22nd July 2013

Instructions for the Proposed Long-Term Bermuda Solvency Capital Requirement Model

OVERVIEW

The Authority produced an updated Bermuda Solvency Capital (BSCR) model for Long-Term insurance business to reflect the proposed changes outlined in our Consultation Paper "Refinements to the Bermuda Solvency Capital Requirements" dated June 2013. The accompanying test model is being circulated to assist companies in assessing the impact of the proposals on their business. The Authority would appreciate feedback that helps to identify any problems or issues with the test model. The comments received will be considered to prepare a final working model in time for the 2013 year-end.

GENERAL INSTRUCTIONS FOR THE TEST MODEL

1. Upon opening the programme you may notice an error message "The following cells are unexpectedly modified…". If so, please ignore the message, press "OK" and proceed (This is the result of the changes having been made to a model with VBA protection and will be removed when we "veri-sign" the final model).
2. We have changed the order of the tabs in this test version to put the new inputs tabs close to the calculations for testing convenience. We will revert to a more traditional order in the final model.
3. We have highlighted in yellow the various tabs and cells that have been amended for ease of identifying the proposed changes to the current BSCR model.
4. Certain tabs that have not changed and do not have any impact on the BSCR calculation have been hidden (Commercial Insurer's Solvency Self-Assessment (CISSA) for example).
5. Select the appropriate Long-Term business class on the "Company Information" tab to ensure that the Minimum Solvency Margin is calculated correctly. Use the drop-down menu on cell K11 to select the appropriate business class.
6. The Transitional Adjustment Factors on the "Summary" tab will be updated later to reflect the revised phase-in process.
7. As referred to in paragraph 43 of the draft proposals, any specific assets which form part of funds held by ceding companies (line item 12 on Form 4) and for which the reinsurer effectively bears market risk, should be identified in a similar manner as if they were held directly by the reinsurer and included as appropriate in Schedule II(a) – which is very similar

to Schedule II. They will then be included in the relevant investment risk calculations. Any remaining assets held in line item 12 will be included in the credit risk calculations in a similar manner to other reinsurance assets. These amounts, together with ratings and any associated collateral / letter of credit arrangements should be included in Schedule V(c).

SIMPLIFYING STEPS

1. The field specifying the percentage charge for operational risk on the Summary tab has been amended as an entry field (for testing purposes). Companies may insert the percentage of operational risk factor charge here directly instead of entering all the information in the operational risk schedules to determine the capital charge. However the operational risk schedules are still effective for use if you wish.
2. Use of Estimates - this model is for testing purposes only. Where data is not currently available, estimates may give satisfactory results, particularly where they do not materially impact the total capital requirements.

AREAS FOR WHICH WE WOULD LIKE FEEDBACK

1. Overall impact of the model – i.e. proposed capital requirement goes up/down by xx%.
2. What questions arise as you complete this - i.e. where is more guidance needed?
3. Are there areas that are difficult to complete? Are there alternatives to the data that we have requested that still would be effective for our purposes, but would be more readily extracted from your existing information?
4. Please inform us of any errors or anomalies so that appropriate modifications can be made.

Responses should be sent to the Authority via e-mail at riskanalytics@bma.bm no later than close-of-business on 6th September 2013.