

**NON-BANK FINANCIAL
INSTITUTIONS REGULATORY
AUTHORITY
(NBFIRA)**

INSURANCE PRUDENTIAL RULES

In terms of Section 50 of the NBFIRA Act

IPR2L

Prescribed Valuation Method
and Admissibility Restrictions
Long-Term Insurance Assets

Effective March 1, 2012

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1. Introduction

1.1. Insurance Prudential Rules

1. The NBFIRA's Insurance Prudential Rules (IPRs) set out the prudential requirements for regulated insurers operating in Botswana.
2. This note sets out in draft form material that may form the basis of IPR2L.

1.2. Definitions

3. In these Requirements, unless the context indicates otherwise:
4. "Act" means the Insurance Industry Act [reference] and a word or expression to which a meaning has been given in the Act, has that meaning;
5. "capital requirement", in relation to a non-bank financial institution, means the capital or solvency margin, as the case may be, required for that institution by the regulatory authority concerned;
6. "cash" means a bank notes and coins issued or caused to be issued in terms of the Bank of Botswana Act, 1996 (Act No. 19 of 1996);
7. "cell", represents an equity participation as shareholder in a different class of shares that is restricted to the results of the insurance business which the shareholder places in a licensed long or general insurer; the results of such business are determined in accordance with an agreement with the participating shareholder; the different class of shares has specified dividend rights and/or capital risk financing;
8. "corporate bonds" means securities and loans, other than government bonds, which are issued by a body corporate registered in terms of a law of Botswana;
 - a. Listed on the Botswana Stock Exchange provided that the Regulatory Authority has approved the listing criteria; or
 - b. Otherwise approved by the Regulatory Authority for the purposes of these Prudential Rules generally by notice subject to the conditions determined by the Regulatory Authority and specified in the notice;
9. "credit balances" means a credit balance in an account with, or a deposit, including a negotiable deposit and a bill accepted by, or a promissory note issued by,
 - a. An institution registered under the Banking Act, 1995 (Act No. 13 of 1995); or
 - b. An institution incorporated outside of Botswana which would have been a banking institution under the Banking Act;
10. "fair value" means the fair value of an asset determined by reference to the Botswana Statements of Generally Accepted Accounting Practice;
11. "GAAP" means Botswana Framework of Generally Accepted Accounting Practice;
12. "government bonds" means securities issued by:
 - a. The government of;

- b. A local authority or regional council in; or
 - c. a body corporate established by a law of Botswana which securities have been approved by the Regulatory Authority for the purposes of these Prudential rules generally by notice and subject to the conditions determined by the Regulatory Authority and specified in the notice.
13. "group undertaking", in relation to an insurer, means a juristic person in which the insurer alone, or with its subsidiaries or holding company, directly holds 20% or more of the shares, if the juristic person is a company, or 20% or more of any other ownership interest, if the juristic person is not a company;
14. "investment subsidiary" in relation to a long term insurer, means a company:
- a. Which by virtue of shareholding voting power, power to appoint directors, or otherwise, is controlled by the long term insurer concerned;
 - b. Which is used by the long term insurer concerned for holding investments;
 - c. Whose shares are not listed on the Botswana Stock Exchange (BSE)
15. "listed" means listed on a stock exchange or similar trading facility, which is recognised generally by the international community of institutional investors;
16. "long term policy" means long term policy as defined in the Insurance Industry Act;
17. "net asset value", in relation to a group undertaking, means its net asset value calculated in accordance with section 1.5 below;
18. "net liabilities" means the net of reinsurance liabilities in respect of which the long term insurer is required to hold assets in Botswana in terms of section 43;
19. "non-bank financial institution" means a non-bank financial institution as defined in the Non Bank Financial Institutions Regulatory Authority Act, CAP 46:08;
20. "policy" means a long term policy;
21. "property company" means a company -
- a. Whose ownership of -
 - i. immovable property; or
 - ii. all of the shares in a company
 - aa. whose principal business consists of the ownership of immovable property; or
 - bb. which exercises control, over a company as a controller, as defined in Non Bank Financial Institutions Regulatory Authority Act, CAP 46:08, whose principal business consists of the ownership of immovable property; or
 - b. Which derives 50 per cent or more of its income, in the aggregate, from:
 - i. investments in immovable property;

- ii. investments in another company which derives 50 per cent or more of its income from investments in immovable property; or
22. which exercises control, which exercises control, over a company as a controller, as defined in Non Bank Financial Institutions Regulatory Authority Act, CAP 46:08, referred to in paragraph (a) or (b); “related party”, in relation to a long term insurer, is a related party as defined in the glossary of the International Financial Reporting Standards (IFRS):
23. “share” means an interest in the capital of that body; includes share stock;

Valuation of Assets

1.3. Valuation Methodology

24. The requirements, as set out in this Prudential Rule, relating to the valuation of a long term insurer's assets as required by NBFIRA for solvency purposes is broadly based on the South African and Namibian insurance asset regulations. The reasons for adopting this framework include the desires for harmonisation and for efficiency in designing a framework for Botswana.
25. Valuation of assets is set out in detail in this Insurance Prudential Rule. In principle, assets must be valued at fair value, except where indicated otherwise. The main exception to the use of fair value is in respect of the valuation of group undertakings. In addition, certain assets or a portion thereof must be disregarded for solvency purposes. Section 1.6 of IPR2L addresses asset admissibility.
26. If in the opinion of the Regulatory Authority a value determined in respect of an asset by an insurer is not a fair estimate, the value thereof shall be the amount as determined by the Regulatory Authority.

1.4. Valuation of Group Undertakings

27. The value of a group undertaking must be limited to the percentage of the shareholding or other ownership interest of the insurer in the group undertaking, multiplied by the lower of the fair value or net asset value of the group undertaking.
28. If the group undertaking is listed, the value in paragraph 27 may be increased by:
29. A multiplied by f,
- where:
- A** equals the difference between the fair value and the net asset value of the group undertaking, provided that A must be taken as nil if the net asset value is more than the fair value;
- f** is the lower of 20% and the percentage of the holding by the insurer in the group undertaking.
30. If a group undertaking is not a non-bank financial institution, and its fair value is less than 0,25% of the value of the net liabilities plus BPCT of the insurer, it may be valued at fair value, notwithstanding paragraph 27.
31. If there is more than one group undertaking as contemplated in paragraph 30, each may be valued at fair value, provided that their combined fair value is not more than 2,5% of the value of the net liabilities plus BPCT of the insurer. If their combined fair value is more than 2,5% of the value of the liabilities of the insurer, only so many of them, selected by the insurer, as will have a combined fair value of not more than 2,5% of the value of the net liabilities plus BPCT of the insurer, may be valued at fair value. The others must then be valued as required by paragraph 27.

32. If an insurer holds shares, directly or indirectly through a subsidiary or a trust, in its holding company, the value of those shares must for purposes of valuation be limited to the following:
 - a. 5% of the value of the liabilities plus BPCT of the insurer if the holding company is listed;
 - b. Nil if the holding company is not listed.
33. Paragraph 32 applies also where the insurer, directly, or indirectly through a subsidiary or trust, holds shares in its holding company under a share incentive scheme linked to shares in its holding company.
34. Paragraph 32 does not apply where the insurer holds shares in its holding company under a collective investment scheme, an index-based investment scheme or any similar investment scheme that is recognised generally by the international community of institutional investors.
35. If an insurer has a cell in a licensed insurer, the value of those shares must for the purposes of valuation be limited to the fair value of the admissible assets held in the cell less the sum of the value of its liabilities and its capital requirement as reported by the insurer (that issued the cell) in respect of that cell.
36. If a negative asset value is reported in 35 and the shareholders' agreement stated that the insurer that owns the cell is accountable for losses and/or solvency, a liability must be raised for the full negative net asset value.

1.5. Net Asset Value of a Group Undertaking

37. If the group undertaking is a non-bank financial institution
 - a. The net asset value of the group undertaking is the value of its assets, less the sum of the value of its liabilities and its capital requirement.
 - b. These values must be calculated as required by the regulatory authority concerned.
 - c. If the group undertaking is a company, and its main business is insurance business, the insurer must, in calculating these values, exclude so much of its capital and reserves as shareholders, other than the insurer, may withdraw in cash when they cease to be shareholders, in terms of the articles of association of, or a contract with, the group undertaking.
38. In other cases
 - a. The net asset value of the group undertaking is the value of its assets, less the value of its liabilities.
 - b. If the group undertaking carries on most of its business in Botswana, these values must be calculated in accordance with GAAP.
 - c. If the group undertaking carries on most of its business in another country, these values must be calculated in accordance with accounting standards generally accepted in that country.

- d. In calculating these values, the assets listed in section 1.6 must be excluded, to the extent that, according to the insurer, they can be ascertained with reasonable effort and are material.

1.6. Inadmissible Assets

39. The following assets shall be excluded in determining the value of assets in terms of section 1.3:

- a. Any amount which remains unpaid after the expiry of a period of 12 months from the date on which it became due and payable;
- b. Any amount representing administrative, organisational or business extension expenses incurred directly or indirectly in the carrying on of long term insurance business;
- c. Any amount representing goodwill assets, trademarks or items of a similar nature;
- d. Any amount representing a negative liability in respect of a long term policy in terms of which the long term insurer concerned provides or undertakes to provide a policy benefit: Provided that this provision shall not be construed as precluding the deduction of a negative liability in respect of a long term policy from liabilities;
- e. Any amount representing a prepaid expense or deferred expense;
- f. Any amount representing a reinsurance contract in terms of which the long term insurer is the policyholder, except to the extent that it represents a claim against a reinsurer in terms of the allowable reinsurance contract;
- g. Any amount representing an outstanding premium (irrespective of whether or not it has been paid to an insurance agent or insurance broker) or a deferred instalment of a premium that has been outstanding for more than 90 days, other than:
 - i. An amount due to it under a reinsurance policy; or
 - ii. A premium that is secured under automatic non-forfeiture conditions against the surrender value of a life policy; that has not actually been received by the insurer, (even if it has been received on its behalf by a broker or other intermediary); and
- h. Any asset title which is held by a person other than the insurer; other than:
 - i. A security or other document endorsed in favour of a bank solely for the purpose of collection or realisation of any interest, bonus or dividend; or
 - ii. Assets held on trust for the insurer in compliance with any direction given under the Act, except the extent that their value exceeds the amount or proportion specified in the direction;

1.7. Limits of Investment

40. The value of the assets which every long term insurer and reinsurer is, subject to the provisions of paragraph 41 below, required to hold in Botswana in respect of its long term insurance business in terms of paragraph 43 shall in respect of the kinds or categories of assets set out in the first and second columns of Section 0 below, not exceed the percentage set out opposite each such kind or category of asset in the third column of that table, which percentage expresses a percentage of the net liabilities plus BPCT of the long term insurer: Provided that:
- a. Assets of the kinds or categories referred to in items 3.6 to 3.11, inclusive, in the first column of that table held in respect of long term insurance business shall not exceed 75 per cent of the net liabilities plus BPCT of the long term insurer; and
 - b. Assets of the kinds or categories referred to in items 3.6 and 3.7 in the first column of that table held in respect of long term insurance business shall not exceed 70 per cent of the net liabilities plus BPCT of the long term insurer.

1.8. Limits on Kind

41. The assets which every registered insurer and reinsurer is required to hold in terms of paragraph 40 shall, but without any limitation per kind of assets, include:
- a. Cash on hand in a currency which is legal tender in Botswana; and
 - b. Assets of the kinds referred to in items 3.2 and 3.3, inclusive, of Section 3: Provided that the limitations per institutions set out in items 3.2 of Section 3 shall apply there-to

1.9. Assets Held in Investment Subsidiaries

42. When determining the limitations on the kinds of assets referred to in Section 3 the look through principle should be applied to interests in investment subsidiaries. The assets held by investment subsidiaries should be considered and not the type of instrument between the insurer and the investment subsidiary. The underlying assets of the investment subsidiary should be allocated to the amount of the insurer's interest in the investment subsidiary on a proportional basis.

1.10. Limitation on Foreign Investment

43. Every registered insurer shall hold assets in Botswana in accordance with section 32 of the Act.
44. Notwithstanding the provisions of paragraph 43 no insurer shall in respect of its long term insurance business invest more than 50 percent of its **total** assets outside Botswana. Provided that assets consisting of shares in a company incorporated outside Botswana shall, if such shares have:
- a. been designated by the Regulatory Authority for the purpose of this paragraph; and
 - b. been acquired on the Botswana Stock Exchange
- be regarded as assets invested in Botswana.

1.11. Regulatory Authority's Exemption

45. The Regulatory Authority may on prior written application by the insurer in writing exempt the insurer from any of the provisions of this insurance prudential rule subject to such conditions as it may determine.

Kinds of Assets to be Held

The following table sets out the kind of assets that may be held by a long term insurer together with limits on admissibility for calculating excess assets.

| Kind of Asset | Description of Asset | Maximum Admissible Percentage of Net Liabilities plus BPCT |
|-----------------------------|--|--|
| 3.1 Cash | Cash on hand in a currency which is legal tender in Botswana | No limit |
| 3.2 Credit Balances | <p>Credit balance in a current or savings account with, or a deposit (including a negotiable deposit) accepted by, a banking institution or a building society or money market instruments in terms of which such banking institution or building society is liable, including the paid up shares of a building society or deposits in other institutions</p> <p>a) Per banking institution b) Per building society c) Other permitted deposit taking institutions as defined under the Banking Act.</p> | <p>20% 20% 20%</p> |
| 3.3 Government Bonds | <p>Bills, bonds or securities to, guaranteed by or issued by the Government of Botswana or any statutory body or local authority in Botswana that is approved by the Regulatory Authority</p> <p>a) Government securities b) Local authorities or regional councils authorised by law to levy rates upon immovable property c) Government infrastructure bonds d) Development bank bonds e) Other bonds issued by a body corporate established by a law of Botswana approved by the Regulatory Authority</p> | <p>No Limit 20% 20% 20% 20%</p> |
| 3.4 Corporate Bonds | <p>Listed and unlisted bills, bonds or securities issued by a body corporate registered in Botswana (in aggregate)</p> <p>a) Provided that the investment in an individual institution shall be limited to</p> | <p>20% 5%</p> |

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|----------------------------|--|------|
| | | |
| 3.5 Foreign Bonds | <p>Bills, bonds or securities issued by the government of or by a local authority in countries approved by the Regulatory Authority (in aggregate) 20%</p> <p>Bonds or securities issued by institutions, in countries approved by the Regulatory Authority, other than the government or local authorities (in aggregate) 20%</p> <p>a) Provided that the investment in an individual institution shall be limited to 5%</p> | |
| 3.6 Property | <p>Immovable property, units in unit trust schemes in property shares, and shares in, loans to and debentures, both convertible and non-convertible, or property companies 25%</p> <p>a) Provided that the investment in a single property or property development project shall be limited to 5%</p> | |
| 3.7 Shares | <p>Preference and ordinary shares in companies and related parties (but excluding shares in property companies and investment subsidiaries), convertible debentures, whether voluntarily or compulsorily convertible (but excluding such debentures of property companies), and units in collective investment schemes (but excluding units in collective investment schemes in property shares) held in respect of a long term insurance business 60%</p> <p>Provided that</p> <p>a) Shares and convertible debentures in a single company listed on the BSE, or listed on an exchange approved by the regulatory authority:</p> <p>i) with a market capitalisation of P700 million or less shall be limited to 10%</p> <p>ii) with a market capitalisation of more than P700 million shall be limited to 15%</p> <p>b) Unlisted shares in Botswana companies shall be limited to (in aggregate) 5%</p> | |
| 3.8 Related Parties | Loans to and non-convertible debentures of related parties | 2.5% |

| | | |
|--------------------------|--|-----------------------------------|
| | | |
| 3.9 Claims | <p>Claims secured by mortgage bonds on immovable property, debentures (listed and unlisted but excluding convertible debentures) or any other secured claims against natural persons. But excluding the following:</p> <ul style="list-style-type: none"> • Loans or advances on the sole security of domestic policies under which a insurer is liable • Outstanding premiums (including premiums debited to insurance agents, insurance brokers or reinsurance brokers) in respect of domestic policies under which a insurer is liable • Loans to investment subsidiaries, related parties and loans to and debentures of property companies <p>Provided that</p> <ul style="list-style-type: none"> a) Claims against any one natural person shall be limited to b) Claims against any single company shall be limited to | <p>25%</p> <p>0.25%</p> <p>5%</p> |
| 3.10 Equipment | <p>Computer equipment, furniture and other office machinery and motor vehicles used by a insurer in the course of its business in Botswana, shall be limited to</p> <ul style="list-style-type: none"> a) Computer equipment b) Other equipment and motor vehicles | <p>5%</p> <p>2.5%</p> |
| 3.11 Other Assets | <p>Any other assets from the following list may be held, but in total shall be limited to</p> <ul style="list-style-type: none"> a) Loans or advances on the sole security of domestic policies under which a insurer is liable b) Outstanding premiums (including premiums debited to insurance agents, insurance brokers or reinsurance brokers) in respect of domestic policies under which a insurer is liable and which have | <p>2.5%</p> |

| | |
|--|--|
| | <p>been outstanding for less than 60 days since the date on which they became due and payable.</p> <ul style="list-style-type: none">c) Any other secured claims against companies or other associations incorporated in Botswana or natural persons resident in Botswanad) Other assets approved by the Regulatory Authority, subject to conditions determined by the Regulatory Authority |
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