

2013

SAM NEWS

The 2013 SAM Spotlight

- Insurance Laws Amendment Bill (ILAB)
- Internal Model Approval Process (IMAP)
- 2014 Parallel Run
- Transitional Arrangements
- The Principle of Proportionality
- SA QIS3 – Compulsory Participation
- The Economic Impact Study
- Drafting of Primary and Subordinate Legislation
- The FSB's Reinsurance Review Project



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SAM Snippets

Pillar II Readiness Review

In addition to the surveys conducted earlier in 2012, the Financial Services Board (FSB) has conducted follow-up interviews with selected insurers.

A summary of the initial high-level findings of the survey was presented at the SAM Pillar II Workshops, held on 9 November 2012 in Cape Town and 23 November 2012 in Pretoria.

A full report on the findings of the survey and follow-up interviews is anticipated to be issued to co-inside with the release of the Insurance Laws Amendment Bill (ILAB) expected in March 2013. It is expected that the ILAB will take effect from 1 January 2014 and will form part of the 2014 parallel run.

South African Quantitative Impact Study Two (SA QIS2)

On 31 January 2013 the Financial Services Board (FSB) released their much anticipated SA QIS2 report to the market.

There has been a healthy increase in participation from 95 insurers in SA QIS1 to 121 insurers in SA QIS2. This represents 98.5% of the South African insurance industry by volume of premium.

In addition to the strong participation from insurers, there has also been good participation from insurance groups in SA QIS2, with 26 insurance group submissions received.

Insurers are again **reminded** that participation in the **SA QIS3** exercise which will be taking place in the second half of 2013 is **compulsory**. Insurers are encouraged to sufficiently plan ahead for this exercise as part of their SAM preparations for 2013.

The full SA QIS2 Report can be found on the FSB's website, the FSB SAM portal and the SAIA SAM Webpage.

Discussion Documents and Position Papers

The following Discussion Documents and Position Papers have been approved for public comment by the FSB SAM Steering Committee at the meeting held on the 5th December 2012:

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Discussion Document Number	Title	Date Approved
28	Treatment of Expected Profits Included in Future Cash flows as a Capital Resource	5 December 2012
95	Treatment of liquidity risk (including that arising from the expected profits included in future cash flows (EPIFC))	5 December 2012

Position Paper Number	Title	Date Approved
26	Classification and Eligibility of Own Funds	5 December 2012
47	Equity Risk	5 December 2012

SAIA SAM Workshop

During January 2013 a workshop was hosted by the SAIA SAM Project Support Office on the Discussion Documents and Position Papers listed below. Valuable comments were generated during the workshop and feedback was submitted to the FSB.

Number	Title
27	Group Own Funds
53	Treatment of Participations in Financial and Credit Institutions in Own Funds
85	Treatment of relevant operations (in "non-equivalent" jurisdictions), of SA parents under the final measures to regulate the solvency of Insurance Groups ("Groups")
92	Assessment of Group Solvency

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

SAM: Two Years Away

Introduction

The halfway mark on the epic journey towards the final Solvency Assessment and Management (SAM) implementation has come and gone, and rather swiftly at that. Three years down and two to go, before insurers and reinsurers doing business in South Africa become subject to a new solvency regime better known as SAM.

Despite three years of dedicated hard work by all stakeholders involved within the SAM structure a great deal still needs to be achieved within the remaining two years. The year 2013 will certainly test and challenge insurers, reinsurers and the FSB alike with regards to the achievement of crucial milestones in preparation for the implementation of SAM on 1 January 2015.

The FSB are expected to release a SAM 2013 update shortly setting out the objectives to be achieved as well as what insurers can expect in 2013. In preparation of this significant year the SAIA SAM Project Support Office has identified a few important areas on which insurers and reinsurers should be focussing energy and attention on throughout 2013.

Nevertheless before directing our thoughts to these important SAM focal points for 2013, let us pause for a moment and reflect on the milestones that have been successfully achieved thus far in the design of SAM.

Milestones achieved thus far in the design of SAM

- ***SA QIS1 and SA QIS2 (South African Quantitative Impact Studies)***

Two extremely important quantitative impact studies have been undertaken and completed by the FSB and the insurance industry.

These impact studies provided crucial information and input to the FSB in assisting with the calibration of the Standard Formula, which all registered insurers and reinsurers will be required to apply in order to calculate their Solvency Capital Requirement, should they elect not to build and use their own internal model for this purpose.

- ***FSB Board Notice 169 of 2011***

Board Notice 169 of 2011 setting out the new prescribed interim measures for the calculation of the value of the assets, liabilities and capital adequacy requirement of short-term insurers, took effect on 1 January 2012.

These interim measures provide the first stepping stone for short-term insurers as they migrate from the current capital adequacy requirement regime (CAR) to the more advanced risk based method of calculating their regulatory capital requirement.

- ***IMAP Process***

The internal model approval process (IMAP) is now in full swing with the successful completion of the first two window periods. These window periods afforded insurers, who desire to calculate their solvency capital requirement through the use of their own internal model as opposed to the Standard Formula, with the opportunity to enter the lengthy process for the regulatory approval of their internal models.

- ***Insurance Laws Amendment Bill (ILAB) at Parliament***

The objective of the Insurance Laws Amendment Bill (ILAB) is to amend the Short-term Insurance Act, 1998, so as to define certain terms, to extend the powers of the FSB, to provide for explicit governance, risk management and internal control requirements of insurers and to provide for the supervision of insurance groups.

The Bill forms part of the SAM Interim Measures that will be applied to Insurance Groups, Governance, Risk Management and Internal Controls.

The ILAB is currently in the parliamentary process and is expected to take full effect on 1 January 2014.

The SAIA is likely to call for a workshop on a revised version before submission to Parliament during quarter 1 of 2013.

- ***Primary and Subordinate SAM Legislation***

The second draft of the Primary Legislation and the first draft of the Subordinate Legislation have been circulated to the various task groups operating under the FSB SAM Governance Structure for comment and further deliberation. Despite substantially more work required, the initial foundation on which SAM will be built has subtly been laid.

- ***Reinsurance Regulatory Review - Survey***

The FSB, with the assistance of PricewaterhouseCoopers (PwC) have completed their survey of the reinsurance landscape in South Africa. The output generated by the survey will culminate in a research paper for use by the FSB. The paper will be used as a reference document in the legislation drafting process for the regulatory framework applying to reinsurers under SAM.

Where should the focus be in 2013?

- **SA QIS3**

The third and final quantitative impact study is scheduled to take place in 2013 and will require compulsory participation by all insurers and reinsurers in South Africa. The importance of this decisive quantitative impact study should not be underestimated as it will provide the final opportunity for industry to influence the Standard Formula.

- **2014 Interim Measures**

It is expected that the ILAB will be subject to one more round of public consultation before being adopted in 2014. Insurers and reinsurers are advised to carefully study this Bill as soon as it becomes available in order to adequately prepare in advance for these new requirements.

- **Economic Impact Study**

Insurers and reinsurers should actively follow developments as they unfold pertaining to the economic impact study. The outcome of the impact study is expected to uncover the potential impact that SAM will have on the macro-economic environment in South Africa.

- **Pillar II and III Requirements**

Particular attention should be given to the design and further development of the insurers and reinsurers Own Risk and Solvency Assessment (ORSA) process.

An important aspect to add to insurers and reinsurers 2013 SAM Radar would be the proposals emanating from the Pillar III Reporting and Disclosure Task Group. A large number of reporting templates are currently being developed and proposed for use in the SAM regime. These templates require careful scrutiny and consideration by insurers and reinsurers.

- **2014 Parallel Run**

Industry eagerly awaits further guidance from the FSB as to the proposed SAM Parallel Run expected to take place in 2014. Details remain sketchy and with one year to go before the parallel run, it would be in the best interest of insurers and reinsurers to gather further information pertaining thereto.

- **Proportionality**

The principle of proportionality should be further examined, refined and probed by insurers and reinsurers in 2013, particularly the smaller, specialized and niche insurers. The SAIA has already established the Proportionality Interest Group specifically to address the manner

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in which the FSB will apply this principle across all three pillars of the SAM governance structure.

- **Transitional arrangements**

In essence the notion of the term transitional arrangements should assist insurers and reinsurers in achieving a “smooth” changeover to compliance with the requirements of SAM.

Insurers and reinsurers should work together with the FSB in 2013 to bed down transitional arrangements thereby ensuring that their viability and business sustainability are not adversely threatened when SAM takes effect.

Gathering of information pertaining to transitional arrangements should be one of the most important objectives pursued by insurers and reinsurers throughout 2013.

- **Commenting on Legislation**

During 2013 it can be expected that the Primary and Subordinate SAM legislation will advance with significant progress. The SAIA SAM Project Support Office will be surveying these developments with a keen interest and shall call for workshops at the appointed time to scrutinise these proposals.

The active involvement in the provision of comments on the draft SAM legislation by all our SAIA members is fundamentally important to the SAIA. In order for the commentary process to be a resounding success, insurers are requested to involve their subject matter experts to contribute in this process.

Conclusion

The abovementioned focus points are by no means intended to be the only areas of emphasis for insurers and reinsurers in 2013. Rather these areas are considered crucial by the SAIA SAM Project Support Office for insurers and reinsurers if they are to be adequately prepared for the SAM implementation date.

The current commitment and momentum generated by all stakeholders within the SAM structure should not be derailed but should instead be accelerated in 2013, as the insurance industry rapidly approaches the final countdown to SAM.

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SAIA SAM Structures

Introduction

The SAIA SAM Project Support Office (PSO) has established and constituted a number of important structures that provide feedback to the SAIA SAM Internal Steering Committee regarding SAM and SAM related matters.

These structures are represented graphically below:



Some background on each structure:

- ***Smaller Specialised Niche Insurers Forum (SSNI)***

The Smaller Specialised Niche Insurers Forum was established in November 2010, with the objective of providing a platform whereby insurers are able to raise concerns and engage with each other regarding the challenges posed by SAM.

This Forum was created with the intention to assist the SAIA's smaller, specialised and niche insurers to obtain a clearer understanding of the requirements of SAM as well as providing guidance to these members relating to the SAM project. This objective is achieved through the use of external subject matter experts in conjunction with the SAIA SAM PSO by means of educational sessions and updates presented to the members of this forum.

The SSNI Forum has achieved its stated objectives to date and no meetings will be taking place in 2013. However should the need arise this forum will be reconvened at the discretion of the SAIA SAM Project Support Office.

- **Proportionality Interest Group**

In July 2012, the SAIA SAM Project Support office established the Proportionality Interest Group as a working group which reports to the SAIA SAM Internal Steering Committee.

The Proportionality Interest Group was constituted in order to explore and formulate proposals as well as guidance pertaining to the **Principle of Proportionality (PoP)** and its application across all three Pillars under the SAM Governance Structure. These proposals will be presented to the FSB to consider, as they develop the new proposed SAM Legislation as well as to SAIA members in order to assist them with their efforts in achieving compliance with SAM.

The application of the *PoP* is of significant importance to the small and medium-sized insurers. The intended and consistent application of this principle will ensure a fair and balanced approach, ensuring that the industry remains competitive and that future regulatory emphasis is specifically concentrated on the areas of risk, complexity and size.

- **Trade Credit and Surety Forum**

The completion of the SA QIS1 and the development of the SAM Interim Measures highlighted a number of extremely important concerns (*predominantly the onerous capital requirements*) that will be encountered by those SAIA Members in the business of providing Trade Credit and Surety insurance.

In light of these concerns the Trade Credit and Surety Forum was established to provide a platform whereby the SAIA members are able to raise their concerns, debate and seek alternatives pertaining to trade credit and surety insurance, as well as to generate a collective stance and viewpoint to be taken up with the FSB. The forum meets as and when required.

- **Reinsurers Forum**

Locally registered Reinsurers face specific challenges pertaining to the new proposed Solvency Assessment and Management (SAM) regime.

In light of these concerns the Reinsurers Forum was established to provide a platform whereby the SAIA members are able to raise their concerns, debate and seek alternatives pertaining to Reinsurers, as well as to generate a collective stance and viewpoint to be taken up with the FSB. The forum's scope covers all three pillars within SAM as well as the Reinsurance Review Project initiated by the FSB. The forum meets as and when required.

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- **Ad-hoc Workshops**

Ad-hoc workshops have been and will continue to be constituted and formed by the PSO to review and scrutinise relevant Discussion Documents, Position Papers (identified as important by the SAIA SAM PSO) and Draft legislation to provide collective industry comments to the FSB.

The purpose of these ad-hoc workshops are to assist all the SAIA members with a voice in the SAM structure to ultimately influence the design of a new solvency regime for South Africa, that will best favour the short-term insurance industry. Proposals made by these ad-hoc workshops will be submitted to the SAIA SAM Internal Steering Committee for noting.

Conclusion

Please feel free to contact the SAIA SAM PSO Team directly should you require any further information pertaining to these structures or wish to be directly involvement.

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