

Guidance Manual for the completion of the five-year business plan projections: - Short-term Insurance



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INTRODUCTION

These guidance notes have been compiled by the Financial Services Board to provide assistance to those responsible for completing the short-term insurance business plan. This business plan must be utilised in submitting application in respect of the following legislative applications:

- New registration of short-term insurers (Section 9(1) of the Short term Insurance Act (Act));
- Variation of registration conditions (Section 11(1)(a) of the Act); and
- Change in shareholding of insurer (Section 26(1) & (2) of Act).

Furthermore, this business plan is also the official business plan when a registered short-term insurer is requested by the Registrar, in terms of section 4(2) of the Act, to furnish him/her with the future direction and projections of the entity.

It is important to note that every statement must be completed and where a specific statement is not applicable (ie cell captive reporting statements) the statement must reflect zeros (R0).

In the past, the majority of Financial Services Board queries relate to statements that have not been fully completed. All information, however inconsequential it may appear, is relevant for a full assessment from the Regulator's point of view.

The business plan can be downloaded in electronic format from the official website of the FSB website, <http://www.fsb.co.za>. The printed business plan submitted with the application would be regarded as the official business plan to the FSB. An electronic copy of the business plan must also be submitted with the application and printed business plan. The electronic copy must be an exact copy of the printed business plan.

DISCLAIMER

The Financial Services Board designed the business plan and it may be copied. However, the Financial Services Board accepts no responsibility for any loss or damage arising from its use, nor any decision made by the insurer or any other person based on the information or calculations made by, or obtained from the workbook.

INFORMATION REGARDING THE BUSINESS PLAN

The FSB regards the submitted business plan as confidential and will not make it available for public examination.

The applicant insurer should only start completing the electronic business plan workbook from Statement A onwards.

The index in the business plan contains hyperlinks to allow quick access to all statements in the workbook.

COMPLETION OF THE STATEMENTS

Only shaded areas require figures or information to be entered where applicable.



All other areas not shaded are protected cells and contain automatic calculations, information or data. No changes may be made to these protected areas (cells). No structural changes can be made to the return as each worksheet is protected.

Please note: All figures entered into the business plan workbook by the applicant must be hard coded i.e. there should be no links to other workbooks.

Supporting statements

Each statement is contained in a separate worksheet. Where additional detail is required please provide separately in a supporting statement.

Consistency & completeness

All figures must be rounded off to the nearest thousand rand.

Additional information

The Registrar may direct an applicant insurer to furnish the Registrar with such additional information and documents as may be necessary for purposes of the Act. (Refer to section 4(2) of the Act.)

EXCEL FUNCTIONALITY

PAGE NUMBERING

Each statement is numbered in the top right-hand corner. This number is used internally for version control of the submitted plan and to ensure that the submitted printed copy of the plan is the same as the copy in electronic format.

PAGE SET-UP

Even though the various worksheets are “protected”, one is still able to change the page set-up for printing purposes:

- Page orientation, scaling, size and print quality can be changed,
- Margins can be changed,
- Page breaks can be added and deleted, and
- Printing colour can be changed (default setting: black & white).

DEFINITIONS

Act	Refers to the Short-term Insurance Act, (Act No. 53 of 1998)
Approved reinsurance policy	Defined in Section 1 of the Act.
Auditor	Defined in Section 1 of the Act.
Capital Requirement	Capital requirement, in relation to a regulated financial institution, means the capital or solvency margin, and will include any additional asset requirements, as the case may be, required for that institution by the regulatory authority concerned;
Cash-back bonus	Cash-back bonus, means a monetary benefit specified in the policy document, where the policyholder receives a pre-determined amount, in relation to the premiums received by the insurer, after a specified period of time under specified conditions, if no claim was submitted to the insurer during this period of time.
Claims handling expenses	Expenses incurred in connection with the negotiation and settlement of claims. They include all internal and external expenses incurred in the handling of claims. Internal expenses include all direct expenses of the claims department and any part of the general administration expenses attributable to the claims function.
Claims incurred	A claim is incurred when the event, giving rise to the claim occurs. Claims incurred include paid claims and movements in outstanding claims and Incurred But Not Reported claims. Refer to Section 32(1)(a)(i) of the Act.
Claims incurred but not reported (claims IBNR)	Claims arising out of events that have occurred at balance sheet date but have not been reported to the insurer at that date. Refer to Section 32(1)(a)(ii) of the Act
Claims outstanding	The amount provided to cover the estimated ultimate cost of settling claims arising out of events that have occurred by the balance sheet date including IBNR and claims handling expenses, less amounts already paid in respect of those claims.
Class of business	Defined in Section 1 of the Act.
Collective investment scheme	Defined in the Collective Investment Schemes Act, 45 of 2002.
Combined party cell	A cell where the shares issued to the cell participants (owners) provide the cell owners the ability to underwrite their own risks as well as the risks of third parties.

<i>Contingency reserve</i>	Refer to Board Notice 27 of 2010.
<i>Cresta Zone</i>	South Africa has been divided into 16 Cresta zones based on our postal code system. The allocation of postal codes to Cresta zones can be found on www.cresta.com .
<i>Deemed to be in the RSA</i>	An asset of the kind specified in item 13, 16(2), (3) or (5) or 20 (c) of the Table to Schedule 1, shall subject to paragraph (b), be deemed to be in the Republic.
<i>Deferred Acquisition Cost - DAC</i>	When an insurance company defers the expenses that are associated with acquiring new insurance policies or the renewal of existing policies. This include commissions paid and costs of processing proposals.
<i>Direct premiums</i>	Are all premiums (less return premiums) arising from policies issued to provide insurance on a particular risk.
<i>Director</i>	Defined in Section 1 of the Act.
<i>Domestic business</i>	A policy would be regarded as domestic business if the policy obligations are discharged within the Republic of South Africa.
<i>Earned premium</i>	Are the proportions of premium attributable to the periods of risk that relate to the current accounting period. It represents written premium adjusted by the unearned premium provision and portfolio premium adjustments at the beginning and end of the accounting period.
<i>Estimated Maximum Loss - EML</i>	An estimate of the maximum loss which could reasonably be sustained from the contingencies under consideration, as a result of a single incident considered to be within the realms of probability taking into account all factors likely to increase or lessen the extent of the loss, but excluding such coincidences and catastrophes which may be possible but remain unlikely.
<i>Excess of loss treaty</i>	An arrangement that allows the insurer to reinsure against risks from one event or for each loss exceeding a specific amount. The premium is negotiated between the cedent and the reinsurer. There is no commission payable under this type of arrangement.
<i>Facultative reinsurance</i>	A type of an arrangement in which the insurer can choose whether to cede and the reinsurer can choose to accept a specific individual risk. The premium is negotiated on a risk-by-risk basis.
<i>First party cell</i>	A cell where, the shares issued to cell participants provide the cell owners with the ability to underwrite their own risk and that of their subsidiaries. The cell participant is responsible for the funding of the cell and the cell should be maintained at such levels as may be required by the shareholders' agreement entered into.

<i>Foreign business</i>	Business will be regarded as foreign if the risk insured is outside the Republic of South Africa.
<i>Foreign reinsurance</i>	In South Africa, an insurer situated outside the Republic of South Africa.
<i>Foreign reinsurer</i>	Any reinsurer that is not registered in South Africa or that is not Lloyds.
<i>FSB</i>	Financial Services Board
<i>Gross net premium income</i>	Premium income before of any premium ceded to proportional reinsurance cover.
<i>In the RSA</i>	An asset of the kind specified in Table to Schedule 1 of the Act.
<i>Insurance contract</i>	A contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.
<i>Insurer</i>	A "short-term insurer" as defined in section 1of the Act.
<i>Investment income</i>	Comprises of interest, dividends and rents received or receivable.
<i>Listed</i>	Defined in paragraph 1 of Schedule 1 to the Act.
<i>Managing executive</i>	Defined in Section 1 of the Act.
<i>Net premium income</i>	Gross premium income less premiums payable in terms of a reinsurance arrangement.
<i>Non-proportional reinsurance</i>	A contract of reinsurance whereby the reinsurer accepts the whole or a portion of the liability for an individual claim or group of claims incurred by the cedent in excess of an agreed amount, normally also subject to an upper limit.
<i>Outside the RSA</i>	If there is documentary evidence of the title of a short-term insurer to an asset, that asset shall be deemed not to be in the Republic unless the documentary evidence is in the Republic or is held outside the Republic in such a manner and subject to such conditions as the Registrar may determine.
<i>Personal lines insurance</i>	Generic term referring to insurance of individuals and their personal property. The term is used in short-term insurance.
<i>Portfolio premium</i>	Amounts payable by an insurer to another insurer in consideration for a contract whereby the latter agrees to

assume responsibility for the claims arising on a portfolio of in force business written by the former from a future date until the expiry of the policies.

Portfolio transfer

Amounts payable in respect of the transfer between two insurers of the liability for the unexpired portions of the premiums at a date. Refer to Section 36 of the Act.

Premium income

Money received in respect of insurance contracts.

Premium refund

A refund of a part of the premium on an insurance policy reflecting the difference between the premium charged and earned.

Promoters cell

Represents the following in respect of the insurance company itself and will exclude all those belonging to the first or third party cell owners:

- Issued share capital including share premium account;
- Non-distributable reserves
- Distributable reserves
- Policy liabilities
- Current liabilities
- Capital Adequacy Requirements
- All assets covering the above

Property company

Defined in paragraph 2.1 of Part 2 of the Regulations under the Act.

Proportional reinsurance

A contract of reinsurance under which, in return for a proportion of the original premium, the reinsurer accepts liability for the same proportion of each related claim against the cedant

Quota share treaty

A contract whereby the ceding company is bound to cede and the reinsurer is bound to accept a fixed proportion of every risk accepted by the ceding company. The reinsurer thus shares proportionally in all losses and receives the same proportion of all premiums less commission.

Related party

Defined in Section 25(5) of the Act.

Retrocession

Reinsurance outwards of risks previously accepted by an insurer as reinsurance inwards. The recipient is known as the retrocessionaire.

Return premium

A premium refund due to the insured arising from an endorsement or cancellation.

Risk renewed

The continuation of an existing contract of insurance (risk) at a premium that may or may not be at the same rate as in the previous period.

Securities

Defined in paragraph 1 of Schedule 1 to the Act.

<i>Solvency margin</i>	A measurement of the financial strength of a short-term insurer. It represents the shareholders' funds, expressed as a percentage of net premium income.
<i>Technical provisions</i>	Include the unearned premium provisions, un-expired risk provision, claims outstanding intimated but not finalised and claims incurred but not reported.
<i>Third party cell</i>	A cell where, the shares issued to cell participants (owners) provide the cell owners the ability to underwrite the risks of third parties.
<i>Total exposure</i>	Is equal to the value of the sum of ordinary shares, preference shares, debentures and inter-company balances.
<i>Unearned premium provision (UPP)</i>	The portion of premiums attributable to the period of the risk which relate to subsequent accounting periods and which are carried forward to such subsequent accounting periods. Refer to Section 32(1)(b) of the Act.
<i>Unexpired risk provision (URP)</i>	The excess of the estimated value of claims and expenses likely to arise after the end of the financial year from contracts concluded before that date, in so far as their estimated value exceeds the provision for unearned premiums (after deduction of any acquisition costs deferred), and any premiums receivable under those contracts. Refer to Section 32 (2) of the Act.
<i>Written premiums</i>	Premiums that an insurer is contractually entitled to receive from the insured in relation to contracts of insurance. These are premiums on contracts entered into during the accounting period and adjustments arising in the accounting period to premiums receivable in respect of contracts entered into in prior accounting periods.

Statement A - REGISTRATION INFORMATION

DESCRIPTION

First time registration

If the applicant insurer is applying for a new short-term insurance licence please select "Yes" from the drop down box. Furthermore, please enter the proposed name of the insurer manually.

The case of variation of registration conditions or change in shareholding, please select "No" from the drop down box.

Registrar of Short-term Insurance Reference number

This number refers to the unique number that is allocated to each insurer at registration and used by the insurer in all correspondence with the FSB. This number will be displayed as 10/10/1/xxxx/8.

CLASS OF BUSINESS

Types of policy

All the types of policies listed are defined in the Act as short-term insurance policies, i.e. Property, Motor, Accident & Health, Transportation, Guarantee, Liability, Engineering and Miscellaneous. Tick the appropriate boxes to indicate which types of policies the applicant insurer will/is currently underwrite(ing).

NAMES OF CONTACT PERSONS

Refer to sections 16 and 18 to 22 of the Act.

The applicant insurer must provide the details of the proposed/current public officer and auditor(s). The Act requires that the Registrar be informed of the appointment of the public officer. The Registrar also needs to approve the appointment of the auditor(s). All these people have to complete and submit a personal questionnaire to the Registrar.

In addition, it is requested that changes in any of the above-mentioned people's contact details or change to appointments, are forwarded to the Registrar.

Public Officer

A public officer must be appointed in terms of Section 16 of the Act. Where the public officer is changed, the applicant insurer must notify the Registrar within 30 days.

Auditor

Where only one firm of auditors will be employed, please insert "N/A" under each of the headings provided for the second firm of auditors.

Statutory Actuary

An insurer is not obliged to have a statutory actuary or an alternate statutory actuary but in certain cases, one may be appointed. If the insurer does not have a statutory or an alternate statutory actuary, "N/A" should be filled in under each of the lines related to the statutory actuary and alternate statutory actuary.

Statement B - ADDRESSES AND PARTICULARS OF KEY PERSONS

If a key person does not have an e-mail address, please insert "N/A" in the appropriate cell.

HEAD OFFICE, PUBLIC OFFICER AND OTHER

In terms of Section 16(1)(d) of the Act, insurers must notify the Registrar of any changes to the head office within 30 days of the change.

AUDITORS

Please furnish particulars of the proposed/current Responsible Partner.

Where only one firm of auditors will be employed, please insert "N/A" under each of the headings provided for the second firm of auditors. Please note any change in the auditor (meaning the auditing firm) must be approved by the Registrar as required in terms of Section 19(2) of the Act.

ACTUARY

Please furnish particulars of the proposed/current Statutory Actuary and Alternative Statutory Actuary.

Where insurer appoints a statutory actuary(ies), his/her details must be provided. The Act specifies that the Registrar approves the appointment of the actuary(ies) and that person will have to complete and submit a personal questionnaire to the Registrar.

If the insurer does not have an alternate statutory actuary, "N/A" should be filled in under each of the lines related to the alternate statutory actuary.

Statement C – DIRECTORS, MANAGING EXECUTIVES AND MEMBERS OF AUDIT COMMITTEE

DIRECTORS

In relation to every proposed/current director, it is important to complete the details in full as required by this statement.

AUDIT COMMITTEE

Refer to Section 22 of the Act.

Statement D – NET UNDERWRITING RESULTS – STATUTORY BASIS

Statements D (Y1) to D (Y5) reflect the **statutory** net underwriting results and key underwriting ratios of the applicant.

These statements require the applicant to categorise its business into the different statutory policy classes, as defined under Section 1 of the Act (ie Motor, Property).

This split by statutory class should be consistently applied throughout this business plan. Premiums should be split in accordance with these statutory classes. Should an insurance contract cover more than one statutory class of policy the premium should be split based on the available data. In the event that this split is not possible the premium should be allocated according to the main type of cover.

The technical provisions (UPP, IBNR and OCP) should be determined on the statutory basis. This can be obtained under section 32 (read with paragraph 4 of the requirements for the calculation of assets, liabilities and capital adequacy requirement of short-term insurer ("requirements") issued under paragraph 2 of part i of schedule 2) of the short-term insurance act.

In respect of variation of registration condition and change in shareholding (not new registrations) applications, if prior exemption was granted under Board Notice 27 of 2010 by the Registrar and the exemption is still effective, the applicant can incorporate this exemption within this business plan.

In respect of commission, kindly refer to Regulation 5.3 of the Act for maximum commission payable.

Statement D (Summary) is basically a collation of statement D (Y1) to D (Y5). This statement reflects the overall net underwriting results on a year-on-year basis.

Statement E - SUMMARY OF STATUTORY ASSETS & LIABILITIES

This statement reflects the statutory assets and liabilities of the (prospective) insurer over the 5 year

projected period.

STATUTORY ASSETS

Statutory assets are covered under Sections 29 and 30 of the Act.

Schedule 1 of the Act stipulates the requirements for a claim to be an asset and provides definitions on certain assets (ie securities).

Assets are valued according to the requirements of Schedule 2 Part 1 of the Act.

- Paragraph 1 reflects amounts to be disregarded; and
- Paragraph 2 highlights the calculation of asset values.

In addition, requirements for the valuation of assets are contained in the Directives. These directives can be obtained from the FSB website.

STATUTORY LIABILITIES

Statutory liabilities are covered under section 32(read with paragraph 4 of the requirements for the calculation of assets, liabilities and capital adequacy requirement of short-term insurer ("requirements") issued under paragraph 2 of part i of schedule 2) of the Short-term insurance Act

ADDITIONAL DISCLOSURE

Additional disclosure in respect of "other assets" and "other liabilities" is requirement on statement E1.

Statement F – CELL CAPTIVE REPORTING

These statements are additional reporting requirements and only apply to (prospective) insurers that intend underwriting on a cell captive basis or will undertake cell captive arrangements.

Statements F (Y1) to F (Y5) reflect the net underwriting results, statutory assets & liabilities and the solvency margin of the cell captive insurer. The underwriting results must be completed in accordance with the guidance of the D statements and the assets and liabilities in accordance with the guidance of statement E. The solvency margin will be automatically calculated.

Furthermore the statement sub-categorises the "Total" into "First party", "Third party" and "Promoter" cells. Please refer to the Definitions section above for an explanation of these terms.

If sub-division of the underwriting results and statutory asset and liabilities is not possible (split into first party, third party and promoter cells), the (prospective) insurer may perform this split on a notional basis. However this notional split must be clearly explained in an annexure to this business plan.

On completion of these statements please ensure that the underwriting results tie up with the D statements, and that the asset and liabilities tie up with the E statement.

Statements G, H & I – PROJECTED SHAREHOLDERS STATEMENTS

These statements should reflect the (projected) published annual financial statement of the applicant over the projected period. These statements should be prepared in accordance with the financial reporting standards as defined on the Companies Act,1973.

Statement J - SURPLUS ASSETS, NET ASSET RATIO AND SOLVENCY MARGIN

This statement reflects the (prospective) insurer's world-wide and domestic solvency margin. Sections 29(1) and (2) of the Act are applicable to this statement.

Please note if any of these solvency margins are less than 15%, it technically means that the (prospective) insurer is financially unsound which will result to the immediate rejection of the application..

Points 1.1 and 2.1 “Premiums less all reinsurance” of this statement are clearly stipulated under Regulation 2.1(b)(i)(ii) and 2.2(b)(i)(ii) of the Act respectively. This information required under these parts are automatically extracted from the D statements.

Points 1.3 and 2.3 (Net asset – Statutory Basis) are automatically extracted from Statement E of this business plan.

Statement K – GENERAL INFORMATION

PRODUCTS MARKETED AND SOLD

This statement requires a short description of products that will be marketed and sold by the applicant insurer.

DISTRIBUTION CHANNELS AND INTERMEDIARIES

It further requires the sources of business and the statutory information of the intermediaries that will source business for the (prospective) insurer.

MICRO INSURANCE

Information required relates to business sold to the low income market (LSM 1-5). For each statutory class the (prospective)/insurer must indicate what percentage of their total business is from policyholder which falls into LSM 1-5.

RISK MANAGEMENT

The question enquires whether a dedicated department (will be)/is in place which is responsible for the oversight of risk management within the (prospective)/insurer. If no dedicated department or team is place the (prospective)/insurer should elucidate how risks are management within the organisation.

Furthermore, the (prospective)/insurer is required to list their 5 major risks.

OUTSOURCING

Outsourcing refers to material functions that relate to the insurance operations, ie underwriting, claims management, information technology systems, etc. This would not include outsourcing in respect of catering or premise security.

SYSTEMS AND CONTROL

This question relates to the frequency of systems audit and performance these audits.

REINSURANCE ARRANGEMENTS

Applicant insurers need to have risk management strategies in place in order to ensure their solvency and policyholder security is maintained. A major risk tool that is used to protect key exposures and reduce fluctuations in results is reinsurance. The policyholder is exposed to the extent that an adequate risk management strategy is not in place. In addition, they also face the credit risk of a reinsurer defaulting at claim payment time.

Currently the FSB makes use of the principle of approved and non-approved reinsurance in an attempt to

manage this credit risk.

Overall Reinsurance Strategy

The applicant insurer must have a clearly thought through and very specific *reinsurance strategy* that has been approved by the Board of Directors. The Board of Directors and senior management must spend time on and be involved in the reinsurance purchasing decision-making process.

Statement L – PROSPECTIVE REINSURANCE ARRANGEMENTS

The statement should give an overview of the spread of reinsurers used, together with an indication of the split between domestic and foreign reinsurers used.

Statements M N & O– STRESS TESTING REPORTS

These statements are additional statements that require the (prospective) insurer to demonstrate that the business would be a viable and sustainable operation even under certain basic stresses.

The format of these statements is a combination of statements D and E whereby the underwriting results, the asset and liabilities as well as the solvency margin are reflected. However under these statements the current based year projects are stressed in order to see the impact on the underwriting results, solvency margin and asset and liabilities position.

A full report on all the stresses performed with assumptions used must be submitted as an annexure to this business plan.

Please note that the stress on statements P and R is only applicable to a specific base year.

Statement M

This statement requires the applicant to perform four stresses in isolation. The stress conducted is at the discretion of the applicant as well as all assumptions and correlation.

Statement N

Once again the statement requires the applicant to perform a particular stress, which is at the discretion of the applicant. However the applicant is require to quantify the impact of this particular stress event on its future results.

Statement O

This statement requires the applicant to perform prescribed stresses on its premium income.

1. A 10% decrease in the premium income;
2. A 20% decrease in the premium income;
3. A 10% increase in the premium income; and
4. A 20% increase in the premium income.

