



Financial Sector Regulation Act 9 of 2017

Prudential Communication 6 of 2022

Flavour-of-the-year topic communication to insurers

Objective of this Prudential Communication

This communication provides information on the Prudential Authority's (PA) flavour-of-the-year topic for insurers for the 2022 supervisory cycle, namely succession planning, including the approach that will be followed by the PA with regard to the topic.

1. Application

1.1 This Prudential Communication is applicable to all insurers, controlling companies and microinsurers licensed under the Insurance Act 18 of 2017.

2. Purpose

2.1. The purpose of this Prudential Communication is to:

- a. provide information on the flavour-of-the-year topic for insurers, controlling companies and microinsurers (licensed insurance entities) for the 2022 supervisory cycle.

3. Introduction

3.1. Annually, the PA considers whether any current developments affecting licensed insurance entities at an industry level are of such significance that additional focus from a supervisory perspective would be required. The topic(s), selected through the PA's governance processes, are communicated to licensed insurance entities at the beginning of the year and are referred to as 'flavour-of-the-year' topics.

3.2. The PA has determined that for the 2022 supervisory cycle, the flavour-of-the-year-topic will be succession planning.

4. Succession planning

4.1. Background

4.1.1 Ongoing changes in the business and operating environment, transformation, market disruption, innovative technologies, new business models and other forms of competitive pressures, require a suitable level of continuity in corporate governance and organisational structures of licensed insurance entities. This in turn necessitate that licensed insurance entities continually identify suitably skilled and experienced individuals who are capable of strategically steering it through the challenges brought about by the aforementioned changing conditions. Governing bodies, such as the board,

board committees, executive committees, management forums and other key individuals/persons should also be agile and attuned to these changes and ensure that proactive succession planning is done to respond to expected and unexpected changes in the composition of boards, board committees, senior management, and other key individuals/persons in the licensed insurance entity. Being unprepared for aforementioned changes could result in uncertainty, instability and pose a potential risk to licensed insurance entities. While executive and senior management turnover is inevitable, unexpected occurrences can create uncertainty and disorder in any management team, particularly in the absence of an adequate and comprehensive succession plan/program/strategy.

- 4.1.2 Succession planning entails strategically identifying and developing new and potential leaders and key talent who can move into leadership and/or key roles when they become vacant, and is therefore critical for boards, executives, key individuals/persons responsible for risk management, compliance, and internal audit functions, and other business-critical roles. It entails having a long-term vision for the licensed insurance entity and may entail lateral moves, assignments to special projects, leadership within teams, and internal or external development opportunities.
- 4.1.3 Succession planning has implications for the strategy of a licensed insurance entity, its reputation, its sustainability, corporate governance, and corporate social responsibility. Poor succession planning inevitably could create a leadership vacuum at both a board, executive and senior management levels, and could negatively impact the licensed insurance entity's ability to successfully achieve its longer-term strategic focus and objectives and could undermine confidence in the licensed insurance entity and its governance structures. It is critical that a licensed insurance entity's succession plan/program/strategy is a living document that is active, current, includes a deliberate development and cross-training focus, and ideally has multiple potential candidates and developmental programs. It should be a multi-layered process involving a detailed assessment of the licensed insurance entity's needs relative to its resource and skill gaps, with an intentional focus on developing potential successors for key roles, while promoting accountability through ongoing evaluation. It is the foundation to successfully address both planned and unexpected critical staff changes and should be a continuous and well thought-through process.
- 4.1.4 The PA's governance review methodology is informed *inter alia* by the Governance and Operational Standards for Insurers (GOI) together with the Governance and Operational Standards for Insurance Groups (GOG) including the Governance and Operational Standard for Microinsurers (GOM), issued in terms of the Insurance Act 18 of 2017 (Insurance Act), the King Code (King IV) on Corporate Governance and other corporate governance best practices. King IV highlights the importance of a succession plan for both executive and non-executive governing body members as critical to the effectiveness of the governing body. Practice 13 of Principle 7 states that "the governing body should establish a succession plan for its membership which should include the identification, mentorship and development of future candidates". King IV further recommends that governing bodies should ensure succession plans exist for their own members, as well as for the chief executive officer (CEO) and the executive management team.

4.1.5 With reference to the PA's pre-emptive, outcomes focused and risk-based supervisory approach, it is important for the PA to assess and determine that licensed insurance entities have robust, adequate, and efficient succession plans, practices, and policies in place, that are commensurate with its size, nature and complexity and that it will result in successors that are fit and proper (reference to GOI 4 which is also applicable to Microinsurers and GOG) and are eligible in terms of relevant legislation. This assessment forms an important component to enhance the PA's ability to effectively achieve its ongoing supervisory objectives and mandate. Interactions between licensed insurance entities and the PA on succession planning should be timely, open and frank.

4.2. Engagement approach

4.2.1 Insurers supervised by the Financial Conglomerate Supervision Department of the PA:

4.2.1.1 The chairperson of the board or relevant committee (or equivalent) of the insurer and/or controlling company (insurance group)¹ will be required to make a presentation to the PA during the PA's planned supervisory meetings with the board. The presentation should focus on the steps that have been or will be taken by the insurer and/or controlling company (insurance group) to ensure the strategy and process on succession planning is effectively implemented. At a minimum, the presentation should cover the focus areas listed in paragraph 4.2.1.3 and should be no longer than 75 minutes.

4.2.1.2 The PA requires a copy of the presentation to be provided at least three weeks prior to the date of the board meeting.

4.2.1.3 As a minimum, the following aspects, as it relates to the involvement of the board / senior management / representatives, should be covered during the presentation:

- a. General overview of the insurer and/or controlling company's approach to talent management and succession planning.
- b. Indication of which governance forums/decision-making forums have the mandate to discuss and recommend succession planning for the key person appointed to the board and the frequency of it, including whether any deviations are permissible to internal processes and mandates.
- c. Indication of which governance forums have the mandate to discuss succession planning for key persons and other business-critical roles, and the frequency thereof, including whether any deviations are permissible to internal processes and mandates.
- d. Demonstrating that the board has a clear and robust succession strategy to identify, assess and select board candidates, including reviewing whether board candidates possess the knowledge, skills, and experience to ensure that current and future competencies are aligned to the insurer and/or controlling company's strategy.
- e. Overview of the current approved succession plan for the board, board committees, key persons and other business-critical roles and plans to fill existing vacancies. This should include key roles most at risk and succession plans in place to mitigate the risk.

¹ One presentation may be provided to cover all affected entities within the group.

- f. The Board's assessment of the adequacy of existing succession planning, including the adequacy of coverage of emergency/interim (unplanned vacancy) successors, those that are ready now; ready in 1-2 years; and ready in 3-5 years, and gaps identified and how provision is being made for potential multiple shifts within an organisation.
- g. Board Directorship continuity programme and succession planning: Overview of processes in place for the board, executives and key senior management, and the frequency of review of the aforementioned.
- h. Skills and experience required of board members and senior executives to effectively implement the insurer and/or controlling company's strategy.
- i. Processes in place to identify future board members (e.g., whether head-hunters or external consultants are used, and so forth), mentorship and development of existing board members.
- j. Development plans for successors, including training programs and assessment of performance against development plans.
- k. Internal and external communication plan (including consideration of regulatory requirements such as listing requirements where relevant) to deal with any changes in the board and other key persons.
- l. Challenges faced in attracting suitable candidates and scarce skills.
- m. Overview of nominations/board appointment policy, including frequency of review thereof.
- n. Transformation considerations undertaken in succession planning and targets.
- o. Board evaluation process and how succession planning is assessed as part of the evaluation.
- p. Retirement age of executives and board members, including the policy that governs age and tenure.
- q. Issues relating to succession planning raised by internal and/or external audit in the past 2 years.
- r. Metrics in place to assess the effectiveness of succession planning (including but not limited to evidence in the form of turnover rates, ability of the organisation to retain talent, % of open positions filled from succession candidates, time taken to fill open positions, duration of key positions performed on an interim basis, recruiting costs etc.)
- s. Method/s applied to identify successors, and extent of granularity in reviewing and identifying talent in terms of junior, middle, and senior management.

4.2.1.4 Other aspects/documents

- a. Agenda and unredacted minutes of the governance forums/decision-making forums where succession was discussed (last 4 meetings).
- b. Terms of reference of the committee/s mentioned in point 4.2.1.4 a above.
- c. Copies of the formal succession plans in place for the board, senior executives, assurance providers and other business-critical roles. (Should include emergency/interim (unplanned vacancy), ready now, ready in 1-2 years, ready in 3-5 years coverage and names of identified individuals with details regarding their age, qualifications, experience, tenure, and current positions). The PA may request copies of the CVs of successors.

- d. Board Directorship continuity programme.
- e. Development plans for successors, including training programs and assessment of performance against development plans.
- f. Nominations/board appointment policy.
- g. Policy that governs retirement age and tenure.

4.2.1.5 The PA will continue to closely monitor succession planning as part of its ongoing supervision and will engage insurers and/or controlling companies on the matter through other prudential meetings such as the meetings with the chairperson of the Board and CEO of the insurer or controlling company and key business lines/segments, where necessary.

4.2.1.6 In preparation for the meeting with the board/executives as well as other engagements, your institution may be requested to furnish the PA with certain additional documentation and/or information on succession planning (this will be communicated prior to the meetings). Such documentation and/or information must be forwarded electronically to the PA prior to any meeting or engagement.

4.2.1.7 Further, in preparation for the meeting, the Board is required to ensure that only persons that are familiar with the succession plan/s are present for the discussion so as to not breach internal confidentiality.

4.2.2 Insurers supervised by the Banking, Insurance and Market Infrastructure Supervision Department of the PA:

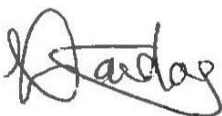
One of two approaches may be applied for licensed insurance entities in this category:

- A survey will be issued to licensed insurance entities during the second quarter of 2022. The PA will analyse the responses to the surveys which will inform additional supervisory interventions, where necessary; or
- Follow a similar approach as stipulated in paragraph 4.2.1 above.

4.2.3 The PA may consider communicating the thematic outcome of these engagements and/or surveys to the industry at an aggregated industry level.

5. Acknowledgement of receipt

5.1 Kindly ensure that copies of this communication are made available to the Board and the auditors of the licensed insurance entity. A written acknowledgement of receipt of this communication, signed by both the CEO and the auditors of the licensed insurance entity, should be submitted at the earliest convenience to the PA Frontline team responsible for the supervision of the licensed insurance entity. Should you have any queries in this regard, please contact the relevant PA Frontline team.



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Date: 11 March 2022