BERMUDA

INSURANCE (PRUDENTIAL STANDARDS) (CLASS 3A SOLVENCY REQUIREMENT) AMENDMENT (No.2) RULES 2015

BR / 2015

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 (No.2) Rules 2015.

Amends paragraph 6

2 Paragraph 6 of the principal Rules is amended in—

(a) sub-paragraph (1) by deleting the words "and XV" and substituting "XV, XVI and XVII";

(b) sub-paragraph (2)(a) by deleting the words "and XII" and substituting "XII, XVI and XVII".

Amends Schedule I

3 Schedule I to the principal Rules is amended in paragraph 1—

(a) by inserting the word "C_{op}": after "C_{adj}";

(b) by inserting the following formula after the word "C_{op}":

"C_{adj} = (1) Regulatory capital requirement for regulated non-insurance financial operating entities as determined in accordance with paragraph 12.";

(c) in Table 2- Capital charge factors for *Eqastclass₁*; by deleting the requirements for "*Investments in affiliates*" and substituting the following—

Investments in affiliates		
Unregulated entities that conduct ancillary services	Form 1EBS, Line 4(a)	5.0%
Unregulated non- financial operating entities	Form 1EBS, Line 4(b)	20.0%
Unregulated financial operating entities	Form 1EBS, Line 4(c)	55.0%
Regulated insurance financial operating entities	Form 1EBS, Line 4(e)	20.0%

(d) by inserting after paragraph 11 the following new paragraph "12." as follows—

"12. The regulatory capital requirement for regulated non-insurance financial operating entities shall be determined in accordance with Schedule XVI – "Schedule of regulated non-insurance financial operating entities". This amount shall be equal to the sum of the insurer's proportionate share of each entity's regulatory capital requirement in accordance with the applicable solvency laws of the jurisdiction where the entity is licensed or registered.".

Amends Schedule V

4 Schedule V to the principal Rules is amended—

(a) by inserting after paragraph "(s)" a new paragraph ("t") as follows:

"(t) details of segregated accounts.".

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

(i) deleting paragraph ("a") and substituting the following:

"(a) the governance and group structure must disclose (on a legal entity and group basis where applicable) —

(i) the structure of the board of directors; including names, role, residence and work experience;

(ii) the structure of the management of the insurer; including names, roles, work experience, employee arrangement (for example confirm whether employees are hired or outsourced etc.,) and description of responsibilities of the chief and senior executive;

(iii) terms of reference of the board of directors of the insurer and its sub-committees;

(iv) the jurisdiction(s) where the board of directors of the insurer primarily deliberate on activities including but not limited to —

(A) setting the strategic direction of the insurer;

(B) determining the (re)insurer's risk appetite;

(C) choosing new lines of business; new products and market position;

(D) assessing solvency needs.

(v) details of every service provider of the insurer including: name, jurisdiction of incorporation; and details of the insurer's operations which are primarily being performed in relation to—

(A) underwriting (re)insurance policies;

(B) risk management decisions and activities;

(C) investment decisions;

(D) actuarial functions;

(E) compliance audit;

(F) internal audit;

(vi) the jurisdiction(s) where the parent board primarily deliberates on matters including, but not limited to—

(A) setting strategic decision;

(B) determining the group's risk appetite;

(C) choice of corporate structure, including amalgamations, acquisitions and strategic alliances;

(D) choice of new lines of business, new products, marketplace positioning;

(E) assessing solvency needs;

(vii) the jurisdiction(s) where the parent board and chief and senior executives primarily reside;

(viii) the jurisdiction where the insurance group's central control functions resides (i.e., group finance, actuarial, and risk management);

(ix) the insurance group's financial position based on its most recent audited general purpose financial statement regarding its-

(A) total assets;

(B) total reserves; and

(C) capital and surplus;

(x) the name of reinsurers within the insurance group that have the highest-

(A) total asset value;

(B) total insurance reserve value; and

(C) total capital and surplus based on the group's most recent audited general purpose financial statement;

(xi) the total values for subparagraph (x)(A), (B) and (C);

(xii) the jurisdiction of incorporation of each reinsurer in subparagraph (x);

(xiii) any events which have occurred or decisions made subsequent to the relevant year-end that would, or have, materially changed the information in subparagraphs (iv) through (xii) (e.g., amalgamation or acquisition or restructuring, etc.); provide a detailed response and explanation;

(xiv) a copy of the latest group organizational chart.".

(c) in paragraph "(s)" by inserting after the word "collateral," the words "lines of business written, gross premiums written for the period, net premiums written for the period,";

(d) by inserting the following new paragraph after paragraph "(s)" -

"(t) in respect of segregated account business, details of each by net loss reserves by statutory lines of business: segregated account cell name, total assets, total liabilities, statutory capital and surplus, cash and investments, net loss reserves, reinsurance recoverable, statutory lines of business written, gross premium written, net premium written, currency, details if the insurance or re-insurance contract has limited recourse language, details of inter-relationship between segregated account cells (if any), details of the segregated account cell's access to the general account (if any) and details where a segregated account cell is in a deficit, insolvent or subject to litigation.”

Inserts Schedules XVI and XVII

5 The principal Rules are amended by inserting after Schedule XV; two new Schedules entitled “Schedule XVI Schedule of Regulated Non-Insurance Financial Operating Entities” and “Schedule XVII Schedule of Minimum Margin of Solvency”.

Commencement

6 These Rules come into operation on 1 January 2016 and apply to financial years commencing on or after 1 January 2016.

Made this day of 2015

Chairman
The Bermuda Monetary Authority

SCHEDULE XVI **(Paragraph 6)**

Schedule Of Regulated Non-Insurance Financial Operating Entities

Entity name	Jurisdiction	Sector classification	Strategic purpose	Entity type	Products & services offered	Participation	Percentage of participating interest	Total assets	Investment amount (equity method)	Regulatory capital requirement for regulated entities (RCR) (100%)	Applicable share of the RCR
							x.x%	XXX	XXX	XXX	XXX
							x.x%	XXX	XXX	XXX	XXX
							x.x%	XXX	XXX	XXX	XXX
								XXX	**XXX**	**XXX**	**XXX**

INSTRUCTIONS AFFECTING SCHEDULE XVI:

(a) the insurer's regulatory capital requirement for regulated non-insurance financial operating entities, where the insurer exercises either control or significant influence, shall be calculated in accordance with Schedule XIII and shall form part of the insurer's BSCR – where "control" and "significant influence" has the same meaning given in sub-paragraph 19(4) of the Insurance (Group Supervision) Rules 2011";

(b) the name of the entity and its jurisdiction of incorporation are required to be provided;

(c) the "Sector" and "Industries in Sector" classification of each of the insurer's "Regulated non-insurance financial operating entities" are as follows:

Sector	Industries in Sector
Energy	Oil, gas, consumable fuels and energy equipment
Materials	Chemicals; Construction materials, containers and packing; Metals and mining; and Paper and forest products
Industrial	Machinery and equipment; Construction, engineering and building products; Commercial and professional services; and Transportation (air, road and water)
Consumer Discretionary	Automobile and components; Consumer durables and textile apparel; Hotels and restaurants; Consumer services; and retailing Media
Consumer Staples	Food and staples retailing; Agricultural products; beverage and

	tobacco; Household and personal products
Healthcare	Healthcare equipment and services; Pharmaceuticals, biotechnology and life sciences
Financial	Banks; Diversified financials; Insurance; Real Estate; Capital markets
Information Technology	Software and internet services; Technology hardware and equipment; IT services, computer components and semiconductor equipment
Telecommunications Services	Telecommunications services
Utilities	Electric, water and gas utilities
Other	Unspecified industry group

(d) the description of the strategic purpose of each entity are required to be provided;
(e) the entity type is required to be provided (i.e., holding company; operating entity or branch);
(f) the description of the products and services offered to external parties of each entity are required to be provided;
(g) the insurer's participation should be categorized as to whether control or significant influence, in relation to each entity are required to be provided;
(h) the percent of participating interest of the insurer on each entity are required to be provided;
(i) the total assets of each entity is required to be provided;
(j) the investment amount shall be the equity value of the insurer's investment in such entities where the insurance group has significant influence and has accounted under the equity method of accounting as aggregated in Form 1EBS, Line 4(d); and the net asset value of the insurer's investment in such entities where the insurer exercises control or significant influence shall be provided;
(k) the regulatory capital requirement (RCR) shall be provided based on the jurisdiction's solvency laws for the regulated sector in which the entity is licensed to conduct non- insurance financial business;
(l) the insurer's proportionate share of each entity's RCR.

SCHEDULE XVII (paragraph 6)

SCHEDULE OF MINIMUM MARGIN OF SOLVENCY

[*blank*] name of Insurer

as at [*blank*] (day/month/year)

All amounts are expressed in _(currency used)

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Affiliate Member Name	**Jurisdiction**	**Entity Type**	**Percent of Participation Interest**	**Net Premiums Written**	**Total Assets (Economic Value)**	**Net Assets (Economic Value)**	**Minimum Margin of Solvency (MSM)**

INSTRUCTIONS AFFECTING SCHEDULE XVII:

The insurer shall provide the following information to calculate the minimum margin of solvency the:

(a) name of the entity over whom the insurer exercises control or significant influence;

(b) name of the jurisdiction in which the entity is licensed or registered;

(c) entity type(i.e., holding company; operating entity or branch);

(d) participation interest by the insurer in each entity;

(e) new premium written for each the entity;

(f) total assets of the registered entity valued in line with “Economic Valuation Principles” calculated in accordance with the requirements of Schedule XIV of these Rules;

(g) “net asset valuation” of the registered entity valued in line with “Economic Valuation Principles” calculated in accordance with the requirements of Schedule XIV of these Rules;

(h) minimum margin of solvency for each registered entity as determined by the jurisdiction where the entity is licensed or registered.