



**FSB**

**INSURANCE DIVISION**

# **FUTURE APPROACH OF PRUDENTIAL SUPERVISION**

Suzette Vogelsang / Kerwin Martin  
Insurance Regulatory Seminar  
2 & 5 November 2015



# Agenda

- **Objectives**
- **Principles and approach**
- **Phases of prudential supervision**
- **Risk based model**
- **Baseline supervision**
- **Governance and assessment**



# Objectives

Objectives are to promote and enhance the safety and soundness of financial institutions, to—

- protect financial customers
- protect the stability of the financial system
- assist in maintaining financial stability; and
- co-operate with the other financial sector regulators and the Reserve Bank



# Principles and approach

- Pre-emptive (forward looking) approach
- Outcomes-focused
- Risk-based
- Harmonised

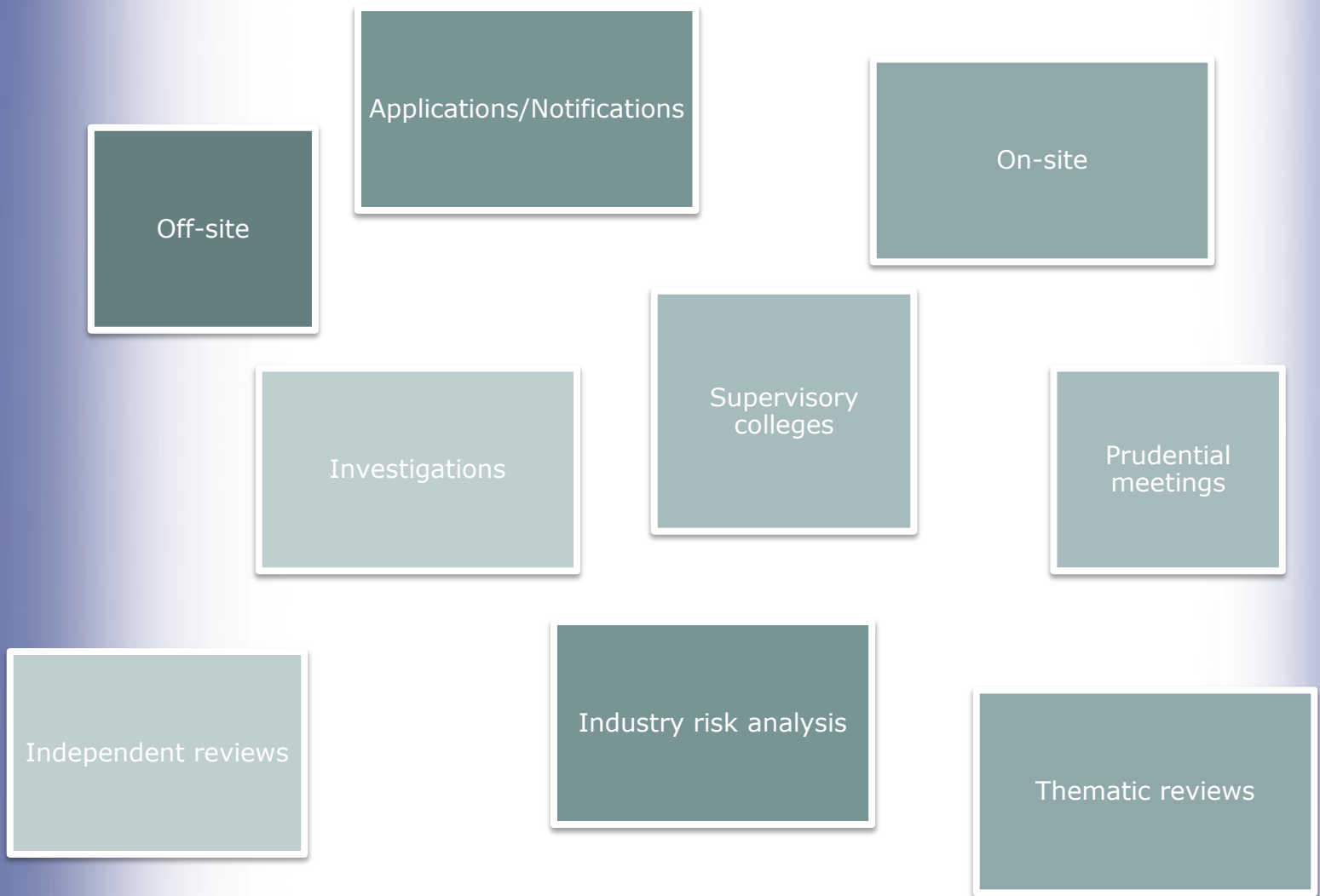
# Phases of prudential supervision

- Licensing
- On-going supervision
- Enforcement
- Resolution



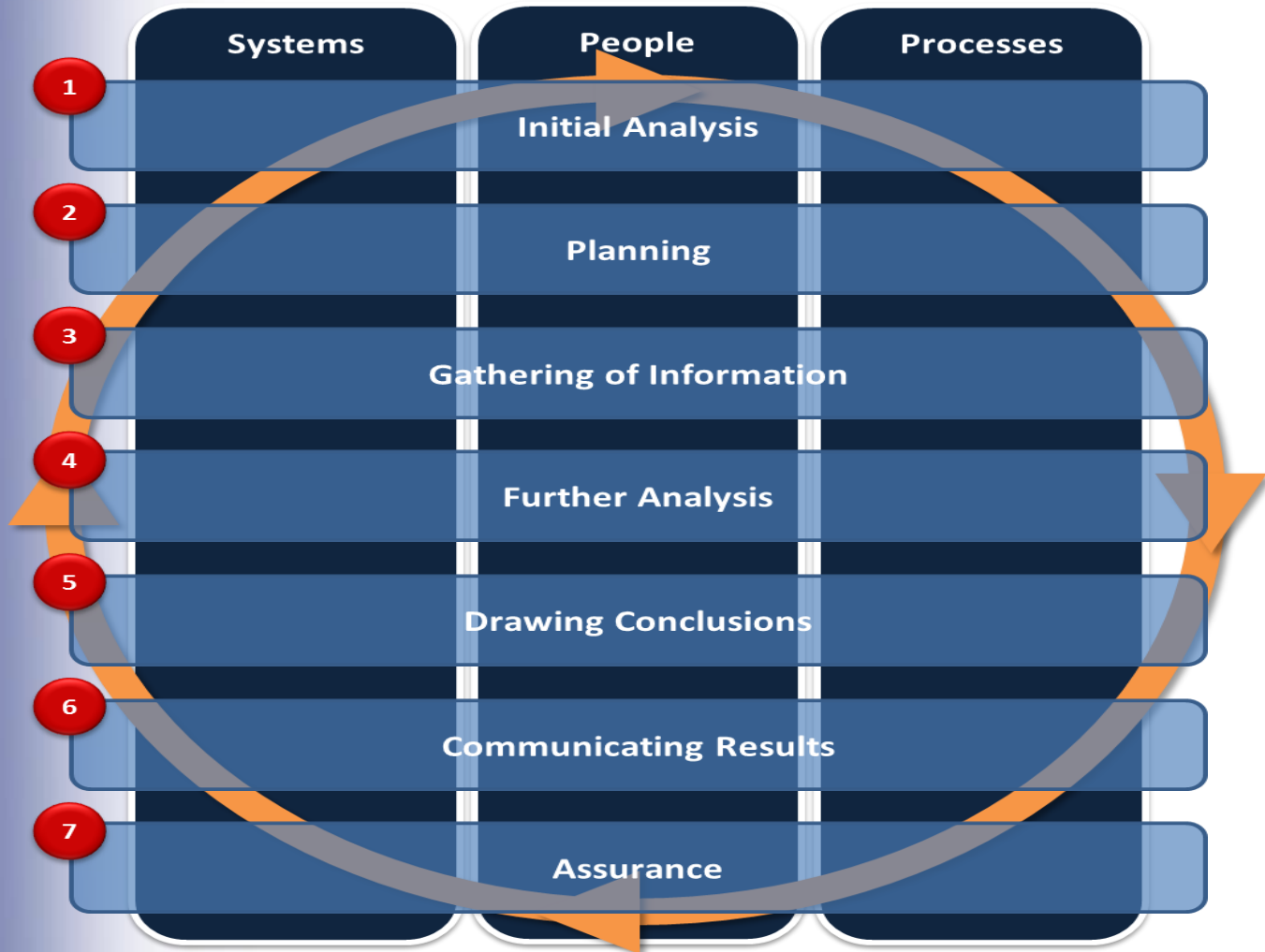


# On-going supervision





# On-going supervision





# Risk based model

INSURANCE DIVISION

Dimension	Sources of information	Supervisory approach (some examples)
Economic environment	SARB Quarterly reports/ Financial Stability Review of SARB,	<ul style="list-style-type: none"> <li>▪ Off-site analysis</li> </ul>
Business model analysis	Returns, Rating agency reports, ORSA	<ul style="list-style-type: none"> <li>▪ Off-site analysis</li> <li>▪ On-site visits</li> <li>▪ Prudential meetings</li> </ul>
Strategy execution	Management information, ORSA, Interviews with key players	<ul style="list-style-type: none"> <li>▪ Off-site analysis</li> <li>▪ On-site visits</li> <li>▪ Prudential meetings</li> </ul>
Profitability	Management information, Returns, ORSA, Annual Financial Statements	<ul style="list-style-type: none"> <li>▪ Off-site analysis</li> <li>▪ On-site visits</li> <li>▪ Prudential meetings</li> </ul>





# Risk based model

Dimension	Sources of information	Supervisory approach (some examples)
<p><b><i>Risk profile:</i></b>  <b>Market, Credit, Insurance, Operational, Liquidity risk</b></p>	<p>Returns, ORSA, Management information, PAFS</p>	<ul style="list-style-type: none"> <li>▪ Off-site analysis</li> <li>▪ On-site visits</li> <li>▪ Prudential meetings</li> <li>▪ Independent reviews</li> <li>▪ Industry risk analyses</li> </ul>
<p><b><i>Capital strength:</i></b>  <b>Solvency position (current &amp; projected)</b>  <b>Capital resources</b>  <b>Access to funding</b></p>	<p>Returns, Rating agency reports, ORSA, Management information</p>	<ul style="list-style-type: none"> <li>▪ Off-site analysis</li> <li>▪ Prudential meetings</li> </ul>



# Risk based model

Dimension	Sources of information	Supervisory approach (some examples)
<b>Internal control &amp; risk management system</b>	Returns, Internal audit reports, self assessments and independent assessments	<ul style="list-style-type: none"> <li>▪ Off-site analysis</li> <li>▪ On-site visits</li> <li>▪ Independent reviews</li> </ul>
<b>Governance structures</b>	Returns, self assessments and independent assessments, ORSA	<ul style="list-style-type: none"> <li>▪ Off-site analysis</li> <li>▪ On-site visits</li> <li>▪ Prudential meetings</li> <li>▪ Independent reviews</li> </ul>
<b>Governance functions</b>	Returns, self assessments and independent assessments, ORSA, Interviews with key players	<ul style="list-style-type: none"> <li>▪ Off-site analysis</li> <li>▪ On-site visits</li> <li>▪ Prudential meetings</li> <li>▪ Independent reviews</li> </ul>
<b>Governance effectiveness</b>	Management information, Returns, ORSA, Interviews with key players	<ul style="list-style-type: none"> <li>▪ Off-site analysis</li> <li>▪ On-site visits</li> <li>▪ Prudential meetings</li> <li>▪ Independent reviews</li> </ul>



# Baseline supervision

	Risk Rating				
	High	Above Average	Medium	Low	Tolerance
Quarterly risk review	Quarterly				
Off-site reporting analysis	As submitted or next reporting submission				
Prudential meetings	12 months		24 months	36 months	3 months
On-site inspections	12 months		24 months	36 months	3 months
Financial conglomerates	12 months (supervisory colleges)		24 months (supervisory colleges)		
Risk assessment sign-off	12 months				
Supervisory plans	12 months				
Thematic Reviews	12 months (at least 1)				



# Governance review

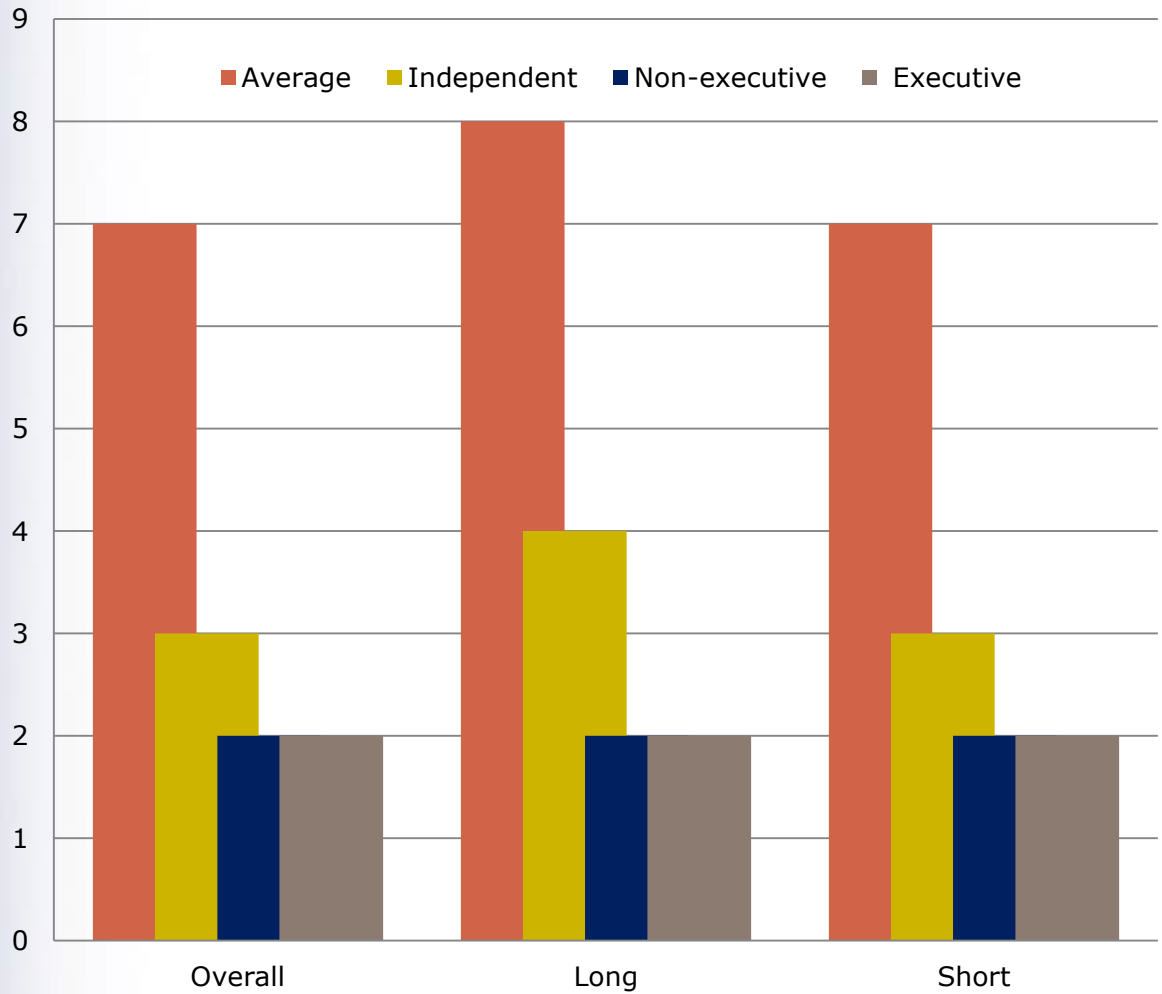
- BN 158 applications / notifications
- Governance map
- Focus on the structures
- Total governance review of solo entity
- Total governance review of an insurance group
- In the process of finalising
- Continue with assessment of effectiveness



**FSB**

# Board Composition

**INSURANCE DIVISION**





# Board Composition

## Key Observations – Model Industry Board size

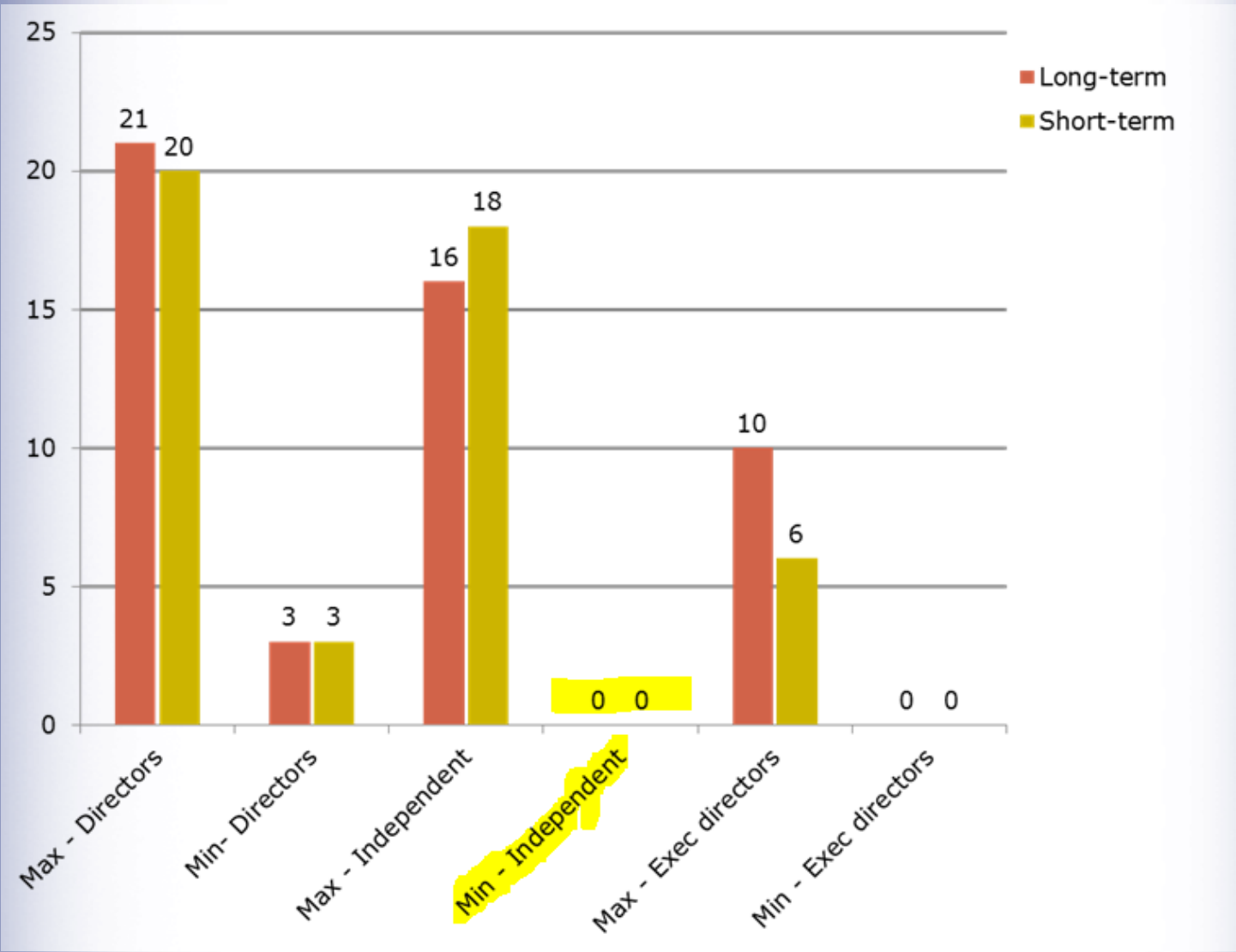
- Model industry Board size seems to be in line with international best practice
- The model industry Board seems to be appropriate, based on structure, representation between Independent, Non-executive and Executive directors
- No material deviation between Life and Non-life
- Continue with assessment of effectiveness



**FSB**

# Board Composition

**INSURANCE DIVISION**





# Board Composition

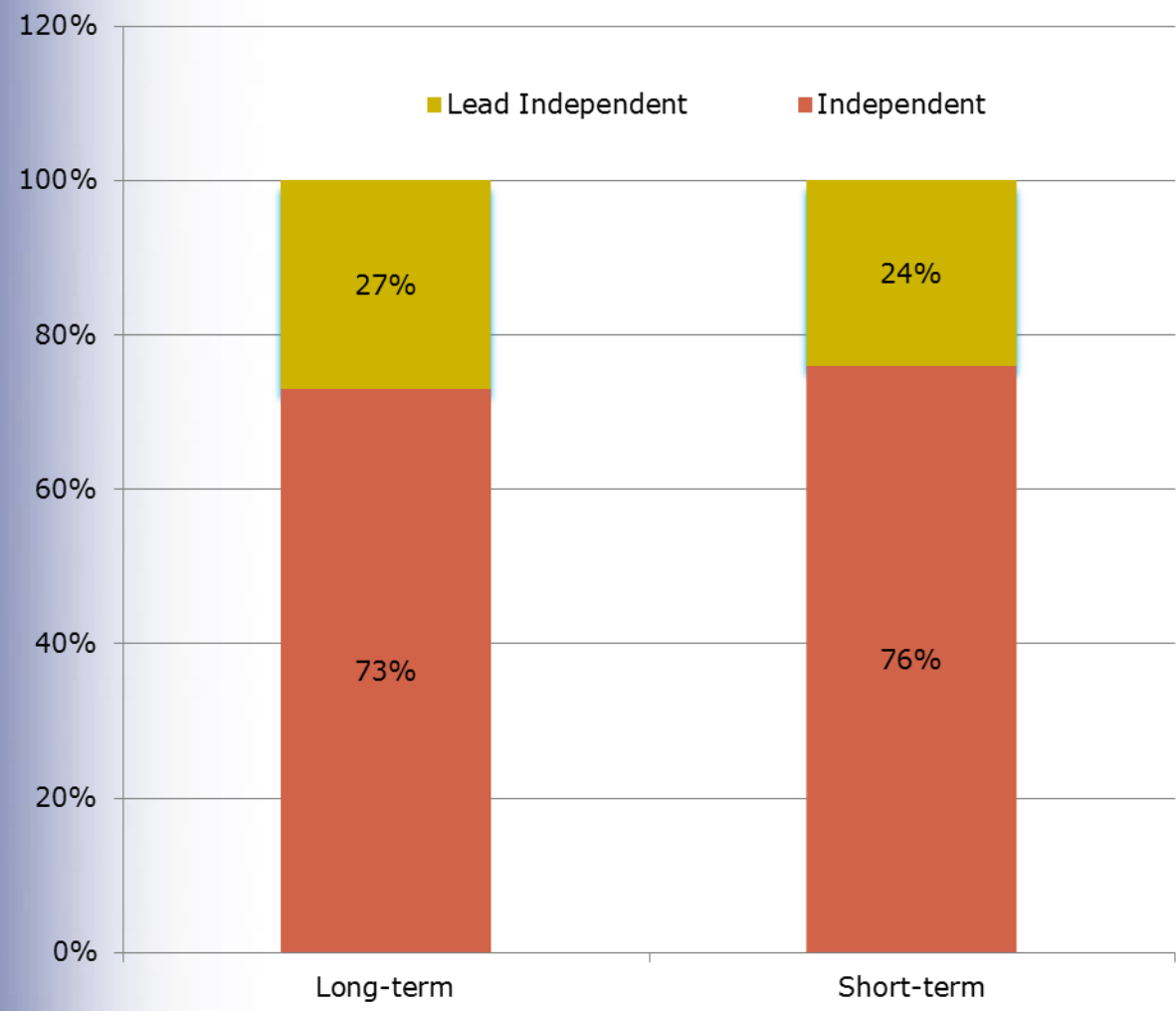
## Key Observations – Min-Max analysis

- Larger insurers seems to have larger boards with significant number of independent directors
- Insurers where there seems to be no independent directors
- In some Boards, executive directors are the majority
- Continue with assessment of effectiveness





# Chairperson status



INSURANCE DIVISION



# Chairperson of the Board

## Key Observations – Chairperson

- More than 75% of Boards are chaired by an independent chairperson
- Lead independent directors are appointed mostly in larger domestic and international groups
- We are engaging boards where no independent directors are represented

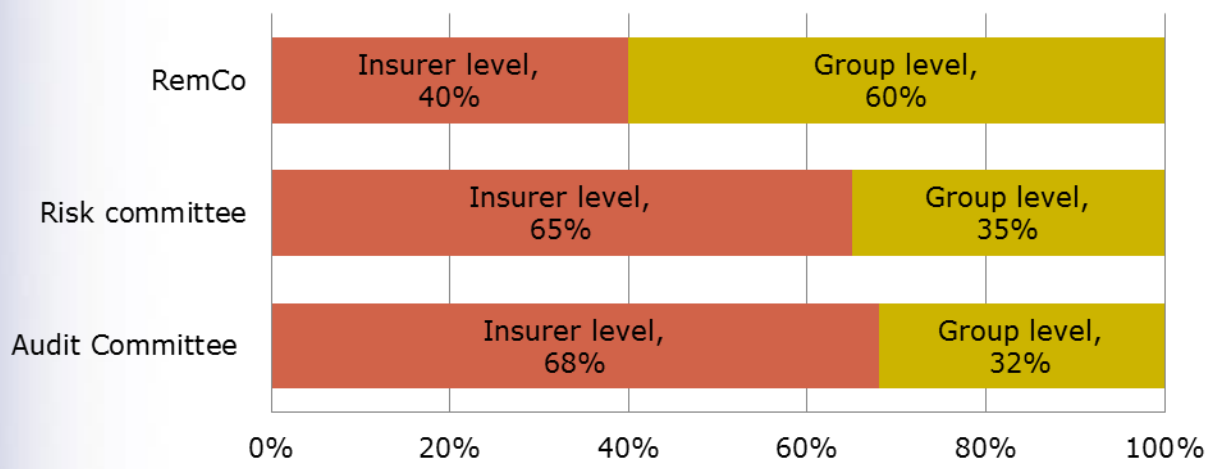


**FSB**

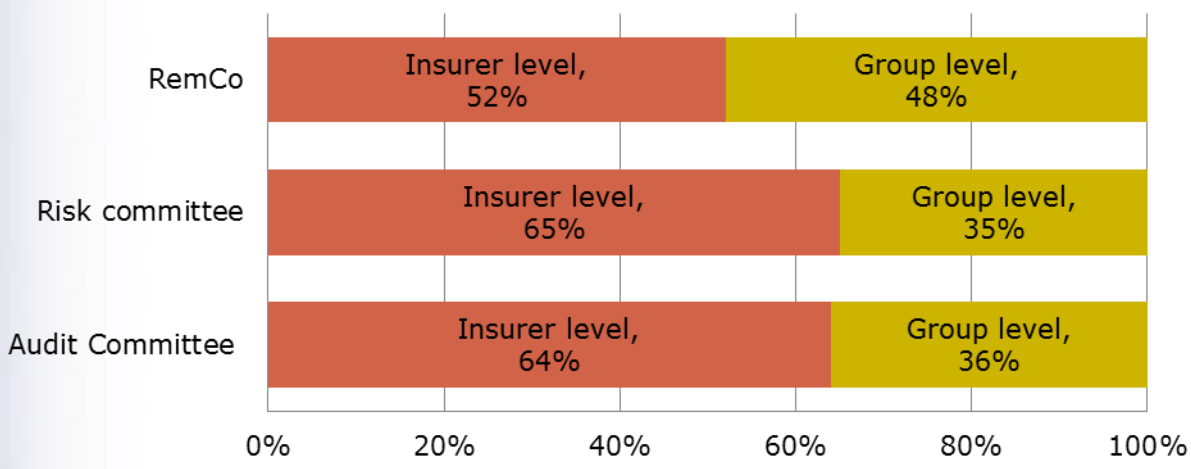
**INSURANCE DIVISION**

# Board Committees

## Long-term Insurance sector



## Short-term Insurance sector





# Board Committees

## Key Observations

- Similar split between both sectors and between insurer-level and group-level committees
- The Risk Committee and Audit Committee are mostly established at insurer-level
- The Remuneration Committee is mostly established at group-level



# Senior Management

## Key Observations

- No specific requirements under BN 158
- We identified that in a number of insurers the entire Senior Management team is outsourced
- Outsourcing of the entire Senior Management team mainly within subsidiaries of domestic insurance groups and linked insurers



# Senior Management

## Key Observations

- Various permutations of the outsourcing of Senior Management:
  - From the life company to the non-life or vice versa
  - To an administration company
  - To an FSP in the group
  - To the Non-operating Holding Company
  
- Policy decision to be made on the outsourcing of Senior Management

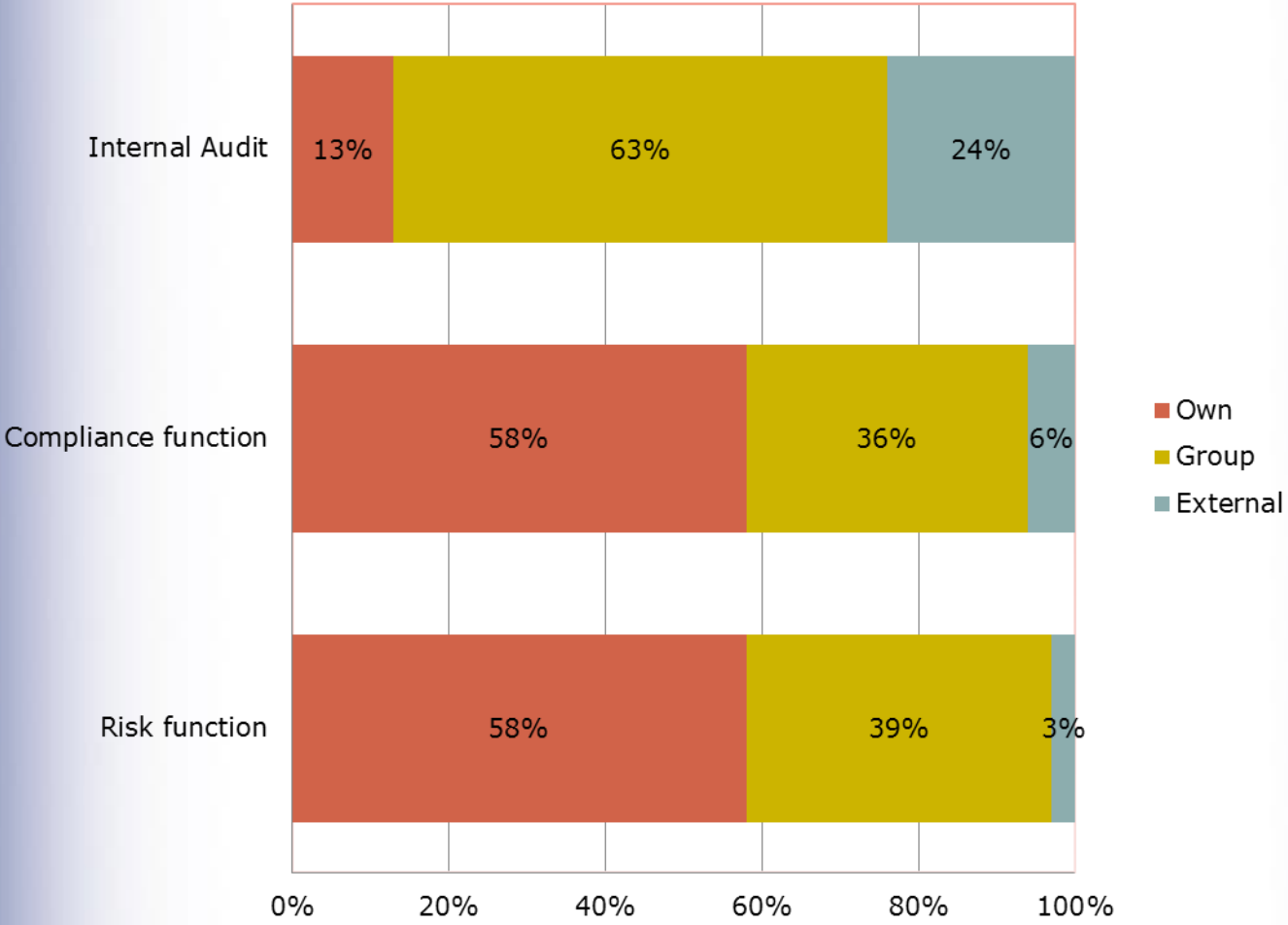


**FSB**

**INSURANCE DIVISION**

# Control functions

## Industry - Control Functions





# Control Functions

## Key Observations

- The risk management and compliance function is mostly performed within the insurance legal entity however in larger groups these functions are more centralised
- The internal audit function is mostly centralised within larger groups and smaller insurers place strong reliance on professional 3<sup>rd</sup> parties to perform the internal audit function





# Board Notice 158 (2014)

## Applications and Notifications received:

- 79 insurers applied for the General transitional exemptions under section 30
- 42 insurers applied for outsourcing for the Head of a control function
- 71 insurers applied under Part 3 -section 7(5)(b)
- 106 insurers lodged general notifications under Parts 3 and 4



**FSB**

**INSURANCE DIVISION**

**THANK YOU**