

Appendix 1

In this Appendix underlining indicates new text and striking through indicates deleted text.



The DFSA Rulebook

Prudential – Insurance Business Module

(PIN)

7.2 The requirement for an actuarial report on general insurance business

- 7.2.3.** (1) Every Insurer An Insurer, other than a Captive Insurer, must provide to the DFSA as at each reporting date a written report relating to its General Insurance Business, prepared by an Actuary who has the qualifications set out in section 7.5.
- (2) The DFSA may by written notice require a Captive Insurer to provide a written report relating to its General Insurance Business, prepared by an Actuary who has the qualifications set out in section 7.5.

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A4.2 Minimum capital requirement

A4.2.1 Subject to Rule A4.2.2, an Insurer must calculate its Minimum Capital Requirement according to the following applicable formula:

- (a) for an Insurer, other than a Captive Insurer: $MCR = DRC + IVRC + OARC + OLRC + CRC + SFAC + URC + RRC + LIRC + AMRC$;
- (b) for a Class 1 Captive Insurer: $MCR = \text{higher of } URC \text{ and } RRC$; and
- (c) for a Class 2 and Class 3 Captive Insurer: $MCR = DRC + IVRC + URC + RRC$;

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A4.2.3 An Insurer's Minimum Capital Requirement must always be equal to or higher than:

- (a) in the case of a Class 1 Captive Insurer, \$ 150,000;
- (b) in the case of a Class 2 Captive Insurer, \$ ~~250,000~~500,000 or if a higher amount is specified under Rule A4.2.4, that amount;
- (c) in the case of a Class 3 Captive Insurer, \$ 1,000,000; and
- (d) in the case of all other Insurers, \$ 10,000,000.

A4.2.4 (1) The DFSA may, based on the business and risk profile of a Class 2 Captive Insurer, specify a higher Minimum Capital Requirement than the figure set out in Rule A4.2.3(b), but the amount specified must be less than \$1,000,000.

- (2) The DFSA may, in setting a higher amount under (1), take into account factors relating to the nature, size and complexity of the business or operations of the Insurer, including:
- (a) the percentage of Gross Written Premium obtained from Contracts of Insurance that relate to risks arising out of the business or operations of the Group as compared to the total Gross Written Premium;
 - (b) the Classes of Business covered in Contracts of Insurance effected by the Captive Insurer;
 - (c) the type of Policyholders of Contracts of Insurance effected by the Captive Insurer; and
 - (d) risks arising from the nature, size and complexity of the business of the Group, that affect or are likely to affect the Captive Insurer's activity.

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A4.4 Default risk component

Guidance

The purpose of the default risk component is to require an Insurer to set aside capital to cover the risk that amounts receivable from counterparties will not be received. The basic calculation model for this component, set out in A4.4.1, is modified by additional provisions that permit an Insurer to take account of the reduced default risk where an asset is covered by guarantees or collateral, and impose additional capital charges on assets that are encumbered. In addition, certain assets that are left out of account in calculating an Insurer's Adjusted Capital Resources are exempt from the default risk component calculation. Excluding these assets from Adjusted Capital Resources already effectively imposes a 100% capital requirement.

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- A4.4.8** (1) Where a Captive Insurer provides a qualifying intra-group loan to a Rated member of its Group, that intra-group loan must attract the same percentage factor applicable to Rated bonds with an equivalent rating as set out in A4.4.1.
- (2) A loan is a qualifying intra-group loan for the purposes of (1), where it meets the following criteria:
- (a) the borrower is Rated;
 - (b) the loan maturity is limited to 12 months with no automatic prolongation;
 - (c) the loan is provided on market terms and conditions;
 - (d) the loan is subject to a contractual obligation to be repaid at the first call by the Captive Insurer; and
 - (e) the DFSA has been notified before granting the loan (no prior permission required).

A4.4.9 Rated Money Market Funds must be treated as a bond and must attract the same percentage factor applicable to bonds with an equivalent rating, as set out in A4.4.1.

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A4.5 Investment volatility risk component

Guidance

The purpose of the investment volatility risk component is to require an Insurer to set aside capital to cover the risk of deterioration in the values of Invested Assets. Invested Assets that are linked to liabilities of Investment-Linked Insurance contracts are exempted from the calculation, since there is a direct correlation between the values of the assets and the values of the liabilities to which they are linked.

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A4.5.3 Where a Captive Insurer provides an intra-group loan to a member of its Group, that intra-group loan must attract the same percentage factor applicable to bonds with an equivalent maturity, as set out in A4.5.1.

A4.5.4 Money Market Funds must be treated as a bond and must attract the same percentage factor applicable to bonds with equivalent maturity as set out in A4.5.1.

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A4.10 Underwriting risk component

Guidance

The purpose of the underwriting risk component of the Minimum Capital Requirement is to require an Insurer to set aside capital to address the risk that the cost of claims in respect of General Insurance Business will vary from the cost implicit in the premiums being charged. The basic calculation model set out in Rule A4.10.2 applies different factors to the premium in respect of different Classes of Business, based on the different perceived risk of variability associated with each. The model is modified by additional provisions dealing with certain Classes of Business. This section also restricts the extent to which reinsurance may be taken into account when calculating the underwriting risk component for an Insurer, other than a Captive Insurer.

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A4.10.6 For the purposes of this section, and subject to Rule A4.10.8, the Insurer's base premium means the higher of the two following amounts:

- (a) ~~the amount of the Insurer's Net Written Premium during the reference period for an Insurer, other than a Captive Insurer, the higher of:~~
 - (i) ~~the Insurer's Net Written Premium during the reference period; and~~
 - (ii) ~~50% of the amount of the Insurer's Gross Written Premium during the reference period; and~~
- (b) ~~50% of the amount of the Insurer's Gross Written Premium during the reference period~~

for a Captive Insurer: the amount of the Insurer's Net Written Premium during the reference period.

Guidance

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A4.11 Reserving risk component

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A4.11.4 For the purposes of Rule A4.11.1, the Insurer's base claims reserve means the higher of the following two following amounts:

- (a) ~~the amount of the Insurer's provision for Gross Outstanding Claims, less the amount of reinsurance and other recoveries expected to be received in respect of that liability~~
for an Insurer, other than a Captive Insurer, the higher of:
 - (i) the Insurer's provision for Gross Outstanding Claims, less the amount of reinsurance and other recoveries expected to be received in respect of that liability; and
 - (ii) 50% of the amount of the Insurer's provision for Gross Outstanding Claims; and
- (b) 50% of the amount of the Insurer's provision for Gross Outstanding Claims for a Captive Insurer, the amount of the Insurer's provision for Gross Outstanding Claims, less the amount of reinsurance and other recoveries expected to be received in respect of that liability.

Guidance

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A6.2 Minimum segmental capital requirement

A6.2.1 Every Insurer must calculate its Minimum Non-Cellular Capital Requirement and the Minimum Cellular Capital Requirement applicable to each Cell, in accordance with this appendix.

A6.2.2 Subject to Rules A6.2.4, A6.2.5, and A6.2.6, an Insurer must calculate its Minimum Segmental Capital Requirement according to the following applicable formula:

- (a) for an Insurer, other than a Captive Insurer: $MCR = DRC + IVRC + OARC + OLRC + CRC + SFAC + URC + RRC + LIRC + AMRC$;
- (b) for a Class 1 Captive Insurer: $MCR = \text{higher of } URC \text{ and } RRC$; and
- (c) for a Class 2 and Class 3 Captive Insurer: $MCR = DRC + IVRC + URC + RRC$;