

Explanatory Memorandum

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

The Insurance (Prudential Standards) (Class 4 and 3B Solvency Requirement) Rules 2008 prescribe the method for determining the Bermuda Solvency Capital Requirement (BSCR) for all Class 4 and 3B registered insurers and related solvency reporting pertaining to risks which are filed with the Bermuda Monetary Authority annually.

The Rules are being amended to clarify certain provisions and to provide for additional filing requirements related to an insurer's group. The changes are noted as follows:

1. Rule 1 "Citation and commencement makes" makes provision for these Rules to be cited as the Insurance (Prudential Standards) (Class 4 and Class 3B Solvency Requirement) Amendment Rules 2011 (the "Rules") and for the Rules to come into operation as at 31st December 2011;
2. Rule 2 "Interpretation" sets out the definition of "underwriting risk" as used in the Rules and attached schedules.
3. Rule 3 "Paragraph 5 of principal Rule amended" makes provision for the Authority to revoke its approval of the use of an approved internal capital model, where the Authority deemed it is no longer appropriate for the determination of the Enhanced Capital Requirement (ECR).
4. Rule 4 "Paragraph 6AB of the principal Rule added" makes provision for the requirement for insurers who are members of an insurance group for which the Authority is not appointed group wide supervisor to submit to the Authority quarterly financial returns by a specified filing date. These returns enable the Authority to make timely assessments of their solvency and liquidity positions.
5. Rule 5 "Schedule I amended" makes provision for the interest rate shock to be increased from 120 basis points to 200 basis points in order to be comparable with international regulatory standards and which is in line with the present economic environment.
6. Rule 6 "Schedule V amended" makes provisions for additional disclosure requirements by Class 4 and Class 3B insurers under the Schedule of Risk Management as follows:

- a. Line (a) Governance Structure: The additional disclosure requirements [items (iii) to (ix)] are the same data requested from all insurers (via a group data call request) for the initial assessment of Bermuda groups. Such information enables the Authority to monitor and reassess any material change (e.g., in its group structure, group strategy, etc.), which could appropriately alter an insurer's position (from a member of a non-Bermuda group to a member of a Bermuda group);
 - b. Line (b) Intra-group exposures: In order to provide clarity, additional disclosure requirements [items (i) to (iv)] are listed, along with the definition of a "material" intra-group transaction; and
 - c. Lines (g) gross probable maximum loss, (h) net probable maximum loss and (i) average annual loss: An additional provision to retain and make available to the Authority upon request all supporting documentation used to derive these numbers is added.
7. Rule 7 "Schedule VII amended" reflects the amendment under Rule 2 "Interpretation". For simplicity purposes and ease of completion by insurers, the risk categories 'Premium risk', 'Reserve risk', and 'Catastrophe risk' are now consolidated in this one category 'Underwriting risk'. This consolidation of risk categories is consistent with 'Market risk' which is the sum of 'Fixed income investment risk', 'Equity investment risk', and 'Interest rate/liquidity risk'.
 8. The views of the insurance industry and other interested persons on the proposals set out in the Rules are invited. Comments should be sent to the Authority addressed to policy@bma.bm no later than 31st August 2011.