



Quantifying Risk, Enabling Opportunity.

Learnings from first 2 years of SAM

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1 July 2018 to date

Legislation

Insurance Act, 2017 – commenced on 1 July 2018

Prudential Standards

Sub-ordinate to the principal Act – effective 1 July 2018

Prudential Standards for Insurance are split into Financial Soundness Standards (Pillar I) and Governance Standards (Pillar II) as follows:

- *Insurers (FSI and GOI)*
- *Microinsurers (FSM and GOM)*
- *Branches (FSB and GOB)*
- *Lloyd's (FSL and GSL)*
- *Groups (FSG and GOG)*

Prudential Standard IAF, 2019 – Application fees – effective 1 January 2020

1 July 2018 to date

Observations / Challenges

Risk-based solvency regime for insurers – Principle based legislation

Parallel Runs / Preparedness

SAM fatigue

Integration of all the roleplayers

ORSAs

Ad-hoc applications

Iterative Approach & Alternate Term Structure

There are varying levels of embedment and maturity of “models” and processes across the industry.

There is an increased need for an independent review function (typically external auditors) to the satisfaction of the Authority.

The Internal Audit Function will become increasingly more technical with extended depth and scope in their reviews.

There is potential operational risk within industry as a result of technical and complex processes requiring automation.

Ad-hoc applications

Iterative Approach & Alternate Term Structure

The Boards of insurers may not have a holistic grasp of the risks introduced by the various models and alternate methodologies under SAM.

Gaps exist in model documentation and monitoring across the industry.

Interpretations of the Prudential Standards are still varied.

Regulatory processes in the assessment of applications are significantly more granular than under the previous regime.

Risk-free bond curve methodology (current)

NOMINAL Government Bond Curve

The PA uses Nominal Annual Compounded Annually (NACA) rates.

The interpolation methodology is a linear approach on the forward curve.

The PA has been guided for now by the rationale applied by the JSE for inclusion and exclusion of instruments used in the curve construction. The 11 instruments used are the following: cash:BA:1d, cash:BA:3m, cash:BA:6m, cash:BA:9m, cash:BA:1y, Bond:R208, Bond:R2023, Bond:R186, Bond:R213, Bond:R209, Bond:R2048.

The extrapolation method used is a linear approach from the last observable point from instruments included to the end date deemed necessary for SAM (currently 150 years), with an Ultimate Forward Rate ("UFR") of 6%.

Risk-free bond curve methodology (current)

REAL Government Bond Curve

The PA uses Nominal Annual Compounded Annually (NACA) rates.

The interpolation methodology is a linear approach on the forward curve.

The 9 instruments used are the following: cash:BA:1d, cash:BA:3m, Bond:FSBR212, Bond:FSBR197, Bond:FSBR2025, Bond:FSBR210, Bond:FSBR202, Bond:FSBR2038, Bond:FSBR2050.

Cash1d 3m not inflation-adjusted – 1y swap real rates are used as a proxy.

The extrapolation method used is a linear approach from the last observable point from instruments included to the end date deemed necessary for SAM (currently 150 years), with an UFR of 1.5%.

Risk-free bond curve methodology (current)

Advantages and Disadvantages

Advantages

- *Simple to replicate for smaller insurers*
- *Stability at longer terms (UFR)*

Disadvantages

- *Volatility at short term due to constituents*
- *Volatility due to linear approach to interpolation*

Risk-free bond curve methodology (revised)

Alternatives

- *Bloomberg Curve Fitter*
- *Nelson-Siegel*
- *Nelson-Siegel-Svensson*
- *Quadratic*
- *Polynomial*
- *Linear-Log*
- *Log-Log*

Process to consider

- *Appropriateness for use (SAM)*
- *Industry-wide consultation*

HAF / Group HAF

Transition from Statutory Actuary to HAF / Group HAF

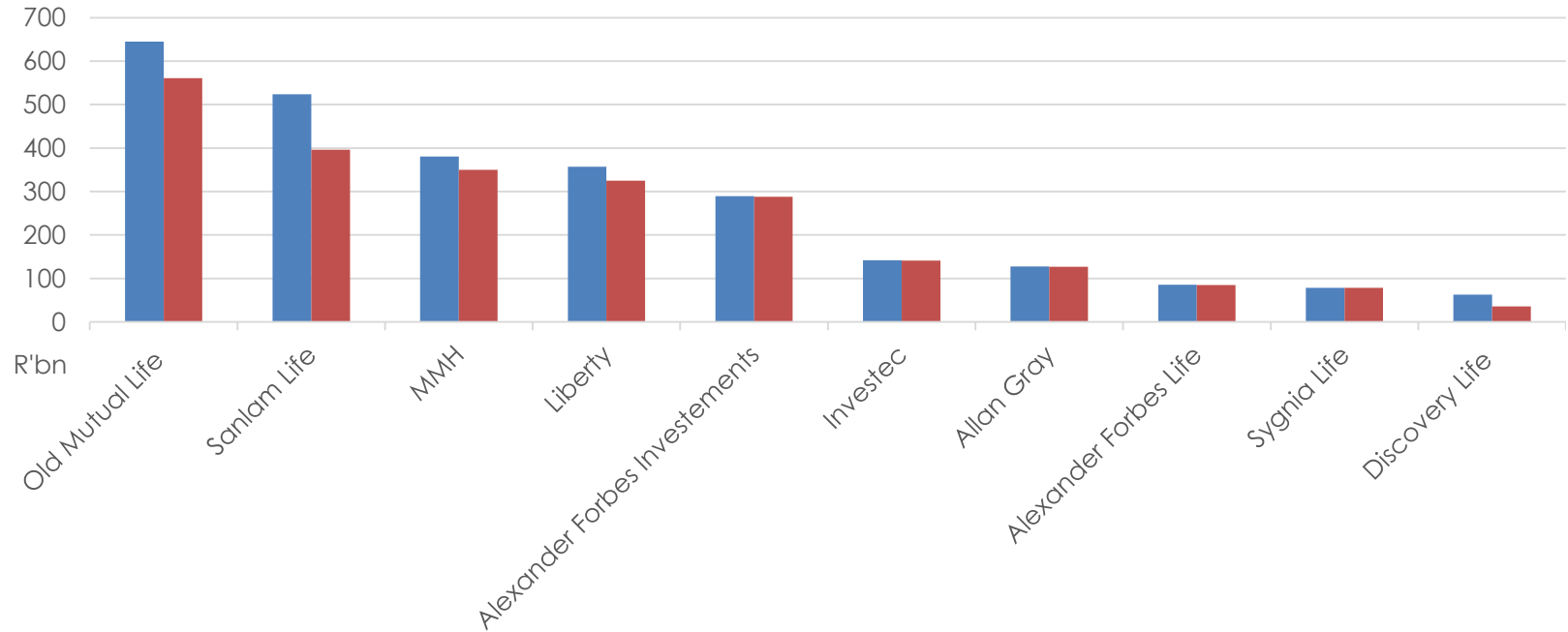
The HAF role replaced the function of the statutory actuary when the Insurance Act 2017 was promulgated.

New requirement for non-life insurers.

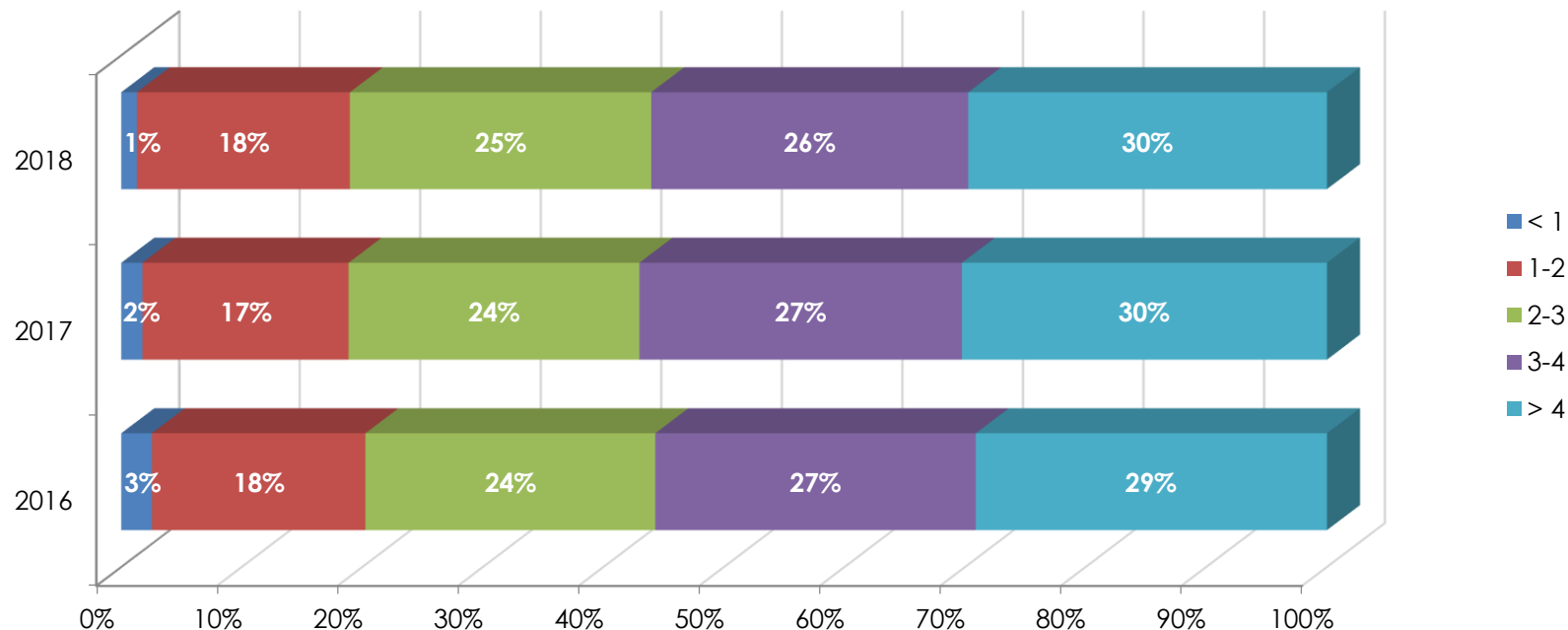
The audit committees and boards mistakenly assume that the HAF has retained the role the old statutory actuary held with respect to the actuarial input into financial statements prepared in terms of IFRS.

The HAF is required to be independent of the insurer's first line management, meaning that he or she forms part of the "second line of defense".

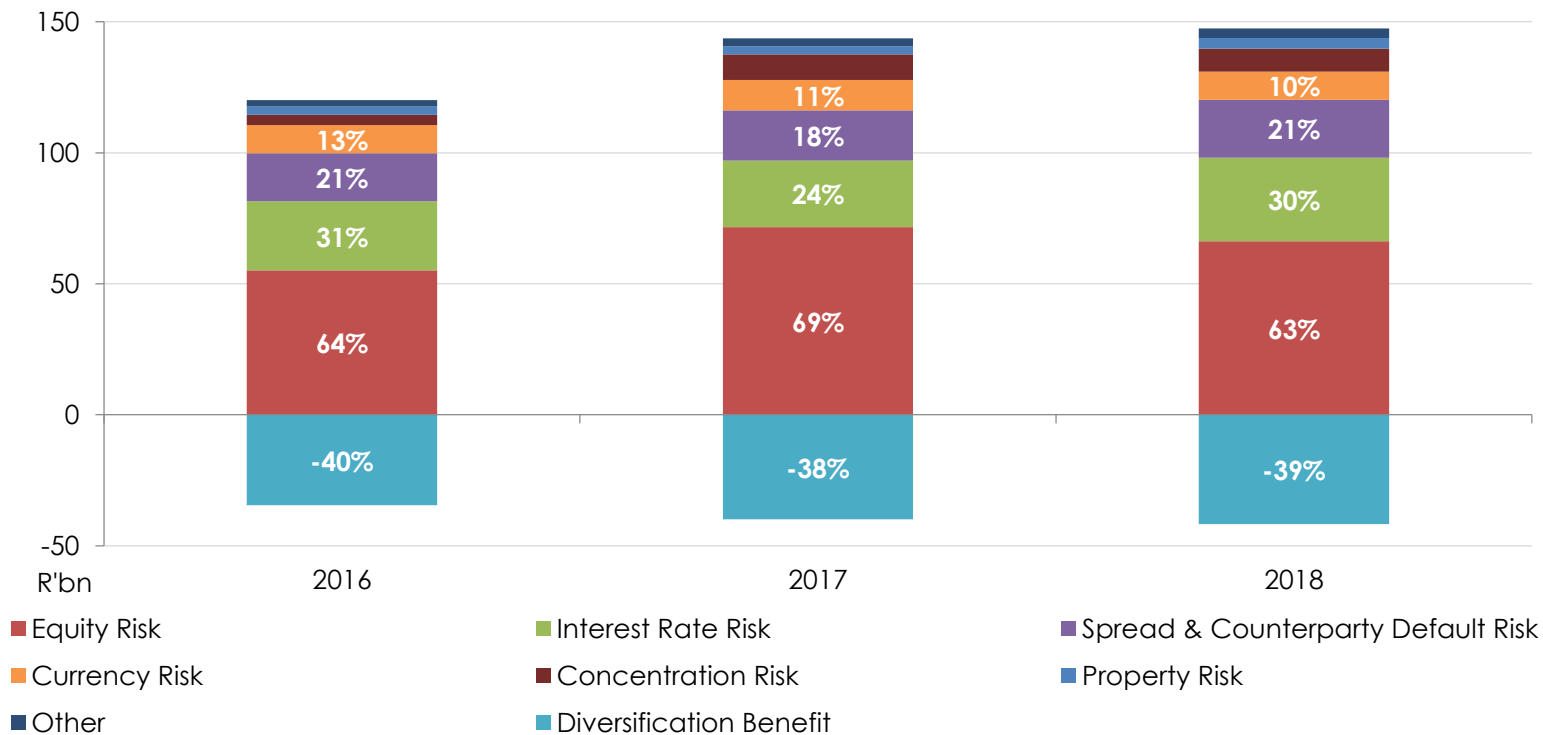
AVB Extracts – Top 10 Insurer Rankings by Assets



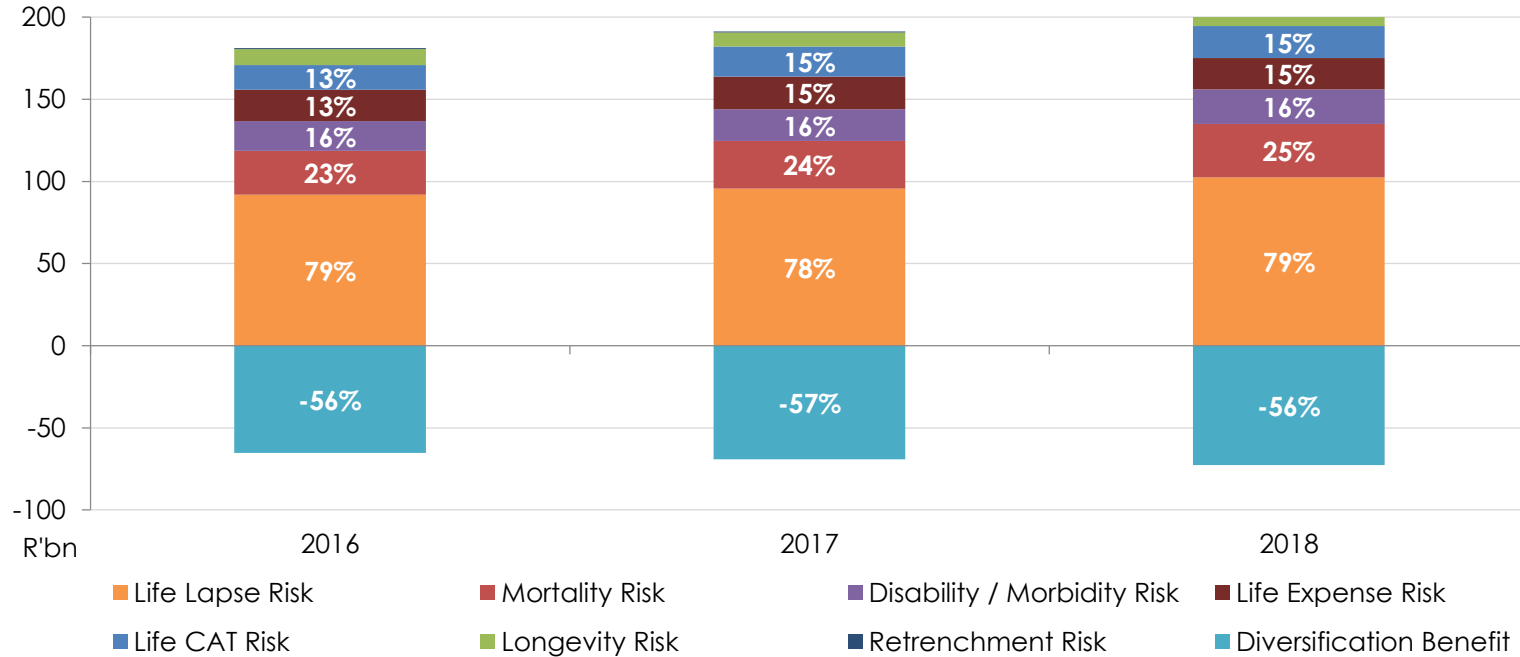
AVB Extracts – SCR Cover



AVB Extracts – Market Risk



AVB Extracts – Life Underwriting Risk



COVID-19

Monitoring

Daily and Weekly Monitoring templates

- *Liquidity risk*
- *Credit risk*
- *Insurance risk*
- *Market risk*
- *Operational risk*

QRT 2020Q1 versus 2019Q4

COVID-19

Regulatory Response

- Joint Communication 1 of 2020 COVID-19: Regulatory response
 - Issued on 17 April 2020
-
- *Retention of SCR*
 - *Reporting requirements*
 - *Dividends and bonuses to staff*
 - *Outstanding premiums*
 - *Foreign exchange limits*
 - *Insurers' actions*

Going Forward

SAM Phase II (2019-2022)

Guidance Notices

Thematic Reviews

Internal Reviews

Further items identified by Industry Stakeholders (post 2022)

Questions

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