
BOARD NOTICE

BOARD NOTICE 169 OF 2011

FINANCIAL SERVICES BOARD REGISTRAR OF SHORT-TERM INSURANCE

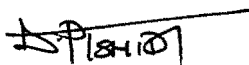
SHORT-TERM INSURANCE ACT, 1998 (ACT NO. 53 OF 1998)

Prescribed requirements for the calculation of the value of the assets, liabilities and capital adequacy requirement of short-term insurers

I, Dube Phineas Tshidi, Registrar of Short-term Insurance, hereby -

1. under Item 2 of Part I of Schedule 2 of the Short-term Insurance Act, 1998 (Act No. 53 of 1998), prescribe the requirements for the calculation of the value of the assets, liabilities and capital adequacy requirement of short-term insurers, as set out in the Schedule hereto; and
2. repeal Board Notice 27 of 2010, published in *Government Gazette* No. 32993 of 1 March 2010.

This Board Notice takes effect on 1 January 2012.



DP TSHIDI,
Registrar of Short-term Insurance

Board Notice: Prescribed requirements for the calculation of the value of the assets, liabilities and capital adequacy requirement of short-term insurers

SCHEDULE

Prescribed requirements for the calculation of the value of the assets, liabilities and capital adequacy requirement of short-term insurers (Item 2 of Schedule 2 of the Short-term Insurance Act, 1998)

1. DEFINITIONS

In these Requirements, unless the context indicates otherwise:

“Act” means the Short-term Insurance Act, 1998 (Act No. 53 of 1998), and a word or expression to which a meaning has been given in the Act, has that meaning;

“admissible assets” means the kinds of assets referred to in section 29 of the Act;

“cash-back bonus” means a benefit provided for in a policy document that entitles a policyholder to a predetermined benefit on the expiry of a specified period and under specified circumstances;

“cell” means an equity participation in a specific class of shares of an insurer, which equity participation is administered and accounted for separately from other classes of shares;

“group undertaking” means any juristic person in which an insurer alone, or together with a subsidiary or holding company, holds 20% or more of –

- (a) in relation to a company, the shares issued by that person; or
- (b) in relation to a person other than a company, an ownership interest in that person;

“listed” has the meaning assigned under Schedule 1 of the Act;

“net asset value” in relation to a group undertaking, means its net asset value calculated in accordance with paragraph 3.2;

“operating expenses” means gross expenses incurred in carrying on the insurer’s day-to-day activities –

- (a) including, but not limited to, claims handling expenses, management expenses, asset management and fund management fees;
- (b) excluding –

Board Notice: Prescribed requirements for the calculation of the value of the assets, liabilities and capital adequacy requirement of short-term insurers

- (i) acquisition expenses relating to the cost of acquiring new short-term insurance business;
- (ii) the depreciation of inventories to net realisable value;
- (iii) the depreciation of property, plant and equipment to recoverable amount and the reversal of such write-downs;
- (iv) the cost of restructuring the activities of the insurer and the reversal of any provisions for the costs of restructuring;
- (v) the disposal of property, plant and equipment;
- (vi) the realisation of long-term investments; and
- (vii) gains and losses arising from natural disasters and expropriation.

“regulated financial institution” means -

- (a) a financial institution as defined in paragraph (a) of the definition of ‘financial institution’ in section 1 of the Financial Services Board Act, 1990 (Act No. 97 of 1990);
- (b) a bank as defined in section 1(1) of the Banks Act, 1990 (Act No. 94 of 1990), a mutual bank as defined in section 1(1) of the Mutual Banks Act, 1993 (Act No. 124 of 1993) or a co-operative bank defined in section 1(1) of the Co-operative Banks Act, 2007 (Act No. 40 of 2007); and
- (c) a person authorised by a regulatory authority to perform one or more of the functions of a financial institution, a bank or mutual bank referred to under paragraphs (a) and (b) and who is subject to the laws of a country other than the Republic, which laws –
 - (i) establish a regulatory framework equivalent to that established by the Act; and
 - (ii) are supervised by a regulatory authority;

“regulatory authority” means a body designated in a national law to supervise or enforce legislation or a similar body designated in the laws of a country other than the Republic to supervise or enforce legislation of that country;

“return” means the returns prescribed by the Registrar under section 35 of the Act;

“Schedule 2” means Schedule 2 of the Act; and

Board Notice: Prescribed requirements for the calculation of the value of the assets, liabilities and capital adequacy requirement of short-term insurers

“securities” means securities and shares as defined in Item 1 of Schedule 1 of the Act.

2. GENERAL REQUIREMENTS

- 2.1 Except if these requirements or the Act specifically direct otherwise, assets and liabilities must be valued in accordance with financial reporting standards.
- 2.2 If an insurer applies materiality guidelines in the valuation of its assets or liabilities, the guidelines may not be less conservative than the materiality guidelines applied by its external auditors.

3. VALUATION OF ASSETS

3.1 Value of a group undertaking

- 3.1.1 The value of a group undertaking must be limited to the percentage of the shareholding or other ownership interest of the insurer in the group undertaking, multiplied by the net asset value of the group undertaking.
- 3.1.2 If the group undertaking is listed, the value in paragraph 3.1.1 may be increased by -
A multiplied by B, where –
 - A equals the difference between the fair value and the net asset value of the group undertaking, provided that A must be taken as nil if the net asset value is larger than the fair value; and
 - B equals the lower of 20% or the percentage of the holding by the insurer in the group undertaking.
- 3.1.3 Despite paragraph 3.1.1, if a group undertaking is not a regulated financial institution, and its fair value is less than 0,25% of the value of the liabilities of the insurer, it may be valued at fair value.
- 3.1.4 If there is more than one group undertaking as contemplated in paragraph 3.1.3, each may be valued at fair value, provided that their combined fair value is not more than 2,5% of the value of the liabilities of the insurer. If their combined fair value is more than 2,5% of the value of the liabilities of the insurer, only so many of them, selected by the insurer, as will have a combined fair value of not more than 2,5% of

Board Notice: Prescribed requirements for the calculation of the value of the assets, liabilities and capital adequacy requirement of short-term insurers

the value of the liabilities of the insurer, may be valued at fair value. The others must be valued as required by paragraph 3.1.1.

3.1.5 If an insurer holds shares in its holding company, the value of those shares must for purposes of valuation be limited to the following:

(a) If the holding company is listed - 5% of the value of the liabilities of the insurer.

(b) If the holding company is not listed - nil.

3.1.6 Paragraph 3.1.5 applies also where the insurer, directly, or indirectly through a subsidiary or trust, holds shares in its holding company under a share incentive scheme linked to shares in its holding company.

3.1.7 Paragraph 3.1.5 does not apply where the insurer holds shares in its holding company under a collective investment scheme as defined in section 1 of the Collective Investment Schemes Control Act, 2002 (Act No. 45 of 2002), or any similar investment scheme subject to the laws of a country other than the Republic, which laws –

(a) establish a regulatory framework equivalent to that established by the Act; and

(b) are supervised by a regulatory authority.

3.1.8 If an insurer has a cell in another insurer, the value of those shares must for the purposes of valuation be limited to the fair value of the admissible assets held in the cell less the sum of the value of its liabilities and its capital requirement as reported by the insurer (that issued the cell) in respect of that cell.

3.1.9 If a negative asset value is reported under paragraph 3.1.8 and the shareholders' agreement provided that the insurer that owns the cell is accountable for losses and/or solvency, a liability must be raised for the full negative net asset value.

3.2 Net asset value of a group undertaking

3.2.1 If the group undertaking is a regulated financial institution –

(a) the net asset value of the group undertaking is the value of its assets, less the sum of the value of its liabilities and its capital requirement (i.e. the capital requirement that the regulatory authority concerned may impose in respect of that institution);

Board Notice: Prescribed requirements for the calculation of the value of the assets, liabilities and capital adequacy requirement of short-term insurers

- (b) the values referred to in paragraph (a) must be calculated as required by the regulatory authority concerned; and
- (c) in relation to a group undertaking that is a company whose main business is insurance business, the insurer, in calculating the values referred to in paragraph (a), must exclude so much of its capital and reserves as shareholders (other than the insurer) may withdraw in cash when they cease to be shareholders, in terms of the articles of association of, or a contract with, the group undertaking.

3.2.2 If the group undertaking is not a regulated financial institution -

- (a) the net asset value of the group undertaking is the value of its assets, less the value of its liabilities;
- (b) in relation to a group undertaking that carries on most of its business in South Africa, the values referred to in paragraph (a) must be calculated in accordance with financial reporting standards;
- (c) in relation to a group undertaking that carries on most of its business in another country, the values referred to in paragraph (a) must be calculated in accordance with accounting standards generally accepted in that country;
- (d) in calculating the values referred to in paragraph (a), the following must be excluded, to the extent that, according to the insurer, they can be ascertained with reasonable effort and are material -
 - (i) an amount that remains unpaid after the expiry of a period of 12 months from the date on which they became due and payable;
 - (ii) an amount representing administrative, organisation or business extension expenses incurred directly or indirectly;
 - (iii) an amount representing goodwill or another matter of a similar nature;
 - (iv) an amount representing a prepaid expense or a deferred expense; and
 - (v) an amount representing a holding in a subsidiary of the group undertaking in excess of the net asset value, calculated on the same basis as contemplated in this paragraph 3, of the subsidiary.

Board Notice: Prescribed requirements for the calculation of the value of the assets, liabilities and capital adequacy requirement of short-term insurers

4. VALUATION OF TECHNICAL LIABILITIES

4.1 Method of calculating the unearned premium provision (UPP)

4.1.1 In respect of policies, other than reinsurance policies, the minimum amount of the unearned premium provision referred to in section 32(1)(b) of the Act must, subject to paragraph 3 of Schedule 2, be the amount calculated by means of the following formula:

$$(A - B) \times (1 - C/D) + E$$

in which formula -

- A represents the gross premium (excluding VAT) as stipulated in the policy document for the full term of the policy, irrespective of the frequency of the premium payment, under all of the policies concerned for the whole of the period for which each of those policies is operative;
- B represents the sum of the following under all of the policies concerned for the whole of the period for which each of those policies is operative:
 - (a) the total amount of so much of those premiums as has been refunded as a result of the cancellation or variation of a policy; and
 - (b) the total amount payable by the insurer as premiums under approved reinsurance policies in respect of the policies concerned; and
 - (c) the amount of the consideration, payable by the insurer in terms of section 48(1) of the Act to independent intermediaries in respect of the policies concerned, reduced by the total amount of any consideration payable to the insurer in respect of approved reinsurance policies under which its liabilities in respect of the policies concerned are reinsured: Provided that such reduction shall not exceed an amount equal to the maximum consideration which would have been payable to an independent intermediary in terms of section 48 of the Act had those contracts been policies other than reinsurance policies;
- C represents the number of days in the period from the date of the commencement of the incidence of risk under the policy until the day on which the calculation is made in accordance with this paragraph;

Board Notice: Prescribed requirements for the calculation of the value of the assets, liabilities and capital adequacy requirement of short-term insurers

- D represents the total number of days during the whole period for which the risk is covered under the policy; and
- E represents the total reserve for any type of cash-back bonus where this reserve is calculated as follows:
 - (a) the percentage cash-back bonus stipulated in the policy document must be reserved for in full in respect of each premium received in respect of which a cash-back bonus will become payable in accordance with the policy document;
 - (b) the reserve can only be released either when:
 - (i) the liability ceases to exist; or
 - (ii) the benefit is provided to the policyholder.

4.1.2 In respect of reinsurance policies, the minimum amount of the unearned premium provision referred to in section 32(1)(b) of the Act must, subject to paragraph 3 of Schedule 2, be the amount calculated by means of the formula -

$$(A - B) / 2$$

in which formula -

- A represents the gross premium (excluding VAT) as stipulated in the policy document for the full term of the policy, irrespective of the frequency of the premium payment, under all of the policies concerned for the whole of the period for which each of those policies is operative; and
- B represents the sum of the following under all of the policies concerned for the whole of the period for which each of those policies is operative:
 - (a) the total amount of so much of those premiums as has been refunded as a result of a cancellation or variation of a policy;
 - (b) the total amount payable by the insurer as premiums under approved reinsurance policies in respect of the policies concerned; and
 - (c) represents the total amount of consideration payable at the start of the policy by the insurer in respect of those reinsurance policies, subject to a maximum of 30 per cent of the said premiums, reduced by the total amount of any consideration payable to the insurer in respect of approved reinsurance policies under which its liabilities in respect of the

Board Notice: Prescribed requirements for the calculation of the value of the assets, liabilities and capital adequacy requirement of short-term insurers

policies concerned are reinsured: Provided that such reduction shall not exceed the total amount of consideration paid by the insurer in respect of those policies.

4.1.3 The Registrar, if satisfied that another method other than that set out in paragraph 4.1.1 or 4.1.2 above places a more appropriate value on the liabilities concerned, may, based on the incidence of the risk covered under the policies, -

- (a) on application by an insurer, approve the use of another method; or
- (b) by notice, in a particular case, or in general require an insurer to use another method.

4.2 Method of calculating the outstanding claims reserve (OCR)

4.2.1 The minimum amount referred to in section 32(1)(a)(i) of the Act is the amount which the insurer estimates will become payable in respect of claims incurred under policies which are reported but not yet fully paid, reduced by the amount which it estimates will be paid in respect of those claims under approved reinsurance policies.

4.3 Method of calculating the incurred but not reported reserve (IBNR)

4.3.1 The minimum amount referred to in section 32(1)(a)(ii) of the Act, must for each business class be the amount calculated by means of the following formula:

$$\sum_{k=1}^K \sum_{i=0}^5 NEP_{k,j-i} * f_{k,i}$$

in which formula -

- k represents the business classes as given in the table below;
- i represents the development periods as given in the table below;
- j represents the year of the date on which the amount is calculated;
- $NEP_{k,j-i}$ represents the earned premium (exclusive of VAT) during the period of 12 months immediately preceding the day on which the calculation is made in year $j-i$ reduced by the total amount payable by the insurer as premiums under approved reinsurance policies, under all of the policies concerned for the whole of that period, disregarding exchange rate movements from previous periods;

Board Notice: Prescribed requirements for the calculation of the value of the assets, liabilities and capital adequacy requirement of short-term insurers

$f_{k,i}$ represents the factors given in the table below;

Business class k		Factors per development period ($f_{k,i}$)					
		0	1	2	3	4	5
1	Accident and health	5.67%	1.12%	0.26%	0.10%	0.07%	0.06%
2	Engineering	6.62%	2.90%	1.92%	1.67%	1.60%	1.58%
3	Guarantee	16.32%	5.00%	1.78%	0.86%	0.60%	0.53%
4	Liability	12.49%	4.47%	1.65%	0.66%	0.31%	0.19%
5	Miscellaneous	7.18%	1.17%	0.25%	0.11%	0.09%	0.08%
6	Motor	3.43%	0.47%	0.09%	0.04%	0.03%	0.03%
7	Property	5.98%	0.88%	0.15%	0.04%	0.03%	0.02%
8	Transportation	7.20%	1.31%	0.30%	0.12%	0.09%	0.09%

4.3.2 The total minimum amount referred to in section 32(1)(a)(ii) of the Act, is calculated as the sum of the result of the formula in paragraph 4.3.1 for each business class.

4.3.3 The Registrar, if satisfied that another method other than that set out in paragraph 4.3.1 or 4.3.2 above will place a more appropriate value on the liabilities concerned, may the Registrar may -

- (a) on application by an insurer, approve the use of another method; or
- (a) by notice, in a particular case, or in general require an insurer to use another method.

4.4 Method of calculating the unexpired risk provision

An unexpired risk provision, where an insurer incurs an underwriting loss in the conduct of its short-term insurance business as reflected in any prescribed return under the Act, and the insurer, in consultation with its auditor, considers it necessary to defray the possible cost of claims together with the costs of carrying on short-term insurance business as reflected in any prescribed return in terms of this Act.

5. CALCULATION OF THE CAPITAL ADEQUACY REQUIREMENT

5.1 The capital adequacy requirement referred to in section 29(1) of the Act is the highest amount referred to in paragraphs 5.1.1 and 5.1.2 below.

5.1.1 The minimum capital adequacy requirement, is the higher of -

- (a) R10 million; or

Board Notice: Prescribed requirements for the calculation of the value of the assets, liabilities and capital adequacy requirement of short-term insurers

- (b) an amount representing operating expenses, multiplied by 13 and divided by 52 or, if applicable, the number of weeks included in the reporting period; or
- (c) 15 per cent of the greater of the amount of the premium income of the insurer after deduction of all premiums payable by it in terms of any reinsurance policies entered into by it in respect of any policies -
 - (i) during the period of 12 months immediately preceding the day on which the previous financial year ended; or
 - (ii) during the period of 12 months immediately preceding the day on which the calculation is made.

5.1.2 The solvency capital adequacy requirement, calculated by means of the following formula -

$$SCR = BSCR + OP$$

in which formula -

BSCR represents the Basic Solvency Capital Requirement and is calculated as set out in Annexure A; and

OP represents the Operational Risk Capital factor and is calculated as set out in Annexure B.

5.2 The capital adequacy requirement referred to in section 29(2) of the Act must be determined as the highest amount referred to in paragraphs 5.2.1 and 5.2.2.

5.2.1 The minimum capital adequacy requirement, which is the higher of -

- (a) R10 million; or
- (b) an amount representing operating expenses, multiplied by 13 and divided by 52 or, if different, the number of weeks included in the reporting period; or
- (c) 15 per cent of the greater of the amount of the premium income of the insurer in respect of the insurance business carried on by it in the Republic after deduction of all premiums payable by it in terms of any reinsurance policies entered into by it in respect of any policies -
 - (i) during the period of 12 months immediately preceding the day on which the previous financial year ended; or
 - (ii) during the period of 12 months immediately preceding the day on which the calculation is made.

Board Notice: Prescribed requirements for the calculation of the value of the assets, liabilities and capital adequacy requirement of short-term insurers

5.2.2 The solvency capital adequacy requirement, calculated in accordance with paragraph 5.1.2 multiplied by A and divided by B where -

A represents the amount of the gross premium income of the insurer in respect of the insurance business carried on by it in the Republic; and

B represents the amount of the total gross premium income of the insurer.

5.3 The Registrar may allow the capital adequacy requirement (calculated as prescribed in paragraphs 5.1 and 5.2) to be adjusted by the use of a company-specific internal model agreed between the insurer and the Registrar, subject to any requirements specified by the Registrar.

6. PROCESS FOR THE RELAXATION OF A PROVISION

The Registrar may on application by an insurer or by notice, in a particular case, or in general relax any of the prescribed requirements for the calculation of the value of the assets, liabilities and capital adequacy requirement, for such period and on such conditions as the Registrar may determine.

7. SHORT TITLE

This Notice is called the Notice on the Prescribed Requirements for the Calculation of the Value of Assets, Liabilities and Capital Adequacy Requirement of Short-term Insurers, 2011.

Board Notice: Prescribed requirements for the calculation of the value of the assets, liabilities and capital adequacy requirement of short-term insurers

ANNEXURE A: CALCULATION OF THE BASIC SOLVENCY CAPITAL REQUIREMENT (BSCR)

$$BSCR = \sqrt{(IC^2 + MC^2 + CC^2)}$$

IC represents the Insurance Risk Capital factor and is calculated as follows:

$$\sum_{i=1}^8 NWP_i * g_i$$

where -

NWP_i represents the amount of the premium income of the insurer after deduction of all premiums payable by it in terms of any reinsurance policies entered into by it in respect of any policies relating to business class *i* during the period of 12 months immediately preceding the day on which the calculation is made; and

g_i for each business class *i*, represents the factor as given in the table below;

Business Class		<i>g_i</i>
1	Accident and health	33%
2	Engineering	25%
3	Guarantee	50%
4	Liability	32%
5	Miscellaneous	33%
6	Motor	20%
7	Property	25%
8	Transportation	38%

MC represents the Market Risk Capital factor and is calculated as follows:

$$MC = \sum_{i=1}^6 Asset_i * factor_i$$

Where -

Asset_i represents the total value of admissible assets in each asset category as stipulated in Annexure A1; and

factor_i represents the relevant factor that is applied to the asset category as stipulated in Annexure A1; and

Board Notice: Prescribed requirements for the calculation of the value of the assets, liabilities and capital adequacy requirement of short-term insurers

CC represents Credit Risk Capital factor and is calculated as follows:

$$CC = \sum_{i=1}^n f_i * MV_i$$

where -

f_i represents the factor for credit rating i (and applicable duration) as given in Annexure A2; and

MV_i represents the total value of the aggregate holdings of admissible assets with credit rating i and applicable duration as given in Annexure A2.

Notes:

1. The calculation of the Market Risk Capital (MC) and Credit Risk Capital (CC) is a multi-step process.

The admissible assets (in and outside the Republic of South Africa) have to be allocated to liabilities where liabilities include current, other and technical liabilities. (In other words, the amount of assets used in this calculation should be equal to the total liabilities and should not include assets backing capital requirements or free assets.) The assets allocated should be the actual assets held and not notional assets as per an investment mandate or other method.

2. The Credit Risk Capital (CC) takes into account the credit risk (the inability or unwillingness of a counterparty to fully meet its on- or off-balance sheet contractual financial obligations) inherent in various assets held by the insurer.

Board Notice: Prescribed requirements for the calculation of the value of the assets, liabilities and capital adequacy requirement of short-term insurers

ANNEXURE A1: FACTORS FOR MARKET RISK APPLIED TO ASSET CATEGORIES

<i>Asset_i</i>	<i>factor_i</i>
1	Cash and near-cash
2	Fixed and variable interest securities with an outstanding duration of less than (or including) 4 years
3	Fixed and variable interest securities with an outstanding duration of more than 4 years
4	Property
5	Equity
6	Other

Examples of assets to be included in each of the categories are given in the table below:

<i>Asset_i</i>
1

- a) Bank notes and coins, including Krugerrand coins of all denominations, issued or caused to be issued in terms of the South African Reserve Bank Act, 1989 (Act No. 90 of 1989).
- b) A credit balance in an account with, or a deposit, including a negotiable deposit and a bill, accepted by, an institution finally registered under the Banks Act, 1990 (Act No. 94 of 1990), the Mutual Banks Act, 1993 (Act No. 124 of 1993) or the Co-operative Banks Act, 2007 (Act No. 40 of 2007).
- c) Public deposits with the Corporation for Public Deposits established by section 2 of the Corporation for Public Deposits Act, 1984 (Act No. 46 of 1984).
- d) A credit balance in an account with, or a deposit, including a negotiable certificate of deposit, or a bill, accepted by, an institution incorporated outside the Republic, which would have been a bank in terms of the Banks Act, 1990, if it were incorporated in the Republic.
- e) Margin deposits on derivative instruments.
- f) Participatory interest in a Fixed Interest Money Market scheme that is a collective investment scheme (registered in terms of the Collective Investment Schemes Control Act, 2002 (Act No. 45 of 2002), or any similar investment scheme subject to the laws of a country other than the Republic, which laws establish a regulatory framework equivalent to that established by the Act and are supervised by a regulatory authority.
- g) The following fixed and variable interest securities with an effective outstanding duration of less than and including one year:
 - i. Securities issued by, and loans made to, the Government of the Republic (including provincial government) under the Public Finance Management Act, 1999 (Act No. 1 of 1999).
 - ii. Securities and loans guaranteed under the Public Finance Management Act, 1999 (Act No. 1 of 1999).
 - iii. Securities issued or guaranteed by, and loans made to or guaranteed by, a public entity public entity, other than the Land and Agricultural Bank of South Africa, listed

Board Notice: Prescribed requirements for the calculation of the value of the assets, liabilities and capital adequacy requirement of short-term insurers

<i>Assets</i>	
	<p>under the Public Finance Management Act, 1999 (Act No. 1 of 1999).</p> <p>iv. Securities issued or guaranteed by, and loans made to or guaranteed by, and deposits with, the Land and Agricultural Bank of South Africa referred to in the Land and Agricultural Development Bank Act, 2002 (Act No. 15 of 2002).</p> <p>v. Securities issued or guaranteed, and loans raised or guaranteed, under the Legal Succession to the South African Transport Services Act, 1989 (Act No. 9 of 1989).</p> <p>vi. Securities and loans with an outstanding duration of less than (or including) one year which are –</p> <ul style="list-style-type: none"> • issued by or made to a body corporate established by a law of the Republic; and • approved by the Registrar for the purposes of Schedule 1 of the Short-term Insurance Act, 1998 (No. 53 of 1998) generally by notice in the <i>Gazette</i> subject to the conditions determined by the Registrar and specified in the notice. <p>vii. Listed securities issued by a government of a country other than the Republic or listed securities and shares issued by an institution incorporated outside the Republic.</p> <p>h) Redeemable fixed and variable rate preference shares with an effective outstanding duration to redemption of less than and including one year.</p>
2	<p>a) The following fixed and variable interest securities with an effective outstanding duration of more than one, but less than (or including) 4 years</p> <p>i. Securities issued by, and loans made to, the Government of the Republic (including provincial government) under the Public Finance Management Act, 1999 (Act No. 1 of 1999).</p> <p>ii. Securities and loans guaranteed under the Public Finance Management Act, 1999 (Act No. 1 of 1999).</p> <p>iii. Securities issued or guaranteed by, and loans made to or guaranteed by, a public entity public entity, other than the Land and Agricultural Bank of South Africa, listed under the Public Finance Management Act, 1999 (Act No. 1 of 1999).</p> <p>iv. Securities issued or guaranteed by, and loans made to or guaranteed by, and deposits with, the Land and Agricultural Bank of South Africa referred to in the Land and Agricultural Development Bank Act, 2002 (Act No. 15 of 2002).</p> <p>v. Securities issued or guaranteed, and loans raised or guaranteed, under the Legal Succession to the South African Transport Services Act, 1989 (Act No. 9 of 1989).</p> <p>vi. Securities and loans, with an outstanding duration of greater than one but less than (or including) 4 years, which are –</p> <ul style="list-style-type: none"> • issued by or made to a body corporate established by a law of the Republic; and • approved by the Registrar for the purposes of Schedule 1 to the Short-term Insurance Act, 1998 (No. 53 of 1998) generally by notice in the <i>Gazette</i> subject to the conditions determined by the Registrar and specified in the notice. <p>vii. Listed securities issued by a government of a country other than the Republic or listed securities and shares issued by an institution incorporated outside the Republic.</p>

Board Notice: Prescribed requirements for the calculation of the value of the assets, liabilities and capital adequacy requirement of short-term insurers

<i>Asset_t</i>	
	b) Redeemable fixed and variable rate preference shares with an effective outstanding duration to redemption of more than one, but less than (or including) 4 years.
3	<p>a) The following fixed and variable interest securities with an effective outstanding duration of more than 4 years:</p> <ul style="list-style-type: none"> i. Securities issued by, and loans made to, the Government of the Republic (including provincial government) under the Public Finance Management Act, 1999 (Act No. 1 of 1999). ii. Securities and loans guaranteed under the Public Finance Management Act, 1999 (Act No. 1 of 1999). iii. Securities issued or guaranteed by, and loans made to or guaranteed by, a public entity public entity, other than the Land and Agricultural Bank of South Africa, listed under the Public Finance Management Act, 1999 (Act No. 1 of 1999). iv. Securities issued or guaranteed by, and loans made to or guaranteed by, and deposits with, the Land and Agricultural Bank of South Africa referred to in the Land and Agricultural Development Bank Act, 2002 (Act No. 15 of 2002). v. Securities issued or guaranteed, and loans raised or guaranteed, under the Legal Succession to the South African Transport Services Act, 1989 (Act No. 9 of 1989). vi. Securities and loans, with an outstanding duration of more than 4 years, which are <ul style="list-style-type: none"> • issued by or made to a body corporate established by a law of the Republic; and • approved by the Registrar for the purposes of Schedule 1 to the Short-term Insurance Act, 1998 (No. 53 of 1998) generally by notice in the <i>Gazette</i> subject to the conditions determined by the Registrar and specified in the notice. vii. Listed securities issued by a government of a country other than the Republic or listed securities and shares issued by an institution incorporated outside the Republic. <p>b) Participatory interest in a Fixed Interest Bond, Fixed Interest Income or Fixed Interest Varied Specialist scheme that is a collective investment scheme (registered in terms of the Collective Investment Schemes Control Act, 2002 (Act No. 45 of 2002), or any similar investment scheme subject to the laws of a country other than the Republic, which laws establish a regulatory framework equivalent to that established by the Act and are supervised by a regulatory authority.</p> <p>c) Redeemable fixed and variable rate preference shares with an effective outstanding duration to redemption of more than 4 years.</p> <p>d) Non-redeemable fixed or variable rate preference shares.</p>
4	<p>a) Immovable property.</p> <p>b) Participatory interest in a Real Estate scheme that is a collective investment scheme (registered in terms of the Collective Investment Schemes Control Act, 2002 (Act No. 45 of 2002), or any similar investment scheme subject to the laws of a country other than the Republic, which laws establish a regulatory framework equivalent to that established by the Act and are supervised by a regulatory authority.</p>

Board Notice: Prescribed requirements for the calculation of the value of the assets, liabilities and capital adequacy requirement of short-term insurers

<i>Assets</i>	
5	<ul style="list-style-type: none"> a) Listed or unlisted ordinary shares. b) Listed or unlisted depository receipts. c) Listed or unlisted loan stock. d) Compulsory convertible preference shares. e) Participatory interest in a Equity or Asset Allocation scheme that is a collective investment scheme (registered in terms of the Collective Investment Schemes Control Act, 2002 (Act No. 45 of 2002), or any similar investment scheme subject to the laws of a country other than the Republic, which laws establish a regulatory framework equivalent to that established by the Act and are supervised by a regulatory authority.
6	<ul style="list-style-type: none"> a) Motor vehicles, furniture and office equipment, including computer equipment used by the short-term insurer concerned in the course of its business in the Republic. b) Claims against a long-term insurer in terms of a linked long-term policy as defined in the Long-term Insurance Act, 1998 (Act No. 52 of 1998) c) Derivatives <ul style="list-style-type: none"> • traded on a recognised exchange; • over-the-counter instruments. d) Any other assets held outside of the Republic not specified above.

Board Notice: Prescribed requirements for the calculation of the value of the assets, liabilities and capital adequacy requirement of short-term insurers

ANNEXURE A2: FACTORS FOR CREDIT RISK APPLIED TO CREDIT RATING CATEGORIES

- The table below gives the factors that should be applied to the market value of assets with the applicable duration and credit rating.

i	International rating, local currency	National Rating	Factor	
			Duration longer (and including) one year	Duration shorter than one year
1	AAA to AA-	Not applicable	1.0%	0.25%
2	A+ to A-	AAA to AA+	4.1%	1.03%
3	BBB+ to BBB-	AA to AA-	5.0%	1.25%
4	BB+ to BB-	A+ to BBB	13.6%	3.40%
5	B+ to B-	BBB- to B-	22.4%	5.60%
6	CCC+ or below	CCC or below	44.80%	11.20%
7	Unrated	Unrated	Minimum of 13.6%	Minimum of 3.40%

- The international, local currency ratings in the table above gives the credit ratings based on the Standard and Poor's rating scale. The following table of equivalence should be used to allow for other rating agencies.

i	Standard & Poors Fitch GCR	Moody's	AM Best
1	AAA to AA-	Aaa to Aa3	A++ to A-
2	A+ to A-	A1 to A3	B++ to B+
3	BBB+ to BBB-	Baa1 to Baa3	B to B-
4	BB+ to BB-	Ba1 to Ba3	C++ to C+
5	B+ to B-	B1 to B3	C to D

Board Notice: Prescribed requirements for the calculation of the value of the assets, liabilities and capital adequacy requirement of short-term insurers

6	CCC+ or below	Caa1 or below	E or below
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3. National ratings should only be used if no international rating is available.
4. Where the instrument does not have a credit rating but the asset is exposed to a credit-rated counterparty (e.g. a promissory note with XYZ bank) then these exposures to the counterparty should be aggregated and the counterparty's credit rating applied.
5. Where there is no rating for an instrument, or the credit counterparty has not been rated, the minimum factor that can be used for unrated exposures is that as for a BB rated instrument (13.6%). This is a minimum, and the credit quality of the counterparty should be considered before applying this minimum.
6. For government debt and debt instruments carrying an explicit South African government guarantee and issued in South African Rand, a factor of 0% should be used.
7. The assets to be included are assets held where credit risk is assumed and include:
 - 7.1 Bank notes and coins, including Krugerrand coins of all denominations, issued or caused to be issued in terms of the South African Reserve Bank Act, 1989 (Act No. 90 of 1989).
 - 7.2 A credit balance in an account with, or a deposit, including a negotiable deposit and a bill, accepted by, an institution finally registered under the Banks Act, 1990 (Act No. 94 of 1990), the Mutual Banks Act, 1993 (Act No. 124 of 1993) or the Co-operative Banks Act, 2007 (Act No. 40 of 2007).
 - 7.3 Public deposits with the Corporation for Public Deposits established by section 2 of the Corporation for Public Deposits Act, 1984 (Act No. 46 of 1984).
 - 7.4 A credit balance in an account with, or a deposit, including a negotiable certificate of deposit, or a bill, accepted by, an institution incorporated outside the Republic, which would have been a bank in terms of the Banks Act, 1990, if it were incorporated in the Republic.
 - 7.5 Margin deposits on derivative instruments.
 - 7.6 Participatory interest in a Fixed Interest Money Market scheme that is a collective investment scheme (registered in terms of the Collective Investment Schemes

Board Notice: Prescribed requirements for the calculation of the value of the assets, liabilities and capital adequacy requirement of short-term insurers

Control Act, 2002 (Act No. 45 of 2002), or any similar investment scheme subject to the laws of a country other than the Republic, which laws establish a regulatory framework equivalent to that established by the Act and are supervised by a regulatory authority.

- 7.7 Securities issued or guaranteed by, and loans made to or guaranteed by, a provincial government under the Public Finance Management Act, 1999 (Act No. 1 of 1999).
- 7.8 Securities issued or guaranteed by, and loans made to or guaranteed by, a public entity public entity, other than the Land and Agricultural Bank of South Africa, listed under the Public Finance Management Act, 1999 (Act No. 1 of 1999).
- 7.9 Securities issued or guaranteed by, and loans made to or guaranteed by, and deposits with, the Land and Agricultural Bank of South Africa referred to in the Land and Agricultural Development Bank Act, 2002 (Act No. 15 of 2002).
- 7.10 Securities issued or guaranteed, and loans raised or guaranteed, under the Legal Succession to the South African Transport Services Act, 1989 (Act No. 9 of 1989).
- 7.11 Securities and loans, not elsewhere stated, which are –
- issued by or made to a body corporate established by a law of the Republic; and
 - approved by the Registrar for the purposes of Schedule 1 of the Short-term Insurance Act, 1998 (Act No. 53 of 1998) generally by notice in the *Gazette* subject to the conditions determined by the Registrar and specified in the notice.
- 7.12 Listed securities issued by a government of a country other than the Republic or listed securities and shares issued by an institution incorporated outside the Republic.
- 7.13 Claims secured by mortgages over immovable property.
- 7.14 Other claims, against –
- a long-term insurer in terms of a long-term policy, excluding a linked long-term policy as defined in the Long-term Insurance Act, 1998 (Act No. 52 of 1998)
 - a person in or outside the Republic; and
 - a body corporate and any stock or shares in a body corporate which is not incorporated and registered in the Republic but which, in the opinion of the Registrar, carries on business in the Republic and which has been approved by

Board Notice: Prescribed requirements for the calculation of the value of the assets, liabilities and capital adequacy requirement of short-term insurers

the Registrar generally by notice in the *Gazette* and subject to the conditions determined by the Registrar and specified in the notice.

- 7.15 Premiums due and payable to the short-term insurer in respect of short-term insurance business carried on.
- 7.16 Over-the-counter derivative instruments.
- 7.17 Promissory notes.
- 7.18 Letters of credit.
- 7.19 Credit derivatives.
- 7.20 Non-redeemable fixed or variable rate preference shares.
- 8. For the purposes of calculating credit risk capital the notional asset created by the reduction in the technical liabilities and outstanding claim amounts due to approved reinsurance do not need to be included.

Board Notice: Prescribed requirements for the calculation of the value of the assets, liabilities and capital adequacy requirement of short-term insurers

ANNEXURE B: CALCULATION OF OPERATIONAL RISK CAPITAL

1. The Operational Risk Capital (OP) takes into account the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.
2. OP is calculated as -

$$OP = \min(0.3 * BSCR; BasicOP)$$

Where -

BSCR is calculated in accordance with Annexure A; and

$$BasicOP = \max(OP_{premium}; OP_{provisions}).$$

$$OP_{premium} = 0.03 * GEP + \max(0; 0.03 * (GEP - 1.1 * GEP_{prev}))$$

$$OP_{provisions} = 0.03 * \max(0; GTL)$$

GEP represents the gross earned premium income of the insurer during the period of 12 months immediately preceding the day on which the calculation is made;

GEP_{prev} represents the gross earned premium income of the insurer during the period of 12 months immediately preceding the day on which the previous financial year ended; and

GTL represents the amount of the total gross technical liabilities of the insurer.