South African Reserve Bank

Prudential Standard GOM

Governance and Operational Standard for Microinsurers

Objectives and Key Requirements of this Prudential Standard

This Standard sets out the governance and operational requirements that apply to microinsurers operating in South Africa from a regulatory perspective. The requirements set out in this Standard are aligned to the principles and requirements under the Governance and Operational Standards for Insurers, but are applied in a proportionate manner, with appropriate adjustments, to account for the specific nature and characteristics associated with microinsurers.

It is the responsibility of the board of directors of a microinsurer to ensure that the microinsurer meets the governance and operational requirements on a continuous basis.

The key principles and requirements underpinning this Standard are that microinsurers must meet the relevant requirements set out in the Governance and Operational Standards for Insurers, unless otherwise specified in this Standard or approved by the Prudential Authority.

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1. Application

1.1. This Standard applies to all microinsurers licensed under the Insurance Act, 2017 (the Act).

1.2. Unless otherwise indicated, all references to “microinsurer” in this Standard can be read as a reference to a microinsurer licensed to conduct life insurance business,

non-life insurance business, both life and non-life insurance business or reinsurance business.

2. Roles and Responsibilities

2.1. A microinsurer's board of directors is ultimately responsible for ensuring that the microinsurer complies with the principles and requirements of this Standard.

2.2. Where required to do so by this Standard, a microinsurer's control functions must regularly review and report to the board of directors on the microinsurer's compliance with this Standard.

2.3. If requested to do so, a microinsurer's auditor must provide assurance to the microinsurer and the Prudential Authority that the microinsurer complies with the requirements of this Standard.

3. Commencement and Transition Provisions

3.1. This Standard commences on 1 July 2018.

Version Number	Commencement Date
1	1 July 2018

3.2. The transition provisions provided for in the Governance and Operational Standards for Insurers (GOI) also apply to microinsurers, where applicable.

4. Principles underlying Governance and Operational Requirements for microinsurers

4.1. The risk profile of microinsurers is typically different from that of insurers because of the limited classes of business that microinsurers may underwrite, the limited value of insurance obligations that they may underwrite and the product standards imposed in respect of microinsurance policies (which standards aim to ensure that the policies do not provide for complex designs that increase risks to the microinsurer or policyholders). The regulatory framework for microinsurers is designed to facilitate financial inclusion through having lower and more proportionate regulatory requirements based on the low risk of microinsurance products[1] from a prudential perspective.

4.2. This Standard together with the Financial Soundness Standards for Microinsurers balance proportionate regulatory requirements, so as to support appropriate and affordable access to insurance, while at the same time ensuring that there is adequate consumer protection in place.

4.3. The Financial Soundness Standards for Microinsurers provide the first pillar of regulatory assurance around the capacity of microinsurers to meet their insurance obligations. This Standard provides a second pillar of regulatory assurance, aimed at ensuring microinsurers maintain a minimum standard of sound governance and prudent business management.

[1] Appropriate product standards are prescribed by the Financial Sector Conduct Authority in Policyholder Protection Rules made under the Long-term Insurance Act, 1998 and the Short-term Insurance Act, 1998.

4.4. Subject to the variations noted in this Standard, the Governance and Operational Standards for Insurers apply to microinsurers. Further details of requirements applying to microinsurers that are in addition to, or vary from, requirements applying to insurers are covered in sections 5 to 11 of this Standard.

4.5. This Standard focuses on the following main areas for microinsurers:

a) Governance;
b) Risk management and internal controls;
c) Fitness and propriety of Key Persons and Significant Owners;
d) Oversight of outsourcing arrangements;
e) Controls around transfers of business and other significant transactions; and
f) Miscellaneous regulatory requirements provided for in the Act.

5. Framework for Governance and Operational Standards

5.1 GOI 1 (Framework for Governance and Operational Standards for Insurers) sets out the high-level framework for assessing the governance and operational soundness of South African insurers from a regulatory perspective. Sections 5 to 11 of this high-level framework also apply to microinsurers, subject to the qualifications set out below in sections 6 to 11.

6. Governance

GOI 2 (Governance of Insurers) establishes minimum requirements for the structure and operation of an insurer's board of directors, and how roles and responsibilities should be allocated between the board of directors and senior management. These minimum requirements apply also to the board of directors and senior management of microinsurers in the following manner:

6.1 Roles and Responsibilities

Section 2 applies.

6.2 Principles

Section 4 applies.

6.3 Composition of the Board of Directors

Section 5 applies.

6.4 Chairperson of the Board of Directors

Section 6 applies.

6.5 Board Committees

Section 7 applies save with respect to section 7.4. Section 7.4 is replaced with the following:

Microinsurers need not establish a risk committee or a remuneration committee. Where a microinsurer elects not to have a risk committee and / or a remuneration committee, the functions of the risk committee and / or remuneration committee as set out in Attachments 3 and 4 to GOI 2 (Governance of Insurers) respectively, must be performed by the board of directors or delegated by the board of directors to the audit committee or another appropriate committee of the board.

6.6 Roles and Responsibilities of the Board of Directors

Section 8 applies, save with respect to section 8.1 l). Section 8.1 l) is replaced with the following:

Regularly monitor and, at least every three years, review the adequacy and effectiveness of the microinsurer's governance framework;

6.7 Allocation and Delegation of Roles and Responsibilities

Section 9 applies.

6.8 Duties of Individual Directors

Section 10 applies.

6.9 Board Performance

Section 11 applies save with respect to section 11.4. Section 11.4 is replaced with the following:

The board of directors of a microinsurer must adopt and implement a procedure to review, at least every three years, its performance both collectively and individually, to ascertain whether the board of directors remains effective in discharging its roles and responsibilities and identify opportunities for improvement.

6.10 Roles and Responsibilities of Senior Management

Section 12 applies.

6.11 Independence

Attachment 1 to GOI 2 (Governance of Insurers) on independence applies.

6.12 Audit Committee

Attachment 2 to GOI 2 (Governance of Insurers) on the audit committee applies.

6.13 Risk Committee

Attachment 3 to GOI 2 (Governance of Insurers) on the risk committee does not apply.

6.14 Remuneration Committee

Attachment 4 to GOI 2 (Governance of Insurers) on the remuneration committee does not apply.

6.15 Corporate Culture

Guidance Note GN 2.1 on Corporate Culture applies.

7. Risk Management and Internal Controls

GOI 3 (Risk Management and Internal Controls for Insurers) establishes minimum requirements for effective risk management that are fundamental to the prudent management of an insurer and requires insurers to have a board-approved enterprise-wide risk management system consisting of specified components. These minimum requirements apply also to microinsurers in the following manner:

7.1 Roles and Responsibilities

Section 2 applies save for section 2.2. Section 2.2 is replaced with the following:

The heads of the microinsurer's control functions are responsible for providing input and assurance to the board of directors about the operations, efficiency and effectiveness of the components of the systems for risk management and internal controls relevant to their respective areas of responsibility.

7.2 Principles

Section 4 applies save for section 4.5. Section 4.5 is replaced with the following:

To provide appropriate governance over the risk management system and system of internal controls, a microinsurer must establish and adequately resource at least the following control functions:

a) an internal audit function; and
b) an actuarial function.

7.3 Risk Management Strategy

Section 5 applies.

7.4 Risk Management Policies

Section 6 applies save for section 6.1. Section 6.1 is replaced with the following:

A microinsurer must, at a minimum, have board-approved policies that address the following material risks and risk areas, where relevant:

a) fitness and propriety;
b) information technology;
c) insurance fraud;
d) operational;
e) outsourcing;
f) reinsurance and other forms of risk transfer;
g) remuneration; and
h) underwriting.

7.5 Risk Management Procedures and Tools

Section 7 applies save for section 7.2 d). Section 7.2 d) is replaced with the following:

a forward-looking approach to assessing enterprise-wide financial risk through the proportionate application of an Own Risk and Solvency Assessment process (see Attachment 1: Own Risk and Solvency Assessment (ORSA) below);

7.6 Internal Controls

Section 8 applies.

7.7 Risk Governance - General Requirements for Control Functions

Section 9 applies.

7.8 Risk Governance – Heads of Control Functions

Section 10 applies.

7.9 The Risk Management Function

Section 11 does not apply.

7.10 The Compliance Function

Section 12 does not apply.

7.11 The Internal Audit Function

Section 13 applies.

7.12 The Actuarial Function

Section 14 does not apply. Section 14 is replaced by the following:

a) A microinsurer must have an effective actuarial function capable of assisting the board of directors regarding the matters addressed below.
b) A microinsurer's actuarial function is responsible for expressing an opinion to the board of directors on the reliability and adequacy of the calculations of the microinsurer's technical provisions, and minimum and solvency capital requirements, including on:
    i. the appropriateness of the methodologies and underlying models used and assumptions made;
    ii. the sufficiency and quality of the data used in actuarial calculations;
    iii. best estimates and associated assumptions against experience when evaluating technical provisions; and
    iv. the accuracy of the calculations.
c) An insurer's actuarial function is responsible for evaluating and providing advice to the board of directors, senior management and other control functions (where relevant) on the actuarial soundness of product development and design, including the terms and conditions of insurance contracts, premiums, insurance obligations and other values and the estimation of the capital required to underwrite the product.

7.13 Policies for Managing Financial Risks

Attachment 1 to GOI 3 (Risk Management and Internal Controls for Insurers) on Policies for Managing Financial Risks does not apply and is replaced by Attachment 1 to this Standard in respect of the policies referred to in 7.4 above.

7.14 Own Risk Solvency Assessment (ORSA)

GOI 3.1 (Own Risk and Solvency Assessment (ORSA) for Insurers) requires insurers to conduct an own risk and solvency assessment (ORSA) annually, when the insurer's risk profile changes materially, or when directed to do so by the Prudential Authority. These requirements do not apply to microinsurers and are replaced by Attachment 2 to this Standard.

7.14 Business Continuity Management (BCM)

GOI 3.2 (Business Continuity Management (BCM)) requires insurers to implement an enterprise-wide approach to business continuity management, designed to minimise the impact on critical business operations that could arise from a business disruption. These requirements apply also to microinsurers.

7.15 Reinsurance and Other Forms of Risk Transfer

GOI 3.3 (Reinsurance and Other Forms of Risk Transfer by Insurers) outlines requirements relating to reinsurance arrangements. These requirements apply also to microinsurers in the following manner:

a) Roles and Responsibilities
Section 2 applies save for sections 2.2 to 2.4.

b) Principles
Section 4 applies.

c) Reinsurance and Other Risk Transfer Policy
Section 5 applies.

d) Due Diligence on Reinsurers
Section 6.1 applies.
Section 6.2 is replaced with:
The level of due diligence a microinsurer must perform on its reinsurers must be:
   i. commensurate with its level of exposure to that reinsurer; and
   ii. no less thorough even if the counterparty is a related or interrelated party of the microinsurer.

A microinsurer may rely on third-party assessments such as rating agency assessments or broker analysis and recommendations in performing the due diligence.
Section 6.3 to 6.5 do not apply.

e) Administration of Reinsurance Arrangements
Section 7 applies.

f) Documentation of Reinsurance Arrangements
Section 8 applies.

g) Limitations on Reinsurance Arrangements to Mitigate Fronting and Market Spirals

Fronting restrictions
Sections 9.1 to 9.5 do not apply. Sections 9.1 to 9.5 are replaced with the following:

   i. A local direct microinsurer must not engage in fronting arrangements in respect of a specific class or sub-class of insurance business.[2]
   ii. A local direct microinsurer conducting only direct business will not be allowed to directly or indirectly reinsure more than 75% of the premiums it has underwritten in respect of its life insurance business to one reinsurer or 75% of the premiums it has underwritten in respect of its non-life insurance business to one reinsurer, whether to a foreign (re)insurer on a cross-border basis, a branch of a foreign reinsurer, a professional reinsurer, a microinsurer or a direct insurer in South Africa.
   iii. A licensed microinsurer conducting reinsurance business will not be allowed to directly or indirectly retrocede more than 75% of the premiums it has underwritten in respect of its life insurance business to one reinsurer or 75% of the premiums it has underwritten in respect of its non-life insurance business to one reinsurer, whether to a foreign (re)insurer on a cross-border basis, a branch of a foreign reinsurer, a professional reinsurer, a microinsurer or a direct insurer in South Africa.
   iv. In the case of both a licensed direct microinsurer and a microreinsurer, the limit on the amount that may be reinsured or retroceded is increased

[2] Whether the reinsurance of a specific class or sub-class of business constitutes fronting or not will be assessed through supervision.

to 85% where the counterparty is an entity within the same group.

Mitigating Market Spirals
Sections 9.6 and 9.7 apply.

h) Terms and conditions for insolvency and dispute resolution
Attachment 1 to GOI 3.3 (Reinsurance and Other Forms of Risk Transfer by Insurers) on terms and conditions for insolvency and dispute resolution applies.

8. Fitness and Propriety of Key Persons and Significant Owners

GOI 4 (Fitness and Propriety of Key Persons and Significant Owners of Insurers) sets out the minimum requirements for an insurer's fit and proper policy and procedures. The requirements apply also to microinsurerssave for Attachment 1 on Minimum Competency and Other Criteria for Certain Key Persons. Attachment 1 is replaced with the following:

The Head of a microinsurer's actuarial function must be a natural person who:

a) is an associate member or a fellow of the Actuarial Society of South Africa; and
b) has, as a member or fellow, appropriate practical experience relating to the type of insurance business of the microinsurer.

9. Outsourcing

GOI 5 (Outsourcing by Insurers) sets out minimum requirements for the outsourcing of material business activities. These requirements apply also to microinsurers in the following manner:

9.1 Roles and Responsibilities

Section 2 applies save for section 2.2. Section 2.2 is replaced with the following:

A microinsurer's board of directors must require senior management or the most appropriate control function or functions to review any proposed outsourcing of a material business activity (see section 6.1 of GOI 5 (Outsourcing by Insurers)) and senior management must regularly review and report to the board of directors or Audit Committee on compliance with the microinsurer's outsourcing policy.

9.2 Principles

Section 4 applies.

9.3 Outsourcing Policy

Section 5 applies.

9.4 Material Business Activities

Section 6 applies.

9.5 Notification to the Prudential Authority of an Outsourcing Arrangement

Section 7 applies.

9.6 Contractual Requirements

Section 8 applies.

9.7 Management and Review of Outsourcing Arrangements

Section 9 applies.

9.8 Definitions of the types of risks

Attachment 1 to GOI 5 (Outsourcing by Insurers) on Definitions of the types of risks referred to in section 5 of GOI 5 applies.

10. Transfers of Business and Other Significant Transactions

GOI 6 (Transfers of Business and Other Significant Transactions by Insurers) sets out the process that the Prudential Authority will adopt when considering an application by an insurer for approval to transfer all or any part of its assets and liabilities relating to its insurance business to another insurer, undertake any fundamental transaction or compromise contemplated in the Companies Act, or change its corporate form. These requirements apply also to microinsurers.

11. Miscellaneous Regulatory Requirements for Microinsurers

GOI 7 (Miscellaneous Regulatory Requirements for Insurers) sets out various prescriptions and exemptions that are provided for in the Act. These requirements apply also to microinsurers.

In addition, the following applies to microinsurers:

11.1 Maximum amounts for Certain Types of Insurance Business

Section 1 of the Act requires the Prudential Authority to prescribe the maximum aggregate amounts that a microinsurer may underwrite in respect of:

a) each life insured, in the case of life insurance; and
b) any insurance policy, in the case of non-life insurance.

The Prudential Authority prescribes the following maximum amounts:

a) Life benefits: R60,000, escalating annually, from the commencement date of this Prudential Standard, by the Consumer Price Index (CPI) annual inflation rate published by Statistics South Africa, as defined in section 1 of the Statistics Act, 1999
b) Non-life benefits: R120,000, escalating annually, from the commencement date of this Prudential Standard, by the Consumer Price Index (CPI) annual inflation rate published by Statistics South Africa, as defined in section 1 of the Statistics Act, 1999

11.2 Limitations on product features of life insurance policies or non-life insurance policies underwritten by microinsurers

A microinsurer may not, without the approval of the Prudential Authority, issue a life insurance policy or a non-life insurance policy that provides for a loyalty benefit, no-claim bonus or rebate in premiums. For purposes of this standard, “loyalty benefit” and “no-claim bonus” have the meaning assigned in the Policyholder Protection

Rules made under the Long-Term Insurance Act, 1998 and the Short-term Insurance Act, 1998, respectively.

Attachment 1: Policies for Managing Financial Risks for Microinsurers

Principles

1. As part of prudent business management a microinsurer must have board-approved policies that address the identification and management of the risks it faces.

2. This Attachment provides details on the minimum required content of the financial and non-financial risk management policies set out in section 7.4 of the Standard.

3. Unless otherwise approved by the Prudential Authority, microinsurers must adopt the following policies and must address at least the issues raised in this Attachment.

A. Fitness and Propriety Policy

1. For requirements relating to a microinsurer's Fitness and Propriety Policy see section 5 of GOI 4 (Fitness and Propriety of Key Persons and Significant Owners of Insurers).

B. Information Technology Policy

A microinsurer's Information Technology Policy must:

1. Provide for the development and implementation of an information technology internal control framework that:

    a) sets out the microinsurer's strategies, policies, systems, processes and controls relating to information technology;
    b) addresses the appropriateness, effectiveness, efficiency, integrity, confidentiality and reliability of the information technology systems of the microinsurer;
    c) facilitates compliance with legislative reporting requirements and legislation relating to confidentiality, privacy, security and retention of data or information; and
    d) provides for independent assurance on the effectiveness of the information technology internal controls, including data management systems.

2. Address at least the following two critical technology-related risk areas:

    a) Cyber security risk – the risk of major disruption from a cyber attack increases exponentially with advances in technology. The Information Technology Policy must address the way in which the microinsurer will monitor cyber risk, respond to cyber attacks, and manage cyber risk. Microinsurers must have a Cyber Attack Response Plan, with clear assignment of roles and responsibilities for responding to the attack and keeping stakeholders informed.[3]
    b) Data privacy risk – microinsurers handle large volumes of sensitive personal information that is subject to privacy legislation. The Information Technology Policy must address the way in which the micromicroinsurer will monitor and protect data privacy.

[3] Cyber risk is a central concern in business continuity planning (see GOI 3.2 (Business Continuity Management (BCM))).

3. Provide for processes to ensure the promotion of an ethical information technology governance culture and awareness of that culture (see GOI GN 2.1 (Corporate Culture)).

4. Provide for processes and procedures to ensure the effective management and governance of information technology assets.

5. Provide for the development, implementation and management of systems for the management of information and data, including systems in respect of information security and information management.

C. Insurance Fraud Risk Policy

A microinsurer's Insurance Fraud Risk Policy must:

1. Outline appropriate strategies, procedures and controls to deter, prevent, detect, report and remedy insurance fraud.

2. Outline appropriate strategies for managing fraud risk and the risk to the microinsurer's financial soundness or sustainability caused by fraud.

3. Take into consideration how the effectiveness of fraud risk management may be enhanced by contributing to industry-wide initiatives to deter, prevent, detect, report, and remedy insurance fraud.

4. Provide for the prompt reporting of insurance fraud to relevant regulatory authorities.

D. Operational Risk Policy

A microinsurer's Operational Risk Policy must:

1. Set out the microinsurer's approach to the identification, assessment, monitoring, management and reporting of relevant operational risk exposures (including the risks associated with inadequate or failed internal processes, people or systems, or from external events).

2. To the extent quantitative data on incidents and impacts are available, the microinsurer should leverage those data to help quantify operational risks. Where possible, and legally permissible, the microinsurer should share such data with industry and leverage broader industry experience to help quantify operational risks.

E. Outsourcing Policy

1. For requirements relating to a micromicroinsurer's Outsourcing Policy see section 5 of GOI 6 (Outsourcing by Insurers).

F. Reinsurance and Other Forms of Risk Transfer Policy

1. For requirements relating to a microinsurer's Reinsurance and Other Forms of Risk Transfer policy see section 5 of GOI 3.3 (Reinsurance and Other Forms of Risk Transfer by Insurers) save for section 5.1 h) that does not apply.

G. Remuneration Policy

A microinsurer's Remuneration Policy must:

1. Not induce excessive or inappropriate risk taking and be consistent with the long-term interests of the microinsurer and the interests of its policyholders.

2. At a minimum, address the remuneration of key persons and other persons whose actions may have a material impact on the risk exposure of the microinsurer (including persons to whom /functions are outsourced).

3. Be consistent with the microinsurer's business and risk management strategy (including risk management practices), and target corporate culture (see GOI GN 2.1 (Corporate Culture)).

4. Apply to the microinsurer as a whole in a proportionate and risk-based way and contain specific arrangements that take into account the respective roles of persons referred to in section 2.

5. Provide for a clear, transparent, and effective governance structure around remuneration, and oversight of the policy.

6. When remuneration includes both fixed and variable components, provide that:

    a) the fixed portion represents a sufficiently high portion of the total remuneration to avoid over dependence on the variable components;
    b) the variable component is based on a combination of the assessment of the individual and the collective performance, such as the performance of the business area and the overall results of the microinsurer; and
    c) the payment of the major part of a significant bonus, irrespective of the form in which it is to be paid, contains a flexible, deferred component that considers the nature and time horizon of the microinsurer.

7. Ensure, in defining an individual's performance, that both financial and non-financial performance are considered.

H. Underwriting Policy

A microinsurer's Underwriting Policy must:

1. Identify the nature of the microinsurer's insurance business, including, but not limited to:

    a) the classes of insurance to be underwritten; and
    b) the types of risks that may be underwritten and those that are to be excluded.

2. Describe the formal risk assessment process for underwriting, including, but not limited to:

    a) the criteria used for risk assessment;
    b) the method(s) for monitoring emerging experience; and
    c) the method(s) by which emerging experience is taken into consideration in the underwriting process.

3. Establish decision-making processes and controls where non-mandated intermediaries or underwriting managers perform binder functions on behalf of the microinsurer in accordance with Part 6 of the Regulations made under the Long-term Insurance Act, 1998 or the Short-term Insurance Act, 1998.

4. Set out the actions to be taken by the microinsurer to assess and manage the risk of loss, or of adverse change in the values of insurance and reinsurance liabilities, resulting from inadequate pricing and provisioning assumptions.

5. Set out the relevant data (quantity and quality) to be considered in the underwriting and reserving processes.

Attachment 2: Own Risk and Solvency Assessment (ORSA) for Microinsurers

1. General

1.1 A microinsurer must conduct an own risk and solvency assessment (ORSA) annually, when the micorinsurer's risk profile changes materially, or when directed to do so by the Prudential Authority.

1.2 The purpose of an ORSA is to ensure that the microinsurer meets the financial soundness requirements on a continuous basis, and has access to additional sources of capital if needed, to deal with a wide range of future scenarios.

1.3 The key requirements relating to the ORSA are that:

a) A microinsurer must be able to demonstrate to the Prudential Authority that each ORSA is aligned with the risk profile of the microinsurer and is used in the capital planning and management of the microinsurer;
b) An ORSA must assess the current, and likely future, financial soundness of the microinsurer across a range of scenarios;
c) An ORSA must address reasonably foreseeable and relevant material risks; and
d) An ORSA must be subject to robust verification by appropriately qualified, independent persons.

2. Roles and Responsibilities

2.1 A microinsurer's board of directors is ultimately responsible for ensuring that the microinsurer complies with the principles and requirements of this Standard.

2.4 The independent expert appointed by the board of directors of the microinsurer under section 7.1 below to carry out an independent assessment of the ORSA process is responsible for reporting honestly and accurately on these matters.

3. Principles

3.1 A key component of the governance and risk management requirements for microinsurers contained in the Act is that a microinsurer must conduct a forward-looking, risk-based ORSA. The objective of the ORSA is to assess -

a) the resilience of a microinsurer's solvency across a range of possible scenarios;
b) the overall solvency needs of the microinsurer taking into account the specific risk profile, approved risk appetite and business strategy of the microinsurer; and
c) compliance, on a continuous basis, with financial soundness requirements.

3.2 A critical feature of an ORSA is that it is conducted over a longer time frame than conventional risk assessments. Each microinsurer is required to select a time frame for the ORSA that is consistent with its business planning horizon.

3.3 A microinsurer must annually, and when the risk profile of the microinsurer changes materially, or when so directed by the Prudential Authority, undertake an ORSA. The scope of an ORSA should be consistent with the risk profile, and operations of the microinsurer.

3.4 A microinsurer must, at all times, be able to demonstrate to the Prudential Authority that each ORSA is aligned with the risk profile of the microinsurer, is widely used, is embedded in the decision making processes of the microinsurer, plays an important

role in its system of governance, and informs strategic decisions, especially with respect to capital planning and management.

3.5 The Prudential Authority, if not satisfied that the ORSA of a microinsurer is aligned with the risk profile of the microinsurer, may direct that microinsurer to repeat the ORSA within the time specified by the Prudential Authority.

4. ORSA Policy

4.1 A microinsurer must have a board-approved ORSA Policy.

4.2 A microinsurer's ORSA Policy must address at least the following:

a) a description of the processes and procedures in place to conduct the ORSA including how the forward-looking perspective is addressed and how the time frame for the assessment is justified;
b) consideration of the link between the risk profile, the approved risk limits and the overall solvency needs; and
c) information on:
    i) how stress tests / sensitivity analyses testing are to be performed and how often they are to be performed;
    ii) data quality requirements;
    iii) the frequency and timing for the performance of the (regular) ORSA and the circumstances which would trigger the need for an out-of-cycle ORSA (outside the regular timescales); and
    iv) the areas of the ORSA which are subject to independent review and the frequency with which these will be reviewed.

4.3 A microinsurer's ORSA policy must ensure that the board of directors and senior management are appropriately engaged in the ORSA process, and that the results of each ORSA are communicated to all relevant staff.

5. Matters an ORSA must Address

5.1 An ORSA must assess the current, and likely future, financial soundness position of the microinsurer on a regulatory basis.

5.2 An ORSA must, at a minimum, encompass the reasonably foreseeable and relevant material risks arising from the microinsurer's activities and operations, and risks resulting from the microinsurer being part of an insurance group. The ORSA is required to identify the relationship between risk management and the level and quality of financial resources needed and available.

5.3 ORSA must address a combination of quantitative and qualitative elements relevant to the medium- and longer-term business strategy of the microinsurer.

5.4 The ORSA must comprise the totality of the processes and procedures employed to:

a) identify, measure, monitor, manage, and report the short- and long-term risks and potential risks of the insurer; and
b) determine the eligible own funds needed to maintain the financial soundness of the microinsurer over an appropriately long time horizon and across a range of adverse scenarios, in order to achieve its business strategy.

5.5 An ORSA must include an assessment of:

a) potential future changes in the risk profile of the microinsurer in stressed

situations;

b) the quantity and quality of eligible own funds needed over the full business planning period of the microinsurer;
c) the quantity and quality of eligible own funds available to the microinsurer, including the composition of eligible own funds and how this composition may change as a result of redemption, repayment, and maturity dates during the business planning period; and
d) the overall solvency needs should be expressed in quantitative terms, complemented by a qualitative description of the risks.

6. Embedding the ORSA in Decision Making

6.1 The ORSA process is a powerful tool for helping a microinsurer to manage its long-term strategy and sustainability. The ORSA helps a microinsurer to understand how its risk management and capital management approaches interact and whether or not its business strategy is sustainable across a range of risk scenarios. The ORSA assists a microinsurer in determining when to transfer or retain particular risks, and how to price risk.

6.2 The central role of the ORSA process is in capital management and planning. By assessing the gap between required and available capital across a range of risk scenarios, the ORSA helps the board of directors and senior management identify the capital raisings and contingencies that may be needed to execute the microinsurer's business strategy. By identifying these needs well in advance, the ORSA helps the microinsurer to optimise its capital base over time.

6.3 The ORSA process is a powerful tool, but it is of little value unless its outputs are embedded into strategic decision making by the microinsurer. The Prudential Authority will look for evidence that the ORSA is embedded and that management actions are linked to the outputs of the exercise.

7. Requirements for Verification of an ORSA

7.1 A microinsurer must ensure that an assessment and validation of the process whereby the ORSA has been performed is carried out by an independent and appropriately qualified person who is operationally independent of the ORSA process. The independent person must also provide assurance to the board of directors that the ORSA policy has been complied with.

8. Information that must be Retained in Respect of an ORSA

8.1 A microinsurer must maintain a record of each ORSA (including the outcomes of the assessment) and its internal reports on each ORSA (internal management information on risk and capital management).

8.2 The record of the ORSA must be such that it can be reviewed without unreasonable effort by a third party. The record must be complete and accurate, and must include clear audit trails. Records must not be overly or unnecessarily complex.

9. Reporting Requirements in Respect of an ORSA

9.1 A microinsurer must submit a report on each ORSA, and the methods used in that ORSA, to the Prudential Authority within two weeks of approval by the board of directors.

9.2 A report referred to in section 9.1 above, must, in a coherent and informative manner present, at a minimum:

a) detailed information on current and future projected eligible own funds levels relative to minimum regulatory capital requirements and target levels over the full business planning period of the microinsurer;
b) detailed information on the actual outcomes of applying the ORSA over the period, relative to the planned outcomes in the previous ORSA report (including analysis of the regulated institution's actual capital position relative to minimum regulatory capital requirements and capital targets, and actual-versus-planned capital management actions);
c) a description of material changes to the ORSA since the previous ORSA report;
d) detail and outcomes of stress testing and scenario analysis used in undertaking the ORSA;
e) a breakdown of capital usage[4] over the planning horizon, as relevant, by material:
    i) business activity;
    ii) insurance group members (as applicable);
    iii) geographic spread of exposures; and
    iv) risk types;
f) an assessment of anticipated changes in the microinsurer's risk profile or capital management processes over the planning horizon;
g) details of any review of the ORSA since the previous ORSA report, including any recommendations for change and how those recommendations have been, or are being, addressed; and
h) references to supporting documentation and analysis, where relevant.

9.3 The ORSA report must be accompanied by a declaration –

a) signed by the chairperson of the board of directors that the board has assessed and discussed the results of the ORSA; and
b) signed by the chief executive officer or the person in charge of the mircoinsurer and approved by the board of directors that:
    i. capital management has been undertaken by the microinsurer in accordance with the ORSA over the period and, if not, a description of, and explanation for, deviations;
    ii. the microinsurer has assessed the capital targets contained in its ORSA to be adequate given the size, business mix and complexity of its operations; and
    iii. the information included in the ORSA report is accurate in all material respects.

10. Exemptions from Reporting Requirements

10.1 The Prudential Authority may, on application by a controlling company, exempt any microinsurer that is part of an insurance group from submitting a report in respect of an annual ORSA, subject to such conditions as the Prudential Authority may impose.

10.2 If the Prudential Authority is not satisfied that the group ORSA takes sufficient account of the microinsurers that are part of the group, it may withdraw the reporting exemption.

[4] Including key information on the usage of different types of capital, e.g. working capital, allocated capital and regulatory capital.

Attachment 3: Definitions used in the Governance and Operational Standard for Microinsurers

The following terms used in this Governance and Operational Standard for Microinsurers are defined in the Act:

- auditor
- board of directors
- Companies Act
- control function
- director (only board of)
- foreign reinsurer
- head of a control function
- insurance business
- insurance obligations
- insurance policy
- insurer
- inter-related
- key person
- life insurance business
- life insurance policy
- microinsurance business
- microinsurer
- non-life insurance business
- non-life insurance policy
- outsourcing
- person
- policyholder
- prescribed
- Prudential Authority
- Prudential Standard
- reinsurance business
- reinsurer
- related
- rider benefit
- securities
- senior manager / senior management
- significant owner

The following terms used in this Governance and Operational Standard for Microinsurers are defined in the Financial Sector Regulation Act, 2017:

- Financial Sector Conduct Authority
- Outsourcing Arrangement
- Person
- Prudential Authority
- Significant Owners

The following table sets out definitions of additional terms used in this Standard:

Term	Definition
business continuity	A microinsurer's enterprise-wide approach for ensuring that Critical Business Operations can be maintained or

Term	Definition
management (BCM)	recovered in a timely fashion, in the event of a disruption.
critical business operations	The functions, resources and infrastructure that may, if disrupted, have a material impact on a microinsurer's business functions, reputation, profitability, or Policyholders.
Governance and Operational Standards for Insurers	The term used for the collective suite of Prudential Standards prescribed by the Prudential Authority in respect of the governance and operational requirements of Insurers.
ORSA	Own Risk and Solvency Assessment.
Standard	Prudential Standard.