BERMUDA MONETARY AUTHORITY

9th May, 2016

NOTICE

Insurance (Prudential Standards) (Insurance Group Solvency Requirement) Amendment Rules 2016 (the "Rules")

The Bermuda Monetary Authority (the "Authority") proposes to amend the Rules as follows:

1. In Schedule V "Schedule of Risk Management" to remove sub-paragraphs (d) expanded particulars of ceded reinsurance, (x) schedule of cash and cash equivalent counterparty analysis, (y) schedule of currency risk, and (z) schedule of concentration risk, and to insert new Schedules XVIII to XXI for these requirements;

2. In Schedule V "Schedule of Risk Management - Instructions Affecting Schedule V" by:
    a. Inserting a new sub-paragraph "(c)(ii)(AA)" to make provision for Insurance Groups to disclose the counterparty location in relation to intra-group reinsurance and retrocession arrangements. This will assist with identifying countries where cross-border activities are taking place and facilitate dialogue with foreign regulators;

    b. Amending sub-paragraph "(b)(viii)" to make provision for Insurance Groups to disclose gross premiums written in relation to the entities in the insurance group's structure. This will better inform both the Authority and the host regulators the volume of business that the insurance group is responsible for; and

3. In Schedule XIV "Group Statutory Economic Balance Sheet" by amending the definition of Best Estimate Provision for the inclusion of Modified Coinsurance arrangements for Long-Term business. The corresponding assets supporting these arrangements are to be included in lines 1-15 of Form 1EBS.

Comments on the Rules are invited by June 23rd 2016 and should be sent to riskanalytics@bma.bm.

As previously advised, the Authority proposes for all amendments to become effective as of 1st January 2017.

BERMUDA

INSURANCE (PRUDENTIAL STANDARDS) (INSURANCE GROUP SOLVENCY REQUIREMENT) AMENDMENT RULES 2016

BR / 2016

The Bermuda Monetary Authority, in exercise of the powers conferred by section 6A of the Insurance Act 1978, makes the following Rules:

Citation

1. These Rules may be cited as the Insurance (Prudential Standards) (Insurance Group Solvency Requirement) Amendment Rules 2016.

Amends Paragraph 6

2. Paragraph 6 of the principal Rules is amended in—

(a) subparagraph (1) by deleting “and XV; and” and inserting the words “XV, XVIII, XIX, XX, and XXI”;

(b) subparagraph (2) by deleting “and XV” and inserting the words “XV, XVIII, XIX, XX, and XXI”;

(c) subparagraph (3) (b) by deleting “and XV” and inserting the words “XV, XVIII, XIX, XX, and XXI”.

Amends Schedule I

3. Schedule V of the principal Rules are amended in—

(a) Table 1 by deleting “Schedule V (h)” and inserting the words “Schedule XIX” where it occurs;

(b) Table 4 by deleting “Schedule V (i)” and inserting the words “Schedule XX” where it occurs;

(c) Table 5 by deleting “Schedule V (j)” and inserting the words “Schedule XXI” where it occurs;

(d) Table 8 by deleting “Schedule V paragraph (d)” and inserting the words “Schedule XVIII” where it occurs;

Amends Schedule V

4. Schedule V of the principal Rules are amended:—

(a) by revoking paragraphs “(d)”; “(x)”; “(y)” and “(z)”;

(b) in the “INSTRUCTIONS AFFECTING SCHEDULE V” by—

(i) inserting after paragraph “(c) (ii) (A)” the following—
“(AA) counterparties involved, including where they are located;”;

(ii) in paragraph “(b) (viii)” by inserting before the word “net” the words “gross and”;

(iii) revoking paragraphs “(d)”; “(x)”; “(y)”, and “(z)”.

Amends Schedule XIV

5. Schedule XIV of the principal Rules are amended in paragraph 14 of the “INSTRUCTIONS AFFECTING FORM 1EBS” by inserting after “conditions.” the words “This shall include non-balance sheet reserves such as those set out under Modified Coinsurance arrangements under paragraph “(r)” of THE INSTRUCTIONS AFFECTING SCHEDULE V: The corresponding assets supporting these modified coinsurance arrangements shall be included in Lines 1 to15 of Form 1EBS”.

Inserts new Schedules XVI, XVII, XVIII and XIX

6. The principal Rules are amended by inserting after Schedule XV the following new Schedules—

(a) “Schedule XVIII Expanded Particulars of Ceded Reinsurance”;

(b) “Schedule XIX Schedule of Cash and Cash Equivalents Counterparty Analysis”;

(c) “Schedule XX Schedule of Currency Risk”;

(d) “Schedule XXI Schedule of Concentration Risk”.

Commencement

7. These Rules come into operation on 1 January 2017 and apply to financial years commencing on or after 1 January 2017.

Made this day of 2016

Chairman
The Bermuda Monetary Authority

SCHEDULE XVIII - PARTICULARS OF REINSURANCE BALANCES

(Paragraph 6)

[blank] name of Company

As at [blank] (day/month/year)

All amounts expressed in .... (currency used)

	(A)	(B)	(C)	(D)	(E)	(F)	(G)
Name of Reinsurer	**Rating**	**Rating Agency**	**BSCR Rating**	**Jurisdiction**	**Premiums Ceded During the Year** (Form 2, Lines 2 &13)	**Reinsurance Recoverable** (Form 1EBS, Lines 11, 12, 17(c) & 27(c))	**Market Risk** (Form 1EBS, Line 12)

(H)	(I)	(J)	(K)	(L)	(M)	(N)	(O)
Adjusted Reinsurance Recoverable [(F) Less (G)]	**Reinsurance Payable** Form 1EBS Line 28, 29, 33 and 34(c)	**Net Reinsurance Recoverable** [(F) Less (I)]	**Net Reinsurance Recoverable Due For Less than 180 Days**	**Net Reinsurance Recoverable Due For More than 180 Days**	**Collateral** Notes to Form 1EBS Line 11(e) and Line 17(c)	**Qualifying Collateral**	**Net Qualifying Exposure**

	(F)	(G)	(H)	(I)	(J)	(M)	(N)	(O)
Exposure By BSCR Rating	**Reinsurance Recoverable** (Form 1EBS, Lines 11, 12, 17(c) & 27(c))	**Market Risk** (Form 1EBS, Line 12)	**Adjusted Reinsurance Recoverable** [(F) Less (G)]	**Reinsurance Payable** Form 1EBS Line 28, 29, 33 and 34(c)	**Net Reinsurance Recoverable** [(F) Less (I)]	**Collateral** Notes to Form 1EBS Line 11(e) and Line 17(c)	**Qualifying Collateral**	**Net Qualifying Exposure**
BSCR Rating 0								
BSCR Rating 1								
BSCR Rating 2								
BSCR Rating 3								
BSCR Rating 4								
BSCR Rating 5								
BSCR Rating 6								
BSCR Rating 7								
BSCR Rating 8								
Single Consolidated Exposure								

INSTRUCTIONS AFFECTING SCHEDULE XVIII:

(a) the expanded particulars of ceded reinsurance shall disclose the top 10 unaffiliated reinsurers for which the group has the highest recoverable balance and any reinsurer with recoverable balance exceeding 15% of the insurance group's statutory capital and surplus, as prescribed in Schedule 2 of the Group Rules, including—

(i) any remaining recoverable balance not included above shall be grouped according to BSCR ratings and/or a single consolidated recoverable balance;

(ii) the BSCR rating;

(iii) the amount of reinsurance recoverable from it in the form of funds held by ceding reinsurers (as reflected in Form 1EBS, Line 12);

(iv) the amount of any collateral placed in favour of the members of the group relating to the recoverable balances (as reflected in Notes to Form 1EBS, Lines 11(e), 17(c), and 27(c));

(v) the amount of qualifying collateral shall be the collateral amount in iv) less a 2% reduction to account for the market risk associated with the underlying collateral assets but, at all times, the qualifying collateral shall not exceed the net exposure, which is the difference between reinsurance recoverable and reinsurance balances payable;

(vi) the net qualifying exposure shall be the determined as the net exposure less any funds held by ceding reinsurers included under Schedule IIA and the qualifying collateral; and

(vii) for the purposes of this Schedule, the appropriate BSCR rating shall be determined as follows—

(A) based on either the rating of the reinsurer or the rating of the letters of credit issuer, if any, whichever is higher;

(B) where the letters of credit does not relate to the entire reinsurance exposure, the reinsurance exposure should be separated to reflect the rating of that portion of the exposure which is covered by the letters of credit and the rating of that portion of the exposure which is not;

(C) where a reinsurer is not rated but is regulated in a jurisdiction that applies the International Association of Insurance Supervisors' Insurance Core Principles and in particular imposes both a minimum capital requirement and a prescribed capital requirement ("PCR") and fully meets its PCR in that jurisdiction, it shall be assigned a BSCR rating of 4 or otherwise, it shall be assigned a BSCR rating of 8; and

(D) where the insurance group has disclosed a single consolidated reinsurance exposure, that exposure shall be assigned a BSCR rating of 8;

BSCR Rating	Standard & Poor's	Moody's	AM Best	Fitch
1	AAA	Aaa	A++	AAA
2	AA+ to AA-	Aa1 to Aa3	A+	AA+ to AA-
3	A+ to A-	A1 to A3	A	A+ to A-
4	BBB+ to BBB-	Baa1 to Baa3	A-	BBB+ to BBB-
5	BB+ to BB-	Ba1 to Ba3	B++ to B	BB+ to BB-
6	B+ to B-	B1 to B3	B- to C+	B+ to B-
7	CCC+ to CCC-	Caa1 to Caa3	C, C-	CCC+ to CCC-
8	Below CCC-	Below Caa3	Below C-	Below CCC-

SCHEDULE XIX – SCHEDULE OF CASH AND CASH EQUIVALENT COUNTERPARTY ANALYSIS

(Paragraph 6)

[blank] name of Company
As at [blank] (day/month/year)

All amounts expressed in ……………………………. (currency used)

Cash and Cash Counterparty Balance for 10 Largest Exposures	**BSCR Rating**	**Asset Value (A)**

Exposure By BSCR Rating	**Asset Value (A)**
BSCR Rating 0	
BSCR Rating 1	
BSCR Rating 2	
BSCR Rating 3	
BSCR Rating 4	
BSCR Rating 5	
BSCR Rating 6	
BSCR Rating 7	
BSCR Rating 8	
Single Consolidated Exposure	

INSTRUCTIONS AFFECTING SCHEDULE XIX:

(i) cash and cash equivalent balances are to be reported based on its BSCR Rating;
(ii) an insurance group may disclose at least the top 10 cash and cash counterparty exposures (as reflected in Form 1EBS and Schedule IIA Column 1, Line 27);
(iii) the remaining balance may be grouped according to BSCR rating;
(iv) all unreconciled balances shall be allocated to the single consolidated exposure balance that receives a BSCR Rating of 8;
(v) cash and cash equivalents issued by a country that is rated AA- or better in its own currency shall be classified under BSCR rating class 0; and
(vi) insurance groups may allocate BSCR Rating based on the table below or with the allocation detailed in Schedule II.

BSCR Ratings	Standard & Poor's	Moody's	AM Best	Fitch
Class 2	A1, A1+	P1	AMB-1,1+	F1,F1+
Class 4	A2	P2	AMB-2	F2
Class 6	A3	P3	AMB-3	F3
Class 8	Unrated short-term investments and all other ratings			

SCHEDULE XX - SCHEDULE OF CURRENCY RISK

(Paragraph 6)

[blank] name of Company
As at [blank] (day/month/year)

All amounts expressed in .... (currency used)

Currency	$GrossCurrast_i$ (A)	$Currast_i$ (B)	$GrossCurrliab_i$ (C)	$Currliab_i$ (D)
Financial Year	**Liabilities**	**ECR Charge**		
	Form 1EBS, Line 39	Summary Schedule		
XXX-1				
XXX-2				
XXX-3				

INSTRUCTIONS AFFECTING SCHEDULE XX:

(i) insurance groups are to report currencies representing at least 95% of their economic balance sheet liabilities

(ii) $GrossCurrast_i$ and $GrossCurrliab_i$ shall be valued in line with the Economic Balance Sheet principles set out in Schedule XIV;

(iii) where an insurance group uses currency hedging arrangements to manage its currency risk, then $Currast_i$ and $Currliab_i$ may be adjusted to reflect the impact of those arrangements on $GrossCurrast_i$ and $GrossCurrliab_i$ of a 25% adverse movement in foreign exchange rates, otherwise the amounts $GrossCurrast_i$ and $GrossCurrliab_i$ shall apply; and

(iv) a ‘currency hedging arrangement’ means derivative or other risk mitigation arrangements designed to reduce losses due to foreign currency exchange movements, and which meet the Authority’s requirements to be classed as such”.

SCHEDULE XXI - SCHEDULE OF CONCENTRATION RISK

(Paragraph 6)

[blank] name of Company

As at [blank] (day/month/year)

All amounts expressed in .... (currency used)

Name of Exposure	**Asset Type (A)**	**Asset sub-type (B)**	**BSCR Rating (C)**	**Asset Value (D)**

INSTRUCTIONS AFFECTING SCHEDULE XXI:

(i) Disclosure of an insurance group's 10 largest exposures to single counterparty risk by reporting the name, the exposure and allocation by asset type, bond / mortgage type (if applicable), BSCR Rating (if applicable) and asset value consistent with Form 1EBS.

(ii) a counterparty shall include all related/connected counterparties defined as:

(A) Control relationship: if the counterparty, directly or indirectly, has control over the other(s); or

(B) Economic interdependence: if one of the counterparties were to experience financial problems, in particular funding or repayment difficulties, the other(s) as a result, would also be likely to encounter funding or repayment difficulties.

(iii) Asset Type (Column A) shall be one of the following lines taken from Form 1EBS;

(A) Cash and cash equivalents (Line 1)
(B) Quoted Investments (Line 2)
(C) Unquoted investments (Line 3)
(D) Investments in and Advances to Affiliates (Line 4)
(E) Investments in Mortgage Loans on Real estate (Line 5)
(F) Policy Loans (Line 6)
(G) Real Estate (Line 7)
(H) Collateral Loans (Line 8)
(I) Funds held by ceding Reinsurers (Line 12)

(iv) Asset sub-type (Column B) shall provide further details of the type of asset as included in Table 1, Table 2 or Table 8 as appropriate;

(v) BSCR Rating (Column C) shall be the BSCR rating that was allocated to the asset when it was included in Table 1, Table 2 or Table 8 as appropriate; and

(vi) Asset Value (Column D) shall be the value of the asset as required by the Economic Balance Sheet valuation principles as set out in Schedule XIV.