

# South Africa: Insurance licence conversion update



## A phased approach

The Prudential Authority (PA) has adopted a phased approach to implementing the new Insurance Act, 2017.

This includes the process to convert licences under the Long-term Insurance Act and Short-term Insurance Act to licences under the new Insurance Act, 2017 within a two-year period. This means all licences are expected to be converted by 31 July 2020.

The PA's Communication 2 of 2018 provides insight into its phased approach to the conversion process. The PA is currently targeting captive insurers, reinsurers and linked insurers (including insurance groups that contain a linked insurer).

All other insurers can expect to be contacted by the PA from October this year.

FIGURE 1: PHASED APPROACH FOR LICENCE CONVERSION



Until an insurer's licence is successfully converted, the insurer is able to continue to conduct insurance business under its existing registration. This includes any 'key person' appointed (e.g., Head of Actuarial Function) being automatically regarded as fit and proper until the licence conversion is concluded.

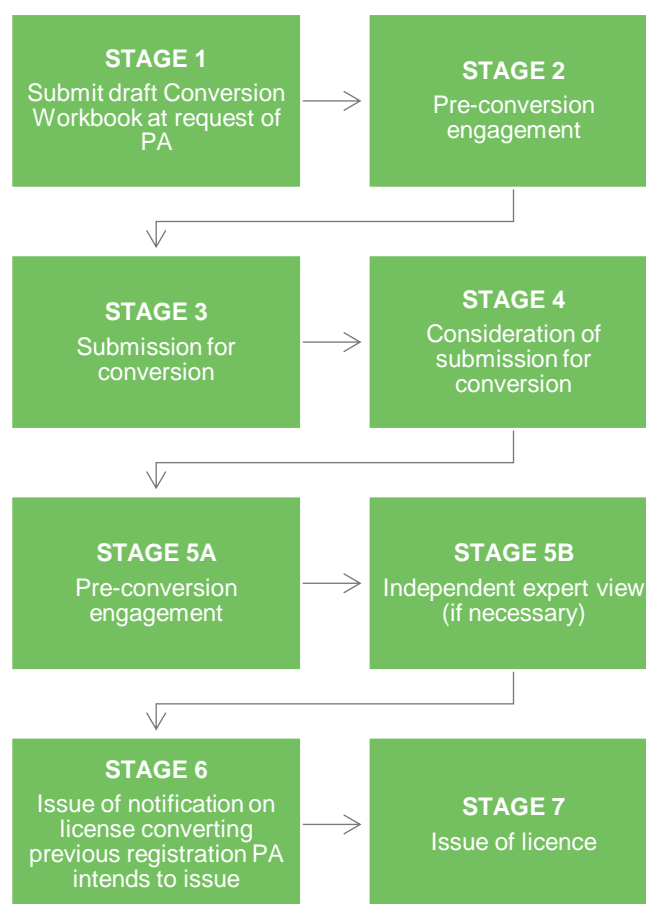
Insurers that have not yet had their licence converted are still subject to the governance, financial soundness and reporting requirements under the new Insurance Act.

## Seven-stage conversion process

Communication 2 of 2018 details the seven-stage process the PA follows to convert each licence. The process involves a number of structured formal meetings with the PA aimed at agreeing on the scope of the conversion and determining plans to facilitate compliance with the Insurance Act.

Where the PA and insurer disagree, an independent expert may be appointed at the insurer's cost (Stage 5B).

FIGURE 2: STAGES OF LICENCE CONVERSION PROCESS



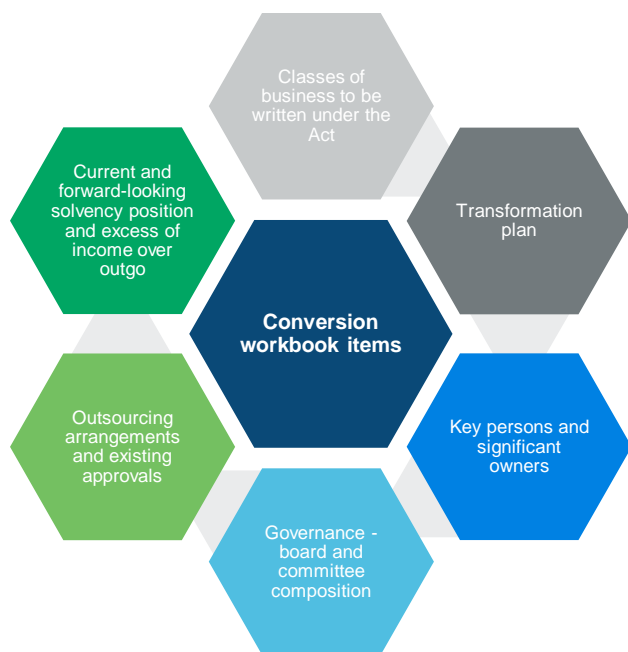
Prior to issuing licences, the PA will issue a notice to insurers on their status (Stage 6). The previously registered insurer may make representations at this point.

If the insurer is not satisfied with the licence issued in Stage 7, it may apply for the reconsideration of the PA's decision to the Tribunal established under the Financial Sector Regulation (FSR) Act.

## Stage 1: Conversion workbook

Stage 1 requires insurers to submit a draft conversion workbook at the request of the PA. The conversion workbook asks insurers to provide information on the items in Figure 3.

FIGURE 3: CONVERSION WORKBOOK ITEMS



### CLASSES OF BUSINESS TO BE WRITTEN UNDER THE INSURANCE ACT

An insurer is required to complete information on the types of policies it is currently registered for, including quantitative metrics.

It also asks the insurer to specify the subclasses of business under the new Insurance Act that it intends to write, both in and outside of South Africa.

### TRANSFORMATION PLAN

With transformation being one of the key objectives of the Insurance Act, an insurer is required to demonstrate to the PA how it plans to meet its commitments in terms of the transformation of the insurance sector.

### KEY PERSONS AND SIGNIFICANT OWNERS

The conversion workbook asks for details and a diagram of all significant owners.

In addition, an insurer's fit and proper process must be included as well as reasons for key persons having recently resigned.

### GOVERNANCE: BOARD AND COMMITTEE COMPOSITION

The conversion workbook asks for all members of the insurer's board and board committees. This may force insurers to reevaluate their board committee compositions in the context of the new prudential standards.

### OUTSOURCING ARRANGEMENTS

Details of management, control or material functions that are outsourced to entities or individuals must be included.

### EXISTING APPROVALS AND CONDITIONS

Where an insurer has received approvals for applications made under the Long-Term Insurance Act (LTIA) or Short-Term Insurance Act (STIA), and these approvals still remain valid, they must be described in the conversion workbook.

### CURRENT AND FORWARD-LOOKING SOLVENCY POSITION AND EXCESS OF INCOME OVER OUTGO

Over and above these qualitative items, the conversion workbook also requires insurers to provide current and forward-looking projections of:

- Assets, liabilities and basic own funds
- Solvency Capital Requirements (SCRs)
- Excess income over outgo

Insurers may be able to leverage off the projections done as part of the Own Risk and Solvency Assessment (ORSA), however, the granular level of detail required in the conversion workbook may pose a challenge where modelling simplifications have been made in ORSA projection models.



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