South African Reserve Bank
Prudential Authority

INSURANCE ACT, 2017: CONSULTATION REPORT

1. INTRODUCTION

This report is prepared in accordance with section 103 read with section 104 of the Financial Sector Regulation Act, 2017 (Act No. 9 of 2017) ("FSRA") in respect of the draft Prudential Standards to be prescribed under section 63 of the Insurance Act, 2017 (Act No. 18 of 2017) ("IA"), published on the website of the South African Reserve Bank on 9 March 2018. See link http://www.prudentialauthority.co.za/Pages/Documents-issued-for-Consultation.aspx.

The draft Prudential Standards was published for a period of 6 weeks in accordance with section 98(2) of the FSRA for comments by or on 23 April 2018 together with:

- a statement explaining the need for, and the intended operation and expected impact of the draft Prudential Standards; and
- a notice inviting submissions in relation to the draft Prudential Standards and stating where, how and by when submissions are to be made.

Copies of the above were provided to the Financial Sector Conduct Authority, the South African Reserve Bank ("SARB") (the members of the Prudential Committee of the Prudential Authority are the Governor and deputy Governors of the SARB), the National Credit Regulator, the Council for Medical Schemes and the Director-General of the National Treasury on 9 March 2018, in accordance with section 98(3)(a) of the FSRA. No comments were received from these institutions.

2. GENERAL ACCOUNT OF ISSUES RAISED

A small number of substantial comments was received. This may be due to the extensive consultation on previous drafts of the Prudential Standards during 2016 and 2017. A number of these comments related to the Financial Soundness Prudential Standard for Lloyd's and was the result of significant enhancements made by Lloyd's to improve the data relating to the insurance business conducted in South Africa.

A number of editorial comments and comments requesting clarity on some of the principles and requirements provided for in the draft Prudential Standards were also received.

All comments and responses thereto are captured in the comment matrixes included in paragraph 3 below.

The comments informed a number of changes to the draft Prudential Standards, which changes, has been incorporated into the Standards. The comment matrixes included in paragraph 3 indicates which comments informed changes to the Standards.

3. RESPONSES TO ISSUES RAISED

3.1 Governance and Operational Standards

	COMMENTATOR	REF TO STANDARD	COMMENT	RESPONSE
1.	Liberty Group Limited	GOI 1	Footnote 2: "…or influences decision making that affect the business '. Suggest 'affect' is replaced with 'affects'.	✐Agree to amend as proposed.
2.	Liberty Group Limited	GOI 1	General with regard to definitions. Several of the definitions in GOI 1 and other standards include references to the Long Term Insurance Act and the Short Term Insurance Act. As these acts are being phased out, it is suggested the definitions are reproduced in the Prudential Standards rather than being referenced.	Disagree. On the effective date of the Insurance Act, 2017 only the prudential provisions of the Long- and Short-term Insurance Acts will be repealed. The provisions dealing with conduct of business will remain. Therefore, where applicable, in the definitions (i.e. binders, commission and the like) cross references to these two Acts are necessary and appropriate.
3.	Liberty Group Limited	GOI 1	Definition of independent director, a): '…party of the insurer, or has not been such an officer…' Suggest replace 'or' with 'and'. An independent director needs to meet both of the requirements.	✐Agree to amend as proposed.
4.	Liberty Group Limited	GOI 1	Definition of independent director, h): remove 'is not' as this is a repetition.	✐Agree to amend as proposed.
5.	Liberty Group Limited	GOI 1	Definition of market spirals: replace 'results' with 'result'.	✐Agree to amend as proposed.
6.	Liberty Group Limited	GOI 1	Definition of non-executive director: replace 'An individual' with 'A director'. Also replace 'or' with 'and' as a non-executive director needs to meet both of the	✐Agree to amend as proposed.

	COMMENTATOR	REF TO STANDARD	COMMENT	RESPONSE
			requirements.	
7.	Liberty Group Limited	GOI 2 7.3	'pPrudential' remove extra 'p'.	✐Agree to amend as proposed.
8.	Marsh (Pty) Ltd	GOI 2 6.1	“6.1 - Unless approved otherwise by the Prudential Authority, the chairperson of the board of directors of an insurer must be an independent director”. And “6.4 – In circumstances where the Prudential Authority approves a non-independent chairperson, the board of directors must appoint a lead independent director”. It is important in our view to distinguish Captive insurance from other types of Insurance. Captives provide a mechanism for a company (or group of companies) to establish self-insurance through the creation of a licensed insurance company. The Captive then insurers the risks of its Shareholder/s. The key elements of a captive are that the Insured (shareholder) puts its own capital at risk by creating its own insurance company to achieve its own risk financing objectives. The Captive Insurance Market is therefore very different to other types of insurance. There is no market conduct risk as it is self-insurance. A Captive serves as an extension of the risk management function of the Group (which is	The comment is noted. Although the business model of captive insurers is different from that of non-captive insurers, the PA is of the view that the requirement that the chairperson of the board of directors must be independent must also apply to ensure that the board of directors indeed act in the interest of the shareholder(s).

	COMMENTATOR	REF TO STANDARD	COMMENT	RESPONSE
			also its policyholder). The decision regarding the level of risk retention within the Captive, and selection of reinsurers, is made by the risk management function of the Group. Commensurate with the nature and purpose of the Captive the Board should be allowed to consist only of non-executive directors in the employ of the Group. If this proposed structure is approved by the Prudential Authority, the requirement to appoint a lead independent director should also not be applicable to Captives. The availability of appropriately qualified Independent Directors is also something to be considered. It may not be easy to find a director with relevant experience and expertise in this particular area given the nature of Captives.	
9.	Marsh (Pty) Ltd	GOI 2 7.4	"7.4. Unless approved by the Prudential Authority to implement alternative arrangements, each insurer must also establish a risk committee and a remuneration committee. Attachments 3 and 4 set out the functions of an insurer's risk committee and remuneration committee respectively". A Captive does not have any employees and outsources all activities, either to the Group or to insurance specialists. The outsourced functions are overseen by the Captive Board and the risk management function of the Group.	All approvals granted under the Long-term or Short-term Insurance Acts will remain in place until an insurer's registration has been converted to a licence under the Insurance Act. The PA will consider each application on its merits. As the business models, governance structures, risk profile and risk support measures are unique different approvals and conditions can apply to different types of insurers or even insurers of the same type.

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			We have previously applied for exemption from the requirement to establish a remuneration committee on 1 April 2015, however we received no notification as to whether the exemption was granted or not. Will we need to reapply? Many Captives have established a combined Audit and Risk committee. As the purpose, functions and composition of an Audit and Risk committee are different, and considering the nature and purpose of a Captive, we request confirmation as to whether a separate Audit Committee (or use of the Group's audit committee) and exemption from having a Risk Committee (as the Board would perform the risk related functions) would be more appropriate?	
10.	Marsh (Pty) Ltd	GOI 2 8.1	"8.1 n) notify the Prudential Authority of any shortcomings in the insurer's governance framework, the reasons for the shortcomings, and the insurer's plans to rectify them" We would like to confirm what is meant by 'shortcomings'? Does the PA have a specific view on what is expected to be reported or is this left to the discretion of the Board?	Due consideration must be given to the requirements prescribed in the Insurance Act and the Prudential Standards. The insurer must apply its mind as to whether it is meeting the requirements, and if it is of the opinion that it is not report same to the PA.
11.	Allan Gray	GOI 2 8.2(d) and (e)	For Insurers who form part of a group, often the Control and Management functions are outsourced to an entity in the insurer's group, such as the insurer's holding company, where this has to be done in accordance with Directive 159.A.i, which includes complying with the requirement that an outsourcing	✎ Agree to amend as proposed.

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			policy and outsourcing agreement/s which govern the terms under which these functions are outsourced are in place. With this in mind, we believe that the proposed requirement in para 8.2(d) will result in an unnecessary duplication of efforts in that, pursuant to the outsourcing arrangement in place, the assessment of the persons mentioned in para 8.2(d) will occur within the outsourced entity and which assessment will cover the performance goals of those persons in relation to the functions outsourced by the insurer to the entity in question. We therefore propose that: Heads of the control function are removed from para 8.2(d), and the wording in para 8.2(e) should include the heads of the control functions. Proposed wording: d) assess, at least annually, the performance of the chief executive officer or the person that is in charge of the insurer against the performance goals set for them; e) ensure that adequate procedures are in place for assessing, at least annually, the effectiveness of the performance of senior management (<u>including the heads of the control functions</u>) against the performance goals set for them;	

	COMMENTATOR	REF TO STANDARD	COMMENT	RESPONSE
12.	Liberty Group Limited	GOI 2 Attachment 2	Section A, clause 2: insert '(where independent) ' after 'The chairperson of the board of directors'	✐Agree to amend as proposed.
13.	Liberty Group Limited	GOI 2 Attachment 1	Bullet 1: 'involved in the day-to-day management of the company's business or has not been so involved at any time during the previous financial year; **Replace 'or' with 'and'.** Bullet 2: ' a prescribed officer, or full-time employee, of the company or another related or inter-related company, or has not been such an officer or employee at any time during the previous three financial years; **Replace 'or' with 'and'**, a non-executive director needs to meet both requirements for both bullets.	✐Agree to amend as proposed.
14.	Liberty Group Limited	GOI 2 Attachment 2	Section E, clause 1: insert ',are considered ' after ' …all material risks'. (else it states *risks* must be *met*…)	✐Agree to amend as proposed.
15.	Allan Gray	GOI 2 Attachment 4 A1	The proposed requirement runs counter to the current requirement contained in BN158 158/2014 (paragraphs 3(2)(a) and 7(3)). We do not know what purpose will be served by having to compel an insurer's remuneration committee to all be non-executive i.e. we agree that the remuneration committee should have a strong bias of independence in order to ensure reasonable objectivity, and do not believe that	Disagree. Given the role and responsibilities of the remuneration committee, it must be composed of only non-executive directors. These roles and responsibilities include but not limited to: " *Make annual recommendations to the board of directors on the remuneration of –* *a) the chief executive officer or the person that is in charge of the insurer;*

	COMMENTATOR	REF TO STANDARD	COMMENT	RESPONSE
			participation in such committee by a minority of executives will be against the best interests of the insurer and/or its policyholders. As such, we propose the wording be amended either to remain in line with paragraphs 3(2)(a) and 7(3) of BN 158/2014, or as illustrated focusing on a sufficient number of non-executive and independent directors to promote objectivity. In this regard, we refer to Principle 7 contained in King IV which espouses "an appropriate balance of knowledge, skills, experience, diversity and independence" (our emphasis) Proposed wording: The Remuneration Committee must consist of at least three members, with a sufficient number of non-executive directors, the majority of whom being independent to promote objectivity.	*b) the senior managers who report directly to the chief executive officer or the person that is in charge of the insurer;* c) *other persons whose activities may, in the remuneration committee's opinion, affect the financial soundness of the insurer and any other person specified by the Prudential Authority."*
16.	Liberty Group Limited	GOI GN 2.1	Section 2 clause 7: ' …that staff are protected…'. For consistency, replace 'staff' with 'employees'.	✐Agree to amend as proposed.
17.	Khula Credit Guarantee (KCG)	GOI 3	Boards by the very nature tend to focus on strategic matters. Given the volume of approvals they need to grant, would it not be possible for operational documents such as risk management procedures and tools to be approved by operational committees such as Executive Committee.	The board of directors may delegate any of its functions. Please section 9 of GOI 2 in this regard.

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18.	Deloitte	GOI 3 2.2	Other sections of the Standard refers to providing an opinion, where this refers to "providing assurance". Should this be updated to be consistent with the remainder of the standard and comment from earlier rounds of consultation – "expressing an opinion"	✐Agree to amend to clarify that in the case of the head of the actuarial function it is "expressing an opinion".
19.	Marsh (Pty) Ltd	GOI 3 4.5	"4.5. To provide appropriate governance over the risk management system and system of internal controls, an insurer must establish and adequately resource at least the following control functions: a) a risk management function; b) a compliance function; c) an internal audit function; and d) an actuarial function". And "9.1. To provide appropriate governance over the risk management system and system of internal controls, and insurer must establish and adequately resource the control functions referred to in section 4.5 above. Control functions are a critical part of an insurer's checks and balances and must provide an independent perspective on risks and breaches of legal or regulatory requirements." The decision regarding the level of risk retention within the Captive, and selection of reinsurers, is made by the risk management	Please see paragraph 9.7 of GOI3 that provides as follows: *"An insurer may, where appropriate in light of the nature, scale and complexity of the business, risks, and legal and regulatory obligations of an insurer, outsource a control function or a head of a control function (see GOI 5 (Outsourcing by Insurers))."*

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			function of the Group. A Captive also does not have any employees and outsources all activities, either to the Group or to insurance specialists. The outsourced functions are overseen by the Captive Board and the risk management function of the Group. Since the Captive is effectively an extension of the risk management of its shareholder, and its sole purpose is to serve as a risk financing vehicle for the Group's retained risks, Captives should be allowed to apply for exemption from establishing independent risk management and compliance functions as market conduct risk is very low. Captives do not always have the resources to establish independent risk management and compliance functions and it is not always viable to outsource these functions. The Captive board oversees the risk management system and internal controls of the Captive and obtains assurance from internal and external audit.	
20.	Khula Credit Guarantee (KCG)	GOI 3 5.3	5.3(b) Given the dynamic nature of emerging risks, it might not be advisable to include them in the risk management strategy. One needs to consider the fact that the risk management strategy is board approved at least annually. Emerging risks can change from quarter to quarter; it would not be feasible to align changes to a strategy that frequently. Can the emerging risks not be managed through other tools, e.g. registers that get updated more frequently?	The risk management strategy is the overarching framework in terms of which risks should be assessed, monitored, reported and managed within an insurer. The risk management strategy is a part of the overall enterprise-wide risk management system of an insurer. The strategy only deals with concepts and not the specifics. The concept therefore is that the risk management strategy should consider emerging risks and define what would

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				constitute emerging risks. The specifics of emerging risks would as rightly stated be dealt with in the risk register.
21.	Liberty Group Limited	GOI 3 5.6.b	*"5.6 b) for each material risk (Insert:* ***type****), the maximum level of risk that the insurer is willing to operate within, expressed as a limit based on its risk appetite, risk profile and capital strength."* 5.6 b) without the word 'Type' it infers that risk appetite must be set at a lower level, i.e. for each risk. Practically risk appetite should be set at risk type level. This view is supported by 5.5 which clearly refers to quantifying the 'different types of risk' - this implies that the intention of 5.6 b) is to set the risk appetite at risk type level.	✐Agree to amend as proposed.
22.	Khula Credit Guarantee (KCG)	GOI 3 5.8	5.8 "The risk management strategy must set out processes with respect to risk appetite statement for…..". The inclusion of processes in a strategy does not seem ideal. Could these not be included in the procedures and process documents as opposed to the strategy? This takes into consideration the fact that strategies tend to have a longer time horizon.	✐Agree to amend as follows: "*The risk management strategy* ***must be supported by*** ~~*set out*~~ *processes with respect to the risk appetite statement for:*
23.	Liberty Group Limited	GOI 3 7.1	"7.1. An insurer must maintain a suite of risk management procedures and tools that enables it to (*Insert*: **identify**) assess, monitor, report on, and mitigate the material risks to which it is exposed." Insert 'identify' for completeness of risk	✐Agree to amend as proposed.

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			management procedures.	
24.	Liberty Group Limited	GOI 3 8.3.e	"8.3 e) board-approved delegations of authority (*Insert*: **and which systematically cascades throughout the organisation**, (these should also be reviewed regularly by the board of directors); " This insertion should raise the minimum insurers internal control system should provide, since DOA's just at Board/ Exco level is limited in its impact of creating a sound control environment.	Disagree. The focus of the standards are on the role of the board of directors and senior management. The requirements does not prohibit delegations to be systematically cascaded within the insurer. The wording of the section implicitly provides for this.
25.	Deloitte	GOI 3 9.2	“Independence” has a very specific & constricting meaning. Independence in this context should be defined to clarify what the specific requirements are. It would be useful to get a better understanding of adequately independent for control function (e.g. within the same firm, is there sufficient independence if one team is first line and another team is second line. Especially relevant for smaller insurers)	The board must apply its mind as to compliance with this requirement and must be able to demonstrate compliance with the requirement to the PA.
26.	Marsh (Pty) Ltd	GOI 3 10.6	“10.6. Heads of control functions must have appropriate segregation of duties from operational business line responsibilities. The board of directors must ensure that the segregation is observed”. Captives do not have any employees. Where a Captive is not exempted from establishing a risk and compliance control function, it may not always be possible to ensure segregation	The comment is noted. Depending on the decision taken by the PA a captive may be required to put in place measures to ensure segregation of duties. This can also include having the right composition of directors to provide independent and objective oversight.

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			of duties from operational business line responsibilities due to the limited resources available to the Captive, e.g. the CEO may also act as the head of risk and the head of compliance in which case there will be no segregation of duties.	
27.	Munich Re of Africa Limited	GOI 3 10.11	10.11 should be 10.10	✐Agree to correct numbering.
28.	SAIA	GOI 3 10.11	10.11 should be 10.10	✐Agree to correct numbering.
29.	Sanlam	GOI 3 10.11	The numbering skips 10.10. We suggest 10.11 is re-numbered to 10.10.	✐Agree to correct numbering.
30.	Deloitte	GOI 3 10.11	The wording of this bullet should be clarified in line with section 2.2 - "…relevant to their respective areas of responsibility". This will prevent Heads of Control Functions potentially being held responsible for contraventions falling outside their area of experience and makes it more in line with the requirement set out in Section 20 of the current Act.	✐Agree to amend as proposed.
31.	Liberty Group Limited	GOI 3 12.2	Risk Management and Internal Controls for Insurers: The Compliance Function - • The term 'compliance plan' needs to be renamed, i.e. compliance monitoring plan, because it is then very specific and therefore removes uncertainty of what kind of plan it is. A "compliance plan" is similar to a compliance strategy (see 12.7 a) as it covers more elements than just a monitoring plan.	✐Agree to amend as proposed.

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			• 12.2 a) and b) is very limited to monitoring and reporting on key legal risks. • The same in 12.7 b). What plan because it talks to "including specific annual or other short-term goals being pursued and the performance against such goals".	
32.	Liberty Group Limited	GOI 3 12.4	Refers to reporting under clause 10.6, which seems the wrong reference. Suggest 10.11. (?)	✐Agree to correct reference.
33.	Deloitte	GOI 3 14.4	In most parts of GOI 3, the actuarial function is responsible for “expressing an opinion”. From previous comment, evaluating and providing advice seems to be a deliberate wording choice. Providing advice is a very broad term, and if this is to be used, we believe it should be defined to ensure the meaning is clearly understood.	Disagree. The ordinary meaning applies.
34.	Deloitte	GOI 3 14.4.a	The regulatory capital should be consistent with the insurer’s risk profile, not with the insurer’s risk appetite and business strategy. However, we agree that the latter two items should be considered when assessing the regulatory capital. Suggested wording change: “Accurate reflection of own risk profile, taking into account the risk appetite and business strategy”	✐Agree to amend as proposed.
35.	Deloitte	GOI 3 14.4.a	Refers to the “standard formula” it should be the “standardised formula”	✐Agree to amend as proposed.

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36.	Deloitte	GOI 3 14.4.f	Clarify what is meant here – should this not be done by risk or internal audit function. How does the HAF demonstrate that he/she is happy with all internal controls at the client/first line	The head of the actuarial function has a dual role. The requirement is not for the head of the actuarial function to provide assurance, but rather to identify shortcomings and weaknesses that he / she comes across in performing his/her role. Section 14.4 does provide "where relevant".
37.	Deloitte	GOI 3 14.4.h	The reference to 'terms and conditions' is very broad. We recommend that it should rather be narrowed down to be in line with APN106 - that the HAC "should have regard to all aspects likely to materially affect the financial position of the insurer in respect of its long-term business…(a) the terms on which existing business has been, and current new business is being written…" Further from APN106: "The *Statutory Actuary* is expected to formally sign-off that all new *Products* of the *Insurer* will not have a materially adverse impact on the *Financial Soundness* of the *Insurer*. The *Act* states that a long-term insurer shall not enter into any particular kind of long-term policy unless the *Statutory Actuary* is satisfied that the premiums, benefits and other values thereof are actuarially sound; shall not make a distinction between the premiums, benefits or other values of different long-term policies unless the *Statutory Actuary* is satisfied that the distinction is actuarially justified. This should be done as and when a *Product* is developed or the rates (or benefits) are changed."	APN106 applies to the current requirements set out in section 20 of the Long-term Insurance Act, which differs from the requirements in GOI3. The requirements have been extended to not only focus on prudential matters but also to include market conduct matters. Section 20 of the Long-term Insurance Act will be repealed on the effective date of the Insurance Act.

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38.	Sanlam	GOI 3 14.4.h	Please confirm that "terms and conditions" includes premiums, benefits and all other policy charges, values and so forth.	Confirmed.
39.	Liberty Group Limited	GOI 3 Attachment 1	Section N, Clause 3: As the Long Term Insurance Act and the Short Term Insurance Act are being phased out, suggest the requirements are detailed in full in the Prudential Standards rather than being referenced to those acts.	Disagree. On the effective date of the Insurance Act, 2017 only the prudential provisions of the Long- and Short-term Insurance Acts will be repealed. The provisions dealing with conduct of business will remain. Therefore, where applicable, in the definitions (i.e. binders, commission and the like) cross references to these two Acts are necessary and appropriate.
40.	Marsh (Pty) Ltd	GOI 3.2	The operations of the Captive are highly interrelated with the operations of the Group. All activities within the Captive are outsourced, either to the Group or to insurance specialists. The outsourced functions are overseen by the Captive Board and the risk management function of the Group. A Captive should not be required to comply with this standard to the extent the Group's BCM is applicable to the Captive and to the extent the BCM of the outsourced service providers is relied upon.	The board must apply its mind as to compliance with this requirement and must be able to demonstrate compliance with the requirement to the PA. Also, insurers may apply for exemption from certain requirements of the Prudential Standards. See section 66 of the Insurance Act.
41.	Marsh (Pty) Ltd	GOI 3.3 4.6	"4.6. The level of due diligence an insurer must perform on its reinsures must perform on its reinsurers must be: Commensurate with its level of exposure to that reinsurer; Not solely dependent on third-party	Please note that the board of directors of a captive remains ultimately responsible for the insurer. This will also apply in the selection of reinsurers. The requirements do allow reliance on third-party assessment. The requirements

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			assessments such as rating agency assessments or broker analysis and recommendations; and No less though even if the counterparty is a related or interrelated party of the insurer." The level of reinsurance and reinsurers are determined and selected by a Captive's shareholder (i.e. risk management of the Group) who takes advice from its brokers-o. The conduct risk of a Captive is therefore very low. Due to the nature and purpose of a Captive, it should be allowed to rely on third-party assessments such as rating agency assessments or broker analysis and recommendations in performing the due diligence.	highlight that the insurer and in particular its board of directors must also apply its mind therefore the wording "…not solely dependent on…." in section 4.6 (b).
42.	SAIA	GOI 3.3 6.3	Paragraph 6.3 - it is suggested that section 6.3 should be enhanced to specifically address the skills and expertise of the reinsurance on the classes of business that they are offering expertise on.	✐ On section 6.3, agree to insert "skills and expertise of the reinsurance on the classes of business that they are offering…"
43.	SAIA	GOI 3.3 6.4	Paragraph 6.4 – it is suggested that the responsibility imposed on an insurer to conduct an in-depth due diligence assessment of the reinsurer that is not licensed in South Africa or deemed to be equivalent will be highly challenging as the insurer would be dependent on information held by the specific regulatory authority in these jurisdictions and may frustrate foreign regulatory authorities when there is an influx	Any jurisdiction that is not yet regarded as equivalent may apply to the PA for equivalence. The intention of section 6.4 was not for insurers to inundate other regulatory authorities with various requests for information. Some of this information is publically available i.e. FSAP reports. An insurer must apply its mind to the quality of

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			of various insurance companies seeking information. The reinsurer operating in a foreign jurisdiction would in our view not be in a position to provide the information to insurers in South Africa. It is suggested that PA should coordinate the process of establishing a list of equivalent jurisdictions.	the reinsurer with whom it does business with. The section provides guidance to insurers as to the matters that they may consider.
44.	SAIA	GOI 3.3 8.4	Section 8.4 together with Attachment 1 clause 1 states that all reinsurance contracts must have insolvency clauses clarifying that the reinsurer must continue to make full payments to an insolvent insurer without any reduction resulting solely from the insurer's insolvency. Clarity is sought on what "…resulting solely from the insurer's insolvency" means. Section 27 of the 1943 Insurance Act precluded section 156 of the Insolvency Act (insurer obliged to pay third party claim against insolvent) from applying in respect of reinsurance agreements. This exclusion was not carried through in the Short Term Insurance Act, 1998 Therefore in theory there is a statutory cut-through to reinsurers on the insolvency of a cedant, and we cannot support a requirement where a reinsurer would be required to pay the cedant without deduction or set-off. Where a cedant becomes insolvent and a reinsurer pays the cedant, then reinsurer may still be liable to make payment to a third party in terms of section 156 and therefore the reinsurer may be exposed to double payment.	Disagree, this requirement has been included to prevent a reinsurer to opt out of a reinsurance arrangement due to insurer being insolvent. That is a solvency event should not be a trigger for the reinsurer not to meet its promise to pay. In the event of an insured claiming against the reinsurer and the reinsurer has settled the claim with the insurer, the reinsurer will be able to defend itself against such a claim. Clause 2 of Attachment 1 will be amended to allow for the deduction of surplus due back to the reinsurer. This will allow for only the funds held as security for the obligations of the reinsurer being subject to this requirement.

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			With regards to paragraph 8.4 together with Attachment 1 clause 2, the SAIA is of the view that this requirement is incongruent with funds withheld arrangement. Clause 2 makes it explicit that money belonging to the reinsurer forms part of the insolvent estate "without any deduction for the surplus due back to the reinsurer". In this type of arrangement the funds belonging to the reinsurer is held "in trust" by the cedant. Therefore the money does not belong to the cedant and thus does not accrue to the insolvent estate. We require clarity on how this can be an applicable requirement. In addition, any interest on the reinsurers funds held by the cedant belongs generally to the reinsurer. In substance, the unintended consequence of this requirement is that reinsurers will in all likelihood not agree to these terms which will not achieve the results it sets out to achieve. Reinsurers will therefore be required to be on risk and pay the liabilities without receiving funds. This may result in creating systemic risk for reinsurers.	
45.	Munich Re of Africa Limited	GOI 3.3 8.4	8.4 together with Attachment 1 clause 1 states that all reinsurance contracts must have insolvency clauses clarifying that the reinsurer must continue to make full payments to an insolvent insurer without any reduction resulting solely from the insurer's insolvency.	See response directly above.

	COMMENTATOR	REF TO STANDARD	COMMENT	RESPONSE
			Clarity is sought on what "…resulting solely from the insurer's insolvency" means. Section 27 of the 1943 Insurance Act precluded s 156 of the Insolvency Act (insurer obliged to pay third party claim against insolvent) from applying in respect of reinsurance agreements. This exclusion was not carried through in the 1998 insurance acts. Therefore in theory there is a statutory cut-through to reinsurers on the insolvency of a cedant, and we cannot support a requirement where a reinsurer would be required to pay the cedant without deduction or set-off. Where a cedant becomes insolvent and a reinsurer pays the cedant, then reinsurer may still be liable to make payment to a third party in terms of s156 and therefore the reinsurer may be exposed to double payment. 8.4 together with Attachment 1 clause 2 – we have that view that this requirement is incongruent with funds withheld arrangement. Clause 2 makes it explicit that money belonging to the reinsurer forms part of the insolvent estate "without any deduction for the surplus due back to the reinsurer". In this type of arrangement the funds belonging to the reinsurer is held "in trust" by the cedant. Therefore the money does not belong to the cedant and thus does not accrue to the insolvent estate. Therefore we do not understand how this can be a	

	COMMENTATOR	REF TO STANDARD	COMMENT	RESPONSE
			requirement. In addition, any interest on the reinsurers funds held by the cedant belongs generally to the reinsurer.	
46.	Marsh (Pty) Ltd	GOI 4	"A. Head of an Insurer's Actuarial Function The Head of an insurer's actuarial function must be a natural person who: 1. Is a Fellow of the Actuarial Society of South Africa. 2. Has, as an actuary, appropriate practical experience relating to the type of insurance business of the insurer". This is a very expensive resource for a Captive to have and as such we would like to have the option to use a person who is an Associate Member of the Actuarial Society of South Africa.	Disagree. The nature, scale and complexity of the risks insured by a captive insurer together with the importance of the reinsurance arrangements within a captive requires the head of the actuarial function to be a Fellow of ASSA.
47.	SAIA	GOI 7 5	Paragraph 5 makes specific reference to life business (specifically funeral class of business, which Lloyd's is not permitted to write). This will therefore not be applicable to Lloyd's. We request that this should be clarified in GOI 7.	Disagree. Lloyd's is only authorised to conduct non-life business. The funeral class of business is provided for in the life classes of business only and can therefore not apply to Lloyd's.
48.	ASISA	GOI 7 5.2	ASISA members have the following comments on Section 5.2 of the draft Standard: This section prescribes the maximum benefit limit payable in respect of the Funeral class of life insurance business in Table 1 of Schedule 2 of the Insurance Act, to be R60	✐ Agree to increase the limit to R 100 000. The amounts relating to microinsurance business will also be increased to facilitate consistency.

	COMMENTATOR	REF TO STANDARD	COMMENT	RESPONSE
			000 escalated annually by the Consumer Price Index from the date of commencement of the Standard. Some ASISA members suggested in the previous round of comments that this amount should be higher as there is a customer need for a higher amount in some cases. The response from the FSB (now the Prudential Authority) to these comments was that funeral policies in excess of R60 000, must be underwritten under the life risk class of business. However the proposed Rule 2A product standards in the Policyholder Protection Rules (PPR) effectively disallow this, specifically the limitations on advertising. ASISA has commented on Rule 2A to the effect that the product standards should only apply to mircoinsurance policies and that there should be a separate set of product standards for funeral policies, as appropriate and where necessary, to address market conduct concerns. It is not mentioned on what basis the R60 000 limit must be applied but the intention as per the published National Treasury policy document titled "The South African Microinsurance Regulatory Framework" was that the R60 000 limit should apply on a policy level per life insured and it is requested that this detail is added to section 5.2.	
49.	SAIA	GOI 7 9.2	Paragraph 9 - it is proposed that this standard be expanded to specifically include	Disagree. Paragraph 9.1 is wide enough to cover " redemption" of shares.

	COMMENTATOR	REF TO STANDARD	COMMENT	RESPONSE
			redemption (change) of shares as both the issuance of shares and the redemption of shares form part of a cell captive insurer's ordinary business activities.	
50.	Tracker Connect (Pty) Limited	GOI 7 9.5	It is submitted that the draft prudential standards be amended to allow a non-life insurer to return any portion of i) the operating profits (gross premiums net of reinsurance, operating expenses and net claims) of the non-life insurer to policyholders as a policy benefit or rider benefit; ii) to pay no claims bonuses or loyalty benefits, as a policy benefit or a rider benefit. On the current proposed wording of paragraph 9.5 of GOI 7, the rider benefits are limited to classes or sub-classes of non-life insurance business as referred to in Table 2 of Schedule 2. Considering the various classes of non-life insurance, none of the classes or sub-classes can be applied to provide for the distribution of operating profits, no claims bonuses or loyalty bonuses. We further propose that the 20% limit does not apply in respect of benefits based on a return of operating profit, or payment of no claims bonuses. Limiting distribution of profits to policyholders to 20% will undermine the purpose of such payments without any benefit to policyholders or underwriters. Allowing such additional benefits to be provided as policy benefits will be in line with the objectives of the Insurance Act as set out in section 3 to the Act.	✐Agree to correct numbering. Disagree, the features referred to in the comment are product features that are not prohibited. Rider benefits allows for an insurer to underwrite a class of business without having to be licenced for that class provided that that the insurance obligation relating to that class is ancillary to the primary insurance obligations assumed under a policy.

	COMMENTATOR	REF TO STANDARD	COMMENT	RESPONSE
			Paragraph 9.5 should be 8.3.	
51.	SAIA	GOI 7 11.4	11.4 should be 10.4, and the words “In addition to 11.3…” should be changed to read “In addition to 10.3….”	✐Agree to correct numbering and reference.
52.	Munich Re of Africa Limited	GOI 7 11.4	11.4 should be 10.4, and the words “In addition to 11.3…” should be changed to read “In addition to 10.3….”	✐Agree to correct numbering and reference.
53.	Sanlam	GOI 7 11.4	Par 10 numbering. Para. 11.4 to be renumbered to 10.4. Reference to para 11.3 should be changed to para 10.3.	✐Agree to correct numbering and reference.
54.	Direct Marketing Association of South Africa (“**DMASA**”)	GOM 11	Maximum amounts for certain types of Insurance Business. Whilst we understand and appreciate that based on the prudential requirements, there must be some limit in terms of the benefits, we would like to highlight that especially in the personal lines space, the “emerging market” may have assets that exceed R120 000. There is an example of an insurer who currently provides homeowners cover for the lower end market and generally we find that the properties being covered for this purpose are between R150 000 and R300 000. The product itself would meet the micro insurance requirements based on the approach that they follow in terms of limited underwriting questions and simple processes (in terms of the application and claims). The issue is not whether this underwriter	✐ Agree to increase the limit to R 300 000.

	COMMENTATOR	REF TO STANDARD	COMMENT	RESPONSE
			would be able to offer the product (as they currently do) but rather that there should be more of this type of cover in the market for the “emerging market”. However, with the limitations of cover of R120 000 for personal lines, micro insurers would not be able to offer their clients the cover that they would require. Therefore, consideration should potentially be given to approval of higher level of benefits of cover by the authority based on their ability to mitigate or cover associated risk. This will ensure that there is more competition in this space and that customers have options in terms of acquiring this type of cover. This is using one product example where the limits would potentially prevent micro insurers from offering competitive and relevant products and we are sure there could be a lot more examples in this space.	
55.	Deloitte	GOL, GOB, GOM, GOG	Wording needs to align with wording & clarifications that have been made to the GOIs.	Agree.
56.	SAIA	GOB	Control functions and heads of control functions are not “responsible” for the insurance business. We suggest that the word “responsible” be deleted at 2.3, 4.4 c, 6.2 d, 7.4, 7.5 and 7.6. Attachment 1 - control functions and heads of control functions are not “responsible” for the insurance business. It is suggested that the word “responsible” be deleted at 2.2 and 4.1f.	✎ Agree to amend as proposed, where relating to control functions.

	COMMENTATOR	REF TO STANDARD	COMMENT	RESPONSE
			Attachment 2 - 7.10 should be 7.9. Furthermore, control functions and heads of control functions are not "responsible" for the insurance business. It is suggested that the word "responsible" be deleted at 6.2, 6.3, 6.4, 7.1, 7.2, 7.3, 7.4, 7.5, 8.1, 9.1, 9.2, 10.3, 11.1, 11.2 and 11.4. It is also suggested that the inclusion of the internal audit function as a control function should be reconsidered considering the independent nature of the function. Annexure 2.1 - control functions and heads of control functions are not "responsible" for the insurance business. It is suggested that the word "responsible" be deleted at 2.3. Attachment 3 - control functions and heads of control functions are not "responsible" for the insurance business. It is suggested that the word "responsible" be deleted at 1.1, 1.3, 1.4 and 5.4.	
57.	Munich Re of Africa Limited	GOB	Control functions and heads of control functions are not "responsible" for the insurance business. We suggest that the word "responsible" be deleted at 2.3, 4.4 c, 6.2 d, 7.4, 7.5, 7.6 (highlighted in attached document)	✐ Agree to amend as proposed, save for 6.2 d) that should refer to responsible as it refer to the governance structures and not control functions, and 7.6 as there is no such paragraph.
58.	Munich Re of Africa Limited	GOB Annexure 2.1	Control functions and heads of control functions are not "responsible" for the insurance business. We suggest that the word "responsible" be deleted at 2.3 (highlighted in attached document)	✐ Agree to amend as proposed.

	COMMENTATOR	REF TO STANDARD	COMMENT	RESPONSE
59.	Munich Re of Africa Limited	GOB Attachment 1	Control functions and heads of control functions are not "responsible" for the insurance business. We suggest that the word "responsible" be deleted at 2.2, 4.1 f (highlighted in attached document)	✏ Agree to amend as proposed.
60.	Munich Re of Africa Limited	GOB Attachment 2	7.10 should be 7.9	✏Agree to correct numbering.
61.	Munich Re of Africa Limited	GOB Attachment 2	Control functions and heads of control functions are not "responsible" for the insurance business. We suggest that the word "responsible" be deleted at 6.2, 6.3, 6.4, 7.1, 7.2, 7.3, 7.4, 7.5, 8.1, 9.1, 9.2, 10.3, 11.1, 11.2, 11.4 (highlighted in attached document)	✏ Agree to amend as proposed.
62.	Munich Re of Africa Limited	GOB Attachment 2, 6.8	The internal audit function needs to be excluded. It cannot be combined with other control functions due to the lines of defence and the independence for the internal audit function.	✏ Agree to amend as proposed.
63.	Munich Re of Africa Limited	GOB Attachment 3	Control functions and heads of control functions are not "responsible" for the insurance business. We suggest that the word "responsible" be deleted at 1.1, 1.3, 1.4, 5.4 (highlighted in attached document)	✏Agree to amend as proposed.

3.2 Financial Soundness Standards

NR	COMMENTATOR	REF TO STANDARD	COMMENT	RESPONSE
1.	Munich Re of Africa Limited	FSB 1	Paragraph 6.1 states that “branches must hold trust assets, valued in accordance with FSB 2 (Valuation of, and limitations on, assets held as security by Branches), equal to the value of its technical provisions less the value of premium debtors.” However, paragraph 5.3 “a branch must ensure, within the timeframe provided in section 6.4 below, that the value of the assets held in the trust are at least equal to the value of its technical provisions.” Paragraph 6.4 then states that “branches must adjust, within 45 days, trust assets so that the value of trust assets is at least equal to the value of technical provisions calculated as at the relevant date as outlined in section 5.3 above”. Clarity is sought whether the value of the assets in trust should equal the value of the technical provisions only, or the value of the technical provisions less the value of premium debtors.	✐ Agree to amend as follows: ***“…value of the technical provisions less the value of premium debtors…”***
2.	South African Insurance Association (SAIA)	FSB 1	Paragraph 6.1 states that “branches must hold trust assets, valued in accordance with FSB 2 (Valuation of, and limitations on, assets held as security by Branches), equal to the value of its technical provisions less the value of premium debtors.” However, paragraph 5.3 “a branch must ensure, within the timeframe provided in	See comment directly above.

NR	COMMENTATOR	REF TO STANDARD	COMMENT	RESPONSE
			section 6.4 below, that the value of the assets held in the trust are at least equal to the value of its technical provisions." Paragraph 6.4 then states that "branches must adjust, within 45 days, trust assets so that the value of trust assets is at least equal to the value of technical provisions calculated as at the relevant date as outlined in section 5.3 above". Clarity is sought whether the value of the assets in trust should equal the value of the technical provisions only, or the value of the technical provisions less the value of premium debtors.	
3.	South African Insurance Association (SAIA)	FSB 2	Paragraph 5.1 lists a number of asset classes to be held in trust which are eligible to meet financial soundness requirements for branches of foreign reinsurers. In addition, paragraph 5.2 states that any deviation from the asset classes stated in 5.1 needs special approval by the Prudential Authority (PA). It is understood that a branch of a foreign reinsurer will be allowed to write business outside South Africa; i.e. business on a Non-South African Rand-basis. If this business is not backed by assets in the respective currency, the branch would incur a currency asset-liability mismatch risk, which we do not consider as appropriate. Thus, we argue that foreign assets should be specified as eligible in paragraph 5.1 to cover foreign technical provisions. We understand that certain specifications for these foreign assets need to	See comment 4 below.

NR	COMMENTATOR	REF TO STANDARD	COMMENT	RESPONSE
			be documented in paragraph 5.1; e.g. that for government bonds the issuing government must provide at least comparable security and standards to South Africa. Therefore it might seem practical to limit eligible foreign assets to certain currencies (e.g. US Dollar). Paragraph 5.2 in this case could remain unchanged providing an option to further increase the eligible asset universe on a special permission basis.	
4.	Munich Re of Africa Limited	FSB 2 section 5.1 and 5.2	FSB 2 paragraph 5.1 lists a number of asset classes to be held in trust which are eligible to meet financial soundness requirements for branches of foreign reinsurers. In addition, paragraph 5.2 states that any deviation from the asset classes stated in 5.1 needs special approval by the prudential authority. It is understood that a branch of a foreign reinsurer will be allowed to write business outside South Africa; i.e. business on a Non-South African Rand-basis. If this business is not backed by assets in the respective currency, the branch would incur a currency asset-liability mismatch risk, which we do not consider as appropriate. Thus, we argue that foreign assets should be specified as eligible in paragraph 5.1 to cover foreign technical provisions. We understand that certain specifications for these foreign assets need to be documented in paragraph 5.1; e.g. that for government bonds the issuing government must provide at least comparable security and standards to South Africa. Therefore it	Comment noted. The deviation allowed on approval in section 5.2 was included to provide for a special dispensation on a case-by-case basis as circumstances may require, e.g. foreign assets to back foreign denominated liabilities.

NR	COMMENTATOR	REF TO STANDARD	COMMENT	RESPONSE
			might seem practical to limit eligible foreign assets to certain currencies (e.g. US Dollar). Paragraph 5.2 in this case could remain unchanged providing an option to further increase the eligible asset universe on a special permission basis.	
5.	Allan Gray	FSG 1 Attachment 1	Insofar as the definition of 'participations' is concerned, please consider and ensure that this definition doesn't unnecessarily confuse matters via a viz the definition of 'significant owner' in the Insurance Act (which is the same definition as in the FSR Act) i.e. whilst the example given in the definition doesn't seem to do that, the rest of it could e.g. "over which it exerts significant influence/control". We propose that the definition of "significant owners" is used as opposed to something different and thus potentially causing confusion practically going forward.	Disagree. The definition of "significant owner" applies to financial institutions only. Participations are defined in a different context in this Standards.
6.	Allan Gray	FSG 1 section 1.4b	The words *"or to be*" must be included after "*licensed*" in 1.4 (b). Section 10(2) of the Insurance Act provides for a controlling company to become licensed, whereas 1.4 seems to read that such controlling company should (already) be licensed.	Disagree. The Standard describes which company will be the controlling company of an insurance group and the section still applies in the case where such an insurer may still be in process of acquiring its licence.
7.	Allan Gray	FSG 1 section 2.5	Clause 2.5 of FSG1 provides that the board of the controlling company must obtain the PA's approval *"before effecting any capital reduction at the controlling company level (other than through normal dividend payments)."* This clause rightly references	Disagree. The PA must be informed of any capital reductions. The payment of dividends is the only instance where a capital reduction occurs on a frequent basis, which supports the general exemption.

NR	COMMENTATOR	REF TO STANDARD	COMMENT	RESPONSE
			section 38 of the Insurance Act. Section 38(2) of the Insurance Act provides that the PA may prescribe the circumstances in which approval under section 38(1) is <u>not</u> required. Although clause 2.5 of FSG1 provides (only) one such circumstance (i.e. where a capital reduction is effected through normal dividend payments), we propose that additional circumstances should be provided in FSG1 and/or that the principle of materiality should be included for when PA approval is required. By way of example and with reference to clause 1.2 to 1.8 of FSG1 which provide for the issue of which entities can or are to be included as part of an 'insurance group" pursuant to section 10 of the Insurance Act, those clauses cover the issue of materiality, which we generally support. We propose that the same type of materiality principle should be introduced in regard to clause 2.5 e.g. for corporate actions which could reduce the number of shares in issue e.g. a share buy-back of not more than 2% (in value) of the controlling company's issued share capital. This is not to suggest that the protections contained in the Companies Act would not apply when it comes to a share-buy-back – they would.	
8.	Discovery Limited	FSG 2 Attachment 1	It is understood that any approval granted by the Prudential Authority to apply for an alternative method for insurance participations in non-equivalent jurisdictions will not be permanent, and will require a transitional plan to eventually satisfy full	Comment noted. All relevant facts and case specific details will be considered on a case-by-case basis when an insurance group applies for an alternative method.

NR	COMMENTATOR	REF TO STANDARD	COMMENT	RESPONSE
			compliance of Attachment 1 Section 2. In certain circumstances it may be excessively onerous for an insurance group to recalculate an insurance participation in a non-equivalent jurisdiction's solvency position under SAM, particularly where the insurance group is a minority shareholder of the entity. It is suggested that some materiality principle apply to govern whether a full transition to SAM is necessary, and if an alternative method can be adopted permanently while the materiality threshold is not breached.	
9.	Discovery Limited	FSG 2 section 5.13	It is understood that tiering should be applied at solo level (after steps 1 to 3) and again at group level based on the aggregate group Own Funds and SCR. This ensures that only Own Funds eligible at solo level are included in the group Own Funds, and that tiering is applied again to arrive at the group Eligible Own Funds. It is further understood that the wording is intended to allow the tiering limits to be applied at the controlling company level based on the aggregate contribution of the participations within the group. This would allow a controlling company which is not an insurer licensed by the Prudential Authority to use other forms of capital (e.g. Tier 2 subordinated debt issued by the controlling company) with tiering limits relating to the Group SCR and not the solo view of the controlling company.	Disagree. Section 5.13 clearly provides that the tiering on solo entity level is not used for calculating group eligible own funds. It is used for informational purposes only. Tier 2 own funds in the controlling company might be deemed ineligible on the solo entity level, but it will still be considered in full for eligibility at the group level.

NR	COMMENTATOR	REF TO STANDARD	COMMENT	RESPONSE
			However, the wording (specifically the table in paragraph 5.13) may be interpreted such that the eligibility limits (as specified in Section 9 of FSI 2.3) are applied to this type of entity and then aggregated to the group level. This may effectively result in the entity not being able to recognise other forms of capital (e.g. Tier 2 subordinated debt issued by the controlling company) in group Eligible Own Funds as the solo entity level Tier 2 capacity for this entity is likely to be very small in the context of the group. For example, an entity like this may have solo Own Funds of less than zero after Step 1 to 3 in FSG 2. Therefore, the SCR is nil and the solo Tier 2 capacity is nil. Suggested wording changes (Amend Paragraph 5.13 and table):: 5.13. The insurance group must determine solo Eligible Own Funds ~~(although not used in calculating group Eligible Own Funds)~~ for each entity within the insurance group in order to assess the quality of capital at a solo level after performing Steps 1 to 3. The solo level eligibility limits related to tiering that apply for different types of entities within the insurance group are set out in the table below. Type of Entity | Eligibility limits related to tiering Controlling company which | No tiering is applied on a solo basis. Tiering	

NR	COMMENTATOR	REF TO STANDARD	COMMENT	RESPONSE
			<table><tr><td>is not an insurer licensed by the Prudential Authority</td><td>should be applied on the available group Own Funds in aggregate (per paragraph 5.11). Eligibility limits as specified in Section 9 of FSI 2.3 (Determination of Eligible Own Funds)</td></tr></table>	
10.	Old Mutual	FSG 2 section 5.6 and 5.7	**Method for calculation of Group Eligible Own Funds** This section states that insurance groups must consider the fungibility and transferability of all own funds recognised at solo level before including these in group own funds. We propose that, instead of assessing each entity at a solo level, we assess them as a "sub-group" per non-fungible country. This is more in line with capital management practices, whereby excess assets are often held in the top level holding company within a particular country. These assets are available to support other entities in the same country while still achieving the country-level fungibility constraints.	Disagree. Fungibility is a principle that must be adhered to. However the Standard allows flexibility in respect of how this should be assessed or applied. Instead, the insurer and head of actuarial function are expected to consider the level of fungibility for excess assets and its use on a group level. The principle does not prohibit the suggested practice, although the PA may request evidence of the fungibility assumed.
11.	Discovery Limited	FSG 2 section 5.6, 5.7	It is noted that the concept of transferability of Own Funds is dependent on the composition of assets making up the Own Funds (i.e. whether the assets can be realised and transferred or not). Further, since the concept of Own Funds is defined as the excess of assets over liabilities, the reference to "Own Funds" does not uniquely define the assets making up the Own Funds. Therefore, it is	Agree that the controlling company must be able to justify the level of transferability when so requested by the PA. Disagree that the proposed wording is needed. The need for further clarity will be considered as part of SAM Phase II.

NR	COMMENTATOR	REF TO STANDARD	COMMENT	RESPONSE
			suggested that FSG 2 be clearer on any required hypothecation of assets to liabilities, SCR and Own Funds in excess of SCR in order to assess transferability. Solo Own Funds can only be considered transferable across the group if there are underlying assets that can be physically realised and transferred. Suggested wording (Amend Paragraph 5.6b): b) Transferability refers to the ability of one entity within the insurance group to transfer assets to another entity within the insurance group. <u>Insurance groups must be able to identify the assets making up the Own Funds and demonstrate why they are considered transferable between entities within the insurance group.</u>	
12.	Liberty Group Limited	FSI 1	In this and any of the March 2018 draft standards, references to "head of actuarial control" have been changed to "head of actuarial function". This is inconsistent with the wording as given in the promulgated Act. We recommend that this inconsistency be removed, by either amending the Act, or reverting to the original wording in order to align with the Act.	The terminology is informed by the definition of control function in the Financial Sector Regulation Act, 2017.
13.	Liberty Group Limited	FSI 1	Definition of 'ceded reinsurance'. Suggest this term be replaced with 'ceded insurance' to align with previous definitions of insurance vs reinsurance as per clause 1.2.	Comment noted. The word reinsurance in this context is warranted.
14.	Liberty Group Limited	FSI 1	Definition of 'credit institution': add a comma after ' National Credit Act, 2005'.	✎ Agree to amend as proposed.

NR	COMMENTATOR	REF TO STANDARD	COMMENT	RESPONSE
15.	Liberty Group Limited	FSI 1	Definition of 'facultative reinsurance': Suggest the definition is expanded as follows: 'A reinsurance arrangement involving the reinsurance of the exposures covered by a single policy *or a defined group of policies*, or sometimes only specific portions of a policy *where the ceding insurer is not compelled to submit these risks to the reinsurer, but neither is the reinsurer compelled to provide reinsurance.*	✎ Partly agree to amend by including *"… or a defined group of policies"* as proposed.
16.	Liberty Group Limited	FSI 1	Definition of 'illiquidity premium': replace 'premium' with 'amount'.	Disagree. It is basis points that are added; not an amount.
17.	Old Mutual	FSI 1 page 12	**Foreseeable dividends** Please can you provide more guidance in terms of the practical application of foreseeable dividends?	The need for guidance will be considered as part of SAM Phase II.
18.	Liberty Group Limited	FSI 2	Clause 4.5: delete repetition from clause 4.4 ' Where certain assets and liabilities valued under IFRS do not result in an economic valuation, insurers may still choose to adopt the IFRS valuation unless otherwise specified by the Prudential Authority or in the Financial Soundness Standards for Insurers.'	✎ Agree to amend as proposed.
19.	Old Mutual	FSI 2.1	Participations that are cell captives Currently, FSI 2.1 5.4(a) does not make any reference as to how to account for the basic own funds attributable to participations that are cell captives. We think that only the basic own funds attributable to the promoter cell should be included in the participation value as that is what belongs to the insurer and is	The Standards clearly set out how the own funds and SCR for cell captive insurers must be calculated. The value of a cell captive insurer's participations should be the basic own funds that is consistent with the eligible own funds calculated for the cell captive insurer. Therefore, the value of the participative cell captive insurer should be

NR	COMMENTATOR	REF TO STANDARD	COMMENT	RESPONSE
			accessible. Will you please confirm that this is the correct treatment of participations that are cell captives? If so, will you please add a specific comment on cell captives?	equal to the SAM numbers reported by that cell captive insurer on a solo basis (with the necessary adjustments as required).
20.	Sanlam	FSI 2.1	Please clarify transitional arrangements. For example, how will existing approvals under section 34 of the Long Term Insurance Act for encumbered assets be handled.	All approvals granted under the Long-term or Short-term Insurance Acts will remain in place until an insurer's registration has been converted to a licence under the Insurance Act. During the conversion process these approvals will be reconsidered.
21.	Southern African Venture Capital and Private Equity Association	FSI 2.1	Paragraph 4.5(b) and (g) of draft Prudential Standard FSI2.1 (and footnote 4 with reference to paragraph g ("**the footnote**")) potentially impacts on private equity investments. In particular the footnote to paragraph g states as follows: "For example, an en commandite partnership in which assets are invested, but the asset may only be accessed (as per the terms of the partnership agreement) if the partnership makes a profit." It is unclear why an investment through an en commandite partnership is singled out in the footnote. This creates the impression that any private equity investments through en commandite partnerships result in an encumbrance of the assets of an insurer, with the resultant consequences as set out in draft Prudential Standard FSI 2.3. The effect of the insertion of the above-mentioned footnote, and the specific reference to an en commandite partnership creates significant	Investments in "en commandite partnerships" are not prohibited. The reference to "en commandite" partnerships where included as an example where such arrangements includes limits/conditions that must be met before the insurer has the ability to sell-out its share in the partnership.

NR	COMMENTATOR	REF TO STANDARD	COMMENT	RESPONSE
			uncertainty regarding investments in private equity transaction through en commandite partnerships. Furthermore, the footnote is not only unclear, taking the legal structure and consequences of en commandite partnerships into account, and may also incorrectly and adversely impact an insurer's decision to invest through private equity structures. Alternative structures may not have similar administrative and tax benefits as is the case with en commandite partnerships to the detriment of insurers and its policyholders who wish to gain access to private equity instruments for purposes of its asset exposure. The correct legal construct on an investment in a private equity vehicle through an en commandite partnership is as follows: • The asset of the insurer is a partnership interest (and not an ownership or other interest in the underlying assets), which partnership interest constitutes a personal right against the en commandite partnership, subject to the insurer's limited interests pursuant to its capital commitment to the en commandite partnership. • The insurer therefore holds no direct or indirect interest in or to the underlying assets in which the en commandite partnership invests and such interest and/or ownership rights belong to the en commandite partnership.	

NR	COMMENTATOR	REF TO STANDARD	COMMENT	RESPONSE
			• The underlying assets of the en commandite partnership can never be accessed by the insurer as its right remains a personal right in the form of a partnership interest against the en commandite partnership, which gives the insurer access to certain returns when the underlying investments pay interest or dividends to the en commandite partnership and when the en commandite partnership realises its assets (the investment in private companies). The statement in the footnote is therefore legally incorrect since - • the assets of the en commandite partnership can never be accessed by the insurer; and • the profitability of the en commandite partnership is irrelevant since the insurer would only receive returns on the investment (through its partnership interest) as and when a distribution is made or when the assets are realised. Furthermore, any private equity transactions will in future, upon implementation of draft Prudential Standard FSI 2.1, first have to be approved by the Prudential Authority for purposes of the solvency calculation of an insurer and will be considered on a case by case basis, which will significant hinder private equity transactions and will increase administrative burdens, costs and timing involved in procuring such approvals.	

NR	COMMENTATOR	REF TO STANDARD	COMMENT	RESPONSE

			In summary, SAVCA request the Prudential Authority to -
			• clarify the concerns it has with private equity transactions through en commandite partnerships and why en commandite partnerships are singled out with reference to item (g);
			• consider removing footnote 4 and/or the reference to en commandite partnerships; and
			• to consider allowing for approval of certain private equity structures through en commandite partnerships if such structures meet certain requirements such as -
			    • the involvement of a financial services provider; and/or
			    • if the investment does not exceed certain prescribed limits; and/or
			    • if the investment complies with certain requirements which may address liquidity risks previously raised by the Prudential Authority.
			The above suggestion would have the effect of giving certainty in respect of private equity investments through en commandite partnerships and would eliminate arbitrage regarding investments through alternative structures which may result in similar considerations but which are not listed in the draft Prudential Standard FSI 2.1.	

NR	COMMENTATOR	REF TO STANDARD	COMMENT	RESPONSE
			Additionally, SAVCA is of the view that this limitation on insurers create regulatory arbitrage since pension funds are allowed to invest in private equity structures (subject to certain limitations) which do not apply equally to insurers who on a regular basis enter into fund linked policies with such pension funds for the management of such assets. The detailed comments of SAVCA are set out in **Annexure A** and gives context to the comments raised herein and must be considered as a whole.	
22.	Old Mutual	FSI 2.1 , FSI 2.3 and FSG 2	**The treatment of insurance participations appears to be inconsistent between the Individual and Group Prudential Standards.** FSI 2.1 5.4(a) states that for insurance participations licenced by the Prudential Authority Own Funds should be calculated as Basic OF as defined by the Prudential Standards. However FSG 2 page 4 states that the Own Funds of a South African Insurer licenced by the Prudential Authority should be calculated based on the Solo Own funds as determined under FSI 2.3 (i.e. Eligible OF). This results in an inconsistency between the contribution of participations to own funds on a solo versus a group level. Please can you confirm that this is correct and if so, why it is considered appropriate?	The difference in treatment is to reflect the difference between solo supervision and group supervision. On a solo supervision basis, the PA is particularly concerned with the value that a participation can be sold for, whilst on a group supervision basis, the focus is on the availability of own funds to cover the capital requirements for each participation. Group supervision is applied over and above solo supervision and does not attempt to replicate or replace the solo supervision requirements.
23.	Discovery Limited	FSI 2.1 section 4.5	Paragraph 4.5 subsection e, makes provision for the treatment of “financial leases” as	✐Agree to amend as proposed.

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			currently defined under IAS 17. IFRS 16: Lease, is due to replace IAS 17 and becomes effective 1 January 2019. In IFRS 16 the concept of a “financial lease” falls away, with all leases longer than 1 year accounted for by raising a right of use asset and lease liability (i.e. similar to how a financial lease was treated under IAS 17). Therefore, the wording in the Prudential Standard needs to be amended to cater for the new accounting standard. Currently, paragraph 4.5 requires prior PA approval before entering a financial lease. Thereafter, the asset underlying a financial lease can be included in Own Funds as an encumbered asset (i.e. recognised to the extent it backs a financial lease liability). In our view this principle is appropriate. Under the new accounting standard, the criteria to classify as a financial lease falls away. Therefore, the Prudential Standard can no longer rely on the definition in the accounting standard. Under IFRS 16 the asset underlying the lease may be tangible or intangible. In our view the treatment in the Own Funds should differentiate between whether the asset underlying the lease is tangible or not (i.e. intangible assets cannot be included in Own Funds). Suggested wording changes (Paragraph 4.5 subsection e)	

NR	COMMENTATOR	REF TO STANDARD	COMMENT	RESPONSE
			~~Finance~~ Leases: Right of use assets which are held by an insurer under a ~~financial~~ lease agreement should be evaluated on a look-through basis to assess the nature of the assets underlying the lease. Where the assets underlying a lease do not meet the IFRS definition of an intangible asset, the right of use asset for the lease may be regarded as encumbered as the insurer cannot dispose of the underlying assets until title is transferred to the insurer. Where the assets underlying a lease meet the IFRS definition of an intangible asset, the right of use asset for the lease should be treated in line with FSI2.1 paragraph 5.1;	
24.	Attorneys Indemnity Insurance Fund (NPC)	FSI 2.1 Section 5.4	In the event that participations are not listed and therefore the adjusted net equity method is used to value the participations and a negative value results, would it be appropriate to set the value to a floor of zero since the negative value is not likely to represent the economic value of the UMA participation?	See comment 25 below.
25.	HDI Global SA Limited	FSI 2.1 Section 5.4	In the event that participations are not listed and therefore the adjusted net equity method is used to value the participations and a negative value results, would it be appropriate to set the value to a floor of zero since the negative value is not likely to represent the economic value of the UMA participation?	The adjusted net equity method produces a value that is deemed a more reasonable economic value in the absence of a quoted market value and, where this is negative it must reflect as negative and reduce the basic own funds.

NR	COMMENTATOR	REF TO STANDARD	COMMENT	RESPONSE
26.	Old Mutual	FSI 2.1, FSI 4 and FSG	**Insurance participations in equivalent foreign jurisdictions** The FSG's allow insurance participations in equivalent foreign jurisdictions to be brought in at their local regulatory requirements (both own funds and SCR), however, the FSI's (FSI 2.1 paragraph 5.4 and FSI 4 paragraph 4.11) seem to require a different treatment on a solo basis, i.e. that the participation is valued at IFRS net asset value (adjusted for goodwill and intangibles) and shocked as per the relevant equity price risk shock. This method seems to overstate the own funds (as it ignores the fact that the capital resources calculated per IFRS are needed to cover capital requirements in that foreign jurisdiction) and calculates an inappropriate capital requirement on a solo basis (i.e. assumes that the risk to the insurer is only based on the net asset value of the company rather than the underlying risks of the foreign insurer as calculated by their local regulatory capital requirements). Should the value placed on an insurance participation (in an equivalent foreign jurisdiction) when calculating the solo own funds of an insurer not rather be the regulatory assets in excess of the regulatory requirements, which is consistent with the treatment of participations in the current SVM methodology?	✐ Agree to amend section 5.4 of FSI 2.1 to apply to insurance participations in equivalent jurisdictions.
27.	Attorneys Indemnity Insurance Fund (NPC)	FSI 2.2	Is the IFRS value for UPP allowable (as a more prudential approach) if there is insufficient data to allow for the SAM approach to valuing UPP?	See comment 5 above.

NR	COMMENTATOR	REF TO STANDARD	COMMENT	RESPONSE
28.	HDI Global SA Limited	FSI 2.2	Is the IFRS value for UPP allowable (as a more prudential approach) if there is insufficient data to allow for the SAM approach to valuing UPP?	In general, simplifications are permissible allowing for the principle of proportionality.
29.	Old Mutual	FSI 2.2 section 8.1	**Regulatory Deductions** This section states that regulatory deductions should not be taken into account in the SCR calculation. Our understanding of this is that the SCR should be calculated based on Eligible Own Funds and not Basic Own Funds. Will you please confirm our understanding?	[reference should possibly be to FSI 2.3] The SCR must be based on the change in basic own funds, where basic own funds is reduced by the items discussed in section 8 of FSI 2.3. The phrase in section 8.1 clarifies that basic own funds items that are deducted need not be considered in the SCR shocks such that no SCR is generated for an asset that does not contribute to the own funds of the insurer.
30.	GIC Re South Africa Ltd	FSI 2.2 Attachment 3 B.3 Amendments to FS 2.5	The new amendment (Formal Version 1) related to Locally Registered Professional Reinsurers states that – “Counterparties that are locally registered professional reinsurers may be assigned a credit rating that disregards the effect of any sovereign cap applied for South Africa. Alternatively, if the counterparty has a parental guarantee in place that is legally enforceable in the parent’s jurisdiction located in jurisdictions on the Prudential Authority’s equivalence list, the parent’s rating may be used instead”. Above change is justified by the clarification that – “use of a parental guarantee requires the parent to be in an equivalent jurisdiction”. We request the Prudential Authority to either exempt GIC Re South Africa from above	Comment noted. An insurer/reinsurer may apply for exemption to facilitate the progressive realisation of any requirements of the Insurance Act or the Prudential Standards. The responsible supervisor should be approached.

NR	COMMENTATOR	REF TO STANDARD	COMMENT	RESPONSE
			amendment or not to enact this amendment, as the same will have major impact on our operations.	
31.	HDI Global SA Limited	FSI 2.2 Section 14	Relating to the CAT in the reference insurer, we agree in principle that the Risk Margin calculations required in the Technical Provisions require allowance for an adverse claims development loading as a catastrophic claim could originate out of the IBNR or the UPP provisions (we assume the IBNER element in the Outstanding Claims to not require specific consideration for catastrophes) However, wouldn't allowance for catastrophes in the TP's (risk margin) not simply reflect an allocation of the total Catastrophe Risk already provided for, resulting in a net overall impact of zero? Or is the view that there is additional catastrophe risk residing in the run-off that is not allowed for in the Cat Risk Module? If so, we would appreciate some clarification.	The risk margin is based on the cost of capital principle and aims to add to the best estimate liability the cost to a reference insurer for holding the capital requirement that includes the capital required for catastrophe risk and not intending to duplicate or offset allowance for catastrophe risk in the technical provisions.
32.	Attorneys Indemnity Insurance Fund (NPC)	FSI 2.2 Section 14.3	More clarity is requested on what specifically constitutes "unavoidable market risk"	See comment 9 above.
33.	HDI Global SA Limited	FSI 2.2 Section 14.3	More clarity is requested on what specifically constitutes "unavoidable market risk"	The intention of the term "unavoidable market risk" is to incorporate the possibility that the reference insurer may avoid market risk rather than accept it as the original insurer did. Any risk that a reference insurer would be able to avoid by either changing

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				investment strategies or using hedging strategies could be considered for inclusion as an avoidable market risk. See section 14.10 of FSI 2.2 and Chapter 3 of the Guidance Note on FSI 2.2.
34.	Sanlam	FSI 2.2 section 2.2	The first sentence refers to "expressing an opinion" which is consistent with GOI 3. The second sentence refers to "providing this assurance". It is suggested that "assurance" is replaced with "opinion" to be consistent with the first sentence and with GOI 3.	✎ Agree to amend as proposed.
35.	Liberty Group Limited	FSI 2.3	Clause 4.1: remove the words ' the capital requirements under' as superfluous. Clause should read: 'Eligible own funds refers to those capital resources that are deemed eligible to cover the Solvency Capital Requirement (SCR) and Minimum Capital Requirement (MCR).	✎ Agree to amend as proposed.
36.	Liberty Group Limited	FSI 2.3	Clause 8.12: replace 'Error! Reference source not found' with 8.11.	✎ Agree to correct the error.
37.	Liberty Group Limited	FSI 2.3	Clause 8.13: amend to read ' In respect of assets backing non-linked liabilities, any cash balances and short-term deposits in excess of 15% of ~~the non-linked~~ these backing assets ~~of an insurer~~, which are held at a bank that is part of the same financial conglomerate as the insurer, must be fully deducted from basic own funds. (If an insurer has largely linked assets, the original clause would end up treating almost the whole balance as inadmissible. We	Comment noted. In our opinion the concept of non-linked assets in this context is clear.

NR	COMMENTATOR	REF TO STANDARD	COMMENT	RESPONSE
			assume this restriction is not intended to apply to assets backing linked business.)	
38.	Liberty Group Limited	FSI 2.3	Footnote 6: replace reference to Section 4.4 of FSI 2.1 to Section 4.5 of FSI 2.1.	✎ Agree to correct reference.
39.	Liberty Group Limited	FSI 2.3	Attachment 2, clause 9: replace 'could undermine that characteristics and features' with 'could undermine the characteristics and features'.	✎ Agree to amend as proposed.
40.	Attorneys Indemnity Insurance Fund (NPC)	FSI 2.3 Section 7	Is a parental guarantee valid for inclusion under tier 2 own funds or would it be more appropriate to adjust the LGD ratio in type 1 default and counterparty default risk associated with the reinsurance mitigation in the NLUR? Clarity is requested on the basis under which it may be included / alternatively treated in general, particularly the required quality / rating etc. For example it is not held in a trust as required under ancillary own funds but it is a parental guarantee and inextricably linked to the insurer's ability to continue business in the event of a catastrophic loss or deterioration in underwriting experience.	See comment 11 above.
41.	Attorneys Indemnity Insurance Fund (NPC)	FSI 2.3 Section 7	Clarity is requested on the legal and contractual requirements / wording required in order for the parental guarantee to be applied in the appropriate manner (as discussed above).	See comment 11 above.
42.	HDI Global SA Limited	FSI 2.3 Section 7	Is a parental guarantee valid for inclusion under tier 2 own funds or would it be more appropriate to adjust the LGD ratio in type 1	A parental guarantee that applies to an insurer's reinsurer would not be considered as ancillary own funds, but should be

NR	COMMENTATOR	REF TO STANDARD	COMMENT	RESPONSE
			default and counterparty default risk associated with the reinsurance mitigation in the NLUR? Clarity is requested on the basis under which it may be included / alternatively treated in general, particularly the required quality / rating etc. For example it is not held in a trust as required under ancillary own funds but it is a parental guarantee and inextricably linked to the insurer's ability to continue business in the event of a catastrophic loss or deterioration in underwriting experience.	considered in calculating counterparty default risk for the risk mitigation instrument. The parental guarantee must be legally enforceable in the parent's jurisdiction, which jurisdiction must be a jurisdiction determined by the PA as an equivalent, then the credit quality step may be based on the parent.
43.	HDI Global SA Limited	FSI 2.3 Section 7	Clarity is requested on the legal and contractual requirements / wording required in order for the parental guarantee to be applied in the appropriate manner (as discussed above).	See answer for relevant comment. See comment 42 above.
44.	Old Mutual	FSI 2.3 section 8.12/8.13	Sect 8.12 reads as follow: 8.12. Where there is evidence of a group of connected transactions whose economic effect is the same as that of holding own shares, the assets that are generated by those transactions should be treated on the same basis as described in sections 8.8 to **Error! Reference source not found. above.** It appears as if the reference should refer to 8.12 as per the previous version of the Prudential Standards.	Agree to correct the reference.
45.	Sanlam	FSI 3 section 2.6	Refers to "Head of Actuarial Control". Please align with other standards that refer to "head of actuarial function".	Agree to amend as proposed.

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46.	Sanlam	FSI 3 section 5.3	Item h refers to “Asset management and fund management fees directly related to linked policies”. Please clarify that this relates to pure linked policies only, namely lines of business 3a(iii), 3b(iii), 3c(iii), 3d(iii), 4a(iv), 4b(iv), 5a(x), 5b(x) and 5c(x) as set out in Part A of Attachment 1 of FSI 2.2.	The lines of business suggested seems to be reasonable, but the head of actuarial function should apply his / her judgement when considering this section.
47.	Attorneys Indemnity Insurance Fund (NPC)	FSI 4 Attachment 3	Please provide confirmation of zeroisation of participation risk that result from a negative aggregate net equity position, despite there being some individual participations reflecting positive NAVs.	See comment 25 above.
48.	HDI Global SA Limited	FSI 4 Attachment 3	Please provide confirmation of zeroisation of participation risk that result from a negative aggregate net equity position, despite there being some individual participations reflecting positive NAVs.	No zeroisation of negative adjusted net equity values will be allowed. See comment 25 above.
49.	Attorneys Indemnity Insurance Fund (NPC)	FSI 4 Attachment 5	Is there a specific approach required in determining an adequate measure of what is recoverable in the course of three year's business? For a relatively new insurer with little or no history, how is this to be determined? Please provide guidance on the determination (including allowance for proportionality) of this measure for such new insurers or insurers showing significant flux.	See comment 50 below.
50.	HDI Global SA Limited	FSI 4 Attachment 5	Is there a specific approach required in determining an adequate measure of what is recoverable in the course of three year's business? For a relatively new insurer with little or no history, how is this to be determined? Please provide guidance on the	There is currently no specific approach to determine the amount, but guidance will be considered post the effective date of the Insurance Act.

NR	COMMENTATOR	REF TO STANDARD	COMMENT	RESPONSE
			determination (including allowance for proportionality) of this measure for such new insurers or insurers showing significant flux.	
51.	Deloitte	FSI 4, Attachment 4 last sentence of A.3c	Since this relates to discretionary benefits it should refer to “loss-absorbing capacity of technical provisions”, not “loss-absorbing capacity of deferred taxes”. Changing this will also bring it in line with QIS3, Section SCR.10.3.2(c).	This will be considered post the effective date of the Insurance Act.
52.	Deloitte	FSI 4, Attachment 4, last sentence of Sections A.2c	Since this relates to discretionary benefits it should refer to “loss-absorbing capacity of technical provisions”, not “loss-absorbing capacity of deferred taxes”. Changing this will also bring it in line with QIS3, Section SCR.10.3.2(c).	See comment 51 above.
53.	Deloitte	FSI 4, Attachment 4, Section 4.2	This section seems to refer to ring-fenced funds other than cells, since Section A.3 refers to cells, but this is not mentioned in Section A.2. We recommend changing the first sentence of A.2 to read as follows (bold added): Insurers must apply the following steps in calculating the notional SCR for a ring-fenced fund **not involving a cell structure**:	✎ Agree to amend as proposed.
54.	Attorneys Indemnity Insurance Fund (NPC)	FSI 4.1 Section 10.5	There are different prescribed concentration thresholds per asset type but a single counterparty may have multiple asset types. Is it appropriate for the overall concentration threshold for that counterparty to be determined as the weighted average concentration threshold contributed by each asset type (weighted by exposure to default)?	See comment 55 below.

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55.	HDI Global SA Limited	FSI 4.1 Section 10.5	There are different prescribed concentration thresholds per asset type but a single counterparty may have multiple asset types. Is it appropriate for the overall concentration threshold for that counterparty to be determined as the weighted average concentration threshold contributed by each asset type (weighted by exposure to default)?	Section 10.2 of FSI 4.1, specifically footnote 9, specifies that assets with the same counterparty that straddles concentration thresholds must be considered as a different counterparty. For example: If an insurer has exposure to Bank A's bonds and cash, then for purposes of concentration risk SCR only, these assets must be split as if there are two counterparties, say Bank A1 and Bank A2.
56.	Attorneys Indemnity Insurance Fund (NPC)	FSI 4.1 Section 9	Clarity is requested on the treatment of non-interest bearing assets with a term structure. Should they be included in this module?	See comment 58.
57.	Attorneys Indemnity Insurance Fund (NPC)	FSI 4.1 Section 9	Confirmation is requested as to the inclusion of instruments with a term structure of less than a year (NCDs and fixed deposits etc)	See comment 59.
58.	HDI Global SA Limited	FSI 4.1 Section 9	Clarity is requested on the treatment of non-interest bearing assets with a term structure. Should they be included in this module?	Assets should be included in the risk module describing the risk that the asset is exposed to. A non-interest bearing instrument could possibly be included in a number of market risk modules and an insurer must consider which risk best describes the risk that the instrument is exposed to. An instrument must only be considered for one risk module, unless it can be reasonably split into separate parts, where each separate part would be considered for inclusion in different risk modules.

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59.	HDI Global SA Limited	FSI 4.1 Section 9	Confirmation is requested as to the inclusion of instruments with a term structure of less than a year (NCDs and fixed deposits etc)	Assets should be included in the risk module describing the risk that the asset is exposed to. In the case of NCDs and fixed deposits the insurer must decide whether such assets are exposed to spread risk or default risk. If the latter and at a banking institution, then whether it can be considered similar to cash. Such assets must be included for market risk SCR.
60.	Attorneys Indemnity Insurance Fund (NPC)	FSI 4.1 Section 9.21	The applicability of the recovery rate (RR) adjustment to LGD is quite vague. Is a basic guideline as to the application of the (1-RR) factor available?	See comment 64 below.
61.	Attorneys Indemnity Insurance Fund (NPC)	FSI 4.1 Section 9.21	What level of articulated and justified professional judgement is allowed in setting a value for RR?	See comment 65 below.
62.	Attorneys Indemnity Insurance Fund (NPC)	FSI 4.1 Section 9.21	Can the factor be applied to implicitly adjust the probability of default, or may it only be applied to mitigation of the actual default value (see query below)?	See comment 66 below.
63.	Attorneys Indemnity Insurance Fund (NPC)	FSI 4.1 Section 9.21	Given the assumption that the LGD ratios are based on an annual probability approach at the 99.5th percentile, would applying the LGD factors not result in both an under-estimation of recoveries in the very near term, as well as an over-estimation on recoveries more than a year from now? Although not strictly a probability adjustment, could a sensible adjustment to reflect the relevant durations be to use the (1-RR) factor	See comment 67 below.

NR	COMMENTATOR	REF TO STANDARD	COMMENT	RESPONSE
			to reduce the LDG factor for imminent or very short term recoveries, and equally increase it for recoveries anticipated more than a year from now? This assumes that the periods related can be properly isolated and applied on an individual claim basis, or at least to marginal developments in run-off triangles.	
64.	HDI Global SA Limited	FSI 4.1 Section 9.21	The applicability of the recovery rate (RR) adjustment to LGD is quite vague. Is a basic guideline as to the application of the (1-RR) factor available?	An insurer must apply its judgement and it is expected that the head of actuarial function will be responsible to express an opinion on request.
65.	HDI Global SA Limited	FSI 4.1 Section 9.21	What level of articulated and justified professional judgement is allowed in setting a value for RR?	Full judgement by the head of actuarial function is allowed. The PA may engage the head of the actuarial function if it has any concerns or queries regarding the judgement applied.
66.	HDI Global SA Limited	FSI 4.1 Section 9.21	Can the factor be applied to implicitly adjust the probability of default, or may it only be applied to mitigation of the actual default value (see query below)?	The factor (1-RR) should be applied as considered in the Standard using the insurer's judgement for the value of the factor. The probability of default as discussed in section 9.18 must be determined from the credit quality step applicable to the issuer or issuance.
67.	HDI Global SA Limited	FSI 4.1 Section 9.21	Given the assumption that the LGD ratios are based on an annual probability approach at the 99.5th percentile, would applying the LGD factors not result in both an under-estimation of recoveries in the very near term, as well as an over-estimation on recoveries more than a year from now?	The LGD_{ratio} forms part of the standard formula and is not linked to the term of the asset. No adjustments must be made as part of the standard formula and any differences must be addressed and discussed in the insurer's ORSA. The recovery rate for a counterparty could be

NR	COMMENTATOR	REF TO STANDARD	COMMENT	RESPONSE
			Although not strictly a probability adjustment, could a sensible adjustment to reflect the relevant durations be to use the (1-RR) factor to reduce the LDG factor for imminent or very short term recoveries, and equally increase it for recoveries anticipated more than a year from now? This assumes that the periods related can be properly isolated and applied on an individual claim basis, or at least to marginal developments in run-off triangles.	influenced by the term of the asset, if applicable.
68.	Attorneys Indemnity Insurance Fund (NPC)	FSI 4.1 Section 9.22	More clarity is requested on how adjustments to the LGD ratios, whether by the recovery rate or other appropriate adjustments (eg parental guarantee), should be applied in relation to the LGD ratio table. The table is clearly very incremental with guidance on the appropriateness of each incremental step, but if an adjustment is applied does the resulting ratio need to stick to the increments, i.e. jump from one step to another or can it deviate from the increments and come to a value somewhere between two increments? If so we request clarity on how this should be approached.	See comment 69 below.
69.	HDI Global SA Limited	FSI 4.1 Section 9.22	More clarity is requested on how adjustments to the LGD ratios, whether by the recovery rate or other appropriate adjustments (eg parental guarantee), should be applied in relation to the LGD ratio table. The table is clearly very incremental with guidance on the appropriateness of each incremental step, but	Guidance may be considered post the effective date of the Insurance Act.

NR	COMMENTATOR	REF TO STANDARD	COMMENT	RESPONSE
			if an adjustment is applied does the resulting ratio need to stick to the increments, i.e. jump from one step to another or can it deviate from the increments and come to a value somewhere between two increments? If so we request clarity on how this should be approached.	
70.	Attorneys Indemnity Insurance Fund (NPC)	FSI 4.1 Section 9.7	Intermediaries that collect premium on behalf of the insurer can generate significant risk charge both in the default risk and in the concentration risk modules. Is there an allowance for bank guarantees or other collateral or mitigation for example IGFs and premium payment warrantees (PPWs)? If there is allowance for these types of mitigation, how would they be appropriately applied in the standard model?	See comment 71 below.
71.	HDI Global SA Limited	FSI 4.1 Section 9.7	Intermediaries that collect premium on behalf of the insurer can generate significant risk charge both in the default risk and in the concentration risk modules. Is there an allowance for bank guarantees or other collateral or mitigation for example IGFs and premium payment warrantees (PPWs)? If there is allowance for these types of mitigation, how would they be appropriately applied in the standard model?	Any risk mitigation instrument could be considered for recognition in the standard formula if it qualifies for recognition. See FSI 4 Attachment 1.
72.	Attorneys Indemnity Insurance Fund (NPC)	FSI 4.1 Section 9.8	What specific types of accounts are to be included as cash at bank (fixed deposits, call accounts, NCIs, 32 day notice etc)? Does this exclude all types of term deposits which should then be included in spread risk?	See comment 59 above.

NR	COMMENTATOR	REF TO STANDARD	COMMENT	RESPONSE
73.	HDI Global SA Limited	FSI 4.1 Section 9.8	What specific types of accounts are to be included as cash at bank (fixed deposits, call accounts, NCIs, 32 day notice etc)? Does this exclude all types of term deposits which should then be included in spread risk?	See comment 72 above.
74.	Sanlam	FSI 4.1, attachment 1, Part A	"Collective investment vehicles" are not defined. For the avoidance of doubt, please may the PA confirm that this can include trusts registered under the Trust Property Control Act, or other vehicles that fulfil the general purpose of a "collective investment vehicle".	Collective investment vehicles may include a trust if the trust behaves and is treated like a collective investment vehicle. This is left to the judgement of the insurer, but the insurer must be able to justify and explain the decision.
75.	Sanlam	FSI 4.1 section 10.3 a	Refers to "life insurance obligations where the investment risk is borne by the policyholders". Please clarify which classes of business this refers to by referencing the classes as set out in Part A of Attachment 1 of FSI 2.2.	The application of the concept of obligations where the policyholder bears the investment risk is left to the discretion of the insurer.
76.	Centriq	FSI 4.2 & FSI 4.3	We request your review of the calculation of the counterparty default charge in the Underwriting Risk modules detailed in Prudential Standards FSI 4.2 and FSI 4.3. The current calculation of the capital requirement is net of risk mitigation, after allowing for counterparty default impairment on risk mitigation instruments. The risk mitigation effect is determined at the 99.5th percentile, with the default risk also determined at the 99.5th percentile, giving an overly conservative number for underwriting risk. An appropriate view would be to allow for a best estimate counterparty default charge, as referenced in Prudential Standard	The treatment in the Standards is consistent with the Final Position Papers as drafted by the SAM structures. In short, the default risk from market risk is captured in the market risk SCR module, the underwriting risk are captured in the relevant underwriting risk SCR module and the additional default risk of the risk mitigation counterparty after an underwriting stress event is added to the underwriting risk SCR module.

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			FSI 2.2 Attachment 3, as part of the Underwriting risk SCR charge.	
77.	Sanlam	FSI 4.2, section 8.5	For the avoidance of doubt, please confirm that "positive surrender strain" includes policies with zero surrender value but a negative Best Estimate Liability, such as profitable pure risk policies.	The insurer and the head of actuarial function must determine how the concept of positive surrender strain applies to their policies.
78.	Sanlam	FSI 4.2 section 8.5	Per 8.2 "Insurers should calculate the capital requirement for lapse risk at the homogenous group level." How is this to be interpreted when considering the 12-month level expense requirement in the mass lapse shock under 8.5? For example, are the total expenses per homogeneous group, or for the insurer as a whole? Please also clarify the requirement of 12-month level expenses with regards to contracts with contract boundary less than 12 months, in particular zero contract boundary.	The expense part of the mass lapse shock must be considered for the insurer as a whole and the insurer must use its judgement as to how best apply it for its specific situation. With regards to a zero contract boundary contract, the insurer should consider the change in the value of its basic own funds in the mass lapse shock event by keeping the expenses constant for one year after the event. Although zero contract boundary contracts do not have discounted cash flows, the requirement to keep the expenses constant is not invalidated. The topic of mass lapse shock could be considered for further guidance post the effective date of the Insurance Act.
79.	Centriq	FSI 4.3	There seems to be a disconnect in the factors to apply to Liability premiums in the CAT scenarios when you compare Method 1 and Method 2. As an example, Product Liability has the same factors (60%) however Fidelity Guarantees has different factors (225% under Method 1 compared to 85% under Method 2).	The treatment in the Standard is consistent with Final Position Paper 78 as drafted by the SAM structures, but may be considered for review in SAM Phase II.

NR	COMMENTATOR	REF TO STANDARD	COMMENT	RESPONSE
80.	HDI Global SA Limited	FSI 4.3 Attachment 8	Is it appropriate for heavy commercial vehicles (HCVs) to attract the same risk factors as for other commercial motor vehicles? For example hail peril is not likely to attract the same risk charge for HCVs as it does for other commercial motor vehicles, while at the same time HCVs may attract higher risk in other areas. This query is partially related to the classifications of sub-lines of business throughout the standard model. The question is essentially, is it appropriate to group HCVs and construction type vehicles “yellow metal” into the same group as say rental vehicles etc?	This was the consensus reached by the SAM structures, but the topic may be reviewed in SAM Phase II.
81.	HDI Global SA Limited	FSI 4.3 Section 5	Clarity is requested on the appropriate treatment of value added products (VAPS). Specifically should this be included per the sub-line of business that it appears most appropriate or should it be included under Miscellaneous?	Allocation of a product must be to the sub-line of business where it is most suitable, i.e. on a substance over form basis.
82.	Attorneys Indemnity Insurance Fund (NPC)	FSI 4.3 Section 6	If no lapse risk sensibly exists, for example where you have an insurer with effectively only one policy, or for a captive insurer, then how should this bcentrie treated (assuming the calculated UPP reflects a loss ratio of under 100%)? Should the lapse shock be applied irrespective of the nature of the business (captive) or the incremental nature of the policyholders (one policy or numerous policies with one significant policy that constitutes a large portion of the business)	See comment 83 below.

NR	COMMENTATOR	REF TO STANDARD	COMMENT	RESPONSE
83.	HDI Global SA Limited	FSI 4.3 Section 6	If no lapse risk sensibly exists, for example where you have an insurer with effectively only one policy, or for a captive insurer, then how should this be treated (assuming the calculated UPP reflects a loss ratio of under 100%)? Should the lapse shock be applied irrespective of the nature of the business (captive) or the incremental nature of the policyholders (one policy or numerous policies with one significant policy that constitutes a large portion of the business)	The Standard does not apply the lapse risk shock differently depending on who the policyholder is or the relationship the insurer has with the policyholder. A captive insurer may consider the simplifications discussed in the Standards or approach the PA.
84.	Deloitte	FSI 4.4	There is a minor reference error in the definition for $Op_{AUM(i)}$, it is defined as "The value calculated using the formulas set out in sections 0 to 0 below where AUM is the Rand value of assets under management related to investment"	✎ Agree to amend as proposed.
85.	Attorneys Indemnity Insurance Fund (NPC)	FSI 4.4 Section 5	Should the gross earned premium input correspond to the IFRS statements or the SAM basis? Are alternative means of calculating op risk acceptable in cases where the standard model is not entirely appropriate? For example a single premium paid to captive insurer leads to an overstatement in operational risk. If there are acceptable alternative means, what format will be acceptable?	See comment 86 below.
86.	HDI Global SA Limited	FSI 4.4 Section 5	Should the gross earned premium input correspond to the IFRS statements or the SAM basis? Are alternative means of calculating op risk acceptable in cases where the standard model is not entirely	Gross earned premiums must be on the SAM basis. Methods other than the standard formula may be discussed in the insurer's ORSA or may subject to the approval by the PA for a partial internal

NR	COMMENTATOR	REF TO STANDARD	COMMENT	RESPONSE
			appropriate? For example a single premium paid to captive insurer leads to an overstatement in operational risk. If there are acceptable alternative means, what format will be acceptable?	model be considered to replace the standard formula operational risk SCR. For single premium business please see FSI 4.4 section 5.4 for application of the earned premium.
87.	Liberty Group Limited	FSI 6, Section 5.1	The revised definition of available liquid asset is set out as follows: $Available\_liquid\_assets$ = Value of all "liquid" assets, as calculated under sections 5.2 and 5.3 below, for assets backing obligations where the policyholder does not bear the investment risk Revised from: $Available\_liquid_{assets}$ = Value of all non-linked "liquid" assets as calculated under Sections 5.2 and 5.3 Under the amended wording of FSI 6 5.1 the definitions of $Available\_liquid\_assets$ and $Cashflow\_requirement_{Life}$ are not consistent. If one excludes all liquid assets related to contracts where the policyholder bears the investment risk from $Available\_liquid\_assets$ but includes the corresponding cash flow requirements in $Cashflow\_requirement_{Life}$ for these same contracts the resultant Liquidity Shortfall indicator will be overstated as it would appear as if liquid assets are not available to cover cash flows arising from these contracts. In order for the Liquidity Shortfall indicator to be more meaningful and reflective of the liquidity risk, the definition of	Disagree. The liquid assets excluded from $Available\_liquid\_assets$ are only the assets where the policyholder bears the investment risk, and for $Cashflow\_requirement_{Lif}$ the Standard excludes assets where the policyholder bears the investment risk as set out in section 1.3 of the Standard. Non-liquid assets would be included in $Cashflow\_requirement$, which is part of the purpose of the liquidity shortfall indicator.

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			the $Cashflow\_requirement_{Life}$ should be amended to be consistent with the definition of $Available\_liquid\_assets$.	
88.	Old Mutual	FSI GN2.2 Chapter 2 B1.a	**Previous comment from Round 2:** Contract boundaries for Linked investment policies: FSI GN 2.2 requires "Linked investment policies" to use a zero contract boundary. Linked contracts are defined in the Insurance Act, rather than the Prudential Standards, and encompass all investment contracts where the obligations are not guaranteed and the value is determined solely by reference to the underlying assets (paraphrasing). However, this is out of line with Position Paper 41 on contract boundaries where only a subset of Linked policies (termed "pure linked business" in the position paper) were allowed to use zero contract boundaries. Was this a deliberate change to Linked contract boundaries? If not, please consider including the "pure linked" conditions outlined in the position paper. **Previous response:** "Linked" is defined in the Insurance Bill and the Standards use the Bill's definitions. This issue was considered in the Linked Thematic Review and the report on this review will clarify the FSB's views. In summary, "Linked" as per the Bill's definition is akin to the "pure linked business" concept; whereas where the policyholder bears the market risk but the product does not meet all the conditions of the "Linked" definition, then such obligations should be treated as market related obligations. The response refers to the	Disagree. Insurers should familiarise themselves with the content of the Linked Thematic Review Report, but the Insurance Act and the Prudential Standards set the minimum requirements and principles that insurers must adhere to. The definition of linked should adhere to the Insurance Act and the concept of zero contract boundaries can apply to any contract, and often for linked insurance obligations.

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			Linked Thematic review however the Prudential Standards have not been updated to reflect the wording from the Linked Thematic Review. Perhaps the relevant content from the Linked Thematic review should be included in the PS to remove reliance on an external document going forward.	
89.	Lloyd's South Africa	FSL 1 section 1.1	Presentation point - The footnote referenced in Section 1.1 extends onto the next page	Noted. The footnote must be read over both pages and this does not invalidate the information given.
90.	Lloyd's South Africa	FSL 1 section 6.1	For consistency and accuracy, the words "at least" should be added so that this section reads: "Lloyd's must hold trust assets… equal to **at least** the value of its technical provisions less the value of premium debtors".	✎ Agree to amend as proposed.
91.	Lloyd's South Africa	FSL 1 section 2.4	*This point has already been agreed by the FSB (during the previous response) to be included the final Standard.* The words "South Africa" should be added so that this section reads: "The head of actuarial function for Lloyd's **South Africa**…."	✎ Agree to amend as proposed.
92.	Lloyd's South Africa	FSL 1 section 4.1a	The wording that "Lloyd's must hold, in trust, an amount equal to the value of its technical provisions…" is inconsistent with the wording in 5.3 and 6.1. This could be revised to say ""Lloyd's must hold, in trust, an amount equal to **at least** the value of its technical provisions **less the value of premium debtors**…"	✎ Agree to amend as proposed.

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93.	Lloyd's South Africa	FSL 1 section 6.6 NEW	Section 6.6 should be added which describes the threshold for syndicates to be able to remove surplus assets from the Lloyd's South Africa Trust Fund. "6.6 Lloyd's centrally allocates the Lloyd's South Africa trust assets funding requirement (of at least the technical provisions less the value of premium debtors) to an Underwriter level in respect of a Year of Account of a Syndicate. If at the end of a quarter the value of the part of the fund relating to a syndicate year of account exceeds 110% of its technical provisions less the value of its premium debtors, then the syndicate may withdraw this excess (above the 110% threshold)". We are happy for the FSB to propose alternative wording for this additional point, including determining whether the 110% threshold should be stated here explicitly or referenced as "an agreed threshold with the FSB" which will be included somewhere else (such as the Trust Deed).	✎ Agree to amend to the extent that allowance to withdrawal from the trust account must be done on application by Lloyd's and as agreed with the PA based on certain conditions.
94.	Lloyd's South Africa	FSL 3 Attachment 1 Point 1	This section currently states: "This simplification must be used until otherwise communicated by the Prudential Authority when valuing the technical provisions related to insurance business conducted by Lloyd's underwriters in South Africa." We would suggest that the wording of this section is edited to "This simplification must be used until otherwise **agreed with** the Prudential Authority", which will allow Lloyd's	✎ Agree to amend as proposed.

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			to suggest further enhancements which the PA can then accept if appropriate.	
95.	Lloyd's South Africa	FSL 3 Attachment 1 Point 11	It would beneficial to re-order to definitions so that they are in the order in which they appear in the above CP calculation (CPRSA then ECPRSA then EEPRSA then EFPRSA). Additionally, "ECP" should be renamed "ECR" (earned claims reserves), so that "CR" can be used as the sum of the unearned and earned claims reserves in point 9 (since "CP" is already used to stand for "Claims Provisions"). Furthermore, the definitions of ECRRSA, EEPRSA and EFPRSA should be clarified to correspond to South African business: "ECRRSA, slb, YoA = Estimate of the net present value of all future claims payments **arising from insurance business conducted by Lloyd's underwriters in South Africa** in respect of claims events occurring before or at the valuation date (i.e. past exposure), whether the claims arising from those events have been reported or not, per (sub-)line of business and year of account." "EEPRSA, slb, YoA = Estimate of the net present value of all future claims management and claims administration expenses **arising from insurance business conducted by Lloyd's underwriters in South Africa** in respect of claims events occurring prior to the valuation date, whether	✐ Agree to amend as proposed.

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			the claims arising from those events have been reported or not, per (sub-)line of business and year of account." "EFPRSA, slb, YoA = Estimate of the net present value of all premiums **arising from insurance business conducted by Lloyd's underwriters in South Africa** that will be received in future but relating to the claims events that have occurred before or at the valuation date (i.e. relating to earned exposure), per (sub-)line of business and year of account."	
96.	Lloyd's South Africa	FSL 3 Attachment 1 Point 12	Section 12 should be re-worded to reflect the new methodology of the calculation of the ECPRSA, EEPRSA and EFPRSA. Please see the text below the table for Lloyd's proposed wording.	✎ Agree to amend as proposed.
97.	Lloyd's South Africa	FSL 3 Attachment 1 Point 2	Whilst the methodology is changing, the method will still rely on global Solvency II benchmarks. Therefore, this point should be kept but edited slightly to read: "This simplification allows Lloyd's to value its technical provisions for insurance business conducted by Lloyd's underwriters in South Africa using benchmarks calculated annually from the Lloyd's global data. This includes technical provisions in respect of all insurance policies of Lloyd's calculated in line with Solvency II, which is provided to Lloyd's annually by syndicates reporting their Solvency II provisions through the Technical Provisions Data (TPD) collection. ~~The~~	✎ Agree to amend as proposed.

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			~~estimations must be done for both the claims provision as well as the premium provision.~~"	
98.	Lloyd's South Africa	FSL 3 Attachment 1 Point 2	We suggest that a new point is added between current points 2 and 3 which references the South Africa data extraction which is relied on for the triangle projections. The auditors will be taking the data extraction as provided and not be performing any audit against it. We suggest that this point states: "Lloyd's calculations of technical provisions arising from insurance business conducted by Lloyd's underwriters in South Africa, relies on the data extractions of the South African specific data from three data sources: - Xchanging Insure Services (XIS) - Lloyd's Direct Reporting (LDR) - "Non-Xchanging" Extractions are taken from these sources for the following data: - Gross of reinsurance outstanding claims - Gross of reinsurance paid claims - Gross of reinsurance and gross of commission signed premiums - Gross of reinsurance and net of commission signed premiums"	✐ Agree to amend as proposed.

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99.	Lloyd's South Africa	FSL 3 Attachment 1 Point 3	Previously sub-line was considered to be the Lloyd's Generic Class of Business as this is the level at which global benchmarks are available. However, we suggest that this wording is modified to allow scope for Lloyd's to make changes to the granularity at which claims triangles are made and projected. "Any reference made to a (sub-)line of business in this attachment should be read as **reference to the segmentation of classes of business at which Lloyd's carries out the technical provisions projections. Actuarial judgement will be applied to determine appropriate segmentation considering the homogeneity and stability of business across segments.** The best estimate technical provision calculated must be mapped to the South African (sub-) lines of business in section 14.4 in this Standard in order to calculate the risk margin. This mapping is provided by the Prudential Authority and any changes to this mapping must only be used if approved by the Prudential Authority."	✐ Agree to amend as proposed.
100.	Lloyd's South Africa	FSL 3 Attachment 1 Point 8	It would beneficial to re-order to definitions so that they are in the order in which they appear in the above PP calculation (PPRSA then UCPRSA then UEPRSA then UFPRSA). Additionally, "UCP" should be renamed "UCR" (unearned claims reserves), so that "CR" can be used as the sum of the unearned and earned claims reserves in point 9 (since	✐ Agree to amend as proposed.

NR	COMMENTATOR	REF TO STANDARD	COMMENT	RESPONSE
			"CP" is already used to stand for "Claims Provisions"). Furthermore, the definitions of UCRRSA, UEPRSA and UFPRSA should be clarified to correspond to South African business: "UCRRSA, slb, YoA = Estimate of the net present value of all future claims payments **arising from insurance business conducted by Lloyd's underwriters in South Africa** in respect of claims events occurring after the valuation date, per (sub-)line of business and year of account." "UEPRSA, slb, YoA = Estimate of the net present value of all future claims management and claims administration expenses **arising from insurance business conducted by Lloyd's underwriters in South Africa** in respect of claims events occurring after the valuation date, and all future expenses (including commissions) relating to on-going administration of in-force policies, per (sub-)line of business and year of account." "UFPRSA, slb, YoA = Estimate of the net present value of all premiums **arising from insurance business conducted by Lloyd's underwriters in South Africa** that will be received in future but relating to the unexpired risk exposure of policies in force at the valuation date, per (sub-)line of business and year of account."	

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101.	Lloyd's South Africa	FSL 3 Attachment 1 Point 9	Section 9 should be re-worded to reflect the new methodology of the calculation of the UCRRSA, UEPRSA and UFPRSA.	✐ Agree to amend as proposed.
102.	Lloyd's South Africa	FSL 3 Objectives and Key Requirements	Lloyd's would request that the following changes shown in bold are made to correct a minor typo and to clarify the Standard being in relation to the South African business rather than Lloyd's global business. "The ultimate responsibility for the accurate valuation of technical provisions arising from insurance business conducted by Lloyd's underwriters in South Africa rests with Lloyd's of London and its representative in South Africa. The head of the actuarial function for Lloyd's South Africa is responsible for providing assurance to the representative regarding the accuracy of the calculations and the appropriateness of the assumptions underlying the valuation of Lloyd's South Africa technical provisions."	✐ Agree to amend as proposed.
103.	Lloyd's South Africa	FSL 3 section 12.3	This section references changes to 12.4, but we think that this should now be referencing changes to12.5 in the updated FSI 2.2 standard.	✐ Agree to amend as proposed.
104.	Lloyd's South Africa	FSL 3 section 12.4	This section references changes to 12.8, but we think that this should now be referencing changes to12.9 in the updated FSI 2.2 standard.	✐ Agree to amend as proposed.
105.	Lloyd's South Africa	FSL 3 section 2.2	The words "for Lloyd's South Africa" should be added so that this section reads: "The head of	✐ Agree to amend as proposed.

NR	COMMENTATOR	REF TO STANDARD	COMMENT	RESPONSE
			actuarial function **for Lloyd's South Africa**…."	
106.	Lloyd's South Africa	FSL 3 section 2.3	The wording "in respect of insurance business conducted by Lloyd's underwriters in South Africa" should be added so that it clarifies that the auditor isn't required to provide assurance on Lloyd's global technical provisions: "The auditor appointed by Lloyd's under section 32 of the Insurance Act, 2017 (the Act), must provide assurance to Lloyd's of London and its representative in South Africa that the valuation of Lloyd's technical provisions **in respect of insurance business conducted by Lloyd's underwriters in South Africa** complies with the requirements of this Standard."	✐ Agree to amend as proposed.
107.	Lloyd's South Africa	FSL 3 section 2.3	The words "South Africa" should be added so that this section reads: "The auditor must report to Lloyd's, the representative of Lloyd's **in South Africa** . . ."	✐ Agree to amend as proposed.
108.	Lloyd's South Africa	FSL 3 section 2.4	The words "South Africa" should be added so that this section reads: "…and the actuarial function of Lloyd's **South Africa** are described…."	✐ Agree to amend as proposed.
109.	Lloyd's South Africa	FSL1 – 2.6	The words "South Africa" should be added so that this section reads: "…and the actuarial function of Lloyd's **South Africa** are described…."	✐ Agree to amend as proposed.
110.	Old Mutual	General	**Phase II post SAM implementation** There were comments from previous versions of the Prudential Standards that need to be	The list of SAM Phase II items were regularly tabled at the SAM committee meetings and will be the basis of the SAM

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			addressed in SAM Phase II. Please can you provide a comprehensive list of the items that will be considered for Phase II?	Phase II project that will be constituted in due time. The list is also available on request.
111.	Old Mutual	Guidance Note on FSI 2.2 Ch 9 nr. 7 b	**Expenses Used in Assumptions: The three-buckets approach** The future depreciation charges associated with large capitalised projects are to be included in the expense assumptions within the technical provisions and therefore allowed for in the liabilities. This would therefore be double-counting the expenses associated with these capitalised projects. We propose that intangible assets in respect of which depreciation charges are included in the expense cash flows of the best estimate liabilities, need not be deducted from basic own funds.	Intangible assets are limited in FSI 2.1 and FSI 2.3 for purposes of certainty of value and availability of assets. The availability of assets for absorbing losses is the rationale for deducting intangible assets from the basic own funds and it is highly unlikely that the future depreciation charges of future capital projects will be available to absorb potential current losses.