
THE INSURANCE ACT 1978

1978 : 39

**INSURANCE (PRUDENTIAL STANDARDS) (CLASS 4 SOLVENCY
REQUIREMENT) ORDER 2008**

In exercise of the powers conferred upon the Bermuda Monetary 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 31st day of December 2008.

Interpretation

2. In this Order—

“Act” means the Insurance Act 1978;

“approved internal capital model” means a model approved under paragraph 5;

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

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

“business continuity risk” includes a risk of an event that threatens or disrupts an insurer’s continuous operations;

“business processes risk” includes a risk of errors arising from data entry, data processing, or application design;

“compliance risk” includes a risk of legal or regulatory breaches or both;

“distribution channel risk” includes a risk of disruption to an insurer’s distribution channel arising from employment of inexperienced or incapable brokers or agents;

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

“Form 1A” means the Form 1A established in the Insurance Accounts Regulations 1980;

“fraud risk” includes a risk of misappropriation of assets, information theft, forgery or fraudulent claims;

“human resources (‘HR’) risk” includes a risk of employment of unethical staff, inexperienced or incapable staff, failure to train or retain experienced staff, and failure to adequately communicate with staff;

“information technology (‘IT’) risk” includes a risk of unauthorized access to systems and data, data loss, utility disruptions, software and hardware failures, and inability to access information systems;

“outsourcing risk” includes a risk of mis-communication of responsibilities in relation to outsourcing, breach of outsource service agreements or entering into inappropriate outsource service agreements;

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

“Tail Value-at-Risk” means the conditional average potential given that the loss outcome exceeds a given threshold.

[Paragraph 2 amended by BR:79 effective 31 December 2009]

ECR

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

- (a) the BSCR model; or
- (b) an approved internal capital model,

provided that the 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).

(2) 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.

(3) 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.

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–

- (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 capital model; or
- (b) its decision to not approve its internal capital model and the reason for its decision.

(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 capital model.

(6) The Authority may revoke the approval given under subparagraph (2) if satisfied that the insurer has breached a condition of the approval.

(7) The Authority shall serve notice to the insurer of its proposal to revoke its approval of the insurer’s internal capital model and the reasons for its proposal.

(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) Schedules II, III, IV, V, and VI have effect.
- (2) Every Class 4 insurer shall make a capital and solvency return to the Authority in accordance with Schedules I, II, III, IV, V and VI;
- (2A) A capital and solvency return shall comprise the following –
- (a) both an electronic version and a printed version of the BSCR model;
 - (b) printed versions of the returns prescribed in Schedules II, III, IV, V and VI; and
 - (c) where applicable, a printed copy of an approved internal capital model.
- (3) An insurer shall, on or before its filing date, furnish the Authority with its capital and solvency return.
- (4) An insurer shall keep a copy of its capital and solvency return at its principal office for a period of five years beginning with its filing date, and shall produce it to the Authority if so directed by it on or before a date specified in the direction.
- (5) In this paragraph, “filing date” has the meaning given in section 17(4) of the Act.

[Paragraph 6 amended by BR:79 effective 31 December 2009]

Declaration of capital and solvency returns

6A Every capital and solvency return made by an insurer under paragraph 6 shall be accompanied with a declaration signed by two directors of the insurer and by the insurer’s principal representative declaring that to the best of their knowledge and belief, the return fairly represents the financial condition of the insurer in all material respects.

Offences

6B Every person who knowingly or recklessly makes a false or misleading statement or return to the Authority shall be guilty of a summary offence and liable on conviction to a fine up to \$50,000.

[Paragraphs 6A and 6B added by BR:79 effective 31 December 2009]

SCHEDULE I**(Paragraph 4)****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 investment risk charge as calculated in accordance with paragraph 2;

C_{eq} = equity investment risk charge as calculated in accordance with paragraph 3;

C_{int} = interest rate / liquidity risk charge as calculated in accordance with paragraph 4;

C_{prem} = premium risk charge as calculated in accordance with paragraph 5;

C_{rsvs} = reserve risk charge as calculated in accordance with paragraph 6;

C_{cred} = credit risk charge as calculated in accordance with paragraph 7;

C_{cat} = catastrophe risk charge as calculated in accordance with paragraph 8; and

C_{op} = operational risk charge as calculated in accordance with paragraph 9.

2. The fixed income investment risk charge calculation shall be determined in accordance with the following formula-

$$C_{fi} = \sum_i \chi_i \times FIastclass_i, \text{ where-}$$

χ_i = the capital charge factors prescribed in Table 1 for each type of $FIastclass_i$; and

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

Table 1 – Capital charge factors for $FIastclass_i$

Type of fixed income investments <i>FIastclass_i</i>	Statement Source	Capital Factor χ_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 deposits	Form 1A, Line (1)	0.3%
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- (a) all assets comprising bonds and debentures, loans, and other miscellaneous investments that are subject to capital charges within the fixed income investment risk charge shall be included;
- (b) all non-affiliated quoted and unquoted bonds and debentures shall be included in the fixed income investment charge; and
- (c) 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-

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

χ_i = the capital charge factors prescribed in Table 2 for each type of $Eqastclass_i$; and

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

Table 2 – Capital charge factors for $Eqastclass_i$

Type of equity investments	Statement Source	Capital Factor
$Eqastclass_i$		χ_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) preferred stocks	Form 1A, Line (2c)(ii)	14.4%
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 non-affiliated quoted and unquoted common and preferred stocks shall be included in the equity investment risk charge; 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 = quoted and unquoted value of other bonds and debentures, preferred stocks, or mortgage loans; and

duration = the higher of

- (a) 1; or
- (b) the insurer's effective asset duration less the insurer's effective liability duration; or
- (c) the insurer's effective liability duration less the insurer's effective asset duration;

marketdecline = assumed interest rate adjustment prescribed in Table 3.

Table 3 – Interest rate adjustment for *bonds*

Type of investments	Statement Source	Estimated duration	120 basis point interest rate increase
<i>bonds</i>		<i>duration</i>	<i>marketdecline</i>
Other 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%

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- (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 in the interest rate/liquidity risk charge; 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-

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

where-

α_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 Table 4;

$avgpremcap$ = 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 by the Authority;

μ = additional concentration adjustment factor taking into consideration an insurer's diversified lines of business equal to 40%; and

\mathcal{G} = minimum concentration adjustment factor is equal to 60%.

Table 4 – Capital charge factors for $lineprem_i$

Line of business	Statement Source	Capital Factor
$lineprem_i$		α_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 /	Schedule IV, Line	47.0%

marine non-proportional	(11)	
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%
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)	27.2%

(a) all reported net premiums written 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 premiums written 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-

β_i = individual $lineRSVS_i$ risk capital charge factor as prescribed in Table 5;

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

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

μ = additional concentration adjustment factor taking into consideration an insurer's diversified lines of business equal to 40%; and

\mathcal{G} = minimum concentration adjustment factor is equal to 60%.

Table 5 – Capital charge factors for $lineRSVS_i$

Line of business	Statement Source	Capital Factor
$lineRSVS_i$		β_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	46.5%

	(16)	
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 non-motor	Schedule III, Line (20)	43.7%
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)	24.1%

- (a) all reported net 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; and
- (b) all reported net 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-

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

δ_i = the credit risk capital charge factor for type of *creditor_i* as prescribed in Table 6; and

creditor_i = receivable amount from creditor *i*.

Table 6 – Capital charge factors for *creditor_i*

Type of creditor <i>creditor_i</i>	Statement Source	Capital Factor δ_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 Balances Receivable</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 Balance</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 balances receivable, all other receivables, and reinsurance recoverable balances that are subject to capital charges within the credit risk charge shall be included;
- (b) all accounts and premiums receivable, reinsurance balances receivables, all other receivables, and reinsurance recoverable balances shall be reported on a basis consistent with that used for purposes of statutory financial reporting;

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- (c) collateralized balances are all collaterals issued in favour of the insurer relating to accounts and premiums receivable;
 - (d) assets accounted in Form 1A, Line 34 shall not be included in (c);
 - (e) letters of credit are the amount of the letters of credit issued in favour of the insurer relating to reinsurance receivable; and
 - (f) assets accounted for in Form 1A, Line 14 shall not be included in (e).

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;

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) x (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:

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

ρ = an amount between 1% and 10% as determined by the Authority in accordance with Table 7; and

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

“Table 7

Operational Risk Charge for ρ

Overall Score	Applicable Operational Risk Charge ρ
<=5200	10%
>5200 <=6000	9%
>6000 <=6650	8%
>6650 <=7250	7%
>7250 <=7650	6%
>7650 <=7850	5%
>7850 <=8050	4%
>8050 <=8250	3%
>8250 <=8450	2%
>8450	1%

INSTRUCTIONS AFFECTING TABLE 7

In this table, “overall score” means an amount equal to the sum of the aggregate score derived from each of tables 7A, 7B, 7C, 7D, 7E, and 7F.

Table 7A

Corporate Governance Score Table

Criterion	Implemented	Score
Board sets risk policies, practices and tolerance limits for all material foreseeable operational risks at least		200

annually and ensures they are communicated to relevant business units		
Board monitors adherence to operational risk tolerance limits more regularly than annually		200
Board receives, at least annually, reports on the effectiveness of material operational risk internal controls as well as management's plans to address related weaknesses		200
Board ensures that systems or procedures, or both, are in place to identify, report and promptly address internal control deficiencies related to operational risks		200
Board promotes full, open and timely disclosure from senior management on all significant issues related to operational risk		200
Board ensures that periodic independent reviews of the risk management function are performed and receives the findings of the review		200
Total		XX

COMMENTS

INSTRUCTIONS AFFECTING TABLE 7A

The total score is derived by adding the score for each criterion of an insurer's corporate governance structure that the insurer has implemented.

Table 7B
Risk Management Function ('RMF') Score Table

Criterion	Implemented	Score
RMF is independent of other operational units and has direct access to the Board of Directors		150
RMF is entrenched in strategic planning, decision making and the budgeting process		150
RMF ensures that the risk management procedures and policies are well documented and approved by the Board of Directors		150
RMF ensures that the risk management policies and procedures are communicated throughout the organization		150
RMF ensures that operational risk management processes and procedures are reviewed at least annually		150
RMF ensures that loss events arising from operational risks are documented and loss event data is integrated into the risk management strategy		150
RMF ensures that risk management recommendations are documented for operational units, ensures that deficiencies have remedial plans and that progress on the execution of such plans are reported to the Board of Directors at least annually		150
TOTAL		XX

COMMENTS

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INSTRUCTIONS AFFECTING TABLE 7B

The total score is derived by adding the score for each criterion of an insurer's risk management function that the insurer has implemented.

Table 7C
Risk Identification Processes ('RIP') Score Table

Progression		Criterion	Operational Risk Areas							
Stage	Scoring		Fraud	HR	Outsourcing	Distribution Channel	Business Processes	Business Continuity	IT	Compliance
1	50	RIP are ad hoc								
2	100	RIP have been implemented but not standardized across the organization								
3	150	RIP have been implemented, well documented and understood by relevant staff, and standardized across the entire organization								
4	200	In addition to Stage 3, RIP are reviewed at least annually with a view to assessing effectiveness and introducing								

		improvements								
TOTAL			XX	XX	XX	XX	XX	XX	XX	XX

COMMENTS

INSTRUCTIONS AFFECTING TABLE 7C

- (a) the total score is derived by adding the individual score for each operational risk area corresponding to the stage of the insurer's implementation in respect of its RIP;
- (b) where the insurer's assessment of the operational risk area is between stages (i.e. exceeds the criterion for given stage, while only partially meeting the criterion of the next stage), the insurer shall be deemed to have met the criterion of the lower stage; and
- (c) where an operational risk area is not applicable to the insurer's operations, the insurer shall record such fact and the reasons for arriving at this conclusion in the comments section and be deemed to have met the criterion of the highest stage.

Table 7D
Risk Measurement Processes ('RMP') Score Table

Progression		Criterion	Operational Risk Areas							
Stage	Scoring		Fraud	HR	Outsourcing	Distribution Channel	Business Processes	Business Continuity	IT	Compliance
1	50	RMP are ad hoc								
2	100	RMP have been implemented but not standardized across the organization								
3	150	RMP have been implemented, well documented and understood by relevant staff, and standardized across the entire organization								
4	200	In addition to Stage 3, RMP are reviewed at least annually with a view to assessing effectiveness and introducing improvements								

TOTAL			XX	XX	XX	XX	XX	XX	XX	XX
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COMMENTS

INSTRUCTIONS AFFECTING TABLE 7D

- (a) the total score is derived by adding the individual score for each operational risk area corresponding to the stage of the insurer's implementation in respect of its RMP;
- (b) where the insurer's assessment of the operational risk area is between stages (i.e. exceeds the criterion for given stage, while only partially meeting the criterion of the next stage), the insurer shall be deemed to have met the criterion of the lower stage; and
- (c) where an operational risk area is not applicable to the insurer's operations, the insurer shall record such fact and the reasons for arriving at this conclusion in the comments section and be deemed to have met the criterion of the highest stage.

Table 7E
Risk Response Processes ('RRP') Score Table

Progression		Criterion	Operational Risk Areas							
Stage	Scoring		Fraud	HR	Outsourcing	Distribution Channel	Business Processes	Business Continuity	IT	Compliance
1	50	RRP are ad hoc								
2	100	RRP have been implemented but not standardized across the organization								
3	150	RRP have been implemented, well documented and understood by relevant staff, and standardized across the entire organization								
4	200	In addition to Stage 3, RRP are reviewed at least annually with a view to assessing								

		effectiveness and introducing improvements								
TOTAL			XX	XX	XX	XX	XX	XX	XX	XX

COMMENTS

INSTRUCTIONS AFFECTING TABLE 7E

- (a) the total score is derived by adding the individual score for each operational risk area corresponding to the stage of the insurer's implementation in respect of its RRP;
- (b) where the insurer's assessment of the operational risk area is between stages (i.e. exceeds the criterion for given stage, while only partially meeting the criterion of the next stage), the insurer shall be deemed to have met the criterion of the lower stage; and
- (c) where an operational risk area is not applicable to the insurer's operations, the insurer shall record such fact and the reasons for arriving at this conclusion in the comments section and be deemed to have met the criterion of the highest stage.

Table 7F
Risk Monitoring and Reporting Processes ('RMRP') Score Table

Progression		Criterion	Operational Risk Areas							
Stage	Scoring		Fraud	HR	Outsourcing	Distribution Channel	Business Processes	Business Continuity	IT	Compliance
1	50	RMRP are ad hoc								
2	100	RMRP have been implemented but not standardized across the organization								
3	150	RMRP have been implemented, well documented and understood by relevant staff, and standardized across the entire organization								
4	200	In addition to Stage 3, RMRP are reviewed at least annually with a view to assessing effectiveness and introducing improvements								

TOTAL			XX	XX	XX	XX	XX	XX	XX	XX
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COMMENTS

INSTRUCTIONS AFFECTING TABLE 7F

- (a) the total score is derived by adding the individual score for each operational risk area corresponding to the stage of the insurer's implementation in respect of its RMRP;
- (b) where the insurer's assessment of the operational risk area is between stages (i.e. exceeds the criterion for given stage, while only partially meeting the criterion of the next stage), the insurer shall be deemed to have met the criterion of the lower stage; and
- (c) where an operational risk area is not applicable to the insurer's operations, the insurer shall record such fact and the reasons for arriving at this conclusion in the comments section and be deemed to have met the criterion of the highest stage.

[Schedule I amended by BR:79 effective 31 December 2009]

SCHEDULE II

(Paragraph 6)

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 2(b)]	[Form 1A Line 3(b)]	[Form 1A Line 3(b)]	[Form 1A Lines 2(b) & 3(b)]	[Form 1A Lines 2(b) & 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
	_____	_____	_____	_____	_____	_____

INSTRUCTIONS 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 bonds and mortgage-backed securities issued by any government authority (including non-US jurisdictions, government agencies, and government-sponsored enterprises); and
- (e) all other types of bonds and debentures not included in Lines 6 or 7 may be segregated in Lines 1 to 5 or 8 as appropriate.

Line Item		Description
1	Government	All quoted and unquoted bonds and mortgage-backed securities 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.

Line Item		Description
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 not issued by any government authority.
7	Mutual Funds	All quoted and unquoted mutual funds.
8	Non-Rated	All quoted and unquoted non-government bonds non-rated by rating agencies mentioned above or equivalent.

SCHEDULE III**(Paragraph 6)****SCHEDULE OF NET LOSS AND LOSS EXPENSE PROVISIONS BY LINE OF BUSINESS**

[All amounts expressed in (currency used)]

Schedule Line No.	General Business Reserves	
	20XX	20XX
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;
- (b) where the BSCR risk factor charges differ in (a), insurers shall make a distinction when completing the statutory filing and using the BSCR model;
- (c) 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.);
- (d) insurers may in good faith determine the allocation of the statutory lines;
- (e) where an insurance contract involves multiple lines, the insurer shall assign to the various lines in accordance with the proportions written;
- (f) where an insurer is unable to make this determination in (e), the business shall be allocated to the line with the highest proportion;
- (g) where the insurer is unable to make the determination in (f), then the business shall be assigned to the line with the highest capital risk charge; and
- (h) support and assumptions used by management shall be available for review by the Authority.

Statutory Lines of Business (Proportional and Non-Proportional)	Line of Business Mappings & Definitions
Property catastrophe	Property catastrophe – coverage of damage arising from a peril that triggers an event (or events) 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, and tornado.
Property	<p>US property – coverage of US risks including buildings, structures, equipment, business interruption, contents and All Risk (not included in other categories) related losses.</p> <p>Crop / agriculture – coverage of risks including on-shore/off-shore farms, livestock, agriculture and other food production related losses.</p> <p>International property – coverage of non-US risks including buildings, structures, equipment, business interruption, contents and All Risk (not included in other categories) related losses.</p>
Personal accident	Personal accident – 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.
Aviation	Aviation – coverage of risks arising from airport, fleet, or satellite property and operations related losses.
Credit / surety	Credit / surety – coverage of risks arising from various types of guarantees, commercial surety bonds, contractor bonds and various credit related losses.
Energy offshore / marine	Energy offshore / marine – coverage of risks arising from offshore exploration and production, refining, power generation and/or cargo, hull and other marine related losses.
US casualty	<p>US casualty motor – 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>US casualty – general – 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, and workers’ compensation.</p> <p>Terrorism – 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>Other – business that does not fit in any other category.</p>
US professional	US casualty – professional - 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.
US specialty	US casualty – medical malpractice - 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.
International motor	International casualty – motor - 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.
International non-motor	International casualty – non-motor - 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.
Retro property	Retro property – retrocession cover for risks including buildings, structures, equipment, business interruption, contents and All Risk (not included in other categories) related losses. Retro casualty – 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, and negligence, etc.
Structured / finite reinsurance	Structured / finite reinsurance – 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 a loss event is also remote.

SCHEDULE IV

(Paragraph 6)

SCHEDULE OF PREMIUMS WRITTEN BY LINE OF BUSINESS

[All amounts expressed in (currency used)]

Schedule Line No.	Gross Premiums Written				Net Premiums Written			
	Unrelated		Related		Total		[Form 2A, Line (3)]	
	20XX	20XX	20XX	20XX	[Form 2A, Line (1) (c)]		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

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
	_____	_____	_____	_____	_____	_____	_____	_____

INSTRUCTIONS AFFECTING SCHEDULE IV

- (a) “gross premiums written” and “net premiums written” are defined in The Insurance Accounts Regulations 1980;
- (b) “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;
- (c) “related”, in relation to the insurer, means a body forming part of a group with that insurer;
and
- (d) “unrelated”, in relation to the insurer, means any party that is not related.

SCHEDULE V

(Paragraph 6)

SCHEDULE OF RISK MANAGEMENT

The schedule of risk management of a Class 4 general business insurer shall provide particulars of the following matters-

- (a) governance structure;
- (b) intra-group exposures;
- (c) effective duration of assets calculation;
- (d) effective duration of liabilities calculation;
- (e) description of the effective duration of assets and liabilities calculations and key assumptions;
- (f) investment policy;
- (g) gross probable maximum loss;
- (h) net probable maximum loss;
- (i) average annual loss excluding property catastrophe;
- (j) catastrophe exposure limits, gross probable maximum loss and net probable maximum loss by territories and by statutory lines of business separated by insurance and reinsurance;
- (k) projected net premiums written, underwriting profit or loss, and net income or loss;
- (l) actual attritional losses and large claims losses in the relevant year;
- (m) financial impact and description of stress and scenario tests; and
- (n) description of the insurer's risk management program.

INSTRUCTIONS AFFECTING SCHEDULE V

- (a) the governance structure must disclose—
 - (i) the structure of the board of directors and executive management, including roles and work experience of officers; and
 - (ii) terms of reference of the board of directors and its sub-committees.
- (b) the intra-group exposures must disclose material transactions between the insurer and other members of the group to which it belongs.
- (c) the effective duration of assets calculation must be determined using the aggregate of 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)) as a basis.
- (d) the effective duration of liabilities calculation must be determined using the reserves (Form 1A, Lines 17 and 18) as a basis;
- (e) a description of the process used for determining the effective duration of assets calculation and effective duration of liabilities calculation, and key assumptions for these calculations;
- (f) the investment policy must disclose a description of the insurer's investment strategy governing investment selection and composition of the insurer's investment portfolio;
- (g) the gross probable maximum loss for natural catastrophe losses (prior to reinsurance) must be calculated 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;
- (h) the net probable maximum loss for natural catastrophe losses (after reinsurance) must be calculated 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;
- (i) the average annual loss excluding property catastrophe must be calculated as follows-
 - (i) the expected net natural catastrophe loss (after reinsurance), including reinstatement premiums, for annual aggregate exposure to all risks and all perils other than those relating to the property catastrophe statutory line of business (as described under the Instructions Affecting Schedule III) for the year following the relevant year based on the insurer's catastrophe model; and
 - (ii) 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);
 - (j) the catastrophe exposure limits, gross probable maximum loss and net probable maximum loss by territories and by statutory lines of business separated by insurance and reinsurance shall disclose-
 - (i) the catastrophe exposure limits, gross probable maximum loss and net probable maximum loss shall be separately disclosed in accordance with the exposure territories as defined in paragraph (o) below or other such territories as the Authority shall approve and based on the statutory lines of business (as described under the Instructions Affecting Schedule III) separated into insurance and reinsurance related, respectively; and
 - (ii) catastrophe exposure limits must disclose the limits underlying the exposures used to derive the gross probable maximum loss and net probable maximum loss calculations above;
 - (k) the projected net premiums written, underwriting profit or loss, and net income or loss shall disclose the insurer's latest estimate of annual net premiums written, underwriting profit or loss, and net income or loss for the year following the relevant year either for the insurer or on a group basis with disclosure of the estimated percentage of the insurer's contribution relative to the group;
 - (l) the actual attritional losses and large claims losses in the relevant year shall disclose the actual aggregate losses (classified by the insurer as attritional and large claims losses in accordance with its own policy) experienced by the insurer in the relevant year (not including prior year reserve releases or adverse development);
 - (m) the financial impact and description of stress and scenario tests shall disclose the results from the stress and scenario tests prescribed by the Authority annually and published in such manner as the Authority directs;
 - (n) the description of the insurer's risk management program shall disclose-
 - (i) a description of the risk management process, including how the risk management program is used for strategic management decision-making, capital allocation and capital adequacy;
 - (ii) a description of the governance surrounding the risk management process including the identification of the owners of the process and the extent of the board of directors' involvement;
 - (iii) a description of the risk appetite including the process for setting and embedding risk limits, and the identification of the types of stress testing carried out to ascertain the suitability of the risk appetite; and
 - (iv) a description of the process undertaken to monitor material risk concentration;
 - (o) Exposure territories -

Zone	Territories
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 to 12

[Schedule V amended by BR:79 effective 31 December 2009]

SCHEDULE VI

(Paragraph 6)

Schedule of fixed income securities

The schedule of fixed income securities shall-

(a) represent the amounts stated in the Form 1A - Statutory Balance Sheet (general business - Class 4) Lines 2(b) and 3(b);

(b) include the following information according to security type-

- (i) security type;
- (ii) amount contributing to (reflected in) the Statutory Balance Sheet balance on Lines 2(b) or 3(b);
- (iii) face value;
- (iv) fair value;
- (v) average effective yield to maturity;
- (vi) average rating of the security type (if applicable);
- (vii) average duration and convexity; and

(c) include the effective duration and the convexity of the portfolio.

[Amended by

BR 79/2009]