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A Comparison of SAM Capital Requirements in South Africa and RBC in the Caribbean

For life insurers

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Agenda

- Regulatory Capital
- SAM Capital Requirements in South Africa
- RBC Capital Requirements in the Caribbean
- Key Differences and Similarities
- Challenges and Considerations
- Conclusion
- Questions and Answers

Regulatory Capital

Why insurers need to hold solvency capital

Main aim: to satisfy regulator that they are holding enough capital to fulfill policyholder obligations.

Minimum additional assets needed to provide a cushion against extreme negative fluctuations in experience

Act as a warning sign for regulatory intervention.

Provides market confidence as the likelihood of failure to meet obligations is limited

SAM Capital Requirements

$$MCR \text{ Solvency Cover Ratio} = \frac{\text{Own funds eligible to meet MCR}}{MCR}$$

$$SCR \text{ Solvency Cover Ratio} = \frac{\text{Own funds eligible to meet SCR}}{SCR}$$

- Own funds eligible to meet MCR/SCR:
 - The sum of:
 - Total Assets (some reduction for eligibility)
 - Less:
 - Total Liabilities (with adjustments)

SAM Capital Requirements

MCR:

- Has a cap of 45% and a floor of 25% of the SCR
- Limited to an absolute floor of Max(R15 million, 25% of annual expenses)

SCR:

- BSCR + Adjustment for loss absorbing capacity of deferred taxes + SCR (for operational risk) + SCR (for insurance-related participations in the same sector as the insurer)
- Main component to consider is BSCR

BSCR Components

Market Risk

Combination of:

- Interest Rate Risk
- Equity Risk
- Property Risk
- Spread and Counterparty Default Risk
- Currency Risk
- Concentration Risk
- Illiquidity Premium Risk

Mainly calculated as a factor/shift in asset values

Life Underwriting Risk

Combination of:

- Mortality Risk
- Longevity Risk
- Disability or Morbidity Risk
- Life Lapse Risk
- Life Expense Risk
- Life CAT Risk
- Retrenchment Risk

Calculated as a shift in BOF

- There is also a Non-Life component for composite companies
- Components aggregated using risk matrices

RBC Capital Requirements

$$\text{Regulatory Capital Ratio} = \frac{\text{Regulatory Capital Available}}{\text{Regulatory Capital Requirement}}$$

Regulatory Capital Available

The Sum of:

- Tier 1 (core capital)

Comprises the highest quality capital elements.

- Tier 2 (supplementary capital)

Instruments are lower quality but contribute to the overall strength of the company as a going concern

- Less Deductions

Regulatory Capital Requirement

The Sum of:

- Default and Volatility Risk Charge
- Off Balance Sheet Risk Charge
- Foreign Currency Mismatch Risk Charge
- Asset Liability Mismatch Risk Charge
- Mortality Risk Charge
- Morbidity Risk Charge
- Lapse Risk Charge
- Interest Margin Pricing Risk Charge.
- GI business risk

Note: Total capital is the sum of charges

RBC Capital Requirements

In the Bahamas:

- Minimum Capital Adequacy requirement – RCR of 120%
- Target Capital Adequacy requirement – TCR of 150%

In T&T:

- Net tier 1 ratio shall not be less than 105%; and
- Regulatory Capital requirement shall not be less than 155%

Key Similarities and Differences

Similarities

- Both risk based capital solvency methods
- Similar shocks in place, especially for assets
- There is a minimum requirement and then a “main” requirement

Differences

- Total scope and focus (comprehensiveness) – SAM has a wider scope
- RBC prescriptive while SAM gives option to create internal model

Challenges for Life Insurance Companies (in compliance to capital requirements)

- Data quality and availability
- Dynamic regulatory environment
- Risk assessment challenges
- Diversification benefits
- Investment challenges
- Operational challenges
- Cost implications
- Communication and transparency



Navigating SAM or RBC Compliance Challenges

- Invest in Robust Risk Management
- Enhance Data Governance
- Stay Informed and Engage with Regulators
- Implement Agile Technology Solutions
- Develop Expertise in Risk Quantification
- Conduct Regular Stress Testing
- Establish Strong Governance Structures
- Collaborate with Industry Peers
- Allocate Resources Effectively
- Enhance Communication Strategies
- Foster a Compliance Culture
- Conduct Regular Internal Audits
- Scenario Planning for Regulatory Changes
- Seek External Expertise When Needed



Conclusion

- Regulatory capital ensures policyholder protection, financial stability, and effective risk management.
- SAM's MCR and SCR complex calculations; RBC emphasizes transparency and risk sensitivity.
- Both share capital adequacy, compliance, and industry standards focus.
- SAM holistic, RBC specific risk coverage.
- Challenges: complex calculations, data quality, dynamic regulations.
- Navigating requires strategic risk management, enhanced data governance, staying informed, fostering a compliance culture.



Thank you

Questions?

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