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Pursuant to Section 6A of the Insurance Act 1978, the Insurance (Prudential Standards) (Class 4 Solvency Requirement) Order 2008 prescribes prudential standards in relation to Enhanced Capital Requirement and Capital and Solvency Return for every Class 4 Insurers.

Fifth Draft: 15 August 2008

**THE INSURANCE ACT 1978**

**1978 : 39**

**Insurance (Prudential Standards) (Class 4 Solvency Requirement) Order 2008**

In exercise of the powers conferred upon the Authority by section 6A of the Insurance Act 1978, the following Order is made:—

**Citation and commencement**

1. This Order may be cited as the Insurance (Prudential Standards) (Class 4 Solvency Requirement) Order 2008 and shall come into operation on the 31<sup>st</sup> day of December 2008.

**Interpretation**

2. In this Order –

“Act” means the Insurance Act 1978;

“approved internal capital model” means a model prepared pursuant to paragraph 5;

“available statutory capital and surplus” has the meaning given in section 1(1) of the Act;

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“BSCR model” means the Bermuda Solvency Capital Requirement model established in accordance with paragraph 4 and Schedule I.

“ECR” means the enhanced capital requirement within the meaning of section 1(1) of the Act;

“relevant year” in relation to an insurer, means its financial year.

**ECR**

3. (1) Subject to subparagraph (4), every Class 4 insurer shall maintain available statutory capital and surplus to an amount that is equal to or exceeds the value of the ECR.

(2) An insurer’s ECR shall be calculated at the end of its relevant year by reference to the following models –

- (a) The “BSCR model; or
- (b) an approved internal capital model:

Provided that an ECR shall at all times be an amount equal to, or exceeding, the margin of solvency (within the meaning of section 6 of the Act).

(3) The ECR applicable to an insurer shall be the ECR as calculated –

- (a) at the end of its most recent relevant year; or,
- (b) where its ECR has been adjusted under section 6D and has not otherwise been suspended under section 44A (4) of the Act,

whichever is later.

**BSCR model**

4. Schedule I (which establishes the BSCR) has effect.

**Approved internal capital model**

5. (1) A Class 4 insurer may apply to the Authority for approval to use an internal capital model in substitution for the BSCR model (“approved internal capital model”)

(2) Where the Authority is satisfied, having regard to subparagraph (3) that it is appropriate to do so, it may approve the internal capital model and may make its approval subject to conditions.

(3) In considering an application for approval of an internal capital model the Authority shall have regard to the following matters –

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- (a) the appropriateness of the internal capital model for the determination of the insurer's capital requirement;
  - (b) the extent to which the internal capital model has been integrated into the insurer's risk management program; and
  - (c) the appropriateness of controls applicable to the creation and maintenance of the insurer's internal capital model.
- (4) The Authority shall serve notice on the insurer of the following matters –
- (a) its decision to approve its internal model; or
  - (b) its decision not to approve its internal model.
- (5) An insurer served with a notice under subparagraph (4)(b) may, within a period of 28 days from the date of the notice, make written representations to the Authority; and where such representations have been made, the Authority shall take them into account in deciding whether to confirm its decision not to approve its internal model.
- (6) The Authority may revoke the approval given under subparagraph (1) if satisfied that the insurer has breached a condition of the approval.
- (7) The Authority shall serve notice on the insurer of its proposal to revoke its approval of its internal capital model.
- (8) An insurer served with a notice under subparagraph (7) may, within a period of 28 days from the date of the notice, make written representations to the Authority; and where such representations have been made, the Authority shall take them into account in deciding whether to revoke its approval.

**Capital and solvency return**

6. (1) Every Class 4 insurer shall make a capital and solvency return to the Authority which shall comprise the following documents –
- (a) both an electronic version and a printed version of the return prescribed in Schedule I (BSCR model) in such form as the Authority may direct.
  - (b) printed versions of returns prescribed in Schedules II, III, IV, V and VI; and
  - (c) where applicable, a printed copy of an approved internal capital model.
- (2) An insurer shall, on or before its filing date, furnish the Authority with its capital and solvency return prescribed under subparagraph (1).

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(3) An insurer shall make a copy of its capital and solvency return available at its principal office on or before its filing date.

(4) An insurer shall keep a copy of its capital and solvency return at its principal office for the period of five years beginning with its filing date.

(5) In this paragraph, "filing date" has the same meaning as in section 17 of the Act.

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## SCHEDULE I

### Bermuda Solvency Capital Requirement

(1) The BSCR shall be established in accordance with the following formula:

$$BSCR = \sqrt{C_{fi}^2 + C_{eq}^2 + C_{int}^2 + C_{prem}^2 + \left(\frac{1}{2}C_{cred} + C_{rsvs}\right)^2 + \left(\frac{1}{2}C_{cred}\right)^2 + C_{cat}^2} + C_{op}$$

where

$C_{fi}$  = fixed income risk charge as defined in paragraph 2,

$C_{eq}$  = equity investment risk charge as defined in paragraph 3,

$C_{int}$  = interest rate / liquidity risk charge as defined in paragraph 4,

$C_{prem}$  = premium risk charge as defined in paragraph 5,

$C_{rsvs}$  = reserve risk charge as defined in paragraph 6,

$C_{cred}$  = credit risk charge as defined in paragraph 7,

$C_{cat}$  = catastrophe risk charge as defined in paragraph 8,  
and

$C_{op}$  = operational risk charge as defined in paragraph 9.

(2) The fixed income risk charge calculation shall be determined in accordance with the following formula:

$$C_{fi} = \sum_i \chi_i \times FI_{astclass_i}, \text{ where}$$

$\chi_i$  = the capital charge factors prescribed in this Schedule for each type of  $FI_{astclass_i}$ , and

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$Flastclass_i$  = value of investment in corresponding asset Class  $i$ .

<b>Type of fixed income investments</b>  $Flastclass_i$	<b>Statement Source</b>	<b>Capital Factor</b>  $\chi_i$
Government bonds	Schedule II, Line (1)	0.3%
High investment grade bonds (AAA & AA)	Schedule II, Line (2)	0.8%
Medium investment grade bonds (A)	Schedule II, Line (3)	3.2%
Low investment grade bonds (BBB)	Schedule II, Line (4)	5.0%
Non investment grade bonds	Schedule II, Line (5)	26.3%
Mortgage -backed securities	Schedule II, Line (6)	10.0%
Mutual funds	Schedule II, Line (7)	15.0%
Non-rated bonds	Schedule II, Line (8)	50.0%
Mortgage loans	Form 1A, Line (5c)	5.0%
Other loans	Form 1A, Line (8)	5.0%
Cash and time deposit	Form 1A, Line (1)	0.3%

(a) All assets comprising bonds and debentures, loans, and other miscellaneous investments that are subject to capital

charges within the fixed income investment charge shall be included;

(c) All non-affiliated quoted and unquoted bonds and debentures shall be included; and

(b) All bonds and debentures, loans, and other miscellaneous investments shall be reported on a basis consistent with that used for purposes of statutory financial reporting.

(3) The equity investment risk charge calculation shall be established in accordance with the following formula:

$$C_{eq} = \sum_i \chi_i \times Eqastclass_i, \quad \text{where}$$

$\chi_i$  = the capital charge factors prescribed in this Schedule for each type of  $Eqastclass_i$ , and

$Eqastclass_i$  = value of investment in corresponding asset Class  $i$ .

<b>Type of equity investments</b>	<b>Statement Source</b>	<b>Capital Factor</b>
<i>Eqastclass<sub>i</sub></i>		$\chi_i$
Non-affiliated (quoted) common stocks	Form 1A, Line (2c)(i)	14.4%
Non-affiliated (unquoted) common stocks	Form 1A, Line (3c)(i)	14.4%
Mutual funds included in common stocks portfolio	Form 1A, Lines (2c)(iii) and (3c)(iii)	14.4%
Non-affiliated (quoted)	Form 1A, Line (2c)(ii)	14.4%

preferred stocks		
Non-affiliated (unquoted) preferred stocks	Form 1A, Line (3c)(ii)	14.4%
Company-occupied real estate less: encumbrances	Form 1A, Line (7a)	10.0%
Real estate investments less: encumbrances	Form 1A, Line (7b)	20.0%
Other equity investments	Form 1A, Lines (2e) & (3e)	20.0%
Other tangible assets	Form 1A, Lines (13e) & (14d)	20.0%

(a) All assets comprising of common stocks, preferred stocks, real estate, and other miscellaneous investments that are subject to capital charges within the equity investment risk charge shall be included;

(b) All quoted and unquoted non-affiliated common and preferred stocks shall be included; and

(c) All common and preferred stocks, real estate, and other miscellaneous investments shall be reported on a basis consistent with that used for purposes of statutory financial reporting.

(4) The interest rate / liquidity risk charge calculation shall be established in accordance with the following formula:

$$C_{\text{int}} = \text{bonds} \times \text{duration} \times \text{marketdecline}, \text{ where}$$

*bonds* = market value of other bonds and debentures, preferred stocks or mortgages, and

*duration* = the higher of

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- (i) 1, or
  - (ii) the insurer's asset duration less the insurer's liability duration, or
  - (iii) the insurer's liability duration less the insurer's asset duration.

*marketdecline* = assumed interest rate shock prescribed in this Schedule.

<b>Type of investments</b>	<b>Statement Source</b>	<b>Estimated duration</b>	<b>120 basis point interest rate increase</b>
<i>bonds</i>		<i>duration</i>	<i>marketdecline</i>
Bonds and debentures	Form 1A, Lines (2a)(ii) and (3a)(ii)	[insurer's duration]	1.2%
Preferred stocks	Form 1A, Lines (2c)(ii) and (3c)(ii)	[insurer's duration]	1.2%
Mortgage loans	Form 1A, Line (5c)	[insurer's duration]	1.2%

(a) All assets comprising other bonds and debentures, preferred stocks, and mortgage loans investments that are subject to capital charges within the interest rate / liquidity risk charge shall be included;

(b) All quoted and unquoted non-affiliated other bonds and debentures and preferred stocks shall be included; and

(c) All other bonds and debentures, preferred stocks, and mortgage loans investments shall be reported on a basis consistent with that used for purposes of statutory financial reporting.

(5) The premium risk charge calculation shall be established in accordance with the following formula:

$$C_{prem} = \left[ \sum_{i>1} \alpha_i \times lineprem_i \right] \times \left[ \max_{i>1} \left\{ \frac{lineprem_i}{totalprem} \right\} \times \mu + \mathcal{G} \right] - \left[ avgpremcap \times \frac{avgannloss}{catlossratio} \right]$$

where

$\alpha_i$  = individual  $lineprem_i$  risk capital charge factor as prescribed in this Schedule,

$totalprem$  = total premium measure over all lines of business (except Property Catastrophe),  
i.e.  $\sum_{i>1} lineprem_i$ ,

$lineprem_i$  = premium measure for line of business  $i$  prescribed in this Schedule,

$avgpremcap$  = weighted average premium risk capital charge factor (after concentration adjustment),

$avgannloss$  = average annual loss estimated with catastrophe models,

$catlossratio$  = expected industry average catastrophe loss ratio prescribed in this Schedule,

$\mu$  = additional concentration adjustment factor taking into consideration an insurer's diversified lines of business equal to 40%, and

$\mathcal{G}$  = minimum concentration adjustment factor as prescribed in this Schedule equal to 60%.

Line of business	Statement Source	Capital Factor
$lineprem_i$		$\alpha_i$

Property catastrophe	Schedule IV, Line (1)	0.0%
Property	Schedule IV, Line (2)	49.7%
Property non-proportional	Schedule IV, Line (3)	51.6%
Personal accident	Schedule IV, Line (4)	34.1%
Personal accident non-proportional	Schedule IV, Line (5)	41.2%
Aviation	Schedule IV, Line (6)	48.2%
Aviation non-proportional	Schedule IV, Line (7)	48.2%
Credit / surety	Schedule IV, Line (8)	39.8%
Credit / surety non-proportional	Schedule IV, Line (9)	45.4%
Energy offshore / marine	Schedule IV, Line (10)	42.1%
Energy offshore / marine non-proportional	Schedule IV, Line (11)	47.0%
US casualty	Schedule IV, Line (12)	50.3%
US casualty non-proportional	Schedule IV, Line (13)	55.6%
US professional	Schedule IV, Line (14)	51.2%
US professional non-proportional	Schedule IV, Line (15)	53.8%

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US specialty	Schedule IV, Line (16)	51.4%
US specialty non-proportional	Schedule IV, Line (17)	52.7%
International motor	Schedule IV, Line (18)	42.2%
International motor non-proportional	Schedule IV, Line (19)	48.2%
International casualty non-motor	Schedule IV, Line (20)	50.0%
International casualty non-motor non-proportional	Schedule IV, Line (21)	53.6%
Retro property	Schedule IV, Line (22)	50.8%
Structured / finite reinsurance	Schedule IV, Line (23)	36.4%

(a) All reported net written premiums for the relevant year by statutory line of business as prescribed in this Schedule that are subject to capital charges within the premium risk charge shall be included; and

(b) All net written premiums by statutory line of business shall be reported on a basis consistent with that used for purposes of statutory financial reporting.

(6) The reserve risk charge calculation shall be established in accordance with the following formula:

$$C_{rsvs} = \left[ \sum_i \beta_i \times lineRSVS_i \right] \times \left[ \max_i \left\{ \frac{lineRSVS_i}{totalRSVS} \right\} \times \mu + \mathcal{G} \right]$$

where

$\beta_i$  = individual  $lineRSVS_i$  risk capital charge factor as prescribed in this Schedule,

$totalRSVS$  = total reserves over all lines of business, i.e.  $\sum_i lineRSVS_i$ ,

$lineRSVS_i$  = reserves for individual line of business  $i$ ,

$\mu$  = additional concentration adjustment factor taking into consideration an insurer's diversified lines of business equal to 40%, and

$\mathcal{G}$  = minimum concentration adjustment factor as prescribed in this Schedule equal to 60%,

<b>Line of business</b>	<b>Statement Source</b>	<b>Capital Factor</b>
$lineRSVS_i$		$\beta_i$
Property Catastrophe	Schedule III, Line (1)	46.2%
Property	Schedule III, Line (2)	43.8%
Property non-proportional	Schedule III, Line (3)	49.7%
Personal accident	Schedule III, Line (4)	29.7%
Personal accident non-proportional	Schedule III, Line (5)	34.9%
Aviation	Schedule III, Line (6)	46.0%

Aviation non-proportional	Schedule III, Line (7)	48.3%
Credit / surety	Schedule III, Line (8)	38.4%
Credit / surety non-proportional	Schedule III, Line (9)	43.5%
Energy offshore / marine	Schedule III, Line (10)	39.5%
Energy offshore / marine non-proportional	Schedule III, Line (11)	43.9%
US casualty	Schedule III, Line (12)	43.0%
US casualty non-proportional	Schedule III, Line (13)	48.8%
US professional	Schedule III, Line (14)	46.3%
US professional non-proportional	Schedule III, Line (15)	51.5%
US specialty	Schedule III, Line (16)	46.5%
US specialty non-proportional	Schedule III, Line (17)	48.3%
International motor	Schedule III, Line (18)	37.1%
International motor non-proportional	Schedule III, Line (19)	43.5%
International casualty	Schedule III, Line	43.7%

non-motor	(20)	
International casualty non-motor non-proportional	Schedule III, Line (21)	49.4%
Retro property	Schedule III, Line (22)	47.8%
Structured / finite reinsurance	Schedule III, Line (23)	33.4%

(a) All reported loss and loss expense provisions for the relevant year by statutory line of business as prescribed in this Schedule are subject to capital charges within the reserve risk charge shall be included;

(b) All reported loss and loss expense provisions by statutory line of business shall be reported on a basis consistent with that used for purposes of statutory financial reporting.

(7) The credit risk charge calculation shall be established in accordance with the following formula:

$$C_{cred} = \sum_i \delta_i \times creditor_i, \quad \text{where}$$

$\delta_i$  = the credit risk capital charge factor for type of  $creditor_i$  as prescribed in this Schedule, and

$creditor_i$  = receivable amount from creditor  $i$ .

Type of creditor	Statement Source	Capital Factor
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<i>creditor<sub>i</sub></i>		$\delta_i$
<i>Accounts and Premiums Receivable</i>		
In course of collection	Form 1A, Line (10a)	5.0%
Deferred – not yet due	Form 1A, Line (10b)	5.0%
Receivables from retrocessional contracts less: collateralized balances	Form 1A, Line (10c) and (c) below	10.0%
<i>Reinsurance Receivables</i>		
Foreign affiliates	Form 1A, Line (11a)	10.0%
Domestic affiliates	Form 1A, Line (11b)	0.0%
Pools & associations	Form 1A, Line (11c)	10.0%
All other insurers	Form 1A, Line (11d)	9.4%
Less: letters of credit	See (d) below	9.0%
Less: funds held by company	Form 1A, Line (34c)	9.7%
<i>All Other Receivables</i>		
Funds held by ceding reinsurers	Form 1A, Line (12c)	5.0%
Accrued investment income	Form 1A, Line (9)	2.5%
Investments in and advances to affiliates	Form 1A, Line (4c)	5.0%

<i>Reinsurance Recoverable</i>		
Foreign affiliates	Form 1A, Line (17b)(i)	10.0%
Domestic affiliates	Form 1A, Line (17b)(ii)	0.0%
Pools & associations	Form 1A, Line (17b)(iii)	10.0%
All other insurers	Form 1A, Line (17b)(iv)	9.4%

(a) All accounts and premiums receivable, reinsurance receivable, all other receivables, and reinsurance recoverables that are subject to capital charges within the credit risk charge shall be included;

(b) All accounts and premiums receivable, reinsurance receivables, all other receivables, and reinsurance recoverables shall be reported on a basis consistent with that used for purposes of statutory financial reporting;

(c) Collateralized balances are all collaterals issued in favor of the insurer relating to accounts and premiums receivable. Assets accounted in Line 34 of Form 1A shall not be included here; and

(d) Letters of credit are the amount of the letters of credit issued in favor of the insurer relating to reinsurance receivable. Assets accounted for in Line 14 of Form 1A shall not be included here.

(8) The catastrophe risk charge calculation shall be established in accordance with the following formula:

$$C_{cat} = NetPML - Netcatprem + CR_{PML}, \quad \text{where}$$

*NetPML* = net probable maximum loss as prescribed in Schedule V, and

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*Netcatprem* = average annual loss excluding property catastrophe as prescribed in Schedule V / {(estimated industry catastrophe loss ratio as prescribed in this Schedule) + property catastrophe premium as included in Schedule IV, Line (1)}, and

$CR_{PML}$  = {(gross probable maximum loss as prescribed in Schedule V – net probable maximum loss) \* (Credit risk charge, equal to 12.2%, associated with reinsurance recoveries of ceded catastrophe losses)}

(a) All reported net probable maximum loss, gross probable maximum loss, average annual loss excluding property catastrophe, property catastrophe premium as prescribed in Schedule V that are subject to capital charges within the catastrophe risk charge shall be included.

(9) The operational risk charge calculation shall be established in accordance with the following formula:

$$C_{op} = \rho * ACov, \text{ where}$$

$\rho$  = an amount between 1% and 10% as approved or prescribed by the Authority and

$ACov$  = BSCR After Covariance amount or an amount approved by the Authority.

**SCHEDULE II**

**Schedule of fixed income investments by rating categories**

[*blank*] name of Company

As at [*blank*] (day/month/year)

[All amounts are expressed in \_\_\_\_\_ (currency used)]

Schedule Line No.	QUOTED INVESTMENTS		UNQUOTED INVESTMENTS		TOTAL	
	Bonds and Debentures		Bonds and Debentures		[Form 1A Lines 2(b) & 3(b)]	
	[Form 1A Line 2(b)]		[Form 1A Line 3(b)]			
	20XX	20XX	20XX	20XX	20XX	20XX
1. Government	XXX	XXX	XXX	XXX	XXX	XXX
2. High Investment Grade (AAA & AA)	XXX	XXX	XXX	XXX	XXX	XXX
3. Medium Investment Grade (A)	XXX	XXX	XXX	XXX	XXX	XXX
4. Low Investment Grade (BBB)	XXX	XXX	XXX	XXX	XXX	XXX
5. Non Investment Grade	XXX	XXX	XXX	XXX	XXX	XXX
6. Mortgage-backed securities	XXX	XXX	XXX	XXX	XXX	XXX
7. Mutual Funds	XXX	XXX	XXX	XXX	XXX	XXX
8. Non Rated	XXX	XXX	XXX	XXX	XXX	XXX
	_____	_____	_____	_____	_____	_____
9. Total	XXX	XXX	XXX	XXX	XXX	XXX
	_____	_____	_____	_____	_____	_____

NSTRUCTIONS AFFECTING SCHEDULE II

- (a) Quoted and unquoted issues shall be combined;
- (b) All non-government bonds shall be segregated according to the latest available AM Best, S&P, Moody’s, or Fitch ratings of the issues with unrated bonds assigned to Non-Rated;
- (c) Where the ratings differ between agencies, insurers shall segregate according to the most conservative rating;
- (d) The “Government” line includes all mortgage-backed securities issued by US government agencies and/or US government-sponsored enterprises. These organizations include: Government National Mortgage Association (Ginnie Mae), the Federal National Mortgage Association (Fannie Mae), and the Federal Home Loan Mortgage Corporation (Freddie Mac), etc.
- (e) All other types of bonds and debentures not included in Lines 6 or 7 may be segregated in Lines 1 – 5 or 8 as appropriate;

Line Item		Description
1	Government	All quoted and unquoted bonds issued by any government authority (including non-US jurisdiction).
2	High Investment Grade (AAA & AA)	High Investment Grade (AAA & AA) — All quoted and unquoted non-government bonds rated AAA & AA by any of the rating agencies mentioned above or equivalent.
3	Medium Investment Grade (A)	All quoted and unquoted non-government bonds rated A by rating agencies mentioned above or equivalent.
4	Low Investment Grade (BBB)	All quoted and unquoted non-government bonds rated BBB by rating agencies mentioned above or equivalent.
5	Non Investment Grade	All quoted and unquoted non-government bonds rated as non-investment grade by rating agencies mentioned above or equivalent.
6	Mortgage-backed securities	All quoted and unquoted mortgage-backed securities.

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7	Mutual Funds	All quoted and unquoted mutual funds.
8	Unrated	All quoted and unquoted non-government bonds unrated by rating agencies mentioned above or equivalent.

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**SCHEDULE III**  
**SCHEDULE OF LOSS AND LOSS EXPENSE PROVISIONS BY LINE OF BUSINESS**

[All amounts expressed in ..... (currency used )]

<b>Schedule</b>	<b>Net Premium Written</b>		
	<b>Line No.</b>	<b>20XX</b>	<b>20XX</b>
1. Property Catastrophe		XXX	XXX
2. Property		XXX	XXX
3. Property Non-Proportional		XXX	XXX
4. Personal Accident		XXX	XXX
5. Personal Accident Non-Proportional		XXX	XXX
6. Aviation		XXX	XXX
7. Aviation Non-Proportional		XXX	XXX
8. Credit / Surety		XXX	XXX
9. Credit / Surety Non-Proportional		XXX	XXX
10. Energy Offshore / Marine		XXX	XXX
11. Energy Offshore / Marine Non-Proportional		XXX	XXX
12. US Casualty		XXX	XXX
13. US Casualty Non-Proportional		XXX	XXX
14. US Professional		XXX	XXX
15. US Professional Non-Proportional		XXX	XXX
16. US Specialty		XXX	XXX
17. US Specialty Non-Proportional		XXX	XXX
18. International Motor		XXX	XXX
19. International Motor Non-Proportional		XXX	XXX
20. International Casualty Non-Motor		XXX	XXX
21. International Casualty Non Motor Non-Proportional		XXX	XXX
22. Retro Property		XXX	XXX
23. Structured / Finite Reinsurance		<u>XXX</u>	<u>XXX</u>
24. Total [Form 1A Line 17 (d)]		<u>XXX</u>	<u>XXX</u>

**INSTRUCTIONS AFFECTING SCHEDULE III**

**The statutory lines of business shall be defined as follows:**

- (a) The same definition shall be used for both proportional and non-proportional statutory lines of business below. However, as the BSCR risk factor charges differ, insurers shall make a distinction when completing the statutory filing and using the BSCR model;
- (b) Statutory lines of business shall be mutually exclusive (e.g. ‘Retro casualty’ is only to be placed into ‘Retro property’ as prescribed, and not any of the other “casualty” related statutory lines, etc.);
- (c) Insurers may in good faith determine the allocation of the statutory lines;
- (d) Where an insurance contract involves multiple lines, the insurer shall assign to the various lines in accordance with the proportions written. Where an insurer is unable to make this determination, the business shall be allocated to the line with the highest proportion. Where the insurer is unable to make this determination then the business shall be assigned to the line with the highest capital risk charge;
- (e) Support and assumptions used by management shall be available for review by the Authority.

<b>Statutory Lines of Business (Proportional and Non-Proportional)</b>	<b>Line of Business Mappings &amp; Definitions</b>
<b>Property catastrophe</b>	<b>Property catastrophe</b> – coverage of damage arising from a peril that triggers an event(s) that causes \$25 million or more in direct insured industry losses to property (or a loss value in accordance with the coverage provider’s stated policies) and that may affect a significant number of policyholders and insurers – peril could be hurricane, earthquake, tsunami, tornado, etc.
<b>Property</b>	<p><b>US property</b> – coverage of US risks including buildings, structures, equipment, business interruption, contents and All Risk (not included in other categories) related losses.</p> <p><b>Crop / agriculture</b> – coverage of risks including on-shore/off-shore farms, livestock, agriculture and other food production related losses.</p> <p><b>International property</b> – coverage of non-US risks including buildings, structures, equipment, business interruption, contents and All Risk (not included in other categories) related losses.</p>
<b>Personal accident</b>	<b>Personal accident</b> – coverage of risks arising from an accident that causes loss of sight, loss of limb, other permanent disablement or death, including related medical expenses, etc.
<b>Aviation</b>	<b>Aviation</b> – coverage of risks arising from airport, fleet, or satellite property and

	operations related losses.
<b>Credit / surety</b>	<b>Credit / surety</b> – coverage of risks arising from various types of guarantees, commercial surety bonds, contractor bonds and various credit related losses.
<b>Energy offshore / marine</b>	<b>Energy offshore / marine</b> – coverage of risks arising from offshore exploration and production, refining, power generation and/or cargo, hull and other marine related losses.
<b>US casualty</b>	<p><b>US casualty motor</b> – coverage of US risks arising from injuries to persons or damage of the property of others and/or legal liability imposed upon the insured for motor related activities/actions, including auto liability.</p> <p><b>US casualty – general</b> – coverage of US risks arising from injuries to persons or damage of the property of others and/or legal liability imposed upon the insured for non-motor related activities including theft, fraud, negligence, etc., and workers compensation.</p> <p><b>Terrorism</b> – coverage of risks arising from acts of both certified and uncertified acts of terrorism (e.g. the calculated use or threat of violence against civilians to achieve an objective(s)) and related losses associated with act of terrorism.</p> <p><b>Other</b> – business that does not fit in any other category.</p>
<b>US professional</b>	<b>US casualty – professional</b> - coverage of US risks arising from injuries to persons and/or legal liability imposed upon the insured as a professional (e.g. Director of a Board, etc.) for negligent or fraudulent activities, etc.
<b>US specialty</b>	<b>US casualty – medical malpractice</b> - coverage of US risks arising from injuries to persons and/or legal liability imposed upon the insured as a medical professional for negligent (or other) medical related activities, etc.
<b>International motor</b>	<b>International casualty – motor</b> - coverage of non-US risks arising from injuries to persons or damage of the property of others and/or legal liability imposed upon the insured for motor related activities/actions, including auto liability.
<b>International non-motor</b>	<b>International casualty – non-motor</b> - coverage of non-US risks arising from injuries to persons or damage of the property of others and/or legal liability imposed upon the insured for non-motor related activities/actions, including professional, medical, and workers compensation.

<p><b>Retro property</b></p>	<p><b>Retro property</b> – retrocession cover for risks including buildings, structures, equipment, business interruption, contents and All Risk (not included in other categories) related losses. <b>Retro casualty</b> – retrocession cover for risks arising from injuries to persons or damage of the property of others and/or legal liability imposed upon the insured for motor and non-motor related activities including theft, fraud, negligence, etc.</p>
<p><b>Structured / finite reinsurance</b></p>	<p><b>Structured / finite reinsurance</b> – limited risk transfer contract comprising reinsurance cover where there is not both significant relative timing AND significant relative underwriting risk transfer – there may be either significant timing OR significant underwriting risk transfer – OR a significant relative economic loss may be possible but not probable (extremely remote) - not including certain catastrophe covers, like earthquake, where the probability of loss event is also remote.</p>

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**SCHEDULE IV**

**SCHEDULE OF PREMIUM WRITTEN BY LINE OF BUSINESS**

[All amounts expressed in ..... (currency used)]

Schedule Line No.	Gross Premium Written						Net Premium Written	
	Unrelated		Related		Total [Form 2A, Line (1) (c)]		[Form 2A, Line (3)]	
	20XX	20XX	20XX	20XX	20XX	20XX	20XX	20XX
1. Property Catastrophe	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
2. Property	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
3. Property Non-Proportional	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
4. Personal Accident	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
5. Personal Accident Non-Proportional	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
6. Aviation	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
7. Aviation Non-Proportional	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
8. Credit / Surety	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
9. Credit / Surety Non-Proportional	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
10. Energy Offshore / Marine	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
11. Energy Offshore / Marine Non-Proportional	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
12. US Casualty	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
13. US Casualty Non-Proportional	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
14. US Professional	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
15. US Professional Non-Proportional	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
16. US Specialty	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
17. US Specialty Non-Proportional	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
18. International Motor	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX

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19. International Motor Non-Proportional	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
20. International Casualty Non-Motor	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
21. International Casualty Non Motor Non-Proportional	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
22. Retro Property	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
23. Structured / Finite Reinsurance	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
	_____	_____	_____	_____	_____	_____	_____	_____
24. Total	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
	_____	_____	_____	_____	_____	_____	_____	_____

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**INSTRUCTIONS AFFECTING SCHEDULE IV**

- (a) The statutory lines of business are defined under 'Instructions Affecting Schedule III' above;
- (b) Related, in relation to the insurer, means a body forming part of a group<sup>1</sup> with that insurer;
- (c) Unrelated, in relation to the insurer, means any party that does not meet the definition in (b);
- (d) Gross premium written and net premium written are defined in The Accounts Regulations 1980;

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<sup>1</sup> Group means any two or more bodies, whether corporate or unincorporated, that are in association, and two bodies are deemed to be in association if one of them has control of the other or both are under the control of the same person or persons.

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**SCHEDULE V**  
**SCHEDULE OF RISK MANAGEMENT**

1. The schedule of risk management shall disclose the Class 4 general business insurer's risk management program as follows:

- (a) The asset duration
- (b) The liability duration
- (c) The gross probable maximum loss
- (d) The net probable maximum loss
- (e) The average annual loss excluding property catastrophe
- (f) The catastrophe exposure limits and gross probable maximum loss and net probable maximum loss by territories and by statutory lines of business separated by insurance and reinsurance
- (g) The projected net premiums written, underwriting profit / loss, and net income / loss
- (h) The actual attritional losses plus large claims losses – relevant year
- (i) The financial impact and description of stress and scenarios
- (j) The description of the insurer's risk management program

2. For the purposes of the disclosure in this schedule the expression –

'The asset duration' means the duration calculation based upon the bonds and debentures (Form 1A, Lines (2a)(ii) and (3a)(ii)), preferred stocks (Form 1A, Lines (2c)(ii) and (3c)(ii)), and mortgage loans portfolios (Form 1A, Line (5c)).

'The liability duration' means the duration calculation based upon the reserves (Form 1A, Lines 17 & 18)

'The gross probable maximum loss' means the gross probable maximum loss for natural catastrophe losses (prior to reinsurance) at the 99.0% Tail Value-at-Risk level for annual aggregate exposure to all risks and all perils, including reinstatement premiums for the year following the relevant year based upon the insurer's catastrophe model.

'The net probable maximum loss' means the net probable maximum loss for natural catastrophe losses (after reinsurance) at the 99.0% Tail Value-at-Risk level for annual aggregate exposure to all risks and all perils, including reinstatement premiums for the year following the relevant year based on the insurer's catastrophe model.

'The average annual loss excluding property catastrophe' means the expected net natural catastrophe loss (after reinsurance), including reinstatement premiums, for annual aggregate exposure to all risks and perils other than those relating to the property catastrophe line of business for the year following the relevant year based on the insurer's catastrophe model. The calculation should be from the same underlying loss distribution used to determine the gross probable maximum loss and the net probable maximum loss (excluding the property catastrophe component).

'The catastrophe exposure limits and gross probable maximum loss and net probable maximum loss by territories and by statutory lines of business' means the gross and net probable maximum losses defined above and exposure limits allocated based on the exposure territories as defined in 3. below or other such territories as the Authority shall approve and based on the statutory lines of business as described in guidance under the Instructions Affecting Schedule III separated into insurance and reinsurance related, respectively. Catastrophe exposure limits are to be the limits underlying the exposures that used to derive the gross and net probable maximum loss above

'The projected net premiums written, underwriting profit / loss, and net income / loss' means the insurer's latest estimate of annual net premiums written, underwriting profit /

loss, and net income / loss for the year following the relevant year either on an individual basis or on a group basis with disclosure of estimated percentage of the insurer relative to the group.

The actual attritional losses plus large claims losses – relevant year’ means the actual aggregate losses experienced by the insurer in the relevant year less than \$25,000,000 per occurrence.

The financial impact and description of stress and scenarios’ means the submission of the stress and scenarios prescribed by the Authority annually.

The description of the insurer’s risk management program’ means the annual submission of the description of the insurer’s risk management program. This shall include discussion of: 1) the processes and procedures in place to monitor exposures and aggregates and 2) risk mitigation controls established in the event that probabilistic expectations are exceeded.

3. The exposure territories shall be defined as follows:

<b>Zone</b>	<b>Territories</b>
1	Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New York, New Jersey, Pennsylvania, Rhode Island, Vermont, Virginia, West Virginia, the District of Columbia, Alabama, Arkansas, Louisiana, Mississippi, Texas, Florida, Georgia, North Carolina, and South Carolina
2	Caribbean
3	Arizona, Colorado, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Michigan, Montana, Minnesota, Missouri, Nebraska, Nevada, New Mexico, North Dakota, Ohio, Oklahoma, South Dakota, Tennessee, Utah, Wisconsin, and Wyoming
4	California
5	Oregon, Washington
6	Hawaii
7	Canada, Alaska
8	United Kingdom, Continental Europe
9	Australia / New Zealand
10	Japan
11	Nationwide covers
12	Worldwide covers
13	All exposures not included in Zones 1 through 13

**SCHEDULE VI**

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**Schedule of fixed income securities**

The schedule of fixed income securities shall represent the amounts stated in the Form 1A - Statutory Balance Sheet (general business – Class 4) Lines 2(b) and 3(b) and shall include the following information according to security type –

- (a) security type;
- (b) amount contributing to (reflected in) the Statutory Balance Sheet balance on Lines 2(b) or 3(b);
- (c) face value;
- (d) fair value;
- (e) average effective yield to maturity;
- (f) average rating of the security type (if applicable);
- (g) average duration and convexity; and
- (h) effective duration and the convexity of the portfolio.

**MADE this**

**day of**

**2008**

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