

## Prudential Standard GOG

### Governance and Operational Standard for Insurance Groups

#### **Objectives and Key Requirements of this Prudential Standard**

*This Standard sets out the governance and operational requirements that apply to insurance groups operating in South Africa from a regulatory perspective. The requirements set out in this Standard are aligned closely to the principles and requirements under the Governance and Operational Standards for Insurers, with appropriate adjustments to account for the specific structure and characteristics associated with insurance groups.*

*It is the responsibility of the board of directors of the controlling company of an insurance group to ensure that the insurance group meets the governance and operational requirements of this Standard on a continuous basis by ensuring the adoption, implementation and monitoring of insurance group-wide policies, controls and standards.*

*The key principles and requirements underpinning this Standard are:*

- *The controlling company of the insurance groups must meet the relevant requirements set out in the Governance and Operational Standards for Insurers on an insurance group-wide basis, unless otherwise specified in this Standard or approved by the Prudential Authority;*
- *where specified in the Standard, the controlling company must meet additional requirements to those applying to insurers - these additional requirements relate to certain aspects of risk management (including capital and liquidity management) and internal controls, fitness and propriety, and business continuity management.*

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## 1. Application

- 1.1. This Standard applies to all controlling companies that have been designated under section 10 of the Insurance Act, 2017 (the Act) by the Prudential Authority.

## 2. Roles and Responsibilities

- 2.1. The board of directors of the controlling company of an insurance group is ultimately responsible for ensuring that the insurance group complies with the principles and requirements of this Standard.
- 2.2. Where required to do so by this Standard the controlling company's control functions must review and report to the board of directors of the controlling company on the insurance group's compliance with this Standard.
- 2.3. If requested to do so, the controlling company's auditor must provide assurance to the board of directors of the controlling company and the Prudential Authority that the insurance group complies with the requirements of this Standard or any part thereof.

## 3. Commencement and Transition Provisions

- 3.1. This Standard commences on 1 July 2018.

Version Number	Commencement Date
1	1 July 2018

## 4. Principles underlying Governance and Operational Requirements for Insurance Groups

- 4.1. Insurance groups benefit from the pooling and diversification of risk, intra-insurance group financing, and integrated governance structures. However, being part of an insurance group also presents a range of risks to an insurer that is part of the insurance group. These may include, for example, direct or indirect risk exposures to other insurance group entities, conflicts of interest, and inadequate risk assessment. The failure of one entity within an insurance group may damage, or even cause the failure of, insurers within the insurance group.
- 4.2. The regulation and supervision of insurance groups is necessary to protect policyholders and beneficiaries from risks emanating from the insurance group.
- 4.3. Subject to the variations noted in this Standard, the Governance and Operational Standards for Insurers apply also to controlling companies of insurance groups. Thus, for example, insurance groups must satisfy requirements relating to:
- a) governance, including responsibilities of the board of directors and senior management;
  - b) risk management and internal controls;
  - c) fitness and propriety of key persons and significant owners<sup>1</sup>;
  - d) management and control of outsourcing arrangements;

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<sup>1</sup> Key persons are as defined in section 1 of the Act. Significant owners are as defined in section 1 of the Financial Sector Regulation Act, 2017.

- e) controls around participation in any fundamental transaction or compromise contemplated in Part A of Chapter 5 or section 155 of the Companies Act, 2008, and conversion from one type of company to another, conversion from a co-operative to a company, or any other changes in the type of person it was on the date that it was licensed as a controlling company.
- 4.4. Where a requirement applies to an insurance group, the requirement is imposed on the controlling company of the insurance group. That is, the controlling company must ensure that the insurance group as a whole satisfies the governance and operational requirements applicable to the insurance group, unless otherwise specified in this Standard.
  - 4.5. Further details of requirements applying to the controlling company of the insurance groups that are in addition to, or vary from, requirements applying to insurers in each of the areas noted in Section 4.3 above are covered in Sections 5 to 8 of this Standard.
  - 4.6. The requirements on transfers of insurance business specified in GOI 6 (Transfers of Business and Other Significant Transactions by Insurers) do not apply directly to insurance groups. Section 50(1) of the Act applies only to transfers of assets and liabilities relating to insurance business, which must be carried out by insurers only. Non-insurance businesses that are conducted by entities in an insurance group other than insurers are therefore not required to meet the requirements of GOI 6.<sup>2</sup>
  - 4.7. The requirements specified in GOI 6 (Transfers of Business and Other Significant Transactions by Insurers) apply to a controlling company in so far as the requirements relate to participation in any fundamental transaction or compromise contemplated in Part A of Chapter 5 or section 155 of the Companies Act, 2008, and conversion from one type of company to another, conversion from a co-operative to a company, or any other changes in the type of person it was on the date that it was licensed as a controlling company.
  - 4.8. GOI 7 (Miscellaneous Regulatory Requirements for Insurers) sets out various prescriptions and exemptions that are provided for in the Act. Only section 7 (Registration of Shares in the Name of Nominees), section 9 (Capital and Securities) and section 10 (Material Acquisitions or Disposals of Assets) apply to the controlling company of an insurance group.

## 5. Governance

### Framework

- 5.1. The controlling company of an insurance group must establish an effective governance framework that provides for sound and prudent management of the insurance group's business, including adequate protection of the interests of policyholders of insurers that are part of the insurance group.
- 5.2. A controlling company must establish a comprehensive and consistent governance framework across the insurance group, covering both regulated and non-regulated entities. The governance framework for an insurance group should:
  - a) allow for the prudential and legal obligations of individual entities within the insurance group to be met; and

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<sup>2</sup> While the requirements of GOI 6 (Transfers of Business and Other Significant Transactions by Insurers) do not apply directly to insurance groups, the Prudential Authority will nevertheless consider the impact on insurance groups where an insurer within an insurance group proposes a transfer of insurance business.

- b) appropriately balance any divergence in governance requirements applying between different entities within the insurance group.
- 5.3. The governance framework must include adequate policies and processes to enable potential intra-insurance group conflicts of interest to be identified, avoided if possible, and managed if avoidance is not possible. The policies and processes must identify how, and by whom, the interests of the different parts of the insurance group and their different stakeholders are to be balanced in resolving any conflicts of interest.

### **Board of directors and Senior management**

- 5.4. GOI 2 (Governance of Insurers) establishes minimum requirements for the structure and operation of an insurer's board of directors, and how roles and responsibilities should be allocated between the board of directors and senior management. These minimum requirements apply also to the board of directors and senior management of the controlling company of an insurance group, unless otherwise approved in writing by the Prudential Authority.
- 5.5. The Prudential Authority may, upon written application from the controlling company of the insurance group, exempt an insurer within the insurance group from appointing an audit, risk or remuneration committee (as required under GOI 2). In considering such an exemption, the Prudential Authority would need to be satisfied that the audit, risk or remuneration committees of the controlling company or another entity within the group of companies of which the insurer is a part (as relevant) are able to adequately assume the relevant committee responsibilities for both the insurer and the insurance group as a whole.
- 5.6. Notwithstanding any exemptions that may be granted by the Prudential Authority under Section 5.5 above, a controlling company must establish transparent organisational and governance structures that are consistent with the risk profile and strategy of its insurance group.
- 5.7. The audit, risk and remuneration committees at the level of the controlling company or another entity within the group of companies of which the insurer is a part (as relevant) must have the necessary authority, independence, resources, expertise and access to all relevant information and staff within the insurance group to perform their functions effectively.
- 5.8. To facilitate informed decision-making within an insurance group, the controlling company must establish timely and appropriate reporting mechanisms for the board of directors and senior management at both insurance group-wide and individual legal entity/business levels.

### **6. Risk Management and Internal Controls**

- 6.1. Consistent with the principles in GOI 3 (Risk Management and Internal Controls for Insurers), a controlling company must develop and implement an insurance group-wide risk management system, including a risk strategy, policies, and related procedures and tools, for assessing, monitoring, reporting, and mitigating material risks that may affect the ability of any insurer that is part of the insurance group to meet its obligations to policyholders, which is appropriate to its size, business mix and complexity. The insurance group-wide risk management system must provide a holistic view of all material risks facing the insurance group, including:

- a) risks emanating from regulated and non-regulated entities within the insurance group;
  - b) risk concentrations within individual entities, business lines or geographic locations across the insurance group; and
  - c) intra-insurance group transactions, guarantees and other commitments between entities in the insurance group that could impact the soundness of the overall insurance group (e.g., through contagion).
- 6.2. An insurance group's group-wide risk management system must be implemented and executed across all entities within the insurance group (regulated and non-regulated) and the board of directors of the controlling company of the insurance group must ensure that an effective system of internal controls is in place to provide reasonable assurance from a control perspective that the insurance group is being operated consistent with group-wide strategies, policies and procedures, which are attaining their intended outcomes.
- 6.3. An insurance group's risk appetite statement and related risk limits should be communicated to the board of directors and senior management of individual entities within the insurance group. The board of directors and senior management of individual entities should have clear guidance on the level of risk the controlling company is willing to take, and the limits to which individual entities are able to expose the insurance group.
- 6.4. The controlling company of an insurance group should ensure that adequate resources are available across the insurance group for individual entities to meet requirements associated with its risk strategy and risk appetite at both insurance group and solo levels.
- 6.5. A controlling company may, following approval from the board of directors of the controlling company, allow an entity that is part of the insurance group to adapt components of its insurance group-wide risk management and internal control systems. This can apply to individual insurers and other entities within the insurance group. In considering whether to grant approval the board of directors should consider –
  - a) the nature, scale and complexity of the entity;
  - b) the risk that the business of the entity poses to the insurance group; and
  - c) any regulatory requirements imposed by another designated authority on the entity.
- 6.6. The controlling company of an insurance group must develop insurance group-wide risk management policies and procedures that:
  - a) set out the approach taken to managing the insurance group's material risks, including measures and controls to meet the board of director's approved risk appetite; and
  - b) set out how the insurance group-wide policies and procedures apply to individual entities, including any appropriate adjustments or exemptions that may be applied to account for local circumstances, regulations and practices.
- 6.7. The controlling company of an insurance group must establish and adequately resource insurance group-level risk management, compliance, internal audit and actuarial functions so as to be able to:
  - a) properly identify and address risks that impact on the insurance group as a whole;

- b) undertake adequate monitoring of the implementation of insurance group-wide policies and procedures;
- c) provide timely and accurate information flows within the insurance group;
- d) effectively communicate insurance group objectives, strategies and policies to individual entities within the insurance group; and
- e) promote an insurance group-wide common risk and compliance culture.

### **Own Risk and Solvency Assessment (ORSA)**

- 6.8. The controlling company of the insurance group must undertake an insurance group-wide ORSA annually, and whenever the risk profile of the insurance group changes materially, consistent with the requirements set out in GOI 3.1 (Own Risk and Solvency Assessment (ORSA)). The insurance group-wide ORSA should pay particular attention to intra-insurance group transactions and risk concentrations.
- 6.9. The insurance group-wide ORSA must be designed to reflect the nature of the insurance group and its risk profile. All entities that fall within the insurance group, including both regulated and non-regulated entities, must be included within the scope of the insurance group-wide ORSA. The nature of the assessment with respect to non-regulated entities should be consistent with the nature, size and complexity of the entity and its role within the insurance group.
- 6.10. Where a group entity lies outside the insurance group, the insurance group-wide ORSA must still address risks to the insurance group arising from these entities.
- 6.11. The insurance group-wide ORSA must include insurance group members in other countries (other country entities), even where those countries do not require an ORSA. In particular:
  - a) The insurance group-wide ORSA must consider any restrictions or challenges to the assessment at insurance group level that may arise from other country entities.
  - b) The insurance group-wide ORSA needs to assess the transferability and fungibility of eligible own funds from the other country entity. The assessment must explicitly identify any regulations of the other country that may hinder or impede the full fungibility and transferability of eligible own funds from the entity to other entities within the insurance group.
  - c) If the other country entity is included in the insurance group solvency assessment using regulatory rules applied by that other country, an assessment of the risk profile of the subsidiary must make specific reference to those rules, the extent to which they deviate from rules set by the Prudential Authority and the materiality of those deviations for insurance group solvency.
- 6.12. The insurance group-wide ORSA must address all risks, both quantifiable and qualitative, specific to the insurance group, including at least the following:
  - a) Risks arising from intra-insurance group transactions, including those arising from participations, intra-insurance group reinsurance or internal reinsurance, intra-Insurance group loans and guarantees, currency differences, and intra-insurance group outsourcing.
  - b) Risks specific to the insurance group, including risks arising from non-regulated entities, interdependencies within the insurance group, insurance group complexity, and their impact on the insurance group's risk profile.
  - c) Risks that may not be relevant at the solo insurer level, but which are relevant at insurance group level, including contagion risk and risk concentrations.

- d) Differences in approach between entities in the insurance group to matters such as business strategy, business planning period, and risk profile, that could give rise to conflicts between entities.
- 6.13. The insurance group-wide ORSA must include additional stress tests and scenario analyses at the level of the insurance group designed to test the risks that are specific to the insurance group or which are likely to materialise only at insurance group level.
- 6.14. The insurance group-wide ORSA report to the Prudential Authority must include:
- a) A description of the materiality of each related and inter-related entity at the insurance group level, particularly the contribution of each related and inter-related entity to the overall insurance group risk profile.
  - b) The outcome of the comparison between the insurance group overall solvency needs and the sum of the solo entity solvency needs. This must include an assessment and justification of any diversification effects assumed at the insurance group level including:
    - i. the difference between the insurance group SCR and the sum of the solo SCRs;
    - ii. the allocation of the differences to entities within the insurance group (taking into account any ring-fencing arrangements);
    - iii. appropriate sensitivity analyses of the diversification assumptions under stress scenarios; and
    - iv. the consistency of the assumptions across the various member entities within the insurance group.
- 6.15. The insurance group-wide ORSA report to the Prudential Authority must include a description of how the following matters were accounted for:
- a) Identification of the sources of eligible own funds within the insurance group if additional new eligible own funds are necessary.
  - b) Assessment of the availability, transferability and fungibility of eligible own funds.
  - c) Any planned transfer of eligible own funds within the insurance group and the consequences of such a transfer.
  - d) Alignment of strategies between the controlling company and the other member entities of the insurance group.
  - e) Specific risks to which the insurance group could be exposed.
- 6.16. Where an insurance group-wide ORSA uses an internal model in the assessment of financial soundness at the insurance group level, or assesses insurance group financial soundness by aggregating the financial soundness of member entities for which internal models or partial internal models have been used, the insurance group-wide ORSA report to the Prudential Authority must identify any entities which do not use the insurance group internal model and the underlying reasons for not doing so.
- 6.17. Where a controlling company of an insurance group has been granted approval by the Prudential Authority to provide a single insurance group level ORSA report to cover all regulated entities within the insurance group (see section 11 of GOI 3.1 (Own Risk and Solvency Assessment (ORSA) for Insurers)), the following conditions must be met by the insurance group-wide ORSA report:

- a) The report must provide an explanation of how the subsidiaries subject to the ORSA are covered by the ORSA process and how the subsidiaries' boards of directors have been involved in the assessment process and approval of the outcomes.
  - b) The report must reflect the nature, scale and complexity of the insurance group and the risks within it. While the ORSA report must focus on the material parts of the insurance group, this does not exempt subsidiaries from the obligations relating to the ORSA at solo level. The insurance group-wide ORSA report must therefore document the assessments undertaken by insurance subsidiaries at the solo level.
- 6.18. Where the insurance group-wide ORSA is reported along material business unit lines, rather than on the basis of legal entities, the components relevant to each solo insurer must also be clearly identifiable and adequate for the purposes of the solo supervisors concerned.
- 6.19. The Prudential Authority may require a controlling company of an insurance group to undertake an ORSA, or components of an ORSA, in respect of any entity (local or foreign) that is part of the insurance group. Where the Prudential Authority has required this, the ORSA must include a breakdown of capital usage over the planning horizon for the entity, unless otherwise approved in writing by the Prudential Authority.

### **Group Capital Management**

- 6.20. An insurance group's capital management policy, which must be subject to controlling company level governance, must clearly document internal capital planning processes which ensure compliance with capital requirements at both insurance group and solo insurer levels.
- 6.21. An insurance group's internal capital planning process must take into consideration the insurance group-wide risk profile and risk appetite, and the possible negative impact on its capital position from the material entities and relevant risks to which it is exposed. The internal capital planning process must also take into account the availability of capital and the quality thereof, across entities within the insurance group. This consideration should include the regulatory, legal and other impediments to the transfer of capital across entities, sectors and jurisdictions in which the insurance group operates.
- 6.22. A controlling company of an insurance group should establish processes to help ensure effective co-ordination and communication between the board of directors of the controlling company and the entities within the insurance group with respect to the insurance group's capital planning.

### **Business Continuity Management**

- 6.23. The controlling company of an insurance group must have in place insurance group-wide business continuity management (BCM) arrangements (including policies and procedures).
- 6.24. The board of directors of the controlling company of an insurance group is responsible for ensuring that the BCM requirements in this Standard are applied appropriately throughout the insurance group, including in relation to non-regulated entities.
- 6.25. The board of directors of the controlling company of an insurance group must -

- a) ensure that the insurance group's BCM is appropriate to the nature and scale of its operations and is consistent with the insurance group's risk strategy and risk management system; and
  - b) ensure that an insurance group business continuity plan is developed and implemented (satisfying the requirements set out in GOI 3.2 (Business Continuity Management)) and is reviewed at least annually by senior management of the controlling company.
- 6.26. Where an entity within the insurance group is not regulated by the Prudential Authority and undertakes critical business operations for the insurance group, the controlling company must ensure that those business operations are undertaken in a way that complies with the insurance group BCM policy.
- 6.27. The controlling company of an insurance group must notify the Prudential Authority of any instances where the insurance group experiences a major disruption that has the potential to have a material impact on the insurance group's risk profile or its financial soundness, except where an insurer within the insurance group has otherwise notified the Prudential Authority of that information in accordance with section 10 of GOI 3.2 (Business Continuity Management).

## **Liquidity Management**

- 6.28. The board of directors of the controlling company must adequately and consistently identify, measure, monitor, and manage the insurance group's liquidity risks and liquidity risks of the each regulated and non-regulated entity within the insurance group, including all special purpose vehicles. Liquidity must be sufficient across the insurance group to fully accommodate funding needs in normal times and periods of stress.
- 6.29. The board of directors of the controlling company must develop and maintain liquidity management processes and funding programs that are consistent with the complexity, risk profile, and scope of operations of the insurance group.
- 6.30. The liquidity risk management processes and funding programs for the insurance group must take into full account lending, investment, reinsurance and other activities, and ensure that adequate liquidity is maintained at the insurance group level and in each constituent entity within the insurance group. In particular:
- a) insurance groups should account for the fact that participations or investments in another entity within the same insurance group may be illiquid; and
  - b) insurance groups should factor into their liquidity risk management processes that certain major trigger events, such as catastrophes, downgrades from rating agencies, defaults or other events that have an adverse impact on reinsurers, could lead to liquidity issues for the insurance group or its member entities.
- 6.31. Processes and programs should fully incorporate real and potential constraints, including legal and regulatory restrictions, on the transfer of funds among insurance group entities and between these entities and the controlling company.

## **7. Fitness and Propriety**

- 7.1. GOI 4 (Fitness and Propriety of Key Persons and Significant Owners of Insurers) sets out the minimum requirements for an insurer's fit and proper policy and procedures. The requirements applicable to insurers apply also to the controlling company of the insurance group.

- 7.2. In the context of insurance groups, the key persons and significant owners that must be included in the insurance group's fit and proper policy are those persons who have the ability to control or influence materially the business or strategy of the overall insurance group (not necessarily persons who can control or influence individual entities within the insurance group).

## **8. Outsourcing**

- 8.1. The Outsourcing requirements specified in GOI 5 (Outsourcing by Insurers) applicable to insurers apply also to controlling companies of insurance groups.
- 8.2. A controlling company of an insurance group that elects to outsource a function should be satisfied that the outsourcing arrangement would not impede effective insurance group-wide oversight by the Prudential Authority of the insurance group.

## Attachment 1: Definitions used in the Governance and Operational Standards for Groups

The following terms used in the Governance and Operational Standards for Groups are defined in the Act:

- auditor
- board of directors
- control function
- controlling company
- eligible own funds
- group of companies
- insurance group
- insurer
- inter-related
- intra-insurance group transaction
- key person
- outsourcing
- policyholder
- Prudential Standard
- reinsurance business
- reinsurer
- related
- senior manager / senior management

The following terms used in the Governance and Operational Standards for Groups are defined in the Financial Sector Regulation Act, 2017:

- designated authority
- outsourcing arrangement
- person
- Prudential Authority
- significant owners

The following table sets out definitions of additional terms used in this Standard:

Term	Definition
critical business operations	The functions, resources and infrastructure that may, if disrupted, have a material impact on an insurer's business functions, reputation, profitability, or policyholders.
Governance and Operational Standards for Insurers	The term used for the collective suite of Prudential Standards prescribed by the Prudential Authority in respect of the governance and operational requirements of insurers.
ORSA	Own Risk and Solvency Assessment.
Participations	Investments in companies in which the insurer owns a significant proportion of the issued share capital or over which it exerts significant influence/control (e.g. where the insurer maintains more than 20% of the voting rights of the company).

Term	Definition
regulated entity	An entity that is licensed or supervised by a designated authority.
risk appetite statement	A statement covering the overall level of risk the insurer is prepared to accept in pursuit of its strategic objectives and business plan, and related matters set out in section 5.6 of GOI 3 (Risk Management and Internal Controls for Insurers).
Standard	Prudential Standard.