

Explanatory Memorandum

Insurance (Prudential Standards) (Class 3A Solvency Requirement) Rules 2011

1. Rule 1 Citation and commencement makes provision for these Rules to be cited as the Insurance (Prudential Standards) (Class 3A Solvency Requirement) Rules 2011 (the “Rules”) and proposes for the Rules to come into operation as at 31 December 2011.
2. Rule 2 “Interpretation” sets out the definitions used in the Rules and attached Schedules.
3. Under Rule 3 “Enhanced Capital Requirement” (ECR), provision is made for the applicable eligible capital requirement for Class 3A insurers, which is calculated at the end of its relevant year by reference to the standard Bermuda Solvency Capital Requirement-Small and Medium Entities (BSCR-SME) model or through the utilisation of an internal capital model which has been approved by the Authority.
4. Rule 4 “BSCR-SME model” makes provision for the BSCR-SME model to be utilised by Class 3A insurers and prescribes that the standard BSCR-SME formula set out under Schedule I has effect.
5. Pursuant to Rule 5 “Approved internal capital model”, provision is made for a Class 3A insurer to submit an application to the Authority for approval for an internal capital model to be used in the place of the standard BSCR-SME model, provided certain conditions are met.
6. Rule 6 “Capital and solvency return” makes provision for Class 3A insurers to submit to the Authority by a specified filing date printed and electronic versions of a capital and solvency return which shall comprise the following:
 - a. Schedule II – Schedule of fixed income investment by rating categories
 - b. Schedule III – Schedule of net loss and loss expense provisions by line of business
 - c. Schedule IV – Schedule of Schedule of premiums written by line of business
 - d. Schedule V – Schedule of Risk Management
 - e. Schedule VI – Schedule of Fixed Income Securities
 - f. Schedule VII – Schedule of Commercial Insurer’s Solvency Self-Assessment requires insurers to demonstrate to the Authority that the insurer’s capital levels and capital quality are commensurate with its risk profile and that suitable risk management procedures are in place.
 - g. Schedule VIII – Catastrophe Risk Return applies to insurers writing property catastrophe business and requires insurers to clarify their modelling practices.
 - h. Schedule X – Schedule of Eligible Capital makes provision for the assessment of the quality of insurers’ capital resources that are eligible to satisfy their regulatory capital requirement.

7. The views of the insurance industry and other interested persons on the proposals set out in the Rules are invited. Comments should be sent to the Authority addressed to policy@bma.bm no later than 31st August 2011.