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South African Reserve Bank
Prudential Authority

Prudential Communication 2 of 2025

Financial Sector Regulation Act 9 of 2017

Insurance Act 18 of 2017

The 2025 flavour-of-the-year topic communication to insurers

Objective of this Prudential Communication

This communication provides information on the Prudential Authority's 2025 flavour-of-the-year topic, namely 'Third-party risk management, including strategic partnerships and binder agreements'.

1. Application

1.1 This Prudential Communication is applicable to all insurers, controlling companies and microinsurers (hereinafter collectively referred to as 'insurers'), licensed under the Insurance Act 18 of 2017, other than Lloyd's South Africa and branches of foreign reinsurers.

2. Purpose

2.1 The purpose of this Prudential Communication is to provide information on the 2025 flavour-of-the-year topic for insurers.

3. Introduction

3.1 Annually, the Prudential Authority (PA) considers whether any ongoing developments and/or emerging risks affecting regulated financial institutions at an industry level are of such significance that additional focus is required from a supervisory perspective. The selected theme is communicated to regulated financial institutions and is referred to as flavour-of-the-year topic.

3.2 The PA has determined that the 2025 flavour-of-the-year topic will be 'Third-party risk management, including strategic partnerships and binder agreements'.

4. Third-party risk management, including strategic partnerships and binder agreements

4.1 Background

4.1.1 Insurers are increasingly using third-party service providers (TPSPs) to improve services and enhance offerings to clients, enable scalability and access expertise not readily available internally to achieve strategic objectives and reduce costs.

4.1.2 The reliance on third parties, if not adequately managed, may result in various risks, including concentration risk, cybersecurity risk and concerns relating to operational resilience.

4.1.3 On 4 December 2023, the Financial Stability Board issued a toolkit for financial institutions and financial authorities with respect to enhancing third-party risk management and oversight. In May 2023, the International Association of Insurance Supervisors published 'Issues Paper on Insurance Sector Operational Resilience', which included information technology third-party outsourcing as one of the key issues and related supervisory approaches. These documents provide guidance to insurers and regulatory authorities on effective management of third-party risks.

4.1.4 Focused engagement on this topic will allow insurers to assess their third-party risk management practices and subsequently formulate and execute strategies to effectively manage third-party risks, including strategic partnerships and binder agreements. This engagement will also furnish the PA with information to further inform and enhance regulatory and supervisory activities.

4.2 Engagement approach

4.2.1 Insurers supervised by the Financial Conglomerate Supervision Department:

4.2.1.1 The Board of Directors (Board) (or equivalent committee) must provide a high-level presentation to the PA on third-party risk management including strategic partnerships and binder agreements, during the scheduled prudential meeting with the Board (or equivalent structure). The presentation should be approximately 45 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 prudential meeting with the Board.

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

4.2.2.1 One of the following two approaches will be applied for insurance entities in this category and the appropriate approach will be communicated to the respective entities by means of letters:

i) A survey will be issued to the insurance entities during the second quarter of 2025.

ii) Alternatively, the insurer will be required to follow a similar approach as stipulated in paragraph 4.2.1 above.

4.2.3 The PA endeavours to communicate the thematic outcome of these engagements and/or surveys to the industry at an aggregate level.

5. Minimum aspects to be covered in the presentation

The insurer is required to, as a minimum, cover the following aspects related to third-party risk management:

5.1 Strategy, governance and risk management

5.1.1 Illustrate the alignment of the third-party risk management strategy with the overall strategy of the insurer and how the third-party life cycle is integrated into the governance structures and frameworks of the insurer.

5.1.2 Define the risk appetite and tolerance levels for TPSPs and how these are influenced by internal and external factors.

5.2 Risk assessment

5.2.1 Highlight the degree of the insurer's reliance on third parties with elevated concentration risk and the dependence on sub-contractors (fourth and nth parties), including intragroup and cross-border relationships for critical services.

5.2.2 Describe the risk management processes and practices for assessing critical and material TPSPs.

5.3 Due diligence

5.3.1 Highlight the factors considered to determine the level of depth and scope of the due diligence when engaging TPSPs.

5.3.2 Outline the governance process used to identify and manage conflicts of interest.

5.3.3 Explain the use of internal resources versus third-party providers when conducting the due diligence process.

5.4 Contracting

5.4.1 Explain the management of third-party arrangements with/without contracts or legally binding agreements as well as dispute resolution mechanisms.

5.4.2 Detail the process for access to information by relevant stakeholders.

5.5 Onboarding and ongoing monitoring

5.5.1 Discuss the criteria for selecting TPSPs and metrics used to evaluate the success of these agreements.

5.5.2 Demonstrate the TPSPs continual understanding of the insurer's policies, processes and interconnections.

5.5.3 Describe the ongoing risk management processes and practices, including escalation strategies in response to issues associated with TPSPs.

5.6 Termination

5.6.1 Demonstrate the management of planned and/or unplanned terminations of TPSP arrangements within the context of the insurer's exit strategy.

5.7 Strategic partnerships and binder arrangements (if applicable)

5.7.1 Provide an overview of strategic partnerships and binder holder arrangements, including the associated risk management processes and practices.

6. Acknowledgement of receipt

6.1 A written acknowledgment of receipt of this communication, signed by the Chief Executive Officer of the insurer, should be submitted to the PA Frontline team responsible for the supervision of the insurer within 10 working days. Should you have any queries in this regard, please contact the relevant PA Frontline team.

Fundi Tshazibana

Fundi Tshazibana
Chief Executive Officer

Date: 11/04/25