



BERMUDA MONETARY AUTHORITY

THE BERMUDA CAPITAL AND SOLVENCY RETURN

2024 INSTRUCTION HANDBOOK FOR INSURANCE GROUPS

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A. OVERVIEW

A1. INTRODUCTION TO THE GROUP CAPITAL AND SOLVENCY RETURN

Introduction

- A1.1 The capital and solvency return is an annual return relating to an insurance group's risk management practices and information used by an insurance group to calculate its Enhanced Capital Requirement (ECR) and Target Capital Level (TCL) as prescribed by Prudential Standard Rules (Rules) made under section 6A of the Insurance Act 1978 (the Act). Every Class 4, Class 3B, Class 3A, Class E, Class D and Class C insurer, and Insurance Group shall submit to the Bermuda Monetary Authority (Authority or BMA) a completed capital and solvency return on or before its filing date. The most recent version of the capital and solvency return is available on the BMA website.
- A1.2 The capital and solvency model is used to calculate an insurance group's ECR, an additional capital and surplus requirement imposed by Rules made under section 6A of the Act. The ECR of an insurance group shall be calculated at the end of its relevant year by the higher of the Bermuda Solvency Capital Requirement (BSCR) model or an approved internal capital model, and the Minimum Solvency Margin (MSM). The TCL of an insurance group is calculated as 120% of the ECR and although not a capital requirement per se, insurance groups are expected to hold eligible capital resources to cover it; failure to do so will result in additional reporting requirements and enhanced monitoring, and in the submission of a remediation plan to restore capital above the TCL.
- A1.3 The BSCR model calculates a risk-based capital measure by applying capital factors to capital and solvency return elements, including investments and other assets, operational risk, General Business insurance risks and Long-Term insurance risks, in order to establish an overall measure of capital and surplus for statutory solvency purposes. The capital factor established for each risk element, when applied to that element, produces a required capital and surplus amount. The individual capital amounts generated for each risk element (excluding operational risk) are then summed. Covariance adjustments are made to arrive at the BSCR (after covariance adjustment), which is further adjusted to include insurance group -specific operational risk and capital add-ons, as assessed by the BMA, to finally produce the BSCR of an insurance group.
- A1.4 An insurance group's available statutory capital and surplus divided by the BSCR gives the BSCR ratio. An insurance group's available statutory capital and surplus divided by the ECR gives the ECR ratio. The BSCR and ECR ratios will assist the BMA to evaluate the financial strength of an insurance group.

A1.5 The BSCR, ECR and TCL establish solvency capital levels that are used by the BMA to monitor the capital adequacy of Class 4, Class 3B, Class 3A, Class E, Class D and Class C insurers and Insurance Groups.

A1.6 When completing the BSCR model, the insurance group should be advised of the following:

	<u>Requirement</u>	<u>Consolidated</u>	<u>EBS</u>
1	Cover Sheet and Solvency Certificate	X	
2	Financial Condition Report (with EBS valuations where applicable)	X	
3	Form 1, 2 and 8 (based on the insurance group's GAAP** statements less the prudential filters)	X	
4	Form 1EBS (following the Prudential Standard Rules and the principles found in the Guidance Note – For Statutory Reporting)		X
5	Schedules II, IIA, III, IIIA, IV, IVA, IVB, IVC, V, VI, VII, VIII, VIIIA, XVIII, XIX, XX and XXI	X	X
6	Governance Structure (Schedule V(a))	Unconsolidated*	
7	Group Structure (Schedule V(b)***)	X	
8	Intra-Group Transactions (Schedule V(c))	X	
9	Stress Scenarios (Schedule V(e))	X	
10	LT Modified Coinsurance Arrangements (Schedule V(f))	X	
11	Deposit Assets & Liabilities (Schedule V(k))	X	
12	GISSA (Schedule IX); *(note capital charges on a EBS basis)	X	X*
13	Catastrophe Risk Return (Schedule X)	X	
14	Schedule of Regulated Non-Insurance Financial Entities (Schedule XIA)	X	
15	Schedule of Unregulated Entities Where Parent Exercises Control (Schedule XIB)	X	
16	Schedule of Unregulated Entities Where Parent Exercises Significant Influence (Schedule XIC)	X	
17	Schedule of Entities Capital Deducted From Available Capital and Surplus (Schedule XID)	X	
18	Schedule of Group Solvency (Schedule XII)	X	
19	Eligible Capital (Schedule XIII)		X
20	Schedules IIB, IIC, IID, IIE, IIF, IVD, IVE, XXA, XXIA, XXIII (For the 2024 year-end, insurance groups are required to complete both the 2018 year-end methodology and the 2019 year-end methodology, which is included in the latest release of the BSCR model. Guidance related to completing		X

	<p>these schedules are indicated in green text throughout this document (and are highlighted in yellow tabs in the BSCR model).</p> <p>For insurance groups wishing to complete the 2019 year-end methodology only, groups are to apply for permission via email request to RiskAnalytics@bma.bm.)</p>		
21	<p>Schedules VIIA, VIIB</p> <p>(For the 2024 year-end, insurance groups are required to complete both the 2019 year-end methodology and the 2024 year-end methodology, which is included in the latest release of the BSCR model. Guidance related to completing these schedules are indicated in green text throughout this document (and are highlighted in yellow tabs in the BSCR model).</p> <p>For insurance groups wishing to complete the 2024 year-end methodology only, groups are to apply for permission via email request to RiskAnalytics@bma.bm.)</p>		X
22	<p>Schedule XA</p> <p>(For the 2024 year-end, insurance groups are required to complete both the 2023 year-end methodology and the 2024 year-end methodology, which is included in the latest release of the BSCR model. Guidance related to completing these schedules are indicated in green text throughout this document (and are highlighted in yellow tabs in the BSCR model).</p> <p>For insurance groups wishing to complete the 2024 year-end methodology only, groups are to apply for permission via email request to RiskAnalytics@bma.bm.)</p>	X	

*EBS – Economic Balance Sheet

**GAAP – Generally Accepted Accounting Principles

***Governance Structure (Schedule V(b)) insurers are to provide total assets, net assets, gross premiums written, and net premiums written on a unconsolidated basis for each entity.

Purpose

- A1.7 This document presents clear instructions for persons responsible for computing the required capital and surplus and for submitting the completed capital and solvency return, including the BSCR model, to the BMA.
- A1.8 The capital and solvency return contains diverse risk elements of an insurance group’s operation and will likely require the participation of experienced individuals within the accounting, finance, and actuarial areas of the insurance group. In order to ensure

accurate completion, designated insurers of the insurance group are highly advised to refer to this instruction handbook.

Overview

- A1.9 Forms 1, 2, 8, 1A, 2A and 8A and are published in the Insurance (Group Supervision) Rules 2011. The filing guidance relating to Form 1EBS (refer to Schedule XIV for format and guidance) and Schedules II-IIF, III, IIIA, IV-IVF, V-V(k), VI-VIII(a), IX, X, XA, XIA, XIB, XIC, XID, XII, XIII, XVI-XXIII and operational risk is published in the Prudential Standard Rules. The electronic copy of Forms 1, 2, 8, 1A, 2A, 8A and Form 1EBS, and Schedules II-IIF, III, IIIA, IV-IVF, V-V(k), VI-VIII(a), IX, X, XA, XIA, XIB, XIC, XID, XII, XIII, XVI-XXIII and operational risk are included in the capital and solvency return and have been appropriately linked to the BSCR model, where applicable
- A1.10 Also included is an appendix containing a glossary of terms that is meant to clarify the meaning of any terms used within the capital and solvency return, as well as to provide guidance on reconciling totals.

Changes to the BSCR Formula

- A1.11 Periodically, changes to the BSCR formula may be necessary due to changes in the capital and solvency return, accounting requirements, and enhancements to the formula or to the capital factors. Any such changes will be communicated to the designated insurer of the insurance group in a timely fashion, in order to allow adequate time for designated insurer to collect any additional information that may be required.

Work Papers and Supporting Documents

- A1.12 Work papers and documents used to prepare the BSCR submission should be retained and kept available for examination and discussion with the BMA, should the need arise.

Contact Person for Questions

- A1.13 Questions pertaining to the content or meaning of any of the items in this report should be addressed to riskanalytics@bma.bm.

A2. SUBMISSION

- A2.1 For the 2019 year-end and beyond, insurers may file only an **electronic version** if they submit via the ‘**submit**’ macro embedded in the BSCR model. Otherwise, **both** an **electronic version** and **printed version** of the capital and solvency return is required to be forwarded to the BMA on or before its specified filing date. Insurance Groups are advised to refer to the BSCR E-Filing Manual, available on the BMA website, for guidance on electronic filing. Insurance groups are also advised not to alter or modify the capital and solvency return or any part thereof.

Items

- A2.2 Input Data — Input data in each form and schedule, applicable.
- A2.3 Submit — Submit the capital and solvency return by clicking the ‘SUBMIT’ button.

Additional Guidance

- A2.i. If the designated insurer of the insurance group is having difficulty submitting the capital and solvency return following the above instructions, it is recommended to review the BSCR E-Filing Manual found on the Authority’s website: www.bma.bm > Document Center > Reporting Forms and Guidelines > Insurance
- A2.ii. If there are still issues with the submission, send an email to riskanalytics@bma.bm with the capital and solvency return attached. If the capital and solvency return is too large to send via email (limited to 15MB), the Authority will advise a course of action.

A3. CONTENTS

- A3.1 The Contents tab replaces the Index tab. The Contents tab has validation checks to various Forms/Schedules in the model as well as hyperlinks to each of the tabs in the model.
- A3.2 Insurance groups should review validation checks prior to submission and acknowledge any errors by selecting 'Confirm Message' as applicable. A comment to explain the validation check is to be included on the Submission tab.

A4. IMPORT

- A4.1 The Import tab includes links to each of the input cells in the model.
- A4.2 Users of the BSCR model can either enter data via the Import tab or can manually enter data throughout the model.
- A4.3 Note that cells highlighted in blue are drop-down cells. White highlighted cells are numerical/text entry fields.

A5. EXPORT

- A5.1 The Export tab includes links to each of the data cells in the model.
- A5.2 This function is useful if there is a need to re-enter data from an existing model to a new model. A user would use the data stored in the Export tab and copy to the Import tab.

A6. ATTACHMENTS

- A6.1 Insurance groups can attach any necessary files through the Attachments tab, up to ten files for each category provided. When an attachment is provided, the insurance group is to include the Schedule and/or item the attachment references in the comment field. Note once attached, the file is embedded in the capital and solvency return and sent to the BMA when the model is transmitted using the ‘Submit’ macro found in the Submission tab. The BSCR E-Filing Manual provides guidance on how to attach, view and remove files.

Additional Guidance

Attachments for Financial Statements and Financial Condition Report Reduced to one attachment

- A6.i. Sections 1-3 for General Purpose Financial Statements and Financial Condition Report have been reduced from ten rows to one row. Further the Authority would like to advise of the following:
- a) General Purpose Financial Statements – registrants are expected to attach their audit report, financial statements and notes to the financial statements in one document;
 - b) Financial Condition Report – registrants should include this as required under section 3 of the Insurance (Public Disclosure) Rules 2015. Any additional document for this requirement is to be included in the ‘Other Attachments’ section.

A7. GROUP INFORMATION

Items

- A7.1 Insurance Group Name — Input the name of the insurance group.
- A7.2 Name of the Parent Company — Input the name of the parent company which is the head of the group.
- A7.3 Place of Incorporation of Parent Company — Input the jurisdiction where the parent company is incorporated or licenced.
- A7.4 Designated Insurer Name — Input the name of the specified insurer, licenced in Bermuda, which is a member of the group.
- A7.5 Registration No. — Input the corresponding registration number of the designated insurer, as it appears in the designated insurer's Certificate of Registration.
- A7.6 Contact Person Information — Input the insurance group's contact person who will be the main conduit through which the BMA will make and respond to enquiries about the BSCR and related information. Note that the contact person also has the responsibility to ensure that all amounts reported in the group capital and solvency return respond to the group's statutory financial return, where appropriate.
- A7.7 Accounting Basis – input the accounting basis in which the insurance group prepares its financial statements based on: International Financial Reporting Standards, US Generally Accepted Accounting Principles ('GAAP'), Bermuda GAAP, Canada GAAP, UK GAAP, or Other Approved GAAP

A8. CAPITAL AND SOLVENCY RETURN DECLARATION

A8.1 The capital and solvency return declaration should be signed and dated by two directors, one of which may be the chief executive, and either the chief risk officer or chief financial officer of the parent company. in

A8.2 Revoked.

B. ADDITIONAL SUPPORTING SCHEDULES

B1. INTRODUCTION

- B1.1 Included in the capital and solvency return are the Cover Sheet and Solvency Certificate which is to be completed in its entirety. Nevertheless, the Financial Condition Report is not included in the model and this handbook provides guidance on the requirements that are to be included in the submitted.

B2. COVER SHEET

Background

- B2.1 To provide the Authority with details of the insurance group's organisational structure and details to review the statutory statements, the Cover Sheet is to provide more additional information to better assess the insurance group.

Items

Line Item		Description
a	Name of Insurance Group	Row (1) The name of the insurance group shall automatically populate based on the name entered in the Information Sheet tab.
b	Designated Insurer Contact Information	Row (2) The name and address of the designated insurer and the contact person:
c	Competent Authorities Contact Information	Row (3) The name and address of other competent authorities supervising other companies that are members of the insurance group:
d	Certificate of Registration Approved Conditions	Row (4) The Certificate of Registration Approved Conditions is to be entered based on the conditions stipulated on approved certificate of registration. This includes the start date, end date and condition description.
e	Filing Period	Row (5) The Filing Period Start Date is to be manually entered and the Period End Date shall automatically populate based on the date entered in the Information Sheet tab.
f	Nature of Business	Row (6) Confirmation whether the insurance business carried on is general business or Long-Term business or both; and

B3. SOLVENCY CERTIFICATE

Background

B3.1 To provide the Authority with approval from the directors that the information contained in the capital and solvency return have been reviewed and confirmed of the following items:

Items

Line Item		Description
a	Name of Insurance Group	Row (1) The name of the insurance group (this information is automatically populate based on the name entered in the Group Information Sheet tab).
b	Statement Availability	Row (2) whether or not the statements are available at the designated insurer's principal office in Bermuda pursuant to Rule 28 or, as the case may be, have been filed pursuant to Rules 23(9) and 24 to 27;
c	Regulation and Direction Compliance	Row (3) whether or not the group has complied with every direction issued by the Authority under the Act, rules, any regulations or legislation pertaining to it;
d	Minimum Margin of Solvency	Row (4) whether the group has complied with the Minimum Margin of Solvency in accordance with these Rules;
e	Statutory Capital and Surplus	Row (5) whether the group has complied with the requirements of the available statutory capital and surplus in accordance with Rules 22(1) and 22(3);
f	Group Statutory Assets	Row (6) the aggregate value of the group's assets as shown in the group statutory balance sheet for the relevant year;
g (i)	Group Statutory Assets Valuation	Row (7) that the group statutory balance sheet assets value was determined in accordance with the requirements of the Act and of any applicable Rules pursuant to Rule 24(2);
g (ii)	Group Statutory Assets Valuation	Row (8) that the value of the group's assets at the end of the relevant year was in the aggregate at least equal to the group statutory balance sheet assets value;
h	Group Statutory Capital & Liabilities	Row (9) whether in the opinion of those signing the certificate the aggregate amount of the group's liabilities at the end of the relevant year (after taking into account all prospective and contingent liabilities, but not liabilities in respect of share capital) is not more than the aggregate amount of the liabilities as shown in the group's statutory financial statements for that year;

Line Item		Description
i	Group Statutory Capital & Surplus	Row (10) the aggregate amount of the statutory capital and surplus as shown in the group statutory statement of capital and surplus for the relevant year;
j	Currency Used	Row (11) whether the currency in which amounts in the group's statutory financial statements for the relevant year have been shown;
k	Exchange Rate	Row (7) the rate of exchange used, in compliance with Rules 23(7), 24(3) and 26(3), for the purposes of any statement called for by these Rules.

a. Confirmation of Corrective Action

Line Item		Description
3	Confirmation of Corrective Action	Row (1) If any question in sub-paragraph (1)(b), (c), (d), (e), (f), (g) or (h) of this paragraph has been answered in the negative, whether or not the parent company has taken corrective action

B4. FINANCIAL CONDITION REPORT

Background

- B4.1 To assist with Bermuda being a jurisdiction committed to the principles of transparency to policyholders, beneficiaries and counterparties, the BMA has required Insurance Groups, Class 4, Class 3B, Class 3A, Class C, Class D and Class E insurers to submit a Financial Condition Report with details of inter alia; measures governing the business operations, corporate governance framework, solvency and financial performance of a commercial insurer.
- B4.2 The Financial Condition Report is an opportunity for an insurance group to describe its business to the public in relation to the insurance group's business model, whereby the public may make an informed assessment on whether the business is run in a prudent manner. The presentation of the Financial Condition Report is not templated by the BMA. Insurers are expected to prepare the Financial Condition Report in accordance with the requirements per the Insurance (Public Disclosure) Rules 2015.
- B4.3 A copy of the Financial Condition Report shall be published on the insurance group's website within 14 days of the date the report was filed with the BMA. If an insurance group does not have a website, the insurance group is to provide the public a copy of a Financial Condition Report within ten days of receipt of a request made in writing.

Items

- a) Business and Performance - particulars regarding the organisational structure, insurance business activities and financial performance

Line Item	Description
a	Name of the insurance group;
b	Name and contact details of the group supervisor;
c	Name and contact details of the approved group auditor;
d	A description of the ownership details including proportion of ownership interest of the insurance group;
e	A group structure chart detailing the group structure;
f	Insurance business written by business segment and geographical region by the insurance group during the reporting period;

Line Item	Description
g	Performance of investments by asset class and details on material income and expenses incurred by the insurance group during the reporting period and
h	Any other material information.

b) Governance Structure - particulars of corporate governance, risk management and solvency self-assessment frameworks

Line Item	Description
a	Parent Board and Senior Executive: i. A description of the structure of the parent board of directors (board) and senior executive, the roles, responsibilities and segregation of these responsibilities
a	ii. A description of remuneration policy and practices and performance-based criteria governing the parent board, senior executive and employees
a	iii. A description of the supplementary pension or early retirement schemes for members of the insurance group, the board and senior executive
a	iv. Any material transactions with shareholder controllers, persons who exercise significant influence, the parent board or senior executive
b	Fitness and Propriety Requirements: i. A description of the fit and proper process in assessing the parent board and senior executive
b	ii. A description of the professional qualifications, skills, and expertise of the parent board and senior executives to carry out their functions
c	Risk Management and Solvency Self-Assessment: i. A description of the insurance group's risk management process and procedures to effectively identify, measure, manage and report on risk exposures
c	ii. A description of how the risk management and solvency self-assessment systems are implemented and integrated into the insurance group's operations; including strategic planning and organisational and decision-making process
c	iii. A description of the relationship between the solvency self-assessment, solvency needs, and capital and risk management systems of the insurance group
c	iv. A description of the solvency self-assessment approval process including the level of oversight and independent verification by the parent board and senior executives
d	Internal Controls: i. A description of the internal control system
d	ii. A description of how the compliance function of the insurance group is executed
e	Internal Audit - A description of how the internal audit function of the insurance group is implemented and how it maintains its independence and objectivity when conducting its functions

Line Item	Description
f	Actuarial Function – A description of how the insurance group’s actuarial function is implemented
g	Outsourcing: i. A description of the outsourcing policy and information on any key or important functions that have been outsourced
g	ii. A description of material intra-group outsourcing
h	Any other material information

- c) Risk Profile - particulars on exposures on underwriting risk and market risk including off balance sheet exposures, credit risk, liquidity risk, operational risk and other material risks

Line Item	Description
a	Material risks that the insurance group is exposed to, including how these risks are measured and any material changes that have occurred during the reporting period
b	How risks of the insurance group are mitigated including the methods used and the process to monitor the effectiveness of these methods
c	Material risk concentrations
d	How assets are invested by and on behalf of the insurance group in accordance with the prudent person principle as stated in paragraph 12(1)(a) of these Rules
e	The stress testing and sensitivity analysis to assess material risks, including the methods and assumptions used by the insurance group, and the outcomes
f	Any other material information

- d) Solvency Valuation - particulars of the valuation basis, methods and assumptions on the inputs used to determine solvency

Line Item	Description
a	The valuation basis, assumptions and methods used to derive the value of each asset class
b	The valuation basis, assumptions and methods used to derive the value of technical provisions and the amount of the best estimate. The amount of the risk margin as well as the level of uncertainty to determine the value of the technical provisions should be included

Line Item	Description
c	A description of recoverables from reinsurance contracts, including Special Purpose Insurers (SPI) and other risk transfer mechanisms
d	The valuation basis, assumptions and methods used to derive the value of other liabilities
e	Any other material information

e) Capital Management- particulars regarding an assessment of capital needs and regulatory capital requirements

Line Item	Description
a	Eligible Capital: i. A description of the capital management policy and process to determine capital needs for business planning, how capital is managed and any material changes during the reporting period
a	ii. A description of the eligible capital of the insurance group categorised by tiers in accordance with the Eligible Capital Rules
a	iii. A description of the eligible capital insurance group categorised by tiers, in accordance with the Eligible Capital Rules used to meet the ECR and the MSM defined in accordance with section (1) (1) of the Act
a	iv. Confirmation that insurance group's eligible capital is subject to transitional arrangements as required under the Eligible Capital Rules
a	v. Identification of any factors of the insurance group affecting encumbrances availability and transferability of capital to meet the ECR
a	vi. Identification of ancillary capital instruments that have been approved by the Authority
a	vii. Identification of differences in shareholder's equity as stated in the financial statements versus available statutory capital and surplus
b	Regulatory Capital Requirements: i. Identification of the amount of the insurance group ECR and MSM at the end of the reporting period
b	ii. Identification of any non-compliance by the insurance group with the MSM and the ECR
b	iii. A description of the amount and circumstances surrounding the insurance group's the non-compliance, the remedial measures taken and their effectiveness
b	iv. Where the non-compliance has not been resolved, a description of the amount of the non-compliance at the end of the reporting period
c	Approved Internal Capital Model Used to Derive the ECR: i. A description of the purpose and scope of the business and risk areas where the Group BSCR Model is used

Line Item	Description
c	ii. Where a partial internal model is used, a description of how it is integrated with the Group BSCR model
c	iii. A description of methods used in the Group BSCR Model to calculate the ECR
c	iv. A description of aggregation methodologies and diversification effects
c	v. A description of the main differences in the methods and assumptions used for the risk areas in the internal model versus the Group BSCR model
c	vi. A description of the nature and suitability of the data used in the Group BSCR model
c	vii. Any other material information

f) Significant Event – particulars and explanations of a significant event

Line Item	Description
a	A description of the significant event
b	Approximate date(s) or proposed timing of the significant event
c	Confirmation of how the significant event has impacted or will impact, any information provided in the most recent financial condition report filed with the Authority
d	Any other material information

Additional Guidance

Item (i)(g) Business and Performance – investment performance and material income and expenses

B4.i. For item (i)(g) Business and Performance, the insurance group shall provide details of the investment performance for the reporting period only. Material income and expenses shall be for the reporting period only and include all activities of the insurance group (underwriting, investment, etc.).

B5. ASSETS QUALIFYING FOR RISK MITIGATING PURPOSES

Background

- B5.1 In order to promote good risk management and increase risk sensitivity, the scope of risk mitigation in the BSCR is extended by allowing insurance groups to explicitly take into account their hedging programmes within market risk calculations, subject to certain rules and restrictions.
- B5.2 Credit for risk mitigating effect in the BSCR calculations is only allowed if the risk mitigation techniques fulfil a set of criteria set out in the next section.

Instructions

- B5.3 The calculation of the ECR will allow for the effects of risk mitigation techniques through a reduction in capital requirements commensurate with the extent of risk mitigation notwithstanding the provisions set in this section.
- B5.4 The ECR calculation for market risk is made on the basis of the assets and liabilities existing at the reference date of the ECR calculation and through the use of scenario and factor-based approaches; this design setting excludes by definition allowance for the full effect of dynamic hedging programmes which can only be applied appropriately in a context where capital charges are being stochastically calculated.
- B5.5 Internal capital models are allowed to be used in the context of the BSCR standard formula for the calculation of the variable annuity guarantees capital charge which, despite being part of the long term insurance risk module, is predominantly market risk driven; concomitantly in these cases insurance groups may take into full account the effect of their dynamic hedging programmes as long as they comply with the provisions set in paragraphs B5.6 and B5.9 below. In all other cases, the risk mitigating effect of dynamic hedging programmes will be subject to the provisions set in paragraphs B5.6–B5.8 and thus taken into account in a limited manner.
- B5.6 When calculating the ECR, insurance groups shall only take into account risk-mitigation where all of the following qualitative criteria are met:
- a) The contractual arrangements and transfer of risk are legally effective and enforceable in all relevant jurisdictions and there must be an effective transfer of risk to a third party;
 - b) The contractual arrangement ensures that the risk transfer is clearly defined
 - c) The insurance group has taken all appropriate steps to ensure the effectiveness of the arrangement and to address the risks related to that arrangement;
 - d) The insurance group is able to monitor the effectiveness of the arrangement and the related risks on an ongoing basis;

- e) The calculation of the ECR makes reasonable allowance for any basis risk effects due to changes in risk mitigation assumptions and relationships during a stress scenario and there is appropriate treatment of any corresponding risks embedded in the use of risk mitigation techniques (e.g., credit risk). These two effects should be separated;
- f) Providers of risk mitigation should have adequate credit quality (demonstrable through either adequate rating, capitalisation or collateralisation levels) to guarantee with appropriate certainty that the insurance group will receive the protection in the cases specified by the contracting parties;
- g) The insurance group has, in the event of a default, insolvency or bankruptcy of a counterparty or other credit event set out in the transaction documentation for the arrangement, a direct claim on that counterparty; and
- h) There is no double counting of risk-mitigation effects in technical provisions and in the calculation of the ECR or within the calculation of the ECR.

B5.7 Only risk-mitigation techniques that are in force for at least the next 12 months and which meet the qualitative criteria set out in paragraph B5.6 shall be fully taken into account in the ECR. In all other cases, the effect of risk-mitigation techniques that are in force for a period shorter than 12 months and which meet the qualitative criteria set out in paragraph B5.6 shall be taken into account in the ECR in proportion to the length of time involved for the shorter of the full term of the risk exposure or the period that the risk-mitigation technique is in force.

B5.8 Where contractual arrangements governing the risk-mitigation techniques will be in force for a period shorter than the next 12 months and the insurance group intends to replace that risk-mitigation technique at the time of its expiry with a similar arrangement, the risk-mitigation technique shall be fully taken into account in the ECR provided all of the following qualitative criteria are met:

- a) The insurance group has a written policy on the replacement of that risk-mitigation technique;
- b) The replacement of the risk-mitigation technique shall not take place more often than every month, except in duly justified circumstances which require prior approval from the Authority;
- c) The replacement of the risk-mitigation technique is not conditional on any future event, which is outside of the control of the insurance group. Where the replacement of the risk-mitigation technique is conditional on any future event, that is within the control of the insurance group, then the conditions should be clearly documented in the written policy referred to in point (a);
- d) The replacement of the risk-mitigation technique shall be realistic based on replacements undertaken previously by the insurance group and consistent with its current business practice and business strategy;
- e) The risk that the risk-mitigation technique cannot be replaced due to an absence of liquidity in the market is not material under different market conditions and

there is no material basis or operational risks compared to the risk mitigation effect;

- f) The risk that the cost of replacing the risk-mitigation technique increases during the following 12 months is reflected in the ECR by deducting it from the value attributed to the risk-mitigation technique;
- g) Any additional risk stemming from the risk mitigation arrangement (e.g., credit risk) is taken into account in the ECR; and
- h) The hedge effectiveness and any related risks are monitored on an ongoing basis.

B5.9

In the cases of insurance groups using internal capital models in the context of the BSCR standard formula for the calculation of the variable annuity guarantees capital charge, where portfolio rebalancing is being performed, the risk-mitigation effect shall be fully taken into account in the ECR provided all of the following qualitative criteria are met:

- a) The insurance group has a written policy on portfolio rebalancing;
- b) The portfolio rebalancing shall be realistic based on actions undertaken previously by the insurance group and consistent with its current business practice and business strategy;
- c) The risk that the portfolio rebalancing cannot be performed due to an absence of liquidity in the market is not material under different market conditions.
- d) The risk that the cost of the portfolio rebalancing increases during the following 12 months is reflected in the ECR;
- e) Any additional risk stemming from the portfolio rebalancing (e.g., credit risk) is taken into account in the ECR; and
- f) The hedge effectiveness and any related risks are monitored on an ongoing basis.

B6. MANAGEMENT ACTIONS

Background

- B6.1 With the introduction of new shock-based capital charge calculations for certain risks in the BSCR standard formula, the use of management actions will be allowed under certain conditions (as set out in the next section).
- B6.2 Management actions are relevant for products where profits are shared with policyholders, for example participating or ‘with-profits’ products. This means that management actions, in the sense used here, are mainly relevant for long-term business only.
- B6.3 For BSCR purposes, allowable management actions will be confined to actions reducing or increasing liabilities for Future bonuses or other Discretionary Benefits (FDB).
a) These include changes to profit sharing/bonuses/policyholder dividends/credited rates, but can also include actions such as changes in investment policy (e.g., the equity backing ratio) affecting FDB.
- B6.4 Given that the effect of management actions is considered separately for each risk in the modular BSCR standard formula, there is a risk of double counting the credit for management actions when the individual capital charges are aggregated (through the correlation matrices). For this reason, a cap on the overall credit must be included.
- B6.5 The natural cap for the credit for management actions is the total amount of (best-estimate liabilities held for) future discretionary benefits.
a) The most an insurance group can do to reduce its discretionary liabilities is to reduce the profit sharing – policyholder dividends, credited rate – to zero (in all future scenarios), which corresponds to FDB going to zero.

Instructions

- B6.6 Management actions are confined to actions reducing or increasing liabilities for future bonuses or other discretionary benefits.
- B6.7 Management actions must comply with all the requirements of paragraph 196 of the Guidance Notes for Commercial Insurers and Groups Statutory Reporting Regime (30th November 2016).
- B6.8 Given the modular structure of the BSCR standard formula, management actions are to be considered in each applicable risk calculation separately.
- B6.9 Management actions can be reflected in the shock-based components of the BSCR standard formula and in the variable annuity guarantees capital charges (when an internal capital model is used). Management actions shall not be taken into account in the factor-based

components of the BSCR standard formula. The exception the duration effective durations for liabilities.

B6.10 The shock-based components of the BSCR standard formula are based on the impact of instantaneous stresses (equity risk, interest rate and liquidity risk calculated under the alternative approach, and currency risk), and insurance groups shall not take credit for future management actions at the time the stress occurs (i.e. during the stress), due to the instantaneous nature of the stresses. Nevertheless, future management actions may be taken into account after the instantaneous shocks as a response to the shocks.

B6.11 If management actions are used, the insurance group needs to ensure that the effects of specific management actions are not effectively counted multiple times when the different scenario components are aggregated into the total capital requirement.

Loss-absorbing Capacity of Future Bonuses and Other Discretionary Benefits

B6.12 To prevent double-counting, the capital requirement for each risk should be calculated both gross and net of the loss-absorbing capacity of technical provisions. Therefore, the applicable capital charges will be calculated with (net of) and without (gross of) management actions. This will allow calculating the capital requirement with management actions (net BSCR) and without management actions (gross BSCR), by aggregating the respective (net, gross) component capital requirements using the applicable correlation matrices.

B6.13 The *gross* capital requirement for each applicable risk is obtained as the decrease in the Net Asset Value (NAV) as a result of the shock, where the change in liabilities is calculated by comparing the after-shock gross best estimate liabilities to the base case best estimate liabilities. The gross capital requirement cannot be less than zero.

B6.14 The *net* capital requirement for each applicable risk is obtained as the decrease in the NAV as a result of the shock, where the change in liabilities is calculated by comparing the after-shock net best estimate liabilities to the base case best estimate liabilities. The net capital requirement cannot be less than zero.

B6.15 The *gross* BSCR (post diversification) ($BSCR^{div}$) is calculated by aggregating the gross capital requirements using the relevant correlation matrices.

B6.16 The *net* BSCR (post diversification) ($nBSCR^{div}$) is calculated by aggregating the net capital requirements using the relevant correlation matrices.

B6.17 The adjustment to the ECR for the loss-absorbing capacity of technical provisions is then

$$Adj_{TP} = -\max(\min(BSCR^{div} - nBSCR^{div}, FDB), 0)$$

Where FDB is the net present value of future bonuses or other discretionary benefits corresponding to the best estimate calculation. The FDB amount is used as a cap on the overall credit allowed for in the capital requirement calculation.

- B6.18 The gross capital requirements per risk shall be calculated by keeping the future discretionary benefits unchanged at the best estimate (base scenario) level.
- B6.19 The net capital requirements per risk shall be calculated by allowing the future discretionary benefits to change as a result of a shock.
- B6.20 For those risks which are calculated using a factor-based approach, the net BSCR is defined to be equal to the gross BSCR (except for the duration-based approach to interest rate risk, if the durations are calculated by taking management actions into account).
- B6.21 The procedure as described above requires calculating the relevant capital charges twice: with and without management actions. Typically, this would mean that the insurance group needs to run two model runs per relevant capital charge. Nevertheless, as this may, in some cases significantly increase the workload and/or the time needed to produce the required numbers, a simplified way to calculate the ‘gross’ charges, as described below, may be used. This approach requires only one set of model runs (base scenario + ‘net’ runs).
- a) Obtain the value of guaranteed¹ benefits and future discretionary benefits, separately, in the base scenario².
 - b) Calculate guaranteed benefits and future discretionary benefits, with management actions, in each applicable shock. This gives the net best estimate liabilities in the shock scenarios.
 - c) To derive the gross best estimate liabilities needed for the gross capital requirement calculations, add future discretionary benefits from the base scenario to the guaranteed benefits from the shock scenarios to obtain gross best estimate liabilities in the shock scenarios.

¹ “Guaranteed” benefits here refers to those contractual benefits that the insurance group does not have the ability to change at its discretion. In particular, it is taken to mean all benefits other than future discretionary benefits.

² Where “baseline” level of management actions is assumed in calculating the best estimate liability for future discretionary benefits.

Additional Guidance

- B6.22 Regarding the restriction of management actions to those actions affecting liabilities for future discretionary benefits, it is noted that premium increases³ or expense reductions are out of the scope of allowed management actions.
- B6.23 With regards to paragraph B6.10, it is noted that management actions may be taken immediately after the (instantaneous) stress has happened (subject to reflecting in the modelling realistic time required to implement any management action). The stresses are assumed to happen ‘overnight’, and management actions can be taken immediately on ‘day 1’ afterwards.
- B6.24 Both increases and decreases in future discretionary benefits as a result of shocks should be modelled. In particular, the liability for future discretionary benefits may increase as a result of certain shocks: For example, in the interest rate up shock the effect of higher future (reinvestment) rates may exceed any negative time-0 effect on the values of fixed-income assets, leading to more profit sharing.

Guidance – BSCR Model

- B6.25 Where applicable, the risk charges per module in the BSCR model are calculated both with and without management actions. This concerns principally those market risks that are calculated using shocks.
- B6.26 The Schedules feeding the relevant risk calculations contain input fields for entering after shock values for best estimate liabilities both with and without management actions.
- B6.27 If no management actions are assumed, or if management actions do not affect a particular line, the ‘with’ value should be set equal to the ‘without’ value (where the latter is to be always calculated).
- B6.28 The effect of management actions on the ECR is calculated by comparing the ‘Gross BSCR’ to the ‘Net BSCR’, where the former is derived by aggregating individual risk charges without management actions, and the latter is derived by aggregating individual risk charges with management actions (using the relevant correlation matrices). This is completed on the Summary tab of the BSCR model.

³ The overall significance of premium increases is, in any case, mitigated by the fact that if the insurance group has the possibility to change premium at a certain point, then in most cases the cash flows after the said point will fall outside of the contract boundaries. Hence premium increases would only be relevant where the insurance group does have an ability to change the premiums, but only in a very limited way.

- B6.29 Nevertheless, to avoid double-counting the same management actions in multiple separate risk modules, a cap on the overall credit for management actions needs to be imposed. The cap is equal to the initial reserve for FDB, which needs to be entered in cells K128 to M128 on the Summary tab.
- B6.30 The overall adjustment for management actions, subject to the cap, is then automatically calculated in cells K129 to M129 of the Summary tab and gets deducted from the final BSCR (in cells F65, M65 and R65).

B7. LOOK-THROUGH

Background

- B7.1 Previously look-through was allowed in the BSCR in concentration risk calculation. To more properly assess the risks of fund-type investments and similar assets (and liabilities) the look-through approach is extended to market risk calculated under a shock approach (equity, interest rate and currency risks). This means looking through funds to the underlying investments, and considering each of the underlying assets individually in appropriate risk calculation(s).
- B7.2 A full look-through of underlying assets should be used as a default option. If this is not achievable, then a number of partial look-through options are to be considered. As set out in the next section, these options form the following ladder:
- a) Full look-through;
 - b) Partial look-through based on target asset allocation;
 - c) Partial look-through based on investment limits; and
 - d) No look-through – capital charge for other equities/other assets used.

Instructions

- B7.3 In order to properly assess the risks inherent in collective investment vehicles, other investments packaged as funds, and other types of assets and liabilities (as defined below), each of the assets underlying them shall be considered individually (the look-through approach) in the BSCR calculation.
- B7.4 The scope of the look-through covers the following:
- a) Collective investment vehicles and other investments packaged as funds, including related undertakings used as investment vehicles;
 - b) Segregated accounts assets and liabilities;
 - c) Deposit assets and liabilities;
 - d) Other sundry assets and liabilities; and
 - e) Derivatives.
- B7.5 The look-through approach applies to market risk calculated under a shock approach (equity, interest rate and currency risks) and concentration risk calculations. It also applies to fund-type investments (as defined in B7.4a) within other risk calculations; for example, bond funds in fixed-income risk calculation.
- a) Look-through will be allowed for equity exposures classified as 'strategic holdings' or 'duration based' with underlying individual assets getting the 20% (strategic holdings, duration based) equity charge each.

- B7.6 The look-through is to be based on the current underlying assets as of the BSCR valuation date (typically year-end). The valuation of assets and liabilities subject to application of the look through must be consistent with the EBS rules.
- B7.7 Where the full look-through approach cannot be applied to collective investment vehicles or other investments packaged as funds, the capital requirement may be calculated based on the target underlying asset allocation of the vehicle or fund, provided that such a target allocation is available at a level of granularity necessary for the calculation, and the underlying assets are managed strictly according to the target allocation.
- B7.8 Where conditions of paragraph B7.7 are not fulfilled (i.e., a target allocation does not exist or it cannot be determined and the assets are managed strictly according to the target allocation), the capital requirement may be calculated by assuming that the vehicle or fund first invests to the maximum extent allowed under its investment limits in the asset class with the highest capital charge. It can then continue to make investments in descending order until the maximum total investment level is reached. This approach requires that such allocation limits exist.
- B1.1 Where no look-through is possible and neither the target-based approach of paragraph B7.7 nor the limit-based approach of paragraph B7.8 can be applied, the whole investment shall be treated as an equity holding of type ‘Other’ for capital charge purposes.
- B7.9 Insurance groups should perform a sufficient number of iterations of the look-through approach, where appropriate (e.g., in the case of fund of funds), to capture all material risk adequately.

Additional Guidance

- B7.10 To illustrate the application of the limit-based approach of paragraph B7.8, consider the following hypothetical example: For a combination fund having allocation limits of 50-80% to equity and 20-50% to investment grade fixed income, with equity sub-limits of 50-100% to European Economic Area (EEA) equities and 0-50% to Eastern European (non-EEA) equities, the overall allocation would be considered to be 40% to non-EEA equities, 40% to EEA equities, and 20% to fixed income with rating BBB- to produce the most conservative capital charge consistent with the limits.
- B7.11 Exactly as is for directly held investments, instruments resulting from look-through may need to be considered in several risk calculations if the instruments’ price is exposed to several sources of risk. For example, convertible bonds are typically exposed to interest rate, credit (spread) and equity risk, and would typically need to be included under all three risk calculations (i.e., interest rate, fixed income, and equity).
- B7.12 As set out in B7.4, related undertakings used as investment vehicles must be looked through and the assets underlying them must be considered individually. In particular,

there is no economic difference in the risk of positions held directly on the balance sheet versus holding the same assets in a separate investment company instead. Therefore, the treatment and resulting capital charges should be the same in both cases.

- B7.13 In the case of long-short funds or leveraged funds, shocks (capital charges) cannot simply be applied to the NAV of the fund; instead, the increased exposure caused by leverage must be taken into account.
- a) In the case of leveraged funds, where the leverage is implemented (e.g., by borrowing (instead of short sales)), the capital charge/shock needs to be effectively applied to the gross exposure (the capital charge/shock needs to be grossed up for leverage); and
 - b) In the case of long-short funds, only short positions that qualify as risk-mitigating under the BSCR rules can be ‘netted’ against long positions (as described below). Consider the two extremes (i.e., all shorts qualifying versus none qualifying). If none of the short positions qualify as risk mitigating, only the long positions are shocked (and the short positions ignored); whereas if all of the short positions qualify as risk mitigating, both the long and the short positions are shocked (separately) and the resulting changes in values summed, so that the short positions provide an offset to the longs. In the former case, the gross long exposure is considered, while in the latter case the calculation is effectively on a net basis (however, the longs and shorts are shocked separately and then added, instead of shocking the net position). If part of the short positions qualify (and part do not), then only the qualifying short positions are shocked and, therefore, provide some offset to the longs, in addition to shocking all of the long positions.

Guidance – BSCR Model

- B7.14 When filling in Schedules feeding various risk calculations, the line items and the associated market values entered should already be after look-through. That is, the look-through of investments (necessarily) needs to be done outside the BSCR model, and the resulting numbers entered in the Schedules.
- B7.15 If investments are looked-through, the amounts shown in different risk calculations do not match the balance sheet classifications any more.
- a) As a simple example, consider a mixed mutual fund with a market value of \$100, consisting of 60% equities and 40% corporate bonds. Assume it is originally classified under equity in the balance sheet (line 2. (c) iii.) and is the only investment. After the look-through, \$40 would be entered in Schedule IIB (EBS) under corporate bonds and \$60 under listed equity securities in developed markets. This means that the balance sheet shows equity investments of \$100, but in the equity risk calculation the amount of equities is only \$60, corresponding to the true exposure after the look-

through. Similarly, the balance sheet does not show fixed income exposure, but the fixed income risk calculation has bonds worth \$40 resulting from the look-through.

B7.16 An 'Investment Reconciliation' tab is included in the BSCR model to do a reconciliation between the balance sheet (Form 1EBS) amounts and the amounts in Schedules IIB-IIF feeding the risk calculations on the one hand; and reconciliation between Schedules IIB-IIF and the risk calculations (equity, interest rate risk) on the other hand.

B7.17 To illustrate the investment reconciliation tab, consider the example of paragraph B7.vi above.

- a) The opening balance on line 1 of the schedule (line 10 in the spreadsheet) would show the values from the balance sheet: \$0 in interest-rate sensitive investments (cell G10), and \$100 in equity sensitive investments (cell H10).
- b) The adjustments for look-through could be done in either of two ways:
 - a) Entering the net adjustment directly. This would involve subtracting exposure of \$40 from equity (i.e., entering -\$40 to cell H13) and adding the \$40 to bonds (i.e. entering \$40 to cell G12).
 - b) Entering full amounts. Under this alternative, first indicate under which category the investment being looked-through was classified in the balance sheet. In the case of the example, the whole \$100 fund investment was under equity in the balance sheet; hence \$100 would be entered in cell F13 (balance sheet amounts reported under equities). Nevertheless, after looking through, the actual equity exposure was only \$60; this amount would be entered into cell H13. The remaining \$40, corresponding to bonds, would be entered into cell G12. Entering the original balance sheet amounts under columns E and F makes the reconciliation formula remove these amounts from the opening exposure, and then add the actual values resulting from the look-through back. In this example, the \$100 reported originally under equity in balance sheet is first removed from equity. Then only the actual equity exposure resulting from look-through (\$60) is added back to equity.
- c) In either case, the final balances on line 18 of the schedule (line 27 of the spreadsheet) will show \$40 of interest-rate sensitive investments (in column G) and \$60 of equity-sensitive investments (in column H). These should match the amounts reported in Schedule IIB in the Schedule's fixed income and equity parts.

B8. DEFERRED TAXES AND LOSS-ABSORBING CAPACITY OF DEFERRED TAXES

Deferred Taxes

Background

- B8.1 Deferred taxes on the Economic Balance Sheet arise due to differences between the value assigned to an asset or a liability for tax purposes, and the corresponding value of that asset or liability under the EBS valuation principles, where the differences are temporary in nature and are expected to be reversed.
- B8.2 Under EBS, assets and liabilities are valued on an economic, fair value basis. As the economic balance sheet already recognises unrealised gains (losses), the corresponding tax liability (tax credit) should also be recognised, where such unrealised gains/losses are not recognised on the local tax basis thus creating a difference. This leads to recognition of Deferred Tax Liabilities (DTL) and Deferred Tax Assets (DTA). While DTL shall be recognised for all temporary taxable differences, recognition of DTA is subject to further conditions. Please refer to the Guidance Note for Statutory Reporting Regime for details on the recognition of deferred taxes, on both statutory and EBS balance sheets.
- B8.3 Note that, in practice, the starting point for the determination of deferred taxes on the EBS basis are the deferred taxes on the relevant GAAP basis. Further adjustments are then applied when moving from the GAAP basis to the EBS basis.
- One typical example is the adjustment arising from the difference between the reserves booked for insurance liabilities (technical provisions) on GAAP basis vs. EBS basis: If the move from GAAP to EBS leads to a decrease in reserves, (additional) DTL is recognised on EBS basis for the unrealised taxable gains. If the move leads to an increase in reserves, (additional) DTA may be established on EBS basis assuming it can be supported.

Instructions

- B8.4 The Bermuda Corporate Income Tax Act, which was enacted into law in December 2023, introduces a 15% corporate income tax (CIT) on Bermuda businesses that are part of multinational enterprise groups with annual revenue of EUR 750 million or more. The effective date for the CIT is 1 January 2025, except for certain provisions for which the commencement date is 1 January 2024. Accounting standards require the effects of changes in tax laws or rates to be recognised in the period in which the law is enacted,

regardless of the effective date of the tax. Additionally, the accounting treatment of the effects of the CIT Act may result in the recognition of deferred tax assets or liabilities by in-scope Bermuda Constituent Entities.

B8.5 While the Authority assesses how insurers and insurance groups are implementing the CIT Act and the implications of this, if any, on the insurers' or insurance groups' Capital and Solvency Return (specifically, in their Statutory Financial Statements, Economic Balance Sheet, and solvency position) and Quarterly Financial Return, the Authority directs as follows:

B8.6 *Insurers and insurance groups who are in scope of, or are expecting to be in scope of, the CIT Act:*

1. Should reflect the impact of the CIT Act in their GAAP financial statements in accordance with the accounting standards under which the statements are prepared; and
2. Shall not reflect the impact of the CIT Act in their Capital and Solvency Return (specifically, in their Statutory Financial Statements, Economic Balance Sheet and solvency position) and Quarterly Financial Return until the Authority has completed its assessment and under the terms to be directed by the Authority. The Authority expects to complete its assessment before the CIT Act becomes effective and envisages to complete its engagement with stakeholders and to issue guidelines on these matters (if needed) within a timeline that will be compatible with the CIT Act coming into effect.

For the avoidance of doubt, the above direction does not apply to any other taxes (e.g., US Federal income taxes) reflected in the Capital and Solvency Return.

Loss-Absorbing Capacity of Deferred Taxes

Background

B8.7 The ECR is intended to represent a severe loss scenario. In a loss scenario, tax-paying companies would be able to consider the impact on current and future taxes when determining the overall impact of the scenario. For example, losses generated in the current year may be utilised by carrying back to prior years and recouping taxes paid, or may be utilised through the ability to offset existing income deferred for tax purposes (i.e., existing Deferred Tax Liabilities (DTL)), or may be carried forward and utilised against future taxable profits as provided for under the applicable tax laws for the specific jurisdiction. To the extent available, this tax benefit arising in a loss scenario may be considered in the context of the capital requirements calculation.

- B8.8 Upon the occurrence of a shock that produces a loss, a tax-paying company would be able to first recoup prior year taxes paid (carryback) or reduce future tax in the form of lowering existing DTLs or establishing a DTA (carryforward). For DTA (i.e., future deductions recognised today), additional scrutiny is necessary and the tax-paying company must demonstrate its ability to recognise these future deductions through the ability to produce future taxable income.
- B8.9 The Loss-Absorbing Capacity (LAC) of deferred taxes is based on the potential tax benefit in a loss scenario equivalent to the ECR, and is determined by an insurer's ability to demonstrate that enough future profits or DTLs will be available to utilise the DTA.
- B8.10 For BSCR purposes, a simplified approach to adjusting the ECR for taxes that partly reflects company-specific parameters is used. These parameters limit the amount of the adjustment based on each company's past, current and future tax situation as detailed below.

Instructions

General – Default Calculation and Related Assumptions

- B8.11 The following simplified approach is used to determine the Loss-Absorbing Capacity of Deferred Taxes for BSCR purposes:

$$\text{LACDT} = \min (\text{BSCR} \times t, \text{Limit}, \text{BSCR} \times 20\%)$$

Where:

- 'BSCR' is the BSCR post correlation and including operational risk and loss-absorbing capacity of technical provisions, but excluding this adjustment for LAC DT;
- 't' is the applicable tax rate;
- 'Limit' = Max (Past LAC + Current LAC + Future LAC, 0).

- B8.12 The components are as follows:

- a) Past LAC = Loss Carryback Provision x t

Past LAC reflects that insurers may be able to recoup tax losses via a Loss Carryback provision (where such provision exists in the tax law of the relevant jurisdiction), which represents the company's taxable income from previous years used to offset current year losses. The Carryback period varies by jurisdiction.

- b) $\text{Current LAC} = \text{Current DTL} - \text{Current DTA}$

An insurer's current tax loss absorbcency is represented by its net DTL position, i.e., current DTL less current DTA. A net DTL position means that the company owes tax to its Tax Authority. The amount owed (DTL) can be reduced by the tax deductibility arising from net losses under a shock scenario. A net DTA position means that the insurer already has accumulated tax deductions on its books. This reduces the ability to utilise additional tax deductions arising from net losses upon a shock.

- c) $\text{Future LAC} = \text{Risk Margin} \times t$

Risk Margin is currently used as a proxy for an insurer's future income, and therefore its ability to absorb future tax losses. The risk margin is the discounted cost of holding future capital requirements and represents to some extent the cost of doing business for in-force business. In general it is reasonable to assume that future profitability will have to cover this amount and, under this assumption, the risk margin may serve as a conservative proxy for an insurer's future income.

General – Operating/paying taxes in multiple jurisdictions

- B8.13 Where, for an entity or group operating in more than one jurisdiction, the default calculation based on consolidated balance sheet overstates the BSCR tax benefit (for example due to tax assets and tax liabilities related to different Tax Authorities not being offsetable), the insurers are expected to reach out to the Authority for the required adjustments to the BSCR calculation. Where the calculation based on the consolidated balance sheet may underestimate the BSCR tax benefit, insurers may reach out to the Authority.

General – Applicability of Default Calculation and the Underlying Assumptions

- B8.14 Where the simplified default calculation is not fully appropriate for the insurer or the underlying assumptions (as described in the section above) are not met, this should be documented. Where this leads to an overstatement of the tax benefit, and the overstatement is material, the insurer should reach out to the Authority for the required adjustments to the BSCR calculation.
- a) An example could be the automatic reflection of tax benefit through the default 'Future LAC' component in a case where the insurer expects not to have future taxable profits greater than or equal to the Risk Margin; or where the actual

historical results over a number of years show losses, at variance with management's assumptions about future profitability.

B9. APPROVAL OF AFFILIATED ASSETS

Background

- B9.1 All assets with economic counterparty credit risk exposure to an affiliate, related party or connected party of the insurance group (collectively, "affiliate(s)") will require prior approval by the Authority. This applies to long term insurers and long term insurance groups regardless of whether the insurance group is using the scenario-based approach or not.

Instructions

- B9.2 The term "assets" referred to in paragraph 33(1) in the Rules includes all investments and financial instruments (including any derivatives transactions with affiliates). This includes assets held in modified coinsurance accounts on the balance sheet of ceding companies. The BMA expects it would be a high bar for insurers or insurance group to demonstrate that investments with economic counterparty exposure to affiliated, related, or connected party are appropriate for covering policyholder liabilities (technical provisions).
- B9.3 The requirement for approval applies where the actual underlying credit exposure is to affiliate(s), related or connected party. Approval is not required where assets are originated by an affiliated/connected/related party but with no credit exposure to an affiliated/connected/related party. The risks that arise from use of affiliated/connected/related parties to originate assets, including but not limited to conflict of interest (and other governance risks) between policyholders and the asset manager, should be thoroughly assessed as part of the insurance group's risk and solvency self-assessment.
- B9.4 The following requirements should be met and included in the application to the Authority:
1. Summarise the general internal policies and processes on investment governance and risk management and how these were applied to the assets.
 2. Outline the investment process in as transparent a manner as possible i.e., from initial idea to decision - how the discussion to invest in the assets started and steps that followed including who was involved and at what stage of the process.
 3. Identify the key individuals and committees involved in the making of the investment decisions. This should include individuals both within and outside the insurance group but who may, directly or indirectly, have influenced the investment decisions. An assessment should be made whether any of the named individuals may be perceived to have exercised undue influence in the decision making.

4. Outline any objections raised (and by whom) as part of the investment decision process and how these were addressed/satisfied/settled.
5. Identify potential sources of conflict of interest and how these have been mitigated. This should be both at a general level considering the nature of the relationship existing between the involved parties and specific to the context of the investments concerned.
6. Demonstrate the investments were made on an arms-length basis.
7. Demonstrate how such investments are in the best interest of policyholders. This includes demonstrating how investing in non-affiliated/non-connected assets would have potentially not been in the best interest of policyholders in this case.
8. Provide evidence demonstrating that conflicts of interest that arise following investment in an affiliated asset shall be resolved in the best interest of policyholders.
9. Explain the process and impact of ceasing to invest in the affiliated investment.
10. Identify how the other involved affiliated/connected/related parties benefitted from such investment and an assessment of why such benefit was and continues to be considered appropriate.
11. An assessment of the exit options available and their triggers including under stressed conditions.
12. Provide details of the assets – market values, yields, spreads, term etc. The authority will provide a template for this purpose.
13. Provide the documentation that was produced as part of making the investment decisions.
14. Describe how the assets were valued both initially and on an ongoing basis. This should include the monitoring and reporting in place for such assets.
15. Describe any internal and third-party assessments carried out both as part of deciding to invest in the said assets and as part of ongoing risk management and monitoring.
16. For completeness, provide a summary of affiliated/connected/related party investments that were initially proposed but were not executed. The focus should be on the reasons why the insurance group did not proceed with the investments.

B10. DEFINITIONS

- B10.1** **Developed markets** are defined as means regulated markets in countries that are members of the Organisation for Economic Co-operation and Development (OECD) or the European Economic Area (EEA) or in Hong Kong or Singapore.
- B10.2** **Duration-based equity risk calculation** – equities in scope are defined as equity securities listed on developed markets (refer to section B10.1), held by long-term insurers to cover retirement products where:
- a) All assets and liabilities corresponding to the business are ring-fenced (refer to section B10.5) without any possibility of transfer.
 - b) The average duration of the liabilities corresponding to the business held by the insurer exceeds an average of 12 years.
 - c) The equity investments backing the liability are type 1 equity exposures, equities listed on developed markets or preferred shares (PS 6 to PS 8).
- B10.3** **Infrastructure investments** are defined as “investment in an infrastructure project entity that meets all of the following criteria”:
- a) The infrastructure project entity can meet its financial obligations under sustained stresses that are relevant for the risk of the project.
 - b) The cash flows that the infrastructure project entity generates for equity investors are predictable.
 - (i) For the purposes of this paragraph, the cash flows generated for debt providers and equity investors shall not be considered predictable unless all except an immaterial part of the revenues satisfies the following conditions:
 - 1) One of the following criteria is met:
 - (a) The revenues are availability-based. That is, the revenues consist primarily of fixed periodic payments, usually from a public sector authority, and are based on the availability of project facilities for use as specified in the contract
 - (b) The revenues are subject to rate-of-return regulation
 - (c) The revenues are subject to a take-or-pay contract
 - (d) The level of output or the usage and the price shall independently meet one of the following criteria:
 - i. It is regulated;
 - ii. It is contractually fixed; or
 - iii. It is sufficiently predictable as a result of low-demand risk.
 - 2) Where the revenues of the infrastructure project entity are not funded by payments from a large number of users, the party which agrees to purchase the goods or services provided by the infrastructure project entity shall be one of the following:
 - (a) Central banks or governments, multilateral development banks or international organisations as established in instructions issued by the Authority
 - (b) A regional government or local authority as established in instructions issued by the Authority

- (c) An entity with a BSCR Credit Rating of at least 4
 - (d) An entity that is replaceable without a significant change in the level and timing of revenues
- c) The terms and conditions relating to matters such as the infrastructure project assets and infrastructure project entity are governed by a contract [which specifies the laws of the country under which it is governed] that provides equity investors with a high degree of protection, including the following:
- (i) Where the revenues of the infrastructure project entity are not funded by payments from a large number of users, the contractual framework shall include provisions that effectively protect equity investors against losses resulting from the termination of the project by the party which agrees to purchase the goods or services provided by the infrastructure project entity; and
 - (ii) The infrastructure project entity has sufficient reserve funds or other financial arrangements to cover the contingency funding and working capital requirements of the project.
- d) The infrastructure assets and infrastructure project entity are located in Bermuda or in an OECD member country.
- e) Where the infrastructure project entity is in the construction phase the following criteria shall be fulfilled by the equity investor, or where there is more than one equity investor, the following criteria shall be fulfilled by all of the equity investors as a whole:
- (i) The equity investors have a history of successfully overseeing infrastructure projects and the relevant expertise to oversee such projects;
 - (ii) The equity investors have a low risk of insolvency, or there is a low risk of material losses for the infrastructure project entity as a result of their insolvency; and
 - (iii) The equity investors are incentivized to protect the interests of investors.
- f) The infrastructure project entity has established safeguards to ensure the completion of the project according to the agreed specification, budget or completion date.
- g) Where operating risks are material, they are properly managed.
- h) The infrastructure project entity uses tested technology and design.
- i) The capital structure of the infrastructure project entity allows it to service its debt.
- j) The refinancing risk for the infrastructure project entity is low.
- k) The infrastructure project entity uses derivatives only for risk-mitigation purposes.

Infrastructure project entity – refers to an entity which is not permitted to perform any other function other than owning, financing, developing or operating infrastructure assets and is used as the primary source to facilitate payments to debt providers and equity investors out of the income generated by such assets.

Infrastructure assets – refers to physical structures or facilities, systems and networks that provide or support essential public services.

B10.4 **Qualifying unlisted equity investments** – refers to unlisted equity investments that have risk characteristics similar to listed Type 1 equities, and may be classified as Type 1

equities under the category 'Listed equity securities in developed markets' with the associated lower capital charge. 'Qualified unlisted equity investments' are defined as:

- a) Direct investments in the equity of unlisted companies; or
- b) Equity investments in unlisted portfolio companies resulting from the look-through of private equity funds or private equity funds of funds;
where the investments fulfill all of the following conditions:
 - (i) Criteria on (underlying) equity investments:
 - 1) Investments are in the common equity of companies that are unlisted;
 - 2) The companies are established in, derive a majority of their revenues from, and have the majority of the staff that they employ located in, eligible countries. An eligible country here is defined as Bermuda or a country such that, if the company were listed in the stock exchange of the country, the listed equity of the company would qualify as Type 1 equity as set out in these instructions; and
 - 3) The companies have been larger than small-sized enterprises in the last three years.
 - (a) For the purposes of this paragraph, a 'small-sized enterprise' is defined as an enterprise which employs fewer than 50 persons and whose annual turnover and/or annual balance sheet total does not exceed USD 10 million.
 - (ii) Criteria on the vehicle (only for fund-type investments)
 - 1) The fund is closed-end;
 - 2) The fund does not use leverage, with the following exceptions which are allowed:
 - (a) Borrowing arrangements entered into if these are temporary in nature and are fully covered by contractual capital commitments from investors in the fund
 - (b) Derivative instruments used for currency hedging purposes that do not add any incremental exposure, leverage or other risks
 - 3) The fund meets the following requirements:
 - (a) The fund invests in unlisted companies, listed companies that are to become unlisted as a result of the investment made by the fund or listed companies as the temporary consequence of exiting the investment
 - (b) The investment strategy includes the intention to remain invested in the underlying companies for a number of years
 - (c) The fund manager has the power to appoint a director to the boards of the underlying companies and takes an active role in the company's governance with the aim to bring about a significant development or transformation
 - 4) The insurance group has all the information necessary to assess the fund manager's performance (e.g., profit and loss, cash flows and profits of the portfolio companies at a meaningful level of aggregation) and continues to get the information on a timely basis; and
 - 5) The insurance group invests through several independent fund managers to avoid undue concentration.
 - (iii) Criteria on own risk management
 - 1) Fund-type investments: the following requirements should be met:
 - (a) The insurance group computes the portfolio beta whenever BSCR is calculated

- (b) The insurance group follows a due diligence process prior to investing in the fund, including but not limited to:
 - i. Qualitative and quantitative analysis of the companies in which the manager has invested with its prior funds
 - ii. Obtaining information on how the fund is managed and the processes followed before investing
- (c) The insurance group assesses the fitness of the fund manager on an on-going basis.
- (d) The insurance group benchmarks the performance of the fund against comparable funds.
- (e) There are regular and reliable reporting lines between the fund manager and the insurance group.
- (f) The insurance group is able to challenge the investment decisions made by the fund manager (this implies that the fund manager provides sufficient information on the underlying assets).
- (g) The insurance group verifies that the fund manager regularly interacts with the management teams of the companies in which the fund invests.
- 2) Direct investments: the following requirements should be met:
 - (a) The insurance group computes the beta whenever BSCR is calculated.
- (iv) Similarity criterion
 - 1) The approach can only be applied to portfolios where any equity investment does not represent more than 10 % of the portfolio value.
 - 2) The approach cannot be applied to financial companies.
 - 3) The beta of the unlisted equity portfolio is determined via the following steps:
 - i. The hypothetical beta for each individual unlisted equity investment is calculated using the function set out below.
 - ii. The portfolio beta is calculated as the average of the individual betas weighted by the book values of the equity investments.
 - 4) The beta for direct unlisted equity investments is calculated in the same way as the beta for individual portfolio companies above.
 - 5) The similarity criterion is met if the beta of the portfolio or direct investment does not exceed a cut-off value of 0.80.
 - 6) The beta for an individual unlisted equity investment is calculated with the following formula: $\text{beta} = 0.9478 - 0.34\% * \text{AvgGrossMargin} + 0.0139 * \text{TotalDebt}/\text{AvgCFO} - 0.15\% * \text{AvgROE}$; where AvgGrossMargin = Average Gross Margin, TotalDebt = Total Debt, AvgCFO = Average Cash Flow from Operations, AvgRoe = Average Return on Common Equity. All the numbers should be entered as percentages/decimals multiplied by 100 (e.g., an ROE figure of 15.5% (i.e., 0.155 in decimal form)) would be entered as '15.5' in the formula; and
 - 7) In the above formula, 'Avg' means the average of the annual figures over the last five financial years. If this information is unavailable, the value of the end of the last financial year must be used.

The value of unlisted equity investments to which the lower capital charge is applied shall not exceed 5% of the market value of all investments.

- B10.5 **Ring-fenced** shall be defined as assets and liabilities that:
- a) Are managed and organised separately from other long-term businesses of the long-term insurer;
 - b) Are recorded as a separate (internal) financial reporting segment within the long-term insurer's general account; and
 - c) Have sufficient general account capital allocated to satisfy BSCR requirements on a stand-alone basis.
- B10.6 **Selected Mutual funds** – is defined as units or shares of alternative investment funds authorised as European Long-Term Investment Funds in accordance with Regulation (EU) 2015/760 of 29 April 2015, or units or shares of collective investment undertakings which are qualifying social entrepreneurship funds in accordance with article 3(b) of Regulation (EU) 346/2013 of 17 April 2013 or units or shares of collective investment undertakings which are qualifying venture capital funds as referred to in Article 3(b) of Regulation (EU) 345/2013 of 17 April 2013, and units or shares of closed-ended and unleveraged alternative investment funds where those alternative investment funds are established in the European Union or, if they are not established in the European Union, they are marketed in the European Union according to Articles 35 or 40 of Directive 2011/61/EU of 8 June 2011, as well as other similarly purposed investment funds approved by the Authority.
- B10.7 **Strategic holdings – A qualifying strategic holding must fulfil all of the following criteria:**
- a) The investing company holds at least 20 % of voting rights or share capital in the investment or is able to demonstrate it has significant influence (as defined by the applicable GAAP) over the investment;
 - b) The value of the equity investment is likely to be materially less volatile than the value of other equities as a result of both the nature of the investment and the influence exercised by the participating company; and
 - c) The nature of the investment is strategic, taking into account:
 - (i) The existence of a clear decisive strategy to continue holding participation for a long period;
 - (ii) The consistency of such strategy with the main policies guiding or limiting the actions of the participating company; and where the company is part of a group, the consistency of such strategy with the main policies guiding or limiting the actions of the group;
 - (iii) The ability of the company to continue holding the participation;
 - (iv) The existence of a durable link.

C.STATUTORY STATEMENTS AND BSCR SCHEDULES

C1. FORMS 1, 2, 8, 1A, 2A, 8A AND FORM 1EBS

Background

- C1.1 The statutory balance sheet (Form 1 for GAAP filers and 1A for IFRS filers), statutory statement of income (Form 2 for GAAP filers and 2A for IFRS filers), and statutory statement of capital and surplus (Form 8 for GAAP filers and 8A for IFRS filers) shall be completed by the insurance group in accordance with the filing guidance relating to these Forms found in the [Insurance \(Group Supervision\) Rules 2011](#).
- C1.2 Revoked.
- C1.3 The Economic Balance Sheet (Form 1EBS) shall be completed by the designated insurer of the insurance group in accordance with [the Insurance \(Prudential Standard\) \(Insurance Group Solvency Requirement\) Rules 2011](#).

Additional Guidance

Figures are to be reported in thousand units ('000s)

C1.i. Although the insurance group does not need to prepare its financial statements in thousands units, the Authority requires insurance group to report its statutory financial statements and economic balance sheet in thousands as this impacts the capital charges calculated in the BSCR model. The insurance group may attach its Statutory Financial Return under 'Other Attachments' to provide the BMA with a more accurate financial position.

Future operating lease payments

C1.ii. For the 2019 year-end and beyond, insurers that have future operating lease payments are to gross up their balance sheet for the right of use assets and a lease liability equivalent to the discounted value of future payments under an operating lease **only if the underlying assets being leased are tangible assets.** Further in the Schedule V(e) stress test scenarios, lease liability should be included in the following scenarios:

- Interest Rate Stress Scenario;
- Expected Inflation Stress Scenario;
- Foreign Exchange stress (where relevant);

Insurers are to report the right of use assets on Form 1SFS and 1EBS as 'Other Sundry Assets' and on Schedule IIF 'Other Sundry Assets and Liabilities' on Line 28 'Other Equities / Other Assets.'

Technical Provision Calculation – Risk Margin calculation

C1.iii. For reporting periods where the financial year-end falls within the BSCR transitional period, insurers are to determine the risk margin using projected future BSCRs that take into account the run-off of the transitional rules. That is, the risk margin should be determined by projecting both the old-basis BSCRs and the new-basis BSCRs into future, and applying the appropriate transitional weights at each future year-end within the projection to calculate the future transitional BSCRs that are then used in the Risk Margin calculation. After the transitional period ends in the projection, the new-basis BSCRs are to be used.

Regulated Non-Insurance Entities with Sectoral Capital Requirement

C1.iv. For insurance groups that have regulated non-insurance subsidiaries that have sector capital requirement, these entities are to

- Excluded from the Economic Balance Sheet;
- Capital requirement for these entities are to be included within Schedule XIA Schedule of Regulated Non-Insurance Financial Operating Entities and applied the capital requirement in column (11) Regulatory Capital Requirements for Regulated Entities (RCR) 100%
- Net Assets to be reported on the Summary tab Available Statutory Capital and Surplus “Capital Contribution”

C2. SCHEDULE OF FIXED INCOME AND EQUITY INVESTMENTS BY BSCR RATING (SCHEDULE II)

Background

- C2.0 The schedule of fixed income and equity investments by BSCR rating (Schedule II), provides a breakdown of an insurance group's bonds and debentures and equity investments by both investment categories (Corporate & Sovereign Bonds, Residential Mortgage-Backed Securities, Commercial Mortgage-Backed Securities/Asset-Backed Securities and Bond Mutual Funds) and BSCR Ratings (Ratings 0-8).
- C2.1 This schedule applies a capital charge based on the type of category and rating of the security held, which is aggregated in the fixed income and equity risk tab. Further this information provides the BMA with the type and quality of investments held for assessing the group's market risk. It is noted that the balances reported on this schedule also serves as a proxy of the group's liquidity position when assessed with the Schedule of Funds Held by Ceding Reinsurers in Segregated Accounts / Trusts by BSCR Rating (Schedule IIA), and Interest Rate/Liquidly Risk Charge.

Items

- C2.2 The Schedule is broken into three separate sections for which the total of each should correspond to a specific balance reported in Form 1EBS and Form 1 for the relevant year:
- a) Quoted and unquoted bonds and debentures – Line 10, Column (9) 'Total' corresponds to Form 1EBS and Form 1, Line 2(b) and 3(b);
 - b) Quoted and unquoted equities – Line 21, Column (9) 'Total' corresponds to Form 1EBS and Form 1, Line 2(d) and 3(d); and
 - c) Mortgage loans – Line 26, Column (1) 'Total' corresponds to Form 1EBS and Form 1, Line 5(c).

Instructions Affecting Schedule II

- C2.2a Fixed income investments, both quoted and unquoted, shall be categorised into corporate bonds and sovereign bonds, residential mortgage-backed securities, commercial mortgage-backed securities/asset-backed securities, and bond mutual funds and classified by BSCR rating;
- C2.2b Equity investments, both quoted and unquoted, shall be categorised into common stock, preferred stock and equity mutual funds;
- C2.2c Preferred stock shall be classified by BSCR rating;

- C2.2d Sovereign debt issued by a country in its own currency that is rated AA- or better shall be classified under BSCR rating 0 while all other sovereign bonds shall be classified in a similar manner as corporate bonds;
- C2.2e Debt issued by government-owned and related entities that were explicitly guaranteed by that government, with the exception of mortgage-backed securities, shall be assigned a BSCR rating of 0, provided that the country is rated AA- or better and the debt is in the local currency of the country and otherwise classified in a similar manner as corporate bonds; and
- C2.2f Bond mutual funds shall be classified based on the underlying bond ratings as advised by the fund manager; equity mutual funds shall be classified in a similar manner as direct equity investments;
- C2.2g Money market funds shall be classified by the underlying credit security based on the BSCR rating prescribed in Schedule XIX.

BSCR Ratings

- C2.2h The following process will apply to determine the BSCR rating classifications:
- a) Use the lowest BSCR rating comparable to the ratings of S&P, Moody's, Fitch and AM Best.
 - b) Insurers may select additional BMA named rating agencies to use, from those included in the table in the next paragraph, subject to the following:
 - (i) The additional BMA named rating agencies are Dominion Bond Rating Service, Egan Jones Rating Company, Japan Credit Rating Agency and Kroll Bond Rating Agency;
 - (ii) Insurers must document the selection process of credit rating agencies;
 - (iii) Insurers must use the selected rating agencies and their ratings in a consistent manner over time. There must be a documented process for making any changes to the list of selected rating agencies and how ratings are selected;
 - (iv) The selection process and its outcome must be approved by senior management; and
 - (v) The lowest BSCR rating comparable to the ratings of all the selected rating agencies, including the rating agencies from step (a), is used.
 - c) For any fixed income instruments for which a credit rating is not available from any of the rating agencies named in step (a) or step (b) (as per the insurer's selection), the insurer may elect to either leave the assets as unrated (i.e. BSCR

rating 8) or obtain the BSCR rating from the National Association of Insurance Commissioners (NAIC) Securities Valuation Office (SVO) rating.

C2.2i The table below contains, for each credit rating agency, the rating categories for which their ratings are allowed for BSCR purposes (marked with 'X'). Additionally, the NAIC SVO ratings may be applied for otherwise unrated assets in accordance with the previous paragraph.

Credit Rating Agency	Principal Office	Financial institutions, brokers and dealers	Insurance companies	Corporate issuers	Issuers of asset-backed securities	Government securities, municipal securities, foreign government securities
Moody's Investor's Service*	U.S.	X	X	X	X	X
Standard and Poor's*	U.S.	X	X	X	X	X
Fitch Ratings*	U.S.	X	X	X	X	X
Dominion Bond Rating Service*	U.S.	X	X	X	X	X
A.M. Best Company*	U.S.		X	X	X	
Kroll Bond Rating Agency*	U.S.	X	X	X	X	X
Egan Jones Rating Company*	U.S.	X	X	X		
Japan Credit Rating Agency*	Japan	X	X	X		X

*) As determined by the SEC.

C2.2j The mapping of credit ratings to BSCR ratings are:

BSCR Rating	Standard & Poor's	Moody's	AM Best	Fitch
1	AAA	Aaa	aaa	AAA
2	AA+ to AA-	Aa1 to Aa3	aa+ to aa-	AA+ to AA-
3	A+ to A-	A1 to A3	a+ to a-	A+ to A-
4	BBB+ to BBB-	Baa1 to Baa3	bbb+ to bbb-	BBB+ to BBB-
5	BB+ to BB-	Ba1 to Ba3	bb+ to bb-	BB+ to BB-
6	B+ to B-	B1 to B3	b+ to b-	B+ to B-
7	CCC+ to CCC-	Caa1 to Caa3	ccc+ to ccc-	CCC+ to CCC-
8	Below CCC-	Below Caa3	Below ccc-	Below CCC-

BSCR Rating	KBRA	DBRS	Egan-Jones	Japan Credit Rating Agency
1	AAA	AAA	AAA	AAA
2	AA+ to AA-	AA (High) to AA (Low)	AA+ to AA-	AA+ to AA-
3	A+ to A-	A (High) to A (Low)	A+ to A-	A+ to A-
4	BBB+ to BBB-	BBB (High) to BBB (Low)	BBB+ to BBB-	BBB+ to BBB-

5	BB+ to BB-	BB (High) to BB (Low)	BB+ to BB-	BB+ to BB-
6	B+ to B-	B (High) to B (Low)	B+ to B-	B+ to B-
7	CCC+ to CCC-	CCC (High) to CCC (Low)	CCC+ to CCC-	CCC+ to CCC-
8	Below CCC-	Below CCC (Low)	Below CCC-	Below CCC-

BSCR Rating	NAIC SVO
1	-
2	-
3	1
4	2
5	3
6	4
7	5
8	6

C2.2k A BSCR rating of 0 (not included above) has been provided for certain high-quality fixed-income investments, specifically sovereign bonds and bond mutual funds.

Additional Guidance

Figures are to be reported in thousand units ('000s)

C2.i. Although the insurance group does not need to prepare its financial statements in thousands units, the Authority requires insurance groups to report its statutory financial statements and economic balance sheet in thousands as this impacts the capital charges calculated in the BSCR model. The insurance group may attach its Statutory Financial Return under “Other Attachments” to provide the BMA with a more accurate financial position

Applying a BSCR Rating to unquoted internally rated investments

C2.ii. Insurance groups that have developed an internal rating for unquoted investments shall apply a BSCR rating of 8. Nevertheless, if an insurance group would like to request permission to use an equivalent scale of these investments in their BSCR filing, the insurance group shall request such permission in writing to the BMA and include details on the internal rating assessment and a proposed equivalent scale to the BSCR Rating scale. Only upon approval shall the insurance group reclassify an unquoted investment from BSCR Rating 8.

Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA) and Federal Home Loan Mortgage Corporation (FHLMC) are not eligible for BSCR Rating 0

C2.iii. Securities that have a BSCR Rating 0 have been defined as ‘Sovereign debt issued by a country in its own currency that is rated AA- or better’, however the Authority would like to acknowledge that GNMA, FNMA and FHLMC are not eligible for the sovereign bond classification BSCR Rating 0 and shall be reported under Mortgage-Backed Securities (MBS). While the Authority acknowledges that an explicit government guarantee applies to the credit risk for GNMA-insured mortgages uncertainty remains with the timing of the mortgage loan repayments. Consequently, the Authority does not extend the sovereign debt treatment to MBS.

MBS to use NAIC Rating

C2.iv. MBS do not always adequately reflect the risk associated with being held at less than par value. For this reason, the NAIC has modeled these bonds and provides United States (U.S.) insurers with a rating reclassification. The Authority shall allow insurance groups the option to use these reclassifications when summarising their portfolio. Instances where an instrument has a rating from a rating agency that would put it in BSCR ratings classes 1-2, and it has also been classified as NAIC ratings class 1 (equivalent to BSCR ratings class 3), then the better BSCR ratings class may be selected. The Authority requires insurance groups to provide a separate summary of the Form 1 value by BSCR rating class, both before and after the adjustment.

The NAIC reclassifications of MBS will be assigned to the BSCR Ratings classes according to the following table:

BSCR Rating Class	NAIC (for MBS Only)
0-2	
3	1
4	2
5	3
6	4
7	5
8	6

Some Residential MBS bonds are not directly modelled by the NAIC, including bonds held by insurers that do not have a U.S. presence. The NAIC provides a documented four-step process as part of its SSAP No. 43R for reclassifying such bonds based on their rating and their Form 1/1A value relative to par. The Authority shall allow companies to optionally follow this process in classifying bonds that the NAIC has not formally reclassified.

C3. SCHEDULE OF FUNDS HELD BY CEDING REINSURERS IN SEGREGATED ACCOUNTS/TRUSTS BY BSCR RATING (SCHEDULE IIA)

Background

- C3.0 To assess the risk of amounts reported in Funds Held By Ceding Reinsurers (Form 1EBS, Line 12(c)), the Authority requires insurance groups to determine the arrangement that the funds are being held. In the event of default, if the reinsurer bears the risk of the assets held, then these amounts are to be reported on Schedule XVIII – Expanded Particulars of Ceded Reinsurance; if the insurance group bears the risk (as well as the market risk of the valuation of investments), then these amounts are to be reported in Schedule IIA – Schedule of Funds Held by Ceding Reinsurers in Segregated Accounts/Trusts By BSCR Rating.
- C3.1 The Schedule of Funds Held by Ceding Reinsurers in Segregated Accounts/Trusts by BSCR Rating — Schedule IIA — provides the BMA with details to assess the type and quality of investment held by requiring the insurance group to allocate the balances by investment category and BSCR Rating (similar to investments reported on Schedule II). Further the balances reported on Schedule IIA also are used in the calculation for the Interest Rate/Liquidity Risk and Cash and Cash Equivalents exposure.
- C3.2 The investment categorisation and BSCR ratings shall be based on the same rating scale and principles as those found in Schedule II.

Items

- C3.3 The Schedule is broken into five separate sections as follows:
- a. Quoted and unquoted bonds and debentures;
 - b. Quoted and unquoted equities;
 - c. Other investment;
 - d. Mortgage loans; and
 - e. Cash and time deposits.

Instructions Affecting Schedule IIA

- C3.4 All funds held by ceding reinsurers (as reflected in Form 1EBS, Line 12(c) and Form 1, Line 12) in segregated accounts/trusts with identifiable assets, such as fixed income investments, equity investments, mortgage loans, other investments and cash and cash equivalents, shall be included here;

- C3.5 Fixed income investments, both quoted and unquoted, shall be categorised into corporate bonds and sovereign bonds, residential MBS, commercial MBS/asset-backed securities, and bond mutual funds and classified by BSCR rating;
- C3.6 Equity investments, both quoted and unquoted, shall be categorised into common stock, preferred stock and equity mutual funds;
- C3.7 Preferred stock shall be classified by BSCR rating;
- C3.8 BSCR ratings shall be determined in the manner specified in the instructions affecting Schedule II;
- C3.9 Sovereign debt issued by a country in its own currency that is rated AA- or better shall be classified under BSCR rating 0 while all other sovereign bonds shall be classified in a similar manner as corporate bonds;
- C3.10 Debt issued by government-owned and related entities that were explicitly guaranteed by that government, with the exception of MBS, shall be assigned a BSCR rating of 0;
- C3.11 Bond mutual funds shall be classified based on the underlying bond ratings as advised by the fund manager; equity mutual funds shall be classified in a similar manner as direct equity investments;
- C3.12 Money market funds shall be classified by the underlying credit security based on the BSCR rating prescribed in Schedule XIX.

Additional Guidance

Additional guidance for assessing the Funds Held By Ceding Reinsurer arrangement

C3.i. For funds held by ceding companies, the capital risk charge is calculated by the nature of the arrangement.

- a) Where specific assets have been allocated for the benefit of the reinsurer, such that the reinsurer bears market risk on those assets, the Authority requires insurance groups to look through to the underlying assets, and report these balances on Schedule IIA. This effectively adds to the fixed-income risk and equity risk modules similar to Schedule II.
- b) Where there are no specific identified assets, the reinsurer is effectively in a similar position to a typical cedant with reinsurer exposure, and the amounts will thus be treated similarly to reinsurance recoveries and shall be reported on Schedule XVIII Expanded Particulars of Ceded Reinsurers. Further, the rating for reinsurance exposures should be based on the financial strength ratings of the insurer.

Applying a BSCR Rating to unquoted internally rated investments

- C3.ii. Insurance groups that have developed an internal rating for unquoted investments shall apply a BSCR rating of 8. Nevertheless if an insurance group would like to request permission to use an equivalent scale of these investments in their BSCR filing, the insurance group shall request such permission in writing to the BMA and include details on the internal rating assessment and a proposed equivalent scale to the BSCR Rating scale. Only upon approval shall the insurance group reclassify an unquoted investment from BSCR Rating 8. For funds held by ceding companies, the capital risk charge is calculated by the nature of the arrangement.

Reporting hedge funds

- C3.iii. When reporting hedge funds on Schedule II, insurance groups may not have the exact details of the underlying assets in which the funds are held. In these instances, the Authority advises allocating on a proportionate basis of the balance of the portfolio to the approved investment guidelines of the hedge fund and provides in the Attachment section the methodology used when reporting these figures.

C4. SCHEDULE OF NET LOSS AND LOSS EXPENSE PROVISIONS BY LINE OF BUSINESS (SCHEDULE III)

Background

- C4.0 The schedule of net loss and loss expense provisions by line of business — Schedule III — provides a breakdown of an insurance group’s net loss and loss expense provisions by statutory lines of business. The BMA has identified and defined 24 statutory lines of business.
- C4.1 Line item 25 ‘Total’ of Schedule III for net loss and loss expense provisions should correspond to the balance reported in Form 1, line 17(d) and Form 1EBS, line 17(d) for the relevant year.

Instructions Affecting Schedule III

- C4.1a Amounts reported on the Supplemental Notes to Form 1EBS which shall be reported on a consolidated EBS basis;
- C4.1b The same definition below shall be applied to both proportional and non-proportional statutory lines of business below;
- C4.1c Where the BSCR risk factor charges differ in (a), insurance groups shall make a distinction when completing the statutory filing and using the BSCR model;
- C4.1d 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.);
- C4.1e Insurance group may in good faith determine the allocation of the statutory lines;
- C4.1f Where an insurance contract involves multiple lines, the insurance group shall assign to the various lines in accordance with the proportions written;
- C4.1g Where an insurance group is unable to make the determination in instruction (e), the business shall be allocated to the line with the highest proportion;
- C4.1h Where the insurance group is unable to make the determination in instruction (f), then the business shall be assigned to the line with the highest capital risk charge; and
- C4.1i The support and assumptions used by senior management shall be made available for review by the BMA.

Statutory lines of business (Proportional and Non-Proportional)	Line of business mappings and definitions
Property catastrophe	<i>Property catastrophe</i> — coverage of damage arising from a peril that triggers an event (or events) that causes \$25 million or more indirect 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	<i>U.S. property</i> — coverage of U.S. risks including buildings, structures, equipment, business interruption, contents and all risk (not included in other categories) related losses. <i>Crop / agriculture</i> — coverage of risks including onshore/offshore farms, livestock, agriculture and other food production related losses. <i>International property</i> — coverage of non-U.S. risks including buildings, structures, equipment, business interruption, contents and all risk (not included in other categories) related losses.
Personal accident	<i>Personal accident</i> — 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	<i>Aviation</i> — coverage of risks arising from airport, fleet, or satellite property and operations-related losses.
Credit/surety	<i>Credit/surety</i> — coverage of risks arising from various types of guarantees, commercial surety bonds, contractor bonds and various credit-related losses.
Energy offshore/Marine	<i>Energy offshore/marine</i> — coverage of risks arising from offshore exploration and production, refining, power generation and/or cargo, hull and other marine-related losses.
U.S. Casualty	<i>U.S. casualty motor</i> — coverage of U.S. 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. <i>U.S. casualty – general</i> — coverage of U.S. 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><i>Terrorism</i> — 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><i>Other</i> — business that does not fit in any other category.</p>
U.S. professional	<i>U.S. casualty – professional</i> — coverage of U.S. 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.
U.S. specialty	<i>U.S. casualty – medical malpractice</i> — coverage of U.S. 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	<i>International motor</i> — coverage of non-U.S. 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 casualty non-motor	<i>International casualty non-motor</i> — coverage of non-U.S. 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	<p><i>Retro property</i> — retrocession cover for risks including buildings, structures, equipment, business interruption, contents and all risk (not included in other categories) related losses.</p> <p><i>Retro casualty</i> — 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.</p>
Structured/finite reinsurance	<i>Structured/finite reinsurance</i> — 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.
Health	<i>Health</i> — coverage of care, curative or preventive medical treatment or financial compensation arising from illness, accident, disability or frailty, including hospital, physician, dental, vision and extended benefits.

C5. SCHEDULE OF GEOGRAPHICAL DIVERSIFICATION OF NET LOSS AND LOSS EXPENSE PROVISIONS (SCHEDULE IIIA)

Background

- C5.0 The schedule of geographical diversification of net loss and loss expense provisions — Schedule IIIA — provides a breakdown of an insurance group’s net loss and loss expense provisions by statutory lines of business and by geographical location. The BMA has identified and defined 24 statutory lines of business and 18 statutory geographical zones.
- C5.1 Line item 25 ‘Total’ of Schedule IIIA for net loss and loss expense provisions should correspond to the balance reported in Form 1EBS, line 17(d) for the relevant year.

Instructions Affecting Schedule IIIA

- C5.1a For each line of business, the net loss reserves for the current year stated in Schedule III may be split between the 18 geographic zones set below. If included, the total amounts in zones 1-18 for a given line of business shall equal the corresponding amount of net loss reserves shown in Schedule III (EBS);

Underwriting Zone	Location
Zone 1 - Central & Western Asia	Armenia, Azerbaijan, Bahrain, Georgia, Iraq, Israel, Jordan, Kazakhstan, Kuwait, Kyrgyzstan, Lebanon, Oman, Palestinian, Qatar, Saudi Arabia, Saudi Arab Republic, Tajikistan, Turkey, Turkmenistan, United Arab Emirates and Uzbekistan
Zone 2 - Eastern Asia	China, Hong Kong, Japan, Macao, Mongolia, North Korea, South Korea, and Taiwan
Zone 3 - South and South-Eastern Asia	Afghanistan, Bangladesh, Bhutan, Brunei Darussalam, Cambodia, India, Indonesia. Iran, Lao PDR, Malaysia, Maldives, Myanmar, Nepal, Pakistan, Philippines, Singapore, Sri Lanka, Thailand, Timor-Leste, and Vietnam
Zone 4 - Oceania	American Samoa, Australia, Cook Islands, Fiji, French Polynesia, Guam, Kiribati, Marshall Islands, Micronesia, Nauru, New Caledonia, New Zealand, Niue, Norfolk Island, N. Mariana Islands, Palau, Papua New Guinea, Pitcairn, Samoa, Solomon Islands, Tokelau, Tonga, Tuvalu, Vanuatu, Wallis & Futuna Island
Zone 5 - Northern Africa	Algeria, Benin, Burkina Faso, Cameroon, Cape Verde, Central African Republic, Chad, Cote d' Ivoire, Egypt, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Libya, Mali, Mauritania, Morocco, Niger, Nigeria, Saint Helena, Senegal, Sierra Leone, Sudan, Togo, Tunisia, and Western Sahara
Zone 6 - Southern Africa	Angola, Botswana, Burundi, Democratic Republic of Congo, Comoros, Djibouti, Equatorial Guinea, Eritrea, Ethiopia, Gabon, Kenya, Lesotho, Madagascar, Malawi, Mauritius, Mayotte, Mozambique, Namibia, Republic of Congo, Reunion, Rwanda, Sao Tome & Principe, Seychelles, Somalia, South Africa, Swaziland, Uganda, United Republic of Tanzania, Zambia, and Zimbabwe
Zone 7 - Eastern Europe	Belarus, Bulgaria, Czech Republic, Hungary, Moldova, Poland, Romania, Russian Federation, Slovakia, and Ukraine
Zone 8 - Northern	Aland Islands, Channel Islands, Denmark , Estonia, Faeroe Islands, Finland Guernsey, Iceland, Republic of Ireland, Isle of Man, Jersey, Latvia, Lithuania,

Europe	Norway, Svalbard, Jan Mayen, Sweden, United Kingdom
Zone 9 - Southern Europe	Albania, Andorra, Bosnia, Croatia, Cyprus, Gibraltar, Greece, Italy, fYR of Macedonia, Malta, Montenegro, Portugal, San Marino, Serbia, Slovenia, Spain, and Vatican City
Zone 10 - Western Europe	Austria, Belgium, France, Germany, Liechtenstein, Luxembourg, Monaco, Netherlands, and Switzerland
Zone 11 - Northern America (Excluding USA)	Bermuda, Canada, Greenland, and St Pierre & Miquelon
Zone 12 - Caribbean & Central America	Anguilla, Antigua & Barbuda, Aruba, Bahamas, Barbados , Belize, British Virgin Islands, Cayman Islands, Costa Rica , Cuba, Dominica, Dominican, El Salvador, Grenada, Guadeloupe Guatemala, Haiti, Honduras, Jamaica, Martinique, Mexico, Montserrat, Netherlands Antilles, Nicaragua, Panama, Puerto Rico, St-Barthelemy, St Kitts & Nevis, St Lucia, St Martin, St Vincent, Trinidad & Tobago, Turks & Caicos Islands, and US Virgin Islands
Zone 13 - Eastern South America	Brazil, Falkland Islands, French Guiana, Guyana, Paraguay, Suriname, and Uruguay
Zone 14 - Northern, Southern and Western South America	Argentina, Bolivia, Chile, Colombia, Ecuador, Peru, and Venezuela
Zone 15 - North-East United States	Connecticut, Delaware, District of Columbia, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, and Vermont
Zone 16 - South-East United States	Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, Puerto Rico, South Carolina, Tennessee, Virginia, and West Virginia
Zone 17 - Mid-West United States	Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, Oklahoma, South Dakota, and Wisconsin
Zone 18 - Western United States	Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Texas, Utah, Washington, and Wyoming

C6. SCHEDULE OF PREMIUMS WRITTEN BY LINE OF BUSINESS (SCHEDULE IVA)

Background

- C6.1 The schedule of premiums written by line of business — Schedule IVA — provides a breakdown of an insurance group’s gross premiums written and net premiums written by statutory lines of business. Insurance groups are required to separate gross premiums written into ‘unrelated’ and ‘related’ business according to the 24 prescribed statutory lines of business.

Instructions Affecting Schedule IVA

- C6.1a Gross premiums written is the amount of gross premiums written during the relevant year and the ‘Total’ on line 25 should correspond to the balance reported in Form 2, line 1(c) for the same relevant year; and
- C6.1b Net premiums written is gross premiums written in instruction (a) less reinsurance premiums ceded during the relevant year, and the ‘Total’ on line 25 should correspond to the balance reported in Form 2, line 3 for the same relevant year.

Additional Guidance

Figures are to be reported in thousand units (‘000s)

- C6.1c Although the insurance group does not need to prepare its financial statements in thousand units, the Authority requires insurance groups to report its statutory financial statements and economic balance sheet in thousand units as this impacts the capital charges calculated in the BSCR model. The insurance group may attach its Statutory Financial Return under “Other Attachments” to provide the BMA with a more accurate financial position.

C7. SCHEDULE OF LONG-TERM BUSINESS PREMIUMS (SCHEDULE IVB)

Background

C7.1 The schedule of Long-Term Business Premiums — Schedule IVB — provides a breakdown of an insurance group’s gross premiums and other considerations, and net premiums and other considerations by prescribed long-term insurance product. Insurance groups are required to separate the long-term gross premiums written into ‘unrelated’ and ‘related’ business according to statutory long-term insurance products.

C7.2 A description of these insurance products is listed below:

	<u>Long-Term Business Lines of Business</u>	<u>Description</u>
1	Mortality	The risk of fluctuations or deterioration of mortality experience causing increased claims on life insurance coverages.
2	Critical illness	A form of accident and health insurance that pays a benefit if the person insured incurs a predefined major illness or injury.
3	Longevity	The risk of fluctuations or improvements in mortality that cause benefits on payout annuities to be paid for longer than expected.
4	Deferred annuities	An insurance that provides savings or income benefits during the lifetime of the person insured or some limited period thereafter.
5	Disability income: active lives with premium guarantee of -	An accident and health insurance that pays a benefit for a fixed period of time during disability, based on contracts that are for active lives and have a premium guarantee.
6	Disability income: active lives for other accident and sickness	An accident and health insurance that pays a benefit for a fixed period of time during disability based on contracts that are for active lives and are for other accident and sickness coverage.
7	Disability income: claims in payment	An accident and health insurance that pays a benefit for a fixed period of time during disability based on contracts where claims in payment are issued on waiver of premiums.
8	Disability income: claims in payment for other accident and sickness	An accident and health insurance that pays a benefit for a fixed period of time during disability based on contracts where claims in payment on waiver of premiums are based on contracts that are for active lives and are for other accident and sickness coverage.

9	Group life	Life insurance that is issued to persons insured through a group arrangement such as through an employer or association.
10	Group disability	Disability insurance that is issued to persons insured through a group arrangement such as through an employer or association.
11	Group health	Health insurance that is issued to persons insured through a group arrangement such as through an employer or association.
12	Stop loss	The risk that arises when total claims experience deteriorates or is more volatile than expected, thereby increasing the likelihood and amount by which actual claims experience exceeds a predefined level.
13	Rider	The risk that arises when total claims experience deteriorates or is more volatile than expected, thereby increasing the likelihood and amount by which actual claims experience exceeds a predefined level.
14	Variable annuities	Insurance that provides a minimum investment guarantee on variable annuities.

C7.3 Line item 15 'Total' of Schedule IVB for total gross premiums and other considerations, and net premiums and other consideration should correspond to the balance reported in Form 2, lines 12(c) and 14(d), respectively, for the relevant year.

Additional Guidance

Figures are to be reported in thousand units ('000s)

C7.i. Although the insurance group does not need to prepare its financial statements in thousand units, the Authority requires insurance groups to report its statutory financial statements and economic balance sheet in thousand units as this impacts the capital charges calculated in the BSCR model. The insurance group may attach its Statutory Financial Return under 'Other Attachments' to provide the BMA with a more accurate financial position.

C8. SCHEDULE OF GEOGRAPHIC DIVERSIFICATION OF NET PREMIUMS WRITTEN (SCHEDULE IVC)

Background

- C8.1 The schedule of geographic diversification of net premiums written — Schedule IVC — provides a breakdown of an insurance group’s net premiums written by statutory lines of business and by geographical location. The BMA has identified and defined 24 statutory lines of business and 18 statutory geographical zones.
- C8.2 Line item 25 ‘Total’ of Schedule IVC for net premiums written should correspond to the balance reported in Consolidated Form 2, line 3 for the relevant year.

Instructions Affecting Schedule IVC

- C8.2a For each line of business, the net premiums written for the current year stated in Schedule IVA may be split between the 18 geographic zones set above. If included, the total amounts in zones 1-18 for a given line of business shall equal the corresponding amount of net premiums written shown in Schedule IVA.
- C8.2b Amounts shall be reported on a consolidated basis only.

Additional Guidance

- C8.2c When allocating the premiums by geographic location, allocate the premiums by the location of the risk.

C9. SCHEDULE OF RISK MANAGEMENT (SCHEDULE V)

Background

- C9.1 For assessing the areas of risk of an insurance group, the Authority also takes into consideration the group's risk management structure on an on-going basis. Such areas include: the structure of the group, the underwriting risks, market/investment risks, liquidity/interest rate risks and any other risks (such as deposit assets and liabilities and segregated accounts) associated with the insurance grouper. These areas are to be provided on a forward-looking basis and if there are significant changes to the insurance group's business plan for the upcoming year, the insurance group shall include a description of the change in the supporting documentation.
- C9.2 The schedule of risk management shall include the following:
- a) Governance structure
 - b) Group structure
 - c) Intra-group transactions and risk concentrations
 - d) Effective duration of assets
 - e) Effective duration of liabilities
 - f) Description of the effective duration of assets and liabilities calculations and key assumptions
 - g) Gross probable maximum loss
 - h) Net probable maximum loss
 - i) Average annual loss (excluding property catastrophe)
 - j) Actual attritional losses and large claims losses – relevant year
 - k) Arrangements with respect to property catastrophe recoverables
 - l) Mutual fund disclosures
 - m) Summary of projected performance
 - n) Summary of product features and risks
 - o) Financial impact and description of stress and scenario tests
 - p) Investments and derivatives strategies and policy
 - q) Modified co-insurance arrangements
 - r) Deferred accumulation annuities disclosures
 - s) Reconciliation from GAAP financial statements to Form 1EBS
 - t) Description of risk management programme
 - u) Risk register
 - v) List of statutory lines and statutory territories that have catastrophe exposures
 - w) Details of deposit assets and liabilities

Instructions Affecting Schedule V

C9.2a Governance structure must disclose —

1. The structure of the parent company’s board of directors; including names, role, country of residence, work experience and status on the board;

Additional guidance for status on the board:

Non-executive (independent)	Refers to a non-executive member of the parent board of directors that is not affiliated to the group nor a service provider
Non-executive (service provider)	refers to a non-executive member of parent board of directors that: a) Acts as a company formation agent, or agent for the establishment of a partnership; b) Acts as a nominee shareholder of a company; c) providing administrative and secretarial services to the insurance group; d) Performs its functions in the capacity of resident representative under the Companies Act 1981, Exempted Partnerships Act 1992 and Overseas Partnerships Act 1995; and e) Provides any additional corporate or administrative services as may be specified in regulations.
Non-executive (other)	Refers to a non-executive member of the board that does not qualify as an independent director nor is a service provider
Executive	Refers to a executive member of the parent board of directors

2. The structure of the management of the parent company including names, roles, work country of residence, experience, and employee arrangement (e.g., confirm whether employees are hired or outsourced etc.);

Additional guidance for employee arrangement:

Chief and senior executives employee arrangements are categorised as follows:

Insurance Group	Employee working full-time for the insurance group
External service provider	Third party service providers e.g., insurance managers

3. Terms of reference of the parent company board of directors its sub-committees;
4. List of major shareholder controllers; and
5. A copy of the latest group organisational chart

Additional Guidance

Change in board and/or senior management after financial year-end

- C9.2b Instances where the composition of the board and senior management has undergone changes since the financial year-end, insurance groups are to report the composition of the board and senior managements as of the financial year-end, as well as provide in brackets in the name field, the effective date of the previous and new members of the board or senior management.
- C9.2c Note that under section 30J of the Act, a notification is required for change in board members and officers within 45 days of the insurance group becoming aware of the change, and thus the inclusion of this information in the BSCR does not qualify as notification of such change.

Terms of Reference clarification

- C9.2d 'Terms of Reference' in this case refers to the duties of the board and its sub-committees as stated in the group's charter. If the group's by-laws include information which aids in the BMA's assessment, it is then acceptable.
- C9.2e Group structure must disclose —
- a) List of regulated entities, the sectors in which they operate in and their place of incorporation grouped by country or state (for United States);
 - b) List of unregulated entities, the sectors in which they operate in and their place of incorporation grouped by country or state (for United States);
 - c) The description of the strategic purpose of each entity;
 - d) The type of each entity categorised either as a holding entity, operating entity, branch, or other;
 - e) The description of the products and services sold to external parties;
 - f) The total assets (on a unconsolidated/legal basis) of each entity;
 - g) The total net assets or equity (on a unconsolidated/legal basis) of each entity;
 - h) The gross and net premiums written (on a unconsolidated/legal basis) of each entity, if applicable;
 - i) Group's participation share (percentage) of each entity; and
 - j) Sector classification;
- C9.2f Intra-group transactions to which the group is a party and the insurance group's risk concentrations—
- a) Details of material intra-group transactions between and among the members of the group including (where applicable) —
 - (i) Exposure value (face value or market value, if the latter is available);
 - (ii) Counterparties involved including where they are located; and
 - (iii) Summary details of the transactions – including purpose, terms and transaction costs, duration of the transaction and performance triggers.

- b) Details surrounding all intra-group reinsurance and retrocession arrangements, and other material intra-group exposures including—
 - (i) Counterparties involved including where they are located;
 - (ii) Aggregated values of the exposure limits (gross and net) by counterparties broken down by counterparty rating;
 - (iii) Aggregated premium flows between counterparties (gross and net); and
 - (iv) The proportion of the group’s insurance business exposure covered by internal reinsurance, retrocession and other risk transfer arrangements;

- c) Ten largest exposures to unaffiliated counterparties and any other unaffiliated counterparty exposures or series of linked unaffiliated counterparty exposures exceeding 10% of the group’s statutory capital and surplus—
 - (i) Name of counterparty;
 - (ii) Exposure values (face value or market value); and
 - (iii) Transaction type.

Additional Guidance

Material intra group transactions, and intra-group reinsurance and retrocession arrangements

C9.2g When providing details of ‘material intra-group transactions’ the Authority considers ‘material exposure’ in relation to statutory capital and surplus (i.e., Greater than 10% of statutory capital and surplus), as well as the materiality of the specific disclosure. For example, if the insurance group holds cash of \$3 million and total assets of \$4 million, the BMA would consider the \$3 million cash balance to be material as it pertains to 75% of the insurance group’s total assets.

When providing details of ‘intra-group reinsurance and retrocession arrangements’ the Authority is looking for **all** intra-group reinsurance and retrocession arrangements. Note that if an insurance group has more than 25 transactions with the same assuming and ceding party, they can be aggregated together. If an insurance group has more than 25 transactions, please include these details in the attachments section of the BSCR model.

The ‘Aggregated Premium Flows’ shall be the premium written for the reporting period (note that net refers to any reinsurance that is ceded back to the counterparty). The “Aggregated Values of the Exposure Limits” shall be the outstanding reserve at the reporting period (note the net refers to any reinsurance that is deducted from the counterparty).

Internal reinsurance arrangement calculation

- C9.2h The proportion of internal reinsurance arrangements is calculated by dividing the amount of reinsurance provided by affiliates into the total amount of reinsurance available. The insurance group shall only include arrangements where it is the ceding party.

Unaffiliated counterparties ten largest exposures

- C9.2i In instances where the insurance group does not have any investing activities, yet it holds cash and cash equivalents, the insurance group shall list these as counterparty exposures as well as include each bank separately.

Unaffiliated counterparties ten largest exposures – investments to report

- C9.2j When determining the ten largest unaffiliated counterparty exposures, insurance groups are to include cash & cash equivalents, investments (as well as hedge funds), receivables, recoverables and letters of credit at the end of the reporting period. If the information is available, insurance groups are to provide a look-through basis of the underlying investment.
- C9.2k The effective duration of assets must be determined using the aggregate of the total bonds and debentures (as reflected in Form 1EBS, lines 2(b) ad 3(b)), preferred stock (as reflected in Form 1EBS, lines 2(c)(ii) and 3(c)(ii)), and mortgage loans (as reflected in Form 1EBS, line 5(c)) as a basis;
- C9.2l The effective duration of liabilities must be determined using the reserves (as reflected in Form 1EBS, lines 17(d) and 27(d)) as a basis;
- C9.2m The 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;
- C9.2n The gross probable maximum loss for natural catastrophe losses (prior to reinsurance) must be calculated at the 99.0% Tail Value-at-Risk (TVaR) level for annual aggregate exposure to all risks and all perils, including reinstatement premiums, for the year following the relevant year based upon the insurance group's catastrophe model. The documentation used to derive the gross probable maximum loss must be retained for at least five years, once a capital and solvency return has been filed in accordance with paragraph 6, at the registered office of the insurance group and shall be presented to the BMA upon request;
- C9.2o The net probable maximum loss for natural catastrophe losses (after reinsurance) must be calculated at the 99.0% TVaR level for annual aggregate exposure to all risks and all perils, including reinstatement premiums, for the year following the relevant year based on the insurance group's catastrophe model. The support documentation used to derive the net probable maximum loss must be retained for at least five years, one a capital and

solvency return has been filed in accordance with paragraph 6, at the registered office of the insurer and shall be presented to the Authority upon request;

Additional Guidance

Probable Maximum Loss and Average Annual Loss valuation – after tax

- C9.2p The Probable Maximum Loss and Average Annual loss shall be valued after tax.
- C9.2q The average annual loss means -
- a) The expected net natural catastrophe loss (after reinsurance), including reinstatement premiums, for annual aggregate exposure to all property-related risks and all perils other than those relating to the property catastrophe line of business for the year following the relevant year based on the group’s catastrophe model;
 - b) 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); and
 - c) The support documentation must be retained for at least five years once a capital and solvency return has been filed in accordance with paragraph 6 at the registered office of the designated insurer of the insurance group and shall be presented to the BMA upon request;
- C9.2r The actual attritional losses and large claim losses – relevant year means the actual aggregate losses (classified by groups as attritional and large claim losses in accordance with its own policy) experienced by the group in the relevant year (not including prior year reserve releases or adverse development);
- C9.2s The arrangements with respect to property catastrophe recoverables shall disclose the amounts of-
- a) Collateral;
 - b) Catastrophe bonds;
 - c) Special purpose insurer (indemnity basis);
 - d) Special purpose insurer (other basis); and
 - e) Total;
- C9.2t Mutual fund disclosures shall include the name, type and amount of each mutual fund used by the members of the group;

Additional Guidance

Mutual Fund information to provide

- C9.2u Insurance groups to are to provide a summary report (in Excel format) that lists each fund the insurance group is actually using, a brief description of the type of fund (such as bond fund, equity fund balanced fund, etc.) and the amount the insurance group has invested in each fund.
- C9.2v Summary of projected performance for the year following the relevant year—
- a) The insurance group’s latest estimate of annual net premiums written;
 - b) Estimated underwriting profit or loss;
 - c) Estimated net income or loss; and
 - d) A qualitative description of the insurance group’s business and underwriting strategy to be used in an attempt to achieve the estimates in (a) and (c) above.
- C9.2w Summary of product features and risks must cover the primary product features and benefits insured and any policyholder options or guarantees that could materially affect the insurance group;
- C9.2x Financial impact and description of stress and scenario tests shall disclose the results from the stress and scenario tests prescribed by the BMA annually and published in such manner as the BMA directs;
- C9.2y The investments and derivatives strategies and policies shall disclose —
- a) A description of the insurance group’s investment strategy governing selection and composition of investment portfolio;
 - b) A description of the strategies and policies surrounding the use of derivatives and other hedging instruments; and
 - c) The market value and nominal exposure of each derivative financial instrument with a nominal exposure greater than 5% of total assets listed by assets, liabilities, long and short positions, respectively.
- C9.2z Modified co-insurance arrangements shall disclose —
- a) Name of ceding company;
 - b) Type of coverage;
 - c) Amount of reserve; and
 - d) Aggregate asset allocation (book value) and the related affiliated or unaffiliated cedant;

Additional Guidance

Reporting basis for Modified Co-Insurance arrangements

- C9.2aa Modified co-insurance arrangement reserve amounts and aggregated asset allocations are to be reported on a consolidated GAAP basis in the BSCR model.

C9.2bb Deferred accumulation annuities shall disclose—

- a) Total reserves for deferred accumulation annuities;
- b) Total reserves for deferred accumulation annuities with contractual guaranteed annuitisation rates;
- c) Total reserves for deferred accumulation annuities annuitised in the past year at contractual guaranteed rates (prior to annuitisation); and
- d) Total reserves for deferred accumulation annuities annuitised in the past year at contractual guaranteed rates (post annuitisation).

C9.2cc A reconciliation of amounts reported in total assets, total liabilities and total statutory economic capital and surplus comprising of any adjustments applied to the GAAP financial statements to arrive at the amounts disclosed in Form 1EBS;

C9.2dd The description of the insurance group's risk management programme shall disclose-

- a) A description of the risk management process, including how the risk management programme is used for strategic management decision-making, capital allocation and capital adequacy;
- b) 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;
- c) 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
- d) A description of the process undertaken to monitor material risk concentration.

C9.2ee Risk register disclosing -

- a) A description of the insurance group's material risks;
- b) Owners of the respective risks;
- c) The impact and probability of the risk and the overall risk crystallising expressed as quantitative or qualitative measures;
- d) Summary of the risk mitigation/controls in place and an assessment of their effectiveness in reducing the probability and/or impact of the risk; and
- e) Overall assessment of the impact and probability of the residual risk expressed as quantitative or qualitative measures.

C9.2ff The list of statutory lines and statutory territories that have catastrophe exposures as set out below -

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

C9.2gg In respect of business for which deposit accounting approaches have been followed: a description of business, total assets held in trust or other collateral, lines of business written, gross premiums written for the period, net premiums written for the period, and limits (maximum exposure). For business that has limited exposure, provide the results at a 99.0% TVaR and for business with unlimited exposure, provide details of such business.

Additional Guidance

Contracts that qualify as Deposit Assets and Liabilities

C9.2hh Deposit Asset and Liability contracts represent insurance contracts that do not meet the definition of meeting insurance risk (as applicable per the insurance group's GAAP). Prior to 31 December, 2016, if an insurance group wrote insurance business that did not meet the definition of insurance risk, insurance groups would be required to seek BMA approval to include such contracts in the statutory balance sheet. Going forward, this approval will not be necessary.

As a result, the Authority has provided the new schedule V(k) Details of Deposit Asset & Liabilities to assess the insurance group's contracts that do not meet the definition of insurance risk, and lines of business that are written (both on a gross and net basis) for the reporting period, assess the assets that are supporting these obligations; and the exposure levels of such contracts.

Details by contract and line of business

C9.2ii Complete the schedule by providing the lines of business written for each exposure type separately. In other words, if an insurance group has exposure that writes both property and casualty business), then the insurance group is to report the business for the property business on one line and report the casualty business line separately.

C10. SCHEDULE OF ASSETS (SCHEDULE VI AND SCHEDULE VIA)

Background

- C10.1 Schedules VI and VIA collect details related to invested assets and financial instruments.
- C10.2 Schedule VI is to include all general account investments and financial instruments, both corresponding to Schedule II and also including any relevant invested assets/financial instruments related to the general account but not captured in Schedule II.
- C10.3 Schedule VIA is to include all general account investments and financial instruments, both corresponding to Schedule IIA and also including any relevant invested assets/financial instruments related to the general account but not captured in Schedule IIA.
- C10.4 Schedule VI (EBS) is to include all general account investments and financial instruments, both corresponding to Schedule IIB and also including any relevant invested assets/financial instruments related to the general account but not captured in Schedule IIB.
- C10.5 Schedule VIA (EBS) is to include all investments and financial instruments that are 'withheld' but where the insurer bears the economic risk, both corresponding to Schedule IIC and also including any relevant invested assets or financial instruments related to the 'funds withheld' arrangements but not captured in Schedule IIC.
- C10.6 It is to be further noted that while stability is sought for reporting purposes where possible, these schedules are relatively new additions to the BSCR model, and as such some further developments and enhancements should be expected. Such developments and enhancements could arise from and be based on feedback received from the registrants, observations made by the Authority in analysing the results and the quality of the reporting received, or market developments.

Instructions Affecting Schedules VI & VIA

General – Valuation of assets and liabilities

- C10.7 Schedules VI & VIA: All amounts are to be valued on statutory valuation basis. Schedules VI (EBS) & VIA (EBS): All amounts are to be valued on EBS valuation basis.

General – Terms and Definitions

C10.8 As a general rule regarding terms and definitions used in Schedules VI (EBS) and VIA (EBS), the standard interpretations given to the terms in US GAAP/IFRS and the standard US GAAP/IFRS definitions are to be used unless the EBS rules, these instructions or related guidance otherwise require.

General – Scope

C10.9 All invested assets and financial instruments should be included within these Schedules (VI and VIA), regardless of the line within the statutory and Economic Balance Sheet, as applicable, under which the asset or instrument is included. Each investment or financial instrument should be included in either Schedule VI or Schedule VIA (but not both), and under one (and only one) main section within the applicable Schedule.

C10.10 Note that although each asset or instrument is to be included in exactly one main section, such asset or instrument must additionally be included in all of the applicable (sub)sections that ask for additional information, detail or alternative breakdowns.

General – Comment Field

C10.11 Nearly all of the input rows contain a free-form comment field (labelled ‘Comments’). Please use these fields to provide any additional information you wish to provide or think could be helpful in interpreting the numbers (including any additional details, choices made, limitations, etc.).

General – ‘Other’ Categories

C10.12 Where, under any section, asset category ‘Other’ is used, please indicate the type of assets in the corresponding ‘Comments’ field.

General – Yield and Duration

C10.13 For all fixed income instruments except for cash & cash equivalents, information on duration and market yield is required. The yield should be the yield-to-maturity (YTM) and the duration used should be the effective duration, both measured on market value basis.

Section (A) Cash and Cash Equivalents

C10.14 This section collects information on cash & cash equivalents by Asset Type, Currency and BSCR Rating.

C10.15 Cash equivalents are defined as short-term, highly liquid investments that have both of the following characteristics: i) Readily convertible to known amounts of cash; and ii) So near their maturity that they present insignificant risk of changes in value because of changes in interest rates.

C10.16 For the purposes of these Schedules, 'short-term' means investments with original maturity (i.e., maturity at the time of purchase) of 3 months or less.

C10.17 Asset categories used under this section include:

- Cash
- Certificates of Deposit
- Short-Term Commercial Paper
- Money Market Funds
- Other

C10.18 For the avoidance of doubt, any investments or instruments with either original maturity greater than 3 months or not meeting the liquidity criteria above, must not be included in this section and are to be included under the other sections instead.

C10.19 For a money market fund to qualify as 'cash equivalents' under this section, the underlying investments of the money market fund must qualify as cash equivalents on their own; in addition, there must be no withdrawal restrictions on the fund itself.

C10.20 Further examples:

- Treasury Bills with original maturity of three months or less are currently included in the category 'Other' under this section ('(A) Cash and Cash Equivalents') with BSCR rating 0.
- Treasury Bills with original maturity greater than 3 months are to be included under section '(B) Bonds and Debentures'.

Section (B) Bonds and Debentures

C10.21 This section collects information on bonds and debentures by Asset Type, Currency and BSCR Rating.

C10.22 Asset categories used under this section include:

- Sovereign Bonds

- Municipals
- Supranationals (multilateral development banks and international organizations)
- Corporate Bonds
- Private Placements
- Other – Secured Bonds
- Other – Unsecured Bonds
- Exchange-Traded Fund – Sovereigns
- Mutual Fund – Sovereigns
- Exchange-Traded Fund – Corporates
- Mutual Fund – Corporates
- Other Funds

C10.23 For the purposes of this section,

- i. ‘municipals’ includes local governments and regional authorities;

Section (B), subsection ‘Additional Information on Sovereign Debt Exposures’

C10.24 This subsection collects additional information on sovereign debt exposures included in Section B, by Country, Currency and BSCR Rating. The intention is to provide country breakdown of sovereign debt exposures.

C10.25 Only government bonds/debt issued in either domestic or foreign currency should be included in this subsection. Other local government or “quasi-government” bonds/debt (including supranational and multi-lateral institutions) should currently not be included in this subsection.

Section (C) Asset-Backed and Structured Securities

C10.26 This section collects information on asset-backed and structured securities by Asset Type, Currency and BSCR Rating.

C10.27 Asset categories used under this section include:

- RMBS – Agency
- RMBS – Non-Agency
- CMBS
- CLOs
- CDOs
- Auto Loan ABS

- Student Loan ABS
- Credit Card Receivable ABS
- Other ABS

C10.28 For the avoidance of any doubt, the abbreviations used above are as follows:

- ‘RMBS’: Residential Mortgage-Backed Securities
- ‘CMBS’: Commercial Mortgage-Backed Securities
- ‘CLO’: Collateralized Loan Obligations
- ‘CDO’: Collateralized Debt Obligations
- ‘ABS’: Asset-Backed Securities

Section (D) Loans

C10.29 This section collects information on asset-backed and structured securities by Asset Type, Currency, Country and BSCR Rating.

C10.30 Asset categories used under this section include:

- Residential Mortgages
- Other Residential Loans
- Commercial and Farm Mortgages
- Other Commercial Real Estate Loans
- Middle Market Loans
- Leveraged Loans
- Other Direct Private Lending
- Infrastructure Loans
- Collateral Loans
- Equity Release / Reverse Mortgages
- Policy Loans
- Other Direct Loans
- Mortgage Loan Fund – Residential
- Mortgage Loan Fund – Commercial
- Other Loan Fund

Instructions on the classification of residential and commercial mortgages/loans:

C10.31 The category ‘Residential Mortgages’ should include only first mortgages (primary liens on the property that secures the mortgage). The category ‘Other Residential Loans’

includes all other (non-mortgage) residential loans, as well as second (or lower) mortgages/liens.

C10.32 Similarly, the category 'Commercial and Farm Mortgages' should include only first mortgages. 2nd lien mortgages (or lower) and all other (non-mortgage) commercial real estate loans should be included under the category 'Other Commercial Real Estate Loans'.

C10.33 Please include a comment in the 'Comments' field indicating the proportion of 2nd/3rd/etc. lien mortgages included within the categories 'Other Residential Loans' and 'Other Commercial Real Estate Loans' (if any).

Instructions on the classification of corporate loans:

C10.34 The category 'Leveraged Loans' consists of Broadly Syndicated Leveraged loans (BSL).

C10.35 The category 'Middle Market Loans' consists of private loans to middle market companies. Although exact definitions may somewhat vary depending on the source, 'Middle Market' loans are often considered to be loans to companies that have annual revenues of less than \$500 million or annual earnings before interest, taxes, depreciation and amortisation (EBITDA) of less than \$50 million. You may use your internal definition, as long as its broadly consistent with the intention of the category (please indicate the criteria/thresholds applied within the 'Comments' field).

a) Include any loans to smaller than middle market companies within the 'Middle Market Loans' line and indicate the proportion of such loans in the 'Comments' field.

C10.36 The category 'Other Direct Private Lending' includes Large Cap private lending.

C10.37 Note that loans to affiliates should be included under line 'Advances to Affiliates' in section (H).

Section (D), subsection '- Of which Non-Performing Loans'

C10.38 This subsection collects additional information on any loans included in Section D that are non-performing. The details are collected at the same granularity as section (D) i.e., by Asset Type, Country, Currency and BSCR Rating.

C10.39 The definition of a 'non-performing' loan is the same as that of a loan 'not in good standing' elsewhere in the BSCR. A loan is non-performing (i.e., is not in good standing) if it is either: i) 90 days or more overdue; or ii) in the process of foreclosure. Or, where neither of the preceding is yet the case but: iii) where the insurer has otherwise determined the loan to be non-performing/not in good standing for its financial reporting purposes.

Section (E) Preferred Equities

C10.40 This section collects information on preferred equities (also called preferred stock or preferred shares) by Asset Type, Currency and BSCR Rating.

C10.41 Asset categories used under this section include:

- Listed Preferred Equity – Direct
- Direct Preferred Equity – ETF
- Listed Preferred Equity – Mutual Fund
- Private Preferred Equity – Direct
- Private Preferred Equity – Mutual Fund
- Other – Listed Preferred Equity
- Other – Private Preferred Equity

C10.42 In the list above:

- i. ‘Direct’ means direct investment (i.e., not through a fund or other collective investment vehicle);
- ii. ‘ETF’ is shorthand for exchange-traded fund;and
- iii. ‘Private’ means not publicly traded i.e., unlisted.

C10.43 Note that preferred equity investments in affiliates should be included under line ‘Investments in Affiliates’ in section (H).

C10.44 Preferred equity investments in infrastructure or other alternative investments should generally be included under section (H).

Section (F) Common Equities

C10.45 This section collects information on common equities (also called common stock or common shares) by Asset Type, Currency and Country.

C10.46 Asset categories used under this section include:

- Listed Equity – Direct
- Direct Equity – ETF
- Listed – Mutual Fund
- Private Equity – Direct
- Private Equity – Mutua Fund
- Other – Listed Equity

- Other – Private Equity

C10.47 In the list above:

- ‘Direct’ means direct investment (i.e., not through a fund or other collective investment vehicle);
- ‘ETF’ is shorthand for exchange-traded fund; and
- ‘Private’ means not publicly traded i.e., unlisted.

C10.48 Note that equity investments in affiliates should be included under the line ‘Investments in Affiliates’ in section (H).

C10.49 Equity investments in infrastructure or other alternative investments should generally be included under section (H).

Section (G) Real Estate

C10.50 This section collects information on real estate assets by Asset Type, Currency, Country and Purpose.

C10.51 Asset categories used under this section include:

- Direct Real Estate – Residential
- Direct Real Estate – Commercial
- Direct Real Estate – Industrial
- Direct Real Estate – Land
- Real Estate Funds – Residential
- Real Estate Funds – Commercial
- Real Estate Funds – Industrial
- Real Estate Funds – Land
- Direct Real Estate – Other

C10.52 ‘Purpose’ under this schedule includes either:

- Investment; or
- Owner-occupied.

Section (H) Other Alternative Investments

C10.53 This section collects information on other alternative investments by Asset Type, Currency, Country and BSCR Rating (where applicable).

C10.54 Asset categories used under this section include:

- Hedge Funds
- Equity investments in infrastructure
- Commodities – Direct
- Commodities – ETF
- Commodities – Mutual Funds
- Catastrophe Bonds
- Other Insurance-Linked Securities
- Advances to Affiliates
- Investments in Affiliates
- Other

C10.55 Note that the section may include both fixed income and equity type investments. Not all the fields are necessarily relevant or applicable to all investments. Where this is the case, the fields in a row may be left empty (e.g., BSCR rating or YTM for a common equity investment).

Section (I) Derivatives

C10.56 This section collects information on derivatives by Derivative Type, Underlying, Currency, Trading Category, Purpose and Position; separately for derivatives with negative market value and derivatives with positive market value.

C10.57 Derivative types used under this section include:

- Listed options
- Futures
- Forwards
- Swaps
- Swaptions
- OTC options
- Other

C10.58 Underlying asset types used under this section include:

- Equity

- Debt
- Interest Rate
- Inflation
- Credit
- Currencies
- Commodities
- Other

C10.59 Trading categories used under this section include:

- Exchange-traded
- OTC – Centrally-cleared
- OTC – Not centrally-cleared

C10.60 ‘Purpose’ under this section includes either:

- Hedging
- Speculative

C10.61 ‘Position’ used under this section include:

- Long/Receive Fixed/Sell Protection
- Short/Receive Floating/Buy Protection

C10.62 Notes:

- Purpose: If a derivative does not qualify as ‘risk mitigating’ under the BSCR rules, it should be classified as ‘speculative’
- Gross and Net Notionals:
 - The ‘Gross Notional Value’ should be the sum of the absolute values of the notionals of all individual positions, without considering any netting or offsetting
 - The ‘Net Notional Value’ should allow for netting and offsetting, but only to the extent there exists a legally enforceable contractual right to net/offset (e.g., for derivatives contracts with a given counterparty under a master netting agreement with that counterparty). For the avoidance of doubt, exposures to different counterparties should not be netted/offset (unless expressly contractually allowed and legally enforceable)
- Exposure: The value for the field ‘Exposure’ should be Dollar Delta for equity-type derivatives; DV01 for interest rate-related derivatives; CS01 for credit spread-related derivatives; and the generally accepted equivalent exposure/sensitivity measure for other types. This field is meant to provide information on how the

market value of the derivative would change (in ‘dollar’ terms) as a result of a small change (a percentage change or a basis point change, as applicable) in the market value of the underlying

Section (J) Information on Exposures to Financial Institutions and Unlisted Counterparties

C10.63 This section collects additional information on exposures to financial institutions and unlisted counterparties, respectively, that are already included within the other (main) sections.

Exposures to Financial Institutions

C10.64 For financial institutions, information is requested per BSCR Rating bucket and per asset category. The BSCR Rating buckets used are:

- BSCR Rating 1-3
- BSCR Rating 4
- Below Investment Grade (BSCR Rating 5-7, or a rating (i.e., other than unrated) that maps to BSCR Rating 8)
- Unrated (BSCR Rating 8, where no rating exist)

C10.65 The asset categories used are:

- Equities
- Corporate Bonds
- Corporate Loans
- Commercial Loans and Mortgages
- Securitisations
- Other debt securities

C10.66 In addition, the aggregate exposures to financials are broken down into exposures to banks, insurers, and other financial institutions, but without the rating breakdown and using a simplified asset categorisation as follows:

- Equities
- Corporate Bonds
- Corporate Loans
- Other

C10.67 ‘Financial institutions’ means banks, insurance companies and other financial institutions. ‘Other financial institutions’ includes (but is not limited to) e.g., brokers, dealers, asset managers and investment companies.

C10.68 The information should be provided on a look-through basis.

Exposures to Unlisted Counterparties

C10.69 For unlisted counterparties, information is requested per BSCR Rating bucket and per asset category. The BSCR Rating buckets used here are:

- BSCR Rating 1-3
- BSCR Rating 4
- Below Investment Grade (BSCR Rating 5-7, or a rating (i.e., other than unrated) that maps to BSCR Rating 8)
- Unrated (BSCR Rating 8, where no rating exist)

C10.70 The asset categories used are:

- Equities
- Corporate Bonds
- Corporate Loans
- Other

C10.71 For the avoidance of doubt, this section does not ask for information on *unlisted assets*; instead, it specifically asks for information on all direct exposures (whether unlisted or listed) to any counterparties where that *counterparty* is *unlisted*. For example, this section would include all direct equity and debt exposures to an unlisted (private) company.

C10.72 The information should be provided on a look-through basis.

Section (K) Other Assets

C10.73 This section collects information on other assets by Currency and BSCR Rating (where applicable).

C10.74 Asset categories used under this section include:

- Investment Income Due and Accrued
- Accounts and Premiums Receivable
- SAC – long-term business – variable annuities
- SAC – long-term business – others
- SAC – general business
- Deposit Assets

- Other Sundry Assets
- Letters of Credit, Guarantees and Other Instruments
- Other

Section (L) Information on Securities Lending and Repurchase Transactions

- C10.75 This section collects additional information on securities lending and repurchase agreements.
- C10.76 Aggregate level information is requested separately for transactions categorised as securities lending (including securities borrowing) and for repurchase (repo) and reverse repurchase (reverse repo) agreements.
- C10.77 As a general rule, unless otherwise implied, the terms, definitions and reporting conventions under this schedule should be consistent with those applicable under US GAAP/IFRS.

Securities Lending (and Borrowing)

- C10.78 Include securities borrowing and lending as follows:
- i. Securities Borrowing: Include the gross value of recognised and non-recognised securities borrowing assets (i.e., the amount of cash or value of non-cash collateral posted to the counterparty in order to obtain the securities); and
 - ii. Securities Lending: Include the gross value of all recognised and non-recognised securities lending liabilities (i.e., the amount of cash or value of non-cash collateral received from the counterparty in exchange for lending securities). Include all transactions regardless of whether or not the contract contains a right to resell, re-use or re-hypothecate the collateral.

Where the values are to be reported as follows:

- a. For the Notional Value: Report the sum of the *absolute* values of: i) the (gross position) notional values for securities borrowing; and ii) the (gross position) notional values for securities lending, as defined above; and
- b. For the Fair Value: Report the sum of the values of: i) the (gross position) fair values for securities borrowing; and ii) the (gross position) fair values for securities lending, as defined above.

Repos and Reverse Repos

C10.79 Include reverse repos and repos as follows:

- i. Reverse Repos: Include the gross value of recognised and non-recognised reverse-repurchase transaction assets (also called “securities purchased under agreements to resell”). This is equal to the amount of cash and securities lent against securities collateral; and
- ii. Repos: Include the gross value of recognised and non-recognised repurchase transaction liabilities (also called “securities sold under agreements to repurchase”). This is equal to the amount of cash and securities borrowed against securities collateral. Include all transactions regardless of whether or not the contract contains a right to resell, re-use or re-hypothecate the collateral (assets borrowed).

Where the values are to be reported as follows:

- a. For the Notional Value: Report the sum of the *absolute* values of: i) the (gross position) notional values for reverse repos; and ii) the (gross position) notional values for repos, as defined above; and
- b. For the Fair Value: Report the sum of the values of: i) the (gross position) fair values for reverse repos; and ii) the (gross position) fair value for repos, as defined above.

Section (M) Information on Fair Value Hierarchy

C10.80 This section collects additional information on the fair value of all assets that fall into each level of the fair value hierarchy. The fair value hierarchy for EBS is the same as that for US GAAP/IFRS.

C10.81 Aggregate level information is requested for the Level 1, Level 2 and Level 3 assets, separately for affiliated and for unaffiliated assets.

C10.82 As a general rule, unless otherwise implied, the terms, definitions and reporting conventions under this schedule should be consistent with those applicable under US GAAP/IFRS. In particular, the definition of ‘affiliated’ is as defined under the relevant GAAP. Those assets that are not affiliated are unaffiliated.

Section (N) Information on Rating Agencies used for BSCR purposes to derive BSCR Ratings

C10.83 This section collects additional information on rating agencies used for BSCR purposes, broken down by asset category, BSCR rating and rating agency. The asset categories used correspond to the rating categories by which the eligibility of a given rating agency’s ratings for BSCR purposes is specified (see Instructions on Schedule II) and are also consistent with the SEC’s NRSRO designation categories.

C10.84 The asset/rating categories used in this section are:

- Financial institutions, brokers and dealers
- Insurance companies
- Corporate issuers
- Issuers of asset-backed securities
- Government securities, municipal securities, foreign government securities

C10.85 For example:

- In the cell identified by the column 'Moody's' and the row 'Corporate Issuers, BSCR Rating 3' one would include the fair value of all investments issued by corporate issuers and rated as BSCR rating 3 ('A') by Moody's.

C10.86 Given the table is by BSCR rating, one should allocate each investment's fair value to the rating agency that is driving the BSCR rating.

- For example, if a given corporate bond was rated 'AA' by S&P and 'A' by Moody's, the lowest of the ratings would determine the BSCR rating, which would be 3 in this case (corresponding to the 'A' rating by Moody's). Hence one would allocate the fair value of this instrument – as well as all others were the BSCR rating was 3 and Moody's ratings were determining/driving that BSCR rating – in the cell identified in the example above.

C10.87 In case of tied ratings i.e., cases where two or more rating agencies have the same lowest rating for a given asset – and hence there is no single unique rating agency driving the BSCR rating for that asset – then, for the purposes of this table only, the fair value of the asset should be allocated to both/each of those rating agencies.

- For the avoidance of doubt, it is noted that in the latter case the fair value in this table will not match the corresponding actual total fair values of the in-scope investments; the purpose of the table is to gather information on which rating agencies determine the BSCR ratings.

C11. SCHEDULE OF LONG-TERM INSURANCE DATA (SCHEDULE VII)

Background

C11.1 The schedule of long-term insurance data — Schedule VII — provides a breakdown of an insurance group’s Best Estimate Technical Provisions by prescribed long-term insurance products. A description of these insurance products is listed below:

	<u>Long-Term Business Lines of Business</u>	<u>Description</u>
1	Mortality	The risk of fluctuations or deterioration of mortality experience causing increased claims on life insurance coverages.
2	Critical illness	A form of accident and health insurance that pays a benefit if the person insured incurs a predefined major illness or injury.
3	Longevity	The risk of fluctuations or improvements in mortality that cause benefits on payout annuities to be paid for longer than expected. The capital requirements for longevity swaps are not directly determined by the standard BSCR model. Insurers with longevity swaps will need to apply for a Section 6D BSCR adjustment
4	Deferred annuities	An insurance that provides savings or income benefits during the lifetime of the person insured or some limited period thereafter.
5	Disability income: active lives with premium guarantee of -	An accident and health insurance that pays a benefit for a fixed period of time during disability, based on contracts that are for active lives and have a premium guarantee.
6	Disability income: active lives for other accident and sickness	An accident and health insurance that pays a benefit for a fixed period of time during disability based on contracts that are for active lives and are for other accident and sickness coverage.
7	Disability income: claims in payment	An accident and health insurance that pays a benefit for a fixed period of time during disability based on contracts where claims in payment are issued on waiver of premiums.
8	Disability income: claims in payment for other accident and sickness	An accident and health insurance that pays a benefit for a fixed period of time during disability based on contracts where claims in payment on waiver of premiums are based

		on contracts that are for active lives and are for other accident and sickness coverage.
9	Group life	Life insurance that is issued to persons insured through a group arrangement such as through an employer or association.
10	Group disability	Disability insurance that is issued to persons insured through a group arrangement such as through an employer or association.
11	Group health	Health insurance that is issued to persons insured through a group arrangement such as through an employer or association.
12	Stop loss	The risk that arises when total claims experience deteriorates or is more volatile than expected, thereby increasing the likelihood and amount by which actual claims experience exceeds a predefined level.
13	Rider	The risk that arises when total claims experience deteriorates or is more volatile than expected, thereby increasing the likelihood and amount by which actual claims experience exceeds a predefined level.
14	Variable annuities	Insurance that provides a minimum investment guarantee on variable annuities.

Items

C11.2 The Schedule has the following column items for each individual long-term insurance product, where applicable:

- a) Bermuda EBS Best Estimate Provisions
- b) BSCR-adjusted reserve [greater of item (1) and 0]
- c) Net amount at risk for adjustable product/treaty
- d) Net amount at risk for non-adjustable product/treaty
- e) Total net amount at risk

C11.3 The Schedule has the following column items for each individual long-term insurance product with regards to additional Supplemental Notes, where applicable:

- a) Bound But Not Incepted (BBNI) Premium (Form 1EBS, line 27(d))
- b) Best Estimate Provision in respect to BBNI (Form 1EBS, line 27(d))
- c) Best Estimate Provision using transitional adjustments (Form 1EBS, line 27(d))
- d) Equivalent of column (14) if transitional arrangements were not used (Form 1EBS, line 27(d))
- e) Scenario Based approach Best Estimate for Technical Provisions (Form 1EBS, line 27(d))

- f) Equivalent of column (16) if Scenario Based approach were not used (Form 1EBS, line 27(d))
- g) Equivalent of column (16) if Based approach were used (Form 1EBS, line 27(d))
- h) BBNI Premium (Form 1EBS, line 27B(d))
- i) Best Estimate Provision in respect to BBNI (Form 1EBS, line 27B(d))

Additional Guidance

Additional guidance for reporting Net Value at Risk

For the purposes of completing Schedule VII Long-Term Insurance Data:

- a) Net Amount at Risk refers to the difference between the total amount of the death benefits from the policy and the accrued cash value for that policy
- b) The Net Amount at Risk should be reported for the retained portion of each contract.
- c) If an insurer has a term policy which has no cash value, then the Net Amount at Risk would equal the face amount of the policy;
- d) If an insurer has a permanent life policy, the value of the reserves can be used (instead of the value of the cash) for the Net Amount at Risk valuation;
- e) The mortality risk Net Amount at Risk should include all assurance, whole life, universal life as well as group life insurance.

C12. SCHEDULE OF LONG-TERM VARIABLE ANNUITY (SCHEDULE VIII)

Background

- C12.1 The schedule of Long-Term Variable Annuity — Schedule VIII — provides disclosures on the following long-term variable annuity guaranty products for both in-the-money and out-of-the-money positions:
- a) Guaranteed Minimum Death Benefit (GMDB)
 - b) Guaranteed Minimum Income Benefit (GMIB)
 - c) Guaranteed Minimum Withdrawal Benefit (GMWB)
 - d) Guaranteed Enhanced Earnings Benefit (GEEB)
 - e) Guaranteed Minimum Accumulation Benefit (GMAB)
- C12.2 The percentage of GMDB with multiple guarantees is also required to be disclosed in this schedule.
- C12.3 Long-term variable annuities are to be reported on Schedule VIII with the requirements listed below. Upon approval from the Authority, the insurance group may have its variable annuity business assessed by its internal capital model and with the details of this provided in Schedule VIIIA.

Items

- C12.4 The schedule has the following column items for each individual variable annuity risk, where applicable:
- a) Bermuda EBS Best Estimate Provision
 - b) Guaranteed value – volatility 0% to 10%
 - c) Guaranteed value – volatility 10% to 15%
 - d) Guaranteed value – volatility of over 15%
 - e) Net amount at risk – volatility 0% to 10%
 - f) Net amount at risk – volatility 10% to 15%
 - g) Net amount at risk – volatility of over 15%

C13. SCHEDULE OF LONG-TERM VARIABLE ANNUITY – INTERNAL CAPITAL MODEL (SCHEDULE VIIIA)

Background

- C13.1 The schedule of Long-Term Variable Annuity - Internal Capital Model — Schedule VIIIA — is intended to capture the internal model-based capital requirements for variable annuities.
- C13.2 Insurance groups must obtain permission from the BMA to complete Schedule VIIIA in lieu of Schedule VIII.
- C13.3 Once the insurance group has selected to complete Schedule VIIIA, it would be unable to switch to completing Schedule VIII without first obtaining approval from the BMA.

Items

- C13.4 Disclosures on insurance group's in-force data
For each type of variable annuity guarantee risk, insurance groups will be required to provide summaries of their policy data by policy accounts, account values, guarantee amounts, and net amounts at risk with their BSCR EBS Best Estimate amounts. Such data should be further broken out by policy year, the level of fund volatility (0-10%, 10-20%, 20%+) and how far in or out the money is (less than -15%, -15% to -5%, -5% to +5%, +5 to +15%, greater than +15%).
- C13.5 Disclosures on insurance group's internal capital model
Insurance groups may use their own stochastic internal capital model to determine their capital requirements for their variable annuity guarantee business on a one-year model with a 99% TVaR threshold or a runoff model on a 95% TVaR threshold. In addition, insurance groups will be required to disclose the capital requirements determined by their internal capital model reflecting both with hedging and without hedging. Lastly, model results relating to economic sensitivities, as prescribed by the BMA, and behavioural and actuarial sensitivities would be disclosed.
- C13.6 Actuarial memorandum
The designated insurer of the insurance group must file an actuarial memorandum with the Authority that should minimally include the particulars described below. When the information is already available in other documents within the capital and solvency return, it is acceptable to attach those documents and simply make reference to them in the actuarial memorandum. The insurance group should indicate any significant changes from the last memorandum filed with the Authority.

Line No.	Section	Provide a brief summary or description of the following details under each section:
1	Executive summary	<ul style="list-style-type: none"> • Required capital amount and drivers of result • Key risks and associated risk mitigation techniques • The modelling methods used
2	Overview of business	<ul style="list-style-type: none"> • Type of business • Key product features and specifications
3	Key risk exposures	Qualitative description of key risk exposures, such as economic, mortality, surrender, annuitisation, withdrawal, expense and counterparty risks
4	Description of model	<p>The approach used to calculate total assets and required capital</p> <p>Key model details, including:</p> <ul style="list-style-type: none"> • Source of asset and liability data • Aggregations used to generate model cells • Allocation of assets to variable annuity blocks • The reserve basis • Time step of model (e.g. monthly) • The rate used to accumulate and discount cash flows • The treatment of interim solvency (e.g., how periods of negative cash flows followed by positive cash flows allowed for)
5	Description of assumptions	<ul style="list-style-type: none"> • Basis for economic scenarios, including underlying model and parameters • Information on the average return and volatility on the equity investment funds • For mortality and all policyholder behaviour assumptions (e.g., premium payments, withdrawals, annuitisations, and lapses): <ul style="list-style-type: none"> ○ Source of data (e.g., company-specific experience) ○ Any margins for conservatism that were used ○ Any future mortality improvement • Approach to investment fund mapping • Insurer's crediting strategy • Expenses and commissions • Treatment of taxes • Future management actions (other than hedging and reinsurance)
6	Reinsurance	<ul style="list-style-type: none"> • Reinsurance (both assumed and ceded), including a list of counterparties • Nature of arrangements, including caps, floors and recapture provisions

		<ul style="list-style-type: none"> • The approach to modelling these arrangements • Collateral requirements, if relevant
7	Hedging	<ul style="list-style-type: none"> • Business covered • Hedge target • Hedged parameters (i.e., Greeks) managed/monitored by the group • Internal governance procedures • Currently-held derivatives and range of derivatives approved for trading • Unhedged exposures • Historical hedge effectiveness • Sample attribution reports • How hedging is reflected in the determination of required capital and stress tests, including how any modelling limitations or simplifications are addressed
8	Risk mitigation arrangements other than hedging	<ul style="list-style-type: none"> • Business covered; • Nature of arrangements; • Internal governance procedures; and • Other supporting details such as internal analyses, historical results, etc.
9	Results and model output	<ul style="list-style-type: none"> • Capital results (summarised also in line 1 of the table under b)) and commentary • Results of stress tests (summarised also in lines 2 and 3 of the table under b)) with description and justification for tests selected and commentary on results • Sensitivity results for key assumptions/risk exposures • The output from model for a single scenario in the tail (e.g., that which most closely corresponds to the TVaR 95% result) showing cash flows by guaranteed rider type, accumulation and discounting of cash flows, and total assets required for that scenario.
10	Reviewer and signatory	The memorandum is required to be reviewed and signed by the Approved Actuary

C14. SCHEDULE OF GROUP'S SOLVENCY SELF-ASSESSMENT (SCHEDULE IX)

Background

- C14.1 The Group's Solvency Self-Assessment (GSSA) is a regime that requires Bermuda groups to perform an assessment of their own risk and solvency requirements. This provides the BMA with the group's perspective of the capital resources (referred to as GSSA capital) necessary to achieve its business strategies and remain solvent given its risk profile, as well as insight into the risk management and governance procedures surrounding this process. The risk profile considers all reasonably foreseeable material risks arising from its operations or operational environment.
- C14.2 The GSSA is one of the tools used in the supervisory review process to assist in monitoring compliance with the Group Rules given that the GSSA should, at a minimum, consider those risks outlined in the Group Rules.
- C14.3 The GSSA process should be integrated into the group's decision-making process and serve a critical role in the development, implementation and monitoring of management strategies. This is referred to as the 'use test'.

Items

- C14.4 The schedule of GSSA — Schedule IX — shall provide particulars of the following matters:
- a) GSSA capital summary and additional information – disclosing the group's own capital computations, group's comparison of the GSSA capital to regulatory capital, group's plans for raising additional capital and contingency arrangements impacting the available capital.
 - b) GSSA general questions – providing information on a group's risk management and governance programme, the review and approval of the GSSA, and integration of the GSSA into the strategic decision-making process.
 - c) GSSA assessment of material risks of the group – providing information on a group's assessment of material risks, determination of both the quality and quantity of capital required to cover its risks, the forward-looking analysis and its ability to manage its capital needs, the review and approval of the GSSA and the governance and controls surrounding model(s)/tool(s) used to compute the GSSA capital.

Instructions Affecting Schedule IX

- C14.4a GSSA capital summary and additional information—

Column Item		Description
1	GSSA capital	<p>GSSA capital is the amount of capital the group has determined that it is required to achieve its strategic goals upon undertaking an assessment of all material risks (reasonably foreseeable) arising from its operations or operating environment.</p> <p>Input the GSSA capital determined by the group for each respective risk category. The BMA is mindful that it is difficult to quantify and therefore hold capital in respect of certain risks (e.g., liquidity, reputational, concentration, group and strategic risk,). Where a group does not hold capital against certain risks, it should input a nil amount in the respective cell.</p> <p>Where a group uses an internal capital model/tool to determine its GSSA capital, the internal model/tool will not require the BMA’s approval for purposes of completing this Schedule.</p> <p>All supporting work papers and documents for purposes of completing this Schedule should be retained and kept available for examination and discussion with the BMA should the need arises.</p>
2	Regulatory capital	<p>Regulatory capital is determined by the Group BSCR or an approved group internal capital model at 99.0% TVaR over a one-year time horizon.</p> <p>Input the Regulatory capital determined by the group for each respective risk category, where applicable.</p>

Additional information

Line Item	Description
1-7 7	<p>The designated insurer should select the appropriate response from the drop-down menu provided and/or otherwise provide a brief description, explanation or attachment. Where an attachment is provided, the designated insurer shall include references (e.g., page number, paragraph number) of where the information can be located within the attachment.</p> <p>Where a question/section is not applicable to an insurance group or the options provided do not fully reflect the insurance group’s position, the insurance group shall select the “Others” option and include a brief description.</p> <p>For Question 7 – The insurance group must disclose whether a regulator in any jurisdiction has placed a restriction on the movement of assets/payment of dividends from a subsidiary in that jurisdiction, and the associated amount. The amount should be gross of regulatory capital requirements.</p>

C14.4b GSSA general questions

Line Item		Description
1-5	Questions 1-5	The designated insurer should select the appropriate response from the drop-down menu provided. Where a question/section is not applicable to an insurance group or the options provided do not fully reflect the insurance group's position, a brief description shall be included.
5	Question 5	Independent verification shall be conducted by an internal or external auditor or any other appropriately skilled internal or external function, as long as they have not been responsible for the part of the GSSA process they review, and are therefore deemed to be independent in their assessment.

C14.4c GSSA assessment of material risks of the group

Line Item		Description
1-11	Questions 1-11	This section requires the insurance group to undertake and file with BMA the group's most recent report comprising of a solvency self-assessment of its material risks and the determination of both the quality (types of capital) and quantity of GSSA capital required to cover these risks while remaining solvent and achieving the insurance group's business goals. The insurance group shall provide attachments containing the information requested. The attachments shall include references (e.g., page number, paragraph number) of where the information can be located within the attachment.
12	Question 12	The insurance group should select the appropriate response or otherwise provide a brief description or an attachment. Where an attachment is provided, the insurance group shall include references (e.g., page number, paragraph number) of where the information can be located within the attachment.
1-12	Questions 1-12	All supporting work papers and documents used to prepare the GSSA submission should be retained and kept available for examination and discussion with BMA should the need arise.

C15. CATASTROPHE RISK RETURN (SCHEDULE X)

Background

- C15.1 The Catastrophe Risk Return (Cat Return) is set out to determine the extent of reliance on vendor models to assess catastrophe exposures and highlight the actions insurance groups take to mitigate model risk, including a description of procedures and analytics in place to monitor and quantify exposure to vendor models. It also serves as a tool to assist the BMA to assess the reasonableness of inputs into the catastrophe component of the regulatory capital requirement, and whether standards are being applied evenly.
- C15.2 The Cat Return will also be used to assess liquidity. Liquidity risk is not always mitigated simply by holding additional capital. Claims-paying ability is obviously an important factor that is perhaps more pronounced with catastrophe risk where large amounts of capital may have to be liquidated to pay claims at very short notice. Additionally, complexity arises with the currency mismatch that may exist between an insurance group's capital and a subset of its potential catastrophe liabilities. An insurance group should be able to demonstrate that it has considered potential challenges to liquidity, including the methodology and principles used to measure liquidity, contingency plans, access to new funding sources, and projected liquidity requirements.

Items

- C15.3 The Cat Return — Schedule X — shall provide the following matters:
- a) Total Exceedance Probability (“EP”) curves
 - b) EP curve for insurance
 - c) EP curve for region-perils
 - d) Statutory lines of business and zones exposure per region-perils
 - e) Accumulations overview
 - f) Data analysis
 - g) Reinsurance disclosures
 - h) Insurance terrorism exposure
 - i) Reinsurance terrorism limits and
 - j) Assumed exchange rates
- C15.4 The Catastrophe Risk Return Guidelines (2016) provide detailed instructions on the above requirements and has been updated for frequently asked questions. A copy of these guidelines is available on the BMA’s website.

C16. SCHEDULE OF MAN-MADE CATASTROPHES (SCHEDULE XA)

Background

C16.1 The BSCR Catastrophe Risk module, as of the 2024 EBS Rules, has been enhanced to include a dedicated man-made catastrophe risk submodule entitled Schedule XA.

C16.2 The dedicated man-made catastrophe risk submodule is calibrated to a one-year 99% TVaR target and is comprised of catastrophe scenarios for the following perils:

1. Terrorism
2. Credit and Surety
3. Marine
4. Aviation

Please refer to Section D28 for a description of each of the catastrophe scenarios.

Insurance Groups shall disclose the following matters under the Schedule of Man-Made Catastrophes:

C16.3 **Terrorism**

Table XA1 – Terrorist Attack Catastrophe Risk Scenario

	Estimated loss gross of reinsurance	Estimated loss net of reinsurance
Terrorist attack total	<i>Terror_Gross</i>	<i>Terror_Net</i>

Instructions affecting Table XA1

Table XA1 Item		Description
1	Terror_Gross	Shall be equal to the gross probable maximum loss arising from acts of terrorism; <ol style="list-style-type: none"> i. Calculated in accordance with the requirements of Terror_Net, in item 2; and ii. Gross of any outwards reinsurance arrangements.

Table XA1 Item		Description
2	Terror_Net	<p>Shall be equal to the net probable maximum loss arising from acts of terrorism;</p> <ul style="list-style-type: none"> i. Calculated as the sum insured for the largest building concentration, after deduction of amounts recoverable from outwards reinsurance arrangements, covering property and content damage due to fire or explosion as a result of terrorist attacks; ii. The measure of concentration of exposure to be taken into account, are buildings that are fully or partially covered under insurance contracts within a radius of 200 meters; and iii. The measure of concentration of exposure, may occur over one or multiple insurance contracts.

C16.4 Credit & Surety

For the calculation of the Credit & Surety module, there are two options. Upon the insurance group selecting to utilize 'Option A (ICS)' or 'Option B (SII)' for their BSCR calculation, they will only be allowed to switch to the alternative option after receiving written approval of the Authority pursuant to an application made in accordance with Section 6D of the Act. Accordingly, Groups may populate only one of the two options.

C16.4.1 Credit & Surety – Option A

Table XA2 – (Option A) Credit and Surety Catastrophe Risk Scenario

	Estimated loss gross of reinsurance	Estimated loss net of reinsurance	Credit and Surety NEP earned over the Next 12 months attributable to
Credit and Surety total			
Mortgage insurance	<i>MI_Gross</i>	<i>MI_Net</i>	<i>MI_NEP</i>
Trade credit	<i>TC_Gross</i>	<i>TC_Net</i>	<i>TC_NEP</i>
Surety	<i>Sur_Gross</i>	<i>Sur_Net</i>	<i>Sur_NEP</i>
Other			<i>Other_NEP</i>

Credit and Surety total (EU only)		<i>C&S_EU_NEP</i>
Description of the business/risk that is allocated under ' Credit and Surety - Other '		
Insurance groups shall populate this field with an explanation as to why <i>Other_NEP</i> , as defined in “Instructions affecting Table XA2”, item 14 is non-zero.		

Instructions affecting Table XA2

Table XA2 Item		Description								
1	<i>MI_Gross</i>	Shall be set equal to <i>MI_Net</i> , as defined in item 2, gross of any outwards reinsurance arrangements.								
2	<i>MI_Net</i>	<p>i. Shall be equal to the net probable maximum loss arising from mortgage insurance;</p> <p>ii. Calculated as the average net (of the amounts recoverable from any outwards reinsurance arrangements) annual loss resulting from an increase in the frequency of delinquency, defaults and loss severity that results from a 25% decline in home prices developing over a multi-year time period; and</p> <p>iii. The total loss amount includes the impact of both an increase in the frequency of delinquency and defaults and an increased loss severity that results from the decline in home prices.</p>								
3	<i>MI_NEP</i>	Shall equal the net premium to be earned over the next 12 months in relation to mortgage insurance policies.								
4	<i>TC_Gross</i>	<p>Shall be equal to <i>TC_{GR}</i> calculated by splitting the gross earned trade credit premium, to be earned over the next 12 months, by external rating category (investment grade vs non-investment grade) and applying the following factors:</p> <table border="1" data-bbox="548 1524 1393 1696"> <thead> <tr> <th colspan="2">Credit stress factors for trade credit</th> </tr> <tr> <th>Rating Category</th> <th>Factor</th> </tr> </thead> <tbody> <tr> <td>Investment grade</td> <td>80%</td> </tr> <tr> <td>Non-investment grade</td> <td>200%</td> </tr> </tbody> </table>	Credit stress factors for trade credit		Rating Category	Factor	Investment grade	80%	Non-investment grade	200%
Credit stress factors for trade credit										
Rating Category	Factor									
Investment grade	80%									
Non-investment grade	200%									

Table XA2 Item		Description
		The resulting investment grade and non-investment grade charges are then aggregated to derive TC_Gross.
5	<i>TC_Net</i>	Shall be equal to TC_Gross , as defined in item 4, net of any outwards reinsurance arrangements.
6	<i>TC_NEP</i>	shall be equal to the net premium to be earned over the next 12 months in relation to trade credit insurance policies.
7	<i>TC_RI</i>	Shall be equal to TC_Gross , as defined in item 4, less <i>TC_Net</i> , as defined in item 5.
8	<i>Sur_Gross</i>	Shall be equal to <i>Sur_Net</i> , as defined in item 9, but gross of outwards reinsurance arrangements.
9	<i>Sur_Net</i>	Shall be: i. equal to the sum of the two largest net (of co-surety arrangements, acceptable cash collateral and outwards reinsurance arrangements) losses arising from two separate surety counterparties; and ii. for the purposes of calculating the net losses in subparagraph (i) the gross loss to exposure ratios shall be calibrated at the 90th percentile for US exposures and 95th percentile for non-US exposures.
10	<i>Sur_NEP</i>	Shall be equal to the net premium to be earned over the next 12 months in relation to surety insurance policies.
14	<i>Other_NEP</i>	Shall be set equal to: (i) the net premium to be earned over the next 12 months in relation to Credit/Surety and Credit/Surety non-proportional statutory lines of business; and (ii) less the totals of <i>MI_NEP</i> , as defined in item 3, <i>TC_NEP</i> , as defined in item 6 and <i>Sur_NEP</i> as defined in item 10.
15	<i>C&S_EU_NEP</i>	Shall be equal to the net premium to be earned over the next 12 months and relate to: (i) the Credit/Surety and Credit/Surety non-proportional statutory lines of business; and

Table XA2 Item		Description
		(ii) risks written in the European Union;

C16.4.2 Credit & Surety – Option B

Table XA3 – (Option B) Credit and Surety Catastrophe Risk Scenario

	Estimated loss gross of reinsurance	Estimated loss net of reinsurance	Gross Premium in the following 12 months
Credit and Surety total			
Credit/Surety - Default Risk	<i>DR_Gross</i>	<i>DR_Net</i>	
Credit/Surety – Recession Risk	<i>Rec_Gross</i>	<i>Rec_Net</i>	
Credit/Surety Non- Proportional Cat Charge		<i>NP_Net</i>	<i>NP_GEP</i>
Credit and Surety total (EU only)			C&S_EU_NEP

Instructions affecting Table XA3

Table XA3 Item		Description
1	<i>DR_Gross</i>	Shall be set equal to <i>DR_Net</i> , as defined in item 2, but gross of outwards reinsurance arrangements.
2	<i>DR_Net</i>	Shall be equal to the loss that would arise from an immediate default of the two largest, net of outwards reinsurance, credit insurance exposures. This calculation should take into account that: <ul style="list-style-type: none"> i. the assumption is made that the loss-given-default, before the deduction of the amounts recoverable from any outwards reinsurance arrangements, of each credit insurance exposure is 10% of the sum insured in relation to the exposure; and ii. the Credit/Surety line of business only is considered.

Table XA3 Item		Description
3	<i>Rec_Gross</i>	Shall be equal to <i>Rec_Net</i> , as defined in item 4, gross of outwards reinsurance arrangements
4	<i>Rec_Net</i>	<p>Shall be set equal to the net probable maximum Credit/Surety (statutory line of business) loss arising from a recession.</p> <p>Shall be calculated as the loss that would result from an instantaneous loss of an amount that, before the deduction of the amounts recoverable from any outwards reinsurance arrangements, is equal to 100 % of the Credit/Surety statutory line of business premiums earned during the following 12 months.</p> <p>When calculating the estimated loss, it should be net of the amounts recoverable from any outwards reinsurance arrangements.</p>
5	<i>NP_Net</i>	<p>Shall be equal to <i>C&S_{np}</i>, as defined in D28.6, and calculated by</p> <p>i. applying a factor of 250% to the Credit/Surety non- proportional (statutory line of business) gross premium estimate earned over the next 12 months; and</p> <p>ii. and allowing for any outwards reinsurance arrangements.</p>
6	<i>NP_GEP</i>	Shall be equal to <i>CSPrem_{np-Gr}</i> , as defined in D28.5
7	<i>C&S_EU_NEP</i>	<p>Shall be equal to the net earned premium to be earned over the next twelve months and take into account:</p> <p>i. Credit/Surety and Credit/Surety non-proportional lines of business only; and</p> <p>ii. Risks written in the European Union only.</p>

C16.5 Marine

Table XA4 – Marine Catastrophe Risk Scenario

	Estimated loss gross of reinsurance	Estimated loss net of reinsurance
Marine total		
Vessel collision	VC_Gross	VC_Net

Platform explosion	PE_Gross	PE_Net
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Instructions affecting Table XA4

Table XA4 Item		Description
1	<i>VC_Gross</i>	Shall be set equal to <i>VC_Net</i> , as defined in 2, gross of any outwards reinsurance arrangements.
2	<i>VC_Net</i>	Shall be equal to the net probable maximum loss arising from the insurance of sea, lake, river and canal vessels. Calculated as the maximum sum insured for a single vessel across the hull, liability and pollution exposures, net of the amounts recoverable from any outwards reinsurance arrangements.
3	<i>PE_Gross</i>	Shall be equal to <i>PE_Net</i> , as defined in 4, gross of outwards reinsurance arrangements.
4	<i>PE_Net</i>	Shall: <ul style="list-style-type: none"> (i) be equal to the net probable maximum loss arising from the insurance of oil and gas offshore platforms; (ii) be calculated as the maximum sum insured for a single (oil or gas) platform, net of the amounts recoverable from any outwards reinsurance arrangements; and (iii) include the sum insured for compensation for property damage, wreckage removal, loss of production, capping and securing the well and liability obligations.

C16.6 Aviation

Table XA5 – Aviation Catastrophe Risk Scenario

	Estimated loss gross of reinsurance	Estimated loss net of reinsurance
Aviation total	Avn_Gross	Avn_Net

Instructions affecting Table XA5

	Table XA5 Item	Description
1	<i>Avn_Gross</i>	Shall be equal to <i>Avn_Net</i> , as defined in Item 2, gross of any outwards reinsurance arrangements.
2	<i>Avn_Net</i>	Shall be: i) Set equal to the net probable maximum loss arising from the Aviation and Aviation non-proportional lines of general business; and ii) Calculated as the single largest aircraft sum insured across both hull and liability perils, net of the amounts recoverable from outwards reinsurance arrangements.

C17. SCHEDULE OF REGULATED NON-INSURANCE FINANCIAL OPERATING ENTITIES (SCHEDULE XI(A))

Background

- C17.1 The schedule of regulated non-insurance financial operating entities — Schedule XI(A) — shall calculate the group’s regulatory capital requirement for regulated non-insurance financial operating entities and shall form part of the group’s charge for capital adjustment, which is added to the BSCR (after covariance adjustment) amount to arrive at the Group BSCR.
- C17.2 This shall apply to all entities where the parent company exercises either control or significant influence. In determining whether the parent company controls or significant influence over a regulated non-insurance financial operating member of the group, the definitions contained in the US, UK, or Canadian GAAP or IFRS, as applicable, shall apply.

Items

Column Item		Description
1	Group member name	Column (1): Input the name of the regulated non-financial operating entity where the parent exercises either control or significant influence — Ensure that the name reflected here is consistent with the name reported in Schedule V(b) in order for the auto-links to work on other column items.
2	Jurisdiction	Column (2): The jurisdiction of said regulated entity shall automatically populate.
3	Sector classification	Column (3): The sector where the said regulated entity operates in shall automatically populate.
4	Strategic purpose	Column (4): The description of the strategic purpose of said regulated entity shall automatically populate.
5	Entity type	Column (5): The entity type of said regulated entity shall automatically populate.
6	Products and services offered	Column (6): The description of the products and services offered to external parties by said regulated entity shall automatically populate.
7	Participation	Column (7): The parent company’s participation type (whether control or significant influence) on said regulated entity shall automatically populate.
8	Percent of participating interest	Column (8): The parent company’s participating interest (in percentage) on said regulated entity shall automatically populate.
9	Assets	Column (9): The total assets of said regulated entity shall automatically populate.

Column Item		Description
10	Investment Amount (Equity Method)	Column (10): The investment amount of said regulated entity, which shall be (a) the equity value where the parent company exercises significant influence and has accounted under the equity method of accounting as aggregated in Form 1, line (4d); or (b) the net asset value where the parent company exercises control over the regulated entity, shall automatically populate.
11	Regulatory capital requirement for regulated entities (RCR)	Column (11): Input the Regulatory Capital Requirement (RCR) for said regulated entity, which shall be based on the jurisdiction's solvency laws for the regulatory sector in which the said entity is licenced to conduct non-insurance financial business.
12	Applicable share of the RCR	Column (12): Calculated using [column (8) x column (11)].

Instructions affecting Schedule XI(A)

- a) The insurance group's regulatory capital requirement for regulated non-insurance financial operating entities, where the parent company exercises either control or significant influence, shall be calculated in accordance with Schedule XI(A) and shall form part of the insurance group's BSCR – where “control” and “significant influence” has the same meaning given in subparagraph 19(4) of the Group Rules;
- b) The name of the entity and its jurisdiction of incorporation shall be provided;
- c) The sector classification of each of the insurance group's regulated non-insurance financial operating entities shall be provided as prescribed in the Instructions Affecting Schedule V paragraph (b);
- d) The description of the strategic purpose of each entity shall be provided;
- e) The entity type shall be provided;
- f) The description of the products and services offered to external parties of each entity shall be provided;

- g) The insurance group's participation categorised, whether control or significant influence, on each registered entity shall be provided;
- h) The percent of participating interest of the insurance group on each registered entity shall be provided;
- i) The total assets of each entity shall be provided;
- j) The investment amount shall be (1) the equity value of the insurance group's investment in such regulated entities where the insurance group has significant influence and has accounted under the equity method of accounting as aggregated in Form 1, Line 4(d) and (2) the net asset value of the group's investment in these regulated entities where the group exercises control shall be provided;
- k) The regulatory capital requirement (RCR) shall be provided based on the jurisdiction's solvency laws for the regulated sector in which the entity is licenced to conduct non-insurance financial business; and
- l) The insurance group's proportionate share of each entity's RCR.

C18. SCHEDULE OF UNREGULATED ENTITIES WHERE THE PARENT EXERCISES CONTROL (SCHEDULE XI(B))

Background

- C18.1 The schedule of unregulated entities where the parent exercises control — Schedule XI(B) — shall calculate the group’s capital requirement for unregulated entities and shall form part of the group’s charge for capital adjustment, which is added to the BSCR (after covariance adjustment) amount to arrive at the Group BSCR.
- C18.2 This shall apply to all entities where the parent company exercises control. In determining whether the parent company controls over an unregulated member of the group, the definitions contained in the U.S., U.K., or Canadian GAAP or IFRS, as applicable, shall apply.
- C18.3 The capital charges applied to each unregulated entities’ net assets are based on the entities’ operating business, as follows:
- a. 0% on unregulated entities that conduct ancillary services.
 - b. 15% on unregulated entities that conduct non-financial operating entities.
 - c. 50% on unregulated entities that conduct financial operating entities.

Items

Column Item		Description
1	Group member name	Column (1): Input the name of the unregulated entity where the parent exercises control — Ensure that the name reflected here is consistent with the name reported in Schedule V(b) in order for the auto-links to work on other column items.
2	Jurisdiction	Column (2): The jurisdiction of said unregulated entity shall automatically populate.
3	Sector classification	Column (3): The sector where the said unregulated entity operates in shall automatically populate.
4	Strategic purpose	Column (4): The description of the strategic purpose of said unregulated entity shall automatically populate.
5	Entity type	Column (5): The entity type of said unregulated entity shall automatically populate.
6	Products and services offered	Column (6): The description of the products and services offered to external parties by said unregulated entity shall automatically populate.
7	Group member category	Column (7): Select the unregulated entity’s appropriate business category from the drop-down list.
8	Percent of participating interest	Column (8): The parent company’s participating interest (in percentage) on said unregulated entity shall automatically populate.

Column Item		Description
9	Total Assets	Column (9): The total assets of said unregulated entity shall automatically populate.
10	Net Assets	Column (10): The net assets of said unregulated entity shall automatically populate.
11	Applicable capital charges	Column (11): Supplied by the BMA; the applicable capital charge applied to the unregulated entity will be based on its category (e.g., nature of its business) and shall automatically populate.
12	Capital Requirement	Column (12): Calculated using [column (8) x column (10) x column (11)].

Instructions affecting Schedule XI(B)

- a) The insurance group's capital requirement for unregulated entities where the parent company exercises control over these entities shall be calculated in accordance with Schedule XI(B) and shall form part of the insurance group's BSCR – where 'control' has the same meaning given in subparagraph 19(4) of the Group Rules;
- b) The name of the unregulated entity and its jurisdiction of incorporation shall be provided;
- c) The sector classification of each of the insurance group's unregulated entities where the group exercises control shall be provided as prescribed in the Instructions Affecting Schedule V paragraph (b);
- d) The description of the strategic purpose of each entity shall be provided;
- e) The entity type shall be provided;
- f) The description of the products and services offered to external parties of each entity shall be provided;
- g) The unregulated entities where the parent company exercises control shall be categorised based on the nature of its business activities, as follows: unregulated entities that conduct ancillary services, unregulated non-financial operating entities or unregulated financial operating entities;
- h) The percentage of participating interest on each unregulated entity where the insurance group exercises control shall be provided;

- i) The total assets of each unregulated entity shall be provided;
- j) The net asset value of the group's investment in these unregulated entities shall be provided;
- k) The capital charge applied to each unregulated entity are as follows: 0% to unregulated entities that conduct ancillary services; 15% to unregulated non-financial operating entities; and 50% to unregulated financial operating entities; and
- l) The insurance group's proportionate share of each unregulated entity's capital.

C19. SCHEDULE OF UNREGULATED ENTITIES WHERE THE PARENT EXERCISES SIGNIFICANT INFLUENCE (SCHEDULE XI(C))

Background

- C19.1 The schedule of unregulated entities where the parent exercises significant influence — Schedule XI(C) — shall provide particulars relating to the group’s unregulated entities where the parent company exercises significant influence.
- C19.2 This shall apply to all entities where the parent company exercises significant influence. In determining whether the parent company significant influence over an unregulated member of the group, the definitions contained in the US, UK, or Canadian GAAP or IFRS, as applicable, shall apply.
- C19.3 The group’s capital requirement for unregulated entities shall be calculated and included under the equity investment risk capital charge. The capital charges applied to each unregulated entities’ investment amount (equity method) are based on the entities’ operating business, as follows:
- a. 5% on unregulated entities that conduct ancillary services, as reported on Form 1, Line (4a).
 - b. 20% on unregulated entities that conduct non-financial operating entities, as reported on Form 1, Line (4b).
 - c. 55% on unregulated entities that conduct financial operating entities, as reported on Form 1, Line (4c).

Items

Column Item		Description
1	Group member name	Column (1): Input the name of the unregulated entity where the parent exercises significant influence — Ensure that the name reflected here is consistent with the name reported in Schedule V(b) in order for the auto-links to work on other column items.
2	Jurisdiction	Column (2): The jurisdiction of said unregulated entity shall automatically populate.
3	Sector classification	Column (3): The sector where the said unregulated entity operates in shall automatically populate.
4	Strategic purpose	Column (4): The description of the strategic purpose of said unregulated entity shall automatically populate.
5	Entity type	Column (5): The entity type of said unregulated entity shall automatically populate.

Column Item		Description
6	Products and services offered	Column (6): The description of the products and services offered to external parties by said unregulated entity shall automatically populate.
7	Group member category	Column (7): Select the unregulated entity's appropriate business category from the drop-down list.
8	Percent of participating interest	Column (8): The parent company's participating interest (in percentage) on said unregulated entity shall automatically populate.
9	Total Assets	Column (9): The total assets of said unregulated entity shall automatically populate.
10	Proportionate share of the investment amount (Equity Method)	Column (10): The investment amount of said unregulated entity, which shall equal to the parent company's carrying amount under equity method, as included or reflected in Form 1, lines (4a), (4b) and (4c) for each business category – ancillary, non-financial and financial – shall automatically populate.

Instructions affecting Schedule XI(C)

- a) The insurance group's capital requirement for unregulated entities where the parent company exercises significant influence shall be calculated in accordance with paragraph 3 under the equity investment risk charge – where "significant influence" has the same meaning given in subparagraph 19(4) of the Group Rules – and Schedule XI(C) shall provide particulars of these entities;
- b) The name of the unregulated entity and its jurisdiction shall be provided;
- c) The sector classification of each of the insurance group's unregulated entities (significant influence) shall be provide as prescribed in the Instructions Affecting Schedule V paragraph (b);
- d) The description of the strategic purpose of each entity shall be provided;
- e) The entity type shall be provided;
- f) The description of the products and services offered to external parties of each entity shall be provided;

- g) The unregulated entities where the parent company exercises significant influence shall be categorised based on the nature of its business activities, as follows: unregulated entities that conduct ancillary services, unregulated non-financial operating entities or unregulated financial operating entities;
- h) The percent of participating interest on each unregulated entity (significant influence) shall be provided;
- i) The total assets of each entity shall be provided; and
- j) The insurance group's proportionate share of the carrying investment amount/value under the equity method.

**C20. SCHEDULE OF ENTITIES' CAPITAL DEDUCTED FROM
AVAILABLE STATUTORY CAPITAL AND SURPLUS (SCHEDULE
XI(D))**

Background

C20.1 The schedule of entities' capital deducted from available statutory capital and surplus — Schedule XI(D) — shall calculate capital of entities, where a group cannot supply the necessary data for the BMA to determine a risk profile or to calculate contribution of these entities to the group's eligible capital. Said capital of entities shall be deducted from the group's available statutory capital and surplus for purposes of determining a group's BSCR and ECR ratios.

C20.2 This shall apply to all entities where the parent company exercises either control or significant influence.

Items

Column Item		Description
1	Group member Name	Column (1): Input the name of the entity where the group cannot supply the necessary data or determine its contributions to the group's eligible capital — Ensure that the name reflected here is consistent with the name reported in Schedule V(b) in order for the auto-links to work on other column items.
2	Jurisdiction	Column (2): The jurisdiction of said entity shall automatically populate.
3	Sector classification	Column (3): The sector where the said entity operates in shall automatically populate.
4	Strategic purpose	Column (4): The description of the strategic purpose of said entity shall automatically populate.
5	Entity type	Column (5): The entity type of said entity shall automatically populate.
6	Products and services offered	Column (6): The description of the products and services offered to external parties by said entity shall automatically populate.
7	Participation	Column (7): The parent company's participation type (whether control or significant influence) on said regulated entity shall automatically populate.
8	Group member category	Column (8): Select the said entity's appropriate business category from the drop-down list.
9	Reason for data deficiency	Column (9): Select the appropriate reason for deducting said entity's capital from the drop-down list.

Column Item		Description
10	Total Assets	Column (10): The total assets of said entity shall automatically populate.
11	Net Assets	Column (11): The net asset or investment amount of said entity shall automatically populate.

Instructions affecting Schedule XI(D)

- a) For entities where an insurance group cannot supply the necessary data for the BMA to determine a risk profile or to calculate contributions of these entities to the group's eligible capital, Schedule XI(D) shall be used to calculate these entities' capital to be deducted from the insurance group's available statutory capital and surplus;
- b) The insurance group shall provide the name and jurisdiction of these entities;
- c) The sector classification of each of the group's member entities shall be provided as prescribed in the Instructions Affecting Schedule V paragraph (b);
- d) The description of the strategic purpose of each entity shall be provided;
- e) The entity type shall be provided;
- f) The description of the products and services offered to external parties of each entity shall be provided;
- g) The parent company's participation categorised, whether control or significant influence, on each entity shall be provided;
- h) The entities shall be categorised based on the nature of its business activities, as follows: unregulated entities that conduct ancillary services, unregulated non-financial operating entities, unregulated financial operating entities, regulated insurance financial operating entities, and regulated non-insurance financial operating entities;
- i) The reason for data deficiency shall be included, as follows: unknown strategic purpose/nature of operations or insufficient information surrounding eligible capital;
- j) The total assets of these entities shall be provided; and
- k) The net assets or equity values of these entities shall be provided.

**C21. SCHEDULE OF GROUP MINIMUM MARGIN OF SOLVENCY
(SCHEDULE XII)**

Background

- C21.1 The schedule of group minimum margin of solvency — Schedule XII — shall calculate the group’s minimum margin of solvency in order to determine its ECR. The principles prescribed in paragraph 19 of the Supervision Rules shall apply in calculating a group’s minimum margin of solvency.
- C21.2 This shall apply to all insurance entities within the group, whether the parent company exercises control or significant influence. In determining whether the parent company controls or significant influence over an insurance member of the group, the definitions contained in the US, UK, or Canadian GAAP or IFRS, as applicable, shall apply.

Items

Column Item		Description
1	Group member Name	Column (1): Input the name of the insurance entity — Ensure that the name reflected here is consistent with the name reported in Schedule V(b) in order for the auto-links to work on other column items.
2	Jurisdiction	Column (2): The jurisdiction of said insurance entity shall automatically populate.
3	Entity type	Column (3): The entity type of said insurance entity shall automatically populate.
4	Participation type	Column (4): The parent company’s participation type (whether control or significant influence) on said insurance entity shall automatically populate.
5	Percent of participation/interest	Column (5): The parent company’s participating interest (in percentage) on said insurance entity shall automatically populate.
6	Net Premiums Written	Column (6): The net premiums written of said insurance entity shall automatically populate.
7	Total Assets	Column (7): The total assets of said insurance entity shall automatically populate.
8	Minimum Margin of Solvency	Column (8): Input the minimum margin of solvency as determined by the jurisdiction where the said insurance entity is registered or licenced.

Column Item		Description
9	Proportionate Share on the Minimum Margin of Solvency	Column (9): Calculated using [Column (5) x Column (8)] if the participation on said insurance entity is categorised as significant influence. Otherwise, this amount shall equal to the Minimum Margin of Solvency or Column (8).

Instructions affecting Schedule XII

- a) The name of the registered entity for which the parent company exercises control or significant influence – where “control” and “significant influence” has the same meaning given in subparagraph 19(4) of the Group Rules;
- b) The name of the jurisdiction in which the entity is licenced or registered;
- c) The entity type shall be provided;
- d) The insurance group’s participation categorised, whether control or significant influence, on each registered entity shall be provided;
- e) The group’s participation interest of each registered entity;
- f) Net Premiums Written of these entities shall be provided;
- g) The total assets of these entities shall be provided;
- h) The minimum margin of solvency for each registered entity as determined by the jurisdiction where the group’s entity is licenced or registered; and
- i) The insurance group’s proportionate share of the registered entity’s minimum margin of solvency requirement, as prescribed in subparagraph 19(1) and subparagraph 19(2) of the Group Rules.

C22. SCHEDULE OF ELIGIBLE CAPITAL (SCHEDULE XIII)

Background

- C22.1 The schedule of eligible capital — Schedule XIII — requires insurance groups to assess the quality of their capital resources eligible to satisfy their regulatory capital requirement levels. The insurance group should report their Eligible Capital on an **EBS basis**.
- C22.2 The purpose of this schedule is to consider the uniqueness of capital instruments in their ability to protect policyholders on a going concern basis, run-off basis and during times of distress such as a winding-up or insolvency in the determination of capital adequacy.
- C22.3 The schedule also takes into consideration that in times of stress situations, the excess of pledged assets that support policyholder obligations are not available to all policyholder until the obligations of the underlying policyholders have been satisfied. Therefore the statutory surplus must be adjusted to recognise the limited accessibility of these assets. Thus this excess of funds is transferred from Tier 1 to Tier 2 Capital which is calculated in Tier 1 Basic Capital item (h).
- C22.4 Further the Authority considers that it would be too punitive that an insurance group maintains capital for these excess of funds for policyholder obligations that have been transferred from Tier 1 to Tier 2 capital, and therefore section (h)(vi) to (h)(xiii) reduces the capital factor charges associated with those assets. The additional guidance provides details on how this capital factor calculation should be completed.
- C22.5 Refer to the Insurance (Group Supervision) Rules 2011 for details. A copy of these Rules is available in the BMA website.

Additional Guidance

Insurance Group does not have any Encumbered Assets for Policyholder Obligations

- C22.5a If the insurance group does not have any encumbered assets for policyholder obligations, the insurance group shall report the full amount of Best Estimate Technical Provisions in column A, line iv – contracts where policyholder obligations are not collateralised.

Reporting Encumbered Assets for Policyholder Obligations

- C22.5b When calculating the excess encumbered assets capital charge in section (h)(vi), this shall be done as follows:
- Encumbered Assets - determine the capital charge for the assets reported in section (h)(i), and reduce the capital charge by the insurance group's overall capital diversification.

For example if the insurance group has encumbered assets in a trust equal to \$8,000 which is allocated as:

Asset	Amount	BSCR Capital Factor	Required Capital
Cash BSCR Rating 1	\$3,000	0.1%	\$3.00
Sovereign Bonds	\$2,000	0.0%	\$0.00
Corporate Bonds Rating 1	\$500	0.4%	\$2.00
<u>Corporate Bonds Rating 3</u>	<u>\$5,500</u>	<u>1.5%</u>	<u>\$37.50</u>
Total	\$8,000		\$42.50

In the same example, the insurance group has BSCR prior to covariance of \$1,500 and the BSCR after covariance adjustment of \$1,200, the diversification credit is 0.8. This is shown as follows:

Regulatory Capital	Amount	Comments
BSCR prior to covariance	\$1,500	
BSCR after covariance	\$1,200	
Diversification	0.8	BSCR after covariance adjustment divided by BSCR prior to covariance adjustment (1200/1500)

Finally apply the diversification credit to the assets held in the trust's capital factor:

Regulatory capital	Amount
Asset in Trust capital factor	\$42.50
Diversification credit	<u>0.8</u>
Capital requirements arising from encumbered assets	<u>\$34.00</u>

C23. EXPANDED PARTICULARS OF CEDED REINSURANCE (SCHEDULE XVIII)

Background

- C23.1 To assess the risk of amounts reported in Funds Held By Ceding Reinsurers (Form 1EBS, line 12(c)), the Authority requires insurance groups to determine the arrangement in which the funds are being held. In the event of default, if the Insurance Group bears the risk (as well as the market risk of the valuation of investments), then these amounts are to be reported in Schedule IIA, Schedule of Funds Held by Ceding Reinsurers in Segregated Accounts/Trusts by BSCR Rating; if the reinsurer bears the risk of the assets held, then these amounts are to be reported on Schedule XVIII – Expanded Particulars of Ceded Reinsurance.
- C23.2 Particulars of reinsurance balances shall disclose at least the ten largest reinsurance exposures with the remaining reinsurance exposures grouped according to BSCR ratings and/or a single consolidated reinsurance exposure—
- a) The name of reinsurer;
 - b) The BSCR rating;
 - c) The amount of reinsurance recoverable from it in the form of funds held by ceding reinsurers (as reflected in Form 1EBS, line 12(c) shall be included only to the extent that they are not already included under Schedule IIA
 - d) The amount of any collateral placed in favor of the members of the group relating to the recoverable balances (as reflected in Notes to Form 1EBS, lines 11(e), 17(c), and 27(c));
 - e) The amount of qualifying collateral shall be the collateral amount in d) less a 2% reduction to account for the market risk associated with the underlying collateral assets but, at all times, the qualifying collateral shall not exceed the net exposure, which is the difference between reinsurance recoverable and reinsurance balances payable and there is a contractual right of set-off;
 - f) The net qualifying exposure shall be determined as the net exposure less any funds held by ceding reinsurers included under Schedule IIA and the qualifying collateral; and
 - g) For the purposes of this Schedule, the appropriate BSCR rating shall be determined as follows—
 - (i) The BSCR rating shall be based on either the rating of the reinsurer or the rating of the letters of credit issuer, if any, whichever is higher;
 - (ii) Where the letters of credit do not relate to the entire reinsurance exposure, the reinsurance exposure should be separated to reflect the

- rating of that portion of the exposure which is covered by the letters of credit and the rating of that portion of the exposure which is not;
- (iii) Where the reinsurer is a domestic affiliate, it shall be assigned a BSCR rating of 0 regardless of its credit rating;
 - (iv) Where a reinsurer is not rated but is regulated in a jurisdiction that applies the International Association of Insurance Supervisors' Insurance Core Principles (IAIS' ICPs) and in particular imposes both a minimum capital requirement and a Prescribed Capital Requirement (PCR) and fully meets its PCR in that jurisdiction, it shall be assigned a BSCR rating of 4 or otherwise, it shall be assigned a BSCR rating of 8; and
 - (v) Where the insurance group has disclosed a single consolidated reinsurance exposure, that exposure shall be assigned a BSCR rating of 8;
 - (vi) Insurance financial strength ratings, reflecting the claims paying ability of (re)insurers, issued by the recognised credit rating agencies shall be used for the purposes of this schedule; the corresponding BSCR ratings shall be determined in the same manner as specified in sections C2.1a to C2.1k instructions affecting Schedule II.

Additional Guidance

Premiums Receivables to be reported on line 10 of Balance Sheet

- C23.2.i. The Authority would like to confirm that premiums receivables should typically be captured under line 10 of the balance sheet and not line 11. Reinsurance receivables are typically those recoverables that have now been crystallised – hence both reinsurance receivables and recoverables are assessed together from a credit risk perspective. Additionally, the Authority confirms that the line 33 offset against reinsurance balances should only apply to the extent that they are attributable to a specific reinsurer

Capital Risk charge based on nature of the arrangement

- C23.2.ii. For funds held by ceding companies, the capital risk charge is calculated by the nature of the arrangement.
- a) Where specific assets have been allocated for the benefit of the reinsurer, such that the reinsurer bears market risk on those assets, the Authority requires insurance groups to look through to the underlying assets, and report these balances on Schedule IIA. This effectively adds to the fixed income risk and equity risk modules similar to Schedule II.
 - b) Where there are no specific identified assets, the reinsurer is effectively in a similar position to a typical cedent with reinsurer exposure. Thus, the amounts will be treated similarly to reinsurance recoveries and shall be reported on Schedule XVIII Expanded Particulars of Ceded Reinsurers. Further, the rating for reinsurance exposures should be based on the financial strength ratings of the insurer.

C24. SCHEDULE OF CASH AND CASH EQUIVALENT COUNTERPARTY ANALYSIS (SCHEDULE XIX)

Background

C24.1 For assessing the underlying credit security of cash and cash equivalent counterparties, the Authority is requiring insurance groups to provide details of the largest 10 exposures and the rating of those institutions. The remaining balance can be aggregated by BSCR rating (which is a similar methodology to the Schedule of Particulars of Ceded Reinsurance).

Instructions Affecting Schedule XIX

C24.1a Cash and cash equivalent balances are to be reported based on its BSCR Rating;

C24.1b An insurance group may disclose at least the top ten cash and cash counterparty exposures (as reflected in Form 1EBS and Schedule IIA column 1, line 27);

C24.1c The remaining balance may be grouped according to BSCR rating;

C24.1d All unreconciled balances shall be allocated to the single consolidated exposure balance that receives a BSCR Rating of 8;

C24.1e Cash and cash equivalents issued by a country that is rated AA- or better in its own currency shall be classified under BSCR rating class 0;

C24.1f Insurance groups may allocate BSCR Ratings based on the short-term ratings in the table below, or alternatively based on the Long-Term ratings detailed in Schedule II, in each case following the process specified in the instructions affecting Schedule II; and

BSCR Ratings	Standard & Poor's	Moody's	AM Best	Fitch
Class 2	A1+	P1	AMB-1+	F1+
Class 3	A1	P2	AMB-1	F1
Class 4	A2, A3	P3	AMB-2, AMB-3	F2, F3
Class 5				
Class 6	B-1, B-2			B
Class 7	B-3			
Class 8	Unrated short-term investments and all other ratings			

BSCR Ratings	KBRA	DBRS	Egan-Jones	Japan Credit Rating Agency
Class 2	K1+	R-1 H,M	A-1+	J1+
Class 3	K1	R-1 L	A-1	J1
Class 4	K2, K3	R-2 H,M,L	A-2, A-3	J2
Class 5		R-3	B-1	J3
Class 6	B	R-4	B-2	
Class 7			B-3	NJ
Class 8	Unrated short-term investments and all other ratings			

C25. SCHEDULE OF CURRENCY RISK (SCHEDULE XX)

- C25.1 For insurance groups that write business in multiple currencies, the Authority has developed a capital charge for each currency where the insurance group's liabilities may exceed its assets. On the grounds of proportionality, the Authority is requiring insurance groups to provide currency exposures for at least 95% of total assets and liabilities held.
- C25.2 A capital charge is applied for those currencies for which the assets in the currency are less than the sum of the liabilities denominated in the currency plus a proxy BSCR for that currency. The capital charge of 25% is applied to the difference between the liabilities plus proxy BSCR for the currency and the assets held in that currency. The proxy BSCR for a given currency shall be calculated as the product of the liabilities in that currency and the proxy BSCR factor. The Proxy BSCR factor is calculated as the total statutory liabilities found on Form 1EBS line 39 divided by the total ECR Charge. The proxy BSCR factor shall be the maximum of:
- a) The prior year value; or
 - b) Average of the last 3 years.

Instructions Affecting Schedule XX

- C25.2a At least 95% of an insurance group's total liabilities by currency based on the EBS shall be included;
- C25.2b $GrossCurrast_i$ and $GrossCurliab_i$ shall be valued in line with the EBS principles set out in Schedule XIV;
- C25.2c Where an insurance group uses currency hedging arrangements to manage its currency risk, then $Currast_i$ and $Curliab_i$ may reflect the impact of those arrangements on $GrossCurrast_i$ and $GrossCurliab_i$ of a 25% adverse movement in foreign exchange rates, otherwise the amounts $GrossCurrast_i$ and $GrossCurliab_i$ shall apply;
- C25.2d A 'currency hedging arrangement' means derivative or other risk mitigation arrangements designed to reduce losses due to foreign currency exchange movements, and which meet the Authority's requirements to be classed as such; and

Additional Guidance

Calculating the BSCR Proxy

- C25.2.i. When calculating the BSCR Proxy, insurance groups are to provide Liabilities (on an EBS basis) and total full (old basis) Group ECR capital charge on an EBS basis for the prior 3 years. In the instance the insurance group does not have liabilities and the Group ECR capital charge on an EBS basis, the Authority will allow

insurance groups to provide the non-EBS balances for each. Note that for financial year-ends within the BSCR transitional period, insurance groups are to report the full old-basis BSCR for that period.

- C25.2.ii. If the insurance group does not have either liabilities or Group ECR capital charge for the prior 3 years,
- a) Insurance groups filing their BSCR for the first time are to use current year figures for the prior year and;
 - b) Insurance groups that have previously filed a BSCR, yet do not have 3 years of historical data shall provide the years they have data for, and leave the years with no data reported as blank

Meeting the 95% Minimum Asset and Liability test

- C25.2.iii. If an insurance group does not meet the 95% minimum test on this schedule regarding how it will impact the BMA’s risk assessment of the insurance group.
- a) The Authority may require additional information from the insurance group to assess its currency risk. This may result in a capital add-on, which will require the insurance group’s ECR and TCL ratios to be revised on its published Financial Condition Report.

Reporting Assets and Liabilities with hedging arrangements

- C25.2.iv. For insurance groups that have been provided approval from the Authority for including hedging arrangements in their currency risk schedule, they shall report the total asset and liability of such currency hedge before and after the hedging arrangement.

Example: If an insurance group had \$1.2 million in USD Assets, \$0.75 million in USD Liabilities; £0.5million in Sterling Pound Assets and £0.4 million in Sterling Pound Liabilities; \$0.25 million in Canadian Dollar Assets and \$0.10 million in Canadian Dollar Liabilities; which the insurance group had an approved asset hedge of \$0.2 million from USD to Sterling pound, this would be represented as follows:

Currency	Assets	Assets with Hedging Arrangements	Liabilities	Liabilities with Hedging Arrangements
USD	\$1.2M	\$1.0M	\$0.75M	\$0.75M
Sterling Pound	£0.5M	£0.7M	£0.4M	£0.4M
Canadian Dollar	\$0.25M		\$0.10M	

C26. SCHEDULE OF CONCENTRATION RISK (SCHEDULE XXI)

Background

- C26.1 To assess the insurance group's concentration risk, the Authority requires the identification of the largest 10 independent counterparties, and all the exposures relating to these counterparties (such as equity holdings, bonds, real estate, loans, etc.), which would be an addition to the existing BSCR market and/or credit risk contributed by those exposures.
- C26.2 In deciding which counterparties need to be grouped together, a single counterparty should include all related/connected counterparties, which are defined as:
- a) Control relationship: one of the counterparties, directly or indirectly, has control over the other(s); and
 - b) Economic inter-dependence: if one of the counterparties were to experience financial problems, in particular funding or repayment difficulties, the other(s) as a result, would also be likely to encounter funding or repayment difficulties.

Instructions Affecting Schedule XXI

C26.2a Disclosure of all exposures to an insurance group's ten largest counterparties by reporting the name, the exposure and allocation by asset type, bond / mortgage type (if applicable), BSCR Rating (if applicable) and asset value consistent with Form 1EBS.

C26.2b A counterparty shall include all related/connected counterparties defined as:

- a) Control relationship: if the counterparty, directly or indirectly, has control over the other(s); or
- b) Economic interdependence: if one of the counterparties were to experience financial problems, in particular funding or repayment difficulties, the other(s) as a result, would also be likely to encounter funding or repayment difficulties.

C26.2c Asset type (column A) shall be one of the following lines taken from Form 1EBS;

- a) Cash and Cash Equivalents (line 1)
- b) Quoted Investments (line 2)
- c) Unquoted investments (line 3)
- d) Investments in and Advances to Affiliates (line 4)
- e) Investments in Mortgage Loans on Real estate (line 5)
- f) Policy Loans (line 6)
- g) Real Estate (line 7)
- h) Collateral Loans (line 8)

i) Funds Held by Ceding Reinsurers (line 12)

C26.2d Asset sub-type (column B) shall provide further details of the type of asset as included in table 1, table 2 or table 8 as appropriate;

C26.2e BSCR Rating (Column C) shall be the BSCR rating that was allocated to the asset when it was included in table 1, table 2 or table 8 as appropriate;

C26.2f Asset value (column D) shall be the value of the asset as required by the EBS valuation principles as set out in Schedule XIV; and

Additional Guidance

Reporting largest 10 independent exposures

C26.2.i. Complete the schedule by providing all exposures, relating to all instruments (e.g., equity holdings, bonds, real estate, loans, etc.), related to the 10 largest counterparties. If a counterparty has more than one BSCR Rating or Asset type, enter each rating separately (i.e., if an insurance group has purchased bonds and preferred shares of a company, then the insurance group is to report 'Asset type' as 'Bond types'; 'Bond/Mortgage Loan type' as the applicable bond type, and 'BSCR Rating' as the rating of the bond in one line. In the second line, the insurance group is to report the 'Asset type' as 'Preferred Shares' and 'BSCR Rating' as the rating of the shares.

Hedge funds

C26.2.ii. When counterparty exposure to collective investment funds such, as hedge funds and diversified fund-of-one structures, insurance groups are to report the portfolio on a look-through basis.

Investment in Affiliates types

C26.2.iii. For investment in affiliates, allocate based on the following categories:

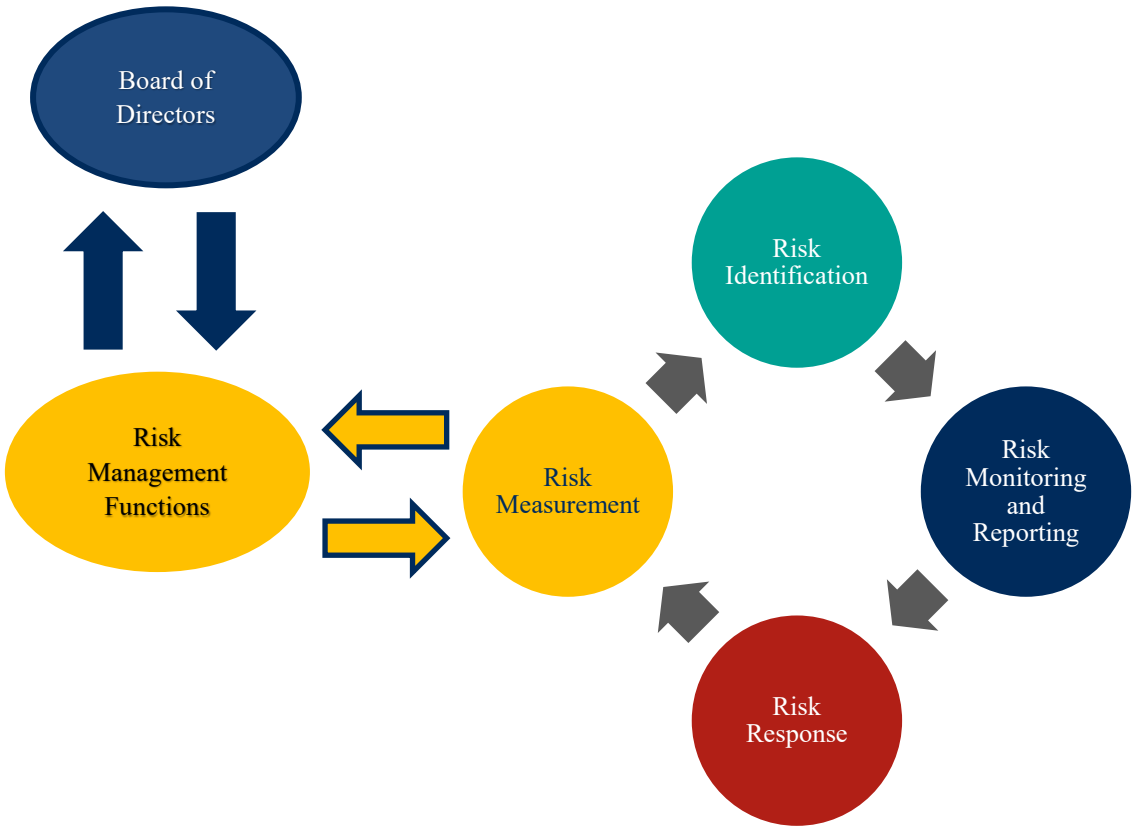
- a) Regulated entity – an entity that files to a regulatory body or supervisory authority; note that each regulated entity is required to provide the RCR equivalent to the BMA's ECR;
- b) Operating entity – is an entity that sells products and takes on business risk;
- c) Unregulated entities that conduct ancillary services – refers to unregulated entities that provide support services to the primary activities of an insurance group (this would include marketing, information);
- d) Unregulated non-financial operating entities – refers to an entity that sells products and takes on business risk (e.g., department stores and automobile sales); and
- e) Unregulated financial operating entities – refers to an entity that sells financial instruments (include. e.g., Credit Default Swaps (CDS) and weather derivatives).

C27. COMMERCIAL INSURER RISK ASSESSMENT

Background

C27.1

The Commercial Insurer Risk Assessment (CIRA) framework assesses the quality of the group’s risk management function surrounding its operational risk exposures. Operational risk is the risk of loss arising from inadequate or failed internal processes, people, systems or external events. Operational risk also includes legal risks. Reputational risks arising from strategic decisions do not count as operational risks. The CIRA framework emphasises the interrelationships between the Risk Management and Corporate Governance functions as seen below:



- C27.2 The parent company's Board of Directors has an influential role in establishing, inter alia, the strategic direction and risk culture of the parent company. The BMA views the risk management function as a critical tool to furnish the board with the necessary information to make appropriate decisions and assist the group's management in steering the organisation forward
- C27.3 The risk management function within the CIRA has four components: Risk Identification, Risk Measurement, Risk Response, and Risk Monitoring & Reporting. The group will undertake the self-assessment by answering the questions related to the caliber of its risk management processes in place to address the material risk arising from each operational risk area.
- C27.4 The CIRA framework embodies a maturity model approach to identify a group's developmental stage with respect to a specific operational risk area. It rewards the group for achieving progress in each risk management area. It reviews the following eight operational risk exposures as follows:
- a) Business Processes Risk – includes a risk of errors arising from data entry, data processing, or application design;
 - b) Business Continuity Risk – includes a risk of an event that threatens or disrupts an insurance group's continuous operations;
 - c) Compliance Risk – includes a risk of legal or regulatory breaches or both.
 - d) Information System Risk – includes a risk of unauthorised access to systems and data, data loss, utility disruptions, software and hardware failures, and inability to access information systems;
 - e) Distribution Channels Risk – includes a risk of disruption to an insurance group's distribution channel arising from the employment of inexperienced or incapable brokers or agents;
 - f) Fraud Risk – includes a risk of misappropriation of assets, information theft, forgery, or fraudulent claims;
 - g) Human Resources Risk – includes a risk of employment of unethical staff, inexperience or incapable staff, failure to train or retain experienced staff, and failure to adequately communicate with staff; and
 - h) Outsourcing Risk – includes a risk of miscommunication of responsibilities in relation to outsourcing, breach of outsourced service agreements or entering into inappropriate service agreements.
- C27.5 The CIRA framework applies the components within the Risk Management function to each operational risk area. The group assesses each operational risk area and selects the applicable descriptor under the 'Dimension' column that reflects the developmental stage of the group's process surrounding the specific risk area

C27.6 In order to be credited for a relevant score within the CIRA Framework, the group must fulfil the criteria in the 'Dimension' column. In its assessment, if the group finds itself between stages, the group must select the lower stage. The insurance group can supplement the selection with additional comments that can be made at the end of each risk management function.

C27.7 The total scores for each component within the CIRA Framework are aggregated and produce the pertinent Operational Risk Charge percentage. The Operational Risk Charge ranges from 1% to 10%. The relevant Operational Risk Charge percentage is applied to the 'BSCR (After Covariance Adjustment)' subtotal. The resultant figure is the Operational Risk Capital Charge.

Items

- a) Corporate Governance – the group assesses each statement in the 'Dimension' column and places an 'X' in the column 'Implemented' where the corporate governance function meets the criteria (200 points for each fulfilled area). The worksheet will automatically aggregate all scores.

The insurance group may provide comments in the space provided to support its responses.

Parent Company's Board of Directors

Dimension	Implemented	Score
Sets risk policies, practices and tolerance limits for all material foreseeable operational risks at least annually and ensures they are communicated to insurance group entities		200
Monitors adherence to operational risk tolerance limits more regularly than annually		200
Sets risk policies, practices and tolerance limits for all material foreseeable operational risks at least annually and ensures they are communicated to insurance group entities		200
Monitors adherence to operational risk tolerance limits more regularly than annually		200
Sets risk policies, practices and tolerance limits for all material foreseeable operational risks at least annually and ensures they are communicated to insurance group entities		200
Monitors adherence to operational risk tolerance limits more regularly than annually		200

- b) Risk Management function – the group assesses each statement in the ‘Dimension’ column and places an ‘X’ in the column ‘Implemented’ where the Risk Management function meets the criteria (150 points for each fulfilled area). The worksheet will automatically aggregate all scores.

The insurance group may provide comments in the space provided to support its responses.

Risk Management Function:

Dimension	Implemented	Score
Is independent of other operational units and has direct access to the parent company's board of directors		150
Is entrenched in strategic planning, decision making and budgeting process		150
Ensures that the risk management procedures and policies are well documented and approved by the parent company's board of directors		150
Ensures the risk management policies and procedures are communicated throughout the insurance group		150
Reviews operational risk management processes and procedures at least annually		150
Ensures that loss events arising from operational risks are documented and loss event data is integrated into enterprise risk management		150
Documents its risk management recommendations for operational units, ensures that deficiencies have remedial plans and progress on the execution of such plans is reported to the parent company's board of directors at least annually		150

c) Risk Identification – the insurance group is to answer the following question:

“Has the insurance group taken steps to identify material risks arising from the Operational Risk areas identified below?”

If the answer to the question is ‘No’ then the insurance group does not have to complete the matrix/grid. If the answer to the question is ‘Yes’ then the group is to identify the stage of progression of each Operational Risk area based on the Dimension descriptor. The insurance group is then to input an ‘X’ in the grid corresponding to the stage in the matrix table under the relevant Operational Risk area.

The insurance group may provide comments in the space provided to support its responses.

Risk Identification Processes:

Progression		Dimension	Operational Risk Areas							
Stage	Scoring		Fraud	HR *	Outsourcing	Distribution Channel	Business Processes	Business Continuity	IT**	Compliance
1	50	'Ad hoc'								
2	100	Implemented but not standardised across the insurance group								
3	150	Implemented, well documented policies and procedures that are understood by relevant staff, and standardised across the entire insurance group								
4	200	In addition to Stage 3, processes are reviewed at least annually with the view to assessing effectiveness and introducing improvements								

*HR – Human Resources

**IT – Information Technology

d) Risk Measurement – the insurance group is to answer the following question:

'Has the insurance group taken steps to measure material risks arising from the Operational Risk areas identified below?'

If the answer to the question is 'No' then the insurance group does not have to complete the matrix/grid. If the answer to the question is 'Yes' then the insurance group is to identify the stage of progression of each Operational Risk area based on the Dimension descriptor. The insurance group is then to input an 'X' in the grid corresponding to the stage in the matrix table under the relevant Operational Risk area.

The insurance group may provide comments in the space provided to support its responses.

Risk Measurement Processes:

Progression		Dimension	Operational Risk Areas							
Stage	Scoring		Fraud	HR	Outsourcing	Distribution Channel	Business Processes	Business Continuity	IT	Compliance
1	50	'Ad hoc'								
2	100	Implemented but not standardised across the insurance group								
3	150	Implemented, well documented policies and procedures that are understood by relevant staff, and standardised across the entire insurance group								
4	200	In addition to Stage 3, processes are reviewed at least annually with the view to assessing effectiveness and introducing improvements								

e) Risk Response – the insurance group is to answer the following question:
 'Has the insurance group taken steps to control and/or mitigate material risks arising from the Operational Risk areas identified below?'

If the answer to the question is 'No' then the insurance group does not have to complete the matrix/grid. If the answer to the question is 'Yes' then the insurance group is to identify the stage of progression of each Operational Risk area based on the Dimension descriptor. The insurance group is then to input an 'X' in the grid corresponding to the stage in the matrix table under the relevant Operational Risk area.

The insurance group may provide comments in the space provided to support its responses.

Risk Response Processes:

Progression		Dimension	Operational Risk Areas							
Stage	Scoring		Fraud	HR	Outsourcing	Distribution Channel	Business Processes	Business Continuity	IT	Compliance
1	50	'Ad hoc'								
2	100	Implemented but not standardised across the insurance group								
3	150	Implemented, well documented policies and procedures that are understood by relevant staff, and standardised across the entire insurance group								
4	200	In addition to Stage 3, processes are reviewed at least annually with the view to assessing effectiveness and introducing improvements								

f) Risk Monitoring & Reporting – the insurance group is to answer the following question:
 'Has the insurance group taken steps to monitor and report material risks arising from the Operational Risk areas identified below?'

If the answer to the question is 'No' then the insurance group does not have to complete the matrix/grid. If the answer to the question is 'Yes' then the insurance group is to identify the stage of progression of each Operational Risk area based on the Dimension descriptor. The insurance group is then to input an 'X' in the grid corresponding to the stage in the matrix table under the relevant Operational Risk area.

The insurance group may provide comments in the space provided to support its responses.

Risk Monitoring & Reporting Processes:

Progression		Dimension	Operational Risk Areas							
Stage	Scoring		Fraud	HR	Outsourcing	Distribution Channel	Business Processes	Business Continuity	IT	Compliance
1	50	'Ad hoc'								
2	100	Implemented but not standardised across the insurance group								
3	150	Implemented, well documented policies and procedures that are understood by relevant staff, and standardised across the entire insurance group								
4	200	In addition to Stage 3, processes are reviewed at least annually with the view to assessing effectiveness and introducing improvements								

g) Operational Risk Charge calculation

Subject to the BMA having a different opinion and reassessing the charge through an onsite inspection, the 'Total Operational Risk Capital Charge' is applied to the insurance group's BSCR (After Covariance Adjustment) sub-total for purposes of arriving at its ECR for the year-end filing.

- (i) Overall CIRA Score – the aggregate of all the total scores from the Corporate Governance, Risk Management function, Risk Identification, Risk Measurement, Risk Response, Risk Monitoring & Reporting assessment used to determine the Operational Risk Charge %.
- (ii) CIRA Scoring Grid – the applicable Operational Risk Charge % that would be used to determine the insurance group's Total Operational Risk Capital Charge.

Overall Score	Applicable Operational Risk Charge % 'BSCR (After Covariance Adjustment)'
<= 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%

(iii) Total Operational Risk Capital Charge – calculated using the [Operational Risk Charge % x BSCR (After Covariance Adjustment)].

C28. SCHEDULE OF FIXED INCOME AND EQUITY INVESTMENTS BY BSCR RATING (SCHEDULE IIB)

Background

- C28.1 The schedule of fixed income and equity investments by BSCR rating (Schedule IIB), provides a breakdown of an insurance group's:
- a) Bonds and Debentures by both investment category (Corporate & Sovereign Bonds, Residential Mortgage-Backed Securities, Commercial Mortgage-Backed Securities/Asset-Backed Securities and Bond Mutual Funds) and BSCR ratings (Ratings 0-8);
 - b) Equity Investments by asset category (Long Exposures, Short Exposures for Qualifying Assets held for Risk Mitigation Purposes and Short Exposures for Non-Qualifying as Assets for Risk Mitigating Purposes) and liability category (Without Management Actions and with Management Actions);
 - c) Spread risk for credit derivatives by spread up (for long and short exposures) and spread down for (for long and short exposures);
 - d) Counterparty default risk for over-the-counter derivatives by market value of derivatives with positive market values, market value of derivatives with negative market value and market value of collateral excluding any over collateralisation; and
 - e) Cash and Cash Equivalents

The amounts reported on Schedule IIB should reflect the balances as shown on Form 1EBS lines 2(f) Quoted Investments, 3(f) Unquoted investments, 4(f) Investments in Affiliates, 5(c) Investment in Mortgage Loan on Real Estate, 7(c) Real Estate and 13(a) Derivatives after look-through (where applicable).

- C28.2 This schedule applies a capital charge to fixed income investments based on the type of category and rating of the security held; a shock to equity investments based on the type of investment; and a shock to credit derivatives based on the rating of the underlying asset. In addition, a counterparty credit risk for any OTC derivatives is applied. The fixed income (including credit derivatives) and equity charges are aggregated in the fixed income and equity risk tabs, respectively, while the counterparty credit risk charges are aggregated in the credit risk tab. Further, this information provides the BMA with high-level type and quality of investments held for assessing the insurance group's market risk. It is noted that the relevant balances reported on this schedule are to be additionally included in:
- a) Interest Rate/Liquidity Risk charge calculation for interest-rate sensitive assets, along with the interest-rate sensitive assets reported on Schedules IIC – IIF; and
 - b) Schedule XIXA Cash and Cash Equivalents for cash and cash equivalent balances (resulting from look-through).

Items

- C28.3 The schedule is broken into five separate sections for which the total of each should, after reconciling for look-through, correspond to balances reported on Form 1EBS for the relevant year. In the absence of look-through, the following (points a-b) should hold:

- a) Quoted and unquoted bonds and debentures, and Investment in Mortgage Loans on Real Estate – line 14, column (11) ‘Total’ corresponds to Form 1EBS, Line 2(b), 3(b) and 5(c);
- b) Quoted and unquoted equities – Line 37, column (11) ‘Total’ corresponds to Form 1EBS, line 2(d), 3(d) 4(f) and 7(c);

Instructions Affecting Schedule IIB

- C28.3a Fixed income investments, both quoted and unquoted, shall be categorised into corporate bonds and sovereign bonds, residential mortgage-backed securities (MBS), commercial MBS/asset-backed securities, and bond mutual funds, and further classified by BSCR rating;
- C28.3b Equity investments, both quoted and unquoted, shall be categorised into long exposures; short exposures qualifying as assets held for risk-mitigation purposes in accordance with criteria prescribed in section B5; and short exposures not qualifying as assets held for risk-mitigation purposes in accordance with criteria prescribed in section B5; and are further required to be classified by strategic holdings (listed and unlisted), duration based equity, listed equity securities in developed markets, preferred stocks, other equities / other assets, letters of credit, intangible assets, pension benefit surplus, infrastructure, real estate (company-occupied and investment), and equity derivatives (separately depending on the type of the underlying);
- C28.3c Preferred stock shall be classified by BSCR rating;
- C28.3d The BSCR ratings for fixed income securities and preferred stocks shall be determined in the manner specified in the instructions affecting Schedule II;
- C28.3e Where a security is rated differently by various rating agencies, the insurance group shall classify the security according to the most conservative rating assigned;
- C28.3f Unrated securities shall be assigned a BSCR rating of 8;
- C28.3g Sovereign debt issued by a country in its own currency that is rated AA- or better shall be classified under BSCR rating 0; while all other sovereign bonds are required to be classified in a manner similar to corporate bonds;
- C28.3h Debt issued by government-owned or entities that are explicitly guaranteed by that government (except government issued MBS), shall be assigned a BSCR rating of 0, provided that the country is rated AA- or better and the debt is in the local currency of the country and otherwise classified in a similar manner as corporate bonds;

- C28.3i 'Exposures' shall include those determined by the application of the 'look-through' approach applied in accordance with criteria prescribed in section B7 for collective investment vehicles and other investments packaged as funds;
- C28.3j 'Strategic holdings' refers to holdings in qualifying equity investments of a strategic nature which meet the criteria prescribed in section B8.7 for such holdings. Where such investments are listed on a designated stock exchange, or are investments in certain funds, both meeting criteria prescribed by the Authority, then such investments will be classified as 'Type 1'. Investments that do not meet such criterion shall be classified as 'Type 2'.
- C28.3k 'Infrastructure' refers to holdings in qualifying equity infrastructure investments which meet criteria prescribed in section B8.3 for such investments that are non-strategic holdings.
- C28.3l 'Listed equity securities in developed markets' refers to holdings in equity securities listed on designated stock exchanges or investments in certain funds prescribed in section B8.6. Certain qualifying unlisted equity investments may also be included under this category instead of the 'Other Equities' category under conditions set out in section B8.4.
- C28.3m 'Other equities' shall include holdings in quoted and unquoted equity investments that are not reported in accordance with the requirements of paragraphs '(j)' and '(l)' above; or not listed elsewhere in this schedule. I.e., 'other equities' includes (but is not limited to) unlisted equities, listed equities not listed on a designated stock exchange prescribed by the Authority (non-developed markets listed equities), hedge funds, commodities and other alternative investments);
- C28.3n Best estimate insurance liabilities and other liabilities (excluding risk margin) whose value is subject to equity risk are to be included in lines 31 to 46;
- C28.3o Exposures qualifying as assets held for risk-mitigation purposes, and exposures not qualifying as assets held for risk-mitigation purposes, shall be determined in accordance with criteria prescribed in section B5;
- C28.3p For all exposures other than derivatives, a default calculation of after-shock value is provided to expedite the filling of the schedule. It is expected that the default calculation will be appropriate in the majority of cases⁴; however, the insurance group always needs to review the appropriateness and approve any resulting values. If the default formula is not appropriate for certain asset class, or for certain instruments within an asset class, the insurance group is responsible for entering correct after-shock values by overriding the default formula; and

⁴ In particular, this is true for all 'delta-one assets', such as common stocks and funds, for which the application of an x% downwards shock is equivalent to reducing the market value (price) by x%.

C28.3q For derivatives, no default formula can generally be provided due to the non-linearity of the change in value. That is, the change in derivative value (in percentages) is generally different from the shock (in percentages) that is applied to the underlying of the derivative.

C28.3r Amounts shall be reported on EBS valuation basis.

Additional Guidance

GNMA, FNMA and FHLMC are not eligible for BSCR Rating 0

C28.3.i. Securities that have a BSCR rating 0 have been defined as ‘Sovereign debt issued by a country in its own currency that is rated AA- or better’, however the Authority would like to acknowledge that Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA) and Federal Home Loan Mortgage Corporation (FHLMC) are not eligible for the sovereign bond classification BSCR Rating 0 and shall be reported under Mortgage-Backed Securities (MBS). While the Authority acknowledges that an explicit government guarantee applies to the credit risk for GNMA-insured mortgages uncertainty remains with the timing of the mortgage loan repayments. Consequently, the Authority does not extend the sovereign debt treatment to MBS.

MBS to use NAIC Rating

C28.3.ii. MBS do not always adequately reflect the risk associated with being held at less than par value. For this reason, the National Association of Insurance Commissioners (NAIC) has modeled these bonds and provides US insurers with a rating reclassification. The Authority shall allow insurers the option to use these reclassifications when summarising their portfolio. In instances where an instrument has a rating from a rating agency that would put it in BSCR ratings classes 1-2, and it has also been classified as NAIC ratings class 1 (equivalent to BSCR ratings class 3), then the better BSCR ratings class may be selected. The Authority requires insurance groups to provide a separate summary of the Form 1EBS value by BSCR rating class, both before and after the adjustment.

The NAIC reclassifications of MBS will be assigned to the BSCR ratings classes according to the following table:

BSCR Rating Class	NAIC (for MBS Only)
0	
1	
2	
3	1
4	2
5	3
6	4

7	5
8	6

Some Residential MBS bonds are not directly modeled by the NAIC, including bonds held by insurers that do not have a United States presence. The NAIC provides a documented four-step process as part of its SSAP No. 43R for reclassifying such bonds based on their rating and their Form 1EBS value relative to par. The Authority shall allow companies to optionally follow this process in classifying bonds that have not been formally reclassified by the NAIC.

Affiliated balances

- C28.3.iii. Unless otherwise required by the Authority, Investments in Affiliates approved by the Authority are to be treated like any other financial investment unless they fulfil the criteria prescribed in section B7.7 as ‘Strategic Holdings’. Otherwise, the affiliate investments approved by the Authority are to be allocated as an equity holding in lines 15-36.

C29. SCHEDULE OF FUNDS HELD (SCHEDULE IIC)

Background

- C29.1 To assess the risk of amounts reported in Funds Held By Ceding Reinsurers (Form 1EBS, line 12(c)), the Authority requires insurance groups to determine the arrangement in which the funds are being held. In the event of default, if the reinsurer bears the risk of the assets held, then these amounts are to be reported on Schedule XVIII – Schedule of Particulars of Ceded Reinsurance; if the insurance group bears the risk (as well as the market risk of the valuation of investments), then these amounts are to be reported in Schedule IIC – Schedule of Funds Held.
- C29.2 The Schedule of Funds Held — Schedule IIC — provides the BMA with details to assess the type and quality of investment held by requiring the insurance group to allocate the balances by investment category and BSCR Rating (similar to investments reported on Schedule IIB). Further the balances reported on Schedule IIC also are used in the calculation for the Interest Rate/Liquidity Risk and Cash and Cash Equivalents exposure.
- C29.3 The investment categorisation and BSCR ratings shall be based on the same rating scale and principles as those found on Schedule IIB.

Items

- C29.4 The amounts reported should correspond to balances reported on Form 1EBS line 12(c) and is allocated in the following five sections:
- a) Bonds and Debentures by both investment category (Corporate & Sovereign Bonds, Residential Mortgage-Backed Securities, Commercial Mortgage-Backed Securities/Asset-Backed Securities and Bond Mutual Funds) and BSCR ratings (Ratings 0-8);
 - b) Equity Investments by asset category (Long Exposures, Short Exposures for Qualifying Assets held for Risk Mitigation Purposes and Short Exposures for Non-Qualifying as Assets for Risk Mitigating Purposes) and liability category (Without Management Actions and with Management Actions);
 - c) Spread risk for credit derivatives by spread up (for long and short exposures) and spread down for (for long and short exposures);
 - d) Counterparty default risk for over-the-counter derivatives by market value of derivatives with positive market values, market value of derivatives with negative market value and market value of collateral excluding any over collateralisation; and
 - e) Cash and Cash Equivalents

Instructions Affecting Schedule IIC

C29.4a All funds held by ceding reinsurers (as reported in Form 1EBS, line 12(c)) and funds held under retrocession (as reported in Form 1EBS, line 34(c)) with identifiable assets and liabilities, such as fixed income investments, equity investments, mortgage loans, derivatives, hedge funds and cash and cash equivalents, are required to be included here, reported on a look-through basis according to section B7, where applicable;

C29.4b Amounts shall be reported on EBS valuation basis.

C29.4c All the instructions affecting Schedule IIB apply also to Schedule IIC, as applicable.

C30. SCHEDULE OF SEGREGATED ACCOUNTS (SCHEDULE IID)

Background

- C30.1 The schedule of Segregated Accounts (Schedule IID) provides a breakdown of an insurance group's segregated accounts by:
- a) Bonds and Debentures by both investment category (Corporate & Sovereign Bonds, Residential Mortgage-Backed Securities, Commercial Mortgage-Backed Securities/Asset-Backed Securities and Bond Mutual Funds) and BSCR ratings (Ratings 0-8);
 - b) Equity Investments by asset category (Long Exposures, Short Exposures for Qualifying Assets held for Risk Mitigation Purposes and Short Exposures for Non-Qualifying as Assets for Risk Mitigating Purposes) and liability category (Without Management Actions and with Management Actions);
 - c) Spread risk for credit derivatives by spread up (for long and short exposures) and spread down for (for long and short exposures);
 - d) Counterparty default risk for over-the-counter derivatives by market value of derivatives with positive market values, market value of derivatives with negative market value and market value of collateral excluding any over-collateralisation; and
 - e) Cash and Cash Equivalents
- C30.2 This schedule applies a capital charge to fixed income investments based on the type of category and rating of the security held; a shock to equity investments based on the type of investment; and a shock to credit derivatives based on the rating of the underlying asset. In addition, a counterparty credit risk for any OTC derivatives is applied. The fixed income (including credit derivatives) and equity charges are aggregated in the fixed income and equity risk tabs, respectively, while the counterparty credit risk charges are aggregated in the credit risk tab. Further, this information provides the BMA with high-level type and quality of investments held for assessing the insurance group's market risk. It is noted that the cash and cash equivalent balances reported on this schedule are to be included in the balances in Schedule XIXA Cash and Cash Equivalents.
- C30.3 The investment categorisation and BSCR ratings shall be based on the same rating scale and principles as those found on Schedule IIB.

Items

- C30.4 The amounts reported should correspond to balances reported on Form 1EBS lines 13(b, c and d) and 36 (c, d and e) and is allocated in the five sections listed above.

Instructions Affecting Schedule IID

- C30.4a All segregated account companies with identifiable assets (as reported in Form 1EBS, lines 13(b), (c), (d)) and liabilities (as reported in Form 1EBS, lines 36(c), (d), (e)), such as fixed income investments, equity investments, mortgage loans, and cash and cash equivalents, shall be included here;

C30.4b Fixed Income investments (lines 1-13): In columns 2, 4, 6, 8, and 10, insurance groups shall only enter liabilities that are directly linked to, and move in line with, corresponding assets entered in columns 1, 3, 5, 7, and 9, respectively. Only such linked liabilities are allowed to offset the risk charge on assets, up to the amount of assets to which they correspond. Any liabilities not directly linked to assets reflected in the schedule shall be ignored in the fixed income risk calculation.

C30.4c Amounts shall be reported on EBS valuation basis.

C30.4d All the instructions affecting Schedule IIB apply also to Schedule IID, as applicable.

C31. SCHEDULE OF DEPOSIT ASSETS AND LIABILITIES (SCHEDULE IIE)

Background

- C31.1 The schedule of Deposit Assets and Liabilities (Schedule IIE) provides a breakdown of an insurance group's deposit assets and liabilities:
- a) Bonds and Debentures by both investment category (Corporate & Sovereign Bonds, Residential Mortgage-Backed Securities, Commercial Mortgage-Backed Securities/Asset-Backed Securities and Bond Mutual Funds) and BSCR ratings (Ratings 0-8);
 - b) Equity Investments by asset category (Long Exposures, Short Exposures for Qualifying Assets held for Risk Mitigation Purposes and Short Exposures for Non-Qualifying as Assets for Risk Mitigating Purposes) and liability category (Without Management Actions and with Management Actions);
 - c) Spread risk for credit derivatives by spread up (for long and short exposures) and spread down (for long and short exposures);
 - d) Counterparty default risk for over-the-counter derivatives by market value of derivatives with positive market values, market value of derivatives with negative market value and market value of collateral excluding any over-collateralisation; and
 - e) Cash and Cash Equivalents
- C31.2 This schedule applies a capital charge to fixed income investments based on the type of category and rating of the security held; a shock to equity investments based on the type of investment; and a shock to credit derivatives based on the rating of the underlying asset. In addition, a counterparty credit risk for any OTC derivatives is applied. The fixed income (including credit derivatives) and equity charges are aggregated in the fixed income and equity risk tabs, respectively, while the counterparty credit risk charges are aggregated in the credit risk tab. Further, this information provides the BMA with high-level type and quality of investments held for assessing the insurance group's market risk. It is noted that the cash and cash equivalent balances reported on this schedule are to be included in the balances in Schedule XIXA Cash and Cash Equivalents.
- C31.3 The investment categorisation and BSCR ratings shall be based on the same rating scale and principles as those found on Schedule IIB.

Items

- C31.4 The amounts reported should correspond to balances reported on Form 1EBS lines 13(e) Deposit Assets and 36(f) Deposit Liabilities and is allocated in the five sections listed above.

Instructions Affecting Schedule IIE

- C31.4a All deposit assets and liabilities with identifiable assets (as reported in Form 1EBS, lines 13(e)) and liabilities (as reported in Form 1EBS, lines 36 (f)), such as fixed income

investments, equity investments, mortgage loans, and cash and cash equivalents, are required to be included here;

C31.4b Insurance groups should look into the nature of the deposit assets and map them in the BSCR template to appropriate categories based on the cash flow profile and risk sensitivities. For example, bond-like cash flow profile would be mapped to corporate bonds (based on counterparty's credit rating).

C31.4c Amounts shall be reported on EBS valuation basis.

C31.4d All the instructions affecting Schedule IIB apply also to Schedule IIE, as applicable.

**C32. SCHEDULE OF OTHER SUNDRY ASSETS AND LIABILITIES
(SCHEDULE IIF)**

Background

- C32.1 The schedule of Other Sundry Assets and Liabilities (Schedule IIF) provides a breakdown of an insurance group's other sundry assets and liabilities:
- a) Bonds and Debentures by both investment category (Corporate & Sovereign Bonds, Residential Mortgage-Backed Securities, Commercial Mortgage-Backed Securities/Asset-Backed Securities and Bond Mutual Funds) and BSCR ratings (Ratings 0-8);
 - b) Equity Investments by asset category (Long Exposures, Short Exposures for Qualifying Assets held for Risk Mitigation Purposes and Short Exposures for Non-Qualifying as Assets for Risk Mitigating Purposes) and liability category (Without Management Actions and with Management Actions);
 - c) Spread risk for credit derivatives by spread up (for long and short exposures) and spread down (for long and short exposures);
 - d) Counterparty default risk for over-the-counter derivatives by market value of derivatives with positive market values, market value of derivatives with negative market value and market value of collateral excluding any over-collateralisation; and
 - e) Cash and Cash Equivalents
- C32.2 This schedule applies a capital charge to fixed income investments based on the type of category and rating of the security held; a shock to equity investments based on the type of investment; and a shock to credit derivatives based on the rating of the underlying asset. In addition, a counterparty credit risk for any OTC derivatives is applied. The fixed income (including credit derivatives) and equity charges are aggregated in the fixed income and equity risk tabs, respectively, while the counterparty credit risk charges are aggregated in the credit risk tab. Further, this information provides the BMA with high-level type and quality of investments held for assessing the insurance group's market risk. It is noted that the cash and cash equivalent balances reported on this schedule are to be included in the balances in Schedule XIXA Cash and Cash Equivalents.
- C32.3 The investment categorisation and BSCR ratings shall be based on the same rating scale and principles as those found on Schedule IIB.

Items

- C32.4 The amounts reported should correspond to balances reported on Form 1EBS lines 13(g) Intangible Assets, 13(i) Pension Benefit Surplus, 13(j) Other Sundry Assets, 36(i) Other Sundry Liabilities and 14(d) Letters of Credit, Guarantees and Other Instruments is allocated in the five sections listed above.

Instructions Affecting Schedule IIF

- C32.4a All other sundry assets and liabilities with identifiable assets (as reported in Form 1EBS, lines 13(j)) and liabilities (as reported in Form 1EBS, lines 36 (i)) and Letters of Credit,

Guarantees and Other Instruments (as reported in Form 1EBS, line 14(d)), such as fixed income investments, equity investments, mortgage loans, and cash and cash equivalents, shall be included here;

C32.4b Amounts shall be reported on EBS valuation basis.

C32.4c All the instructions affecting Schedule IIB apply also to Schedule IIF, as applicable.

C33. SCHEDULE OF PREMIUM EXPOSURE MEASURE BY LINE OF BUSINESS (SCHEDULE IVD)

Background

C33.1 The schedule of premium exposure measure by line of business — Schedule IVD — provides a breakdown of an insurance group’s gross premium exposure measure and net premium exposure measure on a consolidated basis. The exposure measure is calculated by the greater of:

- a) Gross Premium Written / Net Premium Written for the current year;
- b) Estimate of Net Earned Premiums for the next 12 months;

Plus

- (i) Net FP (Existing); and
- (ii) Net FP (Future)

Instructions Affecting Schedule IVD

C33.1a ‘Net Premiums Written’ means the consolidated net premiums written for the reporting period;

C33.1b ‘Estimate of Net Earned Premiums for the next 12 months’; means the net premiums earned for the next 12 months (whether arising from policies already incepted, bound but not incepted, or not bound but incepting in the next 12 months);

C33.1c ‘Net Base Premium Exposure’ means the greater of the amounts calculated under lines of Business in paragraphs (a) and (b) above;

C33.1d ‘Net FP (existing)’ means the expected present value of net premiums to be earned by the insurance group after the next 12 months reporting period for existing qualifying multi-year insurance policies;

C33.1e ‘Net FP (future)’ means the expected present value of net premiums to be earned by the insurance group after the next 12 months reporting period for qualifying multi-year insurance policies where the initial recognition date falls in the following 12 months;

C33.1f ‘Net Premium Exposure Measure’ means the total derived from paragraphs (c), (d) and (e) above;

C33.1g ‘Gross Premium Exposure Measure’ means the amount calculated in paragraph (f) above but on a gross of reinsurance basis;

C33.1h ‘Geographic Net Premium Exposure Measure’ means the total shown on Schedule IVE.

Additional Guidance

Qualifying multi-year insurance policies

- C33.1i ‘Qualifying multi-year insurance policies’ means those insurance policies with (an earning) term longer than 12 months after allowing for the criteria prescribed by the Authority;
- C33.1j Corollary to the above is that insurance policies which are earned over a term of 12 months or less (i.e., single-year policies) are not considered ‘qualifying multi-year insurance policies’;
- C33.1k In order to determine what contracts fall under multi-year exposure, insurance groups should take into account paragraph 12 of Schedule XXV of the Group Rules, including subparagraph 12(4): “All obligations relating to a contract of insurance will be considered by an insurance group to be within the boundaries of such contract until any of the following matters arise —
- a) an insurer that is a member of the insurance group is no longer required to provide coverage under the contract of insurance;
 - b) an insurer that is a member of the group has the contractual right or ability to reassess the risk of a policyholder or beneficiary of a contract of insurance and, as a result, can set a price that fully reflects the revised risk; or
 - c) where an insurance group has the ability to reassess the risk of the portfolio that contains a contract of insurance and, as a result can set a price that fully reflects the risk of that portfolio.”
- C33.1l For example, multi-year contracts with ‘getaway clauses’, such as annual renewal of cancellation provisions may be treated as one-year contracts and thus excluded from multi-year exposure.
- C33.1m The criteria prescribed in paragraph C26.7c are taken from the guidance for calculating the EBS Technical Provisions. A natural implication is that the treatment of multi-year contracts should be consistent between the calculation of FP(Existing) and EBS Technical Provisions.

C34. SCHEDULE OF GEOGRAPHIC DIVERSIFICATION OF NET PREMIUM EXPOSURE MEASURE (SCHEDULE IVE)

Background

- C34.1 The schedule of geographic diversification of net premium exposure measure — Schedule IVE — provides a breakdown of an insurance group’s net premium exposure measure by statutory lines of business and by geographical location. The BMA has identified and defined 24 statutory lines of business and 18 statutory geographical zones.
- C34.2 Line item 25 ‘Total’ of Schedule IVE for net premium exposure measure should correspond to the balance reported in IVD Net Premium Exposure Measure for the applicable line of business.

Instructions Affecting Schedule IVE

- C34.2a For each line of business, the net premium exposure measure stated in Schedule IVD may be split between the 18 geographic zones set below. If included, the total of amounts in zones 1-18 for a given line of business shall equal the corresponding amount of net premiums written shown in Schedule IVD.

Additional Guidance

- C34.2b When allocating the premium exposure measure by geographic location, allocate the premiums by the location of the risk.

C35. SCHEDULE OF RISK EXPOSURE (SCHEDULE IVF)

Background

- C35.1 The Schedule of Risk Exposure – Schedule IVF – requires all insurers to provide a breakdown of the :
- a) Number of subsidiaries per location. For the purpose of this schedule, the BMA has identified 37 locations worldwide;
 - b) General business Gross and Net Premium Written by location of risk being underwritten, split between property catastrophe and other lines of business for the financial period;
 - c) General business Gross Incurred Losses by location for the financial period;
 - d) Gross Reserves by location at year-end;
 - e) Long-Term business Gross Reserves by location for Mortality risk, Longevity risk, Deferred Accumulations Annuities, Disability, Group, Variable Annuities, and Other Products at year-end; and
 - f) Long-Term Claims and Benefit Paid by location for the financial period.

The information in this Schedule provides the BMA with details of the geographic location of general and long-Long-Term business risks assumed and ceded by Bermuda insurers, the reserves established for those risks and the related claims paid. Accordingly, this information enables the BMA to demonstrate the key role Bermuda plays in the supply and diversification of risk capacity globally

Items

- C35.2 Provide jurisdiction of the ultimate parent company of the insurer:
- C35.3 All insurance groups shall provide the following information for the reporting period

Instructions Affecting Schedule IVF

C35.3a ‘Location’ shall be the location of the risk being underwritten. If the location of the risk being underwritten is not available, then insurers are to allocate based on the location of the cedant;

C35.3b The ‘number of subsidiaries’ refers to the number of subsidiaries licensed within the jurisdiction;

C35.3c ‘Mortality’ refers to –

- a) Mortality (term assurance, whole life, universal life);
- b) Critical Illness (including accelerated critical illness products);

C35.3d ‘Longevity’ refers to –

- a) Longevity immediate pay-out annuities, contingent annuities, pension blocks;
- b) Longevity (deferred pay-out annuities, future contingent annuities, future pension pay-outs);

c) Annuities certain only;

C35.3e 'Deferred accumulation annuities' refers to –

a) Deferred accumulation annuities;

C35.3f 'Disability' refers to –

- a) Disability income: active lives - including waiver of premium and Long-Term care;
- b) Disability income: active lives - other accident and sickness;
- c) Disability income: claims in payment - including waiver of premium and Long-Term care;
- d) Disability income: claims in payment - other accident and sickness

C35.3g 'Group' refers to –

- a) Group Life;
- b) Group Disability;
- c) Group Health

C35.3h 'Variable annuities' refers to –

a) Variable Annuities

C35.3i 'Other products' refers to

- a) Stop Loss;
- b) Rider (other product riders not included above)

C35.3j All amounts shall be reported on a consolidated basis only.

C36. SCHEDULE OF LAPSE RISK (SCHEDULE VIIA)

Background

C36.1 Schedule VIIA (EBS) collects inputs required for the determination of the lapse risk capital charges. The required inputs consist of pre-stress and post-stress asset and liability values.

Instructions Affecting Schedule VIIA

General – Valuation of assets and liabilities

C36.2 Assets and liabilities are to be valued on the EBS valuation basis.

C36.3 Please refer to paragraph 44A of the Group Rules for the definitions of the input components as necessary.

C36.4 For the avoidance of doubt, note that if the lapse stresses do not affect the $t=0$ values of the assets on the balance sheet, then the post-stress market value of assets is equal to the pre-stress market value of the assets (where the pre-stress market value is that fair value of the assets as of the valuation date). Please refer to the principal Rules and the Instructions on Lapse Risk for more details if necessary.

General – Scope

C36.5 The lapse stresses apply to all Long-Term business with potential lapse risk exposure (i.e. where any relevant policyholder options exist), regardless of the reporting line under Form 1EBS, including without limitation “separate account” business, “segregated account” business and entities that are members of the insurance group that are registered to operate segregated accounts in accordance with the Segregated Accounts Companies Act 2000.

C37. SCHEDULE OF LONG-TERM EXPENSE RISK (SCHEDULE VIIB)

Background

C37.1 Schedule VIIB (EBS) collects inputs required for the determination of the expense risk capital charges. The required inputs consist of pre-stress and post-stress asset and liability values.

Instructions Affecting Schedule VIIB

General – Valuation of assets and liabilities

C37.2 Assets and liabilities are to be valued on the EBS valuation basis.

C37.3 Please refer to paragraph 44B of the Group Rules for the definitions of the input components as necessary.

C37.4 For the avoidance of doubt, note that if the expense stresses do not affect the t=0 values of the assets on the balance sheet, then the post-stress market value of assets is equal to the pre-stress market value of the assets (where the pre-stress market value is that fair value of the assets as of the valuation date). Please refer to the principal Rules and the Instructions on Expense Risk for more details if necessary.

General – Scope

C37.5 The expense stresses apply to all Long-Term business, regardless of the reporting line under Form 1EBS, including without limitation “separate account” business, “segregated account” business and entities that are members of the insurance group that are registered to operate segregated accounts in accordance with the Segregated Accounts Companies Act 2000.

C38. SCHEDULE OF CASH AND CASH EQUIVALENT COUNTERPARTY ANALYSIS (SCHEDULE XIXA)

Background

C38.1a For assessing the underlying credit security of cash and cash equivalent counterparties, the Authority is requiring insurance groups to provide details of the largest 10 exposures and rating of those institutions. The remaining balance can be aggregated by BSCR rating (which is a similar methodology to the Schedule of Particulars of Ceded Reinsurance).

Instructions Affecting Schedule XIXA

C38.1b An insurance group may disclose at least the top 10 cash and cash counterparty exposures (as reflected in Form 1EBS line 1 and Schedules IIB to IIF column 1, line 58)

C38.1c The remaining balance may be grouped according to BSCR rating;

C38.1d All unreconciled balances shall be allocated to the single consolidated exposure balance that receives a BSCR Rating of 8;

C38.1e Cash and cash equivalents issued by a country that is rated AA- or better in its own currency shall be classified under BSCR rating class 0;

C38.1f Insurance groups may allocate BSCR Ratings based on the short-term ratings in the table below, or alternatively based on the Long-Term ratings detailed in Schedule II, in each case following the process specified in the instructions affecting Schedule II; and

C38.1g Amounts shall be reported on an EBS valuation basis.

BSCR Ratings	Standard & Poor's	Moody's	AM Best	Fitch
Class 2	A1+	P1	AMB-1+	F1+
Class 3	A1	P2	AMB-1	F1
Class 4	A2, A3	P3	AMB-2, AMB-3	F2, F3
Class 5				
Class 6	B-1, B-2			B
Class 7	B-3			
Class 8	Unrated short-term investments and all other ratings			

BSCR Ratings	KBRA	DBRS	Egan-Jones	Japan Credit Rating Agency
Class 2	K1+	R-1 H,M	A-1+	J1+
Class 3	K1	R-1 L	A-1	J1
Class 4	K2, K3	R-2 H,M,L	A-2, A-3	J2
Class 5		R-3	B-1	J3
Class 6	B	R-4	B-2	
Class 7			B-3	NJ
Class 8	Unrated short-term investments and all other ratings			

C39. SCHEDULE OF CURRENCY RISK (SCHEDULE XXA)

- C39.1 For insurance groups that write business in multiple currencies, the Authority has developed a capital charge for each currency where the insurance group's liabilities may exceed its assets. All of the currency exposures should be included where feasible. However, for the grounds of proportionality, the Authority is requiring insurance groups to provide currency exposures for at least 95% of total assets and liabilities held.
- C39.2 For those currencies for which the assets in the currency are less than the sum of the liabilities denominated in the currency plus a proxy BSCR for that currency, shocks are applied to the assets and liabilities to determine a capital charge. The proxy BSCR for a given currency shall be calculated as the product of the liabilities in that currency and the proxy BSCR factor. The proxy BSCR factor is calculated as the total liabilities found on Form 1EBS line 39 divided by the total ECR Charge. The proxy BSCR factor shall be the maximum of:
- a) The prior year value; and
 - b) Average of the last 3 years.

Instructions Affecting Schedule XXA

- C39.2a Insurance groups shall report currencies representing not less than 95% of their EBS assets and liabilities. Where less than 100% of all currency exposures are reported, this and the reasons for not being able to report all the currency exposures should be documented with appropriate signoffs;
- C39.2b Assets qualifying as held for risk mitigation purposes, assets not qualifying for risk mitigation purposes and liabilities without management actions shall be valued in line with the Economic Balance Sheet principles set out in Schedule XIV and in accordance with criteria prescribed in section B5;
- C39.2c Liabilities with management actions shall be valued in accordance with criteria prescribed in section B6 in relation to the valuation of future bonuses and other discretionary benefits;
- C39.2d For all exposures other than Foreign Exchange (FX) derivatives, a default calculation of after-shock value is provided to expedite the filling of the schedule. It is expected that the default calculation will be appropriate in the majority of cases⁵; however, the insurance group always needs to review the appropriateness and approve any resulting values. If

⁵ In particular, this is true for all assets whose value is not directly sensitive to exchange rate movements (i.e., whose local (foreign) currency value is independent of changes in exchange rates). For example, and assuming that USD is the reporting currency, although the value *in dollars* of a bond or common stock denominated in, say, Euros (EUR) will change as a result of a shock to USD/EUR exchange rate, the local currency value of the bond or common stock will not change as a result of the shock. For such assets the only change in value is the change in reporting currency terms, meaning that the percentage shock can be straightforwardly applied to the reporting currency value of the foreign currency position.

the default formula is not appropriate for a certain asset class, or for certain instruments within an asset class, the insurance group is responsible for entering correct after-shock values by overriding the default formula;

C39.2e For FX derivatives, no default formula can generally be provided, due to the non-linearity of the change in value. That is, the change in derivative value (in percentages) is generally different from the shock (in percentages) that is applied to the exchange rate underlying the derivative;

C39.2f Amounts shall be reported on EBS valuation basis.

Additional Guidance

Calculating the BSCR Proxy

C39.2.i. When calculating the BSCR Proxy, insurance groups are to provide Liabilities (on an EBS basis) and the total full (new basis) ECR capital charge on an EBS basis for the prior 3 years. In the instance the insurance group does not have liabilities and the ECR capital charge on an EBS basis, the Authority will allow insurance groups to provide the non-EBS balances for each. Note that for financial year-ends within the BSCR transitory period, insurers are to report the full new-basis BSCR for that period.

C39.2.ii. If the insurance group does not have either liabilities or ECR capital charge for the prior 3 years:

- a) Insurance groups filing their BSCR for the first time are to use current year figures for the prior year; and
- b) Insurance groups that have previously filed a BSCR however do not have 3 years of historical data shall provide the years they have data for, and leave the years with no data reported as blank.

Meeting the 95% minimum Asset and Liability test

C39.2.iii. If an insurance group does not meet at least the 95% minimum test on this schedule, this will impact the BMA's risk assessment of the insurance group.

- a) The Authority may require additional information from the insurance group to assess its currency risk. This may result in a capital add-on which will require the insurance group's ECR and TCL ratios to be revised on its published Financial Condition Report.

Guidance for reporting currency shocks for FX forward positions

C39.2.iv. When reporting foreign exchange hedges on Schedule XXA, the before-shock market value is the fair value of the contract on an EBS basis, and should be already available without a need for separate calculations (from the financial statements/asset reports/asset system). The after-shock value is to be calculated by the insurer under the prescribed currency shocks, following standard market practices and using generally accepted models for valuation of specific assets.

C39.2.v. Alternatively, instead of reporting the (net) market value of an FX forward contract, insurers may report both legs of the FX forward separately on Schedule XXA, with each leg allocated to the line for the appropriate currency. In this case, the sum of the reported (before-shock) values of the legs should equal the fair value, as of valuation date, of the FX forward contract as a whole. Similarly, the sum of the mark-to-model values of the legs after the shock should, by definition, be equal to the after-shock mark-to-model value of the contract as a whole, if the calculation is carried out correctly. That is, the market value of the contract, or the results of the shock calculation, shall not be affected by the chosen representation.

C40. SCHEDULE OF CONCENTRATION RISK (SCHEDULE XXIA)

Background

- C40.1 To assess the insurance group's concentration risk, the Authority requires the identification of the largest 10 independent counterparties, and all exposures relating to these counterparties (e.g., equity holdings, bonds, real estate, loans, etc.), which would be an addition to the existing BSCR market and/or credit risk contributed by those exposures.
- C40.2 In deciding which counterparties need to be grouped together, a single counterparty should include all related/connected counterparties, which are defined as:
- a) Control relationship: one of the counterparties, directly or indirectly, has control over the other(s); and
 - b) Economic inter-dependence: if one of the counterparties were to experience financial problems, in particular funding or repayment difficulties, the other(s) as a result, would also be likely to encounter funding or repayment difficulties.

Instructions Affecting Schedule XXIA

- C40.2a Disclosure of all exposures to the ten largest counterparties of an insurance group, by reporting the name, the exposure and allocation by asset type, bond or mortgage type (if applicable), BSCR Rating (if applicable) and asset value consistent with Form 1EBS.
- C40.2b For the purposes of this Schedule, a counterparty shall include all related or connected counterparties captured by either of the following criteria:
- a) Controller relationship: if a counterparty, directly or indirectly, has control of (as a result of its majority shareholding in or significant influence) the other counterparties; or
 - b) Economic interdependence: if one of the counterparties were to experience financial difficulties which directly or indirectly affect the ability of any or all of the remaining counterparties to perform their financial obligations (e.g., where a counterparty becomes unable to fund or repay certain financial contractual obligations, and as a result, other counterparties, are likely to be unable to fund or repay certain obligations imposed on them);
- C40.2c Asset type (column A) shall be determined by the insurance group as one of the following:
- a) Cash and Cash Equivalents (as defined in Schedule XIX column B Schedules IIB, IIC, IID, IIE, and IIF column (1), line 68);
 - b) Quoted and Unquoted Investments (as defined in Schedules IIB, IIC, IID, IIE, and IIF column (11), line 14);
 - c) Equity Holdings (as defined in Schedules IIB, IIC, IID, IIE, and IIF column (11), line 37);

- d) Advances to Affiliates (reported on Form 1EBS, line 4(g));
- e) Policy Loans (reported on Form 1EBS, line 6);
- f) Real Estate 1 (reported on Form 1EBS, line 7(a));
- g) Real Estate 2 (reported on Form 1EBS, line 7(b));
- h) Collateral Loans (reported on Form 1EBS, line 8).

C40.2d When reporting asset sub-type (under column B) shall provide further details of the type of asset as included in table 1, table 2 or table 8 as appropriate;

C40.2e When applying the BSCR Rating (under column C) the insurance group shall apply the BSCR rating that was allocated to the asset when it was included in table 1, table 2 or table 8 as appropriate;

C40.2f Asset value (under column D) shall be the value of the asset as required by the EBS valuation principles as set out in Schedule XIV; and

C40.2g Amounts shall be reported on an EBS valuation basis.

Additional Guidance

Reporting largest 10 independent exposures

C40.2.i. Complete the schedule by providing all exposures, relating to all instruments (e.g., equity holdings, bonds, real estate, loans, etc.), related to the 10 largest counterparties. If a counterparty has more than one BSCR rating or Asset Type, enter each rating separately (i.e., if an insurance group has purchased bonds and preferred shares of a company, then the insurance group is to report 'Asset Type' as 'Bond Types'; 'Bond/Mortgage Loan Type' as the applicable bond type, and 'BSCR Rating' as the rating of the bond in one line. In the second line, the insurance group is to report the 'Asset Type' as 'Preferred Shares' and 'BSCR Rating' as the rating of the shares.

C41. SCHEDULE OF INTEREST RATE SENSITIVE ASSETS AND LIABILITIES (SCHEDULE XXIII)

Background

C41.1 An alternative and more risk sensitive method for determining capital requirements for interest and liquidity risk has been developed. This method will require companies to apply shocks to the yield curve used for determining best estimate liabilities (which includes segregated account company liabilities, deposit liabilities and sundry liabilities) and market values of assets (which includes segregated account company assets, deposit assets and sundry assets) exposed to interest rate risk (e.g. fixed income and hybrid assets, bank deposits, etc.). Any changes in market values of assets and best estimate liabilities due to interest rate-sensitive cash flows should be accounted for. The capital requirement is then determined as the highest negative change to the net asset value (highest mark-to-market loss) resulting from these shocks.

Instructions Affecting Schedule XXIII

C41.1a The shock-based method requires companies to apply shocks to the yield curves used for determining best estimate liabilities⁶ and market values of assets⁷ exposed to interest rate changes (e.g., fixed income and hybrid assets, bank deposits, etc.). Any changes in market values of assets and best estimate liabilities due to interest rate-sensitive cash flows should be accounted for.

C41.1b Two shocks are to be applied: an upwards shock and a downwards shock. The capital requirement is then determined as the highest negative change to the net asset value (highest mark-to-market loss) resulting from these shocks.

C41.1c For the purposes of calculating capital requirements for interest rate risk, rates are allowed to go negative. If the application of the downward shock leads to negative rates, these shall not be floored at zero.

C41.1d For the calculation of the interest risk capital charge under the shock-based approach, hedging and risk transfer mechanisms should be taken into account as long as they comply with the requirements set in Section B5 of these instructions. Also, management actions should be taken into account as long as they comply with the requirements set in the Section B6 of these instructions.

Interaction between shock-based approach and interest rate risk captured in Variable Annuity (VA) guarantee risk

C41.1e In order to prevent double-counting capital charges for VA guarantees when using the shock-based approach, the following provisions apply:

- a) Where companies are using an internal model for Variable Annuity risk, assets and liabilities associated with VA guarantees may be excluded from the interest rate shock, if the following conditions are fulfilled:

⁶ And segregated account company liabilities, deposit liabilities and sundry liabilities.

⁷ Including segregated account company assets, deposit assets and sundry assets.

- (i) The company is able to identify and track assets associated with Variable Annuity guarantees.
- (ii) Interest rate risk associated with both the VA guarantee liabilities and the associated assets is explicitly modeled in the internal model.
- b) Where interest rate risk is modelled for VA guarantees, but not for the associated assets, or the associated assets cannot be separately identified, then the VA guarantee liabilities may be excluded from the interest rate shock, but any assets may not.
- c) Where companies are using the BSCR Standard Formula to calculate Variable Annuity guarantee risk, only the VA guarantee liabilities may be excluded from the interest rate shock, but any assets may not.

Additional Guidance

- C41.1.i. The shocks (per currency) are to be applied to the valuation date spot curve (per currency). The shocks are absolute shocks expressed in percentage points (i.e., are added on top of the base spot curve).
 - a) For companies using the standard approach to calculate best estimate liability (BEL), the shocks are applied to the standard spot curves published by the Authority.
- C41.1.ii. The assets and liabilities need to be revalued under the shocks. For assets, this involves calculating the market value of assets after the shock (i.e., the shocked value). Depending on the asset, this may be a mark-to-model calculation. Conceptually the shocked value corresponds to the expected present value of cash flows projected under the stress scenario (taking into account that the amount and/or timing of cash flows themselves might change due to the shock (e.g. for bonds with call/put options, or for derivatives)).
- C41.1.iii. Revaluing the (best estimate) liabilities involves calculating the expected present value of cash flows projected under the stress scenarios. In particular, where the amount and/or timing of liability cash flows themselves depends on interest rates, the liability cash flows need to be projected (re-evaluated) under the stress scenarios, as opposed to, for example, simply re-discounting the base scenario cash flows.

Interaction between shock-based approach and the scenario-based approach for BEL

- C41.1.iv. For companies using the scenario-based approach for BEL calculation there is an offset from the interest rate risk capital charge when the shock-based approach is used. The offset is based on the difference in the best estimate liability between the ‘worst’ scenario and the base scenario under the scenario-based approach, according to the formula specified in the Prudential Rules.
- C41.1.v. As a simplification companies using the scenario-based approach may calculate the capital charge for interest rate risk (before the application of offset) based on shocks to the balance sheet as if the base scenario had been applied. In this case the offset is to be calculated as the difference between the ‘worst’ scenario and the base scenario before the application of shocks.

D.SUMMARY

D1. FEATURES – BSCR ON TRANSITIONAL BASIS

Background

D1.1 The Summary exhibit has seven key features: Required Capital and Surplus, Available Statutory Capital and Surplus, MSM, ECR and TCL, Ratios, Group Solvency Capital Distribution chart and Regulatory Action Level graph. Each feature is described below. At the bottom of the page the BSCR formula for combining the various risk capital charges is displayed. The only financial data input into the Summary exhibit is the BMA-approved Capital Contribution of the insurance group.

Required Capital and Surplus

D1.2 The Group BSCR is determined according to the following formula:

$$\begin{aligned}
 BSCR = & \sqrt{C_{fi}^2 + C_{eq}^2 + C_{int}^2 + C_{curr}^2 + C_{conc}^2 + C_{prem-gb}^2 + \left[\frac{1}{2}C_{cred} + C_{rsvs-gb}\right]^2 + \left[\frac{1}{2}C_{cred}\right]^2 + (C_{LTmort} + C_{LTsl} + C_{LTTr})^2} \\
 \text{cont'd } & \sqrt{-0.5 \times (C_{LTmort} + C_{LTsl} + C_{LTTr}) \times C_{LTlong} + C_{LTlong}^2 + C_{LTmorb}^2 + C_{LTV A}^2 + C_{LTother}^2 + C_{cat-gb}^2 + C_{op} + C_{adj}} \\
 + & \left[BSCR_{corr} - \left(\sqrt{C_{fi}^2 + C_{eq}^2 + C_{int}^2 + C_{curr}^2 + C_{conc}^2 + C_{prem-gb}^2 + \left[\frac{1}{2}C_{cred} + C_{rsvs-gb}\right]^2 + \left[\frac{1}{2}C_{cred}\right]^2 + (C_{LTmort} + C_{LTsl} + C_{LTTr})^2} \right. \right. \\
 \text{cont'd } & \left. \left. \sqrt{-0.5 \times (C_{LTmort} + C_{LTsl} + C_{LTTr}) \times C_{LTlong} + C_{LTlong}^2 + C_{LTmorb}^2 + C_{LTV A}^2 + C_{LTother}^2 + C_{cat-gb}^2 + C_{op} + C_{adj}} \right) \right] \\
 & \times \text{TransitionalFactor}
 \end{aligned}$$

Where:

C_{fi} = capital charge in respect of fixed income investment risk;

C_{eq} = capital charge in respect of equity investment risk capital;

C_{int} = capital charge in respect of interest rate and liquidity risk;

C_{curr} = capital charge in respect of currency risk;

C_{conc} = capital charge in respect of concentration risk;

$C_{prem-gb}$ = capital charge in respect of general business premium risk;

$C_{rsvs-gb}$ = capital charge in respect of general business reserve risk;

C_{cred} = capital charge in respect of credit risk capital;

C_{cat-gb} = capital charge in respect of catastrophe risk;

- C_{LTmort} = capital charge in respect of long-term – mortality;
- C_{LTsl} = capital charge in respect of long-term – stop loss;
- $C_{LT r}$ = capital charge in respect of long-term – riders;
- $C_{LT morb}$ = capital charge in respect of long-term – morbidity & disability;
- $C_{LT long}$ = capital charge in respect of long-term – longevity;
- $C_{LTV A}$ = capital charge in respect of long-term – variable annuity guarantee risk;
- $C_{LT oth}$ = capital charge in respect of long-term – other insurance risk;
- C_{op} = capital charge in respect of operational risk; and
- C_{adj} = capital charge adjustment, calculated as the sum of (a), (b) and (c) where:
- (a) Regulatory capital requirement for regulated non-insurance financial operating entities;
 - (b) Regulatory capital requirement for unregulated entities; and
 - (c) Capital adjustment for the loss absorbing capacity of deferred taxes.

$BSCR_{corr}$ = as calculated in section D19.2.

TransitionalFactor = The transitional factor is calculated in accordance to subparagraphs i to iii for insurance groups and increases in equal steps from 1/T on for the financial year beginning on or after 1st January 2019 to 100 % by the end of the transitional period T in the financial year beginning on or after year 2018+T. The length of the transitional period, T, for insurance groups is based on relative proportions of Long-Term and P&C risks and will be determined as follows:

- a) The proportions of insurance risks that apply only to P&C and only to Long-Term business are calculated as follows:

$$LT \text{ Proportion} = C_{LT} / (C_{LT} + C_{P\&C})$$

$$P\&C \text{ Proportion} = 1 - LT \text{ Proportion}$$

Where—

$C_{P\&C}$ = The P&C risk module charge as calculated in section D19.5.

C_{LT} = The Long-Term risk module charge as calculated in section D19.6

- b) The transitional period is calculated by taking a weighted average of a three-year transitional period and a ten-year transitional period, using as weights the proportions calculated in point i. above, and the result is rounded to the nearest integer. The transitional period is always between three and ten years.
- c) The transitional period will remain fixed.

D1.3 This formula utilises the square root rule to aggregate the various risks under the assumption that the risks are at least partially independent of one another and, therefore,

some diversification benefit is provided when combining the risk charges. The end result is the Group BSCR (after covariance adjustment).

- D1.4 The operational risk capital charge is the operational risk charge multiplied by the Group BSCR (after covariance adjustment). The risk charge ranges from 1% to 10% based on each group's self-assessment of the CIRA framework.
- D1.5 Capital add-ons/reductions may be assessed where the BMA believes that an insurance group's risk profile deviates significantly from the risk assumptions underlying the Group ECR or from the group's assessment of its risk management policies and practices. These include, but are not limited to, items such as provisions for reserve deficiencies, significant growth in premiums and quality of risk management surrounding operational risk.
- D1.6 The Group BSCR is equal to the sum of the Group BSCR (after covariance adjustment), operational risk capital charge and capital add-ons/reductions (if assessed).

Available Statutory Economic Capital and Surplus

- D1.7 Available Statutory Economic Capital and Surplus is defined as the Total Statutory Economic Capital and Surplus of the insurance group as reported on Form 1EBS, including subsequent Capital Contribution less Capital Add-ons/Reductions (BMA assessment). All capital contributions are to be approved by the BMA, and all capital add-ons/reductions are determined at the discretion of the BMA.
- D1.8 The group's available statutory economic capital and surplus is further adjusted to reflect capital of entities where there are insufficient data for the BMA to determine their risk profiles or capital contributions to the group's eligible capital (as reflected on Schedule XI(D)).
- D1.9 The insurance group's available statutory economic capital and surplus is determined for purposes of calculating the Group BSCR and Group ECR ratios.

Minimum Margin of Solvency

- D1.10 The Minimum Margin of Solvency is calculated using the aggregation approach, as reported on Schedule XII, column (10). The solvency requirement of each entity is derived from the solvency rules applicable to that entity, as determined by the jurisdiction where the entity is licenced or registered.

Group ECR and Group TCL

- D1.11 The Group ECR is the higher of the MSM and the Group BSCR/approved internal capital model.

D1.12 The Group TCL is equal to 120% of the Group ECR.

Ratios

D1.13 The Group BSCR Ratio is the ratio of the Available Statutory Economic Capital and Surplus to the Group BSCR.

D1.14 The Group ECR Ratio is the ratio of the Available Statutory Economic Capital and Surplus to the Group ECR.

Solvency Capital Distribution Chart

D1.15 The Solvency Capital Distribution chart displays the relative contribution of each charge to the Group BSCR, prior to the covariance adjustment.

Regulatory Action Level Graph

D1.16 The Regulatory Action Level graph displays the insurance group's Available Statutory Economic Capital and Surplus position relative to the BMA's regulatory action guidelines, where Regulatory Action Level 1 is equal to the insurance group's ECR and Regulatory Action Level 2 is equal to the insurance group's TCL.

Items

- a) Required Capital and Surplus – The calculation of the Required Capital and Surplus is used for the purpose of determining the required capital level.

Line Item		Description
1	Fixed Income Investment Risk	Based on current year fixed income investment risk (column (3), Row (g)).
2	Equity Investment Risk	Based on current year equity investment risk (column (3), Row (e)).
3	Interest Rate / Liquidity Risk	Based on current year interest rate / liquidity risk (column (4)).
4	Currency Risk	Based on current year currency risk (column (G)).
5	Concentration Risk	Based on current year concentration risk (column (3), Row (i)).
6	Premium Risk	Based on current year premium risk (column (5) Row (e)).
7	Reserve Risk	Based on current year reserve risk (column (5) Row (c)).
8	Credit Risk	Based on current year credit risk (column (3), Row (d)).

Line Item		Description
9	Catastrophe Risk	Based on current year catastrophe risk.
10	Insurance Risk – Mortality (long-term business)	Based on current year insurance risk – mortality (column (6)).
11	Insurance Risk – Stop Loss (long-term business)	Based on current year insurance risk – stop loss (column (6)).
12	Insurance Risk – Riders (long-term business)	Based on current year insurance risk – riders (column (6)).
13	Insurance Risk – Morbidity and Disability (long-term business)	Based on current year insurance risk – morbidity and disability (column (6)).
14	Insurance Risk – Longevity (long-term business)	Based on current year insurance risk – longevity (column (6)).
15	Variable Annuity Guarantee Risk (long-term business)	Based on current year variable annuity guarantee risk (column (13), Row (33)) or Schedule VIII A (column (7), line (1)).
16	Other Insurance Risk (long-term business)	Based on current year other insurance risk (column (3)).
17	Group BSCR (Prior to Covariance Adjustment)	Group BSCR (Prior to Covariance Adjustment) is the sum of the line items (1) to (16) above.
18	Group BSCR (After Covariance Adjustment)	Group BSCR (After Covariance Adjustment) is the resulting amount after applying the square root rule on line item (17) to reflect a diversification benefit when aggregating all the risks described above.
19	Operational Risk (%)	Operational Risk (%) is the applicable operational risk charge % of ‘Group BSCR After Covariance Adjustment’ based on the overall score derived from the CIRA framework as prescribed by the BMA.
20	Operational Risk Capital Charge (\$)	Operational Risk Capital Charge (\$) is the resulting amount when the operational risk (%), as prescribed in line item (18), is applied to the Group BSCR (After Covariance Adjustment).

Line Item		Description
21	Capital Adjustment	Based on the current year's capital adjustment for (i) the regulatory capital requirement for regulated non-insurance financial operating entities, as determined in Schedule XI(A), column (12); and (ii) the capital requirement for unregulated entities where the parent exercises control, as determined in Schedule XI(B), column (12).
22	Capital Add-On / Reduction (BMA Assessment)	Capital Add-Ons/Reductions on the Required Capital and Surplus is the difference between the user required capital (using groups-specific capital factors) and the standard required capital (using the prescribed BSCR capital factors) determined under the group specific parameters section, which is to be completed only with the prior approval of the BMA.
23	Group BSCR	Group BSCR is the sum of the line items (18), (20) (21) and (22) above.
24	BSCR Correlation	SCR capital charge on the new basis after the correlation adjustment. The revised capital charge approach is phased in three to ten year period based on the proportions of Long-Term and property and casualty risks.
25	Final BSCR	BSCR is the sum of the line items (23) and [the difference between (24) and (23)] times the Transitional Factor.

- b) Available Statutory Economic Capital and Surplus – The calculation of the Available Statutory Capital and Surplus is used for the purpose of determining the appropriate regulatory action level.

Line Item		Description
1	Total Statutory Economic Capital and Surplus	Based on the current year economic balance sheet of the insurance group as reported on Form 1EBS, line 40.
2	Capital Contribution	Capital Contributions must be approved by the BMA. Note that a Capital Contribution increases the Total Statutory Capital and Surplus.
3	Capital Reduction for Entities with Insufficient Data	Capital Reduction for entities with insufficient data represents Total Bermuda statutory reserves, less Total reported DAC, if any, less Total value of business acquired, less Total present value of future profits, less Total best estimate reserves; as reported on Schedule XI(D), column (11).
4	Pre-Adjustment Available Statutory Economic Capital and Surplus	Pre-Adjustment Available Statutory Economic Capital and Surplus is the sum of lines (1) to (3) above.
5	Capital Add-Ons/Reductions (BMA assessment)	Capital Add-ons/Reductions may be assessed where the BMA believes that an insurance group's risk profile deviates significantly from the risk assumptions underlying the Group ECR.

Line Item		Description
6	Available Statutory Economic Capital and Surplus	Available Statutory Economic Capital and Surplus is the sum of lines (4) and (5) above.

D2. FIXED INCOME INVESTMENT RISK (C_{fi})

Background

- D2.1 There are various categories of assets comprising of bonds, loans and other miscellaneous investments that are used to determine the Fixed Income Investment Risk capital charge.
- D2.2 Where applicable, the amounts must be reconciled to the appropriate line(s) of the insurance group's Form 1EBS or to the schedules prescribed by or under the Rules for the relevant year.

Fixed Income Investment Risk Capital Charge

- D2.3 The fixed income investment risk charge calculation can be summarised by the following formula:

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

i = ranges over the classes set out below;

χ_i = BMA supplied asset class capital charge factor for type of fixed income asset class i ;

$FI_{astclass_i}$ = value of investment in fixed income asset class i and

μ_r = additional diversification adjustment factor applied to cash and cash equivalent balances, or 1 for other asset classes.

Items

- a) Corporate and Sovereign Bonds

Line Item		Statement Source – The Rules
1	BSCR rating 0	Based on Schedule II EBS and IIA EBS, line 1, column (1).
2	BSCR rating 1	Based on Schedule II EBS and IIA EBS, line 2, column (1).
3	BSCR rating 2	Based on Schedule II EBS and IIA EBS, line 3, column (1).
4	BSCR rating 3	Based on Schedule II EBS and IIA EBS, line 4, column (1).
5	BSCR rating 4	Based on Schedule II EBS and IIA EBS, line 5, column (1).
6	BSCR rating 5	Based on Schedule II EBS and IIA EBS, line 6, column (1).
7	BSCR rating 6	Based on Schedule II EBS and IIA EBS, line 7, column (1).
8	BSCR rating 7	Based on Schedule II EBS and IIA EBS, line 8, column (1).
9	BSCR rating 8	Based on Schedule II EBS and IIA EBS, line 9, column (1).

- b) Residential Mortgage-Backed Securities

Line Item		Statement Source – The Rules
1	BSCR rating 1	Based on Schedule II EBS and IIA EBS, line 2, column (3).
2	BSCR rating 2	Based on Schedule II EBS and IIA EBS, line 3, column (3).
3	BSCR rating 3	Based on Schedule II EBS and IIA EBS, line 4, column (3).
4	BSCR rating 4	Based on Schedule II EBS and IIA EBS, line 5, column (3).
5	BSCR rating 5	Based on Schedule II EBS and IIA EBS, line 6, column (3).
6	BSCR rating 6	Based on Schedule II EBS and IIA EBS, line 7, column (3).
7	BSCR rating 7	Based on Schedule II EBS and IIA EBS, line 8, column (3).
8	BSCR rating 8	Based on Schedule II EBS and IIA EBS, line 9, column (3).

c) Commercial Mortgage-Backed Securities/Asset-Backed Securities

Line Item		Statement Source – The Rules
1	BSCR rating 1	Based on Schedule II EBS and IIA EBS, line 2, column (5).
2	BSCR rating 2	Based on Schedule II EBS and IIA EBS, line 3, column (5).
3	BSCR rating 3	Based on Schedule II EBS and IIA EBS, line 4, column (5).
4	BSCR rating 4	Based on Schedule II EBS and IIA EBS, line 5, column (5).
5	BSCR rating 5	Based on Schedule II EBS and IIA EBS, line 6, column (5).
6	BSCR rating 6	Based on Schedule II EBS and IIA EBS, line 7, column (5).
7	BSCR rating 7	Based on Schedule II EBS and IIA EBS, line 8, column (5).
8	BSCR rating 8	Based on Schedule II EBS and IIA EBS, line 9, column (5).

d) Bond Mutual Funds

Line Item		Statement Source – The Rules
1	BSCR rating 0	Based on Schedule II EBS and IIA EBS, line 1, column (7).
2	BSCR rating 1	Based on Schedule II EBS and IIA EBS, line 2, column (7).
3	BSCR rating 2	Based on Schedule II EBS and IIA EBS, line 3, column (7).
4	BSCR rating 3	Based on Schedule II EBS and IIA EBS, line 4, column (7).
5	BSCR rating 4	Based on Schedule II EBS and IIA EBS, line 5, column (7).
6	BSCR rating 5	Based on Schedule II EBS and IIA EBS, line 6, column (7).
7	BSCR rating 6	Based on Schedule II EBS and IIA EBS, line 7, column (7).

Line Item		Statement Source – The Rules
8	BSCR rating 7	Based on Schedule II EBS and IIA EBS, line 8, column (7).
9	BSCR rating 8	Based on Schedule II EBS and IIA EBS, line 9, column (7).

e) Mortgage Loans

Line Item		Statement Source – The Rules
1	Insured/guaranteed mortgages	Based on Schedule II EBS and IIA EBS, line 22, column (1).
2	Other commercial and farm mortgages	Based on Schedule II EBS and IIA EBS, line 23, column (1).
3	Other residential mortgages	Based on Schedule II EBS and IIA EBS, line 24, column (1).
4	Mortgages not in good standing	Based on Schedule II EBS and IIA EBS, line 25, column (1).

f) Other Fixed Income Investments

Line Item		Statement Source – The Rules or IAR
1	Other loans	Based on Form 1 EBS, line 8.

g) Cash and Cash Equivalents

Line Item		Statement Source – The Rules
1	BSCR rating 0	Based on Schedule XIX, column (B).
2	BSCR rating 1	Based on Schedule XIX, column (B).
3	BSCR rating 2	Based on Schedule XIX, column (B).
4	BSCR rating 3	Based on Schedule XIX, column (B).
5	BSCR rating 4	Based on Schedule XIX, column (B).
6	BSCR rating 5	Based on Schedule XIX, column (B).
7	BSCR rating 6	Based on Schedule XIX, column (B).
8	BSCR rating 7	Based on Schedule XIX, column (B).

Line Item		Statement Source – The Rules
9	Less: Diversification Adjustment	Based on Schedule XIX, column (B).

Instructions Affecting Fixed Income Investment Risk

- a) All assets comprising of 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;
- 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;
- d) The capital requirements relating to cash and cash equivalents shall be reduced by a diversification adjustment of up to a maximum of 40%; and
- e) The diversification adjustment in paragraph (d) is determined as 40% multiplied by 1 minus the ratio of the largest cash and cash equivalent balance held with a single counterparty to the total of all cash and cash equivalent balance.

D3. EQUITY INVESTMENT RISK (C_{eq})

Background

- D3.1 There are various categories of equity investments comprising common stocks, preferred stocks, real estate, and other miscellaneous investments that are used to determine the Equity Investment Risk capital charge. All non-affiliated stocks held by the insurance group should be reported, including both quoted and unquoted issues.
- D3.2 Where applicable, the amounts must reconcile to the appropriate line(s) of the insurance group's Form 1EBS or to the schedules prescribed by or under the Prudential Standards for the relevant year.

Equity Investment Risk Capital Charge

- D3.3 The equity investment risk charge calculation can be summarised by the following formula:

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

i = ranges over the classes set out below;

χ_i = BMA supplied asset class capital factor for type of equity class i ; and

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

Items

a) Common Stocks

Line Item		Statement Source – The Rules
1	Non-affiliated quoted common stock	Based on Schedule II EBS and IIA EBS, line 19, column (1).
2	Non-affiliated unquoted common stock	Based on Schedule II EBS and IIA EBS, line 20, column (1).
3	Equity mutual funds	Based on Schedule II EBS and IIA EBS, line 21, column (5).

b) Preferred Stocks

Line Item		Statement Source – The Rules
1	BSCR rating 1	Based on Schedule II EBS and IIA EBS, line 11, column (3).
2	BSCR rating 2	Based on Schedule II EBS and IIA EBS, line 12, column (3).
3	BSCR rating 3	Based on Schedule II EBS and IIA EBS, line 13, column (3).
4	BSCR rating 4	Based on Schedule II EBS and IIA EBS, line 14, column (3).
5	BSCR rating 5	Based on Schedule II EBS and IIA EBS, line 15, column (3).
6	BSCR rating 6	Based on Schedule II EBS and IIA EBS, line 16, column (3).
7	BSCR rating 7	Based on Schedule II EBS and IIA EBS, line 17, column (3).
8	BSCR rating 8	Based on Schedule II EBS and IIA EBS, line 18, column (3).

c) Other Equity Investments

Line Item		Statement Source – The IAR or the Rules
1	Real estate: company - occupied less encumbrances	Based on Form 1EBS, line 7(a).
2	Real estate: other properties less encumbrances	Based on Form 1EBS, line 7(b).
3	Other equity investments	Based on Form 1EBS, lines 2(e) and 3(e).
4	Other tangible assets – net of segregated account companies	Based on Form 1EBS, lines 13(k), 14(d), and 36(f) less lines 13(b) 13(c), 13(d) and 13(h).

d) Investments in Affiliates

Line Item		Statement Source – The IAR
1	Unregulated entities that conduct ancillary services	Based on Form 1EBS, line 4(a).
2	Unregulated non-financial operating entities	Based on Form 1EBS, line 4(b).
3	Unregulated financial operating entities	Based on Form 1EBS, line 4(c).
4	Regulated insurance financial operating entities	Based on Form 1EBS, line 4(e).

Instructions Affecting Equity Investment Risk

- a) All assets comprising of common stock, preferred stock, 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 stock shall be included in the equity investment charge; and
- c) All common and preferred stock, real estate, and other miscellaneous investments shall be reported on a basis consistent with that used for purposes of statutory financial reporting.

D4. INTEREST RATE/LIQUIDITY RISK (GENERAL BUSINESS) (C_{int})

Background

- D4.1 The interest rate/liquidity risk represents the economic risk an insurance group is subjected to due to changes in interest rates. The charge is calculated by applying the ‘shock’ of a 2% increase in interest rates to the portion of the insurance group’s assets (proportionate to the percentage of reserves) related to the duration difference. These assets include quoted and unquoted bonds and debentures - other, quoted and unquoted preferred stocks, and mortgage loans.
- D4.2 The Group BSCR model has been calibrated that if the technical provisions for the general business is greater than the technical provisions for Long-Term business, then the formula would recognise the methodology below:

Interest Rate/Liquidity Risk Capital Charge (General Business)

- D4.3 The interest rate/liquidity risk charge calculation can be summarised by the following formula:

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

bonds = quoted and unquoted value of bonds and debentures - other, preferred stocks or mortgage loans;

duration = the higher of 1 or the group’s effective asset duration less the group’s effective liability duration or the group’s effective liability duration less the group’s effective asset duration; and

marketdecline = assumed interest rate shock supplied by BMA.

Items

- D4.4 Bonds and Debentures – Based on current year Form 1EBS, lines 2(b) and 3(b); total quoted and unquoted value of bonds and debentures.
- D4.5 Preferred Stocks – Based on current year Form 1EBS, lines 2(c)(ii) and 3(c)(ii); total quoted and unquoted value of preferred stocks portfolio.
- D4.6 Mortgage Loans – Based on current year Form 1EBS, line 5(c); total amortized cost (outstanding principal amount less any provision made for doubtful collection) of mortgage loan portfolio.
- D4.7 Effective Duration of Assets – The effective duration calculation is based on total bonds and debentures (Form 1EBS, lines 2(b) and 3(b), preferred stocks (Form 1EBS, lines 2(c)(ii) and 3(c)(ii), and mortgage loans portfolios (Form 1EBS, line 5(c)). The effective asset duration is pulled from Schedule V, line (c).

D4.8 Effective Duration of Liabilities – The effective duration calculation is based on the reserves (Form 1EBS, lines 17(d) and 27(d)). The effective liability duration is pulled from Schedule V, line (d).

Instructions Affecting Interest Rate/Liquidity Risk

- a) All assets comprising of total bonds and debentures, preferred stock, 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 stock shall be included in the interest rate/liquidity risk charge; and
- c) All other bonds and debentures, preferred stock, and mortgage loans investments shall be reported on a basis consistent with that used for purposes described in the Prudential Standard Rules Schedule XIV and the guidance note for the statutory reporting regime.

D5. CURRENCY RISK (C_{curr})

Background

- D5.1 The currency risk charge is based on amounts reported on Form 1EBS total assets and liabilities. It represents the risk that the net position of an insurance group may worsen as a result of exchange rate changes if assets and liabilities are not currency matched. Insurance groups are to include at least 95% of their total assets and liabilities based on the predefined five currency types (USD, Euro, GBP, Canadian Dollar and Japanese Yen) and ten other currency types.
- D5.2 The charge is first calculated by determining the assessment charge which is based on the greater of:
- The prior year Group ECR charge to the prior year total EBS liabilities reported and
 - The average of the last three prior years' Group ECR charge to last three prior years total EBS liabilities reported.
- D5.3 The currency risk capital charge is applied based on the asset held for each currency type less the liabilities and the proxy BSCR (proxy BSCR is determined by applying the assessment charge to the currency type's liabilities). In instances there is a currency type that has insufficient assets held to the liabilities and proxy BSCR, a 25% capital charge is applied to the difference, if there are sufficient assets held to the liabilities and proxy BSCR, then there is no/NIL capital charge applied.

Currency Risk Capital Charge

- D5.4 The currency risk charge calculation can be summarised by the following formula:

$$C_{curr} = \sum_i \chi_i \times (Currproxybscr_i + Currliab_i - Currast_i), \quad \text{where}$$

$$\chi_i = 25\% \text{ where } (Currast_i - Currliab_i) < 0$$

0% otherwise

$Currency_i$ = refers to currency type that has been translated to the functional currency as expressed in Form 1EBS

$GrossCurrast_i$ = value of assets corresponding to $Currency_i$ as reported on Form 1EBS line 15

$Currast_i$ = value of assets corresponding to $Currency_i$ as reported on Form 1EBS line 15 adjusted to allow for currency hedging arrangements

$GrossCurrliab_i$ = value of liabilities corresponding to $Currency_i$ as reported on Form 1EBS line 39.

- $Curliab_i$ = value of liabilities corresponding to $Currency_i$ as reported on Form 1EBS line 39 adjusted to allow for currency hedging arrangements
- $Currproxybscr_i$ = refers to the product of $GrossCurliab_i$ and BSCR Proxy factor; and
- $BSCR\ Proxyfactors$ = greater of:
- The Enhanced Capital Requirement divided by Form 1EBS line 39 Total Liabilities for the preceding year;
 - The average of the above ratio for the preceding three years.

Where there are no prior submissions available, the BSCR proxy factor is the above ratio that would be obtained from the current submission without taking into account the currency risk charge.

Items

- D5.5 EBS Assets by Currency Types – Based on current year Form 1EBS line 15; 95% of total EBS assets by type of currency.
- D5.6 EBS Liabilities by Currency Types – Based on current year Form 1EBS line 39; 95% of total EBS liabilities by type of currency.
- D5.7 Total Group ECR Requirement– Based on three prior years Group ECR Requirement.
- D5.8 Total EBS Liabilities– Based on three prior years Form 1EBS line 39; total EBS liabilities (note if the EBS liabilities for the preceding three years is not available, provide the statutory liability as reported on line 39).

Instructions Affecting Currency Risk

- Where the insurance group uses currency hedging arrangements to manage its currency risk, then $Currast_i$ and $Curliab_i$ may reflect the impact of those arrangements on $GrossCurrast_i$ and $GrossCurliab_i$ of a 25% adverse movement in foreign exchange currency rates, otherwise the amounts $GrossCurrast_i$ and $GrossCurliab_i$ shall apply;
- Any adjustment to reflect currency hedging arrangements shall not apply to the calculation of $Currproxybscr_i$;
- ‘Currency hedging arrangements’ means derivative or other risk mitigation arrangements designed to reduce losses due to foreign currency exchange movements, and which meet the Authority’s requirements to be classed as such; and
- Insurance groups are to report currencies representing at least 95% of their economic balance sheet liabilities.

D6. CONCENTRATION RISK (C_{conc})

Background

- D6.1 The concentration risk charge is based on asset counterparty exposures as reported on the Form 1EBS. It represents the risk of losses due to asset concentrations.
- D6.2 The charge is calculated by aggregating all the Asset Type, Bond/Mortgage Loan Type (if applicable), BSCR Rating (if applicable) and Asset Value together and assigning the values to the respective fixed income, equity, credit capital factor charge.

Concentration Risk Capital Charge

- D6.3 The concentration risk charge calculation can be summarised by the following formula:

$$C_{conc} = \sum_i \chi_i \times \text{Concastclass}_i \quad \text{where}$$

χ_i = the capital charge factors supplied by the BMA for each type Concastclass_i of and

Concastclass_i = value of corresponding asset in Asset Class.

Items

- a) Cash and Cash Equivalents

Line Item		Description
1	BSCR rating 0	Based on Schedule XXI, column D
2	BSCR rating 1	Based on Schedule XXI, column D
3	BSCR rating 2	Based on Schedule XXI, column D
4	BSCR rating 3	Based on Schedule XXI, column D
5	BSCR rating 4	Based on Schedule XXI, column D
6	BSCR rating 5	Based on Schedule XXI, column D
7	BSCR rating 6	Based on Schedule XXI, column D
8	BSCR rating 7	Based on Schedule XXI, column D
9	BSCR rating 8	Based on Schedule XXI, column D

- b) Corporate & Sovereign Bonds

Line Item		Description
1	BSCR rating 0	Based on Schedule XXI, column D
2	BSCR rating 1	Based on Schedule XXI, column D
3	BSCR rating 2	Based on Schedule XXI, column D
4	BSCR rating 3	Based on Schedule XXI, column D
5	BSCR rating 4	Based on Schedule XXI, column D
6	BSCR rating 5	Based on Schedule XXI, column D
7	BSCR rating 6	Based on Schedule XXI, column D
8	BSCR rating 7	Based on Schedule XXI, column D
9	BSCR rating 8	Based on Schedule XXI, column D

c) Residential Mortgage- Backed Securities

Line Item		Description
1	BSCR rating 0	Based on Schedule XXI, column D
2	BSCR rating 1	Based on Schedule XXI, column D
3	BSCR rating 2	Based on Schedule XXI, column D
4	BSCR rating 3	Based on Schedule XXI, column D
5	BSCR rating 4	Based on Schedule XXI, column D
6	BSCR rating 5	Based on Schedule XXI, column D
7	BSCR rating 6	Based on Schedule XXI, column D
8	BSCR rating 7	Based on Schedule XXI, column D
9	BSCR rating 8	Based on Schedule XXI, column D

d) Commercial Mortgage-Backed Securities/Asset-Backed Securities

Line Item		Description
1	BSCR rating 0	Based on Schedule XXI, column D
2	BSCR rating 1	Based on Schedule XXI, column D
3	BSCR rating 2	Based on Schedule XXI, column D
4	BSCR rating 3	Based on Schedule XXI, column D
5	BSCR rating 4	Based on Schedule XXI, column D

Line Item		Description
6	BSCR rating 5	Based on Schedule XXI, column D
7	BSCR rating 6	Based on Schedule XXI, column D
8	BSCR rating 7	Based on Schedule XXI, column D
9	BSCR rating 8	Based on Schedule XXI, column D

e) Bond Mutual Funds

Line Item		Description
1	BSCR rating 0	Based on Schedule XXI, column D
2	BSCR rating 1	Based on Schedule XXI, column D
3	BSCR rating 2	Based on Schedule XXI, column D
4	BSCR rating 3	Based on Schedule XXI, column D
5	BSCR rating 4	Based on Schedule XXI, column D
6	BSCR rating 5	Based on Schedule XXI, column D
7	BSCR rating 6	Based on Schedule XXI, column D
8	BSCR rating 7	Based on Schedule XXI, column D
9	BSCR rating 8	Based on Schedule XXI, column D

f) Preferred Shares

Line Item		Description
1	BSCR rating 1	Based on Schedule XXI, column D
2	BSCR rating 2	Based on Schedule XXI, column D
3	BSCR rating 3	Based on Schedule XXI, column D
4	BSCR rating 4	Based on Schedule XXI, column D
5	BSCR rating 5	Based on Schedule XXI, column D
6	BSCR rating 6	Based on Schedule XXI, column D
7	BSCR rating 7	Based on Schedule XXI, column D
8	BSCR rating 8	Based on Schedule XXI, column D

g) Mortgage Loans

Line Item		Description
1	Insured/Guaranteed Mortgages	Based on Schedule XXI, column D
2	Other Commercial and Farm Mortgages	Based on Schedule XXI, column D
3	Other Residential Mortgages	Based on Schedule XXI, column D
4	Mortgages Not In Good Standing	Based on Schedule XXI, column D

h) Other Asset Classes

Line Item		Description
1	Quoted and Unquoted Common Stock and Mutual Funds	Based on Schedule XXI, column D
2	Other Quoted and Unquoted Investments	Based on Schedule XXI, column D
3	Investment in Affiliates – Unregulated entities that conduct ancillary services	Based on Schedule XXI, column D
4	Investment in Affiliates – Unregulated non-financial operating entities	Based on Schedule XXI, column D
5	Investment in Affiliates – Unregulated financial operating entities	Based on Schedule XXI, column D
6	Investment in Affiliates – Regulated insurance financial operating entities	Based on Schedule XXI, column D
7	Advances to Affiliates –	Based on Schedule XXI, column D
8	Policy Loans	Based on Schedule XXI, column D
9	Real Estate: occupied by company	Based on Schedule XXI, column D
10	Real Estate: other properties	Based on Schedule XXI, column D
11	Collateral Loans	Based on Schedule XXI, column D

Instructions Affecting Concentration Risk

- a) *Concastclass_i* shall apply to all exposures to the ten largest counterparties of the insurance group, based on the aggregate of all exposures relating to those ten counterparties.
- b) A counterparty shall include all related/connected counterparties defined as:
 - (i) Control relationship: if the counterparty, directly or indirectly, has control over the other(s); or
 - (ii) Economic interdependence: if one of the counterparties were to experience financial problems, in particular funding or repayment difficulties, the other(s) as a result, would also be likely to encounter funding or repayment difficulties;
- c) It is allowed to perform look through on collective investment funds such as equity and hedge funds as well as on exposures to diversified fund-of-one structures, whenever information at position level is available. Instructions on points a) and b) above apply also in this case.

D7. PREMIUM RISK (C_{prem})

Background

- D7.1 The premium risk charge is based on reported net premiums written for the latest calendar year by predefined statutory lines of business, and if available, reporting net premiums written by predefined statutory geographic locations. Note that although net premiums written for Property Catastrophe business are inputted in this section, they do not enter the calculation of the premium risk charge. All capital requirements pertaining to catastrophe exposures are explicitly calculated in the Catastrophe Risk section.
- D7.2 The first step of the calculation applies a statutory line of business specific premium risk capital factor to the respective net premiums written amounts.
- D7.3 The second step of the calculation applies a sum squared diversification credit based on 18 geographic zones. Note that this is not a necessary requirement in the premium risk calculation and if used, this is not required for all lines of business.
- D7.4 In the Premium risk calculation, a concentration adjustment is determined to reflect the overall diversification of the premium risk. Finally, there is a further adjustment to reflect the fact that some of the lines of business premiums other than Property Catastrophe, include a loading for losses resulting from natural catastrophes. The appropriate risk charge for this portion of the premiums is calculated in the Catastrophe Risk section; the premium risk charge is reduced to avoid double counting.
- D7.5 The concentration adjustment factor is based on the ratio of the largest individual line of net premiums written to total net premiums written. If all net premiums written are allocated to a single line of business (other than Property Catastrophe), this ratio is equal to 100%. If net premiums written are evenly spread among five lines of business (other than Property Catastrophe), this ratio is equal to 20%. The concentration adjustment factor is obtained by multiplying this ratio by 40% and then adding 60%. Therefore, for an insurance group with only one line of business the concentration adjustment factor is 100%, which means that no adjustment is made for diversification and the required premium risk charge is the same as that calculated in the first step. For an insurance group with net premiums written that are evenly spread among five lines of business, the concentration adjustment factor is 68%, leading to a required premium risk charge that is lower than the sum of all the individual lines of business premium risk charges calculated in the first step.

Premium Risk Capital Charge

- D7.6 The premium risk charge calculation can be summarised by the following formula:

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

,where

α_i = individual $geolineprem_i$ premium risk capital charge factor;

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

$geolineprem_i$ = geographic diversification of premium measure for line of business i ;

$avgpremcap$ = weighted average premium risk capital charge factor (after concentration adjustment and allowing for geographic diversification);

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

$catlossratio$ = expected industry average catastrophe loss ratio provided by the BMA.

μ = additional concentration adjustment factor equal to 40%; and

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

Items

- a) Lines of Business – As categorised by the 24 predefined statutory lines of business.

Line Item		Description
1	Gross Premiums Written	Column (1): Current year gross premiums written by predefined statutory line of business and geographic zone, as reported on Schedule IVA, lines (1) to (24). Total must tie to the Total Gross Premiums Written of Form 2, line 1(c).
2	Net Premiums Written	Column (2): Current year net premiums written (after reinsurance) by predefined statutory line of business and geographic zone, as reported on Schedule IVA, lines (1) to (24). Total must tie to the Total Net Premiums Written of Form 2, line 3.
3	Geo Diversified Written	Column (3): Current year net premiums written (after reinsurance) by predefined statutory line of business and geographic zone, as reported on Schedule IVC, lines (1) to (24). Total must tie to the Total Net Premiums Written of Form 2, line (3).
4	Capital Factor	Column (4): Supplied by BMA; premium charge factors for individual lines of business.

Line Item		Description
5	Required Capital	Column (5): Calculated using [column (3) x column (4)]; premium charge amounts for individual lines of business.

- b) Concentration Adjustment Calculation – Calculates a factor that determines how much credit is given for diversification of premium risk across all lines of business other than Property Catastrophe.

Line Item		Description
1	Maximum Premium	Row (i): Calculated using Max [column (1) of (a) excluding Property Catastrophe]; largest premium amount appearing in column (1) of (a), excluding the premium amount for Property Catastrophe.
2	Total Premium	Row (ii): Calculated using Sum [column (1) of (a) excluding Property Catastrophe]; total of premium amounts appearing in column (1) of (a), excluding the premium amount for Property Catastrophe.
3	Maximum Premium/Total Premium	Row (iii): Calculated using [row (i)/row (ii)]; ratio that measures the degree of concentration.
4	Maximum Adjustment	Row (iv): Supplied by BMA; parameter that limits the maximum credit that is given for diversification.
5	Minimum Adjustment Factor	Row (vi): Calculated using [1 - row (iv)]; lower bound for the concentration adjustment factor. The formula ensures that no diversification credit will be given when all net premiums written other than Property Catastrophe are concentrated in a single line of business.
6	Concentration Adjustment Factor	Calculated using [row (iii) x row (iv) + row (vi)].

- c) Required Capital Charge – Calculated using [(Total of column (3) of (a)) x (Concentration Adjustment Factor)]; premium risk capital charge, after concentration factor adjustment, but before adjustment for natural catastrophe exposure.
- d) Catastrophe Premium Adjustment Calculation – Calculation reflects a reduction to the required premium risk capital for the ‘catastrophe-exposed’ portion of the premium that is otherwise contemplated within the catastrophe risk capital charge. See Catastrophe Risk section for further information.

Line Item		Description
1	Average Annual Loss Excluding Property Catastrophe (AAL)	Row (i): Pulled from Catastrophe Risk section; 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. See Catastrophe Risk section for further information.
2	Industry Catastrophe Loss Ratio	Row (ii): Pulled from the Catastrophe Risk section; used to calculate the embedded catastrophe premiums from lines of business other than Property Catastrophe. See Catastrophe Risk section for further information.
3	Average Capital Factor	Row (iii): Calculated using (c) / [row (ii) of (b)]; ratio of required premium risk capital charge after concentration adjustment to total net premiums written excluding Property Catastrophe.
4	Catastrophe Premium Adjustment	Calculated using [row (i) / row (ii) x row (iii)].

- e) Required Capital Charge Adjusted for Catastrophe Premium – Calculated using [(c) - (d)]; the premium risk capital charge (after concentration factor and catastrophe adjustment) is carried to the Summary section.

Instructions Affecting Premium Risk

- D7.6a 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;
- D7.6b 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; and
- D7.6c An insurance group may provide premium exposure for all statutory lines of general business, or for particular statutory lines of general business, split by geographic zone as set out by the BMA. $geolineprem_i$ is then derived from the total premium for that line of business by reducing the total by 25% times $\frac{\sum x_i^2}{(\sum x_i)^2}$ where x_i = net premiums written in that line of business for $Zone_i$; and where summation covers all zones.

D8. RESERVE RISK (C_{rsvs})

Background

- D8.1 The reserve risk charge is based on the statutory net loss and loss expense provisions by predefined statutory lines of business, and if available, reporting net technical provision by predefined statutory geographic locations.
- D8.2 The first step of the calculation applies a line of business specific reserve risk capital factor to the respective reserve amounts.
- D8.3 In the second step of the calculation applies sum squared diversification credit based on 18 geographic zones. Note that this is not a necessary requirement in the reserve risk calculation and if used, this is not required for all lines of business.
- D8.4 The Reserve risk calculation, a concentration adjustment is determined to reflect the overall diversification of the reserve risk.
- D8.5 The concentration adjustment factor is based on the ratio of the largest individual line of business reserve to total reserves. If all reserves are allocated to a single line of business, this ratio is equal to 100%. If the reserves are evenly spread among five lines of business, this ratio is equal to 20%. The concentration adjustment factor is obtained by multiplying this ratio by 40% and then adding 60%. Thus, for an insurance group with only one line of business the concentration adjustment factor is 100%, which means that no adjustment is made for diversification and the required reserve risk charge is the same as that calculated in the first step. For an insurance group with reserves that are evenly spread among five lines of business the concentration adjustment factor is 68%, leading to a required reserve risk charge that is lower than the sum of all the individual line of business reserve risk charges calculated in the first step.

Reserve Risk Capital Charge

- D8.6 The reserve risk charge calculation can be summarised by the following formula:

$$C_{rsvs} = \left[\sum_i \beta_i \times geolinersvs_i \right] \times \left[\max_i \left\{ \frac{geolinersvs_i}{totalrsvs} \right\} \times \mu + \mathcal{G} \right], \quad \text{where}$$

β_i = individual $geolinersvs_i$ reserve risk charge factor;

$totalrsvs$ = total geographic diversification of reserves over all lines of business, i.e. $\sum_{i>1} geolinersvs_i$; $geolinersvs_i$ = geographic diversification of reserve measure

for individual line of business i ;

- μ = additional concentration adjustment factor equal to 40%; and
 \mathcal{G} = minimum concentration adjustment factor equal to 60%.

Items

- a) Lines of Business – As categorised by the 24 predefined statutory lines of business.

Line Item		Description
1	Gross Loss and Loss Expense Provisions	Column (1): Gross loss and loss expense provisions by predefined statutory line of business, as reported on Schedule III, lines (1) to (24). Total must tie to the Gross Loss and Loss Expense Provisions of the economic balance sheet (Form 1EBS, line 17 (a)).
2	Net Loss and Loss Expense Provisions	Column (2): Net loss and loss expense provisions by predefined statutory line of business and geographic zone, as reported on Schedule IIIA, lines (1) to (24). Total must tie to the Net Loss and Loss Expense Provisions of the economic balance sheet (Form 1EBS, line 17(d) and should be input on an undiscounted basis.
1	Net Loss and Loss Expense Provisions	Column (3): Net loss and loss expense provisions by predefined statutory line of business and geographic zone, as reported on Schedule IIIA, lines (1) to (24). Total must tie to the Net Loss and Loss Expense Provisions of the economic balance sheet (Form 1EBS, line 17(d) and should be input on an economic balance sheet basis.
2	Capital Factor	Column (4): Supplied by the BMA; reserve charge factors for individual lines of business.
3	Required Capital	Column (5): Calculated using [column (3) x column (4)]; reserve charge amounts for individual lines of business.

- b) Concentration Adjustment Calculation – Calculates a factor that determines how much credit is given for diversification of reserve risk across all lines of business.

Line Item		Description
1	Maximum Reserve	Row (i): Calculated using max [column (1) of (a)]; largest reserve amount appearing in [column (1) of (a)].
2	Total Reserve	Row (ii): Calculated using sum [column (1) of (a)]; total of reserve amounts appearing in [column (1) of (a)].
3	Maximum Reserve/Total Reserve	Row (iii): Calculated using [row (i)/row (ii)]; this ratio measures the degree of concentration.

Line Item		Description
4	Maximum Adjustment	Row (iv): Supplied by the BMA; parameter that limits the maximum credit that is given for diversification.
5	Minimum Adjustment Factor	Row (vi): Calculated using [1 - row (iv)]; lower bound for the concentration adjustment factor. The formula ensures that no diversification credit will be given when all net premiums written are concentrated in a single line of business.
6	Concentration Adjustment Factor	Calculated using [row (iii) x row (iv) + row (vi)].

- c) Required Capital Charge – Calculated using [(total of column (3) of (a)) x (Concentration Adjustment Factor)]; the reserve capital charge (after concentration factor adjustment) is carried to the Summary section.

Instructions Affecting Reserve Risk

- D8.6a 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;
- D8.6b 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; and
- D8.6c An insurance group may provide loss and loss expense provisions exposure for all statutory lines of general business, or for particular statutory lines of general business, split by geographic zone as set out by the BMA. $geolinersvs_i$ is then derived from the total loss and loss expense provisions for that line of business by reducing the total by 25% times $\frac{\sum x_i^2}{(\sum x_i)^2}$ where x_i = best estimate net loss and loss expense provisions in that line of business for $Zone_i$; and where the summation covers all zones.

D9. CREDIT RISK (C_{cred})

Background

- D9.1 Credit risks are partitioned into three categories: accounts and premiums receivable, reinsurance balances, and all other receivables.
- D9.2 Where applicable, the amounts must reconcile to the appropriate line(s) of the insurance group's Form 1EBS or to the schedules prescribed by or under the Prudential Standard Rules for the relevant year.

Credit Risk Capital Charge

- D9.3 The credit risk charge calculation can be summarised by the following formula:

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

δ_i = BMA-supplied credit risk capital charge factor for type of debtor i ;

$debtor_i$ = receivable amount from debtor i ; and

μ_r = additional diversification adjustment factor applied to reinsurance balances only taking into consideration diversification by number of reinsurers, equal to 40%.

Items

- a) Accounts and Premiums Receivable

Line Item		Statement Source – The IAR
1	In course of collection	Based on Form 1EBS, line 10(a).
3	Receivables from retrocessional contracts Less: Collateralised balances	Based on Form 1EBS, line 10(c) less Notes to Form 1EBS. Collateralised balances are all collaterals issued in favour of the group members relating to accounts and premiums receivable. Assets accounted in Form 1EBS, line (34) should not be included here.

- b) Particulars of reinsurance balances by BSCR rating - (i) amounts receivable on account of policies of reinsurance from any person, whether an affiliate or not, should be included; (ii) any amount included in 'Accounts and Premiums Receivable' and 'Funds Held by Ceding Reinsurers' should not be included; (iii) all uncollectible amounts, as determined by the insurance group, should be deducted.

Line Item		Statement Source – The Rules
1	BSCR rating 0	Based on Schedule XVIII column E
2	BSCR rating 1	Based on Schedule XVIII column E
3	BSCR rating 2	Based on Schedule XVIII column E
4	BSCR rating 3	Based on Schedule XVIII column E
5	BSCR rating 4	Based on Schedule XVIII column E
6	BSCR rating 5	Based on Schedule XVIII column E
7	BSCR rating 6	Based on Schedule XVIII column E
8	BSCR rating 7	Based on Schedule XVIII column E
9	BSCR rating 8	Based on Schedule XVIII column E
10	Less: Diversification adjustment	Based on Schedule XVIII column E

c) All Other Receivables

Line Item		Statement Source – IAR
1	Advances to affiliates	Based on Form 1EBS, line 4(g).
2	Accrued investment income	Based on Form 1EBS, line 9.
3	Policy loans	Based on Form 1EBS, line 6.

Instructions Affecting Credit Risk

- a) All accounts and premiums receivable and all other receivables 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;
- c) Collateralised balances are all collaterals issued in favour of the insurance group relating to accounts and premiums receivable;

- d) The net qualifying exposure comprises of reinsurance balances receivable and reinsurance recoverable balances less the corresponding reinsurance balances payable and other payables less the qualifying collateral issued in favour of the insurance group in relation to the reinsurance balances;
- e) The net qualifying exposure in instruction (d) shall be subject to the prescribed credit risk capital factor;
- f) The total capital requirement relating to the reinsurance balances shall be reduced by a diversification adjustment of up to a maximum of 40%; and
- g) The diversification adjustment in instruction (f) is determined as 40% multiplied by 1 minus the ratio of the largest net reinsurance exposure, on an individual reinsurer basis, to total net reinsurance exposure.

D10. CATASTROPHE RISK (C_{cat-gb})

Background

- D10.1 The catastrophe risk charge is based on group-specific catastrophe risk modelling output. All exposures and premiums used in the Probable Maximum Loss (PML) and Average Annual Loss (AAL) calculations should include amounts for second, third and subsequent events or losses following the initial loss event. Modeled losses should include demand surge, storm surge, fire following earthquakes and secondary uncertainty.
- D10.2 The calculated catastrophe risk charge has two components. The first component is the average premium shortfall for the top 1% worst case scenarios (i.e., at the 99.0% TVaR level). The second component is a credit risk charge for reinsurance recoverables under the 1% worst case scenarios. Since the PML calculations use annual aggregate exposure for all risks, the formula uses an imputed Total Catastrophe Premium in its calculation of the premium shortfall component. In addition to actual Property Catastrophe Premiums, this imputed Total Catastrophe Premium is based on the AAL divided by the industry catastrophe loss ratio as determined by the BMA.

Catastrophe Risk Capital Charge

- D10.3 The catastrophe risk charge calculation for general business shall be established in accordance with the following formula-

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

- $NetPML$ = net probable maximum loss as prescribed in Schedule V paragraph (i);
- $Netcatprem$ = average annual loss for general insurance excluding Property Catastrophe as prescribed in Schedule V paragraph (j) / {(estimated industry catastrophe loss ratio of 40% as prescribed in this Schedule) + property catastrophe premium as included in Schedule IVA, Line 1 of these rules}; and
- CR_{PML} = {(gross probable maximum loss as prescribed in Schedule V paragraph (h) less net probable maximum loss as prescribed in Schedule V paragraph (i) less arrangements with respect to property catastrophe recoverables as prescribed in Schedule V paragraph (l)(v) of these Rules) x (Credit risk charge, equal to 10%, associated with reinsurance recoveries of ceded catastrophe losses for general business)}.

- a) Gross Probable Maximum Loss – Based on the insurance group’s catastrophe model; probable maximum gross natural catastrophe loss (prior to reinsurance) at the 99.0% TVaR level for annual aggregate exposure to all related risks and perils, including reinstatement premiums, for the year following the ‘relevant year’ as reported on Schedule V, line (h).
- b) Net Probable Maximum Loss – Based on the insurance group’s catastrophe model; probable maximum net natural catastrophe loss (after reinsurance) at the 99.0% TVaR level for annual aggregate exposure to all related risks and perils, including reinstatement premiums, for the year following the ‘relevant year’ as reported on Schedule V, line (i).
- c) Average Annual Loss Excluding Property Catastrophe (AAL) – Based on the insurance group’s catastrophe model; the expected net natural catastrophe loss (after reinsurance), including reinstatement premiums, for annual aggregate exposure to all related risks and perils other than those relating to the Property Catastrophe line of business for the year following the ‘relevant year’ as reported on Schedule V, line (j). The AAL should be calculated from the same underlying loss distribution used to determine the Gross PML and Net PML (excluding the property catastrophe component).
- d) Industry Catastrophe Loss Ratio – Supplied by the BMA; used to calculate the embedded catastrophe premiums from lines of business other than Property Catastrophe.
- e) Property Catastrophe Premium – Copied from Premium Risk section; current year net premiums written amount for Property Catastrophe line of business as reported on Schedule IVA, line (1).
- f) Total Catastrophe Premium – Is calculated using [(c) / (d) + (e)]; used to calculate the embedded catastrophe premiums from lines of business other than Property Catastrophe.
- g) Credit Risk Capital Factor – Supplied by BMA; credit risk factor applied to ceded catastrophe losses at the 99.0% TVaR level equal to 10.0%.
- h) Arrangements with Respect to Property Catastrophe Recoverables – Copied from Schedule V, line (1)(v).

- i) Credit Risk Charge – Calculated using $[(a) - (b) - ((h) * 98\%) \times (g)]$; ceded catastrophe losses times the catastrophe credit risk capital factor.
- j) Catastrophe Capital Charge – Calculated using $[(b) - (f) + (i)]$; the catastrophe capital charge is carried to the Summary section.

Instructions Affecting Catastrophe Risk

- a) All reported net probable maximum loss, gross probable maximum loss, average annual loss excluding property catastrophe, property catastrophe premium and arrangements with respect to property catastrophe recoverables as prescribed in Schedule V that are subject to capital charges within the catastrophe risk charge shall be included; and

D10.4

The amount of collateral and other funded arrangements with respect to property catastrophe recoverables shall be reported and reduced by 2% to account for the market risk associated with the underlying collateral assets.

D11. INSURANCE RISK – MORTALITY (C_{LTmort})

Background

- D11.1 Insurance products that are considered to be exposed to mortality risk include term assurance, whole life, universal life, and accidental death and dismemberment insurance. These exclude life policies with critical illness acceleration riders.
- D11.2 The insurance risk-mortality charge is calculated by applying a capital factor to the respective net amount at risk. The capital risk factors are applied on an additive basis (i.e. 3.97/1000 on first \$1 billion of business, plus 1.80/1000 on the next \$4 billion of business, etc.).
- D11.3 A 50% reduction is applied to adjustable products and accidental death products. Adjustable products are defined as any insurance contracts in which the insurance group has the ability to make a material adjustment to the premiums/cost of insurance charges/dividends, based on recent experience.

Insurance Risk – Mortality Capital Charge

- D11.4 The insurance risk - mortality charge calculation can be summarised by the following formula:

$$C_{LTmort} = [\sum_i \alpha 1_i \times NAAR1_i] + [\sum_i \alpha 2_i \times NAAR2_i], \quad \text{where}$$

$\alpha 1_i$ = capital charge factor for adjustable mortality long-term business;
 $NAAR1_i$ = the net amount at risk of all adjustable mortality long-term business;
 $\alpha 2_i$ = capital charge factor for non-adjustable mortality long-term business;
and
 $NAAR2_i$ = the net amount at risk of all non-adjustable mortality long-term business.

Items

Column Item		Description
1	Net Amount At Risk	Column item 1: Net amount at risk for adjustable products/treaties, as reported on Schedule VII EBS, column (9), line 1; and Net amount at risk for non-adjustable products/treaties, as reported on Schedule VII EBS, column (10), line 1.
2	Capital Factor	Column item 2: Supplied by the BMA; capital charge factors applied to individual net amount at risk for (a) adjustable products/treaties; and (b) non-adjustable products/treaties.
3	Required Capital	Column item 3: Calculated using [column item 1 x column item 2] for both (a) and (b) and summed up.

D12. INSURANCE RISK – STOP LOSS (C_{LTsl})

Background

D12.1 A capital factor is applied to the respective net annual earned premiums of stop loss covers provided.

Insurance Risk – Stop Loss Capital Charge

D12.2 The insurance risk – stop loss charge calculation can be summarised by the following formula:

$$C_{LTsl} = 50\% \times \text{net annual premium for stop loss covers.}$$

Items

Column Item		Description
1	Net Annual Premium	Column item 1: Net annual premium for stop loss covers, as reported on Schedule VII EBS, column (11), line 14.
2	Capital Factor	Column item 2: Supplied by the BMA; capital charge factors applied on net annual premiums for stop loss covers.
3	Required Capital	Column item 3: Calculated using [column item 1 x column item 2].

D13. INSURANCE RISK – RIDERS (C_{LTr})

Background

D13.1 For any other product riders not included in the following insurance risk charges: i) mortality; ii) morbidity and disability; iii) longevity; and iv) stop loss, a capital factor is applied to the respective net annual earned premiums.

Insurance Risk – Riders Capital Charge

D13.2 The insurance risk – riders charge calculation can be summarised by the following formula:

$$C_{LTr} = 25\% \times \text{net annual premium for insurance product riders not included elsewhere.}$$

Items

Column Item		Description
1	Net Annual Premium	Column item 1: Net annual premium for other product riders, as reported on Schedule VII EBS, column (11), line 15.
2	Capital Factor	Column item 2: Supplied by the BMA; capital charge factors applied on net annual premiums for other products' riders.
3	Required Capital	Column item 3: Calculated using [column item 1 x column item 2].

D14. INSURANCE RISK – MORBIDITY AND DISABILITY (C_{LTmorb})

Background

- D14.1 Morbidity and disability risks are separated by critical illness insurance products and health insurance products.
- D14.2 For critical illness insurance products, including accelerated critical illness insurance products, a prescribed capital factor is applied to the net amount at risk, on an additive basis. A 50% reduction in the capital risk factors is applied to adjustable products.
- D14.3 Health insurance products include disability income products, long-term care insurance products, waiver of premium benefits, and other accidental and sickness products.

Insurance Risk – Morbidity and Disability Capital Charge

- D14.4 The insurance risk – morbidity and disability charge calculation can be summarised by the following formula:

$$C_{LTmorb} = (a) + (b) + (c) + (d) + (e) \text{ where:}$$

- a) = 7% x BSCR-adjusted reserves for disability income claims in payment on waiver of premium and Long-Term care;
- b) = 10% x BSCR-adjusted reserves for disability income claims in payment on other accident and sickness products;
- c) = $\left[\sum_i \alpha_i \times NAP_i \right]$ Where –
 α_i = individual NAP_i capital charge factor;
 NAP_i = the Net Annual Premium for disability income business – active lives;
- d) = 12% x net annual premiums for disability income - active lives for other accident and sickness; and
- e) = $\left[\sum_i \alpha_{1i} \times NAAR_{1i} \right] + \left[\sum_i \alpha_{2i} \times NAAR_{2i} \right]$ Where –
 α_{1i} = capital charge factor for adjustable critical illness insurance business;
 $NAAR_{1i}$ = the Net Amount at Risk of all adjustable critical illness insurance business in force;
 α_{2i} = capital charge factor for non-adjustable critical illness insurance business; and
 $NAAR_{2i}$ = the Net Amount at Risk of all non-adjustable critical illness insurance business in force.

Items

- a) Subtotal Charge for Critical Illness

Column Item		Description
1	Net Amount At Risk	Column item 1: Net amount at risk for adjustable products/treaties, as reported on Schedule VII EBS, column (9), line 2; and Net amount at risk for non-adjustable products/treaties, as reported on Schedule VII , column (10), line 2.
2	Capital Factor	Column item 2: Supplied by the BMA; capital charge factors applied to individual net amount at risk for (a) adjustable products/treaties; and (b) non-adjustable products/treaties.
3	Required Capital	Column item 3: Calculated using [column item 1 x column item 2] for both (a) and (b) and summed up.

b) Subtotal Charge for Disability Income (Active Lives with Premium Guarantee)

Column Item		Description
1	Net Annual Premium	<p>Column item 1: Net annual premium with benefit period of less than or equal to two years listed according to length of premium guarantee, as reported on Schedule VII EBS, column (9) -</p> <p>(i) Premium guarantee of less than one year – line 7(a),</p> <p>(ii) Premium guarantee of more than one year but less than five years – line 7(b), and</p> <p>(iii) Premium guarantee of over five years – line 7(c);</p> <p>and Net annual premium with benefit period of greater than two years listed according to length of premium guarantee, as reported on Schedule VII EBS, column (10) —</p> <p>(i) Premium guarantee of less than one year – line 7(a),</p> <p>(ii) Premium guarantee of more than one year but less than five years – line 7(b), and</p> <p>(iii) Premium guarantee of over five years – line 7(c).</p>
2	Capital Factor	<p>Column item 2: Supplied by the BMA; capital charge factors applied to individual</p> <p>a) Net annual premiums with benefit period of less than or equal to two years according to the length of premium guarantee –</p> <p>(i) Less than one year,</p> <p>(ii) More than a year but less than five years, and</p> <p>(iii) Over five years; and</p> <p>b) On net annual premiums with benefit period of greater than two years according to the length of premium guarantee –</p> <p>(i) Less than one year,</p> <p>(ii) More than a year but less than five years, and</p> <p>(iii) Over five years.</p>

Column Item		Description
3	Required Capital	Column item 3: Calculated using [column item 1 x column item 2] for both (a) and (b) for each length of premium guarantee provided – (i), (ii) and (iii) – and summed up.

c) Subtotal Charge for Disability Income (Claims in Payment)

Column Item		Description
1	BSCR Adjusted Reserve	Column item 1: (a) Disability income: claims in payment relating to waiver of premium and long-term care, as reported on Schedule VII EBS, column (7), line 9; and Disability income: claims in payment relating to other accident and sickness, as reported on Schedule VII EBS, column (7), line 10.
2	Capital Factor	Column item 2: Supplied by the BMA; capital charge factors applied to individual BSCR-adjusted reserves with respect to disability income – claims in payment relating to (a) waiver of premium and Long-Term care, and (b) other accident and sickness.
3	Required Capital	Column item 3: Calculated using [column item 1 x column item 2] for both (a) and (b) and summed up.

d) Subtotal Charge for Disability Income (Active Lives for other accident and sickness products):

Column Item		Description
1	Net Annual Premium	Column item 1: Net annual premium for disability income (active lives), including other accident and sickness; as reported on Schedule VII EBS, column (11), line 8.
2	Capital Factor	Column item 2: Supplied by the BMA; capital charge factor applied on the net annual premium for disability income – active lives.
3	Required Capital	Column item 3: Calculated using [column item 1 x column item 2].

e) Total Charge – Calculated using lines [(a) + (b) + (c) + (d)] above; the resulting figure is carried to the Summary section.

D15. INSURANCE RISK – LONGEVITY (C_{LTlong})

Background

D15.1 Products that are considered to be exposed to longevity risks include, but are not limited to, payout annuities and contingent annuities.

Insurance Risk – Longevity Capital Charge

D15.2 The insurance risk – longevity charge calculation can be summarised by the following formula:

$$C_{LTlong} = \sum_i \alpha_i \times BAR_i \quad \text{Where –}$$

α_i = individual BAR_i capital charge factor; and

BAR_i = the BSCR-adjusted reserves for long-term products with longevity risk.

Items

Column Item		Description
1	BSCR Adjusted Reserves	<p>Column item 1: BSCR-adjusted reserves for long-Term products with longevity risk as follows:</p> <p>(a) Immediate pay-out annuities, contingent annuities, pension pay-outs according to the attained age of annuitant, as reported on Schedule VII EBS, column (7):</p> <ul style="list-style-type: none"> (i) 0-55 – line 3(a) (ii) 56-65 – line 3(b) (iii) 66-70 – line 3(c) (iv) 71-80 – line 3(d) and (v) 81+ – line 3(e); <p>(b) Deferred pay-out annuities, future contingent annuities, future pension pay-outs according to the age at which the annuity benefits commence, as reported on Schedule VII EBS, column (7):</p> <ul style="list-style-type: none"> (i) 0-55 – line 4(a) (ii) 56-60 – line 4(b) (iii) 61-65 – line 4(c) (iv) 66-70 – line 4(d) (v) 71-75 – line 4(e) and (vi) 76+ – line 4(f)
2	Capital Factor	<p>Column item 2: Supplied by the BMA; capital charge factor applied to individual BSCR-adjusted reserves for longevity risk for both (a) immediate pay-out annuities, contingent annuities, pension pay-outs – (i) to (v); and (b) deferred pay-out annuities, future contingent annuities, future pension pay-outs – (i) to (vi).</p>

Column Item		Description
3	Required Capital	Column item 3: Calculated using [column item 1 x column item 2] for both (a) and (b) for each attained age of annuitant and for each age at which the annuity benefits commence, respectively, and summed up.

Instructions Affecting Longevity Risk

- a) For joint and survivor annuities, the youngest age should be used.

D16. OTHER INSURANCE RISK (C_{LToth})

Background

D16.1 The other insurance risk captures other risks related to policyholder behaviour, expenses and guarantees.

Other Insurance Risk Capital Charge

D16.2 The other insurance risk charge calculation can be summarised by the following formula:

$$C_{LToth} = \sum_i \alpha_i \times BAR_i \quad \text{Where:}$$

α_i = individual BAR_i capital charge factor; and

BAR_i = the BSCR-adjusted reserves for other insurance risk.

Items

Line Item		Description
1	BSCR Adjusted Reserves	Column item 1: Current year BSCR-adjusted reserves by the 15 predefined lines, as reported on Schedule VII EBS, column (1), lines 1 to 15.
2	Capital Factor	Column item 2 Supplied by the BMA; capital charge factors applied to individual BSCR-adjusted reserves for other insurance risk.
3	Required Capital	Column item 3: Calculated using [column item 1 x column item 2] for each line item.

D17. VARIABLE ANNUITY GUARANTEE RISK (C_{LTVA})

Background

- D17.1 Variable annuity benefits are partitioned into five categories:
- Guaranteed Minimum Accumulation Benefit (GMAB);
 - Guaranteed Minimum Death Benefit (GMDB),
 - Guaranteed Minimum Income Benefit (GMIB),
 - Guaranteed Minimum Withdrawal Benefit (GMWB), and
 - Guaranteed Enhanced Earnings Benefit (GEEB). Variable annuities contain various minimum guarantees that expose insurance groups to risks of a particularly volatile nature.
- D17.2 The capital risk factors differentiate by volatility levels and are applied to the Net Amount at Risk ('NAR'). Volatility is defined as the annual historic volatility of the fund. In the case where there is no or limited, history of the fund, use the volatility of the benchmark. Where the Guarantee Value (GV) is less than the Account Value (AV), the minimum floor factors are applied to the account values. The proportion used for the AV under reinsurance is the proportion used for net amount at risk.
- D17.3 Net amount at risk (net of reinsurance) is defined as follows:
- GMAB – total claim payable if all contracts mature immediately;
 - GMDB – total claim amount payable upon immediate death of all policyholders;
 - GMIB – total claim payable upon full and immediate annuitisation of all policies using an 80% factor applied to the GV (the 80% represents the ratio between current market annuitisation factors and the guaranteed annuitisation factors);
 - GMWB – total claim payable if 100% of the guaranteed withdrawal benefit base in excess of the current AV is withdrawn immediately; and
 - GEEB – total guaranteed enhanced payments upon immediate death of all policyholders.

Variable Annuity Guarantee Capital Charge

- D17.4 The variable annuity guarantee risk charge calculation can be summarised by the following formula:

$$C_{LTVA} = \text{either } \left(\sum_i TotalBSReq_i - TotalBAR - TotalGMB_{adj} \right) \text{ or } (IMCReq_{LTVA}) \text{ wherein —}$$

- a) $TotalBSReq_i = \text{higher of (a) } (\alpha1_i \times GV1_i + \alpha2_i \times GV2_i + \alpha3_i \times GV3_i) \text{ and (b) } (\alpha4_i \times NAR1_i + \alpha5_i \times NAR2_i + \alpha6_i \times NAR3_i);$
- b) $TotalBAR$ = the total BSCR adjusted reserves for variable annuity guarantee risk;
- c) $TotalGMDB_{adj}$ = capital requirement charged on Guaranteed Minimum Death Benefit (GMDB) policies multiplied by the percentage of GMDB with multiple guarantees;
- d) $IMCReq_{LTV A}$ = the capital requirement for variable annuity guarantee risk determined in accordance with an insurance group's internal capital model, if applicable;
- e) $GV1_i, GV2_i, GV3_i, NAR1_i, NAR2_i,$ and $NAR3_i$ are the guaranteed value and net amount at risk under each range of volatility for each specified variable annuity product risk; and
- f) $\alpha1_i, \alpha2_i, \alpha3_i, \alpha4_i, \alpha5_i$ and $\alpha6_i$ are the capital factors applied to the guaranteed value and net amount at risk under each range of volatility for each specified variable annuity product risk.

Items

a) Factor-Based Capital Requirement

Column Item		Description
1	Guaranteed Values: Volatility 0%-10%	Column (1): Guaranteed values for each type of variable annuity risk with volatility that is less than or equal to 10% according to policy position (i.e. in/out-of-the-money); as reported on Schedule VIII EBS, column (2).
2	Capital Factor	Column (2): Capital factors supplied by the BMA for each type of variable annuity risk with volatility that is less than or equal to 10% according to policy position.
3	Guaranteed Values: Volatility 10%-15%	Column (3): Guaranteed values for each type of variable annuity risk with volatility that is more than 10% but less than 15% according to policy position; as reported on Schedule VIII EBS, column (3).
4	Capital Factor	Column (4): Capital factors supplied by the BMA for each type of variable annuity risk with volatility that is more than 10% but less than 15% according to policy position.
5	Guaranteed Values: Volatility >15%	Column (5): Guaranteed values for each type of variable annuity risk with volatility that is more than 15% according to policy position; as reported on Schedule VIII EBS, column (4).
6	Capital Factor	Column (6): Capital factors supplied by the BMA for each type of variable annuity risk with volatility that is more than 15% according to policy position.

Column Item		Description
7	Net Amount at Risk: Volatility 0%-10%	Column (7): Net amount at risk for each type of variable annuity risk with volatility that is less than or equal to 10% for in-the-money positions only; as reported on Schedule VIII EBS, column (5).
8	Capital Factor	Column (8): Capital factors supplied by the BMA for each type of variable annuity risk with volatility that is less than or equal to 10% for in-the-money positions only.
9	Net Amount at Risk: Volatility 10%-15%	Column (9): Net amount at risk for each type of variable annuity risk with volatility that is more than 10% but less than 15% for in-the-money positions only; as reported on Schedule VIII EBS, column (6).
10	Capital Factor	Column (10): Capital factors supplied by the BMA for each type of variable annuity risk with volatility that is more than 10% but less than 15% for in-the-money positions only.
11	Net Amount at Risk: Volatility >15%	Column (11): Net amount at risk for each type of variable annuity risk with volatility that is more than 15% for in-the-money positions only; as reported on Schedule VIII EBS, column (7).
12	Capital Factor	Column (12): Capital factors supplied by the BMA for each type of variable annuity risk with volatility that is more than 15% for in-the-money positions only.
13	Capital Requirements	Column (13): Calculated using the maximum of [$\{\text{column (1) x column (2) + column (3) x column (4) + column (5) x column (6)}\}$ or $\{\text{column (7) x column (8) + column (9) x column (10) + column (11) x column (12)}\}$]; less percentage of guaranteed minimum death benefit with multiple guarantees, as reported on Schedule VIII EBS, column (4), line 32, applied to GMDB; less total BSCR-adjusted reserves for variable annuities.

b) Internal Model-Based Capital Requirement

Column Item		Description
1	Without Hedging	Column (1): The total capital requirement for variable annuity risk based on internal model results without taking into account hedging; as reported on Schedule VIIIA EBS, column (6), line 1.
2	With Hedging	Column (2): The total capital requirement for variable annuity risk based on internal model results taking into account hedging; as reported on Schedule VIIIA EBS, column (7), line 1.

D18. CAPITAL ADJUSTMENT (C_{adj})

Background

- D18.1 The capital adjustment represents the capital requirements for the following:
- a. Regulated non-insurance financial operating entities.
 - b. Unregulated entities where the parent exercises control
- D18.2 The sum of items (1) and (2) shall comprise the capital adjustment, which is added to the Group BSCR (after covariance adjustment) to arrive at the Group BSCR. The Group BSCR will be used to determine a group's ECR for the relevant year, as reported in the Summary section of the Group BSCR model.

Capital adjustment

- D18.3 The capital adjustment charge calculation can be summarised by the following formula:

$C_{adj} = (1) + (2)$ where:

- (1) = Regulatory capital requirement for regulated non-insurance financial operating entities; and
- (2) = Capital requirement for unregulated entities where the parent company exercises control.

Items

- D18.4 Regulatory capital requirement for regulated non-insurance financial operating entities – This capital adjustment charge shall be determined in accordance with Schedule XI(A), where this amount shall be equal to the sum of the group's proportionate share of each registered entity's regulatory capital in accordance with the applicable solvency rules of the jurisdiction where the entity was licenced or registered; and
- D18.5 Capital requirement for unregulated entities where the parent company exercises control – This capital adjustment charge shall be determined in accordance with Schedule XI(B), where this amount shall be equal to the sum of the capital requirement based on the capital charges applied to each unregulated entity's net assets, as follows:
- 1) 0% to unregulated entities that conduct ancillary services to members of the group;
 - 2) 15% to unregulated non-financial operating entities; and
 - 3) 50% to unregulated financial operating entities.

D19. FEATURES – BSCR ON NEW BASIS ($BSCR_{Corr}$)

Background

- D19.1 The Summary exhibit has seven key features:
- Required Capital and Surplus,
 - Available Statutory Capital and Surplus,
 - MSM,
 - ECR and TCL,
 - Ratios,
 - Solvency Capital Distribution chart, and
 - Regulatory Action Level graph.

Each feature is described below. At the bottom of the page the BSCR formula for combining the various risk capital charges is displayed. The data input into the Summary exhibit are:

- The BMA-approved Capital Contribution of the insurance group;
- Initial best estimate liabilities held for future discretionary benefits (FDB) (if any);
- The effective (federal) tax rate of the insurance group; and
- The amount of tax loss carryback.

Required Capital and Surplus

- D19.2 The $BSCR_{Corr}$ shall be established on an economic balance sheet (EBS) valuation basis in accordance with the following formula—

$$BSCR_{Corr} = \text{Basic BSCR} + C_{operational} + C_{regulatoryadj} + C_{otheradj} + C_{AdjTP}$$

Where—

<i>Basic BSCR</i>	= Basic BSCR risk module charge;
$C_{operational}$	= operational risk charge;
$C_{regulatoryadj}$	= regulatory capital requirement for regulated non-insurance financial operating;
C_{AdjTP}	= adjustment for the loss-absorbing capacity of technical provisions; and
$C_{otheradj}$	= adjustment for the loss absorbing capacity of deferred taxes.

D19.3 The Basic BSCR risk module charge calculation is determined in accordance with the following formula—

$$Basic\ BSCR = \sqrt{\sum_{i,j} CorrBBSCR_{i,j} \times C_i \times C_j}$$

Where —

- $CorrBBSCR_{i,j}$ = the correlation factors of the Basic BSCR correlation matrix in accordance with Table A;
- i, j = the sum of the different terms should cover all possible combinations of i and j ;
- C_i and C_j = risk module charge i and risk module charge j which are replaced by the following:
 C_{Market} , $C_{P\&C}$, C_{LT} , C_{Credit} ;
- C_{Market} = capital charge in respect to market risk;
- $C_{P\&C}$ = capital charge in respect to P&C risk;
- C_{LT} = capital charge in respect to Long-Term risk; and
- C_{Credit} = capital charge in respect to credit risk.

Table A – Basic BSCR Correlation Matrix

$CorrBBSCR_{i,j}$	C_{Market}	C_{Credit}	$C_{P\&C}$	C_{LT}
C_{Market}	1			
C_{Credit}	0.25	1		
$C_{P\&C}$	0.125	0.50	1	
C_{LT}	0.125	0.25	0.00	1

D19.4 The market risk module charge calculation is determined in accordance with the following formula—

$$C_{Market} = \sqrt{\sum_{i,j} Market_{i,j} \times C_i \times C_j}$$

Where —

- $CorrMarket_{i,j}$ = the correlation factors of the market risk module in accordance with Table B; where $A = 0$ if interest rate and liquidity risk charge is calculated using the shock-based approach and the risk charge is being determined based on the interest rate up shock, and $A = 0.25$ otherwise;
- i, j = the sum of the different terms should cover all possible combinations of i and j ;
- C_i and C_j = risk charge i and risk charge j which are replaced by the following: $C_{fixedIncome}$, C_{equity} , $C_{interest}$, $C_{currency}$,
 $C_{concentration}$;
- $C_{fixedIncome}$ = capital charge in respect to fixed income investment risk;
- C_{equity} = capital charge in respect to equity investment risk;

- $C_{interest}$ = capital charge in respect to interest rate and liquidity risk;
- $C_{currency}$ = capital charge in respect to currency risk; and
- $C_{concentration}$ = capital charge in respect to concentration risk.

Table B – Market Risk Module Correlation Matrix

$CorrMarket_{i,j}$	$C_{fixedIncome}$	C_{equity}	$C_{interest}$	$C_{currency}$	$C_{concentration}$
$C_{fixedIncome}$	1				
C_{equity}	0.50	1			
$C_{interest}$	A	A	1		
$C_{currency}$	0.25	0.25	0.25	1	
$C_{concentration}$	0.00	0.00	0.00	0.00	1

D19.5 The P&C risk module charge calculation is determined in accordance with the following formula—

$$C_{P\&C} = \sqrt{\sum_{i,j} CorrP\&C_{i,j} \times C_i \times C_j}$$

Where —

- $CorrP\&C_{i,j}$ = the correlation factors of the P&C risk module correlation matrix in accordance with Table C;
- i,j = the sum of the different terms should cover all possible combinations of i and j ;
- C_i and C_j = risk charge i and risk charge j which are replaced by the following:
 $C_{premium}$, $C_{reserve}$, $C_{catastrophe}$;
- $C_{premium}$ = capital charge in respect to premium risk;
- $C_{reserve}$ = capital charge in respect to reserve risk; and
- $C_{catastrophe}$ = capital charge in respect to catastrophe risk;

Table C - P&C Risk Module Correlation Matrix

$CorrP\&C_{i,j}$	$C_{premium}$	$C_{reserve}$	$C_{catastrophe}$
$C_{premium}$	1		
$C_{reserve}$	0.25	1	
$C_{catastrophe}$	0.125	0.00	1

D19.6 The Long-Term risk module charge calculation is determined in accordance with the following formula—

$$C_{LT} = LT_TransitionalFactor \times C_{LT,New} + (1 - LT_TransitionalFactor) \times C_{LT,old};$$

Where –

- $C_{LT,old}$ = the Long-Term risk module charge calculated in accordance with D19.7;
- $C_{LT,New}$ = the Long-Term risk module charge calculated in accordance with paragraph D19.8;
- LT_TransitionalFactor = the transitional factor that increases, from 10% for the financial year beginning on or after 1st January 2024, in equal 10 percentage point increments for each subsequent financial year until it reaches 100% for the financial year ending on or after 1st January 2033, and stays at 100% for all financial years thereafter.
- When projecting future Long-Term Insurance Risk charges for the purposes of the Risk Margin calculation, insurance groups may keep the *LT_TransitionalFactor* fixed at its actual value as of the applicable valuation date i.e., without reflecting further run-off of the transitional within the Risk Margin projection. See D35.38 onwards for more details.

D19.7 The $C_{LT,old}$ charge calculation shall be determined in accordance with the following formula —

$$C_{LT,old} = \sqrt{\sum_{i,j} CorrLT_{i,j} \times C_i \times C_j};$$

Where —

- $CorrLT_{i,j}$ = the correlation factors of the Long-Term risk module correlation matrix in accordance with Table D;
- i, j = the sum of the different terms should cover all possible combinations of i and j ;
- C_i and C_j = risk charge i and risk charge j which are replaced by the following:
 $C_{LTmortality}$, $C_{LTstoploss}$, $C_{LT rider}$, $C_{LTmorbidity}$, $C_{LTlongevity}$,
 $C_{LTvariableAnnuity}$, $C_{LTotherrisk}$;
- $C_{LTmortality}$ = capital charge in respect to mortality risk;
- $C_{LTstoploss}$ = capital charge in respect to stop loss risk;
- $C_{LTmorbidity}$ = capital charge in respect to morbidity risk;
- $C_{LTlongevity}$ = capital charge in respect to longevity risk;
- $C_{LTvariableAnnuity}$ = capital charge in respect to variability annuity risk;
- $C_{LTotherrisk}$ = capital charge in respect to other Long-Term insurance risk.

Table D – Long-Term Risk Module Correlation Matrix

$CorrLT_{i,j}$	$C_{LTmortality}$	$C_{LTstoploss}$	$C_{LTtrider}$	$C_{LTmorbidity}$	$C_{LTlongevity}$	$C_{LTvariable}$	$C_{LTotherrisk}$
$C_{LTmortality}$	1						
$C_{LTstoploss}$	0.75	1					
$C_{LTtrider}$	0.75	0.75	1				
$C_{LTmorbidity}$	0.25	0.00	0.00	1			
$C_{LTlongevity}$	-0.50	-0.50	-0.50	0.00	1		
$C_{LTvariableAnnuity}$	0.00	0.00	0.00	0.00	0.00	1	
$C_{LTotherrisk}$	0.125	0.25	0.25	0.25	0.25	0.25	1

D19.8 The $C_{LT,New}$ charge calculation shall be determined in accordance with the following formula —

$$C_{LT,New} = \sqrt{\sum_{i,j} CorrLT_{i,j} \times C_i \times C_j};$$

Where —

- $CorrLT_{i,j}$ = the correlation factors of the Long-Term risk module correlation matrix in accordance with Table E;
- i, j = the sum of the different terms should cover all possible combinations of i and j ;
- C_i and C_j = risk charge i and risk charge j which are replaced by the following:
 $C_{LTmortality}$, $C_{LTstoploss}$, $C_{LTtrider}$, $C_{LTmorbidity}$, $C_{LTlongevity}$,
 $C_{LTvariableAnnuity}$, $C_{LTlapse}$, $C_{LTexpense}$;
- $C_{LTmortality}$ = capital charge in respect to mortality risk;
- $C_{LTstoploss}$ = capital charge in respect to stop loss risk;
- $C_{LTmorbidity}$ = capital charge in respect to morbidity risk;
- $C_{LTlongevity}$ = capital charge in respect to longevity risk;
- $C_{LTvariableAnnuity}$ = capital charge in respect to variability annuity risk;
- $C_{LTlapse}$ = capital charge in respect to lapse risk;
- $C_{LTexpense}$ = capital charge in respect to long-term expense risk.

Table E – Long-Term Risk Module Correlation Matrix

$CorrLT_{i,j}$	$C_{LTmortality}$	$C_{LTstoploss}$	$C_{LTtrider}$	$C_{LTmorbidity}$	$C_{LTlongevity}$	$C_{LTvariableAnnuity}$	$C_{LTlapse}$	$C_{LTexpense}$
$C_{LTmortality}$	1							
$C_{LTstoploss}$	0.75	1						
$C_{LTtrider}$	0.75	0.75	1					
$C_{LTmorbidity}$	0.25	0	0	1				

$C_{LTlongevity}$	-0.5	-0.5	-0.5	0	1			
$C_{LTVariableAnnuity}$	0	0	0	0	0	1		
$C_{LTlapse}$	0	0	0	0	0.25	0	1	
$C_{LTexpense}$	0.25	0.5	0.5	0.5	0.25	0.5	0.5	1

Aggregation, operational risk and adjustments

D19.9 This BSCR formula utilises the correlation matrix to aggregate the various risks under the assumption that the risks are not independent with one another, and therefore, provides a linear diversification benefit when combining the risk charges. The end result is the BSCR (after correlation adjustment).

D19.10 The operational risk capital charge is the operational risk charge multiplied by the sum of (gross) BSCR (after correlation adjustment) and the adjustment for loss-absorbing capacity of technical provisions calculated according to paragraph D38.5. The risk charge ranges from 1% to 20% based on each insurance group's self-assessment of the CIRA framework.

D19.11 Capital add-ons/reductions may be assessed where the BMA believes that an insurance group's risk profile deviates significantly from the risk assumptions underlying the ECR or from the insurance group's assessment of its risk management policies and practices. These include, but are not limited to, items such as: provisions for reserve deficiencies, significant growth in premiums, and quality of risk management surrounding operational risk.

D19.12 The BSCR is equal to the sum of the BSCR (after correlation adjustment), operational risk capital charge, capital add-ons/reductions (if assessed), adjustment for loss-absorbing capacity of technical provisions and adjustment for loss-absorbing capacity of deferred taxes.

Available Statutory Economic Capital and Surplus

D19.13 Available Statutory Economic Capital and Surplus is defined as the Total Statutory Economic Capital and Surplus of the insurance group, including subsequent Capital Contribution less Capital Add-ons/Reductions (BMA assessment). All capital contributions are to be approved by the BMA, and all capital add-ons/reductions are determined at the discretion of the BMA.

D19.14 The insurance group’s available statutory economic capital and surplus is determined for purposes of calculating the BSCR and ECR ratios.

Minimum Margin of Solvency

D19.15 The Minimum Margin of Solvency is calculated using the aggregation approach, as reported on Schedule XII, column (10). The solvency requirement of each entity is derived from the solvency rules applicable to that entity, as determined by the jurisdiction where the entity is licenced or registered.

ECR and TCL

D19.16 The ECR is the higher of the MSM and the BSCR/approved internal capital model.

D19.17 The TCL is equal to 120% of the ECR.

Ratios

D19.18 The BSCR Ratio is the ratio of the Available Statutory Economic Capital and Surplus to the BSCR.

D19.19 The ECR Ratio is the ratio of the Available Statutory Economic Capital and Surplus to the ECR.

Solvency Capital Distribution Chart

D19.20 The Solvency Capital Distribution chart displays the relative contribution of each charge to the BSCR, prior to the correlation adjustment.

Regulatory Action Level Graph

D19.21 The Regulatory Action Level graph displays the insurance group's Available Statutory Capital and Surplus position relative to the BMA's regulatory action guidelines, where Regulatory Action Level 1 is equal to the insurance group’s ECR and Regulatory Action Level 2 is equal to the insurance group’s TCL.

Items

1. Required Capital and Surplus – The calculation of the Required Capital and Surplus is used for the purpose of determining the required capital level.

Line Item		Description
1	Fixed Income Investment Risk	Based on current year fixed income investment risk (column (3), Row (g)).

Line Item		Description
2	Equity Investment Risk	Based on current year equity investment risk (column (11), Row (f)).
3	Interest Rate/Liquidity Risk	Based on current year interest rate/liquidity risk (column (4)).
4	Currency Risk	Based on current year currency risk (column (20)).
5	Concentration Risk	Based on current year concentration risk (column (3), Row (i)).
6	Premium Risk	Based on current year premium risk (column (11) Row (e)).
7	Reserve Risk	Based on current year reserve risk (column (5) Row (c)).
8	Credit Risk	Based on current year credit risk (column (3), Row (e)).
9	Catastrophe Risk	Based on current year catastrophe risk.
10	Insurance Risk – Mortality	Based on current year insurance risk – mortality (column (6)).
11	Insurance Risk – Stop Loss	Based on current year insurance risk – stop loss (column (6)).
12	Insurance Risk – Riders	Based on current year insurance risk – riders (column (6)).
13	Insurance Risk – Morbidity and Disability	Based on current year insurance risk – morbidity and disability (column (6)).
14	Insurance Risk – Longevity	Based on current year insurance risk – longevity (column (6)).
15	Variable Annuity Guarantee Risk	Based on current year variable annuity guarantee risk (column (13), Row (33)) or Schedule VIII A (column (7), line (1)).
16	Other Insurance Risk	Based on current year other insurance risk (column (3)).
17	Group BSCR (Prior to Correlation Adjustment)	Group BSCR (Prior to Correlation Adjustment) is the sum of the line items (1) to (16) above.
18	Group BSCR (After Correlation Adjustment)	Group BSCR (After Correlation Adjustment) is the resulting amount after applying the correlation matrix on line item (17) to reflect a diversification benefit when aggregating all the risks described above.
19	Operational Risk (%)	Operational Risk (%) is the applicable operational risk charge % of ‘BSCR After Correlation Adjustment’ based on the overall score derived from the CIRA framework as prescribed by the BMA.
20	Operational Risk Capital Charge (\$)	Operational Risk Capital Charge (\$) is the resulting amount when the operational risk (%), as prescribed in line item (19), is applied to the BSCR (After Correlation Adjustment).

Line Item		Description
21	Regulated Non-Insurance Financial Operating Entities Capital Charge	Regulated Non-Insurance Financial Operating Entities Capital Charge is the resulting amount from the sum of the insurance group's proportionate share of each entity's regulatory capital requirement in accordance with the applicable solvency laws of the jurisdiction where the entity is licenced or registered.
22	Capital Add-On/Reduction (BMA Assessment)	Capital Add-Ons/Reductions on the Required Capital and Surplus is the difference between the user required capital (using groups-specific capital factors) and the standard required capital (using the prescribed BSCR capital factors) determined under the company-specific parameters section, which is to be completed only with the prior approval of the BMA.
23	Adj. for Loss Absorbing Capacity of Technical Provision	Adjustment for Loss Absorbing Capacity of Technical Provision is the resulting amount from the sum of Basic BSCR correlation before management actions less the sum of Basic BSCR correlation after management actions, capped at the initial base level of bonus reserves at EBS basis.
24	Adj. for Loss Absorbing Capacity of Deferred Taxes	Adjustment for Loss Absorbing Capacity of Deferred Taxes reflects a potential tax benefit, in a loss scenario envisaged by the BSCR, resulting in potential tax benefits, as determined according to paragraph D38.6.
25	BSCR	BSCR is the sum of the line items (18), (20) (21), (22), (23) and (24) above.

2. Available Statutory Economic Capital and Surplus – The calculation of the Available Statutory Economic Capital and Surplus is used for the purpose of determining the appropriate regulatory action level.

Line Item		Description
1	Total Statutory Economic Capital and Surplus	Based on the current year economic balance sheet of the insurance group; as reported on Form 1EBS, line 40.
2	Capital Contribution	Capital Contributions must be approved by the BMA. Note that a Capital Contribution increases the Total Statutory Economic Capital and Surplus.
3	Pre-Adjustment Available Statutory Economic Capital and Surplus	Pre-Adjustment Available Statutory Economic Capital and Surplus is the sum of lines (1) and (2) above.

Line Item		Description
4	Capital Add-Ons/Reductions (BMA assessment)	Capital Add-ons / Reductions may be assessed where the BMA believes that an insurance group's risk profile deviates significantly from the risk assumptions underlying the ECR.
5	Available Statutory Economic Capital and Surplus	Available Statutory Economic Capital and Surplus is the sum of lines (3) and (4) above.

For Insurance Groups that have subsidiaries that are regulated non-insurance financial operating entities that have a sector capital requirements, the Net Assets are to be included in (2) Capital Contributions;

D20. FIXED INCOME INVESTMENT RISK ($BSCR_{corr}$)

Background

- D20.1 There are various categories of assets comprised of bonds, loans, and other miscellaneous investments that are used to determine the Fixed Income Investment Risk capital charge.
- D20.2 Where applicable, the amounts must reconcile to the appropriate line(s) of the group's Form 1EBS or to the schedules prescribed by or under the Rules for the relevant year.

Fixed Income Investment Risk Capital Charge

- D20.3 The fixed income investment risk charge calculation can be summarised by the following formula:

$$C_{fixedIncome} = \sum_i \chi_i \times FI_{astclass_i} \times \mu_r + CreditDerivatives, \quad \text{where:}$$

χ_i	= the BMA-supplied asset class capital charge factor for type of fixed income asset class i ;
$FI_{astclass_i}$	= value of investment in fixed income asset class i ;
μ_r	= additional diversification adjustment factor applied to cash and cash equivalent balances, or 1 for other asset classes;
$CreditDerivatives$	= the spread risk charge for credit derivatives calculated as per the following formula: Greater of: i) $CreditDerivatives_{ShockUp}$; ii) $CreditDerivatives_{ShockDown}$; and iii) 0.
$CreditDerivatives_{ShockUp}$	= the spread risk charge for credit derivatives resulting from an upward credit spread shock calculated as per the following formula: $CreditDerivatives_{ShockUp} = \sum_i \left[\left(LCD_i^{BShock} - LCD_i^{AShock}(\chi_i) \right) + \left(SCD_i^{BShock} - SCD_i^{AShock}(\chi_i) \right) \right]$
$CreditDerivatives_{ShockDown}$	= the spread risk charge for credit derivatives resulting from a downward credit spread shock calculated as per the following formula: $CreditDerivatives_{ShockDown} = \sum_i \left[\left(LCD_i^{BShock} - LCD_i^{AShock}(\chi_i) \right) + \left(SCD_i^{BShock} - SCD_i^{AShock}(\chi_i) \right) \right]$
LCD_i^{BShock}	= refers to the valuation of long exposures for credit derivatives before applying the instantaneous shock χ_i over the classes as set out below;
$LCD_i^{AShock}(\chi_i)$	= refers to the valuation of long exposures for credit derivatives after applying instantaneous shock χ_i over the classes as set out below
SCD_i^{BShock}	= refers to the valuation of short exposures for credit derivatives before applying the instantaneous shock χ_i over the classes as set out below
$SCD_i^{AShock}(\chi_i)$	= refers to the valuation of short exposures for credit derivatives after

applying the instantaneous shock χ_i over the classes as set out below

Items

a) Corporate and Sovereign Bonds

Line Item		Statement Source – The Rules
1	BSCR rating 0	Based on Schedule IIB-IIF EBS, line 1, column (1).
2	BSCR rating 1	Based on Schedule IIB-IIF EBS, line 2, column (1).
3	BSCR rating 2	Based on Schedule IIB-IIF EBS, line 3, column (1).
4	BSCR rating 3	Based on Schedule IIB-IIF EBS, line 4, column (1).
5	BSCR rating 4	Based on Schedule IIB-IIF EBS, line 5, column (1).
6	BSCR rating 5	Based on Schedule IIB-IIF EBS, line 6, column (1).
7	BSCR rating 6	Based on Schedule IIB-IIF EBS, line 7, column (1).
8	BSCR rating 7	Based on Schedule IIB-IIF EBS, line 8, column (1).
9	BSCR rating 8	Based on Schedule IIB-IIF EBS, line 9, column (1).

b) Residential Mortgage-Backed Securities

Line Item		Statement Source – The Rules
1	BSCR rating 1	Based on Schedule IIB-IIF EBS, line 2, column (3).
2	BSCR rating 2	Based on Schedule IIB-IIF EBS, line 3, column (3).
3	BSCR rating 3	Based on Schedule IIB-IIF EBS, line 4, column (3).
4	BSCR rating 4	Based on Schedule IIB-IIF EBS, line 5, column (3).
5	BSCR rating 5	Based on Schedule IIB-IIF EBS, line 6, column (3).
6	BSCR rating 6	Based on Schedule IIB-IIF EBS, line 7, column (3).
7	BSCR rating 7	Based on Schedule IIB-IIF EBS, line 8, column (3).
8	BSCR rating 8	Based on Schedule IIB-IIF EBS, line 9, column (3).

c) Commercial Mortgage-Backed Securities/Asset-Backed Securities

Line Item		Statement Source – The Rules
1	BSCR rating 1	Based on Schedule IIB-IIF EBS, line 2, column (5).
2	BSCR rating 2	Based on Schedule IIB-IIF EBS, line 3, column (5).
3	BSCR rating 3	Based on Schedule IIB-IIF EBS, line 4, column (5).
4	BSCR rating 4	Based on Schedule IIB-IIF EBS, line 5, column (5).
5	BSCR rating 5	Based on Schedule IIB-IIF EBS, line 6, column (5).
6	BSCR rating 6	Based on Schedule IIB-IIF EBS, line 7, column (5).
7	BSCR rating 7	Based on Schedule IIB-IIF EBS, line 8, column (5).
8	BSCR rating 8	Based on Schedule IIB-IIF EBS, line 9, column (5).

d) Bond Mutual Funds

Line Item		Statement Source – The Rules
1	BSCR rating 0	Based on Schedule IIB-IIF EBS and IIA EBS, line 1, column (7).
2	BSCR rating 1	Based on Schedule IIB-IIF EBS and IIA EBS, line 2, column (7).
3	BSCR rating 2	Based on Schedule IIB-IIF EBS and IIA EBS, line 3, column (7).
4	BSCR rating 3	Based on Schedule IIB-IIF EBS and IIA EBS, line 4, column (7).
5	BSCR rating 4	Based on Schedule IIB-IIF EBS and IIA EBS, line 5, column (7).
6	BSCR rating 5	Based on Schedule IIB-IIF EBS and IIA EBS, line 6, column (7).
7	BSCR rating 6	Based on Schedule IIB-IIF EBS and IIA EBS, line 7, column (7).
8	BSCR rating 7	Based on Schedule IIB-IIF EBS and IIA EBS, line 8, column (7).
9	BSCR rating 8	Based on Schedule IIB-IIF EBS and IIA EBS, line 9, column (7).

e) Mortgage Loans

Line Item		Statement Source – The Rules
1	Insured/guaranteed mortgages	Based on Schedule IIB-IIF EBS, line 10, column (9).
2	Other commercial and farm mortgages	Based on Schedule IIB-IIF EBS, line 11, column (9).
3	Other residential mortgages	Based on Schedule IIB-IIF EBS, line 12, column (9).
4	Mortgages not in good standing	Based on Schedule IIB-IIF EBS, line 13, column (9).

f) Other Fixed Income Investments

Line Item		Statement Source – The Rules or IAR
1	Other loans	Based on Form 1EBS, line 8.

g) Cash and Cash Equivalents

Line Item		Statement Source – The Rules
1	BSCR rating 0	Based on Schedule XIXA, column (A).
2	BSCR rating 1	Based on Schedule XIXA, column (A).
3	BSCR rating 2	Based on Schedule XIXA, column (A).
4	BSCR rating 3	Based on Schedule XIXA, column (A).
5	BSCR rating 4	Based on Schedule XIXA, column (A).
6	BSCR rating 5	Based on Schedule XIXA, column (A).
7	BSCR rating 6	Based on Schedule XIXA, column (A).

Line Item		Statement Source – The Rules
8	BSCR rating 7	Based on Schedule XIXA, column (A).
9	Less: Diversification Adjustment	Based on Schedule XIXA, column (A).

Instructions Affecting Fixed Income Investment Risk

- (a) All assets comprising of 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;
- (c) All bonds and debentures, loans, and other miscellaneous investments shall include amounts reported for economic balance sheet reporting purposes and include fixed income risk exposures as determined by application of the ‘look-through’ approach calculated in accordance with the criteria prescribed in Section B7 for the following items:
 - (i) Collective investment vehicles and other investments packaged as funds, including related undertakings used as investment vehicles;
 - (ii) Segregated accounts assets and liabilities;
 - (iii) Deposit asset and liabilities;
 - (iv) Assets and liabilities held by ceding insurers or under retrocession;
 - (v) Other sundry assets and liabilities; and
 - (vi) Derivatives.
- (d) The capital requirements relating to cash and cash equivalents shall be reduced by a diversification adjustment of up to a maximum of 40%;
- (e) The diversification adjustment in paragraph (d) is determined as 40% multiplied by 1 minus the ratio of the largest cash and cash equivalent balance held with a single counterparty to the total of all cash and cash equivalent balance; and
- (f) Spread Shocks for Credit Derivatives are as prescribed in the Prudential Rules.

Line Item		Statement Source – The Rules	
Spread Up			
		Long Exposures	Short Exposures
1	BSCR rating 0	Based on Schedules IIB-IIF column (1) line 38	Based on Schedules IIB-IIF column (3), line 38

2	BSCR rating 1	Based on Schedules IIB-IIF column (1) line 39	Based on Schedules IIB-IIF column (3), line 39
3	BSCR rating 2	Based on Schedules IIB-IIF column (1) line 40	Based on Schedules IIB-IIF column (3), line 40
4	BSCR rating 3	Based on Schedules IIB-IIF column (1) line 41	Based on Schedules IIB-IIF column (3), line 41
5	BSCR rating 4	Based on Schedules IIB-IIF column (1) line 42	Based on Schedules IIB-IIF column (3), line 42
6	BSCR rating 5	Based on Schedules IIB-IIF column (1) line 43	Based on Schedules IIB-IIF column (3), line 43
7	BSCR rating 6	Based on Schedules IIB-IIF column (1) line 44	Based on Schedules IIB-IIF column (3), line 44
8	BSCR rating 7	Based on Schedules IIB-IIF column (1) line 45	Based on Schedules IIB-IIF column (3), line 45
9	BSCR rating 8	Based on Schedules IIB-IIF column (1) line 46	Based on Schedules IIB-IIF column (3), line 46
Spread Down			
		Long Exposures	Short Exposures
10	BSCR rating 0	Based on Schedules IIB-IIF column (6) line 38	Based on Schedules IIB-IIF column (8), line 38
11	BSCR rating 1	Based on Schedules IIB-IIF column (6) line 39	Based on Schedules IIB-IIF column (8), line 39
12	BSCR rating 2	Based on Schedules IIB-IIF column (6) line 40	Based on Schedules IIB-IIF column (8), line 40
13	BSCR rating 3	Based on Schedules IIB-IIF column (6) line 41	Based on Schedules IIB-IIF column (8), line 41
14	BSCR rating 4	Based on Schedules IIB-IIF column (6) line 42	Based on Schedules IIB-IIF column (8), line 42
15	BSCR rating 5	Based on Schedules IIB-IIF column (6) line 43	Based on Schedules IIB-IIF column (8), line 43
16	BSCR rating 6	Based on Schedules IIB-IIF column (6) line 44	Based on Schedules IIB-IIF column (8), line 44
17	BSCR rating 7	Based on Schedules IIB-IIF column (6) line 45	Based on Schedules IIB-IIF column (8), line 45
18	BSCR rating 8	Based on Schedules IIB-IIF column (6) line 46	Based on Schedules IIB-IIF column (8), line 46

D21. EQUITY INVESTMENT RISK ($BSCR_{Corr}$)

Background

D21.1 There are various categories of equity investments comprising common stocks, real estate, infrastructure equity and other miscellaneous investments that are used to determine the Equity Investment Risk capital charge. All equity exposures of the insurance group should be reported, including both quoted and unquoted exposures.

Equity Investment Risk Capital Charge

D21.2 The equity investment risk charge calculation can be summarised by the following formula:

$$C_{equity} = C_{equity}^{basic} + C_{equity}^{grandfathered}$$

Where –

$$C_{equity}^{basic} = \sqrt{\sum_{i,j} CorrEq_{i,j} \times C_i \times C_j}$$

$C_{equity}^{grandfathered}$ = the equity risk charge calculated according to section D3 for equity exposures that are grandfathered according to paragraph D21A below;

$CorrEq_{i,j}$ = the correlation factors of the equity risk correlation matrix in accordance with Table 2A;

i,j = the sum of the different terms should cover all possible combinations of correlation i and j ;

C_i and C_j = risk charge i and risk charge j which are replaced by the following:
 C_{Type1} , C_{Type2} , C_{Type3} , C_{Type4} ;

C_{Type1} = *Type1* equity risk charge as calculated over the classes set out below;

C_{Type2} = *Type2* equity risk charge as calculated over the classes set out below;

C_{Type3} = *Type3* equity risk charge as calculated over the classes set out below; and

C_{Type4} = *Type4* equity risk charge as calculated over the classes set out below.

Table 2A – Equity Risk Charge Correlation Matrix

Equity Corr Matrix	C_{Type1}	C_{Type2}	C_{Type3}	C_{Type4}
C_{Type1}	1.00			
C_{Type2}	0.75	1.00		
C_{Type3}	0.75	0.75	1.00	
C_{Type4}	0.50	0.50	0.50	1.00

D21.3

Type1, Type2 Type3 and Type4 equity risk charges calculation shall be determined in accordance with the following formulas—

$$C_{Type1} = \max \left\{ \sum_{i \in Type1} \left[\max(LAssets_i^{BShock} - LAssets_i^{AShock}(\chi_i), 0) + (SQAssets_i^{BShock} - SQAssets_i^{AShock}(\chi_i)) + \dots \right] + \max(SNQAssets_i^{BShock} - SNQAssets_i^{AShock}(\chi_i), 0) - (BELiabilities_i^{BShock} - BELiabilities_i^{AShock}(\chi_i)) \right\}, 0$$

$$C_{Type2} = \max \left\{ \sum_{i \in Type2} \left[\max(LAssets_i^{BShock} - LAssets_i^{AShock}(\chi_i), 0) + (SQAssets_i^{BShock} - SQAssets_i^{AShock}(\chi_i)) + \dots \right] + \max(SNQAssets_i^{BShock} - SNQAssets_i^{AShock}(\chi_i), 0) - (BELiabilities_i^{BShock} - BELiabilities_i^{AShock}(\chi_i)) \right\}, 0$$

$$C_{Type3} = \max \left\{ \sum_{i \in Type3} \left[\max(LAssets_i^{BShock} - LAssets_i^{AShock}(\chi_i), 0) + (SQAssets_i^{BShock} - SQAssets_i^{AShock}(\chi_i)) + \dots \right] + \max(SNQAssets_i^{BShock} - SNQAssets_i^{AShock}(\chi_i), 0) - (BELiabilities_i^{BShock} - BELiabilities_i^{AShock}(\chi_i)) \right\}, 0$$

$$C_{Type4} = \max \left\{ \sum_{i \in Type4} \left[\max(LAssets_i^{BShock} - LAssets_i^{AShock}(\chi_i), 0) + (SQAssets_i^{BShock} - SQAssets_i^{AShock}(\chi_i)) + \dots \right] + \max(SNQAssets_i^{BShock} - SNQAssets_i^{AShock}(\chi_i), 0) - (BELiabilities_i^{BShock} - BELiabilities_i^{AShock}(\chi_i)) \right\}, 0$$

Where—

χ_i	= the instantaneous shocks prescribed in Table 2B for each type of equity class i ;
$LAssets_i^{BShock}$	= refers to the valuation of long asset exposures before applying shock;
$LAssets_i^{AShock}$	= refers to the valuation of long asset exposures after applying shock;
$SQAssets_{BShock}$	= refers to the valuation of short exposures for qualifying assets that are held for risk-mitigating purposes as determined in accordance with the criteria prescribed in section B5 before applying shock;
$SQAssets_{AShock}$	= refers to the valuation of short exposures for qualifying assets that are held for risk-mitigating purposes as determined in accordance with the criteria prescribed in section B5 after applying shock;
$SNQAssets_{BShock}$	= refers to the valuation of short exposures for assets that do not qualify for risk-mitigating purposes as determined in accordance with the criteria prescribed in section B5 before applying shock;
$SNQAssets_{AShock}$	= refers to the valuation of short exposures for assets that do not qualify for risk-mitigating purposes as determined in accordance with the criteria prescribed in Section B5 after applying shock;
$BELiabilities_i^{BShock}$	= refers to the best estimate of insurance liabilities and other liabilities before applying shock; and
$BELiabilities_i^{AShock}$	= refers to the best estimate of insurance liabilities and other liabilities after applying shock.

Items

a) Type 1 Equity Holdings

Line Item		Statement Source – The Rules			
		Assets		Liabilities	
		Long Exposures	Short Exposures		Without Management Actions
			Qualifying as Assets held for risk mitigation purposes	Qualifying as Assets held for risk mitigation purposes	
1	Strategic Holdings – Listed	Based on Sch. IIB-IIF Col. (1) line 15 Col. (2) line 15	Based on Sch. IIB-IIF Col. (3) line 15 Col. (4) line 15	Based on Sch. IIB-IIF Col. (5) line 15 Col. (6) line 15	Based on Sch. IIB-IIF Col. (7) line 15 Col. (8) line 15
2	Duration Based	Based on Sch. IIB-IIF Col. (1) line 16 Col. (2) line 16	Based on Sch. IIB-IIF Col. (3) line 16 Col. (4) line 16	Based on Sch. IIB-IIF Col. (5) line 16 Col. (6) line 16	Based on Sch. IIB-IIF Col. (7) line 16 Col. (8) line 16
3	Listed Equity Securities in Developed Markets	Based on Sch. IIB-IIF Col. (1) line 17 Col. (2) line 17	Based on Sch. IIB-IIF Col. (3) line 17 Col. (4) line 17	Based on Sch. IIB-IIF Col. (5) line 17 Col. (6) line 17	Based on Sch. IIB-IIF Col. (7) line 17 Col. (8) line 17
4	Preferred Stocks Rating 1	Based on Sch. IIB-IIF Col. (1) line 18 Col. (2) line 18	Based on Sch. IIB-IIF Col. (3) line 18 Col. (4) line 18	Based on Sch. IIB-IIF Col. (5) line 18 Col. (6) line 18	Based on Sch. IIB-IIF Col. (7) line 18 Col. (8) line 18
5	Preferred Stocks Rating 2	Based on Sch. IIB-IIF Col. (1) line 19 Col. (2) line 19	Based on Sch. IIB-IIF Col. (3) line 19 Col. (4) line 19	Based on Sch. IIB-IIF Col. (5) line 19 Col. (6) line 19	Based on Sch. IIB-IIF Col. (7) line 19 Col. (8) line 19
6	Preferred Stocks Rating 3	Based on Sch. IIB-IIF Col. (1) line 20 Col. (2) line 20	Based on Sch. IIB-IIF Col. (3) line 20 Col. (4) line 20	Based on Sch. IIB-IIF Col. (5) line 20 Col. (6) line 20	Based on Sch. IIB-IIF Col. (7) line 20 Col. (8) line 20
7	Preferred Stocks Rating 4	Based on Sch. IIB-IIF Col. (1) line 21 Col. (2) line 21	Based on Sch. IIB-IIF Col. (3) line 21 Col. (4) line 21	Based on Sch. IIB-IIF Col. (5) line 21 Col. (6) line 21	Based on Sch. IIB-IIF Col. (7) line 21 Col. (8) line 21
8	Preferred Stocks Rating 5	Based on Sch. IIB-IIF Col. (1) line 22 Col. (2) line 22	Based on Sch. IIB-IIF Col. (3) line 22 Col. (4) line 22	Based on Sch. IIB-IIF Col. (5) line 22 Col. (6) line 22	Based on Sch. IIB-IIF Col. (7) line 22 Col. (8) line 22
9	Preferred Stocks Rating 6	Based on Sch. IIB-IIF Col. (1) line 23 Col. (2) line 23	Based on Sch. IIB-IIF Col. (3) line 23 Col. (4) line 23	Based on Sch. IIB-IIF Col. (5) line 23 Col. (6) line 23	Based on Sch. IIB-IIF Col. (7) line 23 Col. (8) line 23
10	Preferred Stocks Rating 7	Based on Sch. IIB-IIF Col. (1) line 24 Col. (2) line 24	Based on Sch. IIB-IIF Col. (3) line 24 Col. (4) line 24	Based on Sch. IIB-IIF Col. (5) line 24 Col. (6) line 24	Based on Sch. IIB-IIF Col. (7) line 24 Col. (8) line 24
11	Preferred Stocks Rating 8	Based on Sch. IIB-IIF Col. (1) line 25 Col. (2) line 25	Based on Sch. IIB-IIF Col. (3) line 25 Col. (4) line 25	Based on Sch. IIB-IIF Col. (5) line 25 Col. (6) line 25	Based on Sch. IIB-IIF Col. (7) line 25 Col. (8) line 25
12	Equity Derivatives on Type 1 Equities	Based on Sch. IIB-IIF Col. (1) line 26 Col. (2) line 26	Based on Sch. IIB-IIF Col. (3) line 26 Col. (4) line 26	Based on Sch. IIB-IIF Col. (5) line 26 Col. (6) line 26	Based on Sch. IIB-IIF Col. (7) line 26 Col. (8) line 26

b) Type 2 Equity Holdings

Line Item		Statement Source – The Rules			
		Assets			Liabilities
		Long Exposures	Short Exposures		
			Qualifying as Assets held for risk mitigation purposes	Qualifying as Assets held for risk mitigation purposes	Without Management Actions
16	Strategic Holdings – Unlisted	Based on Sch. IIB-IIF Col. (1) line 27 Col. (2) line 27	Based on Sch. IIB-IIF Col. (3) line 27 Col. (4) line 27	Based on Sch. IIB-IIF Col. (5) line 27 Col. (6) line 27	Based on Sch. IIB-IIF Col. (7) line 27 Col. (8) line 27
17	Other Equities	Based on Sch. IIB-IIF Col. (1) line 28 Col. (2) line 28	Based on Sch. IIB-IIF Col. (3) line 28 Col. (4) line 28	Based on Sch. IIB-IIF Col. (5) line 28 Col. (6) line 28	Based on Sch. IIB-IIF Col. (7) line 28 Col. (8) line 28
18	Letters of Credit	Based on Sch. IIB-IIF Col. (1) line 29 Col. (2) line 29	Based on Sch. IIB-IIF Col. (3) line 29 Col. (4) line 29	Based on Sch. IIB-IIF Col. (5) line 29 Col. (6) line 29	Based on Sch. IIB-IIF Col. (7) line 29 Col. (8) line 29
19	Intangible Assets	Based on Sch. IIB-IIF Col. (1) line 30 Col. (2) line 30	Based on Sch. IIB-IIF Col. (3) line 30 Col. (4) line 30	Based on Sch. IIB-IIF Col. (5) line 30 Col. (6) line 30	Based on Sch. IIB-IIF Col. (7) line 30 Col. (8) line 30
20	Pension Benefit Surplus	Based on Sch. IIB-IIF Col. (1) line 31 Col. (2) line 31	Based on Sch. IIB-IIF Col. (3) line 31 Col. (4) line 31	Based on Sch. IIB-IIF Col. (5) line 31 Col. (6) line 31	Based on Sch. IIB-IIF Col. (7) line 31 Col. (8) line 31
21	Equity Derivatives on Type 2 Investments	Based on Sch. IIB-IIF Col. (1) line 32 Col. (2) line 32	Based on Sch. IIB-IIF Col. (3) line 32 Col. (4) line 32	Based on Sch. IIB-IIF Col. (5) line 32 Col. (6) line 32	Based on Sch. IIB-IIF Col. (7) line 32 Col. (8) line 32

c) Type 3 Equity Holdings

Line Item		Statement Source – The Rules			
		Assets			Liabilities
		Long Exposures	Short Exposures		
			Qualifying as Assets held for risk mitigation purposes	Qualifying as Assets held for risk mitigation purposes	Without Management Actions
22	Infrastructure	Based on Sch. IIB-IIF Col. (1) line 33 Col. (2) line 33	Based on Sch. IIB-IIF Col. (3) line 33 Col. (4) line 33	Based on Sch. IIB-IIF Col. (5) line 33 Col. (6) line 33	Based on Sch. IIB-IIF Col. (7) line 33 Col. (8) line 33
23	Derivatives on Infrastructure	Based on Sch. IIB-IIF Col. (1) line 34 Col. (2) line 34	Based on Sch. IIB-IIF Col. (3) line 34 Col. (4) line 34	Based on Sch. IIB-IIF Col. (5) line 34 Col. (6) line 34	Based on Sch. IIB-IIF Col. (7) line 34 Col. (8) line 34

d) Type 4 Equity Holdings

Line Item		Statement Source – The Rules			
		Assets			Liabilities
		Long Exposures	Short Exposures		
			Qualifying as Assets held for risk mitigation purposes	Qualifying as Assets held for risk mitigation purposes	Without Management Actions
24	Equity Real Estate 1	Based on Sch. IIB-IIF Col. (1) line 35 Col. (2) line 35	Based on Sch. IIB-IIF Col. (3) line 35 Col. (4) line 35	Based on Sch. IIB-IIF Col. (5) line 35 Col. (6) line 35	Based on Sch. IIB-IIF Col. (7) line 35 Col. (8) line 35
25	Equity Real Estate 2	Based on Sch. IIB-IIF Col. (1) line 36 Col. (2) line 36	Based on Sch. IIB-IIF Col. (3) line 36 Col. (4) line 36	Based on Sch. IIB-IIF Col. (5) line 36 Col. (6) line 36	Based on Sch. IIB-IIF Col. (7) line 36 Col. (8) line 36

Instructions Affecting Equity Investment Risk

- a) All assets (except regulated non-insurance financial operating entities) and liabilities (except the risk margin) whose value is subject to equity shocks are to be reported on a basis consistent with that used for the purposes of economic balance sheet reporting. Such assets and liabilities shall include equity risk exposures determined by application of the ‘look-through’ approach calculated in accordance with criteria prescribed in section B7 for the following items:
- (i) Collective investment vehicles and other investments packaged as funds, including related undertakings used as investment vehicles;
 - (ii) Segregated accounts assets and liabilities;
 - (iii) Deposit asset and liabilities;
 - (iv) Assets and liabilities held by ceding insurers or under retrocession;
 - (v) Other sundry assets and liabilities; and
 - (vi) Derivatives.
- b) For asset types referred to in paragraph (a) (i) to (vi) where the ‘look-through’ approach cannot be applied, the residual balance shall be included in ‘Equity Securities – Other Investments’;
- c) Short exposures qualifying as assets held for risk-mitigation purposes and short exposures not qualifying as assets held for risk-mitigation purposes, shall both be determined in accordance with criteria prescribed in section B5; and
- d) Amounts are to be reported on an EBS valuation basis.

D21A. The equity investments that are eligible to be used in the calculation of $C_{equity}^{grandfathered}$ as defined in section D21.2 are determined as follows:

- (i) The average value of equities as a percentage of total assets over the prior three financial year ends before 1 January 2019 (i.e., over the financial years ending 2016 to 2018) is calculated.
 - 1) Similarly, for each class of equities in accordance with Table 2B, the average amounts as a percentage of total equities shall be determined over the same prior three years, (i.e., the allocations for each equity class).
- (ii) The total amount of equities eligible to be used in the calculation of $C_{equity}^{grandfathered}$ as defined in section D21.2 at each year end is determined by multiplying the amount of legacy reserves by the equity percentage of paragraph (i)., where
 - 1) ‘Legacy reserves’ are defined as the long-term best estimate liabilities, at the applicable point in time (financial year-end), for insurance business carried on as at 31 December 2018.

- 2) The total amount of equities eligible to be used in the calculation of $C_{equity}^{grandfathered}$ as defined in section D21.2 at each year-end shall not be greater than the amount of the legacy reserves.
- (iii) The equity investments eligible to be used in the calculation of $C_{equity}^{grandfathered}$ as defined in section D21.2 per equity class are calculated by multiplying the total amount in paragraph (ii.) by the equity class allocation in paragraph (i).
- (iv) Future applicable reserves shall be capped at the initial reserve. The amount of equities eligible to be used in the calculation of $C_{equity}^{grandfathered}$ as defined in section D21.2 can, therefore, never be greater than the initial amount.
- (v) Equities that are eligible to be used in the calculation of $C_{equity}^{grandfathered}$ as defined in section D21.2 may be traded or replaced within a specific equity class and still receive the aforementioned treatment.

Instructions – Equity Grandfathering in the BSCR Model

- D21.4 Insurance groups that do not use equity grandfathering are required to calculate equity risk both on the old BSCR basis and the new BSCR basis; both calculations are required for the transitional functionality. (If an insurance group opts to transition immediately to the new BSCR basis and receives the Authority’s approval, calculation on the old basis is not needed; in this case the BSCR model needs to be modified to eliminate the transitional calculation in the Summary tab.)
- D21.5 Those insurance groups that decide to use equity grandfathering for their eligible Long-Term business are required to calculate the equity risk with grandfathering (the ‘grandfathered equity risk’) *in addition* to the two calculations above (i.e., pure old and pure new basis), for a total of three separate equity risk calculations. In the calculation of the grandfathered equity risk, part of the equity investments (the grandfathered part) are allocated to the old equity risk calculation, and the remaining part of the equity investments (the non-grandfathered part) are allocated to the new equity risk calculation.
- D21.6 Since the implementation of the grandfathered equity risk calculation requires both the old equity risk tab and the new equity risk tab, in order to be able to determine all three equity risk amounts – old basis, new basis, grandfathered – at the same time in one BSCR model, two copies of both the old and the new equity risk calculation are required. To this end, two additional tabs are introduced to calculate the grandfathered equity risk amount, together with the required supporting schedules that feed the input data into the equity risk calculation tabs.
- D21.7 In practical terms, the process is as follows:
- a) To calculate the equity risk charge on the old BSCR basis, all the equity investments are to be allocated to the ‘Equity Investments’ tab (through filling the appropriate schedules), as if the old rules applied.

- b) To calculate the equity risk charge on the new BSCR basis, all the equity investments are to be allocated to the 'Equity Investments (Revised)' tab (through filling the appropriate schedules), as if the new rules applied.
- c) To calculate the grandfathered equity risk charge on the new basis,
 - (i) The amount of equity investments eligible for grandfathering, per each equity class, is determined using the helper tab 'Equity Grandfathering'; by extension, this determines the amounts of equity investments, per each class, that are not eligible for grandfathering as the difference between the total investment amounts and the grandfathered amounts.
 - (ii) Those (and only those) equity investments that are eligible for grandfathering are to be allocated to the 'Equity Investments (Grandf)' tab, as if the old rules applied.
 - 1) This is done by filling in the helper schedule 'Grandfathered Equity Part' with the grandfathered equity investments.
 - (iii) The remaining (non-grandfathered) equity investments are to be allocated to the 'Equity Investments (Non-Grandf)' tab following the new rules.
 - 1) This is done by filling in the helper schedule 'Non-Grandfathered Equity Part' with the non-grandfathered equity investments.

D21.8

Although the pure new basis equity risk capital requirement (in subparagraph B above) is not directly used in determining the BSCR for insurance groups using equity grandfathering, it is required as additional information. This is to assess the effect of equity grandfathering and the capital position the insurer would have without it. The Authority expects the insurance groups to calculate the capital requirements without grandfathering for their own risk management purposes as well.

D22. INTEREST RATE AND LIQUIDITY RISK ($BSCR_{corr}$)

Background

- D22.1 The interest rate and liquidity risk charge may be determined based on “option 1” or “option 2”. Once the insurance group chooses to use option 2, the insurance group cannot move back to option 1 without the prior written approval of the Authority.
- D22.2 The interest rate and liquidity risk option 1 represents the economic risk an insurance group is subjected to due to changes in interest rates. The charge is calculated by applying the ‘shock’ of a 2% increase in interest rates to the portion of the insurance group’s assets (proportionate to the percentage of reserves) related to the duration difference. These assets include quoted and unquoted bonds and debentures - other, quoted and unquoted preferred stocks, and mortgage loans as reported on Schedules IIB and IIC.
- D22.3 The interest rate and liquidity risk option 2 represents an alternative and more risk-sensitive method that requires insurance groups to apply shocks to the yield curve used for determining best estimate liabilities and market value of assets (which includes changes for interest rate-sensitive cash flows in the calculation). The capital requirement is determined as the negative changes to the net asset value of the highest magnitude resulting from these shocks.

Interest Rate and Liquidity Risk Capital Charge - Option 1

- D22.4 The interest rate and liquidity risk option 1 charge calculation can be summarised by the following formula:

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

bonds = quoted and unquoted value of bonds and debentures - other, preferred stocks or mortgage loans;

duration = the higher of 1 or the insurer’s effective asset duration less the insurer’s effective liability duration or the insurer’s effective liability duration less the insurer’s effective asset duration; and

marketdecline = assumed interest rate shock supplied by BMA.

Items

- D22.5 Bonds and Debentures – Based on current year Schedule IIB (EBS) and Schedule IIC (EBS) column (11) lines 1 to 9; total quoted and unquoted value of bonds and debentures.
- D22.6 Preferred Stocks – Based on current year Schedule IIB (EBS) and Schedule IIC (EBS) column (11) lines 18 to 25 ; total quoted and unquoted value of preferred stocks portfolio.

- D22.7 Mortgage Loans – Based on current year Schedule IIB (EBS) and Schedule IIC (EBS) column (11), lines 10-13; total amortised cost (outstanding principal amount less any provision made for doubtful collection) of mortgage loan portfolio.
- D22.8 Effective Duration of Assets – The effective duration calculation is based on total bonds and debentures (Schedule IIB (EBS) and Schedule IIC (EBS) column (11) lines 1 to 9), preferred stocks (Schedule IIB (EBS) and Schedule IIC (EBS) column (11) lines 18 to 25), and mortgage loans portfolios (Schedule IIB (EBS) and Schedule IIC (EBS) column (11), lines 10-13). The effective asset duration is pulled from Schedule V, line (c).
- D22.9 Effective Duration of Liabilities – The effective duration calculation is based on the reserves (Form 1EBS, lines 17(d)). The effective liability duration is pulled from Schedule V, line (d).

Instructions Affecting Interest Rate and Liquidity Risk – Option 1

- a) All assets comprising of total bonds and debentures, preferred stock 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 stock shall be included in the interest rate/liquidity risk charge; and
- c) All other bonds and debentures, preferred stock and mortgage loans investments shall be reported on a basis consistent with that used for purposes of described in the Prudential Standard Rules Schedule XIV and the guidance note for statutory reporting regime.

Interest Rate and Liquidity Risk Capital Charge Option 2

- D22.10 The interest rate and liquidity risk option 2 charge calculation can be summarised by the following formula:

$$C_{Interest} = \max\{\max(Shock_{IR,Down}, Shock_{IR,Up}) - Offset_{ScenarioBased}, 0\};$$

Where—

$$Shock_{IR,\omega} = \sum_{CCY} Shock_{IR,\omega}^{CCY}$$

$$Shock_{IR,\omega}^{CCY} = (MVA_{Before}^{CCY,Q} - MVA_{After,\omega}^{CCY,Q}) + \max(MVA_{Before}^{CCY,NQ} - MVA_{After,\omega}^{CCY,NQ}, 0) - (MVL_{Before}^{CCY} - MVL_{After,\omega}^{CCY})$$

$$\omega = Down, Up$$

$$Offset_{ScenarioBased} = \min(0.5 \cdot (BELiability_{WorstScenario} - BELiability_{BaseScenario}), 0.75 \cdot C_{Interest}^{WithoutOffset})$$

$$C_{Interest}^{WithoutOffset} = \max(Shock_{IR,Down}, Shock_{IR,Up})$$

$MVA_{Before}^{CCY,Q}$ = refers to the market value of qualified assets including derivatives qualifying as held for risk-mitigating purposes (as described in section B4)

$MVA_{After}^{CCY,Q}$

before shock ω (ω =Up or Down) by currency type (CCY), that has been converted to the functional currency as expressed in Form 1EBS;
= refers to the revaluation of qualified assets including derivatives qualifying as held for risk-mitigating purposes (as described in section B4) after shocking interest rates by $\chi(\text{CCY},\omega)$ where (CCY) refers to currency type, ω refers to shock Down and Up, and χ refers to the shock vector where the revalued amount has been converted to the functional currency as reported in Form 1EBS prescribed in Table 3B;

$MVA_{Before}^{CCY,NQ}$

= refers to the market value of non-qualified assets which are derivatives not qualifying as held for risk-mitigating purposes (as described in section B4) before shock ω (ω =Up or Down) by currency type (CCY), that has been converted to the functional currency as expressed in Form 1EBS;

$MVA_{After}^{CCY,NQ}$

= refers to the revaluation of non-qualified assets which are derivatives not qualifying as held for risk-mitigating purposes (as described in section B4) after shocking interest rates by $\chi(\text{CCY},\omega)$ where (CCY) refers to currency type, ω refers to shock Down and Up, and χ refers to the shock vector where the revalued amount has been converted to the functional currency as reported in Form 1EBS prescribed in Table 3B;

MVL_{Before}^{CCY}

= refers to the best estimate of insurance liabilities and other liabilities before shock ω (ω =Up or Down) by currency type that has been converted to the functional currency as reported in Form 1EBS;

MVL_{After}^{CCY}

= refers to the revaluation of the best estimate of insurance liabilities and other liabilities after shocking interest rates by $\chi(\text{CCY},\omega)$ where (CCY) refers to currency type, ω refers to shock Down and Up, and χ refers to the shock vector where the revalued amount has been converted to the functional currency as reported in Form 1EBS prescribed in Table 3B;

$BELiability_{BaseScenario}$

= refers to best estimate of liabilities in the base case scenario when using the scenario-based approach; and

$BELiability_{WorstScenario}$

= refers to best estimate of liabilities in the worst-case scenario when using the scenario-based approach.

Items

- D22.11 Assets (exposures other than derivatives) –interest rate-sensitive assets, including interest rate-sensitive exposures from investment holdings packaged as funds, segregated account company assets, deposit assets and other sundry assets as determined from the application of the look-through provisions.
- D22.12 Assets Qualifying as held for risk-mitigating purposes (derivative exposures) –interest rate sensitive derivative exposures qualifying as risk-mitigating, including interest rate sensitive derivative exposures from investment holdings packaged as funds, segregated account company assets, deposit assets and other sundry assets as determined from the application of the look-through provisions.
- D22.13 Assets Not Qualifying as held for risk-mitigating purposes (derivative exposures) – interest rate sensitive derivative exposures not qualifying as risk-mitigating, including

interest rate sensitive derivative exposures from investment holdings packaged as funds, segregated account company assets, deposit assets and other sundry assets as determined from the application of the look-through provisions.

D22.14

Liabilities—interest rate sensitive exposures from insurance technical provisions, segregated account company liabilities, deposit liabilities and other sundry liabilities as determined from the application of the look-through provisions.

a) Interest Rate Down – Exposures without Derivatives

Currency	Market Value of Assets	Market Value of Liabilities
United States Dollars	Based on Sch. XXIII, Col.(A), line 1 Less Col. (B), line 1	Based on Sch. XXIII, Col. (C), line 1 Less Col. (D), line 1
Euro	Based on Sch. XXIII, Col.(A), line 2 Less Col. (B), line 2	Based on Sch. XXIII, Col.(C), line 2 Less Col. (D), line 2
UK Pounds	Based on Sch. XXIII, Col.(A), line 3 Less Col. (B), line 3	Based on Sch. XXIII, Col.(C), line 3 Less Col. (D), line 3
Japan Yen	Based on Sch. XXIII, Col.(A), line 4 Less Col. (B), line 4	Based on Sch. XXIII, Col.(C), line 4 Less Col. (D), line 4
Canada Dollars	Based on Sch. XXIII, Col.(A), line 5 Less Col. (B), line 5	Based on Sch. XXIII, Col.(C), line 5 Less Col. (D), line 5
Swiss Francs	Based on Sch. XXIII, Col.(A), line 6 Less Col. (B), line 6	Based on Sch. XXIII, Col.(C), line 6 Less Col. (D), line 6
Australia Dollars	Based on Sch. XXIII, Col.(A), line 7 Less Col. (B), line 7	Based on Sch. XXIII, Col.(C), line 7 Less Col. (D), line 7
New Zealand Dollars	Based on Sch. XXIII, Col.(A), line 8 Less Col. (B), line 8	Based on Sch. XXIII, Col.(C), line 8 Less Col. (D), line 8
Other currency 1	Based on Sch. XXIII, Col.(A), line 9 Less Col. (B), line 9	Based on Sch. XXIII, Col.(C), line 9 Less Col. (D), line 9
Other currency 2	Based on Sch. XXIII, Col.(A), line 10 Less Col. (B), line 10	Based on Sch. XXIII, Col.(C), line 10 Less Col. (D), line 10
Other currency 3	Based on Sch. XXIII, Col.(A), line 11 Less Col. (B), line 11	Based on Sch. XXIII, Col.(C), line 11 Less Col. (D), line 11
Other currency 4	Based on Sch. XXIII, Col.(A), line 12 Less Col. (B), line 12	Based on Sch. XXIII, Col.(C), line 12 Less Col. (D), line 12
Other currency 5	Based on Sch. XXIII, Col.(A), line 13 Less Col. (B), line 13	Based on Sch. XXIII, Col.(C), line 13 Less Col. (D), line 13
Other currency 6	Based on Sch. XXIII, Col.(A), line 14 Less Col. (B), line 14	Based on Sch. XXIII, Col.(C), line 14 Less Col. (D), line 14
Other currency 7	Based on Sch. XXIII, Col.(A), line 15 Less Col. (B), line 15	Based on Sch. XXIII, Col.(C), line 15 Less Col. (D), line 15
Other currency 8	Based on Sch. XXIII, Col.(A), line 16 Less Col. (B), line 16	Based on Sch. XXIII, Col.(C), line 16 Less Col. (D), line 16
Other currency 9	Based on Sch. XXIII, Col.(A), line 17 Less Col. (B), line 17	Based on Sch. XXIII, Col.(C), line 17 Less Col. (D), line 17
Other currency 10	Based on Sch. XXIII, Col.(A), line 18 Less Col. (B), line 18	Based on Sch. XXIII, Col.(C), line 18 Less Col. (D), line 18

b) Interest Rate Down – Derivative Exposure

Currency	Market Value of Assets Qualifying for Risk Mitigating Purposes	Market Value of Assets Not Qualifying for Risk Mitigating Purposes	Market Value of Liabilities
United States Dollars	Based on Sch. XXIII, Col.(G), line 1 Less Col. (H), line 1	Based on Sch. XXIII, Col. (I), line 1 Less Col. (J), line 1	Based on Sch. XXIII, Col. (K), line 1 Less Col. (L), line 1
Euro	Based on Sch. XXIII, Col.(G), line 2 Less Col. (H), line 2	Based on Sch. XXIII, Col.(I), line 2 Less Col. (J), line 2	Based on Sch. XXIII, Col.(K), line 2 Less Col. (L), line 2
UK Pounds	Based on Sch. XXIII, Col.(G), line 3 Less Col. (H), line 3	Based on Sch. XXIII, Col.(I), line 3 Less Col. (J), line 3	Based on Sch. XXIII, Col.(K), line 3 Less Col. (L), line 3
Japan Yen	Based on Sch. XXIII, Col.(G), line 4 Less Col. (H), line 4	Based on Sch. XXIII, Col.(I), line 4 Less Col. (J), line 4	Based on Sch. XXIII, Col.(K), line 4 Less Col. (L), line 4

Canada Dollars	Based on Sch. XXIII, Col.(G), line 5 Less Col. (H), line 5	Based on Sch. XXIII, Col.(I), line 5 Less Col. (J), line 5	Based on Sch. XXIII, Col.(K), line 5 Less Col. (L), line 5
Swiss Francs	Based on Sch. XXIII, Col.(G), line 6 Less Col. (H), line 6	Based on Sch. XXIII, Col.(I), line 6 Less Col. (J), line 6	Based on Sch. XXIII, Col.(K), line 6 Less Col. (L), line 6
Australia Dollars	Based on Sch. XXIII, Col.(G), line 7 Less Col. (H), line 7	Based on Sch. XXIII, Col.(I), line 7 Less Col. (J), line 7	Based on Sch. XXIII, Col.(K), line 7 Less Col. (L), line 7
New Zealand Dollars	Based on Sch. XXIII, Col.(G), line 8 Less Col. (H), line 8	Based on Sch. XXIII, Col.(I), line 8 Less Col. (J), line 8	Based on Sch. XXIII, Col.(K), line 8 Less Col. (L), line 8
Other currency 1	Based on Sch. XXIII, Col.(G), line 9 Less Col. (H), line 9	Based on Sch. XXIII, Col.(I), line 9 Less Col. (J), line 9	Based on Sch. XXIII, Col.(K), line 9 Less Col. (L), line 9
Other currency 2	Based on Sch. XXIII, Col.(G), line 10 Less Col. (H), line 10	Based on Sch. XXIII, Col.(I), line 10 Less Col. (J), line 10	Based on Sch. XXIII, Col.(K), line 10 Less Col. (L), line 10
Other currency 3	Based on Sch. XXIII, Col.(G), line 11 Less Col. (H), line 11	Based on Sch. XXIII, Col.(I), line 11 Less Col. (J), line 11	Based on Sch. XXIII, Col.(K), line 11 Less Col. (L), line 11
Other currency 4	Based on Sch. XXIII, Col.(G), line 12 Less Col. (H), line 12	Based on Sch. XXIII, Col.(I), line 12 Less Col. (J), line 12	Based on Sch. XXIII, Col.(K), line 12 Less Col. (L), line 12
Other currency 5	Based on Sch. XXIII, Col.(G), line 13 Less Col. (H), line 13	Based on Sch. XXIII, Col.(I), line 13 Less Col. (J), line 13	Based on Sch. XXIII, Col.(K), line 13 Less Col. (L), line 13
Other currency 6	Based on Sch. XXIII, Col.(G), line 14 Less Col. (H), line 14	Based on Sch. XXIII, Col.(I), line 14 Less Col. (J), line 14	Based on Sch. XXIII, Col.(K), line 14 Less Col. (L), line 14
Other currency 7	Based on Sch. XXIII, Col.(G), line 15 Less Col. (H), line 15	Based on Sch. XXIII, Col.(I), line 15 Less Col. (J), line 15	Based on Sch. XXIII, Col.(K), line 15 Less Col. (L), line 15
Other currency 8	Based on Sch. XXIII, Col.(G), line 16 Less Col. (H), line 16	Based on Sch. XXIII, Col.(I), line 16 Less Col. (J), line 16	Based on Sch. XXIII, Col.(K), line 16 Less Col. (L), line 16
Other currency 9	Based on Sch. XXIII, Col.(G), line 17 Less Col. (H), line 17	Based on Sch. XXIII, Col.(I), line 17 Less Col. (J), line 17	Based on Sch. XXIII, Col.(K), line 17 Less Col. (L), line 18
Other currency 10	Based on Sch. XXIII, Col.(G), line 18 Less Col. (H), line 18	Based on Sch. XXIII, Col.(I), line 18 Less Col. (J), line 18	Based on Sch. XXIII, Col.(K), line 18 Less Col. (L), line 18

c) Interest Rate Up – Exposures without Derivatives

Currency	Market Value of Assets	Market Value of Liabilities
United States Dollars	Based on Sch. XXIII, Col.(A), line 20 Less Col. (B), line 20	Based on Sch. XXIII, Col.(C), line 20 Less Col. (D), line 20
Euro	Based on Sch. XXIII, Col.(A), line 21 Less Col. (B), line 21	Based on Sch. XXIII, Col.(C), line 21 Less Col. (D), line 21

UK Pounds	Based on Sch. XXIII, Col.(A), line 22 Less Col. (B), line 22	Based on Sch. XXIII, Col.(C), line 22 Less Col. (D), line 22
Japan Yen	Based on Sch. XXIII, Col.(A), line 23 Less Col. (B), line 23	Based on Sch. XXIII, Col.(C), line 23 Less Col. (D), line 23
Canada Dollars	Based on Sch. XXIII, Col.(A), line 24 Less Col. (B), line 24	Based on Sch. XXIII, Col.(C), line 24 Less Col. (D), line 24
Swiss Francs	Based on Sch. XXIII, Col.(A), line 25 Less Col. (B), line 25	Based on Sch. XXIII, Col.(C), line 25 Less Col. (D), line 25
Australia Dollars	Based on Sch. XXIII, Col.(A), line 26 Less Col. (B), line 26	Based on Sch. XXIII, Col.(C), line 26 Less Col. (D), line 26
New Zealand Dollars	Based on Sch. XXIII, Col.(A), line 27 Less Col. (B), line 27	Based on Sch. XXIII, Col.(C), line 27 Less Col. (D), line 27
Other currency 1	Based on Sch. XXIII, Col.(A), line 28 Less Col. (B), line 28	Based on Sch. XXIII, Col.(C), line 28 Less Col. (D), line 28
Other currency 2	Based on Sch. XXIII, Col.(A), line 29 Less Col. (B), line 29	Based on Sch. XXIII, Col.(C), line 29 Less Col. (D), line 29
Other currency 3	Based on Sch. XXIII, Col.(A), line 30 Less Col. (B), line 30	Based on Sch. XXIII, Col.(C), line 30 Less Col. (D), line 30
Other currency 4	Based on Sch. XXIII, Col.(A), line 31 Less Col. (B), line 31	Based on Sch. XXIII, Col.(C), line 31 Less Col. (D), line 31
Other currency 5	Based on Sch. XXIII, Col.(A), line 32 Less Col. (B), line 32	Based on Sch. XXIII, Col.(C), line 32 Less Col. (D), line 32
Other currency 6	Based on Sch. XXIII, Col.(A), line 33 Less Col. (B), line 33	Based on Sch. XXIII, Col.(C), line 33 Less Col. (D), line 33
Other currency 7	Based on Sch. XXIII, Col.(A), line 34 Less Col. (B), line 34	Based on Sch. XXIII, Col.(C), line 34 Less Col. (D), line 34
Other currency 8	Based on Sch. XXIII, Col.(A), line 35 Less Col. (B), line 35	Based on Sch. XXIII, Col.(C), line 35 Less Col. (D), line 35
Other currency 9	Based on Sch. XXIII, Col.(A), line 36 Less Col. (B), line 36	Based on Sch. XXIII, Col.(C), line 36 Less Col. (D), line 36
Other currency 10	Based on Sch. XXIII, Col.(A), line 37 Less Col. (B), line 37	Based on Sch. XXIII, Col.(C), line 37 Less Col. (D), line 37

d) Interest Rate Up – Derivative Exposure

Currency	Market Value of Assets Qualifying for Risk Mitigating Purposes	Market Value of Assets Not Qualifying for Risk Mitigating Purposes	Market Value of Liabilities
United States Dollars	Based on Sch. XXIII, Col.(G), line 20 Less Col. (H), line 20	Based on Sch. XXIII, Col.(I), line 20 Less Col. (J), line 20	Based on Sch. XXIII, Col.(K), line 20 Less Col. (L), line 20
Euro	Based on Sch. XXIII, Col.(G), line 21 Less Col. (H), line 21	Based on Sch. XXIII, Col.(I), line 21 Less Col. (J), line 21	Based on Sch. XXIII, Col.(K), line 21 Less Col. (L), line 21
UK Pounds	Based on Sch. XXIII, Col.(G), line 22 Less Col. (H), line 22	Based on Sch. XXIII, Col.(I), line 22 Less Col. (J), line 22	Based on Sch. XXIII, Col.(K), line 22 Less Col. (L), line 22
Japan Yen	Based on Sch. XXIII, Col.(G), line 23 Less Col. (H), line 23	Based on Sch. XXIII, Col.(I), line 23 Less Col. (J), line 23	Based on Sch. XXIII, Col.(K), line 23 Less Col. (L), line 23
Canada Dollars	Based on Sch. XXIII, Col.(G), line 24 Less Col. (H), line 24	Based on Sch. XXIII, Col.(I), line 24 Less Col. (J), line 24	Based on Sch. XXIII, Col.(K), line 24 Less Col. (L), line 24
Swiss Francs	Based on Sch. XXIII, Col.(G), line 25 Less Col. (H), line 25	Based on Sch. XXIII, Col.(I), line 25 Less Col. (J), line 25	Based on Sch. XXIII, Col.(K), line 25 Less Col. (L), line 25

Australia Dollars	Based on Sch. XXIII, Col.(G), line 26 Less Col. (H), line 26	Based on Sch. XXIII, Col.(I), line 26 Less Col. (J), line 26	Based on Sch. XXIII, Col.(K), line 26 Less Col. (L), line 26
New Zealand Dollars	Based on Sch. XXIII, Col.(G), line 27 Less Col. (H), line 27	Based on Sch. XXIII, Col.(I), line 27 Less Col. (J), line 27	Based on Sch. XXIII, Col.(K), line 27 Less Col. (L), line 27
Other currency 1	Based on Sch. XXIII, Col.(G), line 28 Less Col. (H), line 28	Based on Sch. XXIII, Col.(I), line 28 Less Col. (J), line 28	Based on Sch. XXIII, Col.(K), line 28 Less Col. (L), line 28
Other currency 2	Based on Sch. XXIII, Col.(G), line 29 Less Col. (H), line 29	Based on Sch. XXIII, Col.(I), line 29 Less Col. (J), line 29	Based on Sch. XXIII, Col.(K), line 29 Less Col. (L), line 29
Other currency 3	Based on Sch. XXIII, Col.(G), line 30 Less Col. (H), line 30	Based on Sch. XXIII, Col.(I), line 30 Less Col. (J), line 30	Based on Sch. XXIII, Col.(K), line 30 Less Col. (L), line 30
Other currency 4	Based on Sch. XXIII, Col.(G), line 31 Less Col. (H), line 31	Based on Sch. XXIII, Col.(I), line 31 Less Col. (J), line 31	Based on Sch. XXIII, Col.(K), line 31 Less Col. (L), line 31
Other currency 5	Based on Sch. XXIII, Col.(G), line 32 Less Col. (H), line 32	Based on Sch. XXIII, Col.(I), line 32 Less Col. (J), line 32	Based on Sch. XXIII, Col.(K), line 32 Less Col. (L), line 32
Other currency 6	Based on Sch. XXIII, Col.(G), line 33 Less Col. (H), line 33	Based on Sch. XXIII, Col.(I), line 33 Less Col. (J), line 33	Based on Sch. XXIII, Col.(K), line 33 Less Col. (L), line 33
Other currency 7	Based on Sch. XXIII, Col.(G), line 34 Less Col. (H), line 34	Based on Sch. XXIII, Col.(I), line 34 Less Col. (J), line 34	Based on Sch. XXIII, Col.(K), line 34 Less Col. (L), line 34
Other currency 8	Based on Sch. XXIII, Col.(G), line 35 Less Col. (H), line 35	Based on Sch. XXIII, Col.(I), line 35 Less Col. (J), line 35	Based on Sch. XXIII, Col.(K), line 35 Less Col. (L), line 35
Other currency 9	Based on Sch. XXIII, Col.(G), line 36 Less Col. (H), line 36	Based on Sch. XXIII, Col.(I), line 36 Less Col. (J), line 36	Based on Sch. XXIII, Col.(K), line 36 Less Col. (L), line 36
Other currency 10	Based on Sch. XXIII, Col.(G), line 37 Less Col. (H), line 37	Based on Sch. XXIII, Col.(I), line 37 Less Col. (J), line 37	Based on Sch. XXIII, Col.(K), line 37 Less Col. (L), line 37

Instructions Affecting Interest Rate and Liquidity Risk

- a) All assets sensitive to interest rates shall be included in the table, including but not limited to fixed income assets, hybrid instruments, deposits, loans (including mortgage and policyholder loans), reinsurance balance receivables and exposures as determined by application of the 'look-through' approach calculated in accordance with criteria prescribed in section B7 for the following items:
- (i) Collective investment vehicles and other investments packaged as funds, including related undertakings used as investment vehicles;
 - (ii) Segregated accounts assets;
 - (iii) Deposit asset;
 - (iv) Other sundry;
 - (v) Derivatives;
 - (vi) Funds held by ceding insurers.
- b) All liabilities sensitive to interest rates shall be included in the table, including but not limited to best estimate of insurance liabilities, other liabilities (except risk margin) and liability exposures determined by application of the 'look-through' approach calculated in accordance with the criteria prescribed in section B7 for the following items:
- (i) Segregated accounts liabilities;
 - (ii) Deposit liabilities;
 - (iii) Other sundry liabilities;
 - (iv) Derivatives;
 - (v) Funds held under retrocession.
- c) Amounts are to be reported on an EBS valuation basis.

D23. CURRENCY RISK ($BSCR_{corr}$)

Background

- D23.1 The currency risk charge is based on amounts reported on Form 1EBS total assets and liabilities. It represents the risk that the net asset position of an insurance group may worsen as a result of exchange rate changes if assets and liabilities are not currency matched. Insurance groups are to include at least 95% of their total assets and liabilities based on the predefined thirteen currency types (United States Dollar, Bermuda Dollar, Qatar Riyal, Hong Kong Dollar, Euro, Denmark Kroner, Bulgaria Leva, West African CFA Franc, Central African CFA Franc, Comorian Francs United Kingdom Pounds, Canadian Dollar and Japanese Yen) and ten other currency types.
- D23.2 The currency risk capital charge is based on the assets held for each currency type and the liabilities and the proxy BSCR (proxy BSCR is determined by applying the proxy BSCR factor of D23.3 to the currency type's liabilities). In instances there is a currency type that has insufficient assets held to the liabilities and proxy BSCR, a shock is applied to both the assets and the liabilities and the allocated capital requirement. The shock is a downwards shock to the reporting currency, meaning that the reporting currency will depreciate relative to other currencies. If there are sufficient assets held to the liabilities and proxy BSCR, then there is no/NIL capital charge applied.
- D23.3 The proxy BSCR factor is determined as the greater of:
- The prior year ECR charge to the prior year total EBS liabilities reported and
 - The average of the last three prior years ECR charge to last three prior years total EBS liabilities reported.

Currency Risk Capital Charge

- D23.4 The currency risk charge calculation can be summarised by the following formula:

$$C_{\text{Currency}} = \sum_i \max \left\{ \left[\begin{aligned} & (MVA_{i, \text{Before}} - MVA_{i, \text{After}}(\chi_i)) + (MVDL_{i, \text{Before}}^Q - MVDL_{i, \text{After}}^Q(\chi_i)) + \dots \\ & + (MVDS_{i, \text{Before}}^Q - MVDS_{i, \text{After}}^Q(\chi_i)) + \max(MVDL_{i, \text{Before}}^{NQ} - MVDL_{i, \text{After}}^{NQ}(\chi_i), 0) + \dots \\ & + \max(MVDS_{i, \text{Before}}^{NQ} - MVDS_{i, \text{After}}^{NQ}(\chi_i), 0) - (MVL_{i, \text{Before}} - MVL_{i, \text{After}}(\chi_i)) + \dots \\ & + \text{Currproxybscr}_i \times \chi_i \end{aligned} \right], 0 \right\}$$

- χ_i = the instantaneous shocks prescribed in Table 4A for each type of currency where $(MVA_{i, \text{Before}} + MVDL_{i, \text{Before}}^{NQ} + MVDS_{i, \text{Before}}^{NQ} + MVDL_{i, \text{Before}}^Q + MVDS_{i, \text{Before}}^Q - MVL_{i, \text{Before}}^Q - \text{Currproxybscr}_i) < 0$ and 0 otherwise;
- Currency_i = refers to currency type that has been converted to the functional currency as reported in Form 1EBS

$MVA_{i,Before}$	= refers to the market value of assets excluding currency-sensitive derivatives prescribed by the Authority by currency type (CCY), that has been converted to the functional currency as reported in Form 1EBS;
$MVA_{i,After}$	= refers to the revaluation of assets excluding currency-sensitive derivatives after shocking by $\chi(\text{CCY})$ where (CCY) refers to currency type, and χ refers to the shock, where the revalued amount has been converted to the functional currency as reported in Form 1EBS;
$MVDL_{i,Before}^Q$	= refers to the market value of long positions in derivatives qualifying as held for risk-mitigating purposes (as described in section B4) by currency type (CCY), that has been converted to the functional currency as reported in Form 1EBS;
$MVDL_{i,After}^Q$	= refers to the revaluation of long positions in derivatives qualifying as held for risk-mitigating purposes (as described in section B4) after shocking by $\chi(\text{CCY})$ where (CCY) refers to currency type, and χ refers to the shock, where the revalued amount has been converted to the functional currency as reported in Form 1EBS;
$MVDS_{i,Before}^Q$	= refers to the market value of short positions in derivatives qualifying as held for risk-mitigating purposes (as described in section B4) by currency type (CCY), that has been converted to the functional currency as reported in Form 1EBS;
$MVDS_{i,After}^Q$	= refers to the revaluation of short positions in derivatives qualifying as held for risk-mitigating purposes (as described in section B4) after shocking by $\chi(\text{CCY})$ where (CCY) refers to currency type, and χ refers to the shock, where the revalued amount has been converted to the functional currency as reported in Form 1EBS;
$MVDL_{i,Before}^{NQ}$	= refers to the market value of long positions in derivatives not qualifying as held for risk-mitigating purposes (as described in section B4) by currency type (CCY), that has been converted to the functional currency as reported in Form 1EBS;
$MVDL_{i,After}^{NQ}$	= refers to the revaluation of long positions in derivatives not qualifying as held for risk-mitigating purposes (as described in section B4) after shocking by $\chi(\text{CCY})$ where (CCY) refers to currency type, and χ refers to the shock, where the revalued amount has been converted to the functional currency as reported in Form 1EBS;
$MVDS_{i,Before}^{NQ}$	= refers to the market value of short positions in derivatives not qualifying as held for risk-mitigating purposes (as described in section B4) by currency type (CCY), that has been converted to the functional currency as reported in Form 1EBS;
$MVDS_{i,After}^{NQ}$	= refers to the revaluation of short positions in derivatives not qualifying as held for risk-mitigating purposes (as described in section B4) after shocking by $\chi(\text{CCY})$ where (CCY) refers to currency type, and χ refers to the shock, where the revalued amount has been converted to the functional currency as reported in Form 1EBS;
$MVL_{i,Before}$	= refers to the market value of the best estimate of insurance liabilities and other liabilities by currency type that has been converted to the functional currency as reported in Form 1EBS;
$MVL_{i,After}$	= refers to the revaluation of the best estimate of insurance liabilities and other liabilities after shocking by $\chi(\text{CCY})$ where (CCY) refers to currency type and χ refers to the shock, where the revalued amount has been converted to the functional currency as reported in Form 1EBS;
$Currproxybscr_i$	= refers to the product of $MVL_{i,Before}$ and BSCR Proxy factor
BSCR Proxy Factor	= greater of paragraphs (a) and (b) below:

- (a) The ECR divided by Form 1EBS line 39 Total Liabilities for the preceding year and
- (b) The average of the above ratio for the preceding three years.

where there are no prior submissions available, the BSCR proxy factor is the above ratio that would be obtained from the current submission without taking into account the currency risk charge.

Items

- D23.5 Assets (exposures other than derivatives) – currency exposures / exchange rate-sensitive exposures including from cash, investment holdings packaged as funds, segregated account company assets, deposit assets and other sundry assets as determined from the application of the look-through provisions.
- D23.6 Assets – Derivatives with Long Exposures Not Qualifying as held for risk-mitigating purposes – long FX / exchange rate-sensitive derivative exposures not qualifying as risk-mitigating, including from investment holdings packaged as funds, segregated account company assets, deposit assets and other sundry assets as determined from the application of the look-through provisions.
- D23.7 Assets – Derivatives with Short Exposures Qualifying as held for risk-mitigating purposes – short FX / exchange-rate sensitive derivative exposures qualifying as risk-mitigating, including from investment holdings packaged as funds, segregated account company assets, deposit assets and other sundry assets as determined from the application of the look-through provisions.
- D23.8 Assets – Derivatives with Short Exposures Not Qualifying as held for risk-mitigating purposes – short FX / exchange-rate sensitive derivative exposures not qualifying as risk-mitigating including from investment holdings packaged as funds, segregated account company assets, deposit assets and other sundry assets as determined from the application of the look-through provisions.
- D23.9 Assets – Derivatives with Long Exposures Qualifying as held for risk-mitigating purposes – long FX / exchange-rate sensitive derivative exposures qualifying as risk-mitigating, including from investment holdings packaged as funds, segregated account company assets, deposit assets and other sundry assets as determined from the application of the look-through provisions.
- D23.10 EBS Liabilities by Currency Types – Total Best estimate liabilities denominated in given currency.
- D23.11 Total ECR Requirement– Based on three prior years ECR Requirement.

D23.12

Total EBS Liabilities– Based on three prior years Form 1EBS line 39; total EBS liabilities (note if the EBS liabilities for the preceding three years' is not available, provide the statutory liability as reported on line 39).

Currency	Assets Exposures Other than Derivatives	Long Exposures		Short Exposures		Liabilities
		Qualifying as Held for Risk Mitigation Purposes	Not Qualifying as Held for Risk Mitigation Purposes	Qualifying as Held for Risk Mitigation Purposes	Not Qualifying as Held for Risk Mitigation Purposes	
United States Dollars	Based on Sch. XXA, Col.(A), line 1	Based on Sch. XXA, Col.(B), line 1	Based on Sch. XXA, Col.(C), line 1	Based on Sch. XXA, Col.(D), line 1	Based on Sch. XXA, Col.(E), line 1	Based on Sch. XXA, Col.(F), line 1
Bermuda Dollars	Based on Sch. XXA, Col.(A), line 2	Based on Sch. XXA, Col.(B), line 2	Based on Sch. XXA, Col.(C), line 2	Based on Sch. XXA, Col.(D), line 2	Based on Sch. XXA, Col.(E), line 2	Based on Sch. XXA, Col.(F), line 2
Qatar Riyals	Based on Sch. XXA, Col.(A), line 3	Based on Sch. XXA, Col.(B), line 3	Based on Sch. XXA, Col.(C), line 3	Based on Sch. XXA, Col.(D), line 3	Based on Sch. XXA, Col.(E), line 3	Based on Sch. XXA, Col.(F), line 3
Hong Kong Dollars	Based on Sch. XXA, Col.(A), line 4	Based on Sch. XXA, Col.(B), line 4	Based on Sch. XXA, Col.(C), line 4	Based on Sch. XXA, Col.(D), line 4	Based on Sch. XXA, Col.(E), line 4	Based on Sch. XXA, Col.(F), line 4
Euro	Based on Sch. XXA, Col.(A), line 5	Based on Sch. XXA, Col.(B), line 5	Based on Sch. XXA, Col.(C), line 5	Based on Sch. XXA, Col.(D), line 5	Based on Sch. XXA, Col.(E), line 5	Based on Sch. XXA, Col.(F), line 5
Denmark Kroner	Based on Sch. XXA, Col.(A), line 6	Based on Sch. XXA, Col.(B), line 6	Based on Sch. XXA, Col.(C), line 6	Based on Sch. XXA, Col.(D), line 6	Based on Sch. XXA, Col.(E), line 6	Based on Sch. XXA, Col.(F), line 6
Bulgaria Leva	Based on Sch. XXA, Col.(A), line 7	Based on Sch. XXA, Col.(B), line 7	Based on Sch. XXA, Col.(C), line 7	Based on Sch. XXA, Col.(D), line 7	Based on Sch. XXA, Col.(E), line 7	Based on Sch. XXA, Col.(F), line 7
West African CFA Francs	Based on Sch. XXA, Col.(A), line 8	Based on Sch. XXA, Col.(B), line 8	Based on Sch. XXA, Col.(C), line 8	Based on Sch. XXA, Col.(D), line 8	Based on Sch. XXA, Col.(E), line 8	Based on Sch. XXA, Col.(F), line 8
Central African CFA Francs	Based on Sch. XXA, Col.(A), line 9	Based on Sch. XXA, Col.(B), line 9	Based on Sch. XXA, Col.(C), line 9	Based on Sch. XXA, Col.(D), line 9	Based on Sch. XXA, Col.(E), line 9	Based on Sch. XXA, Col.(F), line 9
Comorian Francs	Based on Sch. XXA, Col.(A), line 10	Based on Sch. XXA, Col.(B), line 10	Based on Sch. XXA, Col.(C), line 10	Based on Sch. XXA, Col.(D), line 10	Based on Sch. XXA, Col.(E), line 10	Based on Sch. XXA, Col.(F), line 10
UK Pounds	Based on Sch. XXA, Col.(A), line 11	Based on Sch. XXA, Col.(B), line 11	Based on Sch. XXA, Col.(C), line 11	Based on Sch. XXA, Col.(D), line 11	Based on Sch. XXA, Col.(E), line 11	Based on Sch. XXA, Col.(F), line 11
Canada Dollars	Based on Sch. XXA, Col.(A), line 12	Based on Sch. XXA, Col.(B), line 12	Based on Sch. XXA, Col.(C), line 12	Based on Sch. XXA, Col.(D), line 12	Based on Sch. XXA, Col.(E), line 12	Based on Sch. XXA, Col.(F), line 12
Japan Yen	Based on Sch. XXA, Col.(A), line 13	Based on Sch. XXA, Col.(B), line 13	Based on Sch. XXA, Col.(C), line 13	Based on Sch. XXA, Col.(D), line 13	Based on Sch. XXA, Col.(E), line 13	Based on Sch. XXA, Col.(F), line 13

Other currency 1	Based on Sch. XXA, Col.(A), line 14	Based on Sch. XXA, Col.(B), line 14	Based on Sch. XXA, Col.(C), line 14	Based on Sch. XXA, Col.(D), line 14	Based on Sch. XXA, Col.(E), line 14	Based on Sch. XXA, Col.(F), line 14
Other currency 2	Based on Sch. XXA, Col.(A), line 15	Based on Sch. XXA, Col.(B), line 15	Based on Sch. XXA, Col.(C), line 15	Based on Sch. XXA, Col.(D), line 15	Based on Sch. XXA, Col.(E), line 15	Based on Sch. XXA, Col.(F), line 15
Other currency 3	Based on Sch. XXA, Col.(A), line 16	Based on Sch. XXA, Col.(B), line 16	Based on Sch. XXA, Col.(C), line 16	Based on Sch. XXA, Col.(D), line 16	Based on Sch. XXA, Col.(E), line 16	Based on Sch. XXA, Col.(F), line 16
Other currency 4	Based on Sch. XXA, Col.(A), line 17	Based on Sch. XXA, Col.(B), line 17	Based on Sch. XXA, Col.(C), line 17	Based on Sch. XXA, Col.(D), line 17	Based on Sch. XXA, Col.(E), line 17	Based on Sch. XXA, Col.(F), line 17
Other currency 5	Based on Sch. XXA, Col.(A), line 18	Based on Sch. XXA, Col.(B), line 18	Based on Sch. XXA, Col.(C), line 18	Based on Sch. XXA, Col.(D), line 18	Based on Sch. XXA, Col.(E), line 18	Based on Sch. XXA, Col.(F), line 18
Other currency 6	Based on Sch. XXA, Col.(A), line 19	Based on Sch. XXA, Col.(B), line 19	Based on Sch. XXA, Col.(C), line 19	Based on Sch. XXA, Col.(D), line 19	Based on Sch. XXA, Col.(E), line 19	Based on Sch. XXA, Col.(F), line 19
Other currency 7	Based on Sch. XXA, Col.(A), line 20	Based on Sch. XXA, Col.(B), line 20	Based on Sch. XXA, Col.(C), line 20	Based on Sch. XXA, Col.(D), line 20	Based on Sch. XXA, Col.(E), line 20	Based on Sch. XXA, Col.(F), line 20
Other currency 8	Based on Sch. XXA, Col.(A), line 21	Based on Sch. XXA, Col.(B), line 21	Based on Sch. XXA, Col.(C), line 21	Based on Sch. XXA, Col.(D), line 21	Based on Sch. XXA, Col.(E), line 21	Based on Sch. XXA, Col.(F), line 21
Other currency 9	Based on Sch. XXA, Col.(A), line 22	Based on Sch. XXA, Col.(B), line 22	Based on Sch. XXA, Col.(C), line 22	Based on Sch. XXA, Col.(D), line 22	Based on Sch. XXA, Col.(E), line 22	Based on Sch. XXA, Col.(F), line 22
Other currency 10	Based on Sch. XXA, Col.(A), line 23	Based on Sch. XXA, Col.(B), line 23	Based on Sch. XXA, Col.(C), line 23	Based on Sch. XXA, Col.(D), line 23	Based on Sch. XXA, Col.(E), line 23	Based on Sch. XXA, Col.(F), line 23

Instructions Affecting Currency Risk

- a) The initials 'A' to 'J' on the column labeled 'Shock Otherwise χ_i ' shall be replaced by the following shock values:
- (i) 'A' by:
 - 1) '0%' if the reporting currency is Bermuda Dollar or,
 - 2) '5.00%' if the reporting currency is Qatari Riyal or,
 - 3) '1.00%' if the reporting currency is Hong Kong Dollar or,
 - 4) '25%' otherwise.
 - (ii) 'B' by:
 - 1) '0%' if the reporting currency is United States Dollar or,
 - 2) '25%' otherwise.
 - (iii) 'C' by:
 - 1) '5.00%' if the reporting currency is United States Dollar or,
 - 2) '25%' otherwise.
 - (iv) 'D' by:
 - 1) '1.00%' if reporting currency is United States Dollar or,
 - 2) '25%' otherwise.
 - (v) 'E' by:
 - 1) '0.39%' if the reporting currency is Danish Krone or,
 - 2) '1.81%' if the reporting currency is Bulgarian Lev or,
 - 3) '2.18%' if the reporting currency is West African CFA Franc or,
 - 4) '1.96%' if the reporting currency is Central African CFA Franc or,
 - 5) '2.00%' if the reporting currency is Comorian Franc or,
 - 6) '25%' otherwise.
 - (vi) 'F' by:
 - 1) '0.39%' if reporting currency is Euro or,
 - 2) '25%' otherwise.
 - (vii) 'G' by:
 - 1) '1.81%' if reporting currency is Euro or,
 - 2) '25%' otherwise.
 - (viii) 'H' by:
 - 1) '2.18%' if reporting currency is Euro or,
 - 2) '25%' otherwise.
 - (ix) 'I' by:
 - 1) '1.96%' if reporting currency is Euro or,
 - 2) '25%' otherwise.
 - (x) 'J' by:
 - 1) '2.00%' if reporting currency is Euro or,
 - 2) '25%' otherwise.
- b) All assets and liabilities (except the risk margin) whose value is subject to currency risk shocks shall be reported on a basis consistent with that used for purposes of economic

balance sheet reporting. These assets and liabilities shall include currency risk exposures determined by application of the 'look-through approach' calculated in accordance with criteria prescribed in section B7 for the following items:

- (i) Collective investment vehicles and other investments packaged as funds, including related undertakings used as investment vehicles;
 - (ii) Segregated accounts assets and liabilities;
 - (iii) Deposit asset and liabilities;
 - (iv) Assets and liabilities held by ceding insurers or under retrocession;
 - (v) Other sundry assets and liabilities; and
 - (vi) Derivatives.
- c) Where the reporting currency is United States Dollar, the capital factor χ_i charge shall be reduced to:
- (i) 0.00% for Bermuda Dollar;
 - (ii) 5.00% for Qatari Riyal;
 - (iii) 1.00% for Hong Kong Dollar.
- d) Where the reporting currency is Bermuda Dollar the capital factor χ_i charge shall be reduced to 0.00% for United States Dollar.
- e) Where the reporting currency is Qatari Riyal the capital factor χ_i charge shall be reduced to 5.00% for United States Dollar.
- f) Where the reporting currency is Hong Kong Dollar the capital factor χ_i charge shall be reduced to 1.00% for United States Dollar.
- g) Where the reporting currency is Euros, the capital factor χ_i shall be reduced to:
- (i) 0.39% for Danish Krone;
 - (ii) 1.81% for Bulgarian Lev;
 - (iii) 2.18% for West African CFA Franc;
 - (iv) 1.96% for Central African CFA Franc;
 - (v) 2.00% for Comorian Franc.
- h) Where the reporting currency is Danish Krone the capital factor χ_i charge shall be reduced to 0.39% for the Euro.
- i) Where the reporting currency is Bulgarian Lev the capital factor χ_i charge shall be reduced to 1.81% for the Euro.

- j) Where the reporting currency is West African CFA Franc the capital factor χ_i charge shall be reduced to 2.18% for the Euro.
- k) Where the reporting currency is Central African CFA Franc the capital factor χ_i charge shall be reduced to 1.96% for the Euro.
- l) Where the reporting currency is Comorian Franc the capital factor χ_i charge shall be reduced to 2.00% for the Euro.
- m) Insurance groups are to report currencies representing at least 95% of their economic balance sheet liabilities; and
- n) Amounts are to be reported on an EBS Valuation basis.

D24. CONCENTRATION RISK ($BSCR_{Corr}$)

Background

- D24.1 The concentration risk charge is based on asset counterparty exposures as reported on the Form 1EBS. It represents the risk of losses due to asset concentrations.
- D24.2 The charge is calculated by aggregating all the Asset Type, Bond / Mortgage Loan Type (if applicable), BSCR Rating (if applicable) and Asset Value together and assigning the values to the respective fixed income, equity, credit capital factor charge.

Concentration Risk Capital Charge

- D24.3 The concentration risk charge calculation can be summarised by the following formula:

$$C_{Concentration} = \sum_i \chi_i \times Concastclass_i \quad \text{where}$$

χ_i = the capital charge factors supplied by BMA for each type $Concastclass_i$ of and

$Concastclass_i$ = value of corresponding asset in Asset Class.

Items

a) Cash and Cash Equivalents

Line Item	Description
1	BSCR rating 0
2	BSCR rating 1
3	BSCR rating 2
4	BSCR rating 3
5	BSCR rating 4
6	BSCR rating 5
7	BSCR rating 6
8	BSCR rating 7
9	BSCR rating 8

b) Corporate & Sovereign Bonds

Line Item	Description
1	BSCR rating 0
2	BSCR rating 1
3	BSCR rating 2
4	BSCR rating 3
5	BSCR rating 4
6	BSCR rating 5
7	BSCR rating 6

Line Item		Description
8	BSCR rating 7	Based on Schedule XXIA, column D
9	BSCR rating 8	Based on Schedule XXIA, column D

c) Residential Mortgage- Backed Securities

Line Item		Description
1	BSCR rating 0	Based on Schedule XXIA, column D
2	BSCR rating 1	Based on Schedule XXIA, column D
3	BSCR rating 2	Based on Schedule XXIA, column D
4	BSCR rating 3	Based on Schedule XXIA, column D
5	BSCR rating 4	Based on Schedule XXIA, column D
6	BSCR rating 5	Based on Schedule XXIA, column D
7	BSCR rating 6	Based on Schedule XXIA, column D
8	BSCR rating 7	Based on Schedule XXIA, column D
9	BSCR rating 8	Based on Schedule XXIA, column D

d) Commercial Mortgage-Backed Securities/Asset-Backed Securities

Line Item		Description
1	BSCR rating 0	Based on Schedule XXIA, column D
2	BSCR rating 1	Based on Schedule XXIA, column D
3	BSCR rating 2	Based on Schedule XXIA, column D
4	BSCR rating 3	Based on Schedule XXIA, column D
5	BSCR rating 4	Based on Schedule XXIA, column D
6	BSCR rating 5	Based on Schedule XXIA, column D
7	BSCR rating 6	Based on Schedule XXIA, column D
8	BSCR rating 7	Based on Schedule XXIA, column D
9	BSCR rating 8	Based on Schedule XXIA, column D

e) Bond Mutual Funds

Line Item		Description
1	BSCR rating 0	Based on Schedule XXIA, column D
2	BSCR rating 1	Based on Schedule XXIA, column D
3	BSCR rating 2	Based on Schedule XXIA, column D
4	BSCR rating 3	Based on Schedule XXIA, column D
5	BSCR rating 4	Based on Schedule XXIA, column D
6	BSCR rating 5	Based on Schedule XXIA, column D
7	BSCR rating 6	Based on Schedule XXIA, column D
8	BSCR rating 7	Based on Schedule XXIA, column D
9	BSCR rating 8	Based on Schedule XXIA, column D

f) Preferred Shares

Line Item		Description
1	BSCR rating 1	Based on Schedule XXIA, column D
2	BSCR rating 2	Based on Schedule XXIA, column D
3	BSCR rating 3	Based on Schedule XXIA, column D
4	BSCR rating 4	Based on Schedule XXIA, column D
5	BSCR rating 5	Based on Schedule XXIA, column D
6	BSCR rating 6	Based on Schedule XXIA, column D
7	BSCR rating 7	Based on Schedule XXIA, column D
8	BSCR rating 8	Based on Schedule XXIA, column D

g) Mortgage Loans

Line Item		Description
1	Insured/Guaranteed Mortgages	Based on Schedule XXIA, column D
2	Other Commercial and Farm Mortgages	Based on Schedule XXIA, column D
3	Other Residential Mortgages	Based on Schedule XXIA, column D
4	Mortgages Not In Good Standing	Based on Schedule XXIA, column D

h) Other Asset Classes

Line Item		Description
1	Infrastructure	Based on Schedule XXIA, column D
2	Listed Equity Securities in Developed Markets	Based on Schedule XXIA, column D
3	Other Equities	Based on Schedule XXIA, column D
4	Strategic Holdings	Based on Schedule XXIA, column D
5	Duration Based	Based on Schedule XXIA, column D
6	Letters of Credit	Based on Schedule XXIA, column D
7	Advances to Affiliates –	Based on Schedule XXIA, column D
8	Policy Loans	Based on Schedule XXIA, column D
9	Equity Real Estate 1	Based on Schedule XXIA, column D
10	Equity Real Estate 2	Based on Schedule XXIA, column D
11	Collateral Loans	Based on Schedule XXIA, column D

Instructions Affecting Concentration Risk

- a) *Concastclass_i* shall apply to all exposures to the ten largest counterparties of the insurance group, based on the aggregate of all exposures relating to those ten counterparties;
- b) A counterparty exposure shall be reported on the valuation of individually underlying assets (i.e., determined by application of the ‘look-through’ approach, as described in section B7) for all amounts reported on the balance sheet;
- c) A counterparty shall include all related or connected counterparties captured by either of the following criteria:
 - (i) Controller relationship: if a counterparty, directly or indirectly, has control of (as a result of its majority shareholding or effective management) which it is a subsidiary company; or
 - (ii) Economic interdependence: if one of the counterparties were to experience financial difficulties which directly or indirectly affect the ability of any or all of the remaining counterparties to perform their financial obligations (e.g., where a counterparty becomes unable to fund or repay certain financial contractual obligations, and as a result, other counterparties, are likely to be unable to fund or repay certain obligations imposed on them);
- d) Amounts are to be reported on an EBS valuation basis.

D25. PREMIUM RISK ($BSCR_{Corr}$)

Background

- D25.1 The premium risk charge is based on net premiums exposure measure for the following calendar year by predefined statutory lines of business, and if available, reporting net premiums exposure measure by predefined statutory geographic locations. Note that although net premiums exposure measure for Property Catastrophe business are inputted in this section, they do not enter the calculation of the premium risk charge. All capital requirements pertaining to catastrophe exposures are explicitly calculated in the Catastrophe Risk section.
- D25.2 The first step of the calculation applies a statutory line of business-specific premium risk capital factor to the respective net premiums exposure measure amounts.
- D25.3 The second step of the calculation applies a sum squared diversification credit based on 18 geographic zones. Note that this is not a necessary requirement in the premium risk calculation and if used, this is not required for all lines of business.
- D25.4 In the Premium risk calculation, a correlation adjustment is determined to reflect the overall diversification of the premium risk. Finally, there is a further adjustment to reflect the fact that some of the lines of business premiums, other than Property Catastrophe, include a loading for losses resulting from natural catastrophes. The appropriate risk charge for this portion of the premiums is calculated in the Catastrophe Risk section; the premium risk charge is reduced to avoid double counting.

Premium Risk Capital Charge

$$C_{Premium} = \sqrt{\sum_{i,j} CorrPrem_{i,j} \times C_i \times C_j} - avgpremcap \times \frac{avgannloss}{catlossratio}; \text{ where-}$$

- $CorrPrem_{i,j}$ = the correlation factors of the premium risk module correlation matrix;
- i,j = the sum of the different terms should cover all possible combinations of i and j ; and
- C_i and C_j = risk charge i and risk charge j which are replaced by the following:
 $C_{premium_i}$, $C_{premium_j}$ by BMA-supplied premium risk capital charge;
- $avgpremcap$ = weighted average premium risk capital charge factor for $BaseExp_i$, as defined below, (excluding the Property Catastrophe line of business and after correlation adjustment and allowing for geographic diversification);

avgannloss = average annual loss estimated with catastrophe models;
catlossratio = expected industry average catastrophe loss ratio;

$$C_{prem_i} = [(\chi_i^1 \times BaseExp_i) + (\chi_i^2 \times FPExisting_i) + (\chi_i^3 \times FPFuture_i)] \frac{ExposureMeasure_i}{geolineprem_i} \text{ where—}$$

χ_i^1
BaseExp_i = individual *BaseExp_i* risk capital charge factor;
 = the greater of premium written in reporting period and the estimate of the net premiums to be earned by the insurance group during the next 12-month accounting period;

geolineprem_i = geographic diversification of premium exposure measure for line of business *i* ;

χ_i^2
FPExisting_i = individual *FPExisting_i* risk capital charge factor;
 = expected present value of premiums to be earned by the insurance group after the next 12-month reporting period for existing qualifying multi-year insurance policies for line of business *i* ;

χ_i^3
FPFuture_i = individual *FPFuture_i* risk capital charge factor;
 = expected present value of net premiums to be earned by the insurance group after the next 12-month reporting period for qualifying multi-year insurance policies where the initial recognition date falls in the following 12-months for line of business *i* ;

ExposureMeasure_i = the sum of *BaseExp_i*, *FPExisting_i* and *FPFuture_i*

Items

a) Lines of Business – as categorised by the 24 predefined statutory lines of business.

Line Item		Description
1	Gross Premium Exposure Measure	Column (1): Gross premium exposure measure by predefined statutory line of business and geographic zone, as reported on Schedule IVD, column (G), lines (1) to (24).
2	Net Premium Exposure Measure	Column (2): Net premium exposure measure by predefined statutory line of business and geographic zone, as reported on Schedule IVD, column (F) lines (1) to (24).
3	Geo Diversified Written	Column (3): Net premium exposure measure by predefined statutory line of business and geographic zone, as reported on Schedule IVE, lines (1) to (24).
4	Geo Diversified SCALAR	Column (4) Geographic Diversified Written (3) divided by Net Premium Exposure Measure (2)

Line Item		Description
5	Geo Diversified Net Base Exposure	Column (5) Net base exposure by predefined statutory line of business as reported on Schedule IVD column (C) lines (1) to (24), multiplied by Geo Diversified SCALAR (4)
6	Geo Diversified Net FP (Existing)	Column (6) Net FP (Existing) by predefined statutory line of business as reported on Schedule IVD column (D) lines (1) to (24), multiplied by Geo Diversified SCALAR (4)
7	Geo Diversified Net FP (Future)	Column (7) Net FP (Future) by predefined statutory line of business as reported on Schedule IVD column (E) lines (1) to (24), multiplied by Geo Diversified SCALAR (4)
8	Capital Factor 1 Net Base Exposure	Column (8): Supplied by the BMA; premium charge factors for individual lines of business.
9	Capital Factor 2 Net FP (Existing)	Column (9): Supplied by the BMA; premium charge factors for individual lines of business.
10	Capital Factor 3 Net FP (Future)	Column (10): Supplied by the BMA; premium charge factors for individual lines of business.
11	Required Capital	Column (11): Calculated using [column (5) x column (8)]+[column (6) x column (9)]+[column (7) x column (10)]; premium charge amounts for individual lines of business.

- b) Correlation Adjustment Calculation – Calculates a factor that determines how much credit is given for diversification of premium risk across all lines of business other than Property Catastrophe.

Line Item		Description
1	Required Capital	Row(i): Total from (a) column 11 above
2	Correlation Adjustment	Row(ii): Reduction from Correlation Matrix for diversified premiums
3	Capital Charge After Correlation	Row(iii): Calculated using [line 1 less line 2]

- c) Catastrophe Premium Adjustment Calculation – Calculation reflects a reduction to the required premium risk capital for the ‘catastrophe-exposed’ portion of the premium that is otherwise contemplated within the catastrophe risk capital charge (See Catastrophe Risk section for further information).

Line Item		Description
1	Average Annual Loss Excluding Property Catastrophe (AAL)	Row (i): Pulled from Catastrophe Risk section; 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. See Catastrophe Risk section for further information.

Line Item		Description
2	Industry Catastrophe Loss Ratio	Row (ii): Pulled from Catastrophe Risk section; used to calculate the embedded catastrophe premiums from lines of business other than Property Catastrophe. See Catastrophe Risk section for further information.
3	Average Capital Factor	Row (iii): Calculated using X / Total from (a) column (5) above; where X is the 'Capital Charge After Correlation' in (b) Row (iii) but with the Required Capital in (b) Row (1) recalculated as [(a) column (5) x (a) column (8)]
4	Catastrophe Premium Adjustment	Row(iv): Calculated using [Row (i) / Row (ii) x Row (iii)].

- d) Required Capital Charge Adjusted for Catastrophe Premium – Calculated using [(b) - (c)]; the premium risk capital charge (after correlation factor and catastrophe adjustment) is carried to the Summary section.

Instructions Affecting Premium Risk

D25.4a All reported net premium exposure measures as prescribed in Schedule IVD that are subject to capital charges within the premium risk charge shall be included;

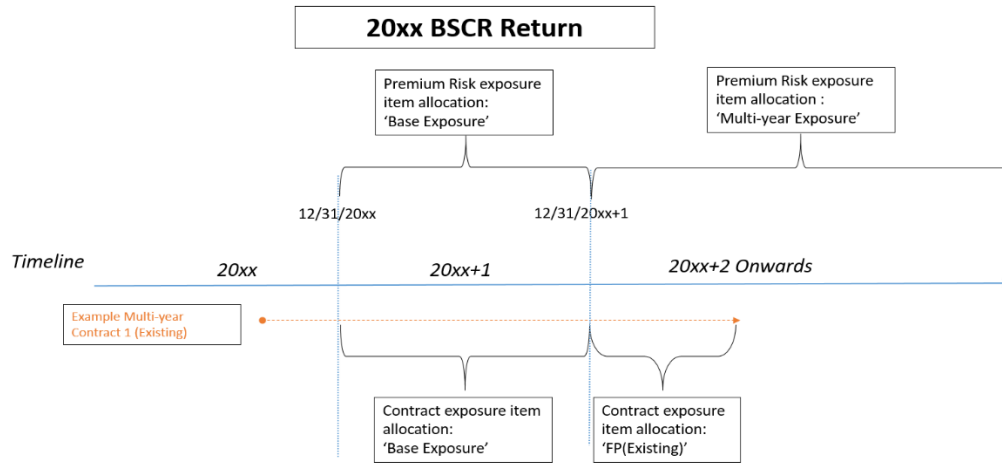
D25.4b 'Qualifying multi-year insurance policies' means those insurance policies with (an earning) term longer than 12 months after allowing for the criteria prescribed by the Authority;

D25.4c All net premium exposure measures by statutory Line of Business shall be reported on a basis consistent with that prescribed in Schedule IVD;

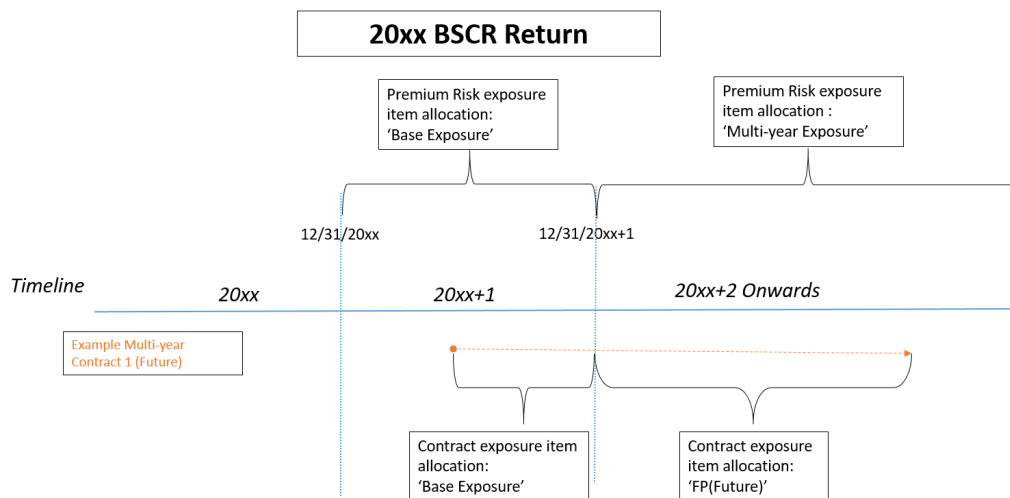
D25.4d An insurance group may provide net premium exposure measures for all statutory Lines of General Business, or for particular statutory Lines of General Business, split by geographic zone as set out in Table 6D. $geolineprem_i$ is then derived from the total premium for that Line of Business by reducing the total by 25% times $\frac{\sum x_i^2}{(\sum x_i)^2}$

where x_i = the net premium exposure measure in the Line of Business for $Zone_i$; and where the summation covers all zones

D25.4e A graphical example of the earned premium allocation of a hypothetical existing qualifying multi-year contract is provided below. Premium earned during the next 12 months is classified as 'Base Exposure' while premium earned after the next 12-month period is classified as 'FP (Existing)'.



D25.4f A graphical example of the earned premium allocation of a hypothetical future qualifying multi-year contract is provided below. Premium earned during the next 12 months is classified as 'Base Exposure' while premium earned after the next 12-month period is classified as 'FP (future)'.



D26. RESERVE RISK ($BSCR_{Corr}$)

Background

- D26.1 The reserve risk charge is based on the statutory net loss and loss expense provisions (on an EBS basis) by predefined statutory lines of business, and if available, reporting net technical provision by predefined statutory geographic locations.
- D26.2 The first step of the calculation applies a line of business specific reserve risk capital factor to the respective reserve amounts.
- D26.3 In the second step of the calculation applies sum squared diversification credit based on 18 geographic zones. Note that this is not a necessary requirement in the reserve risk calculation and if used, this is not required for all lines of business.
- D26.4 In the Reserve risk calculation, a correlation adjustment is determined to reflect the overall diversification of the reserve risk.

Reserve Risk Capital Charge

- D26.5 The reserve risk charge calculation can be summarised by the following formula:

$$C_{reserve} = \sqrt{\sum_{i,j} Corr Reserve_{i,j} \times C_i \times C_j}$$

Where—

- $Corr Reserve_{i,j}$ = the correlation factors of the reserve risk module correlation matrix;
- i,j = the sum of the different terms should cover all possible combinations of i and j ;
- C_i and C_j = risk charge i and risk charge j which are replaced by the following:
 $C_{reserve_i}$, $C_{reserve_j}$ by BMA- supplied reserve risk capital charge;

$$C_{reserve_i} = \beta_i \times geolinersvs_i$$

Where—

- β_i = individual $geolinersvs_i$ risk capital charge factor;
- $geolinersvs_i$ = geographic diversification of reserves for individual Lines of Business i ;

Items

a) Lines of Business – as categorised by the 24 predefined statutory lines of business.

Line Item		Description
1	Gross Loss and Loss Expense Provisions	Column (1): Gross loss and loss expense provisions by predefined statutory line of business, as reported on Schedule III, lines (1) to (24). Total must tie to the Gross Loss and Loss Expense Provisions of the EBS (Form 1EBS, line 17 (a)).
2	Net Loss and Loss Expense Provisions	Column (2): Net loss and loss expense provisions by predefined statutory line of business and geographic zone, as reported on Schedule IIIA, lines (1) to (24). Total must tie to the Net Loss and Loss Expense Provisions of the EBS (Form 1EBS, line 17(d) and should be input on an undiscounted basis.
3	Geo Net Loss and Loss Expense Provisions	Column (3): Net loss and loss expense provisions by predefined statutory line of business and geographic zone, as reported on Schedule IIIA, lines (1) to (24). Total must tie to the Net Loss and Loss Expense Provisions of the EBS (Form 1EBS, line 17(d) and should be input on an EBS basis.
4	Capital Factor	Column (4): Supplied by the BMA; reserve charge factors for individual lines of business.
5	Required Capital	Column (5): Calculated using [column (3) x column (4)]; reserve charge amounts for individual lines of business.

b) Correlation Adjustment Calculation – Calculates a factor that determines how much credit is given for diversification of reserve risk across all lines of business.

Line Item		Description
1	Required Capital	Total from (a) column 5 above
2	Correlation Adjustment	Reduction from Correlation Matrix for diversified reserves
3	Capital Charge After Correlation	Calculated using [line 1 less line 2]

c) Required Capital Charge – Calculated using [(Total of column (5) of (a)) - (Correlation Adjustment)]; the reserve capital charge (after correlation adjustment) is carried to the Summary section.

Instructions Affecting Reserve Risk

- D26.5a 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 and shall be included;
- D26.5b 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;
- D26.5c An insurance group may provide loss and loss expense provisions exposure for all statutory Lines of General Business, or for particular statutory Lines of General Business, split by geographic zone as set out in Table 6D. $geolinersvs_i$ is then derived from the total loss and loss expense provisions for that Line of Business by reducing the total by 25% times $\frac{\sum x_i^2}{(\sum x_i)^2}$ where x_i = best estimate net loss and loss expense provisions in that line of business for $Zone_i$; and where the summation covers all zones; and
- D26.5d Amounts are to be reported on a consolidated EBS basis

D27. CREDIT RISK ($BSCR_{Corr}$)

Background

D27.1 Credit risks are partitioned into four categories: accounts and premiums receivable, all other receivables, particulars of reinsurance balances (current and future), and counterparty default risk for over-the-counter derivatives.

D27.2 Particulars of reinsurance balances is based on the greater of:

- Current reinsurance balances receivable (as reported on Form 1EBS lines 11(e) Reinsurance Balances Receivable, 12(c) Funds Held by Ceding Reinsurers, which are not reported on Schedule IIA, and 17(c) Total Reinsurance Recoverable Balance); and
- Future reinsurance balances receivable (as calculated on the Credit Risk Schedule).

This approach allows for new insurance groups that have not had claims and allows for a more reflective approach of reinsurance exposures in stressed circumstances.

D27.3 Where applicable, the amounts must reconcile to the appropriate line(s) of the insurance group's Form 1EBS or to the schedules prescribed by or under the Prudential Standard Rules.

Credit Risk Capital Charge

D27.4 The credit risk charge calculation can be summarised by the following formula:

$$C_{credit} = \sum_i \delta_i \times debtor_i \times \mu_r + CCROTC$$

δ_i = BMA-supplied credit risk capital charge factor for type of $debtor_i$;
 $debtor_i$ = receivable amount from $debtor_i$ net of any collateral in favour of the insurer;
 μ_r = additional diversification adjustment factor applied to reinsurance balances only taking into consideration diversification by number of reinsurers, equal to 40%.
 = counterparty default risk for over-the-counter derivatives calculated as per the following formula:

CCROTC

$$CCROTC = \sum_i \text{Max}(0, MVDerivativeP_i - (1 - \beta_i) \text{Min}(MVderivativeP_i, MVCollateral_i)) \times \alpha_i$$

$MVDerivativeP_i$ = market value of over-the-counter derivatives with positive market values and BSCR rating i ,
 β_i = BMA-supplied collateral factor;
 α_i = BMA-supplied capital factor for the BSCR rating i ;
 $MVCollateral$ = market value of collateral of over-the-counter derivatives with positive market values and BSCR rating i .

Items

a) Accounts and Premiums Receivable

Line Item		Statement Source – The Rules
1	In course of collection	Based on Form 1EBS, line 10(a).
2	Deferred Not Yet Due	Based on Form 1, line 10(b).
3	Receivables from retrocessional contracts Less: Collateralised balances	Based on Form 1EBS, line 10(c) less Notes to Form 1EBS. Collateralised balances are all collaterals issued in favour of the group members relating to accounts and premiums receivable. Assets accounted in Form 1EBS, line (34) should not be included here.

b) All Other Receivables

Line Item		Statement Source –
1	Advances to affiliates	Based on Form 1EBS, line 4(g).
2	Accrued investment income	Based on Form 1EBS, line 9.
3	Balances Receivable on Sale of Investments	Based on Form 1EBS, line 13(f).

- c) (i) Particulars of reinsurance balances by BSCR rating - (i) amounts receivable on account of policies of reinsurance from any person, whether an affiliate or not, should be included; (ii) any amount included in ‘Accounts and Premiums Receivable’ and ‘Funds Held by Ceding Reinsurers’ should not be included; (iii) all uncollectible amounts, as determined by the insurance group, should be deducted.

Line Item		Statement Source – The Rules
1	BSCR rating 0	Based on Schedule XVIII column E
2	BSCR rating 1	Based on Schedule XVIII column E
3	BSCR rating 2	Based on Schedule XVIII column E
4	BSCR rating 3	Based on Schedule XVIII column E
5	BSCR rating 4	Based on Schedule XVIII column E
6	BSCR rating 5	Based on Schedule XVIII column E
7	BSCR rating 6	Based on Schedule XVIII column E
8	BSCR rating 7	Based on Schedule XVIII column E
9	BSCR rating 8	Based on Schedule XVIII column E
10	Less: Diversification adjustment	Based on Schedule XVIII column E
11	Total	Sum of c(i) 1 to 10

- c) (ii) Particulars of reinsurance balances for future premiums by BSCR rating

Line Item		Statement Source – The Rules	
1	Premium Risk Capital Charge (Gross)	Based on Premium Risk Capital Charge calculated on a gross basis, in line with the prescription in (f).	
2	Premium Risk Capital Charge (Net)	Based on Premium Risk Capital Charge as calculated in section D25	
3	Premium Risk Capital Charge (Ceded)	Calculated using [line 1 less line 2]	
Line Item		Statement Source – The Rules	Debtor Allocation
4	BSCR rating 0	c(i)1 BSCR Rating 0 / c(i) Total of BSCR Rating 0 – 8	Based on row (3) Premium Risk Capital Charge (Ceded)
5	BSCR rating 1	c(i)1 BSCR Rating 1 / c(i) Total of BSCR Rating 0 – 8	Based on row (3) Premium Risk Capital Charge (Ceded)
6	BSCR rating 2	c(i)1 BSCR Rating 2 / c(i) Total of BSCR Rating 0 – 8	Based on row (3) Premium Risk Capital Charge (Ceded)
7	BSCR rating 3	c(i)1 BSCR Rating 3 / c(i) Total of BSCR Rating 0 – 8	Based on row (3) Premium Risk Capital Charge (Ceded)
8	BSCR rating 4	c(i)1 BSCR Rating 4 / c(i) Total of BSCR Rating 0 – 8	Based on row (3) Premium Risk Capital Charge (Ceded)
9	BSCR rating 5	c(i)1 BSCR Rating 5 / c(i) Total of BSCR Rating 0 – 8	Based on row (3) Premium Risk Capital Charge (Ceded)
10	BSCR rating 6	c(i)1 BSCR Rating 6 / c(i) Total of BSCR Rating 0 – 8	Based on row (3) Premium Risk Capital Charge (Ceded)
11	BSCR rating 7	c(i)1 BSCR Rating 7 / c(i) Total of BSCR Rating 0 – 8	Based on row (3) Premium Risk Capital Charge (Ceded)
12	BSCR rating 8	c(i)1 BSCR Rating 8 / c(i) Total of BSCR Rating 0 – 8	Based on row (3) Premium Risk Capital Charge (Ceded)
13	Less: Diversification adjustment		Based on Schedule VIII column E

Instructions Affecting Credit Risk

- D27.5 All accounts and premiums receivable and all other receivables that are subject to capital charges within the credit risk charge shall be included;
- D27.6 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;
- D27.7 ‘Collateralized balances’ for the purposes of this paragraph shall mean assets pledged in favor of the insurance group relating to accounts and premiums receivable as prescribed by the BMA Capital charge factors for *debtor_i* ;

D27.8 Particulars of reinsurance balances shall be the greater of paragraphs D27.9 and D27.10 below

D27.9 Particulars of reinsurance balances for current year by BSCR rating are as follows:

- a) The net qualifying exposure which is comprised of reinsurance balances receivable and reinsurance balances recoverable, less the corresponding reinsurance balances payable and other payables less the qualifying collateral issued in favor of the insurance group in relation to the reinsurance balances;
- b) The 'net qualifying exposure' referenced in paragraph D27.9a) above shall be subject to the BMA-prescribed credit risk capital factor;
- c) The total capital requirement relating to the reinsurance balances shall be reduced by a diversification adjustment of up to a maximum of 40%;
- d) The 'diversification' adjustment' referenced in paragraph D27.9c) above shall be determined by calculating 40% multiplied by 1 minus the ratio of the largest net reinsurance exposure, on an individual reinsurer basis, to total net reinsurance exposure;

D27.10 Particulars of reinsurance balances for future premium by BSCR rating are as follows:

- a) The Premium Risk Capital Charge (Gross), as prescribed in D27.10(a) less the Premium Risk Capital Charge (Net), as prescribed in D25, shall be referred to as 'Premium Risk Capital Charge (Ceded)'. Such amount shall be allocated to the type of debtor ($debtor_i$) by BSCR rating Net Qualifying Exposure Measure as reported on Schedule XVIII;
- b) The Premium Risk Capital Charge (Gross) is calculated in the same manner as Premium Risk Capital Charge (Net) using the Gross Premium Exposure Measure (Schedule IVD, column G) rather than the Net Premium Exposure Measure (Schedule IVD, column F) as the input $ExposureMeasure_i$. $ExposureMeasure_i$ is allocated to $BaseExp_i$, $FPExisting_i$ and $FPFuture_i$ for the Premium Risk Capital Charge (Gross) calculation in the same proportions as in the Premium Risk Capital Charge (Net) calculation;
- c) The Premium Risk Capital Charge (Ceded) shall be subject to the BMA prescribed credit risk capital charge factor;

- d) The total capital requirement relating to the reinsurance balances shall be reduced by a diversification adjustment of up to a maximum of 40%; and
- e) The 'diversification' adjustment' referenced in paragraph D27.10D) above shall be determined by calculating 40% multiplied by 1 minus the ratio of the largest net reinsurance exposure, on an individual reinsurer basis, to total net reinsurance exposure; and

D27.11

Amounts are to be reported on an EBS valuation basis

D28. CATASTROPHE RISK ($BSCR_{Corr}$)

Background

D28.1 The BSCR Catastrophe Risk module, as of the 2024 EBS Rules, has been enhanced to include both a dedicated:

1. Natural catastrophe submodule and
2. Man-made catastrophe risk submodule.

D28.2 The total catastrophe risk calculation for general business shall be a calculated as the total of the natural catastrophe risk and the total of the man-made catastrophe risk charge established in accordance with the following formula—

$$C_{catastrophe} = \sqrt{C_{nat\ cat-gb}^2 + C_{mmcat-gb}^2} \text{ where -}$$

$C_{nat\ cat-gb}$ = The total natural catastrophe risk charge

$C_{mmcat-gb}$ = The total man-made catastrophe risk charge

Natural catastrophe submodule (C15. Catastrophe Risk Return (Schedule X))

D28.3 The natural catastrophe risk charge is based on group-specific catastrophe risk modelling output. All exposures and premiums used in the Probable Maximum Loss (PML) and Average Annual Loss (AAL) calculations should include amounts for second, third, and subsequent events or losses following the initial loss event. Modeled losses should include demand surge, storm surge, fire following earthquakes and secondary uncertainty.

D28.4 The calculated catastrophe risk charge has two components. The first component is the average premium shortfall for the top 1% worst case scenarios (i.e. at the 99.0% TVaR level). The second component is a credit risk charge for reinsurance recoverables under the 1% worst case scenarios. Since the PML calculations use annual aggregate exposure for all risks the formula uses an imputed Total Catastrophe Premium in its calculation of the premium shortfall component. In addition to actual Property Catastrophe Premiums, this imputed Total Catastrophe Premium is based on the AAL divided by the industry catastrophe loss ratio as determined by the BMA.

The total natural catastrophe risk module ($C_{nat\ cat-gb}$) is calculated as follows —

$$C_{nat\ cat-gb} = NetPML - Netcatprem + CR_{PML} \text{ where—}$$

$NetPML$ = Net Probable Maximum loss;

- Netcatprem* = Property catastrophe premium + (modeled AAL) / (estimated industry catastrophe loss ratio of 40.0%); and
- CR_{PML}* = Credit Risk charge associated with reinsurance recoveries of ceded catastrophe losses is calculated as {(Gross PML; minus Net PML; minus arrangements with respect to property catastrophe recoverables); times (Credit risk charge, equal to 10%, associated with reinsurance recoveries of ceded catastrophe losses)}:
- a) All reported Net PML, Gross PML, AAL excluding property catastrophe, property catastrophe premium and arrangements with respect to property catastrophe recoverables that are subject to capital charges herein shall be included; and
 - b) The amount of collateral and other funded arrangements with respect to property catastrophe recoverables shall be reported and reduced by 2% to account for the market risk associated with the underlying collateral assets.

Instructions linked to C15. Catastrophe Risk Return (Schedule X)

- a) Gross Probable Maximum Loss – based on the insurance group’s catastrophe model; probable maximum gross natural catastrophe loss (prior to reinsurance) at the 99.0% TVaR level for annual aggregate exposure to all related risks and perils, including reinstatement premiums, for the year following the ‘relevant year’.
- b) Net Probable Maximum Loss – based on the insurance group’s catastrophe model; probable maximum net natural catastrophe loss (after reinsurance) at the 99.0% TVaR level for annual aggregate exposure to all related risks and perils, including reinstatement premiums, for the year following the ‘relevant year’.
- c) Average Annual Loss Excluding Property Catastrophe (AAL) – based on the insurance group’s catastrophe model; the expected net natural catastrophe loss (after reinsurance), including reinstatement premiums, for annual aggregate exposure to all related risks and perils other than those relating to the Property Catastrophe line of business for the year following the ‘relevant year’. The AAL should be calculated from the same underlying loss distribution used to determine the Gross PML and Net PML (excluding the property catastrophe component).

- d) Industry Catastrophe Loss Ratio – supplied by BMA; used to calculate the embedded catastrophe premiums from lines of business other than Property Catastrophe.
- e) Property Catastrophe Premium – copied from Premium Risk section; net base exposure for Property Catastrophe line of business as reported on Schedule IVD column (B), line (1).
- f) Total Catastrophe Premium – is calculated using $[(c) / (d) + (e)]$; used to calculate the embedded catastrophe premiums from lines of business other than Property Catastrophe.
- g) Credit Risk Capital Factor – supplied by BMA; credit risk factor applied to ceded catastrophe losses at the 99.0% TVaR level equal to 10.0%.
- h) Arrangements with Respect to Property Catastrophe Recoverables.
- i) Credit Risk Charge – calculated using $[(a) - (b) - ((h) * 98\%) \times (g)]$; ceded catastrophe losses times the catastrophe credit risk capital factor.
- j) Catastrophe Capital Charge – calculated using $[(b) - (f) + (i)]$; the catastrophe capital charge is carried to the Summary section.

Man-made catastrophe submodule (C16. Schedule of Man-Made Catastrophes (Schedule XA))

D28.5 The man-made catastrophe risk charge is based on group-specific man-made catastrophe scenarios for the following perils:

- 1) Terrorism
- 2) Credit and Surety
 - 1. Option A
 - 2. Option B
- 3) Marine
- 4) Aviation

D28.6 The man-made catastrophe risk submodule must be credible and adequate considering the one-year 99% TVaR calibration target.

The total man-made catastrophe risk module ($C_{mmcat-gb}$) is calculated as follows —

$$C_{mmcat-gb} = \text{Transitional}_{mmcat} \times \sqrt{\text{Terrorism}^2 + \text{Credit\&Surety}^2 + \text{Aviation}^2 + \text{Marine}^2} \text{ where -}$$

D28.7 The guidance provided here is consistent with the Consultation Paper on ‘[Proposed Enhancements to the Regulatory Regime for Commercial Insurers](#)’ section B5 Property & Casualty Catastrophe Risk that was published on 28 July 2023.

Transitional_{mmcat}	= 1/3 for financial year beginning on or after 1st January 2024, 2/3 for financial year beginning on or after 1st January 2025, 3/3 for all subsequent financial years;
Terrorism	= net probable maximum loss arising from acts of terrorism = <i>Terror Net</i> (C16.3 Table XA1 - Item 2) ;
Aviation	= net probable maximum loss arising from the Aviation and Aviation non - proportional statutory lines of general business. = <i>AV Net</i> (C16.6 Table XA5 - Item 2);
Marine	= net probable maximum loss arising from marine lines of general business = $\sqrt{\text{Tanker}^2 + \text{Platform}^2}$; where - Tanker = net probable maximum loss arising from the insurance of sea, lake, river and canal vessels = <i>VC Net</i> (C16.5 Table XA4 - Item 2) Platform = net probable maximum loss arising from the insurance of oil and gas offshore platform = <i>PE Net</i> (C16.5 Table XA4 - Item 4)

Credit&Suret	= net probable maximum loss arising from Credit/Surety and Credit/Surety Non-proportional lines of general business (lines 8 and 9 respectively) . For the calculation of the Credit & Surety module, insurance groups may select between 'Option A (ICS)' or 'Option B (SII)' prescribed under the corresponding headings below. Once the insurance group has selected to utilize one of the two options for their BSCR calculation, they will only be allowed to switch to the alternative option only after written approval of the Authority pursuant to an application made in accordance with Section 6D of the Act. <u>Option A (ICS) – C16.4.1 Table XA2</u> = $\sqrt{\sum_{i,j} \text{Corr}C\&S_{i,j} \times C\&S_i \times C\&S_j}$; where –
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i, j	$\in \{Mortgage, Surety, TradeCredit\}$
	$CorrC\&S_{ij}$ = 0.75 when $i \neq j$ and 1 when $i = j$;
$C\&S_{Mortgage}$	= net probable maximum loss arising from mortgage insurance = MI_{Net} (C16.4.1 Table XA2 - Item 2)
$C\&S_{Surety}$	= net probable maximum loss arising from surety insurance = Sur_{Net} (C16.4.1 Table XA2 - Item 9)
$C\&S_{TradeCredit}$	= net probable maximum loss arising from trade credit insurance = TC_{Net} (C16.4.1 Table XA2 – Item 5) = $TC_{GR} - TC_{RI}$; where – TC_{RI} = amount of reinsurance recoverable under the specified trade credit insurance stress scenario as prescribed in Schedule XA, Instructions Affecting Table XA2, paragraph (f) (TC_RI); $TC_{GR} = \sum_i TCCharge_i \times TCPrem_i$; where – $i \in \{Inv, NonInv\}$; $TCCharge_i$ = 80% when $i = Inv$ and 200% when $i = NonInv$; $TCPrem_{Inv}$ = insurer’s trade credit gross premium estimate earned over the next 12 months relating to investment grade exposures only; $TCPrem_{NonInv}$ = insurer’s trade credit gross premium estimate earned over the next 12 months relating to non-investment grade exposures;
	Or
Option B (SII) – C16.4.2 Table XA3	
= $\sqrt{C\&S_{default}^2 + C\&S_{recession}^2 + C\&S_{np}^2}$; where –	

	<p>$C\&S_{default}$ = net probable maximum loss arising from Credit/surety (statutory line of business) loss arising from a credit default = DR_{Net} (C16.4.2 Table XA3 - Item 2)</p>
	<p>$C\&S_{recession}$ = net probable maximum loss arising from Credit/surety (statutory line of business) loss arising from a recession = Rec_{Net} (C16.4.2. Table XA3 - Item 4)</p>
	<p>$C\&S_{np}$ = net probable maximum loss arising from Credit/surety non-proportional (statutory line of business line 9) = NP_{Net} (C16.4.2. Table XA3 - Item 5) = $C\&S_{np-Gr} - C\&S_{np-RI}$; where-</p> <p>$C\&S_{np-RI}$ = amount of reinsurance recoverable under a gross loss equal to $C\&S_{np-Gr}$;</p> <p>$C\&S_{np-Gr} = CSCharge_{np-Gr} \times CSPrem_{np-Gr}$ where - $CSCharge_{np-Gr} = 250\%$; $CSPrem_{np-Gr}$ = insurer's Credit/surety non-proportional (statutory line of business) gross premium estimate earned over the next 12 months;</p>

Instructions linked to C16. Schedule of Man-Made Catastrophes (Schedule XA)

A. Terrorism ($Terror_{Net}$; C16.3 Table XA1)

The risk charge is calculated as the sum insured for the largest building concentration, after deduction of amounts recoverable from outwards reinsurance arrangements, covering property and content damage due to fire or explosion, as a result of terrorist attacks. The measure of the concentration of exposure is defined as buildings fully or partially covered within a radius of 200 metres. This concentration may occur over one or multiple (re)insurance contracts.

B. Credit and Surety (C16.4.1 Table XA2 & C16.4.2 Table XA3)

For the calculation of the Credit&Surety module, insurance groups may select between 'Option A (ICS)' or 'Option B (SII)' prescribed under the corresponding headings below. Once the insurance group has selected to utilise one of the two options for their BSCR calculation, they will only be allowed to switch to the alternative option only after written approval of the Authority pursuant to an application made in accordance with Section 6D of the Act.

1) Credit and Surety - Option A (ICS) (C16.4.1 Table XA2)

$$= \sqrt{\sum_{i,j} CorrC\&S_{i,j} \times C\&S_i \times C\&S_j}; \text{ where } -$$

$$i, j \in \{\text{Mortgage, Surety, TradeCredit}\}$$

i) Mortgage insurance (*MI_Net*; C16.4.1 Table XA2 – Item 2)

The scenario is calculated as the average annual loss amount, net of outwards reinsurance arrangements but gross of any inwards premiums, resulting from an increase in the frequency and severity due to a decline of 25% in home prices developing over a multi-year time period. The total loss amount includes the impact of both an increase in the frequency of delinquency and defaults and an increased loss severity that results from the decline in home prices.

In implementing the stress scenario and to account for differences in risk profiles across various exposures and activities, portfolios and business activities are segmented into categories based on common or related risk characteristics.

Appropriate models should be used to translate the relevant risk factor (home price decline) into the financial impact (increased losses). Where applicable, those models that the group already uses to calculate stress losses, premium deficiency reserves or other loss measures should be used.

ii) Trade credit (*TC_Net*; C16.4.1 Table XA2 - Item 5)

The credit stress scenario for trade credit is defined as the total loss amount due to the inability of the policyholder's customers to pay for goods delivered and/or services

provided. The trade credit coverage indemnifies the policyholder for bad debt losses incurred due to a customer's inability to pay.

Insurance groups should first calculate their aggregate gross earned premium for trade credit by an external credit rating category: investment grade versus non-investment grade. Then the following factors are applied to gross premiums earned over the next 12 months' rating category

Credit stress factors for trade credit	
Rating category	Factor
Investment grade	80%
Non-investment grade	200%

Finally, groups should adjust the gross figure to allow for their outward reinsurance protection.

iii) Surety (*Sur_Net*; C16.4.1 Table XA2 – Item 9)

The credit stress scenario for surety is defined as the total net potential loss amount based on the penal sum of the surety bond. A surety bond indemnifies the policyholder from the principal's inability to perform its contractual obligation. The penal sum represents the maximum amount that the (re)insurer must pay to the beneficiary. The re(insurer) calculates the largest net potential losses for its ten largest exposures to surety counterparties (principals) using the methodology described below. The total net potential loss amount assumes that the two largest net losses have occurred and is, therefore, equal to the sum of the two largest net losses.

The net potential loss amount for a principal is calculated using the gross exposure of the principal (after any contractual amortisation that has occurred). The loss severity model 95% Probable Maximum Loss (PML) factor is applied to the gross exposure. For US exposures, the loss severity model 90% PML for each principal can be calculated using the most current construction loss severity model developed by the Surety & Fidelity Association of America. For non-US exposures, a loss severity model 95% PML worst-gross-loss-to-exposure ratio for the past ten years in that country or for that exposure type is used, whichever is the most granular. The loss amount is then adjusted for any co-surety arrangements, acceptable cash collateral (currently in the (re)insurer's custody) and reinsurance arrangements.

The co-surety amount and the adjustment for reinsurance are calculated using existing terms of the surety exposure. Adjustments can only be made for cash collateral already in custody with the (re)insurer or in a trust for which the (re)insurer is a beneficiary.

Example of credit stress for surety:

	Loss calculation	Surety exposure (US\$)
1	Gross exposure for principal	\$10,000,000
2	Loss severity model 95% PML factor	0.4
3	Loss severity model 95% PML amount = (1) * (2)	\$4,000,000
4	Adjustment for co-surety (co-surety % * (3))	\$400,000
5	Net PML amount after co-surety = (3) - (4)	\$3,600,000
6	Acceptable cash collateral	\$100,000
7	Net PML amount = (5) - (6)	\$3,500,000
8	Adjustment for reinsurance	\$50,000
9	Net potential loss amount	\$3,450,000

2) Credit and Surety - Option B (SII) (C16.4.2 Table XA3)

$$= \sqrt{C\&S_{default}^2 + C\&S_{recession}^2 + C\&S_{np}^2}$$

i) Credit/Surety - Default Risk ($C\&S_{default}$) (DR_{Net} ; C16.4.2 Table XA3 - Item 2)

The stress scenario for Credit/Surety - Default Risk is calculated as the loss which would arise from an immediate default of the two largest credit insurance exposures.

The calculation is based on the assumption that the loss-given-default, before the deduction of the amounts recoverable from any outwards reinsurance arrangements, of each credit insurance exposure is 10% of the sum insured in relation to the exposure.

The determination of the two largest credit insurance exposures of the insurance or reinsurance undertaking should be based on a comparison of the net loss-given-default of the credit insurance exposures, where the loss-given default is after the deduction of the amounts recoverable from any outwards reinsurance arrangements.

The calculation should consider direct and proportional credit and surety (Credit/surety) exposures only.

ii) Credit/Surety – Recession Risk ($C\&S_{recession}$) (Rec_{Net} ; C16.4.2 Table XA3 - Item 4)

The stress scenario for Credit/Surety – Recession Risk is calculated as the loss that would result from an instantaneous loss of an amount that, before the deduction of the amounts

recoverable from any outwards reinsurance arrangements, is equal to 100 % of the Credit/Surety line of business premiums earned during the following 12 months.

The estimated loss should be net of the amounts recoverable from any outwards reinsurance arrangements.

iii) Credit/Surety Non-Proportional Cat Charge ($C\&S_{np}$) (NP_{Net} ; C16.4.2 Table XA3 - Item 5)

The stress scenario for Credit/Surety Non-Proportional Cat Charge is calculated as the loss that would result from an instantaneous loss of an amount that, before the deduction of the amounts recoverable from any outwards reinsurance arrangements, is equal to 250 % of the Credit/surety Non-Proportional line of business premiums earned during the following 12 months.

The estimated loss should be net of the amounts recoverable from any outwards reinsurance arrangements;

C. Marine (C16.5 Table XA4)

The scenario for marine risk combines the results from a vessel collision and a platform explosion where the two events are assumed to be independent;

The capital requirement for the vessel collision is based on the maximum sum insured for a single vessel across the hull, liability and pollution exposures; and

The capital requirement for the platform explosion is the maximum sum insured for a single (oil or gas) platform. This should cover the sum insured for compensation for property damage, wreckage removal, loss of production, capping/securing the well and liability losses arising from the explosion.

D. Aviation (C16.6 Table XA5)

The aviation scenario requires the single largest aircraft sum insured across the hull and liability perils.

D29. INSURANCE RISK – MORTALITY ($BSCR_{corr}$)

Background

- D29.1 Insurance products that are considered to be exposed to mortality risk include term assurance, whole life, universal life, and accidental death and dismemberment insurance. These exclude life policies with critical illness acceleration riders.
- D29.2 The insurance risk-mortality charge is calculated by applying a capital factor to the respective net amount at risk. The capital risk factors are applied on an additive basis (i.e. 3.97/1000 on first \$1 billion of business, plus 1.80/1000 on the next \$4 billion of business, etc.).
- D29.3 A 50% reduction is applied to adjustable products and accidental death products. Adjustable products are defined as any insurance contracts in which the insurance group has the ability to make a material adjustment to the premiums / cost of insurance charges / dividends, based on recent experience.

Insurance Risk – Mortality Capital Charge

- D29.4 The insurance risk - mortality charge calculation can be summarised by the following formula:

$$C_{LTmort} = [\sum_i \alpha 1_i \times NAAR1_i] + [\sum_i \alpha 2_i \times NAAR2_i], \quad \text{where}$$

$\alpha 1_i$ = capital charge factor for adjustable mortality long-term business;
 $NAAR1_i$ = the net amount at risk of all adjustable mortality long-term business;
 $\alpha 2_i$ = capital charge factor for non-adjustable mortality long-term business;
and
 $NAAR2_i$ = the net amount at risk of all non-adjustable mortality long-term business.

Items

Column Item		Description
1	Net Amount At Risk	Column item 1: Net amount at risk for adjustable products/treaties, as reported on Schedule VII EBS, column (9), line 1; and Net amount at risk for non-adjustable products/treaties, as reported on Schedule VII EBS, column (10), line 1.
2	Capital Factor	Column item 2: Supplied by the BMA; capital charge factors applied to individual net amount at risk for (a) adjustable products/treaties; and (b) non-adjustable products/treaties.
3	Required Capital	Column item 3: Calculated using [column item 1 x column item 2] for both (a) and (b) and summed up.

D30. INSURANCE RISK – STOP LOSS ($BSCR_{corr}$)

Background

D30.1 A capital factor is applied to the respective net annual earned premiums of stop loss covers provided.

Insurance Risk – Stop Loss Capital Charge

D30.2 The insurance risk – stop loss charge calculation can be summarised by the following formula:

$$C_{LTSI} = 50\% \times \text{net annual premium for stop loss covers.}$$

Items

Column Item		Description
1	Net Annual Premium	Column item 1: Net annual premium for stop loss covers, as reported on Schedule VII EBS, column (11), line 14.
2	Capital Factor	Column item 2: Supplied by the BMA; capital charge factors applied on net annual premiums for stop loss covers.
3	Required Capital	Column item 3: Calculated using [column item 1 x column item 2].

D31. INSURANCE RISK – RIDERS ($BSCR_{corr}$)

Background

- D31.1 For any other product riders not included in the following insurance risk charges: i) mortality; ii) morbidity and disability; iii) longevity; and iv) stop loss, a capital factor is applied to the respective net annual earned premiums.

Insurance Risk – Riders Capital Charge

- D31.2 The insurance risk – riders charge calculation can be summarised by the following formula:
$$C_{LTr} = 25\% \times \text{net annual premium for insurance product riders not included elsewhere.}$$

Items

Column Item		Description
1	Net Annual Premium	Column item 1: Net annual premium for other product riders, as reported on Schedule VII EBS, column (11), line 15.
2	Capital Factor	Column item 2: Supplied by the BMA; capital charge factors applied on net annual premiums for other products riders.
3	Required Capital	Column item 3: Calculated using [column item 1 x column item 2].

D32. INSURANCE RISK – MORBIDITY AND DISABILITY ($BSCR_{Corr}$)

Background

- D32.1 Morbidity and disability risks are separated by critical illness insurance products and health insurance products.
- D32.2 For critical illness insurance products, including accelerated critical illness insurance products, a prescribed capital factor is applied to the net amount at risk, on an additive basis. A 50% reduction in the capital risk factors is applied to adjustable products.
- D32.3 Health insurance products include disability income products, long-term care insurance products, waiver of premium benefits, and other accidental and sickness products.

Insurance Risk – Morbidity and Disability Capital Charge

- D32.4 The insurance risk – morbidity and disability charge calculation can be summarised by the following formula:

$$C_{LTmor} = (a) + (b) + (c) + (d) + (e) \text{ where:}$$

- a) = 7% x BSCR-adjusted reserves for disability income claims in payment on waiver of premium and Long-Term care;
- b) = 10% x BSCR-adjusted reserves for disability income claims in payment on other accident and sickness products;
- c) = $\left[\sum_i \alpha_i \times NAP_i \right]$ Where –
 α_i = individual NAP_i capital charge factor;
 NAP_i = the Net Annual Premium for disability income business – active lives;
- d) = 12% x net annual premiums for disability income - active lives for other accident and sickness; and
- e) = $\left[\sum_i \alpha 1_i \times NAAR1_i \right] + \left[\sum_i \alpha 2_i \times NAAR2_i \right]$ Where –
 $\alpha 1_i$ = capital charge factor for adjustable critical illness insurance business;
 $NAAR1_i$ = the Net Amount at Risk of all adjustable critical illness insurance business in force;
 $\alpha 2_i$ = capital charge factor for non-adjustable critical illness insurance business; and
 $NAAR2_i$ = the Net Amount at Risk of all non-adjustable critical illness insurance business in force.

Items

a) Subtotal Charge for Critical Illness

Column Item		Description
1	Net Amount At Risk	Column item 1: Net amount at risk for adjustable products/treaties, as reported on Schedule VII EBS, column (9), line 2; and Net amount at risk for non-adjustable products/treaties, as reported on Schedule VII , column (10), line 2.
2	Capital Factor	Column item 2: Supplied by the BMA; capital charge factors applied to individual net amount at risk for (a) adjustable products/treaties; and (b) non-adjustable products/treaties.
3	Required Capital	Column item 3: Calculated using [column item 1 x column item 2] for both (a) and (b) and summed up.

b) Subtotal Charge for Disability Income (Active Lives with Premium Guarantee)

Column Item		Description
1	Net Annual Premium	Column item 1: Net annual premium with benefit period of less than or equal to two years listed according to length of premium guarantee, as reported on Schedule VII EBS, column (9) - (i) Premium guarantee of less than one year – line 7(a), (ii) Premium guarantee of more than one year but less than five years – line 7(b), and (iii) Premium guarantee of over five years – line 7(c); and Net annual premium with benefit period of greater than two years listed according to length of premium guarantee, as reported on Schedule VII EBS, column (10) — (iv) Premium guarantee of less than one year – line 7(a), (v) Premium guarantee of more than one year but less than five years – line 7(b), and (vi) Premium guarantee of over five years – line 7(c).
2	Capital Factor	Column item 2: Supplied by the BMA; capital charge factors applied to individual a) Net annual premiums with benefit period of less than or equal to two years according to the length of premium guarantee – (i) Less than one year, (ii) More than a year but less than five years, and (iii) Over five years; and b) On net annual premiums with benefit period of greater than two years according to the length of premium guarantee – (i) Less than one year, (ii) More than a year but less than five years, and (iii) Over five years.

Column Item		Description
3	Required Capital	Column item 3: Calculated using [column item 1 x column item 2] for both (a) and (b) for each length of premium guarantee provided – (i), (ii) and (iii) – and summed up.

c) Subtotal Charge for Disability Income (Claims in Payment)

Column Item		Description
1	BSCR Adjusted Reserve	Column item 1: (a) Disability income: claims in payment relating to waiver of premium and Long-Term care, as reported on Schedule VII EBS, column (7), line 9; and Disability income: claims in payment relating to other accident and sickness, as reported on Schedule VII EBS, column (7), line 10.
2	Capital Factor	Column item 2: Supplied by the BMA; capital charge factors applied to individual BSCR-adjusted reserves with respect to disability income – claims in payment relating to (a) waiver of premium and Long-Term care, and (b) other accident and sickness.
3	Required Capital	Column item 3: Calculated using [column item 1 x column item 2] for both (a) and (b) and summed up.

d) Subtotal Charge for Disability Income (Active Lives for other accident and sickness products):

Column Item		Description
1	Net Annual Premium	Column item 1: Net annual premium for disability income (active lives), including other accident and sickness; as reported on Schedule VII EBS, column (11), line 8.
2	Capital Factor	Column item 2: Supplied by the BMA; capital charge factor applied on the net annual premium for disability income – active lives.
3	Required Capital	Column item 3: Calculated using [column item 1 x column item 2].

e) Total Charge – Calculated using lines [(a) + (b) + (c) + (d)] above; the resulting figure is carried to the Summary section.

D33. INSURANCE RISK – LONGEVITY ($BSCR_{Corr}$)

Background

D33.1 Products that are considered to be exposed to longevity risks include, but are not limited to, payout annuities and contingent annuities.

Insurance Risk – Longevity Capital Charge

D33.2 The insurance risk – longevity charge calculation can be summarised by the following formula:

$$C_{LTlong} = \sum_i \alpha_i \times BAR_i \quad \text{Where –}$$

α_i = individual BAR_i capital charge factor; and

BAR_i = the BSCR-adjusted reserves for long-term products with longevity risk.

Items

Column Item		Description
1	BSCR Adjusted Reserves	Column item 1: BSCR adjusted reserves for Long-Term products with longevity risk as follows: a) Immediate pay-out annuities, contingent annuities, pension pay-outs according to the attained age of annuitant, as reported on Schedule VII EBS, column (7): (i) 0-55 – line 3(a) (ii) 56-65 – line 3(b) (iii) 66-70 – line 3(c) (iv) 71-80 – line 3(d) and (v) 81+ – line 3(e); and b) Deferred pay-out annuities, future contingent annuities, future pension pay-outs according to the age at which the annuity benefits commence, as reported on Schedule VII EBS, column (7): (i) 0-55 – line 4(a) (ii) 56-60 – line 4(b) (iii) 61-65 – line 4(c) (iv) 66-70 – line 4(d) (v) 71-75 – line 4(e) and (vi) 76+ – line 4(f)
2	Capital Factor	Column item 2: Supplied by the BMA; capital charge factor applied to individual BSCR-adjusted reserves for longevity risk for both (a) immediate pay-out annuities, contingent annuities, pension pay-outs – (i) to (v); and (b) deferred pay-out annuities, future contingent annuities, future pension pay-outs – (i) to (vi).
3	Required Capital	Column item 3: Calculated using [column item 1 x column item 2] for both (a) and (b) for each attained age of annuitant and for each age at which the annuity benefits commence, respectively, and summed up.

Instructions Affecting Longevity Risk

a) For joint and survivor annuities, the youngest age should be used.

D34. OTHER INSURANCE RISK ($BSCR_{Corr}$)

Background

D34.1 The other insurance risk captures other risks related to policyholder behaviour, expenses and guarantees.

Other Insurance Risk Capital Charge

D34.2 The other insurance risk charge calculation can be summarised by the following formula:

$$C_{LTmort} = \left[\sum_i \alpha 1_i \times NAAR1_i \right] + \left[\sum_i \alpha 2_i \times NAAR2_i \right] \text{ Where:}$$

α_i = individual BAR_i capital charge factor; and

BAR_i = the BSCR-adjusted reserves for other insurance risk.

Items

Line Item		Description
1	BSCR Adjusted Reserves	Column item 1: Current year BSCR-adjusted reserves by the fifteen predefined lines, as reported on Schedule VII EBS, column (1), lines 1 to 15.
2	Capital Factor	Column item 2 Supplied by the BMA; capital charge factors applied to individual BSCR-adjusted reserves for other insurance risk.
3	Required Capital	Column item 3: Calculated using [column item 1 x column item 2] for each line item.

D35. LAPSE RISK ($BSCR_{corr}$)

Background

- D35.1 The Lapse Risk submodule specifies the BSCR capital requirements for lapse risk. Lapse risk means the risk of loss, or of adverse change in the value of liabilities (and assets, where applicable), resulting from changes in the level or volatility of lapse rates, including but not limited to rates of policy lapse, termination, renewal and surrender.
- D35.2 For the calculation of the Lapse Risk capital charge, $C_{LTlapse}$, please refer to paragraph 44A of the Group Rules⁸. These Instructions should be read together with the Rules.

Instructions

General – Scope

- D35.3 The lapse stresses apply to all Long-Term business with potential lapse risk exposure (i.e. where any relevant policyholder options exist), regardless of the reporting line under Form 1EBS, including without limitation “separate account” business, “segregated account” business and entities that are members of the insurance group that are registered to operate segregated accounts in accordance with the Segregated Accounts Companies Act 2000.

General – Valuation under stress (Post-stress value of assets and liabilities)

- D35.4 For the avoidance of doubt, the lapse stresses would generally not be expected to impact asset side. That is, the lapse stresses do not normally affect the t=0 value of actual assets on the balance sheet; instead, any impacts would come through increase or decrease in liability values (BEL), as the lapse stresses change the projected cash flows and therefore the expected present values of those cash flows. The t=0 market value of balance sheet assets would only be expected to change to the extent that lapse-sensitive assets were held, e.g. financial derivatives whose value is tied to, or impacted by, lapses.

General – Homogeneous risk groups (Lapse risk calculation)

- D35.5 Determining the capital requirement for lapse risk involves recalculation of the BEL under the specified stresses. As a starting point, companies are expected to use the same groupings (if any) in the cash flow projections under the shocks as they are using for the normal BEL calculation. However, the use of groupings must continue to meet the requirements of paragraph 35(2) of Schedule XXV (Economic Balance Sheet valuation principles) also under the lapse stresses (like under any other stresses/shocks in the BSCR).

⁸ Insurance (Prudential Standards) (Insurance Group Solvency Requirement) Rules 2011, as amended.

It is possible that in some cases this could require further refining the groupings, to avoid grouping policies with different lapse risk exposures.⁹ Note that if the BEL calculation is done policy by policy, then the above is not applicable.

- D35.6 When no offset is allowed, the application of the lapse shocks requires identifying those policies (or homogeneous groups of policies) for which lapse leads to a loss on the EBS basis ('lapse-sensitive' policies) and those policies for which lapse leads to a gain on the EBS basis ('lapse-supported' policies). Under the no-offset basis, the lapse stresses where lapses increase (i.e., lapse up and mass lapse) should only be applied to those policies where lapsing is adverse for the company; and the lapse stress where lapses decrease (i.e., lapse down) should only be applied to those policies where lapsing would be beneficial for the company. The homogeneous risk groups used in the calculation could correspond to the groupings ordinarily used by the company in its internal reporting of technical provisions and in the management of its business, provided that there is no material offsetting caused by such groupings: policies with directionally different sensitivities to lapse risk should not be included within the same homogeneous risk group. Where this may not otherwise be the case, the groupings used in the calculation should be appropriately refined. In practice this means that the separation of lapse-sensitive and lapse-supported policies should be ensured for the purposes of the calculation. Companies may apply proportionality and materiality considerations where appropriate, however this should not lead to material error or misrepresentation of lapse risk.
- D35.7 In general, the homogeneous risk groups would be expected to be established, at a minimum, by product and (where applicable) by counterparty. However, to ensure no material offsetting of lapse risk, more granularity may be required depending on the case. To give just one example, if within a given product there are policies issued at different times with different guaranteed rates, then those policies with low and high guaranteed rates might exhibit different lapse sensitivity (e.g., lapsing of the former might lead to a loss and lapsing of the latter to a gain); in such a case, the homogeneous risk groups might need to be established by guaranteed rate in addition to by product (and counterparty).

Paragraph 44A.(a) – Modified discounting under the scenario-based approach

- D35.8 The valuation of assets and liabilities is performed on an EBS valuation basis. Upon application, insurance groups that use the scenario-based approach may elect to use a modification to keep the scenario-based approach discounting unchanged under mass lapse stress, subject to prior written approval from the Authority.
- D35.9 Insurers may choose to apply for one of two modifications for discounting under the mass lapse stress:

⁹ E.g., where model points may be used, the construction of the model points should not lead to inherent offsetting with respect to lapse risk. That is, policies with different directions of lapse sensitivity (lapse-supported and lapse-sensitive policies) should not be included within the same model point.

- A) Use the implied SBA yield.
- B) Use the implied book yield of the assets required to back the SBA BEL (determined on market value basis).

D35.10 The selected approach must be applied consistently to all business for which the SBA is used. Switching between approaches is not permitted (unless specifically approved by the Authority).

Alternative option A

D35.11 Under this modification, the implied SBA yield is determined as the yield that equates the expected present value of the worst scenario liability cash flows to the market value of the SBA initial asset requirement in the worst scenario (i.e., the SBA BEL). The post-stress BEL under the mass lapse stress is then determined by calculating the expected present value of the stressed liability cash flows, using the implied SBA yield for discounting. Note that this approach is similar to how the mass lapse capital requirement is calculated under the Standard Approach, but uses the implied SBA yield instead of the Standard Approach discount curve.

D35.12 Alternatively, insurers may choose to use the base scenario instead of the worst scenario for the purposes of paragraph D35.11 above.

Alternative option B

D35.13 Under this modification, the calculation is done as follows:

1. Determine the set of assets required to cover liabilities in the worst scenario (this is done on a market value basis as per usual SBA calculation).
2. Determine the book value, as of the valuation date, of the set of assets identified in point 1.
3. Solve for the discount rate that equates the expected present value of liability cash flows to the book value in point 2; where the liability cash flows are based on the worst scenario (to the extent that those cash flows depend on interest rates).
4. For the purposes of the mass lapse capital charge calculation, the pre-stress BEL and post-stress BEL are determined as the expected present value of pre-stress liability cash flows and stressed liability cash-flows, respectively; where the constant discount rate determined in point 3 is used for discounting in both cases.

D35.14 Alternatively, insurers may choose to use the base scenario instead of the worst scenario for the purposes of paragraph D35.13 above.

Requirements

D35.15 The approval is subject to the following requirements:

- (i) Insurers shall provide details on the calculation of the applicable discount rate/yield, and include these details as an attachment to the annual filings.
- (ii) Insurers shall provide the results of the unmodified mass lapse stress i.e. the results when applying the mass lapse stress from first principles within the SBA, including modelling of any required asset sales within the projections and the impact of those sales. Insurers are to provide the results annually, or at such another frequency as approved by the Authority as part of the application.
- (iii) (a) Insurers shall provide a memo demonstrating how they could avoid outright sale of the SBA assets in case a mass lapse event equal to the BSCR stresses occurred (e.g., by using (liquid) surplus assets, by utilising lines of credit, etc.) and the impacts, costs and implications of such actions;

OR

(b) Alternatively, this requirement can be fulfilled by demonstrating that:

- i) there are enough liquid SBA assets to cover the mass lapse outflow, where the liquid assets are such that they can be sold with non-material price impacts (or, alternatively, there are sufficient liquid assets to cover the mass lapse outflow after adjusting for price impacts);
- ii) the company will be able to continue using SBA post sale for the remaining business (i.e., the remaining asset portfolio after the sale continues to meet all SBA requirements and limits, given the remaining business); and
- (iii) the (book value) discount rate achievable with the remaining assets (post-sale) is not lower than the discount rate currently applied (pre-sale).

D35.16 Additional requirements for option B:

- (iv) Insurers shall provide details regarding the turnover of assets in the SBA portfolio (or in each of the SBA portfolios). Starting from the first annual renewal of the application, this should include percentage of assets sold in the portfolio during the last year (as a percentage of total portfolio); and should build to include this figure for the last three years.

Paragraph 44A.(c)(i) – Lapse stresses for Europe & UK

- D35.17 The lapse stresses to be applied to determine the lapse risk charges for all European and UK business are those specified in the applicable local laws, rules and regulations in force as of the valuation date (local lapse stresses).¹⁰
- D35.18 The local lapse stresses shall be exactly as prescribed in the relevant local rules, including but not limited to in terms of:
- a) Specification, form and scope;
 - b) Stress magnitudes; and
 - c) Implementation details.
- D35.19 The last point covers all aspects related to the implementation and application of the shocks, including but not limited to allowance or disallowance of offsets, and the nature of the stress (e.g., instantaneous shock or otherwise).
- D35.20 While the stresses themselves are to be applied as prescribed by the applicable local laws, rules and regulations, the valuation of assets and liabilities is to be done on the EBS basis, in both the base case and under the stresses.

Paragraph 44A.(c)(ii) – Implementation and application details for regions excluding Europe & UK

Paragraph 44A.(c)(ii)(A) – Lapse Up stress (regions excl. Europe & UK)

- D35.21 The lapse up stress is specified as a relative percentage increase applied to all applicable best estimate lapse rates used to determine the BEL – refer to the principal Rules for the required details. This is an instantaneous permanent shock. No offsets can be assumed in the calculation. The liability values (and asset values, where applicable) are to be recalculated under the lapse stress by re-projecting cash flows using the shocked lapse rates.
- For the sake of a simple example, assume the lapse up stress is +40% and the best estimate (full) surrender rate and partial surrender rate for a given (lapse-sensitive) policy are 5.0% p.a. and 2.0% p.a., respectively. Then the stressed full and partial surrender rates to be used to determine the post-stress BEL (together with any other

¹⁰ I.e., as prescribed in the Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II), as amended. For the purposes of this paragraph, any reference to any laws, rules and regulations shall also include successors to and functionally equivalent replacements of such laws, rules and regulations.

potential stressed lapse rate assumptions) are $(1 + 40\%) \times 5.0\% = 7.0\%$ and $1.4 \times 2.0\% = 2.8\%$ p.a., respectively.

- D35.22 Where dynamic lapse functionality is used, the relative lapse stresses are to be applied to the ‘base’ lapse rates i.e. to the lapse rates before the application of the dynamic functionality. The stressed base lapse rates are then passed through the dynamic lapse function/formulas to arrive at the actual stressed lapse rates to use.
- D35.23 SBA users have the option to apply the lapse up stress under the SBA base scenario. This choice should be appropriately documented and disclosed in the filings.

Paragraph 44A.(c)(ii)(B) – Lapse Down stress (regions excl. Europe & UK)

- D35.24 The lapse down stress is specified as a relative percentage decrease applied to all applicable best estimate lapse rates used to determine the BEL – refer to the principal Rules for the required details. This is an instantaneous permanent shock. No offsets can be assumed in the calculation. The liability values (and asset values, where applicable) are to be recalculated under the lapse stress by re-projecting cash flows using the shocked lapse rates.
- For the sake of a simple example, assume the lapse down stress is -40% and the best estimate (full) surrender rate and partial surrender rate for a given (lapse-supported) policy are 5.0% p.a. and 2.0% p.a., respectively. Then the stressed full and partial surrender rates to be used to determine the post-stress BEL (together with any other applicable stressed lapse rate assumptions) are $(1 - 40\%) \times 5.0\% = 3.0\%$ and $0.6 \times 2.0\% = 1.2\%$ p.a., respectively.
- D35.25 Where dynamic lapse functionality is used, the relative lapse stresses are to be applied to the ‘base’ lapse rates i.e. to the lapse rates before the application of the dynamic functionality. The stressed base lapse rates are then passed through the dynamic lapse function/formulas to arrive at the actual stressed lapse rates to use.
- D35.26 SBA users have the option to apply the lapse down stress under the SBA base scenario. This choice should be appropriately documented and disclosed in the filings.

Paragraph 44A.(c)(ii)(C) – Mass Lapse stress (regions excl. Europe & UK)

- D35.27 The mass lapse stress is specified as an immediate discontinuance of policies during the first projection year.
- D35.28 The annual mass lapse stress magnitude, for each policy, is the higher of:

- a. three times (3x) the applicable base lapse rate assumption for that policy; and
 - b. the absolute floor for the specific product type as detailed in the principal Rules.
- The mass lapse stress is absolute, not additive.

D35.29 The base lapse rates used for the purposes of deriving the mass-lapse shock magnitudes refer to the base lapse assumptions used to determine the BEL (before any adjustments for dynamic lapses).

- For example, if the annual base surrender rate was 15%, then the immediate mass lapse stress to be applied would involve a surrender of $3 \times 15\% = 45\%$ of the policies over the first 12 months. If the base surrender rate was 10%, the immediate mass lapse stress would involve a 30% p.a. surrender rate (in both cases before the application of the floors, if applicable).

D35.30 The stressed mass lapse rate shall apply for the first 12 months within the projections used to determine the BEL.

- For example, assume that the annual base surrender rate applicable to a given policy was 10% and the resulting rate under the mass lapse stress was 30%. Applying the mass lapse stress would involve replacing the best estimate surrender rate for the policy with the absolute mass lapse surrender rate (i.e., 30% annual surrender rate) for the first year within the projections.
 - Regardless of the time step used (e.g., whether monthly, or annual), the proportion of the policy in force at the end of the first year should be 70% (if only accounting for surrenders i.e., when ignoring any other decrements).

D35.31 After the first 12 months, the impact of the mass lapse stress ceases and the lapse rates revert to their non-stressed (best estimate) values for the remainder of the projection.

D35.32 The mass lapse charge shall be calculated both without offset (NoOffset) and with full offset (FullOffset), and the average of the two calculations will determine the final mass lapse capital requirement, as detailed in the principal Rules.

D35.33 SBA users have the option to apply the mass lapse stress under the SBA base scenario.

Paragraph 44A.(c)(ii)(C) – Mass Lapse (regions excl. Europe & UK): Product categories

D35.34 All products under categories B.NR, D.NR, and C.R require the Authority's approval.

D35.35 Products not fitting into other categories should be classified in the category A.R (for retail) or A.NR (for no-retail), by default.

- D35.36 Policies typically taken predominantly for savings/investment purposes should not be classified in categories other than A.R or A.NR only because they may include a death benefit or other risk covers/riders (i.e., materiality of the cover/protection still needs to be considered).
- D35.37 Insurance groups, upon written approval from the Authority, can apply higher shocks and choose not to breakdown products into the four defined categories for each of “retail” and “non-retail” business. However, once approved, they cannot switch back to the defined approach without the Authority’s written approval.
- D35.38 The “+” in “*Accumulation FIA and FA with guaranteed crediting rate or option budget greater than 10-yr Treasury Rate + 200bps + with at least 3 years of surrender charge period remaining + material GWLB;*” should be interpreted as an “and” i.e., all conditions have to be met to qualify.
- D35.39 Applications for approval of proposed shocks as required under the Rules shall include:
D35.i. A quantitative and qualitative assessment of the materiality of the mitigating features.
D35.ii. A demonstration of how the requested charge compares with historical lapse experience.
D35.iii. An assessment of the extent to which the mass lapse products classification could change due to passage of time and changing market conditions and the impact on the mass lapse capital requirement thereof. A summary of the insurance group’s liquidity stress testing results.
- D35.40 Tax penalties and market value adjustments (MVA) do not qualify as risk mitigating for purposes of the mass lapse stress. The impact of any MVAs upon withdrawal shall still be included in the cash flows.

Further Instructions – Variable Annuities and Lapse Risk

- D35.41 The full extent of lapse risk must be reflected for Variable Annuities, including both for VA guarantees and for VA base policies; and regardless of whether the standard capital factors or the Internal Capital Model approach for Variable Annuity Guarantee Risk is used in BSCR.

Standard capital factor approach for Variable Annuity Guarantee Risk

- D35.42 The calibration of the standard factors for VA guarantee risk does not include lapse risk (or expense risk). Where the standard factors are used, the subject business must be separately included in the BSCR lapse risk calculation (as well as the BSCR expense risk calculation). The lapse risk (and expense risk) for the base policies must also be reflected in full by including the base policies in the lapse risk (and expense risk) calculation, where applicable.

Internal Capital Model approach for Variable Annuity Guarantee Risk

- D35.43 Where the Internal Capital Model approach for the VA guarantee risk is used, the internal model must i) include explicit stresses for lapse (and expense) risk; and ii) the stresses must be comparable to the applicable BSCR stresses (being no lower overall).
- D35.44 Where either of the above is not the case, the subject business must be separately included in the BSCR lapse risk calculation (as well as the BSCR expense risk calculation).
- D35.45 In all cases, it must be ensured that the full extent of lapse risk (and expense risk) is captured for all VA guarantees as well as for all base policies, as applicable.
- D35.46 For the avoidance of doubt, modelling dynamic lapses that depend on interest rates is not considered sufficient to capture the lapse risk for BSCR; the requirement is that the base lapse rates themselves must be shocked within the calculation (before passing through the dynamic lapse formulas).

Further Instructions – Management Actions

- D35.47 Insurers may reflect management actions (i.e., the Loss-Absorbing Capacity of Technical Provisions) within the lapse risk calculation, in line with the other shock-based BSCR risk modules. However, the management actions must comply with all the requirements set out in Section B6, and are restricted to management actions directly affecting the value of Future Discretionary Benefits (FDB).

Further Instructions – Risk Margin calculation under LT Insurance Risk (Lapse and Expense Risk) transitional

- D35.48 When projecting future Long-Term Insurance Risk charges for the purposes of the Risk Margin calculation only, insurance groups may choose to keep the transitional factor related to lapse and expense risks – LT_Transitional Factor, as defined in paragraph 25 of the Group Rules – fixed at its actual value as of the applicable valuation date i.e., without reflecting further run-off of the transitional within the Risk Margin projection.
- D35.49 For example, at 2024YE, the 10% weight for the new basis LT Insurance Risk charge may be kept fixed at 10% for all future projection years, for the purposes of the Risk Margin calculation at that date. For the avoidance of doubt, for valuation done at 2025YE, the new basis weight would have increased to 20%, and then this should be applied to all future projection years, etc. Further, it should be noted that the run-off of the previous transitional (from ‘YE2018’ BSCR basis to ‘YE2019’ BSCR basis) should be reflected in the risk margin calculation regardless.

D35.50 Given the two transitions between three BSCR bases going on until 2028, the below table illustrates the effective weights applicable to each basis at each point in time. Note that, starting from the given point in time and the weights associated with that point, the run-off of the old transitional (from ‘2018YE’ basis to ‘2019YE’ basis still needs to be reflected even if the option to keep the new transitional weights ‘frozen’ is adopted; this is not shown in the table where the time dimension is valuation year ends, not projection years (but see the paragraphs further below for illustration).

Transitional weights, LT Insurance Risk: effective weights applying to each ‘BSCR basis’ under LT Insurance Risk as of given valuation date

Year End	‘2018YE’ / old BSCR basis (old LT charges)	‘2019YE’ / current BSCR basis (old LT charges)	‘2024YE’ / current BSCR basis (new LT charges)
2024	40%	54% (60% \times 90%)	6% (60% \times 10%)
2025	30%	56% (70% \times 80%)	14% (70% \times 20%)
2026	20%	56% (80% \times 70%)	24% (80% \times 30%)
2027	10%	54% (90% \times 60%)	36% (90% \times 40%)
2028	0%	50% (100% \times 50%)	50% (100% \times 50%)
2029	0%	40% (100% \times 40%)	60% (100% \times 60%)
2030	0%	30% (100% \times 30%)	70% (100% \times 70%)
2031	0%	20% (100% \times 20%)	80% (100% \times 80%)
2032	0%	10% (100% \times 10%)	90% (100% \times 90%)
2033	0%	0%	100%
2034	0%	0%	100%

Further detail on applying the transitionals within the Risk Margin calculation

D35.51 When projecting forward the total LT Insurance Risk charge on the ‘new BSCR basis’ for the purposes of the Risk Margin calculation, the transitional weights applied within the total LT Insurance Risk charge may be kept fixed at the actual level prevailing as of the valuation date, as already described above. For the avoidance of doubt, it is noted that the transitional weights will evolve normally through time in the ‘real-world’; the future running-off of the transitionals is just not reflected within the risk margin calculation at any given valuation date.

D35.52 It is also noted that, for the Risk Margin calculation, it is the weights of the new transition that may be kept constant while the ‘old’ transition will keep going. For year-ends 2024-2027 i.e., as long as the existing ‘old’ transition is still running in parallel, the weights referred to in the table above are to be taken as the starting point, and then the running off of the old transition is to be reflected. The table below shows an example of this for the

YE2025 valuation, starting from the weights applying at the year-end 2025 valuation date as per the table above.

Example: RM calc at Year End 2025 Projection year	'2018YE' / old LT charges	'2019YE' / old LT charges	'2024YE' / new LT charges
0	30%	56% (70% x 80%)	14% (70% x 20%)
1	20%	64% (80% x 80%)	16% (80% x 20%)
2	10%	72% (90% x 80%)	18% (90% x 20%)
3	0%	80% (100% x 80%)	20% (100% x 20%)
4	0%	80% (100% X 80%)	20% (100% x 20%)
5	0%	80% (100% X 80%)	20% (100% x 20%)
6	0%	80% (100% X 80%)	20% (100% x 20%)
7	0%	80% (100% X 80%)	20% (100% x 20%)
8	0%	80%	20%
9+	0%	80%	20%

D36. EXPENSE RISK ($BSCR_{corr}$)

Background

- D36.1 The Expense Risk submodule specifies the BSCR capital requirements for expense risk. Expense risk means the risk of loss, or of adverse change in the value of liabilities (and assets, where applicable) resulting from changes in the level, trend or volatility of the expenses incurred in servicing contracts of insurance.
- D36.2 For the calculation of the Lapse Risk capital charge, $C_{LTexpense}$, please refer to paragraph 44B of the Group Rules¹¹. These Instructions should be read together with the principal Rules.

Instructions

General – Scope

- D36.3 The expense stresses apply to all Long-Term business, regardless of the reporting line under Form 1EBS, including without limitation “separate account” business, “segregated account” business and entities that are members of the insurance group that are registered to operate segregated accounts in accordance with the Segregated Accounts Companies Act 2000.

General – Valuation under stress (Post-stress value of assets and liabilities)

- D36.4 For the avoidance of doubt, the expense stresses would generally not be expected to impact asset side. That is, the expense stresses do not normally affect the t=0 value of actual assets on the balance sheet; instead, any impacts would come through increase or decrease in liability values (BEL), as the expense stress changes the projected cash flows and therefore the expected present value of those cash flows. The t=0 market value of balance sheet assets would only be expected to change to the extent that expense-sensitive assets were held, e.g. financial derivatives whose value is tied to, or impacted by, the level or change in expenses.

General – Contractually fixed expenses, perimeter of the calculation, and use of service companies

- D36.5 Where expenses are contractually set, any clauses or options in the contract allowing expense increases (including on contract extension or renegotiation) shall be taken into account and assumed to be utilized, up to an increase in overall expenses that is equal in magnitude to the applicable expense stress. That is, where the contract(s) make it possible

¹¹ Insurance (Prudential Standards) (Insurance Group Solvency Requirement) Rules 2011, as amended.

for expenses to increase, such increase shall be assumed to take place, at the earliest date(s) possible, up to the level of the applicable expense stress.

- D36.6 Where expenses, variability related to expenses, or expense risk, are being transferred outside of a regulated insurance entity of the group and into another entity by way of any contractual arrangement, but the expenses or expense risk remain within the group, such expenses and expense risk shall be included into the group regulatory calculations (EBS technical provisions and BSCR). Any such arrangements shall be disclosed to the Authority.
- D36.7 As an example of the above, where service companies or other similar model is used within the group (or effectively within the group), the insurance group shall ensure that all the expenses and expense risk that remain within the group (or effectively remain within the group) are allocated and included in the group technical provisions and BSCR calculations on an economic, 'look-through' basis i.e. reflect the actual ultimate expenses required to service the insurance contracts regardless of the existence of any within-group intermediate/transfer arrangements. For the avoidance of doubt, potential synergies brought by the service company model (or similar) could be taken into account in the expense assumption setting, assuming those synergies can be justified and are supported by data. Arrangements whose intention is to understate expenses or avoid expense risk capital charges are not allowed to be reflected.
- D36.8 Regarding all of the above, the approaches taken should have gone through internal governance with the appropriate senior management signoffs, as well the review and sign-off of the Approved Actuary where applicable, and should be documented.

General – Valuation under stress (Post-stress value of assets and liabilities)

- D36.9 Where an insurer may not have operational capability to apply the inflation stresses that vary by projection year, the insurer may as a simplification choose to apply the highest of the specified inflation stress numbers throughout the whole projection (or otherwise, enhance its operational capabilities to allow the full application of the specified stresses).

Further Instructions – Variable Annuities and Expense Risk

Standard capital factor approach for Variable Annuity Guarantee Risk

- D36.10 The calibration of the standard factors for VA guarantee risk does not include expense risk (or lapse risk). Where the standard factors are used, the subject business must be separately included in the BSCR expense risk calculation (as well as the BSCR lapse risk calculation). The expense risk (and lapse risk) for the base policies must also be reflected in full by including the base policies in the expense risk (and lapse risk) calculation, where applicable.

Internal Capital Model approach for Variable Annuity Guarantee Risk

- D36.11 Where the Internal Capital Model approach for the VA guarantee risk is used, the internal model must i) include explicit stresses for expense (and lapse) risk; and ii) the stresses must be comparable to the applicable BSCR stresses (being no lower overall).
- D36.12 Where either of the above is not the case, the subject business must be separately included in the BSCR expense risk calculation (as well as the BSCR lapse risk calculation).
- D36.13 In all cases, it must be ensured that the full extent of expense risk (and lapse risk) is captured for all VA guarantees as well as for all base policies, as applicable.

Further Instructions – Management Actions

- D36.14 Insurers may reflect management actions (i.e., the Loss-Absorbing Capacity of Technical Provisions) within the expense risk calculation, in line with the other shock-based BSCR risk modules. However, the management actions must comply with all the requirements set out in Section B6, and are restricted to management actions directly affecting the value of Future Discretionary Benefits (FDB).

D37. VARIABLE ANNUITY GUARANTEE RISK ($BSCR_{corr}$)

Background

- D37.1 Variable annuity benefits are partitioned into five categories:
- Guaranteed Minimum Accumulation Benefit (GMAB);
 - Guaranteed Minimum Death Benefit (GMDB),
 - Guaranteed Minimum Income Benefit (GMIB),
 - Guaranteed Minimum Withdrawal Benefit (GMWB), and
 - Guaranteed Enhanced Earnings Benefit (GEEB). Variable annuities contain various minimum guarantees that expose insurance groups to risks of a particularly volatile nature.
- D37.2 The capital risk factors differentiate by volatility levels and are applied to the Net Amount at Risk ('NAR'). Volatility is defined as the annual historic volatility of the fund. In the case where there is no, or limited, history of the fund, use the volatility of the benchmark. Where the Guarantee Value (GV) is less than the Account Value (AV), the minimum floor factors are applied to the account values. The proportion used for the AV under reinsurance is the proportion used for net amount at risk.
- D37.3 Net amount at risk (net of reinsurance) is defined as follows:
- GMAB – total claim payable if all contracts mature immediately;
 - GMDB – total claim amount payable upon immediate death of all policyholders;
 - GMIB – total claim payable upon full and immediate annuitisation of all policies using an 80% factor applied to the GV (the 80% represents the ratio between current market annuitisation factors and the guaranteed annuitisation factors);
 - GMWB – total claim payable if 100% of the guaranteed withdrawal benefit base in excess of the current AV is withdrawn immediately; and
 - GEEB – total guaranteed enhanced payments upon immediate death of all policyholders.

Variable Annuity Guarantee Capital Charge

- D37.4 The variable annuity guarantee risk charge calculation can be summarised by the following formula:

$$C_{LTV A} = \text{either } \left(\sum_i TotalBSReq_i - TotalBAR - TotalGMB_{adj} \right) \text{ or } (IMCReq_{LTV A})$$

wherein —

$TotalBSReq_i = \text{higher of (a) } (\alpha1_i \times GV1_i + \alpha2_i \times GV2_i + \alpha3_i \times GV3_i) \text{ and (b) } (\alpha4_i \times NAR1_i + \alpha5_i \times NAR2_i + \alpha6_i \times NAR3_i).$

- a) $TotalBAR$ = the total BSCR adjusted reserves for variable annuity guarantee risk;
- b) $TotalGMDB_{adj}$ = capital requirement charged on Guaranteed Minimum Death Benefit (GMDB) policies multiplied by the percentage of GMDB with multiple guarantees;
- c) $IMCReq_{LTV_A}$ = the capital requirement for variable annuity guarantee risk determined in accordance with an insurance group’s internal capital model, if applicable;
- d) $GV1_i, GV2_i, GV3_i, NAR1_i, NAR2_i,$ and $NAR3_i$ are the guaranteed value and net amount at risk under each range of volatility for each specified variable annuity product risk; and
- e) $\alpha1_i, \alpha2_i, \alpha3_i, \alpha4_i, \alpha5_i$ and $\alpha6_i$ are the capital factors applied to the guaranteed value and net amount at risk under each range of volatility for each specified variable annuity product risk.

Items

a) Factor-Based Capital Requirement

Column Item		Description
1	Guaranteed Values: Volatility 0%-10%	Column (1): Guaranteed values for each type of variable annuity risk with volatility that is less than or equal to 10% according to policy position (i.e. in/out-of-the-money); as reported on Schedule VIII EBS, column (2).
2	Capital Factor	Column (2): Capital factors supplied by the BMA for each type of variable annuity risk with volatility that is less than or equal to 10% according to policy position.
3	Guaranteed Values: Volatility 10%-15%	Column (3): Guaranteed values for each type of variable annuity risk with volatility that is more than 10% but less than 15% according to policy position; as reported on Schedule VIII EBS, column (3).
4	Capital Factor	Column (4): Capital factors supplied by the BMA for each type of variable annuity risk with volatility that is more than 10% but less than 15% according to policy position.
5	Guaranteed Values: Volatility >15%	Column (5): Guaranteed values for each type of variable annuity risk with volatility that is more than 15% according to policy position; as reported on Schedule VIII EBS, column (4).

Column Item		Description
6	Capital Factor	Column (6): Capital factors supplied by the BMA for each type of variable annuity risk with volatility that is more than 15% according to policy position.
7	Net Amount at Risk: Volatility 0%-10%	Column (7): Net amount at risk for each type of variable annuity risk with volatility that is less than or equal to 10% for in-the-money positions only; as reported on Schedule VIII EBS, column (5).
8	Capital Factor	Column (8): Capital factors supplied by the BMA for each type of variable annuity risk with volatility that is less than or equal to 10% for in-the-money positions only.
9	Net Amount at Risk: Volatility 10%-15%	Column (9): Net amount at risk for each type of variable annuity risk with volatility that is more than 10% but less than 15% for in-the-money positions only; as reported on Schedule VIII EBS, column (6).
10	Capital Factor	Column (10): Capital factors supplied by the BMA for each type of variable annuity risk with volatility that is more than 10% but less than 15% for in-the-money positions only.
11	Net Amount at Risk: Volatility >15%	Column (11): Net amount at risk for each type of variable annuity risk with volatility that is more than 15% for in-the-money positions only; as reported on Schedule VIII EBS, column (7).
12	Capital Factor	Column (12): Capital factors supplied by the BMA for each type of variable annuity risk with volatility that is more than 15% for in-the-money positions only.
13	Capital Requirements	Column (13): Calculated using the maximum of [$\{\text{column (1) x column (2) + column (3) x column (4) + column (5) x column (6)}\}$ or $\{\text{column (7) x column (8) + column (9) x column (10) + column (11) x column (12)}\}$]; less percentage of guaranteed minimum death benefit with multiple guarantees, as reported on Schedule VIII EBS, column (4), line 32, applied to GMDB; less total BSCR adjusted reserves for variable annuities.

b) Internal Model-Based Capital Requirement

Column Item		Description
1	Without Hedging	Column (1): The total capital requirement for variable annuity risk based on internal model results without taking into account hedging; as reported on Schedule VIIIA EBS, column (6), line 1.
2	With Hedging	Column (2): The total capital requirement for variable annuity risk based on internal model results taking into account hedging; as reported on Schedule VIIIA EBS, column (7), line 1.

D38. CAPITAL ADJUSTMENT ($BSCR_{Corr}$)

Background

D38.1 The capital adjustment represents the adjustment for the following:

- a. Regulated non-insurance financial operating entities;
- b. Unregulated entities where the parent exercises control;
- c. Adjustment for loss absorbing capacity of technical provisions; and
- d. Adjustment for absorbing capital of deferred taxes;

which is added to the BSCR (after correlation adjustment) to arrive at the Group BSCR. The Group BSCR will be used to determine an insurance group's ECR for the relevant year, as reported in the Summary section of the BSCR model.

Regulatory capital requirement adjustment

D38.2 The regulatory capital adjustment calculation can be summarised by the following formula:

$C_{adj} = (1) + (2)$ where:

- (1) = Regulatory capital requirement for regulated non-insurance financial operating entities; and
- (2) = Capital requirement for unregulated entities where the parent company exercises control.

Items

D38.3 Regulatory capital requirement for regulated non-insurance financial operating entities – this capital adjustment charge shall be determined in accordance with Schedule XI(A), where this amount shall be equal to the sum of the group's proportionate share of each registered entity's regulatory capital in accordance with the applicable solvency rules of the jurisdiction where the entity was licenced or registered; and

D38.4 Capital requirement for unregulated entities where the parent company exercises control – This capital adjustment charge shall be determined in accordance with Schedule XI(B), where this amount shall be equal to the sum of the capital requirement based on the capital charges applied to each unregulated entity's net assets, as follows:

- 1) 0% to unregulated entities that conduct ancillary services to members of the group;
- 2) 15% to unregulated non-financial operating entities; and
- 3) 50% to unregulated financial operating entities.

Capital Adjustment – Management Actions

D38.5 The adjustment for loss absorbing capacity of technical provisions due to management actions can be summarised by the following formula:

$$C_{AdjTP} = - \max(\min(\text{Basic BSCR} - \text{Basic nBSCR}, FDB), 0) \quad \text{Where—}$$

$$\text{Basic BSCR} = \sqrt{\sum_{i,j} \text{CorrBBSCR}_{i,j} \times C_i \times C_j}$$

$$\text{Basic nBSCR} = \sqrt{\sum_{i,j} \text{CorrBBSCR}_{i,j} \times nC_i \times nC_j}$$

$\text{CorrBBSCR}_{i,j}$ = the correlation factors of the Basic BSCR correlation matrix as determined by Table A in section D19;

C_i = risk module i charge which are replaced by the following:

$C_{\text{Market}}, C_{\text{P\&C}}, C_{\text{LT}}, C_{\text{Credit}};$

C_{Market} = market risk module charge as determined by section D19.4;

$C_{\text{P\&C}}$ = P&C risk module charge as determined by section D19.5;

C_{LT} = Long-Term risk module charge as determined by section D19.6; and

C_{Credit} = credit risk module charge as determined by section D27.

nC_i = risk module i net charge, which are calculated in the same way as C_i but by allowing the future discretionary benefits to change due to managements actions in accordance with the criteria prescribed in section B6, and which are replaced by the following:

$nC_{\text{Market}}, nC_{\text{P\&C}}, nC_{\text{LT}}, nC_{\text{Credit}};$

FDB = initial best-estimate liabilities for future discretionary benefits.

Capital adjustment – Deferred Taxes

D38.6 The capital adjustment charge calculation for loss absorbing capacity of deferred taxes can be summarised by the following formula:

$$C_{\text{otheradj}} = \text{Min} \left(((\text{Basic BSCR} + C_{\text{operational}} + C_{\text{regulatoryadj}} + C_{\text{AdjTP}}) \times t, \text{Limit}, (\text{Basic BSCR} + C_{\text{operational}} + C_{\text{regulatoryadj}} + C_{\text{AdjTP}}) \times 20\% \right)$$

Where —

Basic BSCR = Basic BSCR risk module charge as determined by section D19;

$C_{\text{operational}}$ = operational risk charge as determined by section D19.8;

$C_{\text{regulatoryadj}}$ = regulatory capital requirement for regulated non-insurance financial operating entities as determined by section D38.2;

C_{AdjTP} = adjustment for the loss-absorbing capacity of technical provisions as determined by section D38.2;

t = insurance group's effective (federal) tax rate;

Limit = $\text{PastLAC} + \text{CurrentLAC} + \text{FutureLAC}$;

PastLAC = Loss Carryback Provision multiplied by t ;

CurrentLAC = Current Deferred Tax Liabilities minus Current Deferred Tax Assets; and

FutureLAC = Risk Margin as reported on Form 1EBS line 18 multiplied by t ;

E. SCENARIO-BASED APPROACH

Paragraphs 28-32 in the Rules¹² include requirements on the Scenario-Based approach (SBA). The Instructions in this section should be read together with these paragraphs in the Rules.

E1. Discretion BMA to require use of Scenario-Based Approach or Standard Approach

Background

- E1.1 Paragraphs 28(2) and 28(3) in the Rules include provisions for the Authority to require the use of the SBA or Standard Approach.
- E1.2 The exercise of discretion by the Authority to determine whether an insurance group must apply either the scenario-based approach or the standard approach to some or all of the Long-Term business written will be approached with careful consideration and responsibility. The Authority understands that such decisions impact both the strategy and operations of the insurance group. Any exercise of this discretionary power will be undertaken judiciously, with a thorough evaluation of the specific circumstances and potential implications for the insurance group, and industry dynamics.
- E1.3 The Authority is committed to fostering open communication to ensure a transparent regulatory process and level-playing field. Therefore, such determinations will only be made after due diligence and engagement with relevant stakeholders. The exercise of discretionary powers will be principle based, is expected to be rare, and will be aligned with the overarching goal of protecting policyholders and maintaining a stable insurance market. It should be noted that if the applicable regulatory requirements are being met there is little need for the Authority to exercise this discretion.

E2. Attestations

Background

- E2.1 There are several provisions within the Rules that require an attestation or report from key officers, including the approved actuary, chief actuary, chief risk officer, chief investment officer, and chief executive officer.

Instructions

- E2.2 The Authority retains the right to request additional information based on the attestation, extending to analyses conducted either by the attesting individual or another party enlisted to support the attestation. Moreover, the attestation may be built upon other attestations if there exists a reasonable and verifiable rationale for doing so. In such instances, the

¹² When in this section reference is made to the Rules, it is referred to Insurance (Prudential Standards) (Insurance Group Solvency Requirement) Rules 2011, as amended.

individual conducting the attestation may be required to provide additional details on their assessment of analyses or attestations from other sources, specifying checks and controls employed to validate their adequacy and reliability.

- E2.3 Where the attestation involves an independent analysis, the attesting party may be required to provide further details on the information underlying the analysis. The person doing the attestation may keep a log of the information used to produce the attestation as well as the checks and controls carried out on the information used. This log should be readily available for submission upon request by the Authority.
- E2.4 In situations where an insurance group deems an officer other than those specified in the Rules more suitable to provide an attestation, the group must seek a written no objection from the Authority.
- E2.5 Insurance group officers should put careful consideration to the actual work done, systems, controls and resources in place as well as their own role in ensuring compliance with the requirements. The attestation could be of any length. It is important to note that the attestation does not replace the Approved Actuary's own review and challenge including their own opinion on the matters attested to.
- E2.6 Below are some key principles to provide guidance in formulating attestations:
- E2.6a Ensure that the language used in the attestation is clear, concise, and specific with no ambiguity.
- E2.6b Effectively demonstrate in the attestation the work and challenge that went into complying with the relevant requirement.
- E2.6c Demonstrate the work done is a natural consequence of the internal processes and controls in place as part of the ordinary course of doing business i.e., not specifically undertaken for attestation purposes only.
- E2.6d Clearly identify and reference the specific regulatory requirements or articles being addressed in the attestation.
- E2.6e Base attestations on concrete evidence of compliance e.g., provide summary of work done by relevant parties and outputs thereof.
- E2.6f Clearly outline the roles and responsibilities of insurance group officers who are providing the attestation in relation to the areas being testified on.
- E2.6g Specify the individuals accountable for ensuring compliance and those responsible for preparing and submitting the attestation.

E2.6h Highlight the role of any third-party assessments carried out in relation to the areas being testified on.

E2.6i Highlight the effectiveness of internal controls and monitoring mechanisms in place to ensure ongoing compliance on the matters being attested on.

E2.6j Avoid duplication of what is already covered in other submissions to the Authority. Where this is the case, the relevant documents (including sections and pages) can be referenced in the attestation.

E2.6k Provide a list of supporting documentation. The supporting documentation should be documentation that arises in the natural course of business and should not be specifically prepared for the Authority. This documentation may be requested by the Authority as part of its reviews.

E2.6l Identify the attesting officer(s) by name, title and the capacity within which they are giving the attestation.

E2.6m The attesting officer(s) should sign the attestation and file it with the Authority as part of the annual filing.

E3. Model Change Policy

Instructions

- E3.1 The model change policy should describe a clear universe of changes, outline the models covered and what governance is in place for approving major changes including the making of decisions on those cases where it is unclear whether a change should be classified as major or minor. To enhance clarity, the policy should establish a comprehensive framework outlining the types of changes considered, specifying the tools included, and delineating the governance for approving significant changes.
- E3.2 In delineating the materiality criteria that distinguish minor from major changes, the insurance group should contemplate both quantitative impacts (e.g., on own funds and solvency ratio) and qualitative indicators like alterations in governance or systems which may or may not create operational risks. Consideration, while not required, may be given to back-testing the metrics against historical changes, where applicable. A log of both potential new changes and historical changes (and how they have been classified) should be maintained as it could prove beneficial for reference and documentation purposes.
- E3.3 When formulating the model change policy, as stipulated in paragraph 28(40) in the Rules, it is advisable for the insurance group to engage with the Authority. This should help ensure there is alignment between the Authority's expectations and the insurance group's definition of materiality and what is considered major or minor change.

E4. Well-matched portfolios

Instructions

- E4.1 Insurance groups should perform and document a formal assessment of “well-matched” including the insurance group’s definition of well-matched. The documentation should include an assessment of why the insurance group considers it appropriate to use the SBA for the assets and liabilities (given the level of actual matching), and what the thresholds/tolerances/triggers are that would cause the insurance group to consider that it is not well-matched.
- E4.2 As part of its ongoing reviews, the Authority will assess whether an insurance group’s asset/liability portfolios are well-matched. In making its assessment, the Authority will consider the insurance group’s documented assessment as well as the following:
- E4.3
- E4.3a The cost of mismatch as implied by the difference in results between the base scenario and the biting scenario.
 - E4.3b Dispersion in results from the 8 scenario-based approach scenarios.
 - E4.3c The capital required for each of currency, interest rate risk, lapse, mortality, morbidity and longevity as a percentage of the best estimate liability.
 - E4.3d The extent to which assets backing the liabilities are denominated in the same currencies, any hedging used (extent, nature, effectiveness) and residual risks.
 - E4.3e The extent of asset sales to meet shortfalls in asset cashflows. Total asset sales expressed as a percentage of the best estimate liability.
 - E4.3f Analysis of the extent of and dependence on reinvestment, including but not limited to: a graphical representation of the annual liability cashflows, existing asset cashflows and cashflows from reinvestment assets, and sensitivity tests on the impact of change in reinvestment assumptions on the best estimate liability.
 - E4.3g The highest accumulated cashflow shortfall across all projection years expressed as a percentage of the best estimate liability.
 - E4.3h The ALM position versus internal tolerances including at different key rate points.
 - E4.3i The extent to which assets are fungible or encumbered.

E5. Application Package

Instructions

The SBA application package should cover the items included below:

- E5.1 Evidence that the eligibility requirements for using the SBA included in the Insurance Rules are met for each sub-portfolio in the scope of SBA. Fungible sub-portfolios can be assessed as one.
- E5.2 Evidence of signoff of the application by the Board or relevant board committee.
- E5.3 Completed Lapse, Liquidity and SBA reporting template.
- E5.4 Full SBA model calculations, including asset and liability models and/or cashflows used for the purpose of SBA.
- E5.5 Assessment of asset/liability portfolios being well-matched.
- E5.6 SBA methodology documentation that includes:
 - E5.6a Detailed description of the SBA methodology, liability/asset valuation methodologies and cashflow projections.
 - E5.6b Description of the data and how they meet the data quality requirements.
 - E5.6c Description of key assumptions and expert judgements.
 - E5.6d Any limitations and weaknesses of the methodology or data.
 - E5.6e Governance structure as it applies to reserving and use of the SBA.
 - E5.6f Fungibility assessment in compliance with the Rules.
 - E5.6g Validation reports of SBA mechanics, liability and asset valuation as well as cashflow projections.
 - E5.6h Summary and analysis of stress testing results:
 - i. Combined credit spread and mass lapse stress. Defined as follows:
 - 1. Mass lapse shock shall assume an instantaneous lapse of a proportion of the business equal to the higher of:
 - a. 20% (applied across all products); or
 - b. the product specific shocks per the BSCR mass lapse risk charge calculation.
 - 2. Credit spreads widening as per the table below.

- a. All assets, i.e. both those backing the technical provisions as well as the capital, whether rated or unrated, available for sale or held to maturity, must be stress tested. Structured finance products, asset-backed securities, agency and non-agency mortgage-backed securities must be included as well. Unrated assets such as loans must be shocked appropriately. If there is no rating for an asset, assume that the rating is below CCC/C.
- b. The spread stresses are to be applied as instantaneous shocks applicable during the first year in the projection. The shocks are assumed to be temporary in nature; accordingly, the spreads are assumed to revert back to their base (non-stressed) levels after the first year in the SBA projection.

Rating	AAA	AA	A	BBB	BB	B	CCC/C
Δ bps	277	328	444	498	842	1346	2346

ii. One-notch credit downgrade stress on assets used in the SBA:

1. Apply one notch downgrade to all assets across the board (where one notch means e.g., from BBB to BBB-).
2. Use the post-shock assets to calculate the technical provisions. Spreads, default and downgrade costs should respond accordingly.
3. To the extent that, because of the downgrade stress, there are not enough SBA-eligible assets in order to use the SBA for the whole business, then the Standard Approach will need to be used for the rest of the business but ensuring that there is no splitting of liabilities at policyholder contract level and block-product level. To the extent that the no splitting of liabilities condition cannot be achieved, then the standard approach is used for the whole business.
4. No changes to the spreads themselves, for any rating category, should be assumed in the scenarios. However, as a result of a downgrade the assets would move onto a lower credit curve for pricing purposes, and this should be reflected in the market-to-market value for each asset – generally leading to a reduction in the market value. (For example, if an asset originally rated BBB- was downgraded to BB+, it would need to be re-priced using the BB(+) spreads instead of the BBB(-) spreads to determine the post-downgrade market value for the asset.)
5. Definition of investment-grade assets in the SBA should be in line with the Authority’s ratings definition and mapping with the lowest rating being taken for each rated asset. All rated assets are also to be downgraded as part of the stress including those NAIC-rated e.g., commercial mortgage loans.
6. The portion of liabilities for which the Standard Approach was used should be identified.

iii. No reinvestment into assets acceptable on a limited basis stress

1. Assume the insurance group cannot continue to reinvest in assets acceptable on a limited basis (formerly known as 258E assets).
2. This means the modelled reinvestment strategy is updated such that there is no reinvestment into assets acceptable on a limited basis.

- E5.6i Policies:
- i. Model Risk Management Policy
 - ii. Data Quality Policy (if not already covered under Model Risk Management Policy)
 - iii. Model Change Policy (if not already covered under Model Risk Management Policy)
 - iv. Model Validation Policy (if not already covered under Model Risk Management Policy)
 - v. Asset and Liability Management Policy
 - vi. Investment Policy and Guidelines
 - vii. Liquidity Risk Management Policy, liquidity plans and assessment of the liquidity position.
- E5.6j Application requirements for use of derivatives, as applicable.
- E5.6k Application requirements for use of assets requiring BMA approval, as applicable.
- E5.6l Overview and description of systems, infrastructure and people resources relevant to the SBA model. The system infrastructure could be presented graphically.
- E5.7 Assessment of external dependencies (e.g., on vendors and consultants) and how this meets outsourcing requirements per the Rules.
- E5.8 Logs arising as part of the Model Risk Management Framework.
- E5.9 Any other relevant information that the applicant considers may be necessary for the assessment and decision by the Authority.
- E5.10 An application for SBA approval may be submitted at any time, but the Authority encourages insurance groups to engage the Authority in pre-application discussions prior to formal submission. The pre-application engagement is not a mandatory part of the approval process, but it is expected this should help align expectations on the quality of the application.
- E5.11 The exact timeframe for approval of the application for SBA is expected to vary from application to application. Where applications are supported by effective pre-application engagement and complete good-quality submission, the Authority expects to reach a decision within 4-8 weeks. Applications which do not meet these criteria may require additional review time.

E6. Approval of Assets

Instructions

- E6.1 For operational and efficiency purposes, applications for different types of assets (i.e., affiliated assets, assets acceptable on a limited basis, structured assets, other investment-grade assets, and long-term investment credit) can be made as one application including a full listing of all assets i.e., those to be used in the SBA and surplus assets. The listing of assets should be on a BMA-provided template. Within the template the application category under which the assets fall should be clearly identified. Relevant analysis should be provided as applicable to each asset category.
- E6.2 Delinquent, non-performing and troubled or challenged assets are not eligible to be used in the SBA. Troubled or challenged assets in this context refers to assets which may not be delinquent or not defaulted but whose future performance is in doubt such that future cashflows can no longer be considered to be highly predictable. Where the status of a particular asset is uncertain i.e., it is unclear whether it is troubled or challenged, the assets should be excluded by default.
- E6.3 The applications should separately identify those assets where amendments, extensions or restructurings may have been done and explanations on why these are being proposed to be used in the SBA otherwise these should be excluded from use in the SBA by default.
- E6.4 An assessment of those individual investment grade assets whose yields and/or spreads are higher than the caps imposed by the Authority on assets acceptable on a limited basis should be provided. The Authority would generally look to apply the same caps to investment grade assets as applied to assets acceptable on a limited basis.
- E6.5 Insurance groups should be able to demonstrate that assets for which approval is sought are in line with a Board approved risk appetite, investment guidelines and appropriate application of the prudent person principle.
- E6.6 The limits imposed by the Authority e.g., on assets acceptable on a limited basis, are not a target but a conservative limit, and the Authority would expect an insurance group to leave enough headroom in their utilisation of the 10% limit in order to absorb unexpected deterioration in the investment portfolio including downgrades. The same applies to all other assets e.g., allocation to assets with a BSCR 4 rating which are borderline investment grade. An insurance group should demonstrate that the use of such assets and applied limits is appropriate considering the level of diversification in the investment portfolio, nature and value of eligible surplus assets, amount and quality of excess capital available, embeddedness of risk management and the effectiveness of contingency measures to mitigate the adverse impacts of moderate and severe stress scenarios e.g., downgrade in assets used in the scenario-based approach.

- E6.7 The Approved Actuary should assess and form an independent opinion on an insurance group's application of these instructions in the calculation of the best estimate liability using the scenario-based approach.
- E6.8 Assets proposed to be used to back liability cash flows beyond 30 years for purposes of obtaining a long-term investment credit (formerly referred to as 258F) should either have no contractual maturity (i.e. be equity-type), or the contractual maturity should be commensurate with the tenor of the liability cash flows the asset is backing. Assets acceptable on a limited basis would only be allowed for long-term investment credit purposes, provided the aggregate total of all such assets in the SBA is within the 10% limit. Conservative adjustments to the returns/yields should be applied.

E7. Approval of Structured and Other Assets

Background

- E7.1 Subparagraph 28(14) in the Rules includes that an insurance group shall obtain prior approval to use other investment grade fixed income assets.
- E7.2 Applications shall be combined with those required in terms of subparagraph 25 of the scenario-based approach Rules.
- E7.3 Requirements relating to approval of structured assets will be communicated separately by the Authority in 2024.

Instructions

Other Investment Grade Assets

- E7.4 Applications for other assets submitted in terms of subparagraph 14 of the scenario-based approach Rules shall include but not be limited to the following information:
 - E7.4a Descriptions of the underlying liabilities
 - E7.4b Description of the investment and ALM strategy
 - E7.4c Overall portfolio summary of all investments held
 - E7.4d Description of the investment manager including their experience and expertise
 - E7.4e A quantitative and qualitative analysis of the key features and risks for each asset class including but not limited to:
 - i. Valuation methodologies and valuation uncertainty;
 - ii. Asset complexity and cashflow predictability;
 - iii. Asset illiquidity, match to liabilities and liquidity assessments;
 - iv. Due diligence, ratings and credit assessments carried out;
 - v. Portfolio diversification – by asset class, geography, collateral, sector, risk factors, correlation, etc.;
 - vi. Dependence on the investment manager and/or origination platforms including an assessment of the ability of the insurance group to continue to generate assumed spreads in the future;
 - vii. Quantitative and qualitative analysis of the assumed spreads and critical assessment of the supporting thesis;
 - viii. Stress testing results including analysis of change in credit profile under stressed conditions.

E7.4f An analysis on how the requirements of subparagraph 26 are met for these assets with respect to estimation of default and downgrade costs.

E7.4g Provide details of the assets – market values, yields, spreads, term etc. The Authority will provide a template for this purpose.

E7.4h Where the assets are affiliated/connected/related an assessment based on the requirements for approval of affiliated/connected/related party assets.

E7.4i Further information as may be requested by the Authority.

E8. Approval of Derivatives

Derivatives used in the SBA need to qualify as being for risk mitigating purposes as outlined in Section B5 of this handbook and comply with the eligibility and modelling criteria there instructed. This includes criteria on frequency of replacement, when such practices are used, for avoidance of doubt, dynamic hedging is not allowed in the SBA, namely daily or intra-day hedging.

Instructions

- E8.1 An application to use derivatives in the scenario-based approach should cover the following areas:
 - E8.1a Summary of the investment strategy
 - E8.1b Hedging strategy and risk management
 - E8.1c List and description of the derivatives
 - E8.1d Modelling and assumptions in the SBA
 - E8.1e Risks not hedged and residual risks
 - E8.1f Liquidity and Collateral
 - E8.1g Stress and Scenario Testing
 - E8.1h Oversight and Governance
 - E8.1i Worked example
- E8.2 The Authority's review will be proportionate to an insurance group's use of derivatives considering the nature, scale and complexity of the business. Pre-engagement with the Authority is recommended especially where the insurance group has carried out an assessment of what minimum requirements could be considered proportionate and/or the insurance group can demonstrate it has applied conservatism in its use of derivatives in the SBA in a manner that addresses the intended outcomes.
- E8.3 Further details on each of the areas are as provided below.
 - E8.3a Summary of investment strategy:
 - i. Provide a summary of the investment strategy and why this requires derivatives.

ii. Where derivatives are only required for a subset of the SBA portfolio, these assets should be described in detail (particularly where they are related to a separate SBA-related application e.g., assets acceptable on a limited basis or those for the long-term investment credit).

iii. Note that the description should be on the investments (not the derivatives) and their pertinent features that drive the need for the derivatives (such as the currency, fixity, timing of their cash flows).

E8.3b Hedging Strategy & Risk Management

i. Describe the hedging program(s) – including the rationale and aims, what is being hedged and how, targets, implementation, rebalancing (where applicable), etc.

ii. The strategy should explicitly describe whether derivatives are buy-and-hold, or whether future trading of derivatives is expected.

iii. This should describe the strategy, not considering any modelling assumptions / limitations.

iv. Provide details on the risks being hedged and the cashflows behind each derivative instrument and structure.

v. Provide details of the derivative contracts used and for which purpose. Provide the amounts of notional value/market value per category of derivative contracts held including key information (e.g., for swaps: fixed rate, timing of payments, cost of hedging etc.)

vi. Confirm the derivative instruments and the hedging program qualify as risk mitigating, as defined in this instructions handbook.

vii. Describe collateral and/or margin requirements, including clearing/settlement processes, agreements in place (ISDA, CSA), and eligible types of collateral/margin (e.g. cash only)

viii. Provide details on the effectiveness of the hedging program and how its assessed – metrics, criteria, frequency etc. Data on historical hedge effectiveness should be provided as far back as available.

ix. Describe any basis risk where applicable, and explain how basis risk is measured and managed, including demonstration that basis risk is not material.

x. Include a list of any operational risk incidents arising from, or related to, hedging or derivatives use within the last three years. A description should be provided for each incident, including (root) causes, loss amount, remedial actions taken, and current status of those actions.

E8.3c List and description: An exhaustive list and description of the derivatives to be considered in the application:

i. This should specify both the type and the currency of derivatives.

ii. This should detail the expected cash flows to be paid and received in each type, including whether these are contractually fixed or variable (related to prevailing market rates).

iii. Provide confirmation that the derivatives in question are actually held.

iv. Where approval is given for specific derivatives, this will be currency specific. A new application should be submitted if additional currencies are subsequently utilised.

E8.3d Modelling and Assumptions

i. A description of how the derivatives (and any associated assets) are modelled within the SBA calculation including how, as may be applicable, the market value is determined at each time step for each scenario.

ii. Provide impact analysis on the best estimate liability (BEL) with and without derivatives under base and the 8 scenarios, and explain the results.

iii. Detail and justify key assumptions, including hedging costs and future rebalancing assumptions within the SBA projections as applicable.

iv. Describe and demonstrate how the following are incorporated into the SBA projections: hedging effectiveness, basis risk, frictional costs (incl. transaction costs).

v. A description of any deviations between the modelling of the derivative strategy and the previously described investment and hedging strategies, such as simplifications or limitations of the modelling approach. These should be quantified and validated.

E8.3e Risks not hedged and Residual risks: Identify and discuss risks that are not hedged, residual risks as well as the circumstances under which the hedging would not work. The assessment of residual risks should consider the impact to cash flow matching, or equivalently the impact to the quantum of assets required to decrease the liabilities.

i. This is any risk other than the domestic interest rate risk captured in the standard SBA scenarios.

ii. It should include uncertainty in execution of future hedges for strategies which are not exclusively buy-and-hold.

iii. Residual Risks in the portfolio should be quantified to a 1 standard deviation (1SD) confidence level.

iv. Particular attention should be given to risks which are asymmetric (i.e., where the benefit from a 1SD stress in one direction is different to the disbenefit from a 1SD stress in the other direction), either due to asymmetry in the underlying risk driver or asymmetry in the impact.

v. Once they have been quantified, this section should describe how the uncertainty related to these risks is captured by prudence in the calculation of the BEL.

vi. A commonly omitted Residual Risk is the evolution of credit spreads when interest rate swaps (or other derivatives) are used to hedge cash flow mismatches. Uncertain reinvestment / disinvestment yields are not directly a feature of the derivative usage, but without the derivatives the uncertainty associated with them are already captured within the standard SBA scenarios.

E8.3f Liquidity and collateral: this should be a summary document and include any relevant policies and procedures. The approach to managing the liquidity and collateral should be described:

i. A description of the collateral requirements for each type of derivative.

ii. A description of the liquidity and collateral management approach (including examples of relevant monitoring dashboards and metrics).

iii. It should be demonstrated that the SBA portfolio has sufficient liquidity and collateral to meet all expected collateral demands in all SBA scenarios, including those identified in Residual Risks analysis.

iv. Where the management approach assumes that assets are sold to meet liquidity requirements, it should be explained how this is reflected in the SBA modelling approach, or otherwise that the SBA modelling approach is assessed to be prudent.

E8.3g Stress and Scenario Testing

i. Describe the methodology and frequency of stress testing and scenario analysis conducted to assess the potential impact of adverse market conditions on derivative positions. Provide details of such stress testing.

ii. Describe and provide details on liquidity stress testing around derivatives use.

iii. Provide details on risks arising from derivatives held in a volatile interest rates environment, where applicable, including relevant historical experience. Provide results of stress tests performed to assess liquidity shortfalls when rates change and whether the insurance group is able to meet margin/collateral calls originating from either bilateral or centrally cleared derivatives.

E8.3h Governance and oversight

i. This should describe the risk framework within which the derivative strategy is executed. Where external managers execute some or all of the derivative strategy, extracts of the relevant investment management agreements should be provided which demonstrate the limits that the manager is expected to operate within. Policies and procedures should also be provided to demonstrate the insurance group's monitoring of the manager's execution.

ii. This should also describe and evidence the governance framework for modelling assumptions, where the SBA model mechanics does not perfectly reflect the investment and hedging strategies.

iii. Provide evidence of the internal approvals of the hedging program(s) as well as the second-line reviews performed.

iv. Describe risk exposure monitoring process including regular reporting that is in place.

v. Provide internal management reports (incl. board reports as applicable) on derivative usage.

vi. Where the insurance group uses derivatives for purposes other than those backing the SBA liabilities or where multiple SBA portfolios contain derivatives, they should be referenced here along with an overview of any dependence or interaction that those strategies have with the SBA derivatives. This might include fungibility of collateral, netting of trades, or cross-trading approaches. It should make it clear how the derivatives backing the SBA liabilities are separately identified. Pre-engagement with the Authority on such cases is recommended.

E8.3i Worked example: This should be a worked example, preferably in Excel, of how the derivatives are modelled within the SBA calculation. To the extent that there is a difference, this should also demonstrate how the investment strategy is executed. This would typically be a stylised example but should be representative of all use cases of derivatives. Actual implementations can also be considered, supported with walk-throughs.

E9. Risk-free curve used in the SBA

Instructions

- E9.1 The risk-free curve used in the SBA calculations shall be either:
- E9.1a The risk-free curve published or directed by the BMA; or
 - E9.1b The relevant risk-free market curve with no adjustments.
- E9.2 The relevant risk-free rates referred to in point b above shall correspond either to the government bond rates or the swap rates, depending on the currency and the generally accepted market practices regarding risk-free benchmark rates for each such currency. The market curve shall be kept flat beyond the last traded tenor point¹³ i.e., no extrapolation shall be applied.
- E9.3 Insurance groups shall document the choice of the curve as part of their SBA methodology documentation, and shall use the curve consistently over time. Change in use of the curve requires prior approval of the Authority.
- E9.4 The spreads used in the SBA shall be consistent with the choice of the risk-free curve. That is, the spreads shall be determined with respect to the risk-free curve used.
- E9.5 For the avoidance of doubt, the choice of the risk-free curve for SBA shall not distort the actual initial market values of assets, which shall not be affected. Accordingly, the spread for each asset shall be adjusted, where necessary and not fully addressed by the previous paragraph, by including an (idiosyncratic) spread adjustment. This adjustment is determined so that the expected present value of the projected cash flows of the asset, when priced using the chosen risk-free rates and applicable spreads plus the spread adjustment, equals the actual market value of the asset. The so determined spread adjustment for each asset must be used as part of the valuation of that specific asset throughout the SBA projections. In particular, this adjustment would be required where the market benchmark curve underlying the actual market value of an asset differs from the risk-free curve used in the SBA, and the previous paragraph (i.e., determining spreads with respect to the risk-free curve used in the SBA) does not fully address the valuation difference for the asset.

¹³ E.g. in the case of the US Treasury curve, all the rates beyond the 30Y point shall be set equal to the observed 30Y rate.

E10. Default and Downgrade Costs

Background

- E10.1 Paragraph 28(22) in the Rules includes requirements on default and downgrade costs in the SBA.

Instructions

Application of Default and Downgrade Costs

- E10.2 Default and downgrade costs shall be applied by reducing the projected asset cash flows. A simplified spreadsheet example is published on the BMA website (<https://www.bma.bm>) to illustrate the core mechanics.
- E10.3 The annualized default and downgrade costs provided by the Authority are to be converted into cumulative loss rates (and marginal loss rates, where necessary) for application to asset cash flows within the SBA projections. For a given asset category and rating combination, the same loss rate applies to all cash flows within a given period in the SBA projections. The spreadsheet example also demonstrates the above points.
- E10.4 Default and downgrade costs shall be applied in a manner that reflects the full cumulative impact of default and downgrade costs in all situations, including when an asset is held to maturity and when it is sold before maturity.
- E10.5 For the avoidance of doubt, the application of default and downgrade cost (i.e., the reduction in projected asset cash flows) shall not affect the initial time-0 market value of the assets, nor the projected purchase prices of assets at the point of reinvestment. Only the actual cash flows received within the projections will be impacted (including proceeds from sale where applicable).
- E10.6 The marginal loss rate implied by the default and downgrade cost assumptions shall not be negative (equivalently, the cumulative loss rate shall be non-decreasing). Where this may otherwise not be the case, the marginal loss rate shall be floored at zero (i.e., an adjustment shall be applied so that the cumulative loss rate is non-decreasing), and all the subsequent cumulative loss rates shall be adjusted accordingly to reflect the knock-on impact of flooring the said marginal loss rate to zero.
- E10.7 In the rare case that the implied spread for an investment turned out negative as a result of the application of default and downgrade costs, the default and downgrade costs for that investment may be adjusted so that the implied spread equals the lower of zero and the actual implied market spread at the valuation date. For the avoidance of doubt, the post-

adjustment default and downgrade costs cannot be lower than zero (i.e., at most the adjustment can lead to nil default and downgrade costs being applied to an investment). For the purposes of this paragraph, the implied spread is calculated as the difference between the default and downgrade cost-adjusted yield and the applicable risk-free rate, where the default and downgrade cost-adjusted yield is determined based on i) the actual market value of the investment as of the valuation date; and ii) the default and the downgrade cost-adjusted cash flows used in the SBA for that investment.

5-year Transitional for the Downgrade Cost component for business written prior to 1 Jan 2024

E10.8 For business that was in force as at 31 Dec 2023, the downgrade cost component of the default and downgrade costs will be phased in gradually over 5 years. The downgrade costs published by the Authority are the ultimate downgrade costs, whereas the downgrade costs to be applied at each relevant valuation date are determined as follows:

E10.8a For valuation dates during 2024, including 31 Dec 2024: 20% of the full ultimate downgrade costs will be used.

E10.8b For valuation dates during 2025, including 31 Dec 2025: 40% of the full ultimate downgrade costs will be used.

E10.8c For valuation dates during 2026, including 31 Dec 2026: 60% of the full ultimate downgrade costs will be used.

E10.8d For valuation dates during 2027, including 31 Dec 2027: 80% of the full ultimate downgrade costs will be used.

E10.8e For valuation dates during 2028 and later: 100% of the full ultimate downgrade costs will be used.

E10.9 In each case, the downgrade costs after application of the phase-in factor are to be rounded to the nearest whole basis point, to be done individually for all the applicable asset type/rating/tenor combinations.

E10.10 Insurance groups may choose to early adopt the full downgrade costs at any point. However, once elected, it is not possible to revert back without prior written approval from the Authority.

E10.11 For the avoidance of doubt, the phasing in does not apply to the default cost (expected loss) component, which will apply in full immediately. For business written after 31 Dec 2023, there is no phasing in of any costs, i.e., the full ultimate downgrade costs apply immediately in addition to the default costs.

Use of Issuer vs. Issue ratings

- E10.12 The default and downgrade costs have been calibrated based on issuer defaults and issue-level recoveries (LGDs). This also reflects that defaults are generally issuer-level events, while the recoveries are issue-specific i.e., depend on the place of the debt issue in the issuer's capital stack, as well as on the amount and nature of any collateral.
- E10.13 The application of the default and downgrade costs should be consistent with the way the costs were derived. Accordingly, issuer ratings should be used in assigning the default & downgrade costs.
- E10.14 However, where an insurance group can demonstrate that either: i) the use of issue-level ratings leads to outcomes that are no less conservative (i.e., leads to SBA BELs for the relevant blocks of business that are no lower) than those obtained by using issuer-level ratings; or ii) where criterion i) is not met, the differences are demonstrated to be immaterial; then the issue-level ratings may be used.

Use of Simplifications

- E10.15 Reasonable simplifications are allowed provided they are prudent and appropriately capture the cumulative impact of default and downgrade costs at all points, including on point of sale.

Default and Downgrade Cost Floors

- E10.16 For all assets for which the BMA does not publish default and downgrade costs, the default and downgrade costs applied within SBA shall be no less than the applicable floors. That is, the default and downgrade costs for all such assets shall be determined as the greater of: i) the insurance group's own default and downgrade cost assumptions for the asset; and ii) the applicable floors. The applicable floors are defined as the corporate bond (senior unsecured) default and downgrade costs for the corresponding rating, unless otherwise prescribed by the Authority. For structured assets and securitizations, the floors shall apply at the level of the tranches (as opposed to the underlying collateral assets).

Default and Downgrade Costs beyond the Published Tenors

- E10.17 For default and downgrade cost assumptions beyond the last tenor/maturity for which the Authority publishes the costs, the insurance groups may keep the default and downgrade costs constant at the values corresponding to the last published tenor/maturity.¹⁴

¹⁴ For the avoidance of doubt, it is noted that this still implies increasing cumulative losses.

E10.18 Alternatively, other approaches may be used provided it is demonstrated that those lead to assumptions that are no less conservative (i.e., lead to default and downgrade costs and cumulative losses that are no lower) than the approach above. Examples of such alternative approaches include fitting a curve to reflect the trend in the published default and downgrade costs; or utilizing rating agency data beyond the last tenor published by the BMA to extrapolate the default and downgrade costs; in each case provided the conservatism criterion above is met.

Treatment of Government Debt

E10.19 In terms of default and downgrade costs, government debt shall be treated the same as unsecured corporate bonds of the same rating, except for the following cases:

E10.19a For countries rated AA- or better, there will be no default & downgrade costs for government debt issued in the local currency of the country.

E10.19b Otherwise, there will be no default & downgrade costs for government debt where all of the following conditions are met:

- i. The debt is denominated in the local currency of the country;
- ii. The country is rated A- or better;
- iii. The currency of the country has a status as global reserve currency and is fully convertible; and
- iv. The country has full and independent control over fiscal and monetary policy.

E11. Transaction Costs

Background

E11.1 Paragraph 28(30)-(32) in the Rules include requirements on transaction costs in the SBA.

Instructions

E11.2 For all assets, the full expected price impact of selling or buying the asset shall be reflected within the scenario-based approach projections. In addition to the price impacts of trading, any applicable fees, commissions and expenses required to purchase or sell assets—whether implicit or explicit—should be included within the transaction cost assumptions. As per subparagraph 28(30)(c), where no sufficient data for a specific asset type is available, or uncertainty around the level of assumptions exists, prudent assumptions shall be applied by insurance groups in modelling of the transaction costs and related costs.

Application of Bid-Ask spreads

E11.3 If current observed bid-ask spreads are lower than long-term average bid-ask spreads, a grading-in from current market to long-term average bid-ask spreads should be applied; the same shall apply if current bid-ask spreads are wider than long-term average bid-ask spreads, except that the grade-in period shall be set to be more prudent. This applies to both existing assets and potential reinvestments. Alternatively, long-term average bid-ask spread assumptions can be used where these are demonstrated to be more prudent than current bid-ask spreads.

E11.4 The bid-ask spreads should be the effective bid-ask spreads that consider the size of the insurance group's positions and the volumes traded within the SBA projections in relation to the liquidity and depth of the market for the relevant asset. Marginal bid-ask spreads (e.g., the bid-ask spread involved in buying/selling an incremental unit of quantity at the market) should not be used. In case an insurance group considers that the effective bid-ask spreads do not provide an appropriate reflection of economic reality, then the insurance group may use more realistic bid-ask spreads that explicitly vary based on the quantities sold/bought. The derivation of such bid-ask spreads should be based on observed market data and consider all the principles noted within this section and in the principal Rules (including application of appropriate conservatism where uncertainty exists).

Treatment of liquid publicly traded assets

E11.5 For liquid publicly traded assets, the minimum requirement is to reflect bid-ask spreads, in the manner described in the principal Rules and these Instructions, where it can be demonstrated that this adequately captures (and does not understate) the full expected price impact of selling and buying.

Treatment of all other assets

E11.6 For assets other than liquid publicly traded assets, the market bid-ask spreads may not provide a full reflection of the price impact of selling/purchasing, and this shall be reflected in the assumptions used. The impact is expected to vary by degree of (il)liquidity and between asset classes. For less liquid assets, the magnitude of the impact is expected to be higher than the bid-ask spreads based on advertised or displayed prices/quotes (including broker quotes or other non-binding prices).

E11.7 In addition to the requirements set out in the Rules, the transaction cost assumptions should also satisfy the following:

E11.7a The transaction cost assumptions incorporating full price impacts should not be lower, for any asset type, than the implied bid-ask spreads or discounts/premiums observed based on past actual trades for that asset type.

E11.7b The price impacts and bid-ask spreads for illiquid or less liquid assets should be no less than those for similar liquid publicly quoted assets of equivalent credit quality/rating.

E12. Further instructions

E12.1 Use of leverage to enhance returns is not allowed in the SBA.

E12.2 No credit for active portfolio management is allowed in the SBA (e.g., in terms of assumed yield pickup).

F. APPENDIX A - GLOSSARY

Act – means the Insurance Act 1978.

Accident and Health Insurance – means an insurance that pays a benefit or benefits in the event of the insured incurring an insured injury, illness or infirmity.

Annuity or Annuities – means an insurance that provides savings or income benefits during the lifetime of the insured or some limited period thereafter.

Approved Group Internal Capital Model – means a model approved under paragraph 5 of the Rules.

Available Statutory Capital and Surplus – Available Statutory Capital and Surplus is defined as Total Statutory Capital and Surplus including subsequent Capital Contribution including ‘Deductions’. All capital contributions are to be approved by the BMA, and all adjustments are determined at the discretion of the BMA.

Average Annual Loss (AAL) – based on insurance group’s Cat models; mean expected net natural catastrophe loss (after reinsurance), including reinstatement premiums, for annual aggregate exposure to all related risks and perils other than those relating to the Property Catastrophe line of business for the year following the ‘relevant year’ as reported on Schedule V. The AAL should be calculated from the same underlying loss distribution used to determine the Gross PML and Net PML (excluding the property catastrophe component).

Bermuda Monetary Authority (BMA or Authority) – the BMA is the integrated regulator of the financial services sector in Bermuda. Established under the Bermuda Monetary Authority Act 1969, the Authority supervises, regulates and inspects financial institutions operating in or from within the jurisdiction. It also issues Bermuda’s national currency; manages exchange control transactions; assists other authorities in Bermuda with the detection and prevention of financial crime; and advises the Government and public bodies on banking and other financial and monetary matters. The Authority develops risk-based financial regulation that it applies to the supervision of Bermuda’s banks, trust companies, investment businesses, investment funds, fund administrators, money service businesses, corporate service providers, insurance companies, digital asset business and digital asset issuance. It also regulates the Bermuda Stock Exchange.

Group Bermuda Solvency Capital Requirement (Group BSCR) – establishes a measure of solvency capital that is used by the BMA to monitor the capital adequacy of insurance groups domiciled in Bermuda. The Group BSCR is determined by combining the calculated capital for each risk category (excluding operational risk) and applying a covariance adjustment with the square root rule, which is further adjusted to include group-specific operational risk, group-specific catastrophe-related measures, group-related risks and capital add-on.

Group BSCR Ratio – the Group BSCR Ratio is the ratio of the Available Statutory Economic Capital and Surplus to the Group BSCR (after covariance adjustment).

Group Capital and Solvency Return – means such return relating to the group’s risk management practices and to the information used by the group to calculate its ECR as may be prescribed by or under Rules made under section 6A.

Cat – abbreviation of the word catastrophe.

Catastrophe Risk – means the risk of a single catastrophic event or series of catastrophic events that lead to a significant deviation in actual claims from the total expected claims;

Concentration Adjustment Factor – the concentration adjustment factor is used in relation to the premium risk and the reserve risk. It is based on the ratio of the largest individual line of business amount to total amount. The Factor will decrease as the number of lines of business increases to a minimum value of 60%

Concentration Risk – means the risk of exposure to losses associated with inadequate diversification of portfolios of assets or liabilities.

Credit Risk – includes the risk of loss arising from an insurance group’s inability to collect funds from debtors.

Critical Illness Insurance – means a form of accident and health insurance that pays a benefit if the insured incurs a predefined major illness or injury.

Deferred Annuity – means an insurance that provides benefits at a future date which may be fixed deferred annuities where specified amounts are payable or variable annuities where the benefits are dependent on the performance of an investment fund or funds.

Disability Income Insurance – means an accident and health insurance that pays a benefit for a fixed period of time during disability.

Form 1 – Statutory balance sheet as defined by the BMA.

Form 2 – Statutory statement of income as defined by the BMA.

Form 8 – Statutory statement of capital and surplus as defined by the BMA.

Form 1EBS – Economic balance sheet as defined by the BMA.

Group Enhanced Capital Requirement (Group ECR) – establishes a measure of solvency capital that is used by the BMA to monitor the capital adequacy of insurance groups domiciled in Bermuda. It is equal to the higher of an approved group internal capital model/Group BSCR or MSM.

Group ECR Ratio – the Group ECR Ratio is the ratio of Available Statutory Economic Capital and Surplus to the Group ECR.

Group Life, Health and Disability Insurance – means insurance that is issued to insureds through a group arrangement such as through an employer or association.

Insurance (Group Supervision) Rules 2011(the Supervision Rules) – these Rules apply to insurance groups for which the BMA is the group supervisor.

Insurance (Prudential Standards) (Insurance Group Solvency Requirement) Rules 2011 (the Prudential Standard Rules) – under section 6A of the Act, the BMA may make Rules prescribing prudential standards in relation to (a) ECR, (b) Capital and solvency returns, (c) Insurance reserves, and (d) Eligible capital that must be complied with by insurance groups for which the BMA is the group supervisor

Insurance Risk – means the risk of fluctuations or deterioration in the experience factors affecting the cost of benefits payable to policyholders or impacting upon the amounts held to provide for policyholder obligations, including Long-Term business risks.

Legal Risk – means the risk arising from an insurance group’s (a) failure to comply with statutory or regulatory obligations; or (b) failure to comply with its bye-laws; or (c) failure to comply with any contractual agreement.

Life Insurance – including term insurance, whole-life insurance and universal-life insurance; means insurance of risks on the mortality (risk of death) of the life insured.

Liquidity Risk – means (a) the risk arising from an insurance group’s inability to meet its obligations as they fall due or (b) an insurance group’s inability to meet such obligations except at excessive costs.

Longevity Risk – means the risk of fluctuations or improvements in mortality that causes benefits or payout annuities to be paid for longer than expected.

Market Risk – means the risk arising from fluctuations in values of, or income from, assets or in interest rates or exchange rates.

Morbidity Risk – means the risk of fluctuations or deteriorations of morbidity experience causing increased claims on accident and health insurance coverage.

Mortality Risk – means the risk of fluctuations or deteriorations of mortality experience causing increased claims on life insurance coverage.

Non-Proportional Insurance – means coverage of risk that is not shared at a given layer or that attach above an insured layer.

Non-Rated Bonds – Bonds that have not been rated by AM Best, Standard & Poor's, Moody's, Fitch or equivalent agencies.

Operational Risk – means the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events including legal risk.

Quoted – assets that are carried at fair value quoted on an exchange or a determinable market.

PML – see Probable Maximum Loss definition.

Premium Risk – means the risk that premium is insufficient to meet future obligations.

Probable Maximum Loss (PML) – based on insurance group’s Cat models; probable maximum loss is the anticipated maximum loss that can occur with a certain level of probability. The BSCR utilises a probable maximum natural catastrophe loss at a 99.0% TVaR level for annual aggregate exposure to all related risks and all perils, including reinstatement premiums.

Rated Bonds – bonds rated with respect to the latest available AM Best, Standard & Poor's, Moody’s, Fitch or equivalent agencies.

Regulatory Action Level – defined by BMA's regulatory action guidelines.

Relevant Year – in relation to an insurance group, this means its financial year.

Reputational Risk – includes risk of adverse publicity regarding an insurance group’s business practices and associations.

Required Capital and Surplus – see Enhanced Capital Requirement.

Retrocessional Contracts – Reinsurance contract whereby one reinsurer transfers all or part of the reinsurance risk that it has assumed or will assume to another reinsurer.

Scenario-based Approach (SBA) - the alternative approach to calculating the best estimate liability

Schedule II – Schedule of Fixed Income and Equity Investments By BSCR Rating as defined by the BMA.

Schedule IIA – Schedule of Funds Held by Ceding Reinsurers In Segregated Accounts/Trusts by BSCR Rating as defined by the BMA.

Schedule III – Schedule of Loss and Loss Expense Provisions by line of business as defined by the BMA.

Schedule IV – Schedule of Premium Written by Line of Business as defined by the BMA.

Schedule IV(B) – Schedule of Long-Term Business Premiums as defined by the BMA.

Schedule V – Schedule of Risk Management as defined by the BMA.

Schedule VI – Schedule of Fixed Income Securities as defined by the BMA.

Schedule VII – Schedule of Long-Term Insurance Data as defined by the BMA.

Schedule VIII – Schedule of Long-Term Variable Annuity as defined by the BMA.

Schedule VIIIA – Schedule of Long-Term Variable Annuity – Internal Capital Model as defined by the BMA.

Schedule IX – Schedule of Group’s Solvency Self-Assessment as defined by the BMA.

Schedule X – Catastrophe Risk Return as defined by the BMA.

Schedule XIA – Schedule of Regulated Non-insurance Financial Operating Entities as defined by the BMA.

Schedule XIB – Schedule of Unregulated Entities Where the Parent Exercises Control as defined by the BMA.

Schedule XIC – Schedule of unregulated entities where the parent exercises significant influence as defined by the BMA.

Schedule XID – Schedule of entities' capital deducted from the available statutory capital and surplus as defined by the BMA.

Schedule XII – Schedule of group minimum margin of solvency as defined by the BMA.

Schedule XIII – Schedule of group eligible capital as defined by the BMA.

Square Root Rule – the square root rule is an approximation of the covariance effect of the risk categories.

Strategic Risk – means the risk of an insurance group's inability to implement appropriate business plans and strategies, make decisions, allocate resources, or adapt to changes in the business environment.

Stop Loss Insurance Risk – is a form of non-proportional risk that provides benefits if total claims experience exceed a predefined level.

Supervision Rules – see Insurance (Group Supervision) Rules 2011.

Tail Value-at-Risk (TVaR) – means the conditional average potential given that the loss outcome exceeds a given threshold.