

## Financial Sector Regulation Act, 2017

### Draft Guidance Notice XX of 2021

#### Guidance on Public disclosures for insurers licenced in terms of the Insurance Act, 2017 (Act No. 18 of 2017)

##### **Objectives of this Guidance Notice**

*The Guidance Notice on public disclosures for insurers aims to assist insurers in complying with the disclosure requirements as set out in the Prudential Standard - Public disclosures for insurers (PDI Standard).*

*This Guidance Notice provides guidance on the Qualitative regulatory return (QRR) and quantitative return template (QRT) that may contain the information required to be disclosed as well as guidance to some of the disclosure requirements prescribed in the PDI Standard.*

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#### **1. Legislative authority**

This Guidance Notice is issued under section 141 of the Financial Sector Regulation Act, 2017 (Act No. 9 of 2017) (FSR Act).

#### **2. Purpose**

The purpose of this notice is to provide guidance to the QRR and QRT that may contain disclosure requirements and to provide further guidance and explanation to some of the disclosure requirements as prescribed in the PDI Standard.

#### **3. Definitions and interpretation**

- 3.1. In this Guidance Notice, 'the Act' means the Insurance Act, 2017 (Act No. 18 of 2017) and any word or expression to which a meaning has been assigned in the Act bears the meaning so assigned to it, and unless the context indicates otherwise;

**‘board’** means the board of directors of an insurer;

**‘confidential’** means the classification of information about policyholders and insured parties under privacy legislation or contractual arrangements;

**‘IT’** means information technology;

**‘material information’** means information-if omission, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity;

**‘proprietary information’** means information on characteristics and details of, for example, insurance products, markets, distribution and internal models, and systems that could negatively influence the competitive position of an insurer if made available to competitors;

**‘QRR’** means qualitative regulatory return, which insurers must submit to the Prudential Authority as prescribed;

**‘QRT’** means quantitative return template, which insurers must submit to the Prudential Authority as prescribed; and

**‘technical provisions’** mean the amount that an insurer sets aside to fulfil its insurance obligations and settle all commitments to policyholders and other beneficiaries over the lifetime of the obligations, calculated in accordance with the requirements of Prudential Standard FSI 2.2 (Valuation of Technical Provisions).

#### **4. Annual public disclosure requirements**

- 4.1. The following table sets out, with reference to paragraph 6.2 of the PDI Standard, the QRT and QRR sheets that may contain the information required to be publicly disclosed as prescribed in the Standard (PDI). The insurer may tailor the QRR sheets and QRT to only publish the information that is applicable to its business.

**Table 1: Summary of the disclosure requirements and guidance to the QRR and/or QRT**

Reference	Description	Statement		Category
PDI Standard Section 6.2		QRT	QRR	B, LI, NL *
<b>6.2.1</b>	<b>Company profile</b>			<b>B</b>
(a)(i)	The nature of its business		A1	
(a)(ii)	Its corporate structure		A3	
(a)(iii)	Key business segments		A1	
(a)(iv)	The external environment		B1	
(b)(i)	Material changes that have taken place during the year		B1	

<b>6.2.2</b>	<b>Corporate governance framework</b>			<b>B</b>
(a)(i)	The key features of the corporate governance framework		A1 C1	
(a)(i)(bb)	Key business activities and control functions		C1	
(a)(ii)	Outsourcing policy		A3.1 C1	
<b>6.2.3</b>	<b>Technical provisions</b>			<b>B</b>
(a)(i)(aa)	Future cash flow assumptions	TP2.1S TP2.2S TP3.1 TP2.3.1S	D1 E2	
(a)(i)(bb)	The rationale for the choice of discount rates		E2	
(a)(iii)	How technical provisions are determined Other information as appropriate to provide a description of the method used	TP2.1S TP2.2S TP3.1 TP2.3.1S	E2	
(a)(iv)	Presentation of technical provisions and reinsurance assets	TP1 TP1S		
(a)(v)	Method used to derive the assumptions		E2	
(a)(vi)	Information about the best estimate liability and the risk margin		E2	
(a)(ix)	Description of any method used to treat acquisition costs		E2	
(a)(x)	Reconciliation of technical provisions	TP4.2S		
(a)(xi)(aa)	Claims from insurance events which have already taken place at the date of reporting – either the IBNR or IBNER	TP1S		
(a)(xi)(bb)	Losses from insurance events which will take place in the future	TP1S		
<b>6.2.3</b>	<b>Technical provisions: life insurers</b>			<b>LI</b>
(b)(i)	Key information on assumed decrement rates used, future mortality and disability	TP3.1		
(b)(ii)	The conditions for the amount and timing of the allocation of participation features	A3		
(b)(iii)	Information on participation features	A3		
(b)(iv)	Quantitative information on the life insurer's minimum	A3		

	participation features and actual distributions to policyholders			
(b)(v)	Assumptions and methodologies to value significant guarantees	E2		
<b>6.2.3</b>	<b>Technical provisions: non-life insurers</b>			<b>NL</b>
(c)(i)	Historical data about earned premiums compared to technical provisions	OF4.1S OF4.2S OF4.3S TP1S TP2.2S TP3.1S		
<b>6.2.4</b>	<b>Insurance risk exposure</b>			<b>B</b>
(a)(i)(aa)	The nature, scale and complexity of risks		F2	
(a)(i)(bb)	Risk management objectives and policies, models and techniques		E2	
(a)(i)(cc)	Models and techniques for managing insurance risks		F2	
(a)(i)(dd)	Its use of reinsurance or other forms of risk transfer		F2	
(a)(ii)	Risk appetite and policies for identifying, measuring, monitoring and controlling insurance risks		F2	
(a)(iii)	Use of derivatives to hedge risks arising from insurance contracts	A2 A2.1	D1	
(a)(iv)	Information on how an insurer uses reinsurance and other forms of risk transfer		C1 F2	
(b)(i)	Overall reinsurance arrangements to explain the net risk retained and the types of reinsurance arrangements made	A8 TP1 TP1.1 TP2 TP2.1 TP2.2 TP3.1 TP6 TP7		
(b)(ii)	The reinsurers' share of technical provisions and receivables	A8 TP1 TP1.1 TP2 TP2.1 TP2.2 TP3.1 TP6 TP7		
(b)(iii)(aa)	The credit quality of the reinsurers	R1 R1S		
(b)(iii)(bb)	Credit risk concentration of reinsurance assets	R1 R1S		
(b)(iii)(cc)	The nature and amount of collateral against reinsurance assets	R1 R1S		

(b)(iii)(dd)	The development of reinsurance assets over time	A8		
(b)(iii)(ee)	The ageing of receivables from reinsurers on settled claims	A8		
(b)(v)	Geographical concentration of premiums	R4S		
(b)(vi)	Reinsurance	R1S		
<b>6.2.5</b>	<b>Financial instruments and other investments</b>			
(a)(iii)	Values, assumptions and methods used for IFRS		D1.2	
(a)(iv)	Group assets and liabilities with similar characteristics and/or risks into classes	A1		
<b>6.2.6</b>	<b>Investment risk exposure</b>			<b>B</b>
(a)(i)(aa)	Market risk and currency	SCR		
(a)(i)(aa)	Spread and default risk	SCR		
(a)(i)(bb)	Concentration risk	SCR		
(a)(iii)	Risk management techniques used to measure the economic effect of risk exposure. Such disclosure must include an analysis by type of asset class.		D1.4 D1.5 F2.1 F2.5 F2.6	
<b>6.2.7</b>	<b>Asset and liability management</b>			<b>B</b>
(a)(ii)	Methodology used and the key assumptions		D1	
(a)(iii)	Management of assets and liabilities		D1	
(a)(iv)	Where derivatives are used, the disclosures shall include a description of both the nature and effect of their use		D1	
<b>6.2.9</b>	<b>Capital adequacy</b>			<b>B</b>
(a)(ii)	The SCR, the MCR, and the SCR and MCR cover ratios	OF1 MCR SCR		
(a)(i)	Assets and other liabilities		E1	
(a)(i)	Technical provisions		E2	
(a)(i)	Own funds		E3	
(a)(i)	Ancillary own funds		E3.1	
(a)(ii)	SCR and MCR		E4	
(b)(ii)	Key risks and measures which influence the eligible own funds and SCR calculation		F1 F2	
(b)(iii)	The insurer's risk appetite about the insurer's financial soundness position		F2	

<b>6.2.10</b>	<b>Financial performance</b>			<b>B</b>
(a)(i)(aa)	Earnings analysis	OF4.2 OF4.2S OF4.3S		
(a)(i)(bb)	Claims statistics, including claims development	M1.1 M2.1 M1.3S M2.3S		
(a)(i)(cc)	Pricing adequacy	OF4.2S OF4.3S		
(a)(i)(dd)	Investment performance	OF4.2 OF4.2S OF4.3S		
(a)(ii)	Statement of changes in equity	A1.3		
(a)(iv)	Impact of amortisation and impairment		E1	

\*

B=Both Life and Non-Life

LI= Life

NL= Non-Life

4.2 The following paragraphs provides further guidance and explains some of the disclosure requirements as prescribed in the PDI Standard.

#### 4.2.1. Corporate governance framework

- i. Significant models are models that are used by management and the Board for decision-making.

#### 4.2.2. Technical provisions

- i. Information about the best estimate liability and the risk margin may include:
  - the methods used to calculate them;
  - whether or not the components of the technical provisions are determined separately; and
  - If the methodology has changed since the last reporting period. If it has, the insurer must include the reasons for the change and any material quantitative impact.

#### A. Life insurers

- i. With regard to quantitative information on the life insurer's minimum participation features and actual distributions to policyholders, the following quantitative information may be shown by segment:
  - guaranteed policyholder benefits paid; and
  - additional policyholder benefits paid which arise from profit-sharing clauses.

#### B. Non-life insurers

- i. To facilitate the evaluation of a non-life insurer's ability to assess the size of the commitments and to indemnify losses covered by the

insurance contracts issued, disclosures for non-life insurers must include the run-off results over many years, to enable policyholders and market participants to evaluate long-term patterns (for example, how well the insurer estimates the technical provisions). The length of the time period should reflect how long-tailed the distribution of losses is for the insurance classes in question.

- ii. A claims development triangle shows the insurer's estimate of the cost of claims (claims provisions and claims paid), as of the end of each year, and how this estimate develops over time.
- iii. The information in (ii) above should be reported consistently on an accident-year or underwriting-year basis, and reconciled to amounts reported in the balance sheet.

#### 4.2.3. Insurance risk exposures

- i. Disclosures may include a quantitative analysis of the insurer's sensitivity to changes in key factors both on a gross basis and taking into account the effect of reinsurance, derivatives and other forms of risk mitigation on that sensitivity.
- ii. Description of the insurer's risk concentrations may include, at least, information on the geographical concentration of insurance risk, the economic sector concentration of insurance risk, the extent to which the risk is reduced by reinsurance and other risk mitigating elements and, if material, the risk concentration inherent in the reinsurance cover.
- iii. These disclosures may include a sensitivity analysis by life insurers to the changes in mortality and disability assumptions or sensitivities to increased claim inflation by non-life insurers.

#### **Quantitative information** on an insurer's reinsurance arrangement

- i. The types of reinsurance arrangements made may include treaty, facultative, proportional or non-proportional.
- ii. If reinsurance is material, an insurer may disclose its highest premium concentration ratios, which shows the premiums ceded to an insurer's largest reinsurers in aggregate, as a ratio of the total reinsurance premium ceded.

#### 4.2.4 Investment risk exposures

- i. Disclosures of information on whether or not the insurer carries out stress tests or sensitivity analysis on its investment risk exposures may for e.g. include the change in capital resources as a percentage of total assets corresponding to a 100 basis point change in interest rates).
- ii. If stress test is carried out, the insurer may disclose the model, process and types of assumptions used and the manner in which the results are used as part of its investment risk management practices.
- iii. Type of issuer may include for e.g. government, corporate. Breakdowns on credit quality may include the aggregate default and spread risk arising from both on- and off-balance sheet exposures.

#### 4.2.5 Asset-liability management

- i. With regard to the insurers' asset and liability management approach, the explanation may take into account the ability to realise its investments quickly, if necessary, without substantial loss, as well as sensitivities to fluctuations in key market variables (including interest rate, exchange rate and equity price indices) and credit risks.
- ii. Disclosures may include the insurer's sensitivity of regulatory capital resources and provisions for mismatching to changes in the value of assets as well as changes in the discount rate or rates used to calculate the value of the liabilities.

#### 4.2.6 Financial performance

##### **a) Technical performance**

- i. The insurer shall provide statements of profit and loss that include the results, both gross and net of reinsurance, of their underwriting for life and non-life.
- ii. If the insurer is a ceding insurer, disclosures must include gains and losses recognised in profit or loss on buying reinsurance.

##### **A. Technical performance for non-life insurers**

- i. Information relating to previous years must not be recalculated to take into account present information. The length of the period may reflect the historical volatility of the particular class of insurance business.
- ii. The trend in claims may reflect the development in insurance risks. Several measurement method of insurance risk can be considered; however, at a minimum, historical data accompanied by the supporting narrative must be disclosed on:
  - the mean cost of claims incurred (i.e. the ratio of the total cost of claims incurred to the number of claims) in the accounting period by class of business; and
  - the claims frequency, determined as the ratio of the number of claims incurred in the reporting period to the average number of insurance contracts in existence during the period.

##### **b) Source of earnings analysis for life insurers**

- i. Life insurers are expected to disclose the impact of new business on earnings. This represents the point-of-sale impact on net income of writing new business during the reporting period. This is the difference between the premium received and the sum of the expenses incurred as a result of the sale and the new technical provisions established at the point of sale. This is also affected by any methodology used to defer and amortise acquisition expenses.
- ii. Life insurers are expected to disclose experience gains and losses. This represents gains and losses that are due to differences between the actual experience during the reporting period and the technical



provisions at the start of the year, based on the assumptions at that date.

- iii. Life insurers may disclose the impact on earnings of management actions and changes in assumptions.

**Table 1: An example of a source of earnings analysis table for a life insurer**

Source of earnings					
	Segment A		Segment B		Total
	Current year	Previous year	Current year	Previous year	
Expected earnings on in-force business					
Impact of new business					
Experienced gains and losses:					
Investment					
Mortality					
Expenses					
Other					
Additional items:					
Changes in assumptions					
Earnings on surplus					
Other					
Income taxes					
= Net income					

### **c) Investment performance**

- i. Disclosure of investment performance must be made on appropriate subsets of an insurer's assets (e.g. assets belonging to the insurer's life insurance business, assets belonging to statutory or notionally segregated portfolios, assets backing a group of investment-linked contracts, assets grouped as the same asset class).
- ii. For investment performance related to equity securities, debt securities, properties and loans, the disclosures must include a breakdown of income (e.g. dividend receipts, interest income, rental income), realised gains/losses, unrealised gains/losses, and impairments including changes in loan-loss provisions and investment expenses.