18th June 2014

NOTICE

Insurance (Prudential Standards) (Class 3A Solvency Requirement) Amendment Rules 2014 (the "Rules")

The Bermuda Monetary Authority (the "Authority") proposes to amend Schedule V "Schedule of Risk Management", to the Rules as follows:

1. By the inclusion of:
    a. A new paragraph "k" to make provision for Class 3A insurers to disclose additional details relating to mutual funds, in order for the Authority to determine how such matters may impact the administration of the insurer's risk management programme; and
    b. Additional instructions correlating to new paragraph "k", set out under the "Instructions affecting Schedule V" (also as paragraph "k") which clarifies that the disclosure required by every Class 3A insurer shall include the name, type, and the amount of each mutual fund (which has been set out by a Class 3A insurer under Form 1A, Lines 2 (a), 2 (c) (iii), 3 (a) and 3 (c) (iii).

2. Comments on the Rules are invited by 5th September 2014 and should be sent to policy@bma.bm.

3. As previously advised, the Authority proposes for all amendments to become effective as of 1st January 2015.

SCHEDULE V

SCHEDULE OF RISK MANAGEMENT (paragraph 6)

The schedule of risk management shall disclose the Class 3A insurer's risk management programme as follows—

(a) governance and group structure;

(b) ten largest exposures to counterparties and any other counterparty exposures exceeding 10% of the insurer's statutory capital and surplus;

(c) particulars of reinsurance balances;

(d) effective duration of assets;

(e) effective duration of liabilities;

(f) gross probable maximum loss (if property catastrophe writer);

(g) net probable maximum loss (if property catastrophe writer);

(h) average annual loss (if property catastrophe writer);

(i) actual attritional losses and large claims losses – relevant year;

(j) arrangements with respect to property catastrophe recoverables;

(k) mutual fund disclosures;

(l) summary of projected performance;

(m) financial impact and description of stress and scenario tests; and

(n) list of statutory lines and statutory territories that have catastrophe exposures.

INSTRUCTIONS AFFECTING SCHEDULE V:

(a) "governance and group structure" must disclose—

- (i) the structure and names of the board of directors and chief and senior executives, including roles and work experience of officers;
- (ii) terms of reference of the board of directors and its sub-committees.
- (iii) name of the jurisdiction(s) where the group's board of directors primarily deliberates on matters including—
  - (A) setting strategic decision;
  - (B) determining the (re)insurer's risk appetite;
  - (C) choosing of corporate structure, including amalgamations, acquisitions and strategic alliances;
  - (D) choosing of new lines of business, new products, marketplace positioning; and
  - (E) assessing solvency needs;
- (iv) name of the jurisdiction(s) where the group's board of directors and chief and senior executives primarily reside;
- (v) name of the jurisdiction(s) where the group's control functions reside;
- (vi) 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;
- (vii) name of insurers within the group that have the three 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 statements; and provide the total values for items (a), (b) and (c); and confirm the jurisdiction of incorporation of each (re)insurer; and
- (viii) explanation of any events which have occurred or decisions made subsequent to the relevant year-end that would, or have, materially changed the information above (e.g., amalgamation or acquisition or restructuring, etc.).

(b) "ten largest exposures to counterparties and any other counterparty exposures exceeding 10% of the insurer's available statutory capital and surplus" including—

(i) name of counterparty;

(ii) exposure values (face value or market value); and

(iii) transaction type;

(c) "particulars of reinsurance balances" shall disclose at least the ten (10) largest reinsurance exposures with the remaining reinsurance exposures grouped according to BSCR ratings and/or a single consolidated reinsurance exposure, including—

(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 1A, Lines 11(e), 12(c) and 17(c));

(iv) funds held by ceding reinsurers (as reflected in Form 1A, 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 1A, 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 1A, 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) the BSCR rating shall be 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 its credit rating;

(d) 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

(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-

(d) "effective duration of assets" must be determined using the aggregate of the bonds and debentures (as reflected in Form 1A, Lines 2(a)(ii) and 3(a)(ii)), preferred stock (as reflected in Form 1A, Lines 2(c)(ii) and 3(c)(ii)), and mortgage loans portfolios (as reflected in Form 1A, Line 5(c)) as a basis;

(e) "effective duration of liabilities" must be determined using the reserves (as reflected in Form 1A, Lines 17 and 18) as a basis;

(f) "gross probable maximum loss (if property catastrophe writer)" means the gross probable maximum loss for natural catastrophe losses (prior to reinsurance) at the 99.0% Tail Value-at-Risk level for annual aggregate exposure to all property related risks and all perils (for the property cat line only), including reinstatement premiums for the year following the relevant year based upon the insurer's catastrophe model. The support documentation must be retained for at least 5 years once a capital and solvency return has been filed in accordance with paragraph 6 at the registered office of the insurer and shall be presented to the Authority upon request;

(g) "net probable maximum loss (if property catastrophe writer)" means the net probable maximum loss for natural catastrophe losses (after reinsurance) at the 99.0% Tail Value-at-Risk level for annual aggregate exposure to all property related risks and all perils (for the property cat line only), including reinstatement premiums for the year following the relevant year based on the insurer's catastrophe model. The support documentation must be retained for at least 5 years once a capital and solvency return has been filed in accordance with paragraph 6 at the registered office of the insurer and shall be presented to the Authority upon request;

(h) "average annual loss (if property catastrophe writer)" means—

- (i) the expected net natural catastrophe loss (after reinsurance), including reinstatement premiums, for annual aggregate exposure to all property related risks and all perils (for the property cat line only) for the year following the relevant year based on the insurer's catastrophe model;
- (ii) the calculation should be from the same underlying loss distribution used to determine the gross probable maximum loss and the net probable maximum loss; and
- (iii) the support documentation must be retained for at least 5 years once a capital and solvency return has been filed in accordance with paragraph 6 at the registered office of the insurer and shall be presented to the Authority upon request;

(i) "actual attritional losses and large claim losses - relevant year" means the actual aggregate losses (classified by insurers as attritional and large claim losses in accordance with its own policy) experienced by the insurer in the relevant year (not including prior year reserve releases, catastrophic losses or adverse development);

(j) "arrangements with respect to property catastrophe recoverables" shall disclose the amounts of—

- (i) collateral;
- (ii) catastrophe bonds;
- (iii) special purpose insurer (indemnity basis);
- (iv) special purpose insurer (other basis); and
- (v) total

(k) “mutual fund disclosures” shall include the name, type and amount of each mutual fund (as reflected in Form 1A, Lines 2(a), 2(c)(iii), 3(a), and 3(c)(iii) that were used by the insurer;

(l) “summary of projected performance” by the insurer for the year following the relevant year shall disclose—

(i) the insurer’s latest estimate of annual net premiums written;

(ii) the estimated underwriting profit/loss; and

(iii) the estimated net income/loss for the insurer or on a group basis with disclosure of estimated percentage of the insurer’s contribution relative to the group;

(m) “financial impact and description of stress and scenario tests” are tests that disclose results from the stress and scenario tests prescribed by the Authority annually and published in such manner as the Authority directs; and

(n) list of statutory lines and statutory territories that have catastrophe exposures as set out below—

Zone	Territories
1	Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New York, New Jersey, Pennsylvania, Rhode Island, Vermont, Virginia, West Virginia, the District of Columbia, Alabama, Arkansas, Louisiana, Mississippi, Texas, Florida, Georgia, North Carolina, and South Carolina
2	Caribbean
3	Arizona, Colorado, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Michigan, Montana, Minnesota, Missouri, Nebraska, Nevada, New Mexico, North Dakota, Ohio, Oklahoma, South Dakota, Tennessee, Utah, Wisconsin, and Wyoming
4	California
5	Oregon, Washington
6	Hawaii
7	Canada, Alaska
8	United Kingdom, Continental Europe
9	Australia/New Zealand
10	Japan
11	Nationwide Covers
12	Worldwide Covers
13	All exposures not included in Zone 1 to 12