

Prudential Communication 5 of 2021

Solvency Assessment and Management matters - Phase 2

Objective of this Prudential Communication

This communication provides clarity on the application of the Financial Soundness Standard for Insurers (FSI) 2.2, 2.3, 4.1 and Final Position Paper 111 (FPP111) within the context of resolving selected items with regards to the Solvency Assessment and Management Phase 2 (SAM 2) matters.

1. Application

- 1.1. This Prudential Communication is applicable to all licensed insurers.

2. Purpose

- 2.1. The purpose of this Prudential Communication is to:-
- provide further clarity on selected SAM 2 matters presented to the Prudential Authority (PA) with reference to the FSI 2.2, 2.3, 4.1; and
 - confirm the PA's stance on the application of these selected matters contained in FPP 111.

3. Guidance on the treatment of cash, cash instruments and short-term deposits

- 3.1. A definition was required from the PA with respect to cash instruments set out in FPP 111. Similarly, a definition was required for cash and short-term deposits within Concentration Risk as per the Financial Services Board (FSB) Policy Steer document, Section 5, dated January 2018. Finally a definition for cash and short-term deposits referenced in regulatory deductions in FSI 2.3 was requested.
- 3.2. The PA is of the view that adequate guidance is provided within FSI 4.1 as it relates to 3.1 above. Consequently, no further guidance is required as to the provision of definitions as referred to in 3.1.

4. Guidance as it relates to the illiquidity premium and the requirement of maintaining the related assets set out in FSI 2.2-Section 13.4a.

- 4.1. It was proposed that an amendment of the standard be effected to include the wording "intend to". The justification for the alternative wording was to allow insurers to deviate from these positions in extreme circumstances. The proposed reflected change would thus have read:

4.1.1. The insurer *must intend to* maintain the assignment of assets over the lifetime of the obligations (except for the purpose of maintaining the replication of cash-flows between assets and liabilities).

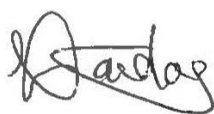
4.2. The PA is of the view that no amendment is required to the said wording contained in FSI 2.2. The PA is of the view that the proposed wording may introduce uncertainty and compromise the application of the Standard.

5. Treatment of short-term investment instruments as it relates to FSI 4.1

5.1. Guidance was requested on the classification of short-term investment instruments to which the market risk sub-module, is applicable in FSI 4.1.

5.2. The PA has determined that introducing specific guidance as it relates to short-term investment instruments will be inconsistent with the principles-based design of FSI 4.1. Given the numerous types of instruments and the manner in which these evolve over the time, it would be impractical to set a specific classification for short-term investment instruments that fully capture all relevant characteristics.

Should additional information be required on this communication or on the requirements of the PA, please do not hesitate to contact the Risk Support Department - Market Risk Division at PA_RSD-MarketRisk@resbank.co.za.



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Date: 1 June 2021