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**June 23, 2011**

**BR / 2011**

**Insurance (Prudential Standards)(Class 4 and 3B Solvency Requirement)  
Amendment Rule 2011**

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

**Citation and commencement**

1 These Rules which amend the Insurance (Prudential Standards) (Class 4 and Class 3B Solvency Requirement) Rules 2008 (the “principal Rule”) may be cited as the Insurance (Prudential Standards) (Class 4 and Class 3B Solvency Requirement) Amendment Rules 2011, and shall come into operation on the 31st day of December 2011.

**Interpretation**

2 Paragraph 2 of the principal Rule is amended by inserting the following definition in its alphabetical order—

“material intra-group transaction” means an intra-group transaction whose impact can cause a reduction in the insurer’s available capital and surplus by 5% or more; or series of linked intra-group transactions which can cumulatively reduce an insurer’s available capital and surplus by 10% or more; or qualitative risk characteristics of the transaction

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are assessed as high risk including liquidity and solvency risk implications that can harm existing policyholders even though the quantitative impact remains unknown.

“underwriting risk” may include all or any of “premium risk”, “reserve risk” and “catastrophe risk” .

**Paragraph 5 of principal Rule amended**

3 Paragraph 5 of the principal Rule is amended in subparagraph (6) by inserting after “approval”; and before the “.” “or where the approved internal capital model is deemed by the Authority no longer appropriate for the determination of the ECR”.

**Paragraph 6AB Quarterly financial return**

**4** The Principal Rules shall be amended by inserting after paragraph 6A—  
“6AB **Quarterly financial return**

- (1) Every insurer, where the insurer is a member of the group for which the Authority is not the group wide supervisor, shall prepare and file quarterly financial returns to the Authority on or before the last day of every third month beginning three months after its filing date.
- (2) An insurer’s quarterly financial return shall comprise the following –
  - (a) Quarterly unaudited financial statements in respect of its business for each financial quarter, such statements should be the most recent produced by the insurer, and must not exceed two months
  - (b) Intra-group transactions and risk concentrations which include –
    - (i) A list of material intra-group transactions
    - (ii) Details of material intra-group transactions including (where applicable):
      - (a) exposure value (face value or market value, if the latter is available);
      - (b) counterparties involved including where are they located;
      - (c) summary details of the transactions – including purpose, terms and transaction costs;
      - (d) duration of the transaction; and
      - (e) performance triggers.

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- (iii) Details surrounding all intra-group reinsurance and retrocession arrangements, and other material intra-group exposures including:
    - (a) aggregated values of the exposure limits (gross and net) by counterparties broken down by counterparty rating;
    - (b) aggregated premium flows between counterparties (gross and net); and
    - (c) the proportion of the group's insurance business exposure covered by internal reinsurance, retrocession and other risk transfer arrangements.
  - (iv) Ten largest exposures to counterparties and any other counterparty exposures exceeding 10% of the insurer's statutory capital and surplus, including:
    - (a) name of counterparty;
    - (b) exposure values (face value or market value); and
    - (c) transaction type.
- (3) Quarterly unaudited financial statements shall minimally include a balance sheet and income statement
- (4) The information required to be included in the quarterly unaudited financial statements shall be information calculated to fulfil (in addition to any other purposes for which this Rule may require) the following purposes –
- (a) To give as early warning as possible to any person examining the said statements (whether by way of notice of the observance or non-observance by the insurer of any ECR, or in any other way) of any financial or operational difficulties into which the insurer's business has fallen or might appear likely to fall; and
  - (b) To provide the basis on which the Authority or any other authority may in good time take action under the Act or any other statutory provision to exercise any statutory power available to it for the safeguarding of any element of the public interest involved in or affected by the insurer's business." .
- (5) In this paragraph, "filing date" has the meaning given in section 17 (4) of the Act.

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5 The Bermuda Solvency Capital Requirement of Schedule I of the principal Rule is amended in Table 3- Interest rate adjustment for *bonds* by—

- (a) deleting “120” and inserting “200” in the fourth column; and
- (b) deleting “1.2%” and inserting “2.0%” where it occurs.

**Schedule V amended**

6 (1) The Schedule of Risk Management of Schedule V of the principal Rule is amended by —

- (a) deleting “the risk register.” in paragraph (o) and inserting “Exposure territories;”; and
- (b) inserting after paragraph (o) the following paragraph:  
“*(p)* the risk register.” .

(2) Amending “**INSTRUCTIONS AFFECTING SCHEDULE V**” by—

- (a) inserting in subsection (a) (i) after “including” the word “names,” and deleting “and” after “officers;”;
- (b) in subsection (a) (ii) deleting the “.” after “sub-committees” and inserting “;”and;
- (c) inserting after “(a) (ii)—”
  - “(iii) Name of the jurisdiction(s) where the group’s board of directors primarily deliberates on matters including:
    - (a) setting strategic decision;
    - (b) determining the (re)insurer’s risk appetite;
    - (c) choice of corporate structure, including amalgamations, acquisitions and strategic alliances;
    - (d) choice of new lines of business, new products, marketplace positioning; and
    - (e) assessing solvency needs.
  - (iv) Name of the jurisdiction where the group’s board of directors and executive management primarily reside;
  - (v) Name of the jurisdiction where the group’s internal controls reside;

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- (vi) The group's financial position based on its most recent audited general purpose financial statement fiscal year-end regarding its:
- (a) Total assets;
  - (b) Total reserves; and
  - (c) Capital and surplus.
- (vii) Name of insurers within the group that have the three highest (a) total asset value (b) total insurance reserve value and (c) total capital and surplus based on the group's most recent audited general purpose financial statements; and provide the total values for items (a), (b) and (c); and confirm the jurisdiction of incorporation of each insurer.
- (viii) Have any events occurred or decisions made subsequent to the relevant year-end that would, or have, materially changed the information above (e.g., amalgamation or acquisition or restructuring, etc.). If yes, explain.
- (d) deleting in paragraph (b) the period after "belongs" and inserting a comma and the following subparagraphs;
- "
- (i) A list of material intra-group transactions;
  - (ii) Details of material intra-group transactions including (where applicable):
    - (a) exposure value (face value or market value, if the latter is available);
    - (b) counterparties involved including where are they located;
    - (c) summary details of the transactions – including purpose, terms and transaction costs;
    - (d) duration of the transaction; and
    - (e) performance triggers.
  - (iii) Details surrounding all intra-group reinsurance and retrocession arrangements, and other material intra-group exposures including:
    - (a) aggregated values of the exposure limits (gross and net) by counterparties broken down by counterparty rating;
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- (b) aggregated premium flows between counterparties (gross and net); and
  - (c) the proportion of the group's insurance business exposure covered by internal reinsurance, retrocession and other risk transfer arrangements.
- (iv) Ten largest exposures to counterparties and any other counterparty exposures exceeding 10% of the insurer's statutory capital and surplus, including:
- (a) name of counterparty;
  - (b) exposure values (face value or market value); and
  - (c) transaction type.
- (e) deleting in subsection (g) the semicolon after "model" and inserting "." and "The support documentation used to derive the gross probable maximum loss must be retained at the insurer's offices to be made available to the Authority upon request;";
- (f) deleting in subsection (h) the semicolon after "model" and inserting "." and "The support documentation used to derive the net probable maximum loss must be retained at the insurer's offices to be made available to the Authority upon request;"; and
- (g) in subsection (i) (i) deleting the "and" after ";" and inserting "and" after ";" in subsection (i) (ii) and re-listing the existing paragraph -
- "(iii) The support documentation must be retained at the insurer's offices to be made available to the Authority upon request;"

#### **Schedule VII amended**

7 The Schedule of Commercial Insurer's Solvency Self Assessment of Schedule VII of the principal Rule is amended by deleting in Table 8 under "**INSTRUCTIONS AFFECTING SCHEDULE VII**" "**Table 8 CISSA Capital Summary**" and substituting —

**"Table 8 CISSA Capital Summary**

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Risk categories	(a) CISSA capital	(b) Regulatory capital
Underwriting risk		
Market risk		
Credit risk		
Liquidity risk		
Operational risk		
Group, Concentration, Reputational and Strategic risk		
Other (specify)		
Total capital pre- diversification between risk categories		
Diversification credit between risk categories		
Total capital after diversification between risk categories		

Where:

(a) CISSA capital is the amount of capital the insurer has determined that it requires to achieve its strategic goals upon undertaking an assessment of all material (reasonably foreseeable) risks arising from its operations or operating environment; and

(b) Regulatory capital is determined by the BSCR or an approved internal capital model at 99.0% Tail Value-at-Risk ("TVaR") over a one year time horizon.

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ADDITIONAL INFORMATION

1. What is the primary reason(s) (select multiple responses where applicable) for aiming at the disclosed CISSA amount? (select all that apply)

- target agency rating (e.g. "A-", "AA", etc);
- market share;
- business expansion;
- nature of product(s) (e.g. risk characteristics); ◦ manage downgrade risk; and
- others. \_\_\_\_\_ (Please provide a description)

2. What methodology is used to aggregate the risk categories in deriving the CISSA capital?

3. What contingency plans are in place for raising additional capital under stress situations? (select all that apply)

- parental guarantees;
- revolving letters of credit;
- issue subordinated debt;
- issue preference shares;
- float additional shares;
- capital injections from parent;
  - contingent surplus notes;
- catastrophe derivatives (e.g. bonds, swaps and options); and
- Others

4. Does the insurer have arrangements / contractual commitments to provide support to affiliates/other companies in stressed situations? (Yes or No)

If yes, briefly describe the arrangement(s) and the aggregate exposure.

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5. Has the insurer down streamed debt to establish equity positions (participations) or, engaged in double or multiple gearing? (Yes or No)

If yes, provide details and amount of capital.

6. Has debt been down streamed to establish equity positions in the insurer, or is the insurer's capital that is double or multiple geared? (Yes or No)

If yes, provide details and amount of capital.

Made this          day of          , 2011.

Alan Cossar  
Chairman  
Bermuda Monetary Authority