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UPDATE ON THE SOLVENCY ASSESSMENT AND MANAGEMENT (SAM) PROJECT

Information letter 8/2009 (LT & ST) dated 08 December 2009, provided an initial indication of the proposed project structures and processes for the implementation of the new Solvency Assessment and Management ("SAM") regime for the South African long-term and short-term insurance industries.

This information letter provides an update on recent developments in the SAM project. These developments largely emanate from discussions in the respective SAM Sub-Committee meetings held during the course of February 2010 and subsequently ratified by the Steering Committee meeting of 1 March 2010.

1. SAM timelines

Following consultation with industry representatives and other stakeholders, the revised implementation date for the standardised approach for short-term insurers is January 2014. This means that both the standardised and internal model approach for both the long-term and short-term insurance industries will be implemented simultaneously in January 2014.

This decision was taken after due cognisance of the fact that the implementation date for Solvency II in the EU (for both the short-term and long-term insurance industries) is expected to be January 2013, and the fact that certain of the Pillar 2 (qualitative) and Pillar 3 (disclosure and reporting) requirements should be in place prior to the implementation of the revised Pillar 1 (quantitative) requirements.

However, certain interim requirements will be introduced by 2012, as discussed below. These measures will be introduced to address particular concerns related to governance, internal controls and risk management in both the long-term and short-term insurance sectors, as well as matters specific to technical provisioning and capital requirements in the short-term insurance sector.

2. Interim measures

2.1 Pillar 1 Quantitative requirements for short-term insurers

Aspects of both technical provisioning as well as capital requirements in the short-term insurance sector are currently not risk-sensitive. Consideration will be given to interim measures that revise the approach used in calculating provisions (such as IBNR

provisions) and capital requirements, utilising the analysis undertaken as part of the Financial Condition Reporting (“FCR”) exercise. These measures will constitute an interim step in the implementation of SAM requirements in 2014.

The Pillar 1 Quantitative Requirements Sub-Committee, and in particular the Technical Provisions and Capital Requirements Task Groups, will be requested to make recommendations on these interim requirements.

2.2 Pillar 2 Qualitative requirements for long-term and short-term insurers

Currently there are limited statutory requirements around governance, internal controls and risk management in both the long-term and short-term insurance sectors. The implementation of enhanced requirements in these areas cannot be postponed until 2014 and as such the Pillar 2 Governance and Risk Management Sub-Committee will be tasked with developing recommendations by 2012 on interim requirements in the areas of:

- Governance
- Internal controls
- Risk management
- Stress testing

2.3 Pillar 3 Statutory reporting for long-term and short-term insurers

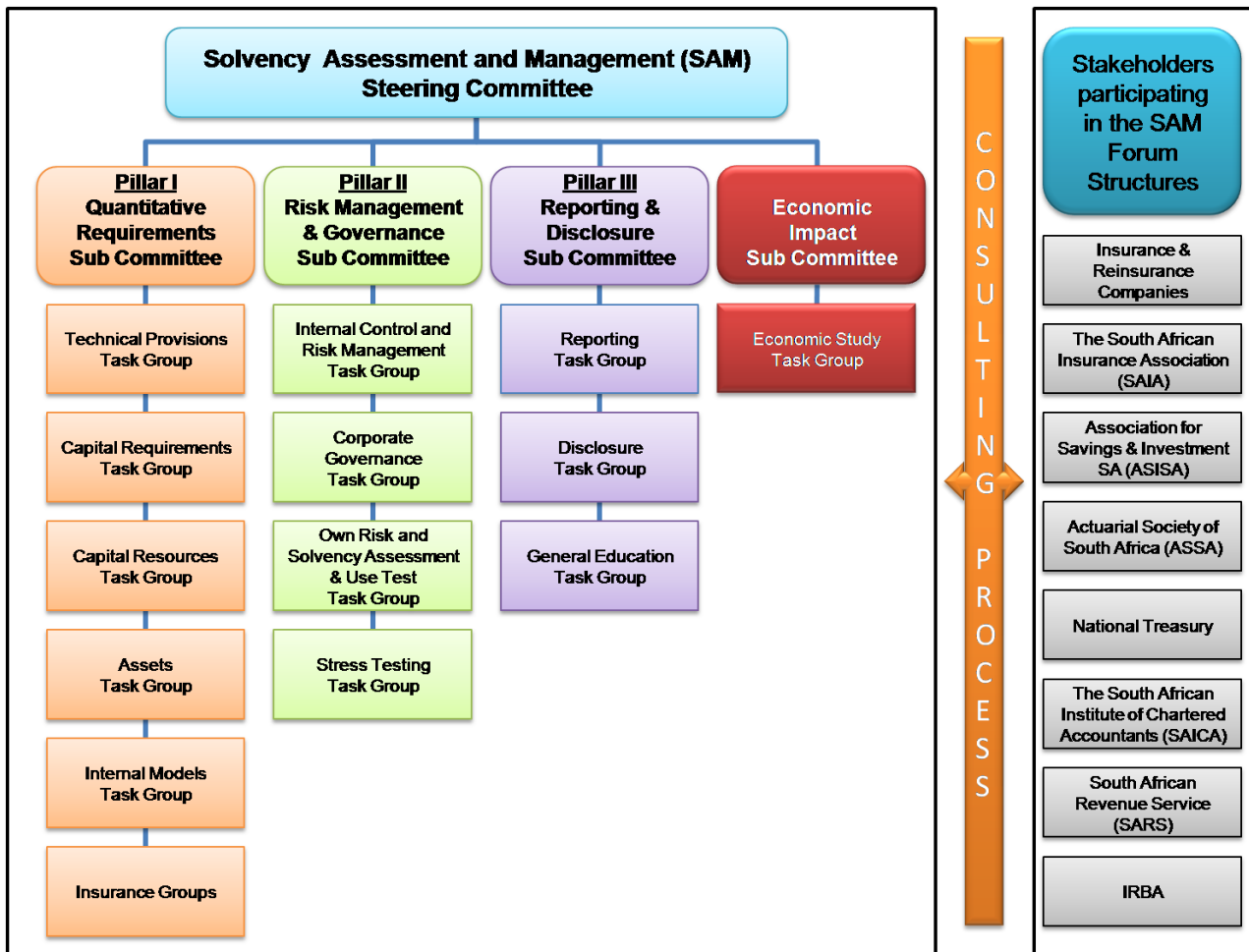
Some interim amendments will be made to statutory returns to enable a more risk-based approach to reporting by 2012.

2.4 Insurance Group regulation

The SAM regime will encompass supervision at both the solo entity and insurance group level. This will necessitate interim changes to legislation by 2012, specifically to address issues such as defining the concept of insurance groups and the scope of insurance group supervision.

3. Revised SAM project governance structure

The SAM project governance structure has been revised by the addition of a Pillar 1 Task Group on Insurance Groups, dedicated to developing proposals on additional quantitative requirements for insurance groups over and above those that apply to solo entities; and the addition of a representative from the Independent Regulatory Board for Auditors (“IRBA”) to the SAM Steering Committee.



4. Task Group Chairperson nominations

Members of various SAM Sub-Committees were requested to nominate individuals to chair the respective Task Groups. The list of the nominated Task Group Chairpersons, as ratified by the SAM Steering Committee, is provided below:

Task Group	Chairperson
Pillar I:	
Technical Provisions Task Group	David Kirk
Capital Requirements Task Group	David Park
Capital Resources Task Group	Alex Roux
Assets Task Group	Anton Reinke
Internal Models Task Group	Andries Schutte
Insurance Groups Task Group	Craig Pilgrim
Pillar II:	
Internal Control and Risk Management Task Group	Garth Griffin
Corporate Governance Task Group	Rob Newsome
Own Risk & Solvency Assessment & Use Test Task Group	Klaas van Wyk de Vries
Stress Testing Task Group	Hugo Louw
Pillar III:	
Reporting Task Group	Francois Kruger
Disclosure Task Group	Gerdus Dixon
General Education Task Group	Barry Scott

5. SAM Sub Committee and Task Group membership

We have received a gratifying number of membership nominations. Nominations to the Sub-Committees have closed, while the opportunity to nominate individuals to the various Task Groups is still open. The Chairpersons of the respective Task Groups will be requested to finalise the initial membership of the Task Groups over the coming weeks. Membership from a range of insurers by size and type will be encouraged, in consultation with SAIA and ASISA, to ensure proper representation. It has been agreed that as from March 2010 all requests for new nominations, cancellations and amendments will only be accepted from an organisation's SAM Coordinator.

6. SAM Coordinators

Notifications as to the SAM Coordinator for an organisation have been received from almost all insurers, and those insurers that have not yet done so are encouraged to provide a nomination over the coming weeks.

Please note that it is the role of the SAM Coordinator to ensure that where a principal member is unable to attend a meeting, the relevant alternate member is informed and prepared for the meeting.

7. SAM website

The FSB is developing a dedicated web portal for the dissemination of all documentation within the SAM structures. It is envisaged that the SAM website will be operational during April 2010.

Communication on SAM Project developments will continue to be provided on a regular basis.

Yours faithfully

J. DIXON
DEPUTY EXECUTIVE OFFICER: INSURANCE