

Prudential Notice 1 of 2022

Financial Sector Regulation Act, 2017 (Act No. 9 of 2017) and Insurance Act, 2017 (Act No. 18 of 2017)

I, Kuben Naidoo, acting in terms of section 131 of the Financial Sector Regulation Act, 2017 read with section 44(1) of the Insurance Act, 2017, hereby give notice of amendment to the Solo Quantitative Reporting Template (QRT) to facilitate enhanced reporting requirements for operational risk loss events and operational risk Solvency Capital Requirements (SCR).

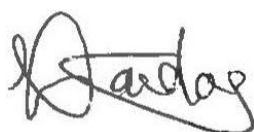
1. Purpose

- 1.1 The purpose of this Prudential Notice is to inform all insurers except for branches of foreign reinsurers, Lloyd's and microinsurers of the amendments to the relevant QRTs.
- 1.2 The amendment to the annual and quarterly QRTs is intended to enhance the detail and increase the frequency of operational risk loss reporting from annually to quarterly by insurers and shall be effective as indicated in paragraph 3 below.
- 1.3 The amendment to the quarterly QRT has necessitated general changes to the annual QRT. For consistency in reporting, the annual and quarterly QRTs have similar incorporated amendments as indicated in paragraph 2.11 below.

2. Application

- 2.1 Operational risk loss event reporting is currently enabled through the SCR 4.1 tab of the annual QRT submitted to the Prudential Authority (PA) four months after the insurers' financial year-end.
- 2.2 The time lag between operational risk loss events and the reporting of such events in terms of the annual QRT poses a supervisory challenge to the PA specifically in relation to monitoring adverse operational risk event trends across supervised insurers.
- 2.3 The quarterly QRT is amended by the addition of the operational risk loss event tab SCR 4.1 to enable increased frequency in the reporting of operational risk loss data by insurers. Increases in the frequency of reporting of operational risk loss event data will serve as an early warning indicator of deteriorating operational controls or emerging operational risk trends across supervised insurers.
- 2.4 Frequent analysis of operational risk loss events also enables insurers to identify weaknesses in products, processes and systems thereby facilitating remediation efforts to improve the operational risk control environment within the broader enterprise risk management framework of these insurers.

- 2.5 The amended reporting requirements for operational risk loss events through the quarterly QRT will enhance regulatory oversight by the PA in the discharge of its supervisory mandate enabling enhanced supervision and assessment of the risks connected with operational risk loss events.
- 2.6 Insurance entities are required to apply a minimum loss reporting threshold of R10 000 for reporting risk events to the PA.
- 2.7 The SCR 4.1 tab will be removed from the annual QRT and will form part of the quarterly QRT.
- 2.8 The amendment to the quarterly QRT affords the PA an opportunity to reconfigure the SCR 4.1 tab by the inclusion of the following:
 - 2.8.1 Insurer class;
 - 2.8.2 Lines of business;
 - 2.8.3 Boundary events; and
 - 2.8.4 Gross loss.
- 2.9 Insurers must use the correct version of the relevant QRT as indicated on the PA website and for the correct submission dates. Link: <https://www.resbank.co.za/en/home/what-we-do/Prudentialregulation/insurers-returns>
- 2.10 The quarterly QRT will be updated to include the SCR 4 tab, which caters for the calculation of the Operational Risk SCR. The SCR 4 tab will remain as is in the annual QRT and will be required to be completed and reported under both the quarterly and the annual QRT to the PA.
- 2.11 The following additional amendments have been made to both the annual and quarterly QRTs:
 - 2.11.1 New version IA_QS_QRT_v2 for the quarterly QRT and IA_AS_QRT_v2 for the annual QRT;
 - 2.11.2 Addition of a line to OF2 for approved non-insurance business;
 - 2.11.3 Addition of two lines to OF4 for income and expenses related to approved non-insurance business; and
 - 2.11.4 Addition of a line on the SCR for capital add on.
3. The updated quarterly QRT is effective from the first quarter of 2022 and the annual QRT is effective from 1 January 2022.



Kuben Naidoo
Deputy Governor and CEO: Prudential Authority

Date: 2 February 2022