Results of the 3rd SAM Quantitative Impact Study

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Overview

1. Background
2. Key findings
3. Some remaining issues
4. Looking ahead
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Background

“Setting the Scene”
In the beginning...
...there was SA QIS1

50% (by count) participated...

...but 90% by size of industry

= included in the adjustment for the loss-absorbing capacity of technical provisions under the modular approach
...then we put the “SA” in QIS... for SA QIS2

...but 99% by size of industry

65% (by count) participated...
…and landing at a near final test
with the SA QIS3 design

Compulsory, 154 participants
“Key” Findings
The Stylized SAM Balance Sheet…
Technical Provisions

Ratio of Total Net Technical Provisions on the SAM Basis to Total Net Reserves on the Current FSB Basis

Most insurers have a net TP between 27% and 100% of current.

2 insurers with large negative values skew overall profile…
Technical Provisions
Risk Margin as a percentage of Gross Best Estimate Technical Provisions under SAM

- 16 Insurers have negative Gross BE...
- 22 have no risk margin (TP valued as a whole)
- 34 Insurers have a positive risk margin ratio
- 2 values truncated (less than 400%)
- 1 very large value truncated...
The Balance Sheet So Far...

Gross Provisions R1 941bn

Reinsurance Recoverable R75bn

R1 866bn

Current

R1 835bn

Risk Margin R49bn

Gross Best Estimate R1 786bn

Reinsurance Recoverable

R112bn

SAM
Assets and Liabilities

Ratio of assets, other liabilities, and net assets under SAM to values under the current basis

For the vast majority of insurers, assets are valued very similarly to the value under the current basis.

Other liabilities shown here without the reinsurance recoverable on the current basis
Own Funds

Ratio of Total Basic Own Funds to Current Capital Resources...

The median life insurer has a total basic own funds value of 1.5x current capital resources.

Fourteen insurers have total basic own funds exceeding 300% of current capital resources.

![Bar chart showing Own Funds Ratio for QIS 1, QIS 2, and QIS 3.](chart.png)
The Surrender Value Gap

Ratio of Gap (excluding Risk Margin) to Basic Own Funds (before adjustments)

Of the insurers reporting an SVG, the average size of this Gap is almost 100% of Own Funds.

Fifteen insurers had a Gap exceeding 100%.

Total value of SVG is R185bn.

This one is somewhat skewed due to low level of OF...
The Balance Sheet So Far…

- Technical Provisions: R1 866bn
- Other Liabilities: R1 969bn (Current)
- Other Liabilities: R1 835bn (SAM)
- Technical Provisions: R2 096bn (Current)
- Technical Provisions: R2 243bn (SAM)
- Not Eligible for SCR: R22bn
- Other Liabilities: R148bn
- Technical Provisions: R1 866bn
- Other Liabilities: R1 983bn
Capital Requirements
Overall Structure

SCR
- Adjustment
  - Market
    - Interest Rate
    - Equity
    - Property
    - Spread & Default
    - Currency
    - Concentration
    - AdjSES
- BSCR
  - Life
    - Mortality
    - Longevity
    - Disability/Morbidity
    - Lapse
    - Expenses
    - Retrenchment
    - CAT
    - NL Health
- OpRisk
- SCR participations

2014 Convention  knowing more  22-23 October, Cape Town
Capital Requirements

Build up from components and comparison to current capital requirements

Capital Requirements
Composition of Underwriting Risk

- Mortality: 23%
- Longevity: 7%
- Morbidity: 15%
- Lapse: 78%
- Expense: 17%
- Catastrophe: 14%
- Retrenchment: 1%
- Non-SLT Health: 0%
- Diversification: 56%
- Underwriting SCR: 100%
Capital Requirements

Minimum Capital Requirements under SAM

<table>
<thead>
<tr>
<th>Requirement</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Absolute Minimum Applicable</td>
<td>32%</td>
</tr>
<tr>
<td>MCR is 25% of SCR</td>
<td>44%</td>
</tr>
<tr>
<td>MCR between 25% and 45% of SCR</td>
<td>10%</td>
</tr>
<tr>
<td>MCR is 45% of SCR</td>
<td>14%</td>
</tr>
</tbody>
</table>
The Balance Sheet in SA QIS3

- Technical Provisions: R1 866bn
- SCR: R40bn
- Other Liabilities: R1 036bn
- Technical Provisions: R1 835bn
- Not Eligible for SCR: R22bn
- SCR: R1 33bn
- Other Liabilities: R1 48bn
- Technical Provisions: R1 835bn
- Current: R2 096bn
- SAM: R2 243bn
- Total: 2 116bn

2014 Convention knowing more 22-23 October, Cape Town
## The Industry Balance Sheet
from a regulatory capital perspective

<table>
<thead>
<tr>
<th></th>
<th>Current Position (QIS2)</th>
<th>QIS2</th>
<th>Higher under QIS2</th>
<th>Current Position (QIS3)</th>
<th>QIS3</th>
<th>Higher under QIS3</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Available Capital</strong></td>
<td>R 122.5</td>
<td>R 200.5</td>
<td>78%</td>
<td>R 126.7</td>
<td>R 237.7</td>
<td>74%</td>
</tr>
<tr>
<td><strong>Capital Requirement</strong></td>
<td>R 35.6</td>
<td>R 116.5</td>
<td>74%</td>
<td>R 39.6</td>
<td>R 133.1</td>
<td>92%</td>
</tr>
<tr>
<td><strong>Free Surplus</strong></td>
<td>R 86.9</td>
<td>R 84.0</td>
<td>71%</td>
<td>R 87.1</td>
<td>R 104.6</td>
<td>46%</td>
</tr>
<tr>
<td><strong>Capital Coverage Ratio</strong></td>
<td>3.4</td>
<td>1.7</td>
<td>29%</td>
<td>3.2</td>
<td>1.8</td>
<td>11%</td>
</tr>
</tbody>
</table>
Overall Capital Strength
from a regulatory capital perspective

Meeting both SCR & MCR
- QIS1: 33
- QIS2: 47
- QIS3: 58

Meeting MCR but not SCR
- QIS1: 5
- QIS2: 6
- QIS3: 8

Meeting SCR but not MCR
- QIS1: 0
- QIS2: 3
- QIS3: 4

Not meeting SCR or MCR
- QIS1: 2
- QIS2: 2
- QIS3: 2

Figures are the number of insurers in each category.
FSB Steer on some Key Issues
Some FSB Steer on issues  
Topical areas which require decision-making

- **Illiquidity Premium** – Annuities only, max 50bps, 65% SCR shock
- **Risk Free Rates** – can use swap, fully self-constructed
- **10% Cash Holding** – refine definition, increase to 15%
- **Participations** – some diversification between life and non-life
- **RFF Cells** – No change for OF, new approach for diversification
- **RFF – DPF Products** – OF adjustment only if OF are ring-fenced
- **Other Issues** – Large SV Gap, Contract Boundaries for Reinsurers, Operational Risk for Linked Insurers, Valuation of Unlisted Entities
Looking Ahead
Light Parallel Run

under way…

Last of the Q2 2014 LPR submissions were due 30 September 2014

First Q3 2014 LPR submissions are due 31 October 2014

LPR 2 Instructions published earlier this month
Comprehensive Parallel Run

Reporting Dates are nearing

<table>
<thead>
<tr>
<th>Financial Year End</th>
<th>Annual reporting</th>
<th>Quarterly reporting</th>
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<tbody>
<tr>
<td></td>
<td>Reporting date</td>
<td>Submission date</td>
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Full QRT’s to be completed for the Annual...

Quarterlies similar to LPR Reporting...
Some fared well in SA QIS3...
A (very) few already have some automation in place...
For many it is manual... but still with good attention to detail!
A few didn’t quite get to a good end product…
Disclaimer

The results shown in this presentation are in the process of final verification, and are thus subject to change before the final results are produced in the SAM report.