THE INSURANCE COMMISSION
OF THE BAHAMAS

March 3, 2015

TO: ALL REGISTERED LONG-TERM INSURERS

Risk-based Capital Framework

The Commission is pleased introduce our proposed Risk-based Capital Framework.

We have drafted Capital Adequacy Guidelines for Long-term Insurers. The guidelines have been posted to the Commission's website (www.icb.gov.bs), under the *Policies and Guidelines* section, for industry-wide review and consultation. Also posted to the website is a draft reporting form, to assist with the calculation of the Risk Based Capital test.

Our approach enhances the current Statutory Margin of Solvency measure with a more risk-based measure. The proposed test uses risk factors comparable to those used in other countries in the region. As part of the process, we considered:

- current solvency regulations
- requirements set out in section 72 of the Insurance (General) Regulations, 2010
- minimum share capital required under section 60 of the Regulations
- current industry guidelines for accumulation annuities
- quality of insurers' capital
- current actuarial valuation methods

The proposed risk based minimum capital measure is not intended to reduce or increase the minimum amount of capital that the long-term insurance industry, as a whole, is currently required to hold, but rather, to make the test more risk sensitive (requiring more/less capital to be held where the risk exposure is greater/less) and to provide incentives for good risk management and control. Therefore, following the transition to the new measure, the minimum capital required by an individual insurer may change.

When compared to the existing solvency regulations, the main differences are:

- the replacement of the required capital of 20% of gross premiums with a risk based methodology that reflects the risks inherent in the insurers business; and
- defining the available capital by the quality of capital (Tier 1 and Tier 2), including restrictions on the amount of Tier 2 capital recognized relative to Tier 1 capital.

Asset default and investment volatility risk charges for calculating required capital have not been changed; we have retained the existing asset discounts outlined in section 72 of the Insurance

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(General) Regulations, 2010. The aggregate discount amount is a deduction in arriving at available capital.

Insurers are expected to share these guidelines with their actuary, as some of the data required will be determined based on the valuation of policy liabilities conducted by the actuary on an ongoing basis.

Quantitative Impact Study

In order to test and calibrate the proposed Capital Adequacy Framework, the Commission is requiring all long-term insurers to conduct a Quantitative Impact Study (QIS) on their financial position to assess their Available and Required Capital and Capital Adequacy Ratio under the proposed framework. The primary objective of the QIS will be to ascertain the impact of the proposal on the industry and to assist the Commission in calibrating the revised requirements. The feedback from the industry will also assist in determining an appropriate transition period for insurers to adjust their business operations to facilitate compliance with the revised requirements. The QIS should also help insurers understand the impact on their individual companies and provide relevant comments on the proposal.

Given the above objective, companies are asked to complete the draft reporting form in determining their Available and Required Capital and Capital Adequacy Ratio based on data as at December 31, 2013 and subsequently at December 31, 2014. The forms should be used in conjunction with the guidance and details outlined in the draft Capital Adequacy Guideline. The QIS data and all responses provided will be aggregated and analyzed in a manner that preserves company anonymity and confidentiality.

Industry consultation

The Commission will host an industry briefing following the submission and analysis of the industry results based on the data as at December 2013. At the briefing, we will discuss the aggregate results of our initial review, with emphasis on the impact of the proposed capital adequacy framework. We will also review the capital rules as it relates to establishing minimum and prescribed capital ratios, and the proposed transition period.

Companies are required to submit the completed reporting form for 2013, together with any other supplementary QIS material, inclusive of questions or comments on the structure of the proposed test, by April 30, 2015. Companies are asked to submit information as at December 2014 by June 30, 2015.

Please direct your inquiries to Kencil McPhee (kencilmcphee@icb.gov.bs) at the Insurance Commission of the Bahamas ((telephone – (242)-397-4183).

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