



Financial
Services
Board

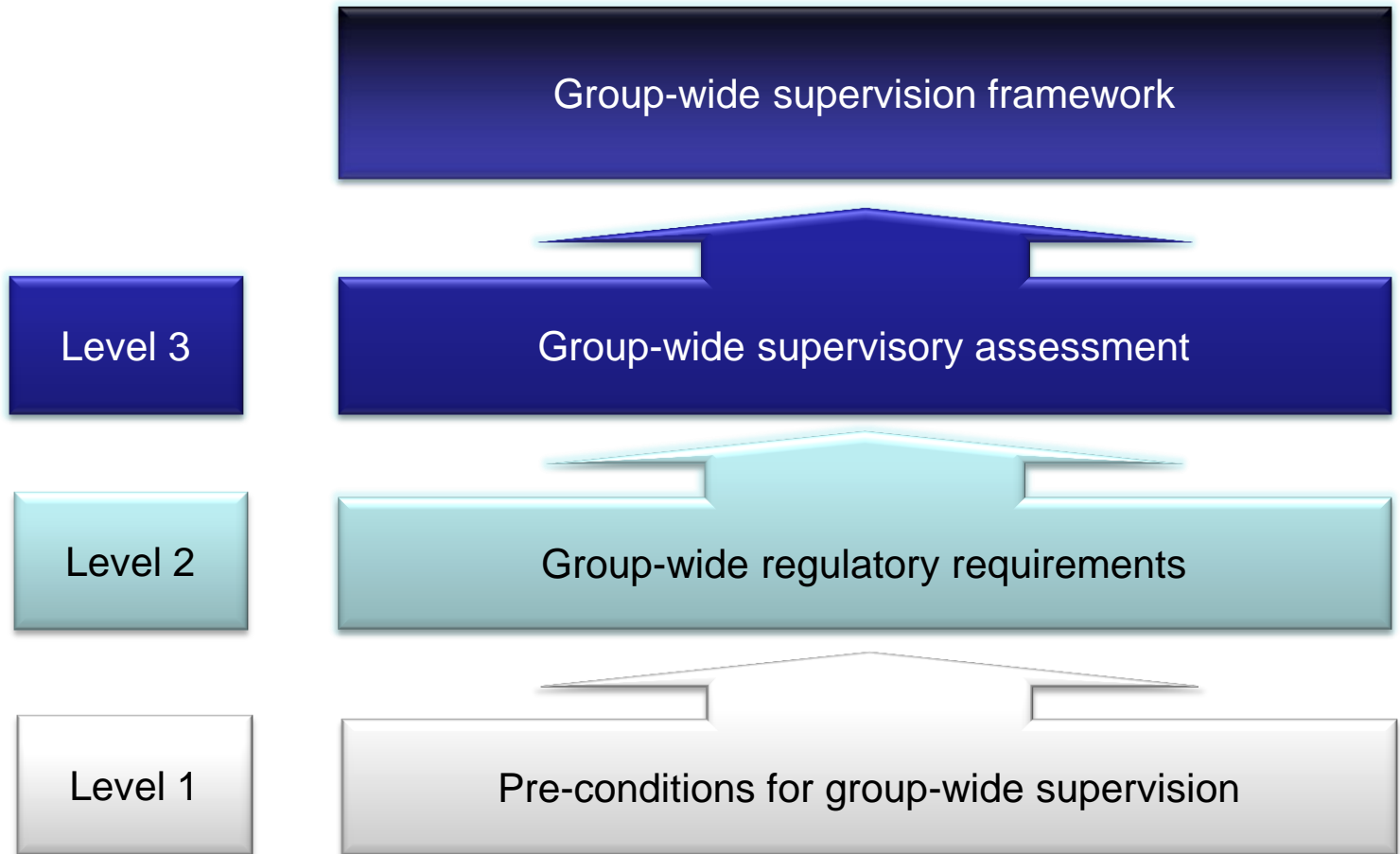
INTERIM MEASURES UPDATE INSURANCE GROUPS

SUZETTE VOGELSANG
HEAD OF DEPARTMENT
INSURANCE GROUPS SUPERVISION
SAM Workshop
18 and 21 May 2012

IAIS ICP 23



Financial
Services
Board





Financial
Services
Board

PROPOSED REGULATORY & SUPERVISORY GROUP-WIDE REGIME

PRECONDITIONS



Financial
Services
Board

Legal Authority

- Long-term and Short-term Insurance Act is amended to provide for supervisory and legal authority to conduct group-wide supervision
- The ability to cooperate and coordinate with other relevant supervisors on a cross-border and/or cross-sector basis

DEFINITION: INSURANCE GROUP



Financial
Services
Board

- There are two or more entities of which at least one is an insurer and one has significant influence on the insurer and includes its related and interrelated entities.
- *The significance of influence is determined based on:*
 - related or inter-related person
 - influence and/or other contractual obligations
 - interconnectedness
 - risk exposure
 - risk concentration
 - risk transfer and/or intra-group transactions
 - combination of the above

DEFINITION OF INSURANCE GROUP



Financial
Services
Board

- Category 1 = 1 insurer + 1 or more non-financial entities
- Category 2 = 2 or more insurers
- Category 3 = An insurance group = financial conglomerate conducts insurance activities plus financial activities either:
 - In at least one other regulated financial sector (including banks and credit providers);
 - In at least one non-regulated financial sector to the extent that the financial activities in that sector are not subject to group-wide/consolidated supervision by sectoral frameworks
 - Related and inter-related entities.

SCOPE OF GROUP



Financial
Services
Board

- Determined by the Registrar
- Financial conglomerate – in consultation with other regulators (eg. BSD, SARB)
- Ultimate holding company in South Africa
- Total Insurance Group or Insurance Subgroup
- Within the FSB for the systemic and or banking groups the Insurance Groups Supervision Department is the lead supervisor.

SCOPE OF GROUP



- **IFRS principles** - inclusion of entities within the definitions in accordance with IFRS principles on consolidated accounts:
- In other cases, entities that do not fall within the scope of the IFRS principles should be benchmarked against the following materiality concepts:
 - *Any entity that is **significant** to the group's capital position or its financial standing*
 - *An entity that is **operationally important** to the insurance group but does not currently fall within the definition of an insurance group or mixed activity insurance group.*

APPROACH

Regulatory tools / supervisory approach differ between categories



Financial
Services
Board

<u>Regulatory Tools</u>	<u>Supervisory Approach</u>
General information request	Risk-based
Group structure	Proportionality
Non-operating holding company (NOHC)	Supervisory intensity for systemically important groups
Change in shareholding	Supervisory colleges
Approval acquisitions and disposals	Supervisory cooperation and information exchange
Business rescue & winding up at NOHC level	
Group solvency assessment	
Capital add-on	
Intra-group transactions and risk concentrations	
Group governance	
Group returns	

NOHC



Financial
Services
Board

- Holding Company (Ultimate in SA)
- Public Company
- Only business acquiring, holding and managing of other companies
- Governance requirements solo = groups if functions are performed at a group level or by any entity in the group
- Fit and proper requirements apply

NOHC



Financial
Services
Board

- Specific solo provisions applies:
 - **Section 18** – Notification of appointments, terminations and resignations
 - **Section 22** - Removal of appointees that are not fit and proper
 - **Section 24** – Preference shares, debentures and alteration to capital
 - **Sections 26 & 27** – Shareholding & information
 - **Section 28** – Financial sound condition
 - **Sections 41 to 43** – Judicial management & winding-up

GROUP SOLVENCY



Financial
Services
Board

D&A method

- Use unconsolidated statements
- Pro-rata inclusion of subsidiaries
- Sums the available capital
- Compares required capital to available capital to determine surplus/shortfall

GROUP SOLVENCY



Financial
Services
Board

D&A Method

- In line with BSD, SARB requirements
- No group internal models
- A number of other regulators use the D&A method
- The D&A method is more transparent
- Most relevant taking into account all the foreign subsidiaries

GROUP SOLVENCY



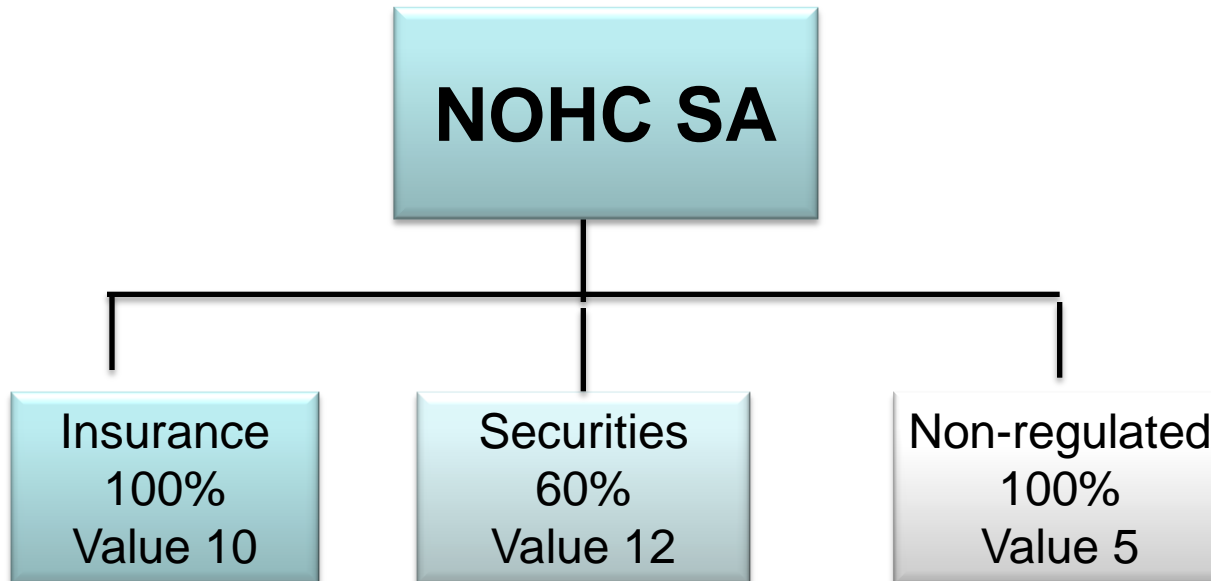
Consolidated method

- Cases of distress and financial crises may not accurately reflect the situation;
- Difficult to use the consolidated model for determining the capital requirement of the legal entities of the group
- Inadequate information on the economic positions of the group's legal entities, including non-regulated entities.

Example



Financial
Services
Board



Example



Financial
Services
Board

	NOHC	Insurer 100%	Securities 60%	Non- regulated 100%	Group- wide totals
Available capital	67	12	13.2	7	99.2
Capital Required	-	10	10.2	10	30.2
Investment in subsidiaries	27	-	-	-	27.0
Capital surplus/shortfall	40	2	3.2	(3)	42.2



Financial
Services
Board

FUTURE WORK

WORKPLAN 2012



Financial
Services
Board

- Process and procedures for cooperation & coordination in FSB
- Information request to all insurance groups (e.g.):
 - *Legal structure*
 - *Organisational structure*
- On-site visits/information sessions with systemic/banking groups
- Finalise group returns

FINAL MEASURES



Financial
Services
Board

INSURANCE GROUPS TASK GROUP:

- DD 27 – Group own funds (draft)
- DD 92 - Assessment of group solvency (draft)
- DD 93 – Group Governance (draft)
- DD 85 – Treatment of relevant operations (non-equivalent jurisdictions) of SA parents (published comments)
- SAQIS2



Financial
Services
Board

