



FOR PROFESSIONALS

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SINCE 1941

# SAM

## WILL INSURERS REQUIRE MORE CAPITAL? WHAT DOES THIS MEAN FOR CONSUMERS?

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# WHAT IS SAM?

## Solvency **A**ssessment and **M**anagement

“It is a risk-based regulatory framework which sets out strengthened capital requirements for insurers as well as guidelines on governance, risk management and disclosure.” The Red Book, National Treasury

“Primary purpose of the regime is the protection of policyholders and beneficiaries” SAM Roadmap, FSB

- In line with European Solvency II Standards implementation (Jan 2014)
- Alignment to Insurance Core Principles of the International Association of Insurance Supervisors (IAIS) key FSB objective
- Principles based regulation
- FSB, industry, SARS, Treasury involvement
- Short & Long Term industries
- Effective January 2014



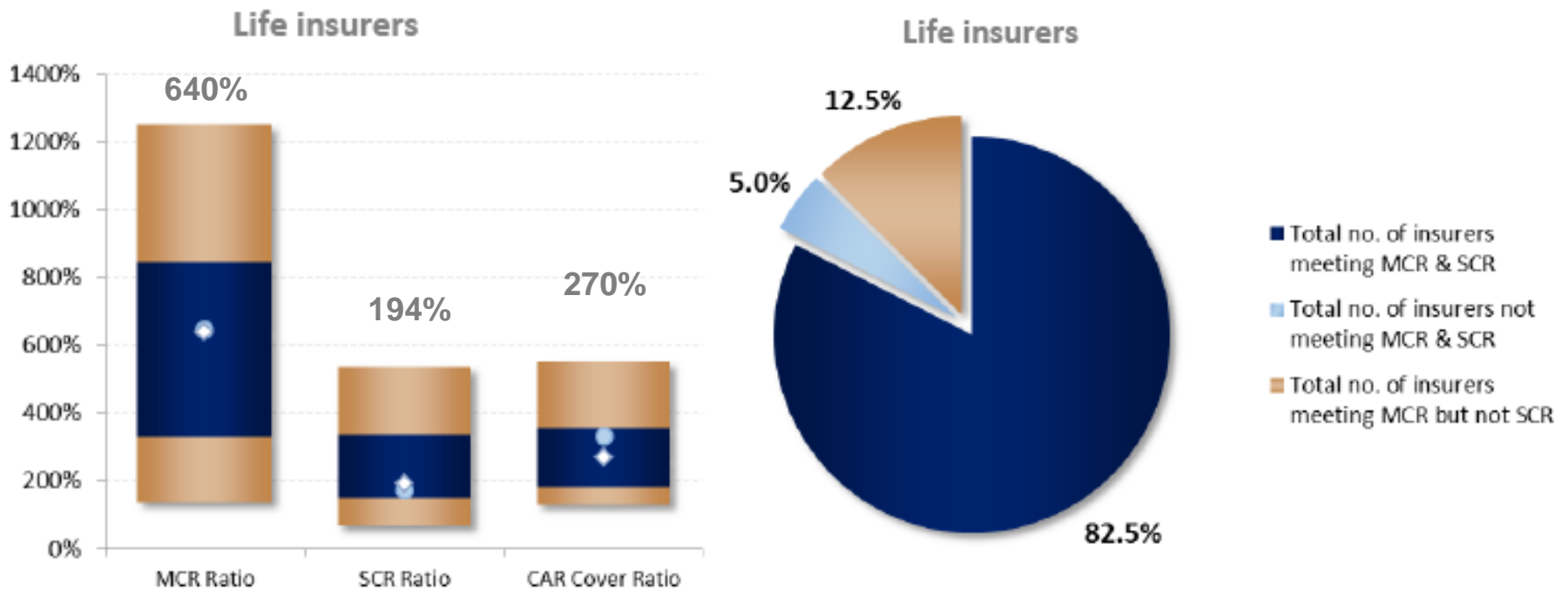
# HOW IS THE SAM IMPLEMENTATION GOING?

- QIS 1 completed October: 50% of insurers, 90% by premium
- FSB feedback received
- Increase in minimum capital requirement (MCR) over CAR, but
- 27 of 40 insurers have higher free surplus under SAM than now
  
- Largest overall risk by far was Market Risk
- Lapse risk identified as largest life underwriting risk
- Interim measures to be legislated this year as stop gap (focus on Governance, Risk Management, Internal Controls and Supervision)

QIS 2 returns due by September; January 2014 SAM implementation

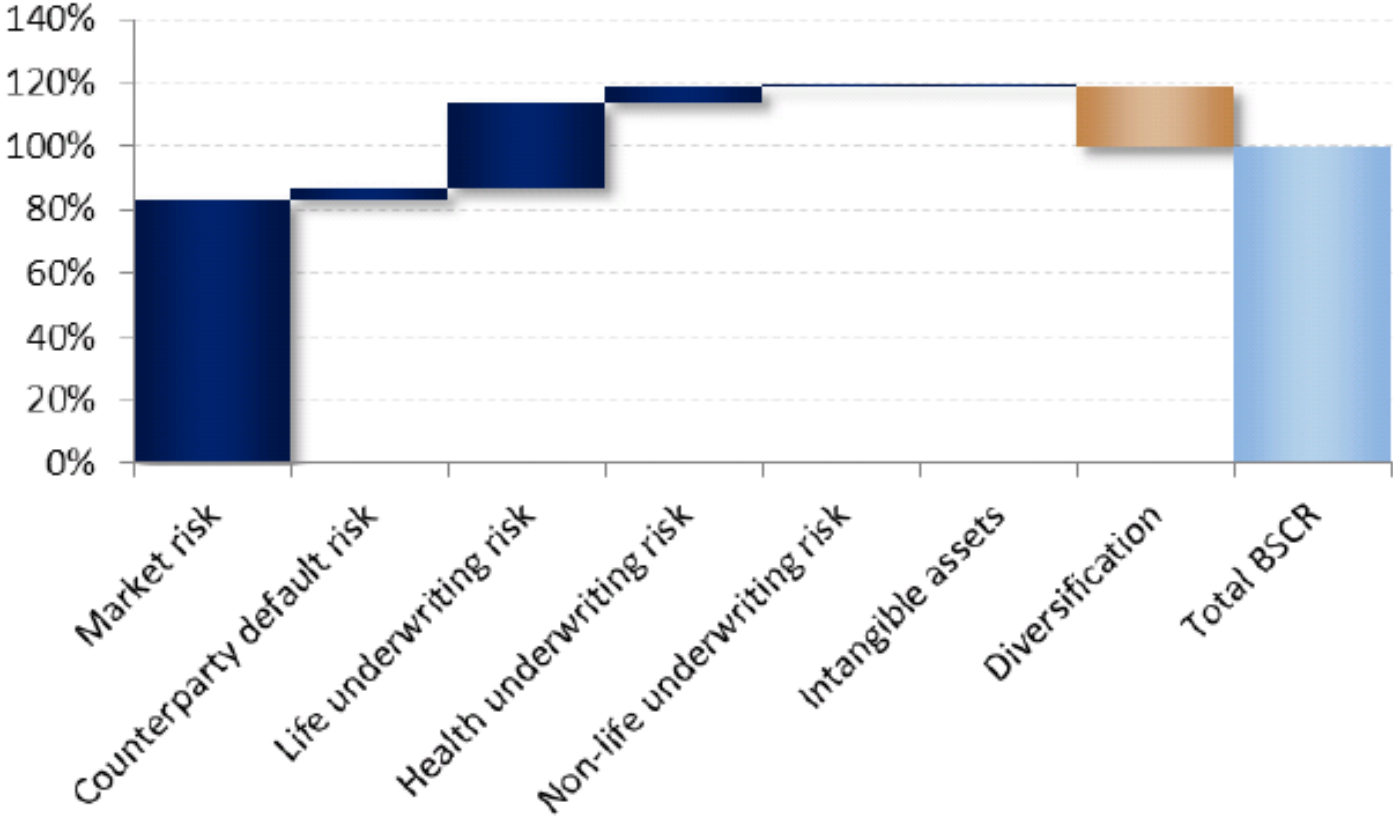
# SAM QIS 1 RESULTS ~ SOLVENCY

## Coverage of MCR, SCR, and current capital requirements



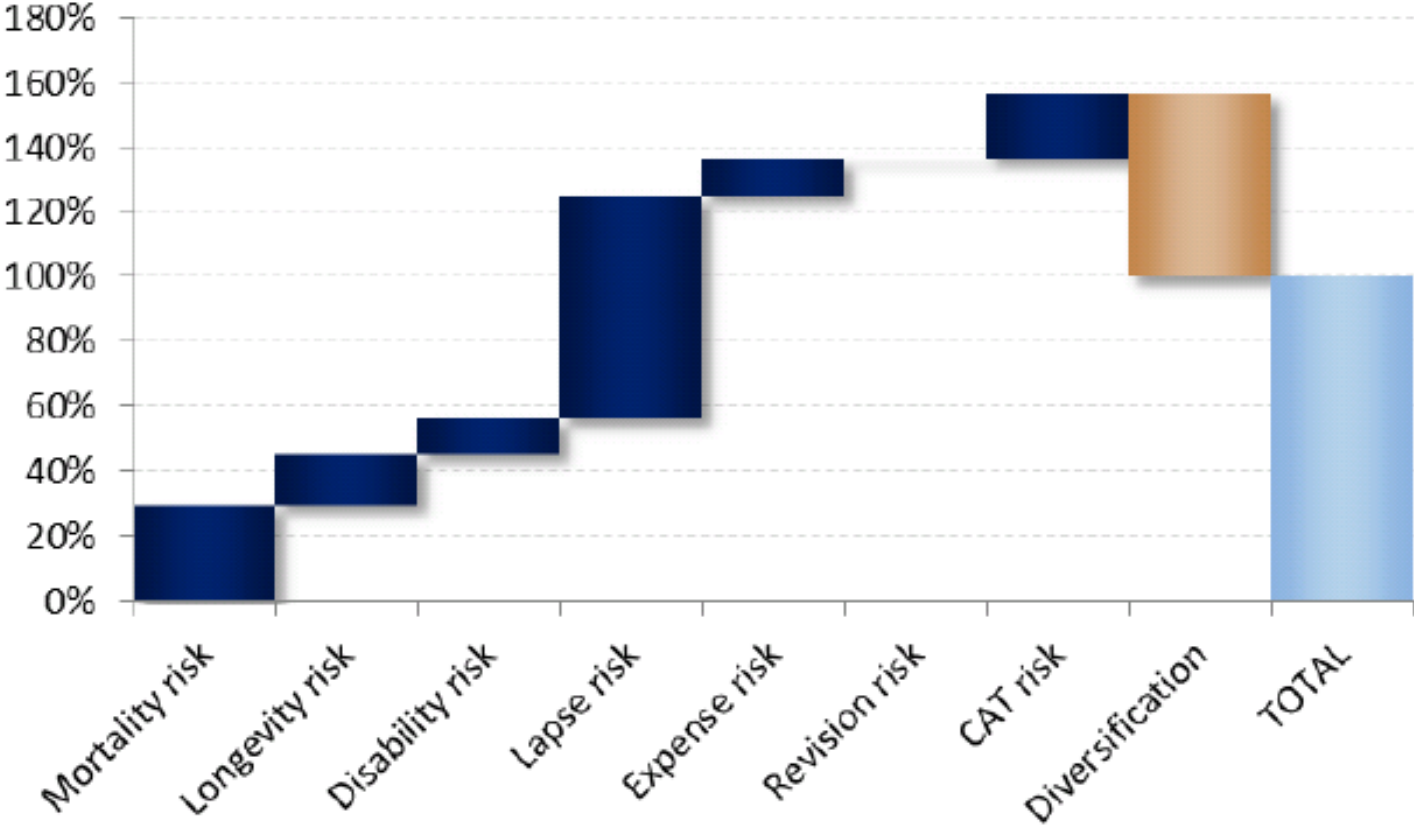
# SAM QIS 1 ~ SOLVENCY RISKS

Contribution of risk components to BSCR (%) – life insurers



# SAM QIS 1 ~ LIFE UNDERWRITING RISKS

## Contribution of life underwriting risk components to life underwriting risk SCR (%)



# WHAT DOES THIS ALL MEAN FOR LIFE INSURERS?

Many life insurers will have more free capital than before, however...  
much of their capital strength rests on management action:

- Changing assets backing with profit policies
- Removing discretionary bonuses
- Decreasing smoothing reserves

Considerations: Policyholder Reasonable Benefit expectations, PPFM,  
Policy terms, Product material, prior practice, risk appetite



# WHAT DOES THIS ALL MEAN FOR LIFE INSURERS?

We should expect:

- Greater disclosure from insurers on the steps they will take
- Tighter definitions and criteria in policy documents
- Far more detail on risk management (product and operational) in insurers' annual reports

What we should challenge:

- Insurers increasing premium rates and worsening policy terms due to SAM; a well implemented and managed SAM framework (in particular Pillars 2 and 3) can improve capital position and strengthen the business
- Insurers complaining about implementation specifics and timeline, QIS 1 showed insurers generally well prepared and capable

# WHAT DOES THIS ALL MEAN FOR CONSUMERS?

- More accurate pricing by insurers (less cross subsidies in rates)
- Tighter policy terms to remove uncertainty
- Greater market segmentation in sales targeting
- Possible releases of surplus capital to shareholders
- Opportunity to improve returns on capital
- Improved transparency and disclosures to stakeholders

BUT..

- Pressure on smaller players in the market
- Challenge to innovation

# WHAT DOES THIS ALL MEAN FOR CONSUMERS?

Greater confidence in insurer's ability:

- to meet policy obligations / to deliver on the sales promise
- to offer sustainable & appropriate products
- to understand and cater for their target markets
- to manage the key risks of the business
- to operate lean & efficient businesses



THANK YOU