BERMUDA MONETARY AUTHORITY

31st October 2013

NOTICE

Insurance (Eligible Capital) Amendment Rules 2013

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 Schedules 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

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INSURANCE (ELIGIBLE CAPITAL) AMENDMENT RULES 2013

ARRANGEMENT OF SECTIONS

In exercise of the powers conferred upon the Bermuda Monetary Authority by section 6A of the Insurance Act 1978, the following Rules are made:

Citation and commencement

1. (1) These Rules amend the Insurance (Eligible Capital) Rules 2012 ("the principal Rules") and may be cited as the Insurance (Eligible Capital) Amendment Rules 2013.

(2) These Rules shall come into force on 1 January 2014.

Interpretation

2. Paragraph 2 of the principal Rules is amended—

(a) in subparagraph (3) (a) (ii) by:

(i) deleting the word "higher" and replacing it with the word "sum" where it occurs;

(ii) deleting the letters "(A) and (B)" and replacing them with "(A), (B) and (C)";

(iii) deleting the word "where" and replacing it with the words "to the extent";

(iv) repealing sub-subparagraph "(A)" and replacing it as follows—

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

(i) The value calculated in accordance with Form 1A, Lines 16, 17 (a) and 18 for Class 3A, Class 3B and Class 4 insurers and Form 4, Line 27 (a) for Class E, Class D and Class C insurers and Form 6 Lines, 16, 17 (a), 18 and 27 (a) for composite insurers; or

(ii) 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; and".

(v) inserting after sub-subparagraph (B) ―

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

(vi) inserting after sub-subparagraph (iii) ―

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

(b) in subparagraph (3) (c) (i) by:

(i) deleting the words "write downs of the principal amount of until losses cease, or"; and

(ii) inserting after the word "accumulate" the words "or are non-cumulative".

(c) in subparagraph (8):

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

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

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

Made this day of 2013.

Gerald Simons

Chairman, The Bermuda Monetary Authority