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

Introduction:

The SAM Communication Task Group housed under Pillar III (Reporting and Disclosure) of the SAM Governance Structure has, as part of its communication strategy, been mandated to compile a regular information letter on the progress made by the FSB and the SAM Task Groups. This letter provides a brief overview of SAM activities for the period September 2010 to February 2011. Information letters will be issued on a more frequent basis as the work of the SAM project progresses.

In this information letter we provide feedback on new developments and the status of the progress made by the SAM Task Groups.

Recent and proposed developments:

SAM Website

The SAM Website is now fully up and running. All FSB communications relating to the SAM project will be published on the SAM Website.

SAM Roadmap

On 3 November 2010, the FSB released the first version of the SAM Roadmap. The Roadmap highlights the elements of the proposed SAM regime and identifies the most important milestones of the journey towards implementation in January 2014. The key elements of the Roadmap are drawn from the Solvency II Directive but specific SAM proposals on the key elements are still evolving, based on the work of the SAM Task Groups. The Roadmap has been drawn up to assist insurers with their SAM implementation efforts and highlights important areas on which insurers should be concentrating.

A copy of the SAM Roadmap is available on the SAM Website.

The SAM Roadmap includes a set of questions designed to obtain input from stakeholders on certain key issues and to gain an initial view of insurers’ state of readiness with respect to SAM implementation. The responses to these questions are being reviewed and a summary is being compiled for publication in April 2011.
**Glossary Document**

The Communication Task Group has compiled a comprehensive “Solvency II Glossary Document”. The glossary document has been designed for the purpose of assisting the various SAM Task Groups by providing useful definitions of terms applicable to the Solvency II legislation. The glossary document was compiled by reference to international sources such as the International Association of Insurance Supervisors (IAIS) Insurance Core Principles (ICPs) and EIOPA (previously known as CEIOPS).

A copy of the glossary document is available on the SAM Website.

**Interim Measures**

Discussion Documents on interim measures are at various stages of development with respect to the following issues:

- **Insurance group supervision**: The FSB has targeted March 2011 to table a revised draft Discussion Document on a regulatory framework for insurance group supervision at the SAM Insurance Groups Task Group. This will inform the introduction of insurance group legislation in the second half of 2011 for implementation in 2012;

- **Revised technical provisions and capital requirements for short-term insurers**: Following the tabling of a Discussion Document on interim requirements in late 2010, the FSB is aiming to publish for comment a draft Board Notice on revised technical provisions and capital requirements for short-term insurers by April 2011. The revised requirements will apply from 1 January 2012. The Discussion Document is available for comment on the SAM Website; and

- **Additional requirements in terms of corporate governance, risk management and internal controls**: Interim measures are currently being finalised by the relevant SAM Task Groups. A Discussion Document on the proposed interim measures will be published for comment prior to implementation in 2012.

The FSB is planning to hold two seminars, one in Cape Town and one in Johannesburg, in October 2011 to explain the interim measures prior to implementation in 2012.

**Developments in the SAM Task Groups**

Throughout the period under review the various SAM Task Groups reviewed the Level 1 text of the Solvency II Directive with regard to appropriateness for the South African environment. The suggestions and advice received from the Task Groups were forwarded to the FSB for consideration in developing draft Primary Legislation. It is planned that the first draft of the Primary Legislation will be available by March 2011 for comment by the Task Groups.

The Task Groups have now begun working through the IAIS ICPs, the EIOPA (previously known as CEIOPS) Consultation Papers and Level 2 Implementing Measures and other relevant documentation in order to develop Discussion Documents, with recommendations on the various technical aspects of the SAM framework. The first set of draft Discussion Documents, dealing with Pillar 1 issues, is due by the end of March 2011.

**Stress testing**

The SAM Stress Testing Task Group has assisted with the design of the interim stress tests that will form part of the 2011 annual statutory returns for both long- and short-term insurers.
The draft stress tests were circulated to industry for comment in the last quarter of 2010. The final proposals have now been incorporated into the annual returns and further information will be contained in the guidance manual to the annual returns.

In addition, the largest long- and short-term insurers (those already informed) will be required to complete bi-annual stress tests on market risk.

**SAM timeline and SA QIS1**

SAM Coordinators and participants are reminded about the demanding timeline for the year. SAM Task Groups are required to submit first drafts of technical Discussion Documents between March and June 2011. The first set will deal with Pillar 1 issues in order to assist the FSB in finalising the design of SA QIS1 (Quantitative Impact Survey).

The SA QIS1 will be largely based on the Solvency II QIS 5 and insurers are encouraged to familiarise themselves with this document in preparation for the SA QIS1.

Insurers should note that the SAM Roadmap envisages that the SA QIS1 will be made available in July 2011 and that completed returns are due by 31 August 2011. Any changes to this timeline will be communicated in advance, subject to the advice of the SAM Steering Committee.
**Internal Models Approval Process (IMAP)**

Under the SAM regime, insurers may choose to calculate their Solvency Capital Requirement (SCR) using either the Standard Formula or their own full or partial internal models, subject to approval by the FSB. The FSB will be publishing an IMAP (Internal Model Approval Process) document by May 2011 providing details of the internal model approval process. Insurers who intend to apply for the use of internal models are encouraged to engage with the FSB on the basis that will be set out in the IMAP document, including the provision of information on the methodology of the internal model and the role it plays in the decision making process of the company.

The pre-application process for internal models is expected to begin in September 2011.

**FSB Head: SAM Unit**

The FSB has appointed Ian Marshall to Head its SAM Unit, with effect from August 2011.

The Head of the SAM Unit will be responsible for managing the SAM Unit within the FSB, including oversight of:

- the FSB’s decision making process on SAM proposals;
- SAM QIS analysis;
- the SAM Internal model approval process;
- interaction with EIOPA on the 3rd country equivalence test; and
- knowledge transfer to “business as usual” processes.

Ian is a qualified actuary who joined the FSA in 2008 to work in the Prudential Insurance Policy department. Ian currently leads the team developing Solvency II policy for internal models to calculate regulatory capital. He is also a member of the EIOPA (previously CEIOPS) Internal Model Expert Group where he leads a number of sub-groups including use test and the validation of internal models.

Prior to joining the FSA on a permanent basis, Ian completed a secondment to the FSA where he was involved in reviewing Individual Capital Assessment submissions from insurers. He has also worked at an actuarial consultancy where he was involved in many projects advising firms on Solvency II, Individual Capital Assessment and embedded value reporting. Prior to his consulting position, Ian worked at an insurance firm, working on regulatory reporting and developing their Individual Capital Assessment.

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