



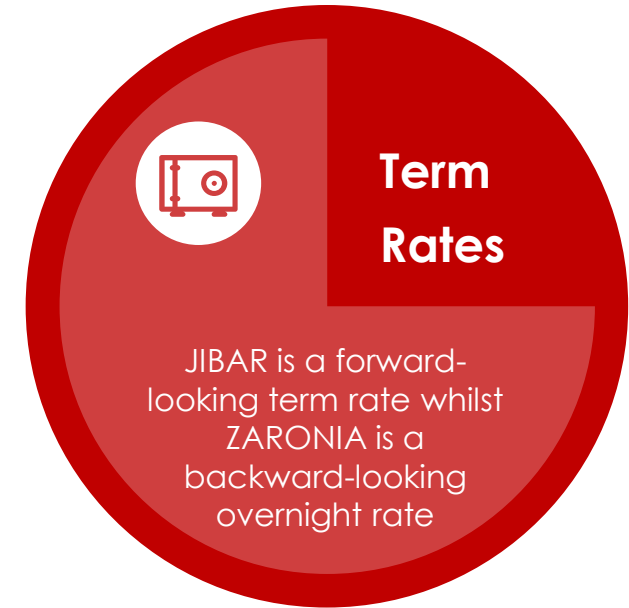
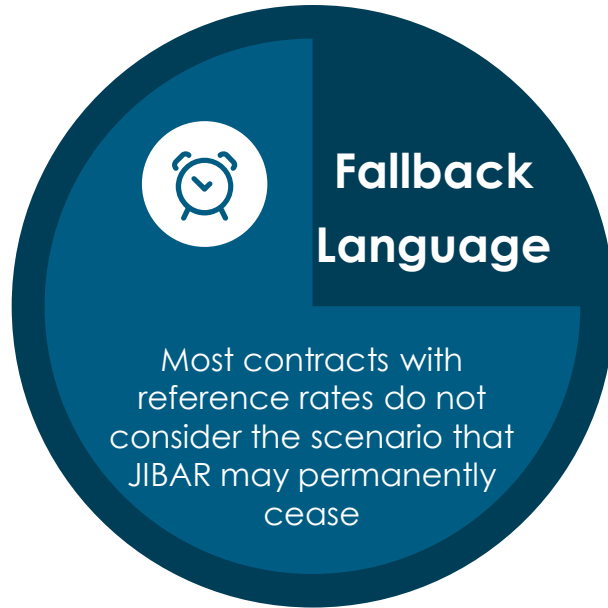
**ACTUARIAL SOCIETY**  
SOUTH AFRICA

**The end of JIBAR is nearing**

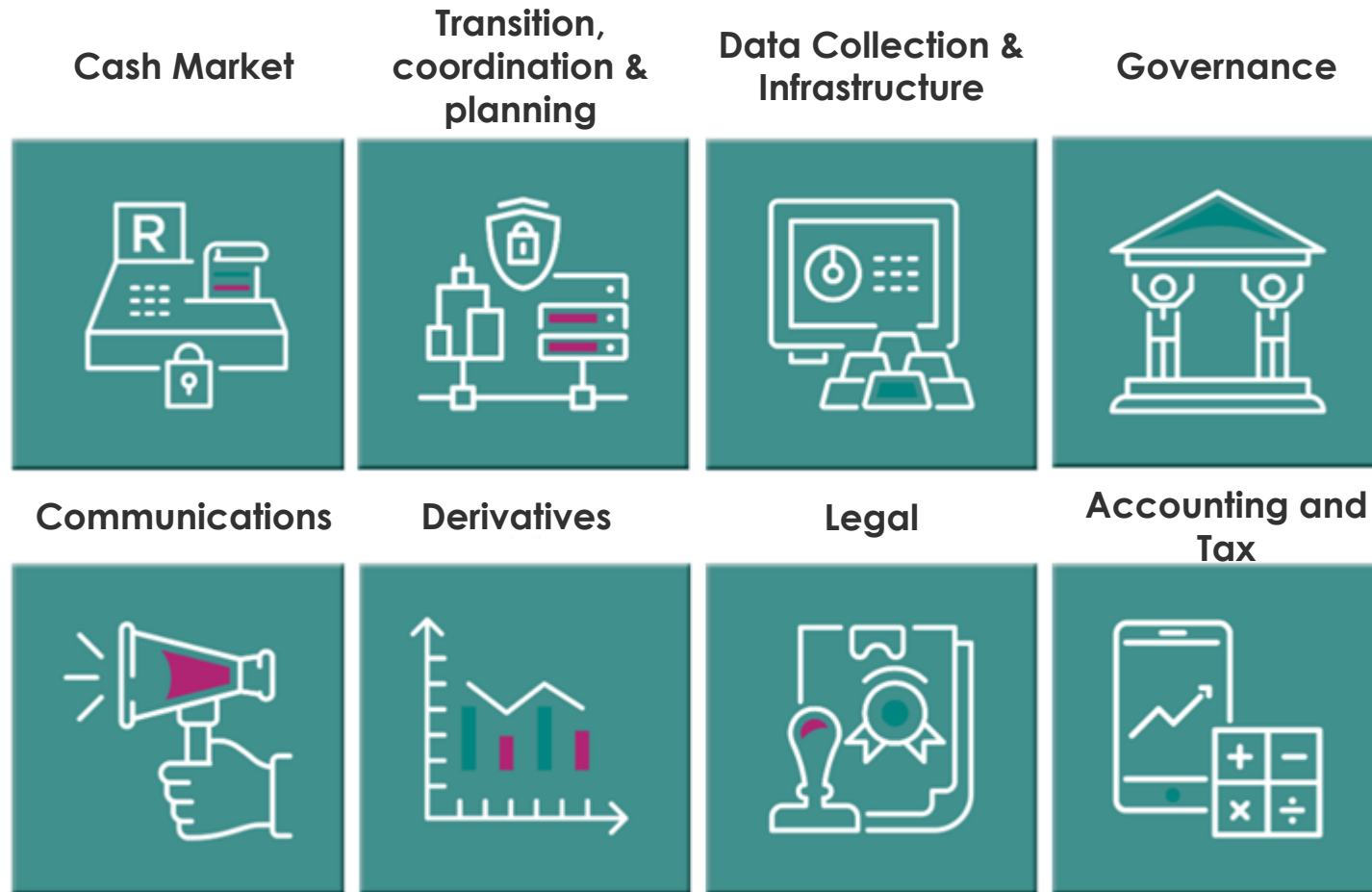
**13 May 2024**

# Key Transition Challenges

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# SARB MPG Workstreams



Source: SARB

# Impact on Insurers



## Hedging programmes

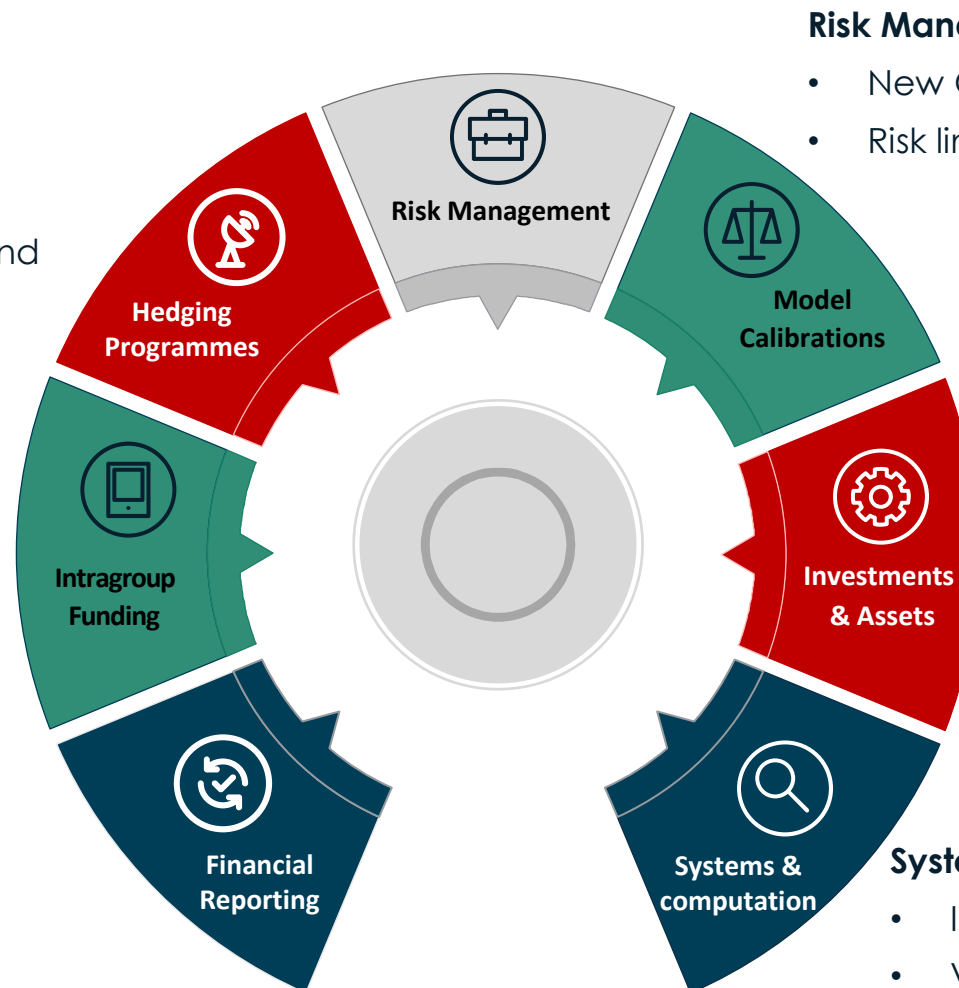
- JIBAR-based derivatives
- Manage gap and basis risk
- Consider fixed rate spread changes and impact of convexity

## Intragroup Funding

- Intragroup funding instruments priced as "Jibar + spread"
- Reprice in an economically equivalent manner.

## Financial Reporting

- IAASB disclosure requirements
- Hedge accounting considerations



## Risk Management

- New OIS Swap Curve
- Risk limits & metrics should be reassessed

## Model Calibrations

- Models calibrated to Jibar Swap movements
- Pricing models assessed for impact

## Investments and Assets

- Economic impact of floating rate investments
- STEFI benchmark
- Bilateral loan agreements

## Systems and computation

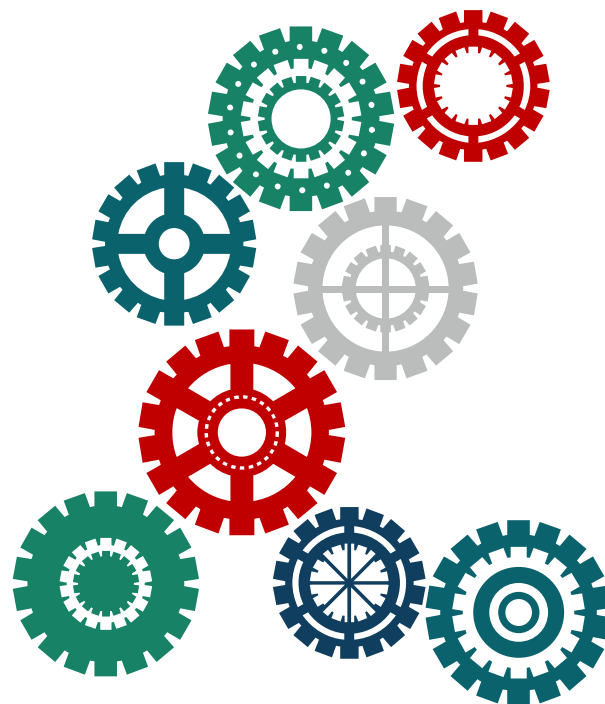
- Interest payments
- Valuations
- Simulations for embedded guarantees

# What is ZARONIA?



## Inputs

- ZARONIA is based on unsecured overnight call deposits placed with commercial banks.
- Circa R350bn in eligible transactions daily
- Minimum transaction size is R20m.
- Excludes intra-group transactions.
- Transactions are volume-weighted.
- Top 10% and bottom 10% (based on volume) is trimmed off.
- Median of remaining 80% is used for the final calculation.
- Overnight term implies that liquidity and credit risks of these deposits are minimal – therefore ZARONIA can be described as a **near risk-free rate**.



## Outputs

- Published by SARB and available on their website.
- Rounded to 3 decimal places.
- Published every business day at 10h00.
- SARB has 2 hours (until 12h00) to modify or correct the rate in the case of an error.
- Volatility of ZARONIA has been low since the observation period started in Q4 2022.

# The key differences

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## JIBAR

- ☐ Based on indicative rate submissions from banks
- ☐ Small selection of large bank contributors
- ☐ Forward-looking rate and set in advance
- ☐ Simple quote convention
- ☐ Term rate (1m, 3m, 6m JIBAR)
- ☐ Liquidity and credit risk premium embedded in the rate

## ZARONIA

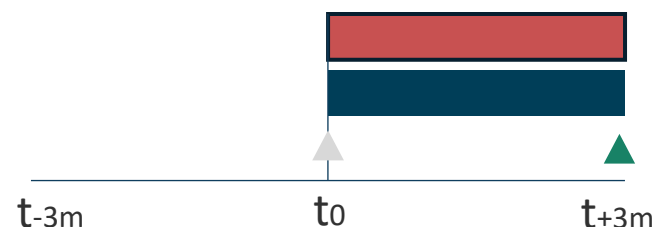
- ☐ Actual trades underpin the final rate
- ☐ Broad range of market participants
- ☐ Backward-looking rate and fixed in arrears
- ☐ Many variables make up the quote convention
- ☐ Overnight rate
- ☐ Near risk-free (rate based on overnight unsecured trades)

# Calculation conventions



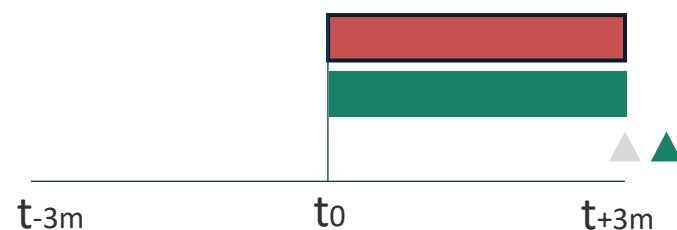
## Current approach

Jibar projected and known in advance. Paid at the end of the interest period.



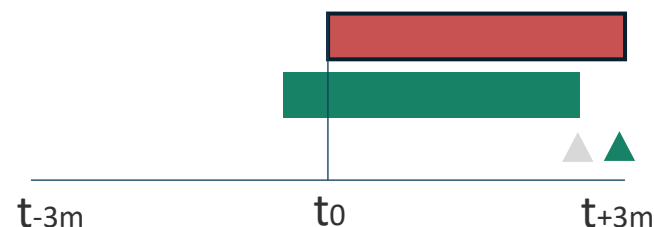
## Interest calculated in arrears

Interest payment is only known after observation period ends. Operationally difficult to pay on the last day of the interest period.



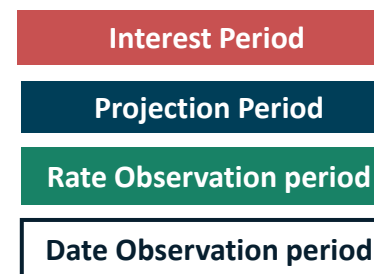
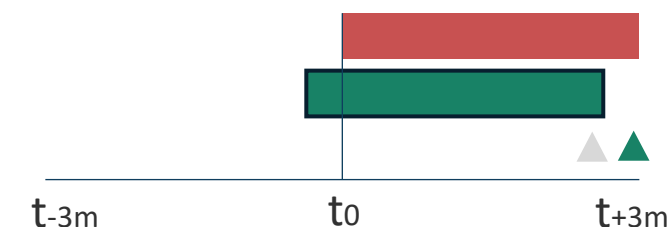
## Lookback period

A lookback period references the published O/N rates with a small lag, to allow for visibility and enables interest payment on the last day of the interest period.



## Observation Shift

Applying an observation shift in combination with a lookback period, allows consistency in the observation period between the published rates and calendar dates.



▲ Payment known

▲ Payment paid

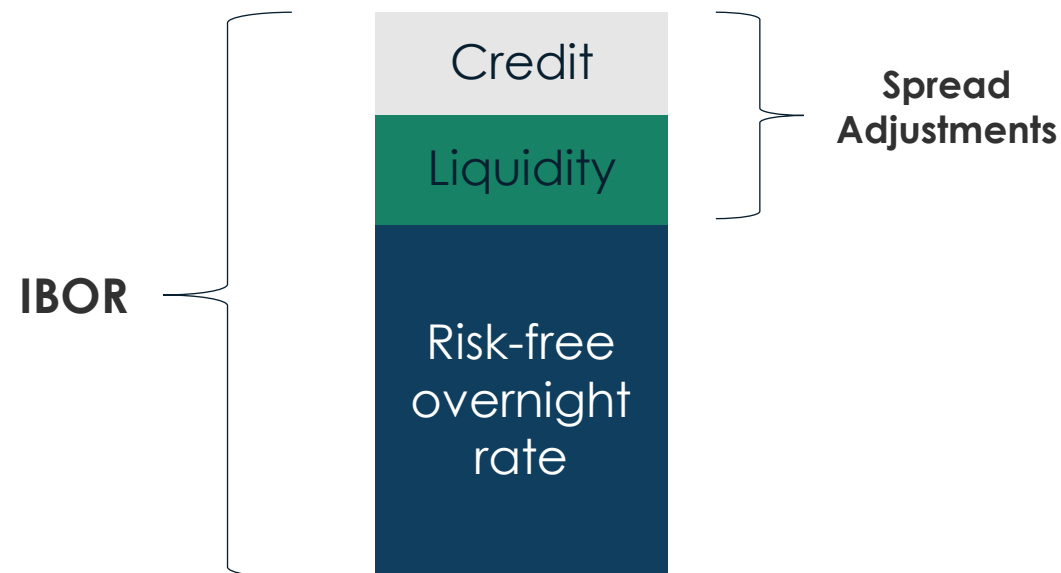
*Note: ZARONIA will always have a publication lag of one business day since traded data is used to construct the rate.*

# Fallback rates



- **LIBOR transition**
- Needed a practical approach to transition large volumes of financial contracts.
- Fixed spread above the risk-free rate, based on historical spread analysis.
- Spreads fixed on a single calendar date.
- Credit-adjustment spreads published by Bloomberg.

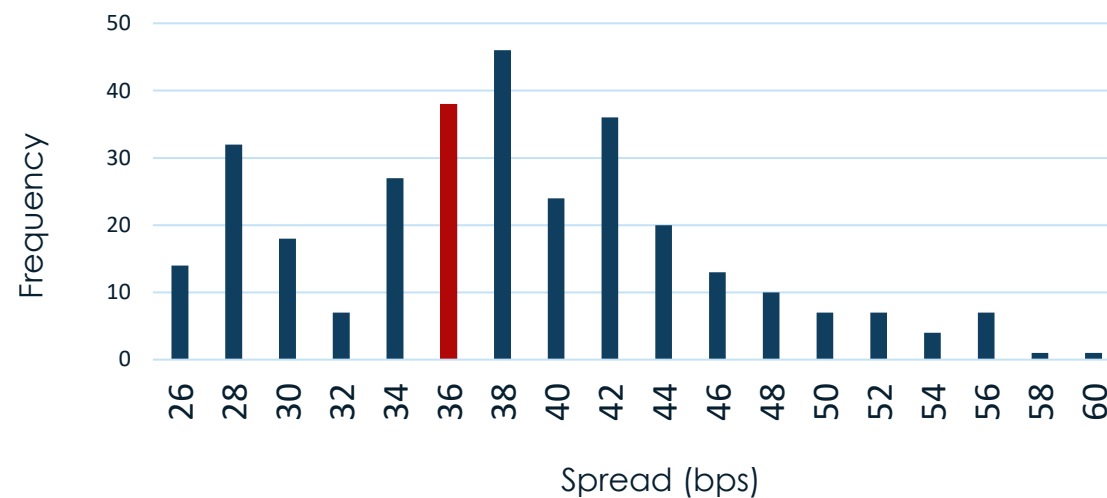
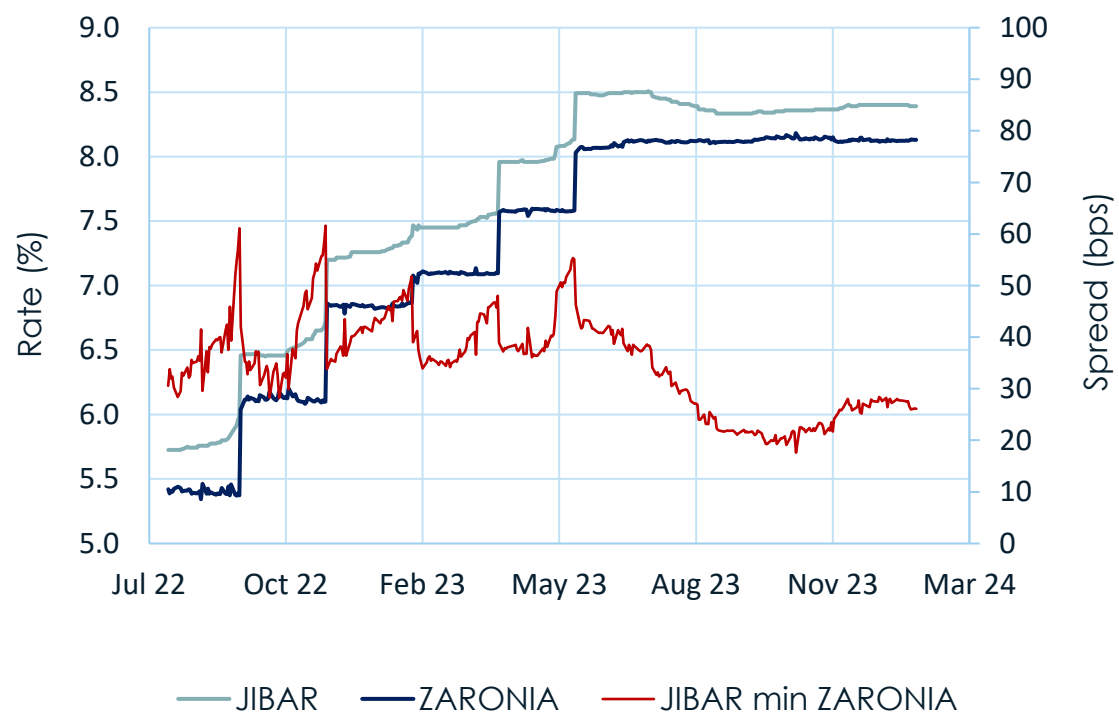
| LIBOR | Tenor     | Ticker         | Spread Adjustment (%) |
|-------|-----------|----------------|-----------------------|
| USD   | 2 Months  | SUS0002M Index | 0.18456               |
| USD   | 3 Months  | SUS0003M Index | 0.26161               |
| USD   | 6 Months  | SUS0006M Index | 0.42826               |
| USD   | 12 Months | SUS0012M Index | 0.71513               |



# Fallback rates



## 3m JIBAR min ZARONIA Spread analysis from Aug 22 to Mar 24



# SARB MPG Timelines



Source: SARB

Timelines are indicative and subject to change

# Success factors for transition

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## Good Planning

Thinking end-to-end and in partnership with vendors, back office and support functions.

Aligning key stakeholders at the early stages and having a strong governance model in place.



## Data

Time spent on operational and contractual data will increase speed, reduce overall cost and leave a benefit for future initiatives.



## Technology

Use Technology as an accelerator for contract scoping and contract automation activities.

Requirements can often be met by unifying existing technology to achieve the right outcome.



## People

JIBAR transition requires a deep level of expertise, whilst surge capacity must also preserve the client experience and goodwill of the business.

It will be essential to have both the expertise and flexible resourcing required for scale activities.



## Market Expertise

Market scanning and regular engagement with relevant industry bodies may increase stakeholder comfort levels around implementation activities and overall project direction and drive activity.



## Communication

Consistent and clear communication with internal and external stakeholders will be essential as well as the education on what will be a technically challenging topic

Stakeholder and client experience (use trained people), reasonable terms (keep it simple) and ease of interaction (be flexible) are the key factors.



## Reporting and MI

Regular reporting and stakeholder management on MI and ongoing activities will be key to ensuring alignment across the broader programme.



## Timing

Balance the need to move early enough to be ready against the delays of market information and readiness.

Need to be ready and flexible.



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**Thank you**