BERMUDA MONETARY AUTHORITY

14th November 2012

NOTICE

The Insurance (Prudential Standards) (Insurance Group Solvency Requirement) Amendment Rules 2012 (the "Rules")

The following is a summation of the comments received from Industry by the Bermuda Monetary Authority (the "Authority" or the "BMA") in relation to the last draft of the Rules posted for consultation in June 2012 and confirms the proposals of the Authority in connection therewith:

Declaration of Insurance Group Capital and Solvency Return
The Declaration of capital and solvency return requirements have been amended to provide that such document shall be executed by two directors of the insurer, one of whom may be the chief executive and either of the Chief Risk Officer or the Chief Financial Officer.

Bermuda Dollar Accounts
The Rules are amended to make clear that accounts must be stated in Bermuda dollars. The rate of exchange for U.S. dollars to Bermuda dollars is 1:1 and, thus, no adjustment need be made.

Housekeeping measures
Minor housekeeping amendments have also been made to the Rules to ensure consistency with the Act and other insurance prudential standard rules as necessary.

The Authority advises that the proposed amendments to the Rules made herein are final, unless there are substantive policy issues deemed by the Authority to be reviewed and/or revised accordingly. Comments on the Rules are invited by 7th December 2012 and should be sent to email address: policy@bma.bm

BERMUDA

INSURANCE (PRUDENTIAL STANDARDS) (INSURANCE GROUP SOLVENCY REQUIREMENT) AMENDMENT RULES 2012

BR / 2012

TABLE OF CONTENTS

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

Citation

1 These Rules, which amend the Insurance (Prudential Standards) (Insurance Group Solvency Requirement) Rules 2011 (the "principal Rules"), may be cited as the Insurance (Prudential Standards) (Insurance Group Solvency Requirement) Amendment Rules 2012.

Amends paragraph 6

2 Paragraph 6 of the principal Rules is amended by inserting after subparagraph (3) the following—

> "(3A) Where the group maintains its accounts in foreign currency all amounts reported in a group capital and solvency return must be shown in the Bermuda equivalent.

(3B) For the purposes of subparagraph (3A) Bermuda equivalent of an amount in foreign currency is the Bermuda dollar equivalent of that amount as converted into Bermudian dollars at the rate of exchange used by any licensed bank in Bermuda in relation to purchases by that bank of that foreign currency on the last day of the group's financial year, provided that the rate of exchange of one U.S. dollar will be deemed to be one Bermuda dollar.".

Revokes and replaces paragraph 7

3 Paragraph 7 of the principal Rules is revoked and replaced with the following—

"Declaration of insurance group capital and solvency return

7 Every group capital and solvency return submitted by a designated insurer on behalf of the group of which it is a member shall be accompanied with a declaration signed by—

(a) two directors of the insurer, one of which may be the chief executive; and

(b) either the chief risk officer of the parent company, or the chief financial officer of the parent company,

declaring that to the best of their knowledge and belief, the return fairly represents the financial condition of the insurance group in all material respects.".

Amends paragraph 8

4 Paragraph 8(2)(b) of the principal Rules is revoked and replaced with the following—

"(b) intra-group transactions and risk concentrations which will include—

(i) details of material intra-group transactions that have materialized since the most recent quarterly or annual financial returns prepared and filed as the case may be, with the Authority by the insurer including (where applicable)—

(A) exposure value (face value or market value, if the latter is available);

(B) counterparties involved including where they are located;

(C) summary details of the transactions including purpose, terms and transaction costs;

(D) duration of the transaction; and

(E) performance triggers;

(ii) details surrounding all intra-group reinsurance and retrocession arrangements, and other intra-group risk transfer insurance business arrangements that have materialized since the most recent quarterly or annual financial returns prepared and filed as the case may be, with the Authority by the insurer 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 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.".

Revokes and replaces Schedule I

5 Schedule I to the principal Rules is revoked and replaced.

Revokes and replaces Schedule IVB

6 Schedule IVB to the principal Rules is revoked and replaced.

Revokes and Replaces Schedule V

7 Schedule V to the principal Rules is revoked and replaced.

Amends Schedule VII

8 Schedule VII to the Principal Rules is amended by deleting the column headed "Net Premiums Written ('000)".

Amends Schedule VIII

9 Schedule VIII to the Principal Rules is amended by deleting the column headed "Net Premiums Written ('000)".

Revokes and replaces Schedule IX

10 Schedule IX to the principal Rules is revoked and replaced.

Revokes and replaces Schedule XII

11 Schedule XII to the principal Rules is revoked and replaced.

Commencement

12 These Rules come into operation on 1 January 2013.

SCHEDULE

(paragraphs 5, 6, 7, 10 and 11)

The replaced Schedules I, IVB, V, IX and XII
have been omitted from these Rules.
They may be inspected at the offices of
the Bermuda Monetary Authority
or on the website: www.bma.bm.

Made this day of 2012

Chairman
The Bermuda Monetary Authority

AMENDMENTS TO SCHEDULES TO INSURANCE (PRUDENTIAL STANDARDS) (INSURANCE GROUP SOLVENCY REQUIREMENT) AMENDMENT RULES 2012 POSTED IN JUNE 2012

Amends Schedule 1

1. Schedule 1 of the Principal Rules is amended-

(a) in Table 2 by deleting the line pertaining to "other tangible assets" and adding the following –

"Other tangible assets – net of segregated account companies for long-term business	Form 1, Lines 13(g) and 14(d) less 13(b) and 13(c)	20.0%"

(b) by repealing Table 6 and replacing with the following –

"Table 6 - Capital charge for $debtor_i$

Type of debtor $debtor_i$	**Statement Source**	**Capital Factor** δ_i
Accounts and Premiums Receivable		
In course of collection	Form 1, Line 10(a)	5.0%
Deferred – not yet due	Form 1, Line 10(b)	5.0%
Receivables from retrocessional contracts less: Collateralized balances	Form 1, Line 10(c), Notes to Form 1, Line 10 (see item (c) below)	10.0%
Reinsurance Balances Receivable		
Foreign affiliates	Form 1, Line 11(a)	10.0%
Domestic affiliates	Form 1, Line 11(b)	0.0%
Pools & associations	Form 1, Line 11(c)	10.0%
All other insurers	Form 1, Line 11((b)	9.4%
Less: Letters of credit	Notes to Form 1, Line 11 (see item (e) below)	9.0%
Less: Funds held under reinsurance contracts by members of the group	Form 1, Line 34	9.7%

All Other Receivables		
Advances to affiliates	Form 1, Line 4(g) (see item (g) below)	5.0%
Funds held by ceding reinsurers	Form 1, Line 12	5.0%
Accrued investment income	Form 1, Line 9	5.0%
Policy loans	Form 1, Line 6	0.0%
Reinsurance Recoverable Balance		
Foreign affiliates	Form 1, Line 17(b)(i), Line 27(b)(i)	10.0%
Domestic affiliates	Form 1, Line 17(b)(ii), Line 27(b)(ii)	0.0%
Pools & associations	Form 1, Line 17(b)(iii), Line 27(b)(iii)	10.0%
All other insurers	Form 1, Line 17(b)(iv), Line 27(b)(iv)	9.4%

(c) by amending Table 9 as follows-

(i) by repealing the second column and replacing with the following-

“Statement Capital Factor Source NAP_i
Schedule VII, Column 5, Line 5(a)
Schedule VII, Column 5, Line 5(b)
Schedule VII, Column 5, Line 5(c)
Schedule VII, Column 6, Line 5(a)
Schedule VII, Column 6, Line 5(b)
Schedule VII, Column 6, Line 5(c)”

(ii) by amending the definition of “$NAAR1_i$” by deleting the words “Column 6” and replacing with “Column 5”;

(iii) by amending the definition for the term “$NAAR2_i$” by deleting the words “Column 7” and replacing with “Column 6”;

(d) by repealing Table 11 and replacing it with the following:

“Table 11 Statement Source for Res_i, $AV1_i$, $AV2_i$ and NAR_i

Variable Annuity Benefit Type:	**Statement Source:** Res_i	**Statement Source:** $AV1_i$	**Statement Source:** $AV2_i$	**Statement Source** NAR_i**:**

Guaranteed Minimum Accumulation Benefit with less than 5 years to maturity	Schedule VIII Column 1, Line (1)	Schedule VIII Column 2, Line (1)	Schedule VIII Column 3, Line (1)	Schedule VIII Column 4, Line (1)
Guaranteed Minimum Accumulation Benefit with 5 years or more to maturity	Schedule VIII Column 1, Line (2)	Schedule VIII Column 2, Line (2)	Schedule VIII Column 3, Line (2)	Schedule VIII Column 4, Line (2)
Guaranteed Minimum Death Benefit with Return of Premium, Ratchets or Resets	Schedule VIII Column 1, Line (3)	Schedule VIII Column 2, Line (3)	Schedule VIII Column 3, Line (3)	Schedule VIII Column 4, Line (3)
Guaranteed Minimum Death Benefit with Enhanced Benefits (Roll Up)	Schedule VIII Column 1, Line (4)	Schedule VIII Column 2, Line (4)	Schedule VIII Column 3, Line (4)	Schedule VIII Column 4, Line (4)
Guaranteed Minimum Income Benefit	Schedule VIII Column 1, Line (5)	Schedule VIII Column 2, Line (5)	Schedule VIII Column 3, Line (5)	Schedule VIII Column 4, Line 5
Guaranteed Minimum Withdrawal Benefit	Schedule VIII Column 1, Line (6)	Schedule VIII Column 2, Line (6)	Schedule VIII Column 3, Line (6)	Schedule VIII Column 4, Line 6
Guaranteed Enhanced Earnings Benefit	Schedule VIII Column 1, Line (7)	Schedule VIII Column 2, Line (7)	Schedule VIII Column 3, Line (7)	Schedule VIII Column 4, Line 7”

Amends Schedule IVB

2. Schedule IVB of the Principal Rules is repealed and replaced with the following-

“**SCHEDULE IV(B) (Paragraph 6)**
SCHEDULE OF LONG-TERM BUSINESS PREMIUMS
[blank] name of Parent
as at [blank] (day/month/year)
[All amounts are expressed in ______ (currency used)]

Schedule Line No.	GROSS PREMIUMS Form 5 Line 19(c)						NET PREMIUMS Form 5 Line 19(e)					
	Unrelated		**Related**		**Total**		**Adjustable/Benefit Period <= 2 years**		**Non-adjustable/ Benefit Period > 2 years**		**Total**	
	20xx	**20xx**	**20xx**	**20xx**	**20xx**	**20xx**	**20xx**	**20xx**	**20xx**	**20xx**	**20xx**	**20xx**
1. Mortality	XXX	XXX	XXX	XXX	XXX	XXX					XXX	XXX
2. Critical illness	XXX	XXX	XXX	XXX	XXX	XXX					XXX	XXX
3. Longevity	XXX	XXX	XXX	XXX	XXX	XXX					XXX	XXX
4.Deferred annuities	XXX	XXX	XXX	XXX	XXX	XXX					XXX	XXX
5. Disability income: Active lives with premium guarantee of —												
(i) <=1 year	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX		
(ii) >1 year but <5 years	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX		
(iii) >5 years	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX		
6. Disability income: Active lives for other accident and sickness	XXX	XXX	XXX	XXX	XXX	XXX					XXX	XXX
7. Disability income: Claims in payment	XXX	XXX	XXX	XXX	XXX	XXX					XXX	XXX
8. Disability income: Claims in payment for other accident & sickness	XXX	XXX	XXX	XXX	XXX	XXX					XXX	XXX
9. Group life	XXX	XXX	XXX	XXX	XXX	XXX					XXX	XXX
10. Group disability	XXX	XXX	XXX	XXX	XXX	XXX					XXX	XXX
11. Group health	XXX	XXX	XXX	XXX	XXX	XXX					XXX	XXX
12. Stop loss	XXX	XXX	XXX	XXX	XXX	XXX					XXX	XXX
13. Rider	XXX	XXX	XXX	XXX	XXX	XXX					XXX	XXX
14. Variable annuities	XXX	XXX	XXX	XXX	XXX	XXX					XXX	XXX
15. Total	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX”;

Amends Schedule V

3. Schedule V of the Principal Rules is amended-

(a) by inserting after paragraph (b) the following-

"(b.1) intra-group exposures and risk concentrations;"

(b) by amending subparagraph (b)(ii) of the "Instructions Affecting Schedule V" and inserting the words "list of" before the words "unregulated entities";

(c) by adding after paragraph (b) of the "Instructions Affecting Schedule V" the following-

"(b.1) Intra-group transactions and the insurance group's risk concentrations shall include the following:

(i) details of material intra-group transactions between and among the members of the group, including (where applicable):

(a) exposure value (face value or market value, if the latter is available);

(b) counterparties involved including where they are located;

(c) summary details of the transactions – including purpose, terms and transaction costs;

(d) duration of the transaction; and

(e) 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 group'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 exceeding 10% of the group'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."

(d) by deleting the introductory paragraph under Table 14B "GSSA ASSESSMENT OF MATERIAL RISKS OF THE GROUP" and replacing it with the following paragraph:

"The parent board must review policies, processes, and procedures to assess its material risks and self-determine the capital requirement it would need to support the insurance group, at least annually. Minimally, the assessment should:

- Be an integral part of the insurance group's risk management framework;
- Be clearly documented, reviewed, and evaluated regularly by the parent board and the chief and senior executives to ensure continual advancement in light of changes in the strategic direction, risk management framework, and market developments; and
- Ensure an appropriate oversight process whereby material deficiencies are reported on a timely basis and suitable actions taken.

The insurance group shall undertake and file with the Authority the group's most recent report ("insurer-specific report") comprising a solvency self-assessment of its material risks and the determination of both the quality (types of capital) and quantity of GSSA capital required to cover these risks, while remaining solvent and achieving the insurance group's business goals."

Amends Schedule VII
4. Schedule VII of the Principal Rules is amended by deleting the column "Net Premiums Written (000)" where it appears in the table entitled "Schedule of Long Term Business Data and Reconciliation".

Amends Schedule VIII
5. Schedule VIII of the Principal Rules is amended by deleting the column "Net Premiums Written" (000)" where it appears in the table entitled "Schedule of Long Term Business Variable Annuity Guarantees Data and Reconciliation".

Amends Schedule IX
6. Schedule IX of the Principal Rules is amended-

(a) by repealing paragraphs 6 and 7 of Table 14 (Additional Information) and substituting the following:

"6. Has debt been up streamed to establish equity positions in the parent, or is its parent using capital that is double or multiple geared? (Yes or No) If yes, provide details and amount of capital.

7. Are there any assets of a subsidiary of the group that are restricted for use that cannot be transferred to another subsidiary or to the parent, that were not included in the encumbered assets for policyholder obligations and not for policyholder obligations, as reported in the Schedule of Eligible Capital? If yes, provide:

Name and jurisdiction(s) of the subsidiary(ies):

Total restricted assets —	xx
Less: Regulatory capital requirements for members for which the assets pertain—	xx
Restricted assets in excess of capital requirements to the extent that these amounts are not included in the encumbered assets reported in the Schedule of Eligible Capital—	xx."

(b) by amending Table 14B as follows –

(i) by inserting after paragraph (1) the following:

"1.1 A description of the insurance group's business and strategy.";

(ii) by inserting the words "including an assessment of whether capital is fungible and assets are transferable after the words "liquidity available," in paragraph 7;

(iii) by adding the words “under 2 above” after the words “risk identified” where they appear in paragraph 11;

(iv) by inserting the following after subparagraph 11(a):

“(b.1) The key performance indicators used to monitor compliance with the risk appetite;”;

(c) by amending Table 15 by inserting “TVaR” after the words “occurrence loss” where they appear in the second and fourth columns;

(d) by amending Table 15A by inserting “TVaR” after the words “occurrence loss” where they appear in the second and fourth columns;

(e) by amending Table 15B as follows –

(i) by inserting the words “Which model is used for EP Curve?” under the line “Exceedance probability information”;

(ii) by inserting “TVaR” after the words “occurrence loss” where they appear in the second and fourth columns;

(f) Table 15D is amended in paragraph 6 by inserting the words “If other, please explain” after the sentence.

Amends Schedule XII

8. Schedule XII of the Principal Rules is amended by repealing the table and replacing it with the following table:

“Group Member Name	**Jurisdiction**	**Participation Type**	**Percent of Participation Interest**	**Net Premiums Written**	**Total Assets**	**Minimum Margin of Solvency (MSM)**	**Proportionate Share on the MSM”**