South African Reserve Bank

Prudential Authority

Prudential Standard FSI 2.3

Determination of Eligible Own Funds

Objectives and Key Requirements of this Prudential Standard

The Financial Soundness Standards for Insurers 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.

This Standard sets out the characteristics that an instrument must have to qualify for inclusion as eligible own funds, including the various regulatory adjustments that apply to meet the financial soundness requirements.

The ultimate responsibility for ensuring that the eligible own funds of an insurer meet the requirements of this Standard rests with its board of directors.

The key principles and requirements of this Standard are that an insurer must:

- *Include in the appropriate category of own funds (i.e. tier 1, tier 2 and tier 3) only those items that meet the detailed criteria specified for that category;*
- *Ensure all items recognised as eligible own funds are capable of absorbing losses;*
- *Make certain regulatory adjustments to own funds in order to determine eligible own funds; and*
- *Comply with the minimum requirements regarding the size and composition of eligible own funds used to meet the Solvency Capital Requirement (SCR) and Minimum Capital Requirement (MCR).*

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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. An insurer's board of directors is ultimately responsible for ensuring that the insurer holds own funds of sufficient quality and quantity to absorb significant unforeseen losses arising from the risks associated with an insurer's activities. The board of directors must ensure that the insurer has in place appropriate systems, procedures and controls to meet the requirements of this Standard on an ongoing basis.

2.2. 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.

2.3. 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. Definition of Own Funds

4.1. Eligible own funds refers to those capital resources that are deemed eligible to cover the Solvency Capital Requirement (SCR) and Minimum Capital Requirement (MCR).

4.2. Own funds is the sum of basic own funds and ancillary own funds.

4.3. Basic own funds consist of the following items:

a) The excess of assets over liabilities; plus
b) Subordinated liabilities; less
c) Any regulatory adjustments as listed in this Standard.

where assets and liabilities are valued in accordance with the principles set out in FSI 2 (Valuation of Assets, Liabilities and Eligible Own Funds).

4.4. Ancillary own funds may include the following items to the extent they are not basic own funds:

a) Unpaid share capital or initial fund that has not been called-up;
b) Letters of credit and guarantees; and
c) Other legally binding commitments received by an insurer.

An insurer must seek prior approval from the Prudential Authority for an item to be deemed appropriate for inclusion as ancillary own funds.

5. Classification of Own Funds into Tiers

5.1. Basic own funds and ancillary own funds are allocated into three tiers (tier 1, tier 2 and tier 3) based on an assessment of the characteristics of the individual capital instrument against the following key 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.

5.2. The following table sets out the key principles for allocating own funds into the three tiers based on the criteria set out in section 5.1 above.

Tier	Basic Own Funds	Ancillary Own Funds
Tier 1	Substantially possess characteristics of a) and b), taking into consideration c), d), e), and f) under section 5.1 above	Not allowed
Tier 2	Substantially possess characteristics of b), taking into consideration c), d), e), and f) under section 5.1 above	Substantially possess characteristics of a) and b), taking into consideration c), d), e), and f) under section 5.1 above
Tier 3	If not tier 1 or tier 2	If not tier 2

5.3. Sections 6 and 7 below set out specific items that may be classified in each tier. The detailed criteria that must be met for a particular item to be classified in each tier are set out in Attachments 1 to 3 of this Standard.

6. Basic Own Funds

Tier 1 Basic Own Funds

6.1. Tier 1 should contain the highest quality own funds that are available to fully absorb losses and enable an insurer to continue as a going concern.

6.2. The following types of basic own funds may be classified as tier 1 provided that they meet the criteria set out in Attachment 1 of this Standard:

a) Paid-up common equity, also referred to as ordinary share capital, less own shares held by an insurer where the investment risk attached to these own shares is not carried by the policyholder (refer to section 8 below for further details regarding the treatment of own shares);

b) Share premium account;
c) Retained earnings, including profit for the year, net of foreseeable dividends;
d) Other reserves, including a reconciliation reserve where required;
e) Surrender Value Gap (SVG) (refer to Attachment 4 for further details regarding the calculation of the SVG); and
f) Other paid-in capital instruments not already included above, but meeting the criteria set out in Attachment 1, including:
    i. Preference shares;
    ii. Subordinated liabilities; and
    iii. Subordinated mutual member accounts.

Tier 2 Basic Own Funds

6.3. The following types of basic own funds that are not classified as tier 1 may be classified as tier 2 provided they meet the criteria set out in Attachment 2 of this Standard:

a) Called-up (but not paid-in) ordinary share capital;
b) Other called-up capital instruments that absorb losses first or rank *pari passu*, in going concern, with capital instruments that absorb losses first;
c) Other paid-in capital instruments including preference shares, subordinated mutual members accounts and subordinated liabilities that do not have the features required for tier 1; and
d) Own funds in excess of amounts being used to cover related risks in the case of “restricted reserves” (refer to section 6.4 below).

6.4. Reserves may be required for use only for certain prescribed purposes under law or specific statutes or articles of an insurer (referred to as “restricted reserves” in this Standard). These restricted reserves form part of other reserves in the financial statements. Any own funds in excess of that covering the related risks attached to the restricted reserves[1] should be excluded from own funds if not available in going concern or a wind-up. If the excess of own funds in relation to restricted reserves is available for losses in a wind-up (but not in going concern), then the excess of own funds may be included in tier 2 after deduction from tier 1.[2] Where the amount of the reserve is less than the elements of the SCR for which the reserve could be used, no adjustment is necessary.

Tier 3 Basic Own Funds

6.5. The following types of basic own funds should be classified as tier 3:

a) Deferred tax assets net of deferred tax liabilities (subject to a floor of zero); and
b) Other capital instruments including preference shares, subordinated mutual members’ accounts and subordinated liabilities that do not have the features required for tier 1 or tier 2, but meet the criteria set out in Attachment 3 of this Standard.

[1] The related risks attached to the restricted reserves relates to the elements of the SCR for which the reserve could be used.

[2] The treatment of restricted reserves will therefore need to have regard to the legal restrictions that apply for using the reserves in the case of a wind-up versus going concern.

7. Ancillary Own Funds

7.1. The following ancillary own funds items may be classified as tier 2, subject to the approval of the Prudential Authority:

a) Unpaid and uncalled ordinary share capital callable on demand;
b) Unpaid and uncalled initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings, callable on demand;
c) Unpaid and uncalled preference shares callable on demand;
d) A legally binding commitment to subscribe and pay for subordinated liabilities on demand;
e) Letters of credit and guarantees which are held in trust for the benefit of insurance creditors by an independent trustee and provided by credit institutions;
f) Letters of credit and guarantees provided that the items can be called up on demand and are clear of encumbrances; and
g) Any future claims which mutual or mutual-type associations may have against their members by way of a call for supplementary contributions, within the following 12 months, provided that a call can be made on demand and is clear of encumbrances.

7.2. Items other than those specified in section 7.1 above that have been approved as ancillary own funds by the Prudential Authority may also be classified as tier 2 if the item, when called-up and paid-in, would meet the criteria for classification as tier 1. Otherwise, the item should be classified as tier 3 ancillary own funds.

7.3. The classification of ancillary own funds into tier 2 or tier 3 is subject to approval by the Prudential Authority.

8. Regulatory Deductions

8.1. A number of regulatory deductions must be made from basic own funds for financial soundness purposes to determine eligible own funds that may be used to meet the SCR and MCR. These deductions are detailed below and such deductions should not be taken into account in the SCR calculation. Cell captive insurers should refer to Attachment 5 of this Standard for specific details about the regulatory deductions for promoter business and cell structures.

Intangible assets

8.2. Where intangible assets have been recognised in accordance with the valuation requirements specified in FSI 2.1 (Valuation of Assets and Liabilities Other than Technical Provisions), 80% of the value of such assets must be deducted from basic own funds. That is, only 20% of the value of any intangible assets recognised under FSI 2.1 must be recognised in eligible own funds.

8.3. The value of intangible assets after the 80% deduction must be classified as tier 3.

Investments in an insurer’s own holding company

8.4. Any unlisted ordinary shares held by an insurer in any company that holds a direct or indirect controlling stake in that insurer must be fully deducted from that insurer’s basic own funds.

8.5. Any listed ordinary shares held by an insurer in any company that holds a direct or indirect controlling stake in that insurer in excess of 5% of the total non-linked assets of the insurer must be deducted from that insurer’s basic own funds.

8.6. An insurer may hold bonds and other capital instruments in any company that holds a direct or indirect controlling stake in the insurer. To the extent that such bonds and other capital instruments are treated by the company holding a direct or indirect controlling stake as part of its basic own funds, these instruments must not be included in the insurer's basic own funds unless the investment risk is carried by the policyholders.

8.7. For clarity, an insurer may hold investments in companies that in turn own shares in the insurer. Such holdings must be appropriately taken into account in the calculation of the SCR.

Own shares of an insurer[3]

8.8. Where an insurer bears any investment risk from its holding of own shares, the insurer's own shares must be deducted from basic own funds.

8.9. Where the policyholders of an insurer carry at least some degree of investment risk for the own shares held by the insurer[4], the "delta own funds" calculation set out in section 8.10 below should be performed. If the "delta own funds" calculation is not able to be performed by an insurer, a reasonable estimation must be calculated and the insurer must disclose to the Prudential Authority reasons for applying an estimation.

8.10. The "delta own funds" calculation must estimate the impact of setting the price of the insurer's own shares to zero on basic own funds as the technical provisions and assets change. The result of the delta own funds calculation must be deducted from basic own funds.

8.11. Where the "delta own funds" calculation, or the reasonable estimate thereof, results in an immaterial adjustment to own funds (less than 5%), a deduction is not required.

8.12. Where there is evidence of a group of connected transactions whose economic effect is the same as that of holding own shares, the assets that are generated by those transactions should be treated on the same basis as described in sections 8.8 to 8.11 above.

Cash and deposits at a bank within the same financial conglomerate

8.13. Any cash balances and short-term deposits in excess of 15% of the non-linked assets of an insurer, which are held at a bank that is part of the same financial conglomerate as the insurer, must be fully deducted from basic own funds.

Restricted reserves

8.14. As set out in section 6.4 above, any own funds related to restricted reserves that are in excess of that covering the related risks should be deducted from basic own funds if such assets are not available in going concern or a wind-up.

Participations in financial and credit institutions

8.15. The value of all participations in financial and credit institutions (excluding insurance-related businesses) in excess of 15% of tier 1 basic own funds must be fully deducted from basic own funds. The adjusted contribution of each of these

[3] For mutual insurers, this category includes equivalent capital items to own shares.

[4] Examples of policies where the policyholder carries some of the investment risk are linked, market-related and smoothed bonus portfolios.

participations to basic own funds after deductions must be proportional to their initial contribution to basic own funds before deductions.

Net deferred tax assets

8.16. Any net deferred tax assets recognised in tier 1 basic own funds must be fully deducted from tier 1, and recognised as tier 3 basic own funds.

9. Eligibility of Own Funds in Meeting the SCR and MCR Requirements

9.1. Eligible own funds are own funds that count toward covering the SCR and the MCR, subject to the conditions and limits set out below:

a) Tier 3 basic own funds are eligible to cover the SCR, but are not eligible to cover the MCR.
b) Ancillary own funds are eligible to cover the SCR, but are not eligible to cover the MCR.

9.2. The following limits apply in relation to the composition of eligible own funds to meet the SCR:

a) At least 50% of the SCR must be met by tier 1 eligible own funds.
b) No more than 15% of the SCR must be met by tier 3 eligible own funds.
c) The sum of the tier 2 and tier 3 eligible own funds shall not exceed 50% of the SCR.

9.3. In relation to the composition of eligible own funds to meet the MCR, at least 80% of the MCR must be met by tier 1 eligible own funds.

9.4. Within the limits above, other paid-in capital instruments classified as tier 1 (refer to section 6.2f) above) should be no greater than 20% of the total amount of tier 1 eligible own funds. The portion not recognised as tier 1 eligible own funds may be recognised as tier 2 eligible own funds.

Attachment 1: Criteria for Classifying Basic Own Funds as Tier 1

The following criteria must be met to classify an item as tier 1 basic own funds:

1. The item must be the most deeply subordinated or, in the case of other paid-in capital instruments, senior only to the most deeply subordinated tier 1 item in a wind-up situation.
2. The item must not cause or accelerate the insolvency of the insurer.
3. The holder of the instrument must not be in a position to petition for the insolvency of the insurer. The instrument must not be taken into account for the purposes of determining whether the insurer is insolvent (either because it is treated as shareholders' equity or it is not treated as a liability in determining balance sheet insolvency – i.e. whether liabilities exceed assets).
4. The item must be immediately available to absorb losses.
5. The item must absorb losses at least when the insurer breaches its SCR and it should not hinder its re-capitalisation.
6. The item must be undated or have a remaining duration before its maturity date of at least 10 years as at the valuation date. The maturity date is deemed to be the first contractual opportunity to repay or redeem the item unless there is a contractual obligation to replace the item with a basic own funds item of the same or higher quality.
7. The item must be repayable or redeemable only at the option of the insurer, subject to approval by the Prudential Authority and must not include any incentives to redeem or repay the item.[5]
8. The item must provide for the suspension of its repayment or redemption if the insurer breaches its SCR, or would breach it if the instrument were repaid or redeemed. The Prudential Authority may waive the suspension of repayment or redemption of the item provided it is exchanged for, or converted into, another basic own funds item of equivalent or higher quality and the MCR is not breached.
9. The insurer must have full discretion over payment of coupons or dividends or other similar payments. For ordinary share capital, and equivalent items for mutual and mutual-type insurers, the level of distribution must not be in any way tied or linked to the amount paid in at issuance, must not be subject to a cap, and there must be no preference as to the distribution of income or capital.
10. In respect of other paid-in capital instruments, the item must provide for the cancellation of coupons or dividends or other similar payments if the insurer breaches its SCR or if paying the coupon or dividend or other similar payment would breach its SCR. The Prudential Authority may waive the cancellation of the payment of coupons or dividends or other similar payments provided the MCR is not breached.
11. Where an insurer exercises its discretion or is required (because of an actual or potential breach of the SCR) to cancel a coupon or dividend payment, there must be no requirement or entitlement to settle that payment at a future date. Alternative coupon satisfaction mechanisms may be permitted in the case of other paid-in capital

[5] Incentives to redeem can include, but are not limited, to step-ups associated with a call option.

instruments where the terms of the instrument provide for coupons or dividends to be settled through the issue of ordinary shares. The use of alternative coupon satisfaction mechanisms is only acceptable if it achieves the same economic result as the cancellation of the coupon (e.g. there would be an equivalent outcome if the reduction of reserves by the amount of the coupon or dividend is matched by an increase in share capital, such that there is no decrease in own funds). To meet this condition, any coupons not paid in cash should be satisfied without delay using unissued ordinary shares, which have already been approved or authorised.

12. The item must be free of any encumbrances and must not be connected with any other transaction which, when considered with the item, could undermine the characteristics and features of the item.[6] Where an investor subscribes for capital in an insurer and at the same time the insurer has provided financing to the investor, only the net financing provided by the investor may be considered as eligible own funds.

13. Items in “other paid-in capital instruments” must possess one of the following principal loss absorbency mechanisms for which a trigger event is a significant breach of the SCR:

    a) The item automatically converts into either ordinary share capital or the initial fund at the trigger event; or
    b) At the trigger event, the principal amount of the item is written down *pari passu* with retained earnings by the amount of the breach of the SCR and the item can only be written back up again from future profits and on a *pari passu* basis once the insurer complies with the SCR; or
    c) Some other loss absorbency mechanism that achieves an equivalent outcome to one of the principal loss absorbency mechanisms set out in points a) and b) above.

    For the purposes of defining a trigger event, a “significant breach” of the SCR is defined as the earlier of the following events:

    a) eligible own funds are equal to or less than 75% of the SCR; and
    b) A breach of the SCR is not resolved within a two-month period.

[6] Examples of potential encumbrances include, but are not limited to, rights of set off, restrictions, charges or guarantees. Refer to section 4.5 of FSI 2.1 (Valuation of Assets and Liabilities Other than Technical Provisions) for further details of assets that may result in potential encumbrances.

Attachment 2: Criteria for Classifying Basic Own Funds as Tier 2

The following criteria must be met for classifying an item as tier 2 Basic Own Fund item:

1. The item must rank after the claims of all policyholders and beneficiaries and non-subordinated creditors.

2. In the case of a capital instrument that is called-up but not paid-in, the instrument must meet the criteria for tier 1, other than the item being fully paid-in and being immediately available to absorb losses.

3. The item must not cause or accelerate the insolvency of the insurer.

4. The holder of the instrument must not be in a position to petition for the insolvency of the insurer. The instrument must not be taken into account for the purposes of determining whether the insurer is insolvent.

5. The item must be undated or have an original maturity of at least five years. The maturity date is deemed to be the first contractual opportunity to repay or redeem the item unless there is a contractual obligation to replace the item with a basic own funds item of the same or higher quality.

6. The item must be repayable or redeemable only at the option of the insurer, subject to approval by the Prudential Authority and may include moderate incentives to redeem or repay that item. Incentives to redeem can include but are not limited to step-ups associated with a call option. Step-ups must not apply before five years from the issue date and must not exceed either the higher of 100 basis points or 50% of the initial credit spread in order to be considered moderate.

7. The item must provide for the suspension of its repayment or redemption if the insurer breaches its SCR or would breach it if the instrument were repaid or redeemed. The Prudential Authority may waive the suspension of repayment or redemption of the item provided it is exchanged for, or converted into, another basic own funds item of the same or higher quality and the MCR is not breached.

8. The item must provide for the deferral of payments of coupons or dividends or other similar payments if the insurer breaches its SCR or if paying the coupon, dividends or other similar payments would breach the SCR. The Prudential Authority may waive the deferral of the payment of coupons or dividends or other similar payments provided the MCR is not breached.

9. The item must be free of any encumbrances and must not be connected with any other transaction which, when considered with the item, could undermine the characteristics and features of the item. Where an investor subscribes for capital in an insurer and at the same time that insurer has provided financing to the investor, only the net financing provided by the investor may be considered as eligible own funds.

Attachment 3: Criteria for Classifying Basic Own Funds as Tier 3

Any basic own funds item that is not classified as tier 1 or tier 2 may be classified in tier 3 provided that it meets the following criteria:

1. The item should rank after the claims of all policyholders and beneficiaries and non-subordinated creditors.
2. The item must not cause or accelerate the insolvency of the insurer.
3. The item must be undated or have an original maturity of at least three years. The maturity date should be deemed to be the first contractual opportunity to repay or redeem the item unless there is a contractual obligation to replace the item with a basic own funds item of the same or higher quality.
4. The item must provide for the suspension of its repayment or redemption if the insurer breaches its SCR or would breach it if the instrument were repaid or redeemed. The Prudential Authority may waive the suspension of repayment or redemption of the item provided it is exchanged for, or converted into, another basic own funds item of the same or higher quality and the MCR is not breached.
5. The item must provide for the deferral of payments of coupons or dividends or other similar payments if the insurer breaches its MCR or paying the coupon, dividend or other similar payment would breach the MCR.
6. The item must be free of any encumbrances and must not be connected with any other transaction, which, when considered with the item, could undermine that instrument's classification as basic own funds. Where an investor subscribes for capital in an insurer and at the same time that insurer has provided financing to the investor, only the net financing provided by the investor may be considered as eligible own funds.

Attachment 4: Surrender Value Gap

A. Definition

1. Expected profits included in future cash-flows result from the recognition of profits yet to be earned. These profits emanate from the cash-flows from existing (in-force) business that are expected in the future. The expected profits included in future cash-flows are also known as the SVG.

2. The SVG should be calculated in accordance with the methodology below. This methodology makes use of the approach to valuing technical provisions set out in FSI 2.2 (Valuation of Technical Provisions) and the calculation of the lapse risk component of the SCR in the life and non-life underwriting risk modules as set out in FSI 4.2 (Life Underwriting Risk Capital Requirement) and FSI 4.3 (Non-life Underwriting Risk Capital Requirement), respectively.

3. The SVG is calculated as the change in basic own funds following a selective mass lapse event, which is the lapse of all existing (in-force) business where there is a positive surrender strain.

4. It is acknowledged that the SVG changes over time. As with other market-consistent values of assets and liabilities, the calculation of the SVG should be updated at each valuation date.

B. Measuring the SVG – life insurance

1. The measurement of the SVG should generally be performed as follows:

   a) Step 1 – The insurer should calculate the surrender values for all policies which offer surrender values. For policies that do not include a surrender value, the result should be set to zero.
   b) Step 2 – The insurer should take the best estimate liabilities for each policy calculated as per the requirements of FSI 2.2 (Valuation of Technical Provisions), and adjust the measure to take into account any surrender-related cash-flows, e.g. commission clawbacks or expenses.
   c) Step 3 – The value of the SVG before allowing for the loss-absorbing capacity of deferred taxes should be calculated as:

$$SVG_{base} = \sum_{i} max(0, SurrenderValue_i - BEL_i)$$

   Where:

$SurrenderValue_i$	=	Surrender value for policy *i* as calculated in step 1
BEL_i	=	Best estimate liability for policy *i* as calculated in step 2

   d) Step 4 – Insurers should calculate an adjustment factor for the loss-absorbing capacity of deferred taxes under the selective mass lapse event. This adjustment factor ($AdjDT_{SVG}$) is equal to the change in the insurer's deferred taxes that would result from an instantaneous loss of an amount that is equal to SVG_{base}.

i. For the purpose of this calculation, deferred taxes should be valued in accordance with the requirements set out in FSI 2.1 (Valuation of Assets and Liabilities Other than Technical Provisions), following a loss equal to SVG_{base}.

ii. For the purpose of this calculation, a decrease in deferred tax liabilities should result in a negative adjustment for the loss-absorbing capacity of deferred taxes. The adjustment for loss absorbency of deferred taxes should not be positive.

iii. The calculation of $AdjDT_{SVG}$ should not allow for the creation of a deferred tax asset.

e) Step 5 – The value of the SVG after allowing for the loss-absorbing capacity of deferred should then be calculated as:

$$SVG = SVG_{base} + AdjDT_{SVG}$$

2. Insurers should recognise that the SVG as calculated above may not reflect the "true" SVG, as the "true" SVG would be based on instances where the surrender value is greater than the technical provisions, i.e. the best estimate liability plus the risk margin. In most cases, this addition of the risk margin may not be material, but it may be material for products where the risk margin makes up a significant portion of the technical provisions.

3. Where insurers believe that the inclusion of the risk margin will make a material difference to the calculation of the SVG, insurers may calculate the SVG including the risk margin at a per policy level. Insurers should note that the inclusion of the risk margin can be very complex, since the selective mass lapse event has many second-order effects on both the SCR and the risk margin, which should all be taken into account. The above formula for SVG_{base} should be adjusted as follows in such instances:

$$SVG_{base} = \sum_i max(0, SurrenderValue_i - BEL_i - RM_i)$$

Where:

RM_i = Risk margin for policy *i*

C. SVG for non-life insurers

1. The concepts described above are associated with life insurance valuation techniques. However, these calculations may also be relevant for non-life insurers.

2. For most non-life insurance policies, there is a zero surrender value payable. In such cases, the SVG would simply be the sum of the negative best estimate of liabilities across all policies that have a negative best estimate liability.

Attachment 5: Regulatory Deductions for Ring-fenced Funds

Section 8 of this Standard describes the regulatory deductions that insurers must make from basic own funds for financial soundness purposes. Cell captive insurers should apply these regulatory deductions as detailed in this Attachment.

1. For cell captive insurers the requirements set out in sections 8.4 to 8.13 of this Standard should be applied separately to the basic own funds of the promoter business and to the basic own funds of each individual cell.

2. When applying these requirements to each individual cell, the following adjustments should be made:

    a) The restrictions outlined in sections 8.4 to 8.7 of this Standard should apply to the cell's investment in all companies that hold a direct or indirect controlling stake in either the insurer or the cell owner;
    b) For section 8.5 of this Standard the non-linked assets should be taken as the non-linked assets of the cell;
    c) The restrictions outlined in sections 8.8 to 8.12 of this Standard should apply to the cell's investment in shares of both the insurer and the cell owner; and
    d) The restriction outlined in section 8.13 of this Standard should apply to all cash balances and short-term deposits of non-linked assets of the cell, which are held at a bank that is part of the same financial conglomerate as the insurer or the cell owner.

3. When applying the requirements in sections 8.4 to 8.13 of this Standard to the promoter business, only assets, investments, liabilities, capital instruments and own funds relating the promoter business should be taken into account.