9th May, 2016

NOTICE

Insurance (Prudential Standards) (Class 3A 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:

    a. Repeal and replace sub-paragraph (b) intra-group transactions with the same requirements as Class 4, 3B, C, D & E insurers. This will provide further consistency within the insurance market for reporting intra-group transactions;

    b. Remove sub-paragraphs (c) particulars of ceded reinsurance, (p) schedule of cash and cash equivalent counterparty analysis, (q) schedule of currency risk, and (r) schedule of concentration risk, and to insert new Schedules XVIII to XXI for these requirements;

2. In Schedule XVII "Schedule of Solvency – Instructions Affecting Schedule XVII" by amending sub-paragraph "(e)" to make provision for Class 3A insurers to disclose gross premiums written in relation to the entities in the insurer's structure. This will better inform both the Authority and the host regulators the volume of business that the insurer is responsible for; and

3. Housekeeping items.

Comments on the Rules are invited by 23rd June 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) (CLASS 3A SOLVENCY REQUIREMENT) AMENDMENT RULES 2016

BR / 2016

1. Citation
2. Amends Paragraph 2
3. Amends Paragraph 6
4. Amends Schedule I
5. Amends Schedule II
6. Amends Schedule IIA
7. Amends Schedule III
8. Amends Schedule IIIA
9. Amends Schedule V
10. Amends Schedule VI
11. Amends Schedule XII
12. Amends Schedule XVII
13. Inserts new Schedules XVIII, XIX, XX and XXI
14. Commencement

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) (Class 3A Solvency Requirement) Amendment Rules 2016.

Amends paragraph 2

2. Paragraph 2 of the principal Rules is amended by inserting the following definition in the appropriate alphabetical order—

"“EBS Valuation basis” means in relation to a Class 3A insurer means the Economic Balance Sheet valuation principles to be complied with by a relevant Class 3A insurer in accordance with the “Instructions affecting Form 1EBS” under Schedule XIV”.

Amends paragraph 6

3. Paragraph 6 of the principal Rules is amended—

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

(b) in subparagraph (2) (a) by deleting “and XVII” and inserting the words “and XVII, XVIII, XIX, XX and XXI”.

Amends Schedule I

4. Schedule I to the principal Rules are amended—

(a) in subparagraph 1 by deleting "a consolidated" and inserting the words "an EBS Valuation";

(b) in Table 1 by deleting "Schedule V (h)" and inserting the words "Schedule XIX" where it occurs;

(c) in Table 4 by deleting "Schedule V (i)" and inserting the words "Schedule XX" where it occurs;

(d) in Table 5 by deleting "Schedule V (j)" and inserting the words "Schedule XXI" where it occurs;

(e) in Table 8 by deleting "Schedule V paragraph (d)" and inserting the words "Schedule XVIII" where it occurs;

(f) by deleting "a consolidated" and inserting the words "an EBS Valuation" in the "INSTRUCTIONS AFFECTING" TABLE 1, TABLE 2, TABLE 3, TABLE 4, TABLE 5, TABLE 6, TABLE 7 and TABLE 8 where they occur.

Amends Schedule II

5. Schedule II of the principal Rules are amended in paragraph "(f)" of the "INSTRUCTIONS AFFECTING SCHEDULE II" by deleting "a consolidated" and inserting the words "an EBS Valuation".

Amends Schedule IIA

6. Schedule IIA of the principal Rules are amended in paragraph "(k)" of the "INSTRUCTIONS AFFECTING SCHEDULE IIA" by deleting "a consolidated" and inserting the words "an EBS Valuation".

Amends Schedule III

7. Schedule III of the principal Rules are amended in paragraph "(a)" of the "INSTRUCTIONS AFFECTING SCHEDULE III" by deleting "a consolidated" and inserting the words "an EBS Valuation" where they occur.

Amends Schedule IIIA

8. Schedule IIIA of the principal Rules are amended in paragraph "(c)" of the "INSTRUCTIONS AFFECTING SCHEDULE IIIA" by deleting "a consolidated" and inserting the words "an EBS Valuation".

Amends Schedule V.

9. The principal Rules are amended in Schedule V—

(a) by revoking paragraphs "(c)"; "(p)"; "(q)" and "(r)";

(b) in the "INSTRUCTIONS AFFECTING SCHEDULE V"—

(i) in the introductory paragraph by deleting "a consolidated" and inserting the words "an EBS Valuation" where they occur;

(ii) by deleting paragraph "(b)"; and inserting the following—

"(b) intra-group transactions that the insurer is a party to and the insurer's risk concentrations shall include-

(i) details of material intra-group transactions between the insurer and other members of the group for which it belongs, including (where applicable):

(A) exposure value (face value or market value, if the latter is available);

(B) counterparties involved including where they are located; and

(C) summary details of the transactions – including purpose, terms and transaction costs, duration of the transaction and performance triggers;

(ii) details surrounding all intra-group reinsurance and retrocession arrangements, and other intra-group risk transfer insurance business arrangements including:

(A) aggregated values of the exposure limits (gross and net) by counterparties broken down by counterparty rating;

(B) counterparties involved, including where they are located

(C) aggregated premium flows between counterparties (gross and net); and

(D) the proportion of the insurer's insurance business exposure covered by internal reinsurance, retrocession and other risk transfer insurance business arrangements;

(iii) details of the ten largest exposures to unaffiliated counterparties and any other unaffiliated counterparty exposures or series of linked unaffiliated counterparty exposures, excluding those reinsurance exposures disclosed in (c), exceeding 10% of the insurer's statutory capital and surplus, including:

(A) name of unaffiliated counterparty, including where the counterparty is located;

(B) exposure values (face value or market value, if the latter is available); and

(C) transaction type;".

(c) by revoking paragraphs "(c)"; "(p)"; "(q)", and "(r)".

Amends Schedule VI

10. Schedule VI of the principal Rules are amended in paragraph "(c)" by deleting "a consolidated" and inserting the words "an EBS Valuation".

Amends Schedule XII

11. Schedule XII of the principal Rules are amended in the introductory paragraph by deleting "consolidated" and inserting the words "an EBS Valuation".

Amends Schedule XVII

12. Schedule XVII of the principal Rules are amended in paragraph "(e)" of the "INSTRUCTIONS AFFECTING SCHEDULE XVII" by inserting before "net" the words "gross and".

Inserts new Schedules XVII, XVIII, XIX and XX

13. The principal Rules are amended by inserting the following after Schedule XVII—

(a) "Schedule XVIII 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

13. 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 - Schedule of Ceded Reinsurers

(Paragraph 6)

[blank] name of Company

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

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

		(A)	**(B)**	**(C)**	**(D)**	**(E)**
Name of Reinsurer	**BSCR Rating**	**Reinsurance Assets** Form 1EBS Lines 11(e), 12(c) and 17(c)	**Reinsurance Payable** Form 1EBS Line 28, 29, 33 and 34(c)	**Collateral** Notes to Form 1EBS Line 11(e) and Line 17(c)	**Qualifying Collateral**	**Net Qualifying Exposure**

Exposure By BSCR Rating	**Reinsurance Assets**	**Reinsurance Payable**	**Collateral**	**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) Particulars of reinsurance balances shall disclose at least the ten largest reinsurance exposures with the remaining reinsurance exposures grouped according to BSCR ratings and/or a single consolidated reinsurance exposure, including basis —

(i) the name of reinsurer;

(ii) the BSCR rating;

(iii) the amount of reinsurance balances receivable, funds held by ceding reinsurers, and reinsurance recoverable balance (as reflected in Form 1EBS, Lines 11(e), 12(c) and 17(c));

(iv) funds held by ceding reinsurers (as reflected in Form 1EBS, Line 12(c), in paragraph (iii) above), shall be included only to the extent that they are not already included under Schedule IIA;

(v) the amount of reinsurance balances payable and other payables (as reflected in Form 1EBS, Lines 28, 29, 33, and 34(c)) to the extent that they are attributable to that particular reinsurer or reinsurance exposure balance;

(vi) the amount of any collateral placed in favour of the insurer relating to the reinsurance balances (as reflected in Notes to Form 1EBS, Lines 11(e) and 17(c));

(vii) the amount of qualifying collateral shall be the collateral amount in (vi) 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 amounts in (iii) and (v);

(viii) the net qualifying exposure shall be the amount under (iii) less the amounts under both (v) and (vii) above; and

(ix) 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 the reinsurer is a domestic affiliate, it shall be assigned a BSCR rating of 0 regardless of

(D) where a reinsurer is not rated but is regulated in a jurisdiction that applies the International Association of Insurance Supervisors' Insurance Core Principles ("IAIS' ICPs") and in particular imposes both a minimum capital requirement ("MCR") 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

(E) where the insurer 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 insurer 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;
(vi) insurers may allocate BSCR Rating based on the table below or with the allocation detailed in Schedule II; and
(vii) amounts shall be reported on both an EBS Valuation and unconsolidated basis.

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

[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) Insurers 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 insurer 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;

(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"; and

(v) amounts shall be reported on both an EBS Valuation and unconsolidated basis.

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 insurer'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;

(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; and

(vii) Amounts shall be reported on both an EBS Valuation and unconsolidated basis.