



SOUTH AFRICAN RESERVE BANK
Prudential Authority

Statement of the need for, expected impact and intended operation of a regulatory instrument*

Amendment to the Prudential Standard for Framework for Financial Soundness of Branches

October 2025

*This statement is drafted in fulfilment of the requirements under section 98 of the Financial Sector Regulation Act 9 of 2017

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1. Introduction

- 1.1 The Prudential Authority (PA) issued the Prudential Standard FSB 1 - Framework for Financial Soundness of Branches (the Standard) in 2018. This Standard establishes regulatory requirements for financial soundness of branches of foreign reinsurers (branches) operating in South Africa. It aims to ensure that branches maintain adequate financial security within the country, thereby safeguarding policyholders' interests. It promotes systemic stability by requiring sufficient capital to be held in South Africa thus preventing unavailability of funds within branches.
- 1.2 While the existing Standard has contributed to promoting financial soundness of the branches, a limitation in the calculation of minimum trust assets has led to the need to review the current formula to ensure that it is appropriate and effective for branches operating in South Africa.
- 1.3 Consequently, the PA deems it necessary to amend the formula used to calculate minimum trust assets in order to enhance the ability of the framework to support fair, secure, and resilient branches that safeguard policyholders and align with the broader regulatory objectives.
- 1.4 The revised formula introduces a minimum capital requirement to reinforce financial security and ensure that trust assets remain sufficient. The revised Standard, envisaged for implementation once finalised, aims to provide a more robust trust asset measure that strengthens regulatory safeguards.
- 1.5 In terms of section 98 of the Financial Sector Regulation Act 9 of 2017 (FSR Act), a financial sector regulator must not make a regulatory instrument, including amendments to a regulatory instrument unless it has published the following:
 - a) a draft of the regulatory instrument;
 - b) a statement explaining the need for and the intended operation of the regulatory instrument;
 - c) a statement of the expected impact of the regulatory instrument; and
 - d) a notice inviting submissions in relation to the regulatory instrument, stating where, how and by when submissions are to be made.

- 1.6 In fulfilment of the above-mentioned requirements, the PA prepared a statement of the need for, expected impact and intended operation of the proposed amendments to the Standard. This Statement outlines the need for the proposed amendments to the Standard, the rationale behind the proposed revisions and the intended operation of the amended Standard.

2. Statement of need

- 2.1 Prudential regulation of reinsurers underwent reform in 2018, enabling foreign reinsurers to operate through a branch structure in South Africa. To uphold financial soundness and safeguard policyholder interests, branches are required to maintain assets in a trust account within South Africa, ensuring that some level of security remains within the country in accordance with section 40(1) of the Insurance Act 2017.
- 2.2 This regulatory requirement promotes financial soundness by ensuring the availability of funds and the ability of the branch to meet its local obligations in the case of a risk event materialising. By holding assets in a trust, branches ensure liquidity and financial security. When trust assets are insufficient, the ability of the branch to fulfil its financial commitments is compromised.
- 2.3 A limitation in the current calculation of trust assets for branches has been identified where the formula permits negative balances of trust assets, potentially undermining the purpose of holding security for branches. To prevent instances where the calculation of trust assets for a branch is a negative figure, an amendment of the formula is necessary to strengthen financial stability and enhance risk management.
- 2.4 The proposed amendment to the Standard aims to change the formula for calculating minimum trust assets, ensuring a more robust financial safeguard and introducing a minimum threshold being the absolute minimum capital requirement.
- 2.5 Since the introduction of the Standard in 2018, trust assets are defined as technical provisions net of premium debtors. However, due to the complexities of insurance operations, certain business lines may generate negative technical

provisions. By excluding negative technical provisions and introducing a minimum capital requirement, the revised formula ensures that trust assets remain above a defined baseline, thus reinforcing financial soundness and regulatory compliance.

3. Statement of expected impact

- 3.1 An analysis of trust assets held (see below) indicates that branches currently maintain assets that exceed the levels when determined by the existing formula. However, with the revised formula, the minimum requirement will be raised for one branch, while the other two branches will remain unaffected. The anticipated impact of the revised formula for calculating trust assets is summarised below:

Branches	Impact of revised Trust Assets Calculation
Branch 1	No observed impact
Branch 2	Minimum requirement raised
Branch 3	No observed impact

- 3.2 To further assess any potential impact and unintended consequences that may result from the proposed amendment to the Standard, all interested stakeholders are encouraged to submit comments to the PA using the comment template provided.
- 3.3 Following the consultation process, all responses received will be analysed and the PA may make any necessary changes to the Standard and this Statement to better reflect the expected impact based on the submissions received.

4. Statement of intended operation

- 4.1 Once finalised, the amended Standard will apply to all branches conducting business in South Africa. It is the responsibility of the foreign reinsurer and the representative of a branch to ensure that the branch meets the financial soundness requirements set out in the amended Standard. The amended Standard will be overseen by the PA in pursuit of its objectives. This will ensure

that the assessment of regulatory compliance is consistent across branches of foreign reinsurers.

- 4.2 Following the implementation of the amended Standard, the PA will assess and evaluate its effectiveness on a continuous basis as part of the supervisory responsibilities to ensure that any unintended consequences on the sector and general public are adequately addressed.

5. Conclusion

- 5.1 This Statement is compiled in terms of section 98 of the FSR Act and establishes the need to revise the calculation of trust assets due to the limitation observed in the existing Prudential Standard on the Framework for Financial Soundness of Branches. The revised Standard aims to strengthen the regulatory safeguards, ensuring a resilient, fair, and secure environment for all stakeholders.
- 5.2 To achieve this, the proposed amendment introduces a minimum capital requirement, thereby ensuring that trust assets remain greater than zero. The PA will utilise the consultation process to make changes where necessary based on industry feedback.