GOVERNMENT NOTICE

NAMIBIA FINANCIAL INSTITUTIONS SUPERVISORY AUTHORITY

No.2 **2021**

INSURANCE

STANDARD ISSUED UNDER THE FINANCIAL INSTITUTIONS AND MARKETS ACT, 2021

The Namibia Financial Institutions Supervisory Authority has under section 410(3), read with section 20 of the Financial Institutions and Markets Act, 2021 (Act No. 2 of 2021)., issued the Standards set out in the Schedule. The standard will come into effect on the date of publication.

Henriette Garbers-Kirsten
Chairperson **Windhoek,** **2021**

FINANCIAL INSTITUTIONS AND MARKETS ACT, 2021 [Act No. 2 of 2021]

CAPITAL ADEQUACY REQUIREMENTS FOR REGISTERED INSURERS AND REINSURERS

Standard No. INS.S. 2.1

issued by NAMFISA under section 410(3)(a), read with section 20 of the Financial Institutions and Markets Act, 2021

Definitions

1. (1) In this Standard, unless the context indicates otherwise—

(a) "Act" means the Financial Institutions and Markets Act, 2021 (Act No. 2 of 2021) and includes the regulations prescribed under the Act and the standards and other subordinate measures issued by NAMFISA under the Act;

(b) "Annual premium equivalence" with respect to long-term insurance or reinsurance business means the sum of annual premiums for recurring business and approximate annualised premiums for single premium business, taking into account the average term of the policies for single premium business;

(c) "BSCR" means Basic Solvency Capital Requirement and has the meaning as ascribed thereto by clause 4(5);

(d) "cell captive" means an insurance or reinsurance vehicle created by a registered insurer or registered reinsurer through a shareholder's agreement, business agreement or any other agreement for the special purpose of covering the insurance risk which the cell owner, it's associated party or any other party, is exposed to;

(e) “inadmissible asset” means an asset that, for the purposes of determining the Capital Adequacy Requirement, may not form part of the assets used demonstrate capital adequacy;

(f) “MCR” means Minimum Capital Requirement and has the meaning as ascribed thereto by clause 3(1);

(g) “MCRF” means Minimum Capital Requirement Floor and has the meaning as ascribed thereto by clause 3(5);

(h) “Net written premium” means an amount received by and owed to a registered insurer or registered reinsurer in respect of gross written premiums, less an amount equal to the premiums paid and owed by the registered insurer or registered reinsurer in respect of any reinsurance business over a period of 12 months;

(i) “ORC” means Operational Risk Capital;

(j) “Operating expenses” means gross expenses incurred in carrying on the insurer’s day-to-day activities including but not limited to, claims handling expenses, management expenses, asset management and fund management fees. Operating expenses exclude once-off expenses such as (but not limited to):

  (i) acquisition expenses relating to the cost of acquiring new business;

  (ii) the write-down of inventories to net realisable value and the write-down of property, plant and equipment to recoverable amount and the reversal of such write-downs;

  (iii) a restructuring of the activities of the enterprise and the reversal of any provisions for the restructuring;

  (iv) losses on disposals of items of property, plant and equipment;

  (v) losses on disposals of long term investments;

(vi) gains and losses arising from natural disasters; and

(vii) asset management or fund management fees directly related to linked policies.

(k) "registered long-term insurer" means an insurer that is registered to carry on the business of long-term insurance;

(l) "registered long-term reinsurer" means a reinsurer that is registered to carry on business of long-term reinsurance;

(m) "registered short-term insurer" means an insurer that is registered to carry on the business of short-term insurance;

(n) "registered short-term reinsurer" means a reinsurer that is registered to carry on a business of short-term reinsurance;

(o) "SCR" means Solvency Capital Requirement and has the meaning as ascribed thereto by clause 4; and

(p) "technical liabilities" has the meaning ascribed thereto by clause 3 in standard INS.S. 2.2.

(2) Words and phrases defined in the Act have the same meaning in this Standard, unless the context indicates otherwise, including without limitation, the following:

(a) as defined in section 1 of the Act:

(i) banking institution;

(ii) corporate body;

(iii) insurer;

(iv) NAMFISA;

(v) reinsurer; and

(vi) valuator;

(b) as defined in section 4 of the Act:

(i) capital adequacy requirement;

(ii) long-term insurance;

(iii) policyholder;

(iv) premium;

(v) registered insurer;

(vi) registered reinsurer; and

(vii) short-term insurance;

(c) as defined in section 162 of the Act:

(i) collective investment scheme; and

(ii) participatory interest.

Applicability

2. This Standard applies to all insurers and reinsurers registered pursuant to section 11

Minimum Capital Requirement (MCR) for registered insurers and registered reinsurers

3. (1) The Minimum Capital Requirement (MCR) is the absolute minimum amount of capital that the registered insurer or registered reinsurer is required to hold for registration and ongoing operations.

(2) No registered insurer or registered reinsurer shall operate below the MCR.

(3) The Minimum Capital Requirement Floor (MCRF) is the minimum Namibia dollar amount that a registered insurer and registered reinsurer is required to hold for registration.

(4) The MCRF must consist only of paid-up capital and retained earnings for registered short-term and long-term insurers and reinsurers.

(5) The MCRF is set at:

(a) N$8,000,000, for a registered insurer operating more than one class;

(b) N$ 2,000,000, for a registered insurer operating one class only;

(c) N$200,000, for a registered insurer operating funeral insurance only;

(d) N$200,000, for a registered insurer operating micro-insurance only;

(e) N$12,000,000, for a registered reinsurer; and

(f) N$200,000, for a cell under a cell captive. For a registered insurer or registered reinsurer engaged in cell captive business the MCRF for each cell shall be over and above the MCRF for the registered insurer's or reinsurer's normal business i.e. non-cell captive business.

(6) Every registered insurer and registered reinsurer must at all times hold MCR which is equal to the higher of the values described in paragraphs (a) and (b):

(a) (i) in respect of short-term insurers or reinsurers, the maximum of 15% of the net written premium during its last preceding financial year and 15% of the net written premium during the 12 months rolling period, excluding cell captive business; or

(ii) in respect of long-term insurers or reinsurers, 15% of the annualised operating expenses of the preceding 12 months, excluding cell captive business; and

(b) the MCRF as specified in sub-clause (5).

(7) The MCR for each cell under a cell captive shall be the higher of the values described in paragraphs (a) and (b):

(a) (i) in respect of short-term insurers or reinsurers, the maximum of 15% of the net written premium during its last preceding financial year in respect of that cell and 15% of the net written premium during the 12 months rolling period in respect of that cell; or

(b) (ii) in respect of long-term insurers or reinsurers, 15% of the annual premium equivalence in respect of that cell during the preceding 12 months; and

(c) the MCRF as specified in sub-clause 5(f).

(8) The formulae in the box below illustrates the MCR in sub-clause (a):

MCR for a registered short-term insurers and registered reinsurers =

$$\max\{15\% \times NWP_{NC}, MCRF_{NC}\} + \sum_i \max_i\{15\% \times NWP_{C_i}, MCRF_{C_i}\}$$ **; and**

MCR for a registered long-term insurers and registered reinsurers =

$$\max\{15\% \times OP\exp_{NC}, MCRF_{NC}\} + \sum_{i} \max_{i}\{15\% \times APE_{C_i}, MCRF_{C_i}\}$$

Where;

NWP_{NC} = is the maximum of the net written premium by the insurer during its last preceding financial year and the net written premium during the 12 months rolling period for non-cell captive business

$MCRF_{NC}$ = MCRF for non-cell captive business

$OP\ exp_{NC}$ = is the annualised operating expenses of the insurer in the preceding 12 months for non-cell captive business

NWP_{C_i} = is the maximum of the net written premium during its last preceding financial year and the net written premium during the 12 months rolling period for each cell, *i*

$MCRF_{C_i}$ = MCRF for each cell, *i*

APE_{C_i} = Annual Premium Equivalent for each cell, *i*

Solvency Capital Requirement (SCR) for registered insurers and registered reinsurers

4. (1) The Solvency Capital Requirement (SCR) is a cushion that protects the registered insurer or registered reinsurer against adverse experience or unexpected losses over the following year.

(2) The SCR is set at an amount that ensures that an insurer's or reinsurer's capital will not fall by more than this amount in any given year with a 95% confidence level, i.e. the probability that the registered insurer or registered reinsurer fails in any given year is less than, or equal to, 5% which translates to at least a 1-in-20-year event.

(3) Subject to sub-clause (1), the registered insurer or registered reinsurer is required to target a level of capital that is above the SCR.[1]

(4) Every registered insurer or registered reinsurer must at all times hold SCR which is equal to—

(a) in respect of a short-term insurer or reinsurer, the sum of Basic Solvency Capital Requirement (BSCR) and the Operational Risk Capital (ORC) of the insurer or reinsurer; and

(b) in respect of a long-term insurer or reinsurer, the SCR as determined in accordance with the formulae and guidelines provided in the professional guidance note, Standard of Actuarial Practice NSAP 104 of the Society of Actuaries of Namibia.

(5) For purposes of paragraph (a) of sub-clause (4), the BSCR combines Insurance Risk, Market Risk and Credit Risk Capital charges and the calculation thereof is illustrated in Schedule 1 to this Standard, while the calculation of ORC is illustrated in Schedule 2 to this Standard.

(6) For a registered insurer or registered reinsurer engaged in cell captive business the capital requirements for each cell shall be over and above the capital requirements for the registered insurer's or reinsurer's normal business i.e. non-cell captive business. For example, in addition to the registered insurer's or reinsurer's MCR or SCR, there shall be an MCR or SCR for each cell. However,

[1] *Note that the approaches for the calculation of the SCR for a registered short-term insurer or registered short-term reinsurer and a registered long-term insurer or registered long-term reinsurer are different.*

for each cell the registered insurer or registered reinsurer will be able take credit for the diversification benefit between the cell and the registered insurer or registered reinsurer of up to 15% when aggregating the SCR for cell captive business.

(7) The formula for calculating the individual cell SCR and the aggregate cell captive business SCR is as follows;

For a cell underwriting short term business;

$$_{\text{cell}}\mathbf{SCR} = \max(0, \textstyle\sum_{i}. 0.7 \boldsymbol{g_i} * \boldsymbol{NWP_i} + 0.3 * \boldsymbol{g_i} * \mathbf{TL})$$

For a cell underwriting long term business;

$$_{\text{cell}}\mathbf{SCR} = \max(0, 0.3 * \boldsymbol{OP_{expenses}} + 0.025 * \mathbf{TL})$$

For the aggregate cell captive business SCR, $_{\text{agg}}$**SCR is as follows**

$$_{\text{agg}}\mathbf{SCR} \geq 0.85 * \textstyle\sum_{all\ cells} \mathbf{cellSCR}$$

Where;

$\boldsymbol{g_i}$ = represents the factor for each class of business represented in schedule 1, Table 1 below

$\boldsymbol{NWP_i}$ = the maximum of the net written premium during its last preceding financial year and net written premium during the 12 months rolling period for a class of business i.

TL = Technical liabilities as defined in clause 1 (n) above

$\boldsymbol{OP_{expenses}}$ = Operational expenses as defined in clause 1 (h)

Capital Adequacy Requirement

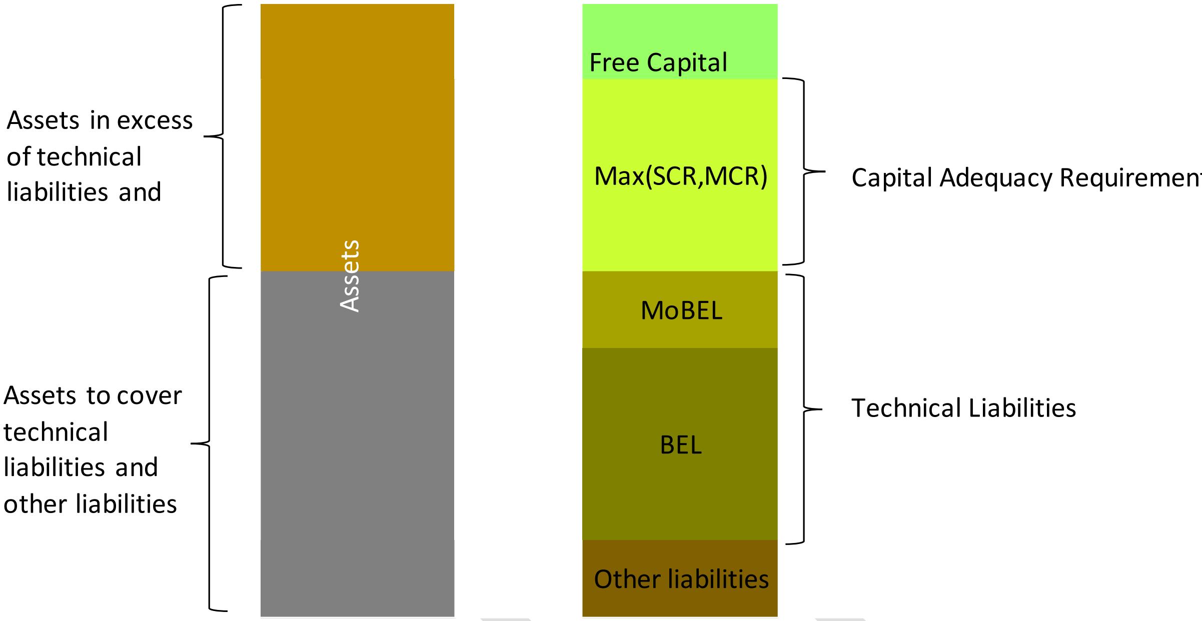
5. (1) The registered insurer or registered reinsurer must at all times maintain admissible assets that exceed technical liabilities and the Capital Adequacy Requirement.

(2) Capital Adequacy Requirement is the maximum of the SCR and the MCR.

(3) The formula in the box below illustrates the Capital Adequacy Requirement for registered insurer or registered reinsurer given in sub-clause (2):

$$\boxed{\textbf{Capital Adequacy Requirement} = \textbf{max}\ \{\textbf{SCR}, \textbf{MCR}\}}$$

(4) The graph below represents a summary illustration of Capital Adequacy Requirement for registered insurers and registered reinsurers:



Notes: The illustration is not to scale and the assets in the illustration exclude inadmissible assets. BEL and MoBEL are defined in Standard INS.S. 2.2.

(7) NAMFISA may, in writing, require a registered insurer or registered reinsurer to inject additional capital where it deems the risk profile of the registered insurer or registered reinsurer as atypical or where the risk profile has not been represented well by the standard SCR formula.

Other requirements

6. (1) The registered insurer or registered reinsurer must ensure that dividends are not paid unless the valuator of the registered insurer or registered reinsurer has demonstrated and certified the ability of the insurer or reinsurer to pay dividends and still meet the Capital Adequacy Requirement.

(2) With the exception of dividend pay-out, a registered insurer or registered reinsurer must seek NAMFISA's prior written approval for any planned capital reductions which could adversely affect the solvency of the registered insurer or registered reinsurer.

(3) For purposes of sub-clause (2), capital reductions include, but is not limited to, a share buyback or the redemption, repurchase or repayment of the common equity (used to back the capital) issued by the registered insurer or registered reinsurer.

(4) A registered insurer or registered reinsurer must not, without obtaining NAMFISA's prior written approval, enter into an arrangement to purchase its own capital instrument or provide financial assistance to another party with a dominant purpose of facilitating the purchase by that other party of the registered insurer or registered reinsurer's own assets.

(5) Any arrangement referred to in sub-clause (4), if approved by NAMFISA, shall be subject to any limit imposed by NAMFISA.

(6) A registered insurer or registered reinsurer must provide NAMFISA with copies of documentation associated with the raising of additional capital within 30 calendar days from the date of issue.

(7) A registered insurer or registered reinsurer must obtain NAMFISA's prior written approval before the terms or conditions of a capital instrument are amended in a way that may affect its eligibility as a component of the Capital Adequacy Requirement.

Variation of SCR

7. (1) Subject to clause 4(1), NAMFISA may, in its discretion, vary the SCR of a registered insurer or registered reinsurer if NAMFISA deems it necessary or appropriate to do so.

(2) A registered insurer or registered reinsurer may apply to NAMFISA for a variation of its SCR upon such circumstances that may warrant such a variation and upon dissolution or termination.

(3) An application referred to in sub-clause (2) must be in writing and must be accompanied by detailed supporting information, documents and explanations, and the applicant must provide NAMFISA with such further information, documents and explanations as NAMFISA may require.

Responsibility for capital management

8. (1) The board of a registered insurer or registered reinsurer must ensure that the insurer or reinsurer, as a whole, has capital that is adequate for the scale, nature and complexity of its business and its risk profile to meet its obligations under a wide range of circumstances.

(2) The valuator of the registered insurer or registered reinsurer is responsible to the board of the insurer or reinsurer for performing or reviewing all aspects of the calculations of the Capital Adequacy Requirement to ensure that the calculations are complete and accurate.

Reporting - Compliance

9. (1) A registered insurer or registered reinsurer must—

(a) report quarterly to NAMFISA the details of its Capital Adequacy Requirements in electronic form via the applicable electronic system; and

(b) submit annually to NAMFISA the actuarial report detailing its Capital Adequacy Requirements certified by the valuator and the board of the registered insurer or registered reinsurer.

(2) If the excess of admissible assets over liabilities of a registered insurer or registered reinsurer is above the Capital Adequacy Requirement, then the insurer or reinsurer will be subject to the normal reporting requirements of the Act and standards.

Reporting and intervention - Non-compliance

10. (1) Notwithstanding the requirements of clause 9, in the event that any of the circumstances described in paragraphs (a), (b) or (c) below apply, the registered insurer or registered reinsurer concerned must, in writing, notify NAMFISA of the breach of the Capital Adequacy Requirement immediately, but in any event no later than 7 working days from the day that the breach has come to the attention of the registered insurer or registered reinsurer—

(a) if the excess of admissible assets over liabilities falls to a level that is below the SCR but is still above 50% of the SCR and above the MCR;

(b) if the excess of admissible assets over liabilities falls to a level that is less than 50% of SCR and above the MCR; or

(c) if the excess of admissible assets over liabilities falls below the MCR.

(2) If paragraphs (a), (b) or (c) of sub-clause (1) applies, the registered insurer or registered reinsurer must, within 7 working days after NAMFISA has been notified of the breach in terms of sub-clause (1), publish a notice of the breach of the Capital Adequacy Requirement in a newspaper circulating at the place where the principal office of the registered insurer or registered reinsurer is located.

(3) In the case of non-compliance as stipulated in paragraph (a) of sub-clause (1), the registered insurer or registered reinsurer is subject to level 1 intervention by NAMFISA and such insurer or reinsurer must, within 30 calendar days of the notification under sub-clause (1), submit to NAMFISA a plan of remedial action to rectify the breach.

(4) If a registered insurer or registered reinsurer fails to comply with sub-clause (1) and (3), such insurer or reinsurer is liable to pay a penalty of N$25,000 per month for as long as the non-compliance exists.

(5) In the case of non-compliance as stipulated in paragraph (b) of sub-clause (1), the registered insurer or registered reinsurer is subject to level 2 intervention by NAMFISA and such insurer or reinsurer must submit to NAMFISA—

(a) within 30 calendar days of the notification under sub-clause (1), a plan of remedial action to rectify the breach; and

(b) returns and other documentation or information as prescribed by NAMFISA, on a monthly basis, until such time as the breach is rectified.

(6) If a registered insurer or registered reinsurer fails to comply with sub-clause (5), such insurer or reinsurer is liable to pay a penalty of N$25,000 per month for as long as the non-compliance exists.

(7) In the case of non-compliance as stipulated in paragraph (c) of sub-clause (1), the registered insurer or registered reinsurer is subject to level 3 intervention by NAMFISA and such insurer or reinsurer must, within 30 calendar days of the notification under sub-clause (1) or such shorter period as NAMFISA may specify, submit to NAMFISA a plan of remedial action to rectify the breach.

(8) Level 3 intervention results in NAMFISA placing the registered insurer or registered reinsurer under regulatory administration, which may result in the registration of the registered insurer or registered reinsurer being revoked and the insurer's or reinsurer's book being transferred to another registered insurer or registered reinsurer or the registered insurer or registered reinsurer being liquidated or wound- up.

(9) The table below summarises the intervention levels as referred to in sub-clauses (3), (5) and (7):

Capital Position	**Level**	**Regulatory intervention**
Meets Capital Adequacy Requirement	0	Normal reporting requirements
Below SCR but still above 50% of SCR and above MCR	1	Plan of remedial action within 30 days
Less than 50% of SCR and above MCR	2	Plan of remedial action within 30 days plus monthly reporting
Less than MCR	3	Regulatory administration of the insurer or reinsurer

SUPPORTING SCHEDULES

The following supporting schedules are attached to and form part of this Standard:

Schedule 1: Calculation of Basic Solvency Capital Requirement (BSCR) for short-term insurance and short-term reinsurance

Schedule 2: Calculation of Operational Risk Capital (ORC) for registered short-term insurers and registered short-term reinsurers

SCHEDULE 1

Calculation of Basic Solvency Capital Requirement (BSCR) for short-term insurance and reinsurance: The BSCR is calculated as:

$$\text{BSCR} = \sqrt{\text{IRC}^2 + \text{MRC}^2 + \text{CRC}^2}$$

where IRC, MRC and CRC are illustrated in clauses 1 to 3 below:

1. Insurance Risk Capital (IRC)

Insurance risk is the risk of loss arising from the inherent uncertainties about the occurrence, amount and timing of insurance liabilities, expenses and premiums.

IRC is calculated by multiplying the capital factors in Table 1 below with the net written premium (NWP) per class of class of business and summing across all 7 classes of class of business in Table 1,

i.e. $$\sum_{i=1}^{7} NWP_i * g_i$$

Where:

NWP_i represents the maximum of the net written premium during the last preceding financial year and the net written premium during the 12 months rolling period for class of business *i*; net of reinsurance premiums paid in respect of class of business *i*; and

g_i represents the factor for each class of business represented in Table 1.

Table 1: Insurance risk factors

i	**Class of business *i***	**Factor**
1	Fire	25%
2	Marine	32%
3	Guarantee	50%
4	Personal	25%
5	Miscellaneous	33%
6	Vehicles	20%
7	Aviation	50%

2. Market Risk Capital (MRC)

Market risk is the risk that, as a result of market movements, a firm may be exposed to fluctuations in the value of its assets or the income from its assets.

The total admissible assets that are held to cover the total liabilities (current, technical and other), but excluding assets held to cover the capital requirement are used to calculate the MCR.

MRC for each asset class is calculated by multiplying the asset amount with the applicable factor in Table 2 and then total MRC is found by summing up these items across all 6 asset classes in Table 2 below:

Table 2: Market risk factors

Asset i		**Factor *i***
1	Cash and cash equivalent	0%
2	Fixed and variable interest securities with an outstanding duration of less than (or including) 4 years	5%
3	Fixed and variable interest securities with an outstanding duration of more than four years outstanding duration of more than 4 years	15%
4	Property	30%
5	Equity	35%
6	Other	40%

Notes: Examples of assets to be included in each asset category *i* are given below:

(1) <u>Cash and cash equivalent</u>

(a) Bank notes and coins issued by the Bank of Namibia;

(b) Credit balance in an account with, or a deposit, including a negotiable certificate of deposit, and a bill accepted by banking institution registered under the Banking Institutions Act, No. 2 of 1998;

(c) Credit balance in an account with, or a deposit, including a negotiable certificate of deposit, and a bill accepted by an institution incorporated outside Namibia, which would have been a bank under the Banking Institutions Act, 1998 if it were incorporated in Namibia;

(d) Margin deposits on derivative instruments;

(e) Participatory interest in a Fixed Interest Money Market scheme that is a collective investment scheme registered under the Act, or any similar scheme subject to the laws of a country other than Namibia which laws establish a regulatory framework equivalent to that established by the Act, and are supervised by a regulatory authority;

(f) The following fixed and variable interest securities with an effective outstanding duration of less than or equal to one year:

(i) Securities issued by and loans made to the Government of Namibia under the State Finance Act, 1991, Act No. 3 of 1991;

(ii) Securities or loans guaranteed under the State Finance Act;

(iii) Securities issued by and loans made to or guaranteed by a public entity under the State Finance Act, 1991;

(iv) Securities issued by and loans made to or guaranteed by a public entity under the Agriculture Bank Act, 2003, Act No. 5 of 2003;

(v) Securities or loans with an outstanding duration of not more than one year which are issued by a corporate body established by a law of Namibia;

(vi) Listed securities issued by a government of a country other than Namibia or issued by an institution incorporated outside Namibia; and

(g) Redeemable fixed and variable rate preference shares with an effective outstanding duration to redemption of not more than one year.

(2) Fixed and variable interest securities with an outstanding duration of not more than four years. Examples include securities referred to in sub-clauses (1)(f) and (g) above but with an outstanding duration greater than a year but not more than four years.

(3) Fixed and variable interest securities with an outstanding duration of more than four years:

(a) Examples include securities referred to in sub-clauses (1)(f) and (g) above but with an outstanding duration of more than four years; and

(b) Irredeemable fixed or variable rate preference shares.

(4) Property including:

(a) Immovable property; and

(b) Participatory interest in a Collective Investment Scheme in Property registered under the Act or in any similar scheme subject to the laws of a country other than Namibia which laws establish a regulatory framework equivalent to that established by the Act and is supervised by a regulatory authority.

(5) Equity including:

(a) Listed or unlisted ordinary shares;

(b) Listed or unlisted depository receipt;

(c) Listed or unlisted loan stock;

(d) Listed or unlisted preference shares; and

(e) Participatory interest in a Collective Investment Scheme in Securities or a Collective Investment Scheme in Unlisted Securities registered under the Act or in any similar scheme subject to the laws of a country other than Namibia which laws establish a regulatory framework equivalent to that established by the Act and is supervised by a regulatory authority.

(6) <u>“Other”, including but not limited to:</u>

(a) Motor vehicles, furniture, office equipment;

(b) Derivatives (over-the-counter or exchange traded); and

(c) Any other assets not falling into the categories referred to in sub-clauses 2(1) to (6).

(7) <u>Look-through Approach:</u>

(a) In assessing the capital charge under market risk for participatory interests in Collective Investment Schemes, the registered insurer or reinsurer must use the look-through approach to capture all material exposures.

(b) When undertaking the look-through approach, the groupings in *Table 2: Market Risk factors* under item 2 must be used.

3. Credit Risk Capital (CRC)

Credit risk is the risk of loss if another party fails to meet its financial obligations, or fails to perform them in a timely manner.

The total admissible assets that are held to cover the total liabilities (current, technical and other), but excluding assets held to cover the capital requirement are used to calculate the CRC.

CRC is determined by multiplying the asset value (of each rating category and term) with the relevant risk factor and summing these items. The factors for each category are shown in Table 3:

Table 3: Credit risk factors

Credit rating	**International rating**	**National Rating**	**Factor**	
			Duration longer (and including)	**Duration shorter than one year**
1	AAA to AA-	Not applicable	1.0%	0.25%
2	A+ to A-	AAA to AAA+	4.1%	1.03%
3	BBB+ to BBB-	AA to AA-	5.0%	1.25%
4	BB+ to BB-	A+ to BBB	13.6%	3.40%
5	B+ to B-	BBB- to B-	22.4%	5.60%
6	CCC+ or below	CCC or below	44.8%	11.20%
7	Unrated	Unrated	Minimum 44.8%	Minimum 11.20%

The international local currency ratings in Table 3 above gives the credit ratings based on Standard and Poor’s, Moody’s, Fitch and GCR credit rating scale.

The following Table 4 of equivalent credit ratings should be used to allow for other credit ratings agencies:

Table 4: Credit rating equivalents

Credit rating	**Standard & Poor's Fitch**	**Moody's**	**AM Best**
1	AAA to AA-	Aaa to Aa3	A++ to A-
2	A+ to A-	A1 to A3	B++ to B+
3	BBB+ to BBB-	Baa1to Baa3	B to B-
4	BB+ to BB-	Ba1 to Ba3	C++ to C+
5	B+ to B-	B1 to B3	C to D
6	CCC+ or below	Caa1 or below	E or below

Notes:

(1) In calculating MRC and CRC, the admissible assets are allocated to liabilities (current, technical and other). The amount of assets used should equal liabilities, excluding free assets and assets backing the Capital Adequacy Requirement.

(2) Where the investment instrument does not have a credit rating but it is exposed to a credit-rated counterparty (e.g. a promissory note with XYZ bank) then the counterparty's credit rating should be applied.

(3) For unrated assets, the minimum of 11.2% in Table 3 is applied only as a minimum, the credit quality of the instrument should be considered before applying this minimum.

(4) Namibian Government debt instruments should carry a factor of zero %.

(5) National ratings should only be used if no international rating is available.

SCHEDULE 2

Calculation of Operational Risk Capital (ORC) for short-term insurers and short-term reinsurers

Operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

The ORC is calculated as follows: -

*ORC= min (0.3*BSCR, Basic ORC*)

BasicORC= Max (ORCpremium; ORCliabilities)

$$ORC_{premium} = 0.03 * GEP + \max(0; 0.03 * (GEP - 1.1 * GEP_{prev}))$$

$$ORC_{liabilities} = 0.03 * \max(0; GTL))$$

GEP represents the gross earned premium income of the registered insurer or registered reinsurer during the 12 months immediately preceding the day on which the calculation is made;

$GEP_{previous}$ represents the gross earned premium income of the insurer during the 12 months immediately preceding the day on which the previous financial year ended; and

GTL represents the amount of the total gross technical liabilities of the insurer.