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# **SOLVENCY ASSESSMENT AND MANAGEMENT (SAM) UPDATE**

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Solvency Assessment and Management  
Insurance Regulatory Seminar  
19 October 2011 & 11 November 2011

# Agenda



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- SAM Background
- SAM QIS1
- Internal Models
- Next Steps

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# Introduction to SAM



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- New risk-based solvency regime for both long-term (life) and short-term (non-life) insurers and reinsurers, to be in line with international standards, based on Solvency II
- Target date January 2014
- Overarching principle: recommendations arising from the SAM project should meet the requirements of 3<sup>rd</sup> country equivalence under Solvency II, while being appropriately adapted to take account of local circumstances

# SAM guiding principles



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Same common principles and features as Solvency II:

- Economic balance sheet approach
- 3 pillar structure: quantitative requirements (Pillar 1), qualitative requirements (Pillar 2), and reporting and disclosure (Pillar 3).
- Principle of proportionality:
  - Requirements should reflect the nature, scale and complexity of the risks an insurer faces

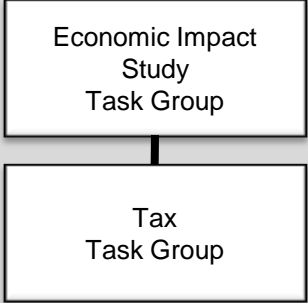
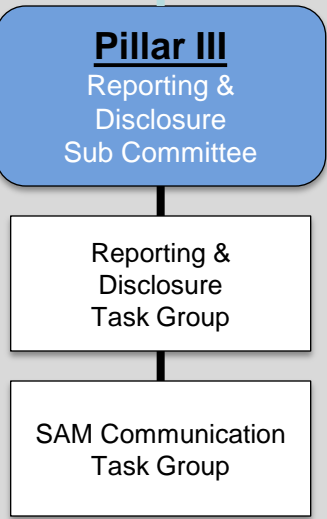
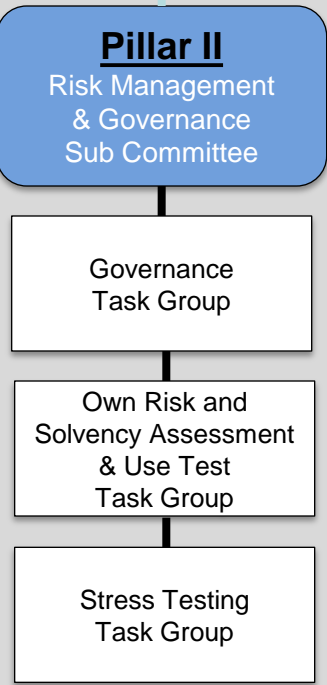
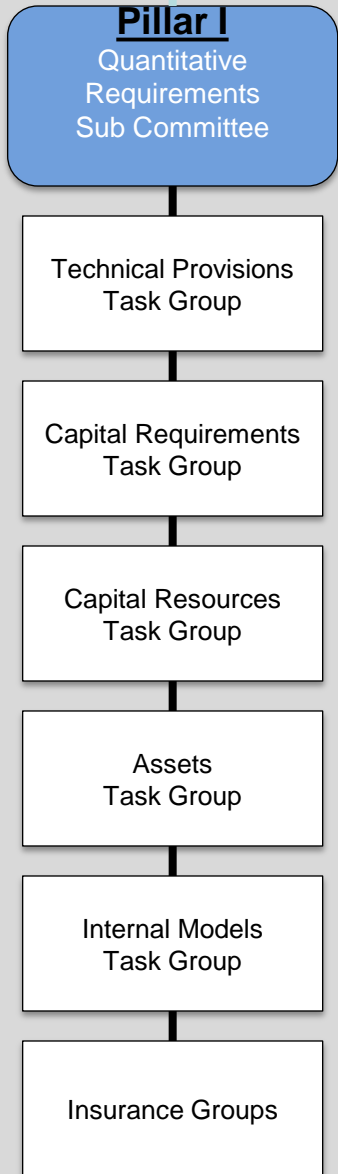
# SAM guiding principles (continued)



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- Primary purpose: the protection of policyholders
  - To align capital requirements with the underlying risks
  - To develop a proportionate, risk-based approach to supervision with appropriate treatment both for small insurers and large, cross border groups
  - To provide incentives to insurers to adopt more sophisticated risk monitoring and risk management tools – including developing full and partial internal capital models and increased use of risk mitigation and risk transfer tools
  - To maintain financial stability

# Solvency Assessment and Management (SAM) Steering Committee



**CONSULTING PROCESS**

## Stakeholders participating in the SAM Forum Structures

Insurance & Reinsurance Companies

The South African Insurance Association (SAIA)

Association for Savings & Investment SA (ASISA)

Actuarial Society of South Africa (ASSA)

National Treasury

The South African Institute of Chartered Accountants (SAICA)

South African Revenue Service (SARS)

IRBA

South African Reserve Bank (SARB)

# Interim measures



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- Revised requirements for the valuation of assets, liabilities and capital requirements for short-term insurers
- Insurance groups regulatory requirements
  - direct approach to supervision
  - group solvency, governance and reporting requirements
- Enhanced governance, risk management and internal control requirements

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# QIS 1 Analysis



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- Submissions were due on the 16<sup>th</sup> September
- 96 submissions received:
  - 94% of life insurance (by assets)
  - 91% of short term insurance (by net premium)
- Current analysis underway by FSB
  - Cleaning of data
  - Aggregation of data
  - Quantitative and qualitative analysis
  - Drafting of report
  - Production of information to working groups

# Uses for QIS1



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- Economic Impact Assessment task group
- SAM discussions
  - Techniques for technical provisions
  - Parameters used in the standard formula
  - Qualitative questionnaires
- For insurers own planning
- Entry criteria for IMAP

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# Steps in the IMAP process



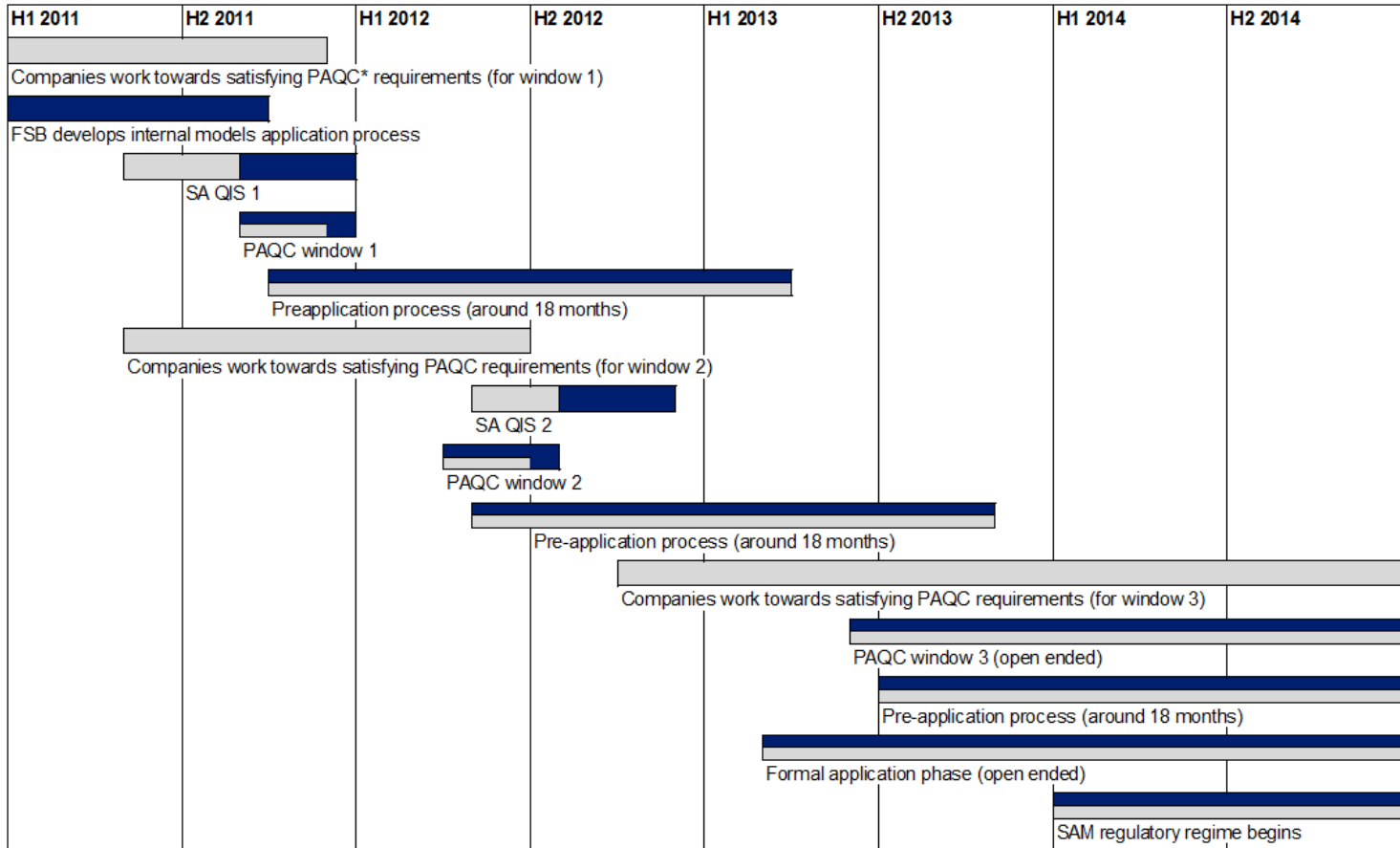
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- Pre-application qualifying criteria (PAQC)
- Initial discussions between FSB and the insurer
- Contents of Application Template and Self Assessment Template
- Work planning
- Pre-application reviews
- Ongoing meetings between FSB and insurer
- Internal decision making and feedback to insurer
- Application submitted to the FSB

# Timelines from IMAP update



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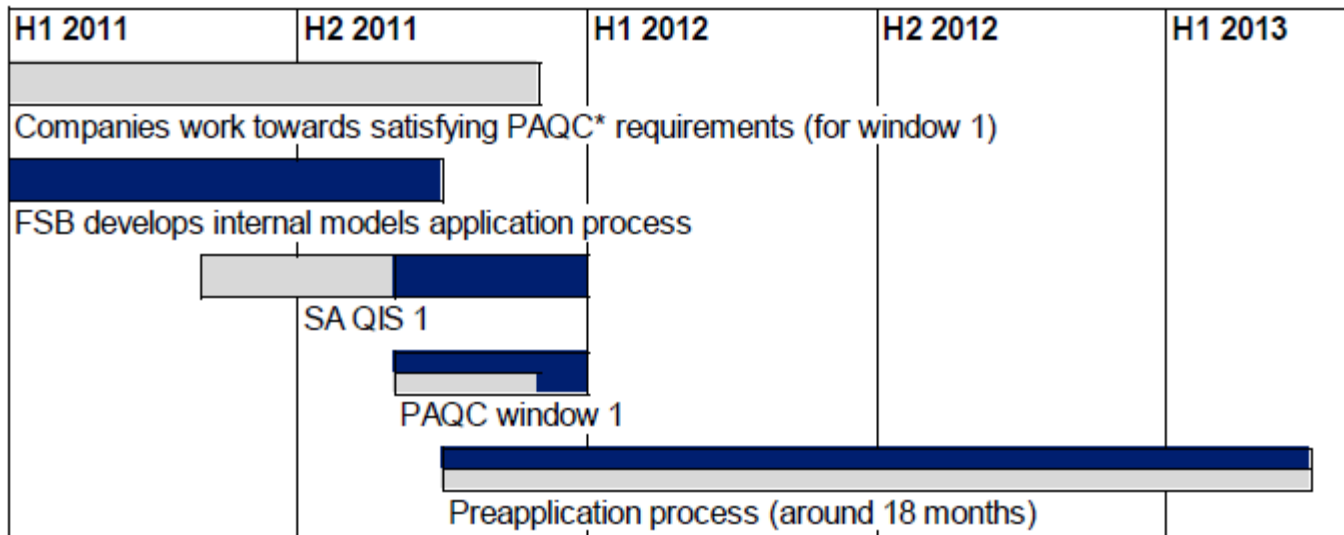
■ FSB Activity  
■ Insurer Activity

\* PAQC stands for pre-application qualifying criteria

# Timelines for the first wave



- Timescales for first wave



- Recent publications
  - Contents of application template
  - Independent review requirement

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# Next Steps



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- Preparing for interim measures
- Comprehensive implementation plans
  - People / Structure / Systems
  - Based on gap analyses
- Analysis of QIS 1 results
- Participation in SAM policy setting
- Completion of PAQC for insurers intending to use an internal model to calculate the SCR



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# Questions