

DRAFT FOR CONSULTATION

Draft Prudential Standard – Public Disclosures for Insurers

Objectives and key requirements of this Standard

This Standard sets out the information that insurers are required to disclose to the public in order to promote market discipline and an understanding of the risks to which insurers are exposed to, as well as the manner in which those risks are managed.

It is the responsibility of the board of directors of an insurer to ensure that the insurer complies with the requirements of this Standard on a continuous ongoing basis.

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1. Commencement

- 1.1. This Standard commences on [-] 2021.

Version number	Commencement date
1	[-]

2. Legislative authority

- 2.1. This Standard is issued under section 45, read together with section 63, of the Act.

3. Definitions and interpretation

- 3.1. In this Standard, ‘the Act’ means the Insurance Act, 2017 (Act No. 18 of 2017) and any word or expression to which a meaning has been assigned in the Act bears the meaning so assigned to it, and unless the context indicates otherwise;

‘**board**’ means the board of directors of an insurer;

‘confidential’ means the classification of information about policyholders and insured parties under privacy legislation or contractual arrangements;

‘IT’ means information technology;

‘material information’ means information-if omission, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity;

‘proprietary information’ means information on characteristics and details of, for example, insurance products, markets, distribution and internal models, and systems that could negatively influence the competitive position of an insurer if made available to competitors;

‘QRT’ means Quantitative return template, which insurers must submit to the Prudential Authority as prescribed; and

‘technical provisions’ mean the amount that an insurer sets aside to fulfil its insurance obligations and settle all commitments to policyholders and other beneficiaries over the lifetime of the obligations, calculated in accordance with the requirements of Prudential Standard FSI 2.2 (Valuation of Technical Provisions).

4. Application

- 4.1. This Standard applies to all insurers licensed under the Insurance Act, other than microinsurers, Lloyd’s and branches of foreign reinsurers.

5. Roles and responsibilities

- 5.1. The board is ultimately responsible for ensuring that the insurer complies with the principles and requirements of this Standard.
- 5.2. The board must ensure that, where approvals are required from the Prudential Authority, those approvals are timeously obtained.
- 5.3. The roles and responsibilities of the board are described in more detail in Prudential Standard: Governance and Operational Standards for Insurers (GOI 2).
- 5.4. In terms of section 47(1)(a) of the Insurance Act, the information required to be disclosed to the public and as prescribed in this Standard, must be audited and reported on by the auditor of the insurer. The audit of information prescribed in this Standard, shall be in accordance with Prudential Standard ARI - Audit requirements for Insurers and ARG – Audit requirements for Groups.

- 5.5. The board and senior management of an insurer must ensure that an independent review of the information required to be disclosed in terms of this Standard is conducted. At least two senior executive officers at board level must attest in writing that the relevant disclosures has been prepared in accordance with board-approved internal controls and that an independent review has been conducted .

6. Annual public disclosure requirements

6.1. General principles and requirements

- 6.1.1. The public disclosures of specified quantitative and qualitative information by insurers aims to enhance market discipline as well as an understanding of the risks to which insurers are exposed and the manner in which those risks are managed.
- 6.1.2 Section 45 of the Act provides that insurers must annually, but no later than four months after financial year-end, publicly disclose the required quantitative and qualitative information in the form and manner prescribed by the Prudential Authority.
- 6.1.3 Insurers must disclose information, through a website that is publicly accessible. The prescribed information must be appropriately detailed in order to provide policyholders and market participants with a view of the business activities, risks, performance and financial soundness position, risk exposures and risk management as well as the governance framework of the insurer;
- 6.1.4 Where insurers deems certain of the information required to be disclosed publicly as confidential or proprietary, the insurer may apply to the Prudential Authority for the non-disclosure in terms of sections 45(2) and 45(3) of the Insurance Act;
- 6.1.5 To ensure the effectiveness of public disclosures, the information disclosed by an insurer must be timely, comprehensive, meaningful, reliable, comparable to other insurers in the same market, and consistent over time;
- 6.1.6 Where the information required to be disclosed in accordance with this Standard is reported in the insurer's annual QRT as prescribed in section 44 of the Act, the information that is reported in the QRTs must be disclosed in the same format as it is submitted to the PA. The QRT templates may be treated as flexible templates and be tailored to reflect the information that is only applicable to the insurer.
- 6.1.7 The format for the presentation of qualitative information is not prescribed in this Standard. Where the required information is not in the QRT template, the insurer must disclose the required information in a format that is most suitable to present the qualitative information that is consistent with the principles as set out in paragraph 6.1.5 above.

6.2. Specific information

An insurer must annually disclose the following specific information to the public appropriately and in a detailed manner:

6.2.1. Company profile

- (a) The disclosure of company profile information allows the insurer to provide a contextual framework for the other information required to be made public. Such disclosures will assist policyholders and market participants in assessing the objectives and strategies adopted by the insurer, as well as the insurer's ability to achieve them. The insurer's company profile disclosure information should include the following:
 - (i) the nature of its business;
 - (ii) its corporate structure, including entities within the group;
 - (iii) key business segments;
 - (iv) the external environment in which it operates; and
 - (v) its objectives and the strategies for achieving those objectives.
- (b) The disclosures for the company profile should take into account and include information on:
 - (i) any material changes that have taken place during the year;
 - (ii) information on the main trends, factors and events that have contributed positively or negatively to the development, financial performance and position of the insurer; and
 - (iii) an explanation of significant changes in strategy compared to prior years.

6.2.2. Corporate governance framework

- (a) Corporate governance provides the foundation of the framework for creating long-term trust between insurers and policyholders, investors and other stakeholders. The insurer's corporate governance framework disclosure information should include the following:
 - (i) Information on the insurer's key features of the corporate governance framework. The information disclosed must explain:
 - (aa) how internal controls and risk management are implemented;
 - (bb) the manner in which key business activities and control functions are organised;
 - (cc) the mechanism used by the Board to oversee these activities and functions; and
 - (dd) the changes to key personnel and management committees.

- (ii) The insurer's outsourcing policy, including information on how it maintains oversight of, and accountability for, the outsourced activity or function.
- (iii) A description of the governance process on models which are classified as significant.
- (iv) Demonstrate how the key activities and control functions fit into an insurer's overall risk management framework.

6.2.3. Technical provisions

- (a) Technical provisions represents the current amount the insurer have to make provision for, in order to cover its immediate obligations to a third party. The information to be disclosed would facilitate the evaluation of an insurer's ability to assess the size of the commitments and to indemnify losses covered by the insurance contracts issued in case of non-life insurance.
 - (i) The insurer's technical provisions must be presented by the reporting lines of business and should include, where relevant, information on:
 - (aa) the future cash flow assumptions;
 - (bb) the rationale for the choice of discount rates;
 - (cc) the risk adjustment methodology, where used;
 - (dd) other information as appropriate to provide a description of the method used; and
 - (ee) information about the best estimate liability and the risk margin.
 - (ii) Where the insurer uses models in determining its technical provisions, disclosures must provide an outline of the model(s) used and describe how any range of scenarios regarding future experience has been derived.
 - (iii) Disclosures must provide information on how technical provisions are determined, including information about the level of aggregation used and the amount, timing and uncertainty of future cash flows in respect of insurance obligations.
 - (iv) Disclosures must include a presentation of technical provisions and reinsurance assets on a gross basis.
 - (v) Disclosures must include the method used to derive the assumptions for calculating technical provisions, including information about significant changes in assumptions and the rationale for the changes.
 - (vi) Disclosures must include information about the best estimate liability, and the risk margin must include the methods used to calculate them.
 - (vii) Where there were changes in methodology since the last reporting period, the insurer must include the reasons for the

- change and any material quantitative impact as a result of the change.
- (viii) Where the insurer uses models in determining its technical provisions, disclosures must provide an outline of the model(s) used and describe how any range of scenarios regarding future experience has been derived.
 - (ix) Where applicable, disclosures must include a description of any method used to treat acquisition costs.
 - (x) Disclosures must include a reconciliation of technical provisions from the end of the previous year to the end of the current year.
 - (xi) The disclosure of technical provisions shall be presented in two parts:
 - (aa) claims from insurance events which have already taken place at the date of reporting (claims provisions including incurred but not reported (IBNR) and incurred but not enough reported (IBNER) provisions and for which there is an actual or potential liability; and
 - (bb) losses from insurance events which will take place in the future (e.g. the sum of provisions for unearned premiums and provisions for unexpired risks).
- (b) In addition to sub-paragraph (a) above, life insurers must disclose the following with regard to technical provisions:
- (i) Key information on the assumed decrement rates used, the method of deriving future mortality and disability rates, and whether customised tables are applied.
 - (ii) Information on the conditions for the amount and timing of the allocation of participation features and how such features are valued in technical provisions.
 - (iii) Information on whether participation features are based on:
 - (aa) the performance of a group of contracts;
 - (bb) the realised/unrealised investment returns from a pool of assets;
 - (cc) the profit or loss of the company;
 - (dd) the extent to which such features are contractual and/or discretionary; and
 - (ee) any other element.
 - (iv) Quantitative information on the life insurer's minimum participation features and actual distributions to policyholders.
 - (v) The assumptions and methodologies employed to value significant guarantees and options, including the assumptions concerning policyholder behaviour.

- (c) In addition to sub-paragraph (a) above, non-life insurers must disclose the following with regard to technical provisions:
 - (i) Historical data about earned premiums compared to technical provisions by line of business.
 - (ii) Run-off results as a ratio of the initial provisions for the losses for the reporting period, including the effect of discounting.
 - (iii) The run-off results for incurred losses and for the provisions for future losses.
 - (iv) The disclosures must include information on the development of claims in a claims development triangle, except for short tail business.

6.2.4. Insurance risk exposures

- (a) Insurers must disclose the following qualitative information in respect of insurance risk exposure:
 - (i) Information that the insurer reasonably foresee and material insurance risk exposures and their management, including information on:
 - (aa) the nature, scale and complexity of risks arising from its insurance contracts;
 - (bb) its risk management objectives and policies, models and techniques for managing insurance risks, including underwriting processes;
 - (cc) models and techniques for managing insurance risks, including underwriting processes;
 - (dd) its use of reinsurance or other forms of risk transfer; and
 - (ee) its insurance risk concentrations.
 - (ii) A description of the insurer's risk appetite and its policies for identifying, measuring, monitoring and controlling insurance risks, including information on the models and techniques used.
 - (iii) Information on the insurer's use of derivatives to hedge risks arising from insurance contracts.
 - (iv) Information on how then insurer uses reinsurance and other forms of risk transfer to enable policyholders and market participants to understand how the insurer controls its exposure to insurance risks.
 - (v) Information on the quantitative analysis of the insurer's sensitivity to changes in key factors, both on a gross basis and taking into account the effect of reinsurance, derivatives and other forms of risk mitigation on that sensitivity.
- (b) Insurers must disclose the following quantitative information on their reinsurance arrangements:

- (i) The disclosures must include the insurer's overall reinsurance arrangements to explain the net risk retained and the types of reinsurance arrangements made as well as any risk mitigating activities that reduce the risks arising out of the reinsurance cover.
- (ii) The disclosures must separately detail the reinsurers' share of technical provisions and receivables from reinsurers on settled claims.
- (iii) The quantitative disclosures on reinsurance arrangement must include:
 - (aa) the credit quality of the reinsurers;
 - (bb) credit risk concentration of reinsurance assets;
 - (cc) the nature and amount of collateral held against reinsurance assets;
 - (dd) the development of reinsurance assets over time; and
 - (ee) the ageing of receivables from reinsurers on settled claims.
- (iv) The disclosures must include the impact and planned action when the expected level or scope of cover from a reinsurance/risk transfer contract is not obtained.
- (v) The disclosures must include information on the geographical concentration of premiums. The geographical concentration must be based on where the insured risk is located, rather than where the business is written.
- (vi) If reinsurance is material, the disclosures must include the number of reinsurers that it engages as well as the highest concentration ratios.

6.2.5. Financial instruments and other investments

- (a) Information on financial instruments and other investments must include:
 - (i) instruments and investments by class;
 - (ii) the insurer's investment management objectives, policies and processes;
 - (iii) financial instruments and other investment values, assumptions and methods used for International Financial Reporting Standards (IFRS) and solvency purposes, as well as an explanation of any differences, where applicable;
 - (iv) assets and liabilities with similar characteristics and/or risks into classes, with information disclosed by those classes;
 - (v) an explanation of the differences where investment management objectives, policies and processes differ between segments of an insurer's investment portfolio; and

- (vi) the effect of derivatives on the uncertainty when providing disclosures around the uncertainty of reported values of financial instruments and other investments.

6.2.6. Investment risk exposure

- (a) The insurer must provide disclosures about its material investment risk exposures and the management thereof.
 - (i) The disclosures must include quantitative information on its exposure to:
 - (aa) market risk, including currency, spread and default risk, and concentration risk; and
 - (bb) liquidity risk.
 - (ii) Disclosures must include the intra-period high, median and low exposures where there have been significant changes in exposure since the last reporting date. Disclosures must also include the amount bought and sold during a reporting period as a proxy for turnover. This information should be disclosed for each asset class.
 - (iii) The disclosures must provide information about the risk management techniques used to measure the economic effect of risk exposure. Such disclosure must include an analysis by type of asset class.
 - (iv) Disclosures shall include information on whether or not the insurer carries out stress tests or sensitivity analysis on its investment risk exposures.
 - (v) Disclosures may include the investment return achieved together with the risk exposure and investment objective.
 - (vi) The insurer must disclose, for debt securities, the sensitivity of its investments to market variables, including credit spreads, and must include breakdowns by credit quality, type of issuer (e.g. government, corporate) and period to maturity.
 - (vii) In addition to breakdowns on ratings and types of credit issuers, the insurer should disclose the aggregate credit risk arising from off-balance sheet exposures.

6.2.7. Asset and liability management

- (a) Disclosures about the insurer's asset and liability management must include the following information:
 - (i) Asset and liability management in total and, where appropriate, at a segmented level.
 - (ii) The methodology used and the key assumptions employed in measuring assets and liabilities for asset and liability

management purposes as well as any capital and/or provisions held as a consequence of a mismatch between assets and liabilities.

- (iii) The insurer's asset and liability management approach and disclosures must include qualitative information explaining how the insurer manages assets and liabilities in a coordinated manner.
- (iv) Where derivatives are used, the disclosures shall include a description of both the nature and effect of their use.

6.2.8. Liquidity risk

(a) Disclosures on liquidity risk should:

- (i) include quantitative information on the insurer's sources and uses of liquidity, considering liquidity characteristics of both assets and liabilities;
- (ii) include qualitative information on the insurer's liquidity risk exposures, management strategies, policies and processes;
- (iii) discuss known trends, significant commitments and significant demands; and
- (iv) discuss reasonably foreseeable events that could result in the insurer's liquidity position improving or deteriorating in a material way.

6.2.9. Capital adequacy

(a) Disclosures about the insurer's capital adequacy must include information on:

- (i) its objectives, policies and processes for managing capital and assessing capital adequacy;
- (ii) the solvency capital requirement (SCR), SCR cover ratio, minimum capital requirement (MCR) and MCR cover ratio;
- (iii) the capital available to cover regulatory capital requirements; and
- (iv) if the insurer uses an internal model to determine eligible own funds and requirements, information about the model.

(b) Disclosures must include qualitative information about the insurer's management of capital regarding:

- (i) instruments regarded as available capital;
- (ii) key risks and measures which influence the capital calculation; and
- (iii) the insurer's risk appetite.

6.2.10. Financial performance

- (a) Insurers must provide the following quantitative information on its disclosure on financial performance.
 - (i) Information about the insurer's financial performance, must be provided in total and at a segmented level including information on:
 - (aa) earnings analysis;
 - (bb) claims statistics, including claims development;
 - (cc) pricing adequacy; and
 - (dd) investment performance.
 - (ii) Disclosure must include a statement of changes in equity showing gains and losses recognised directly in equity as well as capital transactions with, and distributions to, shareholders, and profit sharing with policyholders.
 - (iii) Disclosures must include information on its operating segments and how they were determined.
 - (iv) Disclosures must include the impact of amortisation and impairment of intangible assets on financial performance.
- (b) Technical performance
 - (i) The insurer shall provide statements of profit and loss that include the results, both gross and net of reinsurance, of their underwriting for life and non-life.
 - (ii) If the insurer is a ceding insurer, disclosures must include gains and losses recognised in profit or loss on buying reinsurance.
- (c) Technical performance for non-life insurers
 - (i) In order to assess how well insurance premiums cover the underlying risk of the insurance contracts and the administration expenses (pricing adequacy), disclosures must include information on:
 - (aa) loss ratio;
 - (bb) expense ratio;
 - (cc) combined ratio;
 - (dd) operating ratio;
 - (ee) underwriting margin; and
 - (ff) commission ratio.
 - (ii) These ratios must be calculated from the profit and loss account of the reporting year and be gross of reinsurance in order to neutralise the effect of mitigation tools on the technical performance of the direct business.

- (iii) The disclosures must be accompanied by supporting narrative, covering an appropriate period, to enable policyholders and market participants to evaluate long-term trends better.
- (iv) Non-life insurers must disclose historical data accompanied by supporting narrative on:
 - (aa) the mean cost of claims incurred in the accounting period by class of business; and
 - (bb) claims frequency.
- (d) Source of earnings analysis for life insurers
 - (i) Life insurers must disclose the impact of new business on net income during the reporting period.
 - (ii) Life insurers must disclose experience gains and losses. This represents gains and losses that are due to differences between the actual experience during the reporting period and the technical provisions at the start of the year, based on the assumptions at the reporting date.
- (e) Investment performance for life and non-life insurers
 - (i) Disclosure of investment performance must be made on appropriate subsets of an insurer's assets.
 - (ii) For investment performance related to equity securities, debt securities, properties and loans, the disclosures must include a breakdown of income realised gains/losses, unrealised gains/losses, and impairments including changes in loan-loss provisions and investment expenses.

6.2.11. Operational risk

- (a) Operational risk management
 - (i) The insurer's disclosures with regard to operational risk must describe:
 - (aa) the policies, framework and guidelines in place for the management of operational risk (including IT risk);
 - (bb) the structure and organisation of the insurer's operational (including IT risk) risk management and control function; and
 - (cc) the risk mitigation and risk transfer adopted in managing operational risk (including IT risk). This should include mitigation by policy (such as the policies on risk culture, risk appetite and outsourcing), by divesting from high-risk businesses, and by the establishment of controls.

- (b) Business continuity management policy
 - (i) An insurer must describe how it has implemented the business continuity management policy across the entity in accordance with the minimum requirements stipulated by Prudential Standard Governance and Operational Requirements for Insurers (GOI) 3.2 and how effectively it has been implemented.