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SOUTH AFRICAN RESERVE BANK
Prudential Authority

Prudential Communication 1 of 2023

Insurance Act 18 of 2017

Flavour-of-the-year topic communication to insurers

Objective of this Prudential Communication

This communication provides information on the Prudential Authority's flavour-of-the year topic for insurers for the 2023 calendar year, namely organisational resilience, 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 (hereafter collectively referred to as "insurers"), licensed under the Insurance Act 18 of 2017, other than Lloyd's and branches of foreign reinsurers.

2. Purpose

2.1 The purpose of this Prudential Communication is to provide information on the flavour-of-the-year topic for insurers for the 2023 calendar year.

3. Introduction

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

3.2 The PA has determined that for the 2023 calendar year, the FOTY topics will be organisational resilience and climate-related risks. This guidance note will focus solely on organisational resilience.

4. Organisational resilience

4.1 Background

- 4.1.1 Organisational resilience is defined as the ability of an organisation to absorb and adapt in a changing environment to enable it to deliver on its objectives as well as to survive and prosper. More resilient organisations can anticipate and respond to threats and opportunities, arising from sudden or gradual changes in their internal and external context. Enhancing resilience can be a strategic organisational goal and is the outcome of good business practice and the effective management of risk.
- 4.1.2 More recently, there is increasing occurrence of events, including economic shocks, cyber incidents, changing weather patterns, negative publicity and disclosures related to bad governance practices, that directly affect the operations and reputation of organisations.
- 4.1.3 A commitment to enhanced organisational resilience contributes to the preservation of core functions and the ability to recover from adversity. The unprecedented disruption caused by the Covid-19 pandemic to economies, organisations, and individuals, tested organisational resilience. Agile and resilient solutions to address potentially devastating crises will need to be identified, implemented, embedded and managed.
- 4.1.4 Although the insurance companies remained resilient during the pandemic, there remain significant risks in the longer term economic outlook. There is therefore a need to further explore institutions' capabilities to ensure business continuity and resilience. The FOTY engagements will require the institutions to unpack the end-to-end business models as well as the board's awareness and involvement.

4.2 Engagement approach

- 4.2.1 Insurers supervised by the Financial Conglomerate Supervision Department:
 - 4.2.1.1 The chairperson of the board or relevant committee (or equivalent) is required to make a high-level presentation to the PA on organisational resilience at the scheduled prudential meeting with the board (or equivalent structure). The duration of the presentation should be targeted at 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 board meeting.
- 4.2.2 Insurers supervised by the Banking, Insurance and Market Infrastructure Supervision Department of the PA:

One of two approaches will be applied for insurance entities in this category and will be communicated to the respective entities by means of a letter in terms of which approach will apply:

- i. A survey will be issued to insurance entities during the second quarter of 2023. The PA will analyse the responses to the surveys which will inform additional supervisory interventions, where necessary; or
 - ii. 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 aggregate industry level.

5. Aspects that should be covered during the presentation

5.1 Governance and leadership

- 5.1.1 How organisational resilience is defined and adopted to strengthen the culture of the institution.
- 5.1.2 The strategy to operate under normal circumstances as well as respond to and recover from disruption, uncertainty, and change affected by the increase in volatility, uncertainty, complexity, and ambiguity of risks from both the internal and external environment.
- 5.1.3 The role of oversight and assurance providers in the organisational resilience process.

5.2 Risk management

- 5.2.1 The organisation's risk appetite in relation to organisational resilience.
- 5.2.2 The risk management processes to inform the resilience plan, which covers the following:
 - i. Identification and assessment of threats/risks.
 - ii. Monitoring and responding to these threats/risks.
 - iii. Reporting and escalation to the appropriate governance structures/committees.
- 5.2.3 For microinsurers the above should be considered in terms of management controls.

5.3 Mapping of interconnections and interdependencies

- 5.3.1 The organisation's critical operations identified, considered, and mapping of its interconnectedness and interdependencies (both internal and external, including local, regional and international financial sectors) that are necessary for the delivery of critical operations.

5.4 Change readiness

- 5.4.1 The process adopted by the organisation to improve its adaptability, innovation, and willingness to embrace change at all levels, so that products, services, and business processes better fit the new conditions brought about by long-term changes to its environment.

5.5 Situational awareness

- 5.5.1 The institution's ability to ensure it has adequate processes and procedures to respond during normal and stress events.
- 5.5.2 Strong crisis leadership to provide good management and decision-making during times of crisis as well as continuous evaluation of strategies and work programmes in line with organisational goals.
- 5.5.3 Outline the process for testing/validating the organisation's resilience plan against a range of scenarios. e.g., operational, financial, solvency and so forth.
- 5.5.4 The organisation's ability to leverage on lessons learnt from past incidents and the results of scenario testing.

5.6 Information and communication technology (ICT), including cybersecurity

- 5.6.1 The process and defined framework developed by the institution to ensure resilient Information and Communications Technology (ICT), including cybersecurity.

5.7 Third party dependency and supply chain

- 5.7.1 The strategy in place to ensure that the organisation obtains comfort and satisfies itself that appropriate resilience conditions are in place with partners, third party providers, outsourced services, suppliers and other key interested parties to safeguard the institution's critical operations.
- 5.7.2 How the organisation leverage from its supply chain partners.
- 5.7.3 Processes are in place to assess concentration risk in relation to third party service provisioning.

6. Additional topic

- 6.1 As referenced in paragraph 3.2, the FOTY includes a secondary topic on climate-related risks; however, this topic will only be discussed with selected financial institutions. The selected institutions will receive a letter from the Prudential Authority. The items to be covered are attached as Annexure A, for general information purposes only.

7. Acknowledgement of receipt

- 7.1 A written acknowledgement 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 of receipt. Should you have any queries in this regard, please contact the relevant PA Frontline team.

Fundi Tshazibana

Fundi Tshazibana
Chief Executive Officer

Date: 08/03/23