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# FINANCE & BANKING ALERT

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### MORE REGULATORY INTERVENTION FOR INSURERS?

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## Changes to the Bill

The initial draft published on 15 April 2015, contained provisions prohibiting linked insurers from reinsuring their investments. Although these provisions have been removed from this version of the Bill, a media statement issued by the FSB this week suggests that the provisions may return once the regulatory framework for linked insurers is reviewed, but has not clarified whether these changes will be incorporated in a further draft of the Bill or in a separate piece of legislation.

The new draft will also permit professional reinsurers to conduct both life and non-life insurance business under the same licence, which will provide administrative relief for insurance providers.

One of the provisions that has remained, despite contentions by interested parties, in the Bill allow the new Prudential Authority to intervene in the affairs of an insurance provider by limiting or prohibiting certain transactions of insurance providers that have not met their solvency capital requirements until that insurer has restored its financially sound condition. A concern with this provision is that the Bill does not provide criteria to guide the Prudential Authority's discretion regarding these transactions.

The Bill creates a Solvency Assessment Management (SAM) regime to monitor the finances of insurers and incentivise insurance providers that adopt more sophisticated risk monitoring and risk management tools. SAM looks at the financial soundness of an insurance provider, prescribes methods for risk management that must be adopted, in particular mechanisms for the early detection of any solvency concerns. Although, in theory this regime has good intentions, implementing the SAM regime may be onerous on insurance providers as it will require more detailed performance reports on a more frequent basis. The provisions relating to financial soundness are contained in chapter 6 of the Bill.

The implementation of the SAM regime is still being closely monitored and discussed by its stakeholders (which include the National Treasury, the FSB, the SARB, the Independent Regulatory Board of Auditors and numerous professional bodies) and the reports on the impact assessments conducted are available on the FSB website ([www.fsb.co.za](http://www.fsb.co.za)).

*Bridget King and Wandile Sishi*

## OUR TEAM

For more information about our Finance and Banking practice and services, please contact:



**Deon Wilken**  
National Practice Head  
Director  
T +27 (0)11 562 1096  
E deon.wilken@cdhlegal.com



**Biddy Faber**  
Director  
T +27 (0)11 562 1439  
E biddy.faber@cdhlegal.com



**Carmen de Villiers**  
Director  
T +27 (0)11 562 1324  
E carmen.devilliers@cdhlegal.com



**Stephen Gie**  
Director  
T +27 (0)21 405 6051  
E stephen.gie@cdhlegal.com



**Temba Kali**  
Director  
T +27 (0)11 562 1482  
E temba.kali@cdhlegal.com



**Adnaan Kariem**  
Director  
T +27 (0)21 405 6102  
E adnaan.kariem@cdhlegal.com



**Bridget King**  
Director  
T +27 (0)11 562 1027  
E bridget.king@cdhlegal.com



**Jacqueline King**  
Director  
T +27 (0)11 562 1554  
E jacqueline.king@cdhlegal.com



**Izak Lessing**  
Director  
T +27 (0)21 405 6013  
E izak.lessing@cdhlegal.com



**Zaaheda Mayet**  
Director  
T +27 (0)11 562 1324  
E zaaheda.mayet@cdhlegal.com



**Mashudu Mphafudi**  
Director  
T +27 (0)11 562 1093  
E mashudu.mphafudi@cdhlegal.com



**Gavin Noeth**  
Director  
T +27 (0)11 562 1371  
E gavin.noeth@cdhlegal.com



**Jackie Pennington**  
Director  
T +27 (0)11 562 1131  
E jackie.pennington@cdhlegal.com



**Preshan Singh Dhulam**  
Director  
T +27 (0)11 562 1192  
E preshan.singh@cdhlegal.com



**Pierre Swart**  
Director  
T +27 (0)11 562 1717  
E pierre.swart@cdhlegal.com



**Hunter Thyne**  
Director  
T +27 (0)11 562 1383  
E hunter.thyne@cdhlegal.com

**Pride Jani**  
Senior Associate  
T +27 (0)21 405 6103  
E pride.jani@cdhlegal.com

**Nirvana Ajodha**  
Associate  
T +27 (0)11 562 1438  
E nirvana.ajodha@cdhlegal.com

**Chloe Brockman**  
Associate  
T +27 (0)21 481 6309  
E chloe.brockman@cdhlegal.com

**Michael Dippenaar**  
Associate  
T +27 (0)11 562 1206  
E michael.dippenaar@cdhlegal.com

**Sanelisiwe Mpfana**  
Associate  
T +27 (0)11 562 1267  
E sanelisiwe.mpfana@cdhlegal.com

**Sidasha Naidoo**  
Associate  
T +27 (0)11 562 1422  
E sidasha.naidoo@cdhlegal.com

**Gareth Munnick**  
Associate  
T +27 (0)11 562 1563  
E gareth.munnick@cdhlegal.com

**Wandile Sishi**  
Associate  
T +27 (0)11 562 1697  
E wandile.sishi@cdhlegal.com

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### JOHANNESBURG

1 Protea Place, Sandton, Johannesburg, 2196. Private Bag X40, Benmore, 2010, South Africa. Dx 154 Randburg and Dx 42 Johannesburg.  
T +27 (0)11 562 1000 F +27 (0)11 562 1111 E jhb@cdhlegal.com

### CAPE TOWN

11 Buitengracht Street, Cape Town, 8001. PO Box 695, Cape Town, 8000, South Africa. Dx 5 Cape Town.  
T +27 (0)21 481 6300 F +27 (0)21 481 6388 E ctn@cdhlegal.com

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