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# *Summary – Class 4 Regulation Bermuda*

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# *Statutory Minimum Capital and Surplus requirements*

***To obtain a license:***

***All Class 4 companies must have paid up share capital of a minimum of \$1,000,000 and minimum capital and surplus of \$100 million in order to obtain a license to write insurance or reinsurance business***

## *Minimum Solvency Margin*

***Statutory Capital and surplus must exceed the greater of:***

- A. Minimum Capital and Surplus: \$100 million**
- B. Premium Test:  
50 % (maximum deduction for reinsurance of  
25% of Gross Premiums written)**
- C. Loss Reserve Test (net reserves): 15%**

# *Liquidity Ratio*

***The minimum proportion of liquid assets that a Class 4 must hold is 75% of the amount of its loss and loss expense provisions and other insurance reserves.***

***Statutorily defined liquid assets include:***

- ***Cash and time deposits;***
- ***Quoted investments (bonds, equities);***
- ***Unquoted investments (bonds, equities);***
- ***Investment in mortgage loans on real estate (first liens only);***
- ***Investment income due and accrued;***
- ***Accounts and premiums receivable;***
- ***Reinsurance balances receivable; and***
- ***Funds held by ceding reinsurers.***

# *Valuation of Loss Reserves*

The provision for loss and loss expense in the statutory balance sheet provisions includes:

- a. An adequate amount set aside by the insurer for gross loss and loss expenses provisions, including for:
  - losses reported before, but not paid by, the date of the balance sheet,
  - losses incurred but not reported to the insurer before the last day of the relevant year, and,
  - expenses likely to be incurred in connection with the investigation, adjustment and settlement of such losses
- b. Less a reduction for an adequate amount for estimates for any amounts recoverable (“estimate for reinsurance recoverables”) under a contract of reinsurance in respect of the gross loss and loss expense provisions.

The estimate for reinsurance recoverables is to be reduced for any amounts the collection of which, in the opinion of the insurer, is doubtful.

# *Discounting of Loss Reserves*

The provision for loss and loss expenses may be discounted:

- a. Where both the amount of the loss provisions and the payment dates of the losses are fixed;
- b. Where neither the amount of the loss provisions nor the payment dates of the losses are fixed but the insurer's Approved Auditor and, if applicable, the Loss Reserve Specialist is of the opinion that the amounts and dates are reasonably ascertainable; or,
- c. Where the loss provisions in question in the insurer's Statutory Financial Statements were discounted on or before 31st December 1988, and have been discounted in each subsequent year.

Where loss provisions are discounted, as allowed, the insurer is required to establish an adequate amount for possible variations in the ultimate amount of the losses, the payment dates of the losses and the applicable interest rates.

Where the loss and loss expense provisions are discounted, the Loss Reserve Specialist is not required to provide an opinion on the rate or rates of interest used for discounting, or the possible variance in the interest rate or rates used for discounting.

The insurer is required to disclose in the notes to the Statutory Financial Statements:

- a. The method of calculating loss and loss expense provisions and provisions for losses incurred but not reported; and,
- b. The amount by which loss and loss expense provisions have been reduced by discounting for the time value of money, and the rates, or the range of rates, of interest used in any such discounting.

# *Annual Statutory Financial Return*

- **Must be filed with the BMA within 4 months of the company's financial year end;**
- **Information to be filed includes:**
  - ✓ Auditor's Report by BMA approved Auditor;
  - ✓ Cover Sheet (includes breakdown of gross premiums by affiliated vs. third party and by class of business, details of aggregate stop loss reinsurance);
  - ✓ CEO attestation of solvency compliance;
  - ✓ Loss Reserve Opinion by a qualified actuary approved by the BMA;
  - ✓ Statutory Financial Statements (Balance Sheet, Income Statement, Statutory Statement of Capital and Surplus);
  - ✓ Schedule of ceded reinsurance showing
    - (a) the name of reinsurer;
    - (b) its current rating;
    - (c) jurisdiction of incorporation;
    - (d) amount of reinsurance premium ceded to it during the relevant year;
    - (e) the amount of reinsurance recoverable due from it;
    - (f) the amount of reinsurance balances payable to it;
    - (g) the amount of net reinsurance recoverable from it ((e) -(f)); and
    - (h) the amount of net reinsurance recoverable from it for less than 180 days, and
    - (i) the remainder of net reinsurance recoverable from it (g) – (h).

## *What regulatory action takes place when a Class 4 fails to meet its Solvency Margin:*

- The company has to file a report to the BMA within 30 days containing the following particulars:
  - The circumstances leading to the failure; and
  - The manner and time within which the company intends to rectify the failure.
- The company cannot declare or pay any dividends until the failure is rectified.
- If the capital and surplus fall below \$75 million, the company has to file along with its report to the BMA :
  - Un-audited interim statutory statements;
  - The opinion of a loss reserve specialist; and
  - A general business solvency certificate.

## *Dividend Restrictions*

**If the proposed dividend is greater than 25% of its statutory capital and surplus, the BMA requires that an affidavit be signed by two Directors and the Principal Representative attesting to the fact the company will continue to meet its statutory solvency margin and liquidity ratio after the dividend is paid.**

# *Reduction of Statutory Capital*

- Approval by the BMA is required for any reduction in total statutory capital of 15% or more as set out in its previous year's financial statements. Statutory capital comprises capital stock, contributed surplus and any other fixed capital.
- The company is required to file with its application an affidavit signed by at least two directors and the Principal Representative attesting to the fact that the reduction of capital will not cause the company to fail to meet its relevant statutory ratios.

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