

SAIA SAM PSO

Newsletter

Introduction

The dawn of the SAM regime for all (re)insurers is fast approaching, and companies, regulators and other major stakeholders are working around the clock to ensure that South Africa is adequately prepared. The implementation date for the new SAM legislation is 1st January 2014.

The SAIA SAM Project Support Office (PSO) has a number of initiatives lined up to provide our members with useful information and communication regarding the SAM process. One of these initiatives is the Smaller Specialised Niche Insurers Forum or SSNI Forum for short, which was established and became effective on the 5th November 2010. This forum will meet every six weeks to discuss pertinent developments regarding the SAM process. The forum provides our members with an opportunity to engage with each other and invited guest speakers, who are experts in their respective fields, regarding SAM issues.

We would like to encourage all our members to actively participate in this forum where valuable SAM information is shared and debate is encouraged.

Further useful information available to assist with the SAM process can be obtained by accessing the SAIA website under the SAM section. All SAM Coordinators of our SAIA member companies will be assigned dedicated usernames and passwords with which they are able to access the SAIA SAM PSO Webpage.

The SAIA SAM PSO would like to wish you all the best for the challenging year ahead. Please contact us should you require any further information regarding our objectives and SAM initiatives.

SAM Roadmap and Key Questions

The much anticipated SAM Roadmap was released to the public by the FSB on the 3rd November 2010.

The Roadmap highlights the various elements of the proposed SAM regime and identifies the most important milestones on the journey towards implementation in January 2014. The key elements of the Roadmap are drawn from the Solvency II Directive. The Roadmap should by no means be relied upon as a summary of the proposed SAM regime as proposals in this regard are still evolving. The Roadmap has specifically been constructed to assist insurers with their SAM implementation efforts by emphasising the important areas that insurers should take cognisance of.



A useful updated diagram of the SAM Governance Structure as well as diagrammatic illustrations of important SAM timelines can be found within the Roadmap. We would encourage all our members to read this document and to note the important dates and requirements that are mentioned. This year will be a particularly important year from a SAM perspective as much is required from insurers as they prepare for SAM.

Contained in Annexure 1 of the SAM Roadmap was a set of 27 questions that the FSB required to be completed by all insurers and returned to them by the 31st December 2010. According to the FSB the responses to these questions will form the basis for engagement with individual insurers in 2011. These questions will provide valuable assistance to the FSB as they will be able to gain a better understanding of insurers business practices and their SAM preparations. A copy of the FSB SAM Roadmap can be obtained on the FSB SAM website as well as on the SAIA SAM webpage.

Glossary Document

The Communication Task Group (formerly known as the General Education task Group) housed under Pillar III of the SAM Governance Structure has recently compiled a comprehensive "Solvency II Glossary Document".

This glossary document has been designed with the sole purpose to assist the various task groups with their objectives by providing useful definitions of terms applicable to the Solvency II legislation. The glossary document consists of approximately 88 pages of detailed definitions of terms, acronyms and expanded explanations of various Solvency II jargon.

The glossary document was compiled by referring to various international websites such as the CEA, the FSA and CEIOPS.

Included in the glossary are the relevant definitions of terms that appear in the Directive 2009/138/EC and other directives to which certain cross references have been made.

We would encourage you to obtain a copy of the glossary document should you require further information on the terms and definitions used by the Solvency II legislation. The glossary document can be obtained by accessing the FSB SAM website, the SAIA SAM PSO webpage or alternatively please contact the SAIA SAM PSO for assistance.

Tax Task Group

The SAM Roadmap contains the most updated diagram of the SAM Governance Structure. Two noticeable differences occur on this diagram from previously released versions, namely the change of name of the General Education Task Group (GETG) to the SAM Communication Task Group (C) under Pillar III and the introduction of a new Tax Task Group under the Economic Impact Sub Committee (Pillar IV).

According to the SAM Roadmap it is recognised that the outcome of the SAM project, with specific regards to reserving issues, may require amendments to the tax legislation pertaining to long-term and short-term insurers. The tax task group has thus been proposed to investigate the potential tax issues and considerations arising from the new SAM legislation.

It is suggested that the Tax task group will include representatives from the National Treasury, SARS, industry and the FSB.

This particular task group will be followed with keen interest especially as it deals with a few contentious tax issues that will have a direct effect on all insurers.

Internal Model Approval Process (IMAP)

Under the new proposed SAM regime insurers may choose to calculate their Solvency Capital Requirements (SCR) using either the Standard Formula or their own full or partial internal models.

According to the SAM Roadmap the FSB has signalled their intention and commitment to working with industry, to help insurers understand what is required, to give useful guidance with their preparations and thereby allowing the FSB to develop their own knowledge base in the process. Given the above commitment the internal model approval process will run concurrently with the development of the internal model standards and the drafting of relevant provisions in the subordinate legislation. The internal model approval process is to be split into a pre-application and application phase. The pre-application phase will enable insurers who are quite advanced with their internal model preparations to obtain early feedback from the FSB regarding the suitability of their models. The models will only receive full approval once the relevant legislation provisions have been enacted by Parliament.

The FSB will be publishing an Internal Model Application Process (IMAP) document early in 2011 providing final details of the internal model application process. Insurers who intend to apply for the use of internal models are encouraged to engage with the FSB early in 2011 providing detailed information as to the methodology of the internal model and the role it plays in decision making.

First submissions for the pre-approval process are due by September 2011. It is envisaged that a second pre-application process will take place in 2012 for those that missed the 2011 deadline.

Pre-application will increase the likelihood of successfully completing the internal model approval process, as the FSB will already have developed a view of the internal model output being available for model validation.

The FSB will liaise with insurers in the second half of 2013 as to the status of their internal model approval.

Role of the Statutory Actuary

The Internal Control & Risk Management Task Group and the Corporate Governance Task Group have in a joint effort established a working group to define the Role of the Statutory Actuary within SAM.

The Role of the Statutory Actuary (SA) has been identified as a key priority for the FSB and as such the need for a working group was established. The working group is currently seeking to define the current role of the SA and, after consulting with various papers on the topic from CEIOPS, ASSA, IAIS and the FSB, will offer its opinion as to where the SA will be placed in the governance structure as proposed by SAM.

The concept of a three lines of defence system is also currently being discussed and debated at the working group with specific regard to defining in which line of defence the SA should be placed.

As this assignment is proving to be rather challenging in nature we would like to appeal to our members for assistance in this regard, by providing your thoughts as to how you see the

role of the SA under SAM. It would be extremely valuable if you could provide any constructive information to the working group, regarding the current role of the Statutory Actuary within your organization and the future role of the SA within the new SAM regime.

Solvency II Snippets

- According to a recent survey completed by Towers Watson, only 10% of respondents believe that their internal models will pass the approval process. This, according to Towers Watson will be one of the greatest challenges facing insurers.
- Solvency II implementation date has been moved out from the 1st November 2012 to the 1st January 2013. The reason given for this move is purely pragmatic as more firms have a December year end.

- At the annual conference held by CEIOPS, Jonathan Faull the European Commission's director general of internal markets and services, said that they will consider ways in which they can simplify the system (Solvency II) without jeopardizing the economic risk-based approach which is at the heart of Solvency II. This was in response to the growing concern that Solvency II had become too complicated.
- According to a PWC Solvency II survey
 - 40% of respondents have no defined internal communication strategy in place
 - 43% of respondents rated quality and availability of data in their top three critical success factors
 - More than 80% of respondents see Solvency II as an opportunity to improve risk management
 - 65% of respondents will use the Standard Formula when Solvency II goes live