GOVERNMENT NOTICE

MINISTRY OF FINANCE

NAMIBIA FINANCIAL INSTITUTIONS SUPERVISORY AUTHORITY

No. 2 2021

STANDARDS ISSUED UNDER THE FINANCIAL INSTITUTIONS AND MARKETS ACT, 2021

The Namibia Financial Institutions Supervisory Authority has under section 410(3) of the Financial Institutions and Markets Act, 2021 (Act No. 2 of 2021), issued the Standards set out in the Schedule.

Gersom Katjimune
Chairperson **Windhoek,** **2021**

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

The determination, calculation and valuation of the assets and liabilities of registered insurers for the purposes of capital adequacy, including NAMFISA's right to change a valuation under circumstances determined in such standard

Standard No: INS.S.2.2

issued by NAMFISA under section 410(3)(g) of the Financial Institutions and Markets Act, 2021

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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) "actuarial best-estimate" has the meaning ascribed thereto by clause 5;

(c) "AURR" means Additional Unexpired Risk Reserves and has the meaning ascribed thereto by clause 16(4);

(d) "cash-back bonus" means a benefit provided for in a policy document that entitles a policyholder to a predetermined benefit on the expiry of a specified period and under specified circumstances;

(e) "DAC" means Deferred Acquisition Cost;

(f) "group undertaking", in relation to a registered insurer or reinsurer, means a juristic person in which the insurer or reinsurer alone or with its subsidiaries or holding company, directly holds 20% or more of the shares if the juristic person is a company, or 20% or more of any other ownership interest if the juristic person is not a company;

(g) "IBNER" means Incurred But Not Enough Reported;

(h) "IBNR" means Incurred But Not Reported reserves and has the meaning ascribed thereto by clause 14(1);

(i) "Intercompany loans" means a loan or advance to an affiliate or associate;

(j) "Minimum Capital Requirement (MCR)" has the meaning ascribed thereto in Standard INS.S.2.1;

(k) "OCR" means Outstanding Claims Reserve and has the meaning ascribed thereto by clause 13(1);

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

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

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

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

(p) "UPR" means Unearned Premium Reserve and has the meaning ascribed thereto by clause 15(1);

(q) "URR" means Unexpired Risk Reserve and has the meaning ascribed thereto by clause 16(1);

(r) "technical liabilities" has the meaning ascribed thereto by clause 3;

(s) "Termination Capital Requirement (TCR)" means the amount required to ensure that no policy has a negative liability and no policy's liability is less than its current surrender value as described in the Society of Actuaries of Namibia's standard of actuarial practice, NSAP 104.

(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) affiliate
(ii) associate
(iii) banking institution;
(iv) board;
(v) financial soundness;
(vi) insurer;
(vii) NAMFISA;
(viii) reinsurer;
(ix) valuator;

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

(i) capital adequacy requirement;
(ii) class of business.
(iii) insurance;
(iv) long-term insurance;
(v) policy;
(vi) registered insurer;
(vii) registered reinsurer;
(viii) reinsurance; and
(ix) short-term insurance.

Applicability

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2. This Standard applies to all registered insurers and registered reinsurers.

Technical liabilities

3. Technical liabilities are the amounts set aside to meet—

(a) with respect to long-term insurance or long-term reinsurance, all liabilities arising out of long-term insurance or reinsurance policies and is made up of BEL and MoBEL; and

(b) with respect to short-term insurance or short term reinsurance, all liabilities in respect of outstanding claims (whether reported or unreported), and future claims arising from unexpired exposures and is made up of BEL and MoBEL.

4. (1) Negative liabilities in respect of long-term insurance policies may be deducted from liabilities provided that—

(a) total liabilities (including current liabilities) after such deduction are greater than or equal to zero; and

(b) an amount corresponding to the amount deducted from liabilities is added to the Termination Capital Requirement (TCR) component of the Solvency Capital Requirement (SCR), in accordance with the Society of Actuaries of Namibia's standard of actuarial practice, NSAP 104.

(2) A negative liability in respect of a long-term insurance policy will generally arise when, at any stage in a policy's lifetime, the expected present value of future premiums exceeds the expected present value of future benefits and expenses.

(3) These negative liabilities may be offset at the discretion of the valuator against liabilities of the registered long-term insurer or registered long term reinsurer.

(4) Negative liabilities must be calculated per policy but may then be offset when aggregating against liabilities, i.e. for example a negative liability on a term policy may be used to offset the positive liability on an endowment policy.

(5) If the valuator decides not to offset the negative liabilities, those liabilities must not be reflected as an insurance asset either.

Best estimate of policyholder Liabilities (BEL)

5. The valuation basis for BEL is the actuarial best-estimate, which means an assumption that—

(a) is realistic, with no margins for prudence;

(b) depends on the nature of the business concerned; and

(c) is guided by immediate past experience, as modified by any knowledge or expectation of the future.

Margin over the Best Estimate of policyholder Liabilities (MoBEL)

6. (1) The Margin over the Best Estimate of policyholder Liabilities (MoBEL) shall be a margin for prudence and must—

(a) be calculated per class of business as defined in the Act;

(b) in respect of short-term insurance, be calculated using standard actuarial and statistical methods such as value at risk, percentile approach or any method the valuator deems appropriate; and

(c) in respect of long-term insurance, comprise of both compulsory and discretionary margins as per the Society of Actuaries of Namibia's standard of actuarial practice, NSAP 104.

(2) It should be noted that in the case where technical liabilities are calculated retrospectively, it may not be possible to separately report BEL and MoBEL.

Segregation and level of detail in the data

7. (1) In order to calculate technical liabilities, insurance and reinsurance obligations must be segmented by class of business.

(2) Segmentation should achieve as much homogeneity as possible with due regard to the credibility of the resulting segments/groupings.

Data

8. (1) Registered insurers and registered reinsurers must have internal processes and procedures in place to ensure the appropriateness, completeness and accuracy of data within the meaning of clauses 9, 10 and 11 for the calculations of technical liabilities.

(2) The relevant actuarial standards should be used as an additional guide when assessing the quality of data for the calculation of technical liabilities.

Appropriateness of data

9. For data to be appropriate it must be—

(a) suited for the purpose of valuation of technical liabilities and assets;

(b) consistent with the methods and assumptions used for the valuation of technical liabilities and assets; and

(c) appropriate for the purpose of reflecting the underlying risks.

Completeness of data

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10. For data to be complete it must—

(a) have sufficient granularity and information to identify trends and assess the characteristics of the underlying risk;

(b) be available for each homogeneous risk group; and

(c) not be excluded if relevant unless it is justifiable to do so.

Accuracy of data

11. For data to be considered accurate it must be—

(a) free of errors;

(b) consistent with the treatment of similar data from different time periods when making the same estimation;

(c) recorded in a consistent manner over time; and

(d) recorded in a timely manner.

Part I: Short-term insurance (clauses 12 to 16)

Valuation of technical liabilities: registered short-term insurers and reinsurers

12. (1) The valuator of a registered short-term insurer or registered reinsurer must value the following liabilities and explain the methods used in the valuation:

(a) Outstanding Claims Reserve (OCR);

(b) Incurred But Not Reported Reserve (IBNR).

(c) Unearned Premium Reserve (UPR);

Unexpired Risk Reserve (URR); and

(2) A liability for allocated claims handling costs must be taken into account, either separately or as part of the other liabilities specified in sub-clause (1).

(3) The actuarial best estimate of technical liabilities must be calculated on both a gross basis and net of outward reinsurance basis.

(4) The calculation of the actuarial best estimate must be gross of reinsurance receivables with the value of expected reinsurance recoveries being shown as an asset.

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(5) The calculation of the technical liabilities must be based on an accident year basis. Where necessary, the underwriting year basis may be used to calculate technical liabilities then apportion to the appropriate accident year.

Outstanding Claims Reserve (OCR)

13. (1) The Outstanding Claims Reserve (OCR) is the amount of the reserve set up in respect of liability for all reported outstanding claims that the insurer or reinsurer knows about at the valuation date.

(2) Where the amounts of outstanding claims of the registered insurers or registered reinsurer are known, the amount is to be provided in full.

(3) Where the amounts of outstanding claims can be reasonably estimated, the registered insurer or registered reinsurer may follow the case by case method after taking into account the explicit allowance for changes in the settlement pattern or average claim amounts, expenses and inflation, etc.

Incurred But Not Reported Reserve (IBNR)

14. (1) Reserves must cover liabilities for both—

(a) "true" or "pure" IBNR reserves which are claims that have been incurred but have not yet been reported to the registered insurer or registered reinsurer;

(b) and Incurred But Not Enough Reported (IBNER) claims, which are expected changes in the estimated amount of the reported claims (decreases or increases) and does not include changes in the true IBNR.

(2) It is not necessary to establish separate liabilities for IBNR and for IBNER so long as the method used will take into account both elements.

(3) The method used to calculate the liabilities must be appropriate to the nature of the business and claims development pattern.

(4) The valuator must provide adequate explanation regarding the method adopted and the method must be consistent from year to year.

(5) In case the valuator decides to change the method previously adopted, sufficient explanation on the reason and impact need to be provided and the new method has to be approved by NAMFISA prior to adoption.

(6) Where the registered insurer or registered reinsurer does not have enough data, the simplified method illustrated in Schedule 1 must be used. Where the valuator is of the view that the simplified method is not appropriate for the class of business, then they can use a method they deem to be suitable and give an explanation on the choice of the method used.

Unearned Premium Reserve (UPR)

15. (1) Unearned Premium Reserve (UPR) is the amount set aside from premiums written before the valuation date to cover risks incurred after that date, and is calculated net of commission.

(2) The UPR must be calculated using methods that are appropriate to the policy and—

(a) in respect of fairly standard policies, standard methods such as the 365ths or 24ths methods should be used; and

(b) the method used must take into account the terms of the policy and must be explained in the actuarial report.

(3) In the case where the date of initiation of a policy is different from date of initiation of risk or attachment of risk, UPR must be considered from the date of initiation of the risk.

(4) The reserve for cash-back bonuses may be added to form part of the UPR or it may form part of the URR.

Additional Unexpired Risk Reserve (AURR)

16. (1) If a registered short-term insurer or registered short-term reinsurer considers that its UPR is inadequate to cover future liabilities, it may create an AURR to cover the shortfall in the UPR.

(2) The excess of the URR over the UPR, net of Deferred Acquisition Cost (DAC), is the Additional Unexpired Risk Reserve (AURR).

(3) Unexpired Risk Reserve (URR) is the amount needed to cover the claims and expenses that are expected to emerge from an unexpired period of cover.

(4) URR must be based on the expected future outflows (claims and expenses) less any premiums receivable.

<u>Part II: Long-term Insurance (clause 17)</u>

Valuation of technical liabilities for registered long-term insurers and reinsurers

17. (1) The valuation of technical liabilities for registered long-term insurers and registered long- term reinsurers must follow the "Financial Soundness Valuation of Liabilities" described in the Society of Actuaries of Namibia's Standard of Actuarial Practice professional guidance note, NSAP 104.

(2) Compliance with NSAP 104 of the Society of Actuaries of Namibia is mandatory for valuators performing valuations of registered long term insurers and reinsurers for the purposes of Capital Adequacy Requirement reporting.

<u>Part III: Requirements for both registered long-term and registered short-term insurers and reinsurers (clauses 18 to 25)</u>

Valuation of Assets

18. (1) Assets must be valued at fair value except where the Standard says otherwise.

(2) Fair value is the amount for which the asset can be exchanged between knowledgeable and willing parties in an arm's length transaction. This means quoted market prices must be used, alternatively, a mark to model valuation must be used if quoted market prices are not available.

(3) The expected value of the reinsurance recoveries may be shown as an asset on the balance sheet or as a reduction in the technical liabilities.

(4) Only the paid up share capital (ordinary and preference shares) and retained earnings of the registered insurer or registered reinsurer must be used to cover the Minimum Capital Requirement Floor (MCRF).

<u>Assets which are inadmissible for the purpose of statutory valuation</u>

19. For the purpose of meeting the Capital Adequacy Requirement, the following assets are unsuitable for inclusion (these are also unsuitable for backing technical and other liabilities) —

(a) own shares directly held by the registered insurer or registered reinsurer in the situation where the registered insurer or registered reinsurer has bought and is holding its own shares, thereby reducing the amount of capital available to absorb losses in a going concern or wind-up scenario;

(b) intangible assets, such as goodwill, whose realisable value may be uncertain even during normal business conditions and may have no significant marketable value in a wind-up scenario;

(c) future income tax credits whereby such credits may only be realisable if there are future taxable profits, which is improbable in the event of insolvency or a wind-up scenario;

(d) assets derived under some accounting models in which certain items regarding future income are included implicitly or explicitly as asset values, which future income, in the event of a wind-up scenario, may be reduced;

(e) equity investments in, and subordinated loans to, other registered insurers or registered reinsurers which are in excess of 10% of the total assets;

(f) reciprocal cross holdings in the common shares of banking institutions and financial institutions: Reciprocal cross holdings in common shares (e.g. Insurer A holds shares of Insurer B and Insurer B in return holds shares of Insurer A also known as back-to-back placements, that are designed to artificially inflate the capital position of institutions must be fully deducted from capital available);

(g) premium receivables older than four months excluding reinsurance recoveries;

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(h) intercompany loans that are issued at terms which are not market related; and

(i) an amount representing a negative liability in respect of a long-term policy in terms of which the registered long-term insurer or registered long-term reinsurer concerned provides or undertakes to provide a policy benefit, provided that this clause shall not be construed as precluding the deduction of a negative liability in respect of a long-term policy from liabilities.

Valuation of group undertakings

20. (1) The value of a group undertaking must be limited to the percentage of shareholding or other ownership interest of the registered insurer or registered reinsurer in the group undertaking multiplied by the lower of fair value or net asset value of the group undertaking.

(2) If the group undertaking is listed, the value referred to in sub-clause (1) may be increased by A multiplied by B, where—

A equals Max(fair value- net asset value,0); and

B equals Min(20%, percentage of holding by insure in group undertaking).

(3) Notwithstanding sub-clause (1), if the group undertaking is not a financial institution and banking institution, and its fair value is less than 0.25% of the value of the liabilities of the registered insurer or registered reinsurer, it may be valued at fair value.

(4) If there is more than one group undertaking as contemplated in sub-clause (3), each may be valued at fair value on condition that their combined fair value is not more than 2.5% of the liabilities of the registered insurer or registered reinsurer. If the combined fair value is more than 2.5% of the value of the liabilities of the registered insurer or registered reinsurer, only so many of them selected by the registered insurer or registered reinsurer, as will have a combined fair value of not more than 2.5% of the liabilities of the registered insurer or registered reinsurer may be valued at fair value, with the remaining to be valued as required by sub-clause (1).

(5) If the registered insurer or registered reinsurer holds securities, directly or indirectly, in its holding company, the value of these securities must for the purpose of this valuation be limited to 5% of liabilities if the holding company is listed, or nil if the holding company is not listed.

(6) Sub-clause (5) applies also where the registered insurer or registered reinsurer, directly, or indirectly through a subsidiary or trust, holds shares in its holding company under a share incentive scheme linked to shares in its holding company.

(7) Sub-clause (5) does not apply where the registered insurer or registered reinsurer holds shares in its holding company under a collective investment scheme, an index-based investment scheme or any similar investment scheme that is recognised generally by the international community of institutional investors.

(8) If a registered insurer or registered reinsurer has a cell in another registered insurer or registered reinsurer, the value of those shares must for the purposes of valuation be limited to the fair value of the admissible

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assets held in the cell, less the sum of the value of its liabilities and its capital requirement as reported by the insurer (that issued the cell) in respect of that cell.

(9) If a negative asset value is reported in sub-clause (8) and the shareholders' agreement provides that the registered insurer or registered reinsurer that owns the cell is accountable for losses and/or solvency, a liability must be raised for the full negative net asset value.

Net asset value of a group undertaking

21. (1) If the group undertaking is a financial institution, the net asset value of the group undertaking is the value of its assets, less the sum of the value of its liabilities and its capital requirement The capital requirement must be calculated as required by the regulatory authority concerned.

(2) If the group undertaking is a company, and its main business is insurance or reinsurance, the registered insurer or registered reinsurer must, in calculating the net asset values, exclude so much of its capital and reserves as shareholders, other than the insurer or reinsurer, may withdraw in cash when they cease to be shareholders, in terms of the articles of association of, or a contract with, the group undertaking.

(3) In other cases, the net asset value of the group undertaking is the value of its assets, less the value of its liabilities.

(4) If the group undertaking carries on most of its business in Namibia, the net asset values must be calculated in accordance with the Generally Accepted Accounting Practice in Namibia.

(5) If the group undertaking carries on most of its business in another country, the net asset value must be calculated in accordance with accounting standards generally accepted in that country.

(6) In calculating the net asset values, the inadmissible assets specified in Standard INS.S.2.1 must be excluded, to the extent that, according to the registered insurer or registered reinsurer, they can be ascertained with reasonable effort and are material.

General requirements

22. (1) Generally, the valuation method of the assets and liabilities of a registered insurer or registered reinsurer and the approach taken must, at a minimum, consider the following—

(a) assets and liabilities must be valued on a consistent basis to obtain a meaningful insight into the solvency position of the insurer or reinsurer and to understand the financial position of the insurer or reinsurer relative to that of other insurers or reinsurers;

(b) valuation of assets and liabilities must be determined in a reliable, and, transparent manner and must take into account the relevant Namibian accounting and actuarial standards, as well as relevant regional industry and international best practice. ;

(c) all reasonable steps must be taken to ensure that all data provided by the insurer or reinsurer for the purpose of valuation of technical liabilities is appropriate and sufficient for the specified purpose; and

(d) recognition of insurance contracts—

(i) an insurance obligation must be deemed as "existing" and therefore included in the valuation of technical liabilities upon entering into a binding contract, that is, an insurance liability (or a part of an insurance liability) must not be derecognised until it is extinguished (i.e. until the obligation giving rise to the liability expires or is discharged or cancelled); and

(ii) even though reinsurance covering the liability (or part of the liability) has been purchased, in which case the liability must not be derecognised unless the purchase of reinsurance results in the discharge, novation or cancellation of the obligation giving rise to the liability.

(2) The valuator—

(a) in calculating the present value of a long-term insurance liability, must use a discount rate that is an actuarial best estimate of the yield expected to be earned by assets that are sufficient in value and appropriate in nature to cover the liabilities for the liability being discounted; and

(b) in its approach to estimating a suitable yield for the discount rate, must have adequate regard to the profile of the assets backing the liabilities (for asset-liability matching purposes).

(3) The determination of the valuation of assets and liabilities must be aligned with generally accepted actuarial practices.

NAMFISA's powers to change valuation method

23. (1) Where NAMFISA is of the opinion that any asset value or any liability value used by a registered insurer or registered reinsurer in the determination of its position with respect to the Capital Adequacy Requirement applicable to it—

(a) does not comply with the requirements of this Standard or any general standards, guidelines, bulletins or rules that NAMFISA may have issued with respect to valuation methods and approaches pertaining to that particular category of assets or liabilities; or

(b) does not represent a value that is appropriate for the purpose of assessing the financial position of the registered insurer or registered reinsurer for statutory purposes,

NAMFISA may take any of the actions referred to in sub-clause (2).

(2) The actions NAMFISA may take pursuant to sub-clause (1) are—

(a) direct that the registered insurer or registered reinsurer follow a specified valuation method for the valuation of the assets or liabilities in question after consultation with an independent valuator; or

(b) at the expense of the registered insurer or registered reinsurer, appoint an independent valuator or other expert having particular expertise in the valuation area concerned, to determine a value that will be used

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for the purposes of ascertaining the position of the registered insurer or registered reinsurer with respect to the capital adequacy requirement.

Responsibility for financial condition valuations

24. (1) The board of a registered insurer or registered reinsurer has the responsibility of ensuring that the financial condition of the registered insurer or registered reinsurer is investigated and reported upon by a valuator, and must deposit a copy of such a report with NAMFISA.

(2) The valuator of a registered insurer or registered reinsurer is responsible for performing or reviewing all aspects of the calculations of the technical liabilities to ensure that the calculations are complete and accurate and must report such findings to the board of the insurer or reinsurer.

(3) The valuator—

(a) must determine and certify the technical liabilities of the registered insurer or registered reinsurer;

(b) must assess the quality of the data which is used for the calculation of the technical liabilities.

SUPPORTING SCHEDULE

The following supporting schedule is attached to and forms part of this Standard:

Schedule: Simplified method for calculating of IBNR

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SCHEDULE

Simplified method for calculating IBNR

The following method must be used where there is insufficient data to use standard actuarial methods, such as the chain ladder, to calculate the IBNR reserves:

$$IBNR = \sum_{k=1}^{8} \sum_{i=0}^{5} NEP_{k,j-i} * f_{k,i}$$

k represents each of the seven classes of short-term insurance business listed in Table 1;

i represents each of the six development factors periods (0 to 5) listed in Table 1;

j represents the year in which the amount is calculated;

$NEP_{k,j-i}$ represents the total amount of net earned premiums (exclusive of VAT and reduced by amount of reinsurance premiums paid in respect of those policies) under policies entered into in the 12 months immediately preceding the day on which the calculation is issued in year $j-i$ disregarding exchange rate movements from previous periods; and

$f_{k,i}$ represents the calibrated factors listed in Table 1.

Table1: IBNR Factors

Class of business *k*	**Factors per development period in percentage (%)**					
	0	1	2	3	4	5
Marine	7.20	1.31	0.30	0.12	0.09	0.09
Aviation	7.20	1.31	0.30	0.12	0.09	0.09
Guarantee	16.32	5.00	1.78	0.86	0.60	0.53
Personal	5.98	0.88	0.15	0.04	0.03	0.02
Miscellaneous	7.18	1.17	0.25	0.11	0.09	0.08
Vehicles	3.43	0.47	0.09	0.04	0.03	0.03
Fire	5.98	0.88	0.15	0.04	0.03	0.02

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Example:

The example below illustrates a registered insurer who operates only 2 classes of short-term insurance business, namely vehicle and fire. The vehicle business commenced in 2010 while the fire business commenced in 2012. Table 2 shows the net earned premium for the registered insurer over the past six years:

Table 2: Net earned premium for the 2 classes of business

Year	Net Earned premium (N$ million)	
	Vehicles	**Fire**
2015	160	100
2014	120	90
2013	130	95
2012	100	80
2011	90	0
2010	80	0

Tables 3 and 4 shows how IBNR for the two classes of short-term insurance business is calculated using the net premiums in Table 2:

Table 3: IBNR for Vehicles business

Development period	**0**	**1**	**2**	**3**	**4**	**5**
Year	2015	2014	2013	2012	2011	2010
Development factors	3.43%	0.47%	0.09%	0.04%	0.03%	0.03
Net premium	160	120	130	100	90	80
Resultant IBNR (NEP	5.488	0.564	0.117	0.040	0.027	0.024

Total IBNR for vehicle business is 5.488+0.564+0.117+0.040+0.027+0.024 = N$6.26 million

Table 4: IBNR for Fire business

Development period	**0**	**1**	**2**	**3**	**4**	**5**
Year	2015	2014	2013	2012	2011	2010
Development factors	6.62%	2.90%	1.92%	1.67%	1.60	1.58%
Net premium	100	90	95	80	0	0
Resultant IBNR (NEP	6.620	2.610	1.824	1.336	-	-

Total IBNR for Fire business is 6.260+2.610+1.824+1.336 = N$12.390 million

The total IBNR for the insurer as at the 2015 year end is N$12.390+N$6.26 = N$18.650

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