
Insurance (Amendment) Regulations, 2026 (No. 29)

IT is hereby notified that the Minister of Finance, Economic Development and Investment Promotion, in terms of section 89 of the Insurance Act [*Chapter 24:07*], has made the following regulations—

1. These regulations may be cited as the Insurance (Amendment) Regulations, 2026 (No. 29).

2. The Insurance Regulations, 1989, published in Statutory Instrument 49 of 1989 (hereinafter referred to as the “principal Regulations”), are amended as follows—

(a) section 2 of the Principal Regulations is amended by the insertion of following definitions—

““admissible assets” means assets that are considered for the purposes of calculating the solvency capital of an insurer;

“best estimate liability” means the present value of expected future cash flows discounted using the risk-free rate of interest;

“capital” means the amount of the insurer’s total admissible assets in excess of the amount of its liabilities including contingent and prospective liabilities;

“contingent asset” means a possible asset that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity;

“contingent liability” means a possible obligation that arises from past events, but its payment depends on whether some uncertain future event occurs;

“contract boundary” means the point at which an insurer can either terminate the contract or refuse to accept a premium or change the premiums or benefits in such a way that they fully reflect the risks;

“eligible own funds” means the amount of available capital the insurer has to absorb losses;

“encumbered assets” means assets that are owned by one party, but subject to a legal claim by another party;

“fair value” means the market value, based on readily available market prices in orderly transactions that are sourced independently;

“homogeneous risk group” encompasses a collection of policies with similar risk characteristics;

“independent actuary or valuator or professional” means an actuary or valuator or professional who does not have any material conflict of interest;

“independent director” means a non-executive director who does not have any vested interests or conflict of interest deemed material by the Commission and includes a director who—

- (a) is not and has not in the preceding five years held an executive position within the insurer or any of its related persons;
- (b) is not a close relative of an individual mentioned in (a); or
- (c) is not a material supplier or customer of the insurer or does not have any business relationship with the insurer, such that a reasonable and informed third party would conclude in the circumstances, that the integrity, impartiality or objectivity of that director is compromised by that relationship;
- (d) is not associated to an adviser or consultant to the insurer or a significant customer or supplier of the insurer or with a not-for-profit entity that receives significant contributions from the insurer; or within the preceding five years, has not had any business relationship with the insurer (other than service as a director); and
- (e) is not employed by a public listed company at which an executive officer of the insurer serves as a director;

“market value of technical provisions” is defined as consisting of a best estimate liability plus a risk margin of which the calculation of such technical provisions shall be segmented by homogeneous product type;

“minimum capital requirement” means the minimum level of eligible own funds that is required to protect policyholders;

“non-executive director,” means an individual who is not involved in the day-to-day management of the insurer or has not been so involved at any time in the past five years;

“own risk and solvency assessment” means an internal assessment of the material and relevant risks identified by the insurer as associated with its current business plan and the sufficiency of capital resources to support those risks;

“related party” means a person who—

- (a) has significant interest directly or indirectly in a class of shares of an insurer;
- (b) is an entity in which a director or officer of the insurer or person that controls the insurer has a significant interest;
- (c) is an entity in which a close relative of a person described in (b) has a significant interest;
- (d) is an employee of the insurer or a company related to the insurer in question or his or her close relative; and
- (e) any other as may be determined by the Commission;

“risk margin” means the present value of the cost of capital an insurer is expected to hold against non hedgeable risk;

“significant interest” means—

- (a) holding of issued shares or financial instruments (such as compulsory convertible debentures) above ten *per centum* of total issued shares or

debentures in an insurer or its ultimate beneficial owner; or

- (b) voting rights attached to the aforementioned shares that is more than ten *per centum* of issued shares or financial instruments; or
- (c) power to appoint directors to the board and other executive committees or remove them;

“solvency capital requirement” means the amount of funds that insurers are required to hold so that they can survive extreme conditions over a twelve-month period at a 99.5 *per centum* confidence level.”;

- (b) section 3 of the Principal Regulations is repealed and the substitution of the following—

“Absolute Minimum Capital Requirements

3. The Absolute Minimum Capital Requirements (AMCR) for an insurer for registration or ongoing operations shall be the following amounts or the equivalent local currency at the prevailing exchange rate as published by the Reserve Bank of Zimbabwe—

- (a) two million United States dollars in the case of an insurer which carries on life assurance business including funeral assurance;
- (b) five hundred thousand United States dollars in the case of an insurer which carries on life assurance solely for the purpose of funeral policies;
- (c) one million five hundred thousand United States dollars in the case of an insurer which carries on non-life insurance business;
- (d) two million United States dollars in the case of an insurer which carries on reinsurance or reinsurance business; or
- (e) one hundred thousand United States dollars in the case of an insurer which carries on microinsurance business.

Asset and liability valuation

3A. (1) Every insurer shall ensure that its assets and liabilities are valued at a fair value except where the Commission specifies otherwise.

(2) Where market prices are not available, insurers shall use asset values obtained from independent valuations done by qualified professionals.

(3) For the purposes of subsection (4) a group undertaking shall be defined as a juristic person in which the insurer alone, or with its associate, subsidiaries, or holding company, directly holds—

- (a) twenty *per centum* or more of the shares, if the juristic person is a company; or
- (b) twenty *per centum* or more of any other ownership interest, if the juristic person is not a company.

(4) Where a group undertaking is listed, the valuation must be based on the quoted market value using the listed prices.

(5) The assets specified in the Fourth Schedule shall be inadmissible in determining the value of assets for solvency purposes.

(6) For solvency purposes, non-technical liabilities shall be valued according to applicable International Financial Reporting Standards.

Insurer's regulatory balance sheet

3B. (1) Each insurer shall, for the purpose of the balance sheet, ensure that—

- (a) assets and liabilities are valued in terms of sections 3A and 3C;
- (b) it holds enough available own funds to meet the minimum capital requirement (MCR) and the solvency capital requirement (SCR) in terms of sections 3E and 3F;

(2) An illustration of a regulatory balance sheet acceptable in terms of these regulations is shown in the Fifth Schedule.

Valuation of technical provisions

3C. (1) Technical liability valuation shall be segmented into—

- (a) non-life liability valuation; and
- (b) life or funeral assurance liability valuation.

(2) The technical liability valuation shall be structured to cover the treatment of the following key components under both life and non-life insurance businesses as specified in the Sixth Schedule—

- (a) data quality;
- (b) segmentation or risk classification;
- (c) recognition of insurance contracts;
- (d) methodology for valuing BEL;
- (e) contract boundaries;
- (f) recoverables;
- (g) discount rates; and
- (h) risk margins.

(3) Insurers shall segment their insurance obligations into homogeneous risk groups when calculating the value of technical provisions.

(4) The technical provisions shall be the sum of the Best Estimate Liability (BEL) and the risk margin.

(5) The BEL shall be calculated on a gross basis, without deducting the amounts recoverable from reinsurance contracts and other risk mitigation instruments.

(6) Amounts relating to recoverables shall be calculated separately as part of the valuation of technical provisions.

Eligible own funds

3D. (1) Every insurer shall split eligible own funds into the following two (2) categories—

- (a) Basic Own Funds (BOF), which is capital that exists within the insurer including subordinated liabilities, and excluding any regulatory adjustments or deductions as specified in the Seventh Schedule; and
- (b) ancillary own funds which are off-balance sheet capital resources that can be called upon to absorb losses.

(2) Every insurer's eligible own funds shall absorb losses from risks other than those identified in the technical provisions specified in section 3C.

(3) The capital of an insurer shall be tiered based on the following—

- (a) loss absorbency;
- (b) subordination;
- (c) sufficient duration;
- (d) free from requirements and incentives to redeem;
- (e) free from mandatory costs; and
- (f) free from encumbrances.

(4) Available capital shall be classified into three (3) tiers, where Tier 1 is the highest capital quality and Tier 3 the lowest capital quality.

(5) Own funds shall be allocated into 3 Tiers as specified on the table—

Classification of Own Funds into Tiers

Tier	Basic Own Funds	Ancillary Own Funds	General limits on capital
Tier 1	Substantially possess characteristics of 3 D (3) (a) and (b), taking into consideration (c) – (f)	Not allowed	Shall make up at least 80% of MCR; Shall make up a minimum of 50% of SCR;

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Tier	Basic Own Funds	Ancillary Own Funds	General limits on capital
Tier 2	Substantially possess characteristics of 3 D (3) (b), taking into consideration (c) – (f).	Substantially possess characteristics of 3 D (3) (a) and (b), taking into consideration (c) – (f)	Tier 2 shall always be greater than Tier 3 Capital, that is to say it shall be at most 35% of SCR; At most 20% of the MCR shall be covered by tier 2;
Tier 3	If not tier 1 or tier 2	If not tier 2	Must not be greater than 15% of the SCR

(6) The eligible own funds tiering and regulatory deductions on capital shall be as specified in the Seventh Schedule.

Minimum capital requirements by insurers

3E. (1) Every insurer shall comply with minimum capital requirements equal to the following—

$$MCR = \max (MCR_{combined}, AMCR)$$

where—

- (a) $MCR_{combined}$ is the combination of the linear formula and the corridor (cap and floor of SCR); and
- (b) AMCR provided under section 3 is the absolute floor.

(2) $MCR_{combined}$ shall be calculated as follows—

$$MCR_{combined} = \min [\max (MCR_{linear}, 0.25 \times SCR) 0.45 \times SCR]$$

where—

MCR_{linear} = MCR calculated using the linear formula for life and non-life insurance obligations and calibrated to the Value-at-Risk of the Basic Own Funds of an insurer subject to a confidence level of 85% over a one-year period; and

SCR = Solvency Capital Requirement.

(3) The non-life linear formula shall be as follows—

$$MCR_{NL} = \sum_s \max (a_s \times TP_s, \beta_s \times P_s)$$

where—

- (a) TP_s = Technical provisions excluding the risk margin for each line and sub-line of business, net of eligible reinsurance;
- (b) P_s = Earned premiums in each line and sub-line of business over the last 12-month period, net of eligible reinsurance; and
- (c) the factors a_s and β_s shall be as specified in the Eighth Schedule.

(4) The life insurance linear formula shall be as follows—

where—

$$MCR_L = 0.037 \times TP_{(life,1)} - 0.052 \times TP_{(life,2)} + 0.007 \times TP_{(life,3)} + 0.021 \times TP_{(life,4)} + 0.0007 \times CAR$$

where—

- (a) $TP_{(life,1)}$ denotes technical provisions for policies with investment guarantees, excluding the risk margin and net of eligible reinsurance;
- (b) $TP_{(life,2)}$ denotes the technical provisions for policies with future discretionary benefits for life insurance with profit participation excluding risk margins and net of eligible reinsurance;
- (c) $TP_{(life,3)}$ denotes the technical provisions for index linked and non-index linked life insurance;
- (d) $TP_{(life,4)}$ denotes the technical provisions for all other life insurance and reinsurance obligations; and
- (e) CAR denotes the “capital-at-risk” for each policy which shall be calculated as the sum of financial strains for each policy on immediate death or disability where it is positive.

(5) The MCR for insurer carrying out composite reinsurance business is calculated as shown below—

$$MCR_{composite} = \max (MCR_{combinedLife} + MCR_{combinedNL}, AMCR_{composite})$$

where—

$AMCR_{combined}$ = sum of the Absolute Minimum Capital Requirement as Stipulated in section 3 for life and non-life;

$MCR_{combined-Life}$ = notional MCR for life insurance obligations produced by combining the linear formula with the cap and floor in the corridor; and

$MCR_{combined-NL}$ = notional MCR for non-life insurance obligations produced by combining the linear formula with the cap and floor in the corridor.

(6) The notional combined life and non-life MCRs shall be as follows—

$$MCR_{combined-Life} = \min [\max (MCR_L, 25\% . NSCR_{Life}), 45\% . NSCR_{Life}]$$

$$MCR_{combined-NL} = \min [\max (MCR_{NL}, 25\% . NSCR_{NL}), 45\% . NSCR_{NL}]$$

where—

$$NSCR_{Life} = \frac{MCR_L}{MCR_L + MCR_{NL}} . SCR$$

$$NSCR_{NL} = \frac{MCR_{NL}}{MCR_L + MCR_{NL}} . SCR$$

- (a) MCR_L = The linear formula component for life insurance component;
- (b) MCR_{NL} = The linear component formula for non-life insurance obligations; and
- (c) SCR = The SCR for the composite insurer carrying out reinsurance business.

(7) The same formulas shall apply whereby the insurers offer non-life reinsurance or life reinsurance only and the inapplicable part shall be discarded accordingly.

Solvency capital requirements

3F. (1) Every insurer shall meet the SCR as specified in the Ninth Schedule.

(2) The SCR shall be calculated using a standardised formula and the use of internal models shall be prohibited.

(3) The overall SCR shall be as follows—

$$SCR_{overall} = BSCR + SCR_{op} + SCR_{Capital\ Add\ On}$$

where—

$BSCR$ = the basic solvency capital requirement as specified in section 3F (4);

SCR_{op} = the operational risk SCR as specified in the Ninth Schedule; and

$SCR_{capital\ Add\ On}$ = an additional capital add-on that may be imposed from time to time by the Commission as specified in section 3G.

(4) The Basic Solvency Capital Requirement (BSCR) shall be as follows—

$$BSCR = \sqrt{\sum_{i,j} CorrBSCR_{i,j} \times SCR_i \times SCR_j}$$

where—

SCR_i, SCR_j = the solvency capital requirements which are specified in the Ninth Schedule; and

$CorrBSCR_{i,j}$ = a correlation parameter which captures the interdependence between components i and j as specified in the Ninth Schedule.

(5) The following allowances shall be permitted in the computation of the SCR—

- (a) risk mitigation;
- (b) future management actions;

- (c) changes to policyholder behaviour; and
- (d) new business.

Capital Ad-on

3G. (1) The Commission may require a capital add-on on an insurer under the following exceptional circumstances—

- (a) where there are significant changes in the insurer's risk profile and the insurer's risk mitigation responses are assessed to be inadequate; or
- (b) where there is a material breach that has the potential to lead to an understatement of the insurer's SCR; or
- (c) where there are material changes in the operating environment (insurance industry specific events or economy- wide events) that have the potential to compromise the financial stability of the insurance company.

(2) Capital add-ons shall only be considered when other measures have failed, are unlikely to succeed or are not feasible.

(3) The capital add-on shall be proportionate to the material risks arising from the risk management deficiencies in an insurer's operations or the magnitude of the external events which gave rise to the decision of the Commission to set the capital add-on.

(4) The capital add-on shall be calculated as a percentage of SCR ($BSCR + SCR_{op}$).

(5) The actual percentage of capital add-on shall be determined from time to time and will range from zero to one hundred *per centum* of the SCR as calculated in terms of section 3F.

(6) The Capital add-on shall be retained for as long as the circumstances for which it was imposed have not yet been remedied.”;

- (c) section 7 of the principal regulations is amended—
 - (i) by the repeal of section 7C and the substitution of the following—

“Composition of board of directors for Insurers and insurance brokers

7C. (1) Every insurer and insurance broker shall appoint a board of directors composed of not less than five members and not more than nine members, upon the written approval by the Commission.

(2) Of the members appointed in terms of subsection (1), every insurer and insurance broker shall ensure that on its board of directors there is a balanced representation of skills and experience in insurance, finance, law, accounting, and information and communication technology.

(3) Of the members appointed in terms of section (1) and (2), majority of the board of directors shall consist of non-executive and independent directors.

(4) At its first meeting, the board of directors shall elect from amongst its members a chairperson and vice chairperson of the board, who shall not be a manager or hold any executive position in the insurer and insurance broker.

(5) No person shall be appointed as a member to the board of directors for a term longer than five years, and the appointment may be renewed for only one further such term.

(6) No person shall be re-appointed to the board of directors if he or she has already served on that board for one or more periods, whether consecutive or not, amounting, in the aggregate to ten years.

(7) No person shall be appointed as a board member if he or she is a member of three other such boards.

For the better exercise of its functions, the board of directors may establish one or more committees which include the nomination and remuneration committee, audit committee, risk management committee, and finance committee, which the board may vest with such of its functions as it considers appropriate:

Provided that the vesting of a function in a committee shall not prevent the board from itself exercising that function, and the

board may amend or rescind any decision of the committee in the exercise of that function.”;

- (ii) by the insertion of the following sections after section (7D)—

“Shareholding structure of Insurers

7E. (1) No person shall acquire significant interest in an insurance company without written approval by the Commission.

(2) No insurer, shareholder, director or senior manager of such an insurer and his or her close relatives shall, directly or indirectly hold significant interest in the affairs of an insurance broker, or reinsurance company and vice versa without the written approval from the Commission.

(3) Where approval has been granted by the Commission for an insurer to own or hold significant interest in the affairs of an insurance broker or reinsurance company or vice versa, the exposure to an insurance broker or reinsurance company in terms of the business generated from the broker or placed with the reinsurer shall not exceed twenty *per centum* of the total business generated in terms of gross premium received.

(4) No nominee company or registered trust shall, directly or indirectly, own significant shareholding in an insurance company unless the ultimate beneficial owners of such nominee company or the control information of the trust has been revealed to the Commission.

Control functions for Insurers

7F. (1) An insurer shall establish and maintain the following control functions—

- (a) risk management;
- (b) compliance;
- (c) internal audit; and
- (d) actuarial.

(2) The Commission may exempt an insurer from the requirement to establish and maintain an actuarial function if the Commission deems it appropriate given the nature, scale and complexity of the insurer's business and risks.

(3) Each control function shall be structured to have the necessary authority, independence, resources, expertise and access to the board of directors, or a committee of the board identified by the board of directors and all relevant employees and information to exercise its authority and perform its responsibilities.

(4) The independence of the control functions shall be sufficient to allow the control functions to—

- (a) serve as a further component of an insurer's checks and balances;
- (b) provide an objective perspective on strategies, issues, and potential non-compliance related to its areas of responsibility; and
- (c) implement or oversee the implementation of corrective measures where necessary.

(5) The authority and responsibilities of each control function shall be documented in the insurer's policies.

(6) The insurer's internal audit function or an objective, independent professional shall regularly review the risk management function, compliance function and actuarial function.

(7) An independent and objective external reviewer shall review the internal audit function after every three years.

(8) The board of directors shall regularly review the performance of each control function.

(9) The existence of any control function shall not relieve the board of directors or senior management of their respective governance and related responsibilities.

(10) An insurer may where appropriate in light of the nature, scale and complexity of the business, risks, legal and regulatory obligations of an insurer, outsource a control function subject to the approval of the Commission.

(11) Each control function shall avoid conflicts of interest, and if any conflict cannot be avoided, report that conflict to senior management and the board of directors.

External audit for insurers

7G. (1) The external audit function shall audit the financial health of an insurer in accordance with its legal and regulatory obligations.

(2) An external audit firm shall serve an insurer for a maximum of five years after which it can only serve as an external auditor for the same insurer after serving a cooling off period of three years.

Own risk and solvency assessment by insurers

7H. (1) Every insurer shall be required to carry out and report its own risk and solvency assessment.

(2) The own risk and solvency assessment report shall —

- (a) be a component of an insurer's risk management system;
- (b) be appropriate to the nature, size and complexity of an insurer;
- (c) link the insurer's risk identification, assessment, monitoring, prioritising and reporting process with its strategic planning and capital management;
- (d) reflect the insurer's approach to risk management;
- (e) detail an insurer's risk management system;
- (f) detail an insurer's assessment of risk exposure;
- (g) detail an assessment of risk capital and prospective solvency assessments;
- (h) be consistent with the enterprise risk management information that is reported to senior management and board of directors or any other appropriate committee; and

- (i) be based on the insurer's internal reporting of its enterprise risk management information.

(3) The additional requirements on own risk and solvency assessment are tabulated below —

Requirement	Description of Requirement	Frequency
Assessments and Solvency estimations	Assessment of risk management system, and make estimations of both current and future solvency projections	Annual
Documentation requirements	Internally document the process and results of the ORSA assessment	Continuous Process
Internal reporting requirements	Report results of the ORSA assessment to senior management and the board of directors	Annual
Submissions to the Commission	Submit ORSA report to the Commission	Annual

(4) The ORSA reports shall consist of the following sections at a very broad level including the following —

- (a) governance and operational standards;
- (b) risk management and internal control system;
- (c) key control functions;
- (d) own risk and solvency assessment;
- (e) outsourcing; and
- (f) supervisory review process.

Ladder of Intervention for Insurers

7I. (1) The Commission shall, as a monitoring mechanism, take appropriate action against an insurer in terms of a ladder of supervisory intervention.

(2) The ladder of supervisory intervention has the following stages —

- (a) Stage 1 – Normal operations;
- (b) Stage 2 – Early warning;
- (c) Stage 3 – Risk to financial viability or solvency;

- (d) Stage 4 – Future financial viability in serious doubt;
and
- (e) Stage 5 – Imminent insolvency.

(3) The detailed descriptions of the five stages of interventions under the ladder of supervisory intervention are as specified in the Eleventh Schedule.”;

- (d) section 8 of the principal regulations is repealed and the substitution of the following—

“Insurers’ reporting and disclosure requirements

8. (1) Every insurer shall develop and maintain a formal disclosure framework and policy, approved by its Board of Directors, which at a minimum shall meet the disclosure requirements.

(2) Every insurer shall produce and disclose the following—

- (a) Actuarial function report (AFR);
- (b) solvency and financial condition report (SFCR);
- (c) regular supervisory report (RSR);
- (d) completed quantitative reporting templates (QRT) including supplementary information that must accompany the regular supervisory report;
- (e) material changes in risk profile and occurrence of predefined events;
- (f) audited financial statements; and
- (g) general disclosure to policyholders.

(3) The detailed disclosure requirements required are specified in the Twelfth Schedule.”;

- (e) section 27 of the principal regulations is repealed and the substitution of the following—

“Offences

27. (1) An insurer that contravenes sections 3A, 3B, 3C, 3D, 3E, 3F, 7C, 7E, 7F, 7G, 7H, and 8 shall be guilty of an offence over and above appropriate action provided by the ladder of intervention

provided under section 7I and liable to a fine not exceeding level five or to imprisonment for a period not exceeding six months or to both such fine and such imprisonment.

(2) Any person who—

- (a) contravenes sections 15, 21, 22, 23(3), 24(5); or
- (b) in, or in connection with, any application in terms of these regulations, submits any written information which he knows to be false or does not reasonably believe to be true, or any false document;
- (c) forges any licence;
- (d) alters or erases any part of a licence or any entry lawfully made thereon;
- (e) makes any unauthorised entry on a licence;
- (f) represents himself to be the holder of a licence of which he is not the holder;
- (g) for any purpose whatsoever, makes use of the licence held by another person; or
- (h) being the holder of a licence, hires, cedes, lends, transfers or in any manner whatsoever makes over his licence to any other person or allows his licence to be used by any other person;

shall be guilty of an offence and liable to a fine not exceeding level five or to imprisonment for a period not exceeding six months or to both such fine and such imprisonment.”.

“FOURTH SCHEDULE (Section 3A)

ASSET AND LIABILITY VALUATION

Inadmissible Assets

1. The following assets shall be wholly excluded in determining the value of assets for solvency purposes—

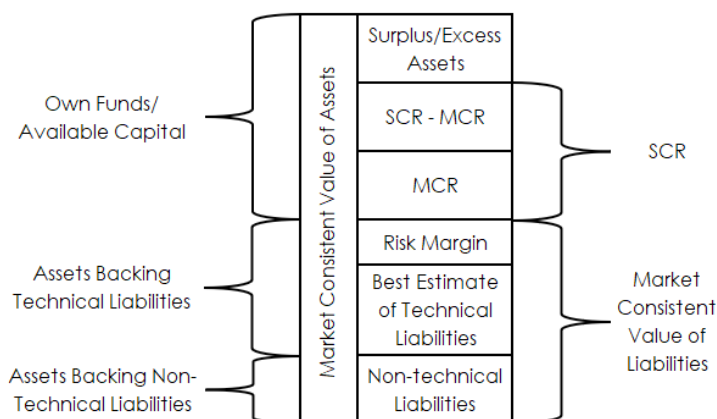
- (a) operating assets such as property wholly used for operations, motor vehicles, furniture and fittings, and information technology hardware:
Provided that, for funeral assurers, stocks of coffins, funeral hearses and motor vehicles used for providing funeral services will be included in the solvency computations.

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- (b) intangible assets such as goodwill and information technology software;
- (c) guarantees given to the insurer and all other off-balance sheet items, other than guarantees given by a reinsurer in the course of reinsurance business;
- (d) encumbered assets including assets that are under legal disputes;
- (e) assets on which the insurer does not have a legal title;
- (f) premium debtors for agricultural insurance that is on stop-order arrangement—
 - (i) aged more than ninety days past the due date for non-life insurers; and
 - (ii) aged more than one hundred and twenty days past the due date for reinsurers;
- (g) prepaid expenses;
- (h) deferred acquisition costs;
- (i) deferred tax asset;
- (j) other receivables aged more than ninety (90) days past the due date;
- (k) contingent assets; and
- (l) any other such assets as may be prescribed by the Commission.

FIFTH SCHEDULE (*Section 3B*)

REGULATORY BALANCE SHEET



SIXTH SCHEDULE (*Section 3C*)

VALUATION OF TECHNICAL PROVISIONS

The technical liability valuation principles

1. (1) Insurers shall ensure that data used in the calculation of technical provisions cover a sufficiently large period of observations that characterise the reality being measured.

(2) The valuation of technical provisions shall allow for the time value of money and a criterion for the determination of appropriate rates to be used in the discounting of technical provisions.

(3) Insurers shall use actuarial and statistical techniques which must be proportionate to the nature, scale and complexity of the insurer's obligations for the calculation of the best estimate.

(4) The technical provisions shall correspond to the current amount an insurer may pay if the insurer were to transfer the insurer's insurance obligations immediately to another insurer.

(5) When an insurer values its technical provisions, no subsequent adjustment shall take account of the insurer's credit standing.

Data quality

2. (1) The following valuation principles apply to life and non-life insurance.

(2) Insurers shall provide accurate, complete and consistent data for the purposes of the valuation.

(3) The actuary shall —

- (a) assess the accuracy, completeness and consistency of data through a sufficiently comprehensive series of checks that allow the detection of any relevant shortcomings and consider whether the number of observations and granularity of available data is sufficient and adequate to meet the input requirements for the application of the methodology;
- (b) where necessary, apply adjustments to historical data to increase its credibility or enhance its quality as an input to determine more reliable estimates of technical provisions and to better align it with the characteristics of the portfolio being valued and with the future expected development of risks;

- (c) take into account the conclusions of the analysis of the data quality in determining the assumptions underpinning the methodology to be applied to value the technical provisions;
- (d) Provided that where the data does not adequately support the methodology, the actuary shall select an alternative methodology; and
- (e) document data limitations, including—
 - (i) a description of the shortcomings, causes and references to documents where they were identified;
 - (ii) a description of the actions taken to detect the shortcomings in data, including whether data was complemented or not with other sources and documents;
 - (iii) an explanation on the impact of the shortcomings in the scope of the calculation of technical provisions regarding its materiality and how it affects this process; and
 - (iv) a description of how such situations can be remedied in a short term for the intended purpose and any relevant recommendations to be applied to enhance data quality in the future.

Segmentation or risk classification

- 3. (1) In valuing technical provisions, insurers must—
 - (a) segment their insurance obligations into, at a minimum, the sublines of business specified in this Schedule;
 - (b) consider both the nature of the underlying risks being evaluated together and the quality of data in selecting the homogeneous risk groups for the calculations of relevant provisions;
 - (c) calculate technical provisions using homogeneous risk groups to derive assumptions.
- (2) In selecting a homogeneous risk group, insurers shall—
 - (a) achieve an appropriate balance between the credibility of available data, to enable reliable statistical analyses to be performed;
 - (b) define homogeneous risk groups in such a manner that those are expected to be reasonably stable over time;
 - (c) ensure consistency between the homogeneous risk groups it uses to assess its gross of reinsurance technical provisions and its reinsurance recoverables.

(3) Segmentation must be based on the nature of the risks underlying the insurance obligation rather than the legal form of the insurance contract, that is, the principle of “substance over form”.

(4) Insurers must apply the principle of substance over form when segmenting between life and non-life insurance obligations in the valuation of technical provisions which require —

- (a) insurance obligations pursued on a similar technical basis to that of life insurance to be considered as life insurance obligations, even if they are non-life insurance from a legal perspective;
- (b) insurance obligations not pursued on a similar technical basis to that of life insurance to be considered as non-life insurance obligations, even if they are life insurance from a legal perspective; and
- (c) annuities stemming from non-life insurance contracts to be treated as life insurance obligations.

(5) Where an insurance policy includes life and non-life insurance obligations, the policy must be unbundled into the life and non-life parts wherever possible, and where both parts are material. Where only one of the risks covered by an insurance policy is material, the contract may be bundled and allocated to the main risk.

(6) Segmentation must be applied to both the valuation of the best estimate and risk margin.

Recognition of insurance contracts

4.(1) The valuation of the best estimate shall only include future cash flows associated with existing insurance policies.

(2) Insurers shall not recognise, as an asset or a liability, any amounts relating to expected premiums that are outside the contract boundary.

(3) An insurance policy shall be derecognised as an existing contract only when the obligation specified in the policy expires or has been discharged or cancelled.

Methodology for valuing BEL

5. (1) For the purposes of calculating BEL the actuary shall —

- (a) use the probability-weighted average of an insurer’s future cash-flows stemming from its insurance business, taking into account the time value of money and all possible scenarios of future potential outcomes;

- (b) use actuarial and statistical techniques that appropriately reflect the risks which affect the cash-flows; and
- (c) provide a detailed description and justification of the actuarial method used.

(2) For non-life—

- (a) the results shall be reported using the risk segmentations as provided under paragraph 11 of this Schedule; and
- (b) a separate valuation of the BEL shall be carried out for claim reserves and premium provisions. The actuary shall conduct a test on the adequacy of the reserves and where claims reserves are inadequate, load the claims deficiency reserves margin.

(3) For life the risk classification and contract boundaries shall be determined as provided for in terms of paragraph 10 of this Schedule.

Contract boundary

6. (1) the BEL shall be determined as the discounted value of projected cash flows up to the contract boundary; and

(2) The projection time horizon used in the calculation of the BEL by an insurer shall cover the full lifetime of all the cash inflows (excluding investment returns, interest and dividends) and cash outflows required to settle the obligations related to existing insurance and reinsurance contracts on the date of the valuation.

(3) Any insurance obligation provided by the insurer after the contract boundary does not belong to the existing contract unless the insurer can compel the policyholder to pay the premium for those obligations.

(4) An insurer has a right to review policy conditions when there are no constraints to prevent it from setting the same price as it would for a new contract, or if it can amend the benefits to be consistent with those that it would provide for the price that it will charge in the future.

(5) The right to review policy conditions shall not only reflect a legal right but shall also consider policyholders' reasonable expectations, behaviour, as well as market pressures.

(6) An insurer shall take into account future premiums up to the contract boundary.

(7) Notwithstanding subsection (4), (5) and (6) any changes to terms and conditions shall be approved by the Commission before they come into effect.

Recoverables

7. (1) Valuation of the best estimate shall be performed on a gross basis, without deducting amounts recoverable from eligible reinsurance and other eligible risk mitigation instruments.

(2) Amounts recoverable from reinsurance contracts shall be interpreted as the net amount recoverable from eligible reinsurance contracts, including reinsurance premiums, claim recoveries and other related cash-flows arising from the reinsurance arrangement.

(3) The amounts recoverable from eligible reinsurance contracts and other eligible risk mitigation instruments shall be calculated separately. Where the risk mitigation instruments involve arrangements with a Special purpose vehicle (SPV), the amounts recoverable from the SPV shall not exceed the value of the assets an insurer could recover from the SPV.

(4) When non-life insurers are performing this calculation, cash-flows relating to—

- (a) provisions for claims outstanding shall include the compensation payments relating to claims accounted for in the gross provisions for claims outstanding of the insurer ceding risks; and
- (b) premium provisions shall include all other payments.

(5) Payments in relation to settled insurance claims shall not be included in the amounts recoverable from reinsurance contracts and other risk mitigation instruments.

(6) Recoverables from reinsurance arrangements that are not eligible as risk mitigation instruments must be excluded from the valuation of technical provisions.

(7) Expenses that the insurer incurs in relation to the management and administration of reinsurance contracts and other risk mitigation instruments must be included in the best estimate, calculated on a gross basis, without deducting amounts recoverable from reinsurance contracts and other risk mitigation instruments. No allowance for expenses relating to the internal processes shall be made in the recoverables.

Discount rates

8. An insurer shall apply the government bond yield curve as the default for the risk-free term structure of interest rates to discount the insurer's technical provisions:

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Provided that where no active bond market exist, the Commission shall prescribe proxy discount rates through circulars.

Risk margins on technical provisions

9. (1) An insurer shall determine their risk margins using the Cost of Capital method.

(2) The risk margin shall be as follows—

$$\text{Risk Margin} = \text{CoC} \cdot \sum_{t \geq 0} \frac{SCR_{RU}(t)}{(1 + r_{t+1})^{t+1}}$$

where—

$SCR_{RU}(t)$ = the SCR for period t as calculated for the reference insurer;

r_t = the risk-free rate for maturity t ; and

CoC = the Cost of Capital.

(3) The risk-free rate r_t for the discounting of the future SCRs shall not include an illiquidity premium.

10. Risk Classifications and Contract Boundaries

Main Class	Sub-Class 1	Sub-Class 2	Sub-Class 3	Contract Boundary
Annuities	Level Annuities	Level annuities	Level annuities	Guaranteed Deferred annuities If a contract provides a savings or accumulation phase and at maturity the accumulated benefits or savings may be paid out as a lump sum or as an annuity, for which a guaranteed annuity rate is provided; the insurer shall only include the premiums up until the maturity date of the deferred annuity contract. The cashflows of the second contract (the annuity contract) shall not be taken into account. However, the insurer shall not estimate the cost of issuing a guarantee or option with the first contract (i.e., there would be a need to value the guaranteed annuity option as it is an inherent part of the first contract). If a contract provides for an accumulation phase which is followed by an annuity phase and in substance, the terms of the contract are such that this represents a single contract, which has both accumulation and annuity phases, then all cash flows for the whole contract life shall be included.
	Growth Annuities	With discretionary participating features Market Linked	With discretionary participating features Market Linked	

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Main Class	Sub-Class 1	Sub-Class 2	Sub-Class 3	Contract Boundary
Risk Products	Term Assurance	Individual	Individual	Individual Policies The following is the approach to contract boundaries for individual risk policies: - Where the pricing of the premiums takes into account risks that relate to future periods, the boundary shall generally be the same as the contract term. Where an insurer has the ability to implement certain management actions, such as changing future premium rates after an initial guaranteed term, such actions are within the contract boundary. Allowance shall therefore be made for the management actions that the insurer may reasonably be expected to implement and allow appropriately for expected policyholder behaviour. - If the insurer can only price and re-price products on a portfolio level, we assume that the insurer's right to change policy conditions to fully reflect the risk inherent in the specific policy is limited and therefore a longer contract boundary shall apply. Subject to regulatory approval, a shorter boundary can only apply if the insurer shall have the right to set premium rates for existing policies that are the same as that for new policyholders with the same risk profile and also has the right to re-underwrite the policies using the same rules as those applied to new policies. - Contract boundaries shall not be longer than the contractual end of the policy. Group Policies: The contract boundary shall be the next review date.
		Group	Group	

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Main Class	Sub-Class 1	Sub-Class 2	Sub-Class 3	Contract Boundary
	Endowment	Individual	Without discretionary participating features	
			With discretionary participating features	
		Group	Without discretionary participating features	
			With discretionary participating features	
	Pure Endowment	Individual	Without discretionary participating features	
			With discretionary participating features	
		Group	Without discretionary participating features	
			With discretionary participating features	
	Whole Life	Whole life	Without discretionary participating features	
		Whole life	With discretionary participating features	
	Funeral	Individual	Without discretionary participating features	
			With discretionary participating features	

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Main Class	Sub-Class 1	Sub-Class 2	Sub-Class 3	Contract Boundary
		Group	Without discretionary participating features	
			With discretionary Participating features	
	Credit Life Assurance	Individual	Individual	
		Group	Group	
	Group Life Assurance	Group Life Assurance	Group Life Assurance	The contract boundary shall be the point where the insurer has the right to change policy conditions on a scheme level to fully reflect the risk inherent in the policy, subject to the Commission's approval. Where the premium rates are reviewed at a scheme level on an annual basis, the contract boundary shall be the next review date (unless rates are guaranteed for a longer period).

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Main Class	Sub-Class 1	Sub-Class 2	Sub-Class 3	Contract Boundary
Investment Contract	Individual	Guaranteed	Guaranteed	Contract boundaries for linked investment policies The value of linked policies shall be equal to the number of units multiplied by the unit price i.e., insurers shall apply a zero-contract boundary for linked investment policies. Contract boundaries for investment policies with no financial guarantees The contract boundary shall be the point where the insurer has the right to change policy conditions on a contract level to fully reflect the risk inherent in the policy. This boundary shall not be longer than the contractual end of the policy. At the contract boundary, an allowance shall be made for the full projected account balance to be paid to the policyholder. If the contract is open-ended and the insurer does not have the right to change policy conditions or terminate the policy, then a long contract boundary shall be assumed with persistent assumptions dictating the run-off of the business. Contract boundaries for investment policies with financial guarantees: If an investment policy has a financial guarantee, the insurer shall use a contract boundary that is the greater of: - the point where the insurer has the right to change policy conditions on a contract level to fully reflect the risk inherent in the policy; and - the point where the financial guarantee ends. The limit is that the boundary shall not be longer than the contractual end of the investment policy. At the contract boundary, an allowance shall be made for the full projected account balance to be paid to the policyholder. If an investment policy is open-ended and the insurer does not have the right to change policy conditions or terminate the policy, a long contract boundary shall be assumed with persistent assumptions dictating the run-off of the business.
		Linked	Linked	
		Market Linked	Market Linked	

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Main Class	Sub-Class 1	Sub-Class 2	Sub-Class 3	Contract Boundary
		With discretionary participating features	With discretionary participating features	
	Fund Business	Guaranteed	Guaranteed	
		Linked	Linked	
		Market Linked	Market Linked	
		With discretionary participating features	With discretionary participating features	
Reinsurance	Life Re-Assurers	Proportional	Treaty	The contract boundaries for life reinsurance shall be determined as the point: (a) where the reinsurer has the right to change the policy conditions to fully reflect the risk inherent in the contract or to terminate the contract unless the reinsurer can compel the insurer (policyholder) to pay the premiums for future obligations beyond this point. (b) If the terms of a treaty allow the reinsurer to increase rates at a review point, and where at such a point the cedant insurer has the option to either terminate or continue with the treaty under the new terms then the following will apply: i. if it is expected that the terms will remain unchanged, the contract boundary shall be equal to the contract term as future premiums can be compelled. ii. if the treaty is profitable to the reinsurer, the contract boundary shall be equal to the underlying contract term. iii. if the treaty is unprofitable and it is the best estimate view of the reinsurer that rates will be reviewed at the next review date, then the next premium review date shall be used as the contract boundary. If for such a contract the best estimate view of the reinsurer is that rates will not be increased, then the contract boundary shall be equal to the underlying contract terms. i. The contract boundary for reinsurance of group life business is generally the next renewal date. Where the contract includes an automatic renewal clause, and the cancellation date has passed, then the contract boundary is the renewal date plus the period for which the new rate is being guaranteed. i. Profit commission shall be included using an economic view over the contract term.
			Facultative	
		Non-proportional	Treaty	

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Main Class	Sub-Class 1	Sub-Class 2	Sub-Class 3	Contract Boundary
			Facultative	

Non-life insurance segmentations

Main Class	Sub-class 1	Sub-class 2
Pure Liability	Personal Liability	☐ Directors and Officers ☐ Employers Liability ☐ Fidelity Guarantee ☐ Product Liability ☐ Professional Indemnity ☐ Public Liability ☐ Legal expense insurance ☐ Other
Property Damage (with liability)	Engineering	
	Property	☐ Personal lines ☐ Commercial lines
	Farming	☐ Crop ☐ Livestock ☐ Equipment ☐ Index insurance ☐ Other
	Motor	☐ Motor private – Private Vehicles Comprehensive ☐ Motor private – Private Vehicles Third Party ☐ Motor private – Private Vehicles Third Party and Fire ☐ Motor Commercial – Commercial Vehicles ☐ Motor Commercial – Passenger Insurance
	Fire	Domestic Risks
		Industrial and Commercial risks
	Aviation	Property
		Liability
	Marine	Marine Hull
		Marine Cargo
	Terrorism	Motor
		Property
		Engineering
		Other

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Main Class	Sub-class 1	Sub-class 2
Financial Loss	Bonds	
	Hire Purchase	
	Travel insurance	
	Credit and guarantee	
	Miscellaneous Accident	
Fixed Benefits	Personal Accident Insurance	Personal Accident and Sickness
		Health/Medical Expenses Insurance (where separate policies are issued)
Miscellaneous Accident		☐ Personal lines
		☐ Commercial Lines
Cell Captive	Cell Captive	Pure captives
		Group and/or association captives
		Rental captives
		Diversified captives
Reinsurance	Treaty Reinsurance	Proportional reinsurance
	Treaty Reinsurance Facultative Reinsurance	Non -proportional reinsurance
		Proportional reinsurance
		Non -proportional reinsurance
Other*		

**Other – shall refer to any emerging non-life insurance business classes*

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SEVENTH SCHEDULE (*Section 3D*)

ELIGIBLE OWN FUNDS

1. Tiering of Eligible Own Funds.

- (a) The following criteria must be met to classify capital as tier 1 Basic Own Funds (BOF):
 - (i) Tier 1 capital represents the most robust and reliable form of capital which shall provide a cushion against potential losses. These shall include—
 - A. Issued Ordinary shares;
 - B. Retained earnings; and
 - C. Other Highly resilient forms of capital.
 - (ii) The capital must be undated or have a remaining duration before its maturity date of 10 years or greater as at the valuation date.
- (b) The following criteria must be met to classify capital as tier 2 Basic Own Funds—
 - (i) Tier 2 capital represents less resilient capital instruments which can absorb some losses but not as reliable as Tier 1 capital. These shall include—
 - A. Preference shares;
 - B. Subordinated debt; and
 - C. Forms of guarantee.
 - (ii) The capital must be undated or have a remaining duration before its maturity date of 5 years or greater as at the valuation date.
- (c) The following criteria must be met to classify capital as Tier 3 Basic Own Funds:
 - (i) Tier 3 capital represents least resilient form of capital that is less likely to be available in the event of a crisis. These shall include—
 - A. Subordinated Liability; and
 - B. Any other capital that may not be classified as Tier 1 or Tier 2
 - (ii) The capital must be undated or have a remaining duration before its maturity date of 3 years or greater as at the valuation date.

2. The following regulatory deductions must be made from BOF to determine EOF that may be used to meet the MCR and SCR—

- (a) investments in an insurer's own holding company—

- (i) any unlisted ordinary shares held by an insurer in any company that holds a direct or indirect controlling stake in that insurer must be fully deducted from that insurer's BOF;
 - (ii) Any listed ordinary shares held by an insurer in any company that holds a direct or indirect controlling stake in that insurer in excess of 5% of the total non-linked assets of the insurer must be deducted from that insurer's BOF;
 - (iii) an insurer may hold bonds and other capital instruments in any company that holds a direct or indirect controlling stake in the insurer. To the extent that such bonds and other capital instruments are treated by the company holding a direct or indirect controlling stake as part of its BOF, these instruments must not be included in the insurer's BOF unless the investment risk is carried by the policyholders; and
 - (iv) for clarity, an insurer may hold investments in companies that in turn own shares in the insurer. Such holdings must be appropriately taken into account in the calculation of the SCR;
- (b) own shares of an insurer —
 - (i) where an insurer bears any investment risk from its holding of own shares, the insurer's own shares must be deducted from BOF;
 - (ii) where the policyholders of an insurer carry at least some degree of investment risk for the own shares held by the insurer, the "delta Own Funds" calculation set out in subparagraph (iii) should be performed. If the "delta Own Funds" calculation is not able to be performed by an insurer, a reasonable estimation must be calculated, and the insurer must disclose to the Commission reasons for applying an estimation;
 - (iii) the "delta Own Funds" calculation must estimate the impact on technical provisions and Own Funds of setting the price of the insurer's own shares to zero. The result of the delta Own Funds calculation must be deducted from BOF;
 - (iv) where the "delta Own Funds" calculation, or the reasonable estimate thereof, results in an immaterial adjustment to Own Funds (less than 5%), a deduction is not required; and
 - (v) where there is evidence of a group of connected transactions whose economic effect is the same as that of holding own shares, the assets that are generated by those transactions should be treated on the same basis as described in subparagraphs i, ii, iii and iv.
- (c) Cash and deposits at a bank within the same financial conglomerate.

- (i) Any cash balances and short-term deposits in excess of 15% of the nonlinked assets of an insurer, which are held at a bank that is part of the same financial conglomerate as the insurer, must be fully deducted from BOF;
- (d) any Own Funds related to restricted reserves that are in excess of that covering the related risks should be deducted from BOF, if such assets are not available in going concern or a wind-up;
- (e) participations in financial institutions and credit institutions (excluding insurance-related businesses) must be fully deducted from BOF. For the avoidance of doubt in property investment companies will not be deducted from BOF;
- (f) regulatory deductions for ring-fenced funds for cell captive insurers—
 - (i) the requirements set out in paragraph 2 (a), (b) and (c) shall be applied separately to the BOF of the promoter business and to the BOF of each individual cell;
 - (ii) for each individual cell, the following adjustments must be made—
 - A. the restrictions outlined in paragraph 2 (b) also applies to the cell's investment in all companies that hold a direct or indirect controlling stake in either the insurer or the cell owner;
 - B. treatment applied to non-linked assets of insurers in paragraph 2 (c) also applies to the individual cells;
 - C. the restrictions in paragraph 2 (b) shall apply to the cell's investment in shares of both the insurer and the cell owner; and
 - D. the restrictions in paragraph 2 (c) shall apply to all cash balances and short-term deposits of non-linked assets of the cell, which are held at a bank that is part of the same financial conglomerate as the insurer or the cell owner;
 - (iii) when applying the restrictions in paragraph 2 (a), (b) and (c) only assets, investments, liabilities, capital instruments and own funds relating to the promoter business shall be taken into account;

and such deductions shall not be considered in the SCR calculations.

Eighth Schedule (Section 3E)

MINIMUM CAPITAL REQUIREMENT

Factors for the non-life linear formula

Main Class	Sub-Class	α_s - Factors for technical provision	β – Factors for Premium Written
Property Damage	Aviation	18%	22%
	Marine	18%	22%
	Engineering all risks	14%	13%
	Motor	13%	11%
	Farming	20%	17%
	Fire	14%	13%
	Travel Insurance	14%	20%
Financial Loss	Hire Purchase	20%	17%
	Legal	20%	17%
	Bonds	25%	28%
	Fidelity Guarantee	20%	17%
	Miscellaneous	20%	17%
Fixed Benefits	Accident	20%	17%
	Health Insurance	20%	17%
	Liability	20%	14%

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NINTH SCHEDULE (Section 3F)

SOLVENCY CAPITAL REQUIREMENTS

1. The standardised formula for SCR addresses the following material risk categories—

- (a) Market Risk;
- (b) Underwriting Risk (both life and non-life); and
- (c) Operational Risk.

2. The Correlation Parameters shall be specified as follows—

$CorrBSCR_{i,j}$ is the value in the cell of the correlation matrix. $CorrBSCR$

$CorrBSCR$	Market	Life underwriting	Non-life underwriting
Market	100%	25%	25%
Life underwriting	25%	100%	0%
Non-life underwriting	25%	0	100%

3. Market Risk Capital Requirements.

(a) Market risk shall be classified into sub risks as follows—

- (i) equity risk comes from the volatility of the market prices for equities;
- (ii) property risk arises from volatility in the market prices on property;
- (iii) counterparty or default risk reflects all possible losses that may arise due to unexpected default or deterioration in credit worthiness of an insurer's counterparties and debtors over the next twelve months;
- (iv) concentration risk refers to the risk of potential losses on investments over and above the systematic risks arising from the portfolio of investments when the portfolio of investments is not sufficiently diversified; and
- (v) currency or exchange rate risk arises from the change in price of one currency in relation to another.

(b) Overall Market Risk Solvency Capital Requirement—

(i) The overall market risk capital requirement is calculated by the formula—

$$SCR_{Mkt} = \sqrt{\sum_i \sum_j CorrMkt_{i,j} \times Mkt_i \times Mkt_j}$$

Where—

Mkt_i and Mkt_j are—

$Mkt_{eqprice}$ denotes the equity risk sub-module;

Mkt_{prop} denotes the property risk sub-module;

$Mkt_{default}$ denotes the counterparty/default risk sub-module;

Mkt_{fx} denotes the currency risk sub-module;

Mkt_{conc} denotes the concentration risk sub-module; and

$CorrMkt_{ij}$ the correlation parameter between components i and j .

- (ii) The correlation matrix for market risk shall be specified as follows—

	Equity	Property	Counterparty/ Default	Currency	Concentration
Equity	100%	75%	75%	50%	50%
Property	75%	100%	50%	50%	50%
Counterparty/ Default	75%	50%	100%	50%	50%
Currency	50%	50%	50%	100%	50%
Concentration	50%	50%	50%	50%	100%

- (iii) An additional 20% shock shall be added for those investments beyond investments limits. Investments limits shall be prescribed from time to time.

- (c) Calculation of market risk capital requirements for the sub-risk modules shall be as follows—

- (i) Equity risk

- A. The capital requirement for equity risk ($Mkt_{eqprice}$) shall be as follows—

$$Mkt_{eqprice} = \sqrt{\sum_{r,c} CorrEq_{r,c} \cdot Mkt_{eq,r} * Mkt_{eq,c}}$$

Where—

$Mkt_{eq,r}$ = Capital requirement for the individual market risk component, r , according to the rows of correlation matrix;

$Mkt_{eq,c}$ = Capital requirement for the individual market risk component, c , according to the columns of correlation matrix; and

$CorrEq_{r,c}$ = The entries of the correlation matrix.

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- B. Correlation matrix for Equity Risk shall be specified as follows—

	Zimbabwean	Foreign
Zimbabwean	1	0.75
Foreign	0.75	1

- C. The capital requirement for equity risk in relation to each equity component, i, shall be as follows—

$$\text{Mkt}_{\text{eq},i} = \max(\Delta\text{BOF}|\text{Equity shocks } i, 0)$$

Where—

ΔBOF = Change in Basic Own Funds;

Equity Shocks_i = A prescribed fall in the value of equities in categories specified below—

(1) Equity Shocks

Equity Category		Shock
Zimbabwean Equities	Quoted	40% + symmetric adjustment factor local
	Unquoted	45% + symmetric adjustment factor other
Foreign Equities		45%

(2) The symmetric adjustment factor shall be specified as follows—

	Local Listed and Unlisted Equities
Symmetric Adjustment Factor (SAF)	$\text{SAF} = \left[\frac{1}{2} \left(\frac{\text{Log}(\text{CIV}) - \text{Log}(\text{AIV})}{\text{Log}(\text{AIV})} \right) - 8\% \right]_{-8\%}^{8\%}$
Lower Bound	-8%
Upper Bound	+8%

Where: SAF = Symmetric Adjustment Factor;

Log(CIV) = Log of the Current All Share Index Value

Log(AIV) = Log of the Average All Share Index Value over the last 36 months

(ii) Property risk.

- A. All assets and liabilities exposed to property risk shall be included in the calculation of the capital requirement,

including land, buildings and immovable property rights, and property investment in insurer's name not for own use.

- B. The following property related investments shall be included under equity risk capital charges—
 - (1) an investment in a company engaged in real estate management, real estate development or similar activities;
 - (2) an investment in a company which borrowed funds external to the insurance group to leverage investments in properties; and
 - (3) direct or indirect participations in real estate companies that generate periodic income or which are otherwise intended for investment purposes.
- C. The capital requirement for property risk () shall be as follows—

Where—
$$Mkt_{prop} = \max(\Delta BOF \mid \text{property shock}, 0)$$

ΔBOF = the change in the value of Basic Own Funds; and
property shock = an instantaneous decrease of 25% in property values.

- D. The stress shall be replaced by an equal but opposite shock if the application of the property shock stress scenario results in a capital need for property risk that is less than zero (i.e., if $Mkt_{prop} < 0$). Any short positions in property shall be taken into account in this situation, even if they don't meet the criteria for an appropriate risk mitigation strategy.

(iii) Counterparty or Default Risk.

- A. The counterparty default risk of an insurer arises from the following sources—
 - (1) reinsurance and similar risk-mitigating contracts;
 - (2) receivables from intermediaries; and
 - (3) credit exposures arising from the following—
- B. Policyholder debtors
 - (1) Cash at bank.

- (2) Deposits with ceding institutions.
 - (3) Capital, initial funds, letters of credit and any other called up but unpaid commitments.
 - (4) Guarantees and letters of credit that are provided by the insurer as well as any other commitments which the insurer has provided and which depend on the credit standing of a counterparty.
- C. Counterparty exposures shall be divided into two categories—
- (1) category 1 exposures - which relates to exposures arising from risk mitigating contracts with counterparties that are likely to have credit rating. This includes reinsurance arrangements, deposits at banks, and securitisation arrangements. Exposures under this category are assessed based on the probability of default and loss given default related to the credit rating of the counterparty; and
 - (2) category 2 exposures - relates to all the other credit exposures not classified as category 1. This includes receivables from intermediaries and policyholders debtors.
- D. The overall SCR for counterparty risk ($Mkt_{default} = \sqrt{\sum_i \sum_j Corri_{i,j} \times Mkt_{default,i} \times Mkt_{default,j}}$) shall be as follows—

$$Mkt_{default} = \sqrt{\sum_i \sum_j Corri_{i,j} \times Mkt_{default,i} \times Mkt_{default,j}}$$

Where—

$Mkt_{default,i}$ = the total exposure from counterparties in Category i ;

$Mkt_{default,j}$ = the total exposure from counterparties in Category j ; and

$Corri_{i,j}$ = the correlation parameter between categories i and j .

- (1) $Corri_{i,j}$ is specified as follows—

	$Mkt_{default,1}$	$Mkt_{default,2}$
$Mkt_{default,1}$	100%	75%
$Mkt_{default,2}$	75%	100%

Where—

- (2) The capital requirement for default risk from Category 1 exposures shall be specified as follows—

$$SCR_{default,1} = \sum_{all\ i} p_i * LGD_i * EAD_i$$

Where—

LGD_i = Loss Given Default for counterparty i;

P_i = The probability of default assigned to counterparty i; and

EAD_i = Exposure at Default of counterparty i, which is defined as the expected recovery from counterparty i less any market value of collateral, if any, in relation to the expected recovery from counterparty i.

- (3) Guidance on probability of default and loss given default for rated Category 1 counterparties is given in paragraphs 3(c)(vi), 3(c)(vii), and 3(c)(viii) of this Schedule.

- (4) The capital requirement for default risk from Category 2 exposures shall be as follows—

Where—

$$SCR_{default,2} = \Delta BOF | (15\% \cdot E + 90\% \cdot E_{past\ due})$$

$E_{past\ due}$ = sum of all Category 2 exposures that are more than or equal to 90 days old; and

E = sum of all the other Category 2 exposures less than 90 days.

- (iv) Currency risk.

A. The capital requirement for currency risk (Mkt_{fx}) shall be as follows—

B. In calculating the capital requirement for currency risk,

Where—

$$Mkt_{fx}^{up} = \max(\Delta BOF | fx_{upwardshock});$$

$$Mkt_{fx}^{down} = \max(\Delta BOF | fx_{downwardshock});$$

$fx_{upwardshock}$ = An instantaneous increase of 50% in the value of all currencies against the local currency;

$E_{up} = E / (1 + 0.5)$, where E is the relevant exchange rate prior to the shock;

$fx_{downwardshock}$ = An instantaneous decrease of 30% in the value of all currencies against the local currency;

$E_{down} = E / (1 - 0.3)$; and

ΔBOF = The change in the value of Basic Own Funds.

- B. In calculating the capital requirement for currency risk, an insurer may assume that management actions can take place under the stress scenarios, including changes to future bonus rates on policies with discretionary participation features. .
 - C. The type and extent of management actions that an insurer may assume in the stresses must consider that the stress is assumed to be insurer-specific or industry-wide. For currency risk, insurers should assume that the stresses result entirely from industry-wide events.
 - D. Where a causal relationship exists between exchange rate movements and policyholder behaviour, the calculation of the currency risk capital requirement may take into account changes to policyholder behaviour.
 - E. All assets and liabilities that are exposed to movements in exchange rates shall be included in the calculation of the currency risk capital requirement. This shall include any investment in instruments denominated in a foreign currency. For clarity—
 - (1) unlisted equity and property located outside of Zimbabwe should be included in the calculation of the currency risk capital requirement;
 - (2) dual-listed shares which are listed on any Zimbabwe Stock Exchange and purchased on an offshore exchange should be included in the calculation of the currency risk capital requirement; and
 - (3) all other dual-listed shares which are listed on Zimbabwe Stock Exchange may be excluded from the calculation of the currency risk capital requirement.
- (v) Concentration risk.
- A. The capital requirement for concentration risk (Mkt_{conc}) shall be as follows—

Where—

$$Mkt_{conc} = \sqrt{\sum_i Conc_i^2}$$

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$\text{Conc}_i = \Delta \text{BOF} \mid \text{concentration shock}_i$

Concentration shock $_i$ = an instantaneous decrease in the value of E_i ; where
the decrease in value is calculated as:

$$XS_i \times g_i \times \text{Assets}_{x_i}$$

g_i = A factor dependent on the credit quality of the counterparty i , as set out in paragraph 3(c)(vi) and paragraph 3(c)(vi) of this Schedule;

XS_i = The excess exposures per counterparty i shall be as follows—

$$XS_i = \max \left(\frac{E_i}{\text{Assets}_{x_i}} - CT_i, 0 \right)$$

E_i = Total exposure-at-default to counterparty i ;

Assets_{x_i} = Total assets considered in the scope of the concentration risk (including government bonds) with no allowance for loss-given-default; and

CT_i = The concentration threshold to counterparty i , which depends on the credit quality step of the counterparty i , as set out in paragraph 3(c)(ix) of this Schedule

(vi) Probabilities of default, spread shocks and loss given default—

Credit Rating	Credit - International Rating Scale	PD - International Rating Scale	PD - Local Rating Scale
AAA (ZW)	AAA	0.01%	0.22%
AA+(ZW)	AA+	0.01%	0.22%
AA (ZW)	AA	0.02%	0.23%
AA- (ZW)	AA-	0.03%	0.25%
A+ (ZW)	A+	0.06%	0.28%
A (ZW)	A	0.09%	0.30%
A- (ZW)	A-	0.11%	0.32%
BBB+ (ZW)	BBB+	0.16%	0.37%
BBB (ZW)	BBB	0.22%	0.43%
BBB- (ZW)	BBB-	0.39%	0.60%
BB+ (ZW)	BB+	0.54%	0.75%
BB (ZW)	BB	0.81%	1.02%
BB- (ZW)	BB-	1.39%	1.60%

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Credit Rating	Credit - International Rating Scale	PD - International Rating Scale	PD - Local Rating Scale
B+ (ZW)	B+	2.54%	2.75%
B (ZW)	B	5.37%	5.58%
B- (ZW)	B-	8.18%	8.38%
CCC (ZW)	CCC	26.53%	26.53%
All unrated and not subject to these regulations.	Unrated and not subject to these regulations.	10%	10%

(vii) Probabilities of Default for unrated entities that are subject to these regulations

Solvency Ratio: (Eligible Own Funds/Solvency Capital Requirement)	PD - Local Rating Scale
>200%	0.22%
>175%	0.25%
>150%	0.30%
>125%	0.37%
>100%	1.02%
>90%	2.75%
>80%	5.58%
80% and below but above the MCR	8.38%
Below MCR	26.53%

(viii) Loss Given Default under these regulations

Component	Standard LGD Factor
Fully Cash covered	5%
Significantly over collateralized	18%
Fully collateralized	35%
Partially collateralized	43%
Unsecured	45%
Less than 50% of the company's assets are pledged as collateral for some creditors	72%
More than 50% of the company's assets are pledged as collateral for some creditors	86%
Exposures generally equity, junior debt, mezzanine debt or preference shares exposures may also be structurally subordinated.	100%

Concentration Thresholds and g_i – Please note that there is no concentration threshold on prescribed assets.

Credit Rating	Concentration Threshold (CT)	
AAA (ZW)	5%	0.12
AA+(ZW)		
AA (ZW)		
AA- (ZW)		0.21
A+ (ZW)		
A (ZW)		
A- (ZW)	3%	0.27
BBB+ (ZW)		
BBB (ZW)		
BBB- (ZW)		
BB+ (ZW)		
BB (ZW)		
BB- (ZW)		
B+ (ZW)		
B (ZW)		
B- (ZW)		
CCC and all unrated	1.5%	0.73

4. Solvency Capital Requirement – Life Underwriting Risk

- (a) Life underwriting risk shall comprise—
- (i) mortality risk;
 - (ii) longevity risk;
 - (iii) disability/morbidity risk;
 - (iv) lapse risk;
 - (v) life expense risk;
 - (vi) life catastrophe risk; and
 - (vii) retrenchment risk.
- (b) The capital requirement for life underwriting, SCR_{Life} shall be as follows—

$$SCR_{Mkt} = \sqrt{\sum_i \sum_j CorrMkt_{i,j} \times Mkt_i \times Mkt_j}$$

where—

- i. LU_i and LU_j are—
- LU_{mort} denotes the mortality risk sub-module;
 - LU_{long} denotes the longevity risk sub-module;
 - LU_{dis} denotes the disability/morbidity risk sub-module;
 - LU_{lapse} denotes the lapse risk sub-module;
 - LU_{exp} denotes the life expense risk sub-module;
 - LU_{CAT} denotes the life catastrophe risk sub-module; and
 - LU_{ret} denotes the retrenchment risk sub-module.
- ii. $CorrLU_{i,j}$ = the correlation parameter between components i and j .

(c) The correlation matrix *CorrLU* shall be specified as –

	Mortality	Longevity	Disability	Lapse	Expense	Catastrophe	Retrenchment
Mortality	100%	-25%	25%	0%	25%	25%	0%
Longevity	-25%	100%	0%	25%	25%	0%	0%
Disability	25%	0%	100%	0%	50%	25%	0%
Lapse	0%	25%	0%	100%	0%	25%	25%
Expense	25%	25%	50%	0%	100%	25%	25%
Catastrophe	25%	0%	25%	25%	25%	100%	0%
Retrenchment	0%	0%	0%	25%	25%	0%	100%

(d) Calculation of life underwriting SCR for sub-risk components shall be as follows—

(i) mortality risk—

A. The SCR, LU_{mort} , per line of business shall be as follows –

$$LU_{mort} = 15\% \times q \times n \times 1.1^{\frac{n-1}{2}} \times \sum_i \max\{Death\ Benefit_i - BEL_i, 0\}$$

where—

$Death\ Benefit_i =$

- (a) the amount the insurer would currently pay should the persons insured under the policy die; plus
- (b) the expected present values of amounts not covered in (a) the insurer would pay in the event of the immediate death of the persons insured under the policy;

BEL_i = the best estimate liabilities of the corresponding obligations in points (a) and (b);

q = the insurer-specific expected average death rate (including the best estimate assumption for HIV/AIDS) extra mortality over the coming 12 months, weighted by the sum assured; and

n = the modified duration of the liability cash flows which must be at least one year.

(ii) longevity risk—

A. The SCR, LU_{long} , has two components –

- (a) the annuity component, $Long_{Annuities}$; and

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(b) the for other policies subjected to longevity risk, $Long_{Other}$.

B. The measure $Long_{Annuities}$ shall be as follows –

$$Long_{Annuities} = 13.8\% \times (1 - q) \times n \times 1.1^{\frac{n-1}{2}} \times \sum_i \max (BEL_{iAnnuities_{long}}, 0)$$

where –

$BEL_{iAnnuities_{long}}$ = best estimate liability for annuity policy i subject to longevity risk
and

q and n = the same measures defined above for mortality risk.

C. The measure $Long_{Other}$ shall be as follows –

$$Long_{Other} = 13.8\% \times (1 - q) \times n \times 1.1^{\frac{n-1}{2}} \times \sum_j \max (BEL_{jOther_{long}}, 0)$$

where:

$BEL_{jOther_{long}}$ = Best estimate liability for any other policy j that is subject to
longevity risk; and

q and n = The same measures defined above for mortality risk.

i. LU_{long} is then the sum of the above two measures, i.e.,

$$LU_{Long} = Long_{Annuities} + Long_{Other}$$

(iii) Morbidity or Disability risk-

The capital requirement for morbidity risk, LU_{dis} shall be as follows—

$$LU_{dis} = 25\% \times q \times n \times 1.1^{\frac{n-1}{2}} \times \sum_i \max \{Disability\ Benefit_i - BEL_i, 0\} \\ + 20\% \times BEL_t \times t \times n \times 1.1^{\frac{n-1}{2}}$$

where—

disability benefit _{i} =

- (a) the amount the insurer would currently pay should the persons insured under the policy experience disability or morbidity; plus
- (b) the expected present values of amounts not covered in (a) the insurer would pay should there be immediate disability or morbidity of the persons insured under the policy;

BEL_i = The best estimate liabilities of the corresponding obligations in points (a) and (b);

- q = The insurer-specific expected average rate of transition from healthy to sick or disabled over the coming 12 months, weighted by the sum assured or annual payment;
- n = the modified duration of the liability cash-flows;
- BEL_t = the best estimate liability for insurance obligations subject to termination or recovery risk; and
- t = the insurer-specific average rate of transition from sick or disabled to healthy or dead over the coming 12 months, weighted by the sum assured or annual payment.
- (iv) Lapse risk—

A. The capital requirement for lapse risk, LU_{lapse} , shall be as follows –

$$LU_{lapse} = \max(Lapse_{down}, Lapse_{mass}, Lapse_{up})$$

where –

$Lapse_{down}$ = capital requirement for the risk of a permanent decrease of the rates of lapsation;

$Lapse_{up}$ = capital requirement for the risk of a permanent increase of the rates of lapsation; and

$Lapse_{mass}$ = the capital requirement for lapse mass event.

B. $Lapse_{up}$ and $Lapse_{down}$ shall be as follows –

$$Lapse_{up} = 50\% \times l_+ \times n_+ \times S_+$$

$$Lapse_{down} = 50\% \times l_- \times n_- \times S_-$$

where –

l_+ = estimate of the average rate of option exercise of the homogeneous groups with a positive surrender strain;

n_+ = the average number of years (weighted by surrender strain) which the homogeneous groups with a positive surrender strain runoff, subject to a minimum of one year;

S_+ = the sum of positive surrender strains;

l_- = estimate of the average rate of option exercise of the homogeneous groups with a negative surrender strain;

n_- = the average number of years (weighted by surrender strain) over which the homogeneous groups with a negative surrender strain runoff, subject to a minimum of one year; and

S_- = the sum of negative surrender strains.

C. $Lapse_{mass}$ shall be as follows –

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$$Lapse_{mass} = \alpha \times S_+$$

where—

$\alpha = 30\%$ for retail business; and

$\alpha = 70\%$ non-retail business.

(v) expense risk—

A. The capital requirement for expense risk, LU_{exp} , shall be as follows –

$$LU_{exp} = (10\% \times n + (S_{n|@k\%} - S_{n|@i\%})) \times pE$$

where –

n = the modified duration of the liability cash flows associated with life insurance obligations serviced during the previous 12 months, which must be set to not less than one year;

pE = the amount of expenses incurred in servicing life insurance obligations during the previous 12 months;

k = the stressed inflation rate shall be follows –

10% increase in future expenses relative to the best estimate assumptions;
plus

$\max\{\text{an absolute addition of 2\% to the best estimate level of expense inflation, a 20\% increase in the best estimate level of expense inflation}\}$; and

i = weighted average inflation rate included in the calculation of the best estimate of life insurance obligations serviced during the previous 12 months, weighted by the present value of expenses included in the calculation of the best estimate for servicing all existing life insurance obligations.

(vi) catastrophe risk—

A. the capital requirement for life catastrophe risk, LU_{CAT} shall be as follows—

$$LU_{CAT} = \sqrt{\sum_{i,j} CorrLU_{(i,j)} \times CAT_i \times CAT_j}$$

where –

i, j = mortality and morbidity sub-modules respectively; and

$CorrLU$ = the correlation matrix shall be specified as follows –

	Mortality	Morbidity
Mortality	100%	25%
Morbidity	25%	100%

B. CAT_{mort} shall be as follows –

$$CAT_{mort} = \sum_i MortCAT\ shock_{rate} \times CAR_i$$

where –

i = each policy where the payment of benefits is contingent upon mortality.

$$CAR_i = SA_i + BA_i \times Annuity_factor - BEL_i$$

SA_i = the sum assured (net of reinsurance) on death for each policy i where the benefits are payable as a single lump sum;

BA_i = the annualised amount of benefit (net of reinsurance) payable on death for each policy i where the benefits are not payable as a single lump sum;

$Annuity_factor$ = the average annuity factor for the expected duration over which benefits may be payable in the event of a claim; and

BEL_i = the best estimate liability (net of reinsurance) for each policy i .

$$MortCAT\ shock_{rate} = \frac{12 \times \min \{ \max (0.2 \times MortRate + 0.105, 0.125), 0.3 \}}{1000}$$

$MortRate$ = the underlying mortality rate per thousand per month per life insured.

C. CAT_{morb} shall be as follows—

$$CAT_{morb} = \sum_j MorbCAT\ shock_{rate} \times CAR_j$$

where –

j = each policy where the payment of benefits is contingent on disability or sickness;

$$MorbCAT\ shock_{rate} = \frac{12 \times 70\% \times MorbRate}{1000};$$

$$CAR_j = SA_j + BA_j \times Annuity_factor - BEL_j;$$

SA_j = the sum assured (net of reinsurance) on sickness or disability for each policy j where the benefits are payable as a single lump sum;

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BA_j = the annualized amount of benefit (net of reinsurance) payable on sickness or disability for each policy j where the benefits are not payable as a single lump sum;

$Annuity_factor$ = the average annuity factor for the expected duration over which benefits may be payable in the event of a claim;

BEL_j = the best estimate liability (net of reinsurance) for each policy j ; and

$MortRate$ = the underlying mortality rate per thousand per month per life insured.

(vii) retrenchment risk—

A. the capital requirement for retrenchment risk, LU_{ret} shall be as follows—

$$LU_{ret} = 60\% \times q \times n \times \sum_i \max\{CAR_i, 0\}$$

CAR_i = the capital-at-risk for product type i shall be as follows—

- a. the amount the insurer would currently pay should the persons insured under the policy get retrenched; plus
- b. the expected present values of amounts not covered in (a) the insurer would pay should there be retrenchment of the persons insured under the policy; less
- c. the best estimate liabilities of the corresponding obligations in points (a) and (b); (each of the amounts above shall be calculated net of amounts recoverable from eligible risk mitigation instruments.)

q = the insurer-specific expected average rate of retrenchment over the coming 12 months, weighted by the sum assured; and

n = the modified duration of the liability cash flows.

(e) mortality tables for use by insurers shall be as follows—

- (i) Zimbabwe Mortality Tables; or
- (ii) any other applicable mortality tables as justified by the internal mortality experience .

5. SCR for Non-life underwriting—

(a) SCR_{NL} shall be as follows —

$$SCR_{NL} = \sqrt{\sum_{r,c} CorrNL_{r,c} \cdot NL_r \cdot NL_c}$$

where—

- (i) $CorrNL_{r,c}$ is the entries of the correlation matrix $CorrNL$; and
 - (ii) NL_r, NL_c is the capital requirements for individual non-life underwriting risk components r and c according to the rows and columns of correlation matrix $CorrNL$.
- (b) correlation matrix $CorrNL$ shall be specified as follows—

<i>CorrNL</i>	Premium Risk	Reserve Risk	Catastrophic Risk
Premium Risk	100%	25%	0%
Reserve Risk	25%	100%	0%
Catastrophic Risk	0%	0%	100%

- (c) estimation of capital requirements for non-life sub-risk components shall be as follows—
- (i) premium risk—
 - A. the capital requirement for premium risk shall be computed as the sum of the product of risk factors and the premiums reserves for sub classes of insurance business.
 - B. the risk factors for premium risk shall be as specified in subparagraph 5 (d).
 - (ii) reserve risk—
 - A. the capital requirement for reserve risk shall be computed as the sum of the product of risk factors and the claims reserves for sub classes of insurance business.
 - B. the risk factors shall be as specified in subparagraph 5 (d).
 - (iii) catastrophic risk—
 - A. the capital required for catastrophic risk shall be computed as the sum of the product of risk factors and the net earned premiums for each class of business; and
 - B. the risk factors shall be as specified in subparagraph 5 (d).
- (d) NLUR Capital Charges—
- The risk factors for premium risk, reserve risk and catastrophe risk shall be as follows—

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Main Class	Sub-class 1	Premium Capital Charge	Claims Capital Charge	Catastrophic Capital Charge
Property Damage (with liability)	Liability	25%	27%	5%
	Engineering all risks	32%	26%	5%
	Fire	30%	26%	5%
	Farming	30%	26%	5%
	Motor	22%	19%	5%
	Aviation	34%	30%	5%
	Marine	29%	23%	5%
Financial Loss	Bonds	30%	32%	5%
	Hire Purchase	30%	32%	5%
Fixed Benefits	Accident	23%	20%	5%
	Travel Insurance	34%	30%	5%
	Legal	25%	27%	5%
	Liability	36%	22%	5%
	Fidelity Guarantee	30%	32%	5%

6. operational risk—

(a) SCR_{op} shall be as follows—

$$SCR_{op} = \min(\beta \cdot BSCR, Op_{non-linked}) + Op_{linked}$$

where—

$BSCR$ = the Basic Solvency Capital Requirement;
 $Op_{non-linked}$ = the operational risk SCR for non-linked insurance obligations;
 Op_{linked} = the operational risk SCR for linked insurance obligations; and
 β = a parameter ranging between 10% and 30% as specified in subparagraph 6(b).

(b) Determination of β shall be as follows—

Level of Compliance	Description	Measurable Outcome	Level of β	SCR _{op}
Not compliant	Insurer does not have all three lines of defense in place		30%	$\min(0.3 \cdot BSCR, Op_{non-linked}) + Op_{linked}$
Partially Compliant – level 1	Insurer has 1 st line of defense in place	Insurer has a minimum of the following: i. risk registers including a description of the procedure to continuously identify and assess risks faced; ii. identification of risk owners within the organisation to ensure proper ownership and responsibility for risks faced by the company; and iii. evidence of internal controls systems to measure, assess and mitigate risks faced by the insurer.	25%	$\min(0.25 \cdot BSCR, Op_{non-linked}) + Op_{linked}$
Partially Compliant - Level 2	Insurer has the 1 st and 2 nd lines of defense in place	In addition to the requirements under level 1 above, the insurer shall produce the following reports—	20%	$\min(0.2 \cdot BSCR, Op_{non-linked}) + Op_{linked}$

Fully Compliant	Insurer has the 1 st , 2 nd and 3 rd lines of defense in place	1. a risk management function; 2. an actuarial function; and 3. a compliance function. An internal audit that provides assurance on risk and governance. Fully fledged Enterprise Risk Management in place.	10%	$\min(0.1 \cdot BSCR, Op_{non-linked}) + Op_{linked}$
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(c) non-linked insurance obligations—

(i) the operational risk capital requirement for non-linked insurance obligations ($Op_{non-linked}$) shall be as follows—

$$Op_{non-linked} = \max(Op_{premiums}, Op_{provisions})$$

where—

$Op_{premiums}$ =operational risk capital requirement determined using earned premiums as the measure of scale; and

$Op_{provisions}$ =operational risk capital requirement determined using technical provisions (excluding the risk margin) as the measure of scale.

(ii) $Op_{premiums}$ shall be as follows—

$$\begin{aligned} Op_{premiums} = & 4\% \cdot (PI_{Life} - PI_{Linked}) + 3\% \cdot PI_{NL} \\ & + \max \{4\% \cdot (PI_{Life} - PI_{Linked} - 1.2(pPI_{Life} - pPI_{Linked})), 0\} \\ & + \max \{3\% \cdot (PI_{NL} - 1.2pPI_{NL}), 0\} \end{aligned}$$

where—

PI_{Life} =premium income during the past 12 months ending on the reporting date for all life insurance obligations;

PI_{NL} = premium income for the 12 months ending on reporting date for non-life insurance obligations;

PI_{Linked} =premium income for the 12 months ending on reporting date for linked insurance obligations;

pPI_{Life} =premium income for the 12 months ending on the date 12 months prior to the reporting date for all life insurance obligations;

pPI_{NL} =premium income for the 12 months ending on the date 12 months prior to the reporting date for all non-life insurance obligations; and

pPI_{Linked} =premium income for the 12 months ending on the date 12 months prior to the reporting date for linked insurance obligations.

premium income refers to earned premiums without deducting premiums ceded to reinsurance.

(iii) $Op_{provisions}$ shall be as follows—

$$Op_{provisions} = 0.45\% \cdot \max(TP_{Life} - TP_{Linked}, 0) + 3\% \cdot \max(TP_{NL}, 0)$$

where—

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TP_{Life} =technical provisions for life insurance obligations, excluding the risk margin;

TP_{Linked} =technical provisions for linked insurance obligations, excluding the risk margin; and

TP_{NL} =technical provisions for non-life insurance obligations, excluding the risk margin.

The technical provisions measures shall be calculated without deducting amounts recoverable from reinsurance contracts and other risk mitigation instruments.

(d) linked insurance obligations—

(i) the operational risk capital requirement for linked insurance obligations (Op_{Linked}) shall be as follows—

$$Op_{Linked} = \sum_{linked} \max(25\% \cdot Exp_{Linked}, OP_{AUM})$$

where—

Exp_{Linked} =amount of annual expenses incurred during the previous 12 months in respect of linked insurance obligations which include all direct and indirect expenses excluding commission only; and

OP_{AUM} =the operational capital risk requirement for assets under management (AUM) for insurance obligations and shall be as follows—

$$OP_{AUM} = 0.0025 \cdot AUM$$

Eleventh Schedule (*section 7I*)

LADDER OF SUPERVISORY INTERVENTION

1. Stages underlying the Ladder of Supervisory Intervention.

- (1) The five stages of intervention shall be as follows—
- (a) Stage I: Normal Operations
- A. Circumstances:
- (i) insurer's own funds are greater than 105 *per centum* of the Solvency Ratio (Ratio of Eligible Own Funds to Solvency Capital Requirement);
 - (ii) insurer's financial position, policies and procedures are considered satisfactory; and
 - (iii) insurer's practices, conditions and circumstances do not indicate problems or control deficiencies.
- B. Intervention:
- (i) financial analysis on a quarterly or annual basis to be conducted including early warning test and solvency requirements;
 - (ii) risk based scheduling of routine on-site examinations
 - (iii) periodic prudential meetings to be conducted;
 - (iv) insurer shall provide annual independent audited financial statements; and
 - (v) the risk profile of the insurer must be assessed, monitored and updated.
- (b) Stage II: Early Warning
- A. Circumstances:
- (i) the capital resources are between 100 *per centum* and 105 *per centum* of the Solvency Ratio;
 - (ii) deficiencies in policies or procedures or the existence of other circumstances have been identified that could lead to the development of problems; or
 - (iii) The situation is such that it can be remedied, by a collaborative approach between the insurer and the Commission, before it impacts on the financial viability of the insurer.
- B. Intervention:
- (i) The Commission will discuss the concerns with the insurer and request for measures to be taken to rectify the situation; or
 - (ii) The Commission will monitor the remedial actions and might request for additional information and/or follow up examinations.
- (c) Stage III: Risk to financial viability or solvency.
- A. Circumstances:
- At this stage, the situation or problems do not pose an immediate threat to the viability or solvency but could deteriorate to stage iv if no prompt actions are taken to address them. This may include, inter alia:

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- (i) capital resources lie between 50 *per centum* and 100 *per centum* of the Solvency Ratio;
- (ii) evidence of previous non-compliance with the solvency requirements;
- (iii) excessive exposure to off- balance sheet risk;
- (iv) evidence that the insurer has insufficient liquidity to meet expected claims;
- (v) corporate Governance failings leading to deficiencies in management procedures or controls;
- (vi) poor earnings, operating losses, or deterioration in the profitability of the insurer's business, to the extent that future viability is questionable;
- (vii) evidence of increasing investment exposure or negative investment performance;
- (viii) serious concerns regarding appropriateness of provisioning;
- (ix) concerns arising from a financially weak or troubled shareholder;
- (x) non-compliance with regulatory requirements;
- (xi) unusual numerous or serious complaints from policyholders regarding the conduct of business;
- (xii) systematic issues such as exposure to major insurance catastrophes, rapid growth, credit-rating downgrades, qualified report of external auditor or valuator, increased risk exposure as identified by stress testing or the business plan; or
- (xiii) failure to take remedial action or complying with significant recommendations as per inspection report.

B. Intervention:

The Commission may put into action at least one of the following measures in addition to those noted in previous stages:

- (i) intensify risk dialogue with the insurer to objectively mitigate the increased risk;
- (ii) maintain a supervisory watch list to monitor such an entity until it has rehabilitated;
- (iii) an independent actuary may be required to carry out a special review of the insurer's technical provisions at the insurer's expense;
- (iv) the insurer may be required to undergo a special audit to be carried out by an auditor other than the insurer's external auditor at the insurer's expense;
- (v) engage an independent party to carry out an investigation at the expense of the insurer;
- (vi) engage the insurer's management and board of directors on the importance of considering resolution options such as restructuring the company or seeking prospective purchasers;
- (vii) impose penalties for non-compliance with requirements and or seek criminal prosecution for offences;

- (viii) disqualify, remove or suspend any person including a director or senior manager from management of or participation in the affairs of the insurer, and where necessary direct the insurer to appoint another person;
 - (ix) impose restrictions appropriate to the nature, scale and complexity of the licensee which may include, inter alia:
 - A. restrictions on new business;
 - B. restricting certain transactions that will reduce the capital resources such as dividends payments, capital repayment, voluntary repayments of the policyholder's own loans, and the distribution of with-profit bonuses to policyholders;
 - C. restrictions on investments;
 - D. restrictions on risky and complex transactions where it is not ensured that they serve to improve the solvency position; or
 - E. other restrictions tailored to the specific circumstances, as deemed necessary by the Commission.
- (d) Stage IV: Future financial viability in serious doubt.
- A. Circumstances:

At this stage, the Commission has identified that the insurer has failed to remedy the problems that were identified in stage III above and the situation is deteriorating or capital resources lie below 50 *per centum* of the Solvency Ratio.
 - B. Intervention:

In addition to stage III interventions where applicable, the Commission may initiate further actions such as:

 - (i) engaging specialists or professionals to assess areas of observed deficiencies-at the insurer's expense;
 - (ii) directing an overhaul of the management or composition of the Board;
 - (iii) modifying the insurer's capital requirement;
 - (iv) directing the insurer to engage a specialist to advise on the proper conduct of one or more aspects of its operations; or
 - (v) conducting thematic on-site inspections focusing on the particular areas of concern which may involve the engagement of external consultants;
- (e) Stage V: Non-viability of insurer or imminent insolvency
- A. Circumstance:

At this stage, the licensee has failed to identify and rectify risks to solvency at an earlier stage in the ladder and the Commission has determined that it has deteriorated to an unacceptable level of risk implying that:

 - (i) policyholder obligations will not be met;

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- (ii) the company has failed to develop and implement an acceptable business plan, resulting in either of the two preceding circumstances becoming inevitable within a short period of time;
and
 - (iii) the capital resources are less than the MCR.
- B. Intervention:
 - (i) suspend or revoke the insurer's license;
 - (ii) advise the Minister, local regulators, and in the case of foreign entities, the insurer's home regulator, of the intervention actions being taken; and
 - (iii) monitor the insurer's winding up, judicial management or restructuring proceedings.

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Twelfth Schedule (Section 8)

INSURERS' REPORTING AND DISCLOSURE REQUIREMENTS

1. Frequency of Disclosure

- (a) The reporting frequencies, audit requirement, signing off requirements and target audience of the disclosure documents are tabulated below:

Report	Frequency of Reporting	Audit Requirement	Report sign-off	Target Audience for AFR
AFR	Annually	Signed by Statutory Actuary	Approval by Board of Directors	Commission
SFCR	Annually	Recommended for audit	Approval by Board of Directors	Public
RSR	Once every three (3) years	No	Approval by Board of Directors	Commission
QRTs	Quarterly	No	Approval by Board of Directors	Commission
Audited Financial Statements	Annually	Signed by the Board Chairperson	Approval by Board of Directors	Commission and Public

2. Characteristics of SFCR and RSR

The SFCR and RSR must contain at a minimum the following mandatory sections outlined in the table below:

Section
A. Business and Performance
A1. Business profile and information
A2. Underwriting performance
A3. Claims performance
A4. Investment performance
A5. Performance of other activities
B. System of Governance
B1. General information on the system of governance
B2. Fit and proper requirements
B3. Internal control system
B4. Internal audit function
B5. Actuarial function
B6. Outsourcing
B7. Other information
C. Risk Management and Profile
C1. Risk Management system including Own Risk and Solvency Assessment (ORSA)
C2. Underwriting risk
C3. Market risk (Including Investment credit risk)
C4. Credit risk

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Section
C5. Liquidity risk
C6. Operational risk
C7. Claims risk
C8. Other material risks
D. Valuation Results for Solvency Purposes
D1. Assets
D2. Technical provisions
D3. Non-Technical liabilities
D4. Alternative methods for valuation
D5. Any other relevant information
E. Capital Adequacy and Management
E1. Own Funds
E2. The SCR and MCR
E3. Non-compliance with the MCR and non-compliance with the SCR
E4. Tiering of capital

- (b) An insurer shall submit an AFR with comprehensive disclosures as specified under the characteristics of the SFCR. The AFR shall also include disclosures on:
- (i) methodology utilised in estimating technical provisions
 - (ii) data adequacy and justification for assumptions
 - (iii) indicative profitability analysis by product
 - (iv) solvency breakdown per risk classification
- (c) Structure and quality of own funds
- i. Each insurer shall provide information on:
 - A. Structure, amount and quality of own funds (split by tier) covering its MCR and SCR;
 - B. Objectives, policies and processes for managing own funds;
 - C. Quantitative/Qualitative explanation of differences between own funds and equity;
 - D. Ancillary own funds – detailed guidance given in the sixth schedule.
 - E. Analysis of movement over the reporting period on own funds.
- (d) Minimum capital requirement and solvency capital requirement.
- i. Each insurer shall provide:
 - A. Qualitative and Quantitative information on the results and calculation of MCR and SCR; and
 - B. Details of movements over the year.
- (e) Non-compliance with the SCR and MCR
- i. Every insurer shall report its non-compliance with SCR and MCR, consequences of non-compliance and the remedial action.
- (f) Quality of the capital.
- i. Every insurer shall provide a detailed breakdown of the amount and quality of capital held at the end of each financial year as outlined below:

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Assets / Liabilities	Market Value	Previous Value	Year's	Quality of Capital e.g. tier 1 or 2 or 3
Cash and money market instruments				
Government securities or prescribed assets-government, parastatals, local authorities				
Prescribed assets-private companies not related to Government				
Term deposits				
Quoted equities				
Unquoted or private equities				
Property				
Premium debtors				
Administrative assets/operational assets (e.g. funeral parlour, coffin manufacturer, coffins)				
Other assets (specify)-Other receivable				
Other assets (specify)-Intangible assets				
Total Assets				
Total Liabilities				
Total Eligible Funds				
Total Tier 1 Funds				
Total Tier 2 Funds				
Total Tier 3 Funds				

3. Minimal financial statement disclosures

a. The following broad areas constitute the minimum disclosures expected for every insurer when reporting its year-end results:

- i. Chairman's statement;
- ii. Auditor's report;

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- iii. Compliance report
 - iv. Director's report;
 - v. Financial statements comprising:
 - A. Statement of financial position and statement of comprehensive income;
 - B. Statement of changes in equity;
 - C. Cash flow statement; and
 - D. Maturity profile of assets and liabilities.
 - vi. Notes comprising a summary of accounting policies and other explanatory notes; and
 - vii. Capital adequacy and solvency position.
- b. The financial statements disclosure requirements outlined above, shall be done in accordance to the relevant International Financial Reporting Standards (IFRS).
- c. The frequency and timelines for disclosure of information are given below:

Type of Disclosure Report	Disclosure Method	Due dates	Applicable to	To be Certified by
Audited Financial statements including income statement, cashflow statement and statement of changes in equity	To be published by the insurer in at least two (2) widely read local newspapers	Sixty (60) days after the submission Deadline	Registered insurance companies	External auditors, Board of Directors
Management Accounts	Submission of quarterly returns in the prescribed format to the Commission	14 days from end of quarter	Registered insurance companies and brokers	Principal Officer and Finance Director

- d. Disclosure to policyholders
- i. It shall be the duty of every insurer to develop a mechanism to engage and keep policyholders well informed on any proposed changes to the policy, claims and complaint-handling procedures. These disclosures shall—
 - A. be maintained from onboarding and throughout the duration of the insurance contract;
 - B. put in place procedures and effective mechanisms to address complaints and grievances of policyholders; and
 - C. ensure compliance with the statutory requirements as laid down in these regulations.