 | 7,913 | 6.5 |
| Other assets | 188,383 | 197,526 | 4.9 |
| Total liabilities | 2,890,846 | 2,778,646 | 6.6 |
| <i>Of which:</i> | | | |
| Gross technical provisions | 2,474,942 | 2,612,653 | 5.6 |
| Basic own funds | 382,691 | 370,608 | 2.2 |
| Eligible own funds to meet SCR | 345,523 | 350,247 | 1.4 |
| Eligible own funds to meet MCR | 321,749 | 325,708 | 1.2 |
| Profitability | | | |
| Gross premium | 134,362 | 132,750 | -1.2 |
| Reinsurance | 3,961 | 3,996 | 0.9 |
| Net premiums | 130,401 | 128,754 | -1.3 |
| Net claims paid | 106,426 | 124,606 | 17.1 |
| Investment income/ (loss) | -76,999 | 43,122 | 156.0 |
| Management expenses | 13,859 | 12,526 | -9.6 |
| Commission paid/ (received) | 4,565 | 4,857 | 6.4 |
| Other expenses | 3,061 | 693 | -77.4 |
| Net profit before tax and dividends | 13,878 | 12,116 | -12.7 |
| Other | | | |
| Number of policies at the end of period | 48,611,048 | 49,477,116 | 1.8 |
| Number of schemes at the end of period | 60,185 | 80,884 | 34.4 |

| Performance indicators | Dec 2018 | Jun 2019 |
|-------------------------------------------------|----------|----------|
| Claims ratio ¹ | 81.6 | 96.8 |
| Commission ratio ¹ | 3.5 | 3.8 |
| Management expenses ratio ¹ | 10.6 | 9.7 |
| Individual lapse ratio ² | 61.3 | 74.9 |
| Individual contractual termination ² | 4.6 | 6.1 |
| Individual expiry ² | 1.6 | 3.0 |
| Surrenders ² | 5.4 | 6.2 |
| Surrenders (In-force policies) | 0.5 | 0.4 |
| Individual lapse ratio (In-force policies) | 5.3 | 5.4 |

Solvency and capital

| | | |
|--------------------------|-----|-----|
| SCR cover ratio (Median) | 1.9 | 1.9 |
| MCR cover ratio (Median) | 4.3 | 4.2 |

SCR risk components



¹ Expressed as a percentage of net written premium during the period.

² Expressed as a percentage of the number of new policies issued during the period.

*December 2018 figures were restated as a result of a reclassification of some Insurers.



Industry Overview: Selected Data

Life insurance: Reinsurers

| Balance sheet | ¹ Dec 2018 R'mil | Jun 2019 R'mil | 6 Monthly % growth |
|--------------------------------------------------------|--------------------------------|-------------------|-----------------------|
| Total assets | 7,268 | 7,276 | 0.8 |
| <i>Of which:</i> | | | |
| Total investments | 5,222 | 5,282 | 1.2 |
| Total reinsurance recoverables/ (payable) ² | -41 | 99 | 339.2 |
| Current assets | 1,934 | 1,713 | -11.4 |
| Total liabilities | 3,800 | 3,819 | 0.6 |
| <i>Of which</i> | | | |
| Gross technical provisions | 995 | 1,598 | 60.5 |
| Accounts payable | 1,536 | 1,543 | 0.5 |
| Reinsurance deposits | 4 | 3 | -18.3 |
| Basic own funds | 3,366 | 3,368 | 0.0 |
| Eligible own funds to meet SCR | 3,355 | 3,356 | 0.0 |
| Eligible own funds to meet MCR | 3,355 | 3,356 | 0.0 |
| Profitability | | | |
| Gross premium | 1,578 | 1,416 | -10.2 |
| Reinsurance | 787 | 708 | -10.0 |
| Net premiums | 791 | 708 | -10.5 |
| Net claims paid | 740 | 574 | -22.5 |
| Investment income | 113 | 137 | 22.1 |
| Management expenses | 71 | 156 | 119.1 |
| Other expenses | 80 | -35 | -143.6 |
| Net profit before tax and dividends | 204 | 93 | -54.4 |

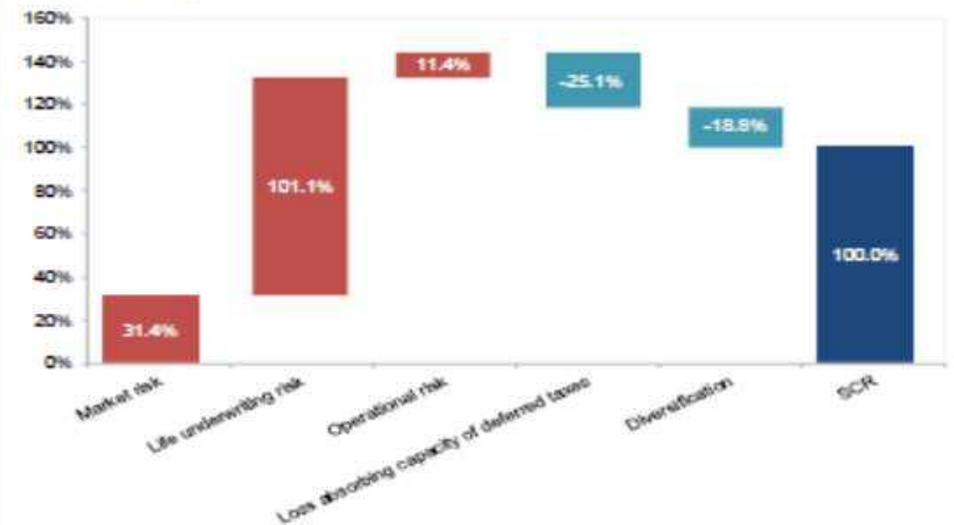
Performance indicators

| | Dec 2018 | Jun 2019 |
|----------------------------------------|----------|----------|
| Claims ratio ¹ | 93.6 | 81.1 |
| Management expenses ratio ¹ | 9.0 | 22.0 |

Solvency and capital

| | Dec 2018 | Jun 2019 |
|--------------------------|----------|----------|
| SCR cover ratio (Median) | 1.5 | 1.6 |
| MCR cover ratio (Median) | 5.3 | 5.8 |

SCR risk components



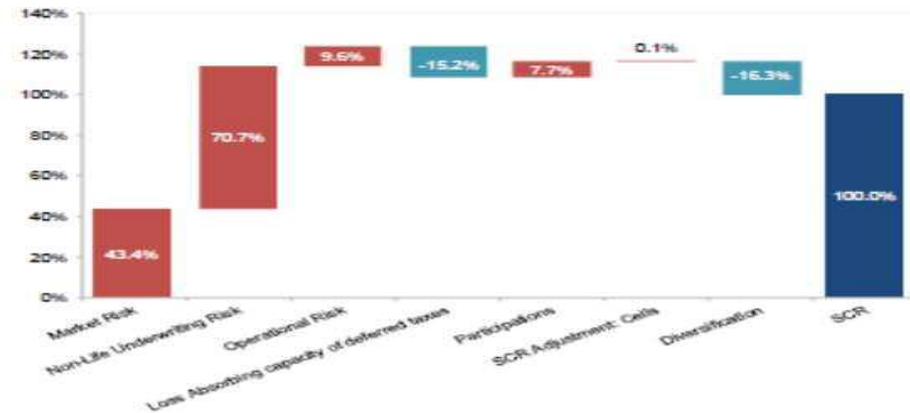
Industry Overview: Selected Data

Non-Life insurance: Primary insurers

| Balance sheet | *Dec 2018 R'mil | Jun 2019 R'mil | 6 Monthly % growth |
|-------------------------------------------|--------------------|-------------------|-----------------------|
| Total assets | 149,882 | 162,889 | 1.9 |
| <i>Of which:</i> | | | |
| Total Investments | 101,218 | 105,389 | 4.1 |
| Government bonds | 21,936 | 20,112 | -8.3 |
| Corporate bonds | 23,610 | 25,486 | 7.9 |
| Equity | 15,682 | 16,544 | 5.5 |
| Investment funds | 11,295 | 12,302 | 8.9 |
| Structured notes | 413 | 489 | 18.6 |
| Collateralised securities | 841 | 916 | 8.8 |
| Cash and deposits | 25,461 | 27,238 | 7.0 |
| Mortgages and loans | 1,945 | 2,139 | 10.0 |
| Property | 35 | 162 | 359.7 |
| Total reinsurance recoverables/ (payable) | 18,420 | 17,823 | -3.2 |
| Derivatives | 41 | 17 | -58.2 |
| Owner occupied property | 222 | 1,324 | 495.6 |
| Other assets | 29,980 | 28,147 | -6.1 |
| Total liabilities | 85,087 | 87,036 | 2.3 |
| <i>Of which:</i> | | | |
| Gross technical provisions | 61,257 | 62,308 | 1.7 |
| Accounts payable | 6,673 | 6,893 | 3.3 |
| Payables (trade, not insurance) | 5,700 | 7,543 | 32.3 |
| Basic own funds | 64,786 | 65,866 | 1.4 |
| Eligible own funds to meet SCR | 63,433 | 64,487 | 1.7 |
| Eligible own funds to meet MCR | 59,775 | 61,188 | 2.4 |
| Profitability | | | |
| Gross written premium | 29,407 | 29,783 | 1.3 |
| Reinsurance | 9,668 | 8,969 | -7.2 |
| Net premiums | 19,739 | 20,814 | 5.4 |
| Net earned premium | 19,233 | 20,328 | 5.7 |
| Investment income | 366 | 2,284 | 524.6 |
| Net claims paid | 12,083 | 13,225 | 9.5 |
| Management expenses | 5,684 | 6,122 | 7.7 |
| Commission paid/ (received) | 1,337 | 1,061 | -20.6 |
| Underwriting profit/(loss) | 1,008 | 616 | -38.9 |
| Underwriting and investment income | 1,373 | 2,899 | 111.1 |
| Net profit before tax and dividends | 943 | 2,913 | 208.9 |

| Performance indicators | Dec 2018 | Jun 2019 |
|-------------------------------------------------------|----------|----------|
| Claims ratio ¹ | 61.2 | 63.5 |
| Management expenses ratio ¹ | 28.8 | 29.4 |
| Commission ratio ¹ | 6.8 | 5.1 |
| Combined ratio ² | 96.8 | 98.1 |
| Underwriting profit/(loss) ratio ³ | 5.2 | 3.0 |
| Underwriting and Investment Income ratio ³ | 7.1 | 14.3 |
| Solvency and capital | | |
| SCR cover ratio (Median) | 1.8 | 1.7 |
| MCR cover ratio (Median) | 3.9 | 3.7 |

SCR risk components



¹ Expressed as a percentage of net written premium during the period.

² Claims + commission + expenses as a percentage of net written premium.

³ Expressed as a percentage of net earned premium during the period.

*December 2018 figures were restated as a result of a reclassification of some Insurers.



Industry Overview: Selected Data

Non-Life insurance: Reinsurers

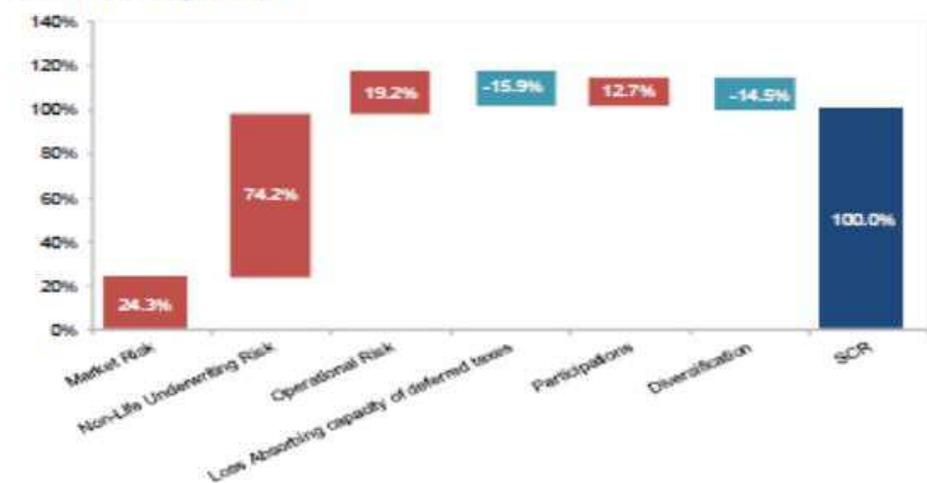
| Balance sheet | *Dec 2018 R'mil | Jun 2019 R'mil | 6 Monthly % growth |
|-------------------------------------------|--------------------|-------------------|-----------------------|
| Total assets | 7,279 | 8,978 | -4.1 |
| Of which: | | | |
| Total investments | 3,895 | 3,691 | -5.2 |
| Total reinsurance recoverables/ (payable) | 2,456 | 2,102 | -14.4 |
| Total liabilities | 6,731 | 6,424 | -6.4 |
| Of which : | | | |
| Gross technical provisions | 3,357 | 3,251 | -3.2 |
| Accounts payable | 487 | 330 | -32.2 |
| Reinsurance deposits | 1,729 | 1,764 | 2.0 |
| Basic own funds | 1,648 | 1,664 | 0.4 |
| Eligible own funds to meet SCR | 1,548 | 1,554 | 0.4 |
| Eligible own funds to meet MCR | 1,525 | 1,537 | 0.8 |
| Profitability | | | |
| Gross premium | 1,549 | 2,018 | 30.3 |
| Reinsurance | 987 | 1,332 | 34.9 |
| Net premiums | 562 | 686 | 22.1 |
| Net earned premiums | 353 | 340 | -3.7 |
| Investment income | 55 | 106 | 91.8 |
| Net claims paid | 10 | 275 | 2584.0 |
| Management expenses | 60 | 69 | 16.2 |
| Commission paid/ (received) | 209 | 275 | 31.8 |
| Other expenses | 3 | -0 | -113.8 |
| Underwriting profit/(loss) ³ | 409 | -13 | -103.3 |
| Underwriting and investment income | 465 | 93 | -80.1 |
| Net profit before tax and dividends | 461 | 93 | -79.8 |

| Performance indicators | Dec 2018 | Jun 2019 |
|-------------------------------------------------|----------|----------|
| Claims ratio ¹ | 1.8 | 40.0 |
| Commission ratio ¹ | 37.1 | 40.1 |
| Management expenses ratio ¹ | 10.6 | 10.1 |
| Combined ratio ² | 49.6 | 90.2 |
| Underwriting profit/(loss) ratio ^{3 4} | 115.9 | -3.9 |
| Underwriting and investment income ratio | 131.5 | 27.2 |

Solvency and capital

| | Dec 2018 | Jun 2019 |
|--------------------------|----------|----------|
| SCR cover ratio (Median) | 1.6 | 1.6 |
| MCR cover ratio (Median) | 4.5 | 4.5 |

SCR risk components



Industry Overview: Selected Data

Composite reinsurers

| Balance sheet | *Dec 2018 R'mil | Jun 2019 R'mil | 6 Monthly % growth |
|---------------------------------------|--------------------|-------------------|-----------------------|
| Total assets | 33,835 | 35,614 | 6.3 |
| Total investments | 19,512 | 21,263 | 9.0 |
| Total reinsurance recoverables | 8,046 | 7,693 | -4.4 |
| Current assets | 5,782 | 6,241 | 7.9 |
| Total liabilities | 23,648 | 24,088 | 2.3 |
| Of which : | | | |
| Gross technical provisions (Life) | 4,729 | 4,830 | 2.1 |
| Gross technical provisions (Non-Life) | 10,454 | 10,227 | -2.2 |
| Reinsurance accounts payable | 3,142 | 4,177 | 32.9 |
| Reinsurance deposits | 2,863 | 2,147 | -25.0 |
| Basic own funds | 10,288 | 11,526 | 12.1 |
| Eligible own funds to meet SCR | 10,266 | 11,526 | 12.3 |
| Eligible own funds to meet MCR | 10,150 | 11,463 | 12.9 |

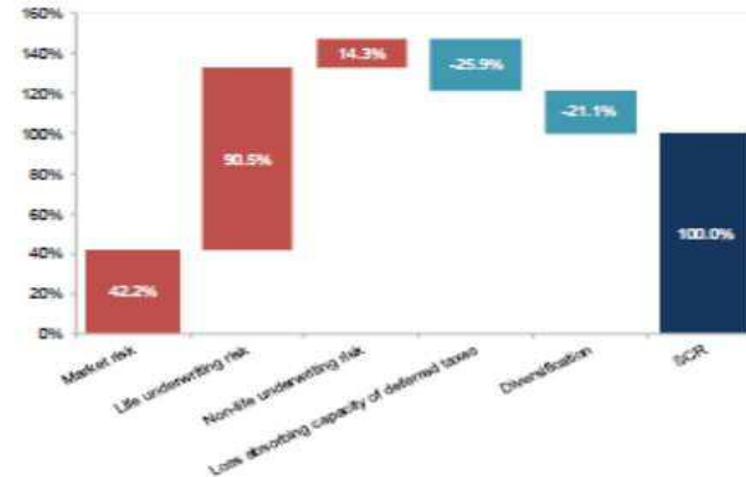
| Profitability | Dec 2018 Life | Dec 2018 Non-life | Jun 2019 Life | Jun 2019 Non-life |
|-------------------------------------|------------------|----------------------|------------------|----------------------|
| Gross premium | 2,551 | 3,645 | 2,960 | 2,751 |
| Reinsurance | 122 | 2,890 | 133 | 2,213 |
| Net premiums | 2,429 | 755 | 2,827 | 538 |
| Net earned premiums | | 515 | | 1,075 |
| Investment income | 344 | 58 | 360 | 45 |
| Net claims paid | 1,691 | 304 | 2,120 | -193 |
| Management expenses | 150 | 12 | 146 | 11 |
| Commission paid/ (received) | 57 | 93 | 189 | 97 |
| Other expenses | 358 | 62 | 227 | 48 |
| Underwriting profit/(loss) | | 155 | | 1,244 |
| Underwriting and investment income | | 214 | | 1,289 |
| Net profit before tax and dividends | 850 | 147 | 874 | 1,243 |

| Performance indicators | Dec 2018 Life (%) | Dec 2018 Non-life (%) | Jun 2019 Life (%) | Jun 2019 Non-life (%) |
|-------------------------------------------------------|----------------------|--------------------------|----------------------|--------------------------|
| Claims ratio ¹ | 69.6 | 40.3 | 75.0 | -35.9 |
| Management Expenses ratio ¹ | 6.2 | 1.6 | 5.2 | 2.0 |
| Commission ratio ¹ | 2.4 | 12.4 | 6.7 | 18.1 |
| Combined ratio ² | | 54.3 | | -15.9 |
| Underwriting profit/(loss) ratio ³ | | 30.3 | | 115.7 |
| Underwriting and investment income ratio ³ | | 41.6 | | 119.9 |

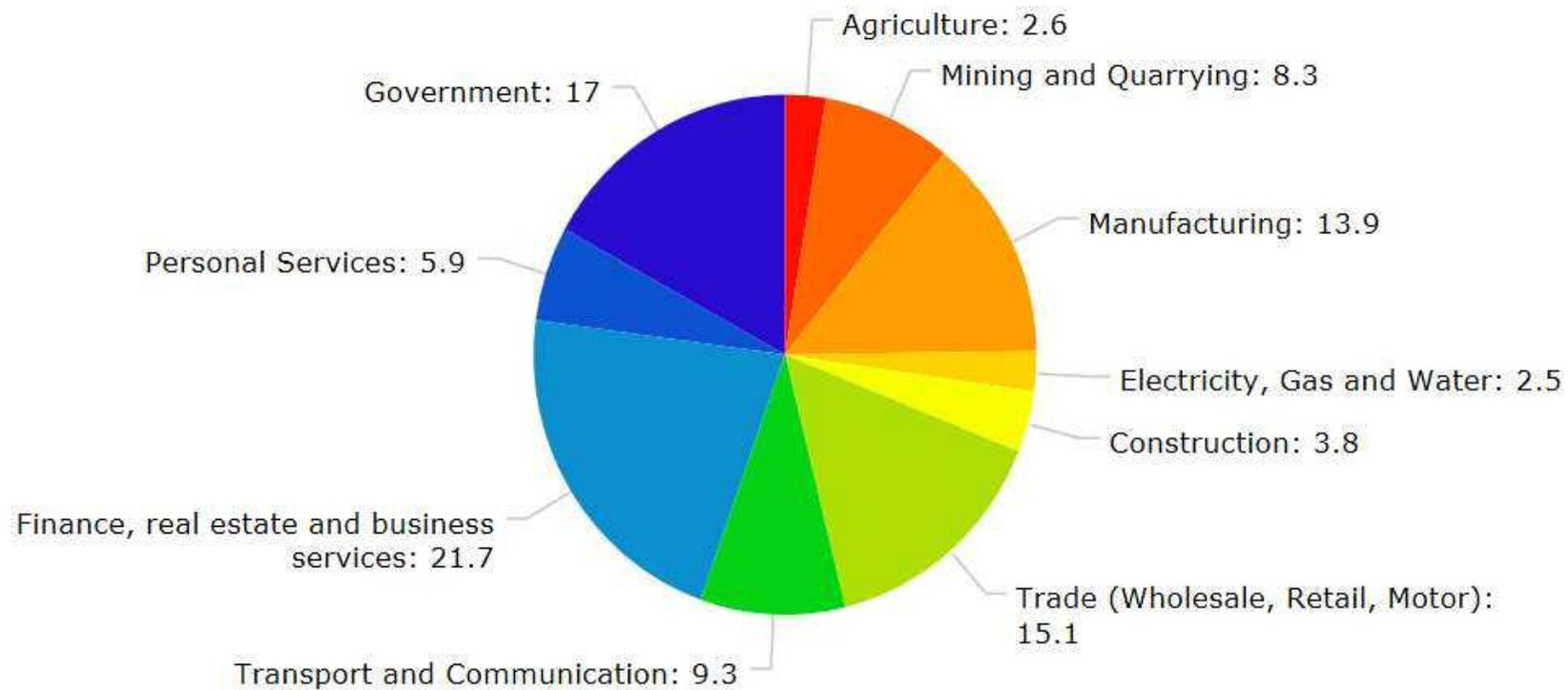
Solvency and capital

| | Dec 2018 | Dec 2018 | Jun 2019 | Jun 2019 |
|--------------------------|----------|----------|----------|----------|
| SCR cover ratio (Median) | 1.5 | 1.5 | 1.3 | 1.3 |
| MCR cover ratio (Median) | 4.0 | 4.0 | 3.2 | 3.2 |

SCR risk components



Contribution per industry to SA's GDP



Hot topics introduced by the FSR Act in SA

The Introduction of the FSR Act introduced transformation of the financial sector and financial inclusion as some of the hot topics

Meaningful 'transformation' of the financial sector should not merely be a question of ownership of financial firms, but to how the sector supports real economic activity

What services are provided to consumers?

Who owns the firms that manage the assets?

How are the assets in the system put to use?

Who decides how those assets are invested ?

Thank You

Any Questions?

