



Financial
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Update on SAM Progress

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Head: SAM Unit
SAM Workshop
18 May 2012 & 21 May 2012

Agenda



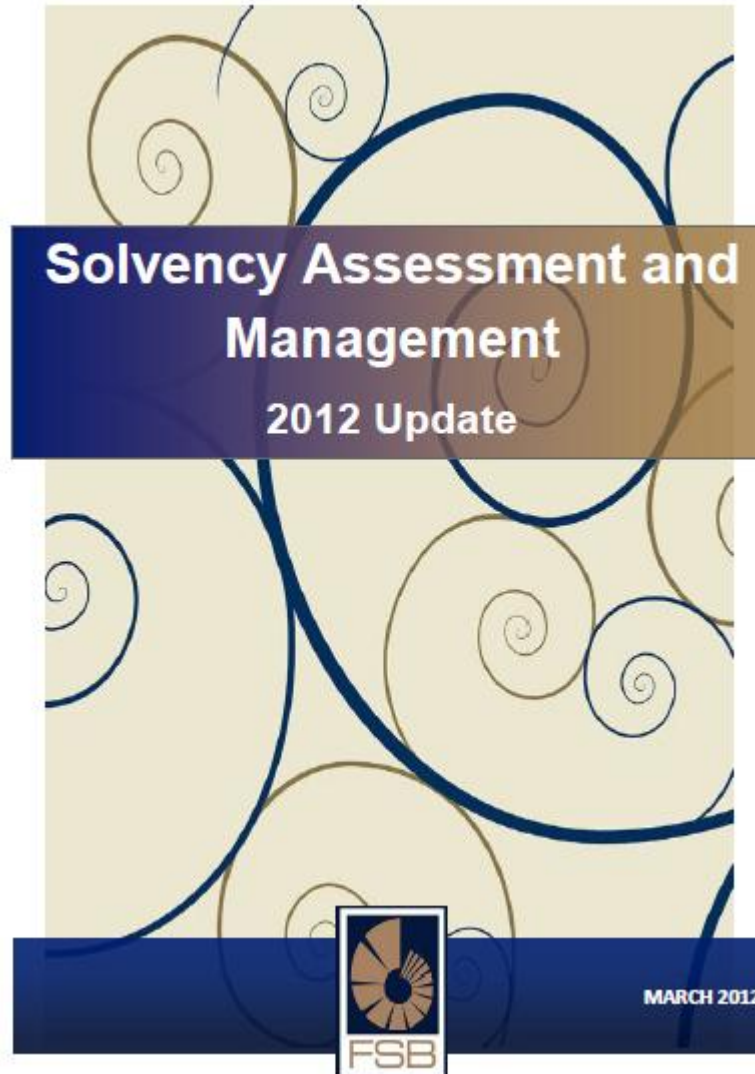
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- **SAM 2012 Update**
- **Pillar II Readiness Review**
- **Internal Model Update**

SAM 2012 Update

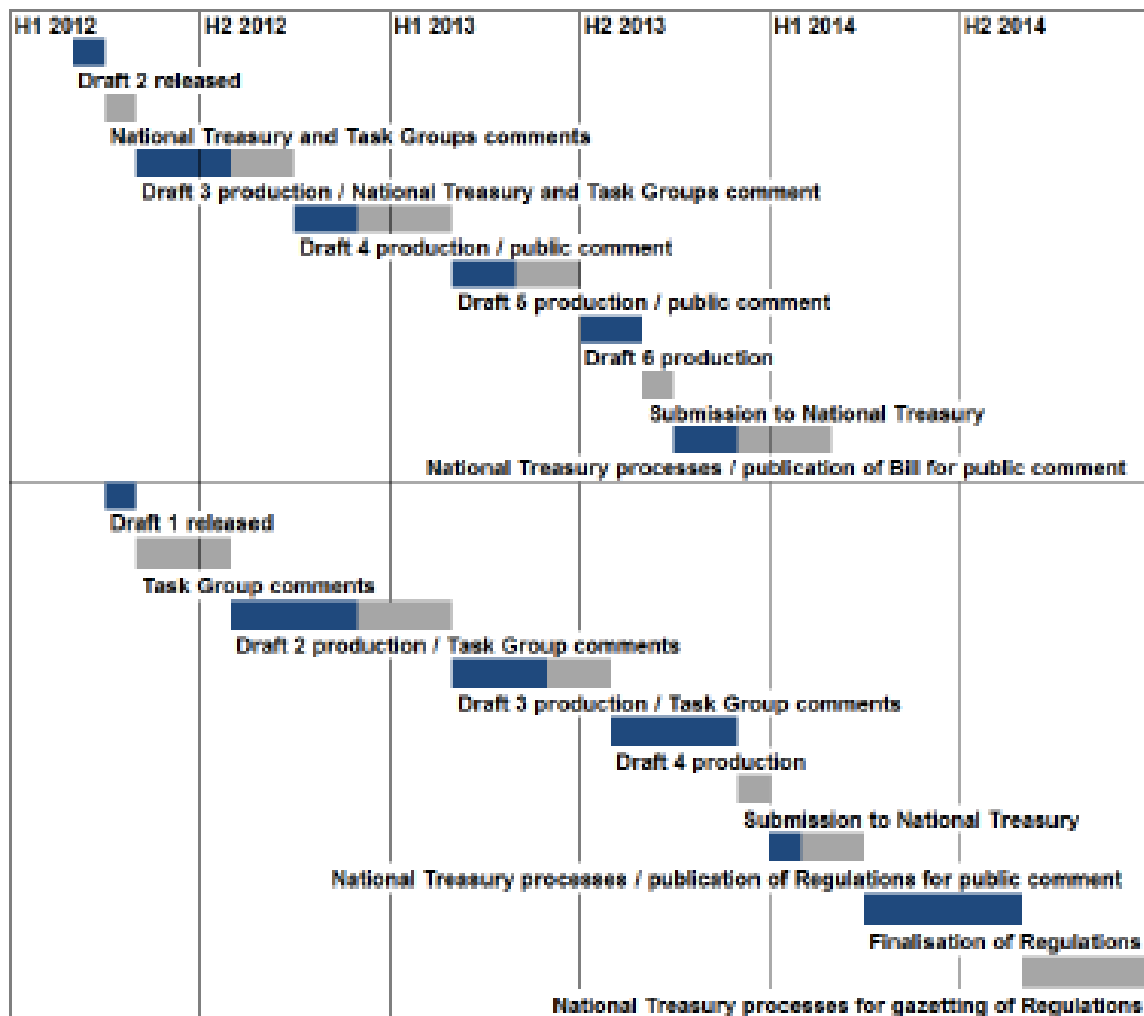


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SAM 2012 Update – Revised Timelines

Figure 2: Revised SAM Road to Parliament Timeline

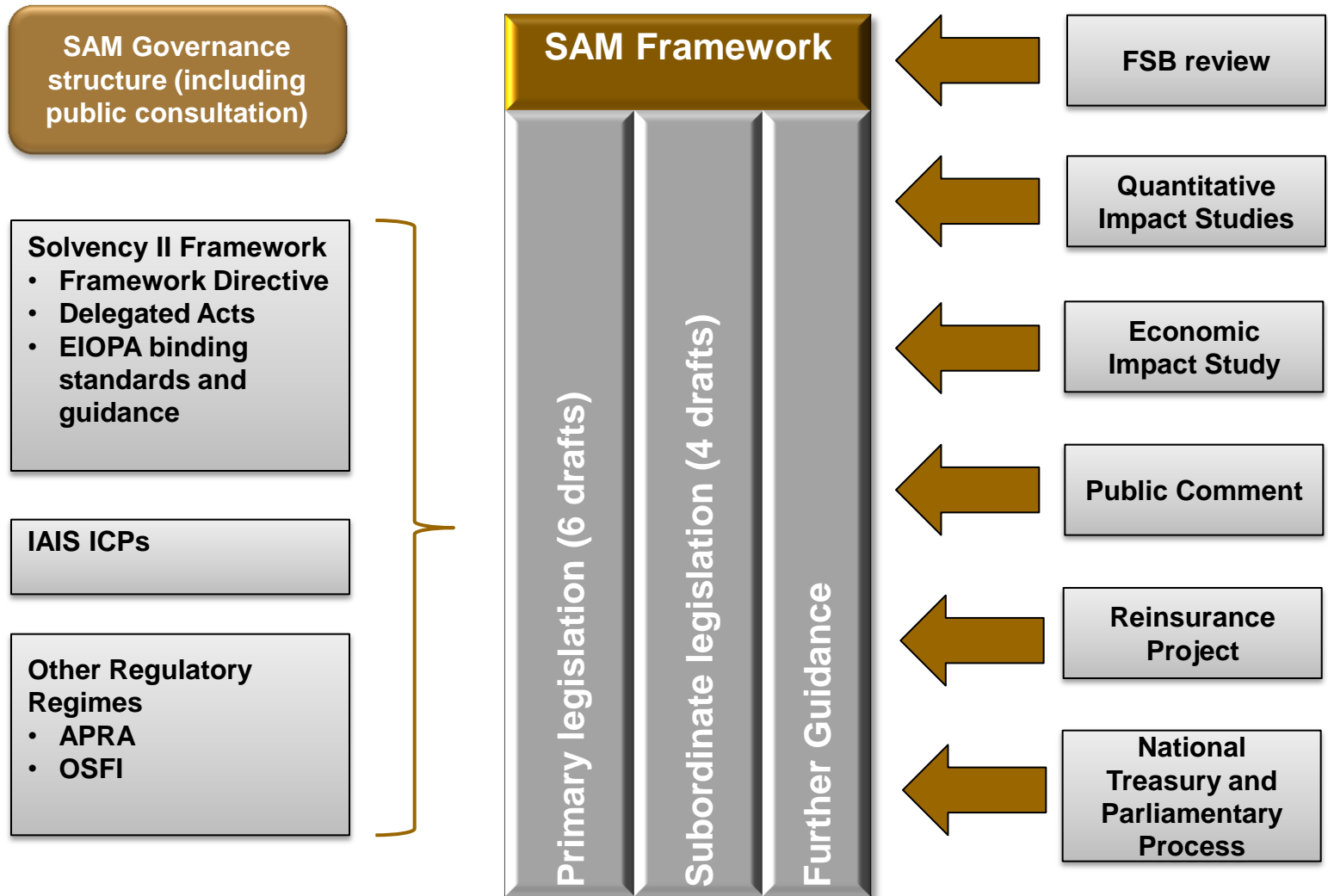


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Developing the SAM Framework



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Solvency Assessment and Management (SAM) Steering Committee

Pillar I Quantitative Requirements Sub Committee

Technical Provisions Task Group

Capital Requirements Task Group

Capital Resources Task Group

Assets Task Group

Internal Models Task Group

Insurance Groups

Pillar II Risk Management & Governance Sub Committee

Governance Task Group

Own Risk and Solvency Assessment & Use Test Task Group

Stress Testing Task Group

Pillar III Reporting & Disclosure Sub Committee

Reporting & Disclosure Task Group

SAM Communication Task Group

Economic Impact Study Task Group

Tax Task Group

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)

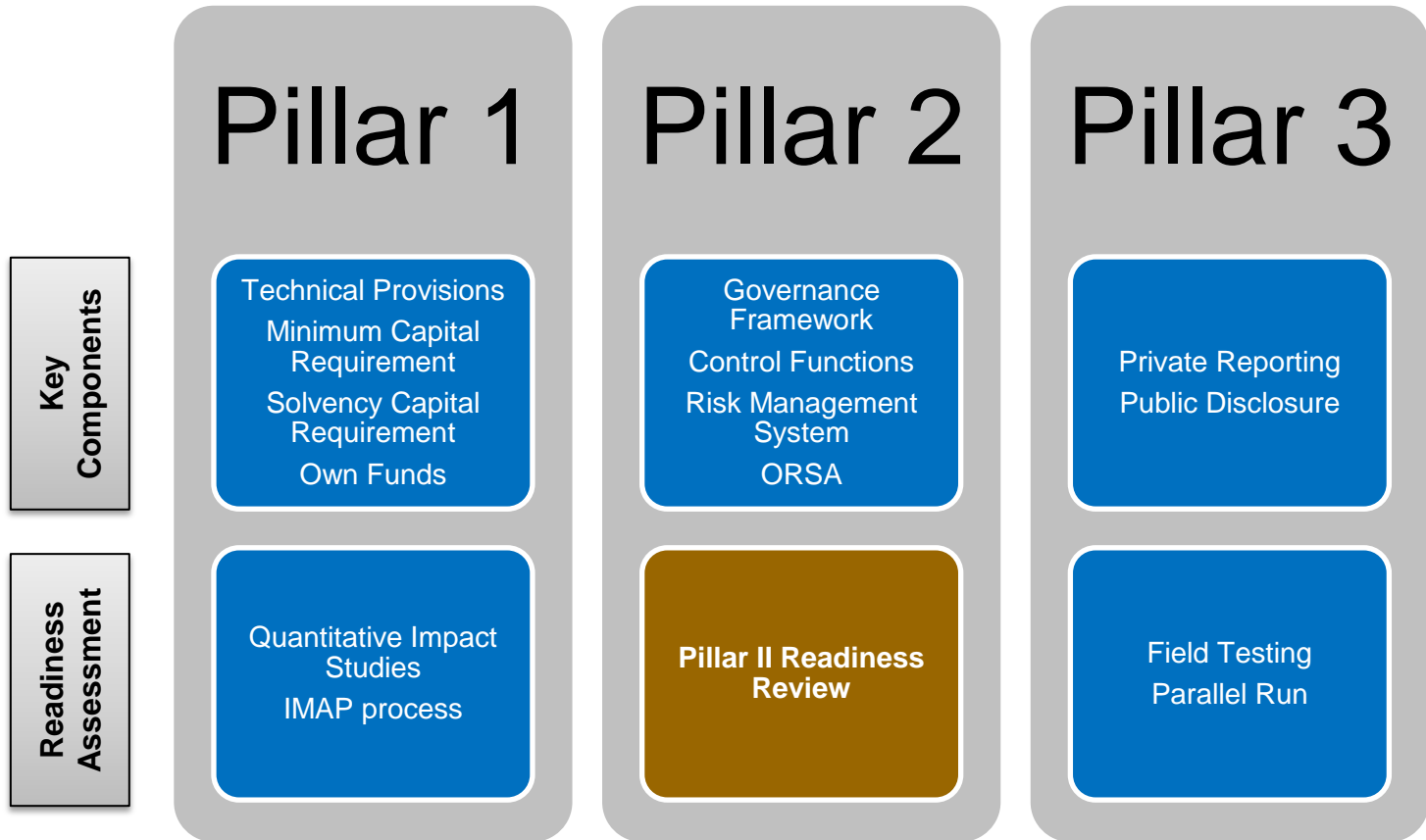
IRBA

South African Reserve Bank (SARB)

Pillar II Readiness Review



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Pillar II Readiness Review

Draft timelines:

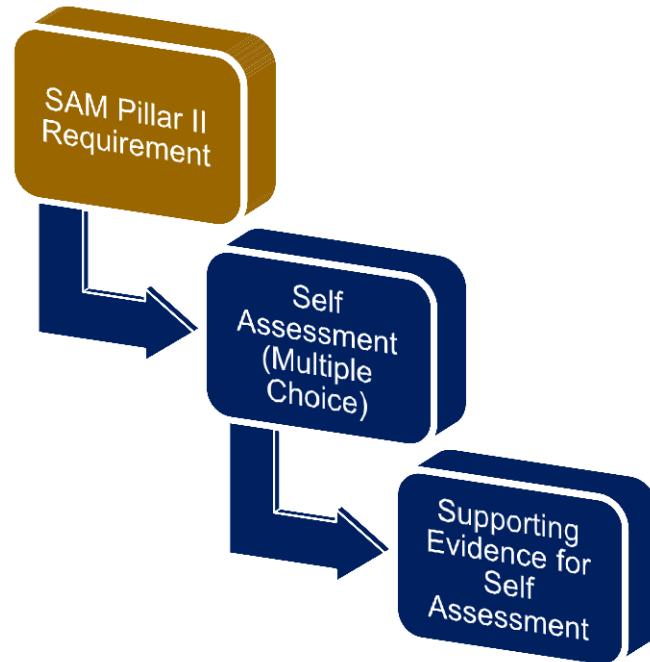
| Deliverable | Date |
|---|----------------------------|
| Circulate survey, taking into account comments received | Early June 2012 |
| Deadline for completion of survey | July 2012 |
| Conduct follow-up interviews | September to November 2012 |
| Report on findings | Early 2013 |



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Format of survey

For proposed SAM Pillar II requirements



- Not intended to be a checklist of the final Pillar II requirements.
- Not all Pillar II requirements are included.
- Pillar II requirements are still under development.

Further questions on

- **Plans for future development**
- **Suggestions for proportionality**



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Pillar II Readiness Review

Further Considerations:

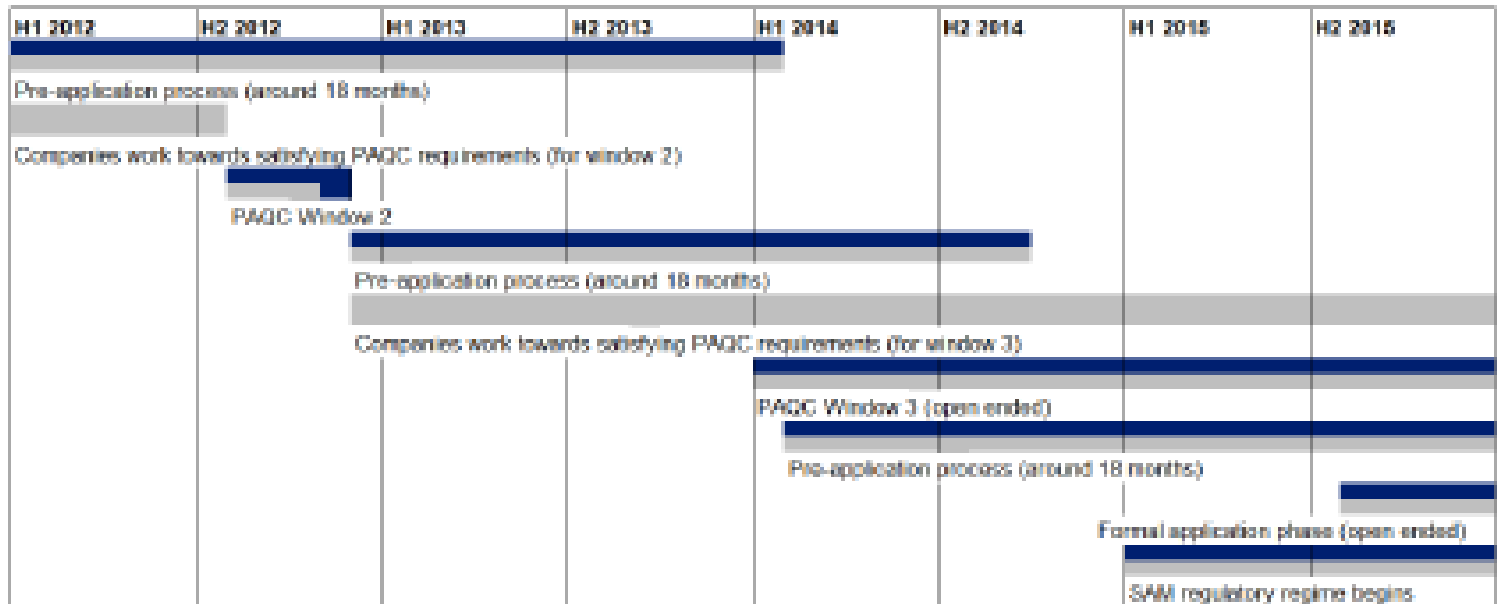
- **Completion of survey is compulsory and requires sign-off by CEO and a member of the Board**

- **Follow-up interviews will be**
 - **Targeted, based on completion of survey**
 - **Cover different types of insurers**
 - **Long-term and Short-term**
 - **Direct and Reinsurers**
 - **Small and Large**



IMAP Update

Updated timelines from the SAM 2012 update:



■ FSB Activity
■ Insurer Activity

First wave – currently working on 6 internal models

Second wave – open from August 2012 to October 2012

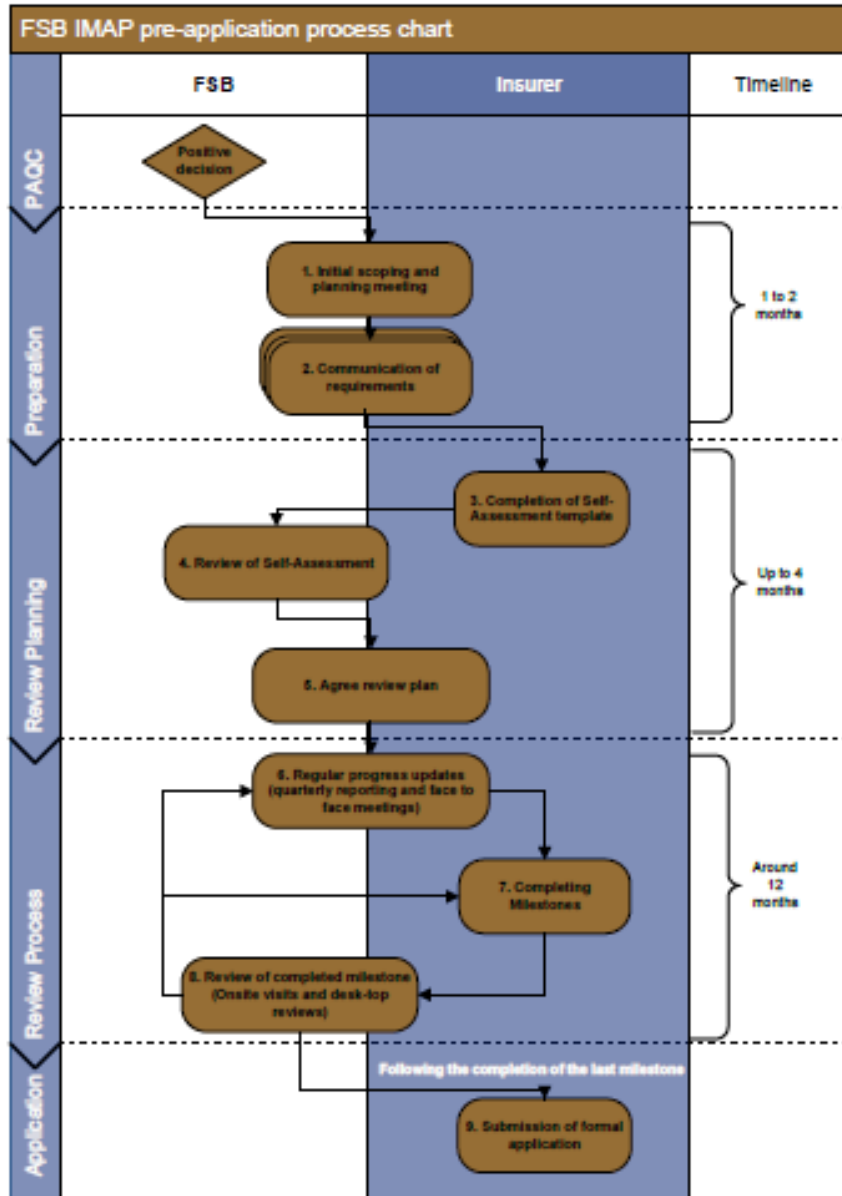


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IMAP Process



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IMAP Lessons Learnt



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- Requirements for entry into the IMAP
 - *Insurer has history of using the model for internal purposes*
 - *No significant data issues outstanding*

- Independent review requirement
 - *Any item to be reviewed by FSB must first have been subject to independent review*
 - *Independent review should be part of the wider validation framework*
 - *Different reviewers could be used for different parts of the model*

IMAP Lessons Learnt (cont)



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- Model characteristics
 - *Internal model can not be used to calculate a different value for technical provisions – it is used to calculate the SCR*
 - *Principles of the SCR should be adhered to in the internal model to maintain level playing field with standard formula insurers*
 - *Internal model can not make unjustified assumptions to recalibrate industry standard risks, eg assuming that the equity risk is 30%*
 - *Use of expert judgement that has a significant impact on the output of the internal model should be subject to rigorous internal governance and validation. This will also be subject to focused review from the FSB*

IMAP Lessons Learnt (cont)



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- General considerations
 - *FSB does not have preference for internal model or standard formula – as long as the SCR is reflective of the risk profile of the insurer*
 - *There will be an ongoing fee for insurers with approved internal models. Exceptional one-off fees may be applied eg, new type of business included in model.*



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Questions