

## SAP104 VERSION 10

### Introduction

This cover note contains an outline of the rationale for changes to SAP104 to allow for the implementation of SAM.

The revised SAP104 is effective for valuations performed for financial reporting dates ending on or after 1 July 2018 to coincide with the implementation date of SAM.

### Background to changes

The Insurance Act, 2017 replaces the Statutory Valuation Method of the previous version of this standard that was based on the Financial Soundness Valuation Method. As a result the Financial Soundness Valuation method is no longer required for prudential supervision reporting. The forthcoming IFRS 17 reporting requirements will also replace the current published financial reporting standards. Until the implementation of IFRS 17 the current local recognised practice to value insurance contracts is the Financial Soundness Valuation method per section 2. This standard is therefore an interim standard between the new prudential requirements being enacted and until the IFRS 17 requirements are in force.

The objective when amending SAP104 was therefore to retain the Financial Soundness Valuation without making any material changes (given its expected limited lifetime) and to remove sections no longer required such as the Capital Adequacy Requirements. SAP104 should therefore be viewed as an interim measure that will be withdrawn or fully rewritten prior to IFRS17 becoming effective.

The Life Assurance Committee will also consider the need for specific technical guidance for SAM. However, the preferred approach has been to provide feedback to the SAM working groups for consideration in the prudential standards and the need for further guidance can only be assessed once final standards have been published and SAM becomes effective. Members are also referred to APN106 that provides further guidance.

### Scope of the review

The scope of the review of the current SAP104 included:

- Changing the guidance note to be SAM specific and replacing SVM with SAM.
- Changing the guidance on the published basis in the absence of any SVM guidance notes.

- Including any guidance where this is currently covered by a Board Notice or Directive that will no longer be in place under SAM. This is expected to impact the published basis and tax basis.
- Changing the guidance for the tax basis in the absence of SVM.
- Recommendations as to whether the guidance should stay a SAP or be changed to an APN.

### **Changes to the SAP 104 note**

- The SVM sections (including CAR) were replaced by a prudential supervision reporting. SAM guidelines are comprehensive and the guidance in SAP 104 is therefore expected to be minimal. During the review of SAP 104 any areas where additional guidance was seen to be required was referred to the relevant SAM subcommittees. The current version of SAP 104 therefore has no additional guidance on SAM. However, if a need arises for such guidance in the future, it would be added in a later version.
- The Financial Soundness Valuation section was adjusted to be applicable to the published basis only. This included adding the relevant guidance regarding negative liabilities previously included in Directive 145.A.i(LT). As this directive will be repealed, the change was required to ensure that there was some guidance on the option to disregard amounts representing negative liabilities under the published basis.
- The tax section was updated to reflect the latest changes in the tax legislation.

### **SAP vs APN**

SAP 104 covers the following three main valuation bases: the published basis, prudential supervision reporting basis and tax basis. While the new standard does not contain any guidance relating the prudential supervision reporting basis, it still contains significant guidance regarding the published basis.

The Actuarial Society cannot provide a compulsory standard for the published basis as this falls under the accounting standards. However as per the current IFRS 4, local practice should continue until the adoption of IFRS 17 (or another more reliable and no less relevant accounting policy). The current locally recognised practice is the Financial Soundness Valuation which is included in SAP 104. Therefore, the recommendation was to keep the guidance note compulsory to all members involved in performing or reviewing of valuations (including the published basis).

### **Non-South African countries**

During the review of the SAP 104 standard it was highlighted that various Actuaries performing valuations for Insurers in other countries do apply SAP 104, due to the absence of local guidance in those countries (in particular on capital requirements).

The previous version of SAP 104 (version 9) will remain on the Actuarial Society website and can be used by Actuaries performing valuations outside of South Africa. Members are reminded to act professionally at all times and consider the appropriateness of the guidance when applying it outside South Africa.