SAM QRT Workshop

Asset Templates

April 2013

Agenda

- Welcome and introduction
- Background and guiding principles to the development of QRT's
- SAM Balance Sheet
- Asset QRT's
- General
- Questions and closure

"Renewed market confidence requires accurate valuation and the prompt disclosure of relevant risk information."

Source: CRO Forum – Insurance Risk Management Response to the Financial Crisis

Background and guiding principles to the development of the QRT's

DISCUSSION POINTS

- Reporting Task Group (RTG) Initiatives
- Formation of FIRe Working Group
- Guiding principles used by FIRe
- Output of FIRe
- Interaction with RTG
- Questions

RTG INITIATIVES

- RTG Terms of reference:

  "……..To deliberate and advise on the implementation of reporting requirements and standards based on Pillar III of the Solvency II Directive ……."

- RTG "feeds" into Pillar III sub committee as part of the SAM structures

- RTG membership: representatives from Industry, Consultants & FSB

RTG INITIATIVES (Cont)

- Used Solvency II templates as a starting point (terms of reference)
- Working Groups made excellent progress
- But then, decisions were required to progress further
- FSB input and guidance became critical
- FIRe was formed

FIRe

- **F**SB and **I**ndustry **Re**porting Working Group
- Smaller group; Industry and Consultants from across the sector
- FSB – HoD's, Pillar chairs, and others
- Guiding principles when FIRe commenced:
  - Separate and Combined FIRe meetings
  - What information the FSB would require and why
  - What is the best format in which to receive info
  - To use output of RTG as much as possible
  - Output of FIRe back to RTG

FIRe (Cont)

- Commenced by grouping required information into sections:

  Solvency, Liquidity, Volume, etc.

- Discussed and agreed in FIRe (Combined) meeting
- Then scanned various jurisdictions for format of reporting (Sol II, APRA, SARB, QIS II, etc.)
- For the Balance Sheet and Assets, the best fit was SA QIS II
- Then we mapped RTG output into QIS II format and feel and debated fit against FSB requirements

FIRe (Cont)

- Guiding principles in refining templates:
  - Risk based supervision
  - What to do with information
  - How to sort or filter information
  - Standardisation: closed lists, drop down boxes, CIC table
  - “Proportionality” by limiting egg. Industries, thresholds
  - One return for life and non-life
  - Attempt to link with Pillar I stresses & calculations
  - Comparatives – only Balance Sheet at this stage

FIRe (Cont)

- Reconciliation – Balance Sheet format, valuation differences only
- Standardised vs. Customised sheets; Company information will customise to some extent
- Log files; possibly to be augmented at later stage
- Mindful of software package functionality
- Vigorous debate!
  - Participations
  - Look through
  - Linked as defined, etc.

FIRe (Cont)

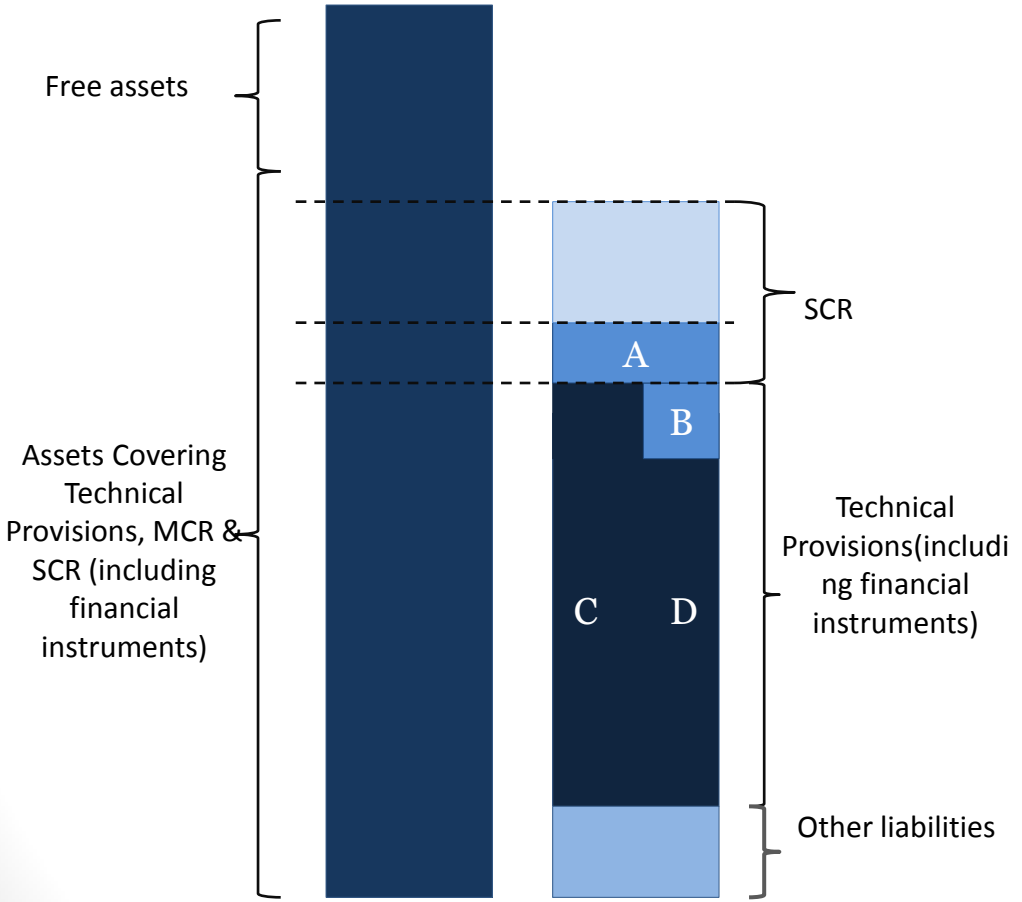
- Work in progress
  - Closed derivative trades
  - Spreading requirements
  - Asset / Liability matching
  - Actual thresholds still to be defined
  - Numbering of columns; Sequence of templates
  - Formulae
- Public comment following Steerco will be channelled back to RTG / FIRe as appropriate

SAM Balance Sheet

Overview and key elements

Pillar 1	Pillar 2	Pillar 3	Insurance Groups
Assets	Governance Framework	Private Reporting	Definition
Liabilities	Control Functions	Public Disclosure	Scope
Technical Provisions	Risk Management System	Qualitative reporting	Supervision
MCR	ORSA	Quantitative reporting	Methods of calculation
SCR	Stress testing	Quarterly and annual	
Own Funds			

SAM Balance Sheet



Assets include
- Goodwill
- Intangibles
- PPE
- Owner occupied property
- Participations
- Asset holding intermediaries
- Investments
- Derivatives
- Deferred and current tax
- Current and other assets

SCR reflects risk of the Total Balance Sheet
- Market Risk
- Counterparty Default Risk
- Life Underwriting Risk
- Non-life Underwriting Risk
- Health Underwriting Risk
- Operational Risk

Other Liabilities
- Deferred and current tax
- Contingent liabilities
- Employee benefits

A - MCR

B - Risk Margin

C - Market consistent valuation for hedgeable risk components

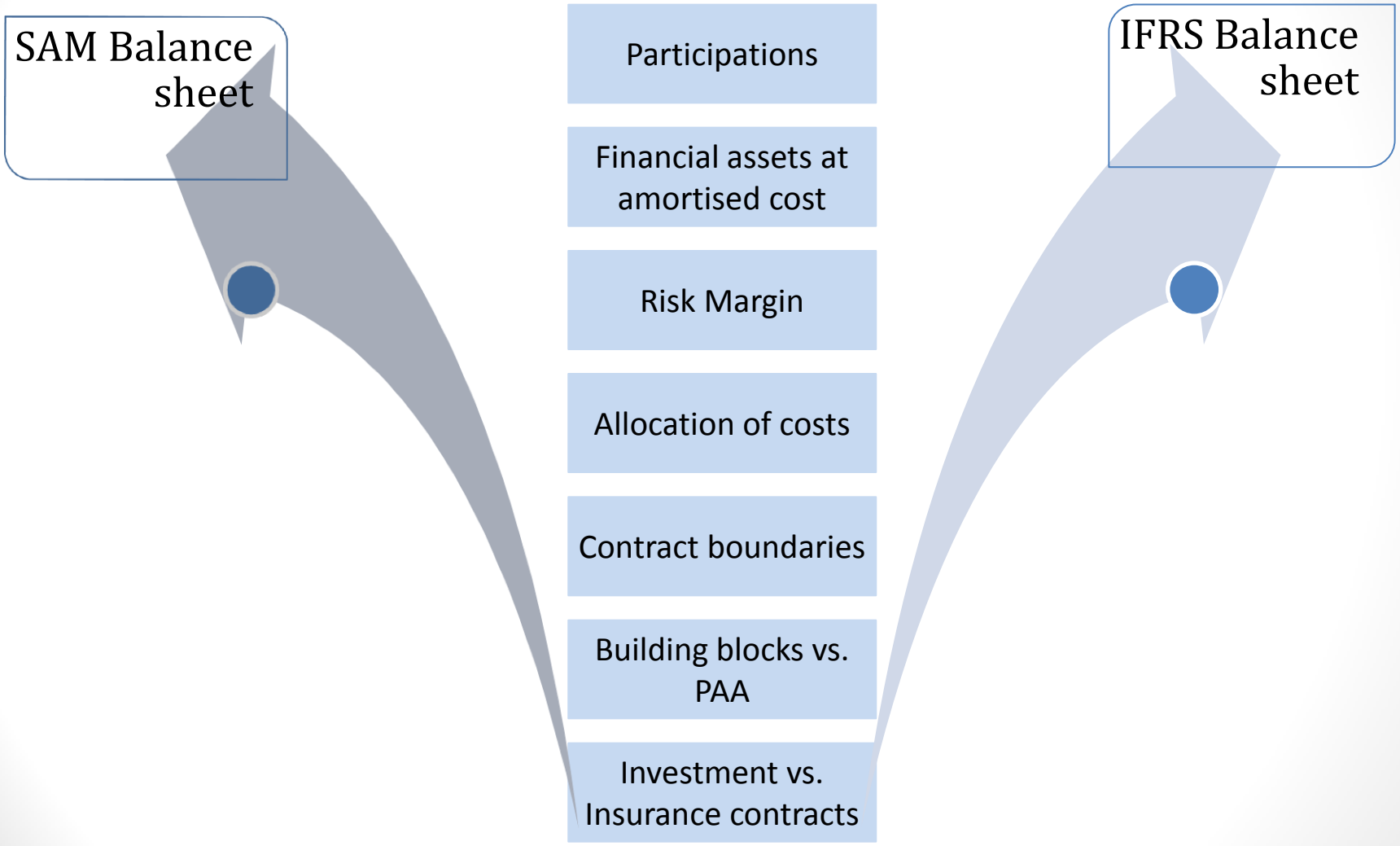
D - Best Estimate

B & D are for non-hedgeable risk components

SAM Balance Sheet

- Proposal for asset side of balance sheet, format and presentation.
- Comparative information and prescribed IFRS format.
- Value of investments sourced from asset templates.
- Each category of investments corresponds to a CIC ("Complimentary Identification Code").
- Reinsurance recoverables reported are from TP templates and Reinsurance receivables included in Other assets.
- SAM and IFRS values for remaining assets (e.g. Goodwill, Intangibles, PPE, Deferred tax, etc.).
- Technical provisions, own funds and other liabilities in development.

SAM vs. IFRS Balance sheet



Asset QRTs

Assets QRTs

D1- Investments

- D1.1- Government Bonds
- D1.2- Corporate Bonds
- D1.3- Equity
- D1.4- Investment Funds
- D1.5- Structured Notes
- D1.6- Collateralised Securities
- D1.7- Cash and Deposits
- D1.8- Mortgages and Loans
- D1.9- Property

D2- Derivatives

- D2.1- Futures
- D2.2- Call Options
- D2.3- Put Options
- D2.4- Swaps
- D2.5- Forwards
- D2.6- Credit Derivatives

D3- Participations

- D3.1- Strategic Consolidated participations
- D3.2- Strategic Non-Consolidated participations
- D3.3- Non-Strategic Consolidated Participations
- D3.4- Non-Strategic Non-Consolidated participations

Assets QRTs

D4- Asset Holding Intermediaries

D5- Investments Funds (Look-Through Approach)

D6- Securities Lending and Repos

D7.1- Assets held as Collateral

D7.2- Encumbered Assets

D8- Spreading Requirements

D9- Currents Assets

Assets QRTs

What is the CIC table?

- The complementary identification code (CIC) is an EIOPA Code used to classify securities.
- Code combines asset characteristics and risk exposures to allow supervisors aggregations and analysis.
- Some changes for SAM to adapt for South African circumstances.
- Help to overcome inconsistencies in asset identification.

Microsoft Excel - CIC table.xlsx

Complementary Identification Code (CIC) table

First 2 positions	Asset listed in	ISO 3166-1 alpha-2 country code or XL (for not listed) or XT (for not exchange tradable)														
Third position	Category	1	2	3	4	5	6	7	8	9	A	B	C	D	E	F
		Government bonds	Corporate bonds	Equity	Investment funds	Structured notes	Collateralised securities	Cash and deposits	Mortgages and loans	Property	Futures	Call Options	Put Options	Swaps	Forwards	Credit derivatives
		1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
		Central Government bonds	Common bonds	Common equity	Equity funds	Equity risk	Equity risk	Cash	Uncollateralized loans made	Property (office and commercial)	Equity and index futures	Equity and index options	Equity and index options	Interest rate swaps	Forward interest rate agreement	Credit default swap
		2	2	2	2	2	2	2	2	2	2	2	2	2	2	2
		Supra-national bonds	Convertible bonds	Equity of real estate related corporation	Debt funds	Interest rate risk	Interest rate risk	Transferable deposits (cash equivalents)	Loans made collateralized with securities	Property (residential)	Interest rate futures	Bond options	Bond options	Currency swaps	Forward exchange rate agreement	Credit spread option
		3	3	3	3	3	3	3		3	3	3	3	3		3
		Regional government bonds	Commercial paper	Equity rights	Money market funds	Currency risk	Currency risk	Other deposits short term (less than one year)		Property (for own use)	Currency futures	Currency options	Currency options	Interest rate and currency swaps		Credit spread swap
		4	4	4	4	4	4	4	4	4		4	4			4
		Municipal government bonds	Money market instruments	Preferred equity	Asset allocation funds	Credit risk	Credit risk	Other deposits with term longer than one year	Mortgages	Property (under construction)		Warrants	Warrants			Total return swap
Fourth position	Sub-category or main risk	5	5		5	5	5	5	5	5	5	5	5	5		
		Treasury bonds	Hybrid bonds		Real estate funds	Real estate risk	Real estate risk	Deposits to cedants	Other collateralized loans made	Plant and equipment (for own use)	Commodity futures	Commodity options	Commodity options	Security swaps		
		6	6		6	6	6					6	6			
		Covered bond	Common covered bonds		Alternative funds	Commodity risk	Commodity risk					Swaptions	Swaptions			
			7		7	7	7				7	7	7	7	7	
			Covered bonds subject to specific law		Private equity funds	Catastrophe and Weather risk	Catastrophe and Weather risk				Catastrophe and Weather risk	Catastrophe and Weather risk	Catastrophe and Weather risk	Catastrophe and Weather risk	Catastrophe and Weather risk	
			8		8	8	8				8	8	8	8	8	
			Subordinated bonds		Infrastructure funds	Mortality risk	Mortality risk				Mortality risk	Mortality risk	Mortality risk	Mortality risk	Mortality risk	
		9	9	9	9	9	9	9	9	9	9	9	9	9	9	9
		Other	Other	Other	Other	Other	Other	Other	Other	Other	Other	Other	Other	Other	Other	Other

Assets QRTs

How to use the CIC table?

- The classification of the assets is done in in the CIC table and should be read in conjunction with a definition sheet on the different classifications.
- First classification:
  - ISO 3166-1-alpha-2 country code (for listed) **or** XL (for not listed) or XT (for not exchange tradable).
  - ISO 3166-1-alpha-2 country code refers to the country of issue.
  - ISO 3166-1 alpha-2 codes are two-letter country codes defined in a standard published by the International Organisation for Standardisation (ISO), to represent countries, dependent territories, and special areas of geographical interest.
  - ISO 3166-2 code South Africa is ZA.
- Second classification:
  - The second differentiation of the tables are XL for not listed or XT for no exchange tradable.

Assets QRTs

How to use the CIC table?

- Third classification:
  - Category of assets from 1 - 9 which aligns to D1.1. to D1.9, or
  - Category of derivatives A - F which aligns to D2.1 to D2.6 .
- Fourth classification:
  - Done by type of sub-category (e.g. Central government bond), or
  - Main risk (e.g. equity futures).
- Examples
  - A listed treasury bond issued in SA will be classified as ZA15.
  - Cash in a current account will be classified as XT72.
  - An over the counter interest rate swap will be classified as XLD1.

Investments

Investments
D1.1 to D1.9

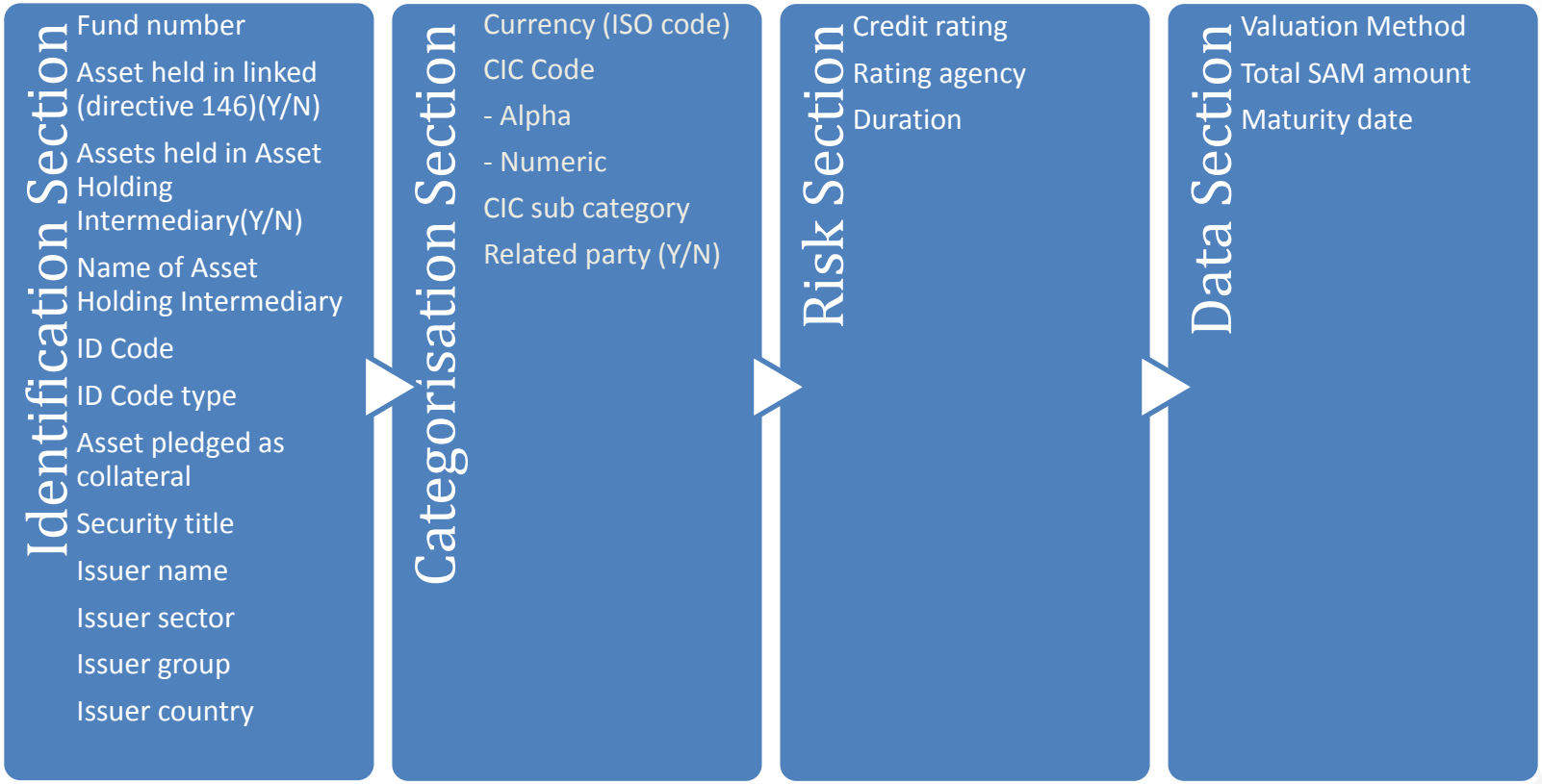
Purpose

- Provide information of a detailed list of investments for the regulator to understand both micro- and macro-risks.
- Give a full vision of the risks in the investment portfolio, to reduce the need for ad hoc requests to assess specific exposures of certain insurers and to enable market-wide analysis.
- Enable the regulator to have easy and quick access to specific information regarding valuation and risks on a specific class or type of asset, and also on the entire investments portfolio.
- Collecting assets information using a security-by-security approach to meet multiple requirements, benefiting the regulator, by offering complete flexibility in compiling aggregates that can change over time.

Data Fields

Investments
D1.1 to D1.9

Information to be reported for Investments fall under 4 sections:



Derivatives

Derivatives
D2.1 to D2.6

Purpose

- Required to report the cumulative and net position of all the derivatives hold at the time of the reporting period on a securities-by-securities basis.
- Provide information that is essential for both micro- and macro-supervisory.
- Include all derivatives contracts that existed during the reporting period and were not closed prior to the reporting date.
- Give a complete view of the risks in the investment portfolio and the risk mitigating strategies followed through the use of derivatives, reducing the need for ad hoc requests.

Data Fields

Derivatives
D2.1 to D2.6

Information to be reported for Derivatives fall under 3 sections:

Identification Section

- Fund number
- Asset held in linked (directive 146)(Y/N)
- Assets held in Asset Holding Intermediary(Y/N)
- Name of Asset Holding Intermediary
- ID Code
- ID Code type
- Asset pledged as collateral
- Security title
- Issuer name
- Issuer sector
- Issuer group
- Issuer country

Categorisation Section

- Currency (ISO code)
- CIC Code
- - Alpha
- - Numeric
- CIC sub category
- Delta

Data Section

- Notional amount
- Long or short position
- Trigger value
- Maximum loss under contract
- Maturity date
- Total SAM amount
- Methodology used

Participations

Participations
D3.1 to D3.4

Purpose

- Provide information on participations as defined in the Insurance Bill and is relative to the solo entity for solo reporting.
- Describe if the participation is strategic or not and whether the participation would be consolidated at group level or not.
- Provide information that is essential for both solo and group supervision.

Data Fields

Participations
D3.1 to D3.4

Information to be reported for Participations fall under 2 sections:

Identification Section

- Name of participation
- Asset held in linked (directive 146)(Y/N)
- % Holding
- Categorisation

Data Section

- Fair value of equity
- Fair value of intra-group balances
- Total SAM value

Asset Holding Intermediaries

Asset Holding Intermediaries - D4

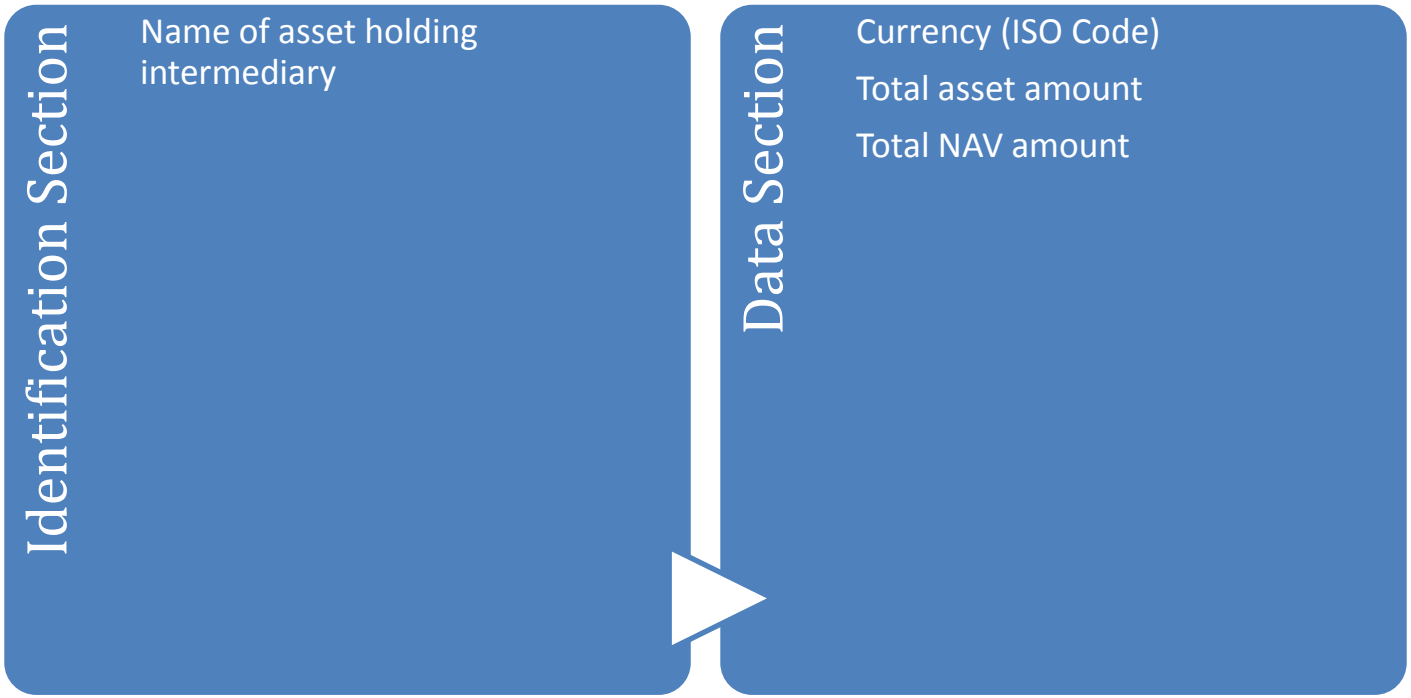
Purpose

- Provide the net asset value of investments in asset holding intermediaries carried on the SAM balance sheet.
- Provide the total value of investments disclosed in the underlying asset templates (e.g. D1.1 to D1.9) on a look through basis.
- Enable the regulator to have a summarised view of an insurers risk profile of total assets per asset holding intermediary.

Data Fields

Asset Holding Intermediaries - D4

Information to be reported for Asset Holding Intermediaries fall under 2 sections:



Investment funds
(Look through approach)

Investments Funds (Look-Through) – D5

Purpose

- Provide information for each investment fund, by main asset categories of the underlying investments and currency.
- Essential for a better understanding of insurers' investments through investment funds and reducing the need for ad hoc requests.
- The benefits for supervisory purposes and policyholder protection come from the fact that the look through approach, provides a greater insight on the insurer's risk profile, through main types of investments, that is not fully captured under the detailed list of investment funds in D1.4.

Investment funds
(Look through approach)

Investments Funds (Look-Through) – D5

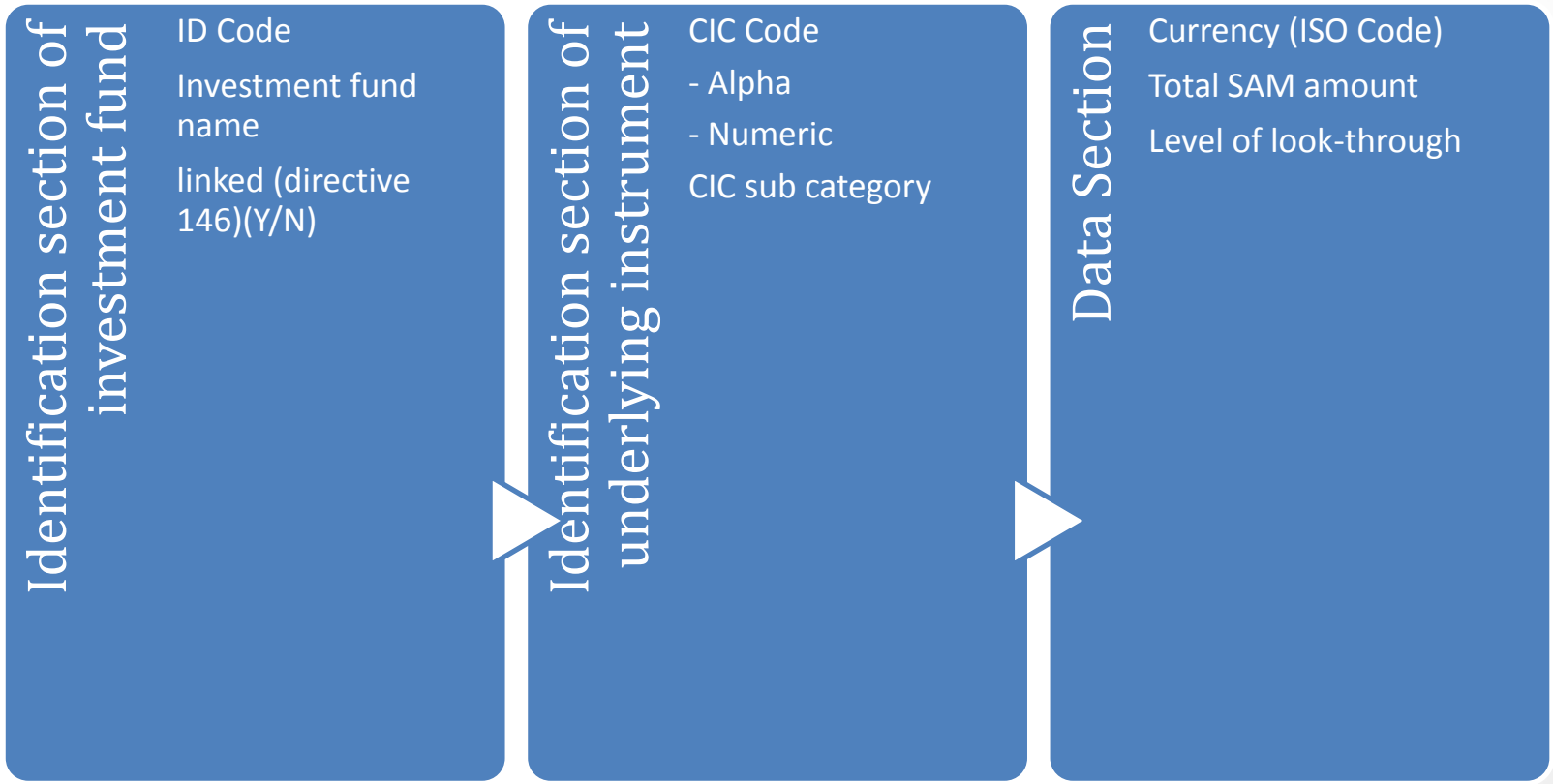
- Indicate the level of look-through used for a given fund:
  - Underlying Instrument (i.e. by main asset categories)

    For funds of funds, to perform as many iterations as necessary to ensure that all material risk is captured.
  - Investment Mandate: for collective investment schemes that are not sufficiently transparent, to use the mandate as a reference.
  - Investment Fund: for collective investment schemes that are not sufficiently transparent, to use assumed equity risk charge used in SCR.

Data Fields

Investments Funds (Look-Through) – D5

Information to be reported for Investment Funds (Look-Through Approach) fall under 3 sections:



Securities lending and Repos

Securities lending and Repos – D6

Purpose

- Integrate all relevant fields for supervisory needs regarding exposures to repurchase agreements (repos) and securities lending operations.
- The benefits for supervisory purposes and policyholder protection as this template enables to give a full vision of the repos and securities lending operations, which represent very specific risks.
- This is not asset by asset data, but by counterparty and by asset category (CIC code).
- Monitoring the probability of default of the counterparty and in conjunction with the information about assets pledged provided in D7.1, it is possible to monitor the probability of default of the underlying asset.

Data Fields

Securities lending and Repos – D6

Information to be reported for Securities lending and Repos fall under 2 sections:

Identification Section

- Fund number
- Asset held in linked (directive 146)(Y/N)
- CIC Code
- - Alpha
- - Numeric
- CIC category
- Type of repo/securities lending
- Buyer or seller/ lender or borrower

Data Section

- Counter party
- Collateralised (Y/N)
- Near leg amount
- Far leg amount
- Start date
- Maturity date
- SAM value

Assets held as collateral

Assets held as collateral - D7.1

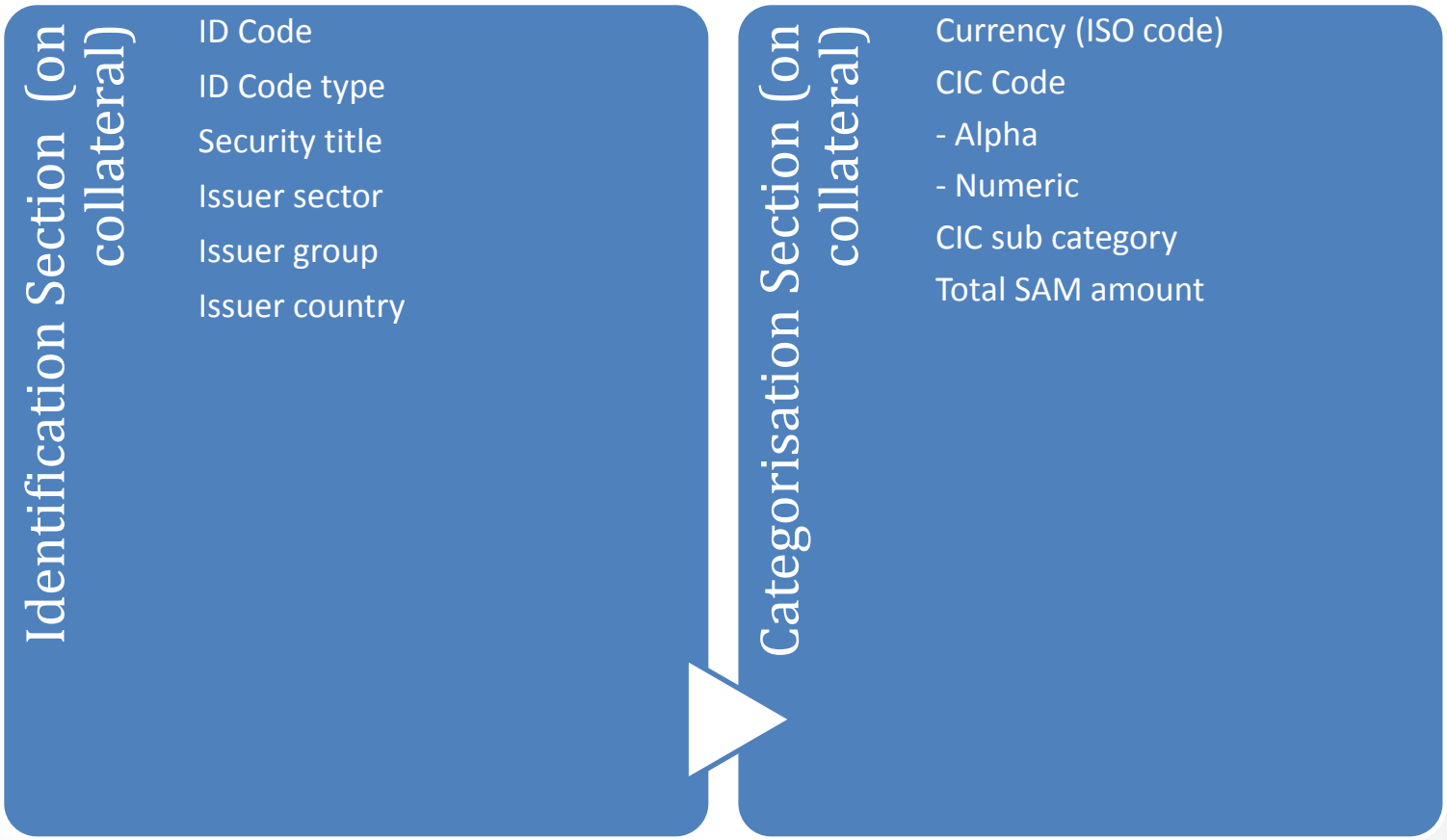
Purpose

- Provide enables the regulator to have easy and quick access to specific information regarding valuation and risks on a specific class or type of asset held as collateral but not on Balance Sheet.
- This template integrates all relevant fields for supervisory needs in the detailed list of assets held as collateral and includes all off-balance sheet type of investments (incl. all properties and participations, structured products, loans, bank deposits, etc) held as collateral.

Data Fields

Assets held as collateral - D7.1

Information to be reported for Assets held as collateral fall under 2 sections:



Encumbered assets

Encumbered assets - D7.2

Purpose

- Provide a detailed list of encumbered assets and to have quick and easy access to the information, which enables the regulator to identify whether regulatory approval was obtained.
- For asset holding intermediaries it provides the regulator insight whether any assets of such entities are encumbered as specific regulatory approval is not required for those entities.

Data Fields

Encumbered assets - D7.2

Information to be reported for Encumbered assets fall under 2 sections:

Identification Section (on the collateral)

- ID Code
- ID Code type
- Assets held in Asset Holding Intermediary (Y/N)
- Security title
- Issuer name
- Issuer sector
- Issuer group
- Issuer country

Categorisation Section (on collateral)

- Currency (ISO code)
- CIC Code
  - Alpha
  - Numeric
- CIC sub category
- Total Sam amount

Current assets

Current assets – D9

Purpose

- Provide in formation that enables the regulator to assess exposures and possible impairment indicators of current assets.

Data Fields

Current asset categories
Reference sheet
Current
More than 30 days
More than 60 days
More than 120 days
Sub total
Provision for impairment
Total

Request for industry comment

- Comments due by 15 May 2013.
- Self containing formulas still to be finalised as the templates are still under construction.
- QRT, item, cell and log file references or general comment.

THANK YOU