INSURANCE AND PENSIONS COMMISSION

GUIDELINE FOR THE INSURANCE AND PENSIONS INDUSTRY ON ADJUSTING INSURANCE AND PENSION VALUES IN RESPONSE TO CURRENCY REFORMS

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AUTHORISATION

This Guideline for the Insurance and Pensions Industry on Adjusting Insurance and Pension Values in Response to Currency Reforms is issued in terms of Section 3 (1) (a) of Statutory Instrument 69 of 2020, which empowers the Insurance and Pensions Commission to issue guidelines and standards following currency conversions.

SECTION A: DEFINITIONS AND INTERPRETATIONS

1. Definitions and Interpretations

1.1. In this Guideline framework:

1.1.1. "**Determination date**" shall mean the 31st of December 2018.

1.1.2. **"IPEC**" shall mean the Insurance and Pensions Commission.

1.1.3. "**Measurement date**" shall mean all future half or full years at which Revaluation gains will be determined and allocated, the first of which being the 31st of December 2019.

1.1.4. "**Revaluation Actuary"** shall mean the statutory actuary approved by IPEC, whose work shall be peer reviewed by an independent actuary. IPEC reserves the right to change the definition of the Revaluation Actuary.

1.1.5. **"Revaluation Gains"** shall mean any gain arising from the effects of currency reforms and inflation on the value of assets and liabilities measured as of the Determination Date, and as calculated on each future Measurement Date.

1.1.6. "**Ring-Fenced Assets and Liabilities**" shall mean the value of assets and liabilities calculated as of the Determination Date in accordance with the provisions of this Guideline.

SECTION B: INTRODUCTION AND BACKGROUND

2. Introduction

2.1. The Insurance and Pensions Commission (hereunder referred to as IPEC or "Commission") regulates, supervises and monitors the insurance and pension industry in Zimbabwe for the protection of policyholders and pension scheme members.

2.2. The 2019 currency reforms triggered a rise in the inflation rate and instability in the exchange rate, which resulted in extraordinary gains, referred to as "*Revaluation Gains,*" in this Guideline, for most insurance companies and pension funds.

2.3. In line with its mandate of protecting policyholders and pension scheme members' interests, the Commission has issued this Guideline on the determination and treatment of the Revaluation Gains.

2.4. The guideline will, therefore, provide the key principles to be adhered to by all insurance companies and pension funds when determining and allocating Revaluation Gains that arose due to the currency reforms and inflation.

2.5. References in this Guideline to values in USD or to the USD-era shall be construed as anything denominated in USD or any of the other currencies that were legal tender under the multi-currency regime from 1 February 2009 through to 22 February 2019.

2.6. The measures have specifically been informed by lessons learnt from the 2008/2009 experience, which saw the industry employing its own strategies in the absence of standardised guidelines from monetary, fiscal and the supervisory authorities on how best to manage the currency changeover. This, according to the Commission of Inquiry into the conversion of Insurance and Pension Values, resulted in policyholders and pension scheme members being prejudiced as they received relatively small payouts, which was viewed as unfair treatment of policyholders and pension funds members.

3. Background

3.1. The period leading to 2008/2009 was characterised by hyperinflation, which resulted in the loss of value of the Zimbabwe Dollar (ZW$). Policyholders and pension fund members were not spared. This loss of value culminated in the abandonment of the old ZW$ and the introduction of the USD-dominated multi-currency regime on 1 February 2009.

3.2. The insurance and pensions industry is now faced with yet another challenge that is threatening pensioner and policyholder values.

3.3. Following the adoption of the USD-dominated multi-currency system in February 2009, insurance companies and pension funds began writing business and transacting primarily in the USD. The Reserve Bank of Zimbabwe (RBZ) introduced Bond Notes at par with the USD in October 2016 as an export incentive to ease cash shortages.

3.4. In the October 2018 Monetary Policy Statement, RBZ announced the separation of RTGS balances and FCA Nostro accounts for various foreign currencies' balances, while maintaining the 1:1 exchange rate between the USD and RTGS balances.

3.5. The policy measure triggered volatility in the foreign exchange market as the transacting public construed it as Government's admission that the Bond Note was not at par with the USD. Prices of most goods were then repriced in RTGS values to reflect the prevailing USD exchange rate.

3.6. In the February 2019 Monetary Policy Statement, the Central Bank introduced a new currency, the RTGS Dollar, and adopted a managed floating exchange rate regime thereby abandoning the 1:1 parity exchange rate between the USD and the RTGS. The opening exchange rate on 20 February 2019 was pegged at 1:2.5 and since then, the local currency has continued to depreciate against the USD.

3.7. The creation of the official trading mechanism of RTGS balances and Bond Notes with international currencies via the interbank market, among other monetary policy measures, was meant to restore price stability, domestic competitiveness and promote economic growth. The adopted policy measures, however, resulted in unintended negative side-effects, which among others, an adverse impact on the insurance and pensions industry, accounting and valuation challenges in the recognition of assets and liabilities in financial statements.

3.8. On 24 June 2019, the RTGS and Bond Notes were introduced as the sole legal tender and renamed as the new Zimbabwean Dollar (ZW$). All other currencies were abolished and were no longer accepted as payment for local purchases except for eligible international payments. Foreign currency bank accounts remained legal for entities and individuals who earn foreign currency but use and transactions of deposits in these accounts is limited to payment for foreign goods and services.

3.9. As a result of currency reforms and other Government measures, insurance companies and pension funds converted all insurance contracts' sums insured, all pension balances in insurance company deposit administration and defined contribution funds, all benefit amounts in insurance company annuity contracts, all benefit amounts for cash in lieu of funeral policies and all benefits in pay status for defined benefit funds from USD to ZW$ at a 1:1 exchange rate.

SECTION C: A SUMMARY OF THE MONETARY REFORMS AND THEIR IMPLICATION ON THE INSURANCE AND PENSIONS INDUSTRY

4. Legislation Framework in Respect of Monetary Reforms

4.1. Pursuant to the monetary reforms implemented by the Government of Zimbabwe during the period 1 February 2009 to 30 December 2020, 11 Statutory Instruments (S.Is.) have been gazetted to give legal effect to the reforms. The table below summarises the provisions of each of these statutory instruments:

Table 1: Summary of Statutory Instruments on Monetary Reforms

Date	**Statutory Instrument**	**Provisions of S.I.**
1 February 2009	Finance Act No. 2	Introduction of the USD-dominated multi-currency regime
12 June 2015	S.I. 70 of 2015	Demonetisation of the old Zimbabwe Dollar (ZW$) notes and coins
31 October 2016	S.I. 133 of 2016	Introduction of the Bond Note
4 October 2018	Exchange Control Directive RT120/18	Separation of NOSTRO FCA from local currency accounts
22 February 2019	S.I. 32 of 2019	Recognition of RTGS dollar as legal tender (currency)
22 February 2019	S.I. 33 of 2019	Recognition of RTGS dollar as legal tender and requires, among other things, that all financial accounts expressed in the USD as of 22 February 2019 (except for FCA Nostro Accounts) shall be deemed to be expressed in the RTGS dollar using the rate of 1:1.

Date	**Statutory Instrument**	**Provisions of S.I.**
		Provision for the opening parity rate of 1:1 to be varied as determined by the rate at which authorised dealers exchange the RTGS dollar for the US dollar on a willing-seller willing-buyer basis.
1 March 2019	S.I. 41 of 2019	Requirement that all companies adopt the International Reporting Standards prescribed and adopted by the PAAB (the standards are listed in the instrument) and the same to be used by preparers of financial statements and auditors.
24 June 2019	S.I 142 of 2019	Removal of the USD-dominated multi-currency regime and its replacement with the new Zimbabwe Dollar (ZW$)
27 June 2019	S.I. 212 of 2019	Exclusive use of the ZW$ for domestic transactions
27 June 2019	S.I. 213 of 2019	Grants RBZ power to impose civil fine for violations of foreign currency rules
27 November 2020	SI 280 of 2020	Insurance and pensions business to transact in foreign currency using free funds

4.2. In addition, on 22 February 2019, the Reserve Bank of Zimbabwe, issued the Exchange Control Directive (RU28/2019) to Authorised Dealers in terms of Section 35 (1) of the Exchange Control Regulations, published through Statutory Instrument

109 of 1996. The directive provided the administrative framework to operationalise the foreign exchange measures contained in the Monetary Policy Statement announced by the Governor of the Reserve Bank of Zimbabwe on 20 February 2019.

4.3. The directive, among other factors, provided for the establishment of an interbank foreign currency market, retention thresholds on exports proceeds, administration of exports proceeds, import payments and registration of foreign liabilities and legacy debt.

4.4. Furthermore, in view of the Monetary Policy announcement and the ensuing legislation, the Public Accountants and Auditors Board (PAAB) issued guidelines for preparers and auditors, including those operating in the insurance and pensions industry.

5. Implications of the Reforms on the Insurance and Pensions Industry

5.1. Statutory Instruments 33 and 142 of 2019 were interpreted to require conversion of sums assured from USD to RTGS on 22 February 2019 at 1:1, and from RTGS to ZW$ on 24 June 2019 at 1:1 for the following:-

- 5.1.1. Life insurance policies;
- 5.1.2. Account balances under Deposit Administration contracts;
- 5.1.3. Benefit payments under insurance company annuity contracts and cash in lieu of funeral policies;
- 5.1.4. Balances in defined contribution pension funds; and
- 5.1.5. Accrued benefits under defined benefit pension funds.

5.2. Consequently, a life insurance policy with a sum assured of **USD 100,000** on 22 February 2019 would now have a sum assured of **ZW$ 100,000** on 24 June 2019.

5.3. This currency reform process resulted in Revaluation Gains as the change in the value of assets backing policyholder and pension fund members' liabilities are larger than the change in the liabilities based on a 1:1 conversion of policyholder and pension members' values from USD to ZWL.

5.4. The Statutory Instruments that govern the conversion of values in USD to values in RTGS and ZW$ do not prohibit insurance companies and pension funds from adjusting values in ZW$ to preserve reasonable policyholder expectations and provide fair value to customers.

SECTION D: OBJECTIVES, SCOPE AND EFFECTIVE DATE

6. Objectives of the Guideline

6.1. The primary objectives of this Guideline are to:

6.1.1. Ensure fair and equitable treatment of insurance policyholders and pension fund participants by insurance companies and pension funds following the 2019 currency reforms.

6.1.2. Provide standards/principles to be adhered to by the industry on treatment of revaluation gains emanating from the 2019 currency reforms. This will enhance uniformity and comparability of industry results on treatment of revaluation gains.

6.1.3. Provide standard methodologies to be used in determining and allocating revaluation gains.

6.1.4. Avoid a repeat of the 2008/2009 challenges that arose from lack of sufficient guidance from relevant authorities and professional bodies.

7. Scope/Application of the Guideline

The Guideline shall apply to all insurance companies and pension funds and shall cover adjustment of values due to the 2019 currency reforms for all in-force insurance contracts and pension benefits effective 1 February 2009 through to 22 February 2019, upon insurers, pension funds and administrators having been satisfied that distribution of the available assets for preceding years since dollarisation was carried out in a fair and equitable manner.

8. Effective Date

8.1. The effective date of this guideline will be 31 December 2018.

8.2. The guideline shall remain in application until the earlier of:

8.2.1. When the value of benefits in USD-equivalence as of the Determination Date has been fully restored;

8.2.2. Such earlier date as may be declared by IPEC.

SECTION E: AUDIT REQUIREMENTS AND GENERAL PRINCIPLES

9. Audit Requirements for the Purposes of this Guideline

9.1. While ideally the value of assets and liabilities should be determined as of 22 February 2019, these values may be difficult to calculate and are not subject to audit.

9.2. Therefore, for purposes of these calculations, audited values of assets and liabilities as at the Determination Date shall be used.

9.3. The audited accounts shall be prepared in accordance with this guideline, which requires setting up of sub-accounts.

9.4. For any future calculations of the Revaluation gains after the first Measurement Date,

- 9.4.1. The interim audited financial statements shall be used on half year measurement dates and;
- 9.4.2. Annual audited financial statements shall be used on end of year Measurement Dates.

10. General Principles in Treatment of Revaluation Gains

10.1. In determining and allocating the Revaluation Gains, insurers and pension funds shall observe the following general principles:

- 10.1.1. The adjustments in policyholder and pension funds participant values must result in a fair transition from contracts and pension benefits denominated in USD or any of the other currencies that were legal tender under the multi-currency regime, to contracts and pension benefits denominated in ZW$.
- 10.1.2. The adjustments shall not result in transfer of value/wealth between;
  - I. Old policyholders/scheme members and newer policyholders/scheme members, and;
  - II. Different types of products/contracts.

SECTION F: MEASUREMENT AND ALLOCATION OF REVALUATION GAINS

11. Steps when Measuring and Allocating Revaluation Gains

11.1. Insurance companies and pension funds are hereby directed to calculate Revaluation Gains due to currency reforms, their impact on inflation and exchange rates using the steps prescribed hereunder:-

11.2. Identify the assets backing policyholder and pension fund participants' liabilities as of the Determination Date; and at each Measurement Date:

- 11.2.1. revalue relevant insurance company and pension fund liabilities in ZW$ or any other acceptable legal tender at the time;
- 11.2.2. revalue insurance company and pension fund assets in ZW$ or any other acceptable legal tender at the time;
- 11.2.3. determine the amount of Revaluation Gains;
- 11.2.4. for insurance companies, equitably allocate Revaluation Gains between pension and insurance products, and then by type of insurance product and individual policyholder;
- 11.2.5. for defined contribution pension funds, equitably allocate Revaluation Gains between pension fund members and reserve funds; and
- 11.2.6. for defined benefit pension funds, equitably allocate Revaluation Gains among active members, deferred pensioners, pensioners and beneficiaries.

11.3. Revaluation Gains will be calculated and allocated as of the Measurement Dates.

11.4. Measurement Dates will remain bi-annually until IPEC issues Guideline allowing for a return to annual Measurement Dates.

12. Determination of Insurance Company and Pension Fund Assets for the Calculation of Revaluation Gains

12.1. Assets on the balance sheet of insurance companies and pension funds shall be held at fair value. Fair value is generally the price that would be received from the sale of an asset in an orderly market in an arms-length transaction between buyer and seller.

12.2. In determining fair value, insurance companies and pension funds shall adopt Guidelines on the calculation of fair value provided by various international bodies. In particular, the requirements of International Financial Reporting Standards (IFRS) number 13, should be considered in determining fair value.

12.3. Assets for purposes of calculating revaluation gains shall be valued on a going-concern basis rather than on a liquidation basis.

12.4. Insurers and pension funds shall use all means necessary to avoid selling assets under poor market conditions. Insurance companies and pension funds shall prepare analysis of expected asset, liability, income and expenditure cash flows in order to properly manage their liquidity position and avoid forced sales of assets when market prices are depressed. Sufficient assets in cash and cash-equivalents shall be maintained to meet expected cash flow needs.

12.5. However, section 10 and 19 of the Pension and Provident Funds Act *[Chapter 24:09]* and relevant sections of the Companies and Other Business Entities Act *[Chapter 24:03]* shall apply on dissolution of registered funds.

12.6. The fair value shall be determined using methods that would be used by market participants.

12.7. The basis of calculation of fair value shall be transparent and must be disclosed to all stakeholders.

12.8. Properties and unlisted equities shall be valued by independent and professional valuators.

12.9. Where fair values cannot be determined objectively, alternative valuation methods shall be used subject to sound judgement and justification.

12.10. The total value of assets on which alternative valuation methods shall be employed shall not exceed 10% of the total value of assets, unless prior written approval has been granted by the Commission.

13. General Principles for Valuation of Actuarial Liabilities

13.1. At each subsequent Measurement Date, the Revaluation Actuary shall determine the value of actuarial liabilities using appropriate actuarial assumptions and methods by adhering to the following broad principles: -

I. Updating of the assumptions, commencing 31 December 2020, to reflect economic environment shall not result in zerorisation of liabilities at product line level or aggregate level.

II. Liabilities at successive Measurement Dates shall be relatively stable unless there was a major strategic initiative such as a merger or acquisition.

III. The methods or assumptions used shall not result in incorrect revaluation gains available for distribution to members/ policyholders.

13.2. In cases where assumptions are updated, the Revaluation Actuary shall provide justification, which shall be submitted to the Commission together with other submissions required in terms of this Guideline.

14. Calculation of Insurance Company Liabilities: Deposit Administration Contracts

14.1. Liabilities in USD as of the Determination Date for Deposit Administration (DA) contracts issued by life insurance companies are equal to the sum of policyholder balances in the DA contract (which includes both vested and non-vested bonuses and any contribution arrears as of the Determination Date) plus the value of the smoothing fund.

14.2. These liabilities as of the Determination Date, including both policyholder accounts and the smoothing fund as of that date, shall be "ring-fenced" and accounted for separately from all other Deposit Administration liabilities of the insurance company.

14.3. Existing policyholders on the Determination Date shall have two sub-accounts:

I. **Sub-Account 1**: equal to the account balance in USD on the Determination Date plus, bonuses on related assets, and allocations from the smoothing fund; and

II. **Sub-Account 2**: equal to zero.

14.4. Where a Fund received contributions in foreign currency after 31 December 2019, a third Sub Account shall be created.

14.5. All USD contributions/premiums received between 1 January 2019 and 31 December 2019 shall, therefore, remain accounted for in Sub Account 2 at the prevailing exchange rate unless the fund/insurer had been accounting for this separately.

14.6. Policyholders/pension fund members who joined after the Determination Date shall contribute to Sub Accounts 2 and 3.

14.7. Where an employer pays a salary as a combination of ZW$ and foreign currency, contributions shall be directed towards Sub Accounts 2 and 3 respectively.

14.8. Separate smoothing funds shall also be maintained for Sub-Accounts 1, 2 and 3. The smoothing fund for each Sub-Account must be separated between balances due to Revaluation Gains and balances for other reasons.

14.9. The level of the smoothing funds shall be kept within reasonable and acceptable limits, and the insurer or pension fund shall ensure that members or policyholders who are exiting have a fair and equitable access to the smoothing funds.

14.10. Liabilities for contributions made after the Determination Date in the local currency shall be maintained in Sub-Account 2 for each participant. This account will not be eligible for credits due to Revaluation Gains from Sub-Account 1 but may be eligible to Revaluation Gains attributable to Sub- Account 2.

14.11. Liabilities for Sub-Account 3 shall be based on the credits in that sub-account.

14.12. New individual participants under existing and new DA contracts will participate in Sub-Account 2 only.

14.13. Liabilities as of future Measurement Dates for Sub-Account 1 of DA contracts shall be equal to:

I. The value as of the prior Measurement Date, adjusted for inflows and outflows to participant accounts;

II. **plus,** the amount of allocated vested and non-vested bonuses;

III. **plus,** the amount of allocated Revaluation Gains;

IV. **plus,** the amount in the Sub-Account 1 smoothing fund.

14.14. Liabilities as of future Measurement Dates for Sub-Account 2 of DA contracts shall be equal to:

I. The value as of the prior Measurement Date, adjusted for inflows and outflows to participant accounts;

II. **plus,** the amount of allocated vested and non-vested bonuses;

III. **plus,** the amount of allocated Revaluation Gains in sub-Account 2 if any;

IV. **plus,** the amount in the Sub-Account 2 smoothing fund.

14.15. Liabilities as of future Measurement Dates for Sub-Account 3 of DA contracts shall be equal to:

I. The value as of the prior Measurement Date, adjusted for inflows and outflows to participant accounts;

II. **plus,** the amount of allocated vested and non-vested bonuses;

III. **plus,** the amount of allocated Revaluation Gains in Sub-Account 3, if any; and

IV. **plus,** the amount in the Sub-Account 3 smoothing fund.

14.16. Therefore, the total liabilities for DA contracts at each Measurement Date will be equal to:

I. liabilities in Sub-Account 1;

II. **Plus,** liabilities in Sub-Account 2;

III. **Plus,** liabilities in Sub-Account 3 converted at the official exchange rate.

14.17. No Sub-Accounts shall be required for funds, which were made paid up before the Determination Date.

14.18. For funds that were paid up after the Determination Date, Sub-Account 1 and Sub-Account 2 shall be required.

14.19. In the event that a paid-up fund received contributions in foreign currency after the Determination Date, Sub-Account 3 shall be required.

14.20. All Sub Accounts must be physically separated in terms of both assets and liabilities by 31 December 2021.

15. Calculation of Pension Fund Liabilities

15.1. Liabilities as of the Determination Date and future Measurement Dates for fully insured pension funds shall be determined using the rules in Section 14 of this Guideline for DA contracts. Liabilities for all self-administered pension funds shall be determined using this section of the Guideline.

15.2. Liabilities as of the Determination Date for defined contribution pension funds subject to adjustment for Revaluation Gains are:

I. the balances in individual participant accounts (including vested and non-vested bonuses and any contribution arrears);

II. **plus,** the value of any reserves as of the Determination Date.

15.3. These liabilities as of the Determination Date, shall be "ring-fenced" and accounted for separately from all other defined contribution funds liabilities of the pension fund.

15.4. Existing defined contribution pension funds members on the Determination Date shall have two sub-accounts:

I. Sub**-Account 1**: equal to the account balance in USD on the Determination Date plus any future credits to the account due to Revaluation Gains, investment return on related assets, and allocations from reserves; and

II. **Sub-Account 2**: equal to zero.

15.5. Where a Fund received contributions in foreign currency after 31 December 2019, a third Sub Account shall be created.

15.6. To avoid revision of bonuses already declared as at 31 December 2019, all USD contributions received between 1 January 2019 and 31 December 2019 shall be accounted for in Sub Account 2 unless the fund had been accounting for this separately.

15.7. Pension fund members who joined after the Determination Date shall contribute to Sub-Accounts 2 and 3.

15.8. Where an employer pays a salary as a combination of ZW$ and foreign currency, contributions shall be directed towards Sub-Accounts 2 and 3 respectively.

15.9. Separate reserves shall also be maintained for Sub-Accounts 1 and 2. The reserve for Sub-Account 1 must be separated between balances due to Revaluation Gains and balances for other reasons. Reserves for Sub-Account 2 will be reserves due to contributions made in currencies other than USD on or after the Determination Date.

15.10. Liabilities for contributions made after the Determination Date in currencies other than USD shall be maintained in Sub-Account 2 for each participant. This account will not be eligible for credits due to Revaluation Gains from Sub-Account 1 but may be eligible to Revaluation Gains attributable to Sub-Account 2.

15.11. New individual pension fund members will participate in Sub-Accounts 2 and 3 where applicable.

15.12. Liabilities as of future Measurement Dates will be equal to the balance as of the prior Measurement Date, adjusted for inflows and outflows to each individual's account, plus allocations of investment income and Revaluation Gains, plus allocations from the reserve fund to participant accounts (whether vested or non-vested), plus the balance of the reserve fund on the Measurement Date.

15.13. Liabilities for defined benefit pension funds are equal to:

I. present value of pension benefits expected to be paid in the future to current pensioners; plus

II. the present value of pension benefits accrued to the Measurement Date that are expected to be paid in the future, calculated under the funds' actuarial cost method and assumptions updated in line with section 13.

15.14. Liabilities in ZW$ for defined benefit funds on 31 December 2019, before any adjustments for bonuses or Revaluation Gains, shall be calculated using the same methods and assumptions used as of the Determination Date.

15.15. Liabilities for Measurement Dates after 31 December 2019 shall be calculated using the benefit amount after allocation of all previous Revaluation Gains, but before allocation of such gains and bonuses for the current period and using the same actuarial cost method and assumptions updated in line with section 13.

16. Calculation of Insurance Company Liabilities: Life Insurance Contracts

16.1. Technical liabilities for life insurance companies, for life insurance contracts as of the Determination Date are equal to the reserves, calculated in accordance with standard international actuarial practice and reported in the audited financial statements of the life insurance company as of the Determination Date, held for future policyholder benefits, subject to the provisions of Sections 16.2 and 16.10. Such liabilities generally arise from pension annuities and life insurance products providing protection for the whole of life or for long periods of years.

16.2. Such reserves shall be calculated using the principles for calculating gross premium reserves and shall take into account:-

I. the present value of benefits expected to be payable under the contract in the event of death, lapse, disability, retirement, at contract maturity, surrender and under other circumstances;

II. **plus,** the present value of expected future expenses; and

III. **less** the value of expected future gross premiums.

16.3. The present value of benefits shall take into account reasonable policyholder expectations of future bonuses that were anticipated in the pricing of the product.

16.4. Particular attention shall be paid to the manner in which expenses are allocated between pension and insurance lines of business, and among different products, and shall properly reflect the difference between acquisition and renewal expenses.

16.5. Liabilities for life insurance products, subject to adjustment, are those policies that were denominated in USD or other multi-currencies and were in force on the Determination Date. This includes:

I. with-profit policies;

II. non-profit policies and;

III. funeral insurance policies, whether term or for whole life, and whether payments are made in cash and/or in goods and services.

16.6. Assets and liabilities for these policies shall be "ring-fenced" and accounted for separately from assets and liabilities arising from new policies issued after the Determination Date and denominated in ZW$.

16.7. Liabilities in USD as of the Determination Date for all pension annuities issued by life insurance companies shall be equal to the reserves, calculated in accordance with Section 16.2 above and reported in the audited financial statements of the life insurance company as of the Determination Date.

16.8. This Guideline requires an insurer to give the policyholder the option to make a policy paid up or continue with the existing policy.

16.9. In the event that a policyholder exercises the paid-up option, the Guideline requires the use of reserves for life insurance policies on the Determination Date to calculate the amount of paid-up insurance denominated in USD that can be purchased with the reserves on the Determination Date. The penalties imposed by the insurer for early terminations should be within reasonable and acceptable levels. Such calculations shall be determined using assumptions appropriate for policies issued in USD as of the Determination Date. This calculation would determine the paid-up sum assured in USD/ZW$ prior to adjustment for Revaluation Gains. Consequently, the reserves for these policies on the Determination Date before and after the purchase of paid-up insurance will be the same. Since the policies will be paid-up, no future premiums are due after the Determination Date, and any premiums that have been paid after the Determination Date shall be refunded to policyholders with adjustment for investment income, administrative expenses and cost of cover.

16.10. For policies with negative reserves, the insurer shall give the policyholder the option to either continue with the policy or end the contract.

16.11. At the election of the policyholder, funeral insurance contracts issued by life insurance companies providing benefits primarily through the provision of goods and services may remain in force, rather than applying the provision of Section 16.8 of this Guideline.

16.12. As of first Measurement Date, the liabilities for annuities and paid-up life insurance policies will be equal to the present value of expected future benefits using the same assumptions as was used to calculate reserves as of the Determination Date.

16.13. IPEC may require an insurance company to recalculate reserves as of the Determination Date, if the calculations were not made in accordance with standard actuarial practice.

17. Calculation of Funeral Insurance Company Liabilities

17.1. Funeral insurance companies shall calculate liabilities for whole life and term insurance products using the same actuarial rules and principles applicable to life insurance companies.

17.2. In particular, Section 16.11 of this Guideline shall apply mutatis mutandis to valuation of funeral assurance liabilities.

17.3. For purposes of calculating liabilities, funeral insurance companies shall place a monetary value on the services and/or groceries, which is equivalent to the cost of the funeral or other non-monetary benefits provided for in the funeral policy.

18. Calculation of Insurance Company Liabilities: Short-Term Insurance and Annually Renewable Group Insurance

18.1. Short-term insurance companies shall hold reserves including but not limited to the following: -

I. unearned premium reserves;

II. unpaid claims;

III. claims in course of settlement; and

IV. incurred but unreported claims.

18.2. These liabilities will be determined in accordance with acceptable reserving methods for short-term insurance policies.

18.3. Liabilities for policies issued for a period of 12 months or less with premiums and benefits denominated in USD shall remain in USD until expiration of the policy.

18.4. Exemptions to pay USD premiums shall only apply to short-term products exempted in terms of Circular 13 of 2019.

19. Calculation of the Aggregate Amount of Revaluation Gains for Insurance Companies

19.1. Revaluation Gains arise as a result of the revaluation to ZW$ of insurance company assets and liabilities that were originally denominated in USD (including the resulting impact of revaluation on inflation and exchange rates) as of the Determination Date.

19.2. As of the Determination Date, assets shall be separated between those backing insurance company liabilities and free assets. The amount of assets backing insurance company liabilities shall be equal to those liabilities. Consequently, the surplus on the Determination Date for those policies is equal to zero. Any undistributed surplus/losses during the course of 2018 must be distributed so that assets and liabilities as of the Determination Date are the same.

19.3. Revaluation Gains shall be allocated to relevant policies prior to calculation and allocation of any other bonuses as of 31 December 2019 and each subsequent Measurement Date.

19.4. Revaluation Gains as of 31 December 2019 shall be equal to the value of ring-fenced assets in ZW$, less the value of ring-fenced liabilities in ZW$ for relevant policies, since the surplus on the Determination Date, by definition, is equal to zero.

19.5. The Revaluation Actuary shall clearly show a detailed analysis of surplus in the actuarial report.

19.6. After the calculation of Revaluation Gains, liabilities shall be adjusted as of 31 December 2019 using procedures outlined in this Guideline, so that the revaluation gain, measured after adjustments to benefits and liabilities, is once again equal to zero.

19.7. The revaluation gain on future Measurement Dates shall be calculated in a similar manner to 31 December 2019, allowing for a basis change as stipulated in section 13 of this Guideline.

19.8. Revaluation Gains on future Measurement Dates shall be allocated solely to those policies that were denominated in USD as of the Determination Date.

19.9. Allocation of Revaluation Gains does not relieve the insurance company of its obligation to calculate and allocate surplus arising from normal operations to with-profit policies.

20. Calculation of the Aggregate Amount of Revaluation Gains for Pension Funds

20.1. Revaluation Gains arise as a result of the revaluation to ZW$ of pension fund assets and liabilities that were originally denominated in USD (including the resulting impact of revaluation on inflation and exchange rates) as of the Determination Date.

20.2. The Revaluation Gain on 31 December 2019 will be equal to the difference between the value of ring-fenced assets and liabilities on 31 December 2019 compared with the difference on the Determination Date, both adjusted for actuarial gains and losses. The total amount of revaluation gain will be allocated to increase benefits of active, deferred, suspended, early exits and retired participants and beneficiaries.

20.3. A similar procedure will be applied on future Measurement Dates.

21. Distribution of Revaluation Gains by Line of Business and to Individuals for Life Insurance Companies

21.1. The portion of the Revaluation Gain that is realised during the year must be allocated to policyholders as vested bonuses. The remaining amount of the Revaluation Gain (primarily unrealised gains and losses) shall be allocated as non-vested bonuses to policyholders.

21.2. Those leaving the fund shall get a share of revaluation gains previously allocated in the smoothing account.

21.3. Revaluation Gains will be distributed between pension and life insurance products.

21.4. Revaluation Gains will be distributed in proportion to the distribution of assets backing the contracts subject to revaluation taking into account the source of revaluation gains. For instance, if 60% of the revaluation gains is from assets backing pension products, then 60% of the revaluation gains will be distributed to the pension line of business.

21.5. The distribution of assets by asset class will be presumed to be the same for pension and life products of insurance companies and for all lines of business unless:

21.5.1. The insurance company has regularly and continuously maintained separate investment policies and allocated investments to different lines of business for a minimum of five years prior to the Determination Date; or

21.5.2. The insurance company has used the different asset portfolios to regularly calculate bonuses on with-profit policies for pensions and insurance and for different types of insurance policies for at least the past five years.

21.6. For with-profit life insurance products, Revaluation Gains attributable to the life insurance line of business will be distributed to individual policies in proportion to their ring-fenced reserves on 31 December 2019. The amounts distributed will then purchase additional paid-up insurance for the same type of policy based on the age and sex of the participant. For example, the amount allocated to a 20-year endowment policy issued to a 40-year-old male that has 5 years remaining as of 31 December 2019, will be used to purchase an additional amount of 5-year endowment insurance based on rates applicable to a 55-year-old male. The paid-up insurance factors will be based on the same assumptions used to calculate premiums and reserves.

21.7. For without profit life insurance products, the Revaluation Gains attributable to these classes of policies shall be distributed equally between policyholders and shareholders.

21.8. Revaluation Gains attributable to pension annuity products will be used to increase the benefit in pay status for all participants. All pension annuity benefits will be increased by the ratio of Revaluation Gains allocated to the line of business divided by the liabilities for all pensioners as of 31 December 2019.

21.9. For DA contracts, Revaluation Gains shall be distributed in proportion to the adjusted account balance on 31 December 2019. The adjusted account balance is equal to the beginning balance on 31 December 2018, including vested and non-vested bonuses as of that date, plus the amount of any contributions during the year on the date the contribution was received and less the amount of any payouts calculated on the same basis. This same procedure shall be used on future Measurement Dates.

21.10. Once the adjusted account balance has been calculated for each participant in the DA contract in terms of section 13, the amount of any

Revaluation Gains will be allocated in proportion to the adjusted account balance.

21.11. Funeral insurance policies written by life insurance companies and paying only cash benefits shall be treated as term or whole life insurance, depending on its terms and conditions and will follow the procedures for all other life insurance policies.

21.12. Funeral insurance policies written by life insurance companies that provide benefits in goods and services, or a combination of goods and services plus cash may or may not have Revaluation Gains, since the reserve for the goods and services portion of the benefits will reflect the price for those services in ZW$.

21.13. Revaluation Gains on future Measurement Dates shall be allocated solely to those policies that were denominated in USD as of the Determination Date. However, the company shall have some offsetting Revaluation Gains on the cash portion of their benefits.

22. Distribution of Revaluation Gains for Funeral Insurance Companies

22.1. Funeral insurance companies refer to those companies that are licensed as funeral assurers and provide strictly funeral insurance only. Benefits under these policies either provide cash benefits and/or provision of goods and services.

22.2. Section 21.11 and 21.12 shall apply *mutatis mutandis* to policies issued by funeral insurance companies.

23. Distribution of Revaluation Gains for General Insurance Companies

23.1. Policies for which premiums were paid in full in USD and were still in force as of the Determination Date or a specific Measurement Date shall pay any claims incurred before the expiration date of the policy in USD. Amounts paid for policies where premiums were not paid in full in USD may require the payment of such premiums in ZW$ based on the amount due in USD and the inter-bank exchange rate on the date of payment.

23.2. Payments made by general insurance companies on or after 22 February 2019 shall, at the policyholder's option, be paid in USD (if permitted for that company or individual) or in ZW$ but equivalent to the USD amount multiplied by the inter-bank exchange rate on the date of payment.

24. Distribution of Revaluation Gains for Defined Contribution Pension Funds

24.1. For defined contribution pension funds, Revaluation Gains shall be distributed in proportion to the adjusted account balance on 31 December 2019. The adjusted account balance is equal to the opening balance as at 31 December 2018, plus the amount of any contributions during the year and less the amount of any payouts calculated on the same basis.

24.2. Once the adjusted account balance has been calculated for each participant in the defined contribution pension funds, the amount of any Revaluation Gains will be allocated in proportion to the adjusted account balance.

24.3. Defined contribution pension funds shall minimize the amounts held in reserves. Reserves represent investment income already earned that has not yet been distributed. The reserves belong to scheme participants and must be allocated solely to increase account balances of scheme participants. In no instance may reserves be used to meet current employer contribution obligations or arrears to the scheme.

25. Distribution of Revaluation Gains to Individuals for Defined Benefit Pension Funds

25.1. Revaluation Gains for defined benefit funds shall be allocated to increase the benefits of both active, deferred pensioners, suspended pensioners and pensioners as well as beneficiaries.

25.2. Revaluation Gains shall be allocated amongst members of the funding proportion to their accrued benefit liability on 31 December 2019.

25.3. The accrued benefit liability shall be based on the assumptions used for funds funding and the benefit the participant would have earned if he/she terminated participation on the Determination Date.

25.4. The benefit increase for each member shall be equal to the amount of the Revaluation Gain divided by the sum of the accrued benefit liability for the funds on 31 December 2019.

25.5. Similar procedures shall be followed at future Measurement Dates.

25.6. The benefits at retirement for active members in the funds shall be the benefit calculated at retirement based on the participant's salary, years of service and other factors as of that date, plus adjustment for all increases granted as a result of Revaluation Gains.

25.7. Defined benefit pension funds administrators shall create procedures and maintain records necessary to ensure proper implementation of this provision.

26. Treatment of Defined Benefit Funds funded with Deferred Annuities

26.1. Defined benefit funds funded with deferred annuities are those funds, which use contributions for each active participant to immediately purchase a paid-up annuity with payments starting at the standard retirement age. The contribution is treated as a single premium deferred annuity payment. Factors for converting premiums to deferred annuities are specified by the funds.

26.2. Assuming the funds use the same assumptions to calculate funds liabilities as are used to calculate the amount of deferred annuities, and assuming assets earn the same rate of return used to calculate the deferred annuity factors, the funds will, by design, always be 100% funded.

26.3. The methodology for calculation of Revaluation Gains for defined benefit funds funded with deferred annuities is the same as for all other defined benefit funds.

27. Treatment of Pension Funds Contribution Arrears

27.1. The Government, life insurance companies and pension funds trustees shall take all necessary and lawful actions to collect contribution arrears from employers. This shall include, but not be limited to, imposing liens on assets, seizing and selling assets, initiating bankruptcy procedures, and negotiating Certified Repayment Agreements meeting the term of this section.

27.2. IPEC shall publish a list each quarter in mass media, of the top 40 companies with pension contribution arrears and the amount of such pension arrears, for companies that have not signed Certified Repayment Agreements.

27.3. For defined contribution pension funds, contribution arrears shall be included in funds' assets, unless deemed uncollectible by a court, as participant benefits depend on the amount of contributions made on their behalf and the investment income earned on those contributions. Trustees are required to use all lawful methods to collect contribution arrears.

27.4. Defined benefit pension funds shall determine the amount of their contribution arrears, separately for contributions more and less than one year past due. Contributions more than one year in arrears shall not be considered funds' assets for purposes of defined benefit funds' funding calculations unless a Certified Repayment Agreement has been executed.

27.5. Employers shall sign Certified Repayment Agreements with defined contribution or defined benefit pension funds trustees to repay contribution arrears. The terms and conditions of the Certified Repayment Agreement must meet the conditions specified in the balance of this section of the Guideline.

27.6. Certified Repayment Agreements are valid only if the employer is required to repay the contribution arrears with interest (or such lesser amount as shall be negotiated) over a period of no more than 10 years.

27.7. The interest rate to be applied on outstanding contributions for the first Measurement Date (31 December 2019) shall be the greatest of: -

I. the actual rate of return on funds' assets from the due date to the date of payment;

II. the rate of return on risk free assets; and

III. the unsecured overdraft lending rate applied by the affected pension fund's bank.

27.8. The interest rate to be applied on outstanding contributions effective the 1st of January 2020 shall be the unsecured overdraft lending rate applied by the affected pension fund's bank.

27.9. Amounts payable in the future under Certified Repayment Agreements that are not in arrears may be included in defined benefit funds' assets. If any payment is more than 60 days past due, then the value of future payments under the Agreement may not be treated as a fund's asset for purposes of defined benefit funds funding calculations.

28. Governance

28.1. The Chief Executive/Principal Officer shall be required to certify the data availed to the Revaluation Actuary.

28.2. The Revaluation Actuary shall be required to do all the calculations specified in the Guideline and produce a certificate for consideration by IPEC.

28.3. The work of the Revaluation Actuary shall be peer reviewed by an independent Actuary who shall submit a certificate to IPEC certifying that he/she has peer reviewed the work of the Revaluation Actuary.

28.4. Board/Trustee Resolutions shall be enacted as follows:-

28.4.1. The Board/Trustees shall enact a resolution for the distribution of Revaluation Profits as part of the Revaluation Scheme. The Certificate shall say that the Board/Trustees have applied their minds based on the Guideline issued by IPEC and to the best of their knowledge, the distribution of revaluation profits is fair, transparent, equitable and in line with the reasonable expectations of the policyholders or pension fund participants.

28.4.2. The Board/Trustees shall be required to enact and submit rule amendments and resolutions consistent with any benefit rights that arise out of the distribution of revaluation gains.

28.5. Insurance companies and Registered Funds shall:

28.5.1. Issue half-yearly, benefit statements within four months of each Measurement Date;

28.5.2. Allow access to the full Revaluation Report as of each Measurement Date to policyholders/scheme members;

28.5.3. Provide a basis with appropriate explanations to policyholders/scheme members on the calculation of the Revaluation Gains; and

28.5.4. Communicate the rule amendments or policy document changes to scheme members and policyholders respectively.

29. Disclosures to IPEC

29.1. Insurance companies and Pension Funds shall submit within three months of each Measurement Date:

29.1.1. The actuarial revaluation report together with all the certifications that have been prescribed in terms of the appendix to this Guideline.

29.1.2. A Board/Trustees Resolution and a certificate as required under section 28.4.

29.1.3. All reports on the valuation of assets including but not limited to:-

29.1.3.1. unlisted equity valuation reports; and

29.1.3.2. certified property valuation reports.

29.2. Insurance companies and registered funds shall submit all rule amendments and changes to policy wordings in respect of changes to benefits and/or premiums or contributions arising from the allocation of Revaluation Gains.

29.3. Insurance companies and registered funds shall have an obligation to ensure that disclosures made to the Commission are consistent with disclosures made to policyholders/scheme members.

30. Exemptions on Peer Review Requirement

30.1. The Commission may grant, in writing, exemptions on the submission of the peer review report to:

i. Pension funds with a total asset base of ZW$$5 000 000 or less and/ or a total membership of 50 or less as at the Measurement Date;
ii. Paid up pension funds;
iii. Life insurance companies with a trading history of less than three years;
iv. Non-life insurance companies;
v. Funeral insurance companies;
vi. Reinsurance companies.

30.2. Entities shall make an application to the Commission for the exemption and shall submit at a minimum the following:

i. A motivation letter clearly stating the reasons why the exemption is being sought;
ii. Financial Statements;
iii. In the case of pension funds, membership details or schedules and;
iv. Any other information deemed necessary.

31. Dispute Resolution

31.1. Insurance companies and pension funds must deal effectively with all the comments and objections raised by policyholders and pension fund participants.

31.2. A record of Policyholder and pension fund participants' objections shall also be submitted to IPEC.

APPENDIX: CERTIFICATIONS

DATA CERTIFICATION BY THE REVALUATION ACTUARY

I, the undersigned, hereby certify that the data used for the purposes of determining and distributing Revaluation Gains, which arose due to the 2019 currency reforms for (*please insert name of the insurance company or the pension fund/provident fund),* is sufficient, based upon information and belief formed after reasonable inquiry. I also confirm that I have done the following before distribution of the Revaluation Gains;

a. Checked and certified the adequacy/sufficiency of data as at (*please specify determination date/previous measurement date*).

b. Reconciled the membership as at (*please specify the measurement date*) with that as at (*please specify determination date/previous measurement date*).

Name of the Revaluation Actuary:…………………………………….……

Signature:…………………………………

Actuary's Professional Principal Regulator: …………………………..

Date:…………/………/…………

DATA CERTIFICATION BY THE PRINCIPAL OFFICER

I, the undersigned, hereby certify that the data submitted to the Revaluation Actuary for the purposes of determining and distributing Revaluation Gains, which arose due to the 2019 currency reforms for (*please insert name of the insurance company or the pension fund/provident fund)* is true, complete and accurate in all material respect.

Name of the Principal Officer:…………………………………………..……

Signature:………………………………….

Date:…………/………/…………

CERTIFICATION OF THE ASSET AND LIABILITY CALCULATION METHODS AND ASSUMPTIONS BY THE REVALUATION ACTUARY

I, the undersigned, hereby certify that all the calculations for the purposes of determining and distributing Revaluation Gains for (*please insert name of the insurance company or the pension fund/provident fund)* as at (*please specify measurement date*) were done in accordance with the "Guideline for the Insurance and Pensions Industry on Adjusting Insurance and Pension Values in Response to Currency Reforms". I also confirm that I have done the following before distribution of the Revaluation Gains;

a. Checked the values of assets and accuracy of liabilities as at (*please specify determination date/ measurement date*).
b. Reconciled the assets and liabilities by product line/categories of pension membership and between Sub-Account 1 and Sub-Account 2 between the (*please specify determination date/previous measurement date*) and the current measurement date (*please specify date*).

c. Ensured equity in the distribution of revaluation gains between insurance and pension liabilities and between old and newer policyholders/scheme members.

Name of the Revaluation Actuary:……………………………………..……

Signature:…………………………………

Actuary's Professional Principal Regulator: …………………………..

Date:…………/………/…………

CERTIFICATION OF MEMBER BENEFIT STATEMENTS BY THE PRINCIPAL OFFICER

I, the undersigned, hereby certify that the benefit adjustments based on calculations in terms of the "Guideline for the Insurance and Pensions Industry on Adjusting Insurance and Pension Values in Response to Currency Reforms" have been properly credited and that benefit statements have been issued to the members advising of the changes in benefits.

Name of the Principal Officer:…………………………………………...……

Name of Company/Pension Fund/Provident Fund………………………………..

…………………………………………………………………………….………

Signature:…………………………………

Date:…………/………/…………

CERTIFICATION OF THE SOLVENCY POSITION BY THE REVALUATION ACTUARY: INSURANCE COMPANIES

I, the undersigned, hereby certify that (*please insert name of the insurance company)* is solvent/insolvent as at (*please specify measurement date*) as shown in the table below. This is after taking into account the provisions of the Insurance Act [24:07] and adjusting policyholder and/or fund member values based on calculations in terms of the "Guideline for the Insurance and Pensions Industry on Adjusting Insurance and Pension Values in Response to Currency Reforms".

Measurement Date:	
Total Admissible Assets	
Actuarial Liabilities	
Other Liabilities	
Excess Assets	
Capital Adequacy Requirement (CAR)	
Capital Cover	
Excess Capital	

I also confirm that I have done the following:

a. Checked the values of shareholder assets as at (*please specify determination date/previous measurement date*).
b. Reconciled the shareholder assets between the (*please specify determination date/previous measurement date*) and the current measurement date (*please specify date*).

Name of the Revaluation Actuary:…………………………………………..……

Signature:…………………………………

Actuary's Professional Principal Regulator: …………………………..

Date:…………/………/…………

CERTIFICATION OF THE SOLVENCY POSITION BY THE REVALUATION ACTUARY: PENSION AND PROVIDENT FUNDS

I, the undersigned, hereby certify that (*please insert name of pension/provident fund)* is solvent/insolvent on an ongoing basis as at (*please specify measurement date*) as shown in the table below. This is after adjusting fund member values based on calculations in terms of the "Guideline for the Insurance and Pensions Industry on Adjusting Insurance and Pension Values in Response to Currency Reforms".

Measurement Date:	
Total Assets	
Actuarial Liabilities	
Other Liabilities	
Surplus	
Funding Level	

Name of the Revaluation Actuary:…………………………………………..………

Signature:…………………………………

Actuary's Professional Principal Regulator: …………………………..

Date:…………/………/…………

CERTIFICATION OF ASSET SEPARATION

I, the undersigned, hereby certify that the assets of (*please insert name of the insurance company)* as at (*please specify measurement date*) are separate between shareholder and policyholder funds; between pensions and insurance business; and have been allocated on a product-by-product basis fairly and equitably.

Name of the Revaluation Actuary:…………………………………………..……

Signature:………………………………….

Date:…………/………/…………

Actuary's Professional Principal Regulator: …………………………..

Date:…………/………/…………

Name of the Principal Officer:…………………………………………..……

Signature:………………………………….

Date:…………/………/…………