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SOLVENCY ASSESSMENT & MANAGEMENT: *THOUGHT IS KEY*

SAM is a challenge, no question. South Africa's insurers, both long- and short-term, are battling with the demands on their businesses to produce and analyse data and write the required reports. Rob Rusconi asks why we have it at all and what the Financial Services Board (FSB) aims to achieve through SAM.

Thought Piece

The coming Solvency Assessment & Management (SAM) regime is demanding. Insurers will need to populate detailed data templates and undertake complex calculations demonstrating the solvency of their firms under a range of scenarios. Understanding the purpose of SAM may help boards and their executive support to meet these requirements, so we ask here: what do the regulators aim to achieve through SAM? We consider this in increasing order of importance.

#5 The FSB needs better information about the industry it regulates. The supervisor has a mandate to anticipate and address systematic risk. It must gather the data it needs to explore the concentration of industry segments and the financial position of players across these segments. This is consistent with its mandate to supervise entities with due regard to risk.

#4 South Africa's regulatory authorities need to achieve third country equivalence. Membership of the G20 and BRICS clubs brings with it the responsibility to keep regulatory standards high. This is particularly important as the incidence of cross-country financial groups grows. Our regulators need to be able to provide assurance to their international counterparts that parent- or subsidiary firms are being properly supervised and that contagion risk is well managed. Achieving third country equivalence is in the interests of regulated entities, giving them greater freedom to expand internationally.

#3 The insurance registrar would like to see a high quality of financial reporting. An effective system of risk-based supervision tests market participants across a range of measures. A firm able to report accurately and timeously a detailed and complex range of pertinent statistics is more likely to be attending to its responsibilities with sufficient attention.

#2 The registrar seeks better risk management from our insurers. A firm that cannot demonstrate that it understands the risks to which it is exposed and is not giving appropriate and prioritized attention to these risks may not be in a position to offer insurance services to its customers.

#1 Most importantly, SAM demands of industry participants deep attention on the issues that really matter. SAM has been developed on the back of a parent structure in Europe called Solvency II. The evidence that stimulated the development of this EU precursor shows overwhelmingly that the greatest risk to the financial security of an insurer is the absence of consistent and coherent management attention to the fundamentals.

There is so much to do that management teams might either be tempted to pour resources into the activity or to wait until the rules of the game are completely clear. The key, however, lies in the thought. The FSB will look for coherence and completeness of the system of risk management. This cannot be achieved without careful attention to all components of the system.

The Own Risk and Solvency Assessment (ORSA) and its demonstrated link to company strategy is at the heart of the evidence that the FSB will seek. But it can only be written at the end of the process. Before that, insurers must give careful attention to all relevant processes, risk management, data management, systems and processes, measurement and re-porting. This is a job for everybody in the operation.

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Board, executive management, divisional units, risk management, actuarial, accounting, underwriting and all operational functions must work together to demonstrate coherence and completeness. Champions will need to be found at all levels. But this needs to be driven from the top. Thought cannot be feigned.

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