SAIA Publication of the South African Insurance Association
SAM NEWS
SAIA – (011) 726 5381 Issue 9 / 2011

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Proposed Insurance Classes under SAM

In September 2011, the FSB's SAM Steering Committee approved Discussion Document 29, ***"Authorisation classes of business under SAM"*** for industry comments.

The document is a comparison of the Solvency II Directive authorisation classes with international regulatory standards and approaches. According to the document the long-term merits of changing the current authorisation classes outweigh the benefits of retaining the current authorisation classes.

For short-term insurance the recommendation is to adopt the authorisation classes as set out in the Solvency II Directive with a few changes. It is noteworthy that the practical consequences of this proposed change are not insignificant.

The Solvency II Directive states that the taking up of insurance activities shall be subject to prior authorisation and that it is necessary to lay down the conditions and procedures for the granting and the refusal of such authorisation. Other than dealing with authorisation classes, the conditions and procedures referred to above were scoped out.

It is sensible for the authorisation classes and segmentation to have similarities, but the authorisation classes / segmentation requirements for different purposes should not necessarily be the same. The segmentation used for different purposes should depend on what is best for that purpose. The document, therefore, focuses on authorisation classes of business while segmentation for other purposes will be considered in separate discussion documents.

A number of principles were considered before the final recommendations were made. These principles and comments are summarised below:

Risk-based approach: Having a risk based authorisation classification will assist the FSB in assessing whether the insurer / reinsurer applying for a licence has the necessary resources to ensure the risks it is taking on are commensurate with its resources, leading to a regime where policyholders are better protected.

Relevance: Many jurisdictions have authorisation classes tailored to their particular environments. Examples include the ISR policies in Australia and the Title insurance policies in Canada. When adopting any authorisation class, the relevance of specific classes in the South African market needs to be considered.

Third country equivalence: Also important is CEIOPS CP 78 on the technical criteria for assessing 3rd country equivalence; with principle 2 dealing with authorisation requirements. It indicates no prescription on the authorisation classes but places emphasis on the authorisation process.

Practical consequences: Although the practical consequences of a proposed set of authorisation classes should not be the main focus when deciding on such a proposal it should never the less be considered. When assessing international practice regarding authorisation classes it is therefore important to consider the local relevance.

The proposals are significantly different from the current regime. Please see the table below for the proposed classes. It is also worth noting that *"assistance for persons who experience difficulties while travelling, while away and at their home / habitual residence"* has been proposed as a separate class.

Number and Class	**Description / Detail**
1. Accident	• Fixed pecuniary benefits
2. Sickness	• Fixed pecuniary benefits
3. Land vehicles a. Personal Lines b. Commercial Lines *Other than railway rolling stock*	• All damage to or loss of: ○ Land motor vehicles ○ Land vehicles other than motor vehicles
4. Railway rolling stock	• All damage to or loss of railway rolling stock
5. Aircraft	• All damage to or loss of aircraft
6. Ships *Sea, lake and river and canal vessels*	• All damage to or loss of: ○ River and canal vessels ○ Lake vessels ○ Sea vessels

Number and Class	Description / Detail
7. Goods in transit *Including merchandise, baggage, and all other goods*	• All damage to or loss of goods in transit or baggage, or money, or merchandise, irrespective of the form of transport [The goods and baggage referred here is not the same as the baggage referred to in travel insurance. These refer to items of a commercial nature.]
8. Property a. Personal Lines b. Commercial Lines	• All damage to or loss of property (other than property included in classes 3, 4, 5, 6, 7 and 9) due to: o Fire o Explosion o Storm o Hail o Frost o Natural forces other than storm o Nuclear energy o Any event such as theft • Business interruption cover, including o Unforeseen trading expenses o Loss of rent or revenue
9. Engineering	• All damage to or loss of, possession, use or ownership of machinery or equipment, the erection of buildings, or other structure of the undertaking of other works, or the installation of machinery or equipment. This excludes all liabilities arising and it also excludes motor vehicles.
10. Motor vehicle liability a. Personal Lines b. Commercial Lines	• All liability arising out of the use of motor vehicle operating on the land (including carrier's liability)
11. Aircraft liability	• All liability arising out of the use of aircraft (including carrier's liability)
12. Liability for ships *Sea, lake and river and canal vessels*	• All liability arising out of the use of ships, vessels or boats on the sea, lakes, rivers of canals (including carrier's liability)
13. General liability a. Personal Lines b. Commercial Lines	• All liability other than those referred to in classes 10, 11 and 12
14. Credit	• Insolvency (general) • Export credit • Instalment credit • Mortgages • Agricultural credit

Number and Class	Description / Detail
15. Suretyship	• Suretyship (direct) • Suretyship (indirect)
16. Miscellaneous	• Employment risk • Insufficiency of income (general) • Bad weather • Loss of benefits • Continuing general expenses • Loss of market value • Other indirect trading loss • Other non-trading financial loss • Other forms of financial loss • Warranties
17. Legal expenses	• Legal expenses and costs of litigation
18. Travel Insurance	• Damage and/or losses arising due to cancellation, interruption, loss of property, (including baggage), or other unforeseen events before, while and after travelling.
19. Assistance	• Assistance for persons who experience difficulties while travelling, while away and at their home / habitual residence.

For further information regarding Proposed Insurance Classes under SAM please contact Nico Esterhuizen at nico@saia.co.za

The SAIA SAM High Level SA QIS1 Survey

Introduction

Another important milestone on the journey to SAM implementation in 2014 has been achieved with the successful completion of the First South African Quantitative Impact Study ***(SA QIS1)***. According to figures released by the FSB an astounding 96 submissions were received representing 91% of the short term insurance industry (by net premium). Insurers and reinsurers were given four months in which to complete the SA QIS1.

The SAIA SAM Project Support Office undertook a brief high level SA QIS1 telephonic survey to assess the overall participation of the SAIA members in the SA QIS1 and to identify potential challenges that were encountered. Our survey began on 14 September

2011 and was concluded by 30 September 2011. Within this brief period 90% of our SAIA members responded to our survey of which 73% had submitted the SA QIS1 to the FSB.

It is important to bear in mind that the results of our survey might differ from the results issued by the FSB as the information is based on verbal feedback, without any physical verification and before correction of any potential errors in the submissions.

Some Interesting Findings

- An encouraging 86% of the members who participated in the survey indicated that they had sufficient own funds available to cover the capital requirement as determined by the SA QIS1.
- 36% of respondents faced a capital requirement increase in excess of 50%.
- 68% of respondents completed the SA QIS1 exercise with the involvement of external consultants.
- 57% of respondents found the guidance from the FSB for completion of the SA QIS 1 sufficient, however most had reservations regarding the overall guidance which they felt could have been more structured.
- There was substantial room for own interpretation however 53% of respondents surveyed felt that this was justifiable and acceptable.
- Approximately 54% of members surveyed were satisfied that the SA QIS1 did address or take into account the SA market environment in general albeit not entirely.
- The majority of those surveyed expressed a sense of satisfaction that they had participated in the SA QIS1 as this provided them with a greater understating as to the actual impact that SAM will have on their business.

Some Challenges

- A great deal of understanding was required regarding the scope of the technical specifications.
- The completion of the SA QIS1 proved to be an arduous task due to the complexity and the sheer volume of the work involved. The amount of granularity required also proved challenging.
- The Catastrophe scenarios require further refinement and adaptation to be more indicative of the South African environment according to a large number of respondents.
- Data proved to be quite a challenge for most respondents surveyed. In general most had enough data to complete the SA QIS1 but expressed a concern as to the quality, reliability and availability of the data. In some cases a number of assumptions had to be made regarding the data used for completion of the SA QIS1.
- Resources were strained and as such a number of our members completed the SA QIS1 with the assistance of external consultants.
- Understanding and properly segmenting their businesses as required by the SA QIS1 proved challenging to a large number of respondents.
- Some felt that the SA QIS1 did not adequately allow for non-proportional reinsurance.

Conclusion

The information extracted from the SA QIS1 exercise will not only assist the FSB with the calibration of the Standard Formula, but will also provide important information and input for consideration in the Economic Impact Study.

The completion of the SA QIS1 exercise has given some shape and character to the SAM Skeleton, as insurers and reinsurers prepare for the inevitable change in the way that they manage their capital under the new proposed SAM regime.

Insurers and reinsurers that participated in the SA QIS1 exercise finally have a tangible set of numbers regarding their overall Solvency Capital Requirement.

The complete survey can be obtained by accessing the SAIA SAM webpage or alternatively by contacting us directly should you require any further information.

For further information regarding the SAIA SAM High level Survey please contact Gareth van Deventer at gareth@saia.co.za

SAM Snippets

- The FSB has ***officially completed*** the restructuring of their Insurance Division and have finalised all positions. The restructured Insurance Division with the respective Heads of Departments are as follows:
    - *DEO Insurance – Jonathan Dixon*
    - *SAM Unit – Ian Marshall*
    - *Insurance Groups Supervision Department – Suzette Vogelsang*
    - *Micro Insurance Department – Jacky Huma*
    - *Insurance Regulatory Framework Department – Jo-Ann Ferreira*
    - *Insurance Compliance Department – Lesedi Letwaba*
    - *Insurance Prudential Department - Kerwin Martin*

- The FSB are currently analysing the results of the recently completed SA QIS1exercise and a formal report on the results is expected to be released by the end of November 2011.

- The FSB recently hosted two workshops on the proposed Interim Measures that will take effect in 2012. The workshops were well supported with approximately 320 delegates attending the Johannesburg event and close to 100 delegates turned out at the Cape Town event. Copies of the presentations are available on the FSB's website and on the SAIA SAM Webpage.

- The following Discussion Documents were recently released for public comment by the FSB:

    - ***Discussion Document 25 v 4: Own Funds – Supervisory approval of ancillary own funds***
    - ***Discussion Document 29 v 4: Authorisation classes of business under SAM***
    - ***Discussion Document 48 v 2: SCR Standard Formula-Correlations***
    - ***Discussion Document 54 v 3: Internal Models: Model Governance***

  The FSB has requested that comments pertaining to the above Discussion Documents be submitted to them by the ***11th November 2011*** for consideration.

- The Reporting and Disclosure Task Group has begun preparing to work through the Quantitative Reporting Templates **(QRTs')** that are expected to be released in the E.U for public comment in the month of November. In the E.U. it is proposed that these **QRT's** are completed on a quarterly and annual basis which will have a significant impact on insurers and reinsurers due to the onerous nature of these templates. The Task Group will be scrutinising these templates with the objective of ensuring that these are relevant to the SA environment and attempt to alleviate the burdensome requirements posed by these new templates.

- The number of Discussion Documents being generated by the SAM Governance Structure continues to climb and now stands at 88. These Discussion Documents will be considered and used by the FSB Drafter in designing the first draft of the Subordinate Legislation which is expected to be complete by the end of January 2012.

- We would like to encourage our members to share your thoughts and engage with each other regarding SAM by making use of our SAIA SAM Online Discussion Forum hosted on the ***www.LinkedIn.com*** website. We hope that through the use of our online forum our members are able to challenge, debate and influence the design of the new proposed SAM regime. We would like to further encourage any individual within your organisation to feel free to contact us and sign up for free membership of our SAIA SAM Online Discussion Forum.

For further information on these SAM Snippets please contact Gareth van Deventer at ***gareth@saia.co.za***

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Solvency II equivalence 'with certain caveats'

August 29, 2011, By Gideon Benari

The launch of the public consultation on the Solvency II equivalence of Bermuda, Japan and Switzerland is the last chance for market participants to comment on EIOPA's advice on the 'first wave' of third country assessment. All three countries were found to meet the equivalence criteria "with certain caveats". In some cases these caveats state – "not equivalent".

Seeking Solvency II equivalence

The equivalence assessment aims to ensure countries and their supervisory regimes "provide a similar level of policyholder/beneficiary protection as the one provided under the Solvency II Directive."

Equivalence may be sought in three areas as defined by specific articles in the Framework Directive:

- Reinsurance (Article 172) for obtaining reinsurance outside EEA;
- Group Solvency Calculation (Article 227) for an EEA parent company with a subsidiary in a third country; and
- Group Supervision (Article 260) for a parent company in a third country with a subsidiary in the EEA.

For each article, equivalence is assessed on the relevant principles contained in the Solvency II Directive.

Switzerland

The Swiss Financial Market Supervisory Authority (FINMA) sought equivalence under all three articles and was found to meet the equivalence criteria "with certain caveats".

While it met the equivalence criteria for group solvency calculation, in relation to reinsurance and group supervision (Articles 172 and 260 respectively), the EIOPA consultation report found Switzerland to be only "partly equivalent" for governance and public disclosure requirements (Principles 4 and 10). The report said, "We note that its [FINMA's] public disclosure requirements are not as extensive as those under Solvency II." In the detailed notes on disclosure, EIOPA added, "There is no public disclosure required for any insurers in the areas covered by the Solvency II solvency and financial condition report."

The assessment notes that FINMA is reviewing this area and its equivalence will be reassessed once the review is complete.

According to FINMA, Switzerland is seeking equivalence with Solvency II so that the process of insurance group supervision can be streamlined. A spokesperson told *Solvency II Wire*, "We are pleased that the Swiss regulatory regime was deemed equivalent by the initial EIOPA assessment in all criteria except certain aspects of governance and public disclosure. We are aware of the issues raised by EIOPA and are engaged in an ongoing review process to evaluate and, where needed, address specific areas."

Bermuda

The Bermuda Monetary Authority (BMA) also applied for equivalence under the three articles, thought it did not fare as well. Although Bermuda met all three equivalence criteria "with certain caveats", the EIOPA report stated, "EIOPA cannot positively conclude on the current valuation framework, given the variety of different valuation standards available, or on the proposed valuation standards, given the material uncertainties which remain around the economic balance sheet framework being developed."

What's more, for both reinsurance and group supervision, the BMA was found to be "not equivalent" on principles relating to changes in business, management and qualifying holdings (Principles 5 and 11), primarily because the reporting requirements are not legally binding.

"To be equivalent to Solvency II would require legally binding criteria to achieve a clear set of business change situations necessitating BMA approval rather than relying on internal and unpublished supervisory practice," EIOPA said.

EIOPA also noted the significant outsourcing market in Bermuda, especially for captives. "Full equivalence would require legally binding requirements around the notification process for the outsourcing of key functions. Furthermore, the BMA would also need to develop publicly available guidance regarding the documents and information required for an appropriate shareholder controller assessment."

The BMA would not comment on specific caveats, saying only that the process is at an early stage and the final decision will be made by the European Commission in 2012.

In a press release it said it was "pleased to note" the preliminary assessment of its regulatory framework by EIOPA. "In particular," the release stated," we note the alignment of our regime with Solvency II principles in key areas such as the scope of group supervision and the solvency regime for groups." It also said it will continue working with EIOPA to address the outstanding issues.

Japan

Unlike Switzerland and Bermuda, Japan is only seeking equivalence for reinsurance (Article 172). And, like the other two authorities, the Japanese Financial Services Authority's (JFSA) regulatory regime was found to be equivalent "with certain caveats".

The JFSA was found to be ‘largely equivalent” regarding reinsurance business authorisation (Principle 3) and governance and public disclosure (Principle 4). In respect of the latter the EIOPA report said, “There is scope for encouraging and facilitating further auditors’ reporting to the supervisory authority where problems are discovered or the performance of the insurer is deteriorating.”

But the JFSA was only found to be “partially equivalent” with regards to its solvency regime for reinsurers (Principle 6), and EIOPA raises some questions about market consistent valuation of assets. In particular there were reservations on the larger amount of derivatives and other products allowed compared with Solvency II.

Being “not equivalent”

The consultation is an opportunity for market participants and interested parties to comment on the equivalence assessment. No doubt the caveats will require further work by the relevant regulatory authorities. For example, it is not clear if being found to be “not equivalent” on a single principle would mean the entire equivalence for that article would be refused.

Equivalence must also adhere to the proportionality principle of the Solvency II Directive. The introduction to the three consultation reports note EIOPA’s May 2008 advice on proportionality, which states that “The individual risk profile should be the primary guide in assessing the need to apply the proportionality principle.” And, as with much else surrounding Solvency II, the fact that the Directive text is not yet finalised compounds the challenges.

A spokesperson for EIOPA told *Solvency II Wire*, “This is a technical assessment made on a principle by principle basis. It would be inappropriate to draw a direct comparison between the countries. EIOPA was only asked to provide technical recommendations and the ultimate decision on equivalence will rest with the European Commission.”

The public consultation closes on 23 September. After that, EIOPA will pass its final advice of the equivalence assessment to the European Commission by the end of October and, it said, it will aim to publish the comments received around that time.

The final decision on equivalence (due in the summer of 2012) will be made by the European Commission, although it is not bound by EIOPA’s recommendation. Thus any unanswered technical questions on equivalence may land up having a political answer.

Article taken from: http://solvencyiiwire.com/solvency-ii-equivalence-%e2%80%98with-certain-caveats%e2%80%99/3151#utm_source=feedburner&utm_medium=email&utm_campaign=Feed%3A+SolvencyiiWire+%28Solvency+II+Wire+main%29