national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

FSB

MEDIA STATEMENT

REQUEST FOR PUBLIC COMMENTS ON THE DRAFT INSURANCE BILL, 2015

The National Treasury ("NT") and the Financial Services Board ("FSB") today publish for public comment the draft Insurance Laws Bill, 2015 ("the Bill") as approved by Cabinet at its meeting of 15 April 2015.

Background to the Bill

The 2008 Global Financial Crisis highlighted the importance of having higher prudential and market conduct standards on both banks and insurance companies, to enhance their financial soundness and ultimately support consumer protection and financial stability. The initial global financial regulatory reforms driven by the G20, International Monetary Fund and the Financial Stability Board after the crisis provided for such higher prudential standards for banks through Basel III, while for insurance these prudential standards were largely facilitated through Solvency II in Europe.

In South Africa, Basel III for banks was effected through legislation in 2013, while the FSB developed an equivalent prudential framework for the insurance sector called the Solvency Assessment and Management ("SAM") framework. SAM is a risk-based supervisory framework which seeks to improve policyholder protection and contributing to financial stability through aligning insurers' regulatory capital requirements with the underlying risks of the insurer.

The current Bill focuses on prudential standards, and similar to the Basel Core principles for banks, the Bill gives effect to the International Association of Insurance Supervisors Insurance Core Principles by establishing principles for group-wide supervision, governance, licensing, risk management and internal controls. By committing to international standards, financial institutions are able to operate in other countries with greater ease as regulators are also able to apply equivalent regulatory standards and cooperate better with each other.

The enhanced prudential framework for insurers form part of the Twin Peaks reforms, which seek to significantly enhance South Africa's financial regulatory and supervisory framework, by also enabling an intensive, intrusive and effective system of regulating the financial sector. The Bill facilitates a seamless transition into the Twin Peaks that is envisaged in the Financial Sector Regulation Bill, 2015 in respect of prudential supervision of insurers, which will be enforced by the envisaged new Prudential Authority under the South African Reserve Bank.

Purpose and Objectives of the Bill

The Bill provides a consolidated legal framework for the prudential supervision of the insurance sector that is consistent with international standards for insurance regulation and supervision. It also seeks to replace and consolidate substantial parts of the Long-term Insurance Act, 1998 (Act No. 52 of 1998) and the Short-term Insurance Act, 1998 (Act No. 53 of 1998) relating to prudential supervision.

The Bill deals with regulatory gaps identified by the IMF/World Bank's Financial Sector Assessment Program ("FSAP") evaluation of South Africa, and seeks to promote the maintenance of a fair, safe and stable insurance market by establishing a legal framework for insurers that –

- enhances financial soundness and oversight through higher prudential standards, group supervision and stronger reinsurance arrangements;
- increases access to insurance through a dedicated micro-insurance framework;
- strengthens the regulatory requirements in respect of governance, risk management and internal controls for insurers; and
- aligns with international standards and in accordance with South Africa's G20 commitments.

SAM Economic Impact

A SAM Economic Impact Study was carried out to consider the potential economic impact of the implementation of SAM. The study broadly finds that SAM is likely to lead to better risk management which in turn is expected to lead to a safer insurance industry and ultimately a more stable financial system given the highly inter-connectedness nature of the South African financial sector. The implementation of SAM will result in direct costs to insurers that are small when seen in context of the size of the South African insurance industry. The study also indicates that SAM will facilitate positive social outcomes by enabling affordable insurance to low income households.

Microinsurance Framework

The Bill gives effect to the NT's Micro-insurance Policy Document released in July 2011 (available at www.treasury.gov.za). It supports the development of an inclusive insurance sector through providing affordable insurance, while also having proportionate and appropriate regulation and supervision of micro-insurance.

Available documents

In addition to the Bill ("**Annexure A**"), the NT and FSB are also releasing:

- a memorandum on the objects of the Bill (**Annexure B**); and
- a summary of the SAM Economic Impact study (**Annexure C**).

The Bill and accompanying documents are available on the NT (www.treasury.gov.za) and FSB (www.fsb.co.za) websites.

The FSB will also be releasing a Reinsurance Regulatory Review Discussion Paper by end of April 2015 to provide clarity on existing reinsurance arrangements.

Process

Comments on the Bill are invited and should be sent to Ms Reshma Sheoraj at insurancebill@treasury.gov.za or faxed to 012 315 5206 by 29 May 2015.

The NT and FSB will be convening meetings and workshops with interested stakeholders.

If there are no substantive changes arising from the public comment process, it is anticipated that the Bill will be tabled in Parliament by June 2015.

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