

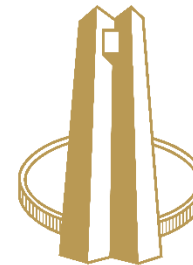
# The Role of the Supervisor in Closing the Risk Protection Gap (Climate Risk)

Kerwin Martin

Divisional Head: Financial Conglomerate Supervision Department

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Prudential Authority



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**Prudential Authority**

# Agenda

- Introduction
- Risk Protection Gap
- The Role of an Insurance Supervisor
- How can an Insurance Supervisor be Involved
- Discussion / Questions



# Introduction

- Protecting the health and livelihoods of society – one of the cornerstones of the economy – is crucial in **maintaining economic growth and stability**.
- Many people around the world, especially in SA, are either **underinsured** or **not insured at all**.
- These **financially excluded** people are exposed not only to the general effects of being uninsured during periods of adverse circumstances, but also to the **devastating effects of climate change** as well as **climate-related (and other) catastrophes**.
- Although insurance is such an important risk mitigation instrument for these risks, it is largely **underutilised** and **unappreciated** by the low income market (i.e. those that probably need it the most).



# Risk Protection Gap

- Lack in Financial Education
- Availability of Suitable Products
- Affordability of Insurance
- Increased Concentration of Risk Exposures
- More Frequent and More Severe Climate Related Events
- Other Economic Factors (e.g. inflation, economic growth etc.)



# Risk Protection Gap

## ➤ Lack in Financial Education

- Better our understanding of the lower income market segment
- Create awareness
- Communicate the benefits of insurance as a risk management tool
- Explain long-term value
- Provide a view on types of insurance products and how these can meet policyholder needs
- Engage with insurers on how they action above



# Risk Protection Gap

## ➤ Availability of Suitable Products

- Focus usually tends to be more on the insured market
- Understand the needs of low income markets
- Develop suitable products to address these needs
- Make use of technologies to create an efficient and cost effective insurance model
  - More efficient and cost effective distribution channels
  - More efficient and cost effective underwriting processes
  - More efficient and cost effective claims handling and payment processes



# Risk Protection Gap

## ➤ Affordability of Insurance

- Increase insured pool
- Better understanding of customers in low income market
  - What is considered affordable in this segment?
  - How can products be designed to offer adequate protection and still be affordable
- Make use of technologies to create an efficient and cost effective insurance models
  - More efficient and cost effective distribution channels
  - More efficient and cost effective underwriting processes
  - More efficient and cost effective claims handling and payment processes
- Possible partnerships with public sector
- Appropriate regulation for simple products that is proportional to the risk (e.g. Microinsurance)



# Risk Protection Gap

## ➤ Increased Concentration of Risk Exposures

- Collection of good quality data to identify different types of concentrated exposures
  - Company specific
  - Industry-wide
  - Reinsurance
- Data sharing with those responsible for planning and building infrastructure
- Risk-based framework for insurance supervision needs to appropriately capture this risk (i.e. incentivise diversification of risk)





# Risk Protection Gap

- More Frequent and More Severe Climate Related Events
  - Lessen the cost implications
    - How can insurers be involved in risk management before an event?
    - .....during.....?
    - .....after.....?
  - Minimise concentrated risk exposures



# The Role of an Insurance Supervisor

- Financial Sector Regulation Act
  - Prudential Authority
  - Financial Sector Conduct Authority
- Insurance Act



# The Role of an Insurance Supervisor

## ➤ Financial Sector Regulation Act

- The objective of the Prudential Authority is to—
  - promote and enhance the **safety and soundness of financial institutions** that provide financial products and securities services;
  - promote and enhance the safety and soundness of market infrastructures;
  - **protect financial customers** against the risk that those financial institutions that may fail to meet their obligations; and
  - assist in **maintaining financial stability**.



# The Role of an Insurance Supervisor

## ➤ Financial Sector Regulation Act

- In order to achieve its objective, the Prudential Authority must—
  - regulate and supervise, in accordance with the financial sector laws
  - co-operate with and assist the Reserve Bank, the Financial Stability Oversight Committee, the Financial Sector Conduct Authority, the National Credit Regulator and the Financial Intelligence Centre, as required in terms of this Act;
  - co-operate with the Council for Medical Schemes in the handling of matters of mutual interest;
  - **support sustainable competition** in the provision of financial products and financial services, including through co-operating and collaborating with the Competition Commission;
  - **support financial inclusion;**
  - regularly review the perimeter and **scope of financial sector regulation**, and take steps to **mitigate risks identified to the achievement of its objective** or the effective performance of its functions; and
  - conduct and publish research relevant to its objective.

# The Role of an Insurance Supervisor

## ➤ Financial Sector Regulation Act

- The objective of the Financial Sector Conduct Authority is to—
  - enhance and support the efficiency and integrity of financial markets; and
  - **protect financial customers** by—
    - **promoting fair treatment of financial customers** by financial institutions; and
    - providing financial customers and potential financial customers with **financial education programs**, and otherwise **promoting financial literacy** and the ability of financial customers and potential financial customers **to make sound financial decisions**; and
  - assist in **maintaining financial stability**.



# The Role of an Insurance Supervisor

## ➤ Insurance Act

- The objective of this Act is to, in a manner consistent with the Constitution of the Republic of South Africa, 1996, promote the maintenance of a **fair, safe and stable insurance market** for the **benefit and protection of policyholders**, by establishing a legal framework for the prudential regulation and supervision of insurers and insurance groups that—
  - facilitates the monitoring and the preservation of the **safety and soundness of insurers**;
  - enhances the **protection of policyholders** and potential policyholders;
  - **increases access to insurance for all South Africans**;
  - promotes broad-based transformation of the insurance sector; and
  - contributes to the stability of the financial system in general.



# How can an Insurance Supervisor be Involved

- Create a regulatory framework-
  - within which proportionality can be applied
    - Microinsurance
  - that is risk-based in order for risks to be more appropriately quantified
    - Aids in protecting policyholders whilst being more capital efficient
- FSCA has the mandate of educating the public
  - Risk-based approach to education? We need to reach those with the biggest need first.
- Create an environment where insurers can test new innovative ideas (e.g. index-based insurance)
- Promote innovation and awareness
- Enhance reporting on climate-related risks and exposures
- Enhance cooperation between key stakeholders
  - Sharing of data and information



# Discussion / Questions

