Results of the 3rd SAM Quantitative Impact Study

Donovan Hutchinson
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

65% (by count) participated...

...but 99% by size of industry
...and landing at a near final test with the SA QIS3 design

Compulsory, 154 participants
“Key” Findings
Technical Provisions

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

On average, SAM TP’s are about 95% of Current TP’s

25% of Non Life Co’s show SAM TP’s 67% or less of current TP’s
Risk Margin is the only mandatory margin permissible (required) over-and-above the Best Estimate of Technical Provisions.

It is an attempt to calculate the margin a reference entity would require to take on the portfolio (MV).
The Balance Sheet So Far…
The Industry Balance Sheet So Far...

Current

- Claims Provision: R22.5bn
- Premium Provision: R14.4bn
- Other Provisions: R2.6bn

Total: R39.4bn

SAM

- Claims Provision: R21.6bn
- Premium Provision: R10.8bn
- Other Provisions: R3.4bn
- Risk Margin: R2.1bn

Total: R37.9bn
Assets and Liabilities

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

For the virtually all insurers, total assets are valued very similarly to the value under the current basis (94% to 110% of current basis)

The impact of other liabilities and the value of technical provisions feed into the net assets graph
Most insurers fall within the 98% to 115% range of Own Funds to current capital resources.

Fifteen insurers have total basic own funds exceeding 120% of current capital resources.
The Balance Sheet So Far…

Technical Provisions R39.4bn

R119.7bn

Technical Provisions R37.9bn

Not Eligible for SCR: R0.9bn

R144.4bn

SAM

R86.3bn

Technical Provisions R37.9bn
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

Non-Life

Premium & Reserve

Lapse

CAT
Capital Requirements

Build up from components

- Market: 40%
- Life: 3%
- Non Life: 59%
- Diversification: 16%
- BSCR: 86%
- Operational: 8%
- Participations: 13%
- Loss Absorbing: 7%
- SCR: 100%
Capital Requirements
Composition of Market Risk

- Interest Rate: 14%
- Equity: 61%
- Property: 1%
- Currency: 10%
- Spread & Default: 26%
- Concentration: 20%
- Diversification: 33%
- Market SCR: 100%
Capital Requirements
Composition of Underwriting Risk

- Premium & Reserve: 80%
- Lapse: 1%
- Catastrophe: 60%
- Diversification: 41%
- Underwriting SCR: 100%
Capital Requirements
Composition of Catastrophe Risk

- Earthquake: 10%
- Hail: 18%
- Natural CAT: 31%
- Man-Made CAT: 32%
- Factor Based: 56%
- Diversification: 19%
- Underwriting SCR: 100%
Capital Requirements
Minimum Capital Requirements under SAM

- Absolute Minimum Applicable: 20%
- MCR is 25% of SCR: 28%
- MCR between 25% and 45% of SCR: 17%
- MCR is 45% of SCR: 35%
## The Balance Sheet in SA QIS3

### Current

- **SCR**: R22.3bn
- **Liabilities**: R68.5bn
- **Technical Provisions**: R39.4bn
- **Total**: R119.7bn

### SAM

- **SCR**: R38.9bn
- **Liabilities**: R86.3bn
- **Technical Provisions**: R37.9bn
- **Total**: R126bn

- **Not Eligible for SCR**: R0.9bn

### Summary

- **Total Assets**: R144.4bn
- **Total Liabilities**: R126bn
- **Net Worth**: R18.4bn
The Industry Balance Sheet
from a regulatory capital perspective

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<td>Capital Coverage Ratio</td>
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Overall Capital Strength
from a regulatory capital perspective

Meeting both SCR & MCR
- QIS1: 45
- QIS2: 49
- QIS3: 66

Meeting MCR but not SCR
- QIS1: 8
- QIS2: 11
- QIS3: 13

Meeting SCR but not MCR
- QIS1: 0
- QIS2: 0
- QIS3: 1

Not meeting SCR or MCR
- QIS1: 2
- QIS2: 3
- 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

- **Risk Free Rates** – govi curve, enhance methodology
- **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
- **Other Issues** – 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

LPR reporting analogous to current quarterly reporting…
Comprehensive Parallel Run

Reporting Dates are nearing

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Full QRT’s to be completed for the Annual...

Quarterlies similar to LPR Reporting...
Some fared well in SA QIS3…
...others didn’t...
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.