INSURANCE COMMISSION
OF THE BAHAMAS

General Insurance Capital Adequacy

DRAFT- Guideline

7/23/2021

This Draft Guideline outlines the capital adequacy requirements for general insurance companies. It details the approach to determining the required risk-based capital and the available capital taking into consideration the quality of available capital.

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Introduction

The Insurance Commission of the Bahamas (ICB) wishes to conduct a Quantitative Impact Study (QIS) to support the development of a risk-based capital adequacy framework (RBC) for General Insurers.

The International Accounting Standards Board (IASB) has issued new International Financial Reporting Standards (IFRS), in particular IFSR 17 Financial Contracts, IFRS 9 Financial Instruments and IFRS 16 Leases.

In light of the above, the objective of the QIS is to evaluate the impact of the above changes on the proposed RBC framework.

The ICB had previously conducted a QIS based on an initial proposed RBC framework. The requirements of the RBC framework has been adjusted to allow for the key impacts of the changes being made to the IFRS. Capital for operational risk and a credit for diversification of risks have also been included in this iteration of the QIS.

The minimum target level of required capital will be reviewed after an analysis of the QIS results is completed.

We encourage the insurers to provide feedback when the results are submitted. If there are alternative scenarios that the insurers would like to propose for any particular risk category, please do so with supporting rationale.

IFRS 17 – Liability Valuation Method

For the purposes of the QIS, where liabilities (liability for remaining coverage as defined in IFRS 17) are to be determined, the Premium Allocation Approach ("PAA") is to be used.

Where companies have not yet determined IFRS 17 liabilities, Schedule 2 provides definitions and approximations to the specific items required for this QIS.

General Insurance Capital Adequacy Guideline

Pursuant to s. 78, Insurance Act, 2005 and reg. 91, Insurance (General) Regulations, 2010

1. Citation

This Guideline may be cited as the General Insurance Capital Adequacy Guideline.

2. Definitions

In this Guideline:

"back-to-back placements" are reciprocal cross holdings (either directly or indirectly) in the common shares of insurance, banking and financial entities that occur between two or more companies, that are financially regulated institutions (e.g. Company A holds shares of Company B and Company B in return holds shares of Company A), and that are designed to inflate the capital position of institutions.

"foreign insurer" means a branch of a foreign insurance company, which is registered to carry on insurance business in The Bahamas;

"net claims" refegrs to the total general insurance claims paid in the immediately preceding twelve months, net of reinsurance;

"net premiums" refers to the total general insurance premiums received in the immediately preceding twelve months, net of reinsurance subject to the limit set out in Regulation 92 of the Insurance (General) regulations, 2010, and without any further adjustments;

"net unearned premiums" means the amount as determined under section 75 of the Insurance (General) Regulations for general insurance business, net of reinsurance subject to the limit set out in Regulation 92 of the Insurance (General) regulations, 2010, and without any further adjustments;

"outstanding claims reserve" means the additional reserves as determined under section 94(a) of the Insurance (General) Regulations for general insurance business; and

"Regulatory Capital Ratio" means the Regulatory Capital Available divided by Regulatory Capital Requirement.

3. Application

These Guidelines apply to both domestic and foreign insurers in respect of insurance business both in and outside of The Bahamas. The term "outstanding claims reserve" defined above applies equally to the outstanding claims reserve both inside and outside of The Bahamas. The Regulatory Capital Available and Requirement are to be determined using the unconsolidated financial statements of the insurer.

4. Regulatory Capital Available

Financial instruments will only be considered for regulatory capital where these instruments:

i. are permanent;
ii. are free of mandatory fixed charges against earnings; and
iii. have a subordinated legal position to the rights of policyholders and other creditors.

Total Available Capital consists of Tier 1 (core capital) and Tier 2 (supplemental capital). Tier 1 capital comprises the highest quality elements. Tier 2 elements fall short of either of the first two capital qualities but contribute to the overall strength of the company as a going concern.

Regulatory Capital Available for a domestic insurer is the sum of Tier 1 and Tier 2 Capital, less the deductions from capital as summarized in Part C of this section.

For a foreign insurer the Regulatory Capital Available is the sum of the total amount of initial deposit in accordance with s. 43, Insurance Act, 2005 ("the Act"), and the statutory funds held in trust in accordance with s. 45(4) of the Act, plus any excess assets in The Bahamas less the total liabilities and reserves required in The Bahamas.

A. Tier 1 Capital

Net Tier 1 (or core) Capital shall be the amount by which the value of Gross Tier 1 Capital defined in subsection (a) exceeds the total of the deductions defined in subsection (b).

a) Gross Tier 1 Capital shall be the sum of:
   1. ordinary share capital (issued and fully paid up);
   2. contributed surplus;
   3. retained earnings (or deficit);
   4. preference shares or other financial instruments that meet the requirements of Tier 1 Capital as outlined in this section;
   5. revaluation reserves approved by the Commission; and
   6. non-controlling interest.

b) The amount to be deducted from Gross Tier 1 Capital shall be any unrealized gains on assets included in retained earnings and revaluation reserves.

c) Financial instruments, unless specifically approved as Tier 1 capital by the Commission, may only be included in Tier 1 Capital if they meet the following conditions:
   a. they are of perpetual duration and fully paid;
   b. there is no option for redemption at the request of the holder;
   c. they are fully subordinated to the interests of policyholders and other creditors;
   d. dividends are not cumulative in the event of non-payment; and
   e. the amount does not exceed 33% of Tier 1 Capital excluding preference shares.

Net Tier 1 Capital must exceed the minimum stated capital prescribed in regulation 60 of the Regulations.

B. Tier 2 Capital

Tier 2 Capital is divided into Tiers 2A and 2B and shall not exceed 100% of Net Tier 1 Capital.

Tier 2A Capital comprises the following:

a. preference shares or other financial instruments that would have been included in Tier 1 Capital but for the limit in Tier 1 Capital;
b. hybrid capital instruments that do not meet the definition of Tier 1 Capital but meet the requirements for Tier 2A outlined below;
c. unrealized gains excluded from Tier 1 Capital with unrealized gains on real estate limited to 20% of Net Tier 1 Capital.

Hybrid capital instruments may only be included in Tier 2A Capital if they meet the following conditions:

a. they are of perpetual duration and fully paid up;
b. there is no option for redemption at the request of the holder;
c. they are fully subordinated to the interests of policyholders and other creditors;
d. dividends or interest are able to be deferred (as for example with cumulative preference shares) where the profitability of the company would not support payment; and
e. must not contain restrictive covenants or default clauses that would allow the holder to trigger acceleration of repayment in circumstances other than the insolvency, bankruptcy or winding-up of the insurer.

Tier 2B Capital includes limited-life instruments that meet the following criteria:

a. the initial minimum term is greater than five years;
b. they are fully paid up in cash or, with the approval of the Commission, in real or personal property;
c. they are fully subordinated to the interests of policyholders and other creditors; and
d. if the remaining term of the instrument is less than five years, the amount of the instrument included in Tier 2B Capital is amortized according to the following schedule:
    i. remaining term 4 years but less than 5 years 80%
    ii. remaining term 3 years but less than 4 years 60%
    iii. remaining term 2 years but less than 3 years 40%
    iv. remaining term 1 year but less than 2 years 20%
    v. remaining term less than 1 year nil

Limit: Tier 2B Capital shall not exceed 50% of Net Tier 1 Capital.

C. Deductions

The sum of Tier 1 and Tier 2 Capital shall be reduced by the following:

a. Goodwill and other intangible assets;
b. new capital issues between two or more companies that represent either directly or indirectly, back-to-back placements;
c. pension plan assets; and
d. investment in financial subsidiaries.

5. Regulatory Capital Requirement

a) The Regulatory Capital Requirement is the sum of the following:
    A. Asset Default Risk Charge;
    B. Off Balance Sheet Risk Charge;
    C. Foreign Currency Mismatch Risk Charge;
    D. Premium Adequacy Risk Charge;
    E. Outstanding Claims Risk Charge;
    F. Catastrophe Risk Charge;
    G. Operational Risk Charge; and
    H. Diversification Credit

A. Asset Default Risk Charge

Asset Default Risk Charge is the sum of the various asset class amounts comprising total assets multiplied by an appropriate risk factor for each asset class as shown in Table 1.

Table 1

Asset Class	**Factor**
Cash, bank balances and bank deposits	0.00
Bank certificates of deposit	0.00
Treasury bills	0.00
Treasury notes/bonds	0.00
Government and government guaranteed securities	0.00
Government corporation/agency bonds (not guaranteed)	0.10
Corporate bonds – listed	0.20
Corporate bonds - not-listed	0.20
Real estate / Investment Property	0.15
Equity securities – listed	0.20
Equity securities - not-listed	0.20
Preferred shares – listed	0.15
Preferred shares - not-listed	0.15
Other debt instruments - listed	0.20
Other debt instruments - not-listed	0.20
Mortgage loans – performing	0.00
Mortgage loans - non-performing (overdue 90 days or more)	0.20
Mutual funds	0.20
Investment in financial subsidiaries	0.00
Investment in related parties if not financial subsidiary	1.00
Other investments	0.25
Policy loans	0.00
Due from reinsurers	0.00
Deferred acquisition costs	1.00
Receivables from agents:	
0 - 30 days outstanding	0.10
31 - 60 days outstanding	0.15
Over 60 days outstanding	0.25
Premium receivables:	
0 - 30 days outstanding	0.00
31 - 60 days outstanding	0.15
Over 60 days outstanding	0.15
Interest receivable on investments	0.00
Goodwill and other intangible assets	0.00

Asset Class	Factor
Land and building (used in operations)	0.15
Accounts receivable	0.15
Prepayments	0.15
Equipment and machinery	0.15
Office, furniture and fixtures	0.15
Computer software	0.15
Leasehold improvements	0.15
Motor vehicles	0.15
Other assets	0.25

For mutual funds, either the single factor listed above or a "look through" to the underlying assets and using their corresponding factors on a pro rata basis are permitted.

B. Off Balance Sheet Risk Charge

Off Balance Sheet Asset Risk Charge is the sum of the amount of the transaction undertaken through synthetic assets and derivatives multiplied by a risk factor based on the type of contract and its term to maturity as stated in these Guidelines.

The Off Balance Sheet Liability Risk Charge shall be based on the risk factor for the counterparty.

C. Foreign Currency Mismatch Risk Charge

The Foreign Currency Mismatch Risk Charge shall be

a. 2% of the total of the net open positions in any other currency issued by countries rated BBB and above, expressed in Bahamian dollars; and
b. 8% of the total of the net open positions in any currency issued by countries rated BBB- and below, expressed in Bahamian dollars.

The credit ratings referred to above shall be the Standard and Poor's ratings.

The net open position shall be the absolute value of the assets denominated in a currency less the liabilities denominated in that currency. The value shall be converted to Bahamian dollars using the prevailing selling rate at the valuation date as determined by the Central Bank of The Bahamas.

Where the actuary can demonstrate that provisions for foreign currency mismatch have been established within the policy liabilities, then such provisions can be offset against this capital requirement.

D. Premium Adequacy Risk Charge

The Premium Adequacy Risk Charge shall be the greater of 15% of the net premiums and 15% of the net unearned premiums.

E. Premium Adequacy Risk Charge (IFRS)

For the determination of liabilities under IFRS for this QIS, the Premium Allocation Approach (PAA) as defined under IFRS 17, is the method to be used.

The margin for unexpired coverage is calculated by line of business, by multiplying the greater of:

- net unexpired coverage; and
- 30% of-net premiums received (i.e., premiums received net of associated reinsurance premiums paid) in the past 12 months

by the applicable risk factors.

The net unexpired coverage is determined as:

Net unexpired coverage = Unexpired coverage for insurance contracts liabilities – Unexpired coverage for reinsurance contracts held

Unexpired coverage for insurance contracts liabilities [1]

The unexpired coverage for insurance contracts liabilities is determined using the premium allocation approach (PAA) to determine their liability for remaining coverage (LRC) for a group of contracts in accordance with IFRS 17. The unexpired coverage is calculated as:

Unexpired coverage for insurance contracts liabilities (PAA) is equal to:

- *(Liability for remaining coverage excluding the loss component; plus*

  Remaining amount of acquisition cash flows to be amortized, if any; plus

  Premiums receivable) x Expected Loss Ratio (ELR)

  plus

- *Costs*

The costs included in unexpired coverage for insurance contract liabilities (PAA) are claims handling and maintenance costs as well as costs that are directly attributable to settling claims. These costs can be implicit in the expected loss ratio (ELR), explicitly added, or a combination of implicit and explicit.

The ELR (expected loss gratio) is a forecast of the loss ratio that is expected for the duration of the future period during which the unexpired portion of the contract will be earned (forecast period). It is based, to the best of the insurer's knowledge and belief, on assumptions reflecting the conditions the insurer expects will exist and the course of action it expects to take during the forecast period. The assumptions used for determining the ELR should include consideration of recent loss experience, unless impracticable or unavailable, and include adjustments as appropriate, such as loss trends, on-level factors, catastrophes, large losses loadings, impacts of legislative changes or other factors which are expected to affect the loss ratio during the forecast period. The ELR should use insurance revenue as its denominator, reflect the time value of money, exclude any risk adjustments, and may include costs such as claims handling and maintenance costs and costs directly attributable to claims.

[1] Refer to definition in Schedule 2

Unexpired coverage for reinsurance contracts held [2]

The unexpired coverage for reinsurance contracts held is determined using the PAA method to measure a group of reinsurance contracts held.

The unexpired coverage for reinsurance contracts held is defined as:

Unexpired coverage for reinsurance contracts held (PAA) is equal to:

- *(Liability for remaining coverage; plus*

  Premiums payable; plus

  Reinsurance commission; plus

  Expected future reinsurance costs) x Expected Loss Ratio

  Less

- *Expected future reinsurance costs*

Reinsurance commission is equal to the amount used for the measurement of the liability for remaining coverage, and includes ceding commissions that are received and receivable, and yet to be amortized.

The applicable insurance risk factors for determining the margins for unexpired coverage are as follows:

Class of Insurance	**Risk Factor**
Personal Property	12.5%
Commercial Property	12.5%
Motor Vehicles	10%
Liability	20%
Pecuniary Loss	20%
Marine, Aviation and Transport	15%
Title	12.5%

F. Outstanding Claims Risk Charge

The Outstanding Claims Risk Charge shall be 10% of the outstanding claims reserve.

[2] Refer to definition in Schedule 2

G. Outstanding Claims Risk Charge (IFRS)

Margin for liability for incurred claims[3]

The margin for liability for incurred claims is calculated by line of business, by multiplying the present value of future cash flows for net liabilities for incurred claims (excluding the risk adjustment for non-financial risk), net of associated cash flows for reinsurance, salvage and subrogation, and self-insured retentions, by the applicable risk factors, and deducting the risk adjustments (i.e. the risk adjustments for liabilities for incurred claims, net of risk adjustments of associated reinsurance). The margin for liability for incurred claims cannot be less than zero for any one line of business.

Margin for liability for incurred claims equals:

Maximum of (a) and (b):

(a) Risk factor for incurred claims x Present value of the estimate of future cash flows for net liabilities for incurred claims; less Risk adjustments for net liabilities for incurred claims;

and

(b) Zero

The applicable insurance risk factors for determining the margins for liability for incurred claims are as follows:

Class of Insurance	**Risk Factor**
Personal Property	12.5%
Commercial Property	10%
Motor Vehicles	12.5%
Liability	25%
Pecuniary Loss	20%
Marine, Aviation and Transport	20%
Title	15%

H. Catastrophe Risk Charge

Method 1: The Catastrophe Risk Charge shall be determined by the following formula:

[3] Refer to definition in Schedule 2

Risk Charge =

$$\sqrt{\sum_{t\neq 3,4,10,12}(c_t \times P_t)^2 + (c_3 \times P_3 + c_{12} \times P_{12})^2 + (c_4 \times P_4 + c_{10} \times P_{10})^2}$$

where

$P_{lob(t)}$ = the annual net written premiums for the individual lines of insurance business (LoB) Any premiums paid for catastrophe cover should be deducted.

LoB(t) and the factors c_t are as defined in Table 2.

Table 2

LoB (t)	***Factor c_t***
1. Motor, 3rd-party	*0.15*
2. Motor, other	*0.075*
3. Marine / Aviation / Transport	*0.50*
4. Fire/Property	*0.75*
5. Liability	*0.15*
6. Credit	*0.60*
7. Legal expense	*0.02*
8. Assistance	*0.02*
9. Miscellaneous / Other	*0.25*
10. Reinsurance (Property)	*1.50*
11. Reinsurance (Casualty)	*0.50*
12. Reinsurance (Marine /Aviation / Transport)	*1.50*

Method 2: Model Generated Method

If the insurer uses a model to estimate its Probable Maximum Loss (PML) from earthquakes or windstorms, then the Catastrophe Risk Charge shall be determined by the following formula:

Greater of (a) and (b) where:

(a) = PML_{250} for Windstorm less Reinsurance collectable for Windstorm; and

(b) = PML_{500} for Earthquake less Reinsurance collectable for Earthquake

The risk charge shall be greater than or equal to zero.

'**PML_{250} for Windstorm**' refers to the Gross Probable Maximum Loss for windstorm estimated using a 250 year event return period at a 75 percent damageability confidence level for deterministic models or a 250 year loss return period at a 50 percent damageability confidence level for probabilistic models.

'**PML_{500} for Earthquake**' refers to the Gross Probable Maximum Loss for earthquake estimated using a 500 year event return period at a 75 percent damageability confidence level for deterministic models or a 500 year loss return period at a 50 percent damageability confidence level for probabilistic models.

'**Probable Maximum Loss (PML)'** is the threshold dollar value of losses beyond which losses caused by a major earthquake or windstorm event are unlikely. Gross PML is the PML amount after deductibles but before catastrophic and other reinsurance protection.

'Reinsurance collectable' refers to amounts that would be collectable under the current documented reinsurance program for the insurer or branch if it were to sustain windstorm or earthquake losses that match the relevant return period and should be equal to an amount of reinsurance collectable for a loss of the size of the PML, net of retention.

'Damageability confidence level' refers to the probability that the actual damage ratio will be less than or equal to the damage ratio calculated by the model. Deterministic models follow known rules and are therefore predictable. Probabilistic models require the use of random variables that involve some degree of uncertainty in predicting their behaviour. Therefore, the higher confidence level is required for the more predictable method.

General insurers with material exposure to earthquake and windstorm risks are encouraged to use models to estimate their PML. Models include models licensed from various commercial vendors and maintained in-house or run by third parties on behalf of the insurer or can be an internal estimation technique or model developed by the insurer to the Commission's satisfaction.

The insurer is also asked to provide the following data for both earthquake and windstorm catastrophe coverage:

- The company's gross aggregate exposure net of deductibles but before reinsurance
- Total facultative coverage where the company retains partial risk
- Total facultative coverage where the company retains no risk

I. Operational Risk Charge

Operational Risk is the risk arising from inadequate or failed internal processes or systems, behaviour of personnel, or from external events. Operational risk includes legal risk and the portion of conduct risk that affects insurers but excludes strategic and reputational risk[4].

The required capital for Operational Risk is 10% of the total required capital before the provision for Operational Risk.

J. Diversification Credit

Because losses arising across some risk categories are not perfectly correlated with each other, a company is not likely to incur the maximum possible loss at a given level of confidence from each type of risk simultaneously. Consequently, an explicit credit for diversification is permitted between the sum of credit and market risk requirements, and the insurance risk requirement so that the total capital required for these risks is lower than the sum of the individual requirements for these risks.[5]

[4] Defined in the DRAFT REVISED ERM-RELATED GLOSSARY TERMS of the International Association of Insurance Supervisors (IAIS)

[5] OSFI MCT QIS June 2019

The diversification credit is calculated using the following formula. Note that this is automatically calculated in the woksheet.

Diversification Credit = (A + I) - (A^2 + I^2 + 2 x R x A x I)^(1/2)

where:

A is the asset risk margin, which is the sum of capital required for:

- credit risk; and
- foreign exchange risk.

I is the insurance risk margin, which is the sum of capital required for:

- policy liabilities;
- catastrophe risk; and
- operational risk.

R is the correlation factor between A and I, equal to 50%.

K. Reinsurance

This tab should include the following information for all lines of business:

- Gross Premiums and Gross Sum Insured, which are not reduced to reflect reinsurance.
- Net Premiums and Net Sum Insured, which are to reflect the full deduction for reinsurance without application of the limit placed in Regulation 92 of the Insurance (General) Regulations, 2010.

6. Regulatory Capital Ratio and Capital Management

Regulatory Capital Ratio (RCR) means the Regulatory Capital Available divided by Regulatory Capital Requirement expressed as a percentage. Companies are required to establish a Target Capital Ratio (TCR) in excess of a Regulatory Capital Ratio of 150% and manage their capital levels such that the regulatory capital ratio is always in excess of its TCR.

The TCR should be determined based on the company's Own Risk and Solvency Assessment, necessary to cover the risks specified in the capital tests as well as all other risks of the insurer. The TCR should be based on stress testing and scenario testing to establish a capital buffer commensurate with the variability and risks in the business. A RCR below 150% will attract regulatory attention and require insurance companies to present a capital plan outlining how the company will return to a capital ratio in excess of the TCR. A drop in the capital ratio to a level below the Minimum Capital Ratio (MCR) of 120% will attract the most severe regulatory intervention including suspension of registration under the Insurance Act. The MCR is set at 120% rather than 100% to cover operational risks that are not explicitly measured, but form part of the minimum requirement under the RCR.

All insurers are required to assess the quality and adequacy of capital resources to meet regulatory requirements and other capital needs. This must be reported in the insurer's annual capital management plan.

7. Returns, Audit and Declarations

a. An insurer is required to submit to the Commission, Capital Adequacy Returns in such form as the Superintendent of Insurance may from time to time specify in accordance with the requirements of s. 58 of the Act;
b. In addition to the Capital Adequacy Returns required to be submitted under this Guideline and the Act, an insurer shall provide a declaration by the Chief Financial Officer, the Actuary, and a Director of the insurer in the format as set out in Schedule 1 of this Guideline.

8. Grandfathering Provision

Unrealized gains on real estate prior to the commencement of this Guideline that have not subsequently been realized, will be treated as though they were realized and shall not be subject to restrictions on regulatory capital in this Guideline.

9. Transitional Provisions

Reg. 73 of the Regulations states that "after relevant consultations, the Commission may, upon giving at least six months notice … change the nature and manner of determining the solvency margins…". The solvency margin requirement of general insurance business (Property & Casualty) is included in reg. 91. This will require an amendment to allow for this Guideline to be implemented.

In addition to the time required to make regulatory changes, the Commission will establish an appropriate transition period to provide insurers with sufficient time to prepare for changes to be in compliance with this Guideline once finalized.

Schedule 1- Declarations

Declaration by the Chief Financial Officer

I, ……., Chief Financial Officer of Company Name, Address of Company have reviewed the calculation of the Regulatory Capital Ratio of **Company Name,** as at **(Date).** In my opinion, the calculation has been determined in accordance with the General Insurance Capital Adequacy Guideline and any applicable instructions of the Insurance Commission of The Bahamas.

Signature of the Chief Financial Officer Date

Declaration by the Actuary

I, ……, Actuary of Company Name, Address of Company have reviewed the calculation of the Regulatory Capital Ratio of **Company Name,** as at **(Date).** In my opinion, the calculation has been determined in accordance with the General Insurance Capital Adequacy Guideline and any applicable instructions of the Insurance Commission of The Bahamas.

Signature of the Actuary Date

Declaration by a Director of the Company

I, ……, Officer of Company Name, Address of Company have reviewed the calculation of the Regulatory Capital Ratio of **Company Name,** as at **(Date).** In my opinion, the calculation has been determined in accordance with the General Insurance Capital Adequacy Guideline and any applicable instructions of the Insurance Commission of The Bahamas.

Signature of a Director Date

Schedule 2 - Definitions

1. Premium Allocation Approach (PAA)

- It is a simplifying measurement approach for determining the Liability for Remaining Coverage (LRC) under IFRS17
- The PAA is permitted for
    - Short duration contracts (one year or less); or
    - Cases where its use produces measurements that are not materially different from those that would be produced by the General Measurement Approach (GMA)

2. Margin Required for Unexpired Coverage for Insurance Contract Liabilities using Premium Allocation Approach (PAA)

The margin for unexpired coverage is calculated by line of business, by multiplying the greater of:

- net unexpired coverage; and
- 30% of net premiums received (i.e., premiums received net of associated reinsurance premiums paid) in the past 12 months

by the applicable risk factors.

Net Unexpired Coverage =
Unexpired coverage for insurance contract liabilities
Less
Unexpired coverage for reinsurance contracts held

a. Unexpired coverage for insurance contract liabilities is equal to:

- Liability for remaining coverage (LRC)
  Less
- Loss component
  Plus
- Remaining amount of acquisition cash flows to be amortized
  Plus
- Premiums receivable}
  All multiplied by
- Expected loss Ratio (ELR)
  Less
- Additional maintenance costs and costs attributable to claims not included in ELR

i. Liability for Remaining Coverage (LRC)

- (Premiums Received in the reporting period less the amount recognised as insurance revenue for coverage provided): Use Gross Unadjusted UPR as an approximation
  Less
- Deferred acquisition costs (DAC) that are not immediately expensed.

- The entity has the accounting policy choice to expense or defer acquisition costs (IFRS 17.59(a)) if the coverage period is one year or less.

ii. Loss Component

- Under IFRS 17 policy contracts that are expected to make a loss are classified as Onerous contracts,
- Assume no Onerous contacts and hence this value is zero

iii. Remaining Amount of Acquisition Cash Flows to be Amortized

- Under IFRS 17 paragraph 59 (a) an insurer can choose to expense its insurance acquisition cash flows. If this is the case the remaining amount of acquisition cash flows to be amortized will be zero. If not, any amount not expensed is to be amortized over the life of the contract.

iv. Premiums Receivable

- Use the amounts shown in the financial statements at reporting date

v. Expected Loss Ratio (ELR)

- Use the ratio submitted in Annual Return Form 30.30. If not available by line of business, use the aggregate ELR for all lines of business.
- Another source of the ELR can be found in the actuarial reports

vi. Additional Maintenance Costs and Costs attributable to claims not included in ELR

- These are claims handling and maintenance costs as well as costs that are directly attributable to settling claims.
- Use the figures for ULAE (Unallocated Loss Adjustment Expense) + Future Servicing Costs

b. Unexpired Coverage for Reinsurance Contracts Held is equal to:

- {Liability for remaining coverage (LRC)
  Plus
- Premiums payable
  Plus
- Reinsurance commission
  Plus
- Expected future reinsurance costs}
  All multiplied by
- Expected loss ratio (ELR)
  Less
- Expected future reinsurance costs

i. Liability for Remaining Coverage (LRC)

- Use ceded unadjusted Unearned Premiums.

ii. Premiums Payable

- These are the reinsurance premiums payable as per the financial statements for the reporting period

iii. Reinsurance Commissions

- Reinsurance commission is equal to the amount used for the measurement of the liability for remaining coverage, and includes ceding commissions that are received and receivable, and yet to be amortized.
- Use Reinsurance Commission ceded in annual returns

iv. Expected Future Reinsurance Costs

- Use amounts in actuarial report used to determine Unexpired Risk Reserve

v. Expected Loss Ratio (ELR) for Reinsurance held (ceded)

- Use the ratio submitted in Annual Return Form 30.30. If not available by line of business, use the aggregate ELR for reinsurance held for all lines of business.
- Another source of the ELR can be found in the actuarial reports

If the above information cannot be easily ascertained by line of business, then allocate by pro-rating on the UPR for the purposes of QIS 2. Alternatively assume all business belongs to a line of business with a 12.5% factor using the highest Expected Loss Ratio of the available Expected Loss Ratios.

3. Margin Required for Liabilities for Incurred Claims

a. Liabilities for Incurred Claims net of Risk Adjustment for non-financial risk

- The liabilities for incurred claims covers both reported and not reported incurred claims
- The Risk Adjustment is equal to any Provisions for Adverse Deviation (PfADs) that are included in the liabilities for non-financial risk (that is non-economic risk such as strategic, demographic, operational etc.)
- If there is no PfAD, then use the gross liabilities for incurred claims
- If there is a PfAD for non-financial risk, deduct that PfAD from the gross liabilities

b. Present Value of Cashflows for Reinsurance

- Assume there is no discounting of cashflows
- This item is the expected amount of reinsurance benefit for reported and not reported incurred claims, including any salvage and subrogation amounts, net of any non-financial risk adjustments (PfADs)
- Note that there may be no non-financial risk adjustments for reinsurance contracts held, i.e. the PfADs may be zero

c. Risk Adjustment for Net Liability for Incurred Claims

- This is equal to the non-financial risk adjustments for liabilities for incurred claims, net of non-financial risk adjustments of associated reinsurance

- This is, net PfAD for non-financial risks.

If the above amounts cannot be determined by line of business, enter the information in one of the line items with a 12.5% risk factor, that is, assume all business is either Personal Property or Motor Vehicle.