South African Reserve Bank
Prudential Authority

Prudential Standard FSI 1

Framework for Financial Soundness of Insurers

Objectives and Key Requirements of this Prudential Standard

This Standard sets out the high-level framework for assessing the financial soundness of South African insurers from a regulatory perspective. The principles set out in this Standard are supported by other specialised Standards and Attachments that address particular aspects of the framework (collectively the Financial Soundness Standards for Insurers). These other Standards contain the technical details of the computations and requirements involved.

It is the responsibility of the board of directors of an insurer to ensure that the insurer meets the financial soundness requirements on a continuous basis.

Capital (referred to in the Financial Soundness Standards as Own Funds) is the cornerstone of an insurer's financial soundness and the primary means of ensuring the security of policyholder obligations. The Financial Soundness Standards are designed to ensure that insurers can meet policyholder obligations by holding own funds of sufficient quality and quantity to absorb significant unforeseen losses arising from the risks associated with an insurer's activities.

The Financial Soundness Standards address the two related matters of assessing how much eligible own funds an insurer actually holds and how much it is required to hold for regulatory purposes.

Table of Contents

1. Application

1.1. This Standard applies to all insurers licensed under the Insurance Act, 2017 (the Act), other than microinsurers, Lloyd's and branches of foreign reinsurers.

1.2. Unless otherwise indicated, all references to “insurer” in this Standard can be read as a reference to life insurers, non-life insurers and reinsurers. Similarly, a reference to “insurance” obligations/policies in this Standard can be read as a reference to “reinsurance” obligations/policies, unless otherwise specified.

2. Roles and Responsibilities

2.1. The regulatory minimum financial soundness requirements must be met at all times. Ultimate responsibility for the prudent management of the financial soundness of an insurer, however, rests not with the Prudential Authority but with the insurer’s board of directors. This responsibility goes beyond meeting the regulatory minimum.

2.2. The board of directors must ensure an insurer maintains an appropriate level and quality of own funds commensurate with the type, amount and concentration of risks to which the insurer is exposed. If, through the supervisory review process, the Prudential Authority is not satisfied that an insurer is holding sufficient own funds to cover its risks, the Prudential Authority may increase the minimum.[1]

2.3. The board of directors must have in place procedures to monitor the financial soundness of an insurer and to identify any deterioration in its actual or expected capital resources or business conditions. The board of directors must without delay alert the Prudential Authority of any such deteriorating circumstances that could lead to a breach of the financial soundness requirements within the following three months.[2]

2.4. The board of directors of an insurer must ensure that, where approvals are required from the Prudential Authority (e.g. before certain capital items are included in the determination of eligible own funds, or before certain computation methods are used), those approvals have been obtained.

2.5. The board of directors must also seek and receive the Prudential Authority’s approval before effecting any capital reduction (other than through normal dividend payments).[3]

2.6. An insurer’s head of actuarial function is responsible for expressing an opinion to the board of directors regarding the accuracy of the calculations and the appropriateness of the assumptions underlying the valuation of the insurer’s technical provisions, and calculation of the insurer’s capital requirements.

2.7. An insurer’s auditor, appointed under section 32 of the Act, must audit the financial soundness of an insurer in accordance with its legal and regulatory obligations. The auditor must report to the board of directors and Prudential Authority any matters identified during the performance of its responsibilities that may cause the insurer to be not financially sound.

---

[1] The terms under which the Prudential Authority may increase the financial soundness minimum are set out in section 37 of the Act.

[2] The obligations of the board of directors in this regard are set out in section 39 of the Act.

[3] The obligations of the board of directors in this regard are set out in section 38 of the Act.

2.8. The roles and responsibilities of the board of directors and the head of actuarial function are described in more detail in the Governance and Operational Standards for Insurers (GOI 3).

3. Commencement and Transition Provisions

3.1. This Standard commences on 1 July 2018.

Version Number	Commencement Date
1	1 July 2018

4. Principles Underlying the Framework for Financial Soundness of Insurers

4.1. The framework for financial soundness of insurers is built on the following principles:

a) Insurers must hold own funds of sufficient quality and quantity to absorb significant unforeseen losses arising from the risks associated with an insurer's activities;
b) The risk tolerance of the Prudential Authority that informs the regulatory minimum financial soundness requirements should be defined in terms of insurers being able to maintain regulatory solvency in the face of a range of adverse scenarios;
c) The regulatory approach to determining eligible own funds and measuring the required level of capital for financial soundness should be risk-based and forward-looking;
d) In determining eligible own funds, both assets and liabilities must be valued on a basis consistent with market-based methodologies, unless otherwise specified;
e) The level of capital required for regulatory purposes should address the risk areas to which insurers are exposed and should be proportionate to the nature, scale and complexity of the business involved;
f) The level of capital required for regulatory purposes should take reasonable account of correlations between risks, including the benefits of diversification; and
g) The financial soundness framework should include trigger levels of eligible own funds relative to required capital, below which regulatory intervention will occur.

5. Determining Eligible Own Funds – Key Elements

5.1. The regulatory concept of capital resources differs in a number of ways from the equivalent accounting concept. For this reason, the Financial Soundness Standards for Insurers use the term "eligible own funds".

5.2. For the purposes of meeting financial soundness requirements, eligible own funds are calculated as the sum of basic own funds and ancillary own funds, where:

a) Basic own funds is defined as the excess of assets over liabilities, valued in accordance with the principles and requirements of FSI 2 (Valuation of

Assets, Liabilities and Eligible Own Funds), adding back subordinated liabilities, and less any adjustments (deductions) as set out in FSI 2.3 (Determination of Eligible Own Funds); and

b) Ancillary own funds consist of items other than basic own funds which can be called upon to absorb losses. Ancillary own funds are subject to approval by the Prudential Authority before they can be included within eligible own funds.[4]

5.3. Eligible own funds must be able to absorb losses on a going concern basis, or in run-off, and reduce the loss to policyholders in the event of insolvency or wind-up. To be eligible for inclusion in the regulatory measure of eligible own funds, capital items are evaluated against the following criteria:

a) Loss absorbency;
b) Subordination;
c) Sufficient duration;
d) Free from requirements and incentives to redeem;
e) Free from mandatory costs; and
f) Free from encumbrances.

5.4. Eligible own funds are allocated to one of three tiers according to the extent to which they meet the criteria set out in section 5.3 above (see FSI 2.3 (Determination of Eligible Own Funds)).

6. Financial Soundness Requirements for Insurers – Key Elements

6.1. The concept of capital required by an insurer for financial soundness purposes is applied at two levels:

a) The prescribed Minimum Capital Requirement (MCR) is the absolute minimum level of eligible own funds that the Prudential Authority considers necessary to protect policyholders; and
b) The prescribed Solvency Capital Requirement (SCR) is the level of eligible own funds required to ensure the value of assets will exceed technical provisions and other liabilities at a 99.5% level of certainty over a one-year time horizon.

The requirements are structured in such a way that the SCR will, under most circumstances, be greater than the MCR.

6.2. The MCR is designed to be a relatively simple measure of required regulatory capital. The calculation of the MCR is primarily based on taking a linear sum of basic volume measures (e.g. written premiums, technical provisions, capital-at-risk and operating expenses) calibrated to a confidence level of 85% over a one-year time horizon. The MCR is subject to a floor of 25% of an insurer's SCR, and a cap of 45% of an insurer's SCR. The MCR must also be no less than R15 million for life and non-life insurers, and no less than R30 million for reinsurers with both life and non-life insurance obligations. Details of the calculation of the MCR are provided in FSI 3 (Calculation of the MCR).

[4] The Prudential Authority takes a principles-based approach to the approval of ancillary own funds in the determination of Eligible Own Funds. FSI 2.3 (Determination of Eligible Own Funds) sets out further details of the principles and criteria that must be satisfied for items to be classified as ancillary own funds.

6.3. The SCR is a more risk-based measure of required regulatory capital. It is forward looking in that it covers existing business as well as new business expected to be written over the coming 12 months.

6.4. The SCR addresses the following key risk categories to which insurers are potentially exposed:

a) Market risk - the risk of loss arising from movements in market prices on the value of the insurer's assets and liabilities or of loss arising from the default of the insurer's counterparties;
b) Underwriting risk - the risk of loss arising from insurance obligations, such as from poor claims experience, expense over-runs and policy lapses; and
c) Operational risk - the risk of loss arising from inadequate or failed internal processes, people and systems, or from external events.

Several of these risk categories are broken down into risk components and sub-components (see FSI 4 (Calculation of the SCR Using the Standardised Formula)).

6.5. The SCR also accounts for the risk of loss arising from movements in the value of an insurer's investments in companies in which the insurer exerts significant influence/control (i.e. participations).[5] The method for determining the capital required for participation risk is dependent on the nature of the activities and business conducted by participation, including whether the participation conducts activities in the same sector as the insurer. FSI 4 (Calculation of the SCR Using the Standardised Formula) sets out further details regarding the treatment of participations.

6.6. Liquidity risk is not a risk category that forms part of the calculation of the SCR. It is possible for an insurer to experience a liquidity crisis without necessarily experiencing a solvency crisis and thus, the Financial Soundness Standards for Insurers focus on measures to monitor and manage liquidity risks. FSI 6 (Liquidity Risk Assessment) sets out one particular measure of liquidity risk that life insurers are required to monitor and report to the Prudential Authority (the "Liquidity Shortfall" measure). The Pillar 2 framework for insurers sets out additional requirements regarding an insurer's management of liquidity risk under the Own Risk and Solvency Assessment (ORSA) process.

6.7. The financial soundness framework provides a range of methods for calculating the SCR and elements of the SCR. This allows insurers to choose a method for estimating a capital requirement that is proportionate to the nature, scale and complexity of the risks involved. The options include:

a) Full internal model;
b) Standardised formula combined with partial internal model;
c) Standardised formula with insurer-specific parameters; or
d) Standardised formula.

Regardless of the approach taken, the SCR must, at a minimum, address all the risk categories identified in section 6.4 above to the level of confidence and over the time horizon set out in section 6.1b) above.

---

[5] The Prudential Authority reserves the right to prescribe a shareholding as an asset holding intermediary in accordance with section 36 of the Act.

6.8. The default method for calculating SCR is the Standardised Formula (see FSI 4 (Calculation of the SCR Using the Standardised Formula)).[6] Insurers may be approved by the Prudential Authority to use a full or partial internal model to calculate the SCR, provided they meet certain criteria (see FSI 5 (Calculation of the SCR Using a Full or Partial Internal Model)).

6.9. In some situations the Prudential Authority permits insurers to use simplified calculations within the standardised formula. These allow the insurer to apply simplifications that are proportionate to the nature, scale and complexity of the risks involved. An insurer does not require approval from the Prudential Authority before applying a simplification, although the Prudential Authority expects an insurer to justify the use of a simplification if asked to do so and may disallow its use if not satisfied that the justification is valid or sufficient. The principles and methods for applying simplifications are set out in the specialised standards for calculating the SCR using the standardised formula.

6.10. For most risk categories and risk components, the calculation of the SCR using the standardised formula is scenario-based. That is, the capital required is calculated from the impact of a specified adverse scenario on the level of basic own funds, where:

a) Basic own funds is valued in accordance with the requirements set out in FSI 2 (Valuation of Assets, Liabilities and Eligible Own Funds); and
b) Scenario shocks are applied to the total statutory balance sheet of the insurer.

6.11. In aggregating the capital required within and between risk categories, the financial soundness framework makes some allowance for the risk-reducing impact of diversification among risks, and also for risk mitigation instruments (such as reinsurance and other forms of risk transfer, such as derivatives). Certain adjustments are also required to address the loss-absorbing effect of deferred taxes and to deal with ring-fenced funds.

7. Assessing Financial Soundness of Insurers – Key Elements

7.1. Insurers are required to monitor and assess their financial soundness on an ongoing basis. Insurers are required to calculate the MCR and SCR (including the underlying elements of these measures) on at least an annual basis. The results of this calculation must be reported to the Prudential Authority in line with timeframes required for financial reporting purposes.

7.2. Insurers must also calculate and report their MCR and SCR when:

a) Their risk profile changes materially since the time of the last MCR or SCR calculation; or
b) Otherwise requested to do so by the Prudential Authority.

7.3. The financial soundness of insurers is measured by the excess of eligible own funds over the SCR. The ratio of eligible own funds to SCR is also referred to as the SCR cover ratio.

7.4. In calculating the excess of eligible own funds against the MCR and SCR, restrictions are imposed on the eligibility of the different tiers of own funds for

[6] This includes those insurers that have approval from the Prudential Authority to use insurer-specific parameters as discussed in FSI 4.3 (Non-life Underwriting Risk Capital Requirement).

inclusion in the computation. These restrictions are set out in FSI 2.3 (Determination of Eligible Own Funds).

8. Regulatory Intervention

8.1. The financial soundness framework establishes trigger points for regulatory intervention:[7]

a) The SCR is a solvency control level, above which the Prudential Authority is unlikely to need to intervene on financial soundness grounds. If the Prudential Authority is satisfied that an insurer has failed or may, in the following three months, fail to meet the prescribed SCR it may exercise its powers to direct the insurer to rectify the actual or potential breach; and
b) The MCR is a solvency control level which, if breached, is likely to result in the strongest regulatory intervention. If the Prudential Authority is satisfied that an insurer has failed or may, in the following three months, fail to meet the prescribed MCR it may, in addition to directing the insurer to rectify the breach, suspend or withdraw the insurer's licence, or exercise the resolution powers set out in Chapter 9 of the Act.

8.2. In practice, while financial soundness levels signal the need for regulatory intervention, regulatory monitoring and intervention is typically more nuanced and graduated than is implied by the discrete points involved. Any insurer whose level of eligible own funds approaches the SCR should expect heightened supervisory oversight, with the potential for regulatory intervention.

9. Structure of the Financial Soundness Standards for Insurers

9.1. The Financial Soundness Standards for Insurers are organised as follows:

FSI 1	Framework for Financial Soundness of Insurers
FSI 2	Valuation of Assets, Liabilities and Eligible Own Funds
FSI 2.1	Valuation of Assets and Liabilities Other than Technical Provisions
FSI 2.2	Valuation of Technical Provisions
FSI 2.3	Determination of Eligible Own Funds
FSI 3	Calculation of the MCR
FSI 4	Calculation of the SCR Using the Standardised Formula
FSI 4.1	Market Risk Capital Requirement
FSI 4.2	Life Underwriting Risk Capital Requirement
FSI 4.3	Non-life Underwriting Risk Capital Requirement
FSI 4.4	Operational Risk Capital Requirement
FSI 5	Calculation of the SCR Using a Full or Partial Internal Model
FSI 6	Liquidity Risk Assessment

9.2. The Financial Soundness Standards for Insurers are supported by Guidance Notes that aim to assist insurers in complying with the requirements outlined in the Standards. While the standards have the force of law and are used to establish minimum requirements with which insurers must comply, the Guidance Notes provide guidance only and do not have the same level of enforceability as the standards. Insurers are not obliged to adopt the

[7] The Prudential Authority's powers to intervene in this respect are set out in section 39 of the Act.

guidance, and are free to demonstrate that the requirements of the standards are otherwise met.

Attachment 1: Definitions used in the Financial Soundness Standards for Insurers

The following terms used in the Financial Soundness Standards are defined in accordance with section 1 of the Act:

- ancillary own funds;
- auditor;
- basic own funds;
- board of directors;
- captive insurer;
- cell captive insurer;
- cell structure;
- commercial lines;
- control function;
- director;
- discretionary participation features;
- eligible own funds;
- head of a control function;
- insurance business;
- insurance obligations;
- insurance policy;
- insurer;
- life insurance business;
- life insurance policy;
- life insured;
- non-life insurance business;
- non-life insurance policy;
- personal lines;
- policyholder;
- premium;
- prescribed;
- prudential authority;
- prudential standard;
- reinsurer;
- reinsurance business; and
- senior management.

The following terms are as defined in accordance with Schedule 2 of the Act:

- beneficiary;
- fully guaranteed;
- fund;
- group policy;
- linked;
- market related; and
- partially guaranteed.

Where a term in the Financial Soundness Standards for Insurers is defined in accordance with the definition used for International Financial Reporting Standards (IFRS), insurers must apply the definition that applies under IFRS at the relevant point in time.

The following table sets out definitions of additional terms used throughout the Financial Soundness Standards for Insurers:

Term	Definition
active market	A market where transactions for the asset take place with sufficient frequency and volume to provide pricing information on an ongoing basis.
actuarial function	The control function within an insurer responsible for attesting to the accuracy of the calculations and the appropriateness of the assumptions with regards to the technical provisions and the SCR.
asset holding intermediary	A non-regulated company not listed on any stock exchange, in which the insurer has a participation and where the assets and liabilities of the company are regarded, managed and dealt with as if they were the assets and liabilities of the insurer.
assets under management	Total market value of investments managed by an insurer.
bank	An entity as defined in section 1 of the Banks Act, 1990 or an entity which would have been a bank in terms of the Banks Act, 1990 if it were incorporated in South Africa, regulated by a designated authority as defined in section 250 of the Financial Sector Regulation Act, 2017.
best estimate (liability)	Probability-weighted average (mean) of future cash-flows stemming from insurance business, taking into account the time value of money and all possible scenarios of future potential outcomes, calculated in accordance with the requirements in FSI 2.2 (Valuation of Technical Provisions).
cedent	A direct insurer that reinsures its insurance business or a reinsurer that retrocedes its reinsurance business.
ceded reinsurance	The portion of risk that an insurer transfers to another insurer.
contract boundary	The date at which an insurer has the unilateral right to: a) Terminate an insurance contract; b) Reject the premiums payable under an insurance contract; or c) Amend the premiums or benefits payable under an insurance contract in such a way that the premiums fully reflect the risks.

Term	Definition
contractual option	A right to change the benefits of a policy, to be taken at the choice of its holder (generally the policyholder), on terms that are established in advance.
coverage period	The period in which an insurance policy remains in-force under the terms of the contract.
credit institution	A “credit provider” as defined in section 1 of the National Credit Act, 2005, or an entity which would have been a credit provider in terms of the National Credit Act if it were incorporated in South Africa, regulated by a designated authority as defined in section 250 of the Financial Sector Regulation Act, 2017.
credit quality step	Credit grading scale used in the Financial Soundness Standards for Insurers to assess the credit standing of counterparties and issuers of instruments for the purposes of assessing spread and default risk.
deep, liquid and transparent market	A market where the asset can be easily bought and sold without causing a significant movement in the price, and where current trade and price information are normally readily available to the public.
eligible reinsurance	A reinsurance arrangement that may be taken into account in the assessment of an insurer’s financial soundness, subject to meeting the requirements set out in FSI 4 (Calculation of the SCR Using the Standardised Formula).
eligible risk mitigation instrument	A risk mitigation instrument that may be taken into account in the assessment of an insurer’s financial soundness subject to meeting the requirements set out in FSI 4 (Calculation of the SCR Using the Standardised Formula).
encumbered (assets)	Any assets that have been pledged, restricted or limited, which limits access to the use or disposal of such assets.
facultative reinsurance	A reinsurance arrangement involving the reinsurance of the exposures covered by a single policy or a defined group of policies, or sometimes only specific portions of a policy.
financial institution	As defined in section 1 of the Financial Sector Regulation Act, 2017, or an entity which would have been a financial institution in terms of the Financial Sector Regulation Act if it were incorporated in South Africa, regulated by a designated authority as defined in section 250 of the Financial Sector Regulation Act.

Term	Definition
financial guarantee	A product (or product feature) that allows a policyholder to pass losses to the insurer or to receive additional benefits as a result of changes in financial variables.
financial soundness standards for insurers	Collective term for the suite of Prudential Standards for the financial soundness of South African insurers as set out in section 9.1 of this Standard.
first-party cell	A cell where the shares issued to a cell owner provide the cell owner with the ability to underwrite their own risks and those of their subsidiaries.
first-party insurance structure	Captive insurers, first-party cells and first-party contingency policies, where contingency policies are those typically used to provide for the primary layers of an insurance programme or for risks that are difficult to insure.
foreign currency	Any currency other than South African Rand.
foreseeable dividends	A dividend is foreseeable at the latest when it is declared or approved by the board of directors regardless of any requirement for formal approval at an annual general meeting.
future management action / management action	A mechanism or action approved by a governance structure within the insurer that will be implemented in response to the occurrence of a specified adverse event, whereby the action aims to reduce the impact of the specified adverse event on the insurer’s basic own funds.
grouped individual policy	An individual policy which is underwritten on a group basis.
illiquidity premium	The premium added to the risk-free interest rate term structure for life annuity obligations, calculated in accordance with the requirements set out in section 13 of FSI 2.2 (Valuation of Technical Provisions).
infrastructure assets	The physical structures or facilities, systems and networks that provide or support essential public services subject to meeting the requirements set out in FSI 4.1 (Market Risk Capital Requirement).

Term	Definition
infrastructure project entity	An entity which is not permitted to perform any other function than owning, financing, developing or operating infrastructure assets, where the primary source of payments to debt providers and equity investors is the income generated by the assets being financed.
internal model	The model approved by the Prudential Authority for an insurer to calculate its SCR, subject to meeting the requirements set out in FSI 5 (Calculation of the SCR Using a Full or Partial Internal Model).
inwards reinsurance	Reinsurance business accepted or written by an insurer or reinsurer.
look-through approach	The assessment of risks at the level of the underlying assets for a collective investment fund (or similar type of investment vehicle), as set out in Attachment 1 of FSI 4.1 (Market Risk Capital Requirement).
loss-absorbing capacity of deferred taxes	The capacity for changes in the value of an insurer's deferred tax assets and liabilities to absorb losses under the stresses assumed in the calculation of the SCR.
loss-absorbing capacity of technical provisions	The extent to which an insurer is able to pass on risks to policyholders by way of changes to policyholder benefits.
mark-to-market	A valuation approach that uses readily available prices in orderly transactions, sourced independently, to derive the economic value of assets and liabilities.
mark-to-model	A valuation approach that relies on benchmarking, extrapolation or other modelling of market inputs to derive the economic value of assets and liabilities.
non-financial guarantee	A product (or product feature) that provides benefits that are driven by changes in non-financial variables, such as reinstatement premiums in reinsurance and experience adjustments to future premiums.
non-proportional reinsurance	A reinsurance arrangement where losses in excess of the cedent's retention limit are paid by the reinsurer, up to a maximum limit (also known as excess of loss reinsurance).
own funds	Sum of basic own funds and ancillary own funds.

Term	Definition
partial internal model	The model approved by the Prudential Authority for an insurer to calculate its SCR, subject to meeting the requirements set out in FSI 5 (Calculation of the SCR Using a Full or Partial Internal Model), where the application of the Internal Model applies only to certain risks or major business units of an insurer.
participations	Investments in companies in which the insurer owns a significant proportion of the issued share capital or over which it exerts significant influence/control (e.g. where the insurer maintains more than 20% of the voting rights of the company).
premium provisions	Provisions set aside for all future claim payments relating to future claim events and claims administration expenses arising from claim events from existing in-force policies, net of expected future premiums stemming from existing policies.
principle of proportionality	The principle of adopting calculation methodologies that are proportionate to the nature, scale and complexity of the risks being measured.
principle of substance over form	The principle of requiring insurance liabilities to be segmented based on the nature of risks underlying the insurance obligation, rather than the legal form of the insurance contract.
probability distribution forecast	A mathematical function that assigns to an exhaustive set of mutually exclusive future events a probability of realisation.
promoter	A “cell captive insurer” as defined under section 1 of the Act.
promoter business	The assets and liabilities of the promoter excluding the assets and liabilities of the cell structures.
proportional reinsurance	A reinsurance arrangement where the insurer and the reinsurer share in an agreed ratio all premiums, losses, and loss expenses arising out of the original business covered under the reinsurance agreement.
provisions for claims outstanding	Provisions set aside to meet the total estimated ultimate cost to an insurer of settling all claims arising from events which have occurred up to the valuation date, whether reported or not, less amounts already paid in respect of such claims.

Term	Definition
recoverables	Amounts that may be recovered from eligible risk mitigation Instruments, including financial and insurance risk mitigation instruments.
reinstatement premium	Premium to restore the insurance limit of a policy to its full amount after a loss occurrence, primarily related to catastrophe reinsurance.
risk management function	The control function within an insurer responsible for oversight of the identification, assessment and management of risks.
risk margin	The part of technical provisions, in addition to the best estimate liability, to ensure that the value of technical provisions is equivalent to the amount that insurers would be expected to charge to take over the insurance obligations, calculated in accordance with the requirements in FSI 2.2 (Valuation of Technical Provisions).
risk management system	Totality of strategies, policies and procedures for identifying, measuring, monitoring, managing, and reporting of all material risks to which the insurer may be exposed.
risk mitigation instrument	An instrument or arrangement used by an insurer to transfer part or all of their risks to another party, including derivatives and reinsurance arrangements.
SCR cover ratio	Eligible own funds expressed as a percentage of SCR.
standard	Prudential Standard.
subordinated liabilities	Liabilities that rank after the claims of all other creditors and which are to be paid, in the event of liquidation or bankruptcy, only after all other debts have been met.
standardised formula	The default method for calculating the SCR based on the prescribed requirements of FSI 4 (Calculation of the SCR Using the Standardised Formula) and related Standards.
technical provisions	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 FSI 2.2 (Valuation of Technical Provisions).

Term	Definition
third-party cell	A cell where the shares issued to cell owners provide the cell owners with the license to underwrite the risks of third parties. The underwriting origin of the business is usually from a captured client base.
treaty reinsurance	A reinsurance arrangement in which the reinsurer is obliged by agreement with the cedent to accept, within agreed limits, all risks to be underwritten by the cedent within specified classes of business in a given period of time.
unearned premium reserve	The amount on the balance sheet representing that part of premiums written on unexpired policies to be allocated to the following financial year, or to subsequent financial years.
use test	A supervisory process to assess whether the Internal Model, its methodologies and results, are appropriately embedded into the insurer's risk strategy, risk management, and operational processes.
valuation date	The date at which an insurer’s assets and liabilities, SCR and MCR are measured for the purposes of assessing financial soundness.
value-at-risk	An estimate of the worst expected loss over a certain period of time at a given confidence level.

Attachment 2: Abbreviations

Abbreviation	Definition
AHI	asset holding intermediary
AUM	assets under management
BOF	basic own funds
BSCR	basic solvency capital requirement
EEA	European Economic Area
FSI	financial soundness standards for insurers
IBNR	incurred but not reported
IFRS	international financial reporting standards
LGD	loss given default
MAT	marine, aviation and transit
MCR	minimum capital requirement
MER	maximum event retention
OECD	organisation for economic co-operation and development
ORSA	own risk and solvency assessment
PML	probable maximum loss
RR	recovery rate
SCR	solvency capital requirement
SPV	special purpose vehicle
SVG	surrender value gap
UPR	unearned premium reserve