BERMUDA MONETARY AUTHORITY

18th June 2014

NOTICE

Insurance (Prudential Standards) (Class 4 and 3B 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 "l" to make provision for Class 4 and 3B 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 "l", set out under the "Instructions affecting Schedule V" (also as paragraph "l") 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 4 and 3B 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 **(Paragraph 6)**

SCHEDULE OF RISK MANAGEMENT

The schedule of risk management of a Class 3B or Class 4 general business insurer shall disclose the following matters-

(a) governance and group structure;

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

(c) particulars of reinsurance balances;

(d) effective duration of assets;

(e) effective duration of liabilities;

(f) description of the effective duration of assets and liabilities calculations and key assumptions;

(g) gross probable maximum loss;

(h) net probable maximum loss;

(i) average annual loss excluding property catastrophe;

(j) actual attritional losses and large claims losses in the relevant year;

(k) arrangements with respect to property catastrophe recoverables;

(l) mutual fund disclosures;

(m) summary of projected performance;

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

(o) investments and derivatives strategies and policy;

(p) description of the insurer's risk management programme;

(q) the risk register; and

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

INSTRUCTIONS AFFECTING SCHEDULE V:

(a) the governance and group structure must disclose-

(i) the structure of the board of directors and executive management, including names, roles and work experience of officers;

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

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

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

(E) assessing solvency needs;

(iv) the name of the jurisdictions where the group's board of directors and chief and senior executives primarily reside;

(v) the name of the jurisdiction where the group's central control functions reside (i.e., group finance, actuarial, and risk management);

(vi) the 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) the name of reinsurers within the 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;

(viii) the total values for sub-paragraph (vii)(A), (B) and (C);

(ix) the jurisdiction of incorporation of each reinsurer in subparagraph (vii);

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

(xi) a copy of the latest group organisational chart;

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

(C) 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) the 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—

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

(f) a description of the process used for determining the effective duration of assets calculation and effective duration of liabilities calculation, and key assumptions for these calculations;

(g) the gross probable maximum loss for natural catastrophe losses (prior to reinsurance) must be calculated at the 99.0% Tail Value-at-Risk level for annual aggregate exposure to all risks and all perils, including reinstatement premiums, for the year following the relevant year based upon the insurer's catastrophe model. The documentation used to derive the gross probable maximum loss must be retained for at least five 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) the net probable maximum loss for natural catastrophe losses (after reinsurance) must be calculated at the 99.0% Tail Value-at-Risk level for annual aggregate exposure to all risks and all perils, including reinstatement premiums, for the year following the relevant year based on the insurer's catastrophe model. The support documentation used to derive the net probable maximum loss must be retained for at least five years, one 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) the average annual loss excluding property catastrophe must be calculated as follows-

(i) the expected net natural catastrophe loss (after reinsurance), including reinstatement premiums, for annual aggregate exposure to all risks and all perils other than those relating to the property catastrophe line of business (as described under the Instructions Affecting Schedule III) for the year following the relevant year based on the insurer's catastrophe model;

(ii) the calculation should be determined from the same underlying loss distribution used to determine the gross probable maximum loss and the net probable maximum loss (excluding the property catastrophe component); and

(iii) the supporting documentation relating to the calculation must be retained for at least five 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;

(j) the actual attritional losses and large claims losses in the relevant year shall disclose the actual aggregate losses (classified by the insurer as attritional and large claims losses in accordance with its own policy) experienced by the insurer in the relevant year (not including prior year reserve releases or adverse development);

(k) the 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

(l) 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;

(m) the 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 or loss;

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

(iv) a qualitative description of the insurer’s business and underwriting strategy to be used in an attempt to achieve the estimates in (i) and (iii) above;

(n) the financial impact and description of stress and scenario tests shall disclose the results from the stress and scenario tests prescribed by the Authority annually and published in such manner as the Authority directs;

(o) the investments and derivatives strategies and policy must disclose-

(i) a description of the insurer’s investment strategy governing investment selection and composition of the insurer’s investment portfolio; and

(ii) a description of the policies and strategies surrounding the use of derivatives and other hedging instruments;

(p) the description of the insurer’s risk management programme shall disclose-

(i) a description of the risk management process, including how the risk management programme is used for strategic management decision-making, capital allocation and capital adequacy;

(ii) a description of the governance surrounding the risk management process including the identification of the owners of the process and the extent of the board of directors’ involvement;

(iii) a description of the risk appetite including the process for setting and embedding risk limits, and the identification of the types of stress testing carried out to ascertain the suitability of the risk appetite; and

(iv) a description of the process undertaken to monitor material risk concentration;

(q) risk register disclosing-

(i) a description of the insurer’s material risks;

(ii) owners of the respective risks;

(iii) the impact and probability of the risk and the overall risk crystallising expressed as quantitative or qualitative measures;

(iv) a summary of risk mitigation/controls in place and an assessment of their effectiveness in reducing the probability and/or impact of the risk; and

(v) overall assessment of the impact and probability of the residual risk expressed as quantitative or qualitative measures;

(r) the 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 Zones 1 to 12