SAM focus

Helping insurers understand and manage change

South African insurers have the opportunity to participate in SA QIS 1.

Active participation will improve readiness for SAM implementation.

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With the implementation of Solvency Assessment and Management (SAM) in 2014, insurance companies will have the option to use either a standard formula to assess their capital requirements, or an internal model. The standard formula aims to quantify the amount of capital required to survive a 1 in 200 year adverse event.

The FSB recently finalised the first Quantitative Impact Study (SA QIS 1) for the South African insurance market. One of the purposes of the study is to refine the structure and calibration of the standard formula, such that it accurately allows for the risks to which insurers are exposed.

SA QIS 1 will give insurers the opportunity to analyse the quantitative impact that the proposed standard formula will have on the capital that they will be required to hold and to provide comments on the proposed standard formula.

Insurers intending to apply to use their internal model to calculate their solvency capital requirements (SCR) from the SAM implementation date will also need to complete SA QIS 1.

What you need to know

1. SA QIS 1 aims to refine the standard formula that insurers may use to calculate their SCR with the introduction of the SAM regime in 2014.
2. It is based on the European QIS 5. This was the 5th impact study conducted in EU countries prior to Solvency II implementation planned for 2013.
3. Insurers will be required to assess the impact that the standard formula will have on their current capital requirements, given the stress scenarios prescribed. The submission requires the completion of a spreadsheet template and qualitative questionnaires, which will be provided by the FSB. Accompanying manuals will provide additional guidance.
4. While not mandatory, the FSB is strongly encouraging insurers to participate in the exercise to ensure that the calibration of the standard formula is appropriate for the industry.
5. Insurers will benefit as they can use the exercise to assist with their SAM implementation projects and assess the potential financial and other resource impacts of SAM.
6. To complete SA QIS 1 insurers will need to collate asset and liability information on base and stressed scenarios in a revised format applying new calculation methodologies.

When is it happening

7. The SA QIS 1 Technical Specifications was published on 23 May 2011 with the SA QIS 1 spreadsheets and qualitative questionnaire being released in June 2011. Insurers will have until mid September to submit their results to the FSB.
8. The results of SA QIS 1 will be published 4 months after the final submission date.
9. The FSB also plans to publish a further SA QIS exercise during March 2012.

Why you should participate

10. By participating, you can assist the FSB in the development of the SAM regime.
11. The SA QIS 1 exercise will shape the capital requirements of insurance companies going forward. Involvement will thus ensure

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that your company has an influence.

12. By taking part in the process, you can start preparation for the likely changes that your company will face over the next few years.
13. The results of SA QIS 1 may give you an indication of the suitability of any internal model that you intend to use. This may result in lower capital requirements and assist in a more accurate allocation of capital in your company.
14. Insurers that intend to use an internal model to calculate their capital requirements from 2014 are required to take part in SA QIS 1.

What you need to do now

15. Mobilise company resources and start planning for the completion of the SA QIS 1 exercise. A formal project owner and representatives from actuarial, risk, finance and investment management will be required.

What to do once the QIS is complete

16. Perform a debriefing of the process. Understand where you are already SAM compliant, where processes and systems need to change and where additional resources are required.
17. Communicate the results within your organisation. Business Unit heads need advance warning of the impact of potential changes to capital requirements and the impact this may have on products (e.g. pricing).
18. Board members need to understand what the future capital position may look like and if additional capital may be necessary.
19. Take on board new perspectives on risky products and opportunities to better manage risk through product design, asset liability modelling, reinsurance and strengthened governance.
20. Assess whether your organisation can benefit from developing and using an internal model.
21. Interact with the FSB and the SAM project in order to contribute to the new legislation.
22. Understand how SAM processes and reporting will interact with IFRS 4 Phase 2, which is expected within the same timeframe.

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PwC global thought leadership on Solvency II

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http://www.pwc.co.uk/eng/publications/solvency_II_publications.html