Circular No. 1 of 2015

20 January 2015

Insurance Council of Zimbabwe (ICZ)
Zimbabwe Association of Reinsurance Organizations (ZARO)
Zimbabwe Insurance Brokers Association (ZIBA)

CLARIFICATION ON THE IMPLEMENTATION OF CIRCULAR 2 OF 2013 CIRCULAR 1 OF 2014 AND CIRCULAR 8 OF 2014

1. This Circular is issued in terms of *section 6(c)* of the *Insurance Act [Chapter 24:07]*, which empowers the Commissioner to formulate standards for the conduct of insurance business with which registered insurers may be required to comply.
2. The Circular is being issued to clarify the implementation of the below listed Circulars, taking into consideration challenges cited by the Insurance Council Of Zimbabwe in its representations to the Commission:
   a) Circular 2 of 2013 - **Investment Guidelines for Short Term Insurance Companies**
   b) Circular 1 of 2014 - **Guidance on Calculation of Capital and other Related Issues for Short Term Insurers and Reinsurers**
   c) Circular 8 of 2014 - **Actuarial Valuation for Short Term Insurance Companies**
3. In a bid to synchronize the implementation of Circulars (a) and (b) it is hereby directed that the provisions of these circulars in their entirety will become effective from 31 December 2015.
4. However, with immediate effect, for purposes of calculating capital for an insurance company which is a going concern, admitted assets shall exclude the following assets:

a) Operating assets such as motor vehicles, furniture and fittings with the exception of owner occupied property and IT hardware;

b) Intangible assets such as goodwill. In a move to promote investment in robust IT systems, the value of operating software and relevant IT hardware will be considered as admissible assets up to 31 December 2015, when such values will be discounted for admissibility;

c) guarantees given to the insurer and all other off-balance sheet items, other than guarantees given by a reinsurer in the course of reinsurance business;

d) Encumbered assets including assets which are under legal disputes;

e) Assets in which the insurer in question does not have legal title e.g. those assets pledged by shareholders and yet legal title is yet to be transferred to the regulated entity;

f) Premium debtors aged more than ninety (90) days from the date when the premiums were debited by non-life insurers. In the case of reinsurers, premium debtors aged more than one hundred and twenty (120) days shall not be considered;

g) unsecured loans or loans which are, in the Commission's opinion, inadequately secured;

h) Exposures to related parties in form of loans, debentures, or unquoted shares;

i) prepaid preliminary or prepaid organizational expenses such as deferred tax assets and deferred acquisition costs; and

j) any other assets as may be determined by the Commission from time to time.

5. The assets mentioned above are non-admissible for the purposes of calculation of capital since they are not easily and readily available to be used to back insurance liabilities for an insurer on a going concern basis.

6. Treatment of all admissible assets shall be as detailed hereunder:

   a) **Cash and Money Market Instruments**: For the purposes of calculating solvency of an insurer, 100% of the fair value of these assets shall be considered.

   b) **Government Securities/Prescribed Assets**: 100% of the fair value of the securities shall be considered.

   c) **Term Deposits**: 100% of the fair value shall be considered. However, insurance companies are free to come up with their own discounts for term deposits in line with the credit rating of their banks and any other factors. If the deposits are held with banks under curatorship or liquidation, such deposits shall not be considered for the purposes of calculating solvency.

   d) **Quoted Equities**: In the meantime all quoted securities shall be considered at 100% of their fiar values until 31 December 2015 when an appropriate discount shall be applied to take into account the volatile nature of the stock exchange.

   e) **Unquoted/Private Equities**: As provided in Circular 1 of 2014, all private equities shall be valued annually by an independent and qualified professional, subject to the provisions of paragraph below. Such valuations shall form input into the audited financial statements of the insurance/reinsurance company with effect from 1 January 2015 financials. Non-marketability and illiquidity discounts of 20% and 30%, as may be amended from time to time, respectively shall be applied on the fair value of all investments in unquoted/private equity. The discounts indicated above are based on international best practice. For example, if the fair value of unquoted equities is $100,000, the value of the unquoted equities considered for the calculation of solvency shall be calculated as follows: $100,000 x (1- 0.2)(1-0.3) = $56,000.

   f) **Properties**: Insurance companies shall be required to hire independent and qualified valuators to value their properties annually prior to publication of audited financial statements. At a minimum the valuation reports should indicate the market value, replacement cost and the forced sale value, cost per square meter, availability of encumbrances and name of owners as shown on the title deeds.

The value of properties that shall be considered for solvency calculation is the forced sale value. This helps to cater for possible overvaluations of the properties. However, the value consistent with International Financial Reporting Standards as amended from time to time shall be disclosed in the statement of financial position.

g) Receivables other than premium debtors shall only be considered for the purposes of calculating solvency if they are aged less than **sixty (60) days** from the due date. The Commission reserves the right to request for additional information such as schedules of the outstanding payments and details of the debtors, nature of transactions, trading history with each debtor.

h) For the other assets whose treatment may have not been detailed in this section, their treatment shall generally be guided by section 3 and 4 of Circular 1 of 2014.

7. Where the Commission has reason to believe that the assets are overvalued, it reserves the right to appoint an independent, qualified and accredited valuator to conduct another valuation of the assets of an insurer. Expenses for such a valuation exercise shall be borne by the insurer in question. Valuations conducted by loss assessors and management, related parties or other parties not independent shall not be acceptable for the purposes of assessing the solvency of an insurance company.

8. Liabilities

8.1. Commencing from 1 January 2015 all insurers should comply with all the provisions of section 6 of Circular 1 of 2014 and the entirety of the provisions of Circular 8 of 2014, which deals with standardization reserving and actuarial valuation of short term insurance companies respectively.

8.2. The Commission has however, granted special dispensation that the financial reports for 2014 for all insurance companies can be finalized without taking into account actuarial valuations. Nevertheless all insurers are directed to submit an actuarial valuation certificate on the adequacy of their reserves by no later than 30

April 2015. The reserves should be determined in terms of the guidelines provided in Circulars 1 of 2014 and 8 of 2014.

9. All short term insurers should comply with the provisions of this Circular and work towards meeting the new deadline of 31 December 2015 for compliance with Circular 2 of 2013 and Circular 1 of 2014. Please note that the Commission does not have any appetite to further extend this deadline.

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M. S. Mpofu (Mrs.)

Commissioner of Insurance, Pension and Provident Funds