BERMUDA MONETARY AUTHORITY

22nd January 2015

NOTICE

Insurance (Eligible Capital) Amendment Rules 2015 (the "Rules")

The Bermuda Monetary Authority (the "Authority") proposes to amend the above Rules to reflect the changes proposed in the Consultation Paper on the "Economic Balance Sheet Framework" issued in December 2014. The key changes are to the references to the Statutory Balance Sheet and valuation of policyholder obligations from a Statutory Balance Sheet method to the new Economic Balance Sheet method as prescribed in the Prudential Standards Solvency Requirement for Class 4 and 3B Insurers, Class 3A Insurers, and Class C, D and E Insurers.

The Authority proposes for the aforementioned amendments to become effective for submissions made following the end of the financial year starting on or after 1st January 2016 whilst the proposals covering Class 3A insurers would become effective for submissions made following the end of the financial year starting on or after 1st January 2017.

Comments on the Rules are invited by 27th February 2015 and should be sent to email address: policy@bma.bm.

BERMUDA

INSURANCE (ELIGIBLE CAPITAL) AMENDMENT RULES 2015

BR / 2015

The Bermuda Monetary Authority, in exercise of the powers conferred by section 6A(1) of the Insurance Act 1978, makes the following Rules:

Citation

1 These Rules, which amend the Insurance (Eligible Capital) Rules 2012 (the "principal Rules"), may be cited as the Insurance (Eligible Capital) Amendment Rules 2015.

Paragraph 2 amended

2 Paragraph 2 of the principal Rules is amended–

(a) in sub-paragraph(1) by:

(i) deleting the words ""Form 1A" means Form 1A of Schedule I to the Regulations;";

(ii) inserting in alphabetical order the words "Form 1EBS" means Form 1EBS as set out in Schedule XI of the Insurance (Prudential Standards) (Class 4 and Class 3B Solvency Requirement) Rules 2008 for Class 4 or Class 3B insurers, or the Insurance (Prudential Standards) (Class 3A Solvency Requirement) Rules 2011 for Class 3A insurers;";

(iii) deleting the words ""Form 4" means Form 4 of Schedule I to the Regulations;";

(iv) inserting in alphabetical order the words "Form 4EBS" means Form 4EBS as set out in Schedule XI of the Insurance (Prudential Standards) (Class C Class D and Class E Solvency Requirement) Rules 2011;".

(b) by deleting and replacing sub-paragraph (3) (a) as follows:

"(3) Tier 1 basic capital is comprised of the matters set out in paragraphs (a), (b) and (c) for Class 4, Class 3B, Class 3A, Class C, Class D and Class E insurers and excludes the matters set out in paragraph (d) for all insurers as follows–".

"(a) in relation to Class 4, Class 3B, Class 3A, Class C, Class D and Class E "statutory economic surplus" as set out under relevant prudential standards;

(i) plus any adjustments to an insurers total statutory capital and surplus made by the Authority in connection with section 6D of the Act or under prudential rules made under section 6A of the Act;

(ii) to the extent the value of encumbered assets for policyholder obligations exceeds the sum of (A), (B) and (C) and to the extent there are encumbered assets for policyholder obligations which would not be available to meet the obligations of any policyholder in a going concern, less the difference between the value of encumbered assets for policyholder obligations and the sum of-

(A) the value of the policyholder obligations of the Class 4, Class 3B, Class 3A, Class C, Class D and Class E insurers as the case may be, for which assets have been held which will be either–

1 the value calculated in accordance with the requirements of Form 1EBS Lines 16 (a) and 17 (a) or in accordance with the requirements of Form 4EBS, Line 40 less Line 1 (d) of Form 8 as the case may be; or

2 where applicable, the value of the ceding insurer's reserves where the ceding insurer is subject to statutory reserving requirements that are in excess of the Bermuda statutory reserve requirement and the insurer has been required to post collateral to meet the ceding insurer's reserves;

(B) the value of the capital requirement applicable to the encumbered assets for policyholder obligations of that insurer; and

(C) the value of the capital requirement applicable to the policyholder obligations referred to under clause (A) above; and

(iii) where the value of the encumbered assets exceeds the value reflected in Form 1EBS or Form 4EBS arising from the relative liability or contingent liability for which the encumbered assets are held, the value must be deducted;

(iv) where the insurer has pledged assets solely for the risk management purpose, such encumbered assets must not be deducted;";

(c) in sub-paragraph (9) by deleting the words "January 1, 2024" where they occur and inserting the words "January 1, 2026".

Paragraph 3 amended

3 Paragraph 3 of the principal Rules is amended by deleting the words "statutory capital and surplus" wherever they appear and inserting the words "statutory economic capital and surplus".

Transitional arrangements

4 Notwithstanding the requirements of paragraph 2 (b) (ii) of these Rules which proposes to insert a new sub-paragraph "(3) (a)"; the requirements of paragraph 2 (3) (a) of the Insurance (Eligible Capital) Rules in force at the time of the operation of these Rules shall continue to have effect in relation to Class 3A insurers until 31 December 2018.

Commencement

5 These Rules come into operation on 31 December 2016.

Made this day of 2015.

Chairman
The Bermuda Monetary Authority