

ACTUARIAL
 SOCIETY
OF SOUTH AFRICA

QUANTIFYING RISK, ENABLING OPPORTUNITY

ASSA STIC 2013

SAM Regulatory Developments in Short-Term Insurance

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Agenda

- Recap of recent events
- SA QIS3
- Current activity
- Other items on the horizon

Disclaimer

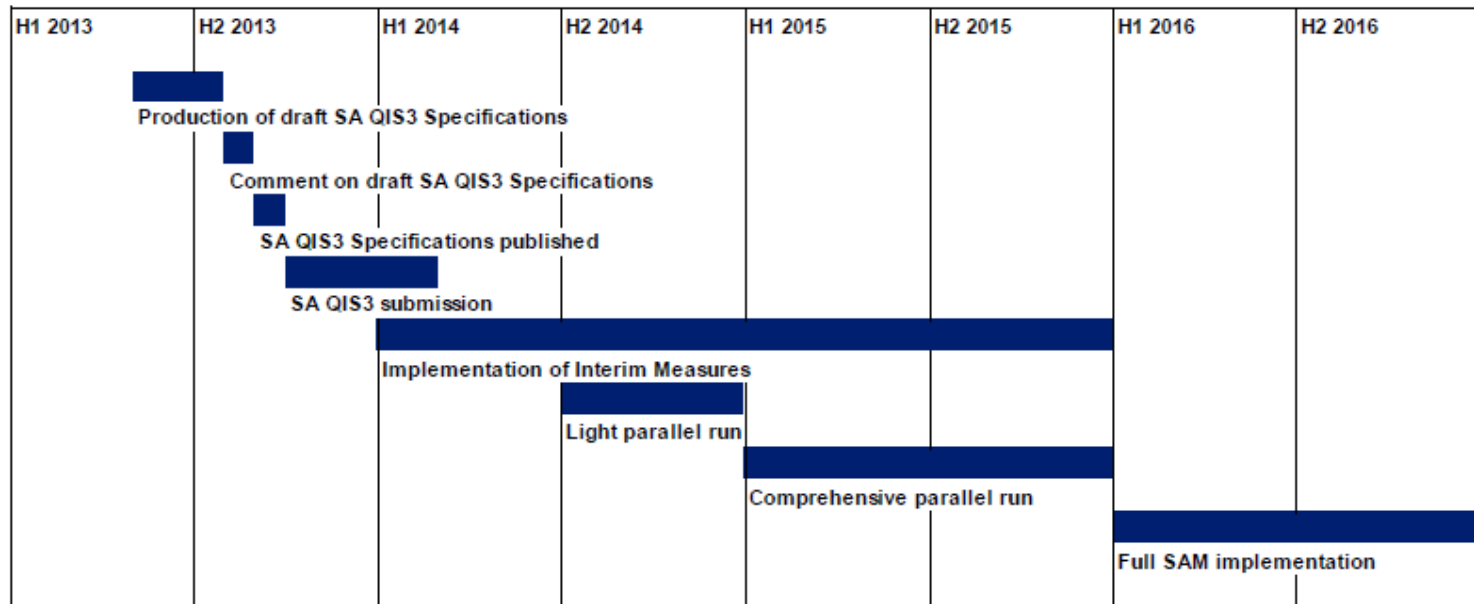
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Recap of recent events

- Revised timelines (SAM Update 2013)
- Parallel run
- NLUR WG
 - Data request
 - Calibration
 - Workshop
 - Workbook
- Segmentation: DD29 Authorisation LoBs
- Pillar II Readiness Report
- ILAB

Recap of recent events

- Revised timelines (SAM Update 2013)



Recap of recent events

- Parallel run

| Component | Light parallel run | Comprehensive parallel run |
|-------------------|--|---|
| Timing | 1 July 2014 to 31 December 2014 | 1 January 2015 to 31 December 2015 |
| Pillar I | Calculations adapted from the SA QIS3 specifications, with a simplified approach to the calculation of the SCR | Full calculations for both quarterly and annual calculations. IMAP firms expected to use internal models to calculate the SCR in addition to the standard formula calculation. |
| Pillar II | Compliance with Insurance Laws Amendment Bill | Compliance with Insurance Laws Amendment Bill Mock ORSA exercise |
| Pillar III | Quarterly reporting, based on SA QIS3 templates | Full annual and quarterly quantitative reporting templates. Full qualitative reporting requirements |

Recap of recent events

- NLUR WG: Data request (31 Dec 2012)
 - Data quality generally good
 - Catastrophe claims not easily identifiable for all LoBs
 - Segmentation issues
 - Lacked sufficient volume of data for some LoBs
 - Ultimate claims triangles mostly lacking
 - Gross & net data inconsistencies

Recap of recent events

- NLUR WG: Calibration
 - Premium & Reserve Risk calibration (January - June 2013)
 - Many hours of analysis
 - Refer to NLUR Workshop presentation for more details
 - Currently “on hold” but TBC for final Tech Spec
 - Agriculture (post Workshop) – additional US-data analyses

Recap of recent events

- NLUR WG: Workshop (13 June 2013)
 - Standard Formula: general comments
 - Call for a more gradual introduction of complexity in SF
 - Complexity
 - Workbook
 - Errors
 - Guidance manual
 - Segmentation
 - Management info challenges

Recap of recent events

- NLUR WG: Workshop (13 June 2013)
 - Premium Risk
 - Allowance for LoB-internal diversification benefits in larger portfolios
 - Allowance for expected profits in new business
 - Prudence issues
 - Scope for manipulation
 - Reserve Risk
 - Volume measures too complex

Recap of recent events

- NLUR WG: Workshop (13 June 2013)
 - CAT Risk
 - Concerns around SA-specific parameterisation
 - Overlap with P&R Risk for some LoBs
 - Lapse Risk
 - Significance?

Recap of recent events

- NLUR WG: Workshop (13 June 2013)
 - Segmentation
 - Reporting practicalities vs. authorisation considerations
 - Calibration issues
 - Premium recognition
 - Other Technical Provisions (Cash-Back, Profit Comm's..)
 - Loss-absorbing / “loss-amplification” capacity

Recap of recent events

- NLUR WG: Workbook for SA QIS3
 - Considered industry feedback
 - Changes proposed by NLUR WG to FSB:
 - 2 workbooks Main & NatCAT
 - Segmentation, parameters, etc.
 - Customisation & other enhanced macros
 - Management info breakdown
 - Guidance Manual and Worked Examples

Recap of recent events

- NLUR WG: Workbook for SA QIS3
 - Changes proposed by NLUR WG to FSB: (ctd.)
 - Reinsurance:
 - 30 counterparties
 - 30 individual business segment RI programmes
 - 5 aggregate business segment RI programmes
 - Structure: Prop -> Non-Prop -> Prop -> Non-Prop

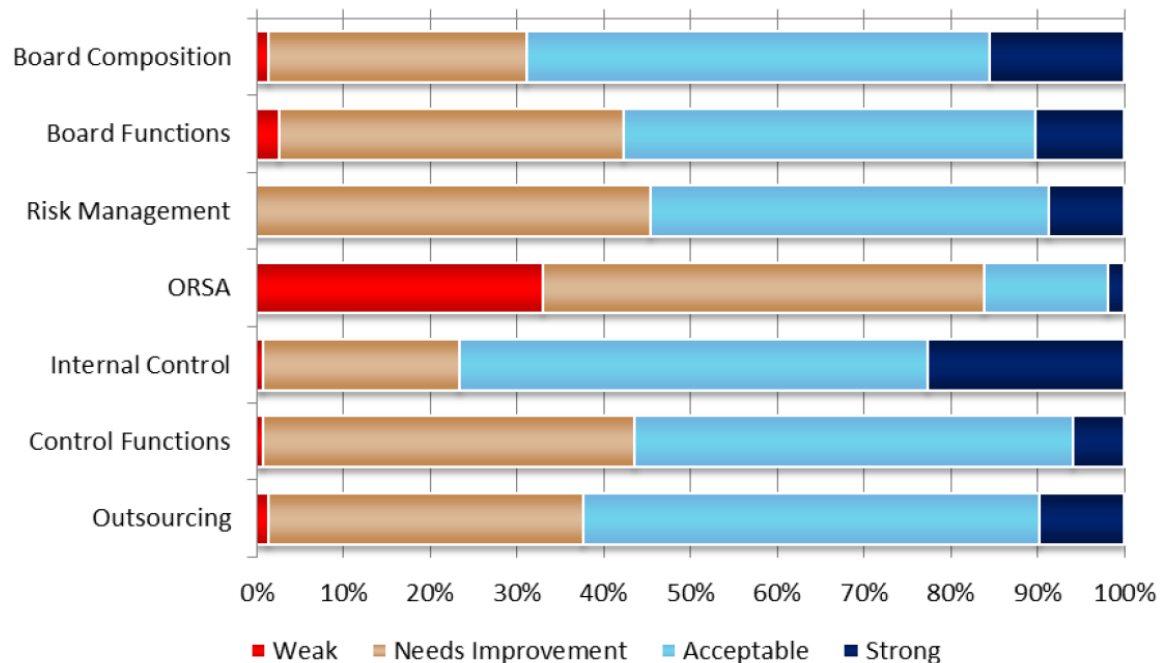
Recap of recent events

- Segmentation: Authorisation Classes of Business under SAM (DD29)
 - Focus on skills set & resources required to be licensed
 - Link to other areas of SAM (separate DD's):
 - Technical Provisions
 - Capital Requirements: SCR & MCR
 - Pillar III reporting

Recap of recent events

- Pillar II Readiness Report (28 June 2013)
 - Annexure: useful for benchmarking

Overall Self-Assessment – All Insurers



Recap of recent events

- ILAB

- Insurance Laws Amendment Bill:

- Short-Term Insurance Act
 - Long-Term Insurance Act

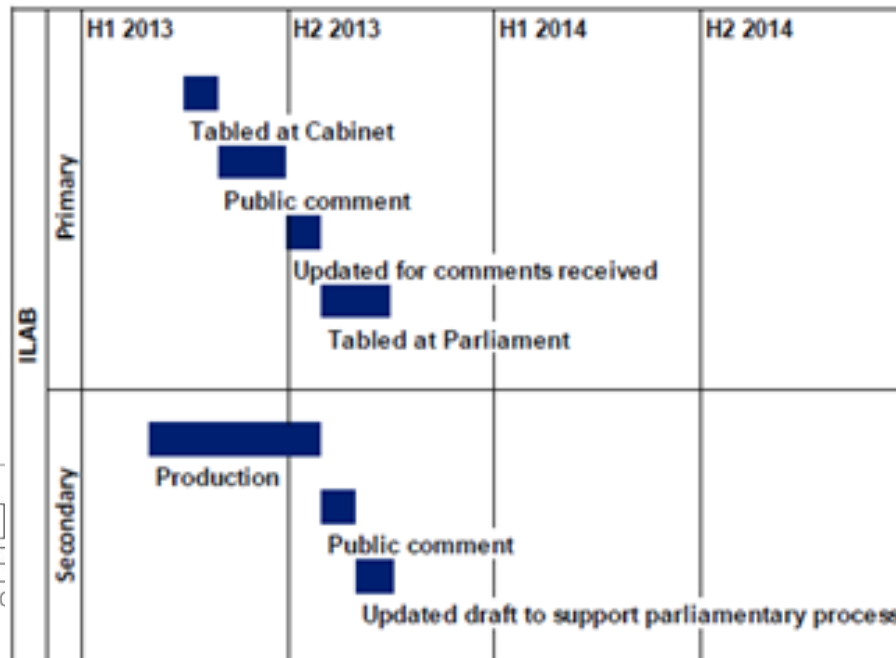
- Effectively “SAM interim measures” on:

- governance
 - risk management
 - internal controls
 - groups supervision

Recap of recent events

- ILAB

- Public comment closed: 31 July 2013
- Planned effective date: 1 Jan 2014



SA QIS3

- Timelines & reporting date
- Draft Tech Spec: NLUR
- Draft Tech Spec: other relevant areas
- NLUR Workbook

SA QIS3

- Timelines

| Activity | Date |
|---|--------------------|
| Publication of draft SA QIS3 technical specifications for comment | 2 Aug 2013 |
| Final date for submission of comments | 30 Aug 2013 |
| Publication of final SA QIS3 technical specifications | 1 Oct 2013 |
| Submission of results by insurers | <u>30 Apr 2014</u> |
| SA QIS3 report published by FSB | 30 Jun 2014 |

- Reporting date > 31 Dec 2012... get busy! 😊

SA QIS3

- Draft Tech Spec: NLUR
 - Volume measures simplified as per EIOPA QIS5
 - Segmentation ~ DD29, except for subclasses i.r.o.:
 - Liability
 - Miscellaneous
 - Non-Prop
 - LoB correlation matrix

SA QIS3

- Draft Tech Spec: NLUR
 - P&R Risk parameters
 - Lapse Risk: $\Delta(\text{Basic Own Funds})$
 - Natural CAT - Method 1: Standardised Scenarios
 - $\max\{\text{base}; \text{alternative}\}$ **ERRATUM**

SA QIS3

- Draft Tech Spec: NLUR
 - Man-Made CAT - Method 1: Standardised Scenarios
 - **Fire₁**: new default & alternative scenarios adapted from SA QIS2 Fire₁
 - **Fire₂**: removed (Agriculture)
 - **Motor**: added “single location accumulation of exposures” scenario
 - **Marine**: added a collision scenario (pleasure & fishing vessel)
 - **Credit & Suretyship**: LR_{RECESSIONARY} split per sub-class and recessionary losses correlated
 - **Aviation**: - only 10% of liability loss iro. collision scenario;
- added “single location accumulation of exposures scenario
 - **Liability**: EL risk factor applied to exposure down to 200% from 1000%

SA QIS3

- Draft Tech Spec: NLUR
 - CAT Method 2: Factor-based
 - Updated mapping of LoBs per peril

SA QIS3

- Draft Tech Spec: other relevant areas
 - Technical Provisions
 - Discounting: SA Govt Bond rates
 - Segmentation aligned with DD29, MCR & SCR
 - Additional guidance on premium & contract recognition; contract boundaries
 - Other Technical Provisions

SA QIS3

- Draft Tech Spec: other relevant areas
 - Insurance Risk Mitigation:
 - Additional credit quality criteria & principles to be met in order to recognise the risk mitigation
 - Counterparty Default on Risk Mitigation Instruments:
 - Local currency international scale ratings
 - S&P ratings table used – more granular below BBB

SA QIS3

- Draft Tech Spec: other relevant areas
 - Ring-Fenced Funds:
 - SA QIS2 approach B applied
 - allowance for cells' call on owner as ancillary own funds
 - Market risk:
 - Δ BOF approach in Market Risk
 - Illiquidity premium risk module scrapped
 - Various others of lesser importance to ST insurers

SA QIS3

- Draft Tech Spec: other relevant areas
 - Own funds:
 - Intangible Assets deducted
 - Unlisted holding company shares are deducted in full
 - Listed holding company shares: up to 5%
 - Cash deposits at group bank: up to 10%

SA QIS3

- Draft Tech Spec: other relevant areas
 - Participations Risk: additional methods tested
 - look-through
 - position in SCR aggregation under Market Risk
 - MCR: segmentation & parameters

SA QIS3

- NLUR Workbook
 - To be released shortly for public comment
 - Key areas of change:
 - Up to 30 RI counterparties
 - Up to 30 RI programmes appl. to CAT Risk
 - Changes per SA QIS3 (see above)
 - Lapse Risk template
 - Simplified inputs:
 - P & R Risk volume measures
 - counterparty rating information
 - Customisation
 - Enhanced sign-off

Current activity

- NLUR WG
- Technical Provisions TG
- Non-Life QRTs for TP's (Reporting TG)
- Drafting primary & secondary legislation
- IMAP
- Economic Impact Study

Current activity

- NLUR WG

- Calibration:

- Reserve Risk
 - Proportional reinsurance business
 - NatCat: 1-in-10 and 1-in-20 year all-peril scenarios

- Volume measures:

- Square-roots to allow for size of portfolio diversification
 - P_{lob}^{PP} = Present value of net premiums of existing contracts which are expected to be earned after the following year for each LoBs.

- Optional geographical diversification benefit

- Discussion Documents

Current activity

- Technical Provisions TG
 - Consistency:
 - contract boundaries
 - premium recognition
 - expected profits
 - Other Technical Provisions

Current activity

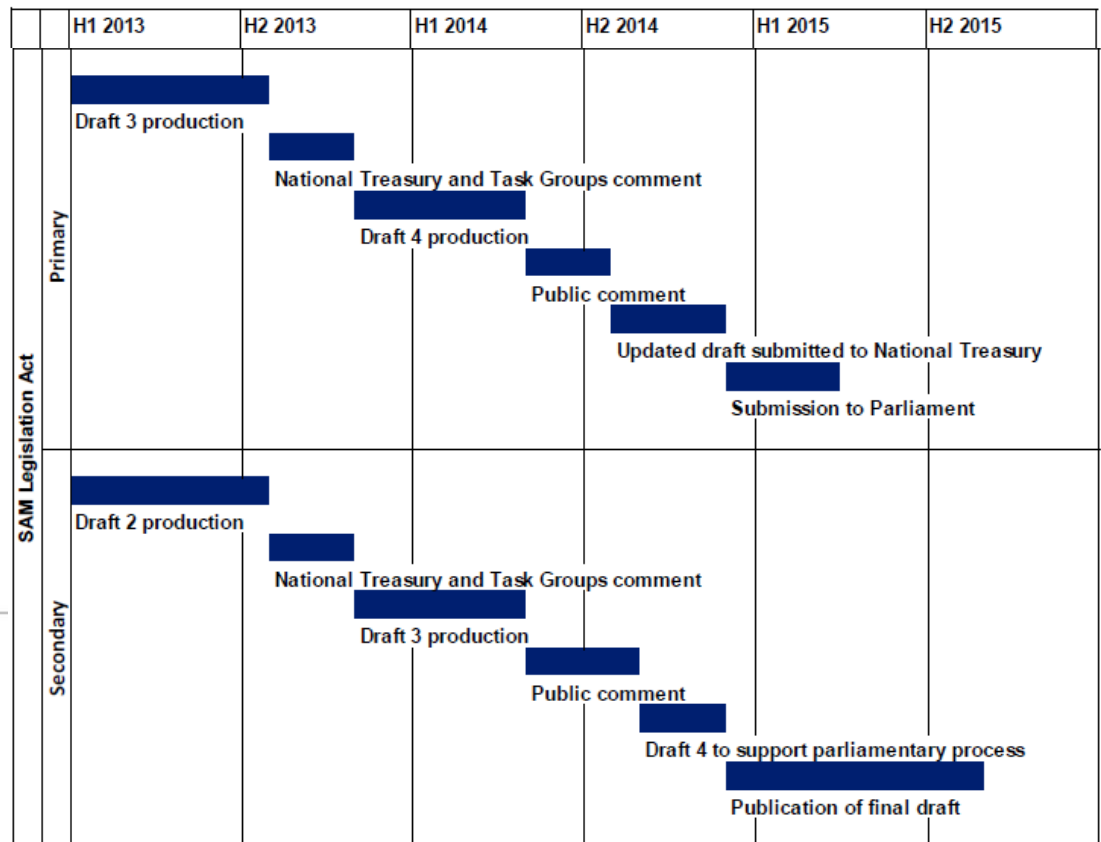
- Non-Life TP QRTs (Reporting TG)
 - Philosophy:
 - Drive data improvements
 - Risk-based disclosure
 - Shift away from “prescribed methods”
 - Splits:
 - RI: more detail on inwards & outwards
 - Other Technical Provisions: 3 sub-categories
 - Claims: IBNR, OCR, ALAE, ULAE
 - Discounted & Undiscounted
 - Foreign if > threshold: same level of detail as local

Current activity

- Non-Life TP QRTs (Reporting TG)
 - Key assumptions per TP category and RM
 - Data request info: triangles & premiums
 - A vs. E and sufficiency assessments
 - Movements analysis:
 - claims, policies: count & amount
 - Term, annual, monthly
 - RI: participation
 - Log Files

Current activity

- Drafting SAM primary & secondary legislation:



Current activity

- **IMAP**
 - Good progress being made
 - Governance: independent review vs. validation process
 - Appropriate design, but still light on execution
 - Not as strong as in banks
 - External data & model: challenges
 - Documentation: expected to be an issue (as in banks!)
 - Liberal use of proportionality esp. i.r.o. conflicts of interest

Current activity

- IMAP

- Costly: management time & resources
- Entry requirements challenges:
 - Documentation must be substantially ready
 - Past 1st validation cycle (board must give comfort)
 - Independent review: consistency of evidence with principles and standards
- New entries into IMAP process in the pipeline

Current activity

- **Economic Impact Study**
 - Consultant appointed
 - Survey released for completion by 26 Aug 2013
 - Micro-insurance and financial inclusion;
 - Employment & transformation
 - Capital requirements and cost of capital
 - Behaviour and industry; Business & strategic impact; Consolidation of industry; Expenses
 - Investment strategy
 - Pricing, products and distribution channels
 - Reinsurance: inwards & outwards
 - Policyholder protection
 - International perspective
 - Tax
 - Groups

Other items on the horizon

- Follow-up : Pillar II Readiness Review
- Reinsurance Review Report (Oct 2013)
- 3rd Party Cells Discussion Paper
- Twin Peaks
- TCF
- POPI

Questions

