



SOUTH AFRICAN RESERVE BANK
Prudential Authority

Prudential Standard FSI 6

Liquidity Risk Management for Insurers

Objectives and key requirements of this Prudential Standard

This Prudential Standard (Standard) is made in terms of sections 105 and 108 of the Financial Sector Regulation Act, 2017 (Act No. 9 of 2017), read with section 63 of the Insurance Act, 2017 (Act No. 18 of 2017).

This Standard establishes the fundamental principles and operational guidelines for the effective management of liquidity risk by insurers. These principles and practices are founded on the recognition of the prudential significance of liquidity risk and its potential impact on an insurer's operations and financial soundness.

This Standard requires insurers to establish, implement and maintain a robust and comprehensive liquidity risk management framework that provides for the identification, assessment, measurement and mitigation of liquidity risk. The framework must be supported by appropriate governance arrangements, stress testing, formulation of a credible contingency funding plan, liquidity risk appetite and liquidity risk reporting.

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1. Definitions

In this Standard, 'Insurance Act, 2017' means the Insurance Act, 2017 (Act No. 18 of 2017), and 'Financial Sector Regulation Act, 2017' means the Financial Sector Regulation Act, 2017 (Act No. 9 of 2017). Any word or expression to which a meaning has been assigned in these Acts shall have that meaning unless a different meaning is expressly assigned elsewhere in this Standard.

In this Standard:

'Authority' means the Prudential Authority established in terms of section 32 of the Financial Sector Regulation Act, 2017;

'contingency funding plan' (CFP) means a structured, board-approved plan for identifying, securing, maintaining and executing alternative funding options and liquidity-enhancing actions to meet obligations under severe but plausible stress scenarios (including operational and systemic triggers) when normal funding channels are inadequate, and which is subject to regular review and testing as required by paragraph 9 of this Standard;

'high-quality liquid assets' (HQLA) means assets that are highly liquid and easily convertible into cash with limited or no loss of value and which meet the criteria for classification, valuation and composition set out in paragraph 8 of this Standard;

'Insurance liquidity ratio' (ILR) means the ratio of an insurer's stock of HQLA to its net cash outflows over a specified stress period, calculated in line with the methodology set out in paragraph 7 of this Standard;

'residual liquidity requirements' means liquidity obligations that remain with the insurer and are not automatically met by the liquidation of unit-linked assets, such as operational expenses, contractual guarantees, timing differences between asset liquidation and benefit payments, and potential surges in surrenders or policy switches;

'risk appetite' means the aggregate level and types of risk the insurer is willing to accept within its risk capacity in pursuit of its strategic objectives. It sets the general boundary for risk-taking behaviour; and

'risk tolerance' means the amount of variation from the established risk appetite the insurer is willing to accept for individual risks or situations. It defines the acceptable deviation from the desired risk level.

2. Application

- 2.1 This Standard applies to all insurers licensed under the Insurance Act, 2017 other than microinsurers, Lloyd's and branches of foreign reinsurers.
- 2.2 Paragraph 3.6 of this Standard applies to the auditors of insurers appointed in terms of section 32 of the Insurance Act, 2017.

3. Roles and responsibilities

- 3.1 The insurer's board is ultimately responsible for ensuring:
 - 3.1.1 compliance with the principles and requirements of this Standard and with any specific requirements set by the Authority regarding the management of liquidity risk; and
 - 3.1.2 that liquidity stress scenarios adequately address the consequential nature of liquidity risk, are accompanied by an assessment of the reliability of the resulting point estimates as required by paragraph 6.9, and support robust risk management in line with the insurer's risk appetite.
- 3.2 An insurer's senior management is responsible for ensuring that sufficient liquid assets are available to meet its cash-flow needs during business-as-usual and stressed conditions.
- 3.3 The insurer must establish and maintain an appropriate process for monitoring liquidity risk. This must include a process for liquidity risk reporting, providing clear, concise, timely and accurate liquidity risk reports to the relevant control functions within the insurer.
- 3.4 Senior management must receive timely, accurate and relevant information on the insurer's liquidity risk position and on emerging liquidity stress events and must report periodically to the insurer's board of directors or the relevant board committee. These reports must cover the current liquidity risk position against the insurer's risk appetite, emerging liquidity stress events, and the results of liquidity stress testing, and must highlight any vulnerabilities identified together with proposed remedial actions.
- 3.5 An insurer's head of actuarial function is responsible for providing the board with an opinion on the accuracy of the ILR calculations and appropriateness of the underlying assumptions, as stipulated in paragraph 7 of this Standard.
- 3.6 An auditor appointed in terms of section 32, read with section 14(1), of the Insurance Act, 2017 must, as part of the audit work required under the Insurance Act, obtain sufficient and appropriate audit evidence in respect of the composition of the insurer's HQLA portfolio and the calculation of its ILR. The auditor must report any material non-compliance identified in relation to those matters to the insurer's audit committee and, where section 32(4) of the Insurance Act, 2017 requires it, to the Authority.

4. Liquidity governance and risk management framework

- 4.1 The board must ensure that the insurer establishes an adequate:
 - 4.1.1 governance framework for the prudent management and oversight of funding and liquidity risk; and
 - 4.1.2 risk management framework incorporating liquidity risk that is proportionate to the insurer's nature, size, complexity and risk profile.
- 4.2 An insurer must develop, implement and maintain a clearly defined, board-approved liquidity risk appetite statement and liquidity risk tolerance limits.
- 4.3 The board must:
 - 4.3.1 approve the liquidity risk policy for the insurer;
 - 4.3.2 ensure that the insurer's liquidity risk appetite is aligned with its strategic objectives and is embedded in the insurer's ongoing operations;
 - 4.3.3 ensure that the insurer's liquidity risk appetite and risk tolerance limits remain appropriate on an ongoing basis;
 - 4.3.4 review the insurer's liquidity risk management practices and performance to ensure that the insurer is operating within its approved liquidity risk appetite and risk tolerance; and
 - 4.3.5 review and approve stress scenarios at least annually, ensuring alignment with the insurer's liquidity risk appetite. The review must assess the severity, plausibility, and relevance of scenarios to the insurer's risk profile. Ad hoc reviews are required when there are material changes in the insurer's operations, market conditions, or risk exposures.
- 4.4 An insurer's risk management and internal audit functions must review the liquidity risk management framework, ILR calculations and assumptions to confirm they meet policy standards and are aligned with risk appetite and risk tolerance levels.
- 4.5 Senior management must ensure that the insurer's liquidity risk policies and procedures are communicated to all relevant employees and that employees work together to implement them.

5. Liquidity risk drivers

- 5.1 Insurers must identify and assess the drivers of their liquidity risk exposures and how those drivers affect their funding and liquidity position under both business-as-usual and stressed conditions, having regard to their operations, legal structure, and the nature of their classes of business.
- 5.2 Insurers must remain aware of activities that may increase their exposure to liquidity risk, including those that create additional funding and liquidity needs, potentially undermining the insurer's financial soundness or posing systemic risk.
- 5.3 An insurer's liquidity risk drivers include, but are not limited to:
 - 5.3.1 policyholder behaviour (e.g., lapses, surrenders, non-payment of premiums);
 - 5.3.2 timing mismatches between asset and liability cash flows;

- 5.3.3 contingent liabilities (such as those arising from derivatives and guarantees);
- 5.3.4 a downgrade in the insurer's own credit rating;
- 5.3.5 drawdowns on committed credit facilities;
- 5.3.6 collateral calls arising from market movements or credit downgrades;
- 5.3.7 catastrophic claims events, such as natural disasters; and
- 5.3.8 the failure of a reinsurer or retrocessionaire to meet obligations under arrangements relied on by the insurer for recoveries, salvage amounts, collateral or contingent funding.

6. Stress testing

- 6.1 Stress testing is a key component of liquidity risk management and must be built into the insurer's risk management processes.
- 6.2 Stress scenarios must be designed to reveal vulnerabilities in the insurer's liquidity profile and support proactive risk identification.
- 6.3 Insurers must conduct liquidity stress tests using a range of severe but plausible scenarios over multiple time horizons, including at minimum an acute stress over horizons of up to three months and a protracted stress over a horizon of up to twelve months.
- 6.4 The insurer must assess its cumulative stressed net cash-flow position at each time horizon specified in the Liquidity Return determined under paragraph 11. The insurer must demonstrate that liquidity sources are sufficient to meet liquidity needs as they fall due over the one-month horizon. For later horizons specified in that Return, the insurer must identify any projected shortfall and show how it would be met when due.
- 6.5 The assessments referred to in paragraph 6.4 must account for intragroup funding arrangements, currency mismatches, and any legal, regulatory or operational requirements.
- 6.6 The scenarios must:
 - 6.6.1 account for macroeconomic fluctuations, sector-wide disruptions, idiosyncratic events, and any combinations thereof;
 - 6.6.2 explicitly model liquidity risk as a consequential outcome of primary events, outlining the causal pathways from triggers to liquidity impacts; and
 - 6.6.3 reflect the insurer's specific business model, including classes of business, geographic exposures, and reinsurance dependencies.
- 6.7 Key assumptions used in the scenarios must be clearly documented and substantiated, considering the scenario's severity and all pertinent risk factors.
- 6.8 Scenarios and assumptions must be forward-looking, incorporating emerging risks and not relying solely on historical events, distributions, or correlations.
- 6.9 To address the inherent uncertainty in the forward-looking assumptions underpinning these scenarios, insurers must quantify this uncertainty for each scenario. This must be achieved by providing either:
 - 6.9.1 a 95% confidence interval, reflecting the statistical range within which the true value of the estimate is expected to fall, based on the variability of the underlying factors; or

- 6.9.2 a sensitivity range, showing the impact on the estimate of plausible variations in one or more key assumptions.
- 6.10 Insurers must use credible quantitative data sources, such as macroeconomic forecasts from the South African Reserve Bank or Statistics South Africa, industry benchmarks, and where required qualitative data sources such as expert judgement to inform scenario parameterisation.
- 6.11 For consistency of comparison, the Authority may require insurers to conduct a standardised scenario as may be determined by the Authority through a notice published on its website.
- 6.12 Insurers must incorporate reverse stress testing within their stress testing framework, tailored to the nature, size, complexity and risk profile of their business.
- 6.13 The reverse stress tests referred to in paragraph 6.12 must identify scenarios in which the insurer's stock of liquid assets is completely depleted, identifying the primary events and the causal pathways through which their consequential liquidity impacts arise.
- 6.14 The results of the stress test and reverse stress test must inform the CFP, ensuring actionable strategies to mitigate identified risks.
- 6.15 The stress test outcomes must be reported together with confidence intervals or sensitivity ranges as prescribed in paragraph 6.9.

7. Insurance liquidity ratio

- 7.1. The ILR measures an insurer's ability to meet short-term cash flow obligations over a 30-calendar-day period. It is calculated as described in paragraph 7.4 below. Insurers must maintain an ILR of at least 100%, along with an appropriate buffer to ensure resilience under severe stress scenarios.
- 7.2. Insurers must manage their business so that the calculated ILR does not fall below the minimum percentages determined by the Authority at any time.
- 7.3. The ILR must be calculated using the stress scenarios specified in paragraph 6, supplemented by tailored scenarios relevant to the insurer's business model. For unit-linked insurance products, the same scenarios must be applied with a focus on residual risk impacts. Results must include 95% confidence intervals or sensitivity ranges for net cash outflows to quantify uncertainty in assumptions.
- 7.4. The ILR must be calculated as follows:

$$ILR = \frac{\text{Total Adjusted High Quality Liquid Assets}}{\text{Net Cash Outflows Under Stress}}$$

Where:

Total adjusted high-quality liquid assets¹ = The market value of all HQLA after applying haircuts for assets backing obligations where the policyholder does not bear the investment risk.²

Net cash outflows under stress = Total expected cash outflows minus total expected cash inflows arising from obligations where the policyholder does not bear the investment risk, calculated for the subsequent 30 calendar days under a standardised or tailored stress scenario. For the avoidance of doubt, cash flows relating to unit-linked liabilities where the policyholder bears the investment risk are excluded from this calculation. Total cash inflows are capped at 75% of total cash outflows.

8. High-quality liquid assets

- 8.1 Insurers must hold a portfolio of HQLA sufficient to ensure compliance with the ILR as prescribed in paragraph 7 above.
- 8.2 The portfolio must maintain a buffer to achieve an ILR of at least 100% during business-as-usual conditions, with adequacy confirmed under the stress scenarios set out in paragraph 6.
- 8.3 The Authority may, from time to time, through notices published on its website, determine asset classes and haircuts and the extent to which HQLA denominated in a currency other than the rand may be included in the HQLA portfolio. The Authority may amend these determinations as market conditions require.
- 8.4 An insurer that underwrites unit-linked insurance products, where policyholders bear the investment risk associated with the underlying assets, must:
 - 8.4.1 identify all relevant residual liquidity risks arising from its products and business model;
 - 8.4.2 hold an HQLA portfolio sufficient to meet its residual liquidity requirements;
 - 8.4.3 ensure the adequacy of the HQLA portfolio for unit-linked business through the stress testing requirements in paragraph 6, focusing specifically on the residual risks identified under paragraph 8.4.1; and
 - 8.4.4 ensure that monetisation assessments consider operational constraints specific to its business model.
- 8.5 The HQLA portfolio must be liquid, readily convertible into cash through direct sale or repurchase agreements (repos) at minimal or no cost, and unencumbered.

¹ Adjusted HQLA. This term emphasises that the value is adjusted (due to haircuts), pertains to high-quality assets and is readily available for liquidity needs. It also aligns with the insurance industry's focus on asset quality and risk management.

² As per the liquidity risk return.

- 8.6 Insurers must assess the operational capability to monetise HQLA under stress scenarios, accounting for potential settlement delays or disruptions in the repo market, as part of paragraph 6 stress testing.
- 8.7 HQLA must be categorised as Level 1, Level 2a, or Level 2b. Level 1 assets offer the highest quality and liquidity, attracting willing buyers even in strained circumstances. Level 2a and 2b assets, while still high quality, have lower liquidity or higher risk profiles.
- 8.8 Level 1 assets must make up at least 60% of the HQLA portfolio. Level 2a assets are subject to larger haircuts or longer to medium liquidation periods compared to Level 1 assets, while Level 2b assets, which have fewer active markets, require longer liquidation periods or larger haircuts in stress conditions.
- 8.9 The HQLA portfolio must be diversified across asset types, issuers and jurisdictions, with no single issuer exceeding 20% of the portfolio (except South African government bonds).
- 8.10 For insurers with unit-linked insurance products, the board may propose an HQLA portfolio composition with a Level 1 assets proportion below the minimum required in paragraph 8.7, subject to prior written approval from the Authority. To obtain approval, the insurer must submit a comprehensive justification showing that the proposed composition remains prudent and adequate. The submission must include, at a minimum:
- 8.10.1 Stress testing evidence: Results from the required stress scenarios under paragraph 6, demonstrating that the proposed portfolio with a lower proportion of Level 1 assets would still generate sufficient liquidity to meet all residual obligations under severe but plausible conditions;
 - 8.10.2 Historical analysis: An assessment of historical policyholder behaviour, including surrender and switching patterns supporting the liquidity assumptions of the proposed asset composition;
 - 8.10.3 Liquidity conversion assessment: Evidence showing how Level 2a and 2b assets would be monetised under stressed conditions, including assumptions about haircuts, liquidation timeframes and market depth;
 - 8.10.4 Risk appetite alignment: A clear explanation of how the proposed composition aligns with the insurer's board-approved liquidity risk appetite and risk tolerances; and
 - 8.10.5 Ongoing monitoring frameworks: Details of how the insurer will monitor and report on the performance and liquidity of the proposed asset composition on an ongoing basis.
- 8.11 The Authority may grant approval with conditions or require the insurer to maintain the standard Level 1 proportion if the justification is deemed insufficient.
- 8.12 Insurers must apply appropriate haircuts to the fair market value of HQLA to account for increased credit and market risk during stress events, using standardised ranges as determined by the Authority through a notice published on its website and aligned with scenario requirements set out in paragraph 6 above.

- 8.13 The HQLA portfolio must be stress tested to assess liquidity and value under the scenarios in paragraph 6, including primary events and consequential liquidity impacts.
- 8.14 Where an insurer uses a credit rating of a security to determine eligibility for inclusion as HQLA or the applicable haircut, the insurer must use a credit rating in accordance with the requirements relating to the use of credit ratings under the Insurance Act.
- 8.15 Where more than one external credit rating is available for a security, the insurer must apply:
 - 8.15.1 the less favourable rating, where two ratings are available; or
 - 8.15.2 the less favourable of the two most favourable ratings, where more than two ratings are available.

9. Contingency funding plan

- 9.1 Insurers must develop and implement a board-approved CFP to respond to liquidity stress events.
- 9.2 The CFP must:
 - 9.2.1 be tailored to the insurer's nature, scale, and complexity, as well as integrated with asset-liability and enterprise risk management;
 - 9.2.2 enable the insurer to address stress scenarios where its liquid assets are insufficient or become unexpectedly illiquid;
 - 9.2.3 outline governance arrangements, escalation triggers, scenario-based stress testing, multi-horizon cash-flow projections, and regular reviews of funding sources;
 - 9.2.4 outline practical steps the insurer can take to maintain adequate liquidity and meet its financial obligations, including collateral requirements during stress scenarios;
 - 9.2.5 detail how the insurer will quickly and cost-effectively address liquidity shortfalls under stress, while also considering any consequential liquidity risks;
 - 9.2.6 be tested annually against all stress scenarios, including standardised, tailored, and reverse stress tests; and
 - 9.2.7 be updated to reflect the outcomes of the stress tests, ILR results, and material business changes. Testing must confirm that the CFP can maintain liquidity at or above the ILR minimum of 100% and mitigate related risks under stress conditions.
- 9.3 In addition, the CFP must:
 - 9.3.1 include a diversified range of management actions that the insurer can execute promptly to generate liquidity from assets, obtain funding, or reduce liquidity risk exposure;
 - 9.3.2 describe when and how each action can be activated, the expected time to access funds, the estimated amount available from each contingency source under stress and identify any potential unintended consequences of each action;
 - 9.3.3 set out clear steps to allow the insurer to make timely, well-informed decisions, execute contingency measures efficiently, and communicate effectively;

- 9.3.4 include quantitative metrics or early warning indicators that the insurer can use to identify a range of liquidity stress events, assessing their impact on the liquidity position, HQLA portfolio and available funding sources;
- 9.3.5 specify the actions to be taken, their timing, the responsible parties, and escalation procedures;
- 9.3.6 establish a clear allocation of roles and lines of management responsibility, including defining procedures for identifying early warning indicators for potential liquidity stress events based on its business model's distinctive features; and
- 9.3.7 include a governance process for escalation, ensuring prompt delivery of required information to the board or the relevant sub-committee and senior management, as well as a clear communication strategy for relevant internal and external stakeholders.

10. Liquidity risk management reporting in the Own Risk and Solvency Assessment

- 10.1 The ILR does not affect Pillar 1 capital requirements or form part of the valuation of technical provisions.
- 10.2 Insurers must consider their liquidity risk exposures, including the results of ILR calculations and stress testing, as a key part of their Own Risk and Solvency Assessment (ORSA) under Pillar 2.
- 10.3 The insurer's ORSA report must include the following in respect of its funding and liquidity risk exposure:
 - 10.3.1 a statement outlining the insurer's liquidity risk appetite and risk tolerance limits;
 - 10.3.2 an overview of the insurer's current funding and liquidity position in relation to its liquidity risk appetite and established limits;
 - 10.3.3 a description of the systems and metrics used to measure and monitor liquidity risk;
 - 10.3.4 a summary of strategies, policies and processes that the insurer has in place to manage its funding and liquidity risk;
 - 10.3.5 an overview of any potential vulnerabilities in the insurer's assets and liabilities and ways of enhancing its funding and liquidity position;
 - 10.3.6 a detailed analysis of intergroup funding arrangements indicating the extent of the dependency on the parent company or other entities within the group, including an opinion on whether such arrangements are likely to be effective in stress scenarios; and
 - 10.3.7 a comprehensive overview of the insurer's approach to its liquidity stress testing framework.
- 10.4 Where the Authority determines that an insurer's funding and liquidity risk is not adequately measured, managed or mitigated, including where this is evident from the insurer's ORSA, the Authority may require the insurer to take appropriate remedial action to address the identified deficiencies.
- 10.5 Without limiting paragraph 10.4, the Authority may impose on an insurer a liquidity add-on by requiring the insurer to maintain one or more of the following:
 - 10.5.1 an ILR above the minimum required under paragraph 7.2;
 - 10.5.2 an additional amount of HQLA; or

- 10.5.3 HQLA of a specified composition, currency or location.
- 10.6 Before imposing a liquidity add-on in terms of paragraph 10.5, the Authority must:
- 10.6.1 provide the insurer with the reasons for the proposed add-on; and
- 10.6.2 afford the insurer a reasonable opportunity to make representations.
- 10.7 The Authority must review a liquidity add-on imposed in terms of paragraph 10.5 at least annually and must withdraw or amend it when the circumstances giving rise to it no longer exist.

11. Reporting requirements

- 11.1 The Authority may determine the form, manner and period for reporting obligations under this Standard.
- 11.2 The determination referred to in paragraph 11.1 above will be published by notice on the Authority's website.

12. Short title and commencement

- 12.1 This Standard is called Prudential Standard FSI 6 Liquidity Risk Management for Insurers.
- 12.2 This Standard will come into operation on [insert date].

Version number	Commencement date
1	XXXX

13. Amendment of other regulatory instruments

This Standard repeals and replaces *Prudential Standard FSI 6: Liquidity Risk Assessment* and modifies the regulatory instruments listed in Attachment 1 below as specified.

Attachment 1: Amendments to other regulatory instruments

Standard	Name	Extent of repeal or amendment
Prudential Standard FSI 1	Financial Soundness Standards for Insurers - Framework for Financial Soundness of Insurers	1. By deleting the words “FSI 6 (Liquidity Risk Assessment)” in paragraph 6.6 and inserting the words “FSI 6 (Liquidity Risk Management)” 2. By deleting the words “FSI 6 (Liquidity Risk Assessment)” in paragraph 9.1 and inserting the words “FSI 6 (Liquidity Risk Management)”
Prudential Standard FSI 4	Financial Soundness Standards for Insurers – Calculation of the SCR Using the Standardised Formula	By deleting the words “FSI 6 (Liquidity Risk Assessment)” in paragraph 4.12 and inserting the phrase “FSI 6 (Liquidity Risk Management)”
Prudential Standard GOI 3.1	Governance and Operational Standards for Insurers – Own Risk and Solvency Assessment (ORSA) for Insurers	By deleting the words “(where relevant)” in paragraph 6.2.