South African Reserve Bank

Media statement

Friday, 29 June 2018

Insurance Act 18 of 2017 and Prudential Standards

The Prudential Authority is proud to announce the commencement of the Insurance Act 18 of 2017 (Insurance Act) and the Prudential Standards necessary to facilitate the implementation on 1 July 2018.

The Insurance Act is a major step towards entrenching the Twin Peaks model of financial regulation as it established a dedicated legislative framework for the prudential regulation and supervision of insurers and insurance groups. Prudential supervision of insurers is necessary to promote and enhance the safety and soundness of those institutions in order to protect policyholders against the risk that insurers may fail to meet their obligations; and to assist in maintaining financial stability.

The Insurance Act also gives effect to important national government policy objectives by enhancing:

- access to insurance through the introduction of a dedicated microinsurance regulatory framework;
- transformation of the insurance sector through monitoring measures taken towards realising and maintaining the transformation targets, and the proportional and progressive implementation of requirements;
- the financial soundness and oversight of insurers through higher prudential standards, group supervision and enhanced and increased reinsurance capacity;
- the regulatory requirements in respect of governance, risk management and internal controls for insurers; and
- alignment with international standards (adapted to South African circumstances) in accordance with South Africa’s G20 commitments.

The Prudential Authority has prescribed 42 Prudential Standards. These standards set out detailed governance, risk management and internal controls as well as financial soundness requirements for insurers and insurance groups. Dedicated Prudential Standards apply in respect of insurers, microinsurers, branches of foreign reinsurers Lloyd’s and insurance groups.

The Insurance Act and the Prudential Standards entrench the principle of proportionality, meaning that regulatory requirements will be applied in a manner that is proportionate to the nature, scale and complexity of the risks inherent in the business of an insurer (and reinsurer). Proportionality will be applied coherently across all aspects of the Insurance Act and the Prudential Standards.

The Insurance Act and the Prudential Standards have also been informed by various policy projects and impact studies that have been completed on both the quantitative and qualitative aspects. It is also an outcome of a project known as Solvency Assessment and Management (SAM) which was established in 2009. The SAM Project included various stakeholders.

Further, an economic impact study on the impact of the SAM regime was commissioned. The study concluded that the Insurance Act and the Prudential Standards would result in additional costs to the insurance industry. However, these costs will be offset by improvements to the sustainability of the insurance industry and the stability of the financial system as a whole.

To prepare the industry for the implementation of the Insurance Act and the Prudential Standards, a parallel run was initiated. The parallel run required insurers to report information under the proposed legislative framework along with the existing legislative framework.

The Insurance Act and the Prudential Standards have been subjected to an extensive and inclusive consultation and engagement with the insurance industry and the broader public over the past few years.

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