

Guidance Manual for the completion of the Long-term Insurance Statutory Returns for 2011



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INTRODUCTION

These notes have been compiled by the Financial Services Board (FSB) to provide assistance to those responsible for completing the statutory returns.

It is important to note that every statement that is applicable to the insurer in question must be completed. The majority of the FSB's queries relate to statements that have not been fully completed. All information, however inconsequential it may appear, is relevant for a full assessment.

The return can be downloaded from the FSB's official website, <http://www.fsb.co.za> (Departments – Insurance – Download documents for Short- and Long-term Insurance – Returns – LT2011). The return is compiled using Microsoft Excel. If a later version of Microsoft Excel is used for the completion please save it as Excel 2003 compatible. The printout made of your final return will be regarded as the official return to the FSB after signature by the responsible parties. The return, so signed, should be submitted in duplicate (only one need to be signed as an original) together with an electronic version of the completed return.

Statutory return, long term return, statutory long term return and return all refer to the LT2011 return which is the official statutory return for all long-term insurers.

The LT2011 is split into two parts namely quantitative and qualitative information. The split was necessary due to the fact that the size of the statutory return became unmanageable for certain insurers due to the different formatting requirements as well as the different versions of Excel being used.

The quantitative part includes the previous statements A to F as well as certain information from the G-statements, the H-statements and new I-statements dealing with stress testing. The qualitative part includes information mainly from the previous G-statements.

DISCLAIMER

The FSB designed the LT2011 and it may be copied. However, the FSB accepts no responsibility for any loss or damage arising from its use, nor any decision made by the insurer or any other person based on the information or calculations made by, or obtained from the workbook.

INFORMATION REGARDING THE RETURN

This return will be completed using audited figures

INDICES

Two indices are available:

Public: Statements available to the public, and
Non-Public: Statements not available to the public.

Both these indices use hyperlinks to allow quick access to all statements in the LT2011.

Those statements that are not available to the public are clearly marked in the right hand top corner of the statement as "*CONFIDENTIAL STATEMENT NOT AVAILABLE TO PUBLIC*".

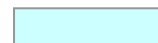
GUIDANCE MANUAL

The guidance manual is reflected as a link on a separate statement after the indices.

COMPLETION OF THE FORMS

The insurer should only start to complete the electronic workbook from Statement A onwards. The return covers the latest financial period. Value added tax (VAT) should be treated in the same manner as in the published annual financial statements.

Only shaded areas require figures or information to be entered where applicable.



All other areas (non-shaded) are protected cells and contain automatic calculations, information or data or must remain blank. No changes may be effected to these protected areas (cells). No structural changes can be made to the return as each worksheet is protected.

Please note: No links, with reference to any spreadsheet of the insurer, should be inserted into the LT2011.

Supporting statements

Each statement is designed on a separate worksheet. Where additional detail is required but the statement does not have adequate space (e.g. statement E2), a supporting statement is provided in the same format (i.e. statement E2.1). The supporting statement will not be protected which means that the user will be able to customise the supporting statement, e.g. add and delete rows as required. *Please note that the values from the supporting statement will not be automatically transferred to the principle statement.*

The supporting statement will be treated as part of the main statement for signature purposes.

Additional documentation

Any other documents, submitted to the registrar, must if it is:

- an original, be accompanied by one copy; and
- a copy, be accompanied by one copy, one of which has been certified as correct by an officer of the insurer.

The additional documents will be treated as part of the main statement for signature purposes.

Consistency & Completeness

All figures must be rounded off to the nearest thousand rand.

For the sake of consistency and completeness of statistical information compiled from the return and statements, it is essential that the insurer complete all items which should or can be completed. With the exception of the "supporting statements", no item may be deleted or inserted.

Please note: although it is possible to create a copy of a worksheet to be able to change some of the protected cells, when doing so, you will lose the hidden reference numbers that are needed to extract the data to our central database. If the data is not in the original format, the return will be rejected and sent back to be re-submitted in the correct format.

SUBMISSION OF THE RETURN

The statutory return is prescribed in terms of section 36 of the Act in respect of the medium and form, containing the information and by the date or within the period prescribed by the Registrar. If the return is incomplete or incorrect the return can be rejected in terms of section 36(2) of the Act. Further to this, if a statement submitted as part of the statutory return requires further investigation the Registrar may request the long-term insurer in terms of section 36(3) of the Act to provide more information to the cost of the insurer. The Registrar may also direct an insurer to furnish the Registrar with such additional information and documents as may be necessary for purposes of the Act. (Refer to section 4(2) of the Act.). The return must be printed & submitted even if nil.

Submission time & extension

The return must be submitted within **4 months** of the end of the financial period to which it relates. Extension for the completion of the return can be applied for under Section 4(1) of the Act. Please note that extension will only be granted in **exceptional circumstances** and only if **valid reasons** for the extension request are provided. A fee is payable with extension of time.

Where the auditors or statutory actuary has sent or submitted any other report or statement to the shareholders and/or policyholders concerning the financial position of the long-term insurer, a copy must be submitted to the registrar without delay. Please refer to section 29(3).

Submission procedure & address

The long-term return must be submitted electronically to the following e-mail address insurance.prudential@fsb.co.za and an originally signed copy of LT2011 must be sent to:

The Registrar of Long-term Insurance
Insurance Prudential Department
PO Box 35655
Menlo Park
Pretoria
0102

VERSION CONTROL

Each new version issued by the FSB will be available on the official website: <http://www.fsb.co.za>

In the "Header" of the printed copy, the current issue and issue date will be shown.

LT2007 - Published version		Page 1 of 1		
REGISTRAR OF LONG-TERM INSURANCE REFERENCE NUMBER		No number available		
FINAL PRINT OUT DATE		21/02/2007 11:10		
Statement A3 DIRECTORS AND MEMBERS OF AUDIT COMMITTEE of ABC Life Insurer Limited as at the end of the financial period 31/01/2005				
Initials & Surname 1	Date appointed 2	Date resigned 3	Highest academic qualification 4	Position held ¹ 5

For Example: Statement A3

GENERAL

Declaration by the Statutory Actuary

Where the statutory actuary is responsible to sign-off a specific statement, ACTUARY _____ will appear on the bottom left-hand corner of the statement. Refer to the declaration by the Statutory Actuary in Statement G4.

If ACTUARY (initial) _____ appears, the auditor only needs to initial the statement to confirm that this is the final statement that forms part of the submitted statutory return.

As there is a dependency on the data provided by a third person, in the case of a consulting actuary, the actuary should ensure that proper precautions have been taken to ensure the accuracy of the data.

Declaration by the Auditor(s)

The declaration by the auditor appears in the bottom right-hand corner of each statement.

If AUDITORS (*initial*) _____ appears, the auditor only needs to initial the statement to confirm that this is the final statement that forms part of the submitted statutory return.

If AUDITORS _____ appears, the auditor has to sign-off certain aspects of or the whole of the specific statement. In this regard, please refer to the declaration by the Auditors in Statement G5.

In and In & Outside RSA

Some statements are sub-divided into amounts "in RSA" and "in & outside RSA". It is important to split the various amounts between amounts included in the RSA and in and outside the RSA. By definition, the amounts in the Republic should relate to policies to be discharged inside the RSA and amounts outside the Republic should relate to policies discharged outside of the Republic.

In, Deemed to be in and Outside RSA

Some statements, mainly the assets statements, are sub-divided into amounts "in RSA", "deemed to be in RSA" and "outside RSA". Assets "deemed to be" in the Republic for solvency purposes are the assets as defined in section 32(1)(a) and (b) and item 16(5) of the Table to Schedule 1 to the Act.

EXCEL FUNCTIONALITY

PAGE NUMBERING

Each statement is numbered in the top right-hand corner.

PAGE SET-UP

Even though the various worksheets are "protected", one is still able to change the page set-up for printing purposes:

- Page orientation, scaling, size and print quality can be changed,
- Margins can be changed,
- Page breaks can be added and deleted, and
- Printing colour can be changed (default setting: black & white).

VALIDATION TOOL

The statutory return includes a worksheet entitled "Validation". This is not a worksheet that needs completion; it draws values from the completed long-term statutory return and performs some basic data validity checks (see column I). Section 1 is a "General Checks" section and aims to verify the completeness of important fields in Statement A1. Section 2 up to Section 9 contains checks pertaining to the rest of the return and each block in column I will return either an "OK" or an "Error" message. The "Error" message will be returned if the relevant totals within the block do not tie up. The "Error" message will also be returned where rounding errors occur.

The Registrar will reject returns where an error message is present within the Validation worksheet and no satisfactory explanation is given for any error messages. Please note that such a rejection will be done in terms of the Long-Term Insurance Act, and in specific in terms of section 36(2). A rejection will be regarded as a non-submission of the return.

DEFINITIONS

Act	the Long-term Insurance Act, 1998 (Act 52 of 1998, as amended)
annualised premium	the amount of premium which must be paid annually to meet the contractual requirements of the policy and keep it fully in force
Annuity business	Periodic benefit payments to policyholders / beneficiaries. Further classification in respect of linked business, investment performance related business, non profit business and DPF business
Annuity linked business	Contracts are only deemed as linked if benefits are determined solely by reference to the value of particular assets or categories of assets which are specified in the policy and are actually held by or on behalf of the insurer.
Annuity investment performance related business	Benefits payable are mainly linked to the performance of the investments but the contract does not meet the linked or DPF definitions. Example: contracts where benefits are linked directly to the performance of the underlying investments
Annuity non profit business	The periodic payment to the annuitant increases according to the policy document, for example the payment is either fixed or increases in line with the increase in an index.
Annuity Discretionary Participation Features business	The periodic payment to the annuitant increases according to a discretionary bonus added where the bonus is at the discretion of the management of the long-term insurer.
asset-holding intermediary	As defined in paragraph 2.1 of Part 2 of the Regulations under the Act.
assistance policy	As defined in Section 1 of the Act. These policies should be shown under "other". Also refer to section 53 of the Act.
Associates	As defined in the Regulations to the Act
Auditor	As defined in Section 1 of the Act.
ASSA	Actuarial Society of South Africa
Auditing Profession Act	As defined in Section 1 of the Act.
CAR	Capital Adequacy Requirement as defined in Section 1 of the Act.
collective investment scheme	as defined in the Collective Investment Schemes Act, 45 of 2002
Company	As defined in Section 1 of the Act. Also refer to the definitions of public company and widely-held company as per section 1 of the Act
compulsory margins	Compulsory margins must be added to the best-estimate valuation assumptions, provided that the assumption must be increased, or decreased, depending on which alternative gives rise to an increase in the liability of the category of policies concerned. The compulsory margins are defined in Board Notice 14 of 2010.
contract for differences	as defined in paragraph 1 of Schedule 1 to the Act
Credit life insurance	Includes cover payable in the event of a consumer's death, disability, terminal illness, unemployment or other insurable risk that is likely to impair the consumer's ability to earn an income or meet the obligations under a credit agreement
Derivatives	As defined in Schedule 1 of the Act. Also refer to section 34(2) of the Act.
Director	As defined in Section 1 of the Act.
disability policy	As defined in Section 1 of the Act.
discretionary margins	Discretionary margins may be added to the valuation best-estimate assumptions where, in the opinion of the statutory actuary, the compulsory margins (in a particular case) is not sufficient for the prudent release of profit or where it is necessary in order to defer the release of profit consistent with the policy design or company practice of the insurer. Refer to Board Notice 14 of 2010.
DPC	Discretionary Participation Committee, with functions as outlined in Directive 147.
DPP	Discretionary Participation Policies – These include with-profit business, as well as with-profit annuities.
dread disease policy	Where the benefit is payable on a health event, e.g. a specified amount payable in case of a heart attack, it will be classified as a health policy.

<i>Experience rated schemes</i>	An experience rated scheme is a group scheme where the premium rates are set (partially or in whole) on evaluating the previous claims experience of the particular scheme.
<i>fair value</i>	as defined in Section 1 of the Act
<i>Financial reporting standards</i>	as defined in Section 1 of the Act
<i>Financial statements</i>	as defined in Section 1 of the Act
<i>First party cell</i>	A cell where, the shares issued to cell participants provide the cell owners with the ability to underwrite their own risk and that of their subsidiaries. The cell participant is responsible for the funding of the cell and the cell should be maintained at such levels as may be required to ensure the required solvency is maintained at all times. Claims are limited to funds available in the cell after providing for solvency.
<i>FSB</i>	FSB
<i>Fund</i>	As defined in Section 1 of the Act.
<i>fund policy</i>	As defined in Section 1 of the Act.
<i>futures contract</i>	As defined in schedule 1 to the Act
<i>Gross</i>	amounts payable to or by the insurer in terms of a policy, before deduction of reinsurance
<i>group business</i>	Insurance where a long-term policy is issued to a policyholder other than an individual that covers a group of persons identified by reference to their relationship to the entity buying the contract provided this excludes grouped individual business.
<i>grouped individual business</i>	Insurance where a long-term policy is issued to a policyholder other than an individual. In terms of the policy an identifiable individual(s) or member(s) is the life insured(s). Only the individual(s) or member(s) may terminate the cover. Examples of these will be credit life policies and funeral group schemes.
<i>group selling expenses</i>	Includes only commission and bonuses payable to representatives and brokers. A. Items that should be included: <ol style="list-style-type: none"> 1. All commission and overriding commission payable to representatives, 2. Consultants and brokers and includes salaries paid in lieu of commission, e.g. to full time representatives who have access to large organisations for writing optional group business.) 3. All directly related bonuses and allowances payable in the production of business. 4. All pension and medical aid fund contributions related to item 1 above. B. Items that should be excluded: <ol style="list-style-type: none"> 1. All salaries and bonuses, which are not directly related to business produced, payable to group, branch and district managers. 2. Allowances payable such as entertainment, travelling, etc. 3. Pension and medical aid fund contributions for staff mentioned in item 1 above. 4. All fringe benefits.
<i>health policy</i>	As defined in Section 1 of the Act.
<i>hedge fund</i>	Please refer to Directive 143.A.i (LT)
<i>holding company</i>	As defined in the Companies Act
<i>home jurisdiction</i>	Means the jurisdiction in which the parent insurer is incorporated.
<i>host jurisdiction</i>	Means the foreign jurisdiction in which a branch of a local registered insurer is located, or in which a subsidiary of the local registered insurer is incorporated

Individual	A natural person. Individual includes "individual business" and "grouped individual business" as defined.
individual business	Insurance where a policy is issued to an individual.
individual selling expenses	Includes all commissions and expenses directly payable in the production of business. A. Items that should be included: <ol style="list-style-type: none"> 1. All new business commission payable to representatives (including sub-agents) and brokers. 2. Renewal commission (i.e. new business commission held back and paid in subsequent years if the policy is still in force) payable to representatives and brokers. 3. Overriding commission/bonus payable to district sales managers and brokers sales consultants, based on the production performance of the respective representatives and brokers. 4. All bonuses, calculated on either commission or sales volume, payable to representatives. 5. Salaries paid to representatives who are not remunerated on a commission basis. 6. Pension and medical aid fund contributions in respect of payments included 1 to 5 above. B. Items that should be excluded: <ol style="list-style-type: none"> 1. Collection commission. 2. Salaries payable to branch and district managers. 3. Salaries payable to broker consultants. 4. Allowance payable to representatives, such as entertainment, travelling, telephone, recruitment, etc. 5. Salaries payable to agents in lieu of collection commission on Assistance policies. 6. Pension and medical aid fund contributions in respect of payments included 1 to 5 above. 7. All fringe benefits (e.g. housing benefits).
Insurer	A "long-term insurer" as defined in section 1 of the Act.
Investment business	Contracts are deemed to be investment business if the main purpose of the contracts is deemed to be savings as opposed to risk / protection business.
Investment linked business	Contracts are deemed as linked only if benefits are determined solely by reference to the value of particular assets or categories of assets which are specified in the policy and are actually held by or on behalf of the insurer.
Investment performance related business	Benefits payable are mainly linked to the performance of the investments but the contract does not meet the linked or DPF definitions. Example: contracts where benefits are linked directly to the performance of the underlying investments but the policy contract also provides a guaranteed minimum benefits on specific events such as return of premiums on death or at maturity.
Investment guaranteed business	Benefits are guaranteed in absolute terms (i.e. policyholder will not receive a value that is different from the maturity proceeds guaranteed in the policyholder document).
Investment Discretionary Participation Features business	Please refer to Directive 147A.i. (LT)
internal controls	The means by which compliance with the insurer's risk management policies is maintained. Regular reporting, including the use measurements and metrics required to be within limits specified by the risk management policies, may be used to verify compliance.
Jurisdiction	Refers to a country, state, province or other jurisdiction with legally enforceable local insurance laws that relate to the incorporation or operation of insurance companies.

<i>lapses</i>	A policy is said to "lapse" when a) The premiums are not paid within the required period of grace and the policy has no cash value, or b) The debt against the policy exceeds the cash value.
<i>life policy</i>	As defined in Section 1 of the Act.
<i>linked policy</i>	As defined in Section 1 of the Act. Living annuities are deemed to be "Linked".
<i>Listed</i>	As defined in paragraph 1 of Schedule 1 to the Act.
<i>long-term insurance business</i>	As defined in section 1 of the Act.
<i>Maturity</i>	Maturity relates to a specified date in the policy contract where the policy comes to an end and on which date the benefits / proceeds of the policy are paid out to the policyholder. This refers mostly to endowment policies where the benefit is paid out on a specified date (the maturity date) on the survival of the life insured, or his/her death if earlier.
<i>medical scheme</i>	As defined in the Medical Schemes Act (Act 131 of 1998, as amended).
<i>minimum CAR</i>	Minimum Capital Adequacy Requirement as referred to in Board Notice 14 of 2010.
<i>net income and expenses</i>	After deduction of amounts paid/received and outstanding in terms of all reinsurance.
<i>net liabilities</i>	Gross liabilities after allowance for approved reinsurance only. Refer to paragraph 3 of Schedule 3 to the Act.
<i>non-recurring business</i>	All business which is purchased with a single premium or business where the payment of a series of premiums is not obligatory.
<i>Off-shore branch</i>	Means a South-African registered insurance company's establishment which is not a separate legal entity that is incorporated under company law and which is situated in a jurisdiction other than the home jurisdiction.
<i>OCAR</i>	Ordinary Capital Adequacy Requirement
<i>Non SADC jurisdiction</i>	Means a jurisdiction other than a SADC jurisdiction.
<i>operating expenses for the calculation of the minimum CAR</i>	"Operating Expenses" as disclosed in item 1.2 of Statement B7 and include expenses in respect of "investment contracts" as defined in AC133.
<i>options contract</i>	As defined in schedule 1 to the Act
<i>OTC</i>	An over-the-counter derivative instrument. Describes share dealings outside a recognised stock exchange.
<i>pension fund</i>	As defined in the Pension Fund Act (Act 24 of 1956, as amended). Pension fund refers to a Pension Fund, Provident Fund and Retirement Annuity.
<i>PPFM</i>	Principles and Practices of Financial Management that are applied in the management of discretionary participation products, as described in Directive 147

Promoter cell	represents the following in respect of the insurance company itself and will exclude all those belonging to the first or third party cell owners:
	<ul style="list-style-type: none"> (a) Issued share capital including share premium account (b) Non-distributable reserves (c) Distributable reserves (d) Policy liabilities (e) Current liabilities (f) Capital Adequacy Requirements (g) All assets covering the above
property company	As defined in paragraph 2.1 of Part 2 of the Regulations under the Act.
prospective valuation	A valuation where reserves are calculated as the excess of the present value of future benefits provided by the policy over the present value of future premium payments.
related party	As defined in section 26(5) to the Act.
recurring business	Business where the policyholder is obliged to pay a series of fixed or pre-determined premiums to the long-term insurer to keep the policy in force.
retrospective valuation	Is a valuation where the value of the liabilities is determined solely by the historic experience of the business?
Risk business	Contract that only provide insurable risk benefits in the event of death, sickness or disability or any other risk event. For risk policies where premium rates or benefits can be changed at some future date it should be determined whether the policyholder participates in the profit as a result of the change, for example if the revalorisation method of bonus distribution is used.
Risk non-profit business	Risk policies that provide a pre-determined sum assured on the occurrence of the risk event death will be classified as non-profit risk business.
Risk Discretionary Participation Features business	Risk policies that provide a sum assured on the occurrence of the risk event where the sum assured lump sum changes over time as a result of bonuses added/removed to/from a previously determined sum assured will be classified as risk discretionary participation business.
SADC	Means Southern African Development Community.
SADC jurisdiction	Means any one or more of Angola, Botswana, Democratic Republic of the Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Swaziland, Tanzania, Zambia and Zimbabwe
Securities	As defined in paragraph 1 of Schedule 1 of the Act.
sinking fund policy	As defined in Section 1 of the Act.
statutory actuary	As defined in Section 1 of the Act.
Statutory Valuation Method (SVM)	The value of the assets, liabilities and capital adequacy requirement of insurers must be calculated according to the method set out in: Schedule 3 to the Act and the prescribed requirements for the calculation of the value of the assets, liabilities and capital adequacy requirement of long-term insurers (refer to Board Notice 14 of 2010.), supplemented by ASSA guidelines.
subsidiaries	As defined in the Companies Act.
SV	Surrender Value

TCAR

Termination Capital Adequacy Requirement

A cell where, the shares issued to cell participants (owners) provide the cell owners with the ability to underwrite the risks of third parties. The source of the business underwritten is usually from a captured client base. The difference between a third party and a first party cell is that claims instituted by third parties are not limited to the funds provided by the cell participant, after providing for solvency. The funds provided by the promoters of the cell insurance facility will also be utilised to settle claims should the cell participant fail to provide additional funds to settle any claims.

Third-party cell

QUANTITATIVE LT 2011

Statement A

All the A-statements are available to the public and contain general registration information of the insurer as well as contact details of key people.

Statement A1 - REGISTRATION INFORMATION

DESCRIPTION

Registrar of Long-term Insurance Reference number

This number refers to the unique number that is allocated to each insurer at registration and used by the FSB in all correspondence with the insurer. This number will be displayed as 10/10/1/xxxx/8.

Please select the name of the insurer from the drop-down box (then this number will be inserted automatically).

CLASS OF BUSINESS

Types of policy

All the types of policies listed are defined in the Act as long-term insurance policies, i.e. assistance, disability, fund, health, life and sinking fund. Tick the appropriate boxes to indicate which types of policies the insurer is authorised to underwrite.

Policy conditions

Conditions imposed on an insurer are shown on the reverse side of the registration certificate, which the Registrar issued when the company was registered under the Long-term Insurance Act, 1998.

Although all insurers are registered to do long-term insurance business, a condition of registration may include types of policies that an insurer may issue and can include other specific conditions provided for in section 10 of the Act. The "conditions imposed" exclude policy conditions and refer to any other specific condition imposed by the Registrar and provided for in section 10 of the Act.

If any other person, company or legal entity requires a copy of the conditions of registration imposed on an insurer, they can contact the Registrar.

Certificate number

The number on the certificate (that the registrar issued) will change if the conditions imposed on the insurer's registration changed. Conditions of registration may vary or new conditions can be imposed by the registrar or on request from the insurer in terms of section 11 of the Act.

NAMES OF CONTACT PERSONS

Refer to sections 16, and 18 to 22 of the Act.

The public officer, auditor(s) and statutory actuary(ies)' details must be provided. The Act requires that the Registrar be informed of the appointment of the public officer. The Registrar also needs to approve the appointment of the auditor(s) and the statutory actuary(ies). All these persons have to complete and submit a personal questionnaire to the Registrar.

In addition, it is requested that any change in the persons' contact details or change to appointments, are forwarded to the Registrar.

Public Officer

A public officer must be appointed in terms of section 16 of the Act. Where the public officer is changed, the insurer must notify the Registrar within 30 days of the change.

Auditor(s)

Where only one firm of auditors is employed, please insert "N/A" under each of the headings provided for the second firm of auditors.

Statutory Actuary(ies)

An insurer is not obliged to appoint an alternate statutory actuary but in certain cases, one may be appointed. If the insurer does not have an alternate statutory actuary, "N/A" should be filled in under each of the lines related to the alternate statutory actuary.

Statement A2 - ADDRESSES AND PARTICULARS OF KEY PERSONS

If a key person does not have an e-mail address, please insert "N/A".

HEAD OFFICE AND PUBLIC OFFICER

Refer to section 16 of the Act. In terms of section 16(1)(d) of the Act, insurers must notify the Registrar of any changes to the head office or public officer within 30 days of the change.

AUDITORS

Furnish particulars of the Responsible Partner.

Statement A3 - DIRECTORS AND MEMBERS OF AUDIT COMMITTEE

DIRECTORS

It is important in relation to every director to furnish all the detail as required by the statement.

Appointment & resignations

If a director resigned during the year, details of that director should still be included on the statement. The date of resignation should also be stated. Notification of appointments and terminations must be done within 30 days after the appointment or termination (refer section 18 of the Act). In the case of a termination a reason for the termination in terms of section 18 of the Act must be provided.

AUDIT COMMITTEE

Refer to Section 23 of the Act.

Position held

Examples include Chairman, Vice-chairman, Non-executive, Managing Director, etc.

Appointment & resignations

If a member of the audit committee resigned during the year, details of that person should still be included on the statement. The date of resignation should also be stated.

Statement B

The B-statements contain summaries of specific data of the insurer. This data include the number of policies, premium income, claims paid and movement statistics. Policies only need to be classified at inception of policies.

NEW BUSINESS CLASSES

Please note that we have changed the columns. In respect of these set of statement the following columns have been included:

PREMIUMS RECEIVED AND OUTSTANDING by ABC Life Insurance Limited as at the end of the financial period 31/12/2011						
DESCRIPTION	IN RSA					IN & OUTSIDE
	CURRENT YEAR					RSA
	TYPE OF BUSINESS				TOTAL	TOTAL
	Investments R'000	Risk R'000	Annuities R'000	Universal Life R'000	R'000	CURRENT YEAR R'000
1	2	3	4	5	6	7

Please refer to the definitions for type of business in section dealing with definition. The following are examples of where products underwritten must be reported on:

- Universal policies – Policies where a combination of risk cover and savings are offered in one policy. Typically the risk cover will be material in the early duration of the policy with the materiality of the savings element increasing over time.
- Retirement Annuities – Should be treated either as pure investment business or as universal life.
- Deferred Annuities – Follow same principle as retirement annuities

Statement B1 - SUMMARY OF PREMIUMS & BENEFITS

Premiums and benefits reflected will include monies received and paid in respect of investment contracts.

POLICY CLASSES

The insurer's business must be split in terms of the classes of policies as defined in the Act. This is to ensure that the insurer complies with the registration conditions. The split by type of policy should be consistently applied throughout the return and year on year.

Policies that provide for more than one type of cover should be classified by type of policy. Premiums should be split between the different types of policies as far as the data is available. If the information is not available, the policy should be classified according to the basic or main type of cover, and the total premium should be allocated to that type.

Statement B2 - PREMIUMS RECEIVED & OUTSTANDING

If it is impractical to split the premium in terms of a particular policy into its component parts, the statutory actuary may use his/her discretion in the selection of an appropriate category. Where the statutory actuary uses his discretion in splitting premiums between the categories, it is important that it should "match" the split of benefits between the various categories as in statement B3.

The total gross/net premium in statement B2 must add up to the total gross/net premium in statement B1.

For recurring products with a single premium element, the single premium element should be separated and shown as non-recurring. Recurring products that became paid-up during the year should still be shown as recurring.

Statement B3 - BENEFITS PAID & PROVIDED FOR

If it is impractical to split the benefits in terms of a particular policy into its component parts, the statutory actuary may use his/her discretion in the selection of an appropriate category. Where the actuary uses his discretion in splitting benefits between the categories, it is important that it should "match" the split of premiums between the various categories as in statement B2.

The total gross/net benefits paid & provided for in statement B3 must add up to the total gross/net benefits paid & provided for in statement B1.

INDIVIDUAL - WITHDRAWAL BENEFITS

"Surrenders" - include both full and partial benefits.

"Other" - includes retrenchment and waiver of premium benefits.

GROUP – WITHDRAWAL BENEFITS

"Other" - An example of this would be surrenders where a member of a pension fund withdraws because he/she resigns from the employer.

Statement B4 - SUMMARY OF LONG-TERM BUSINESS IN FORCE

Reinsurers do not have to complete this statement.

INDIVIDUAL

Completing the number of policies can give rise to inconsistencies. The split of the number of policies is difficult to provide as policies may incorporate various elements. For example, a policy may have recurring and non-recurring elements, or disability and death elements, or a separate bonus element. In these cases, the policy should be counted only once under the basic type of cover, however premium and policy liabilities should be allocated as far as possible.

For grouped individual business, every member should be counted as a separate policy.

Policy liabilities

Policy liabilities should be shown net of approved reinsurance only.

GROUP

Number of Schemes

The number of schemes to be reported will be the number of schemes, which is in force and for which a liability is created by the long-term insurer.

Statement B5 - MOVEMENT IN LONG-TERM BUSINESS IN FORCE

Reinsurers do not have to complete this statement.

This statement shows the movement of the number of policies and is split between recurring & non-recurring business of the insurer. Figures should not be rounded off.

When, at the time of completing the current year's return, it is discovered that the number of policies at the beginning was incorrect, the correction should be shown as an adjustment and the opening balance should therefore not be restated.

NEW POLICIES

Policies that were "not taken up" may be excluded from counting as new business and lapses.

It is important that the treatment of policies that were not taken up is consistent.

For example:

A new individual policy was not taken up. It can be shown in any one of the following ways:

Example 1:

It does not appear as a new policy or as a lapse.

New policies	
Death claims	
Disability terminations	
Health terminations	
Maturity claims	
Surrenders	
Lapses	
Transfers i.t.o. the Act	
Policies expired	
Adjustments: <i>Specify</i>	

Example 2:

NUMBER OF POLICIES AT START OF FINANCIAL YEAR	0
plus: New policies	1
less: Death claims	0
Disability terminations	0
Health terminations	0
Maturity claims	0
Surrenders	0
Lapses	1
Transfers i.t.o. the Act	0
Policies expired	0

DISABILITY AND HEALTH TERMINATIONS

Disability and health terminations should only be included where the policy terminated because of the claim.

SURRENDERS

Exclude partial surrenders since partial surrenders will not reduce the number of policies in force.

LAPSES

A policy will count as a lapse if it lapsed during the period under review without being reinstated during the same period. Conversely, if a policy lapsed and reinstated during the same period under review, that policy should not be reflected as a lapse.

If the policy was converted during the period under review, it should be counted as both a lapse and as a new business. A policy that lapsed in the previous period and reinstated during this period under review must be reflected as new business.

ADJUSTMENTS

Adjustments may include conversions, policy combination/split, data errors and portfolio transfers in terms of reinsurance arrangements etc.

TRANSFERS ITO THE ACT

Refer to section 37 of the Act.

POLICIES EXPIRED

This refers to credit life policies, term assurance policies etc that reached the end of their terms without any claim being paid. The policy is also not continued or renewed by an additional premium.

Statement B6 - ANALYSIS OF MOVEMENT

Reinsurers do not have to complete this statement.

NEW BUSINESS

It is important that the treatment of policies that have not been taken up is consistent. For example: A new individual recurring policy has not been taken up with a net annual premium of R1200. It can be shown in any one of the following ways:

Example 1:

It does not appear as a new business or as a lapse.

Example 2:

Table 1 - Lapses

1. NEW BUSINESS

INDIVIDUAL

RECURRING BUSINESS

Number of policies

1

Net annualised premium R'000

1200

NON-RECURRING BUSINESS

Number of policies

3. LAPSES

INDIVIDUAL RECURRING BUSINESS

NUMBER OF POLICIES

First year

1

Second year

Third year and older

NET ANNUALISED PREMIUM R'000

First year	1200
Second year	
Third year and older	

The treatment of policies not taken up and lapsed should be consistent with that in Statement B5.

SURRENDER EXPERIENCE

Exclude partial surrenders when calculating the number of policies.

LAPSES

Year of lapse is defined as the year since inception of the policy i.e. it refers to the duration in-force before the policy lapsed. Policies where the premiums has been stopped and has no surrender value and is not an expiring policy and is older than 3 years should be classified as "Third year and older".

Statement B7 - EXPENSE ANALYSIS

ACQUISITION EXPENSES

Acquisition expenses are those costs incurred to get the policy on the books of the insurer. Stamp duty will be included under issuing & underwriting expenses.

The split of acquisition expenses between issuing and underwriting expenses should be based on the nature of the premiums i.e. recurring or non-recurring. Where information is not available an approximation is required.

OPERATING EXPENSES

Claims handling expense

Claims handling expenses include the salaries of the claims staff.

Other

This item includes management expenses as well as asset management fees.

OPERATING EXPENSES

Means gross expenses incurred in carrying out the insurer's day to day activities –

(a) Including, but not limited to, claims handling expenses, management expenses, asset management and fund management fees;

Excluding –

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

(ii) The write-down of inventories to net realisable value of property, plant and equipment to recoverable amount, as well as the reversal of such write-downs(iii) A restructuring of the activities of an enterprise and the reversal of any provisions for the costs of restructuring

(iv) Disposals of items of property, plant and equipment.

(v) Disposals of long-term investments.

(vi) Gains and losses arising from natural disasters and expropriation

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

The above is described in AC 103 as items of income and expenses within profit or loss from ordinary activities. Their size, nature or incidence must be such that their disclosure is relevant to explain the performance of the enterprise for the period. The nature and amount of such items should be disclosed separately, detailing, in the notes to the financial statements, the taxation effect, and any amount attributable to outside shareholders.

Statement B8 - INVESTMENT EXPERIENCE ANALYSIS

Asset values should be reflected after Schedule 3 adjustments. Please note that this statement should tie up to statement C1 which reflects policyholder and shareholder assets gross of current liabilities.

NET INVESTMENT GROWTH

Net investment growth is equal to investment income plus unrealised and realised capital appreciation/depreciation.

BONUSES DECLARED

Provide the weighted average (by size of liabilities) of actual bonuses declared during the period under review for the different classes of policy that falls in each business type. Terminal bonuses must be included in the non-vested bonus line.

MATURITY YIELD

Please complete the annual yield that a typical policy (for each of the given durations and types of business) obtained at maturity during the financial year. The duration refers to the duration of the policy as chosen by the policyholder at inception. The yield should be representative of the yield that the typical policy that matured during the financial year obtained calculated from inception to maturity using either a time-weighted or money-weighted return method. Please indicate the method used.

Statement B9 - EXPERIENCE ANALYSIS

This statement must be completed in the prescribed format. In addition, the statutory actuary can provide extra information in a supplementary statement. For instance, the mortality and morbidity experience can be further split by

- Gender,
- Age groups, for example age 21 to 25, 26 to 30, 31 to 35 etc., and/or
- Specific category/ies of business for example dread disease and assistance business can be shown separately.

YEAR OF LAST INVESTIGATION

The most recent data must be used; it is not necessary to use data as per the period under review as it is acknowledged that these investigations do not necessarily take place on an annual basis.

EXPECTED EXPERIENCE BASIS USED

Please indicate what basis was used for comparing the actual with the expected experience, e.g. current premium basis, valuation basis, etc.

SURRENDER EXPERIENCE

In respect of retrospective valuations expected and actual strains need not to be calculated.

LAPSE EXPERIENCE

Lapse experience is needed over all business lines. Please provide a breakdown of the lapse experience, as additional information, per business line.

Statement B10 – INFORMATION RELATING TO CLAIMS, CREDIT LIFE POLICIES AND DISTRIBUTION CHANNELS

NET BENEFITS

Information relating to business sold to the low income market (i.e. LSM1-5) need to be submitted on an annual basis in respect of % contribution of gross premiums for each of the classes of business.

MICRO INSURANCE

Where information relating to claims outstanding is not readily available please provide a best estimate.

CREDIT LIFE

In the table claims settled and rejected, the information on claims rejected, claims outstanding and claims paid should equal claims received.

Where information relating to claims outstanding is not readily available please provide a best estimate.

CLAIMS

In the table benefits paid and provided for, the information on claims rejected, claims outstanding and claims paid should equal claims received.

Statement C

These statements mainly deal with the Statutory Valuation Method and other actuarial issues.

Please note that we have changed the columns. In respect of these set of statement the following columns have been included:

IN RSA & DEEMED TO BE IN RSA											IN & OUTSIDE RSA	
CURRENT YEAR												
TYPE OF BUSINESS												
Investments				Risk		Annuities				Universal Life	TOTAL	TOTAL CURRENT YEAR
Linked	Investment Performance related	Guaranteed	Discretionary Participation Features	Non profit	Discretionary Participation Features	Linked	Investment Performance related	Non profit	Discretionary Participation Features			
R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
2	3	4	5	6	7	8	9	10	11	12	13	14

Statement C1 - STATUTORY VALUATION METHOD: VALUATION OF ASSETS

The total value of the assets must be shown after considering the following adjustments:

- As prescribed in Schedule 3 of the Act; and
- As prescribed in Board Notice 14 of 2010.

The Schedule 3 adjustments must be reflected under "OTHER" and specified in the supplementary statement.

Assets representing policyholders' and shareholders' funds must be split.

CURRENT ASSETS

Current assets include the gross amount of "debtors", "loans" and "amounts due to insurer/reinsurer" " before deduction of any current liabilities or any amount due by the insurer

FOREIGN RECOGNISED

Refer to item 16(5) of the Table to Schedule 1 to the Act.

TOTAL ASSETS

Refer to sections 32(1) and 34(1)(a), (b) and (c) of the Act.

Statement C2 - SUMMARY OF STATUTORY VALUATION METHOD: ASSETS & LIABILITIES

Linked and non-linked liabilities will include liabilities in respect of investment contracts.

CURRENT ASSETS

Current assets include the gross amount of "debtors", "loans" and "amounts due to insurer" (before deduction of any current liabilities or any amount due by the insurer).

OTHER LIABILITIES

This will include long-term liabilities for instance debentures, preference shares etc. Where current liabilities are regarded as linked liabilities by nature please specify the reason why the current liabilities are regarded as such.

Statement C2.1 - LIABILITIES

LIABILITIES UNDER UNMATURED POLICIES

The classes of business are as defined in section 1 of the Act. The total value of "liabilities under un-matured policies" must agree with statement C2. For purposes of this statement, liabilities for investment contracts must be reflected as "liabilities under un-matured policies" and not as "other insurance liabilities".

OTHER INSURANCE LIABILITIES

Except for liabilities for investment contracts, "Net other insurance liabilities" must correspond to the "Other insurance business liabilities" in statement D1 and the published annual financial statements

Statement C3 - EXCESS ASSETS & CAPITAL ADEQUACY COVER

The values under items 4 and 5 will always be included in the value of total assets under item 1.

ASSET COVER

Excludes assets disregarded for purposes of section 30 read with paragraph 4 of Schedule 3 to the Act.

EXCESS ASSETS REPRESENTED BY - OTHER

The adjustment made for all Schedule 3 adjustments should be disclosed as a negative in the "Other" line and specified in Statement C3.1.

FREE ASSETS

Refer to sections 29(3) and 35 of the Act. A shortfall of assets must be shown and must be explained in a separate note to this statement. The long-term insurer shall without delay notify the Registrar in case of a shortfall.

COMMITMENTS & CONTINGENT LIABILITIES

Refer to Section 34 of the Act. Commitments and contingent liabilities are not included in the total value of liabilities.

ENCUMBRANCE OF ASSETS

Refer to sections 32(1)(c) and 34(1)(a) of the Act. Encumbered assets and subordination agreements should be detailed in Statement C3.1, the supporting statement to Statement C3.

WAIVING BY CREDITORS OF CERTAIN RIGHTS

Waivers by creditors of certain rights should be detailed in Statement C3.1, the supporting statement to Statement C3.

Statement C3.2 – PROJECTED EXCESS ASSETS & CAPITAL ADEQUACY COVER

This statement is not available to the public.

This statement requires insurers to project estimates of profits, dividends, capital and capital adequacy requirements and should be aligned to capital management planning done by insurers.

Projections should assume that future experience is equivalent to best estimate assumptions + margins as assumed in the statutory valuation basis

This statement is necessary and is aligned with the qualitative information requested in statement G3 on the financial soundness position of the insurer, i.e. going concern and developments after year-end that might impact the financial position (capital) of the insurer.

Statement C4 - STATUTORY VALUATION METHOD: VALUATION OF NET LIABILITIES

The liabilities should be stated before any deductions other than approved reinsurances.

LINKED LIABILITIES

Linked liabilities should be grossed up for negative Rand reserves, if applicable. These Rand reserves should be shown under the "Negative Rand Reserve" line.

NON-LINKED LIABILITIES

Prospective/Retropective valuation

To prevent double counting of liabilities, products need to be valued on only one of the two valuation bases (prospective/retrospective) and only one of the lines completed. (In other words, it is not necessary to value policies on both bases.) The different product types may be valued on different bases. Where a specific product type is valued by using a combination of retrospective and prospective bases, both lines must be completed such that the sum of the two lines represents the total liability.

Non-vested bonuses

This includes non-vested reversionary bonuses and terminal bonuses that have not vested yet.

Supplementary benefits

This includes the liability for other benefits (e.g. riders) that are not included in the basic liability.

Bonus stabilisation reserves

This amount should represent any bonus stabilisation reserve that exists for the different product types.

Embedded Investment Derivatives Reserve

This reserve is for embedded investment derivatives and should be calculated in accordance with the Actuarial Society of South Africa's professional guidance note 110 (PGN110). Embedded investment derivatives that are covered by that guidance note include the following:

- Minimum investment maturity guarantees
- Guaranteed annuity options
- Minimum investment related death or other risk benefits
- Minimum investment related surrender benefits
- Minimum increase rate guarantees on variable annuities
- Implied investment guarantees related to conventional with-profit and smoothed bonus business in the form of vested/guaranteed bonuses

- Explicit or implicit minimum investment return guarantees on universal life policies' fund accounts (e.g. a guarantee term on a with-cover universal life policy implies a guaranteed fund value and surrender value of zero on the guarantee expiry date).

Other reserves

This includes other Rand reserves, IBNR reserves, reserves for maturity guarantees etc. The reserves should be detailed in Statement C4.1, the supporting statement to Statement C4.

Discretionary margins

Refer to Board Notice 14 of 2010. Reflect the liability for any discretionary margins included in the valuation basis. This should tie up with the information supplied in Statement C10.1 and C10.2.

Statements C5 / C6 - CAPITAL ADEQUACY REQUIREMENT BEFORE / AFTER MANAGEMENT ACTION

Refer to Board Notice 14 of 2010 that sets out the prescribed requirements for the calculation of the value of the assets, liabilities and capital adequacy requirement of long-term insurers, as specified in paragraph 2 of Schedule 3 of the Act. Also, refer to the Actuarial Society of South Africa's professional guidance notes PGN104, PGN105 and PGN110.

Both statements C5 and C6 need to be completed.

The allocation of Capital Adequacy Requirement between RSA and Outside RSA, if necessary, may be done on a proportionate basis according to total liabilities. The allocation of Capital Adequacy Requirement between RSA and Outside RSA, if necessary, may be done on a proportionate basis according to total liabilities.

Ordinary Capital Adequacy Requirement (OCAR)

INVESTMENT RISK

Resilience risk (gj)

Embedded Investment Derivatives Component – The Embedded Investment Derivatives Component is shown separately in the LT2011. This element should reflect the embedded investment derivatives component of the investment risk capital requirement, before allowing for management action. This capital requirement should be calculated in accordance with the Actuarial Society of South Africa's professional guidance note 110 (PGN110). The embedded investment derivatives component would equal the difference between the embedded investment derivatives reserve before and after applying the resilience tests. This amount in respect of embedded derivatives is included in the resilience risk item (gj). Please note that the value inserted in this row is not used in the formulae but is included to give more insight to the insurer's exposure to embedded derivatives.

Credit risk (h)

An allowance for credit risk is compulsory from version 7 of PGN104 (effective for valuations done on 31 December 2008 onwards). Please refer to the guidance note for the detail regarding its calculation. If the statutory actuary used other rating agencies' ratings (compared to Standard & Poor's ratings that form the basis of the calculation), other methods (including internal company ratings) or adjustments (e.g. to allow for a different level of diversification in the portfolio) this information needs to be added to the return on supplementary pages.

Operational risk (i)

An explicit allowance for operational risk is compulsory from version 7 of PGN104 (effective for valuations done on 31 December 2008 onwards). However, the guidance note does not specify a standard method to be used. The method used or reasoning behind the operational risk element needs to be added to the return, signed by the statutory actuary, on supplementary pages.

ADJUSTMENT FACTOR

IOCAR is the intermediate ordinary capital adequacy requirement before taking into account the effect of the assumed falls in fair value (according to the resilience scenario) of assets covering it.

The OCAR is calculated by applying an adjustment factor to the IOCAR for the effect of an assumed fall in fair value of the assets backing it. Refer to PGN104.

CAPITAL ADEQUACY REQUIREMENT

The CAR equals the maximum of TCAR and OCAR. The values required in the columns split by "type of business" are the CAR before application of the square root formula. The total column will not necessarily add up. However, it will provide the Registrar with information of the relative size of the risks associated with each type of business.

OFF-SETTING MANAGEMENT ACTIONS

Full details of management actions must accompany the return. (Refer to StatementG3).

Examples of management actions include:

- reduced surrender values,
- reduced discretionary margins,
- reduced future bonus prospects,
- increased risk charges,
- increased management charges,
- cancellation of non-vested bonuses,
- reduced future expenses, etc.

Where no management actions were assumed, the first part of statement C6 will be the same as statement C5.

MINIMUM CAPITAL ADEQUACY REQUIREMENT

Refer to Board Notice 14 of 2010. The minimum capital adequacy requirement is the higher of:

- R10 million;
- An amount representing operating expenses, as reported in Statement B7, multiplied by 13 and divided by 52 or, if different, the number of weeks included in the reporting period;
- an amount equal to 0.3% of its gross contingent liabilities under unmatured policies

CAPITAL ADEQUACY REQUIREMENT

The total CAR equals the maximum of TCAR, OCAR or MCAR or a different amount approved by the Registrar. Refer to Board Notice 14 of 2010.

Statement C7 - ANALYSIS OF SURPLUS

Surplus means excess assets (i.e. assets less liabilities before allowance for the Capital Adequacy Requirement) - refer to Statement C3.

We realise that the results of an analysis of surplus depends on the order in which the different items are analysed. The items are listed in an order that could be followed, however, the statutory actuary may use any order he/she prefers.

Only the total profit / loss over all classes of business (for each line item) are required at this stage. There are however free-floating columns to the right of the total column to enable the statutory actuary to add additional detail per class of business (or for specific products), if the information is available and if the

statutory actuary feels that the information will be valuable.

Please split the compulsory and discretionary margins. Where impossible to split these items, i.e. for retrospective valuations, the compulsory and discretionary margins can be combined.

The analysis of surplus should be calculated on net amounts (after reinsurance).

SUPPLEMENTARY STATEMENT C7.1

The supplementary statement consists of four sections: Individual life operating profit / loss, Group life operating profit / loss, Shareholders and Significant Items. For Individual life operating profit / loss, Group life operating profit / loss and Shareholders additional detail for the "Other" line item (as explained below) needs to be provided.

In the "Significant items" section the statutory actuary can disclose any significant item that is already included in one of the line items in Statement C7. For instance, if a special reserve is set up for the first time that caused a significant change in "Change in methodology" under item 2.3 (Change in valuation basis) this can be separately disclosed on the supplementary statement. Whether or not a specific item is significant, is left to the statutory actuary's judgement.

A breakdown of the different items in the valuation basis or any other item that the statutory actuary would like to disclose separately can also be shown in the "Significant items" section. No reconciliation to any specific item in Statement C7 is necessary.

INDIVIDUAL BUSINESS - ITEMS OF OPERATING PROFIT / LOSS

New business

This will include profits or losses on new business written and not profits or losses on premium increases. The cost of commission associated with new business as well as initial expenses because of writing new business must also be included.

Please see Alterations and Expense experience below.

Alterations

All profits / losses made on policy alterations (e.g. policy made paid-up) should be included. We prefer that profits / losses made on voluntary premium increases (which can't as a matter of course be assumed to take place in the financial soundness valuation) are included in this item.

However, the statutory actuary has discretion to allocate voluntary and / or compulsory premium increases as either New Business or Alterations (or a split between the two) depending on the capability of the insurer's systems. The method used to allocate the premium increases must be disclosed in the assumptions section at the bottom of the statement.

Commission on premium increases must be treated consistently, i.e. if premium increases were included in alterations, the commission on those premium increases must also be included in alterations.

Change in valuation basis

- Changes in methodology

Changes in the method used should be quantified here. In addition, the set-up of (or changes to) additional reserves (e.g. IBNR, other Rand reserves) should be included here. Changes due to data errors, corrections of previous values or methods should be quantified here as well.

- Changes to non-economic assumptions

This will include changes to mortality, morbidity and other demographic valuation assumptions as well as changes to the expense assumptions.

- Changes to economic assumptions

This will include changes to valuation assumptions that need to be changed due to the economic situation e.g. the valuation interest rate, inflation rate etc.

Release of margins (compulsory and discretionary)

This item should aggregate the effect of both compulsory and discretionary margins on all items.

Investment experience

This item will reflect any profits or losses made in respect of differences between the investment return earned on policyholder funds and the investment return required for or allocated to policyholder liabilities. Changes in bonus stabilisation reserves are included in the investment return allocated to policyholder liabilities. Any shareholder support for bonus stabilisation reserves and any changes in mismatching reserves should be included here.

Mortality experience

Losses / profits made on mortality should be quantified here. Allowance is made for mortality experience on annuity and assurance business separately.

Morbidity experience

Losses / profits made on both disability and dread disease business should be quantified here.

If the insurer is unable to split morbidity experience accurately from mortality experience, it may be included in the mortality experience line, as long as this is disclosed in the assumptions section at the bottom of the statement.

Expense experience

Profits / losses on all types of expense allowances should be included here.

Initial expenses because of writing new business must be included under "New business".

The statutory actuary has discretion to allocate profit / losses on commission (on new and / or existing business) to either new business or Expense experience. The method used should be disclosed in the assumptions section at the bottom of the statement.

Withdrawals

Profits / losses made on early withdrawals (including both lapses and surrenders) should be included here.

Tax

All tax implications (I – E tax, tax on transfers, tax on capital gains, provisions for tax etc) applicable to policyholders should be aggregated under this item.

If the statutory actuary prefers to do the analysis on a net of tax basis, this will be allowed if it is disclosed in the assumptions section at the bottom of the statement.

Adjustment to asset values

This item's main purpose is to reconcile the market value of assets to the disclosed excess assets. The following are examples of what should be included under this item:

- changes to asset values due to accounting changes;
- changes to asset values due to the discounted cashflow method being used instead of fair value; and
- adjustment to asset values due to Schedule 3 adjustments (e.g. disregarded assets).

Changes due to investment return (both realised and unrealised) should not be included here but rather under the "investment return" line.

Other

This item was added to cater for once-off events, e.g. transfer of business (according to Section 37 of the Act). However, recurring items may also occur that were not provided for explicitly elsewhere in the statement, e.g. retrenchment profit / loss on credit life business. All these items need to be explained in the supplementary statement C7.1.

Unexplained

This item relates to the balance of items that make up the total surplus emerging for individual business, which cannot be easily identified or separated. This item (in aggregate for individual business, group business and shareholders) should preferably not be larger than 5% of the surplus emerging.

GROUP BUSINESS - ITEMS OF OPERATING PROFIT / LOSS

New business

This will include profits or losses on new business written and may include profits or losses on premium increases. The cost of commission associated with new business as well as initial expenses because of writing new business must be included.

Change in valuation basis

- Changes in methodology

Changes in the method used should be quantified here. In addition, the set-up of (or changes to) additional reserves (e.g. IBNR, other Rand reserves) should be included here. Changes due to data errors, corrections of previous values or methods should be quantified here as well.

- Changes to non-economic assumptions

This will include changes to mortality, morbidity and other demographic valuation assumptions as well as changes to the expense assumptions.

- Changes to economic assumptions

This will include changes to valuation assumptions that need to be changed due to the economic situation e.g. the valuation interest rate, inflation rate etc.

Profit/guarantee charges

Profits / losses due to charges for profits or guarantees that were made to the policies should be included.

Investment experience

This item will reflect any profits or losses made in respect of differences between the investment return earned on policyholder funds and the investment return required for or allocated to policyholder liabilities. Changes in bonus stabilisation reserves are included in the investment return allocated to policyholder liabilities. Any shareholder support for bonus stabilisation reserves and any changes in mismatching reserves should be included here.

Group assurance underwriting experience

Losses / profits made on mortality and morbidity (disability and dread disease business) should be quantified here. If the insurer is unable to split morbidity experience accurately from mortality experience, it may be included in the mortality experience line, as long as this is disclosed in the assumptions section at the bottom of the statement.

Group annuity underwriting experience

Losses / profits made on annuity business should be quantified here.

Expense experience

Profits / losses on all types of expense allowances should be included here. Initial expenses because of writing new business must be included under "New business".

The statutory actuary has discretion to allocate profit / losses on commission (on new and / or existing business) to either new business or Expense experience. The method used should be disclosed in the assumptions section at the bottom of the statement.

Withdrawals

Profits / losses made on cancellations and withdrawals should be included here.

Tax

All tax implications (I – E tax, tax on transfers, tax on capital gains, provisions for tax etc) applicable to policyholders should be aggregated under this item.

If the statutory actuary prefers to do the analysis on a net of tax basis, this will be allowed if it is disclosed in the assumptions section at the bottom of the statement.

Adjustment to asset values

This item's main purpose is to reconcile the market value of assets to the disclosed excess assets. The following are examples of what should be included under this item:

- changes to asset values due to accounting changes;
- changes to asset values due to the discounted cashflow method being used instead of fair value; and
- adjustment to asset values due to Schedule 3 adjustments (e.g. disregarded assets).

Changes due to investment return (both realised and unrealised) should not be included here but rather under the "investment return" line.

Other

This item was added to cater for once-off events, e.g. transfer of business (according to Section 37 of the Act). However, recurring items may also occur that were not provided for explicitly elsewhere in the statement. All these items need to be explained in the supplementary statement C7.1.

Unexplained

This item relates to the balance of items that make up the total surplus emerging for group business, which cannot be easily identified or separated. This item (in aggregate for individual business, group business and shareholders) should preferably not be larger than 5% of the surplus emerging.

SHAREHOLDERS

Investment experience

The investment return earned on excess assets should be quantified here.

Adjustment to capital

Adjustments to issued share capital, share premium reserves and other capital related items should be quantified here.

Expenses

This item includes profits / losses made due to variation in expenses that can be attributed to shareholders.

Income from subsidiaries

Dividends received from subsidiaries (in the shareholders' fund) should be included here.

Dividends paid

Dividends paid during the year should be shown here. It should agree to the actual dividend paid in respect of the period under review on Statement C8.

Tax

All tax implications (I – E tax, tax on transfers, tax on capital gains, provisions for tax etc) applicable to shareholders should be aggregated under one item.

Adjustment to asset values

Changes to the values of shareholders' assets due to accounting treatment, should be included here.

Other

This item was added to cater for once-off events, which need to be listed on the supplementary statement C7.1.

Unexplained

This item relates to the balance of items that make up the total surplus emerging for shareholders, which cannot be easily identified or separated. This item (in aggregate for individual business, group business and shareholders) should preferably not be larger than 5% of the surplus emerging.

Statement C8 - DIVIDEND TEST

Insurers incorporated without share capital need not complete this statement. All other insurers must complete this statement for the financial period under review.

GROSS DIVIDENDS PAID

Gross dividends include: -

- interim dividends,
- final dividends ,
- dividends on ordinary shares,
- dividends on preference shares, notwithstanding any provision in the Memorandum and Articles of Association,
- any form of payment of dividend, i.e. cash specie or capitalisation issue,
- any payment on any other financial instrument equivalent to and which has the same characteristics as a dividend, and
- Secondary Tax on Companies (STC) in relation to the above.

ACTUAL DIVIDENDS PAYABLE / PAID

The test should be based on dividend accruals (versus cash paid) as it will serve a better purpose, it will place a limit on the final dividend declared (but not yet paid) in respect of any given year.

OTHER LONG-TERM LIABILITIES

Include long-term loans, debentures, redeemable preference shares and other loan capital instruments.

EXCESS RESERVES

The declaration and payment of dividends is subject to section 29(4) of the Act.

Statement C9 - REINSURANCE

The definition of an "approved reinsurance policy" is given in paragraph 1 of Schedule 3 of the Act.

GROSS POLICY LIABILITIES FOR LEVY PURPOSES

In terms of the FSB Act, 1990 levies are imposed on all registered long-term insurers and are normally calculated as a fixed amount plus a percentage of gross liabilities under un-matured policies (The details are published each year in the Government Gazette.) A deduction of certain liabilities is allowed for purposes of this calculation (this business is levied by the pensions department of the FSB). The following deductions are allowed:

Gross liabilities in terms of un-matured contracts entered into with:

- Pension Funds¹
- Provident Funds¹
- Retirement Annuity Funds²
- Friendly Societies¹

All insurers are required to complete this section, even if the values are zero. The statutory actuary must verify the values.

1 Gross liabilities under a contract, in terms of which the long-term insurer, in return for the payment of a premium, undertakes to provide policy benefits for the purpose of funding in whole or in part the liability of a friendly society as defined in section 1 of the Friendly Societies Act, 1956 (Act No. 25 of 1956) or a pension fund organisation as defined in section 1 of the Pension Funds Act, 1956 (Act No. 24 of 1956) to provide benefits to its members in terms of its rules.

2 As defined in section (1) of the Income Tax Act, 1962 (Act No. 58 of 1962).

Statement C10.1 & 10.2 – STATUTORY VALUATION METHOD OF THE LIABILITIES OF INDIVIDUAL AND GROUP BUSINESS

Statements C10.1 and C10.2 are almost identical, but C10.1 obtains information on the valuation of the individual business while C10.2 obtains information on the valuation of the group business.

All the liability valuation assumptions stated in this statement should **exclude** the compulsory margins that are prescribed in Board Notice 14 of 2010. It should also exclude any discretionary margin, i.e. it should be the best estimate assumptions.

The statement asks for the liability valuation assumptions in columns that are similar to the columns used in the C-statements. Additional free-format columns were provided; should the statutory actuary want to disclose the assumptions for specific types of business separately, for instance, structured products, deposit administration schemes etc. We limited the number of free-format columns to five only. (Please, do not provide information in the free-format columns only – try to insert data in the main part of the statement as far as possible and use the free-format columns for additional information.)

It is appreciated that different types and generations of policy are aggregated within each column. The assumption that is given should preferably be a weighted average (using an appropriate weighting) of the assumptions used for the underlying business in that grouping. Otherwise, it should be an assumption that is representative (say more than 70%) of the grouping as a whole. A column was added to indicate whether or not the assumption is weighted, representative or a combination of the two. Where the assumption is a weighted average, the factor that was used for the weighting should be indicated in the adjacent column. Both these columns have drop-down boxes in each cell to ease the completion of the information. You may also enter any other possible weighting factor not listed in the drop-down box.

Assumptions should only be completed where relevant. “N/A” should be entered in the other cells of each row. For example, an expense charge in the form of a percentage of fund value might not be applicable for with-profit policies.

METHOD

Indicate, by choosing the appropriate factor in the drop-down box, the method that was used to value the particular type of business. If “other” is chosen, please provide additional details on a separate sheet.

AVERAGE OUTSTANDING TERM OF LIABILITIES

For simplicity, calculate the average outstanding term of liabilities while ignoring the effect of other decrements (e.g. lapses). If possible, more sophisticated calculations allowing for decrements could be used to calculate the outstanding term of liabilities. Using a simplistic example, suppose a specific endowment policy has a term of 20 years. At the valuation date, 12 years of the policy has elapsed. Then the outstanding term for this policy is 8 years.

For policies where the term of the policy isn't fixed, (like life annuities, whole life policies or open-ended endowment policies) use the maximum age from the decrement table used for valuation purposes less the age of the policyholder at the valuation date. Other sensible methods will also be acceptable, as long as it is stated in the “Assumptions made / explanatory notes” section at the bottom of the statement.

FUTURE BONUS RATES

Various types of bonus exist, especially for reversionary bonus policies. If the statutory actuary cannot combine and allocate the bonuses in the split given, additional information can be given on a separate page.

Terminal bonuses should be included under “non-vesting” bonuses.

LAPSE RATES

The lapse rates' durations refer to the duration since inception of the policy. It is assumed that “lapses” for durations greater than three years will be included under surrenders.

SURRENDER RATES

If surrender rates differ by duration of policy and/or type of policy, please combine in a sensible way and give additional information on a separate page.

MORTALITY, MORBIDITY AND DREAD DISEASE TABLES

State the name of the table used, for instance SA85-90 or "internal table" if the insurer's own experience tables are used. State any adjustments to the basic table (excluding any adjustments for HIV/AIDS) in the "Adjustment" row.

An example of what is required is as follows:

Assurance	
Basic	100% of SA72-77 Ultimate
Adjustment	+10% at all ages for smokers

INITIAL EXPENSES

State the Rand amount that represents the cost to write a new policy as assumed in the valuation. You should make a note in the "Assumptions made / explanatory notes" section at the end of the statement, on whether the initial expenses include a provision for commission.

RECURRING EXPENSES PER ANNUM

The "per policy expenses" should be the Rand amount (per annum) assumed in the valuation.

SAMPLE ULTIMATE MORTALITY, MORBIDITY AND DREAD DISEASE RATES

The rates supplied should be representative (say more than 70% of the total business) of the rates used in the valuation. If this can't be achieved, additional information should be provided on separate sheets.

Separate tables should be completed for rates before and after allowance for HIV/AIDS. Use the allowance for HIV/AIDS for the specific calendar year that the return is completed for, if different assumptions are made for mortality due to HIV/AIDS in future years.

Different rates are required for assurance, annuities, lump sum disability, income disability and dread disease. The rates are further divided to allow for gender and smoking status.

ASSUMPTIONS MADE / EXPLANATORY NOTES

State any assumptions that were made in completing this statement or make any notes to bear in mind when reviewing the information in the statement.

Statement D

These statements must reconcile with the insurer's published annual financial statements.

Statement D1 - STATEMENT OF FINANCIAL POSITION

This statement has been designed to reconcile in total with the balance sheet as audited and presented in the published annual financial statements of the insurer. The sub-headings within this schedule will not be as detailed in some cases as in the audited financial statements. Nevertheless, the various sub-divisions of items such as premiums due should be given in the schedule using the amounts that are included in the audited financial statements.

Please note that the return does not include the Changes of Equity Statement. The gross retained earnings item is reflected in the Statement of Financial position and should be completed taking into account dividends as per the Changes of Equity Statement

The items "other business assets" and "other business liabilities" were included to provide for instances where insurers obtained approval from the Registrar to conduct other business than insurance business.

Currently no such approval has been granted and no assets or liabilities should therefore appear next to these line items.

LIABILITIES

Other insurance business liabilities

This includes current liabilities.

Statement D3 - ANALYSIS OF ISSUED PREFERENCE SHARES & DEBENTURES

All insurers must complete this statement as at the end of the financial period except if the insurer is incorporated without share capital.

PREFERENCE SHARES

Refer to section 24(a)(ii), (iii) and (iv) of the Act.

DEBENTURES

Refer to section 24(a)(i) and (v) of the Act.

DIVIDEND/INTEREST – IN FUTURE

Enter the net present value of dividends or interest to be paid in future.

Statement D4 – STATEMENT OF COMPREHENSIVE INCOME

This statement has been designed to reconcile in total with the income statement as audited and presented in the published annual financial statements of the insurer. The sub-headings within this statement will in some cases not be detailed as in the audited financial statements. Nevertheless, the various sub-divisions of items should be given in the statement using the amount that is included in the audited financial statements.

Please note that losses must be entered as negative figures.

The item “Other income” in the income statement will include income received from associates and fees received from cell holders.

Statement E

The treatment of accrued and outstanding income must be consistently applied throughout the E (and C) statements. Insurers may disclose the accrued interest either together with the individual asset balances (in the income column on statements E1 to E5 and E7) or with other debtors on Statement E4. The disclosure of accrued income must be dealt with consistently throughout the statements as well as consistently with the previous year.

All insurers must complete this statement as at the end of the financial period excluding any derivative exposure. The derivative exposure is shown in statement F1.

In the case of an unlisted investment a copy of the latest audited financial statements of the company or institution must be submitted, together with the long-term annual return, where the total value of the unlisted investment is equal to or greater than 0.5% of the total liabilities (in and outside RSA, excluding CAR) as reflected in Statement C3.

In the case of an investment in an immovable property, where such property has been re-valued, a supporting annexure must be furnished showing in respect of each such property:

- a) the value before and after each revaluation,
- b) the purpose of the revaluation,
- c) the basis used in determining the new value, and
- d) sufficient details to enable an independent valuator to judge the soundness of the basis employed.

Deferred Tax

In the past Insurance companies reflected deferred taxation assets as other claims against a body corporate. Please note that for a claim to qualify as an insurance asset only if such a claim is enforceable and in accordance with the law of the Republic and is realisable in the Republic.

It is this Office's view that for a deferred taxation asset to be regarded as an "enforceable" claim (this means that a claim may immediately be instituted to recover it) and "realisable" (this means convertible to money) the insurer must be able to enforce payment of this deferred tax immediately by SARS. As this is not possible a deferred taxation asset cannot be classified as a claim against a body corporate and must be disregarded for solvency purposes.

Please note that a deferred tax asset relating to policyholder funds may for solvency purposes be deducted from the policyholder liabilities as reflected in the long-term return.

Paragraph 7 to Schedule 3 of the Act, regarding the valuation of other liabilities, indicates that for sections 30 and 31 purposes other liabilities shall be determined in accordance with financial reporting standards applicable to widely-held companies

In the case where a deferred tax liability is created it should be valued according to financial reporting standards applicable to widely-held companies

Statement E1 – CASH AND BALANCES & DEPOSITS

BANKS

This will only include investments in current accounts, fixed deposits, Bankers Acceptance and negotiable certificates of deposit or a promissory note issued by Banks registered in terms of the Banks Act.

Please note that banking institutions with their own licences, for spreading purposes are seen as separate entities, although they might be in the same group of companies.

Money-market investments in Collective Investment Schemes should be reflected in statement E5.

Statement E2 - SECURITIES & LOANS

The following specific instruments had difficulties in interpretation in the past and should be dealt with in the manner stated below:

- Semi-gilts issued by the Development Bank – included under item1: Securities and loans issued or guaranteed by a Minister of the Republic.
- Bonds issues by Telkom / Transnet – included under item1: Securities and loans issued or guaranteed by a Minister of the Republic.
- NHFC bonds – included under item1: Securities and loans issued or guaranteed by a Minister of the Republic.
- Inca bonds – should be included on Statement E3.
- Transkei, Lebowa, Boputhatswana and all other former TBVC government gilts – included under item1: Securities and loans issued or guaranteed by the Central Government of the Republic.
- SABC gilts – included under item2: Securities and loans approved by Registrar.
- Currently nothing should be included under "Other utilities of the Republic".

DESCRIPTION OF ASSETS

Item 1: Securities and loans referred to in items 4 to 11 of the Table to Schedule 1 to the Act.

Item 2: Securities and loans referred to in items 12 to 13 of the Table to Schedule 1 to the Act.

Item 3: Securities and loans referred to in item 16(5)(a)(i) of the Table to Schedule 1 to the Act.

Statement E3 - DEBENTURES, LOAN STOCKS & OTHER SECURITIES

Please note that investments in any corporate bonds even if issued by registered banks should be reflected in this statement as the characteristics of these instruments are the same as capital market instruments.

Credit link notes to be reflected in this statement.

Promissory notes issued by an institution other than a banking institution should be reflected in this statement.

Statement E4 - DEBTORS (Claims against persons & entities)

Debtors outstanding for longer than 12 months must be excluded from this statement.

Any amount of premium that is due and payable, including a premium debited to an intermediary or a deferred installment of a premium that remains unpaid to an insurer (irrespective of whether or not the premium has been paid to an intermediary), after the expiry of a period of 90 days from the date on which it became due and payable in terms of the long-term policy, but excluding a premium in respect of a long-term reinsurance policy must be excluded from this statement.

Investments in trusts must be reflected in this statement.

In the case of a script lending transaction, where script was lent out, a claim against the borrower must be reflected in this statement. Please refer to Directive 154(A)(iii).

Private equity funds is also included as a claim against an investment vehicle

OTHER DEBTORS

Other debtors will include the *fair value* of derivative instruments.

A Hedge fund is not a legal entity but rather an investment strategy which can be done off balance sheet in terms of limited liability partnership or in terms of share investments in a company. In the case of the limited liability partnership it should be reflected as a claim against a person.

INCOME

Income must be stated and must be added to the Total Fair Value if income is not shown in statements E1, E2, E3, E5, and E7.

Income refers to accrued and outstanding income.

POLICYHOLDER LOANS

Refer to item 19(b) of the Table to Schedule 1 to the Act.

CLAIMS AGAINST INSURER ITO POLICIES

Refer to item 20(a) of the Table to Schedule 1 to the Act.

Statement E4.2 - DEBTORS (Claims against persons & entities)

This statement provides for the breakdown of debtors and outstanding premiums. The completion of this statement can be aligned with the IFRS split, but where information is available a further split should be done. Approximations in respect of the different splits may be done where information is not readily available.

Statement E5 - SHARES, UNITS & DEPOSITORY RECEIPTS

LISTED ORDINARY SHARES

The split is based on the sectors as classified by the Industry Classification Benchmark created by the FTSE and Dow Jones Indexes. These sectors will not be defined as previous years. To save time with completion the basic sectors were limited to:

- Oil & Gas
- Basic Materials
- Industrials
- Consumer Services
- Telecommunications
- Technology
- Healthcare
- Consumer Goods
- Financials
- Real Estate
- Alternative Exchange

No guidance will be given for subsector classifications into main sectors as long as the classification is consistent from year to year.

Dual listed shares (shares listed in RSA as well as on an international exchange) must be reflected in RSA.

A hedge fund is not a legal entity but rather an investment strategy which can be done off balance sheet in terms of a limited liability partnership or in terms of a share investment in a company. In the case of an investment in the shares of a company it should be reflected in this statement.

Depository receipts – A depository receipt is a type of negotiable financial security that is traded on a local stock exchange but represents a security usually in the form of equity that is issued by a foreign publicly-listed company.

Statement E6 - IMMOVABLE PROPERTY

Only immovable properties owned directly by the insurer should be disclosed in Statement E6. Any investment in a property owned company must be reflected in statement E5.

GROSS INCOME

Gross income received during the period under review from accommodation let.

GROSS RENTAL

This amount should represent the gross rental value of space occupied by the insurer during the period under review. This should be calculated as the estimated value of rental the insurer would have had to pay if he was not the owner of the property but only leasing the property.

EXPENSES

Expenses incurred in respect of taxes and maintenance of building.

Statement E7 - MORTGAGES OVER IMMOVABLE PROPERTY, INCLUDING PARTICIPATION BONDS

Statement E8 - FIXED ASSETS

IAS 38 on intangible assets provides criteria for the recognition of internally generated intangible assets (internally developed software) as an asset.

An intangible asset arising from development shall be recognised if and only if an entity can demonstrate all of the following:

- (a) The technical feasibility of completing the intangible asset so that it will be available for use or sale.
- (b) The intention to complete the intangible asset and use or sell it.
- (c) Its ability to use or sell the intangible asset
- (d) How the intangible asset will generate probable future economic benefits. Among other things the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or if it is to be used internally, the usefulness of the intangible asset.
- (e) The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
- (f) Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

If the internally developed software demonstrates the above, it can be reflected as an insurance asset. Internally developed software should be classified as computer equipment.

Statement E9 - COMPARISON OF STATUTORY & SHAREHOLDERS ASSETS

DIFFERENCES

Explain differences between the statutory values and the values shown in the published annual financial statements in a supporting statement.

Statement E9.1 - DIFFERENCES BETWEEN LIABILITIES IN THE ACTUARIAL BALANCE SHEET, THE FINANCIAL STATEMENTS AND THE STATUTORY STATEMENTS

This statement reconciles any differences in liability values and the Capital Adequacy Requirement reflected in the actuarial balance sheet in the financial statements, the balance sheet in the financial statements and the statutory values reflected in the LT2011. This statement was introduced after the implementation of AC 133. Differences should be explained in a supporting statement.

Statement E10 - RELATED PARTY BALANCES

This statement is a summary of related party transactions as reported in statements E1 to E9.

PERCENTAGE HOLDING

The actual percentage held by the insurer in the share capital of the subsidiary, associate, holding company or other related parties.

NET ASSET VALUE

If the net asset value is less than 75% of the sum of columns 7, 8 and 9, please attach an explanation.

INTER-COMPANY BALANCES

The balances due to/by the insurer by/to the subsidiary, associate, holding company or other related parties.

TOTAL EXPOSURE

Total exposure is equal to the value of the sum of ordinary shares, preference shares, debentures and inter-company balances.

Statement E11 - KINDS & SPREAD OF ASSETS

The asset spreading regulations contained in the Act must be monitored and managed on an ongoing basis. Insurers are required to comply with these regulations on a daily basis. Please refer to section 31 of the Act. Please note that if a shortfall is reflected on this statement an insurer is regarded to be financially unsound.

This statement assesses whether the admitted domestic non-linked assets of insurers spread according to the prescribed limitations exceed the domestic non-linked liabilities including all current liabilities and capital adequacy requirement. The statement is set up listing the different kinds of assets and then limiting the admitted value of these assets according to the statutory regulations. The aggregate limitations for each kind of asset are enforced by the use of formulas. Insurers should manually apply the individual limitations and enter the individual excesses to be disregarded. There are a number of assets where no limits exist.

The effect of the asset spreading limitations is that the Registrar is requiring insurers to spread their investments over a number of products in order to reduce their risk. The percentages allowed differ according to the risk profile of the type of investment. The specific limitations can be found in the table to Part 2 of the regulations to the Act.

The statement concludes by calculating the overall admitted assets as well as the surplus or deficit of overall total domestic liabilities. Any shortfall of overall admitted assets over total domestic liabilities must be explained in a letter to the Registrar and the auditors' attestation in statement G5 should be qualified. Please note that a shortfall in this statement reflects a financially unsound position as per section 29 of the Act.

The amounts reflected in column 2 will exclude investments made in linked policies (i.e. where an insurer has invested in a linked policy issued by another long-term insurer) and asset holding intermediaries covering non-linked liabilities.

The figure in column 4 also excludes investments in asset holding intermediaries or investments made in a linked policy. Shareholders' assets are also included.

Item 4: Outstanding premiums should be reflected as part of debtors with a maximum admissible limitation of 25%.

Item 5 includes listed units, loan stocks and depository receipts.

Item 9 includes claims against a LT insurer in terms of a LT policy and limits claims to 20% to any one LT insurer.

Item 14 should reflect any other asset not specified elsewhere with a limitation of 2.5% per one asset.

An insurer must get approval for dispensation(s) from any individual or aggregate limits prior to reflecting a financially unsound position.

For spreading purposes all unlisted shares and items specified has a 5% limitation. However, the Collective Investment Scheme Act has guiding spreading limitations. Therefore, for spreading purposes, according to the regulations issued under the Act, investments in a Collective Investment Schemes should be reflected together with listed shares and has a 75% limitation.

In the case of a script lending transaction, where script was lent out, please reflect the lent securities. Please refer to Directive 154(A)(iii).

Despite the requirement that an asset must be valued at fair value, if the Registrar is satisfied that the value of an asset when calculated in accordance with financial reporting standards does not reflect a reasonable value for purposes of this Act,

- a. the Registrar may appoint another person to place a reasonable value on that asset that will be deemed to be the value of the asset
- b. direct a long-term insurer to calculate the value in a manner determined by the Registrar that will be deemed to be the value of the asset

Please refer to section 31 of the Act.

ASSET-HOLDING INTERMEDIARIES

First adhere to property company definition, if so, it is not an asset-holding intermediary.

Associated company excludes property companies and asset holding intermediaries

Statement E12 – BANKING INSTITUTION EXPOSURE

This statement is confidential and not available to the public. This statement tracks banking credit and concentration risks. The total of this statement will not necessarily tie back to statement E1 as it requests other investments other than cash balances & deposits. Other South African banks and international banks, even branches operating as banks, are those banks registered under the Banks Act and included in the list of operating banks on the website of the South African Reserve Bank.

Statement E13 – OTHER INSTITUTION EXPOSURE

This statement is confidential and not available to the public.

The columns Corporate (Listed) and Corporate (Unlisted) refers to ordinary shares and preference shares as well as corporate debt instruments

This statement tracks credit and concentration risks for other institutions. Only list counterparty exposures, which in total is greater than 5% of total insurance assets.

Statement F

The F Statements are available to the public and contains information regarding derivative exposure of the insurer.

Statement F1 - DERIVATIVES

Statement F1 provides an indication of the insurer's net exposure to derivatives, by asset class, instrument type, counterparty and by objective or strategy.

Column 2 is the fair value of the assets underlying the derivatives.

Column 3 is the fair value of the derivatives.

The totals per subcategory will be total sum of all the physical exposures of all derivatives.

Column 4: is the derivative profit and loss. It should be completed as the actual mark to market profit and losses on all derivative exposures on the date of the return, covering the period of the return.

Statements H1 – H3– CELL CAPTIVE INSURERS

This statement is confidential and not available for public inspection.

All insurers conducting cell captive business must complete the statement.

All figures required have to be completed manually.

Please indicate if any requests to re-capitalise any of the cells have not been complied with during the year. Full details should be provided.

Please note that the E-statements that are similar to the call captive statements will be the total of all assets including cell business.

Statements I – STRESS & SCENARIO TESTS

Long-term Insurers that are authorised to only sell linked business, are excluded from completing the I statements.

As a general comment, the stresses need to be applied to insurance entities only. Thus a company with investments in subsidiaries, will only apply the stresses to the value of those subsidiaries in the balance sheet.

Note that approximations are allowed. For example, when recalculating the CAR, insurers are allowed to only recalculate the affected CAR component. All simplifications used should be disclosed.

In recalculating the CAR, allowance for the change in the deferred tax position of the company can be made.

All management actions assumed in the CAR calculation should be disclosed; the disclosure should deal with both the specific action and its effect on the calculation.

Statement I1 – SINGLE FACTOR STRESS ON STATUTORY SURPLUS: MARKET RISK

The statement deals with market stresses.

Note that where companies are invested in for example foreign equities, for the equity stress the foreign exchange component can be ignored (i.e. assume the exchange rate is unchanged) and for the foreign exchange stress, the equity is not shocked again.

Interest rate shock: the same proportionate shock should be applied to both real and nominal yields.

The stress on the 30% appreciation / depreciation needs clarification. The methodology of applying the stress on the depreciation of the currency is as follows: if the current exchange rate is say R7 to the \$, then after the stress it will be $(1+0.3) * 7 = R9.10$ to the \$. On the appreciation stress, if the exchange rate is R7 to the \$, it will be $(1-0.3) * 7 = R4.90$ to the \$ after the stress.

Volatility shock: the shock is an absolute addition to the volatility, so if the volatility was say 25% before the stress, it will be 40% for the equity volatility stress (a 15% addition) and 35% (a 10% addition) for the interest rate volatility stress.

Statement I2 – ECONOMIC SCENARIO TEST ON STATUTORY SURPLUS

All the market stresses need to be applied simultaneously.

Interest rates: Shift in yield curve 35% down;

Equity prices: Ordinary shares 50% down; Preference shares (fixed rate) 30% down; Preference shares (variable rate) 10% down;
 Property prices: 30% down;
 Exchange rate: 30% depreciation;
 Credit risk: Double the CAR credit risk allowance;
 Volatility: 15% addition for equity, 10% addition for interest rate

Statement I3 – SINGLE FACTOR STRESS TEST ON STATUTORY SURPLUS: INSURANCE RISK

These statements deal with insurance risks.

QUALITATIVE LT 2011

Statement G

The G Statements contains general information in questionnaire format. All insurers must complete all statements in full, where applicable.

Statement G1 - GENERAL INFORMATION

SHARE-BASED SCHEMES

Share based payments must be accounted for in the published balance sheet and income statement in terms of the treatment specified by IFRS. According to section 7(1) of Schedule 3 to the Act, "The liabilities of a long-term insurer, other than its contingent liabilities under long-term policies, shall be determined in accordance with financial reporting standards."

However, additional information regarding the liability for cash settled schemes is required to enable the Registrar to assess the size of this liability. For cash settled schemes, the full fair value (allowing for expected take-up) of the options as a financial liability must be shown. For equity settled schemes, no liability need to be reflected in the statutory balance sheet.

DESCRIPTION OF PRODUCTS MARKETED AND SOLD

This statement requires a short description of products that are actively marketed and sold during the year of review. Reinsurers need not complete this statement.

This statement need only be completed in full in the first year that the return is completed. In subsequent years, this statement should only report information on new products developed together with amendments to old products.

Herewith an example on how this information should be submitted;

Product Name	Class of business	Type of business	Type of policy	PUP Indicator	SV indicator	Premium Income as a % of total new business premiums	Description of benefits payable
AAA	Life business, Health business etc	Ex. Risk, Investment or Annuities	Individual / Group	Yes / No	Yes / NO	X%	Ex: Whole life policy. Death benefit: greater of Sum Assured and

Examples of such transactions might be – credit default swaps or total return swaps or credit linked notes.

Internationally, mainly banks and insurance companies trade in these instruments to allow them to hedge away unwanted exposure or to build on desirable credit risk. This reduces the overall risk profile and increases the return on a portfolio. It also enables them to uptake or offloads credit exposure without actually buying or selling assets and also allows them to remove assets from their balance sheets reducing the amount of regulatory capital they need to hold.

Credit risk management is therefore very similar to an insurance policy against credit quality default hence the reasoning behind including the questions to ascertain the level of use of these instruments in the South-African market.

OUTSOURCING

Outsourcing refers to those functions material to insurance related operations e.g. underwriting, claims and information technology. This would not include outsourcing for e.g. security or catering services.

Statement G7 – REINSURANCE ARRANGEMENTS

Long-term insurance and reinsurance companies need to have risk management strategies in place in order to ensure their solvency and policyholder security is maintained. A major risk tool that is used to protect key exposures and reduce fluctuations in results is reinsurance. The policyholder is exposed to the extent that an adequate risk management strategy is not in place. In addition, they also face the credit risk of a reinsurer defaulting at claim time.

Currently the FSB makes use of the principle of approved and non-approved reinsurance in an attempt to manage this credit risk.

The information gathered will allow the FSB to determine the company's credit risk to reinsurers as well as their key risk exposures in the various classes of business.

OVERALL REINSURANCE STRATEGY

An insurer must have a clearly thought through and very specific *reinsurance strategy* that has been approved by the board. The board and senior management must spend time on and be involved in the reinsurance purchasing decision-making process.

Some of the additional questions may be covered by the company's reinsurance strategy, therefore companies could refer to their strategy where appropriate. The additional questions consist of FIVE main sections, namely:

Catastrophe Cover - Details of catastrophe reinsurance are sought for both Life and Disability lines of business, Group and Individual;

Surplus Reinsurance;

Reinsurance exclusions;

Cancellation of reinsurance; and the

Total reinsurance picture

Statement G8 – ANNUAL CERTIFICATE OF COMPLIANCE

Statement G9 – DISCRETIONARY PARTICIPATION PRODUCTS REPORT ISSUED BY THE DIRECTORS

This statement is confidential and is not available for public inspection. Please refer to section 46(2) of the Act.

This statement is required in terms of Directive 147, which sets out the conditions for the issuing of Discretionary Participation Products.

Statement G10 – CROSS BORDER OPERATIONS

This statement is confidential and is not available for public inspection.

In this statement insurance companies are required to provide information on their off-shore insurance operations, such as branches and subsidiaries conducting insurance business in other jurisdictions and also the provision of other cross border insurance services e.g. outsourcing of the administration of an insurer, joint ventures and brokerage operations.

The information provided must include reinsurance business that is conducted on a cross border basis.

The purpose of the statement is for the Registrar to establish the full extent of all cross border activities of insurers.

The Registrar has the following specific objectives in mind regarding the requisite information-

- To monitor the group operations of insurance companies;
- To identify those jurisdictions with which the FSB may need to co-operate; and
- To identify, assess, prioritise, mitigate and monitor those key risks to insurance companies, which may adversely impact the said overall objective.

With regard to statements G15.1 & G15.2 the columns need to be completed in aggregate for all branches and subsidiaries. The free-floating columns need to be completed for individual branches and subsidiaries.

AGREED-UPON PROCEDURES TO BE PERFORMED BY THE AUDITORS OF LONG-TERM INSURERS WHEN REPORTING ON PART II OF THE DECLARATION BY AUDITORS CONTAINED IN STATEMENT G7 OF THE LONG-TERM RETURN

INDEPENDENT AUDITOR'S REPORT OF [INSERT NAME OF LONG-TERM INSURER] TO THE REGISTRAR OF LONG-TERM INSURANCE

We have audited the following statements of the Long-term Insurance Statutory Return (the Return) of [insert name of long-term insurer] (the Insurer) for the year ended [insert date], in compliance with section 19(7) read with sections 19(8) and 19(9) of the Long-term Insurance Act, 1998 (the Act):

- Statement B1 (totals of items 1, 2, 3 and 4 of column 3 only).
- Statement C1 (total assets as per column 14 only)
- Statement C2 (totals of items 1 and 2 as set out in column 15).
- Statement C2.1 (column 3 items 1.1 to 1.6 only)

- Statement C9 (column 14 only, excluding the split between approved and non-approved reinsurance premiums paid and outstanding)
- Statement D1 (column 3 only, excluding the detailed information provided under premiums and expenses in item 1)
- Statement D3
- Statement D4 (column 2 only).
- Statement E1 to E11.1
- Statements F1
- Statement H1 to H2.1

Our opinion on the Return extends only to that information and those statements in the Return as indicated above. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone, other than the Registrar of Long-term Insurance, for our work, for this report, or for our opinion expressed.

Director’s Responsibility for the Return

The directors are responsible for the preparation of the Return derived from information contained in the accounting records of the Insurer. This responsibility includes: ensuring that the Return is prepared in terms of the Act, related Regulations and Board Notices; in terms of the guidance manual for the completion of the Return; as well as applicable Directives issued by the FSB.

Auditor’s Responsibility

Our responsibility is to express an opinion on the Return based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain sufficient appropriate audit evidence that the amounts and disclosures in the statements of the Return listed in the first paragraph of this report are in compliance with the provisions of the Act, related Regulations and Board Notices; the guidance manual for the completion of the Return; as well as the applicable Directives issued by the FSB.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Return. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the Return, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and presentation of the Return in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the Return.

For the purposes of clarity we confirm that our audit included the following procedures and such other procedures as we considered necessary in the circumstances:

- Agreed the information contained in the statements of the Return listed in the first paragraph of this report to the books and records of the insurer.
- Determined, through inspection of appropriate documentation and enquiry of the management of the Insurer, whether the information contained in the statements of the Return listed in the first paragraph of this report was prepared in accordance with the provisions of sections 30, 31, 32, 33, 34 and Schedules 1 and 3 and Regulations 2 to the Act.

We believe that the audit evidence we have obtained as part of our audit of the annual financial statements for the year ended [*insert date*], together with additional evidence obtained as part of our audit of the Return is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the above information and Schedules included in the Return of [*insert name of long-term*

insurer] has been properly prepared, in all material respects, in accordance with the provisions of the Act, related Regulations and Board Notices; the guidance manual for the completion of the Return; as well as the applicable Directives issued by the FSB.

Regulatory Matters

We have complied with the provisions of section 19(5) of the Act.*

Restriction on Distribution or Use of the Auditor's Report

Our report is presented solely for the purposes set out in the first paragraph of the report and for the information of the Registrar of Long Term Insurance, and is not to be used for any other purpose, nor to be distributed to any other parties without our prior written permission. Our report relates only to the information and statements included in the Return specified above, and does not extend to the annual financial statements of the insurer, taken as a whole.

[Name of registered audit firm]

[Individual Registered Auditor's name and signature]

Registered Auditor

[Date of the registered auditor's report]

[Registered Auditor's address]

* Section 19(5) of the Act refers to a material irregularity as defined in the Public Accountants and Auditors Act, 1991, Act 80 of 1991. This Act has been repealed by the Auditing Profession Act, 2005, Act 26 of 2005, which replaces Section 20(5) of the Public Accountants and Auditors Act with a new Section 45 dealing with Reportable Irregularities. Guidance on reporting a Reportable Irregularity can be found in the Independent Regulatory Board for Auditors Guide, *Reportable Irregularities: A guide for Registered Auditors*, issued on 30 June 2006.