31st October 2013

NOTICE

The Insurance (Group Supervision) Amendment Rules 2013 (the Rules)

The Bermuda Monetary Authority (the Authority) thanks the public for all responses received to the draft Rules which were published on 2nd July 2013 and confirms after review the following further and final amendments to the Rules:

1. That the market's proposal for capital requirements associated with policyholder obligations to be offset against excess encumbered assets transferred from Tier 1 to Tier 2 has been included in the Rules.

2. That the Authority has made other minor amendments to the Rules which are generally housekeeping in nature and were made after further internal review conducted by the Authority or in conjunction with advice and assistance received from the market during the consultation period.

3. Please be advised that in connection with the foregoing matters, the Authority has published a general stakeholder letter on its website, which sets out the Authority's response to various issues raised by the market during the consultation process.

4. As previously advised, the Authority proposes for all amendments to become effective as of 1st January 2014.

BERMUDA

INSURANCE (GROUP SUPERVISION) AMENDMENT RULES 2013

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

Citation and commencement

1. These Rules which amend the Insurance (Group Supervision) Rules 2011 (the "principal Rules") may be cited as the Insurance (Group Supervision) Amendment Rules 2013 and shall come into operation on January 1, 2014.

Paragraph 21 amended

2. (1) The principal Rules are amended in paragraph 21 (3) (a) by-

(a) deleting in sub-subparagraph (ii) the words "a. and b." and inserting the words "(A), (B) and (C)"; and by deleting the word "higher" and inserting the word "sum" in sub-paragraph (a) (ii);

(b) repealing and replacing sub-subparagraph (ii) (A) as follows:

"(A) the value of the policyholder obligations of that insurer for which the assets have been held which will be either:

(i) the value calculated in accordance with the sum total of Form 1 Lines 16, 17 (a), 18 and 27 (a), Group Statutory Balance Sheet of Schedule 1 in relation to that insurer or

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

(c) inserting after sub-paragraph (ii) (B) ─

"(C) the value of the capital requirement applicable to the policyholder obligations referred to under sub-subparagraph (A) above;"

(d) inserting after subparagraph (iv) the following:

"(v) where the group has pledged assets solely for risk management purposes such encumbered assets must not be deducted;"

(2) The principal Rules are amended in paragraph 21 (3) by repealing sub-subparagraphs (A) and (B) in sub-paragraph (c) (i) and replacing them as follows:

"(A) mandatory conversion to common stock when losses accumulate; or

(B) are non-cumulative".

(3) The principle Rules are amended in paragraph 21 (8) —

(a) by inserting after the word "obligations" "and the capital requirement applicable to the policyholder obligations";

(b) in sub-subparagraph (a) by inserting after the word "assets" "and the policyholder obligations";

(c) in sub-subparagraph (b) by inserting after the word "assets" "and the policyholder obligations".

Made this day of 2013.

Gerald Simons, Chairman
Bermuda Monetary Authority

SCHEDULE TO
INSURANCE (GROUP SUPERVISION) AMENDMENT RULES 2013

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

Amends Schedule 1

3. Schedule 1 of the principal Rules is amended in the "INSTRUCTIONS AFFECTING THE GROUP STATUTORY BALANCE SHEET" by -

(a) repealing Line 17. and replacing it as follows:

"Line 17. **Loss and loss expense provisions**

(a) this line shall disclose an adequate amount set aside by an insurer to meet losses reported before, but not paid by, the last day of the relevant year, in respect of incidents occurring before that day, and to meet expenses likely to be incurred in connection with the investigation, adjustment and settlement of such losses. The said provisions shall include amounts in respect of losses reported. There shall be disclosed the adequate amount in respect of losses incurred but not reported to the insurer before the last day of the relevant year;

(b) the said amount shall not include any amount recoverable under a contract of reinsurance in respect of the gross amount provided for. The directors shall make allowance for any such amount as is last mentioned, the collection of which is in their opinion doubtful, and the amount shall be shown net of any such provisions;

(c) there shall be disclosed severally -
   - (i) gross loss and loss expense provisions;
   - (ii) foreign affiliates reinsurance recoverable balance;
   - (iii) domestic affiliates reinsurance recoverable balance;

(iv) pools & associations reinsurance recoverable balance;
(v) all other insurers reinsurance recoverable balance;
(vi) the total reinsurance recoverable balance of (ii) to (v);
(vii) net loss and loss expense provisions – the total of (i) and (vi).”

(b) repealing Line 20. and replacing it as follows:

“Line 20. **Reserves for reported claims**

This line shall disclose an adequate amount set aside by the insurer to meet claims unpaid at the end of the relevant year and made under contracts of insurance and reinsurance in respect of incidents occurring and reported to the insurer before the end of that year. The said amount shall be reduced by any amount recoverable under a contract of reinsurance in respect of the gross amount provided for. The directors shall make allowance for any such amount as is last-mentioned the collection of which is in their opinion doubtful and adjust the reserve by said amount.”

(c) repealing Line 21. replacing it as follows:

“Line 21. **Reserves for unreported claims**

This line shall disclose an adequate amount set aside by the insurer to meet claims under contracts of insurance and reinsurance in respect of incidents occurring, but not reported to the insurer, before the end of the relevant year. The said amount shall be reduced by any amount recoverable under a contract of reinsurance in respect of the gross amount provided for. The directors shall make allowance for any such amount as is last-mentioned the collection of which is in their opinion doubtful and adjust the reserve by said amount.”

(d) repealing Line 22. and replacing it as follows:

“Line 22. **Policy reserves – life**

These shall be an amount, actuarially computed, which is considered adequate to provide future guaranteed benefits as they become payable under the provisions of life insurance policies in force. Amounts applicable to other life contract benefits (such as disability waiver of premium, disability income benefits and additional accidental death benefits) and to annuities and to supplemental contracts with life contingencies may also be included.

The said amount—

(a) shall not include reserves in respect of accident and health policies; and
(b) shall be reduced by the amount of reserves ceded under reinsurance contracts.

The directors shall make allowance for any amount the collection of which is in their opinion doubtful and adjust the reserve by said amount.”

(e) repealing Line 23 and replacing it as follows:

"Line 23. **Policy reserves- accident and health**

These reserves shall be an amount, actuarially computed, which are considered adequate and shall consist of—

(a) an active life reserve, that is to say, that portion of due and collected premiums which has been set aside to be recognized as earned in the future consisting of—
   (i) the unearned portion of the current premium;
   (ii) additional reserves, that is to say, the reserves applicable to policies which provide for the payment of uniform rate premiums in respect of a risk the cost of which increases with the age of the insured;
   (iii) reserves for rate credits;
(b) a claims reserve, that is to say, the present value of amounts not yet due on claims,

provision for future contingent benefits being included in both cases.

The said reserves shall not include the amount of any reserves ceded under reinsurance. The directors shall make allowance for any such amount the collection of which is in their opinion doubtful and adjust the reserve by said amount.

(f) repealing Line 24. and replacing it as follows:

"Line 24. **Policyholders' funds on deposit**

These funds shall consist of premiums paid in advance of the due date, whether or not interest is paid for early payment. These liabilities shall be valued at the amounts received by the insurer, plus any interest credited."

(g) repealing Line 25. and replacing it as follows:

"Line 25. **Liability for future policyholder's dividends**

This shall be the amount of dividends payable, as declared by the directors, on participating life policies which qualify for such dividends, and shall be recorded at the amount declared."

(h) repealing Line 26. and replacing it as follows:

"Line 26. **Other long-term business insurance reserves**

These shall consist of any other reserves required by the terms of life or accident and health contracts or as a result of special riders or options attaching to any such contracts, not being reserves provided for in lines 22 to 25 inclusive of the statutory balance sheet.

These must be actuarially determined and be considered adequate.
"

(i) repealing Line 27. and replacing it as follows:

"Line 27. **Gross long term business insurance reserves**

This line shall disclose the gross amount of reserves under contract of reinsurance in respect of the gross amount provided for. There shall be disclosed severally-

(a) Total gross long-term business insurance reserves: Total lines 20 through 26 before the said amounts are reduced by any amount recoverable under a contract of reinsurance in respect of the gross amount provided for;

(b) Less: Reinsurance recoverable balance on long-term business:
   (i) Foreign affiliates reinsurance recoverable balance;
   (ii) Domestic affiliates reinsurance recoverable balance;
   (iii) Pools and associations;
   (iv) All other insurers;

(c) Total reinsurance recoverable balance; the total of (i) through (iv); and

(d) Total net long-term business insurance reserves: The total of lines 20 to 26 inclusive, or the amount arrived at by subtracting line 27(c) from 27(a).

Amends Schedule 2

4. Schedule 2 of the principal Rules is amended by deleting paragraph 3 and replacing it as follows-

"3 (1) The group actuary's opinion shall relate to the general and long-term business of the group and shall be signed and dated by the group actuary.

(2) The actuary's opinion must state whether or not in the opinion of the group actuary the extent to which the group has complied with the requirements of lines 17 (d) and 27 (d) of the GROUP STATUTORY BALANCE SHEET under Schedule I and the procedures undertaken to arrive at the opinion."

Made this day of 2013

Gerald Simons Chairman Bermuda Monetary Authority