BMA
BERMUDA MONETARY AUTHORITY

19th June 2012

# NOTICE

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

The Insurance (Prudential Standards) (Insurance Group Solvency Requirement) Rules 2011 have been updated as follows.

1. The Rules have been amended relating to the provision of quarterly financial returns under Rules 8 in order to provide clarity that only intra-group transactions, which have materialised since the most recent annual or quarterly filing, should be reported and filed to the Authority.

2. Under Schedule 1, the following tables and paragraphs have been amended or in some cases repealed and replaced as a housekeeping measure to provide clarity and ensure alignment with the 2011 year-end Group BSCR model filed by Bermuda insurance groups, and the capital factors remained unchanged:

   a. Table 2 "Capital charge factors for equity investments";
   b. Table 6 "Capital charge for debtors";
   c. Paragraph 10 for insurance risk – mortality charge calculation;
   d. Paragraph 11 for insurance risk – stop loss charge calculation;
   e. Paragraph 12 for insurance risk – rider charge calculation;
   f. Paragraph 13(e) for insurance risk – critical illness insurance business calculation;
   g. Table 9 "Capital charge for net annual premium for disability income business – active lives"; and
   h. Table 11 "Variable annuity guarantee risk charge".

3. Schedule IV(B), V, VII, VIII, IX, X, and XII has been amended or in some cases repealed and replaced with new Schedules as attached to primarily provide clarity and ensure alignment with the 2011 year-end Group BSCR model:

   a. Schedule IV(B) "Schedule of long-term business premiums" has been updated to ensure alignment with Schedule VII "Schedule of long-term insurance data and reconciliation" and to capture premium information on long-term insurance products;

b. Schedule V "Schedule of risk management" has been updated to provide clarity in relation to certain matters as a housekeeping measure to ensure consistency with the provisions on quarterly filing returns under Rules 8;
c. Schedule VII "Schedule of long-term business data and reconciliation" has been updated to be consistent with the Group BSCR model by deleting the "net premiums written" column;
d. Schedule VIII "Schedule of long-term business variable annuity guarantees data and reconciliation" has been updated to be consistent with the Group BSCR model by deleting the "net premiums written" column;
e. Schedule IX "Schedule of group's solvency self-assessment" has been updated to ensure alignment with the Group BSCR model and to clarify that the report should provide a description of the business it conducts and its overall business strategy within the GSSA group-specific report;
f. Schedule X "Group general business catastrophe risk return" has been amended to provide clarity on certain content as a housekeeping measure particularly on label headings; and
g. Schedule XII "Schedule of group minimum margin of solvency" has been amended to provide clarity in relation to certain matters as a housekeeping measure by inserting "participation type" and "net premiums written" columns.

4. The Rules will be effective as of 1st January 2013.

5. Comments on the draft Rules are invited by 15th August 2012 and should be sent to policy@bma.bm

DRAFT
June 15, 2012

# 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 and shall come into operation on January 1, 2013.

**Paragraph 8 revoked and replaced**
2. The principal Rules are amended by revoking subparagraph 8(2)(b) and substituting 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, to 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, to 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."

**Amends Schedule 1**
3. 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** $\delta_i$ |
|---|---|---|
| *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 $\mathrm{Res}_i$, $AV1_i$, $AV2_i$ and $NAR_i$**

| **Variable Annuity Benefit Type:** | **Statement Source: $\mathrm{Res}_i$** | **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**

4. 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**

5. 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."

**Amends Schedule VII**

6. 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**

7. 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**

8. 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**

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

| “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” |
|---|---|---|---|---|---|---|---|
| | | | | | | | |
| | | | | | | | |

Made this day of 2012

Alan Cossar
Chairman
Bermuda Monetary Authority