



ZIMBABWE INTEGRATED CAPITAL & RISK PROGRAMME



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Agenda

- 1. ZICARP overview & Current regulation**
- 2. Comparison with developments in other markets**
- 3. ZICARP Implementation process**
- 4. Getting to the target state; Practical Issues**

ZICARP OVERVIEW (PRINCIPLES)

ZICARP – What is Driving the Change ?

Introduce **proportionate, risk-based approach** to supervision with appropriate treatment for large and small insurers

Improve **consumer protection** and assurance to policyholders and beneficiaries

Introduce a **principles based approach** to regulation

Achieve convergence of regulatory capital and risk based (economic) capital

Ensure **better allocation** of capital resources in insurer firms

Consolidate existing solvency management regulatory initiatives eg Circular 11 of 2016 and SI 95 of 2017

Align supervision of all insurance entities and **make sector attractive to investors**

FOCUS ENTITIES

**Non-Life & Life
Insurers
(Incl Micro)**

**Non-Life & Life
Reinsurers**

**Funeral
Assurers**

**Composite
Insurers**

**Cell Insurers
& Captives**

**Medical Aid
Schemes
& Health
Insurers**

**Underwriting
Management
Agencies**

**Legal Aid
Societies**

**Self Insurance
Arrangements**

**Insurance
Groups**

3 Pillar Framework for Solvency Management Regimes

Solvency Management Regime

PILLAR I

Quantitative Requirements

- Capital Estimation
- Assets Estimation
- Liabilities Estimation

PILLAR II

Qualitative Requirements

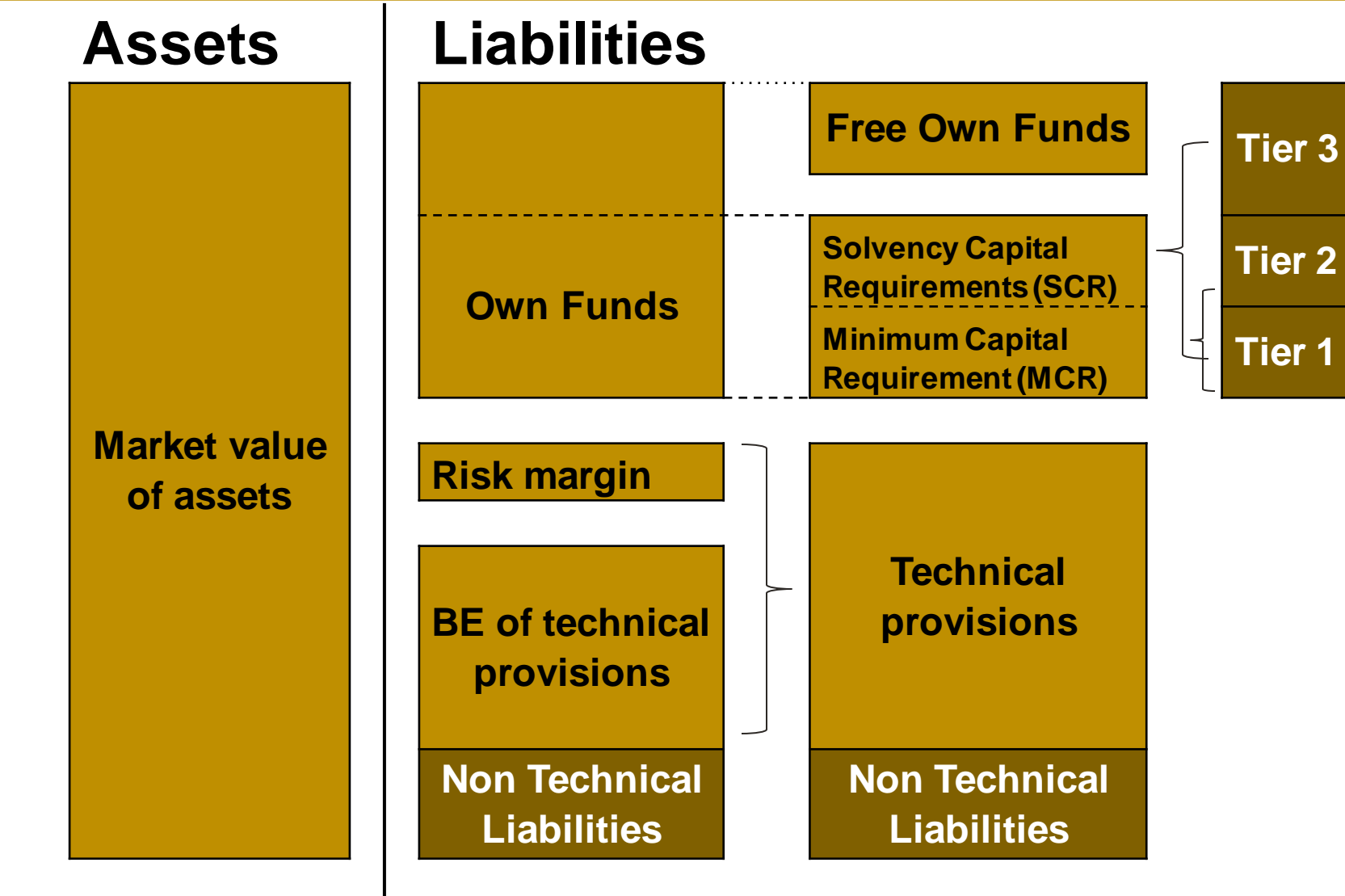
- Risk management processes
- Governance systems
- Supervisory Review Process

PILLAR III

Disclosure Requirements

- Public disclosure
- Supervisory disclosure

Overview of QR: EBS (ICP 17)

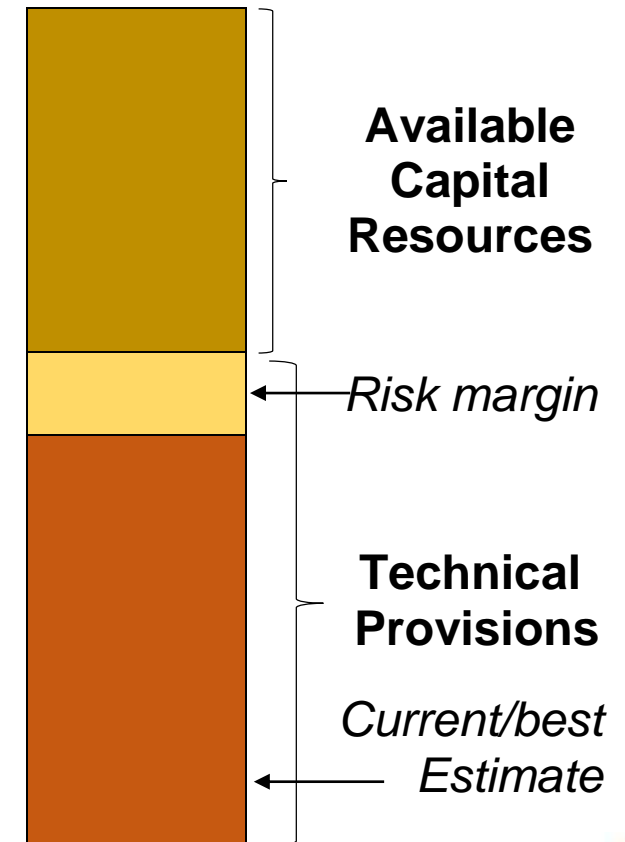


Valuing Assets: Investments (ICP 15)

- **Some rule based guideline to restrict activities**
- **‘Prudent Person Principle’ applies**
 - ☐ **Insurers make investment decisions that are prudent and in the interests of policyholders.**
 - ☐ **Investments are appropriate for the nature and duration of business**
 - ☐ **Assets should be properly diversified.**

Valuing Liabilities

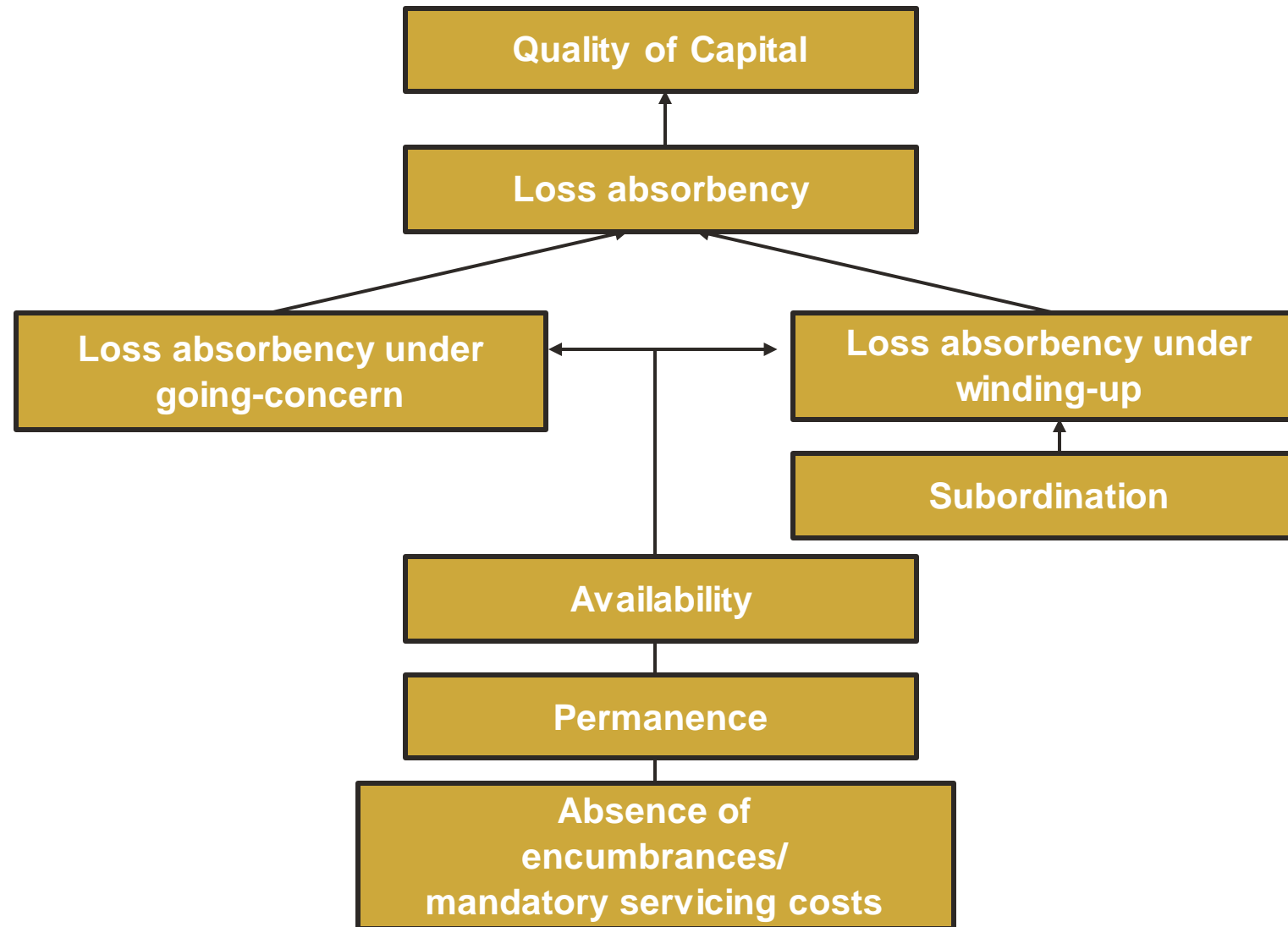
- Liabilities are valued as the sum of the best estimate of provisions plus a risk margin
- Best estimates are calculated **as probability-weighted averages** of future cashflows based on **up to date credible information** with **realistic assumptions**.
- Risk margin takes into account all quantifiable risks associated with the business.



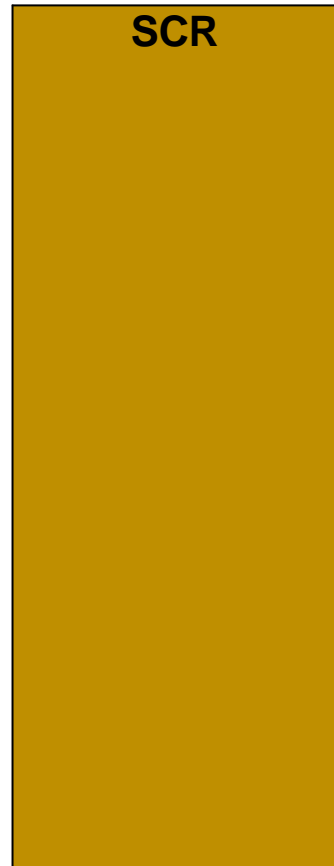
Capital

- **Available Capital is the excess of Assets over Liabilities (Technical Provisions + Other Liabilities)**
- **Required Capital is the minimum capital an insurer needs in order to meet its objectives. This can be:**
 - ☐ **Set as the regulatory minimum;**
 - ☐ **Set as an economic capital or risk based**

Criteria to Assess Quality of Capital (Tiers)



SAM Capital Tiers Case Study



- At least 50% from Tier 1
- No more than 15% from Tier 3
- No more than 50% from Tiers 2&3

MCR

- Only Tiers 1&2 Basic Own Funds
- At least 80% from Tier 1
- Tier 3& AOF not allowed

Capital (Own Funds) is then split into **3 Tiers**

Based on characteristics such as “**Loss absorbency**” and “**Sub-ordination**”

Tier 1= Highest Quality

Tier 3=Lowest Quality

Ancillary Own Funds= Off –balance sheet capital that can be called upon to absorb losses. Include **unpaid share capital**; **letters of credit & guarantees** etc

Note; AOF are approved by the Prudential Authority before they can be used

Current IPEC Regulatory Balance Sheet

Assets

Inadmissible Assets

Admissible Assets

•SI95

•Prescribed Asset Shocks

Liabilities

Free Own Funds

Solvency Capital

Non-Technical Provisions

Technical provisions

•SI95

•Actuarial Valuation

Non Technical Liabilities

Available Capital

NL

L

MC &
S \geq 25%

MC &
SAP104

Sector	MC
Life	\$5m
Funeral	\$2.5m
Non-Life	\$2.5m
Reinsurers	\$5m
Comp (L&NL)	\$7.5m

Qualitative Requirements in a Solvency Management Regime (Pillar 2) – Overview (ICP16)

Effective Corporate Governance and Risk Management

- Effective risk management system
 - **owned & implemented by senior management**
 - **Must consider all risks**
 - **Integration of Capital & Risk**

Own Risk and Solvency Assessment

- An insurer must undertake an ORSA.
- Internal risk assessment process.
- Ensure SM review risks & hold Capital for these
- Must be an integral part of business strategy

Requirements for Supervisor

- Review strategies, processes & reporting procedures.
- Review & evaluate compliance with requirements
- Include ways to identify possible events or future changes in **economic** conditions that may have adverse effects

How does Current Regulation Address the Qualitative Aspects of Solvency Management



•IPEC's C11 aligns Zimbabwean insurance market IAIS ICPs

- 1. System of governance
- 2. Risk management systems
- 3. Key Control functions
 - Compliance function
 - Actuarial function
 - Internal Audit function



•C11 does not cover ORSA extensively

Additional;

1. ORSA templates
2. Industry feed back on extent of Of implementation needed

Ladder of Intervention (ZICARP)

	Additional Reporting	Financial Recovery Plan	Closure to New Business	Authorisation Withdrawn
No breach (adequate capital)	Not required	Not required	Not required	Not required
Breach of adjusted SCR	Required	Possible	Not required	Not required
Breach of SCR	Required	Required	Possible	Not required
Breach of MCR	Required	Required	Required	Possible

DISCLOSURE



Reporting and Disclosure



Public Disclosure
Public report for
stakeholders



Private Disclosure
Private report to the
regulator

Current Approaches: Disclosure largely influenced by

Listed Insurers

- IPEC Regulation
- ZSE Regulation

Insurers with Listed Parents

- IPEC Regulation

Non-Listed Insurers

- IPEC Regulation only

Public Disclosure: Valuation of Assets and Liabilities

Regulatory Directives

- Basis of measuring assets and/or admissibility

Accounting Standards

- Basis of measuring other assets and liabilities

Actuarial Methodology

- Best estimate of technical provisions

Other Considerations

- Basis for deviating from values in the financials

Private Disclosure: Overview

- Expected to compile a **report to the regulator**.
- Cover **more depth** about the business and its operations
- Will **be treated as private**.
- Expand on **SFCR** and enhance dialogue with the regulator.
- **Frequency** linked to the intensity solvency assessments

Private Disclosure: Contents

- **Business and risk strategies**, including the **insurer's continuity plan**
- **Legal and regulatory issues** affecting the insurer
- **Variance from plans** outlined in the prior reporting period
- **Future anticipated solvency needs**, underwriting performance projections, and changes in risk exposure
- Significant additional disclosure explaining the results of any **internal models**



COMPARISON WITH DEVELOPMENTS IN OTHER MARKETS

Africa Case studies...



Kenya 2015/16 GPW of US \$1.75bn mainly GI.

Risk Based insurance regulatory system is also one of the most mature in the region

Being replicated in other regional countries



Ghana 2018 GPW of US\$0.6 bn .

Capital still factor based & independent of risks



Nigeria Capital is factor based as well

The fixed minimum capital requirement is relatively high

New risk-based supervision regime is being implemented by the regulator.



SA adopted a twin peaks approach, similar to that in Europe

RBSA as Prudential Authority & FSB as financial conduct regulator.

SAM adopted in 2017: equiv SII.

RISK BASED SUPERVISION- Progress to date - Kenya

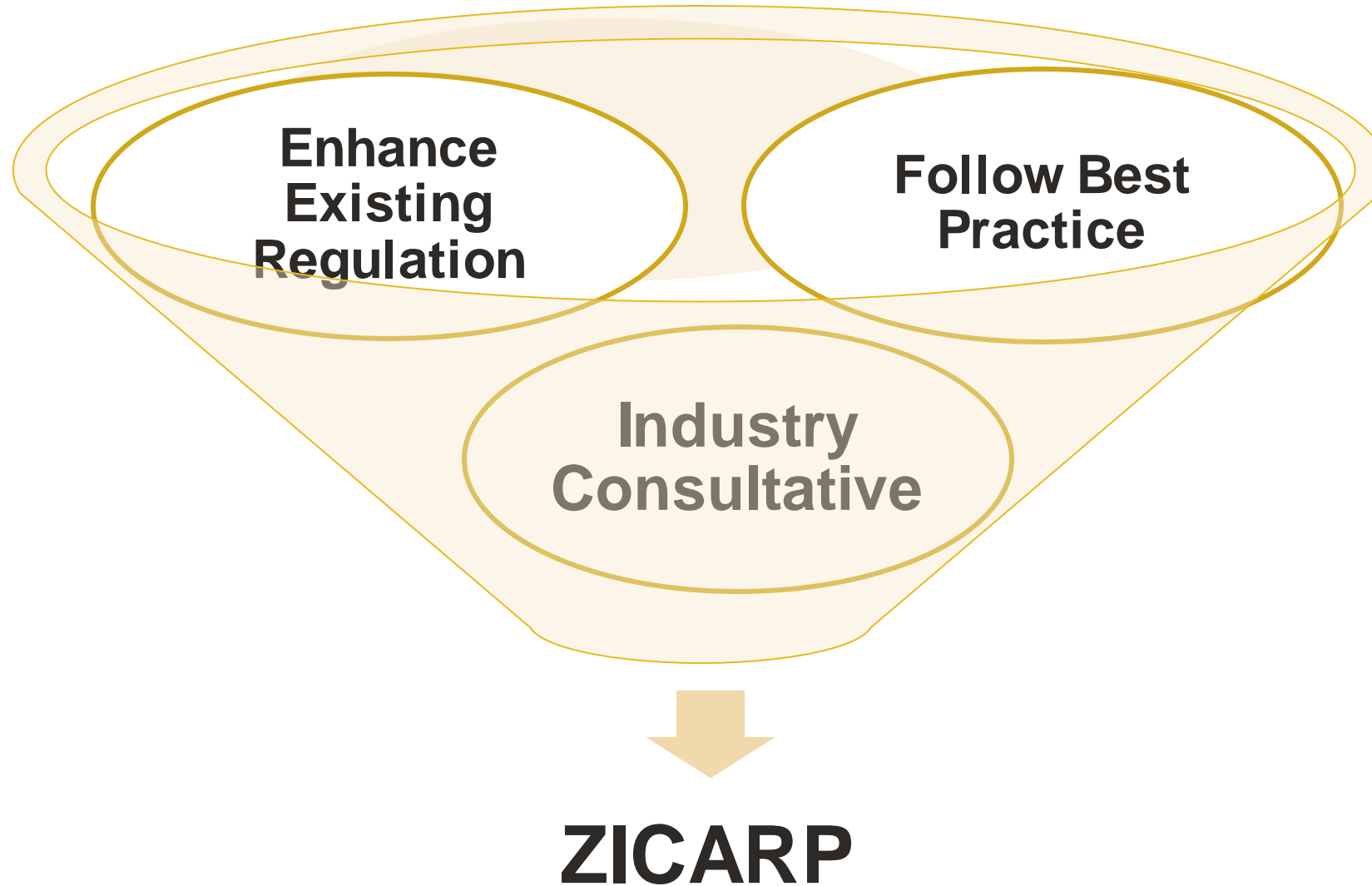
KEY FEATURES OF RISK BASED SUPERVISION ROLLOUT IN KENYA

Quantitative	Qualitative Requirements & Supervision	Disclosure
<u>Capital Requirements</u> -Minimum Capital* -Risk Based Capital-standard model *Risk Based Capital-internal model <u>Valuations</u> -Valuation of Technical Provisions (Life) -Valuation of Technical Provisions (Non Life) <u>Investments</u> -Investment Guideline	<u>Corporate Governance</u> -Actuarial Function -Risk Management Function -Compliance Function -Internal Audit Function <u>Supervision</u> -Onsite Inspection Module -Treating Customers Fairly (TCF) *Own Risk and Solvency Assessment (ORSA)	<u>Reporting Tool</u> -Electronic Regulatory System (ERS) <u>Disclosure Requirements</u> -Financial Condition Report -Quantitative Reporting Templates (QRTs)

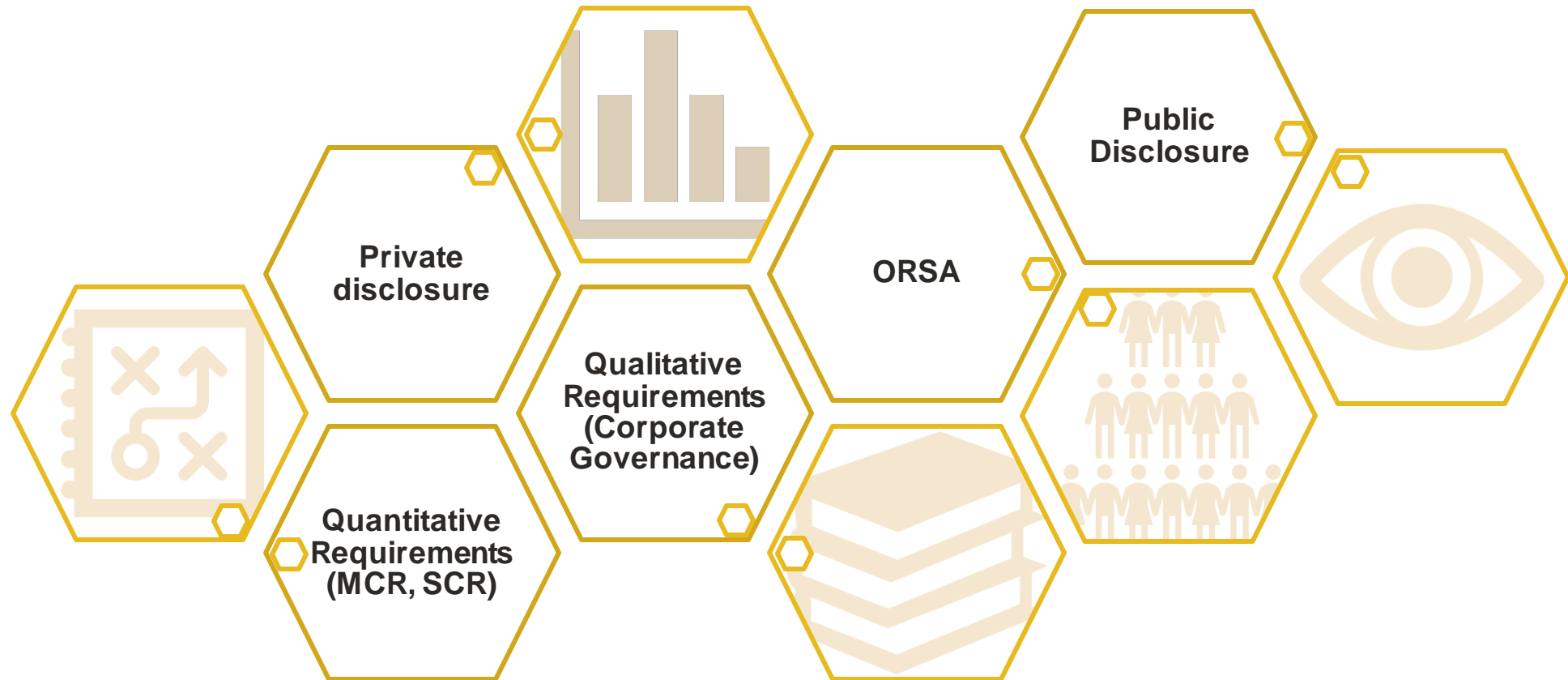


IMPLEMENTATION PROCESS

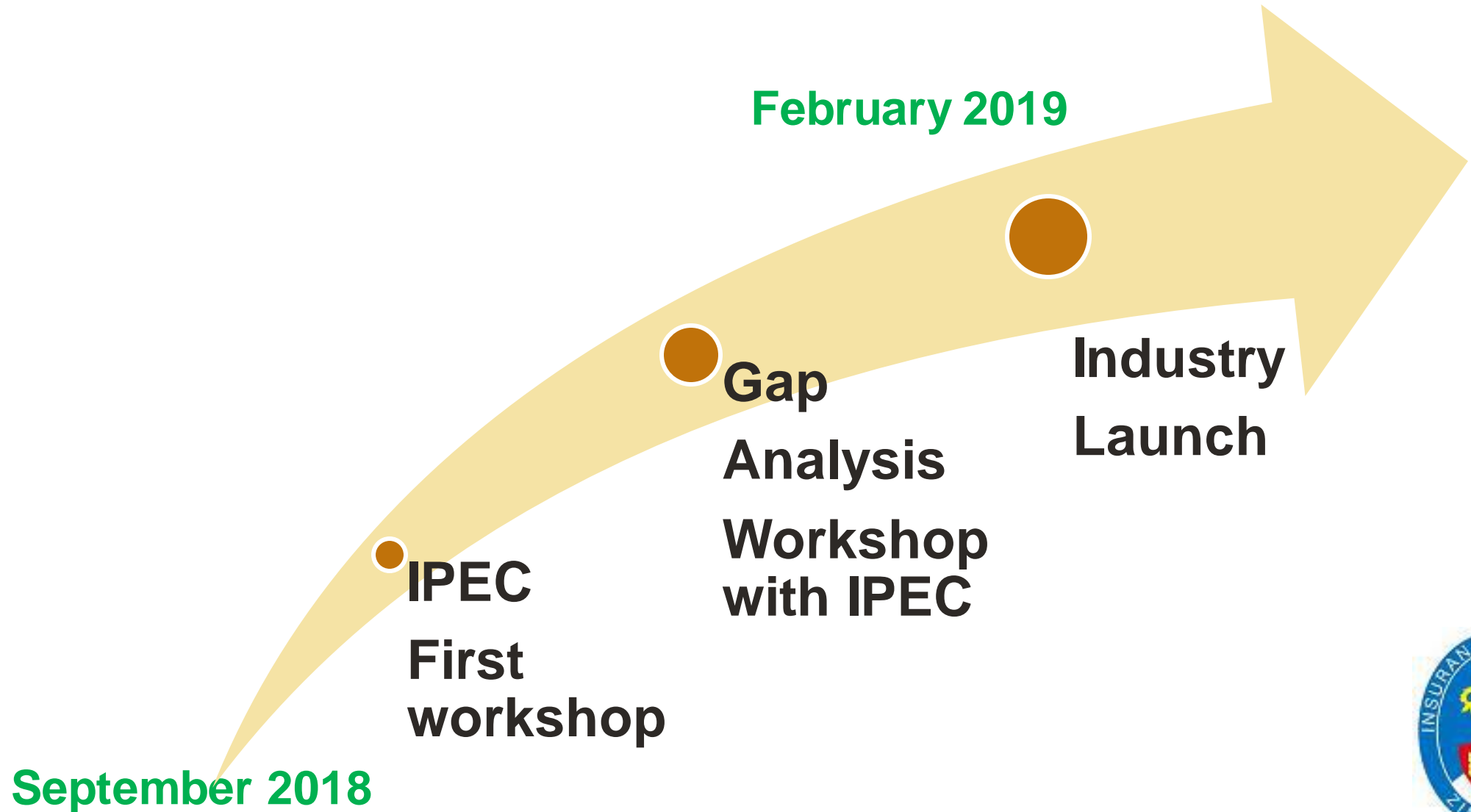
What to expect – Overview of ZICARP Approach



What to expect – Scope



Covered to Date (ZICARP)



What to expect – Key Milestones ahead

May 2019

**Mkt RM
Survey**

August 19

QIS 1

Dec 19

QIS 2

May 2020

QIS 3

**A&L
Guide**

**Standard
Model**

**ORSA
&
Report
Guides**

**Final
Model**

September 2020

Qualitative Aspects (Pillar 2)

**Gap
Analysis
(e.g. SAM,
Solvency II,
ICPs) and
Circular 11**

**Assess
Industry
Adoption of
C11**

**Identify Zim
Challenges**

**Develop
Best
Practice
Qualitative
Aspects**

GETTING TO THE TARGET STATE; PRACTICAL ISSUES

Getting to the target state – Practical Issues

Individual & ERM risks measured and monitored

Senior management support

Common frameworks and methodologies

Sufficient resources dedicated to RM

On- and off- balance sheet risks

Entities need positive risk cultures

Concentrations and interdependencies of risks

Adequacy of IT and data management systems

Challenges...



Inadequate economic depth of Zimbabwe



Cost of Implementation



International developments such as IFRS 17



Insufficient skilled resources



Data Challenges

DISCUSSION





THANK YOU