SAM focus

Helping insurers understand and manage change

The proposed Solvency and Assessment Management (SAM) parallel run is expected to place further demands on South Africa's insurance industry.

July 2013

Finance, risk and actuarial teams will be under pressure to complete the mandatory Quantitative Impact Study (QIS) 3 scheduled for October 2013 to April 2014 as well as the two parallel runs scheduled for 2014 and 2015, while at the same time complying with the existing regulatory requirements of the Long- and Short-term Insurance Acts.

Background

1. Since the end of 2012 when it came to light that the implementation of Solvency II would be delayed, there have been growing concerns and differing views across the South African insurance industry about how the development of the new SAM framework would be impacted.
2. Following consultation with the SAM Steering Committee, the Financial Services Board (FSB) has adjusted the timelines in response to various stakeholders' comments. The effective date for the implementation of SAM is now 1 January 2016.
3. The main objective of the parallel runs is to support the transition and implementation of the new SAM regime. The parallel run consists of two phases to enable insurers to meet the SAM requirements.
4. The 'light' phase of the parallel run will be conducted in the second half of 2014 and will mainly be based on the QIS templates.
5. The 'comprehensive' phase will comprise the completion of a full set of quantitative reporting templates as well as a 'mock-ORSA' (Own Risk and Solvency Assessment) exercise that needs to be carried out during 2015.
6. Against this background we conducted a high-level survey with the purpose of obtaining initial views from insurers of the practical implications they foresee with the parallel runs.
7. The survey results are based on a combination of electronic submissions and personal interviews carried out during April and May 2013 with SAM programme directors, as well as finance, risk and actuarial teams of 28 insurance and reinsurance companies.

Level of guidance required to prepare for the 'light parallel run'

8. The FSB's SAM update document states that the aim of the 'light' parallel phase will not be to produce all the information required for annual reporting, but rather to base this on the quarterly reporting requirements.
9. The majority of insurers (71%) highlighted that finalisation of the QIS 3 templates and an understanding of how these templates will translate in to the reporting templates are important requirements to support their parallel run preparations.
10. The results of the 'light run' are expected to inform the impact of the new reporting requirements, which will also provide insight for preparations of the 'comprehensive' run.

Level of guidance required to better prepare for the 'comprehensive' parallel run

11. Most insurers (57%) considered the finalisation of the solo and group Quantitative Reporting Templates (QRTs) as critical to better prepare them for the 'comprehensive' parallel run. Guidance with regards to the finalisation of both solo and group QRTS is required.
12. Group reporting requirements are of particular importance since it will in all likelihood require new processes and system developments which were not previously required.
13. Pillar 3 is also the biggest unknown at this stage and having more information about the reporting requirements will be essential for many insurers to properly prepare for the 'comprehensive' parallel run.

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Time required to prepare once the QRTs are finalised

14. Insurers will need sufficient time to build system capabilities and to source data.
15. The time to comply will depend on the level of changes from current reporting to draft QRTs, changes required from the 'light' to the 'comprehensive' parallel run and the final Pillar 1 technical specifications.
16. The level of data sourcing required will also have an effect on the development and testing of systems, which will in all likelihood result in manual workarounds being required during the transition period.
17. Furthermore, performing full quarterly calculations will be a challenge requiring a major business change in order to comply with the quarterly reporting requirements for the 'comprehensive' parallel run. It is expected that this will have an effect on insurers' ability to meet the quarterly reporting deadlines.

Biggest practical challenges

18. Designing end-to-end reporting processes to deliver within the timelines is a practical challenge for more than a third (36%) of insurers. Sourcing the relevant data and redesigning their reporting solutions follow closely.
19. Insurers consider that these challenges can be overcome with adequate time to prepare and by dedicating the necessary resources.
20. The survey shows that there is uncertainty among insurers relating to how they plan on embedding the new requirements in their 'business-as-usual' activities during the 'comprehensive' parallel run in 2015 while existing legislation is still effective.
21. Insurers agree that they will need to comply with the existing regulations, but face a key challenge in dedicating a number of resources to be focused on the parallel runs as well as implementing the new SAM regime. They also think it would be ideal to embed the SAM framework in their business by the time the parallel run starts, but acknowledge it would probably be unrealistic in practice.
22. Integrating Pillar 1 and Pillar 3 will by far be the most significant challenge that insurers are expected to face.
23. Insurers have also expressed concern over potential duplication of reporting. One of the specific examples quoted relates to concerns over the value of the duplication of work required for both the parallel runs and current regulatory returns, particularly with regards to qualitative requirements.
24. Insurers are expecting substantial cost implications due to duplications in current and future regulatory regimes over the next two years. There are significant implementation costs, which are expected to reduce once SAM is implemented, but savings will be absorbed by other new regulations such as Treating Customers Fairly (TCF).

What does a 'mock-ORSA' mean?

25. Given that the FSB will conduct a 'mock-ORSA' exercise in 2015, it is concerning that little progress has been made over the past nine months as 39% of insurers indicated their ORSA developments are not on track.
26. Most insurers stated that they are still in the early stages of developing their ORSA, such as developing an ORSA policy, performing a gap analysis and identifying existing ORSA principles already embedded in the business.
27. Insurers said that more guidance was required for various aspects of the ORSA.

What should you do?

28. The PwC SAM parallel run survey highlighted a number of key concerns expressed by insurers. These concerns should also be seen in the context of the broader wave of regulatory changes which are engulfing the insurance industry.
29. Ensuring that all of the required processes and systems are in place will be a key challenge for most insurers.
30. Undoubtedly many processes and models still need to be developed. Embedding these requirements into the day-to-day business will require intense and continuous effort over the next 18 months.
31. Insurers that have made considerable progress with their SAM programmes will be in a favourable position to meet these demanding requirements and a smoother transition as part of their business-as-usual process.

32. In order to make the most of the SAM parallel runs South African insurers should consider the lessons learnt in Europe.
33. As part of their Solvency II preparations and internal model applications, syndicates at Lloyd's conducted a 'dry run' process between 2009 and 2011.
34. Experience showed that, the right tone at the top and detail upfront planning was key in distinguishing those Lloyd's business' who struggled from those that have taken the preparations in their stride.

Right tone at the top

- Senior management sponsorship and oversight are crucial from the outset. In the most successful programmes, the positive tone set by senior management helped to make sure that meeting the demands soon became a firm-wide priority.
- Putting a sufficiently senior executive in charge also helped to drive the programme forward and make sure any obstacles were tackled as a matter of urgency.
- Bringing in the Board early has made it easier to tailor the ORSA to the needs of decision makers and hence provide a more informed basis for underwriting and business planning.
- In contrast, some of the Lloyd's businesses that did not put a senior executive in charge from the outset found it difficult to deploy the necessary resources, gain business' buy-in needed to sustain the programme momentum and make sure the model was geared to meeting business user needs.
- Bringing senior management in late in the process also meant that training had to be rushed and getting executives up to speed for sign-off was more difficult and disruptive.

Upfront planning

- The managing agents that fared best were working to a detailed roadmap for all the numerous tasks that had to be completed, how to approach them and who needed to be involved at each point along the way.
- A strong project manager or sponsor who understands the requirements has been a common characteristic of managing agents who have progressed well, by helping them to make sure that tangible progress was being made.
- The more successful businesses have also been marked out by their efforts to keep key staff happy – retention is much more cost-effective than recruitment.
- In contrast, the businesses that took a 'scattergun' approach have not only found the journey quite strenuous, but have also tended to get the least value from the process.

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PwC SAM focus newsletters

The following link provides access to a range of thought leadership pieces produced by the firm on SAM.
http://www.pwc.com/za/en/publications/sam-focus.jhtml

PwC SAM Parallel run survey

The following link provides access to full survey results.

http://www.pwc.co.za/en_ZA/za/assets/pdf/sam-parallel-run-survey-july-2013.pdf