

GOVERNMENT NOTICE NO. 28

FINANCIAL SERVICES ACT

(Cap 44:05)

FINANCIAL SERVICES (TRANSACTIONS OF PRUDENTIALLY REGULATED  
MICROFINANCE INSTITUTIONS WITH RELATED PARTIES) DIRECTIVE, 2019

ARRANGEMENT OF PARAGRAPHS

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SCHEDULE—Policy on transactions with insiders and related parties

IN EXERCISE of the powers conferred by section 34 (2) (z) of the Financial Services Act, I, Dr. DALITSO KABAMBE, Registrar of Financial Institutions, make the following Directive—

PART I—PRELIMINARY

1. This Directive may be cited as the Financial Services (Transactions of Prudentially Regulated Microfinance Institutions with Related Parties) Directive, 2019. Citation

2. In this Directive unless the context otherwise requires— Interpretation

“arm’s length basis” means where a transaction between related parties is conducted upon terms no more favourable than those which would be offered under prevailing conditions to persons other than related parties;

“microfinance services” has the same meaning as defined in the Microfinance Act; Cap. 46:08

“collateral” means security on a credit facility that is sufficient to partly or fully protect the financial institution from loss;

“core capital (tier 1)” means the sum of—

- (a) issued and fully-paid shares;
- (b) share premium;
- (c) retained earnings;
- (d) fifty percent of current year to-date after tax profit or one hundred percent of loss;
- (e) capital grants; and
- (f) any other distributable reserves, less investments in unconsolidated subsidiaries;

“credit facility or credit” means any asset or off-balance sheet item that contains credit risk, including loans, overdrafts, advances and all of the following—

- (a) financing by means of factoring;
- (b) leasing;
- (c) hire purchase;
- (d) accepting of trade and other bills;
- (e) discounting of such bills and notes;
- (f) the opening or confirming of documentary credit;
- (g) the issue of other letters of standby, credit, guarantee or surety;
- (h) the undertaking to pay on account of another person; and
- (i) such other similar undertakings as may be prescribed by Registrar from time to time;

“exposure” means the amount of exposure of a microfinance institution has in relation to a person or group of inter-related persons which is calculated as the sum of the following—

- (a) credits;
- (b) investment in equities;
- (c) debt securities;
- (d) securitized assets and other transactions with recourse; and
- (e) contingent liabilities, such as commitments to extend credit;

“insider” includes a principal shareholder, member of the Board of directors, executive officer and senior management official; and

Cap. 46:03  
Application

“subsidiary” has the meaning ascribed to that term in the Companies Act.

3. This Directive shall apply to—

- (a) deposit taking microfinance institutions; and

(b) non-deposit taking microfinance institutions which are prudentially regulated in terms of the Microfinance (Non Deposit Taking Microfinance Institutions) Directive, 2018.

#### PART II—OBJECTIVES

4. The objectives of this Directive are to—

Objectives

(a) promote good practices with regard to the granting of credit to related parties;

(b) ensure that all transactions between a microfinance institution and its insiders or related parties are done on an arm's-length basis; and

(c) promote public confidence in the microfinance institution by ensuring that undue favouritism is not extended to insiders or related parties.

#### PART III—OFFENCES AND PENALTIES

5.—(1) A microfinance institution shall extend a credit facility to an insider or to a related party on an arm's length basis.

Conditions and restrictions on insider lending and related parties

(2) A microfinance institution's exposure to an insider or to a related party shall not exceed ten percent of its core capital.

(3) The aggregate of the microfinance institution's exposures to insider or related party shall not exceed twenty five percent of the microfinance institution's core capital.

(4) Sub-paragraph (1) shall not apply to a credit facility that a microfinance institution may grant to its employees as part of their terms and conditions of employment that equally apply to all officers and employees.

(5) The microfinance institution shall not grant any credit facility to an insider or to a related party while another credit facility to the insider or to a related party is non-performing.

(6) The microfinance institution shall not purchase a non-performing credit facility or other low quality asset from an insider or a related party.

(7) Placement of the microfinance institution to any of its affiliated entities in Malawi shall be considered as an insider or related party transaction and shall be subject to the provisions of this Directive.

(8) An exposure to an insider or related party that exceeds the limitations of this Directive or made in violation of the requirements of this Directive shall be deducted from the core capital of the microfinance institution for purposes of determining capital adequacy.

6. The Board of directors of a microfinance institution shall—

Board responsibilities

(a) develop, adopt and ensure implementation of a written policy on transactions with an insider or a related party that includes the provisions set out in the Schedule hereto;

(b) approve all transactions, including credit facilities, between the microfinance institution and its insider or related party:

Provided that a director who has an interest in the transaction shall not participate in the consideration and decision process of the Board; and

(c) ensure that a credit facility or a transaction with an insider or a related party is monitored independent of the insider or related party.

Disclosures

7.—(1) A director or manager of a microfinance institution who is a party to or has an interest in an existing or prospective credit facility or other transaction with the microfinance institution, shall—

(a) disclose in writing to the Board of directors at the earliest opportunity the nature and extent of the interest;

(b) leave any meeting at which the credit facility or other transaction is discussed; and

(c) refrain from voting on any matter related to the credit facility or other transaction:

Provided that the interest, if so disclosed, shall not disqualify a director from constituting a quorum.

(2) The microfinance institution shall disclose all its credit facilities to an insider or a related party in line with the Registrar's Directive.

Record keeping

8. A microfinance institution shall at all times maintain adequate records with regard to all credit facilities to an insider or a related party.

Monetary penalties

9.—(1) The Registrar shall impose the following monetary penalties for violations of this Directive—

(a) for a microfinance institution, up to fifty million Kwacha; and

(b) for an individual who is a member of the Board of directors or management, up to ten million Kwacha.

(2) A microfinance institution or an individual shall pay the respective penalties imposed under subparagraph (1) through a bank certified cheque payable to the Reserve Bank of Malawi within ten working days after being notified of the violation.

Administrative penalties  
Cap.46:08

10. In addition to the monetary penalty imposed in paragraph 9 (1), the Registrar may impose directions, administrative penalties and enforcement action as provided for under the Act.

## SCHEDULE

(par. 6 (a))

### POLICY ON TRANSACTIONS WITH INSIDERS AND RELATED PARTIES

This policy on transactions with an insider or a related party shall—

(a) require that all transactions with an insider or a related party is handled on an arm's-length basis. Prohibited preferential treatment includes—

- (i) altering credit-granting standards, collateral requirements, collection efforts or any other policies of an institution;
  - (ii) providing preferential rates, terms or conditions on deposits or credits;
  - (iii) providing products or services that are not available to the general public;
  - (iv) approving credit facilities without the Board of director's approval;
  - (v) covering trading losses; and
  - (vi) waiving fees;
- (b) impose strict and binding limits on exposures to an insider or a related party which do not exceed the limitations of this Directive;
- (c) prohibit an insider or a related party who has an interest in a credit facility or other transaction with the institution from being involved in the administration, assessment, or decision-making process involved with the transaction; and
- (d) require that transactions with an insider or a related party, and any deviations from the Board approved policy on an insider or a related party, are reported to the Board of directors on a regular basis.

Made this 14th day of June, 2019

(FILE NO. FIN/PFSPD/03/04)

DALITSO KABAMBE, PhD  
*Registrar of Financial Institutions*

GOVERNMENT NOTICE NO. 29

FINANCIAL SERVICES ACT

(Cap 44:05)

FINANCIAL SERVICES (RECORD KEEPING REQUIREMENTS FOR  
MICROFINANCE SERVICE PROVIDERS) DIRECTIVE, 2019

ARRANGEMENT OF PARAGRAPHS

PARAGRAPH

PART I—PRELIMINARY

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2. Application

PART II—OBJECTIVE

3. Objective

PART III—RECORD KEEPING

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5. Records to be kept

6. Supporting methodologies
7. Back up
8. Protection of customer records
9. Inspection
10. Record keeping period and disposition of information
11. Dormant accounts
12. Compliance with anti-money laundering and countering financing terrorism

#### PART IV—ENFORCEMENT

13. Monetary penalties

IN EXERCISE of the powers conferred by section 34 (2) (k) of the Financial Services Act, I, Dr. DALITSO KABAMBE, Registrar of Financial Institutions, make the following Directive—

#### PART I—PRELIMINARY

- |             |   |
|-------------|---|
| Citation    | 1. This Directive may be cited as the Financial Services (Record Keeping Requirements for Microfinance Service Providers) Directive, 2019.            |
| Application | 2. This Directive applies to— <ol style="list-style-type: none"> <li>(a) microcredit agencies; and</li> <li>(b) microfinance institutions.</li> </ol> |

#### PART II—OBJECTIVE

- |           |   |
|-----------|---|
| Objective | 3. The objectives of this Directive are to ensure— <ol style="list-style-type: none"> <li>(a) implementation of effective information management practices that enables microcredit agencies and microfinance institutions manage records in a manner that can be easily reconstructed; and</li> <li>(b) the protection of information held by microcredit agencies and microfinance institutions.</li> </ol> |
|-----------|---|

#### PART III—RECORD KEEPING

- |                       |   |
|-----------------------|---|
| Record keeping policy | 4.—(1) The Board of directors of a microcredit agency or microfinance institution shall adopt and ensure implementation, by its management, of a written policy on record keeping. <ol style="list-style-type: none"> <li>(2) The written policy shall—           <ol style="list-style-type: none"> <li>(a) take into account the requirements stipulated in this Directive; and</li> <li>(b) be reviewed at least once every two years, or, as and when the policy has proven not to be in tandem with prevailing circumstances to ensure that the policy remains appropriate and prudent.</li> </ol> </li> </ol> |
|-----------------------|---|

5.—(1) A microcredit agency or a microfinance institution shall keep a record of— Records to be kept

(a) a customer's account;

(b) terms and conditions of contract with a customer, including the customer's signature and acceptance that the contract is legally binding and aligned to financial transparency;

(c) transactions carried out by a customer;

(d) customer claim settlement and refund procedures;

(e) customer complaints;

(f) correspondence relating to the transactions that enables a transaction to be readily reconstructed at any time by the Registrar; and

(g) any other transaction that the microcredit agency or microfinance institution carries out in the course of its business.

(2) Subject to sub-paragraph (1), the records shall be—

(a) sufficient to enable a transaction to be readily reconstructed at any time;

(b) stored electronically or in printed form;

(c) in a form that can be printed or submitted electronically upon demand; and

(d) maintained in a manner that will enable the microcredit agency or a microfinance institution to comply immediately with requests for information from the Registrar.

6. A microcredit agency or a microfinance institution shall establish key methodologies, mechanisms and tools to support its record keeping and these shall include— Supporting methodologies

(a) identifying, establishing, implementing and maintaining repositories in which information resources of business value are stored or preserved in electronic format; and

(b) establishing, using and maintaining classification structures to facilitate storage, search and retrieval of information resources of business value in all formats to comply with information requests from all stakeholders including the Registrar.

7. A microcredit agency or a microfinance institution shall ensure that appropriate backup and recovery procedures are in place for all records. Back-up

8. A microcredit agency or a microfinance institution shall protect customer records by— Protection of customer records

(a) identifying and documenting the risk profile of information resources taking into account access to information, security of information and the protection of personal information; and

(b) responding to and mitigating documented risks to the protection of records of a customer.

Inspection

9. The records referred to in paragraph 5 (1) shall be subject to inspection from time to time and without notice, by the Registrar.

Record keeping period and disposition of information

10.—(1) A microcredit agency or a microfinance institution shall preserve and retain the records referred to in paragraph 5 (1) and information required to be kept under this Directive for a period of at least seven years.

(2) Subject to subparagraph (1), the microcredit agency or a microfinance institution shall develop and implement a documented disposition process for all records and ensure that the disposition process is performed after the lapse of the seven-year period.

Dormant accounts

11.—(1) A deposit taking microfinance institution shall classify an account as a dormant account, in respect of which a depositor has not for twelve months after the last deposit transaction in his account, increased or decreased the amount of the deposit or other record for the crediting of interest, concerning such deposit.

(2) A deposit taking microfinance institution shall, as soon as practicable, transfer a dormant account to a separate register of dormant accounts maintained in the books of the deposit taking microfinance institution.

(3) The deposit taking microfinance institution shall give a notice of the transfer of a dormant account to a depositor at his last known address or through a notice published in at least one newspaper of nation-wide circulation in Malawi.

(4) The deposit taking microfinance institution shall cease to charge service fees or any other form of fees or charges on the dormant account transferred in subparagraph (2) after a period of one year from the date of the transfer and such an account shall not earn interest.

(5) The deposit taking microfinance institution shall presume any deposit, including interest, in respect of which the depositor has not for seven years after the last deposit transaction in his account increased or decreased the amount of the deposit or presented other record for the crediting of interest, or corresponded with the deposit taking microfinance institution concerning such deposit, to have been abandoned.

(6) The deposit taking microfinance institution shall report the deposits presumed to have been abandoned under subparagraph (5) to the Registrar and shall pay such deposits to the Reserve Bank of Malawi as if they were unclaimed or undistributed funds.

(7) The deposit taking microfinance institution shall, upon paying the abandoned deposits to the Reserve Bank of Malawi, be relieved of all liability for any claim in respect thereof to the extent of the value of such deposit.

(8) Any person claiming to be entitled to any abandoned deposit and providing evidence of the entitlement to the satisfaction of a competent court shall have the abandoned deposit returned to him by the Registrar.



12.—(1) A microcredit agency or a microfinance institution shall comply with the legal and regulatory framework governing anti-money laundering and countering financing of terrorism activities issued by the relevant authorities from time to time.

Compliance  
with  
AML/CFT  
requirements

(2) Subject to subparagraph (1) microcredit agency or a microfinance institution shall—

(a) verify the identity of a customer by using reliable and independent source documents, data or information;

(b) be responsible for identification and verification measures, where the microcredit agency or a microfinance institution relies on an intermediary or third party to undertake its obligations to introduce business to it;

(c) not commence business relations or perform the transaction if satisfactory evidence of the identity of a customer is not produced, or obtained;

(d) submit a suspicious transaction report to the Financial Intelligence Authority within three days and shall not proceed any further with the transactions, unless directed by the Financial Intelligence Authority; and

(e) establish and maintain records for customers.

#### PART V—ENFORCEMENT

13.—(1) The Registrar shall impose the following monetary penalties for violations of this Directive—

Monetary  
penalties

(a) for an institution, up to fifty million Kwacha; and

(b) for a natural person who are members of the Board of directors or management, up to ten million Kwacha.

(2) A microcredit agency or a microfinance institution or natural person shall pay the respective penalties imposed under subparagraph (1) through a bank certified cheque payable to the Reserve Bank of Malawi within ten working days after being notified of the violation.

(3) In addition to the monetary penalties imposed in paragraph 14 (1), the Registrar may impose directions, administrative penalties and enforcement action as provided for under the Act.

Made this 14th day of June, 2019.

(FILE NO. FIN/PFSPD/03/04)

DALITSO KABAMBE, PhD  
*Registrar of Financial Institutions*

GOVERNMENT NOTICE No. 30

FINANCIAL SERVICES ACT

(Cap. 44:05)

FINANCIAL SERVICES (EXTERNAL AUDIT AND RELATED MATTERS FOR  
MICROFINANCE INSTITUTIONS) DIRECTIVE, 2019

ARRANGEMENT OF PARAGRAPHS

PART I—PRELIMINARY

PARAGRAPH

1. Citation
2. Interpretation
3. Application

PART II—OBJECTIVES

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PART III—REQUIREMENTS ON EXTERNAL AUDITS

5. Responsibilities of a microfinance institution
6. Appointment of external auditor
7. Evaluation process
8. Submission of audit report and management letter
9. Communication between Registrar and external auditors
10. Resignation of an external auditor

PART IV—ENFORCEMENT

11. Monetary penalties
12. Administrative penalties

IN EXERCISE of the powers conferred by section 34 of the Financial Services Act, I, Dr. DALITSO KABAMBE, Registrar of Financial Institutions, issue the following Directive—

PART I—PRELIMINARY

Citation 1. This Directive may be cited as the Financial Services (External Audit and Related Matters for Microfinance Institutions) Directive, 2019.

Interpretation 2. In this Directive, unless the context otherwise requires—

“external auditor” means an audit firm engaged by a microfinance institution and approved by the Registrar to offer audit services to the microfinance institution; and

“International Financial Reporting Standards” or “IFRS” has the same meaning as International Financial Reporting Standards or IFRS under the Companies Act.

3. This Directive applies to—

Application

(a) deposit taking microfinance institutions; and

(b) non – deposit taking microfinance institutions which are prudentially regulated in terms of the Microfinance (Non Deposit Taking Microfinance Institutions) Directive, 2018.

#### PART II—OBJECTIVES

4. The objectives of this Directive are to—

Objectives

(a) promote the accuracy and reliability of financial statements issued by microfinance institutions for supervisory purposes;

(b) enhance credibility of information submitted to the Registrar and ensure an independent review and opinion of the microfinance institutions' compliance with prevailing IFRS; and

(c) ensure that persons appointed as external auditors are fit and proper to carry out their duties.

#### PART III—REQUIREMENTS ON EXTERNAL AUDITS

5. A microfinance institution shall ensure that an external auditor—

Responsibilities of a microfinance institution  
Cap. 46:08

(a) is appointed in accordance with the requirements of the Act, Microfinance Act and this Directive;

(b) has access to all data, information, including examination reports, and staff that the external auditor believes is necessary to fulfill its roles and responsibilities including access to the board members and the internal auditors of the microfinance institution;

(c) is fully informed of all applicable prudential requirements prescribed under the Act, Microfinance Act, IFRS and applicable audit standards; and

Cap. 46:08

(d) is rotated after every five years of engagement.

6.—(1) A microfinance institution shall, annually, appoint an external auditor to fulfill the requirements of section 56 of the Act during the annual meeting of the microfinance institution.

Appointment of external auditor

(2) Subject to subparagraph (1), the appointment of the external auditor shall not take effect unless the microfinance institution obtains written approval from the Registrar in accordance with section 56 (1) of the Act.

(3) An audit firm duly registered under Public Accountants and Public Auditors Act to provide audit services shall be eligible for appointment as an external auditor.

Cap. 53:06

(4) An application for approval of an external auditor to the Registrar shall require the following information—

(a) name of the external auditor;

(b) physical and postal address of the local office of the external auditor;

- (c) names, qualifications and experience of each partner;
- (d) details of the partner-in-charge of the audit of the microfinance institution;
- (e) name, qualifications and experience of the auditor to be engaged in the audit of the microfinance institution;
- (f) details of the experience of the external auditor in other financial institutions or microfinance institutions;
- (g) details of any existing business relationship between the auditor and the partner-in-charge of the audit and between the microfinance institution and the audit firm;
- (h) confirmation that neither the external auditor nor the partners or staff involved in the audit are holding past due or non-performing loans in the microfinance institution;
- (i) copy of practicing certificates of each of the partners in the audit firm; and
- (j) any other information that may be required by the Registrar.

Evaluation  
process

7.—(1) In assessing the application for approval of an external auditor, the Registrar shall among other things be satisfied that—

- (a) the external auditor is registered with the Malawi Accountants Board;
- (b) the partners and lead audit manager have professional experience and competence in microfinance or banking audit;
- (c) the external auditor or its partners are free from any business or other relationship with shareholders or directors of the microfinance institution which could be seen to materially interfere with the external auditor's capacity to act in an independent manner;
- (d) if the external auditor, its partners or staff have been subject to disciplinary action by any professional body, written clearance has been obtained from that body;
- (e) there has been no element of misconduct in the performance of the duties of the external auditor in other entities, microfinance or financial institution;
- (f) the external auditor has the experience and expertise or has arrangements to source personnel to conduct audit in specialized areas of the operations of the microfinance institution including credit, risk management, anti-money laundering and combating financing of terrorism and information and communication technology (ICT) audit; and
- (g) the partners, lead audit manager and supervisor are members of the Institute of Chartered Accountants in Malawi (ICAM) and of good standing with ICAM.

2. The Registrar may verify any information submitted by the microfinance institution or seek additional information on the external auditor before granting approval.

8.—(1) A microfinance institution shall submit to the Registrar a copy of its audited financial statements and management letter within three months after close of its financial year.

Submission of audit report and management letter

(2) The microfinance institution shall publish audited financial statements containing a copy of its statement of financial position, statement of comprehensive income and cash flow statement in at least one newspaper of nation-wide circulation in Malawi within four months of the close of its financial year.

9.—(1) The Registrar may hold tripartite meetings with an external auditor and management of a microfinance institution.

Communication between Registrar and external auditor

(2) The Registrar and external auditor may also hold bilateral meetings at the request of either party.

(3) The Registrar may, where necessary, request addition information from an external auditor.

10. An external auditor shall notify the Registrar in writing of its intention to resign from the appointment, including reasons for resignation, at least thirty days prior to the resignation taking effect.

Resignation of an external auditor

#### PART V—ENFORCEMENT

11.—(1) The Registrar may impose the following monetary penalties for violations of this Directive—

Monetary policies

(a) for microfinance institutions, up to fifty million Kwacha; and

(b) for individuals who are members of the board or management, up to ten million Kwacha.

(2) The penalties in subparagraph (1) shall be paid through a bank certified cheque payable to the Reserve Bank of Malawi within ten working days after being notified of the violation.

(3) In addition to the monetary penalty imposed in subparagraph (1), the Registrar may impose directions and administrative penalties as provided for under the Act.

12. In addition to monetary penalties in paragraph 11, the Registrar may disqualify and withdraw his approval of an external auditor, if the external auditor fails to comply with the requirements of this Directive, or international standards of auditing.

Administrative penalty

Made this 14th day of June, 2019.

GOVERNMENT NOTICE No. 31

FINANCIAL SERVICES ACT

(Cap. 44: 05)

FINANCIAL SERVICES (TRANSACTION PROCESSING HUB) DIRECTIVE,  
2019

ARRANGEMENT OF PARAGRAPHS

PARAGRAPH

PART I—PRELIMINARY

1. Citation
2. Interpretation
3. Application

PART II—OBJECTIVES

4. Objectives

PART III – RESPONSIBILITY OF THE BOARD AND MANAGEMENT OF LICENCED  
OR REGISTERED MICROFINANCE SERVICES PROVIDER AND SACCO

5. Board and management responsibility

PART IV—OPERATING REQUIREMENTS

6. Application to operate on transaction processing hub
7. Minimum requirements to operate on transaction processing hub

PART V—ENFORCEMENT

8. Monetary penalties

PART VI—TRANSITIONAL ARRANGEMENTS

9. Transitional arrangements

IN EXERCISE of the powers conferred by section 34 of the Financial Services Act, I, Dr. DALITSO KABAMBE, Registrar of Financial Institutions, make the following Directives—

PART I – PRELIMINARY

- |                |  |
|----------------|--|
| Citation       | 1. This Directive may be cited as the Financial Services (Transaction Processing Hub) Directive, 2019.                                       |
| Interpretation | 2. In this Directive unless the context otherwise requires—  |
| Cap. 46:03     | “MFI Hub Company” means a company incorporated under Companies Act for purposes of implementing and managing the transaction processing hub; |
| Cap. 46:08     | “microcredit agency” has the same meaning as defined in Microfinance Act;  |

“microfinance institutions” has the same meaning as defined in Microfinance Act;

Cap. 46:08

“National Switch” has the same meaning ascribed to it under the Payment Systems (Interoperability of Retail Payment Systems) Directive, 2017;

“SACCO” has the same meaning ascribed to it under Financial Cooperatives Act;

Cap. 47:02

“transaction processing hub” means a technology service platform that allows participating microcredit agencies, microfinance institutions and SACCOs to share common centralized banking application and transaction processing, and infrastructure to process their transactions; and

“joining the hub” means operating on the transaction processing hub either through direct operation or interface.

3. This Directive shall apply to a registered or licensed—

Application

- (a) microcredit agency;
- (b) microfinance institution; and
- (c) SACCO.

#### PART II—OBJECTIVES

4. The objectives of this Directive are to—

Objectives

(a) set minimum membership requirements for registered or licensed microcredit agencies, microfinance institutions and SACCOs to operate on the transaction processing hub;

(b) ensure that a licensed or registered microcredit agency, microfinance institution and SACCO put in place infrastructure that support direct operation or interface with the transaction processing hub; and

(c) ensure that a microcredit agency, microfinance institution and SACCO operates and leverage on a technology service platform to facilitate, among other things—

- (i) the processing efficiency of transactions;
- (ii) use of mobile phone based applications;
- (iii) interconnection to the National Switch; and
- (iv) reporting to the credit reference bureaus and the Registrar.

#### PART III—RESPONSIBILITY OF THE BOARD AND MANAGEMENT OF A LICENSED OR REGISTERED MICRO FINANCE SERVICES PROVIDER AND SACCO

5. The Board of directors and senior management of a registered or licensed microcredit agency, microfinance institution and SACCO shall ensure that the microcredit agency, microfinance institution and SACCO comply with the provisions of this Directive.

Board and management responsibility

## PART IV—OPERATING REQUIREMENTS

Application to  
operate on  
transaction  
processing hub

6.—(1) A registered or licensed microcredit agency, microfinance institution and SACCO shall apply to join on the transaction processing hub that connects its operating system to that of the transaction processing hub.

(2) An application under sub-paragraph (1) shall be made to the MFI Hub Company Limited through prescribed application form and accompanied by a non-refundable application fee as may be prescribed by the Company from time to time:

Provided that such an application shall be subject to the procedures and requirements as may be prescribed by the MFI Hub Company Limited.

Minimum  
requirements to  
operate on  
transaction  
processing  
hub

7. A registered or licensed microcredit agency, microfinance institution and SACCO shall put in place infrastructure, as may be prescribed by the MFI Hub Company Limited, that supports directly or through an interface that connects its operating system to that of the transaction processing hub.

## PART V—ENFORCEMENT

Monetary  
penalties

8.—(1) A microcredit agency, microfinance institution and SACCO that contravenes the provisions of this Directive shall be liable to a monetary penalty of up to ten million Kwacha.

(2) A microcredit agency, microfinance institution and SACCO shall be liable to an additional monthly penalty of up to ten million Kwacha for each subsequent month which it remains in contravention of the requirement specified in this Directive.

## PART VI—TRANSITIONAL ARRANGEMENTS

Transitional  
arrangements

9. A microcredit agency, microfinance institution and SACCO operating before the date of commencement of this Directive shall, within twelve months after the date of commencement of this Directive, comply with this Directive.

Made this 14th day of June, 2019.

(FILE NO. FIN/PFSPD/03/04)

DALITSO-KABAMBE, PhD  
*Registrar of Financial Institutions*

GOVERNMENT NOTICE No. 32

## FINANCIAL SERVICES ACT

(CAP 44:05)

FINANCIAL SERVICES (CAPITAL ADEQUACY REQUIREMENTS FOR  
DEPOSIT TAKING MICROFINANCE INSTITUTIONS) (AMENDMENT)  
DIRECTIVE, 2019



## ARRANGEMENT OF PARAGRAPHS

## PARAGRAPH

1. Citation
2. Amendment of paragraph 2 of the Financial Services (Capital Adequacy Requirements for Deposit Taking Microfinance Institutions) Directive, 2014
3. Insertion of new paragraph 6A into the principal Directive

IN EXERCISE of the powers conferred by section 34 (2) (c) of the Financial Services Act, I, DR. DALITSO KABAMBE, Registrar of Financial Institutions, issue the following Directive—

1. This Directive may be cited as the Financial Services (Capital Adequacy Requirements for Deposit Taking Microfinance Institutions) (Amendment) Directive, 2019. Citation
2. Paragraph 2 of the Financial Services (Capital Adequacy Requirements for Deposit Taking Microfinance Institutions) Directive, 2014, (hereinafter referred to as principal Directive), is amended, in sub-paragraph (1)—
  - (a) by inserting, immediately after the definition of the term “Registrar”, the following definition—
 

“ “subordinated debt” means a debt with a minimum original term to maturity of over five years but only to a maximum of fifty percent of the core capital element of an institution and subject to adequate amortization arrangements”; and
  - (b) by deleting the words “fifty percent of current year to-date” in paragraph (b) under the definition of the term “supplementary capital”, and inserting therein the words “subordinated debt”.Amendment of para 2 of the Financial Services (Capital Adequacy Requirements for DEposit Taking Microfinance Institutions) Directive, 2014
3. The principal Directive is amended by inserting, immediately after paragraph 6, the following new paragraph, as paragraph 6A as follows—
  - 6A.—(1) Supplementary capital (tier 2) shall not exceed one hundred percent of the core (tier 1) capital of a financial institution. Insertion of new paragraph 6A into the principal Directive
  - (2) Subject to sub-paragraph (3), the aggregate amount of subordinated debt that is eligible and recognized by the Registrar as supplementary or tier 2 capital is limited to fifty percent of core capital. Authorization for treatment of debt as supplementary capital
  - (3) The subordinated debt referred to in sub-paragraph (2) shall—
    - (a) be discounted by cumulative factor of twenty percent per year during the last five years to maturity;

- (b) be unsecured, uninsured and not be a deposit;
- (c) have an original maturity of not less than five years;
- (d) be subordinated to claims of all depositors and general creditors of an institution;
- (e) not be redeemable at the option of the holder prior to maturity, except with prior approval of the Registrar; and
- (f) not require payment of principal or interest unless the institution is solvent and shall remain solvent immediately thereafter.

(4) An institution meets the capital requirements of this paragraph if it is in compliance with all the requirements of the Financial Services (Asset Classification Requirements for Microfinance Institutions), Directive, 2014.

Made this 14th day of June, 2019

(FILE NO. FIN/PFSPD/03/04)

DALITSO KABAMBE, PhD  
*Registrar of Financial Institutions*

GOVERNMENT NOTICE No. 33

INSURANCE ACT

(Cap 47:01)

INSURANCE (RESERVING REQUIREMENTS FOR GENERAL INSURERS AND REINSURERS) DIRECTIVE, 2019

ARRANGEMENT OF PARAGRAPHS

PARAGRAPH

PART I—PRELIMINARY

1. Citation
2. Interpretation
3. Application

PART II—OBJECTIVES

4. Objectives

PART III—SPECIFIC REQUIREMENTS

5. Reserving policy
6. Determination of technical reserves
7. Reporting requirement
8. Data requirements

PART IV—ENFORCEMENT

9. Administrative penalties

IN EXERCISE of the powers conferred by section 79 (3) of the Insurance Act, I, Dr. DALITSO KABAMBE, Registrar of Financial Institutions, has issued the following Directive—

PART I—PRELIMINARY

1. This Directive may be cited as the Insurance (Reserving Requirements for General Insurers and Reinsurers) Directive, 2019. Citation

2. In this Directive unless the context otherwise requires— Interpretation

“actuary” means an actuary appointed according to the same requirements as those for a life insurer under section 25 of the Act;

“gross reserves” means the amount of funds set aside by an insurer to meet future losses, outstanding claims, incurred but not reported losses, premium liabilities and any associated expenses but before reinsurance credits and offsets;

“financial year” has the same meaning ascribed to it under in the Financial Services Act; Cap. 44:05

“incurred but not reported (IBNR) claims reserve” means a reserve for claims incurred but not reported at the reporting date;

“net reserves” means gross reserves adjusted for reinsurance credits and offsets;

“outstanding claims reserve (OCR)” means a reserve held in respect of payments due and claims expenses in respect of claims that have already been incurred and reported but have not been settled;

“premium deficiency reserve (PDR)” means a reserve held in excess of the unearned premium reserve, which allows for any expectation that the unearned premium reserve will be insufficient to cover the cost of claims and expenses incurred in connection with insurance contracts in force;

“technical reserves” means the total reserves determined by an insurer in accordance with this Directive, and may be gross reserves or net reserves;

“unearned premium reserves (UPR)” means the part of premium written that is corresponding to the period remaining on an insurance policy contract;

“unexpired risk reserve (URR)” means the amount of reserves set aside to cover claims and expenses which will emerge from unexpired risks at the valuation date, and is generally equal to the sum of UPR and PDR; and

“1/365<sup>th</sup> method” means a basis for estimating unearned premium reserve, based on the assumption that the risk is spread evenly over the 365 days of a year of cover.

3. This Directive shall apply to all general insurance companies and reinsurance companies licensed under the Financial Services Act. Application  
Cap. 44:05

## PART II—OBJECTIVES

Objectives

4. The objectives of this Directive are to ensure—

(a) consistent valuation and reporting of technical liabilities by insurers;

(b) that an insurer holds sufficient reserves to enable them meet obligations arising out of insurance contracts as they fall due with a reasonable level of certainty; and

(c) that insurers properly reflect the risks on their books in their present financial statements.

## PART III—SPECIFIC REQUIREMENTS

Reserving  
policy

5.—(1) An insurer shall have a reserving policy, approved by the Board of directors of the insurer, covering the establishment of technical reserves in accordance with provisions of this Directive.

(2) The policy shall, at a minimum, include the following requirements—

(a) description of the methodology for determining reserves;

(b) periodic reporting procedures to senior management;

(c) description of the classes and sub-classes of insurance business for purposes of determining reserves under this Directive; and

(d) independent verification of the adequacy of reserves by actuaries and auditors approved by the Registrar.

(3) The insurer shall review the policy, at least once every three years, or whenever there have been material changes to the operating environment of the insurer.

(4) The insurer shall not materially deviate from, or change the reserving methodology described in the reserving policy except where such deviation or change has been approved by the Registrar.

(5) An insurer who does not seek the Registrar's approval as provided in subparagraph (4) above shall be liable to administrative penalty.

Determination  
of technical  
reserves

6.—(1) An insurer shall establish and maintain, at a minimum, the following technical reserves in respect of each class of insurance business—

(a) the unexpired risk reserve, or the sum of unearned premium reserve and premium deficiency reserve whichever is higher;

(b) outstanding claims reserves; and

(c) incurred but not reported claims reserves.

(2) The insurer shall determine unexpired risk reserve by calculating the actuarial estimation of the expected claims and costs of the unexpired business for each class of business.

(3) The insurer shall determine unearned premium reserve by using 1/365<sup>th</sup> method.

(4) A reinsurer shall determine unearned premium reserve by using 1/365<sup>th</sup> method for facultative business, and 1/8<sup>th</sup> method for treaty business.

(5) An insurer shall determine premium deficiency reserve as the difference between unexpired risk reserve and unearned premium reserve.

(6) An insurer shall determine outstanding claims reserve by—

(a) providing, in full, known amounts of all outstanding claims; and

(b) reasonably estimating all reported claims whose amounts are not yet known to the insurer.

(7) An insurer shall determine incurred but not reported claims reserve by—

(a) using an actuarial valuation method that takes into account historical claims experience; or

(b) using a percentage of outstanding claims at the valuation date, and the applicable rate of not be less than twenty percent; or

(c) any other method approved by the Registrar.

(8) The determination of the technical reserves shall be based on assumptions for future experience and circumstances of the insurer, and shall be—

(a) made using judgement and experience;

(b) made having regard to reasonably available statistics and other information; and

(c) neither deliberately understated nor overstated.

(9) An insurer may establish technical reserves as gross reserves or net reserves and where net reserves have been used, the insurer shall also establish reinsurance recoveries reserve and the methods and principles used for setting both reserves shall be consistent.

(10) Where the Registrar has reason to believe that the technical reserves of an insurer are insufficient, having regard to the business and risk profile of the insurer, the Registrar may—

(a) recommend to the insurer a reserve amount or additional reserves such as the premium deficiency reserve which the Registrar considers appropriate; and

(b) require the insurer to obtain a valuation of its liabilities from the actuary at the expense of the insurer, and the actuary shall submit a report of the valuation to the Registrar within a specified period.

(11) The insurer who fails to maintain sufficient technical reserves as required by this Directive shall be liable to an administrative penalty.

(12) An insurer who deliberately understates technical reserves shall be liable to an administrative penalty.

Reporting requirements

7.—(1) An insurer shall submit an annual technical reserves valuation report to the Registrar within three months after the end of a financial year.

(2) The technical reserves valuation report shall be signed by an actuary.

(3) The technical reserves valuation report shall, at a minimum, contain the following—

(a) a statement that the methodology used is in compliance with this Directive;

(b) a detailed description of the reserves valuation; and

(c) narration and explanation of special terms and concepts in the report.

(4) Description of the reserves valuation shall include the following—

(a) completeness and accuracy of the data of different classes of insurance business, and description of the problems the data may have;

(b) the actuarial method and model for valuation where the actuarial method and model differs from those previously adopted and reasons for making the change and its effects on the current determination of reserves shall be described;

(c) major assumptions of the actuarial method and model, and reasons for adopting such assumptions; and

(d) any discrepancies between the actuarial result of the previous reserving method and actual experience.

(5) The actuary shall provide guidelines to an insurer for the purpose of determining quarterly valuations for the business.

(6) The Registrar may require additional information to form part of the technical reserves valuation report including any scenario or stress tests.

Data requirements

8.—(1) An insurer shall be responsible for ensuring that its database is properly maintained and that the data provided to the actuary is accurate and complete.

(2) The insurer shall give the actuary unrestricted access to the database and shall furnish immediately, upon request, such data and explanation as the actuary may require when conducting the valuation of liabilities of the insurer's business.

(3) Where the actuary has reason to believe that the data may produce material biases in the results, the actuary shall make appropriate allowance in the estimations, and document the basis of such allowance.

#### PART IV—ENFORCEMENT

Monetary penalties  
Cap. 44:05

9.—(1) Where the Registrar determines that an insurer has not met the requirements of this Directive, the Registrar may impose administrative penalties under the Financial Services Act.

(2) Notwithstanding subparagraph (1), where an insurer has not met the requirements of this Directive, the Registrar may impose the following administrative penalties—

(a) where an insurer or reinsurer fails to maintain sufficient technical reserves as required under this Directive, a fine of five million Kwacha and fifteen percent of the total amount by which the technical reserve was understated;

(b) where an insurer or reinsurer fails to obtain the Registrar's approval in respect of material deviations or changes from its reserving methodology, a fine of ten million Kwacha; and

(c) for failure to submit the technical reserves valuation report and any other information within the required deadline, a fine of five million Kwacha.

Made this 14 day of June, 2019.

(FILE NO. FIN/PFSPD/03/04)

DALITSO KABAMBE, PhD  
*Registrar of Financial Institutions*

GOVERNMENT NOTICE NO. 34.

## INSURANCE ACT

(Cap 47:01)

### INSURANCE (INCLUSIVE INSURANCE) DIRECTIVE, 2019

#### ARRANGEMENT OF PARAGRAPHS

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##### PART II—OBJECTIVES

4. Objectives

##### PART III—LICENSING REQUIREMENTS

5. Licensing of inclusive insurance operators
6. Eligible inclusive insurance operators
7. Provision of inclusive insurance business

##### PART IV—PRUDENTIAL STANDARDS REQUIREMENTS

8. Minimum capital and solvency requirements
9. Reinsurance requirements
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22. Submission of information to the Registrar

## PART VIII—CORPORATE GOVERNANCE

23. Risk management
24. Suitability of responsible officers
25. Senior management

## PART IX—ENFORCEMENT

26. Monetary penalties

IN EXERCISE of powers conferred by section 79 (3) of the Insurance Act, I, Dr. DALITSO KABAMBE, Registrar of Financial Institutions, issue this Directive—

## PART I—PRELIMINARY

Citation 1. This Directive may be cited as the Insurance (Inclusive Insurance) Directive, 2019.

Interpretation 2.—(1) In this Directive, unless the context otherwise requires—

“bundled inclusive insurance product” means an inclusive insurance product that combines life and general insurance product features in one package with the aim of offering convenience and potential cost savings to the consumer;

“distributor” means an institution or person appointed by an inclusive insurer to handle the sales and servicing of inclusive insurance policies but does not necessarily produce the inclusive insurance products, or retain the risk of the inclusive insurance policies;

“distribution channel” means a method of insurance delivery to a target market;

“low income household” means the low income earning segment of the population working independently or in the formal or informal sector to earn a living;



“incurred but not reported (IBNR) claims reserve” means a reserve for claims incurred but not reported at the reporting date;

“insurer” has the same meaning as defined in the Act;

“inclusive insurance” means general or life insurance designed to be accessible to and targeted at low income households and where the risk insured is managed based on insurance principles and funded by premiums;

“inclusive insurance policy” means an insurance policy sold under a plan which has been specifically approved by the Registrar as an inclusive insurance product;

“inclusive insurance product” means an insurance product designed for low income households in relation to cost, terms, coverage, benefits and delivery mechanism;

“inclusive insurer” means an insurer licensed or authorized by the Registrar to underwrite inclusive insurance business;

“outstanding claims reserve (OCR)” means a reserve held in respect of payments due and claims expenses in respect of claims that have already been incurred and reported but have not been settled;

“technical reserves” means the total reserves determined by an insurer in accordance with this Directive, and may be gross reserves or net reserves;

“third party administrator” means a party outside the original contracting parties of the insured and the insurer that handles the administrative function of the insurance transaction; and

“unearned premium reserves (UPR)” means the part of premium written that is corresponding to the period remaining on an insurance policy contract.

(2) Any term used in this Directive, and which has been defined in the Act has the meaning ascribed to that term under the Act.

3. Directive applies to all financial institutions licensed to carry out inclusive insurance business. Application

#### PART II—OBJECTIVES

4. The objectives of this Directive are to— Objectives

(a) provide minimum standards for the conduct of inclusive insurance business in Malawi;

(b) establish duties and responsibilities of inclusive insurance operators;

(c) establish general features of inclusive insurance;

(d) promote consumer protection; and

(e) facilitate financial inclusion.

## PART III—LICENSING

Licensing of  
inclusive  
insurance  
operator  
Cap. 44:05

5.—(1) A person shall not carry out inclusive insurance business unless he is licensed or authorized by the Registrar under the Act and the Financial Services Act.

(2) An application for a licence to carry out inclusive insurance business under the Act shall be made in the form prescribed in the First Schedule hereto.

(3) An applicant for a licence to carry out inclusive insurance business shall submit completed and signed application forms and all supporting documents to the Registrar either electronically or in printed copies.

Eligible  
inclusive  
operators

6.—(1) In this Directive, unless otherwise stated, the following shall be eligible inclusive insurance operators—

(a) a financial institution licensed under the Act and the Financial Services Act to provide inclusive insurance; and

(b) general and life insurance companies licensed under the Act and the Financial Services Act.

Cap. 44:05

Cap. 44:05

(2) In this Directive, unless otherwise stated, the following shall be eligible inclusive insurance service providers—

(a) distributors or distribution channels;

(b) insurance brokers and agents licensed under the Act; and

(c) third party administrators.

Provision of  
inclusive  
insurance  
business

7.—(1) A licensed general or life insurance company intending to provide inclusive insurance business shall—

(a) set up a distinct unit to handle inclusive insurance business;

(b) appoint a principal officer who shall be a chartered at least five years of insurer or a senior insurance officer with experience at managerial level in a technical department of an insurance company to manage the inclusive insurance unit; and

(c) seek the Registrar's approval to underwrite inclusive insurance products.

(2) A financial institution intending to provide inclusive insurance business shall—

(a) be licensed by the Registrar in accordance with licensing guidelines on inclusive insurance;

(b) appoint a principal officer who should be a chartered insurer or at least five years' as senior insurance officer with experience at managerial level in a technical department of an insurance company; and

(c) have an appropriate management information system for the inclusive insurance business.

(3) An inclusive insurance service provider shall be appointed by an inclusive insurer evidenced by a service level agreement or letter of appointment.

#### PART IV—PRUDENTIAL STANDARDS

8.—(1) The minimum paid up capital of an inclusive insurer shall be three hundred million Kwacha. Minimum capital and solvency

(2) An inclusive insurer shall maintain a minimum core capital of eighty percent of the minimum paid up capital.

(3) An inclusive insurer shall be deemed to have sufficient margin of solvency if—

(a) it has a solvency ratio of not less than one hundred percent being the percentage that admitted assets bears on total liabilities; and

(b) the value of the core capital of the inclusive insurer is not less than two hundred and forty thousand Kwacha.

(4) Core capital and solvency ratio for an inclusive insurer shall be calculated in line with the Second Schedule attached hereto.

(5) The Registrar may direct an inclusive insurer to maintain a higher minimum paid-up capital, core capital, or solvency ratio.

9. The Registrar may require the inclusive insurer to take catastrophe reinsurance cover for specific products. Reinsurance

10. An inclusive insurer shall at a minimum maintain the following technical reserves— Reserving

(a) unearned premium reserve;

(b) outstanding claims reserve; and

(c) incurred but not reported claims reserve.

11.—(1) The inclusive insurer shall determine unearned premium reserve (UPR) by using the  $1/365^{\text{th}}$  method. Determina-  
tion of  
technical  
reserves

(2) The inclusive insurer shall determine outstanding claims reserve (OCR) by—

(a) providing full known amounts of all outstanding claims; and

(b) reasonably estimating all reported claims whose amounts are not yet known to the insurer.

(3) The inclusive insurer shall determine IBNR claims reserve by—

(a) using an actuarial calculation method that takes into historical claims experience;

(b) using a percentage of outstanding claims at the valuation date, and the applicable rate of not be less than twenty-five percent; or

(c) using any other method approved by the Registrar.

(4) Where an inclusive insurer adjusts for reinsurance credits and offsets when calculating its technical reserves, the inclusive insurer shall also establish reinsurance recoveries reserve of at least seven percent of net reinsurance recoveries where the latter is positive.

(5) Where the Registrar has reason to believe that the technical reserves of an inclusive insurer are insufficient, having regard to the business and risk profile of the inclusive insurer, the Registrar may recommend to the inclusive insurer a reserve amount or additional reserves.

(6) The inclusive insurer who fails to maintain sufficient technical reserves as required by this Directive is liable to an administrative penalty.

(7) An inclusive insurer who deliberately understates technical reserves is liable to an administrative penalty.

Investment 12. An inclusive insurer shall at all times hold short term investment assets of not less than the aggregate amount of the inclusive insurer's technical reserves.

Supervision of inclusive insurers  
Cap. 44:05 13.—(1) The Registrar may periodically or at his discretion examine or cause to be examined the business of any inclusive insurer in order to determine whether the inclusive insurer is in a sound financial condition and complies with the requirements of this Directive or the Act, the Financial Services Act or any other Act relevant to its inclusive insurance business.

Cap. 44:05 (2) The Registrar may, at any time, inspect the office and records of any inclusive insurance service provider in order to determine whether the inclusive insurance service provider is operating in compliance with the requirements of this Directive or the Act, the Financial Services Act or any other Act relevant to inclusive insurance business.

#### PART IV—MARKET CONDUCT

Premium payment 14.—(1) Insurance premium paid to a distributor in respect of inclusive insurance business transacted through the distributor shall be deemed to be premium paid to the inclusive insurer involved in the transaction.

(2) Where policy document has not been provided, receipt of premium payment shall be regarded as evidence of an inclusive insurance contract.

(3) The insurance premium shall be fixed at the start of the contract and shall not be changed during the contract period.

Settlement of claims 15.—(1) An inclusive insurer shall process and settle an inclusive insurance claim within three working days from the date of receipt of complete documentation of the claim.

(2) The inclusive insurer may settle claims through a distributor.

(3) The inclusive insurer shall, where claims are settled through a distributor, put in place credible mechanism to ensure that the claims are promptly remitted to the beneficiary.

(4) The inclusive insurer shall put in place a claims policy which sets out the processes for settling claims

(5) The inclusive insurer shall clearly outline the documents required on processing and settlement of the claim at the inception of an inclusive insurance policy.

16.—(1) An inclusive insurer shall, prior to appointing a distributor, execute a service level agreement. Service level agreement

(2) The service level agreement shall contain the following minimum requirements—

- (a) rights and obligations of either party;
- (b) premium collection and remittance clause;
- (c) claim settlement clause;
- (d) commission payment;
- (e) records management;
- (f) know your customer clause; and
- (g) any other requirement as may be prescribed by the Registrar.

(3) The inclusive insurer shall submit to the Registrar a copy of the service level agreement for approval.

(4) The inclusive insurer shall be held liable for the conduct of the other parties to the service level agreement.

17.—(1) An inclusive insurer shall put in place policies and procedures for quick and effective settlement of complaints by clients. Complaints handling

(2) The inclusive insurer shall resolve a complaint made by a client within five working days from the date of receipt of the complaint.

(3) The inclusive insurer shall submit quarterly report to the Registrar in respect of complaints filed against the inclusive insurer or distributor including status of the complaint and how it was resolved.

18.—(1) An inclusive insurer shall— Consumer protection

(a) ensure that inclusive insurance products are simplified for clients to understand the product and associated benefits;

(b) ensure that inclusive insurance policies have simplified terms, with no complex formulas or calculations, and limited to one page;

(c) ensure that clients are made aware of their rights, responsibilities, recourse mechanism and renewal procedures;

(d) disclose the following to the client—

- (i) product features;
- (ii) premium amount;
- (iii) cover period;
- (iv) exclusions;

- (v) terms and conditions;
- (vi) rights and responsibilities;
- (vii) information on the inclusive insurer;
- (viii) claims handling processes and procedures;
- (ix) commission payable; and
- (x) dispute resolution and recourse mechanism;

(e) ensure that disclosures in (d) above are—

- (i) made in a legible and consistent font;
- (ii) written with an option of a helpline for verbal clarification;
- (iii) made before the contract has been signed; and
- (iv) made in a language that is understandable by the client; and

(f) ensure that all proposal forms contain a declaration to be signed or accepted electronically by the client that the terms and conditions of the contract have been explained and understood by the client.

(2) The inclusive insurance contract may be signed or accepted electronically or in printed form.

(3) The inclusive insurer shall set up a call centre as helpline for verbal clarification and to communicate with clients.

Know your customer

19. An inclusive insurer shall conduct basic “know your customer” exercise on the insured in order to minimize the risk of fraud.

#### PART VII—INCLUSIVE INSURANCE PRODUCTS

Product approval and features

20.—(1) An inclusive insurer shall obtain prior written approval of the Registrar before launching an inclusive insurance product.

(2) The inclusive insurance product shall at a minimum have the features stipulated in the Third Schedule of this Directive.

(3) An inclusive insurer shall be allowed to offer a bundled inclusive insurance product.

(4) An inclusive insurer shall be allowed to use the following distributors to reach potential inclusive insurance consumers—

- (i) cooperatives societies;
- (ii) microfinance institutions;
- (iii) Non-Governmental organizations;
- (iv) postal agencies;
- (v) mobile network operators;

- (vi) insurance brokers or agents;
- (vii) health service providers;
- (viii) retail shops or supermarkets;
- (ix) farmer organizations or clubs;
- (x) faith based organizations; and
- (xi) any other distributor as approved by the Registrar.

21. Notwithstanding other Directives made by the Registrar, the cooling off period for inclusive insurance policies shall be as stipulated in the Third Schedule hereto. Cooling off period

#### PART VII—REPORTING

22.—(1) An inclusive insurer shall, within twenty-five working days after the end of each quarter, submit to the Registrar a return in the format prescribed in the Second Schedule of this Directive. Submission of information to the Registrar

(2) The inclusive insurer shall, within three months after the close of the financial year, submit to the Registrar a copy of its annual audited financial statements.

(3) The inclusive insurer shall also submit the following information to the Registrar—

(a) type and number of training programs conducted for distributors and low income households;

(b) number of distributors that attended the training courses; and

(c) number of education, promotional activities and formal presentations for low income households.

(4) The inclusive insurer shall submit a report on complaints received, handled and outstanding to the Registrar on a quarterly basis.

(5) A third party administrator shall submit to the Registrar a quarterly return in a format prescribed by the Registrar.

#### PART VIII—CORPORATE GOVERNANCE

23. An inclusive insurer shall have a risk management framework commensurate with the risk profile of its inclusive insurance business. Risk Management

24. An inclusive insurer shall, subject to the approval of the Registrar, appoint the following responsible officers— Suitability of responsible persons

- (a) Board members;
- (b) chief executive officer or equivalent;
- (c) principal officer;
- (d) chief finance officer;
- (e) head of operations; and
- (f) external auditor.

Senior  
management

25. Senior management of an inclusive insurer shall, at a minimum, comprise the following officers—

- (a) chief executive officer or equivalent; and
- (b) two other senior management officers such as chief finance officer and head of operations or their equivalent.

#### PART IX—ENFORCEMENT

Monetary  
penalties

26.—(1) Where the Registrar determines that an inclusive insurer has not met the requirements or has contravened the provision of this Directive, the Registrar shall impose the following monetary penalties for violations of this Directive—

- (a) for inclusive insurers, up to ten million Kwacha;
- (b) for natural persons who are members of the Board of directors or management, up to two million Kwacha; and
- (c) in addition, a penalty of fifty thousand Kwacha may be imposed on the institution for each subsequent day for which the violation continues after being notified as stipulated.

(2) The inclusive insurer or natural person shall pay the penalty in subparagraph (1) through a bank certified cheque payable to the Registrar of Financial Institutions within ten working days after being notified of the violation.

#### FIRST SCHEDULE

(para 5)

#### APPLICATION FORM FOR A LICENCE TO CONDUCT INCLUSIVE INSURANCE BUSINESS

(FINANCIAL SERVICES ACT AND INSURANCE ACT)

#### INTRODUCTION

1. The requirements specified under the Financial Services Act, Insurance Act and the Guideline on the application for a licence to conduct inclusive insurance business must be observed in preparing and completing this Form.
2. In addition to the information expressly requested in this document, any further material information necessary to make the application complete must be furnished.
3. Any false or misleading information or omission of material fact will constitute grounds for any of the following: rejection of application, withdrawal of licence granted or imposition of administrative penalties or fines as stipulated under the Financial Services Act.
4. The following must be submitted along with the application form—
  - (a) copy of certificate of incorporation;
  - (b) copy of Memorandum of Association;
  - (c) copy of articles of association;



- (d) strategic business plan;
  - (e) organizational structure;
  - (f) copies of service level agreements, including information and communication technology;
  - (g) copy of product pricing structure;
  - (h) copies of audited financial statements for the past 3 years for shareholders;
  - (i) operational manuals;
  - (j) letters of appointment of proposed senior management and their written acceptance;
  - (k) copy of letters of tentative appointment of auditors;
  - (l) contact details of regulatory authorities in all other jurisdictions in which the applicant may already be conducting, or may have conducted insurance business in; and
  - (m) a non-refundable licence assessment fee of K500,000.00 in the form of a bank certified check payable to "Registrar of Financial Institutions".
5. Enquiries concerning the preparation, completion, and status of this application should be made to—
- The Director,  
Financial Sector Regulation Department,  
Reserve Bank of Malawi,  
P.O. Box 565, Blantyre,  
Malawi.  
Tel. 01 820 444  
Email—fsrusers@rbm.mw
6. Completed application forms and all attachments must be submitted to—
- The Registrar of Financial Institutions,  
Reserve Bank of Malawi,  
P O Box 30063,  
Capital City,  
Lilongwe 3,  
Malawi.

## SECTION I—APPLICANTS DETAILS

## 1. NAME OF APPLICANT

(Please put exact name as it appears in the certificate of incorporation)

## 2. DATE AND PLACE OF INCORPORATION

(Please provide copy of certificate of incorporation)

## 3. POSTAL ADDRESS

## 4. REGISTERED OFFICE ADDRESS

## 5. PROPOSED PHYSICAL ADDRESSES OF OTHER OFFICES (BRANCHES)

## 6. CONTACT TELEPHONES NUMBERS

## 7. FAX NUMBER

## 8. E-MAIL ADDRESS

## SECTION II—SHAREHOLDING

1. Please state the number of shares and value in Kwacha of the share capital as follows—

Authorized share capital	
Issued share capital	
Paid up capital	

2. Please give the names of individuals or institutions holding ordinary share capital of the company, indicating their address, nationality, number of shares held and percentage owned—

Name	Address	Nationality	No. of Shares	Corporate/ Individual	Percentage

3. Please give the names of beneficial owners of nominee shareholding of at least 10 percent of the ordinary share capital of the applicant company.

Name	Address	Nationality	No. of Shares	Percentage

4. Please list below any of the applicant's shareholders (corporate and non-corporate) licensed to carry on or propose to carry on any type of financial services activity:

Name of shareholder	Nature of activity

5. Please list any entity in which the applicant has shareholding, stating the value of the shares and the percentage of shareholding held—

Name of company in which shareholding is held	Value of share	Percentage of shareholding

### SECTION III

#### MANAGEMENT, RELATED PARTIES AND AFFILIATES OF THE APPLICANT

1. Please provide the name of the proposed principal officer (attach curriculum vitae):

--

2. Please provide the following details of Board of Directors of the proposed company

Name	Postal address	Physical address	Occupation	Date of appointment	Nationality	Percentage shareholding

3. Is the proposed company or any of its directors affiliated to any financial institution?

Name of Directors	Name of Company	Interest in company	Industry

4. Has the applicant or any of its affiliates, directors/promoters or any of their affiliates been denied registration, suspended or deregistered from membership of any government agency or self regulatory organization? If Yes, please give details:

5. Please indicate any arrangements whether legal or not made by any director and any of the shareholders in terms of the responsibility of the directors.

6. Has the applicant or any of affiliates operated under and carried on business under any name other than as shown in this application? If Yes, please specify the name(s):

7. Has the applicant or its investors or directors or top management, associates or any of its affiliates compromised debts or failed to honour legitimate obligations as and when due? If yes, please give details

8. Has the applicant or its investors, or directors or top management or associates or any of its affiliates paid all taxes?

9. Has the applicant or the directors or top management or associates or any of their affiliates been subject to any bankruptcy or winding-up order or receivership arrangement? If Yes, please give details

10. Has the applicant or its investors or directors or top management or any of its affiliates ever been involved in financial mismanagement? If Yes, please give details.

11. Has the applicant or its investors or directors or top management or any of its affiliates been involved in any litigation within 10 years preceding this application, with regards to—

- (a) any registration or licence?;
- (b) its conduct in the financial services industry?;
- (c) any offence relating to the code of conduct of the business of a financial institution?;
- (d) any criminal offence?;
- (e) any civil liability?

12. Where the answer to any of the items in (11) is 'Yes', please give details

13. Has the applicant or its investors or directors or top management or any of its affiliates ever been subject to an investigation in Malawi or elsewhere by or at the instance of any government agency, professional association or any regulatory authority? If yes, please give details:

#### SECTION IV—OPERATIONAL ISSUES

1. Please provide list of products that the inclusive insurer will be offering.

2. Please provide details of the external auditor for the inclusive insurer

3. Please provide details of the management information systems to be used by the company.

SECTION IV—OTHER INFORMATION

Please indicate any arrangements whether legal or otherwise made between any director and any of the shareholders in terms of the responsibility of the directors;

CONTACT DETAILS

Please provide contact details of the person formally designated by the applicant to act on its behalf on matters connected to the application—

Name

Address

Telephone number

Email address

SECTION V—DECLARATION

I/We.....

.....

Name (s) in full

Make oath and state as follows—

- (a) That I/We am/are a Director/Officer of the Company;
- (b) That I/We am/are duly authorized by the employer to sign this application;
- (c) That the Directors and Senior Managers have never been involved in financial mismanagement in Malawi or elsewhere;
- (d) That the company will be adequately capitalized for the volume of its business at all times;
- (e) That I/We do hereby declare that to the best of my/our knowledge and belief, all information contained and all other matters set forth in the supporting attachments are correct and conscientiously believe the same to be true by virtue of the Malawi Oath and Affirmation Act, Chapter 4:01; and

- (f) That I/We have enclosed the appropriate application fees as stipulated by the Registrar of Financial Institutions.
- .....
- .....
- .....

SWORN at the ..... this ..... Day of ..... 2019

BEFORE ME

.....

.....

COMMISSIONER FOR OATHS

SECOND SCHEDULE

(para 8, and 22)

KEY PERFORMANCE INDICATORS REPORTING TEMPLATE

Inclusive Insurance Prudential KPI Data Requirements		
Profit/Loss Statement	Formula (in line numbers)	Values as at the end of the calendar year
<b>Revenue:</b>		
<b>Premium</b>		
1. Written premium		0
2. Change in direct unearned premium reserve (UPR)		0
<b>3. Direct Earned Premium</b>	(1)+(2)	0
4. Investment income		0
5. Other income		0
<b>6. Total Revenue</b>	(3)+(4)+(5)	0
<b>Claims and Expenses</b>		
<b>Claims</b>		
7. Direct claims and benefits paid		0
8. Change in direct IBNR and Reported, but not paid Claims Technical Provisions		0



<b>Inclusive Insurance Prudential KPI Data Requirements</b>		
<b>Profit/Loss Statement</b>	<b>Formula (in line numbers)</b>	<b>Values as at the end of the calendar year</b>
9. Change in other technical provisions		0
<b>10. Total Claims and Change in Technical Provisions</b>	<b>(7)+(8)+(9)</b>	<b>0</b>
<b>Expenses</b>		
11. Acquisition costs (Distributor)		0
12. Service and administration costs (Distributor)		0
13. Administrative/Management fees		0
14. Other miscellaneous expenses		0
<b>15. Reinsurance Expense:</b>		
15. (a) Reinsurance premium ceded		0
15. (b) Fees or commissions earned from reinsurer		0
15. (c) Claims recovered by reinsurer		0
15. (d) Change in all technical provisions ceded to reinsurer		0
<b>15. (e) Total Reinsurance expense</b>	<b>(15a)-(15b)-(15c)+(15d)</b>	
<b>16. Total Expenses</b>	<b>(11)+(12)+(13)+(14)+(15e)</b>	
<b>17. Total claims, change in technical provisions and expenses</b>	<b>(10)+(16)</b>	
<b>18. Net income</b>	<b>(6)-(16)</b>	
<b>Balance Sheet (for providers only offering inclusive insurance)</b>		
<b>Assets</b>		
<b>Admitted Assets</b>		
19. Cash and cash equivalents		0
20. Investments easily converted into cash		0
21. Other admitted assets		0
<b>22. Total admitted assets</b>	<b>(19)+(20)+(21)</b>	<b>0</b>

Balance Sheet (for providers only offering inclusive insurance)	Formula (in line numbers)	Values as at the end of the calendar year
<b>Non-Admitted Assets</b>		
23. Total non-admitted assets		0
24. Total non-admitted assets	(23)	0
25. Total Assets	(22)+(24)	0
<b>Liabilities</b>		
<b>Technical Provisions</b>		
26. Unearned premium reserve		0
27. IBNR and claims reported, but not paid		0
28. Other technical provisions		0
29. Total technical provisions	(26)+(27)+(28)	0
<b>Other Liabilities</b>		
30. Short term other liabilities (<3 months)		0
31. Longer term other liabilities (>3 months)		0
32. Total other liabilities	(30)+(31)	0
33. Total liabilities (Technical Provisions and Other Liabilities)	(29)+(32)	0
<b>Equity</b>		
34. Share capital		0
35. Retained earnings		0
36. Contingency reserves		0
37. Other capital accounts		0
38. Total equity	(34)+(35)+(36)+(37)	0
39. Total liabilities and equity	(33)+(38)	0
22. Check: Assets = Liabilities	(39)=(25)	TRUE

Market Conduct KPI Data		
	Values as at the end of the calendar year	
1. Number of renewals that actually occurred in the calendar year	0	
2. Number of potential renewals during the calendar year	0	
3. Number of active insured	0	
4. Total number in the defined target population	0	
5. Number of policies at the end of the year	0	
6. Number of policies at the beginning of the year	0	
7. Number of claims rejected	0	
8. Number of claims in the sample	0	
<b>9. Claims Settlement Time</b>	<b>Number of Claims</b>	<b>Percentage of Total Claims</b>
9. (a) Less than 8 days	0	
9. (b) 8-30 days	0	
9. (c) 31-90 days	0	
9. (d) More than 90 days	0	
10. Total	0	

Inclusive Insurance Key Performance Indicators					
	Key Performance Indicator	Formula	II KPI Template Line Reference	Calculated Value	Benchmark
Prudential KPI's	Expense Ratio	Total Expenses	(16)/(3)		Less Than 25%
		Direct Earned Premium			
	Incurred Claims Ratio	Total Direct Claims, Benefits paid and Changes in Provisions	(10)/(3)		65% or higher
		Direct Earned Premium			
	Net Income Ratio	Net income	(18)/(3)		Not more than 10%
		Direct Earned Premium			

	Key Performance Indicator	Formula	Market Conduct KPI Template Line Reference	Calculated Value	Benchmark
	Market Conduct KPI's	Renewal Rate	Number of Renewals	(1)/(2)	
Number of Potential Renewals					
Coverage Rate		Number of Active Insured	(3)/(4)		Determined by the organization over time
		Size of defined Target Population			
Growth Ratio		Number of Policies at end of year-Policies at beginning of year	[(5)-(6)]/(6)		No Target – dependent on what the organization can support
		Number of Policies at beginning of year			
Promptness of Claims Settlement		Less than 8 days	9a		Average of 15 days or less, the less time the better unless justified by cultural elements.
	8-30 days	9b			
	31-90 days	9c			
	More than 90 days	9d			
	Total Claims Settled	10			
Claims Rejection Ratio	Number of Claims rejected	(7)/(8)		No target – this gives information on the product and processes	
	Number of claims in sample				
	Key Performance Indicator	Formula	II KPI Template Line Reference	Calculated Value	Benchmark
For providers that only offer inclusive insurance	Liquidity Ratio	Available Cash or Equivalents	(19)/(30)		>100% (but not too much bigger)
		Short Term Payables			
	Solvency Ratio	Admitted Assets	(22)/(33)		>100% but less than 250%
		Total Liabilities			

## THIRD SCHEDULE

(Para 20, and 21)

## CRITERIA FOR APPROVAL OF NEW INCLUSIVE INSURANCE PRODUCTS

(1) All inclusive insurance products shall comply with the following SUAVE principles—

(a) simple	<ul style="list-style-type: none"> <li>(i) products are offered and serviced in a manner that is easily understood by the target group;</li> <li>(ii) product features are self-explanatory such that minimal advice from intermediaries is needed;</li> <li>(iii) benefits, terms and conditions are straightforward with minimal exclusions and restrictions; and</li> <li>(iv) all disclosures, marketing materials and languages used respond to the target group's level of financial literacy.</li> </ul>
(b) understood	the underwriting methods, procedures and coverage must be clear and unambiguous.
(c) accessibility	<ul style="list-style-type: none"> <li>(i) premium contribution is affordable for the target group;</li> <li>(ii) distribution channel is accessible and approachable for the target group;</li> <li>(iii) product features and processes suit the target group's circumstances; and</li> <li>(iv) all processes including premium payment, policy renewal, claims and enquiries are easily accomplished by the policyholder.</li> </ul>
(d) valuable	products and services are designed to meet the needs of clients, be beneficial, fair in price and coverage.
(e) Efficiency	<ul style="list-style-type: none"> <li>(i) all processes are expedient and timely with particular focus on minimizing time to claims pay-out;</li> <li>(ii) back-office administration is simplified, streamlined and automated as much as possible; and</li> <li>(iii) the delivery/distribution channels must be convenient and effective to both the insurer and the policyholder.</li> </ul>

- (2) To qualify as inclusive insurance, products shall have the following features and standards—

(a) coverage and risks covered	<p>(i) policy to cover the insured and any or ail of the following: an insured's spouse, children, parents and siblings; and</p> <p>(ii) risks covered to include—death, accident, injury or illness, fire, calamities/disasters/catastrophic events such as typhoon, earthquake, flood, and other convulsions of nature, casualty such as personal accident, and money security and payroll robbery); and other contingent events as may be determined by the Registrar.</p>
(b) risk-only	<p>(i) products to provide risk benefits only with no surrender value;</p> <p>(ii) risk benefits to cover against a particular risk event or combination of risk events;</p> <p>(iii) occurrence of the risk event to serve as trigger for a claim; and</p> <p>(iv) products shall not include savings component.</p>
(c) benefits provided on a sum assured basis	<p>benefits to be defined on a first loss or sum assured basis (First loss insurance refers to insurance that provides a defined benefit upon a defined event as opposed to indemnity insurance that indemnifies losses, that is, pays benefits according to the actual value of the loss suffered).</p>
(d) maximum contract term	<p>policies should have a contract term of up to but not exceeding 12 months.</p>
(e) no selective non-renewal within group policies	<p>policies are underwritten on a group basis inclusive insurance underwriters should not selectively cancel or refuse to renew individual policies within the group.</p>
(f) waiting periods	<p>(i) waiting periods shall not exceed three months;</p> <p>(ii) no waiting period for accidental deaths; and</p> <p>(iii) no waiting period for renewed policies.</p>
(g) restrictions on exclusions	<p>inclusive insurance policies shall have no exclusions for pre-existing conditions.</p>

(h) right to monetary benefits	where benefits are offered in kind, the policyholders must be given the option, when claiming, of receiving a monetary benefit equal to the stated value of the in-kind benefit had it been provided.
(i) claim settlement	all valid inclusive insurance claims should be paid within a period of 3 working days after receipt of requisite documentation.
(j) grace period	(i) policies of period of cover of three months or more shall have a grace period of one month; and (ii) a claim submitted during the grace period may be reduced by the amount of any unpaid premium.
(k) target market	low income households.
(l) cooling off period	(i) cooling off period should not be less than 20 days and not exceed 30 days; and (ii) customer to be made aware of the cooling off period at the time of inception of policy.
(m) policy documentation	(i) policy wording must be in plain language which is simple and easy to understand; (ii) simple policy summary must be given to the customer electronically or otherwise; and (iii) policy and terms must be made available to the customer.
(n) bundling life and general products	bundling of life and general products is permitted.

Made this 14th day of June, 2019.

(FILE NO.: FIN/PFSPD/03/04)

DALITSO KABAMBE, PHD  
*Registrar of Financial Institutions*