UPDATE ON PROGRESS WITH THE SOLVENCY ASSESSMENT AND MANAGEMENT (SAM) PROJECT

Introduction

The SAM Communication Task Group continues with its mandate to compile regular updates and summaries of the progress made by the Financial Services Board (FSB) and the SAM Task Groups, in order to promote awareness among insurers of important developments in the SAM project.

Progress to date

Good progress has been made on the first phase of the SAM project, namely the production of SAM technical discussion documents, the release of SA QIS1 and the issuance of the SAM internal model approval process (IMAP) guidance. The following statistics regarding the SAM structures provide an indication of the commitment and effort that all stakeholders have put into the project to date:

- 160 insurers have appointed SAM Coordinators (149 individuals – some represent more than one insurer)
- 4 Pillar Sub-Committees, 13 Task Groups and 49 working groups have been established
- 181 SAM Sub-Committee and Task Group meetings are scheduled for 2011
- Over 400 principal members participate in Task Groups and working groups
- Over 800 people from insurers, reinsurers and industry stakeholders are involved in the SAM governance structures (including alternates, correspondent members, working group members, etc.)
- 13 SAM Discussion Documents have already been approved by the SAM Steering Committee for publication for public comment – over 50 more are currently in the pipeline and expected to be published for comment in the coming months.

South African Quantitative Impact Study (SA QIS1) - Technical Specifications

On 24 May 2011 the FSB released the final version of the SA QIS1 Technical Specifications to the SAM Coordinators and Public Officers of all insurers and reinsurers\(^1\). The information relating to the completion of the SA QIS1 can be found on the FSB SAM website http://sam.fsb.co.za and on the FSB website www.fsb.co.za. The deadline for submission of the SA QIS1 is 16 September 2011, affording insurers four months in which to complete the impact study.

\(^1\) Insurers and reinsurers are collectively referred to as “insurers” in the remainder of the newsletter.
The FSB would like to remind insurers that intend to apply for the use of an internal model to calculate their Solvency Capital Requirement (SCR) that participation in the SA QIS1 is mandatory. The SA QIS1 is a valuable tool to assess the economic impact on insurers at entity level. As such, participation is therefore strongly advised for all insurers.

**Internal Model Approval Process (IMAP)**

The Internal Model Approval Process (IMAP) guide along with the Pre-Application Qualifying Criteria (PAQC) template was issued on 20 April 2011. The IMAP guide provides a detailed summary of the internal model approval process (including important milestones), as well as the criteria and requirements that insurers will need to comply with in order to apply for the use of an internal model to calculate the solvency capital requirement (SCR).

Insurers who intend to use their internal model from the 1st of January 2014 would need to engage early with the FSB by completing the PAQC template, in order to determine if the minimum criteria as required by the FSB has been met, before being able to continue with the internal model approval process.

An IMAP Contents of Application (CoA) Template and IMAP Independent Review Guidelines were published by the FSB on 16 August 2011 to assist insurers wishing to apply for statutory approval of their full or partial internal model to understand what information should be included in the application and the independent review requirements of the FSB. Both documents can be found on the FSB SAM website [http://sam.fsb.co.za](http://sam.fsb.co.za) and on the FSB website [www.fsb.co.za](http://www.fsb.co.za).

The schedule of fees payable to the FSB for the pre-application phase of the internal model approval process shall shortly be published by way of Board Notice.

**Discussion Documents**

Work on SAM Discussion Documents by the various task groups under the SAM Pillar sub-committees continues. The Discussion Documents provide important technical input for the drafting of primary and secondary legislation to give effect to SAM. A number of Discussion Documents have been submitted to the FSB SAM Steering Committee by the various Pillar sub-committees for comment and approval to publish for industry comments.

The FSB SAM Steering Committee has so far approved the following Discussion Documents for industry comment:

- **Discussion Document 12 (v 3): High-level principles of information to be received by the supervisory authority**
- **Discussion Document 14 (v 2): Solvency and Financial Condition Report: Undertakings using an approved internal model**
- **Discussion Document 17 (v 3): Report to Supervisors - Undertaking’s reporting and disclosure policy**
- **Discussion Document 19 (v 3): Level of harmonisation and quantum of data**
- **Discussion Document 22 (v 2): Mandating an External Audit**
- **Discussion Document 23 (v 2): Supervisory enquiries**
- **Discussion Document 24 (v 2): Information on contracts and from external experts**
- **Discussion Document 26 (v 5): Classification and Eligibility of Own Funds**
- **Discussion Document 40 (v 3): Risk Free Rate: Dashboard**
- **Discussion Document 43 (v 2): Internal Models: Validation**
- **Discussion Document 55 (v 2): Internal Models: Statistical Quality and Calibration**
- **Discussion Document 56 (v 2): Internal Models: Documentation and Data Requirements**
- **Discussion Document 57 (v 2): Partial Internal Models**
Through the SAM governance structures all insurers are provided with adequate opportunity to comment on Discussion Documents before the principles contained therein are eventually incorporated into legislation. All Discussion Documents can be found on the SAM website and the FSB website along with a template for the inclusion of comments. Comments on the above discussion documents closed on 31 July 2011, but an extension has been provided to 31 August 2011.

Insurers are reminded that once a Discussion Document, including all relevant comments, has been accepted and approved by the SAM Steering Committee, the document then becomes a Position Paper that will form the basis for draft regulations.

**SAM Governance Structures**

The SAM governance structures have been designed such that all issues, concerns and comments are raised and debated at the appropriate levels within the structure. Issues are debated and discussed at the task group and working group level before being included in Discussion Documents which are sent to the Pillar sub-committees for approval and then forwarded to the FSB SAM Steering Committee.

On a number of occasions some stakeholders have raised specific issues at the Pillar and Steering committee levels without these issues being raised at the task group level, despite the stakeholders having adequate representation at the task group and working group level.

In order to ensure that the SAM Governance structure functions effectively and efficiently, the FSB would like to encourage all insurers and other stakeholders to address issues and concerns at the appropriate levels within the FSB SAM governance structures or with their industry associations.

**SAM Tax Task Group**

A SAM tax task group has been established and has had two meetings to date where the terms of reference, goals and objectives have been defined and discussed. The objective of the task group is to consider Section 28 and Section 29 of the Income Tax Act and ensure proper alignment with the SAM framework.

The task group has established four working groups mandated to cover and research aspects such as consideration of the impact of the implementation of the Solvency II Directive principles on the taxation of insurers in jurisdictions comparable to South Africa; the potential impact of the implementation of SAM on the taxation of insurers in South Africa; and the formulation of proposals for the appropriate tax treatment of long-term and short-term insurers, with the aim of promoting alignment between the principles of SAM and the tax framework.

This task group requires further representation from industry and insurers are encouraged to nominate participants to join any of the working groups.

**Board Notice: Interim Measures - Prescribed requirements for the calculation of the value of the assets, liabilities and capital adequacy requirement of short-term insurers**

A draft Board Notice entitled: *Prescribed requirements for the calculation of the value of the assets, liabilities and capital adequacy requirement of short-term insurers* was released for public comment on 19 July 2011. The draft Board Notice is available on the FSB website [www.fsb.co.za](http://www.fsb.co.za). The deadline for comment is 16 September 2011.
Interim Measures: Insurance Groups

*Discussion Document 1 (v8): Interim Measures for Insurance Groups* has been positively considered by the SAM Steering Committee and is expected to be published for public comment shortly.

The recent financial crisis has demonstrated that the supervision of regulated entities on a solo basis is inadequate where such entities form part of a financial services group. Solo supervision is insufficient to obtain a complete assessment of the risks to which the insurer and its policyholders may be exposed, or to evaluate systemic risk within a financial system as a whole.

The Discussion Document outlines a framework for a group-wide regulatory and supervisory regime so as to align South African insurance supervision with international best practice.

Interim Measures: Governance, Risk Management and Internal Controls

*Discussion Document 81 (v2): Interim Requirements: Governance, Risk Management and Internal Controls* will be tabled at the SAM Steering Committee of 19 August 2011 and is expected to be published for public comment shortly thereafter.

The Discussion Document outlines a set of minimum requirements regarding insurers’ governance, risk management and system of controls, which insurers will be expected to comply with once legislation is enacted during the course of 2012. These minimum requirements are aimed at providing a stepping-stone to the more rigorous requirements that form part of Pillar 2 under SAM.

Interim Measures workshops

The SAM Communications Task Group has organised two proposed Interim Measures workshops that are to take place in October 2011 in Johannesburg and Cape Town. The workshops will cover the Interim Measures that will be applicable to Insurance Groups; Governance, Risk Management and Internal Controls; and Technical Provisions and Capital Requirements for Short-term Insurers, all of which will become effective in 2012. More details on these workshops will be made available later in August 2011.

Solvency II proposed new implementation date

The European Union is currently considering whether the implementation date for Solvency II should be extended and under what conditions. This is largely being informed by the complexities of finalising legislative amendments across the number of jurisdictions that make up the European Union.

Subsequently the FSB has received a number of enquiries regarding the possibility of delaying the implementation date for SAM. This topic has been discussed and debated within the internal structures of the FSB as well as at the SAM Steering Committee. The FSB will continue to monitor developments, but at this stage it was agreed to continue with the current SAM roadmap and implementation date.

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